OUTWARD FOREIGN DIRECT INVESTMENT BY CZECH REPUBLIC, HUNGARY AND SLOVENIA; DOES TRANSITION MATTER?[i]

2.3. European outward FDI – regionalism versus globalism
Competitive paper

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Abstract

The article is a pioneering evaluation of outward FDI (OFDI) from the Czech Republic (CZ), Hungary and Slovenia after the change of the system. The real extent and main characteristics of the outward internationalisation of firms have been evaluated on the basis of a variety of national statistical sources and own surveys among samples of firms. OFDI has been growing in recent years, primarily as a response to globalisation pressures, EU accession and certain country-specific factors like keeping previous economic ties developed within one, now disintegrated, country. Internationalisation of firms from three countries has proved to be more a spontaneous bottom-up firm activity than any planned macro-economic strategy of the countries concerned. It is undertaken predominantly as an instrument of keeping market shares abroad (export facilitation), and as the manifestation of firm-specific advantages mostly manifested as "knowing how to do business" in a specific market rather than innovative technological capabilities. OFDI from the analysed countries in transition experienced a motivation shift and now follow a "new" investment development path model and sequential internationalisation approach although starting position was unusual systemic specific reversed investment development path. OFDI from selected countries started before inward FDI were allowed.

KEY WORDS: outward foreign direct investment, Czech Republic, Hungary, Slovenia, transition

1. Introduction

Talking about transition and internationalisation or foreign direct investment (FDI) usually means talking about inward FDI as the main driving factor for internationalisation in a market economy. Yet, for instance, in the year 2000 outward investment by Slovenian firms may for the first time outstrip inward FDI. This is a result of a real upswing in outward FDI (OFDI) by Slovenian firms to countries of former Yugoslavia (SFRY) after the end of the wars in Croatia and Bosnia and Herzegovina. Similarly, OFDI by Czech and Hungarian firms has also recently been increasing rapidly, mostly in their neighbouring countries. Firms from these countries are realising that in the globalised world economy and simultaneous tectonic technological changes the internationalisation of firms has become the key to sustained growth. With the advancement of transition, the firms of Central European countries (CECs) have also been forced to start bolstering their so far mainly export-based ways of penetrating foreign markets by internationalising their activities, by investing abroad.

The objective of this paper is limited to evaluating selected general trends of recently growing OFDI by firms from three transition economies (TEs), Czech Republic, Hungary and Slovenia[1].

There are many theories that could explain OFDI by TEs. Relying on the most relevant ones for the TEs under consideration, the analysis of OFDI development is based on both the investment development path paradigm (Dunning, 1981; Dunning and Narula, 1996) and the Scandinavian sequential internationalisation approach (Welch, Luostarinen, 1988, Johanson and Wahlne, 1977). Historically, OFDI started in Czech Republic (CZ), Hungary and Slovenia even before the transition, which is clearly unusual according to the traditional internationalisation pattern. The second move came a few years after the fall of the Berlin Wall. Today, the privatised "old" firms from these TEs have (re)started investing abroad, mainly in neighbouring and "culturally close" countries. This supports the Scandinavian sequential internationalisation approach, which

can explain a lot of the OFDI by the TEs. To fill the gap in explaining OFDI by these TEs, we also have to apply Dunning's eclectic paradigm which combines firm-specific advantages with location- and internalisation-based ones. These three theories provide the general theoretical framework for our analysis.

The paper presents some of the results of the first in-depth study of OFDI by firms from CZ, Hungary and Slovenia. Starting with a methodological framework, we present the data sources and data difficulties and other limitations such a study faces in the TEs analysed. To understand recent OFDI trends it is necessary to see OFDI as not being a completely new phenomenon. Therefore, a brief historical overview is included, followed by an evaluation of OFDI trends in the 1990-1999 period. The shift from "unusual to "usual" internationalisation pattern is seen particularly in changes in motivation and consequently in geographical concentration and in the general characteristics of the companies investing abroad.

2. Methodology

Our research is based on: (i) selected theories of FDI that constitute a general theoretical framework for this study, (ii) analysis of secondary data available on OFDI (collected by the central banks of respective countries), (iii) empirical analysis of primary data collected by our own survey[2] (through structured questionnaires) of firms investing abroad and (iv) interviews with managers of the investing firms.

The main source for flows and stocks and secondary data sources of OFDI in general in all three TEs was based on balance of payments statistics collected by the respective central banks[3]. The most extensive system of data on OFDI is available **in Slovenia** from the Bank of Slovenia. The

[1] The balance of empirical data collected so far will be analysed in more depth in other issue papers. The second phase of the ACE project will also include Poland and Estonia so that all first-round candidate-countries will be analysed.

[2] A postal survey was carried out from June to October 1999. Managers of companies directly investing abroad were addressed as were major exporters. In this paper, we will rely only on the investing firms survey. The survey was prepared within the ACE project »Outward internationalisation facilitating transformation and EU Accession; the case of the Czech Republic, Hungary and Slovenia«.

methodology of collecting and disseminating data has been improved and harmonised according to both OECD and IMF standards, but there are still deficiencies in the information. Apart from the central bank data, the Ministry of Finance (MF) also maintains a register on OFDI[4].

In Hungary, the Ministry of Foreign Trade originally ran a register of OFDI. After 1990 it was the task of the Ministry of Foreign Economic Affairs (MFEA). In 1994, by a decision of the new government the Ministry of Industry, Trade and Tourism (MITT) took over these tasks. In 1995, the National Bank of Hungary (NBH) became the authority to which control over OFDI was assigned. «With these rapid changes, it is no wonder we have very few and partly unreliable data on companies investing abroad« (see Oszlay, 2000; 4). Despite this, the only data available are the number and volume of new OFDI transactions according to destination[5].

In CZ, the Czech National Bank (CNB) compiles data on OFDI. Such data on OFDI in EU member-countries does not include that investment made on islands that form part of the territory of EU member-states yet enjoy a certain degree of independence (e.g. the Isles of Man and Jersey). It also does not apply to OFDI in non-European territories of EU member-states (see Bohata, 2000; 2). As in the two other countries, individual data is not available for confidentiality reasons but only aggregate data. Starting with 1997, the Eurostat and OECD methodology has been used in CZ for both IFDI and OFDI (Bohata, 2000; 13).

The fact that two of the three evaluated TEs were previously part of larger countries (CZ and Slovenia) also complicates our study. After the disintegration of Yugoslavia, Slovenian companies became multinational companies overnight, having previously maintained many units in other republics of Yugoslavia. They unintentionally became investors abroad. We call such

[3] Such data is only available in aggregate form. Individual data is not available .

[4] Residents have to report OFDI and changes. Data are collected for statistical and tax purposes (More, 2000:10). Before the new Foreign Exchange Law was passed in 1999 OFDI was allowed only after the permission and registration by the Ministry of Finance was obtained.

[5] It is also not clear whether a new transaction is involved as the OFDI data refer to already existing ventures. »Therefore not even the exact number of OFDI companies can be assessed from this database« (Oszlay, 2000; 7).

OFDI »inherited investment«[6]. CZ also disintegrated. However, the operations of Czech firms in Slovakia are not considered OFDI as they are in Slovenia. Assets were divided on a geographical principle, accordingly units in Slovak territory became Slovak enterprises.

