Foreign Direct Investment and Employment Rights in South Eastern Europe

Abstract

The dominant neo-liberal policy community holds that a reduction in employment rights and social protection is likely to promote economic recovery and growth. It has been suggested that investors are likely to shun countries where such rights are strong; in contrast, radical labour market deregulation is seen as encouraging both local business and multinationals to invest. This study explores whether labour market deregulation in South Eastern Europe has really encouraged multinationals to invest in the region. We find that the weakening of important aspects of employment rights under the law appears to detract from, rather than encourage, foreign direct investment. We also show that stronger employment rights are more likely to attract FDI when the host country is located with the EU. This finding suggests that the complementarities associated with stronger employment rights and more committed labour (see Hall and Soskice, 2001) may offset the overall deterrent effects of the greater regulation associated with EU membership.

Keywords: South Eastern Europe, foreign direct investment, employment rights, deregulation

JEL Classification: F16, F21

1. Introduction

This study investigates the impact of employment regulation on foreign direct investment (FDI) inflows to the South Eastern European (SEE) region. An influential body of work suggests that stronger property owner rights is likely to optimise growth, and conversely, that countervailing employee rights under the law will make economies less attractive to investors, leading to poor macro-economic performance (Botero *et al.*, 2004; La Porta *et al.*, 2008; Lehmann and Murayvev, 2009). Some studies, including Lehmann and

Muraveyv (2009), argue that there has been a trend towards labour market liberalisation across the region, most notably in the aftermath of the 2008 financial crisis, even if, in some areas, aspects of Europeanization may have counter-strengthened worker rights.

The SEE region has been particularly severely affected by the 2008-economic crisis, even when compared to the rest of Central and Eastern Europe (Gardo and Martin, 2010). Greece, which had borrowed the most from the advanced economies, was particularly badly affected (Berkmen *et al.*, 2010). Several post-state socialist countries in the region were, in the run-up to the 2008- crisis, also heavily over-reliant on foreign borrowing, with relatively high leverage and structural current account deficits (Berkman *et al.*, 2010,p. 8), when compared to other former post-state socialist countries such as Slovakia, Poland and the Czech Republic (Bordo, 2011). Hence, a number of countries within the region were forced to turn to the International Monetary Fund (IMF), examples including Greece (initial IMF/EU loan of €110bn in 2010, followed by subsequent loan tranches), Serbia ($ 518 million in 2008), and Romania (17.1 billion in 2009), whilst others, such as Bulgaria and Macedonia, have come close to needing IMF bailouts (IMF Country Information, 2013). In turn, such countries have been forced to adopt a wide range of austerity measures and, to a lesser or greater extent, embarked on new rounds of labour market reform. For example, in Greece, inter alia, the power to set minimum wages was taken away from the social partners, the collective bargaining system decentralised, and job security in the public sector weakened through a series of legal reforms, which were consolidated in legislation in 2012, and implemented as part of the bailout agreement (Karantinos, 2012, pp. 22-24). In 2011, Romania amended its labour code to weaken security of tenure and changed the laws governing social dialogue to make collective bargaining more flexible (European Commission, 2013, pp. 16-17). All these developments raise the question as to whether labour market deregulation in the SEE region has had any impact on the investment flows to

the region. In other words, are less regulated labour markets more attractive to investors? And, what has been the effect of labour market deregulation on FDI choices?

In this study, we focus on the SEE countries, which include Albania, Bosnia and Herzogovina, Bulgaria, Croatia, FYRO Macedonia[1], Greece, Montenegro, Romania, Serbia, and Serbia and Montenegro[2]. We recognise that there are problems in demarcating the countries in the region, and that others could have been included. However, Kosovo has no recorded FDI data from the UNCTAD, as it has only been independent since 2008 and has yet to attain UN membership. As part of the former Soviet Union, Moldova is in many respects more closely linked to the CIS region and is geographically removed from the Balkans. Again, although part of the former Yugoslavia, it can be argued that Slovenia has converted into a fully-fledged coordinated market economy (CME), with much more in common with the Rhineland region than the Balkans (Lane, 2007).

The remainder of the paper is structured as follows. Section 2 revisits the existing theoretical and applied debates on the relationship between labour market deregulation and competitiveness. Section 3 provides a brief review of the related literature and states the hypotheses. Section 4 discusses the data, variable definitions and empirical methods. Section 5 presents the empirical results and Section 6 contains concluding remarks.

2. Labour market deregulation and competitiveness: theoretical and applied issues

The role of labour market flexibility in explaining diverging patterns of FDI across different countries has been widely debated in the literature. Several studies, including Javorcik and Spatareanu (2005) and Lehmann and Murayvev (2009), argue that reductions in employment rights and social protection are likely to promote economic recovery and growth. It has been also suggested that strong employment rights – both in terms of social and employment protection – are inimical to job creation, and, through diluting investor rights, to overall

[1] Former Yugoslav Republic of Macedonia, the term employed by many international bodies. The usage of this term does not denote any views by the authors on the Macedonian Question.
[2] Serbia and Montenegro ceased to exist in 2006.

growth (Botero *et al.*, 2004, p. 1379, La Porta *et al.*, 2008, p. 324). Hence, investors may choose to avoid countries where employment rights are strong.

However, it could be argued that stronger employment protection means that labour is less of a readily disposable commodity, forcing firms to take recruitment and selection more seriously, and use existing labour more effectively. This, in turn, may result in increased employee commitment, making for higher productivity and greater organisational effectiveness in the long run (Harcourt and Wood, 2007; An *et al.*, 2008). Hence, stronger employment protection may discourage firms from excessive short-termism and encourage the engendering of deeper and denser ties not only with employees, but also with customers and suppliers. It has also been suggested that stronger employment protection may engender local production networks in denser and thicker inter-organisational ties (Hall and Soskice, 2001; Deeg and Jackson, 2007). Therefore, firms may attract investors on account of the advantages conferred by such production networks (Whitley, 1999).

Empirical evidence on the issue is mixed (Kucera *et al.*, 2001; Javorcik and Spatareanu, 2005; Dibben *et al.*, 2011). It should be recognised that there are a number of emerging markets with weak or ineffective employment regulation that have been highly successful in attracting FDI, including India, China and Vietnam. However, amongst low wage economies, FDI has been concentrated towards those with large domestic markets or rich natural resources. Many African economies with weak or ineffective employment regulation have been very much less successful in attracting FDI than their Asian counterparts, especially in non-primary sectors (see Wood *et al.*, 2014). We argue that an important limitation of the existing empirical work is that most studies have tended to focus on the impact of relative employment rights at a particular time, rather than exploring the impact of their changes on FDI flows. This is a particularly serious limitation given that a

study of the impact of employment rights at different times is likely to yield very different results.

