Effects of ease of doing business and components of good corporate governance on foreign direct investment: Evidence from the Western Balkans

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Abstract: The research aims to quantify the effect of easy doing business (EDB) on foreign direct investments, especially their resulting consequences. Meanwhile, the research combines supplementary components that are associated with sound corporate governance practices, consisting of control of corruption (CC), lending interest rate (LIR), regulatory quality (RQ), and governance effectiveness (GE). To achieve the stated aim, the research employs secondary data from 2015-2022 and employs regression analysis as the analytical approach. Following examining outcomes, it is observed that EDB and GE have a statistically significant positive effect, while the variables resulting in a significantly negative effect on FDI were LIR and RQ. Concerning CC, there have been surprising results since it has harmful effects that are nevertheless statistically insignificant. Research from the perspective of science's contribution and creative thought relies on the application of a quantitative approach with a mixture of variables that directly affect FDI. The discoveries of the research definitely will challenge numerous stakeholders who operate within this field, such as scholars, and researchers, while nonetheless not omitting the implication of members who are additionally competent in the legislative part. The conclusions of this research will encourage an in-depth review of the implications for policymaking. Specifically, it requires upgrading certain regulations to make them more attractive for FDI.

Keywords: Control of corruption, Corporate governance index, Ease of doing business, Foreign direct investment, Governance effectiveness, Lending interest rate, Regulatory quality.

1. Introduction

The investigation of foreign direct investments (FDI) has continuously been the epicenter for various researchers and academics; therefore, starting from the neoclassical growth model, it says that FDI plays a decisive role in the acceleration of economic growth. Specifically, in the age of globalization, and the rapid development of information technology, the volume of FDI is growing due to improvements in the business environment. Saini and Singhania [1] contend that industrialized economies derive advantages from the inflow of FDI for maintaining economic stability, whereas developing nations and low-income countries consider foreign capital as an accelerator for robust economic growth. Within the last decade, governments have intensified their attention on economic well-being and the well-being of people, especially when it comes to addressing macroeconomic concerns. To accomplish this aim, governments intend to strengthen their focus on the legislative structure, specific legislation, and additional normative acts and regulations. Governments accomplish this by empowering regulatory bodies to oversee institutions engaged in economic activity.

Starting with this perspective, the achievement of these objectives must be represented in the creation of an environment for business that is favorable, and that encourages incentives for creative ideas that affect the creation of a job, workplace, and a competitive environment. Moreover, MogesEbero and Begum

[2] research reveals that a country's inability to create a favorable business environments can result in a complex and unpredictable business environment, potentially harming business performance and reducing the likelihood of attracting foreign investors. Therefore, it is proposed that by fostering an appropriate environment for doing business, it becomes simpler to start and run a firm. This attracts more investors to realize their investments, thereby influencing profit maximization and the creation of new jobs. Having an attractive environment may lead to a sustained advance of the private sector and, on the other hand, an increase in FDI for emerging economies [3].

Figure 1 illustrates the trajectory of FDI for the countries covered by the analysis, in billions of USD at constant prices in 2010. According to the supplied data, every country has a slight tendency to increase FDI during the observed period. More pronounced growth across each of these economies is observed during 2021 and 2022.
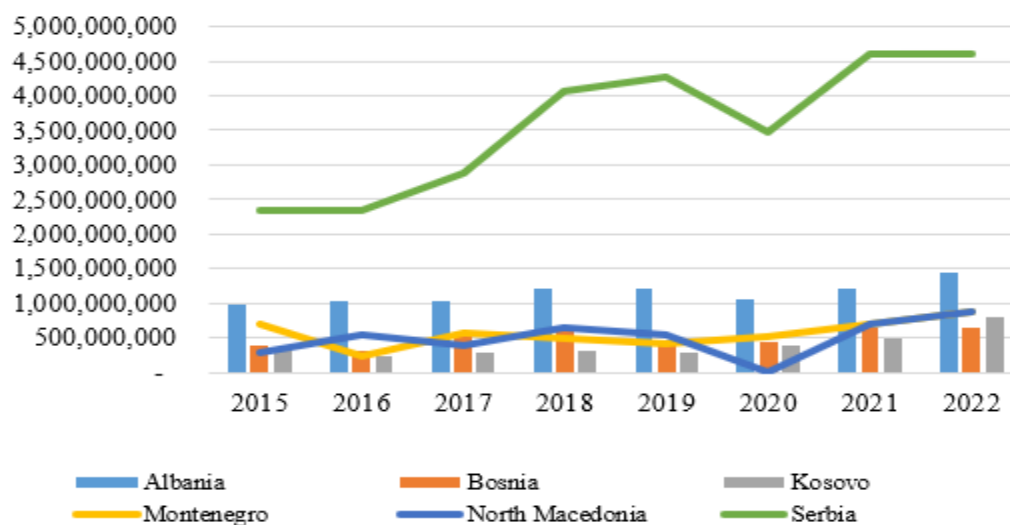

