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REFRAMING HOST-COUNTRY ATTRACTIVENESS FOR FOREIGN DIRECT INVESTMENT IN POST-TRANSITION EUROPE: EVIDENCE FROM THE VISEGRAD FOUR COUNTRIES

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Abstract. Geopolitical fragmentation, sustainability transitions and digital transformation are increasingly shaping foreign direct investment (FDI). These shifts are not only altering the volume and structure of investment flows, but also the governance frameworks through which states position themselves within global production networks. This article presents a multidimensional framework for analysing host-country attractiveness for FDI in post-transition Europe. Moving beyond traditional economic factors, the framework considers institutional quality, regional integration, geopolitical alignment, environmental, social and governance (ESG) factors, digital infrastructure and sociopolitical legitimacy. The article applies this framework to the Visegrad Four to demonstrate how countries with similar transition legacies and EU membership have diverged in their developmental trajectories and strategic positioning. The analysis reveals the various configurations of institutional credibility, geopolitical alignment and innovation capacity that influence the scale, structure and long-term sustainability of inward foreign direct investment (FDI). By situating FDI attractiveness within broader debates on economic governance and global fragmentation, the article sheds light on how states navigate the trade-offs between integration, sovereignty and development, with implications that extend beyond post-transition Europe.

Keywords: foreign direct investment, post-transition economies, institutional quality, international political economy, ESG governance, geopolitical alignment.

JEL Classification: F21, F50

1. Introduction

Foreign direct investment has become a key area of contestation in the global political economy. Geopolitical fragmentation, sustainability transitions and digital transformation are changing the way governments and firms evaluate potential locations for investment, affecting not only the volume, but also the structure and strategic direction of cross-border capital flows. In this context, a country's attractiveness as a host is no longer determined solely by economic fundamentals, but by a broader set of institutional, political and normative conditions that influence investment decisions in an uncertain environment.

These shifts are particularly evident in the economies of Central and Eastern Europe following their transitions, where FDI has played a pivotal role in economic transformation, technological advancement, and integration into global and European supply chains (Hlavacek & Bal-Domanska, 2016; Makhavikova, 2018). Although existing theoretical approaches primarily explain FDI allocation through economic factors such as market size, factor endowments and comparative advantage (Love & Lage-Hidalgo, 2000; Kinoshita & Campos, 2003), these approaches are increasingly unable to capture the evolving role of institutional credibility, geopolitical alignment and regulatory frameworks in shaping investment outcomes (Faeth, 2009; Tocar, 2018).

Contemporary developments, such as nearshoring and friendshoring strategies, the expansion of ESG-

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based investment criteria and the growing importance of digital infrastructure, have introduced new filters that interact with traditional determinants. These factors reshape the concept of 'attractiveness' by linking economic performance to the quality of governance, policy alignment and strategic positioning within global production networks. Consequently, the concept of 'location advantage' in established frameworks, particularly the eclectic paradigm (Dunning, 1979, 1988), must be systematically reconsidered.

The present article proposes a multidimensional framework for analysing host-country attractiveness for FDI in post-transition Europe. The concept of attractiveness is theorised as a configurational outcome emerging from the interaction of economic, institutional and geopolitical factors, rather than as an aggregation of independent variables. The framework under discussion integrates seven interrelated pillars: economic fundamentals, institutional quality, regional integration, geopolitical alignment, sustainability and ESG compatibility, digital and innovation infrastructure, and sociopolitical legitimacy. In doing so, it provides both an analytical tool for comparative research and a policy-relevant framework for assessing investment competitiveness under conditions of global fragmentation.

The framework is applied to the Visegrad Four, which are treated as a comparative policy laboratory. This illustrates how countries with similar transition legacies and EU membership can generate different investment outcomes through various configurations of these pillars. The article makes a significant contribution to the literature by linking FDI attractiveness to broader questions of economic governance and strategic positioning. This enables a more comprehensive understanding of how states navigate trade-offs between integration, sovereignty, and developmental upgrading. This question is of relevance well beyond Central Europe in the current international economic order.

2. Methodology

The present article employs a structured conceptual research design in order to develop a coherent framework for analysing host-country attractiveness for foreign direct investment (FDI) in post-transition economies. The approach is anchored in the fields of international political economy and new institutional economics. It treats conceptual work as a process of theory-guided selection and synthesis rather than a descriptive literature review (George & Bennett, 2005; Levy, 2008).

The framework is developed in three stages. First, a theoretical baseline is established by mapping core paradigms in international production and capital mobility. These include the Heckscher–Ohlin tradition, the eclectic paradigm, internalisation theory and gravity-type approaches (Dunning, 1979; Buckley & Casson, 1976; Eaton & Tamura, 1994). These frameworks are retained because they incorporate host-country determinants and broaden the concept of location advantage beyond narrowly defined economic variables (Faeth, 2009; Moosa, 2015).

