

Kalotay, Kálmán

Article

Outward foreign direct investment from economies in transition in a global context

Journal for East European Management Studies

Provided in Cooperation with:

Rainer Hampp Verlag

Suggested Citation: Kalotay, Kálmán (2003) : Outward foreign direct investment from economies in transition in a global context, Journal for East European Management Studies, ISSN 0949-6181, Rainer Hampp Verlag, Mering, Vol. 8, Iss. 1, pp. 6-24

This Version is available at:

<https://hdl.handle.net/10419/90334>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Outward foreign Direct Investment from Economies in Transition in a global context*

Kálmán Kalotay**

They are barely visible on the global scene. But it is in part so because official statistics have difficulties in reflecting their real size. They are nevertheless gaining in importance, representing a challenge for those who want to understand why and how they expand. Analysts are at the beginning of their quest for explaining how transnational corporations from economies in transition fit into a new “zoology” of international business, in which there is space for many more species than previously believed. Policy makers in economies in transition, too, are trying to grasp with the dilemma that outward FDI presents for them: on the one hand, it strengthens the international competitiveness of the firms; on the other, it is an outflow of resources. On balance, some of the countries in transition, e.g. Hungary and Slovenia, have decided to promote outward FDI.

Auf globaler Ebene sind sie kaum zu sehen. Zum Teil liegt es daran, dass es schwierig ist, sie in offiziellen Statistiken zu erfassen. Dennoch werden sie immer wichtiger und stellen eine Herausforderung für jene dar, die danach fragen, wie und weshalb sie expandieren. Analysten stehen erst am Anfang der Aufgabe, transnationale Gesellschaften aus Übergangsländern hinreichend zu definieren und einzuordnen. Politiker in Übergangsökonomien versuchen ebenfalls das Dilemma, das ausländische Direktinvestitionen (FDI) mit sich bringen, zu begreifen: Auf der einen Seite stärken sie die internationale Wettbewerbsfähigkeit der Firmen, auf der anderen Seite stellen sie einen Abgang von Ressourcen dar. Nichtsdestotrotz haben sich einige Übergangsländer wie Ungarn und Slowenien dazu entschlossen, FDI zu fördern.

Key words: Outward foreign direct investment / international business / transnational corporations

* manuscript received: march-april 2001, revised: june 2002, accepted: september 2002;

** Kálmán Kalotay, born in 1959, Ph.D. from the Budapest University of Economic Sciences and Public Administration. Major areas of interest: Analysis of foreign direct investment issues, especially in Central and Eastern Europe. Corresponding address: Kalman.Kalotay@unctad.org

1. Barely visible

It is barely visible on the global scene. According to balance-of-payments records, outward foreign direct investment (FDI) from the economies in transition¹ represents less than 1% of world FDI stock (Figure 1). It is significantly less than the grouping's share in inward FDI stock (more than 2%). Developed countries in fact dominate both inward and outward FDI. Their dominance is nevertheless more pronounced in the latter. As a result, it is the only net outward investing group of the world. The situation is the reverse in developing economies and economies in transition, where inward FDI largely exceeds outward FDI. But there is a difference in degrees between the two latter groups: according to balance-of-payments statistics, the stock of outward FDI is more than one third of inward FDI in developing economies. In the economies of transition, this ratio is less than one fifth.