Figure 1.
FDI trend.

Taking into careful consideration that the economies treated in the current study are in a transitional phase, and with a different degree of heterogeneity as an essential prerequisite, the improvement of the EDB index, which is important not only from the nationwide economic aspect but also from the context of international trade. However, it's worth underlining that the World Bank [4] examined this index through several activities grouped into five different groups (opening a business, location, getting access to finance, initiatives with daily operations, and activities in creating business environments), and in this way encourages each country to move forward with the necessary reforms in this aspect. Following that, Figure 2 shows the overall evaluation of the EDB index for the countries considered in the analysis.

Hence, if we examine in depth the tendency of the overall evaluation of EDB, it is evident that North Macedonia has the best evaluation, while the remaining countries have an approximate evaluation. We design the research in multiple ways to scrutinize and tackle issues associated with enhancing the business environment and their impact on FDI's appeal. The research aims to answer the following research questions: "Creating prerequisites and a favorable environment for doing business, should positively affect the attraction of FDI." Therefore, the research has specified that the dependent variable FDI is represented in natural logarithms, whereas the independent variable is EDB, as well as numerous controlling variables such as CC, LIR, RQ, and GE. The research aims to enrich the current scientific evidence about the parameters that affect the discipline of doing business as well as their impact on FDI across the six countries of the Western Balkans, including this research stretching from 2015 - 2022.
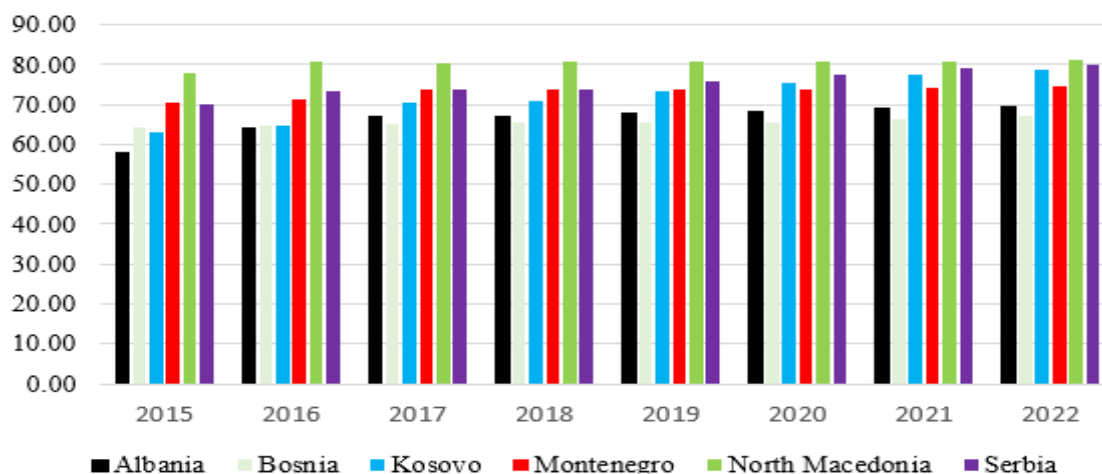
Figure 2.
Overall EDB index.

More specifically, the research utilizes the panel data and the conventional OLS method. Additionally, the research's significance in terms of the uniqueness and innovations presented lies in the fact that within the treated countries, only a few studies have been performed in this context, and the most impressive one is the involvement of some control variables RQ and GE, which have not been addressed previously. Lastly, the results obtained by this research can be used as a valuable guidebook from the policy-making side that may be beneficial to enforcing reforms or redesigning policies.

