COMPETITIVE PAPER

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Outward FDI by Selected Transition Economies; Comparative Evaluation[***]

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Outward FDI by Selected Transition Economies; Comparative Evaluation

Marjan Svetličič* and Andreja Jaklič**

Abstract

Outward internationalisation by firms from transition economies is very new in business literature although socialist firms started to invest abroad already before transition. Now investing abroad started to grow even faster than inward FDI. The paper evaluates outward investment by Czech Republic, Estonia, Hungary Poland and Slovenia, leading EU candidate countries. Trends, regional allocation, motives, types of investors, barriers, development implications and future prospects are assessed mainly based on own surveys since ready made statistics is either not available or deficient for a more in debt analyses. The paper concludes with identification of general characteristics and differences among internationalisation of firms from selected transition countries **and provide some theoretical generalizations.**

Key words: outward FDI, socialist firms, sequential internationalisation, comparative advantages, transition, development implications, EU, Czech republic, Estonia, Hungary, Poland Slovenia

1. Introduction

This evaluation compare outward FDI by five transition economies (TEs) is to emphasize similarities and differences in the internationalization by firms from Czech republic, Estonia, Hungary, Poland Slovenia. We confine ourselves on those data which was available in national statistics and which we have succeeded to collect for all 5 countries. This paper is therefore based on a minimum common

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denominator and should be regarded as a complement to all five-country studies[2], which are much more detailed and contain also those aspects of outward FDI, which were available only for the country concerned (see Svetličič and Rojec, 2003 forthcoming).

Very uneven availability of national data on outward FDI forced us to rely much more on our own surveys. This comparative evaluation is therefore based mostly on the survey what limits the possibilities for the application of more robust methods and consequently put many limitations on the general validity of the results. Nevertheless it is actually the first attempt to look into internationalization of transition economies, a topic which was only few years ago considered as totally exotic or marginal.

A need for selectiveness forced us to concentrate on only few aspects and not too much on longitudinal evaluation to the extent it is at all possible due to young age of this type of internationalization of firms from transition economies. Therefore we concentrate on the last year for which data was available (2000) and only where it was very important compare this with 1997 and if relevant also earlier period. In the first part we evaluate general trends while in the second major characteristics of outward FDI. We proceed by major characteristics of outward FDI (of investors and their affiliations), regional allocation of investments, major motives and barriers. Part four is devoted to development implications, investor's competitive advantages and evaluation of their development implications. We conclude by plans for the future and general conclusions.

2. Basic trends

Most FDI flows take place among developed economies. Transition economies – as in other areas – lag behind. Inward FDI in transition economies is far more important than outward FDI. In 2001,

[2] Paper is based on country studies prepared by Altzinger et al, 2003; Bohatá and Zemplinerová, 2003; Éltető and Antalóczy, 2003; Jaklič, 2003; Rosati and Wilinski, 2003; Varblane et al, 2003.

outward FDI stock of transition economies was USD 23.999 billion (UNCTAD, 2002, Annex B) and represented only 15 per cent of their inward FDI stock and only 0.4 per cent of the worldwide outward FDI stock. The share of FDI outflows from transition economies (USD 3.5 billion in 2001) in worldwide FDI outflows (620.7 billion in 2001) increased from 0.29 per cent in 2000 to 0.56 per cent in 2001, which can be largely explained by a worldwide drop of FDI in 2001. FDI outflows from CEECs also shrunk by 12 per cent in 2001.

The lagging behind of the analyzed transition economies in terms of outward FDI is quite substantial also compared to selected smaller industrial economies. Slovenia has the highest per capita outward FDI stock among the analyzed countries but lags behind Portugal in this regard by more than four times, while Slovenian outward FDI stock to GDP ratio is one-half that of Portugal's (1999 data). On the other hand, the analyzed transition economies have, with the exception of Poland as the only large country among them, higher exports to GDP ratios than Portugal and Austria, but lower than Ireland (Put Figure 1 here)

Outward FDI and emerging MNCs from transition economies as a new phenomenon enhanced only after transition began. The year 1997 represents a kind of take-off point. Since then, the outward FDI stock of the five analyzed countries more than doubled, i.e. from USD 2.5 billion in 1997 to almost USD 6 billion in 2001. In 2000 outward FDI of CEECs has grown even faster than their inward FDI (see UNCTAD, 2002, pp. 303, 313 and 317). Some firms from transition economies have become entirely multinational (see list of 25 largest TNCs from Central and Eastern Europe, UNCTAD, 2002, p. 122). For many firms from small transition countries, international expansion became the only way to grow. Nevertheless, for most firms, investing abroad has not yet become part of their long-term strategy, which would stabilize present FDI outflow fluctuations in the longer run.

Despite large differences, transition economies share many similarities in the outward internationalization process. All are net FDI recipients. Outward FDI is still a modestly used entry mode to foreign markets, and fluctuations in outflows are substantial. Exports are still a dominant mode of outward internationalization. Apart from Russia and Croatia, the five countries analyzed are the major outward investors among transition economies. Due to their higher developmental level, this is expected and is in line with predictions of investment development path paradigm (IDP) and Scandinavian evolutionary models of internationalization.

Modest annual FDI outflows from the analyzed countries fluctuate considerably under the influence of individual ventures and due to external and internal developments.[3]

(Put Table 1 here)

In sum, overall outward FDI stock of all CEECs increased almost four times since 1995, i.e. from USD 6,378 million in 1995 to USD 23,999 million in 2001 while of five here evaluated countries even five times from USD 1.513 million to USD 7.575 million, which is an impressive growth, in spite of the very modest initial level. In terms of 2001 outward FDI stock value, Hungary (USD 4,377 million) is the leading outward investor among the analyzed countries, followed by Poland (USD 1.039 million) and Slovenia (USD 898 million) (UNCTAD, 2002, p. 317). In terms of outward FDI stock to GDP ratio for 2000, Estonia is the most internationalized (5.2 per cent) followed by Hungary (4.5 per cent) and Slovenia (4.4 per cent) while Poland (0.6 per cent) is lagging much behind (See Figure 1). With USD 401 of outward FDI stock per capita in 2000, Slovenia is in first place, much ahead of Hungary (USD 199), Estonia (USD 173), Czech Republic (USD 163), Slovakia (USD 59) and Poland (USD 39) (own calculations, based on UNCTAD, 2002, p. 317). Outward FDI flows and stock to GDP and gross fixed capital formation ratios of transition economies are rapidly increasing.

