

Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition

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The central thesis of this volume is that Foreign Direct Investment (FDI) “has proven to be the most dynamic defensive and offensive response to globalization”. The book, which is a collection of papers based on results of two ACE projects, consists of an Introduction and two main parts. Part I (six chapters) focuses on contextual and thematic aspects. Part II (seven chapters) analyzes and critically evaluates, theoretically and empirically, country studies concerning outward FDI and its effects on the internationalization of firms from the Czech Republic, Estonia, Hungary, Poland and Slovenia.

Chapter 1 surveys the major theories related to outward internationalization of transition economies. In the author’s view, “the most relevant theories explaining the outward internationalization processes of transition economies are the ones that explain why firms at a certain development stage start to invest abroad”. Following this view, the author: (1) analyzes, first, the investment development path paradigm (IDP) model and, second, the sequential internationalization models and (2) discusses the theoretical implications of outward internationalization of transition economies.

Chapter 2 focuses on the assessment of the role of internationalization of firms for small countries. Based on the example of one transition economy (Slovenia) and one highly developed country (Austria) and using the IDP theoretical framework, the authors demonstrate with convincing arguments that: (1) the variables that determine the inward and outward FDI stocks include firm-specific factors, location-specific factors and macroeconomic policies; (2) the main difference between Slovenia and Austria is the firm-specific advantage of indigenous firms (i.e. firm size, technological capabilities, organizational level of the firms, etc.); and (3) the net outward FDI position (NOFDIP) in Slovenia and Austria does not reflect the theoretical expectations.

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The Portuguese outward FDI experience and its relevance to internationalization of companies from CEECs is analyzed in Chapter 3. It was shown in this Chapter that: (1) the internationalization process in CEECs, especially in the Czech Republic, Hungary and Slovenia, was quite similar to that in Portugal in terms of timing, regional destination and type of entry mode; and (2) EU integration facilitates, both as a pull and as a push factor, outward internationalization. Chapter 4, focusing on five transition economies (Czech Republic-Hungary-Estonia-Poland-Slovenia): (1) provides an overview of general trends in their FDI; (2) discusses the major characteristics of outward FDI; and (3) evaluates the effects of FDI mostly on the firm level. The Chapter ends with a section on future plans for investment abroad and final conclusions.

The service sector's outward FDI and direct versus indirect foreign investment from transition economies are discussed in chapters 5 and 6, respectively. More specifically, in Chapter 5 the author attempts to, first, identify and, second, assess the: (1) common characteristics and (2) differences in the pattern of internationalization from transition economies of the service sector, giving special emphasis to outward FDI by five CEECs. In this context, the authors sketch the relevant theoretical approaches for the internationalization of services and, based on these theoretical approaches and empirical evidence, investigate the pattern of service sector internationalization in the CEECs. The analysis suggests that the major host location of outward FDI by the CEECs' service sector is the neighboring transition economies, and that the market-seeking motives and the economic policies will enhance internationalization and integration of the CEECS in the EU. In Chapter 6, on the other hand, the authors: (1) provide some evidence on indirect investors and, based on a set of indicators (i.e., motivation, difficulties faced in investing abroad and competitive advantages and effects of outward FDI on the investing companies), test the potential differences between direct and indirect investment; and (2) using regression analysis, evaluate the effects of FDI on trade, competitiveness and employment of parent companies. Based on their analysis, the authors conclude that there are some statistically significant differences between direct and indirect investors: indirect investors are, first, significantly more motivated by market-related motives and, second, their effects on the parent company's market shares abroad and employment are positive. In addition, a comparison of direct and indirect investors reveals that outward FDI by indirect investors leads to more significantly positive effects on parent companies' employment than that by direct investors.

The second part of the book consists of seven Chapters. The first six Chapters are devoted to case studies of outward FDI and the last Chapter summarizes the book and provides policy suggestions and future perspectives for the countries in question.

The case study for the Czech Republic is analyzed in Chapter 7 of the book. Based on data collected by the Czech National Bank and a survey conducted by the authors, the analysis provides, among other things, evidence that: (1) external relations are the key to competitiveness of a small economy; (2) although the Czech economy is open to both foreign trade and inward FDI, FDI outflows are marginal and the gap between inflows and outflows of investment is huge; and (3) "Outward FDI is volatile and reacts to the restructuring of the parent companies and the macroeconomic situation in the economy". The role of outward FDI in the internationalization of Estonian firms is discussed in Chapter 8. The authors - first using a macroeconomic approach towards outward FDI, with results derived from a survey and case studies, and second, elaborating on issues concerning the motivation of the investors in the economy, barriers to internationalization, success of investment effects on the parent company and future plans - have shown that: (1) the motivation of Estonian firms to invest depends on market-oriented determinants; (2) the main barriers to outward FDI are mainly related to host-specific factors, such as risks and investment climate; (3) the most important effects on the parent company are related to additional market shares gained abroad; and (4) economic policy has been extremely liberal in creating an attractive climate for foreign investors in all major areas.