Secondly, a targeted literature review was conducted to identify the relevant determinants across four domains: economic fundamentals, institutional quality, regional integration and emerging factors, such as geopolitical alignment, sustainability, ESG norms and digitalisation. Focusing on post-1990 scholarship, the review draws on academic research and policy-oriented sources (UNCTAD, IMF, World Bank and OECD). Sources are selected based on their relevance in explaining the conditions for FDI in host countries in transition and comparable economies. The selection prioritises conceptual relevance over thoroughness, in line with theory-building approaches in the field of international political economy.

Thirdly, a theory-guided synthesis consolidates these determinants into higher-order categories. Only determinants that recur across theoretical traditions, are supported by empirical or policy evidence, and are salient in contemporary debates shaped by geopolitical tension, sustainability transitions and digital transformation are included as 'pillars'. This process yields seven interrelated pillars: economic fundamentals; institutional quality; regional integration; geopolitical alignment; sustainability and ESG compatibility; digital infrastructure; and innovation infrastructure.

The framework focuses on inward FDI in post-transition and structurally comparable economies, operating under conditions of deep integration and increasing geopolitical fragmentation. Rather than being predictive, it is interpretive and heuristic, and is designed to support comparative analysis and provide a policy-relevant diagnostic tool for assessing investment competitiveness.

3. Rethinking Host-Country Attractiveness: Review and Gaps in FDI Theory

3.1. Classical Perspectives on FDI Location

Classical theories of foreign direct investment emphasise economic fundamentals, drawing on trade and capital allocation models to explain FDI flows (Agarwal, 1980). Early neoclassical models, based on the Heckscher-Ohlin framework, link capital movements to differences in factor endowments, anticipating that capital will flow from regions with abundant capital to those with scarce capital in pursuit of higher returns. Similarly, the differential rate of return hypothesis suggests that FDI is driven by interest rate differentials and profit-seeking behaviour, based on

the assumption of a perfect market (Lizondo, 1991; Faeth, 2009).

Later developments, such as Dunning's eclectic paradigm (OLI), integrated firm-level motivations, country-specific location advantages, and internalisation incentives (Dunning, 1988). In this context, FDI decisions result from the interaction between firm-specific ownership advantages (O), internalisation advantages (I) and host-country location factors (L). However, the concept of 'L' is often limited to tangible factors such as labour costs, market size and infrastructure, thus overlooking the increasingly important role of institutional, regulatory and geopolitical factors in determining investment decisions in the current climate.

3.2. Institutional and Regional Approaches

In response to empirical inconsistencies in classical models, a growing body of research has emphasised the role of institutions and regional integration in shaping FDI inflows (Saleh, 2017). Drawing on the theory of new institutional economics, these approaches argue that the predictability and credibility of governance systems, including legal frameworks, levels of corruption, contract enforcement and bureaucratic quality, constitute critical determinants of investor confidence (Lipsey, 2004).

In the European context, regional integration has been shown to be an effective way of encouraging FDI (Carstensen & Toubal, 2004). EU membership, participation in regional trade agreements and alignment with EU regulatory standards have fostered greater legal certainty and market access. The resulting reduction in transaction costs and political risk has made many post-transition economies attractive destinations for foreign capital, despite their poor economic fundamentals.

3.3. Emerging Gaps: Geopolitical, Sustainability, and Digital Dimensions

Despite these advances, existing frameworks still fail to capture new patterns in global FDI allocation. Firstly, geopolitical alignment has emerged as a critical factor, particularly in the context of friendshoring, the decoupling of the U.S. and China, and sanctions related to Russia (Gökçeli, 2023). Firms are increasingly taking political trust and alliance structures into account when making risk assessments, particularly in strategic and policy-sensitive sectors.

Secondly, the emergence of environmental, social and governance (ESG) standards and climate-aligned investment strategies has introduced a new set of criteria influencing location decisions. Host countries that implement green industrial policies, provide access to clean energy and comply with ESG reporting standards are gaining a competitive advantage (UNCTAD, 2021), particularly for long-term and capital-intensive projects.

Thirdly, the digitalisation of global value chains has increased the importance of digital infrastructure, data governance and innovation ecosystems (Nayak & Choudhury, 2014). In technology-intensive sectors, the availability of a digitally capable workforce, cybersecurity standards and AI regulations are increasingly shaping where firms choose to invest, reflecting the growing importance of intangible assets in multinational strategies.

Together, these developments highlight a theoretical discrepancy in the way host-country attractiveness is conceptualised. The next section therefore proposes a multidimensional framework that addresses this issue by combining traditional and emerging factors to create a coherent analytical model based on international political economy and modern investment governance.

4. Conceptual Framework and Integrated Model of Host-Country FDI Attractiveness

4.1. The Seven Pillars of Host-Country Attractiveness

In post-transition contexts, the attractiveness of a host country for foreign direct investment is shaped by a complex interplay of multidimensional factors. This framework identifies seven interdependent pillars, each representing a distinct area that affects investor decision-making. Although these pillars are analytically distinct, they are empirically interwoven: improvements in one area often have an impact on, or are affected by, outcomes in others. Therefore, conceptual overlap is not a flaw, but rather a reflection of the interconnected nature of the political, economic and institutional environments in which investment decisions are made.

