HIGH-LEVEL POLITICAL VISITS AND FOREIGN DIRECT INVESTMENT:
EVIDENCE FROM THE CZECH REPUBLIC AND SLOVAKIA

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Abstract

This paper investigates whether official high-level political visits by Czech and Slovak government officials foster inward foreign direct investment (FDI) from partner countries. Using panel data for 184 partner countries of the Czech Republic and 171 partner countries of Slovakia over the period 2018–2023, we estimate Poisson pseudo–maximum likelihood (PPML) gravity-type models with Mundlak correction. The model specification accounts for economic size, distance, institutional factors represented by EU membership, socialist legacy, embassy presence, and the exogenous shock caused by the COVID-19 pandemic. Contrary to expectations, official visits, both contemporaneous and lagged, exhibit no statistically significant effect on inward FDI flows for either country. Instead, structural determinants dominate. Distance exerts a strong negative effect, while the larger size of partner economies, embassy presence, and EU membership of the partner country are positively associated with inward investment. The results also point to persistence, consistent with the hysteresis literature, suggesting that established economic ties and market size explain most of the variation in FDI inflows. These findings support recent meta-analyses showing that official visits are largely symbolic, while long-term economic fundamentals and institutional integration remain the principal drivers of bilateral investment.

Introduction

The issue of how to attract foreign direct investments (FDI) should be and often is among the key questions each government must solve. Inward FDI plays a crucial role in shaping the economic development trajectory of host countries, serving as a critical driver of capital formation, technology transfer, and employment generation. By facilitating the use of external resources, FDI enhances innovative processes and the build-up of domestic productivity, which contributes to the overall shape of the economy and the quality of life of its citizens. Moreover, if carefully tailored through the policy nudges of the host government, it contributes to the diversification of the industrial structure, increasing resilience against economic shocks.

In the case of countries of Central Europe, the importance of inward FDI was particularly stressed given their experience of systemic transition from centrally planned to market-oriented economies. Following the fall of the socialist regimes, these nations faced the challenge of modernizing outdated industrial structures and integrating into the global economy. Inward FDI provided much-needed financial capital and accelerated the restructuring of the economy towards modern industries, supporting the development of competitive export sectors and the integrative processes towards European Union (EU) membership. As a result, countries of Central Europe became extremely open and export-oriented economies, with Slovakia scoring 9th in the 2023 trade openness country rankings conducted by TheGlobalEconomy.com and the Czech Republic scoring 30th.

As the countries underwent the transitionary process and became integrated into the environment of the modern global economy, the question of how to remain attractive for investors likely changed its shape. While the relatively low costs of labour and labour market flexibility were likely drivers of inward FDI in the earlier stages of economic transition (Ardiyono and Patunru, 2022), we believe that after the transition the active promotion of investment opportunities and promotion of the country image abroad likely became important facilitators of inward investments. Tools of economic diplomacy were found to facilitate the inward FDI flows of strong economies by several recent studies (Harding and Javorcik, 2012; Adam and Tsarsitalidou, 2024; Kodila-Tedika and Khalifa, 2024).

This study aims to analyse how the recent inward FDI flows of Slovakia and the Czech Republic are facilitated by the tools of economic diplomacy, represented by official governmental visits and the presence of the embassy. Using panel data encompassing the inflow of FDI to Slovakia and the Czech Republic from more than 170 countries, we focus on the period of 2018–2023. The lower bound of the analysed period is given by the availability of the data on the visits conducted by the Czech government; however, the span is satisfactory for the use of panel regression models and also allows us to assess the effect of the Covid-19 pandemic on the FDI flows.

We hypothesize that visits should have a twofold positive effect on FDI. Firstly, a visit of a governmental representative should have a short-term effect on the inward FDI flow, due to the signalling role of such a visit, showing the political closeness between countries. Secondly, through the Mundlak correction measuring the relative intensity of the visits and the embassy presence in the third country, we should capture a potential long-term effect of the established and nurtured diplomatic relations.

This paper complements the existing research threefold. Firstly, in contrast to previous research mostly focused on large economies, it allows us to analyse the effect of official governmental visits conducted by representatives of smaller trade-oriented countries. Secondly, the span of the dataset allows for the identification of the effect brought by the Covid-19 pandemic, which could impact inward FDI. Thirdly, while the studies of the past were focused almost solely on top-level representatives, such as presidents or prime ministers, our database covers all governmental representatives from prime ministers through ministers to secretaries of state.