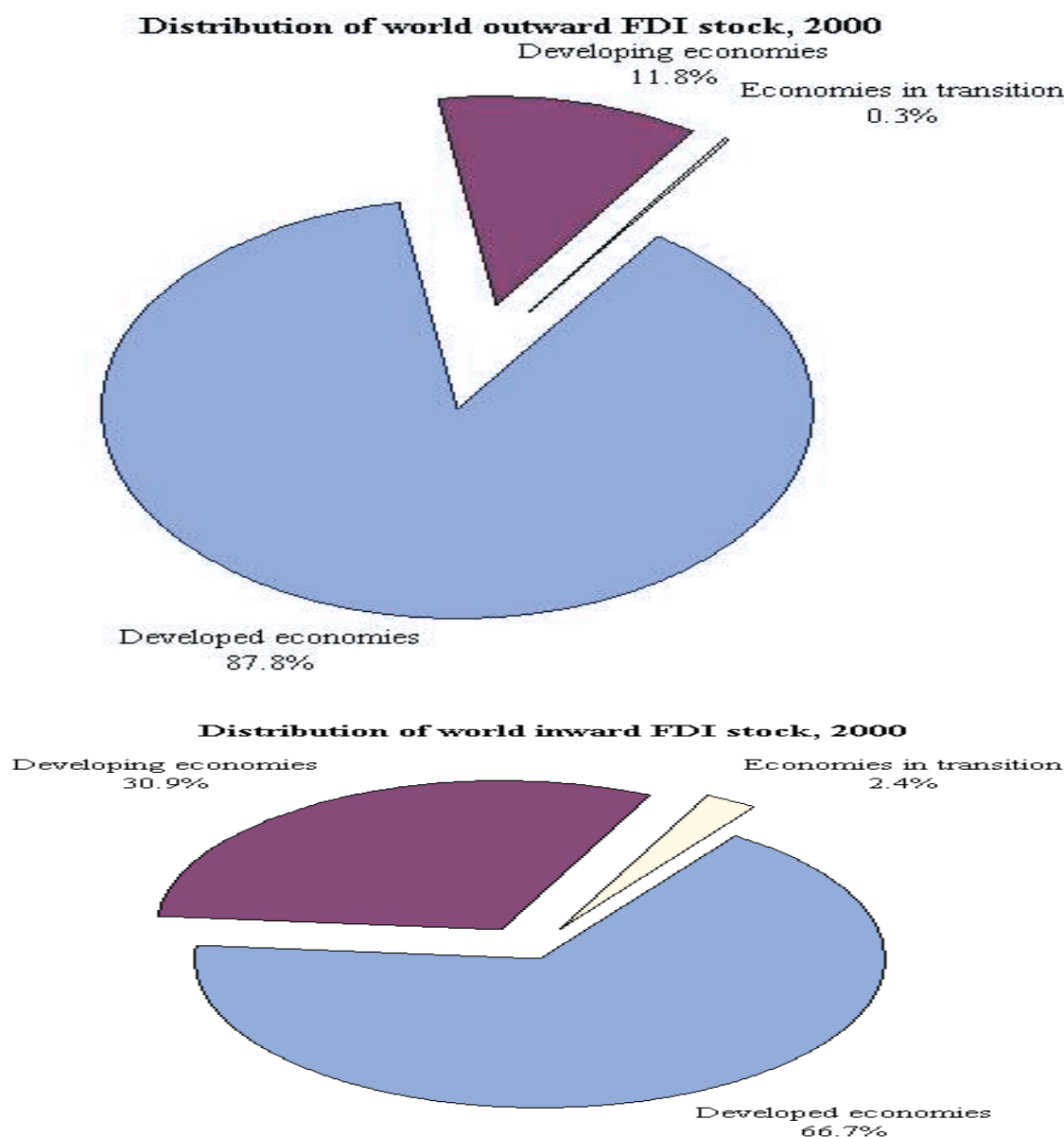
Data on individual leading outward investing countries – whether measured in absolute values or relative to GDP – delivers a similar conclusion (Table 1). In absolute terms, 9 of the 10 largest outward investing countries are developed economies. Hong Kong (China), a special case with a large amount of 'round tripping', which probably inflates the numbers, is the only one that enters the top league. Russia, which is the largest outward investor economy in transition, trails far behind. In relative terms (FDI stock per GDP) special-case Hong Kong (China) is the world leader with an almost unbelievable 200% ratio. Here Singapore, another developing economy, enters the top 10. Russia and the economies in transition are far behind the world average. In fact, the world average is almost 10 times higher than the average of the economies in transition.

A closer look at all the possible details of FDI outflows from economies in transition reveals that the share of this grouping in world FDI outflows increases painfully slowly. It is also difficult to discern a clear trend because in 1997 there

1 The terms 'economies in transition', 'developed economies' and 'developing economies' used in this article follow the country classification of the United Nations Department of Economic and Social Analysis (UN DESA). According to UN DESA, the following 27 countries are 'economies in transition': Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia (TFYR), Moldova (Republic), Poland, Romania, Russian Federation, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and Yugoslavia. The group of 'developed economies' consists of the following 36 countries and territories: Andorra, Australia, Austria, Belgium, Canada, Channel Islands, Denmark, Faeroe Islands, Finland, France, Germany, Gibraltar, Greece, Holy See, Iceland, Ireland, Isle of Man, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, New Zealand, Norway, Portugal, San Marino, South Africa, Spain, Svalbard and Jan Mayen, Sweden, Switzerland, the United Kingdom, and the United States. The remaining 174 countries and territories of the world belong to the group of 'developing economies'.

were some large one-off transactions carried out by Russian firms that lay off from any trend line. But once that outlier is discarded, there is a trend to increase the share of the economies in transition from 0.1% in the early 1990s to around 0.3% towards the end of the decade.

Figure 1



Source: UNCTAD FDI/TNC database

These FDI outflows registered in the balance of payments are much concentrated in the Russian Federation that alone accounts for more than half of those flows, and Hungary (since 1997), with a share of around one tenth. When it comes to relative measures such as the share of outward FDI flows in gross fixed capital formation, the Russian Federation and Estonia tend to be the leaders, followed by Hungary and Croatia (the data for Azerbaijan raise question marks as far as their reliability is concerned).