4.1.1 Economic Fundamentals

Economic fundamentals provide the rationale for inward FDI by shaping expected demand, production feasibility and risk-adjusted returns. Market size and growth are among the most consistently cited predictors of location choice, reflecting the logic of seeking out markets where larger economies reduce demand uncertainty and allow for economies of scale (Agarwal, 1980; Mallampally & Sauvant, 1999). In post-transition Europe, economic attractiveness is closely linked to export-oriented and value-chain FDI, which increases the importance of connectivity and reliable infrastructure as conditions that enable cross-border production coordination (Carstensen & Toubal, 2004). The fundamentals are best understood as an integrated package of macroeconomic stability,

adequate infrastructure and skills, rather than as isolated variables (Solomon, 2011).

4.1.2 Institutional Quality

The quality of institutions shapes the credibility and predictability of the investment environment, influencing how reliably rules are applied, contracts are enforced and disputes are resolved. Strong institutions reduce transaction costs and regulatory uncertainty for foreign investors, thereby improving the risk-adjusted returns of long-term projects (Lipsey, 2004; Peres et al., 2018; Hayat, 2019). This is particularly pertinent in post-transition economies, where reforms may be inconsistent and changes in administrative practice can significantly impact operations, even when formal legislation remains unchanged. Recent evidence suggests that institutional upgrading is particularly important in areas with lower baseline quality, where the impact of further improvements diminishes once a high level of institutional quality is reached (Gokceli, 2023). In the Visegrad region, institutional quality serves as a differentiator among otherwise comparable locations competing for similar projects and reinvestment decisions (Hassan, 2022).

4.1.3 Regional and Spatial Proximity

Regional integration and spatial proximity increase the attractiveness of host countries by reducing cross-border frictions and integrating investment decisions into wider markets and production networks. In post-transition Europe, EU accession and regulatory convergence have been key mechanisms by which smaller domestic economies have become attractive locations for export-oriented and value-chain FDI, as harmonised rules have lowered transaction costs and perceived risk (Campos & Kinoshita, 2003; Carstensen & Toubal, 2004). These effects are reinforced by spatial proximity, which lowers informational, coordination and logistics costs. This strengthens agglomeration around core European production corridors and supports supplier networks in manufacturing sectors that characterise much of the V4's inward FDI profile (Dorożyński & Kuna-Marszałek, 2014; Wojciechowski, 2013).

4.1.4 Geopolitical Alignment

As firms reconfigure production networks under strategic competition, sanctions risk and policy-driven de-risking, geopolitical alignment has become a salient determinant of host-country attractiveness. Recent evidence suggests that political alignment between home and host countries is linked to stronger greenfield FDI relationships, particularly in strategic sectors. This is consistent with the idea of 'friendshoring' and the selective relocation of investment towards trusted jurisdictions (Aiyar et al., 2024; Gopinath et al., 2024; Bhaumik et al., 2025). For host economies, geopolitical alignment acts as a filter for risk and access, reducing the perceived likelihood of disruptive shocks and enhancing access to investment from allied capital-exporting blocs (MIGA, 2024; Grover & Vézina, 2025).

4.1.5 Sustainability and ESG Compatibility

The attractiveness of host countries is increasingly shaped by sustainability and ESG compatibility because investors face rising regulatory, financing and reputational constraints linked to climate policy and responsible business conduct (Chipalkatti et al., 2021). The existing literature confirms a positive correlation between FDI inflows and ESG performance (Pisani et al., 2019; Wang et al., 2023). According to UNCTAD (2021), countries offering credible environmental regulation, predictable permitting and access to cleaner energy reduce compliance risk and improve the viability of long-term projects in manufacturing, infrastructure and energy-intensive activities. Cross-border project flows increasingly include renewable energy and related investments, and the attractiveness of host economies partly depends on whether their policy frameworks and grid readiness support such projects (OECD, 2022). In the Visegrad region, ESG compatibility serves as a signal of policy alignment towards EU sustainability norms, as well as a filter for competitiveness, affecting access to standards-sensitive investment.

4.1.6 Digital and Innovation Infrastructure

Digital and innovation infrastructure has become a key factor in determining the attractiveness of a host country, as multinational activity is increasingly dependent on connectivity, data-intensive coordination and access to skills that support technologically complex functions. For host economies, this pillar encompasses not only broadband availability, but also the broader enabling environment for digital operations, including reliable networks, cybersecurity capacity and an innovation ecosystem that supports ICT services, advanced manufacturing and R&D-oriented tasks (Zhang et al., 2024). In post-transition Europe, the importance of these capabilities is growing as FDI projects become part of cross-border production networks, where digital coordination is vital for productivity and reliable supply chains (Ban & Adascalitei, 2022; Nayak & Choudhury, 2014).

4.1.7 Sociopolitical Legitimacy

Sociopolitical legitimacy reflects the extent to which inward FDI is politically sustainable and socially

accepted. This shapes not only entry decisions, but also reinvestment and upgrading over time. Even when formal rules remain stable, domestic political volatility, polarised discourse and contestation over foreign ownership in strategic sectors can increase perceived risk and the likelihood of policy changes (Kim & Hiatt, 2021; Linsi, 2022). In post-transition economies where the social contract around globalisation and institutional consolidation may remain contested (Contessi & Weinberger, 2009), projects that are perceived to deliver employment and regional development are more likely to be politically protected. In contrast, investments that are framed as extractive or sovereignty-sensitive can become targets of regulatory tightening or politicisation.