The countries have historically not collected data on such outflows (see McMillan, 1987) and only started to collect them recently, albeit on a very limited scale. Statistical coverage of OFDI in the three countries does not yet fully correspond to international standards although it has substantially improved in the last few years. The analysis of OFDI from the three TEs is therefore still seriously hampered by these data difficulties. All three TEs still confront common *secondary data limitations* like:

1. Short time series, including differences in length and comprehensiveness of the OFDI data collected by the TEs, makes trend analysis and comparisons difficult. OFDI flows and stocks were not monitored in all three countries in the whole 1990 -1999 period.[7]

2. Problems with data breakdowns and differences in data disaggregation. While "public" sectoral[8] and geographical breakdowns are based on stocks in Czech Republic and Slovenia[9], in Hungary this aggregation is made on the basis of flows.

3. Missing categories. While the number and volume of OFDI are mostly recorded[10], TEs' statistics usually lack several other categories very important in interpretation, especially: the number of companies investing abroad[11], as well as the number and any other data (activity, size, capital, performance) of affiliates abroad.

[6] See more in Svetličič et al, 1994a. Data on such investment is not completely reliable due to problems in valuation and due to unresolved succession issues.

[7] Although we are analysing the whole transition period, the evaluation concentrates on the period after 1993. Firstly, because CZ was established then, secondly because stock and flows have been consistently monitored in Slovenia only since 1993. Lastly, in fact more reliable data on OFDI is available in all three countries only after 1995.

[8] Sectoral allocation is according to the activities of investing firms (not activities of affiliations abroad).

[9] Where a breakdown is also available, by the number of investments.

[10] Because OFDI is a relatively new phenomenon and most companies treat this data as confidential and are reluctant to report, we still cannot claim all OFDI is recorded. Differences between different sources therefore still occur.

[11] Available in Slovenia only recently.

Primary data sources therefore remain a very significant tool for researchers. Surveys combined with interviews and even media reports can provide valuable additional information for analysis, although this data source also faces its own difficulties. The first is the reluctance of firms to reply to surveys and the resulting low response rate. Survey samples conducted in all three countries were therefore quite small and of different sizes by selected TEs[12]. They cannot be taken as being fully representative[13]. Nevertheless, these surveys constitute the only more comprehensive database on OFDI by these TEs. Due to data limitations, it was impossible to utilise any more sophisticated statistical analysis, with the result that the evaluation was done using basic statistical methods.

3. History

Real internationalisation through OFDI has a very short history in CEs[14] compared to other small European countries like Portugal[15], Finland[16] and other Scandinavian countries. The only comprehensive data source for earlier OFDI made by member-countries of the Council for Mutual Economic Assistance (CMEA) is the East-West Project conducted by C. McMillan. Only 15% of the total number of investments in the West and 5% in the South, which were recorded in 1983, however, date from before 1965. OFDI gained momentum in the second half of the 1960s. The rate of investment really accelerated in the 1970s. By the early 1980s, these investments had spread on a global scale across a broad spectrum of countries and activities (McMillan, 1987; 29 and 161- 163)[17]. According to his data, in 1989 CZ[18] did have a total of 75 companies abroad[19]

[12] In Slovenia 32 investors responded, in CZ 21 and in Hungary 12 only, making a total of 65.
[13] Lack of data at the aggregate level prevents us to assess how representative the sample of surveyed companies is in CZ and Hungary. The Slovenian sample in 1997 represented 5.2% of all companies investing abroad and 16% of total capital invested abroad.
[14] Here we are not referring to internationalisation of previous state-owned companies since the rationale was rather different due to a different ownership type and system. It is however important to note that many of such state-owned firms, particularly foreign trade monopolies and banks, started to establish their mostly trading units abroad much earlier.
[15] See Buckley & Castro, 1998, 1999, Simoes, 2000.
[16] See Luostarinen, 1979 and 1994.
[17] The first investment abroad from Czechoslovakia can be traced to 1947 (Omnitrade Ltd. in Canada). Similarly, the first Slovenian OFDI after WWII we traced took place back in 1951 (The Slovenian electronics conglomerate

while Hungary had 134. The biggest concentration of such entities abroad was in Western countries. These commercial companies in the West were an important component of the international distribution networks of the state monopolies that handled most of the foreign trade in the Eastern countries. In the Third World, where Eastern exports have often been linked to development projects, engineering and construction companies have played a major role (Artisien et al, 1992; 11 and 13).

Yugoslavia was not a member of the CMEA and was therefore not included in this data bank. The number of companies established abroad by Yugoslav firms (noting Slovenian firms were the most active) was much higher, while the structure by country and activity was not very different. By the end of 1988 the total number was 308. The main destination was FRG, followed by Italy, Switzerland and France. Over 60% of them were involved in trading. The share of manufacturing was relatively more important than for the case of CMEA member-countries.

With few exceptions, the scale of operation was relatively limited[20]. Where such OFDI was undertaken by state-owned firms one could argue that it was not a "normal" private firm activity but a state dominated activity and therefore quite a "different animal" from "normal" business like OFDI. Some activities of many of these, particularly trading companies abroad, also had links with the secret police organisations of former socialist countries. Therefore, such operations can hardly be analysed as forming part of traditional international business. A partial

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ISKRA set up a subsidiary (Cefra). In Munich. Intertrade set up a trading and marketing subsidiary in India (Intraco in 1959; Artisien et al., 1992; 30)). The Hungarian Medimpex set up Imarsel Chemical Co. Ltd. in Nigeria in 1968, while Ibusz established WATA Commercial Society Inc. in Texas for instance in 1970 (McMillan 1987; 125-147).

[18] Exact industry data for CZ and Hungary are not available. Assuming that CZ was always the more developed part of Czechoslovakia and constituted a larger part of its GDP, it is safe to hypothesise that the larger part of these undertakings were undertaken by firms then located in the Czech part of the country.

[19] Some rare cases of OFDI may be found in Czechoslovak history even before WW2. When Czechoslovakia was, during the two decades of its independence prior to WW2, one of the ten leading industrial powers their enterprises also probably invested abroad. An affiliate of Zivnostenska banka was set up in London. Under central planning, water transport development using the Vltava River led to the establishment of an affiliate in Germany. Krivoj rog's combine in the former Soviet Union is another case (Bohata, 2000; 17).

[20] The typical CMEA firm set up abroad had 10-50 employees (only 8% had over 100). Slovenia's Bois, the tropical wood exploitation and processing JV established in the Central African Republic was one of the largest projects in that country and its major source of FDI. DAWA, KRKA's pharmaceutical firm in Kenya, was (according to The Standard, City, Nairobi, 18 January 1984) the largest pharmaceutical factory in Sub-Saharan Africa, contributing 5%

exception to this may be Slovenian firms (and Yugoslav ones for that matter) which were already in the sixties considered quasi-private firms[21] (by the IFC for instance, which provided them with loans given otherwise only to private companies). Therefore, such investment abroad by CMEA and Slovenian firms could be regarded as an exception to the normal sequence offered by investment development path theory predictions. Systemic factors, which might explain the main part of such operations, could be an argument that challenges the "reverse investment development path". Namely, the system-escape dimension may explain such departure from the paradigm[22]. With the introduction of a market economy, *system-escape investments* lost their importance while other 'normally' (in terms of theory) motivated OFDI gained in importance. The reverse sequence was so strongly system-based that the predictions of the theory apply particularly since recent OFDI developments in all three analysed countries support the investment development path sequence.

Although a cumulative learning process started with the beginning of OFDI, the real OFDI by private firms started basically with transition. The knowledge and experience gained in the previous regime was reflected in the further development and past experiences sped up internationalisation through OFDI.