Table 1. Selected Leading Outward Investor Countries, 1999-2000

Largest outward FDI stock, 2000			Highest outward FDI stock per GDP, 1999	
<i>(USD million and percent)</i>	Total	Share	<i>(Percent)</i>	Share
World	5 976 204	100.0	World average	16.7
United States	1.244.654	20.8	Hong Kong (China)	202.8
United Kingdom	901.769	15.1	Belgium/Luxembourg	97.5
France	496.741	8.3	Switzerland	73.9
Germany	442.811	7.4	The Netherlands	65.7
Hong Kong (China)	384.732	6.4	Singapore	57.6
Belgium/Luxem-bourg	339.644	5.7	United Kingdom	49.8
The Netherlands	325.881	5.5	Sweden	47.4
Japan	281.664	4.7	Canada	30.6
Switzerland	232.045	3.9	Finland	26.8
Canada	200.878	3.4	Norway	25.3
Italy	176.225	2.9	South Africa	25.2
Spain	160.202	2.7	France	24.7
Sweden	115.574	1.9	Malaysia	22.6
Australia	83.220	1.4	Australia	22.5
Singapore	53.216	0.9	Denmark	21.5
Finland	53.046	0.9	Chile	19.0
Taiwan, Pr. China	49.187	0.8	Spain	19.0
Denmark	46.111	0.8	Germany	18.9
Norway	44.133	0.7	Italy	15.8
South Africa	33.557	0.6	Taiwan, Pr. China	14.7
China	27.212	0.5	United States	13.0
Korea, Republic	25.842	0.4	Austria	9.2
Austria	21.100	0.4	Japan	5.7
Malaysia	19.799	0.3	Korea, Republic	5.5
Chile	18.293	0.3	China	2.5
Russian Federation	11.637	0.2	Russian Federation	2.3
Economies in transition	19.833	0.3	Economies in transition	1.9

Source: UNCTAD FDI/TNC database.

Moreover, in the 1990s, with the exception of Hungary, the inward FDI stock of countries in transition for which data are available grew faster than their outward FDI stock (Table 2), indicating that these countries are in an early phase of the investment development path, under which the inward FDI grows faster than the outward FDI. Setting the Hungarian exception aside, as expected, Slovenia and the Czech Republic experienced the smallest difference between the growth rates of inward and outward stocks.

Table 2. Growth of OFDI Stock vs. Growth of IFDI Stock², 1993-2000

	Ratio	OFDI (%)	IFDI (%)
Albania	0.36	203.70	562.18
Bulgaria	-0.02	-21.67	1263.73
Croatia	0.03	52.24	1907.03
Czech Republic	0.64	332.43	516.27
Estonia	0.58	582.34	1000.81
Hungary	3.08	790.45	256.22
Latvia	-0.04	-33.11	837.58
Poland	0.51	652.94	1291.64
Romania	0.04	17.89	499.93
Russian Federation	0.58	375.84	643.06
Slovakia	-0.01	-9.22	1123.06
Slovenia	0.67	133.29	200.18
Ukraine	0.05	34.18	693.68

Source: UNCTAD FDI/TNC database.

Partial data on the industry composition of outward FDI from economies in transition (Table 3) reveal that at least in some countries (the Czech Republic, Estonia and Poland) services industries (especially trading and banking) dominate. This is apparently different from the sequence of outward FDI from developed countries where manufacturing firms are usually the first outward investors (Stare, 2002). But the case of services OFDI is difficult to generalise at least for three reasons: first of all, in Hungary and Slovenia, the two most important countries in the partial sample, it is the manufacturing industries, which dominate. Secondly, if similar data were available for the Russian Federation, they would be probably dominated by petroleum and gas or other

² OFDI stands for outward foreign direct investment and IFDI inward foreign direct investment.

mining firms, and not by services. Thirdly, industry composition is only one way to categorise corporate activities. Another way is to look at the distribution of corporate functions among affiliates, independently of the industry.

In this respect, firms differentiate between ‘production’ in the broad sense (including the production of goods or services) and a wide range of ‘upstream’ (headquarter, research and development, training, information technology, technical support, logistics etc.) and ‘downstream’ services (sales and marketing, distribution, shared services, customer services etc.). In this respect, the typical sequence is the location of ‘downstream’ services abroad. Besides, anecdotal evidence on the activities of firms from economies in transition suggests that they follow that normal sequence.

Table 3. Services in Outward FDI Stocks in 2000 (selected CEE countries)
(in USD million)

Country	Total OFDI Services		Share of services in total
Hungary	1 287	449	35%
Slovenia	794	303	38%
Czech Republic	738	637	86%
Poland	463	368	79%
Estonia	259	215	83%
Total	3 541	1 972	56%

Source: Stare (2002).

Table 4. Geographical Distribution of Outward FDI from Central and Eastern European Countries (USD million)

Home country	Croatia ^a	Czech Republic	Estonia	Hungary ^b	Latvia	Russia ^c	Slovakia	Slovenia
Date and measure	11.2001 stock	11.2001 stock	11.2001 stock	1999-2001 flows	12.1999 stock	1995-1999 flows	12.1999 stock	12.2000 stock
Host region and country								
Central and Eastern Europe	395,4	529,9	356,1	765,9	6,4	1.692,1	203,4	1.618,9
Belarus	...	2,4	0.1	...	0.7	...	...	1.2
Bosnia and Herzegovina	146,3	0,1	...	...	...	...	...	61,9
Bulgaria	...	8,5	...	...	0,0	45,4	8,7	1,1
Croatia	--	3,6	...	15.5	...	10,2	...	1.357,7
Czech Republic	0,0	--	...	50,4	0,0	11,7	106,4	10,4
Estonia	...	0,2	--	...	...	34,2	...	...
Hungary	0,1	62,5	...	--	...	32,9	28.7	4,5
Latvia	...	3,8	150,3	...	--	94,7	...	...
Lithuania	...	0,5	188,2	...	1,5	2,7	...	0,2
Macedonia, TFYR	16,2	...	...	283,1	...	...	...	66,1
Moldova,	...	...	...	...	...	55,5	...	...