4.2. Integration Logic and Theoretical Positioning

The model conceptualises FDI attractiveness as a configurational outcome arising from the interaction of the seven pillars. It is positioned as a systemic outcome arising from the alignment and reinforcement of multiple domains. The absence of one of these pillars (e.g., institutional quality or geopolitical trust) can diminish overall attractiveness, whereas coordinated improvements can generate synergistic effects that exceed those of isolated reforms.

The model redefines the 'L' (location) factor in the OLI paradigm by expanding it to encompass non-market attributes, including political alignment and ESG readiness (Makoni, 2015). It also complements gravity and institutionalist models by incorporating strategic and normative filters into the analysis of investment flows in situations of geopolitical and normative fragmentation.

This framework can be visualised as either a radial or layered model. Each dimension contributes to the composite outcome of FDI attractiveness. The framework serves both analytical and policy purposes.

5. Application to the Visegrad Four

The integrated model developed in Section 4 conceptualises host-country FDI attractiveness as an outcome of seven interdependent pillars, the effects of which are cumulative and frequently conditional on each other in practice. To demonstrate the empirical relevance of this framework, and to provide a basis for the subsequent qualitative assessment, this section applies the model to the Visegrad Four (V4). The study commences with a comparative analysis of inward FDI inflows and accumulated stock, subsequently followed by a decomposition of inward FDI by principal source economies and sectoral structure. This empirical baseline provides the context for mapping each country's profile to the seven pillars and for identifying how different configurations of advantages and constraints shape investment attractiveness within a shared regional and post-transition setting in Central Europe.

5.1. Empirical Snapshot of Inward FDI in the V4

Before mapping the seven pillars at country level, it is necessary to establish a comparative empirical baseline for the V4. Despite having broadly similar historical starting points and shared EU membership, recent patterns of inward FDI in the region reveal substantial cross-country variation in the scale and structure of foreign investment. This variation is important for understanding how different combinations of economic, institutional and political factors influence the attractiveness of a host country.

Table 1 shows recent inward FDI inflows alongside the accumulated stock of inward FDI, capturing

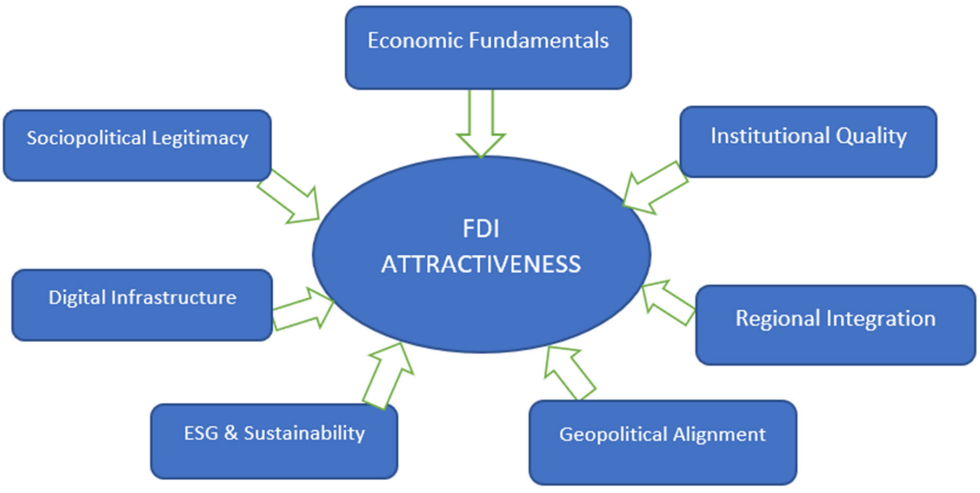


Figure 1. Factors influencing FDI attractiveness

Source: Authors' own elaboration

Table 1
Inward FDI in the V4: recent inflows and stock (levels and intensity)

Country	FDI inflow (million USD, 2024)	FDI inflow (5-year avg, million USD)	Inward FDI stock (billion USD, latest year)	Stock (% of GDP)	Stock per capita (USD)
Poland	12 740	24 537	345	38.0	8 958
Hungary	5 737	7 529	117	52.9	12 110
Slovakia	1 843	980	61	43.1	11 030
Czechia	10 165	9 458	216	62.7	20 109

Source: UNCTAD (2025)

both the short-term dynamics and the longer-term embeddedness of foreign capital. Poland and the Czech Republic attract the largest absolute volumes of inward FDI, reflecting their larger market size and centrality in European production networks. At the same time, Hungary and Slovakia have a higher inward FDI stock relative to their GDPs, which indicates a greater proportional reliance on foreign capital. These differences suggest that attractiveness cannot be determined by a single factor; countries may be attractive in terms of scale, intensity or embeddedness, and these characteristics do not always align.