Although La Porta *et al.* (2008) argue that different legal traditions exert long term effects that are difficult to depart from, critics have argued that legal origin or legislative tradition are not always an accurate guide to employment regulation, and the time period covered by their studies is deliberately selective to show less regulated systems in a more positive light (Dam, 2007; Deakin *et al.*, 2009). Moreover, many countries have mixed or hybrid legal systems with variations on regional lines (e.g. Scotland versus the rest of the UK) or in terms of different aspects of law (e.g. South Africa) (Deakin *et al.*, 2009). Even in common law countries such as the UK, key aspects of English corporate law owe more to the direct effects of specific items of legislation than past court decisions (Dam, 2007; Deakin *et al.*, 2009). Hence, the law should be seen as more diverse and dynamic than suggested by the legal origin literature, and, which would suggest that assumptions of investor behaviour cannot be predicted by legal family (ibid.). This study uses panel regressions to examine the relationship between employment rights and FDI flows dynamically. More specifically, it explores the impact of employment rights and changes across the SEE region on FDI. In contrast to the previous studies that use a single index to measure employment rights, our study investigates the dynamic relationship between FDI flows and key dimensions of labour market regulation, including rigidity of hours, hiring and firing regulation[3]. Such analysis allows us to identify, with greater precision, the aspects of labour market regulation which do affect FDI inflows.

3. Brief review of related literature and hypotheses

[3] Parcon (2008) also disaggregates the labour market flexibility index into components, but his cross-sectional analysis does not take into consideration the time variations in the FDI flows and employment rights.

Variations in property owner and employee rights might not only impact on organizational performance and strategies, but also decisions to invest in different settings. However, the latter will potentially be moulded not only by regulatory, but also physical resources, relative development, the nature of labour and consumer markets, and government fiscal and industrial policies. At the same time, regulatory and government policy choices have dominated applied debates, as countries cannot readily change their natural endowments or developmental history.

3.1. The determinants of FDI: Existing evidence

A large body of the FDI literature has focused on the determinants of investment locations. Country level studies tend to divide the determinants of FDI inflows into non-policy related factors, such as market size, natural resources, foreign exchange risk and economic growth, and policy related ones, which include tax structure, investment incentives, labour market and industrial relation regulation[4]. This study focuses mainly on the role of the host country's labour market flexibility in determining FDI inflows. Previous empirical studies on the impact of labour market flexibility on FDI inflows have tended to use average wage rate as a measure of labour costs (see, e.g., Flamm, 1984; Cheng and Kwan, 2000; Fung *et al.*, 2002) with little attention given to the non-wage aspects of labour costs, which include hiring and firing costs.[5] This study contributes to filling this gap in the literature, through investigating the role of changes in the regulation governing the non-wage aspects of labour markets in determining FDI inflows. Specifically, we study the impact of labour market flexibility and its components, including hiring, firing and hours at work, on foreign investors' decisions.

[4] See Cooke (1997), Cooke and Noble (1998), Cooke (2001), Yeyati *et al.* (2002), Nicoletti *et al.* (2003), Onyeiwu and Shrestha (2004), Blonigen (2005), Addison *et al.* (2006), Whyman and Baimbridge (2006), for a detailed review of these factors.

[5] Existing evidence in this area is mixed, with some studies showing that higher wages discourage FDI inflows (Culem, 1988; Cheng and Kwan, 2000; Bellak *et al.*, 2007) and others, including Gupta (1983) and Wheeler and Mody (1992), finding that wages are not related, and even positive related, to FDI inflows.

The extant literature suggests that the relationship between labour market flexibility and FDI inflows is hard to predict. Several studies, including Botero *et al.* (2004) and La Porta *et al.* (2008), argue that strong employment rights – both in terms of social and employment protection – are inimical to job creation, and, through diluting owner rights, to growth. It has further been argued that investors are likely to be sensitive to anything that might dilute their property rights, and are likely to avoid settings where employment rights are stronger (Javorcik and Spatareanu, 2005; Campos and Kinoshita, 2006). However, other work suggests a positive interaction effect between FDI and the quality of human capital (Dunning and Lundon, 2008, p. 317). In turn, this would suggest that there is more to FDI than the relative disposability of labour: FDI may be driven by the need for further efficiency gains or to access strategic assets, which, in turn, may include human capabilities (Dunning and Lundon, 2008, p. 470).

In looking across Eastern Europe, Bandelj (2008) argues that FDI flows are determined not so much by economic realities (GDP per capita, foreign debt and budgetary shortfalls), but by the extent of privatisation and the general pro-market nature of the regime, and the relative legitimation of FDI (King, 2009, p. 364). However, many FDI decisions also reflect cultural dynamics and the operation of extended inter-personal networks (King, 2009, p.365). The fact that the SEE region has been rather less successful in attracting FDI than the post-state socialist central European countries may reflect variations in politics and society (King, 2009, p.366). Spillman (2009) also argues that in the post-state socialist world, informal relations play a more important role in determining FDI flows to the post-state socialist world than formal regulatory institutions.

3.2 Hypotheses development

The work of La Porta and colleagues (Botero *et al.*, 2004; La Porta *et al.*, 1997; 1999) has informed the World Bank's *Doing Business* Reports, with countries that have more extensive employment regulation being condemned as having worse climates for doing business (Cooney *et al.*, 2011, p.84); in turn, this may guide investment choices. The EU's LABFDI report of 2002 similarly suggests that an environment with weaker levels of employment rights and protection will lower labour costs which also may attract MNC investments (see also Floyd, 2003).

Hypothesis 1a: Host country's labour market rigidity deters FDI inflows.

However, it could also be argued that knowledge of institutional complementarities allows firms to optimise benefits in a particular setting (Crouch, 2005), with different types of complementarily emerging in different locales. Hence, no specific institutional context is necessarily superior (Hall and Soskice, 2001). As Whitley (2010) argues, firms may be attracted to a range of very different settings according to the specific advantages they each offer. Hence, as An *et al.* (2008) suggest, MNCs may be guided in their decisions by rent extraction times: while some will seek fast profits and a flexible workforce, others may be willing to wait, anticipating that increased employee commitment will yield higher returns in the long run. Thus, investing in an environment with strong employment rights may be more attractive than the one with weak rights, as stronger employment protection within a more cooperative business system can add higher value in production paradigms. In other words, higher levels of commitment and optimised human capital development can be achieved by stronger employment protection (Harcourt and Wood, 2007). The Doing Business report has been widely criticised for its weak evidence base, and an unwillingness to take on board any evidence that does not support its conclusions (Cooney *et al.*, 2011, p.84). Although the IMF

staff claim that it has no particular brief or knowledge on labour market issues, in its 2006 *Consultation Staff Report* on Romania, it condemned the country for having an 'overly rigid' labour market, based on the *Doing Business* recommendation about ease of hiring and firing indicators, and pressed the country to further deregulate its labour market despite the fact that reforms have already been introduced after the indicators' publication (Bakvis, 2006; see also IMF 2006, P. 29)[6].