Literature

The topic of the foreign direct investment determinants is getting the attention of researchers worldwide. Literature distinguishes between factors influencing the outward and inward FDI flows, depending on whether it focuses on the country generating or receiving investments. The gravity model originally built by Tinbergen (1962) to assess the bilateral trade between countries was suggested for use on the FDI data (Anderson and van Wincoop, 2003) and is getting increasingly popular within the field of FDI flows, analysing a large variety of factors.

The original gravity model postulates that bilateral trade is positively correlated with the size of the economy of trading partners and negatively with geographical distance between them (Tinbergen, 1962). Extending the model to FDI, empirical studies suggest that the identified patterns hold for investments as well. Bigger economies attract, as well as generate, higher levels of FDI (Canton and Solera, 2016; Dellis *et al.*, 2017; Aidoo *et al.*, 2022; Lombana-Coy *et al.*, 2025; Musabeh, 2023), while increasing geographical distance leads to lower reported FDI flows (Dorakh, 2020; Musabeh, 2023; Leitao, 2023; Dellis, 2024; Lombana-Coy *et al.*, 2025). While the GDP of the country of the investor and distance are found significant virtually in all the studies, regarding the size of the host economy, the positive link between the size of the economy of the host country and inward FDI is not unambiguous (Aidoo *et al.*, 2022). Focusing on smaller European countries and transition countries, the effect of the host country market size seems to be less pronounced than for large well-established market economies. Analysing Portuguese inward FDI, results of Leitao (2023) show that GDP per capita of the domestic economy does not have a significant relation to inward FDI if used in PPML. Similarly, Campos and Kinoshita (2003) suggest that once controlled for institutional, policy, and reform variables, the market size of the host country becomes insignificant as a determinant of FDI in the case of transition economies. Market size was found to be an insignificant determinant also in studies analysing EU regions conducted by Villaverde and Maza (2012; 2015), partially by Su *et al.* (2018) focusing on V4 countries, and low impact of market size was reported by Seetanah and Rojid (2011) for the case of Mauritius.

Building on the original gravity model, empirical studies enhanced the model with various additional explanatory variables. Studies found a positive relation between FDI and cultural proximity proxied through common language (Bénassy-Quéré *et al.*, 2007; Damgaard *et al.*, 2019; Dorakh, 2020; Dellis, 2024), ex-colonial status (Dorakh, 2020), or shared borders (Tan, 2024). In contrast, results of Damgaard *et al.* (2019) suggest a negative relation between shared borders and FDI flows. In the field of labour market and technological progress, studies found that characteristics such as labour market flexibility (Liu and Guo, 2023) or technological progress can assert significant impact on FDI location patterns (Villaverde and Maza, 2015). Ardiyono and Patunru (2022), analysing a dataset of almost 150 countries, indicate that labour market flexibility plays a crucial role in attracting FDI during the early stages of a country's economic development, while its influence diminishes as the economy advances and ultimately becomes statistically insignificant.

Regarding the factors stemming from integratory processes, for European countries the most broadly analysed is the effect of EU membership on FDI. The literature consistently finds that EU membership has a significant positive effect on foreign direct investment (FDI) in Europe. Results of Bruno *et al.* (2021) show that joining the EU increases inward FDI by around 60% from non-EU sources and boosts intra-EU investments by approximately 50%, attributing the effect, which is much stronger than for NATO or EFTA, to the enhanced economic integration represented by access to the single market. Results are supported by Medve-Bálint (2014). However, the impact varies regionally, with EU15 countries mainly attracting inward

FDI, while Central and Eastern European states experience increased outward FDI, reflecting diverse economic dynamics within the Union (Meinhart, 2023). Jones *et al.* (2020) suggest that a larger EU enlargement effect on the FDI location motives of EU15 countries in comparison to CEEC countries might be due to the ongoing liberalisation of these countries during the accession process. Studies found a positive effect of integration on FDI for other integratory processes and free trade agreements such as NATO (Harangozó, 2021), ASEAN (Ismail *et al.*, 2009; Wahyuningsih, 2021) or NAFTA (Waldkirch, 2010). A positive effect of membership in an international organization on FDI in general was found by Dreher and Voigt (2011).