The differences in stock per capita further highlight the variation in the developmental role of FDI. Czechia has the highest stock per capita, indicating a strong and relatively diverse presence of foreign capital across the economy. In contrast, Poland's lower ratio reflects the dilution effect of its larger population, despite high absolute inflows. Hungary and Slovakia, on the other hand, occupy an intermediate position, combining relatively high stock intensity with smaller economic scale. This pattern suggests that post-transition economies may exhibit remarkably divergent patterns of FDI, even when exhibiting comparable levels of integration within European markets.

As shown in Table 2, the structure of inward FDI by source country highlights the dominant role of Western European capital in shaping investment patterns in the region. The prominence of the Netherlands, Germany, Austria and Luxembourg among the top source economies reflects regional integration and the significance of intra-European production networks. This concentration highlights the ongoing importance of spatial proximity and regulatory convergence as drivers of investment. At the same time, the presence of non-European investors – notably Korean investors in Hungary – suggests that some V4 countries have also established themselves as gateways for non-European capital entering the EU market. This illustrates how regional integration and geopolitical alignment can influence access to investment.

Table 3 presents the sectoral composition of inward FDI stock and reveals marked differences in specialisation across the V4 countries. Hungary and Slovakia demonstrate a significant concentration of inward FDI in manufacturing, which is consistent with their function as assembly and fabrication hubs within European value chains. Both Czechia and Poland have more diversified structures, with a stronger presence of finance, professional services, and wholesale and retail activities. These differences suggest that the variation across the V4 is not only related to the volume of FDI, but also to its functional role in the economy. This issue is directly linked to institutional quality, digital readiness, and sociopolitical legitimacy within the seven-pillar framework.

Overall, the empirical snapshot shows that the V4 countries are not a homogeneous group in terms of their performance in attracting inward FDI. Instead, they exhibit different levels of scale, integration, sectoral specialisation and external linkages (Darmo et al., 2020). These differences form the empirical basis for the subsequent application of the seven-pillar framework,

Table 2
Top source economies of inward FDI stock in the V4 (share of stock, %, latest year)

Host country	#1 source (%)	#2 source (%)	#3 source (%)	#4 source (%)	#5 source (%)
Poland	Netherlands (18.0)	Germany (16.8)	Luxembourg (12.9)	France (7.2)	UK (5.6)
Hungary	Germany (16.1)	Netherlands (15.5)	Austria (13.4)	Luxembourg (7.6)	Korea (6.1)
Slovakia	Netherlands (23.6)	Czechia (14.4)	Austria (13.4)	Germany (6.6)	Belgium (6.0)
Czechia	Netherlands (16.2)	Luxembourg (15.2)	Germany (13.8)	Austria (9.8)	France (6.6)

Source: wiiw FDI Database (2025)

Table 3
Inward FDI stock by sector in the V4 (%, latest year)

Host country	Manufacturing (C)	Finance (K)	Real estate (L)	Wholesale & retail (G)	ICT (J)	Professional services (M)
Poland	29.0	12.6	8.5	13.1	6.0	10.5
Hungary	46.6	8.5	8.5	10.8	4.0	7.7
Slovakia	34.0	23.6	8.4	8.7	4.9	2.9
Czechia	26.3	27.9	11.9	9.2	4.0	10.2

Source: wiiw FDI Database (2025)

which aims to explain how variations in economic fundamentals, institutions, integration and political conditions come together to shape the attractiveness of a host country within a shared regional and post-transition context.

5.2. Country Profiles Mapped to the Seven Pillars

The empirical variation documented in Section 5.1 reflects the underlying differences in the positioning of the four countries across the seven pillars of host-country attractiveness. This section plots the profile of each country onto the framework, demonstrating how different combinations of economic, institutional and geopolitical characteristics result in different FDI outcomes within a shared post-transition, EU-integrated setting.

5.2.1 Poland

Poland's attractiveness is primarily rooted in its strong structural economic fundamentals, including its sizeable and expanding domestic market, diverse economic foundation, and robust macroeconomic performance. These features support both market-seeking and export-oriented FDI, which explains Poland's leading position in terms of absolute inflows (see Table 1). Evidence from panels suggests that vertical integration strategies have been especially prominent among OECD-based multinationals, alongside horizontal market-seeking investment (Cieślik, 2020). The high absolute stock of 345 billion USD, but moderate stock-to-GDP ratio of 38.0%, and lower stock per capita of 8,958 USD, reflect the scale effect of Poland's large population. This indicates that Poland primarily attracts FDI on the basis of market depth rather than the intensity of foreign capital embeddedness.

Since EU accession, institutional quality has improved markedly, with EU-induced regulatory convergence widely identified as a structural driver of FDI performance (Götz, Jankowska & Talouni, 2023). However, concerns about judicial independence and regulatory predictability have introduced uncertainty, setting Poland apart from its regional peers. Periodic delays to access to recovery funds due to tensions with EU institutions over rule-of-law matters have raised the risk premium for long-term investors.