Hypothesis 1b: Host country's labour market rigidity attracts, or at least does not deters, FDI inflows.

To identify those aspects of labour market regulation that are in particular significant to foreign investors, labour market flexibility is disaggregated into three components, which are: hiring, hours at work, and firing regulation. Again, the relationship between these components and the FDI inflows is difficult to predict. Given risks of employing workers, it has been argued that if it is more difficult to dismiss inappropriately hired personnel, firms would prefer offering a short or medium term contract or being given the freedom to offer fixed-term contracts for any task which in turn increase employees' job security (see Botero *et al.*, 2004). Those seeking temporary work may do so owing to the absence of more secured alternatives; hence they may be willing to accept a lower rate of pay relative to regular workers, effectively lowering labour costs. Therefore, relaxing the restrictions on hiring attracts may attract MNC investments.

[6] There is much controversy even within the World Bank as to the relevance of the Doing Business index. In 2013, the Manuel Commission, commissioned by the World Bank President Jim Kim, argued that the Doing Business index was a "poor guide for policy makers", as it focuses mainly on *de Jure* (according to law) aspects of business environment and pays a limited attention to implementations and customary practices (Eurodad, 2013). It also suggested that the task of compiling the index should be moved to the World Bank's research department, so that its recommendations will be more closely founded on evidence. However, the recommendations of the Manuel Commission were not implemented at the time of writing; critics have charged that the unwillingness to reform the highly influential index despite its weak factual basis reflected political rather than practical concerns (Eurodad, 2014).

Hypothesis 2a: Host country's difficulty of hiring employees deters FDI inflows.

However, it can also be argued that rigidity in hiring may contribute to more collaborative employment relations in the long run, enhancing improve productivity. Greater difficulty in firing staff means that firms cannot rely on the type of numerical flexibility engendered through frequent bouts of upsizing and downsizing. If employees are likely to be with the firm for a longer time, more rigorous (and expensive) selection methods are more likely to be deployed. Taking more care in recruitment processes would, in turn, result in a better match between individual employees and organisations (Jenkins and Wolf, 2002). As turnover rates are lower, employers can spread the cost of training and development over many years, whilst employees have strong incentives to develop their firm-specific human capital (Brewster *et al.*, 2012). Thus, rigidity in hiring may be conducive to high value-added incrementally innovative production paradigms and may also be associated with longer term relations between firms, suppliers and customers. Such networks may, in turn, be attractive to the types of investor who would benefit from such developed local government regimes (Whitley 2010; Dunning and Lundon, 2008, p. 679).

Hypothesis 2b: Host country's difficulty of hiring employees attracts, or at least does not deter, FDI inflows.

The potential impact of changes in labour market regulation, such as redundancy restrictions, on the costs of doing business in a foreign country can be ambiguous. MNCs must consider the flexibility and financial implications of firing the workers. Restrictions on firing constrain the ability of firms to respond to market force changes. MNCs may shift

production activities to countries where it is easier to make workers redundant in order to enhance numerical flexibility. Thus, a reduction in redundancy restrictions could increase FDI. Görg (2005) examines the impact of hiring and firing costs on the location of US outward FDI in 33 host countries. He finds host countries with higher firing costs attract less FDI from the US. Similarly, Javorcik and Spatareanu (2005) suggest that labour market flexibility in the host country is positively associated with FDI in some Western and Eastern European countries.

Hypothesis 3a: Host country's difficulty of firing employees deters FDI inflows.

In contrast, Dewit *et al.'s* (2003) analysis shows that stronger employment protection may not necessarily hinder a country's ability to attract and retain FDI as greater job security may result in stronger mutual commitment. In other words, as Whitley (1999) notes, higher job security means that employers and employees will be more interdependent. Employers would have to rely on their existing employees (as they cannot be easily substituted) and therefore have strong incentives not only in pre-hiring screening, but also in maximising their capabilities. And, as employees do not have to constantly monitor the external labour market, they will, as noted above, have more incentives to develop their firm-specific capabilities, rather than externally marketable skills. This would be conducive to certain types of incrementally innovative production. In other words, rather than deterring FDI, difficulty in firing may make the country in question more attractive to specific types of investors (see Whitley, 2010).

Hypothesis 3b: Host country's difficulty of firing employees attracts, or at least does not deter, the FDI inflows.

There are also two conflicting views on the impact of working hours' flexibility on the FDI inflows. On the one hand, it can be argued that less rigid restrictions on working hours give MNCs more flexibility to increase profit potential. For example, if there are no restrictions on work hours and overtime pay, firms can persuade employees to work for longer hours to respond to a seasonal increase in demand and pay just the same regular hourly wage for the additional hours of work.

Hypothesis 4a: Host country's rigidity in working hours deters FDI inflows.

On the other hand, the World Bank "World Business Environment Surveys" and "Investment Climate Surveys"[7] concede that if labour rules do not exist at all, or are too flexible and fail to offer sufficient protection which result in workers being at risk of abusive work conditions, they can harm the development of businesses. Such practice may discourage workers' loyalty and enthusiasm of work, and may be associated with low productivity. Thus, it can be argued that more restrictions on working hours may improve the productivity of workers. Consistent with this view, Locke and Romis (2007) find that productivity is higher, and ultimate unit labour cost lower, in firms that provide better employment conditions (wages, overtime, job satisfaction and employee voice).

Hypothesis 4b: Host country's rigidity in working hours attracts, or at least does not deter, FDI inflows.