3. Major Characteristics of Outward FDI from the Analyzed Transition Economies: Results of the Survey

[3] Stabilization of the political situation in successor states to the former Yugoslavia, for instance, really triggered off investments of Slovenian firms in the region. Similar has been the effect of the advancing privatization process in the region.

Modest existing macroeconomic data on outward FDI, collected by central banks, and general unavailability of systematic and comprehensive information sets on outward FDI in the analyzed countries have not allowed a substantive empirical and qualitative analysis of the phenomenon. Therefore, we conducted our own surveys of outward investors in all five countries. The surveys were carried out among companies with outward FDI from May to October 2001.

(Put Table 2 here)

Data sources and the size of sample frameworks varied across countries according to data availability. Regardless of the sample framework selection, the response rate was in general quite low; from 10 per cent in Slovenia (where sample framework was the largest[4]) to 38.5 per cent in Hungary (with the sample focused on larger companies). In Slovenia, sample companies represent about 10 per cent of all companies with outward FDI, while the respective share in the case of the Czech Republic is about 25 per cent. The share of sample companies in total outward FDI stock of individual countries is between 15 per cent and 20 per cent in the case of Slovenia, about 20 per cent in the case of Poland, about 53 per cent in the case of Hungary and about 43 per cent in the case of Estonia.

Contrary to expectations, outward investors from the sample are basically old firms (nearly 28 years old on average) already established during the socialist period[5], some dating back even before World War II and with a long tradition (including brand name recognition). The management of these companies was in many cases changed after companies became privatized. Therefore they are old but to a certain extent also new. Large differences in minimum and maximum age and standard deviation do indicate that apart from old firms, we also have many new investors in the sample, which were created during the transition.

[4] Actually equal to total population of Slovenian outward investors.

[5] As much as 38 per cent of the sample companies were established before 1990. The majority of sample companies, which were established during transition, dated back to the period 1991-1993.

The majority of outward investors from the analyzed countries are manufacturing firms[6] – 51 per cent (20 per cent are in trade and 29 per cent are in other services), although registration (involvement) of investing companies in more than one activity – most frequently trade – somehow reduces the domination of manufacturing. Even more, being a manufacturing firm does not necessarily mean that the firm undertakes manufacturing investments abroad. On the contrary, our analysis indicates that for all the analyzed countries, trade is the prevailing activity of foreign affiliations, followed by other services and only lastly by production activity (see Svetličič and Jaklič, 2002).

If we take the number of employees in 2000 as the proxy for the size of the investing company, then our sample confirms that investors are on average large but not very large firms. The average number of employees in the sample firms was 1,213 – although the majority of sample companies has less than 250 employees. The number of employees has risen in all evaluated countries in the 1997-2000 period. Differences in number of employees in sample companies among countries are statistically significant. In Hungary and the Czech Republic, large firms (many foreign owned) are dominant outward investors; in Estonia, Slovenia and (surprisingly) Poland, SMEs play a relatively more important role. SMEs are not important in terms of volume of outward FDI but in terms of the number of investing companies.

Compared with average companies in the analyzed countries, the investing companies from our sample are quite large in terms of fixed assets. Also the mean value of their fixed assets increased in 1997-2000 by 47 per cent. Nevertheless, huge differences among the sample firms as far as size of their fixed assets is concerned clearly indicate that firms investing abroad are both very large as well as very small. It seems that the size of investing firms is influenced by the size of the home market. The smaller the home market, the smaller the size of companies investing abroad. Poland is a very nice example of how important the size of the home market is for internationalization. Polish firms, which

[6] Estonia, where banks are the major outward investors, is an exception.

have ample opportunities at home, are still not yet pushed to invest abroad, hence their internationalization is still much less advanced compared with the other four transition countries.

In the 1997-2000 period, investing companies from the sample grew not only in terms of fixed assets but even much more in terms of sales, which demonstrates their dynamism. Their sales increased from EUR 32 billion to EUR 86 billion, i.e. by 2.6 times. Such an increase is importantly due to the growth of sales of existing and newly established affiliations abroad. Investing abroad has deepened more than widened, i.e. investing companies tend more to strengthen their existing outward investments than to enter into new ones.

(Put Table 3 here)

The total number of affiliations established abroad by sample firms was 293 in 1997 and almost doubled to 477 in 2000. This reflects generally increasing trends in outward FDI by the five transition economies. Slovenia leads in terms of the number of affiliations per investing firm (4.4), followed by Hungary (3.9). The situation is also similar as far as the increase in the number of affiliations in the 1997-2000 period is concerned. Slovenian investors established 70 new affiliates, followed by Estonian investors with 54 and Hungarian investors with 30. High standard deviations indicate that there are huge differences in the spread of affiliations by investing companies; some are very internationalized firms with a lot of affiliations abroad; others are only beginning to invest abroad.

3.1. Regional Allocation of Affiliations Abroad

Theories predict that firms start to invest abroad initially in countries where they export and in neighboring, culturally and language-wise close countries. Results of our survey confirm such a hypothesis, particularly the second one. Most of the affiliations have been established in neighboring countries, mostly other CEECs[7] (54 per cent). Affiliations of Estonian banks in neighboring countries, Czech investments in Slovakia and Slovenian investments in the successor states of the former Yugoslavia can easily explain the high share of CEECs as host countries. The number of affiliations established in EU countries is much lower (21 per cent of all the foreign affiliations from our survey), although the EU dominates as exports destination of the investing firms.

Domination of other CEECs as host countries can be explained by two factors. The first is vast previous export experience of investing companies on these markets, which were in the socialist past their major export destination. Slovenia is an exception to this pattern, because it opened up trade relations with the West already in the 1950s. The second factor relates to broadly defined historical and cultural proximity. Countries such as the Czech Republic and Slovenia were previously part of larger countries, i.e. Czechoslovakia and former Yugoslavia, which gives them certain advantages in these markets as investing locations. These location-specific factors are complemented by ownership-specific advantages of investing firms (strongly home country location-based)[8], which reinforce such regional orientation of outward FDI. Knowing how to do business there is certainly quite an important firm-specific advantage.