Scientific research assessing the effect of economic diplomacy on FDI is relatively scarce in comparison to its effect on trade. Harding and Javorcik (2012) examined whether national investment promotion intermediaries facilitated FDI inflow. Analysing panel data of 156 countries, they suggest that investment promotion intermediaries helped attract higher volumes of FDI.

Analysing the effect of diplomatic visits conducted by the Chinese President and Prime Minister to 146 countries, Li (2024) found that while visits significantly facilitated outward FDI, the effect on inward FDI was statistically insignificant. A positive effect on outward FDI is found also by Zhang *et al.* (2014) focusing on Chinese outward FDI. In contrast, Adam and Tsarsitalidou (2024), focusing on visits to the U.S., found a positive effect of the country visit on FDI inflows, though it was short-lived and disappeared in subsequent years. Statistically significant results are supported also by Kodila-Tedika and Khalifa (2024), who state that the official visits of U.S. Presidents have a statistically significant positive effect on both foreign investment inflows from the U.S. and on total foreign direct investment inflows. Results of Quer *et al.* (2019) also suggest that official visits matter for emerging market MNEs' location decisions, helping to mitigate the lack of experience with the country.

Data and Methodology

Data

The dataset covers the period from 2018 to 2023. Databases of the official visits conducted by the members of the Slovak government and Czech government were compiled manually from the available sources. In the case of Slovakia, official visits must be approved by the Slovak Government and are publicly available (Office of the Government of the Slovak Republic, 2025). As for the Czech Republic, data were manually compiled from yearly Czech Diplomacy reports published by the Ministry of Foreign Affairs of the Czech Republic (2025). The summary statistics for the compiled database of visits and other used variables are reported in Tab. I. As is clear from the data, due to differences in reporting and the granularity of the data, both datasets differ in scale. This is due to several reporting patterns. Firstly, Czech reports allow for the identification and exclusion of visits to international organisations, while Slovak data report the country of visit but not the purpose. As an example, the Slovak government conducted 79 visits to Belgium in 2019, which are due to participation in EU Council meetings, while the Czech Republic reports 2 visits to Belgium in the same year. For the same reasons, visits to Austria or France are inflated in the case of Slovakia. Secondly, Czech data allow for the exclusion of visits which were conducted for the purpose of participation in a conference or other event, which does not serve as a base for the bilateral meeting of the representatives.

Considering the possible alignment of the data, we considered dropping countries accommodating HQs of international organisations, however, due to the setup of the models, focusing on the binary variable signalling the presence of at least one visit in a given year rather than number of visits, we decided to keep all the countries in the sample. Disregarding the amount of visits is supported by findings of Lavallée and Lochard (2022), which suggest that it is the existence of the visit in the given year that is a significant determinant of trade rather than the amount of visits. Binary coding reduces measurement error from possible reporting inconsistencies and avoids overfitting driven by rare high-frequency cases for countries hosting headquarters of international bodies. Summary statistics for the dummified visits suggest more reasonable patterns, reporting on average 61 visited countries per year in the case of Czech representatives and 49 per year in the case of Slovak representatives.

Information on the presence of the Slovak embassy was compiled manually from the website of the Ministry of Foreign Affairs of the Slovak Republic and historical data from the Foreign Policy Yearbooks of the Slovak Republic (SFPA, 1999–2023). In the case of the Czech Republic, we used Czech Diplomacy reports published by the Ministry of Foreign Affairs of the Czech Republic (2025).

Data on the volume of inward FDI flows denominated in U.S. dollars were collected from the OECD webpage (2025). Geographic distances are measured as the great circle distance between Bratislava, the capital of Slovakia, Prague, the capital of the Czech Republic, and the capital city of each respective partner country. Gross domestic product in USD is based on data from DataBank (2025). Summary statistics of the variables are reported in Tab. I. Data show that the Czech Republic did on average establish its presence in 47% of the countries, while Slovakia did so only in 33%. Data also suggest that the Czech Republic attracts much higher volumes of inward FDI than Slovakia.