2. Theoretical Background

The overview of the literature in the preceding paragraph was divided into two clusters: initially, the FDI vs. EDB interaction; and secondly, the FDI and control variables stated previously and discussed in Table 1 of Section 3.2. Multiple empirical investigations have focused on clarifying the significance of business metrics in FDI, GDP growth, and other economic indicators from the time they were initially introduced.

2.1. Reviews of Related Literature for FDI

The debates in various forums and observed studies have led to the conclusion that FDI is an important measure that benefits the nation in numerous areas, including but not limited to economic development, social well-being, job creation, and the inflow of new capital. Multiple researchers employed the advantages of various econometric approaches to investigate various aspects that may affect the attractiveness of FDI. Researchers Durguti, et al. [5] addressed the causal association between gross domestic product (GDP) growth and FDI through the combined econometric approach (fixed effect and GMM) for the economies of the Western Balkans, covering the period 2003-2019. The discoveries of this research provide evidence that these two variables have a statistically significant positive correlation, equally in the short and the long term.

Additionally, in this instance, it is worth underlining that the author Meressa [6] has investigated the determinants that affect FDI in COMESA members (Burundi, Comoros, D.R. Congo, Djibouti, Egypt, Eswatini, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tunisia, Uganda, Zambia, and Zimbabwe), including the period 2002-2016, respectively, for 17 countries. A study employed an OLS empirical approach and discovered that FDI is positively affected by government effectiveness, political stability, corruption control, trade openness, and other related challenges, nevertheless, external debt, inflation, and regulatory quality failed to have a significant impact. The introduction indicates that many writers have recently focused on the concept of "easy doing business" (EDB) in academic and scientific circles. Therefore, Nangpiire, et al. [7] employing the overall

evaluation of EDB through correlation examination and the conventional OLS approach, have found that EDB has a significant beneficial impact on FDI in Sub-Saharan African economies. Furthermore, the inquiry demonstrated that the protection for modest investors positively upgrades the attraction of FDI.

Adopting the identical approach, the writers [8] have assessed EDB parameters to see what impact they could potentially have on FDI for 177 different countries around the world out of a total of 190 countries that are evaluated by the World Bank. The results of their research demonstrate that the overall evaluation of EDB has a significant effect on FDI. After studying several variables within them, they proved that the implementation of contracts has a positive impact, whereas getting access to financing and property registration has resulted in a negative influence on FDI. Within the context of Southeast European economies, researchers Haliti, et al. [9] by employing EDB parameters through the dynamic generalized method of moment (GMM) estimator approach, discovered that the business registration process, property registration, and getting electricity have a significant positive impact on FDI.

2.2. Characteristics of Control Variables

The article synthesizes and critically examines the current research from numerous researchers on the indicators that influence FDI, adhering to a chronology to ensure consistency. Additionally, the EDB evaluation incorporates additional measures that contribute to EDB circumstances, which should be reflected in the attractiveness of FDI. The article examines the existing literature, points out insufficient information, discusses applied econometric strategies, and identifies areas where future research might address such gaps. Furthermore, the research includes three corporate governance measures and a financial indicator associated with financing conditions. In light of our article's objectives, we have focused on the most prevalent recent research, examining it globally through the prism of European economies and paying special attention to the Western Balkans. Many conferences and forums have organized around the topic, asserting the harm corruption causes across various domains. Nevertheless, when considering empirical investigations, it is evident that there is a shortage of studies, particularly for the countries that were considered.

Until now research on this topic has been ambiguous because, while some studies support the theory that anti-corruption efforts boost FDI, other have concluded the opposite to be true as well. Based on the theory supported by Bliss and Tella [10] as well as Aidt [11] they explain the issue of corruption from the aspect of the increase in the cost of economic activities, which is directly reflected in the increase in the cost of doing business, distorts the distribution of resources, and reduces the generating capacity of foreign investments. For instance, according to Zander [12] who used the gravity analysis on the economies of the Organization for Economic Co-operation and Development (OECD), it is not clear whether there is a positive correlation between corruption prevention initiatives and FDI in the intended countries, but it harms the origin country. More specifically, the variable utilized throughout the Panama Paper investigation demonstrated the results of the root of funds from FDI. On the reverse side, the theory supported by Beck and Maher [13] and Saha [14] claims that the control of corruption is used as an efficient lubricant against a set of rigid regulations by facilitating transactions in countries with excessive regulations that increase the cost of information for FDI [15]. The research performed by Belloumi and Alshehry [16] employing the panel vector error correction technique for the countries of the Gulf Cooperation Council, indicates that there is an interaction between these two variables. Furthermore, the causality test in the short term does not cause an upward trend in FDI, instead of economic growth, whereas in the long run, there is a strong association between these two variables.