3.2. Who Are the Investors Abroad?

The ownership structure of companies from the survey indicates that 56.7 per cent of our sample investing companies are firms with more than 10 per cent foreign equity participation, i.e. they are themselves foreign affiliations. These are the so-called indirect investors (see Altzinger *et al*, 2003). Foreign equity exceeds 50 per cent in 23.3 per cent of all investing companies from the sample. One can guess that outward FDI by these companies has been in most cases initiated by their foreign parent firms, or/and is part of the global strategy of these foreign parent companies. The share of indirect investors varies significantly across the analyzed countries, the lowest being in Poland and Slovenia

[7] If we add CIS, the share of transition economies would increase to 75 per cent.
[8] Including lower wages.

and the highest in Hungary and Estonia, with the Czech Republic in between. The relevance of indirect investors basically goes along with the country's inward-outward FDI ratio; the higher the role of inward FDI in the home country economy, the more important are foreign firms in outward FDI.

3.3. How and Why Firms Invest Abroad

The early stages of internationalization are usually manifested by simple and not diversified entry modes. Normally, export is the first stage followed by different contractual modes and only at the very late stage by FDI. Internationalization of firms from transition economies reflects such a general although much accelerated pattern. There, by far the most important entry mode has been export, followed quickly by investing abroad, at first mostly by establishing trade units abroad. We could not have observed all the sequences in internationalization as predicted by the Scandinavian school. Firms from our survey tend to jump over stages. Contractual forms such as licensing and franchising are very rarely used.

One explanation for this jumping over is simply radically changed external environment. Intensive globalization processes have forced firms to start internationalizing faster than has been the normal pattern. There is simply not enough time to go gradually through all the predicted stages. The second explanation is the fact that trade units prevail among foreign affiliations of most of the analyzed countries. This actually means incremental, step-wise internationalization. The function of the trade units abroad is simply export facilitation and the capital needed for their establishment is also modest. The third reason relates to the prevailing types of ownership-specific advantages of firms from transition economies, which are more intangible in their nature and have to be exploited by internalization modes. Contractual types of internationalization would not guarantee the best remuneration of such ownership-specific advantages.

Type of ownership-specific advantages is also the major explanation for a domination of greenfield ventures over acquisitions in outward FDI of the analyzed countries. The only exception to this pattern is Hungary, where acquisitions have been more important than greenfield (60 per cent versus 40 per cent). The strongest competitive advantages of outward investors from transition economies lie in marketing and knowledge on how to do business in similar countries, or countries which were before part of one state (former Yugoslavia, Czechoslovakia) or belonged to an economic integration area (CMEA). Investors from transition economies in principle do not posses as strong ownership-specific advantages so as to be able to share them with local partners without fear of losing them or not being adequately remunerated. Therefore investors from transition economies prefer a high level of control in order to keep such advantages and not to stimulate creation of local competition. Only gradually after certain accumulated experiences do firms feel able to also apply acquisitions.

(Put Figure 2 here)

The major motive of the surveyed companies for investing abroad is to gain foreign markets. This is reflected also in the predominance of trade units among affiliations abroad. Investing abroad is regarded as an additional way to keep and to increase market shares abroad. The differences in motivation of outward investors among the analyzed countries are statistically significant in the market-related motives, which are the strongest in Estonia and the weakest in Poland, and in motives related to assets acquisition. In all non-market-related motives, there are no substantial differences among countries.

(Put Figure 3 here)

Lower labor costs are on average the least important motive for investing abroad, which is reflected also in a modest frequency of production units abroad. Even if investing companies decide to produce abroad, lower labor costs are more a facilitating and not a decisive factor. Case studies, however, indicate that with increasing pressures of globalization and differentiation among transition economies, labor-cost motives might become a more important driving force of outward FDI in the future, together with the increasing role of production investments abroad.

What appears a more important motivating factor than labor costs is a ‘follow the customer’ argument in the case of producers of intermediate products. They went abroad simply to be able to serve their customers better from the local host country unit and also to be able to adapt to customers’ needs as promptly as possible or even ex ante.

3.4. Major Barriers to Investing Abroad

Investing abroad is a new type of activity for most of the firms from transition economies. Therefore it is not surprising that they face many difficulties when starting such new activities in different business environments abroad. Expansion of a firm by outward FDI is more risky, involves more funds and demands specific management and organizational skills. In short, investing abroad asks for experiences that to a large extent can only be learned by doing.

Barriers differ by countries and by firms based on their specific sector of activity and previous experiences, size of the company and direction of investments. In general, host country-related barriers such as risks and investment climate have proved to be the most important for most of the firms in the sample regardless of country of origin. This is not surprising given the prevailing regional orientation of transition economies’ outward FDI, notably in other CEECs where economic conditions are still not as transparent and stable as in industrial countries. Frequent changes and problems with practical implementation of legislation, a characteristic of transition, make operating in such an environment much more costly.

(Put Figure 4 here)

Although investing companies from the sample in general find host country-specific barriers as the most important, they frequently found internal barriers more difficult to overcome than external barriers. Among internal barriers, human capital issues such as lack of personnel seem to be the most important when investing abroad. This is somehow expected in view of the early stage of internationalization of the interviewed companies. According to case studies, the main reasons for problems and some failures were poor preparations, limited or inexperienced personnel, not enough or inadequate information, which all contributed to internationalization sometimes being too early or not the best project choice in terms of the available investor capabilities or country location. Therefore from the policy point of view, the real important barrier is the lack of experience of management.

It turned out in the survey that by order of importance, lack of funds is only the third barrier, although it becomes increasingly important by enhancing internationalization processes and in the case of SMEs. Most of the firms have financed their outward FDI with their own funds and frequently without any insurance of such ventures. The reasons for the latter are long procedures and fears of disclosing information for such projects to competing firms in small countries.

4. Outward FDI and Restructuring/Development of Investing Firms and Home Economies

This section evaluates the effects of outward FDI mostly on the firm level. It is based on our own perceptions of investing firms as reflected in the survey, interviews and case studies. An attempt will also be made to evaluate the restructuring and development impact of outward FDI and its externalities on the home country economy. Three aspects have been in the forefront: competitive advantages of investing firms, impact on foreign trade and general success of undertakings abroad.

4.1. What Are the Competitive Advantages of Investors?

The survey indicates that among rather equally weighted technological, marketing and organizational firm-specific advantages of investing companies, the technological advantages are the most important followed by marketing knowledge. Differences among investors from different countries in this regard are in general very small and statistically non-significant. The only country where marketing knowledge has been considered the most important has been Slovenia. The relatively higher importance of technological know-how in the Hungarian case can be explained by a very high proportion of indirect investors, whose foreign parent companies possess strong technological advantages. Stronger weight of marketing advantages in the case of Slovenia is understandable in view of the high reputation of Slovenian products on markets of the successor countries of the former Yugoslavia (see Jaklič and Svetličič, 2002, p. 85).