Republic								
Poland	190,8	76,4	3,6	25,2	0,0	1.112,2	7,7	55,7
Romania	...	16,6	...	86,4	...	3,2	...	5,5
Russian								
Federation	0,0	24,4	6,6	22,5	1,2	--	12,1	15,8
Slovakia	-0,3	282,2	...	277,7	...	...	--	5,2
Slovenia	41,4	33,9	...	...	...	1,6	...	--
Ukraine	...	7,1	7,3	...	1,6	287,7	39,7	7,4
Yugoslavia	0,6	7,6	...	...	...	...	...	26,6
Developed								
countries	84,4	251,1	25,1	348,1	8,0	3.625,4	71,9	157,9
European								
Union	84,4	172,0	27,3	265,6	6,1	2.045,6	66,7	125,9
Austria	15,7	17,4	...	44,0	...	28,9	...	27,7
Belgium	...	-0,1	...	...	...	33,9	...	-10,0
Denmark	...	0,1	...	118,6	0,0	2,2	...	8,3
Finland	...	2,2	-4,8	...	...	5,3	...	...
France	...	2,5	...	...	0,2	...	...	8,0
Germany	1,7	65,5	...	38,5	5,3	1.053,9	6,9	70,5
Greece	...	0,0	...	...	...	14,2	...	0,2
Ireland	...	12,1	...	...	...	8,4	...	0,5
Italy	2,8	19,4	30,6	...	...	10,2	...	8,2
Luxembourg	-0,3	-0,3	...	...	...	10,2	...	0,1
The								
Netherlands	42,1	25,8	...	59,0	0,5	296,8	...	-0,6
Portugal	...	0,1	...	...	...	0,5	...	...
Spain	...	4,6	0,7	...	...	205,8	...	1,0
Sweden	...	1,9	0,9	...	...	39,7	...	1,2
United								
Kingdom	6,3	20,8	...	...	0,0	335,7	59,8	10,8
Other								
Western								
Europe	...	38,3	-2,3	30,7	0,1	25,3	5,2	10,6
Liechtenstein	...	23,4	...	...	...	...	...	1,7
Switzerland	...	15,1	...	0,7	...	25,3	5,2	8,4
Other								
developed								
countries	...	40,9	0,1	51,7	1,8	1.554,5	...	21,4
Canada	...	9,2	...	...	...	...	...	-0,7
Japan	...	...	...	...	...	11,9	...	...
United States	...	30,3	0,1	51,7	1,8	1.544,2	...	22,1
Developing								
countries	38,5	111,9	...	50,3	147,3	651,3	6,2	17,7
Africa	...	0,1	...	0,1	129,5	...	...	24,8
Liberia	...	...	...	...	129,5	...	...	23,7
Latin America								
and the								
Caribbean	39,0	78,6	...	0,5	6,9	3,5	...	1,5
Antigua	17,9	...	...	...	...	...	...	...
Brazil	...	6,0	...	...	...	...	...	...

Virgin Islands	...	72,6	...	...	...	...	...	...
Developing								
Asia	-0,4	33,1	...	49,7	11,0	647,8	6,2	-8,6
Azerbaijan	...	1,4	...	...	...	237,0	...	...
China	...	2,3	...	...	...	117,1	...	...
Cyprus	-0,4	14,9	...	47,5	10,7	27,0	6,2	-24,8
India	...	3,7	...	...	...	4,5	...	...
Kazakhstan	...	2,2	...	...	0,0	28,4	...	...
Korea, Republic	...	...	...	1,1	...	9,7	...	3,0
Other and not specified	-4,4	14,3	2,1	-7,2	1,2	731,6	14,9	0,0
Total	514,0	907,2	425,0	1.154,3	162,9	6.700,3	296,3	1.794,5

Note: This table aims at complementing the scattered statistics available with partner country reports, partial reports from previous years and other estimates. By no way should it be taken as the reflection of a full and exact picture of outward FDI from CEE.

^a The data for the 2001 stock were complemented with information on the flows in 1999 and 2000

^b FDI equity flows only.

^c Estimates based on the information available from host countries, complemented by information from Goskomstat, 2000.

Source: Author's estimates, based on the UNCTAD FDI/TNC database

The geography of outward FDI follows different patterns between the Russian Federation and the rest of the region (Table 4). While Russian firms have significant investments in Central and Eastern Europe (especially in Poland), too, they mostly target developed economies, especially the United States. In turn, the firms from other countries usually target other economies in transition, especially with which they have traditionally close business links (for example, Slovenian firms target former Yugoslavia). Nevertheless, given the bad quality and lack of data, these findings remain to be confirmed. The estimate for the Russian Federation, for example, had to be based on home-country reports, as only very partial evidence was available from national sources.

Another note of caution is to be added here, too. It seems that in various economies in transition, and in the Russian Federation in particular, official statistics have difficulties in reflecting the real size of outward FDI. In the Russian Federation, officially reported FDI may be ten times less than real outbound FDI is probably was noted as early as the mid-1990s. Some part of Russian assets abroad may be financed through outflows registered under other flows (such as portfolio flows, trade finance or service payments), increasing the whole outward FDI stock substantially (Table 5). In this respect, Russian 'capital flight' is not 'classical' in the sense that it cannot be proxied by the usual methods focussing on the 'errors and omissions' item of the balance of payments.