Chen and Jiang [17] conducted the most recent research in this domain and found a positive association between institutional quality (CC, RQ, and GE) and FDI. Moreover, the authors addressed whether these characteristics were influencing trade openness and the adoption of new technology. For instance, the authors Saha, et al. [18] examining the effect of RQ and GE on FDI, examined a set of 28 low-income countries in six different regions, covering the period 2002-2018. To capture the results, the authors have employed the dynamic approach through the two-step GMM system and have discovered that regulatory quality promotes the attraction of FDI; nevertheless, GE has turned out to be

insignificant. Indeed, the research conducted by Khan, et al. [19] has provided empirical evidence that in countries that have inadequate RE and GE at a sufficient level, both of these components claim to have negative effects on FDI. Regarding the LIR variable, it has been discovered that there is a perfect consensus among scholars that high interest rates discourage investors from undertaking investments in developing countries. McCloud and Delgado [20] examining the association between the interest rate, FDI, and corruption, asserted that FDI can either increase or decrease as a consequence of the internal interest rate within a specific country. More specifically, the writers discovered that if we have an overall decrease in the interest rate of 0.7 percent, it directly affects the increase in FDI by 1 percent. Furthermore, it is necessary to emphasize that the predominant opinion is that in emerging economies, LIR is considered to have an insignificant influence [21].

3. Research Approach

3.1. Data and Sample

The research employs an analytical approach to reveal the effect of EDB as well as additional variables on FDI. It draws on data from six different countries in the Western Balkans. The population under consideration consists of six economies, and the data employed to accomplish this aim are panel data across the period from 2015 to 2022, with a total of 48 observations. The research is based on the secondary data provided by the World Bank (WB) annually. The data is then structured and processed according to the defined design. The rationale behind the inclusion of these economies and the analysis period stems from the availability of data until 2022, as the period prior to 2015 presents significant challenges for the countries included in the study. A further motivation for dealing with this panel of countries is that all the countries included in the analysis share commercial interactions within them as well as many other associated characteristics.

The essential characteristic of employing such data is that it comprises official records from the individual governments provided in line with the official format specified by the International Monetary Fund and the World Bank. The inspiration for choosing the set of variables was drawn from the studies performed by the authors Corcoran and Gillanders [22]; Nketiah-Amponsah and Sarpong [23]; Krasniqi and Durguti [24] and Gizaw, et al. [25] who examined various economies (low-income economies, middle-income economies, etc.) by analyzing EDB regarding the effect it may possess on attracting foreign direct investments. Furthermore, we developed our model based on this extensive research, making significant modifications to the variable selection and the applied econometric approach. The following section elaborates on the variables that comprise the study in thoroughness.

3.2. Variables

Following paradigm of the presented methodology, the subsequent section will scrutinize the variables and discuss their significance and influence on FDI. Each of the parameters incorporated in the model is detailed in Table 1, which begins with the definition of the variable and proceeds through the acronyms used during its computation, culminating in the data source from which the information was extracted.

Table 1.
Description of variables.

Explanation	Denominations	Acronyms	Data sources
Dependent variable	Foreign direct investment	FDI	WB
Independent variable	Easy doing business	EDB	WB
Control variables	Control of corruption	CC	WB
	Lending interest rate	LIR	WB
	Regulatory quality	RQ	WB
	Government effectiveness	GE	WB

We state Foreign direct investment (FDI) as a *dependent variable that represents the* overall amount of foreign investments made in a specific economy, particularly in the economies of the Western Balkans. The current debate in local and international forums encourage emerging countries to establish flexible and adequate infrastructures to absorb foreign direct investments. In this spirit, numerous writers have addressed multiple variables within a state or a panel of states, with an emphasis on attracting FDI. Nketiah-Amponsah and Sarpong [23] measured the effect of EDB on attracting FDI, relying on panel data for forty-five countries among the sub-Saharan African economies through the generalized method of moments. Conclusions of the research have demonstrated that the EDB plays a key role in the attractiveness of bringing FDI, more specifically, wherein each unit rise in the improvement of the EDB index is reflected by a 0.79 percentage point increase in FDI. Moreover, previous research asserts identical results, for instance, the authors Hassan and Basit [8] in examining the effect of the EDB on attracting FDI, employed panel data for 177 countries covering the period 2011-2015. The conclusions of this research significantly argue that the enhancement of the infrastructure of EDB and the proper execution of legislation have significant effects on FDI.

