ABSTRACT WORKING PAPER 2.12

MNEs location decisions in EU neighbouring countries and economic institutions

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This paper investigates how the location behaviour of Multinational Enterprises (MNEs) is shaped by recipient countries' economic institutions. These include Governament Size, Legal System & Property Rights, Sound Money and Market Regulation. By employing data on individual investment projects undertaken from 2003 to 2008, the study examines the location strategies of 6,905 European MNEs into a set of 23 countries, which include European New Member States, accession and candidate countries, European Neighbourhood Policy countries, and the Russian Federation. From a methodological point of view, the paper firstly implements standard Conditional and Nested Logit models, while, in a second step, the analysis benefits of the advantages associated with random-coefficient Mixed Logit. The latter allows unbinding the estimation from restrictions associated with IIA as well as evaluating MNEs heterogeneous preferences over location attributes. Results appear to be robust across different sample specifications and methodologies.