In Russia, capital flight is linked with the phenomenon of ‘round tripping’. Round tripping refers to the transfer of funds abroad in order to bring some or all of the investment back as FDI and claim the tax and other benefits offered to foreign investors (UNCTAD, 1998). One indication of the existence of round tripping in the Russian Federation, especially before the financial crisis of 1998 was a fast parallel increase of inflows and outflows itself. Another proof was the persistent high share of offshore Cyprus in both inflows and outflows – a small island that otherwise has no ownership advantages at its local firms (UNCTAD, 2000). Finally, the discrepancy of home and host country statistics is also pointing towards the existence of round tripping. A large part of Russian investment into OECD countries is not reflected in host country statistics either because the individual transactions are too small to be registered, or are transferred through third countries, typically outside the OECD area (Sheets, 1996).

Table 5. Estimates of Unregistered and ‘Misregistered’ FDI Outflows from the Russian Federation, 1992-2001 (USD billion)

Year	Narrow definition ^a	Broad definition ^b
1992 ^c	20.6	29.0
1993 ^c	14.3	26.5
1994	4.3	15.9
1995	12.9	14.0
1996	18.7	31.7
1997	19.3	37.5
1998	17.8	17.3
1999	12.4	16.0
2000	14.6	14.5
2001 (first half)	3.1	6.2

^a Including ‘Non-returned export earnings’, ‘Advanced payments for undelivered import merchandise’ and ‘Net errors and omissions’.

^b Including, in addition, ‘Migrants’ capital transfers’, ‘Portfolio investment’, ‘Loans of banks and other sectors’, ‘Current accounts and deposits of banks and other sectors abroad’ and ‘Cash foreign currency’.

^c Excluding CIS.

Source: Adapted from Bulatov (2002), following the methodology of Bulatov (1998).

2. Transnational Corporations from Economies in Transition

There is something else that makes balance-of-payments statistics a rather imperfect proxy for what outward investing firms are really doing. “*Foreign*

Direct Investment is a rather inappropriate name for the process by which productive activities in different countries come under the control of a single firm. The essence of this phenomenon is not foreign investment, which is an international transfer of capital, but the international extension of managerial control over certain activities", wrote McManus (1972, 66). He was echoing the ongoing concerns of Vernon (1966), who also felt uneasy about the use of 'foreign direct investment' when analysing the activities of transnational corporations.

Moreover, if the outward investing activities of firms from economies in transition is really so unimportant, then why bother to analyse it? Beside the expectation that soon more and more countries in transition should enter the third phase of the investment development path, under which outward FDI gradually outgrows inward FDI, the observer may be misled by the relative smallness of the outward-investing firms. But as Mathews (2001) has presented it under the new "zoology" of transnational corporations (TNCs), there is space under the sun for small TNCs, too. In fact, taking the data of UNCTAD (2000), there are 63 312 TNCs around the globe. Dividing the world stock of outward FDI by this number, the average international position of TNCs should stand at USD 94 million only.

A focus on outward investing firms is also important from the point of view of giving a face and a name to otherwise anonymous outward FDI data. It also recognises the fact that each firm follows its individual and unique internationalisation strategy. Moreover, firm-level information can better serve the purpose of raising awareness about, and acceptance of, outward FDI.

With all the caveats in mind, the list of the top 25 outward investing firms from Central and Eastern Europe – a new feature of UNCTAD's *World Investment Reports* since 1999 that the author personally helped to design and launch – is intended to serve that purpose (Table 6).

It complements well the path breaking work done by Liuhto (2001), especially on Russian firms and their strategies and by Svetličič and his team (see Svetličič & Trtnik, 2000; Svetličič & Jaklič, 2001) on Central European firms. Sure, the firms ranked in the top 25 list are very small. Of the 25 listed in 2000, only the first 15 exceeded the global average of 63 312 TNCs (USD 94 million) mentioned above. And if this list were to merged with the list of the top 50 TNCs of developing countries, only one (Lukoil) would qualify, and for position 7. And if it were to compare with the list of the 100 largest TNCs of the world, no CEE firm would qualify for it. Indeed, the 100th largest firm of the world (Philip Morris from the USA) has almost twice as many foreign assets as Lukoil.