Easy doing business (EDB) is described as an *independent variable* that represents several particular components, namely regulatory effectiveness. The scoring procedure for this metric ranges from 0 to 100 (where 0 indicates the lowest regulatory effectiveness, whereas 100 is the best regulatory effectiveness). The overall evaluation of this index is conducted for 264 countries in the world by the World Bank, meaning it encourages specific countries to undertake steps to modify or adapt their current policies [26].

Meanwhile, the set of *control variables* employed in the current research are CC, LIR, RQ, and GE. The World Bank estimates all controlling variables, except for LIR, ranging from -2.5 at the lowest estimation to 2.5 at the highest estimation. Sanga and Aziakpono [27] in the same vein examined 50 African nations covering the period 2000-2019, pointing out that in countries with middle income, these components have a significant beneficial effect on FDI, compared to countries with low income. Lastly, the European Central Bank consistently presents LIR as barriers to the creation of business-friendly conditions, a point that is also emphasized in its report [28] particularly for the economies of the Western Balkans. Under the same justification, the authors Cao-Alvira and Palacios-Chacón [29] have stressed that ease of obtaining financing has beneficial effects on EDB as well as encouraging foreign investors.

3.3. Model

In line with the established premise, the authors or researchers deployed several econometric approaches to discover the most consistent findings and identify the causal connection between EDB and various other variables related to FDI. Concerning this presumption, we can conclude that there is no consensus about the best way to approach these issues. This research extends the economic model previously employed in research on various variables that affect foreign direct investment (FDI) by encompassing EDB, RL, GE, and other variables. In such scenarios, we can deploy multiple econometric approaches, especially ordinary least squares (OLS), random and fixed effects, and GMM. The last three approaches, underlined, are approaches when dealing with panel data, to assess the specific effects of the countries that are treated. Appropriately, we will elaborate on the characteristics of each underlined approach and, finally the application of the approach in our study.

The empirical overview of numerous prior studies offers a scientific foundation for the fixed effects model, which predicts an interaction between the explanatory factors and the country-specific effects. Nevertheless, the random effects model presumes the exact reverse: country-specific effects are completely random and unrelated to the dependent variable. GMM is a dynamic method that gets rid of autocorrelation and endogeneity problems by adding the dependent variable's first difference to to model's instrument adjustment [30]. Consequently, relying on the highlighted premises as well as the detailed information of the countries included in the examination. We have adopted the Meressa [6] approach, which shares numerous similarities with our study's approach, we have a distinction regarding the dependent variable.

$$Y = \beta_0 + \sum_{j=i,j} \beta_{i,j} X_{i,j} + \varepsilon_{i,j} \quad (1)$$

By simplifying this equation's complexity in our concrete instance, and considering the variables, we will generate a new equation:

$$\text{LnFDI} = \varphi_{j=5,i} + \beta_1 \text{EDB}_{i,t} + \beta_2 \text{CC}_{i,t} + \beta_3 \text{LIR}_{i,t} + \beta_4 \text{RQ}_{i,t} + \beta_5 \text{GE}_{i,t} + \varepsilon_{i,t} \quad (2)$$

When: LnFDI – outlines the dependent variable, β_1 to β_5 – outlines the explanatory variables, i – outlines the unique effects of the countries, t – the period 2015-2022, and ε_{it} – outlines the expected error.