[7]See "World Business World Business Environment Surveys" and "Investment Climate Surveys", conducted in more than 80 countries by the World Bank in 1999–2000 http://www.gcgf.org/ifcext/economics.nsf/Content/ic-wbes

Following the demise of state socialism, all economies in the SEE region have moved to a lesser or greater extent towards more flexible labour markets (Cazes and Nesporova, 2007, p. 19l; Lehmann and Murayvev, 2009). The deregulation process in some of these countries has, as we have seen, accelerated since the onset of the 2008 global economic crisis. However, EU accession and Europeanization is an ambiguous process that brings with it both aspects of regulation and liberalisation (O'Hagan, 2002; Scharpf 2002; Thatcher, 2007). Van Vliet (2010) argues that, in particular, Europeanization has been associated with a tendency towards more active labour market policies. However, it has been argued that this process has only partially tempered a broader trend towards lighter regulation of the firm. In particular, the decisions of the European Court of Justice, which, in prioritizing individual rights, have served to weaken collective employment rights by constraining the range of actions open to unions and their ability to negotiate living wage agreements (Dølvik and Visser, 2009; Ewing, 2009, pp. 2-4). Afonso and Papadopolous (2013) argue that although it has been argued that Europeanization promotes greater corporatist concertation, it appears that moves in this direction tend to more closely reflect domestic party political dynamics in individual countries. Once more, despite regulatory or institutional shortcomings, low wages associated with some EU countries and market access may compensate for any regulatory costs associated with doing business within economic free trade zones (see Dunning and Lundon, 2008, p. 33).

Hypothesis 5a: Host countries with stronger employment rights attract more FDI when they are located in the EU.

Nonetheless, it could be argued that MNCs may be deterred from investing in the EU on account of greater - and more complex - employment regulation.

Hypothesis 5b: Host countries with stronger employment rights attract more FDI when they are located outside the EU.

4. Methodology and data

4.1. Methodology

Our empirical strategy involves estimating a panel regression of the following form

$$FDI_{i,n} = \propto + \theta Flexibility_{i,n} + \sum_{k=1}^{K} \varphi_k \, X_{i,k,n} + \varepsilon_{i,n} \,, \qquad (1)$$

where $FDI_{i,n}$ is the FDI inflows to country *i* in year *n*. $Flexibility_{i,n}$ captures the level of labour market flexibility associated with country *i* in year *n*. To test our hypotheses, we use four different employment rights measures, which are the overall rigidity of employment index, difficulty of hiring index, rigidity of hours index and difficulty of redundancy index. $X_{i,k,n}$ is the k^{th} control variable associated with country *i* in year *n*. The control variables included in Equation (1) are: EU membership dummy (EU); the interaction variable between EU membership dummy and labour market flexibility (EU*Flexibility); an exchange rate regime dummy variable, which is equal to one for the floating exchange mechanism and zero otherwise; the exchange rate, which is defined as the local currency per US Dollar; perceived level of corruption; GNI per capita; wage level; tax rate; manufacturing value added; and an education level proxy, which measured as the researchers in R&D per million people. The EU dummy is used to test whether EU membership was conducive to attracting FDI. The variable EU*Flexibility tests whether the importance of labour market rigidity as a determinant of FDI depends on whether or not the host country is located in the EU. The selection of the remaining variables is guided by existing studies, which suggest that exchange rates (Blonigen, 2005; Taylor, 2008), taxation (Hartman, 1984; 1985), corruption

level (Habib and Zurawicki, 2002), wages (Farrell *et al.*, 2006; Parrinello, 2008), the level of host market development (Kinda, 2010) and the quality of human capital (Addison *et al.*, 2006; Kinda, 2010) are amongst the key determinants of FDI inflows[8]. To avoid multicollinearity related issues, we ensure that highly correlated explanatory variables are not included in the same regression. Finally, $\varepsilon_{i,\pi}$ is the error term which can be heteroskedastic.

4.2. Data and descriptive statistics

Given the significant amount of transition and integration happening in the region and the potential effects on economic growth and foreign direct investment, the theoretical hypotheses are tested for the SEE countries over the period from 2003 to 2011[9]. Our sample of the SEE countries consists of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYRO Macedonia, Greece, Montenegro, Romania, Serbia, Serbia and Montenegro[10].

We collect FDI data from the UNCTAD World Investment Reports. The yearly FDI inflows are measured in US Dollars at current prices and current exchange rates. The measures for employment rights, specifically as it affects the hiring of workers, the rigidity of working hours, and the redundancy of workers are presented by the overall rigidity of employment index, difficulty of hiring index, rigidity of hours index and difficulty of redundancy index, respectively. The index values for 2003-2009 are collected from the World Bank *Doing Business Reports*. The index values for 2010-2011 are constructed using the same methodology described in the reports. Specifically, the overall rigidity of employment index is the average of 3 sub-indices: a difficulty of hiring index, a rigidity of hours index and a difficulty of redundancy index. All the three sub-indices have several

[8] Similar set of variables are also used by Wood *et al.* (2014).

[9] The starting of the sample period is chosen to coincide with the release of the *Doing Business Report*.

[10] Serbia and Montenegro ceased to exist in 2006.

components, and take values between 0 and 100, with higher values indicating more rigid regulation (see Appendix).

The EU membership and year of entry are collected from the European Union website (EUROPA). The classification of exchange rate arrangements is collected from the IMF website. The Corruption Perceptions Index (CPI) is published by Transparency International and ranks countries "by their perceived levels of corruption as the misuse of public power for private benefit". The ranks are on a scale from 10 (very clean) to 0 (highly corrupt). Here, it is worth noting that the 2003 Europe Criminal Law Convention on Corruption and its additional protocols, as well as national legislation such as the UK's 2010 Bribery Act, may have made operating in corrupt contexts more risky for MNCs, and may, therefore, have discouraged FDI. The Gross National Income (GNI) per capita (US Dollar) are collected from the World Banking *Doing Business Reports*. The monthly wages (in US Dollar) are obtained from DataStream. Finally, the Exchange rates per US$, the manufacturing value added and the number of researchers in R&D as per million people are downloaded from the World Development indicators (WID) of the World Bank.

Table 1 reports the descriptive statistics of dependent and explanatory variables used in our analysis. It shows that Romania receives the highest amount of FDI (USD 6,752 million) while FYRO Macedonia receives the least (USD 342 million). It also shows that Serbia experiences the highest level of difficulty in hiring (71) while Montenegro has the least difficulty (17). Greece has the highest level of rigidity in hours (72) and Serbia has the lowest (18). The difficulty level in redundancy ranges from the highest of 48 for companies in Croatia to a lowest of 8 for companies in Bulgaria. When the respective individual employment rights (difficulty of hiring, rigidity in hours and difficulty in redundancy) are averaged to form the level of rigidity in employment variable, Greece is found to be the most rigid country in the SEE region in terms of employment rights (55) and Montenegro is the

least rigid country, with an employment rights index of 23. Greece, Bulgaria and Romania are the only countries in our sample that belong to the EU. The SEE countries are quite similar in terms of their corruption levels. With an average CPI score of 3, the SEE region is perceived as relatively highly corrupted.