Poland benefits from its strong integration into European production networks, with Germany and the Netherlands being among the largest source economies (see Table 2). Its geographic proximity to Germany, coupled with its role as a gateway to Eastern Europe, enhances its position in logistics-intensive and regional hub FDI. This is reflected in its diversified sectoral structure, which encompasses manufacturing, finance, wholesale and professional services (Table 3). From a geopolitical perspective, Poland's strong alignment with NATO and the EU, which was reinforced after 2022, has established it as a politically reliable destination for Western investors concerned with supply-chain resilience.

Although coal dependency poses transition risks for energy-intensive investors, ESG compatibility is growing through green industrial policies and EU-funded climate initiatives. Digital and innovation hubs in Warsaw, Kraków, and Wrocław support ICT services and business process outsourcing, though R&D intensity remains below EU averages. While sociopolitical legitimacy is generally high, political volatility and the occasional politicisation of foreign investment in sensitive sectors create uncertainty for long-term projects.

5.2.2 Hungary

Hungary's attractiveness as a destination for FDI is grounded in cost competitiveness, export-oriented manufacturing and strong infrastructure connectivity, which support efficiency-seeking and value-chain FDI. The country's economic fundamentals, which are focused on European automotive and electronics production, explain its exceptionally high manufacturing concentration (46.6% of stock, see Table 3) – the highest in the V4. Hungary's high FDI stock relative to its GDP (52.9%) and per capita (12,110 USD) indicates a deep proportional reliance on foreign capital. However, this specialisation creates vulnerability to sector-specific shocks and limits the capacity for domestic upgrading (Lux, 2017).

Institutional quality has become an increasingly ambiguous factor in attractiveness. Concerns over

judicial independence, regulatory unpredictability and backsliding in governance – as reflected in the World Bank's declining governance indicators (2025) and ongoing EU rule-of-law proceedings – have introduced reputational risk, particularly for investors sensitive to ESG issues. While these tensions have not prevented large-scale manufacturing FDI, they do differentiate Hungary from peers with stronger governance profiles.

Hungary remains deeply integrated into EU production networks, with Germany, the Netherlands and Austria being the primary source economies (see Table 2). However, strained EU relations have affected access to cohesion and recovery funds. Bilateral engagement with Russia and China has enabled significant Asian investment in batteries and electric vehicles, as reflected by Korea's position as the fifth-largest source economy (Table 2). However, this stance creates ambiguity for Western investors prioritising friendshoring and political trust.

The level of sustainability and ESG compatibility is inconsistent: large-scale greenfield projects in batteries and EVs coexist with governance-related ESG concerns. Although digital capacity is adequate and Budapest serves as a regional hub for shared services, constraints on the development of the innovation ecosystem raise questions about the potential for upgrading beyond assembly-based manufacturing (Götz, Éltető & Sass, 2023). The sociopolitical legitimacy is mixed. Selective policy interventions create perceptions of unequal treatment and political dependency in terms of investment protection.

5.2.3 Slovakia

The attractiveness of Slovakia is strongly influenced by its integration into European manufacturing networks, particularly in the automotive sector. This integration is supported by the adoption of the euro and the country's high level of trade openness (Dudáš & Grančay, 2019). The economic fundamentals are closely tied to export-oriented rather than market-seeking FDI, as reflected by the modest absolute stock of 61 billion USD, the high stock-to-GDP ratio of 43.1%, and the stock per capita of 11,030 USD (see Table 1). The heavy sectoral concentration in manufacturing (34.0%) and finance (23.6%) and the low level of professional services (2.9%, see Table 3) indicate a narrower specialisation than in Poland or the Czech Republic.

In terms of administrative efficiency, Slovakia's institutional quality is relatively strong, placing it in the middle range among V4 countries on governance and anti-corruption indicators (World Bank, 2025; Transparency International, 2025). However, perceptions of long-term predictability are affected by periodic governance crises and high-profile corruption cases. Regional integration is a major pillar, with eurozone membership since 2009 reducing transaction costs. The dominance of the Netherlands, the Czech Republic and Austria among source economies also reflects Slovakia's deep integration into European production networks (see Table 2). In geopolitical terms, Slovakia is generally aligned with the EU and NATO, although domestic political shifts occasionally introduce uncertainty regarding its foreign policy orientation.

Although ESG compatibility is improving through EU climate funding and coal phase-out commitments, governance-related transparency concerns constrain the overall profile. Digital and innovation infrastructure is less developed than in the Czech Republic, and lower R&D intensity reduces its attractiveness to technology-intensive investors. Sociopolitical legitimacy is moderate: while foreign investment is generally considered vital for employment and exports, political fragmentation leads to uncertainty regarding taxation and regulatory priorities.

5.2.4 Czechia

Czechia boasts strong economic fundamentals and high institutional quality, establishing itself as one of the most stable and predictable investment destinations in the region (Mihaylova, 2020). Although its domestic market is smaller than Poland's, the country compensates for this with high productivity, a skilled labour force, and strong export performance. It has the highest FDI stock per capita in the V4 (20,109 USD) and the highest stock-to-GDP ratio (62.7%, see Table 1), indicating a deep and diversified presence of foreign capital across the economy.