4. Findings and Treatment

Table 2 displays data indicating a mean value of FDI of 20.24, expressed in 1,072 million euros, with a standard deviation of 1.09 percent. The maximum amount achieved is 4,600 million euros in 2021 in Serbia, whereas the smallest amount achieved is only 7,693 thousand euros in 2020 in North Macedonia. The results obtained indicate that the countries that were included in the analysis have a considerable degree of variability in the absorption of foreign direct investments. Therefore, as a contributing component that has predispositions for the attraction of foreign direct investments, EDB has a mean score of 72.09, out of a total of 100 points as the highest rating with a standard deviation of 5.99 percent. The results that were obtained for this component reveal adequate signals that the environment for doing business in these economies is quite good and quite attractive for strategic investors. The maximum score recorded was 80.99 achieved in 2021 in North Macedonia, while the minimum was 58.10 achieved in 2014 in Albania.

Table 2.
Summary statistics.

Explanation	FDI	EDB	CC	LIR	RQ	GE
Obs.	48	48	48	48	48	48
Mean	20.244	72.092	-0.371	5.625	0.116	-0.167
Standard deviation	1.096	5.993	0.189	1.161	0.266	0.336
Min.	15.856	58.101	-0.641	3.072	-0.375	-1.043
Max.	22.249	80.992	0.015	7.972	0.524	0.202

The control of corruption has a mean score of -0.37, which at the same time confirms the findings of various reports coming from the structures of the European Union, that these countries are challenged by this phenomenon. The maximum score discovered was -0.64 in 2021 in Bosnia and Herzegovina, while the minimum was 0.015 recorded in 2018 in Montenegro. One additional factor that necessarily influences the setting up of a favorable environment for conducting business is the lending interest rate (LIR), which has resulted in a mean value of 5.63 percent. The highest recorded rate was 7.97 percent in 2014 in Montenegro, while the lowest rate was 3.07 percent recorded in 2018 in Bosnia and Herzegovina. The countries included in the analysis consistently assert that current rates are associated with political stability and exposure to various risks.

A metric that is of interest and that is mostly related to the attractiveness of foreign direct investments is regulatory quality (RQ), which has a mean score of 0.11 within the range (-2.5 to 2.5), with a standard deviation of 0.27 percent. The highest score was 0.52 recorded in 2018 in North Macedonia, while the lowest score was -0.37 recorded in 2017 in Kosovo. Additionally, government effectiveness has a mean score of -0.17, with a standard deviation of 0.34 percent. Our findings provide us indices indicating that the countries covered in the examination are experiencing a significant deficit in terms of providing RQ and GE at the appropriate level. The highest score is 0.20, while the lowest score is -1.04.

Our study employed diagnostic tests to discover the causal relationship between LnFDI and various other variables before proceeding toward more complex analyses. We also conducted a vector inflation factor (VIF) assessment to resolve the issue of multicollinearity in the data. For instance, as indicated in Table 3, FDI is positively related to GE and has a moderately negative association with EDB, CC, LIR,

and RQ. At the same time, Table 3 exhibits the interactions across the independent variables in extensive detail.

Table 3.
Correlation matrix.

Explanation	FDI	EDB	CC	LIR	RQ	GE
FDI	1.000					
EDB	–0.059	1.000				
CC	–0.121	0.402	1.000			
LIR	–0.021	0.152	0.356	1.000		
RQ	–0.036	0.416	0.578	0.246	1.000	
GE	0.251	0.449	0.517	0.673	0.644	1.000

Even though neither coefficient within it is $\beta \geq 0.67$, the outcomes provide preliminary evidence that the research's data is unaffected by multicollinearity. Nguyen and Do [31] have laid out mathematical and statistical arguments indicating that a multicollinearity problem could arise and lead to an unstable final result if the data from this analysis have a coefficient $\beta \geq 0.8$. Regarding this particular scenario, the researchers also used VIF to further eliminate the issue, yielding a mean value of 2.54. This conclusion reinforces the initial results that the correlation matrix pointed out.

Additionally, we performed the Levin-Lin-Chu test to examine the variable orders and identify how many of them are stationary. Testing is a crucial aspect of dealing with panel data, typically beginning with the establishment of the the null hypothesis. This hypothesis states that if the data is not stationary, it has a unit root. Results of this examination are provided in Table 4, during which they were initially evaluated at a level wherein all variables were determined to be significant based on the ρ-value, except for FDI, which turned out to be insignificant. Hence, as a result of the aforementioned, an additional step was taken by placing the data in the first difference I(1), and under this form, all the data exhibited the significant value $\rho = 0.000$.