Table 1 also reports the descriptive statistics of other potential determinants of the FDI inflows. It shows that 4 (6) out the 10 SEE countries use fixed (floating) exchange rate regimes. The SEE countries differ considerably in terms of the value of their currencies, with the exchange rate ranging from 0.77 Euro per US Dollar in the cases of Greece and Montenegro[11] to 99.64 Albanian Lek per US Dollar. Greece has the highest Gross National Income (GNI) per capita (US Dollar 21,944), while Serbia and Montenegro (for the period of 2003 to 2006) has the lowest GNI per capita (US Dollar 1,977). The average monthly wage in the SEE countries is approximately US Dollar 671, with the highest (lowest) average monthly wage of US Dollar 1474.35 (US Dollar 314.05) observed in the case of Greece (Bulgaria). Finally, the average tax rate in the SEE region is approximately 40%, ranging from the highest of 47.19% in Albania to the lowest of 29.73% in Greece.

The (percentage) changes in indices for employment rights and FDI inflows from 2003 to 2011 are report in Table 2. The figures indicate considerable increases in FDI inflows to the region. The negative signs associated with the average changes in different measures of employment rights reflect the increase in the level of labour market flexibility in the region.

[Insert Tables 1 and 2 about here]

Previous studies show that labour market flexibility measures tend to be highly correlated with other determinants of FDI inflows, particularly those related to human capital

[11] Montenegro does not have its own currency. The Deutsche Mark was the de factor currency prior to the introduction of the Euro in 2002. After that, Montenegro began using the Euro without any objection from the European Central Bank.

and innovation (Michie and Sheehan, 2003). Consequently, we estimate the bilateral correlations between the different determinants of FDI inflows to avoid the multicollinearity issues that may rise from including highly correlated variables in the same models. The correlation matrix is reported in Table 3. The 90% correlation between Wage and GNI reflects the positive association between wages and national wealth. We also report a 60% correlation between EU and GNI. This figure suggests that EU members tend to be wealthier than non-EU ones. Correlations in excess of 70% are also found between overall rigidity of employment index and its various components. The correlation between the difficulty of hiring index and the difficulty of redundancy index is almost 50%, reflecting the fact that employee rights are affected by both hiring and firing regulations. Table 3 also shows that the perceived level of corruption is highly correlated with GNI (70%), Wage (50%) and exchange rate (-51%). These figures suggest that corruptions levels tend to be lower in wealthy nations with stronger currencies and higher wages. The remaining bilateral correlations in Table 3 are relatively low in magnitude, ranging from (a positive) 47% between EU and perceived level of corruption to (a negative) 1.1% between difficulty of hiring index and foreign exchange rate.

[Insert Table 3 about here]

5. Findings

In our study, the fixed-effects panel regression is applied to analyse the data. A statistically significant Hausman test suggests that the use of fixed effects is more appropriate than a random-effects specification for our data. In addition, the use of fixed-effects application not only reduces econometric problems arising from autocorrelation and heteroskedasticity (Hitt *et al.*, 1998; Bowen and Wiersema, 1999), but also providing control

for unobserved country- and year-specific heterogeneity (Greene, 2002; Tuggle *et al.*, 2010). The *F*-test suggests that the various sets of independent variables included in Equation (1) are jointly statistically significant.

To test whether a relaxation of the overall rigidity of employment index attracts or deters FDI, we regress the rigidity in the employment index and other control variables on FDI. The results are shown in Table 4. The coefficient on the rigidity in employment variables is positive and, in most cases, statistically significant, indicating that foreign investors are more likely to invest in countries where employment rights are strong. This could reflect the extent to which there are many low wage lightly regulated economies, in intense competition with each other, making it difficult to secure lasting competitive advantage. Thus, investors who seek competitive advantages through very low labour costs may find themselves constantly being undercut by rivals located in even lower cost locales. However, it is also possible to argue that stronger employment rights may lead to unique, locally or national specific, competitive advantages in specific areas with higher value-added production, which may attract more patient longer term investors (Hall and Soskice, 2001). The significantly positive coefficient on the variable EU*Rigidity in employment (see Models 4, 8 and 10) indicates that employment rights play a more important role in the location decision within the EU. Specifically, foreign investors find EU members with stronger employment rights to be more attractive investment destinations. Thus, hypothesis 1a is rejected and 1b is supported[12].

[Insert Table 4 about here]

[12] To control for the possible effect of endogeneity on our results, we re-estimate Model 1 through 10 using the generalised method of moments (GMM) estimator suggested by Arellarno and Bover (1995). Our results suggest the significance of the coefficient on the rigidity of employment index remains largely unchanged. Further details on these results are available upon request.

The empirical results from testing hypotheses 2, 3 and 4 whether reduced scores on the difficulty in hiring, rigidity of hours, difficulty in redundancy, respectively, attract or deter FDI after controlling for other variables are shown in Models 1 through 12 of Table 5[13]. The rigidity of hours and difficulty in redundancy are positive, and in most cases statistically, showing support for hypotheses 3b and 4b respectively. In line with the World Bank Survey and the explanation of Dewit *et al.* (2003), but contrary to the empirical findings of Görg (2005) and Javorcik and Spatareanu (2005), inflexibility in working hours and firing workers implies commitment power; greater mutual commitment incentivises the development of firm-specific skills, and may improve the productivity of workers, attracting FDI. The only stringency of regulation that seems to deter FDI, as suggested by hypothesis 2a, is shown by the negative, and in some cases statistically significant, coefficient on the difficulty of hiring index. The results indicate that MNCs like the flexibility of offering a short- or medium-term contract, fixed-term contracts for any task, and a lower rate of pay relative to regular workers in order to reduce labour costs. However, restrictions on the usage of temporary labour may have very different effects on restrictions on dismissals. Specifically, in environments where security of tenure for regular employees is stronger, firms may use temporary labour as a screening device to ensure greater rigour in the appointment of permanent employees. In other words, firms may attempt to compensate for difficulty in firing by the greater usage of temporary probationary labour, allowing them to be sure about permanent hires (see for example, Crouch, 2005).

[Insert Table 5 about here]

[13] Similar results are reported in other models, which contain manufacturing value added and researchers in R&D per million people as dependent variables. The details of these models are not reported for the sake of brevity and the results are available upon request.