Table 6. The Top 25 Non-Financial Transnational Corporations Based in Central and Eastern Europe ^a (ranked by foreign assets, 2000)

Rank (asset)	Rank (TNI) ^b	Corporation	Country	Industry	Foreign assets	TNI ^b (Percent)
1	11	Lukoil	Russian Fed.	Petroleum and natural gas	4189,0	34,7
2	6	Novoship	Russian Fed.	Transport	963,8	53,7
3	1	Latvian Shipping ^c	Latvia	Transport	459,0	87,3
4	5	Primorsk Shipping	Russian Fed.	Transport	256,4	59,4
5	24	Hrvatska Elektroprivreda	Croatia	Energy	296,0	4,3
6	7	Gorenje Group	Slovenia	Domestic appliances	236,3	46,9
7	10	Far Eastern Shipping	Russian Fed.	Transport	236,0	38,8
8	13	Podravka Group	Croatia	Food and beverages/ pharmaceuticals	..	31,6
9	9	Pliva Group	Croatia	Pharmaceuticals	181,9	39,7
10	3	Atlantska Plovidba ^c	Croatia	Transport	138,0	63,2
11	8	Krka	Slovenia	Pharmaceuticals	129,2	40,0
12	20	MOL Hungarian Oil and Gas	Hungary	Petroleum and natural gas	102,7	9,6
13	14	Tiszai Vegyi Kombinát	Hungary	Chemicals	101,2	25,4
14	2	Adria Airways ^c	Slovenia	Transport	116,3	64,0
15	19	Petrol Group	Slovenia	Petroleum and natural gas	98,8	10,6
16	22	Mercator	Slovenia	Retail trade	65,1	4,5
17	4	Zalakerámia	Hungary	Clay product and refractory	60,0	60,8
18	15	Skoda Group Plzen	Czech Rep.	Diversified	..	26,2
19	12	Malév Hungarian Airlines	Hungary	Transport	41,4	33,9
20	18	Matador	Slovakia	Rubber and plastics	..	13,1
21	21	Merkur	Slovenia	Trade	37,3	7,5
22	25	KGHM Polska Miedz	Poland	Mining and quarrying	32,3	2,7
23	23	Petrom	Romania	Petroleum and natural gas	28,0	4,5
24	16	Iskraemeco	Slovenia	Electrical machinery	25,8	24,4
25	17	Intereuropa	Slovenia	Trade	23,0	16,7

^a Based on survey responses.

^b The Transnationality Index (TNI) is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

^c 1999 data.

Source: UNCTAD (2002).

The list of the top 25 TNCs is not exempt of weaknesses. Perhaps the most important one is the lack of comprehensive lists of potential respondents that could be used to make sure that 100% of the potential sample is covered. Moreover, the list cannot include financial firms (banking, insurance etc.) because its methodology (listing based on foreign assets) cannot handle the problems of comparisons between financial and non-financial firms. Nor can it cover secondary OFDI (foreign affiliates investing abroad) as its method follows the global principles of final ownership and consolidation of reports.

Finally, of the various methods of potential outward expansion and activity it can deal with equity investment only as the ranking is based on assets abroad. This may leave out from the radars firms that follow less orthodox ways of internationalisation. As for the representativeness of the results, each year it depends on the responsiveness of firms because of the almost full lack of secondary sources that would fill the missing information. Finally, because of the use of consolidated and audited accounts as a main source, there is an important time lag between the actual year covered in the data and the year of publication. In CEE where the map of outward investment changes fast, it is a major handicap that can be mitigate only through anecdotal evidence on recent developments.

The way forward of the top 25 list should be through the fine-tuning of the method and improving the responsiveness of firms, which may become more and more used to this routine survey. On a more conceptual level, the dilemma is between choosing a narrow (foreign assets only) and broad (exports, licensing, management contract or any other form of international involvement) definitions of international involvement. The first approach may be criticised as a 'straightjacket' limiting real life research while the latter one may be criticised as a too 'shoreless' method. A commonly agreed new definition will probably strike a compromise between the two by probably introducing one or two new variables into the now three-leg (assets, sales, employment) transnationality index.

3. Implications for the Theory

How does economic and business theory explain OFDI from economies in transition? On the basis of the classical theory of international trade only, based on the comparative advantages, and extended into the movement of the factors of production by Heckscher (1919) and Ohlin (1933)³, even the world of inward FDI would be difficult to explain. If those flows followed the classical theory, it should be the developing countries and the countries in transition the main

3 Based on Heckscher and Ohlin, the equalisation of factor prices was fully elaborated by Samuelson (1948/1949).

recipients of FDI, and not the developed economies (Figure 1). IFDI is badly explained (it would not flow to developed markets). And probably outward FDI from economies in transition should not exist at all.

International business theory, especially the eclectic paradigm of Dunning (1977; 1993; 1999) is better equipped to explain the outward FDI of economies in transition. The internalisation aspect (I advantages) of the eclectic paradigm, drawing on Coase's work (1937) can be used as one point of reference to explain the behaviour of outward investing firms anywhere, including the economies in transition. As for the ownership (O) advantages, originating in Hymer (1960) and Vernon (1966), their application is less straightforward. In principle, it should be the firms of the most advanced countries that should possess those advantages and exploit them through international expansion. No wonder that back in the 1960s Raymond Vernon described those advantages as typical for United States firms. However, the fact that there are TNCs originated from developing countries was already observed by Wells (1977/1983) in the late 1970s. However, an original explanation talking about reverse motives and eventual ownership *disadvantages* is very recent (Sachwald, 2001).