I: Summary statistics of used variables (sample: 2018–2023)

	Obs.	Total	Average (per country)	St. Deviation	Min.	Max.	Average (per year)
Visits: Czech Republic	1 164	966	0,830	2,199	0	29	161
Visits: Slovakia	1 164	1761	1,513	5,560	0	79	293,5
Binary Visits: CZ	1 164	367	0.315	0.465	0	1	61.2
Binary Visits: SK	1 164	294	0.253	0.435	0	1	49
lnGDP	1 164	X	24.433	2.375	17.687	30.953	X
lnGDPCZ	1 164	X	26.361	0.115	26.249	26.562	X
lnGDPSK	1 164	X	25.464	0.082	25.385	25.613	X
Embassy CZ	1 164	X	0.467	0.499	0	1	X
Embassy SK	1 164	X	0.333	0.471	0	1	X
LnDistanceCZ	1 158	X	8.355	0.976	5.532	9.810	X
LnDistanceSK	1 158	X	8.320	1.033	4.005	9.804	X
CZ inward FDI flow (million USD)	980	X	58.221	300.670	-1 369	3 491	X
SK inward FDI flow (million USD)	982	X	6.744	134.350	-1 706	1 244	X

Source: own calculation

3.2 Methodology

This study investigates the impact of high-level political visits by Czech and Slovak government officials on inward foreign direct investment (FDI) from partner countries. To account for the bilateral nature of FDI and its determinants, we employ a gravity-type framework, which is standard in the literature on international investment and trade. The gravity model relates bilateral FDI inward flows to the economic size of the partner and host countries, geographical distance, and institutional and policy factors that may facilitate or impede investment.

As a benchmark model, we use the pooled OLS model with logarithmically transformed dependent variable, however, due to many negative and 0 values, many observations are excluded from the regression by default.

Therefore, given the presence of FDI observations with reported 0 values and potential heteroskedasticity, we estimate Poisson pseudo–maximum likelihood (PPML). This approach allows consistent estimation in the presence of zero-valued dependent variables and mitigates the influence of heteroskedasticity (Correia *et al.*, 2020). In the context of Poisson Pseudo-Maximum Likelihood (PPML) estimation, the dependent variable must be non-negative, as the model specifies the conditional mean of the outcome in levels. Observations with negative inward FDI flows are not compatible with the PPML framework and lead to computational errors or invalid estimates. Due to this, these observations were excluded from the analysis. We chose exclusion as arbitrarily replacing negative values with 0 or 1 would introduce measurement distortions and potentially bias the estimated coefficients, whereas excluding them ensures that the model accurately captures the positive economic interactions driving inward FDI flows.

PPML estimator was used for the estimation of the determinants of FDI flows by Dorakh (2020), Meinhart (2023), or Dellis (2022).

Together with the benchmark pooled OLS models, we estimate 6 separate models, three for the Czech Republic and three for Slovakia. The first set, based on the pooled OLS model, uses logarithmically transformed FDI flows as the dependent variable and is aimed to provide base estimates of the coefficients before moving to advanced models with the use of PPML. The second set examines the contemporaneous effects of government visits, while the third set additionally accounts for the persistence of inward FDI flows by including its lagged values. The models take the following general form:

$$FDI_{ijt} = \alpha + \beta_1 \ln(Y_{it}) + \beta_2 \ln(Y_{jt}) - \beta_3 \ln(D_{ij}) + \beta_5(Visits_{ijt}) + \beta_6(Visits_{ijt-1}) + \beta_7(Embassy_{ijt}) +$$
$$+ \beta_8(crisis_t) + \beta_9(EU_{jt} \times crisis_t) + \beta_{10}(EU_{jt}) + \beta_{11}(Eastern\ Bloc_j) + \delta_t + \varepsilon_{ijt},$$

where FDI_{ijt} stands for the inward flow of the foreign direct investments from country j to country i (Czech Republic or Slovakia) in the year t denominated in USD, Y_{it} and Y_{jt} represent domestic product of country i and j respectively D_{ij} stands for the geographical distance between capitals, $Visits_{ijt}$ denotes binary variable taking

value 1 if at least one governmental representative from country i visited country j in year t and value 0 if not (used previously for example by Nitsch (2007) or Lavallée and Lochard (2022)), *Embassy*$_{ijt}$ stands for binary variable taking value 1 if country i has established embassy in country j in year t, *crisis*$_t$ represents binary variable taking value 1 for Covid-pandemic years 2020 and 2021 and value 0 otherwise, *EU*$_{jt}$ is binary variable representing membership of the country j in the *EU* and *Eastern Bloc*$_j$ stands for binary variable marking the countries belonging to the socialist bloc in the past. δ_t stands for time fixed effects and ε_{ijt} for error term.