Again, we use interaction variables (EU*Flexibility) to test whether the role of employment rights on FDI inflows depends on EU membership. The significantly positive coefficients associated with the interaction variables in Models 11 and 12 indicate that host countries with stronger employment rights (measured by difficulty of redundancy and rigidity of hours) are more likely to attract FDI when they are located in the EU. This finding is consistent with the predictions of hypothesis 5a. However, the absence of statistical significance on coefficient EU*diff_hiring in Model 10 indicates that the effect of the difficulty of hiring on FDI inflows does not depend on EU membership.

In (unreported) tests, we also investigate the impact of employment rights on the FDI inflows to the EU and non-EU members separately[14]. Whilst the sign and statistical significance on the overall rigidity index is highly sensitive to model specifications, our results suggest that countries with higher rigidity of hours and difficulty of redundancy index are more likely to attract FDI when they are located in the EU. However, our findings indicate that difficulty of hiring is more likely to be deterrent of FDI inflows when the host country is located in the EU.

With the exception of GNI and perceived level of corruption, which suggests foreign investors are more likely to invest in rich countries (i.e. market seeking MNCs) and less corrupted countries, the statistical significance of the remaining control variables in Tables 4-5 is sensitive to model specifications. Overall, our results suggest that stronger employment rights – measured by the rigidity of hours, the difficulty of redundancy index and the overall rigidity of employment index – seem to attract, rather than deter, FDI inflows. This evidence is consistent with the view that greater job security increases employees' commitments and value-added production paradigms (Whitley, 1999; An *et al.*, 2008). We also report a negative association between the difficultly of hiring index and FDI inflows to the SEE

[14] Whilst these results are not tabulated to save space, further details are available upon request.

region. We attribute this finding to the possibility that some firms make routine usage of temporary work as a screening device for those earmarked for stable long term employment (see Harcourt *et al.*, 2006) and others use temporary workers to reinforce the position of highly vulnerable categories of labour. Furthermore, we show some evidence that host countries with strong employment rights are more likely to attract more FDI when they are located in the EU. This suggests that the complementarities associated with stronger employment rights, and more committed labour (see Hall and Soskice, 2001) may offset the overall deterrent effects of the greater regulation associated with EU membership. When employment regulation is weaker, complementarities are similarly less developed, and hence, the negative consequences of overall regulation are likely to be more pronounced.

There are certain limitations to this research. Firstly, all the countries in the SEE region are characterized by very extensive SME sectors and the inflow of foreign investment into these SMEs may be poorly documented and/or unconventional. For example, a large numbers of Italian SMEs from Northern Italy have forged close relations with Romanian SMEs, Whilst it may seem that these SMEs have a purely supplier/customer relationship, in reality, the ties may be much deeper and may include issues, such as equity transfers through the transhipment of machinery (Majocchi, 2000,P. 6). Furthermore, investments by SMEs into the region can assume innovative forms, such as "forfeiture", which seeks to separate out local transaction orientated risks from broader contextual ones (McKibben and Pistrui, 1997). Secondly, the region is a fast changing one and undergoing not only varying degrees of austerity, but also Europeanization. Thus, future FDI flows may follow very different patterns. Finally, any analysis of the consequences of formal regulation needs to recognize that enforcement mechanisms are variable in efficacy. In all the countries in the region, institutional and regulatory coverage is highly uneven. Fertile areas for future research might include a closer analysis as to the impact of weak regulatory enforcement capabilities

on FDI, and on the alternative mechanisms used by SMEs to invest in the region, as well as the determinants of investment decisions in such circumstances.

6. **Conclusions**

Our findings suggest that employment rights do not serve to discourage FDI. Rather, countries where workers enjoy more job security and greater restraints on working hours under the law seem to be more attractive investment destinations. We also find that host countries with stronger employment rights are more likely to attract FDI when they are located in the EU. Thus, our findings imply that strong pressures to deregulate labour markets may have perverse effects, leaving countries embarking on labour market reform worse off. As Whitley (1999) notes, greater job security will lead to a higher degree of inter-dependence between employer and employee and encourage the development of firm-specific skills and capabilities (Brewster *et al.*, 2012), which would be conducive to higher value-added production paradigms. And, as Knox and Walsh (2005) suggest, restraints on working time may also make for a more productive workforce. In the absence of such restraints, employers may arbitrarily adjust employees' working day, impinging on leisure time and/or failing to pay a premium for working longer hours. This may increase the quantity of work performed per worker, but reduce quality. The only area where weaker employment rights appear better in terms of attracting FDI is in terms of the difficulty of hiring index. This is probably owing to the fact that in certain countries, firms make routine usage of temporary work as a screening device for those earmarked for stable long term employment (see Harcourt *et al.*, 2006). In other countries, temporary working may be widely used as a mechanism to reinforce the position of highly vulnerable categories of labour. Firms originating in either context may be deterred from investing in countries where

the difficulty of hiring ranking is high for opposite reasons. Hence, ease in hiring may not be always associated with weaker employment rights in other areas.

Appendix

Panel A: The difficulty of hiring index is constructed by averaging the scores from the following 3 components and scaling to 100, with higher values indicating more rigid regulation.

Component	Score
Whether fixed-term contracts are prohibited for permanent tasks;	A score of 1 if fixed-term contracts are prohibited for permanent tasks and 0 if they can be used for any task.
The maximum cumulative duration of fixed-term contracts;	A score of 1 if the maximum cumulative duration of fixed-term contracts is less than 3 years; 0.5 if it is 3 years or more but less than 5 years; and 0 if it can last 5 years or more.
The ratio of the minimum wage for a trainee or first-time employee to the average value added per worker.	A score of 1 is assigned if the ratio is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25.

Source: Employing workers methodology in World Bank *Doing Business* Report

Panel B: The rigidity of hours index is constructed by averaging the scores from the following 5 components and scaling to 100, with higher values indicating more rigid regulation.

Component	Score
Whether there are restrictions on night work;	A score of 1 if restrictions other than premiums apply and 0 if there are no restrictions.
Whether there are restrictions on weekly holiday work;	A score of 1 if restrictions other than premiums apply and 0 if there are no restrictions.
Whether the workweek can consist of 5.5 days or is more than 6 days;	A score of 1 is if the legally permitted workweek is less than 5.5 days or more than 6 days and 0 otherwise.
Whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year to respond to a seasonal increase in production;	A score of 1 if the answer is "no" and 0 otherwise.
Whether the average paid annual leave for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is more than 26 working days or fewer than 15 working days	A score of 0 is assigned if the average paid annual leave is between 15 and 21 working days, a score of 0.5 if it is between 22 and 26 working days and a score of 1 if it is less than 15 or more than 26 working days.