Trends, motivation and effects of outward FDI from Hungary are analyzed in Chapter 9. In this Chapter, the authors, using information derived from their own survey, test three main hypotheses. The first hypothesis attempts to investigate if there is any link between inward and outward direct investment in the country in question. The second hypothesis aims to establish if outward investment is motivated by market-seeking forces and cost reduction. Finally, the last hypothesis investigates if the outward FDI has positive effects on the parent companies. Based on the results of the above three hypotheses, the authors argue, among other things, that: (1) there is no significant direct link between inward and outward FDI, but an indirect link does exist; (2) companies in Hungary have followed the sequential patterns of internationalization, and gaining or expanding market shares is the most important motivation of outward investment; and (3) the outward FDI has a positive effect on the parent company and enhances the competitiveness of the economy which will be, as the author claims, an essential factor after the accession of the country to the European Union internal market.

The outward FDI from Poland is analyzed in Chapter 10. The main objective of this Chapter is to examine the flows of outward FDI from Poland against main theories of investment. More specifically and in the authors' words, the aim of this Chapter is:

“to answer several key questions. The first question is whether the level and dynamics of outward FDI from Poland confirm the investment development path model as predicted by the theory of international production. And if not, what are the plausible explanations for any deviation? The second question addresses the issue of key determinants of outward FDI from Poland. Which of the three main motives for FDI have been most important in determining the decisions by Polish firms? Do Polish firms mostly seek new markets for their products, or do they rather engage, through FDI, in more sophisticated international production networks?”

The analysis, based on data obtained from the National Bank of Poland and on the results of a survey conducted in enterprises in Poland that made investment abroad has, among other things, shown that the overall level of outward FDI from Poland is: (1) very limited and, in terms of the international development path model (IDP), is explained by a combination of factors, such as low level of saving, large and growing home market, low degree of international openness, etc; (2) concentrated in European countries (with equity investment its most important component); and (3) motivated by access to the local-market. The effect of outward FDI on overall economic development is limited and that on employment ambiguous.

Chapters 11 and 12 are devoted to the Slovenian and Austrian economies, respectively. Specifically, Chapter 11 analyzes the key features of FDI and its effects on the Slovenian economy. Emphasis is laid on issues relating to the effects of outward FDI on parent firms and the home country, and on motivations and barriers to investing abroad. The analysis, which is based on macroeconomic data, surveys and case studies, reveals: (1) the relevance of stage development and evolutionary models in explaining the internationalization process and (2) that FDI follows exports and its effect is positive, both at the firm and national economy levels. The role of the government in the internationalization process is also discussed in this Chapter.

Chapter 12 reverses the analysis from the previous chapters in the sense that it presents the “mirror image, namely the host country perspective”. More specifically, in this Chapter the authors attempt to identify what type of activities of multinational enterprises from central and eastern European (CEECs) countries are located in Austria, stressing the role of Austria as an important EU host country of inward FDI from the CEECs. To this end, the authors have shown, among other things, that: (1) although the total amount of inward investment from CEECs in Austria is limited, it has facilitated the integration process of the CEECs into the European Union; and (2) direct or indirect investment in Austria from CEECs mainly is, first,

market-oriented in nature, and, second, it does “affect the acquisition or upgrading of ownership advantages (competitiveness) of investing firms”.

The final Chapter (Chapter 13) summarizes the book, provides suggestions and future perspectives for the topic in question.

Overall, this book is an intellectually stimulating collection of current research on the internationalization process followed by European transition economies. The book is, as the seventeen authors intended, written in a non technical manner so that it can be understood by readers without a sophisticated background in economics. The authors (1) focusing their analysis on the role of foreign direct investment from the central and eastern European countries in the internationalization process; and (2) combining theoretical approaches with empirical evidence (such as trends and relevant indicators) and past experience from already industrialized countries (i.e., Austria and Portugal), have shown, in a convincing manner, the importance of foreign direct investment in the development of the transition economies in question and their integration in the European Union. In my opinion, the book is a valuable addition to the literature of “globalization”. The book is recommended not only to those interested in issues of internationalization but, and most important, to graduate Ph.D. students specializing in related fields.