4. The development of Outward Foreign Direct Investments by Czech, Hungarian and Slovenian firms in the nineties

In the last decade, the processes of liberalisation, deregulation and privatisation have been 'pushing' firms from CECs not only to export but also to invest abroad. Early transition period brought "restart" of OFDI. In the **CZ** we saw "some premature" OFDI by some larger companies

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to Kenya's GDP and employing approximately 3% of its workforce. (Svetličič, Rojec, 1985; 91,107 and 137; Artisien, et al., 1992; 43).

[21] The World Bank in its latest report on Slovenia wrote: the specific ownership structure meant that most enterprises were *de-facto but not de-jure owned by employees (Slovenia; 1999;85).*

[22] By investing abroad, firms got the "free hands" of operating in market economies. They also gained some privileges regarding imports. Changes in foreign exchange legislation did not effect such operations. Firms were freer to import from their affiliations abroad in spite of newly established restrictions, for instance.

in the early period of transition. Due to the lack of capital, experience, underestimated preparations and only poor knowledge of the business environment, there were several failures[23].

The first **Hungarian** OFDI (after the change in regime in 1989) were by the agencies of former state-owned foreign trade companies that transformed into independent ventures[24]. By volume, the most important investor was NBH which established commercial banks in the most important Western European financial locations (Vienna, London, Frankfurt) to help finance trade with Western partners (see Oszlay 2000; 10). Due to uncertainties (regarding formal recognition and wars in former Yugoslavia), privatisation process and unfavourable public opinion[25] OFDI from **Slovenia** diminished and almost stopped after independence in 1991. Transition was also accompanied by the disintegration of many big and internationalised companies into a host of small companies which were unable to internationalise, due to the lack of knowledge (human capital and experience) and capital. Due to limited resources, recession and uncertain economic circumstances, many companies were forced to stop expanding their international operations or to even do away with their affiliates abroad.

Advancement of transition, privatisation and liberalisation of foreign economic relations have created the general framework for stronger and more developed long-term co-operation with foreign partners. Associate membership in the EU and, for CZ and Hungary also in the OECD, facilitated long-term links of firms from these countries with those of the EU/OECD. OFDI started to take off in all three countries basically in the last two years of the nineties, after transition had already produced some major results.

[23] For example, heavy and engineering industries in China, South Korea and South America. These business plans were too ambitious for the time since the firms in question were not strong enough and lacked the minimum critical mass of all the necessary factors (Bohata, 2000; 17).

[24] Regionally, few of them were established according to the previous foreign trade orientation to the Soviet Union and other CMEA countries, but most were established in Western Europe.

[25] Such capital outflows were regarded as anti-patriotic in a situation in which the priority was to attract foreign capital to assist in restructuring. Managers were frequently accused of privatising the public assets of companies by establishing so-called by-pass firms abroad in which the good, profit-making parts of companies became owned by such managers while the loss-making ones remained socially owned.

4.1. Trends of OFDI by analysed TEs

OFDI by firms from TEs, in spite of its recent upsurge, still constitutes a very modest share in overall OFDI in the world. Obviously these countries are only entering the OFDI arena. But their share is gradually increasing.

Table 1: FDI outflows by selected Central and Eastern European countries 1993-1999 (USD million and %)

	1993	**%**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**%**
Total CEE*	311	0.13	289	461	1107	3627	2303	2601	0.33
Czech Rep.	**90**	**0.04**	**120**	**37**	**153**	**25**	**175**	**197**	**0.02**
Estonia	6	0.00	2	2	40	137	6	74	0.01
Hungary	**11**	**0.00**	**49**	**43**	**-3**	**431**	**481**	**249**	**0.03**
Poland	18	0.01	29	42	53	45	316	200	0.03
Rus. Fed.	142	0.06	101	358	771	2597	1011	2144	0.27
Slovakia	15	0.01	14	8	52	95	146	-372	-0.05
Slovenia	**1**	**0.00**	**-3**	**6**	**8**	**26**	**11**	**44**	**0.01**
CZ+H+ SLO	**102**	**0.04**	**166**	**86**	**158**	**482**	**667**	**490**	**0.06**
World	246597	100.0	282902	357537	390776	471906	687111	799928	100.0

* Central and Eastern Europe, **Bosnia and Herzegovina
Source; WIR 2000

Table 2: Slovenia, Hungary and Czech Republic, OFDI stocks (USD million)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Slovenia	281	352	504	469	429	563	621
Hungary	225	291	491	494	900	1,286	1,568
Czech Republic	181	300	346	498	548	804	959
Total	687	944	1,341	1,461	1,877	2,653	3,148

Source: Bank of Slovenia, WIR 1999

Hungary is obviously the most important investor abroad in terms of absolute figures although in relative terms (OFDI per capita) Slovenia is in the lead[26]. The OFDI of the selected TEs significantly lags behind IFDI. The net investment position is, as expected, highly negative and is with the exception of Slovenia still increasing. Recent trends nevertheless indicate that the increasing role of OFDI may gradually lead to narrowing this inward/outward FDI gap[27].

[26] OFDI (stocks) per capita in 1998 reached USD 310 in Slovenia, USD 156 in Hungary and USD 78 in CZ.
[27] Slovenia is perhaps one good example. In 2000 we expect that OFDI may be very close to the level of IFDI. There are two explanations for this. The first is the recent upsurge of OFDI by Slovenian firms in former Yugoslav republics. In 1999, Slovenian firms invested there 51.4% of total OFDI in terms of number. Future plans for such

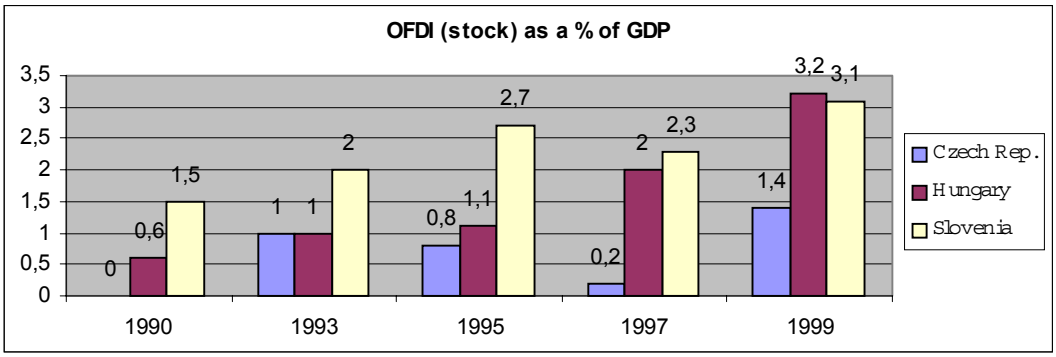
Table 3: Net investment position (OFDI stock-IFDI stock; USD million)

	1995	1996	1997	1998	1999
Slovenia	-1,259	-1,554	-1,770	-2,210	-2,063
Hungary	-12,338	-14,467	-15,186	-17,231	-17,708
Czech Republic	-7,006	-8,074	-8,686	-12,796	-12,791

Source: Bank of Slovenia, WIR 1999

Although OFDI substantially lags behind IFDI[28] their share in GDP is increasing in all three TEs. Slovenia's leading position in the nineties was overtaken by Hungary in 1999. In the EU, a similar share of OFDI in GDP at that time (1996) was as much as 16.8%[29].

Figure 1: OFDI stocks as a percentage of GDP, 1993-1999



Source: Czech National Bank, National Bank of Hungary, Bank of Slovenia.

For those critics of OFDI who claim that such investment crowds out local investment it is important to note that such OFDI constitutes only a small portion of the gross fixed capital formation of the three countries. Dynamically, it has been oscillating around 0.5% of gross fixed capital formation[30].