We hypothesize that, in line with existing literature, visits should have two effects. Firstly, the dummy variable taking value 1 if there was at least one visit of a governmental representative should capture the short-term effect of the visit on the inward FDI flow, which we expect to be positive due to the signalling effect of the visit. Secondly, Mundlak correction should capture the long-term effect of the visit frequency, supporting the notion that more visited countries, with established diplomatic interactions, tend to invest more in the analysed countries. Therefore, we expect both coefficients to be positive.

To account for unobserved heterogeneity and avoid biased estimates, the models include fixed effects for years. We do not include country fixed effects as these would not allow the estimation of time-invariant variables such as distance, EU membership, socialist legacy and the presence of the embassy. Therefore, to control for the unobserved characteristics of the countries and to separate within- and between-country variation, we implement Mundlak correction for the variables Visits and lnGDP.

Models are estimated using the ppml command in Stata, with standard errors clustered at the partner-country level to account for within-country correlation over time. The inclusion of lagged inward FDI flows in the second set of PPML models allows us to examine persistence or hysteresis effects, testing whether previous investment inflows influence current FDI flows.

Results and Discussion

Results of the benchmark pooled-OLS regression are reported in columns 2 and 3 of Tab. II. Due to the negative and 0 values of inward FDI flows, the number of observations drops significantly after the logarithmic transformation. However, benchmark models for both countries are significant as a whole and explain more than 50% of the variability in inward FDI flows. Estimates suggest that distance is negatively and highly significantly correlated with FDI inflows, indicating that the longer the distance from Slovakia or the Czech Republic, the lower the inward FDI flows. This finding mirrors earlier gravity-based studies (Dellis *et al.*, 2017; Dorakh, 2020) and emphasizes the continued importance of geographical proximity for small, open economies such as the Czech Republic and Slovakia. In line with previous research is also the finding that GDP of the economic partner is positively related to the size of inward FDI flows (Musabeh, 2023; Lombana-Coy *et al.*, 2025). Both countries attract more FDI from bigger economies.

Contrary to the general notion of a positive correlation between the size of the domestic economy and inward FDI flows, our results suggest a negative relation. This suggests that, conditional on other factors, larger domestic output may deter inward investment. While somewhat counterintuitive with respect to traditional gravity models, this result finds partial support in the literature for Central and Eastern European economies, where FDI has often been concentrated in smaller, more liberalized sectors rather than proportional to total GDP (Campos and Kinoshita, 2003; Villaverde and Maza, 2012; Su *et al.*, 2018). One possible explanation lies in rising labor and capital costs in more advanced transition economies, which could erode their cost-competitiveness relative to smaller peers.

With regard to the diplomatic and integration variables, results suggest limited effect of governmental visits on inward FDI flows. Although the coefficient is positive and significant in the case of the Czech Republic, the significance is reported only at the α = 9% level. Lagged existence of a governmental visit does not have a significant effect on inward FDI flows. Similarly, the presence of an established embassy and common socialist history do not seem to be statistically significantly related to the volume of inward FDI flows. On the other hand, countries belonging to the EU tend to invest more in the Czech Republic and Slovakia than their counterparts not integrated in the EU.

The estimation results for the static gravity model of the Czech Republic and Slovakia using the Poisson Pseudo-Maximum Likelihood (PPML) reveal similar patterns consistent with the theoretical expectations of gravity models, while also offering nuanced insights into the determinants of bilateral FDI inflows. Estimates are reported in columns 4 and 5 of Tab. II. In the case of both countries, the coefficient on geographical distance is negative and statistically significant at the α = 1% level, indicating that greater geographical distance between countries reduces FDI inflows, in line with the standard gravity model literature. This suggests that transportation and transaction costs, proxied by distance, remain important barriers to cross-border investment.