Table 4.
Levin-Lin-Chu and Pedroni test.

Variables	FDI	EDB	CC	LIR	RQ	GE
At level						
Statistic	–3.139	–4.613	–5.608	–3.312	–7.185	–7.386
ρ - value	0.156	0.003	0.000	0.057	0.000	0.000
At first difference						
Statistic	–27.763	–16.423	–13.661	–5.278	–8.246	–10.816
ρ - value	0.000	0.000	0.000	0.000	0.000	0.000
Co-integration test	Pedroni test				Statistic	ρ - value
	Modified Phillips-Perron test				3.650	0.000
	Phillips-Perron test				–9.821	0.000
	Augmented Dickey-Fuller test				–8.067	0.000

Finally, proceeding one step further, we performed the Pedroni test to examine if every observation is appropriately integrated on the one hand and, additionally, to identify if there is a long-term correlation between FDI and the variables included in the investigation. Our results supplied by this test demonstrate that the data integration is appropriate because, across the three evaluations within the Pedroni test, they have resulted in $\rho = 0.000$, meaning that the validation was performed at a significance level of 1 percent. Therefore, considering what was discovered by the author Pedroni [32] whenever the value of this test is significant, it is considered that the data are integrated precisely at the first difference I(1), wherein

there is a relationship in the long term within the dependent variable and other variables incorporated into the research.

We also performed a heteroskedasticity examination to validate the reliability of the initially administered diagnostic tests. Our findings indicated that $\chi^2 = chi_2(1) = 1.30$, with $\rho = 0.2534$. These results suggest that the data did not possess any relevance regarding this problem, as $\rho = 0.2534 \geq \rho = 0.05$. The F-test result exhibits a coefficient of $F(3.10)$ with $\rho = 0.009$, indicating that every variable incorporated into this approach shows that the model and their integration have reached the significance level of $\alpha = 0.01$. These results are valuable when evaluating the overall significance of the OLS model. Due to this, we're confident the model is appropriate for the dependent variables and is capable of providing accurate and steady outcomes. Considering a coefficient R-squared of 0.3010, or, in other words, the model's independent variables explain 30.1% of FDI, while the remaining variables are explained by the variables that are not included in the model. Furthermore, an adjusted R-squared value of 0.2039, or, differently, it explains 20.39 percent of the variance among the variables considered. In light of these results, it appears reasonable to presume that the model is well-defined, while also confirming that the results' reliability is well-established.

Table 5.
Empirical results.

Variable	Coefficient	Standard error	t	P>|t|
EDB	0.0575	0.0335	1.71	0.095
CC	-1.0439	1.1213	-0.93	0.358
LIR	-0.5023	0.2314	-2.17	0.037
RQ	-1.6903	0.8903	-1.90	0.066
GE	3.5027	0.9473	3.70	0.001
_cons	27.5497	3.1345	8.79	0.000
F-test	F(3,36)	/	3.100	0.009
R^2	0.3010	/	/	/
Adjusted R^2	0.2039	/	/	/
χ^2	/	/	chi2(1) = 1.30	0.2534
VIF mean	2.54	/	/	/
Obs.	48	/	/	/

By considering the data in Table 5, it could be presumed that there is a negative statistical influence of RQ, EDB, and LIR regarding the attraction of FDI at a significance level of 1, whereas GE has a significant statistical influence with a positive sign on the attraction of FDI at a significance level of 1 percent. The CC is a variable that has produced negative consequences, but it is statistically insignificant. More specifically, the coefficient generated in the framework of the OLS analysis for EDB is $\beta = 0.0575$ with $\rho = 0.095$. this premise establishes that the ceteris paribus principle automatically reflects an increase of 0.05 units in FDI for every unit of EDB. Therefore, the setting up to be an appropriate environment for doing business appears to be an essential determinant, and ongoing attention must be paid. The results we obtained in the wider context of the research that was performed are in alignment with those of the authors Gizaw, et al. [25] analyzing the countries of East Africa, who determined that for every single additional improvement in the setting up of environments for doing business, it is reflected in the increase of 2.24 percent in the attraction of FDI.