Czechia's sectoral structure reflects this diversification. Manufacturing accounts for only 26.3% of inward FDI stock, which is the lowest proportion among the V4 countries. Meanwhile, finance (27.9%), professional services (10.2%), and real estate (11.9%) have substantial shares (see Table 3). This indicates the attraction of higher-value service functions alongside efficiency-seeking manufacturing. Governance indicators consistently rank Czechia highest among the V4 countries in terms of the rule of law, government effectiveness, and control of corruption (World Bank, 2025; Transparency International, 2025). This provides regulatory predictability, which is particularly valued in long-term projects.

Czechia is deeply embedded in European production networks, with the Netherlands, Luxembourg, Germany and Austria being the dominant source economies (see Table 2). This reinforces its position as a logistics and manufacturing hub, particularly in relation to Germany (Schäffler, Hecht & Moritz, 2017). Following Russia's invasion of Ukraine,

its geopolitical alignment has become more firmly Western-oriented, strengthening its profile as a trusted jurisdiction under friendshoring logic.

Czechia's institutional quality provides an advantage on governance-related ESG criteria, and sustainability and ESG compatibility are relatively strong. The V4 leads in digital and innovation infrastructure: strong R&D intensity, technical universities and a competitive ICT sector position Prague and Brno as hubs for software development and, increasingly, R&D functions in automotive and manufacturing. The sociopolitical legitimacy of FDI is high. Political discourse around foreign investment is less polarised than in Poland or Hungary, which supports decisions to reinvest and expand.

5.3. Comparative Synthesis Across the Seven Pillars

Taken together, the four country profiles demonstrate how attractiveness to host countries in post-transition Europe emerges from different combinations of the seven pillars. Although they all benefit from EU integration and participation in manufacturing-based value chains, there are significant differences in terms of institutional credibility, sustainability readiness and innovation capacity. Poland has the largest market and the strongest geopolitical alignment, but it faces concerns over institutional quality. Hungary benefits from deep manufacturing integration, but it is confronted with institutional deterioration and geopolitical ambiguity. Slovakia offers Eurozone stability and solid fundamentals, but it is constrained by narrow specialisation and modest innovation capacity. Czechia has the strongest overall configuration, combining strong institutions, innovation infrastructure and clear Western alignment.

These differences help to explain not only the variation in the volume of inward FDI (Table 1), but also its structure (Tables 2 and 3), quality and developmental impact. This validates the framework's core proposition that attractiveness is a multidimensional and configurational outcome, rather than being determined by any single factor. More broadly, the cases emphasise the varying importance of each pillar and demonstrate the analytical value of a multidimensional approach to explaining differences in FDI performance between otherwise similar post-transition economies.

Table 4 summarises the comparative assessment of the V4 countries across the seven dimensions of FDI attractiveness. This matrix illustrates the differential alignment of each country with the proposed framework, emphasising both the cumulative nature of location advantage and the uneven distribution of strengths across the seven pillars in post-transition contexts.

6. Implications for Theory and Policy

The proposed framework makes a valuable contribution to ongoing debates in FDI theory and international political economy by broadening the scope of host-country advantage analysis beyond traditional economic factors. In particular, it redefines 'location advantages' within the OLI paradigm to encompass systemic and non-market factors, such as geopolitical alignment, ESG compatibility, digital readiness and sociopolitical legitimacy. This bridges the gap between international business perspectives and political-economic approaches that emphasise credibility, risk and governance (Moosa, 2015; UNCTAD, 2021). Treating attractiveness as a multidimensional, interactive configuration rather than an additive list of predictors foregrounds interaction effects and complementarities. This means that reforms in one domain are more likely

Table 4
FDI Attractiveness Dimensions in the V4

Pillar / Country	Poland	Hungary	Slovakia	Czechia
1. Economic Fundamentals	✓ Large market, diversified base	✓ Cost advantage, export base	✓ Auto sector, eurozone member	✓ Strong fundamentals, diversified base
2. Institutional Quality	▢ Mixed; judiciary concerns	✗ Governance backsliding	▢ Adequate but volatile	✓ High regulatory quality
3. Regional Integration	✓ EU, NATO, supply chain hub	✓ Deep EU integration	✓ Trade openness, euro adoption	✓ Stable EU anchor
4. Geopolitical Alignment	✓ U.S./EU alignment post-2022	▢ Ambiguous (Russia/China ties)	✓ Atlanticist, low political risk	✓ Western orientation
5. ESG & Sustainability	✓ Green FDI push, clean energy	▢ Progress uneven	▢ EU-funded green transitions	✓ Clean tech, ESG awareness
6. Digital Infrastructure	▢ Growing hubs, below EU R&D avg	▢ Service hubs, limited R&D	▢ Gradual improvements	✓ Leading in digital capacity
7. Sociopolitical Legitimacy	▢ Some polarisation	✗ Populism, FDI politicised	▢ Political fragmentation	✓ Public support, social peace

Note: ✓ = strong alignment; ▢ = moderate or mixed performance; ✗ = weak or misaligned with pillar requirements.