Source: Employing workers methodology in World Bank *Doing Business* Report

Panel C: The difficulty of redundancy index is constructed by adding the scores from the following 8 components and scaling to 100, with higher values indicating more rigid regulation.

Component	Score
Whether redundancy is disallowed as a basis for terminating workers;	A score of 10 if an answer of "yes" and the rest of the questions do not apply.
Whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker;	A score of 1 if the answer is "yes" and 0 otherwise.
Whether the employer needs to notify a third party to terminate a group of 9 redundant workers;	A score of 1 if the answer is "yes" and 0 otherwise.
Whether the employer needs approval from a third party to terminate 1 redundant worker;	A score of 2 if the answer of "yes" and 0 otherwise.
Whether the employer needs approval from a third party to terminate a group of 9 redundant workers;	A score of 1 if the answer is "yes" and 0 otherwise.
Whether the law requires the employer to reassign or retrain a worker before making the worker redundant;	A score of 1 if the answer is "yes" and 0 otherwise.
Whether priority rules apply for redundancies;	A score of 1 if the answer is "yes" and 0 otherwise.
Whether priority rules apply for reemployment.	A score of 1 if the answer is "yes" and 0 otherwise.

Source: Employing workers methodology in World Bank *Doing Business* Report

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Table 1. *Descriptive statistics of workers' rights, FDI and other control variables*

	Difficulty in hiring index	Rigidity in hours index	Difficulty in redundancy index	Rigidity in employment index	FDI (millions US$)	EU membership	Exchange rate regime	Corruption perception index	GNI per capita (US$)	Monthly wages (US$)	Tax (% revenue)	Exchange rate (per US$)
Albania	40	44	17	34	647	No	Floating	3	2,868.44	343.84	47.19	99.64
Bosnia and Herzegovina	61	31	30	41	615	No	Fixed	3	3,094.00	734.87	40.56	1.50
Bulgaria	31	52	8	31	5,145	Yes (2007 onwards)	Fixed	4	4,020.78	314.05	43.86	1.50
Croatia	64	45	48	52	2,765	No	Floating to Fixed (in 2007)	4	9,508.22	860.97	46.24	5.66
FYRO Macedonia	39	44	27	37	342	No	Fixed	3	3,159.78	564.03	40.54	47.03
Greece	55	72	40	55	2,289	Yes (1981 onwards)	Fixed to Floating (in 2007)	4	21,944.44	1474.35	29.73	0.77
Montenegro[1]	17	23	28	23	952	No	Floating	4	5,386.67	717.52	/	0.77
Romania	64	58	38	54	6,752	Yes (2007 onwards)	Floating	3	5,112.00	484.75	33.85	2.95
Serbia[1]	71	18	28	39	2,238	No	Floating	3	4,905.83	551.74	43.76	64.74
Serbia and Montenegro[2]	41	29	36	36	2,774	No	Floating	3	1,976.67	/	/	/
Average	49	44	30	41	2,548	/	/	3	6,603.26	670.96	39.81	24.95

[1:] From 2008 onwards
[2]: For the period of 2003-2006

Table 2. *(Percentage) Changes in FDI and employment rights during the period of 2003-2011*

	Change in FDI (millions US$)	Change in difficulty of hiring index	Change in difficulty of redundancy index	Change in rigidity of hours index	Change in difficulty of employment index
Albania	853.34	17	-56	-5	-14
	(4.79)	(0.52)	(-0.74)	(-0.33)	(-0.35)
Bosnia and Herzegovina	54.00	-3	-63	-1	-22
	(0.14)	(-0.06)	(-1.00)	(-0.03)	(-0.46)
Bulgaria	-224.36	-18	-70	-26	-38
	(-0.11)	(-0.42)	(-0.78)	(-1.00)	(-0.72)
Croatia	-494.98	-1	-69	19	-17
	(-0.25)	(-0.01)	(-0.78)	(0.61)	(-0.26)
FYRO Macedonia	308.58	-65	-33	-22	-40
	(2.72)	(-1.00)	(-0.62)	(-0.69)	(-0.80)
Greece	547.68	-28	-31	-13	-24
	(0.43)	(-0.36)	(-0.38)	(-0.30)	(-0.35)
Montenegro[1]	-402.37	-33	-40	-10	-27
	(-0.42)	(-1.00)	(-1.00)	(-0.33)	(-0.80)
Romania	474.14	27	-65	1	-12
	(0.22)	(0.56)	(-0.76)	(0.03)	(-0.23)
Serbia[1]	-246.02	67	-40	-20	2
	(-0.08)	(2.03)	(-1.00)	(-0.50)	(0.05)
Serbia and Montenegro[2]	2856.94	-7	-88	11	-28
	(1.88)	(-0.14)	(-1.00)	(0.38)	(-0.50)
Average	372.69	-4	-56	-7	-22
	(0.93)	(0.01)	(-0.81)	(-0.22)	(-0.44)

[1:] From 2008 onwards
[2]: For the period of 2003-2006

Table 3. Correlation Matrix

	Diff_ hiring	Rigidity hours	Diff_ redundancy	Rigidity employ	Corruption perception	Exchange rate	EU	Exchange rate regime	Wage	Tax	GNI	Value-added	Researchers	EU* Rigi_ employ	EU* Diff_ hiring	EU* Rigi hours	EU* Diff_ redundancy
Diff_hiring	1.0																
Rigidity hours	0.2	1.0															
Diff_redundancy	0.5***	0.3**	1.0														
Rigidity employ	0.7***	0.7***	0.7***	1.0													
Corruption perception	0.0	0.2	0.1	0.1	1.0												
Exchange rate	-0.1	-0.2	-0.3***	-0.2*	-0.5***	1.0											
EU	0.0	0.3**	0.0	0.1	0.5***	-0.4***	1.0										
Exchange rate regime	0.0	0.0	0.1	0.0	-0.3**	0.3***	-0.1	1.0									
Wage	0.2	-0.2	0.5***	0.1	0.5***	-0.4***	0.4***	0.0	1.0								
Tax	-0.1	-0.4***	-0.3**	-0.4***	-0.3*	0.3**	-0.4***	-0.2	-0.3**	1.0							
GNI	0.1	0.0	0.3***	0.1	0.7***	-0.4***	0.6***	0.1	0.9***	-0.3**	1.0						
Value-added	0.4***	0.2	0.1	0.4***	0.2*	0.0	0.3**	-0.2	-0.1	0.3*	0.3**	1.0					
Researchers	-0.1	0.2	0.1	0.1	0.6***	-0.2	0.4**	0.2	0.1	0.3*	0.6***	0.7***	1.0				
EU*Rigi_employ	0.2	0.4***	0.2	0.4***	0.5***	-0.4***	0.9**	0.0	0.5***	-0.6***	0.6***	0.3*	0.3**	1.0			
EU*Diff_hiring	0.2**	0.3***	0.2	0.3***	0.4***	-0.3***	0.9***	0.1	0.4***	-0.6***	0.6***	0.3**	0.3*	0.9***	1.0		
EU*Rigihours	0.1	0.4***	0.1	0.3***	0.5***	-0.3***	0.9***	0.0	0.4***	-0.6***	0.6***	0.2*	0.3**	0.9***	0.9***	1.0	
EU* Diff_redundancy	0.2*	0.3***	0.3**	0.4***	0.5***	-0.3***	0.8***	0.1	0.5***	-0.7***	0.7***	0.2	0.3*	0.9***	0.9***	0.9***	1.0