4.2. Regional distribution

Most of the pioneering investments abroad by then large state-owned, mostly trade, monopolies from CZ and Hungary and "socially-owned" more autonomous firms from Slovenia were directed to Westeren countries. As EU member-countries used to be the main destination of

investment as reported by companies to the Ministry of Finance also promise an increase. OFDI is gaining in relative importance in Slovenia also due to the relatively modest inflow of inward FDI seen in the last 2 years.

[28] The share of IFDI in GDP was 13.4% for Slovenia, 21.8% for Czech Republic and 39.8% for Hungary in 1999.

[29] Finland and Denmark, had respectively 16.9% and 18.7% of OFDI stock as a share of GDP in the same year.

[30] The exception is Hungary in 1997 where a more than 5-times increase in OFDI pushed the share to 4% and it remains at this level due to consequent increases of such flows in 1998 and 1999. On the contrary, we have established that in Slovenia a complementary relationship between outward and domestic investments exists. The correlation coefficient was quite low (0.3), but statistically significant, neglecting the crowding-out effect. By

OFDI investment in the past, the experience gained should facilitate current OFDI. The dominant share of OFDI in EU countries would be therefore expected, parallel to the substantial export reorientation of CZ, Hungary and Slovenia to these markets. However, regional orientation has been changing recently. Affiliations in other CECs are on the increase while those in industrial countries are stagnating, in some countries even divestment is taking place. The most active divestments started with the beginning of the transition and parallel to the privatisation and restructuring of companies. Many large socially-owned conglomerates ceased to exist, some have disintegrated into a number of smaller privatised firms[31], others were acquired by foreigners[32]and one of the first restructuring instruments was to divest from activities abroad and rationalise their foreign networks. On the other hand, foreign firms which account for an important market share with exports to all three countries, particularly in Hungary[33], do not have any reason to invest back "home" or do this only when the IFDI motive is to exploit lower labour costs. Outward investments in the EU are therefore under substantial restructuring. Partly that is a "natural" result of the transformation of the "owners" and their business rationale. The motivation change from "system-escape" to market rationale strongly influences regional targeting of OFDI by CZ, Hungary and Slovenia[34]. The EU is (still) a dominant export market for all three TEs while CECs are becoming a major destination for their OFDI.

Exports of all three TEs are very dispersed, but concentrated in terms of value constantly in the EU region. Like international trade also OFDI is dispersed widely over a number of destinations, with concentration emerging. The network spread index[35] for Slovenia for example exceeds

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increasing investments abroad and strengthening of domestic parent companies, an increase of domestic investments is also expected (Trtnik, 2000; 62).

[31] This has happened very frequently in Slovenia.

[32] Hungary is a very good example.

[33] Such shares in 1997 were in manufacturing in Hungary 73.9% (1996), in Czech Republic 15.9% (1994) and in Slovenia 28% (WIIW Database, 1998).

[34] Those exceptions for which "escaping the system" was not the prevailing rationale, or for which it was only initially, are now even strengthening such OFDI in EU member-countries. For example, the network of foreign affiliations of the largest Slovenian multinational firm, Gorenje, the household appliances producer.

[35] As a measure of transnationality, the network-spread index of a country reflects the number of host countries in which foreign affiliates are established. The index is derived as a percentage of the number of foreign countries in which the companies could potentially have located affiliates.

21.9%, which is an extremely high value in comparison to other developed countries[36]. Widely dispersed OFDI in TEs is a result of unfinished divestments from the past and much recent OFDI, although a wide network spread value index is consistent with the expectation that firms from small, open economies should be more internationalised and should have a broader foreign affiliate network. Increasing internationalisation could be a substitute for slower growth rates and possibilities to achieve efficiency in the home market alone. As for exports, the geographical concentration of outward FDI confirms that minimal physical and cultural distance and past experience are the most important determinants of OFDI. Today, the main destination has become neighbouring countries with which the investing firms did have some previous relations, where cultural distance is small or where minorities of their nationals live.

Table 4: Regional distribution of OFDI (by volume) by CZ, Hungary and Slovenia by major destination countries in 1997 and 1999 (%)[37]

	CZECH REPUBLIC		**HUNGARY**		**SLOVENIA**	
Host region	*1997*	*1999*	*1997*	*1999*	*1997*	*1999*
EU	12,0	6,6	79,2	28,4	9,0	15,6
CEECs	30,5	58,5	15,5	37,0	81,2	79,1
other	57,5	34,9	5,3	34,6	9,8	5,3

Sources: Czech National Bank, National Bank of Hungary, Bank of Slovenia

By far the most important share of OFDI **in the case of Slovenia** is constituted by markets of former Yugoslav republics (also in terms of volume), with Croatia[38] being the main destination. In the period studied from 1993 to 1998, Croatia as well as Bosnia and Herzegovina assumed from 50% to 70% of total OFDI. This is a reflection of inherited investments and new FDI flows into this region. As many Slovenian firms have rich experience and knowledge about these

[36] A similar network spread index value is held by the USA (21.8%), while Japan has a lower one (18.4%), although these two countries are the world's biggest foreign direct investors (WIR 1998, p. 324). A wide affiliation network may be accompanied by higher costs of managing far-flung operations (transaction costs). It may also indicate risk dispersion and high levels of ownership advantages including knowledge of market conditions in many countries, or a combination of ownership and internalisation advantages. Since the network spread index neglects the magnitude of business activity in a host country and counting each host country only once, independent of the amount of assets, sales, production or employment located in it, neither risk dispersion nor high levels of ownership advantages seem a reasonable explanation of the internationalisation of TEs.

[37] Geographical breakdown is done on the basis of flows for Hungary and Czech Republic for 1999 and on the basis of stock for Slovenia and Czech Republic for 1997. In Slovenia distribution by flows or by number of OFDI show the increasing role of CEECs and decreasing role of EU. Stock desaggregation is strongly influenced by revalutation problems.

countries as well as comparative advantages over local firms, FDI entry to these markets is not particularly risky. Companies also tend to follow the leading competitors in those markets (Knickerbocker, 1973) or want to ensure their market shares even before their competitors arrive (especially in the rebuilding phases of these countries). They want to achieve a *first-mover advantage*.

All major destination countries for OFDI **in the case of CZ** are neighbours and the most important trading partners (notably Germany and Austria) and Slovakia. In terms of volume, neighbouring countries are not so dominant recipients of OFDI. The concentration of OFDI on neighbouring countries confirms the predictions of the sequential theory of internationalisation. Geographical proximity obviously plays a very important role together with historical factors[39] and cultural proximity, including knowledge of the language. That all means that transaction costs are lower.

In the case of Hungary, the Netherlands and Switzerland are the most important destinations of OFDI by volume. Except for two huge investments in the Netherlands (made by foreign-owned firms), the neighbouring countries with strong Hungarian minorities (Romania and Slovakia) were the most important destination. Major partners in such ventures are Hungarian nationals living there. Nationalities as a facilitator of such investments make such OFDI flows similar to those in Asian countries. This is understandable when investors lack knowledge of how to do such business. "Common cultural factors make it easier for small Hungarian companies to fill the niches in these markets, but for bigger companies investment in these countries was too risky" (Oszlay, 2000; 13).