Source: Authors' compilation and assessment based on data and sources cited in Section 5.

to yield strong investment outcomes when supported by credible progress in others.

In order to make the framework analytically testable and facilitate cumulative research, the seven-pillar structure gives rise to several propositions. *Firstly,* improvements in institutional quality should lead to stronger performance in terms of inward FDI, though the marginal effect is expected to decline once institutional performance reaches relatively high levels. *Secondly,* the impact of economic fundamentals, such as market size and infrastructure quality, should be amplified by credible regional integration and stable regulatory convergence with EU norms. However, friction with integration frameworks may reduce the benefits of these fundamentals. *Thirdly,* geopolitical alignment with major capital-exporting blocs is expected to lead to higher greenfield investment in strategic and policy-sensitive sectors when economic fundamentals are controlled for. *Fourthly,* stronger ESG compatibility and credible sustainability policy frameworks should be correlated with a higher proportion of inward FDI in renewable energy, low-carbon manufacturing, and ESG-sensitive sectors such as finance and infrastructure. *Finally,* a higher level of digital readiness and innovation capacity should be associated with a greater proportion of FDI in knowledge-intensive services and R&D-related functions. Taken together, these propositions clarify how the pillars are expected to influence the level and composition of inward FDI, providing a basis for future comparative or panel-based testing. The V4 cases provide preliminary support for these mechanisms. Czechia's balanced performance across pillars corresponds to high FDI intensity and sectoral diversification. In contrast, Hungary's institutional deterioration, despite its strong fundamentals, illustrates governance-related constraints. Finally, Poland's geopolitical alignment advantage appears to be reflected in its attractiveness for Western strategic investment, despite institutional tensions.

From a policy perspective, the framework suggests that post-transition economies are unlikely to achieve long-term improvements in FDI attractiveness through single-instrument strategies (e.g., tax incentives) alone. Rather, competitiveness is increasingly dependent on comprehensive reform packages that address legal and regulatory credibility, infrastructure and connectivity, sustainability governance, and digital capacity. Alignment with investor norms, particularly with regard to ESG-related expectations and risk sensitivity in the context of geopolitical fragmentation, has become a more important consideration in the selection and structuring of investment projects, especially in strategic and long-term sectors. The framework therefore supports a long-term, multi-sectoral approach to investment promotion. This approach is based on institutional consolidation, credible policy commitments and strategies that focus on upgrading. These factors determine the ability of post-transition economies to attract and retain larger volumes of higher-quality, developmentally beneficial foreign investment. This supports sustainable upgrading within global value chains.

7. Conclusions

The attractiveness of a host country for foreign direct investment can no longer be adequately understood through economic fundamentals alone. Geopolitical fragmentation, sustainability transitions and digital transformation have reshaped the factors that influence location choices, but existing theoretical frameworks have not kept pace with these changes. This article therefore proposes a multidimensional framework that unifies economic, institutional and geopolitical factors to create a comprehensive model of FDI attractiveness.

Applying the framework to the Visegrad Four illustrates its analytical value. Despite their shared transition trajectories and EU membership, the four countries have distinct FDI profiles, reflecting different configurations of the seven pillars. While Czechia's balanced performance supports both high FDI intensity and diversification, Hungary's institutional weaknesses constrain the benefits of strong manufacturing integration. Despite institutional tensions, Poland's geopolitical alignment enhances its attractiveness, whereas Slovakia's strong integration is offset by its limited capacity for diversification and innovation. These cases confirm that attractiveness stems from the interplay of various factors rather than from individual strengths.

In theory, the framework broadens the OLI paradigm by incorporating non-market attributes, such as geopolitical alignment, ESG factors, and sociopolitical legitimacy, into the analysis of location advantage. In doing so, it bridges the gap between firm-level investment theory and broader political economy perspectives on governance, risk and credibility, emphasising the complementarities between these areas.

From a policy perspective, achieving long-term improvements in investment attractiveness requires coherent reform strategies rather than policies based on a single instrument. Institutional credibility is essential for attracting long-term, high-value investment, and ESG alignment and geopolitical positioning are becoming increasingly important for accessing capital, particularly in strategic sectors. At the same time, digital and innovation capacity are essential for moving up the value chain and away from low-value production.

The framework is interpretive and is designed to support comparative analysis and policy evaluation,

rather than prediction. Future research could build on this approach by testing the interactions between the seven dimensions in different regions and at different times, and by examining the effect of changing configurations on the volume and composition of inward FDI. More broadly, the framework illustrates how countries manage the growing tensions between integration, sovereignty and development within an increasingly fragmented international economic landscape.

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Statement on Ethical Use of Data

This study relies exclusively on publicly available secondary data sources (UNCTAD, wiiw FDI Database, World Bank, Transparency International, OECD, IMF). No primary data involving human participants were collected. Consequently, ethical approval and informed consent were not required.

Authors contributions

P. Zh. contributed to the writing of the original manuscript, its review and editing, supervision, funding acquisition and conceptualisation. M.K. contributed to writing the original manuscript and editing the theoretical background, including the literature review. All authors contributed equally.

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