In the case of the economies in transition, the question of ownership advantages has been presented in quite contradictory ways. On the one hand, Elenkov (1995a/b), based on the experience of Russian aerospace industry, claimed that firms in transition were typically possessing high-technology advantages and thus in their expansion they should build their strategy on ownership advantages – just like firms from developed countries do and from developing countries can not do. It turns out however, that the author has been generalising from the experience of a rather exceptional industry. The spacecraft industry represents 0.02% of Russian exports only (UNCTAD TRAINS database). Of the largest 10 Russian exporting firms (accounting for close to one-third of total national exports), 8 are oil and gas companies, and two of them are engaged in non-ferrous metallurgy (Table 7). This situation should the prevalence of natural resource-based firms in the Russian economy – a far shot from the optimism about the importance of high-technology activities.

Svetličič and his co-authors (1994) and Bulatov (1998) thought that it was rather escaping a difficult business environment (including the restrictions of the socialist economy) that prompted Slovene firms in retrospect and Russian firms today to invest abroad. If the first push really came from these motivations, then the region should be closer to the situation of ownership disadvantages. The lack of high-technology ownership advantages is also evident from the list of the top 25 TNCs, where some natural-resource based firms dominate.

A special question to be raised in this context is to what degree are TNCs from countries in transition descendants of the 'red multinationals' (see McMillan, 1987, and UNCTAD, 1992 for a comprehensive listing). If someone looks at the list of largest outward investors today and 15 years ago, there is indeed some

overlap in names, especially in countries where the State's foreign trading monopoly had been kept till the last moments of planned economy. But even in those firms, the motivations have changed from system escape to the standard motivations of either efficiency or market, resulting in some cases in a reorientation of target countries (system escape targets the developed countries, especially efficiency seeking targets lower-cost countries).

Table 7. The 10 Largest Russian Exporting Firms (2000)
(USD million and %)

	Firm	Industry	Volume of exports	Share in National total
1	Gazprom ^a	oil and gas	15.933	11,7
2	Lukoil ^a	oil and gas	5.714	4,2
3	Yukos ^a	oil and gas	5.248	3,8
4	Tyumen Oil Co. ^a	oil and gas	3.478	2,5
5	Tatneft	oil and gas	2.630	1,9
		non-ferrous		
6	Norilsk Nickel	metallurgy	2.247	1,6
		non-ferrous		
7	Russian Aluminium ^a	metallurgy	2.162	1,6
8	Surgutneftegaz ^a	oil and gas	1.701	1,2
9	Sibneft ^a	oil and gas	1.700	1,2
10	Rosneft ^a	oil and gas	1.295	0,9
	<i>Total</i>		<i>42.105</i>	<i>30,8</i>

^a Consolidated holding data.

Source: Based on *Expert*, No. 27 (287), 16 July 2001.

At the same time, there seems to be a gradual move from trade/distribution to manufacturing as the main function of foreign affiliates, and the share of mergers and acquisitions in foreign expansion has somewhat increase at the expense of greenfield investments.

4. Some Policy Implications

From the point of view of political economy, the most important stakes of outward FDI are where and how locational decisions are taken and where higher quality, management-type jobs are created. Naturally, governments will always face the dilemma that if they help the creation of better jobs at home by giving a hand to their firm's international competitiveness, they let out financial resources that in principle could be used productively at home, too. However, they have to understand that outward FDI is not a zero-sum game, under which money and jobs are transferred from the home to the host economy, for at least three reasons. First of all, for many outward investing firms, the alternative of going abroad is going bust. In this sense, outward FDI is a job saver at home.

Secondly, when some simple jobs are created abroad, there is a need to create additional, higher-quality jobs at home, especially in 'upstream' coordinating functions (management, logistics, information technology etc). Thirdly, the establishment of an affiliate abroad usually boosts the sales of the parent firm in the host economy, indirectly creating jobs at home.

For these reasons, governments in economies in transition – especially in countries with very small domestic markets – have no choice but support outward FDI once the pre-conditions are met. This is also a major issue if governments wish to meet the aspirations of the population for fast improving standards of living, especially in countries where the fact of negotiating accession to the EU in itself raises expectations.

It is also to be understood from a more macroeconomic point of view that OFDI is a *sine qua non* in any middle- or high-income economy for its successful participation in the global context. The lack of OFDI may lead to the disappearing of firms that were stopped from investing abroad, due to intensive international competition.

The motivations for outward FDI may be somewhat different between accession countries, where there is a growing search for more cost-efficient locations and the non-accession countries, which typically need to get a foothold in the enlarged EU area. But in both cases, it seems that government assistance may play a major role, especially in reducing the market entry barriers in areas and countries where in an initial phase, private institutions would be reluctant to be involved. In perspective, however, the promotion of OFDI may be based on public-private partnerships.

Policies on outward FDI have three levels. The first one is capital account liberalisation. The second one is passive promotion, usually through bilateral investment treaties and double taxation treaties. The third level is active promotion. In the latter area it is to be emphasised that even in the largest developed home countries (the United States, the United Kingdom, Japan, Germany etc.) outward FDI requires and receives active public assistance, going beyond a simple liberalisation of capital account transactions (UNCTAD, 1999). The institutional setting comes either in the form of an outward investment promotion agency, a development finance institution, or an investment guarantee scheme. Their services cover a wide range of areas, including information and promotional services, feasibility studies, project development, financing and guarantees.

