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Abstract

The purpose of this thesis is to shed light on the development of foreign investments in European transition countries, including countries in Central and Eastern Europe and the Baltic States (CEEC), the Commonwealth of Independent States (CIS) and South-East Europe (SEE). This thesis offers a brief overview of the major economic changes in transition countries' investment environments over the past decade. The objective is to describe the factors that influence the development of investment flows and attractiveness of the investment climate. The results show that not only FDI, but also other forms of private foreign investment are increasing their importance. The determinants of foreign investments are evaluated by reviewing the results of previous econometric and empirical studies.

The thesis attempts to answer the following questions. Why do investors invest abroad and particularly in transition countries? What has happened in transition economies during the first decade of transition? Which factors influence the attractiveness of the business environment? Why is the pattern of foreign investments in transition countries so different among the recipients? Which factors have driven foreign direct and portfolio investments in transition countries?

The bibliographic sources in this thesis are mainly European or US origin. The bibliography includes publications of both individual researchers as well as publications of international financial institutions. As this thesis takes the form of a survey, it does not include any original empirical work of the writer.

The forthcoming EU accession countries have performed better in implementing reforms than the CIS or SEE. The business environment is more favorable and stable in CEEC than in these two other regions. Foreign direct and portfolio investments are highly concentrated in the top reformers, which include the Czech Republic, Hungary and Poland. FDI in transition countries tend to be influenced by such factors as previous trade relations, distance, natural resources, lower wages, the extent and method of privatization, agglomeration benefits, intangible assets, competition, market size and country risk ratings. Above all, transition reforms, institutional development and macroeconomic stability seem to encourage investments. The determinants of portfolio inflows in transition countries are more difficult to model. Based on reviewed studies, portfolio investments are determined by the degree of securities market development and private property rights, past and expected returns, risks and information asymmetries.

Key words	Foreign direct investment, portfolio investment, transition countries.
Further information	