Note: significant at: *p<0.1; **p<0.05; ***p<0.01.

Table 4. Result of fixed effect panel regressions on FDI

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Rigidity in employment	0.097**	0.173**	0.186**	0.014	0.184***	0.154**	0.119**	0.021	0.178***	0.067
	(2.03)	(3.19)	(3.02)	(0.97)	(2.94)	(2.46)	(2.63)	(1.48)	(3.95)	(1.68)
EU*Rigidity in employment				0.123***				0.606***		0.083***
				(3.78)				(43.76)		(5.38)
Perceived corruption	1.620				3.515*					
	(1.28)				(1.91)					
LnWage		5.724				-10.100			6.628	
		(1.37)				(-1.06)			(1.25)	
LnGNI			3.557***				-1.071			
			(4.82)				(-0.42)			
EU	2.060	-0.904		-3.337	5.729**	7.080		-11.450***	-0.771	-0.529
	(1.37)	(-0.21)		(-1.30)	(2.78)	(1.86)		(-16.02)	(-0.14)	(-0.24)
LnTax	-0.722	-2.480	-2.484		1.503	-0.234	-0.782		-2.838	
	(-0.21)	(-0.78)	(-0.88)		(0.45)	(-0.11)	(-0.51)		(-0.50)	
Exchange rate regime	0.424	0.230	0.163	0.277	-0.142	-2.871	-1.341*	-0.891***	-0.539	-1.199
	(0.31)	(0.32)	(0.42)	(0.24)	(-0.08)	(-1.94)	(-2.16)	(-3.85)	(-0.58)	(-1.27)
Exchange rate		-0.006	-0.097**	-0.041*		-0.031	0.037	0.013	0.029	-0.128*
		(-0.10)	(-3.48)	(-2.06)		(-0.65)	(0.42)	(0.39)	(0.16)	(-2.05)
LnValue-added					1.598	10.138	5.179	1.531		
					(0.67)	(1.27)	(1.27)	(1.68)		
LnResearchers									1.808	1.473
									(0.39)	(1.53)
Cons	-5.420	-32.091	-25.658***	2.205*	-59.060	-163.377	-104.949	-31.936	-48.355	-8.213
	(-0.39)	(-1.89)	(-6.62)	(2.07)	(-1.26)	(-1.33)	(-1.45)	(-1.55)	(-1.62)	(-1.09)
N	53	52	54	71	37	36	38	52	36	42
Adj. R-sq	0.084	0.156	0.131	0.088	0.107	0.222	0.027	0.598	0.138	0.074

Note: significant at: *p<0.1; **p<0.05; ***p<0.01.

Table 5. Result of fixed effect panel regressions on FDI

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Diff_hiring	-0.047***			-0.038			-0.043*			-0.004		
	(-4.14)			(-1.65)			(-2.02)			(-0.43)		
Rigidity of hours		0.068*			0.106***			0.123***			0.034*	
		(2.26)			(4.64)			(4.88)			(1.97)	
Diff_redundancy			0.177**			0.183*			0.153			0.075
			(2.48)			(2.20)			(1.82)			(1.45)
EU*Diff_hiring										-0.047		
										(-1.77)		
EU*Rigidity hours											0.129**	
											(3.08)	
EU*Diff_redundancy												0.119***
												(8.22)
Corruption perception	2.229**	1.498**	1.891**									
	(2.58)	(2.83)	(2.68)									
LnWage				1.234	7.350*	2.071				0.815	4.838*	2.583
				(0.31)	(2.26)	(0.68)				(0.34)	(1.98)	(1.13)
LnGNI							0.014	4.836***	1.083			
							(0.02)	(6.05)	(1.26)			
EU	0.225	2.453*	1.996	-0.180	-1.875	0.857				2.333	-7.620***	-2.687
	(0.67)	(2.09)	(1.74)	(-0.07)	(-0.65)	(0.32)				(0.97)	(-4.89)	(-0.82)
LnTax	-0.736	0.456	-0.255	-1.717	-1.072	-1.319	-0.552	-0.964	-0.968			
	(-0.19)	(0.15)	(-0.07)	(-0.32)	(-0.56)	(-0.33)	(-0.13)	(-0.63)	(-0.32)			
Exchange rate regime	-0.127	-0.448	1.175***	-0.980	-1.018	0.452	-1.155**	-1.272***	0.248	-1.251*	0.321	0.198
	(-0.20)	(-0.34)	(3.74)	(-1.29)	(-1.55)	(0.77)	(-2.59)	(-6.59)	(0.48)	(-2.15)	(0.44)	(0.58)
Exchange rate				0.001	0.088	-0.008	-0.017	-0.018	-0.046	-0.017	0.058	0.025
				(0.03)	(1.21)	(-0.13)	(-0.43)	(-0.56)	(-1.10)	(-0.33)	(1.30)	(0.43)
Cons	0.370	-8.024	-9.580	4.050	-45.63**	-11.51	8.073	-40.45***	-7.047	-1.324	-31.31*	-16.98
	(0.02)	(-0.63)	(-0.72)	(0.36)	(-3.08)	(-1.30)	(0.93)	(-6.13)	(-0.75)	(-0.08)	(-1.91)	(-1.05)
N	53	53	53	52	52	52	54	54	54	68	68	68
Adj. R-sq	0.039	0.213	0.122	0.052	0.359	0.070	0.042	0.369	0.034	0.020	0.527	0.087

Note: significant at: *p<0.1; **p<0.05; ***p<0.01.