(Put Figure 5 here)

Interviews and case studies have shown that technological advantages of investing companies from transition economies are not based so much on new products and processes but more on appropriate technology and cheaper although branded products. Such advantages can only be based on own R&D efforts and experienced personnel. Slovenian case studies clearly demonstrate that firms which have their own R&D capabilities and started to export to Western markets early have better chances of overcoming even major crises in their development, while those without such capabilities and mainly oriented to the local market are in principle in a worse position.

In terms of R&D expenditures, the surveyed firms still lag behind internationalized firms from developed industrial countries. The share of R&D expenditures in sales revenues of our sample investing firms on average increased from 2.2 per cent in 1997 to 3.3 per cent in 2000. Poland is the only analyzed country with a decrease.

The second source of firm-specific advantages of the surveyed investing companies is a stronger human capital base compared to non-investing companies. The share of employees with a university education in the sample firms was 24.3 per cent in 2000 (an increase from 21.6 per cent in 1997). Case studies further confirm the existence of superior human capital in investing firms compared to non-investing firms. Investors, having better educated personnel, also attribute more importance to training than do non-investors. Differences between analyzed countries in the share of employees with a university education are statistically significant in both years and much more pronounced than differences in other characteristics. This can be partly explained by the sectoral structure of outward FDI of individual countries.

The importance of organizational known-how was rated as less important than marketing know-how, but one can hardly speak of significant differences. On average, organizational know-how was assessed in the range of a little bit less than ‘important’. However, case studies do indicate that ‘how to do business’ know-how in other transition economies, which originates from former strong economic ties, established business networks, knowledge of language and cultural similarities, has been a frequently important competitive advantage of investing firms. This type of advantage is a temporary phenomenon and firms have to start exploiting it quickly, i.e. before other competitors can catch up in this regard. It is therefore very important for investors from transition economies, which invest in other transition economies, to be first movers and to upgrade other advantages before the advantage of how to do business in a specific environment will expire.

The Slovenian country study clearly demonstrates that investors do not possess advantages specifically designed for certain (less developed) markets. No statistically significant difference in competitive advantages between firms that invest exclusively in the region of former Yugoslavia, firms that invest in former Yugoslavia and elsewhere and firms that invest exclusively elsewhere was found. Competitive advantages are similar irrespective of the region of location of investments (see Jaklič and Svetličič, 2002, p. 92).

4.2. Foreign Trade Orientation of Investors and Affiliations

The fact that the major motive of investors from the analyzed countries is keeping and gaining market shares abroad leads to the expectation that outward FDI is also used intensively as an instrument of export promotion. On the other hand, very weak motivation of investors to invest abroad in order to use the advantage of lower labor costs in host countries implies rather modest imports of investing companies from their affiliates. Investors are major exporters in general and in respective host countries, but outward FDI has not (yet) proved to be a highly important instrument of export inducement.

Overall, intrafirm trade of sample companies has been rather modest, indicating a weak integration of affiliates in parent company strategies. Polish and Hungarian investing companies have the highest intensity of intrafirm trade measured by the share of exports to affiliates in total exports of investing firms (i.e. 21 per cent and 18 per cent in 2000, respectively). Adequate figures for investors from other countries are much lower. Shares of imports from affiliates in total imports of investing companies are much lower than corresponding shares on the exports side.

4.3. Has Outward FDI Been Successful?

Data for more robust and objective evaluation of the effects of outward FDI are unfortunately not systematically available in national statistics. Therefore, our major source for the evaluation of the effects of outward FDI from transition economies has been the questionnaire survey. We complement the survey data with a number of case studies, which in fact provide the best evaluation of the micro-effectiveness of outward FDI of individual firms.

The survey demonstrates that the success of outward FDI of the sample companies has been on average good; investors have mostly realized what they planned at the start of the project. Very few investing firms have really failed and also very few have achieved more than they expected. The largest convergence between expectations and results can be found in the case of Hungary, followed by Slovenia and Estonia. There may be a bias in answers as far as success is concerned; still the results are surprisingly good given the early stage of internationalization of firms from transition economies.

(Put Figure 6 here)

According to the survey, the most important effect of outward FDI for investing firms has been to gain additional market shares. This has been considered as the most important result by all except Polish investors. Increase of exports has been the second most important effect of outward FDI, followed by the increase of production volume of the parent company. The least important effect has been the increased imports from affiliations abroad (on average, there has not been any change in imports) – which is in line with the low importance investing firms gave to lower wages and other costs as the motive for outward FDI. The effect has been rather weak also as far as the employment of a parent company is concerned. Differences in effects among the analyzed countries are statistically significant in additional market shares abroad and production volume of a parent company, while differences among countries in other three tested effects are not statistically significant (see more in Svetličič and Jaklič, 2002).

(Put Figure7 here)

Table 4 shows some specific effects of having affiliates abroad for the investing companies. It is obvious that for a vast majority of sample companies, foreign affiliates have a positive influence on investing companies' financial performance, contribute to better feedback of customers and enable better response to competitors. To a lesser extent, foreign affiliates increase the number of products, while only in one-half of the cases, foreign affiliates bring about cheaper inputs.

(Put Table 4 here)

Due to outward FDI, the majority of sample companies introduced new products, adaptations or a wider range of products as well as improved their quality. Many firms increased investments in R&D

for process, product and quality improvements simply as a result of a direct presence in foreign markets. International competition thus motivated sample companies to strengthen their firm-specific advantages by investing abroad.

Companies regard learning effects of outward FDI as relatively less important. The introduction of new technologies or processes was evaluated as not having an important effect for most investing companies. As much as 58.3 per cent of the sample companies claimed to have invested abroad also as a response to investment strategies of their close competitors in the industry (Knickerbocker, 1973). This demonstrates that outward FDI is to an important degree a 'pulled' activity.

Investment abroad has not crowded out domestic investment activity as it is frequently feared.[9] Even more important than positive quantitative changes found in production volume and domestic investment of parent companies are qualitative changes. Especially important effects are the ongoing improvement in quality, product differentiation and adaptation as a response to closer links with customers, provided by a direct presence in foreign markets. In the long run, this promotes technological restructuring.