The economic size of the economic partner, measured by its GDP, exhibits a positive relationship with FDI inflows to both the Czech Republic and Slovakia, aligning with existing findings noting that larger economies tend to generate more investments. The domestic GDP of the host country reports a negative coefficient in both models, though (with the exception of the dynamic model) significant only for the

Czech Republic, suggesting that, conditional on other factors, larger domestic market size does not attract additional FDI inflow but rather discourages it. Similar findings were reported for transition economies by Campos and Kinoshita (2003) and Su *et al.* (2018), suggesting that for transition economies institutional and policy characteristics play a more important role than size itself.

Regarding governmental visits, neither contemporaneous nor lagged visit variables are statistically significant, suggesting that high-level political interactions may have limited direct impact on overall FDI inflows. Countries more frequently visited by governmental representatives from the Czech Republic and Slovakia do not report significantly higher levels of inward FDI to the analysed countries. This finding contrasts with studies emphasizing the importance of diplomatic engagement in fostering investment (Kodila-Tedika and Khalifa, 2024; Quer *et al.*, 2019), however, these were focusing on visits conducted by representatives of large economies and thus the patterns likely differ. Visits of representatives of smaller, relatively less known countries might receive lower attention compared to well-known politicians of large economies, limiting the potential signalling and promotion influence of their visits on FDI.

Investors may not perceive such visits as credible indicators of bilateral commitment, particularly when the countries already operate within the broader framework of the European Union or other integrative body. Rather, the statistical significance of embassy presence, though limited, suggests that it is the long-

II: Pooled OLS and PPML Model for inward flows of FDI, Mundlak Correction included, Robust standard errors clustered at the country level in parentheses. ***, **, * represent statistical significance at 1%, 5% and 10% respectively.

FDI inward flows (mil. USD)	CZ Pooled OLS (lnFDI)	SK Pooled OLS (lnFDI)	CZ PPML (FDI = . if FDI < 0)	SK PPML (FDI = . if FDI <0)	CZ PPML dynamic (FDI = . if FDI < 0)	SK PPML dynamic (FDI = . if FDI < 0)
Constant	81.752** (32.167)	-2.445 (51.316)	78.658** (34.207)	36.173 (47.445)	56.595 (39.309)	107.347* (59.482)
FDI inward flows -1	x	x	x	x	0.0004** 0.0002	0.003*** (0.001)
Ln Distance	-0.981*** (0.249)	-1.061*** (0.267)	-1.109*** (0.258)	-0.619*** (0.152)	-0.857*** (0.297)	-0.210 (0.217)
Ln GDP of partner	0.592*** (0.111)	0.876*** (0.168)	1.794** (0.778)	1.423* (0.797)	1.167 (0.962)	0.411 (1.958)
Ln domestic GDP	-3.301*** (1.206)	-0.463 (2.014)	-2.772** (1.226)	-1.796 (1.850)	-1.989 (1.432)	-4.703** (2.365)
Visit	0.485* (0.289)	0.100 (0.373)	-0.218 (0.202)	-0.301 (0.383)	-0.443* (0.231)	0.072 (0.669)
Visit -1	-0.218 (0.259)	-0.165 (0.398)	0.064 (0.327)	-0.485 (0.412)	0.345 (0.305)	-0.262 (0.269)
Post-Socialist Country	-0.074 (0.358)	-0.866 (0.531)	-0.611* (0.371)	0.619 (0.431)	-0.605* (0.353)	0.111 (0.431)
EU	1.538** (0.652)	1.578*** (0.557)	1.027* (0.583)	1.654** (0.647)	0.810 (0.546)	1.141** (0.501)
Embassy	-0.580 (0.582)	0.483 (0.590)	1.301* (0.710)	1.520* (0.881)	1.593** (0.784)	2.218** (0.926)
Covid years	0.140 (0.370)	0.538 (0.509)	-0.034 (0.361)	0.338 (0.328)	-0.023 (0.366)	1.413* (0.767)
Covid years * EU	0.152 (0.319)	-0.919 (0.575)	-0.088 (0.279)	-0.799** (0.313)	0.032 (0.384)	-2.030** (0.784)
Mean lnGDP partner	x	x	-1.540* (0.827)	-0.810 (0.803)	-0.954 (0.995)	0.110 (1.976)
Mean Visit	x	x	-1.253 (0.803)	-0.351 (1.003)	-0.612 (0.899)	0.919 (0.601)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N.	321	195	586	609	433	467
Wald chi	18.44***	14.63***	360.72***	261.54***	507.37***	409.80***
Pseudo R²	0.533	0.551	0.672	0.727	0.729	0.846