Meanwhile, in the context of the countries that were included in the investigation, Haliti, et al. [9] have reached the same conclusions, claiming that the variables that comprise the EDB paradigm have a considerable beneficial influence on countries with economies in transition. Another factor that plays an imperative role in creating an advantageous environment for doing business and, obviously, in attracting FDI is the lending interest rate (LIR). the reported results for this variable indicate a statistically

significant negative influence on FDI attraction. The magnitude of coefficient β = -0.5023 with ρ = 0.037 means that an increase per unit of LIR adversely influences 0.50 units of FDI within the period of inquiry. The results of the research match up with the interpretations of McCloud and Delgado [20] who assert that there is an interaction between each of these variables, correspondingly, each decrease in LIR by 0.7 percent is reflected in an increase in FDI inflows by 1 percent. Nevertheless, it is worth highlighting that our results are contradictory to the conclusions reported by Hasran, et al. [21] who contend that emerging countries exhibit an insignificant relationship.

The coefficient of RQ (β = -1.6903 with ρ = 0.066) demonstrates the statistically significant adverse interaction between RQ and FDI, as well as the confidence level of 99 percent. This implies that the countries under investigation need to implement significant governance structure reforms to draw FDI. Our discoveries correspond to the spirit of the study performed by Khan, et al. [19] who discovered that the regulatory environment should have an advantageous influence on the attraction of FDI. Indeed, authors discovered that in advanced economies, CC and RQ have a negative influence, whereas in emerging economies, they are represented by a favorable influence in the attraction of FDI. Starting from this oppositional standpoint, our discoveries are in contrast with the research results of Chen and Jiang [33] who suggest a positive interaction between them, analyzing the G20 countries. Finally, GE considering the coefficient (β = 3.5027 with ρ = 0.001) demonstrates that these two variables have a significant positive interaction and a reliability. level of 99.9 percent. This suggests that the attractiveness of FDI increases by 3.50 units for every unit of GE improvement. Consequently, in this context, our findings are in full compliance with the authors' [19, 33] where they discovered that there is a substantial positive interaction between GE and FDI.

5. Conclusion

Taken as a whole, the improvement of the regulatory reform in the context of EDB is essential, and as a result, it affects the creation of a favorable climate for the attraction of foreign direct investments. Economies experiencing transition tend to have an increased propensity to attract investments, which is supported by the neoclassical theory. It appears that this issue is particularly pronounced in transitioning economies. The current research employs panel data across 6 Western Balkan countries and an econometric methodology to provide evidence that EDB increases the attractiveness of FDI within the period under consideration. This study covered 48 observations made between 2014 and 2021.

Meanwhile, the research found that investment attractiveness increased by 0.05 units for every reform that competent structures got underway or completed. Regarding the controlling variables, GE has produced a significant positive influence, whereas LIR and RQ possess strongly adverse influences. However, an unexpected discovery was CC, which appears to have an insignificant influence on luring FDI. Surprisingly, it's based on evidence that almost every discussion panel and study from EU institutions stresses how the CC leads to a corresponding increase in GDP through encouraging investments. Overall, the analysis concludes that the countries under consideration should implement reforms in two distinct domains. Firstly, we need to improve the business environment to lower loan interest rates, which, despite being high compared to EU countries, discourage investment. Secondly, in light of the outcomes presented above, the regulatory quality has reflected that it harms the attraction of FDI; consequently, this phenomenon must be adequately addressed by the government structures to overcome these shortcomings and turn it into an advantage for the attraction of FDI.

Based on the context of policy implications, the research exhibits that EDB as well as several controlling variables significantly influence FDI. Indeed, this threshold does not mean that the government shouldn't examine additional variables that can overlook the improvement of indicators that can influence the attraction of FDI. Furthermore, the EDB undergoes continuous modifications in its methodology and components, requiring attention. Consequently, the governments of the respective counties must devise adaptable strategies to enhance the business environment and attract FDI.

Lastly, this research has several limitations, which can potentially serve as opportunities to undertake additional inquiries. That conclusion relies on the assumption that the methodology and variables

involved in the inquiry vary continuously, meaning that the policy-making institutions of the aforementioned countries should consider EDB indicators to create a strategy toward attracting FDI. On the other hand, for a more comprehensive study regarding the interaction between EDB and FDI, it is proposed to use data for even longer periods, but also include other econometric variables and approaches. Finally, this research serves as fundamental insight for the countries of the Western Balkans that should have at their disposal the maximum FDI inflows.

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