Cases demonstrate that educational effects of outward FDI are significant (see Jaklič and Svetličič, 2002, Table 11.5) not only for investing firms but also for the rest of the home country economy. Since companies investing abroad are often domestic market leaders, they also introduce higher quality standards to the domestic economy and stimulate other companies to follow. Investing firms enhance competition also in the home market. All these changes influence the industrial structure of the home economy and help bring about changes, which better reflect what the international division of labor under globalization pressures shows to be the optimal allocation of resources. Companies that

[9]9 In Slovenia, regression analysis shows positive and statistically significant correlation between outward FDI and investment in a parent firm (Jaklič, 2001a).

invested abroad did indeed increase the average value added per employee. Outward FDI is therefore growth instrumental, although limited to a small group of 'national champions' who invest abroad.

Internationalization of companies from transition economies has enhanced restructuring and transformation of investing companies and hence stimulated the transition process. Investing abroad might be treated as a catching-up tool since it helps to narrow the gap in productivity, efficiency and knowledge (above all, in marketing, organization and management). The most successful investors from transition economies can already compete in the world market with MNEs from developed economies, which is not the case for most other companies that do not invest abroad or those still shielded from international competition in non-tradable sectors.

5. Future Plans for Investments Abroad

Nowadays, increasing numbers of companies are becoming aware of international growth opportunities, particularly if they come from small countries. It is therefore not surprising that the surveys demonstrated quite ambitious outward FDI plans of the sample companies. The vast majority of them plan further expansion of their outward FDI activities in the very near future (two years) and more mid-term period (five years). In the next two years, firms plan mostly to expand existing affiliations abroad and only secondarily to establish new ones. In the mid term, expansion of existing affiliations still dominates but the importance of new ventures substantially increases. The longer the period, the more emphasis is given to new investments and acquisitions versus expanding existing ones. Almost none of the firms plan to close any of their existing facilities abroad.

(Put Figure 8 here)

The past regional orientations of outward FDI of the analyzed transition economies tend to be reproduced also in the future. Most of the planned investments abroad are oriented towards other CEECs – 31 per cent (CIS and EU each 24 per cent in the five-year plans). Nevertheless, CEECs are not so dominant any longer. The EU is gaining in importance (from 21 per cent in two-year plans to 24 per cent in five-year plans) together with CIS (increase from 13 per cent to 24 per cent) and other locations (increase from 12 per cent to 21 per cent). Increased geographical diversification of outward FDI can demonstrate maturing of internationalization both in terms of gaining experiences and strengthening competitive advantages, which make investors more capable of competing also on more demanding markets.

6. Conclusions

Outward FDI by five transition economies is rapidly strengthening. Patterns of internationalization tend to converge. Still after ten years of transition, all transition economies are in the early phases of internationalization, but the dynamics and the extent of outward FDI differ among countries. Macro-data demonstrate the following common features:

- the stock of outward FDI is constantly increasing,
- major increase of FDI outflows started since 1997,
- outward FDI ‘correlates’ with development level; more developed countries invest abroad more,
- outward FDI is geographically concentrated in countries with close historical or cultural ties.

Although there are differences in entering foreign markets through outward FDI, greenfield investment is the prevailing entry mode of investors from transition economies, with acquisitions or joint-ventures with host country companies gaining in importance. Investors usually prefer majority ownership in order to protect their specific transitory intangible ownership advantages. This is also the reason why investors from transition economies frequently want to exploit first mover advantages. Their investments are most frequently motivated by market-seeking determinants. Taking advantage of low labor costs abroad is more an exception than a rule, although slowly gaining in importance.

Survey results confirm and reinforce some of the above macro-characteristics and add several new ones.

Similarities

- Manufacturing and trade firms are the most active in investing abroad. Service firms with the exception of trade and financial intermediation, lag behind.
- Host country barriers (high risks, host country environment, concentration of direct investment) have been considered more important than home country barriers. The lack of knowledge, personnel and lack of financing are the most important barriers within the investing firms themselves.
- Investing companies have enhanced their intangible assets by investing abroad (Poland is an exception), technological advantages being assessed as the most important ones.
- The number of foreign affiliates per investing company increased in every country but Poland.
- Developed markets are still mostly served by traditional exports, while outward FDI is increasingly being used in less developed markets.
- Investing companies are mostly satisfied with their investments abroad. Additional market shares and increased exports of parent company were assessed as the most important effects of outward FDI, while additional imports and employment of the parent company as the least important.
- Some of the leading and successful companies from our sample have broadened their international networks of foreign affiliates around the world to become real MNEs; others have become regional MNEs.
- Investment plans of investing companies from our sample are ambitious and indicate gradual reorientation from investing predominantly in other CEECs to the EU and other regions.

Major diversities

- Internationalization of services varies considerably among countries (Estonia is the leader in banking).

- While the Estonian, Polish and Slovenian sample includes small, medium and large enterprises, in the Czech and Hungarian sample, large firms – frequently with foreign capital participation – dominate.
- The Czech Republic, Hungary and Slovenia have among outward investors a relatively larger share of older companies, established during the pre-transition period.
- The share of indirect investors varies significantly across the analyzed countries and is generally correlated with the level of inward FDI penetration in a country.
- The effect of outward FDI on a parent company's production volume is positive for the majority of sample firms in the Czech Republic, Poland and Slovenia, and negative in Hungary and Estonia.

Outward FDI has proved to be instrumental in strengthening competitiveness, stimulating transition and facilitating EU accession to the extent that it exceeds still a very modest quantitative importance of outward FDI in the economies of investing countries. Outward FDI has been an efficient instrument of the investing company's restructuring, although not the main instrument. Companies have restructured their production programs and even their organization as a result of investing abroad. Investing abroad has improved a range of products, feedback with customers and in this way provided access to new knowledge clusters. By investing abroad, firms have also succeeded in keeping some jobs, which would have been lost otherwise. Very few companies started to relocate production abroad because of increasing wages at home. Prevailingly market-seeking investments resulted in additional market shares abroad, growth of exports and domestic production levels. Consequently, outward FDI enhances efficiency and restructuring. Direct presence in foreign markets has helped investing companies to respond to customers' needs more rapidly. Investors have improved their image and enhanced and broadened their marketing, management and organizational skills. Outward FDI mostly complements exports. It has not crowded out domestic investment. Investing firms have on average a higher growth potential than other home country firms; exposure to foreign competition forces them to pursue high quality, adaptations and innovations, which are also introduced in the home economy.