The sequential internationalisation pattern of entering neighbouring countries with minimal physical and cultural distances first, already confirmed by many countries[40], has proven to also

[38] Croatia has proved itself as the market most frequently used for first entry to foreign markets through FDI.
[39] One cannot even ignore the fact that the countries used to be part of the same Habsburg monarchy years ago.
[40] The Scandinavian countries, i.e. Finland (Luostarinen, 1979, 1994), Sweden (Johanson J., Wiedersheim-Paul F., 1975), or Portugal (Buckley, Castro, 1998, 1999, Simoes, 2000).

apply in the case of the selected TEs. Neighbouring countries and other CECs are gaining in importance while EU countries are losing their attractiveness. This relocation to less developed markets suggests that knowledge, experience and especially the firms' ownership specific advantages of the TEs' companies are only sufficient to outperform such ownership advantages of firms from less demanding markets.

In those countries which have only recently substituted CMEA markets with EU markets, another barrier to OFDI directed to the EU might be the lack of knowledge of these markets. Relative novelty and the type of their exports may also provide an explanation. The standardised products exported there do not need close proximity to customers as much as high-tech products. CECs' firms do not possess firm-specific advantages that are strong enough to set up production units there. Firms can mainly establish trading units (see 4.3.) but they are still, as a newcomer in such markets, relying on traditional exports. They are for the time being basing their competitiveness on cost advantages and therefore do not yet feel the need to develop closer links with customers as their strategic advantage. We therefore expect that such OFDI will strengthen in the future with accumulated internationalisation knowledge in CECs and parallel to the weakening of the cost competitiveness of such exports in the EU. The share of total exports accounted for by the EU by all three countries now exceeds 60%. Therefore, it is expected that firms would like to have a long-term presence there and get closer to the customers and gain market share by establishing trade-oriented firms there[41].

The greater volume of inward FDI and loss of export competitiveness should (according to Ozawa's dynamic paradigm of TNC-assisted development, 1992) be followed by increased

[41] But according to the plans of sample companies investing abroad, the present geographical allocation of OFDI will not change significantly in the near future in any of the three TEs. CECs are more frequently cited as a planned destination than Western European or EU countries. Ex-Yugoslav markets will still be the most attractive location for Slovenian OFDI, especially Bosnia, where more than a fifth of the interviewed companies intends to establish a foreign affiliate in the next three years. Romania will remain the top destination for Hungarian OFDI, while Poland and neighbouring CEE countries will receive the majority of Czech OFDI. Among planned locations we can also find many distant countries (such as Japan, the USA, South America, Malaysia, China, India etc.). The shift in emphasis from product to geographical diversification, intensifying of more global distribution of production and sales for companies entering internationalisation through OFDI therefore remains gradual.

outward FDI flows into countries with lower labour costs. We can only find weak support for this geographical orientation of OFDI by Czech, Hungarian and Slovenian firms. OFDI was initially not predominantly directed to low-cost locations and not in manufacturing where low labour costs are crucial. Affiliations abroad were established mostly as sales units. The strongest explanatory power may be low differences in labour costs. Many of these investments are directed to other CECs with similar labour costs or countries where low labour costs do not outweigh lower productivity[42]. This is probably the reason why firms did not consider labour costs to be important (see Figure 2 and Table 10).

Such attitudes are gradually changing. Lower labour costs are gaining in importance parallel to the orientation of such OFDI in Slovenia to former Yugoslav republics, in CZ with growing interest to invest in the former USSR, notably Kazakhstan (see Bohata, 2000) and in Hungary by enhancing their still small units in Slovakia and Romania, where their partners are local Hungarians. Lower labour costs as a motivation will also increase its importance with the growing importance of production units abroad. This is expected gradually when investors perceive the risks of such undertaking to be much lower than they see them today.

Recently, locations are mainly chosen because of the size of their markets and not as a springboard to other markets. More than 80% of foreign affiliates of the sample companies are market-seekers[43] realising most of their sales in local markets[44]. Host country determinants play the major role in a locational decision. The survey showed that the most important factors influencing the locational decision of OFDI are market related. To preserve an existing market share was the most frequently mentioned factor behind a locational decision. Through traditional exports alone, companies cannot keep increasing foreign market shares. The costs of increasing foreign market shares are acceptable to companies if 'they play it alone' only in less demanding

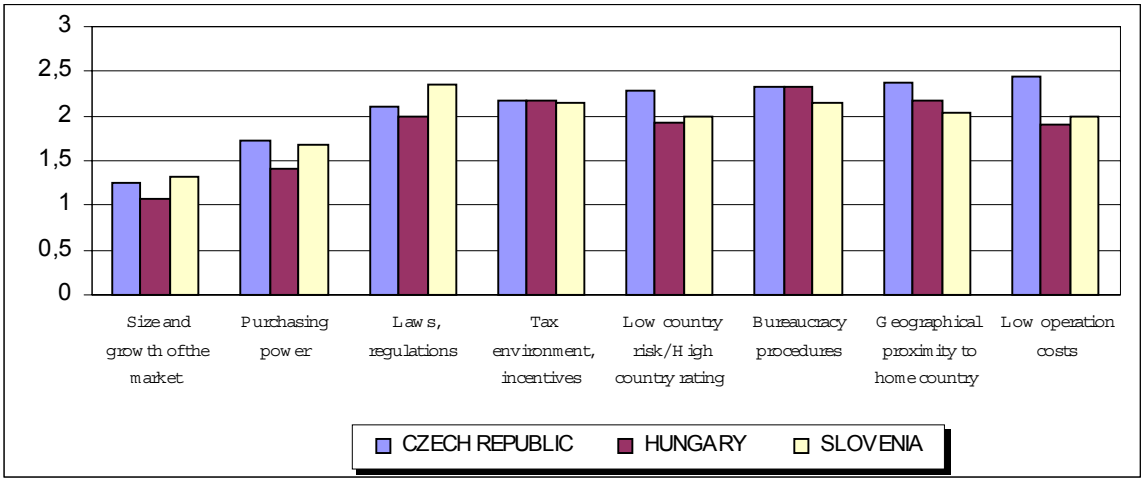
[42] One case of Slovenian OFDI in Croatia has demonstrated that wages are half of those in Slovenia but labour productivity was 4 times lower. Otherwise, labour costs are the highest in Slovenia (compared to Czech Republic and Hungary) but so is the productivity (approx. twice the level).

[43] See more in Chapter 5.

markets with less competition. Ex-Yugoslav markets are relatively very convenient for Slovenian companies, Slovakia for Czech ones and Romania and Slovakia for Hungarian ones. TEs firms' brand are very well recognised and do not need significant additional investments to establish market recognition there.

In terms of the importance of individual factors behind locational decisions (host country determinants), the sample companies indicated as the most important economic determinants the size and growth of the market (see Figure 2). Purchasing power was the second most important market related factor.

Figure 2: The importance of factors influencing an investment location decision[45]



Source: Own survey, 1999.

Relatively less important than economic determinants but still important in a host country's decision were factors referring to the policy framework for FDI and business facilitation (an FDI-friendly environment) such as the tax environment, low country risk and FDI regulation, administrative procedures and incentives. This is in accordance with the general trend that a friendly FDI policy framework is a necessary but not sufficient determinant of an FDI location. It is also becoming relatively less important with liberalisation and globalisation trends around the world.

[44] Only some 15% of foreign affiliates (of the sample companies) further export their goods and services to neighbouring countries.

4.3. General characteristics of investing firms and their affiliations abroad

Not many firms are internationalising by investing abroad in transition economies so far. Their number is small[46] but their role in the national economy or in exports is much, much higher[47]. Investors abroad are also among major exporters and represent a vital part of the economy. Although the number of firms that invest is small they become internationalised quite rapidly. They have set up a much larger number of affiliations abroad which indicate that they are really starting to expand their international network. The average number of affiliations by investor has been substantially increasing. According to our survey, an average Slovenian investor abroad in 1998 had 4.3 (having doubled in six years) [48], Hungarian 3.1 and Czech 1.3 affiliations abroad.