Source: own calculation

term persistence of diplomatic engagement that matters, and not the immediate visit. Embassies might provide stable platforms for information exchange, investor assistance, and dispute resolution, which could be critical for reducing uncertainty in cross-border transactions. In this sense, embassies embody a more durable and credible signal than official governmental visits, underlining the importance of sustained diplomatic presence for smaller economies seeking to attract investment. In line with the existing literature, EU membership of the partner country appears to be positively associated with inward FDI (Bruno *et al.*, 2021; Medve-Bálint, 2014). On the other hand, the common Eastern Bloc legacy is negative and statistically significant at the 10% level for the Czech Republic, suggesting that historical legacies of socialist integration do not provide an advantage in fostering contemporary investment ties, but may rather represent a liability.

Dynamic models reported in columns 6 and 7 of Tab. II include the lagged values of inward FDI flows as a dependent variable. Its significance in both models supports the notion of hysteresis, suggesting the persistence of inward FDI flows. The significance of lagged FDI flows in the dynamic models underscores the path-dependent nature of investment. Once established, investment linkages tend to persist, likely due to sunk costs and ongoing business networks. Same as in the static models, the presence of the embassy is positively and statistically significantly correlated with inward FDI flows, while visits are not significant.

Overall, the results corroborate the central tenets of gravity-based FDI models. Distance, source-country GDP, and institutional proximity matter, while also highlighting contextual nuances in post-socialist Central European economies. The negative coefficient and statistical significance of host-country GDP in the Czech Republic suggest that in the case of smaller transitioning economies, the size of the economy is not a driving factor of FDI, but rather a disincentivising factor likely due to increasing labour or capital costs. The insignificance of governmental visits underscores the need for careful consideration of country-specific economic diplomacy settings when analysing bilateral FDI flows. Based on our results, we hypothesize that in the case of smaller countries, the politicians are less known abroad and thus have only limited signalling capacity towards investors, as their visits attract relatively lower attention. On the other hand, long-term diplomatic engagement represented by the presence of the embassy appears to play a significant role in the facilitation of inward FDI flows.

Conclusion

This study examined whether high-level visits conducted by Czech and Slovak government representatives foster inward foreign direct investment from partner countries during the period 2018–2023. Employing a gravity-type PPML framework with Mundlak correction for partial inclusion of the fixed effects, we found that, contrary to expectations, neither contemporaneous nor lagged visits had a statistically significant effect on inward FDI inflows. Instead, traditional gravity model determinants except for the host country GDP and institutional factors like EU membership of the partner economy and to a limited degree embassy presence proved to be significant. Moreover, the persistence of FDI flows, reflected in the dynamic models, highlights the role of path dependency, where previously established ties continue to shape current investment patterns.

These findings lead to two important implications. First, for smaller, trade-oriented economies represented by the Czech Republic and Slovakia, economic diplomacy through governmental visits seems to be largely symbolic rather than instrumental in attracting foreign investment. We believe that this is due to the notion that unlike global powers whose leaders' visits may wield stronger signaling capacity (Adam and Tsarsitalidou, 2024; Kodila-Tedika and Khalifa, 2024), visits by the representatives of smaller states likely attract less attention from international investors. Second, long-term institutional engagement, partly reflected in EU membership of the investing country and the presence of an embassy in a third country, plays a more consistent role in sustaining investment flows, underscoring the importance of credibility, stability, and integration into broader political-economic frameworks.

Taken together, the results suggest that governments of smaller open economies should not overestimate the direct economic impact of political visits when designing strategies to attract inward FDI. Instead, efforts should be directed at deepening institutional integration and supporting long-term diplomatic presence.

Our research was subject to limitations arising from the availability of data. Future research could extend this analysis by comparing smaller and larger economies, or by examining the qualitative dimension of visits, such as the level of participating officials and sectoral focus, to better understand under what conditions economic diplomacy contributes to investment flows.

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