For many firms from small countries or for those that reached the upper limit of market concentration allowed in the home economy, investing abroad has become the most promising or the only way to grow.

On average, better performance of companies investing abroad than of non-investing companies demonstrates that investing firms are forerunners in transformation. Companies investing abroad are larger, more capital intensive, have a better asset structure and are more export oriented. Investing firms performed better than non-investing firms and also improved in the second half of the 1990s. The growth of investing companies was much faster than of non-investing firms.

Other transition economies are the dominant outward FDI location of investors from transition economies. This mostly reflects a strategy of becoming a regional leader or the first step towards broader internationalization. Direct investment in most cases seems sustainable and is not a whim, provided that the resulting profits are used creatively to strengthen one's own capabilities, and not only to defend achieved market positions. Above-average R&D expenditures promise that the prevailing home country location-driven advantages thus far will gradually be replaced by firm-specific advantage-driven internationalization.

To conclude: outward FDI by TEs have provided some additional knowledge on *why, when, where* and *how* to internationalize. Their experience have enriched the theories of internationalization mostly in terms of dynamics of the process as well as the specific weight attributed to different factors in such a process. Deviations from mainstream theoretical predictions are not (yet) so substantial that would demand modifications of the theory due to transition or latecomers specific factors. On the contrary we have found more similarities than differences of internationalization of small less developed countries irrespective of systemic origin. Transition does play a role but other factors like size, timing (latecomers internationalization), external environment (enhanced globalization, EU integration) and history seems to play more important role. Deviations from theoretical predictions have proved to be largely macro organizational (policy) based. Policy and location specific factors play a more important role, can speed up internationalisation because of perishableness of such FSAs. Outward FDI by five EU candidate countries have proved to be more pulled by external environment than pushed by company's FSAs as was the case mostly of firms from more developed industrial countries. If though further research would demonstrate more widely common characteristics of such latecomers internationalization corrections of theories may be necessary. Nevertheless we doubt that a general theory of internationalization applicable to all cases is possible at all. Outward FDI are strongly teleological, firms, countries, sectors and environment specific that we can hardly expect to be able to develop all-embracing general explanation applicable in all cases.

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Table 1: FDI outflows from the analyzed transition economies (in millions of USD)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	-90	-120	-37	-153	-25	-127	-90	-43	-96
Hungary	-11	-49	-43	3 (-54*)	-431	-481	-249	-555	-337
Estonia	-2	-6	-2	-40	-137	-6	-83	-63	-184
Poland		-29	-42	-53	-45	-316	-31	-17	-14
Slovenia	-1	3	5	-6	-36	2	-38	-66	-104

* The official figure for 1996 in the BOP Statistics of Hungary is USD 3 million. In 1996, the National Bank of Hungary sold the Hungarian Investment Bank in London. Excluding this transaction, FDI outflow would be USD 54 million

Source: UNCTAD, 2001, 2002.

Table 2: Structure of sample by countries

	Number of companies interviewed	Per cent
Czech Republic	26	14.4
Estonia	69	38.3
Hungary	22	12.2
Poland	24	13.3
Slovenia	39	21.7
Total	180	100.0

Source: Survey on outward FDI in CEECs, 2001

Table 3: Foreign affiliations of sample investing companies in 2000

	Number of investing companies	Number of affiliations	Mean	Std. deviation	Minimum	Maximum
Estonia	68	140	2.1	2.5	1	18
Czech Republic	26	54	2.1	1.5	1	7
Hungary	20	77	3.9	4.5	1	20
Poland	19	52	2.7	2.3	1	9
Slovenia	35	154	4.4	4.6	1	24
Total sample	168	477	2.8	3.3	1	24

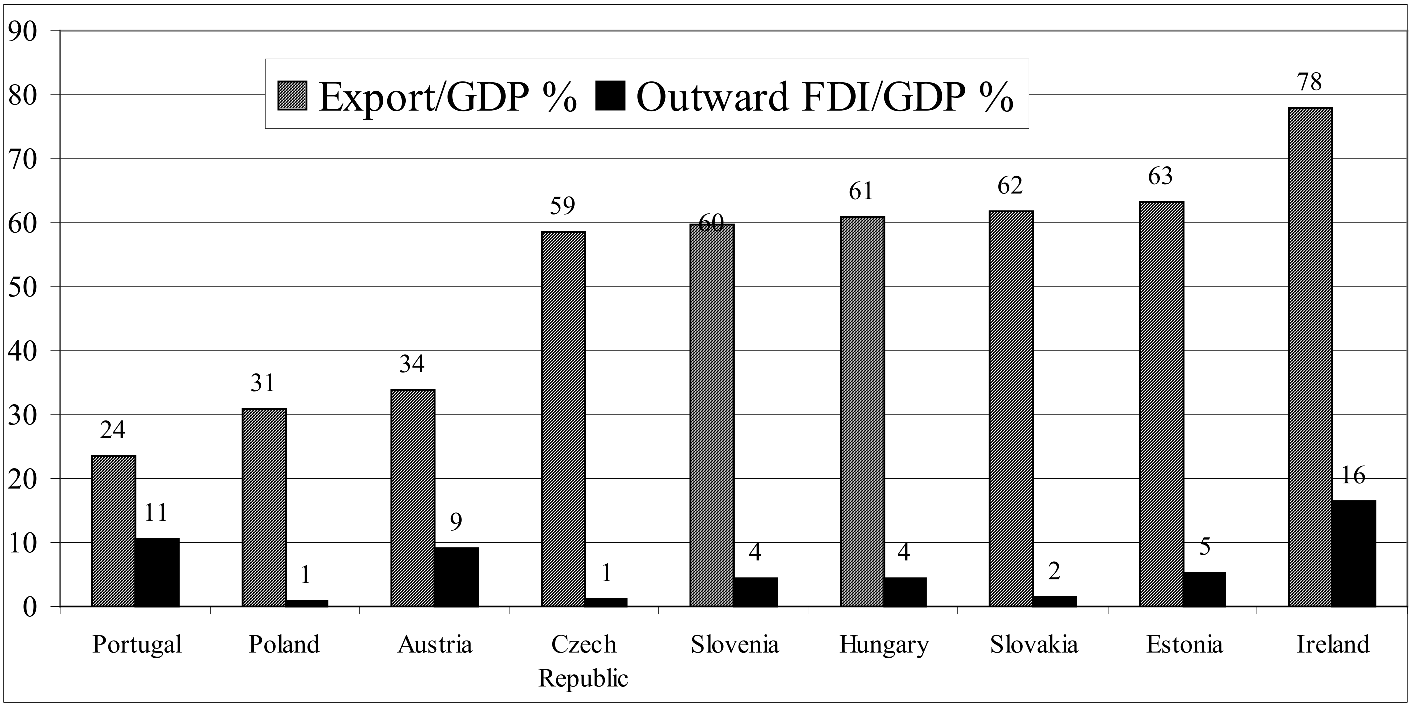
Source: Survey on outward FDI in CEECs, 2001