Investors abroad are relatively old medium and large companies. Smaller firms which entered the scene during privatisation are more exceptional. Up to 29% of Czech investors abroad that responded to our survey are more than 50 years old, 19% are between 10-50 and 52% less than 11 years. Similarly in Hungary 50% of investors are younger than 30 years (33% are less than 10 years) and the other half are more than 30 years (17% over 60 years). In Slovenia, 31% of investing firms are less than 10-year-old firms[49], 19% are between 10-30 years, 44% are between 30 and 60 years while 6% are over 60 years old.

OFDI demands a certain concentration of capital and human resources (knowledge). It is therefore not surprising that out of 21 surveyed firms in CZ 1 firm has over 10,000 employees, 9

[45] The importance of all factors determining DIA is ordered by the weighted average of possible answers; 1: very important, 2: important, 3: not important. (Valid percent only.)

[46] We only have the approximate number of firms investing abroad in 1997 for the three selected TEs. In Slovenia, 422 firms (1.1% of the entire corporate sector), in Hungary approximately 1000 (1‰ of the entire corporate sector), while for the CZ data is not available.

[47] In Slovenia, for instance, companies with direct investment abroad held 38% of the equity and 32% of all assets of the entire corporate sector in 1998. They employed 27% of all employees and realised 25% of total sales and even 37% of the exports of the entire corporate sector. It is similar with value added and operating profit where investors realised 30% of value added and operating profit of the entire corporate sector. The net profit share of investors in the entire corporate sector is even higher (56.9%), so such a high share in investment outlays is not surprising. Such high shares in selected balance sheet and income statements prove that, although small in number, companies with direct investment abroad are significantly influencing and improving the performance of the entire Slovenian corporate sector (Trtnik, 2000).

[48] The transnationality index for Slovenia is 20%, the network spread index for Slovenia is almost 22%, obviously very high. See more in chapter 4.2. Regional concentration.

(42.8%) companies have between 1000 and 3000 employees, 5 (23.8%) have between 1000 and 500, whereas the rest (28.5%) have below 300 employees. In Hungary, 33% of the surveyed firms have more than 1000 employees, 42% between 500 and 1000 employees, 17% between 100 and 499 employees and one company had less than 100 employees. In Slovenia, 41% of firms have over 500 employees, 31% have between 100 and 499 and 28% are small firms employing fewer than 99 workers. The size and age of investors confirms the sequential internationalisation approach. After growth and development in the domestic market, the firm gradually enters foreign markets. Foreign affiliates are established at a certain development level of a firm.

In the survey the sequential internationalisation approach is confirmed also through the ownership structure[50]. Wholly- and majority-owned affiliations abroad show low internationalisation, respectively the beginning of internationalisation through OFDI. The samples from all three countries proved that investors abroad prefer to be 100% or at least majority owners (over 70%).

Table 5: Ownership structure of foreign affiliates in 1998 (% of affiliates abroad)

	100%-owned	50.1% - 99.9% stake	50%	10% - 49.9%
Czech Republic	31.1	40.0	11.1	17.8
Hungary	44.7	42.1	5.3	7.9
Slovenia	59.4	21.7	2.2	16.7

Source: Own survey 1999

On the other hand, the theoretical explanation of the preference of total or majority ownership is that such ownership is instrumental in protecting strong ownership-specific advantages and is decreasing with increasing knowledge about foreign markets (see Davidson, McFetridge 1985, Hedlund, Kverneland, 1985, Millington, Baylis, 1990, Buckley, Mirza, Sparkes 1985). Firms from TEs in general do not possess such strong ownership-specific advantages of a technology

[49] They have been set up mostly during the transition, including those which were spin offs from some large companies. The youngest firm in our sample was 6 years old.

[50] Internationalisation of ownership is one of the internationalisation measures (Luostarinen, 1994,12).

type that could explain the preference for majority ownership. It seems that the preference by TEs' firms for 100% or majority ownership is a result of:

- Long-standing previous exports to the country of penetration and good knowledge of the local conditions. OFDI has usually followed exports.
- A weak rather than strong competitive position of investors. They are simply still unprepared to co-operate with foreign partners, which could imply an asymmetrical position between them. They fear of vulnerability due to lack of control.
- The lack of suitable local partners. Firms that decided to have a local partner were mainly motivated by knowledge of the local conditions together with the partner's connections to local administration and business.

The same arguments apply to the type of establishment where greenfield investments are preferred. Mergers and acquisitions (M&A) are relatively exceptional, which appears contrary to the prevailing FDI trends in the world in general. With increasing knowledge of how to invest abroad, more M&A are expected in the future. The ownership structure connected with the type of establishment suggest the starting phase of OFDI.

Table 6: Affiliations abroad by type of establishment (in %) in 1998

	Greenfield	Mergers	Acquisitions
Czech Republic	70	20	10
Slovenia	85	12	3
Hungary	74	0	26

Source: Own survey 1999.

Affiliations abroad are mostly established as sales units. According to our survey, 51% of affiliations abroad are trade related in CZ, 47% in Hungary and 95% in Slovenia. Only 22% of Czech and 11% of Slovenian affiliations are related to the production function, while the share of Hungarian production-oriented affiliates is higher (47%)[51]. Only lately has there been a very strong push by Slovenian firms to (re)establish manufacturing units in Croatia, Macedonia and

[51] Units abroad are also often related to purchasing and logistics (20% in CZ, 16% in Hungary, 57% in Slovenia) and administration functions, while the R&D function is transferred abroad only very rarely (7%, 0%, 2%).

Bosnia and Herzegovina. The explanation is not only the differences in labour costs (Ozawa model), but also previous business ties, knowledge of the market and language. This is in line with the sequential internationalisation approach, saying that production and assembly units abroad will succeed and supplement sales units and R&D affiliations will develop as a result of a long-lasting presence or strategic network in a foreign market.

Confronted with the increased need for internationalisation in a globalised world economy, the lack of relevant experience[52] makes such internationalisation under time pressure a major challenge. To cope with international competition and to benefit from globalisation, they have to internationalise in a much shorter period and use also non-conventional approaches. This shortness of time prevents firms from CECs to benefit gradually from the cumulative learning process of sequential internationalisation like their predecessors in other countries did. They have to do it in a much shorter time and keep pace.