Table 4: Some specific effects of foreign affiliates on parent companies (number of cases)

	Cheaper inputs		**Better feedback**		**More products**		**Positive financial performance**		**Response to competitors**	
	No	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
Estonia	33	32	27	35	30	30	21	43	37	23
Czech Republic	10	11	1	25	21	5	7	18	6	19
Hungary	20	1	2	18	6	16	3	19	8	14
Poland	6	13	10	9	15	5	10	10	9	11
Slovenia	16	18	6	29	12	21	3	30	4	30
Total sample	61	61	44	118	78	83	41	123	56	105

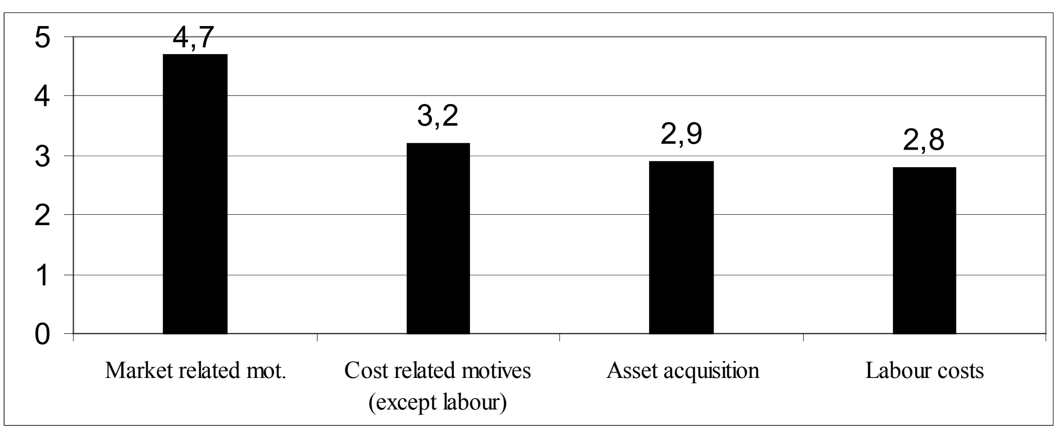
Source: Survey on outward FDI in CEECs, 2001

Figure 1: Exports and outward FDI as a share of GDP in selected countries in 2000



Source: IMF and national balance of payments statistics

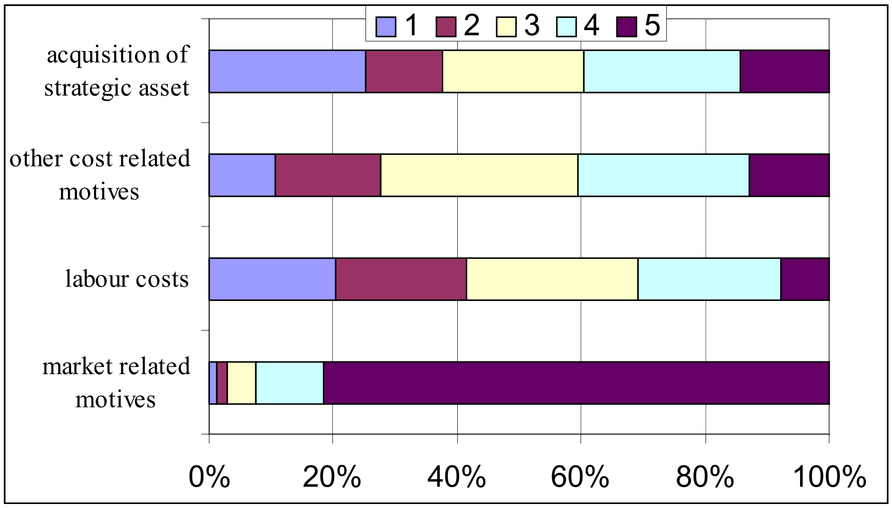
Figure 2: The importance of individual groups of motives: Average estimation (total sample)



Note: 1= not important, 5=very important

Source: Survey on outward FDI in CEECs, 2001

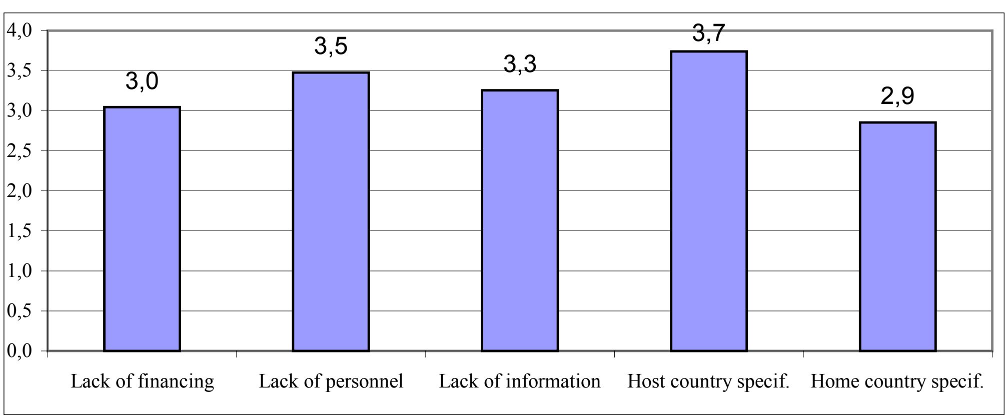
Figure 3: The importance of individual groups of motives: Percentage distribution (total sample)



Note: 1= not important, 5=very important

Source: Survey on outward FDI in CEECs, 2001

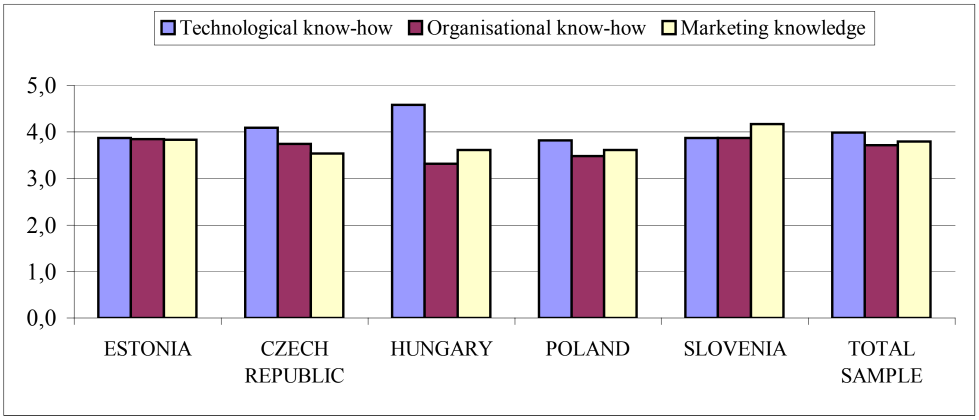
Figure 4: The importance of particular difficulties (average value) in total sample



Note: 1= not important, 5=very important

Source: Survey on outward FDI in CEECs, 2001

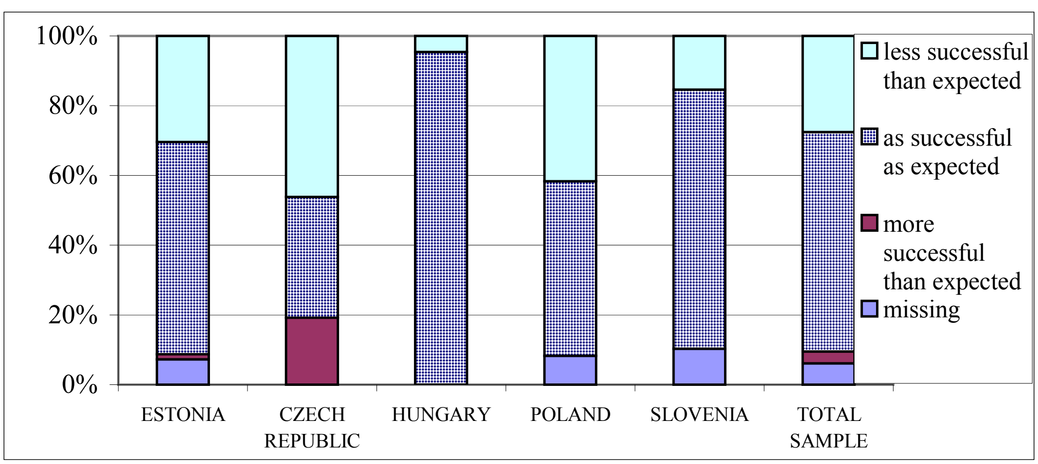
Figure 5: The importance of competitive advantages by countries



Note: 1= not important, 5=very important

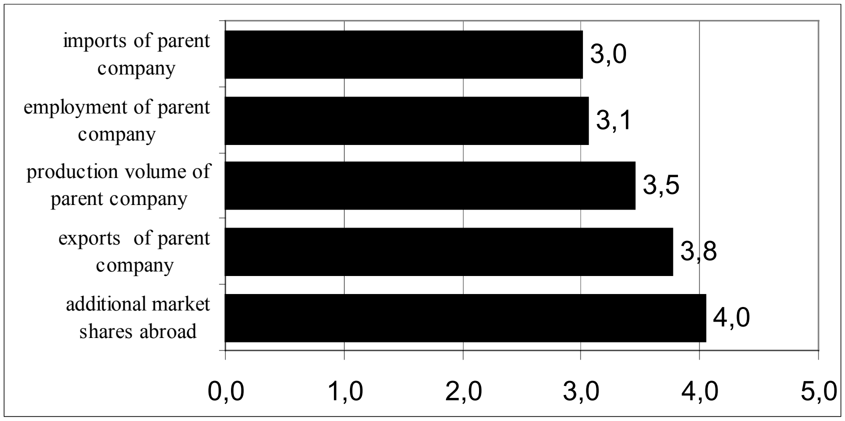
Source: Survey on outward FDI in CEECs, 2001

Figure 6: The success of outward FDI



Source: Survey on outward FDI in CEECs, 2001

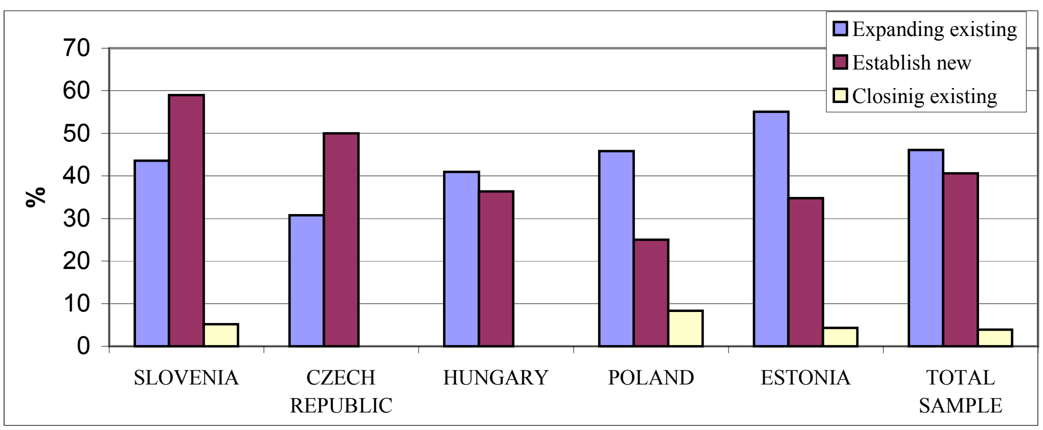
Figure 7: Effects of outward FDI on parent firms (total sample)



Note: 1 = strong decrease, 2 = decrease, 3 = unchanged, 4 = increase, 5 = strong increase

Source: Survey on outward FDI in CEECs, 2001

Figure 8: Five-year outward FDI plans of investing companies (% of sample companies)



Source: Survey on outward FDI in CEECs, 2001