5. Motives

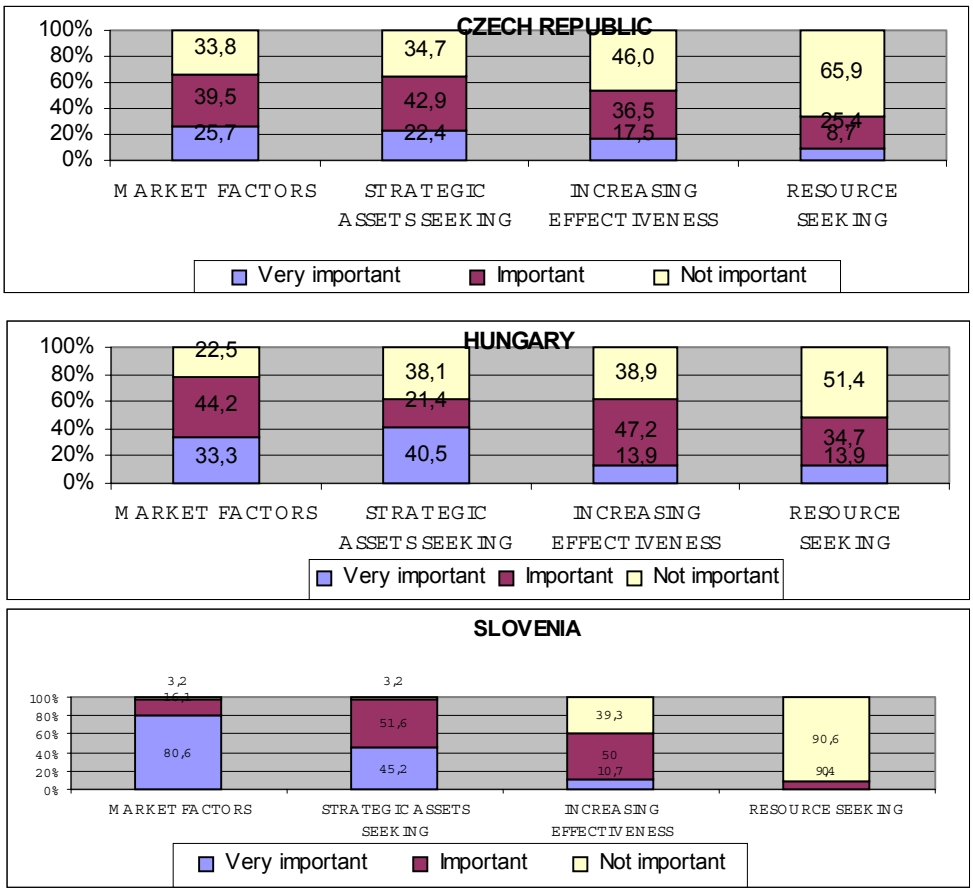
Beside the change in geographical concentration, the change in motivation is the next most important transformation in TEs' internationalisation patterns. Economic development of a country and a firm's growth and strategy influences the motives underlying outward investments. In our survey, several individual motives listed in the questionnaire have been merged using Likert's method into four basic groups of motives (Dunning, 1993: 56-63): resource-seeking, market-seeking, efficiency-seeking and strategic-asset-seeking. Figure 3 present the evaluation of motivation groups for the selected TEs.

In spite of some differences between the three TEs there is a high level of convergence in terms of the determinants driving firms on to invest abroad. The most important motives were market-

[52] Experiences of operating abroad accumulated in the socialist times are hardly applicable due to the different rationale of the then investing state monopolies although they did have to adapt to local conditions. Secondly, managers or those involved in such operations of old state monopolies may not be managing the related privatised companies any more.

seeking followed by strategic-asset-seeking, increasing efficiency and, lastly, resource-seeking ones. In Hungary, strategic-asset-seeking motives are surprisingly rather more important. This may be attributed to the fact that more foreign firms are investing abroad. Such firms' awareness of strategic positioning in foreign markets may be stronger since they are large multinational companies. They may also have Hungary as a regional hub and then also expand activities to neighbouring markets, mostly other CECs. Slovenian firms (with the smallest domestic market) are the strongest market seekers and look for resources abroad the least of the three countries.

Figure 3: The importance of groups of motives in Czech Rep., Hungary and Slovenia



Source: Own survey, 1999.

The most important market-seeking motive was keeping/enlarging an existing market share in all three TEs (Table 7). All TEs also underwent major reorientations of their foreign trade in the nineties, with firms realising that they can also penetrate foreign markets by getting closer to customers through OFDI. The trade balance deficit in the 1990s and current account deficits

remind firms that export capability has to be further developed and enriched through direct presence in foreign markets.

Table 7: The importance of market-seeking motivation factors (weighted average)[53]

	CZECH REPUBLIC	HUNGARY	SLOVENIA
Keeping/enlarging an existing market share in a local market abroad (host country)	1.28	1.17	1.13
Growing demand in a local market	1.89	1.55	1.63
Access to the markets of third countries	2.10	2.27	1.88
Too small domestic market, lack of opportunity	1.55	1.67	1.35
Presence in important markets, better connections to neighbouring markets	1.67	1.33	1.73
Following the competitors that have invested abroad	2.17	2.09	1.83
Following the customers that have invested abroad	2.61	2.13	2.23
Need to adapt to local tastes, better after-sales services	2.06	2.00	1.56
Circumventing trade restrictions	2.22	2.33	2.47
Preferential agreements (outside Europe)	2.61	2.45	2.74

Source: Own survey, 1999.

It is therefore not surprising that most of the affiliations abroad are trade-facilitating units. For obvious reasons, small home markets have played a somewhat less important role in Hungary. The higher importance of adaptation to local tastes and after-sales services in the case of Slovenia could be explained by many affiliations in former Yugoslav republics where Slovenian firms have established previous business contacts. The interpretation for some Czechs firms being in Slovakia could also be similar, while in Hungary the adaptation knowledge by foreign owned firms may influece.

It is encouraging to find the strategic-asset-seeking motive as the second most important incentive of the sample companies for OFDI. This could indicate the long-term orientation of the investors. It could be a sign of a very developed internationalisation strategy of companies from the three countries, but also a sign of the temporary threat of transition. Additional interviews however do not confirm this very developed internationalisation strategy, but rather a strategic survival kit.

Table 8: Importance of strategic-asset-seeking motivation factors

	CZECH REP.	HUNGARY	SLOVENIA
Growth of a company	1.94	1.00	1.45
Strengthen overall competitive position	1.35	1.18	1.47
Higher profit margins expected	1.89	1.18	2.13
Diversification of risk, markets, products	1.80	2.00	1.74
Acquisition of / access to local knowledge, technology	2.10	2.36	2.79
Employment of local experts	2.57	2.45	2.63
Better R&D opportunities	2.85	2.64	2.86

Source: Own survey, 1999.

Firms are aware of the importance of company growth in view of the increasing pressures of globalisation especially because firms from CECs are, with few exceptions, small by international standards. But they have not yet developed any long-term internationalisation strategies or strategies for enhancing their strategic assets through OFDI. The high importance of strategic reasons can also be explained by the sample which does not represent average but instead leading outward investors. The lack of understanding of the real meaning of strategic-asset-seeking motives can also be confirmed by the low importance respondents attributed to efficiency-seeking factors (see Table 9).

Specific strategic advantages of firms from CECs are specific products adapted and already affirmed in markets of penetration. Lastly, abroad they seek to capitalise their not very new technology but that which is suited to the needs of local factor configuration. Quite a number of Slovenian firms are investing abroad in kind, transferring to its affiliation its own technology and at the same time starting to upgrade its own. Adapted technology and adapted products are their firm specific advantages rather than very new products and very recent technology.

Strategic motives are nowadays usually carried out by mergers and acquisitions which save time in the processes of a firm's growth and asset creation and offer quick technology and knowledge transfer. Companies from TEs only starting the OFDI internationalisation process have not yet

[53] The importance of all factors determining DIA is ordered by WA of possible answers; 1: very important, 2: important, 3: not important (Valid percent only).

accumulated enough knowledge/experience to cope with mergers and acquisitions. They are quite rare in the case of the OFDI of the three countries (see 4.3., Table 6).

Table 9: The importance of efficiency-seeking motivation factors

	CZECH REP.	HUNGARY	SLOVENIA
Restructuring of the company, rationalisation	2.11	2.40	2.32
Specialisation	2.22	2.40	2.36
Economies of scale and scope, excess facilities	2.22	1.70	2.11

Source: Own survey, 1999.

Strategic-asset-seeking motives are often closely related to efficiency-seeking motives. With the exception of economies of scale and scope in Hungary, on average they were not considered at all important. One explanation may be that the efficiency-seeking incentive for outward FDI can only be realised after a parent company has established a certain network of affiliates abroad. They facilitate the further relocation of resources (by using differences and similarities of factor endowments and economic systems and institutional agreements in different countries) pursuing the maximum-efficiency objective. Through central supervision of geographically spread activities, this type of investment aims to increase yields with specialisation, economies of scale and scope and risk diversification. Although we have seen that the affiliate network of the average company in the sample is expanding, there are only a few *star companies* in a position to invest abroad for this reason. The important explanatory variable in this respect is the size and international experience of a company. However, companies investing abroad are on average bigger and more experienced than companies without direct investments abroad.

Public opinion frequently opposes OFDI by asserting that it exports jobs. The public and the media in TEs are also not immune to such reasoning[54]. Yet our survey has demonstrated that lower wages have not really played a very important role in driving OFDI from these countries, although within resource-seeking motives lower labour costs have been understood as the fewest unimportant resource available abroad. Except for Hungary (where foreign-owned firms often invest abroad), unit labour costs were seen as being of almost no importance as well. That is

especially surprising in view of Ozawa's paradigm in the case of Slovenia where labour costs are relatively high, at least compared to other CECs. Countries, which have been the main destinations particularly in the last two years, have much lower labour costs. Lower productivity can also explain the low importance of searching for lower labour costs[55]. It does not mean however that firms have been following Ozawa's paradigm by which a firm reallocates labour-intensive activities abroad through OFDI when a country starts losing its comparative advantages, so that the investing firms can keep and enhance their competitive advantages. If they were to be driven by such a motivation, their imports from affiliates abroad should have been high, but that is not the case[56]. Firms are not (yet) thinking so strategically. One explanation is that globalisation pressures have not yet fully influenced their operations due to the continuing, albeit already much lower, protection of local markets in different ways (less by tariffs and more by other government subsidies).

Table 10: Importance of resource-seeking motivation factors

	CZECH REPUBLIC	HUNGARY	SLOVENIA
Lower costs of raw materials in host countries	2.71	2.45	2.66
Lower unit labour costs in host countries	2.62	2.00	2.48
Lower transport costs	2.43	2.09	2.62
Better financing opportunities	2.30	2.18	2.61
More relaxed environmental laws and regulation	2.95	2.82	2.89
Lower taxes, duties, tax relief and other incentives offered by host country	2.35	2.36	2.75

Source: Own survey, 1999.

It is surprising that, in view of smallness and the lack of natural factor endowments, resource-seeking motives are considered to be unimportant. Regardless of the type, production factor costs

[54] See more in Svetličič et al. 1994.

[55] For some Slovenian firms the important factor is access to host countries' experts, which can be explained by the smallness of the Slovenian market and the lack of certain expert profiles. Few firms claimed to establish affiliations abroad with the objective of gaining access to local computer or marketing experts.

[56] According to the survey, the average share of imports from affiliations is 8% for Czech sample companies, 13% for Slovenian sample companies and 0.3% for Hungarian sample companies.

were assessed as an unimportant motive for most sample companies[57]. One explanation is the lack of knowledge of what a global combination of factors (globalisation) can offer in terms of strengthening competitiveness together with the lack of capacity to achieve such globalisation.

6. Conclusions

In spite of the early start back in the socialist period, OFDI by firms from CZ, Hungary and Slovenia are still very modest by international standards. By domestic standards, they are becoming more important constituting from 0.7 to 3.2 share in respective GDP. The real upswing in these investments started in 1998 and future plans reveal a continuation of that increase. With OFDI beginning before IFDI, TEs started a cumulative learning process but initial deviations from the starting phase of the investment development path did not alter the usual sequential internationalisation pattern. The transition period has actually meant the "restart" of OFDI.

Relevant theories have partial explanatory power for the "socialist" stage of internationalisation, but can explain its post-transition stages. There are so many system-based specific characteristics that make the application of theories based on market economies' traditions very difficult to apply to the initial stage of development of such investments. State and dispersed ownership, limited integration into the international economy and the lack of specialisation make the experiences of these countries and their firms very specific.

Their infant internationalisation phase could be considered as a reversed investment development path start. Before transition, such operations abroad by state- or socially-owned firms followed a different rationale. They were either of a system-escape type or part of the overall politics of the respective governments. Business considerations were not necessarily the only preoccupation. Later on, they have begun to fit nicely in a new version of the investment development paradigm

[57] Better financing opportunities were ranked as a somewhat fewer unimportant resource. This should mainly be understood in terms of better financing conditions (interest rates) due to existing higher inflation rates or exchange rate volatility in these TEs compared to industrial countries if they invest there or at the intra TEs level. Financing

whereby they start internationalising earlier and individual stages are shortened. Neither the different 'investment starting position' (initial system-escape type of OFDI) nor the substantially changed international economic environment (globalisation and EU integration) has altered, but they have only accelerated the investment development patterns at the macro-economic level. All three TEs are now leaving behind the first stage of the investment development path and entering the second. Transition to a market economy, which first meant stabilisation and liberalisation, under the influence of globalisation and EU integration and increasing competitive pressures from global markets, has forced now privatised companies to increase or enhance the internationalisation of their activities.

Investors are mainly driven by market-seeking motives. The EU is therefore surprisingly not the chief destination of these investments although the EU is the main export market for all three TEs. There is even a tendency to divest from the EU previously conceived affiliations which have system-escape characteristics or whose rationale no longer fits in the strategies of the transformed companies. Some are simply a result of restructuring and rationalisation of firms' activities during the first hardships of transition. Firms also do not possess strong enough ownership-specific advantages to internalise in such developed markets. OFDI is concentrated mostly in neighbouring countries and "fellow" CECs. Culturally and historically linked countries are the most important recent hosts for such OFDI (former Yugoslav republics for Slovenian firms, Slovakia for Czechs, and together with Romania, for Hungarian ones). One explanation for this geographical allocation of OFDI is their strategic orientation to build on recognised brand names in these markets and previous economic ties, existing national minorities there or simply knowledge of how to do business in the environment where strong personal contacts are extremely important. The main investors abroad are relatively old and prevailingly large firms by national standards, confirming that a certain threshold of human capital/knowledge is a

from abroad is not considered as important also due to the fact that firms have much better credit ratings with home banks.

precondition for successful OFDI. At the firm level, such internationalisation basically follows the predictions of the sequential approach to internationalisation, especially as concerns geographical concentration, foreign entry mode and functional orientation.

Many exporters plan to upgrade foreign operations from traditional exports to a direct presence in a foreign market. Future plans uncovered in the survey reveal that firms are increasingly aware that only through a direct presence in foreign markets can they strengthen their competitiveness. When a firm is capable of internationalisation through outward FDI it is also able to integrate into the wider economic area or, ultimately, into the global economy. OFDI is facilitating the integration of TEs into the EU and speeding up transition and is one way that firms from TEs are starting to respond to the challenges of globalisation.

The increased international competition coming with transition accordingly motivates the companies from TEs to develop firm-specific advantages with OFDI, combine them with local specific advantages and speed up the process of catching up with the rivals. “Healthy motivation” in accordance with capabilities and knowledge is a precondition for successful OFDI. Despite rapid changes in the international environment, internationalisation remains a cumulative learning process. Now it is not only business, but especially learning, that has to be more effective. Transition has enhanced and accelerated such learning. It represents a push factor of internationalisation which, when combined with globalisation and EU integration as pull factors, is stimulating the OFDI by TEs. In short, transition matters.

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