If this is the case with the leading outward investing countries, probably the nascent outward investors of the countries in transition, too, would require help. Some countries in transition already do it. In 1999, the Czech Export Import Bank reported having an investment guarantee scheme (UNCTAD, 1999). Currently, the Slovene Export Corporation provides long-term (3-15 year)

investment insurance (up to 90%) against both commercial and non-commercial risks (including war and civil disturbances, expropriation including regulatory expropriation, currency conversion and transfer restrictions, denial of justice and natural catastrophes). In Hungary, Corvinus International Ltd. provides both finance (in the form of participation in the share capital, loans or guarantees) and advisory services (consulting on firm strategy, matchmaking and partner search, and valuation and credit rating) to potential outward investors, typically medium-sized Hungarian manufacturing enterprises.

In other countries active outward investment promotion does not exist either because local firms have not yet reached the stage of feeling the need to expand abroad, or, in the case of Poland, because the relatively large domestic market and important slack of labour force apparently provide sufficient opportunities for private firms envisaging to expand. It remains to be seen, however, whether Polish firms will be able to cope with increased international competition if their expansion is limited to the Polish market, once the country joins the EU.

The test of the plausibility of the hypotheses and preliminary conclusions drawn in this article written at an early stage of outward FDI from economies in transition and research on it will be the situation of those countries in at least two decades from now. Will their outward FDI become more visible, more important at least in the European context? Will some of the even become global players? How will they fit into an international scene characterised by increased outsourcing by very large TNCs? Will there be a place for them in the new “zoology” of international business, or will they become extinct? To what degree will EU accession differentiate between the firms who will become ‘from within’ and those who will be ‘from the outside’? To what degree are and will be the policy responses sufficient to cope with the context in which this outward FDI takes place and will take place? The answers will be known in twenty years from now.

References

- Bulatov, A. (2002): Capital Flight from Russia: Scope, Roots and Perspectives, Russian and East European Finance and Trade, forthcoming.
- Bulatov, A. (1998): Russian Direct Investment Abroad: Main Motivations in the Post-Soviet Period, Transnational Corporations, Vol. 7, No 1, pp. 69-82.
- Chudnovsky, D., López, A. (2000): A Third Wave of FDI from Developing Countries: Latin American TNCs in the 1990s, Transnational Corporations, Vol. 9, No 2, pp. 31-74.
- Coase, R. H. (1937): The Nature of the Firm, *Economica*, Vol. 4 (November), pp. 386-405.
- Dunning, J. H. (1977): Trade, Location of Economic Activity and the Multinational Enterprise: A Search for an Eclectic Approach, In: The International Allocation of Economic Activity, Ed. by Ohlin, B. et.al., Macmillan, London, pp. 395-418.

- Dunning, J. H. (1993): *Multinational Enterprises and the Global Economy*, Addison Wesley, Wokingham.
- Dunning, J. H. (1999): *Forty Years On: American Investment in British Manufacturing Industry Revisited*, *Transnational Corporations*, Vol. 6, No 2, pp. 1-34.
- Elenkov, D. S. (1995a): *Russian Aerospace MNCs in Global Competition: Their Origin, Competitive Strengths and Forms of Multinational Expansion*, *The Columbia Journal of World Business*, Vol. 30, No 2, pp. 66-78.
- Elenkov, D. S. (1995b): *The Russian Aerospace Industry: Survey with Implications for American Firms in the Global Marketplace*, *Journal of International Marketing*, Vol. 3, No 2, pp. 69-79.
- Goskomstat (2000): *Rossiya i strany mira, 2000*, State Committee of the Russian Federation on Statistics, Moscow.
- Heckscher, E. F. (1919): *Utrikeshandelns verkan på inkomstfördelningen*, *Ekonomisk Tidskrift*, Vol. 21, pp. 497-512; English translation: *The Effect of Foreign Trade on the Distribution of Income*, In: *Readings in the Theory of International Trade*, Ed. by Ellis, H. S., Metzler L. A., Blakiston, Garden City, NY, pp. 272-300; reprinted In: *Heckscher-Ohlin Trade Theory*, Ed. by Flam H., Flanders M. J., MIT Press, Cambridge, Massachusetts, 1991.
- Hymer, S. (1960): *The International Operations of National Firms: A Study of Direct Investment*, Doctoral Dissertation, Massachusetts Institute of Technology; published by MIT Press, Cambridge, Massachusetts (1976).
- Kaynak, E., Dalgıç, T. (1992): *Internationalization of Turkish Construction Companies: A Lesson for Third World Countries?*, *The Columbia Journal of World Business*, Vol. 26, No 4, pp. 61-75.
- Lecraw, D. (1977): *Direct Investment by Firms from Less Developed Countries*, *Oxford Economic Papers*, Vol. 29, No 3, pp. 442-457.
- Liuhto, K. (ed.) (2001): *East Goes West: The Internationalization of Eastern Enterprises*, Lappeenranta University of Technology, Lappeenranta.
- Mathews, J. A. (2001): *Dragon Multinational: A New Model for Global Growth*, Oxford University Press, Oxford and New York.
- McManus, J. C. (1972): *The Theory of the International Firm*, In: *The Multinational Firm and the Nation State*, Ed. by Paquet, G., Collier-Macmillan Canada, Don Mills, Ontario, pp. 66-93.
- McMillan, C. H. (1987): *Multinationals from the Second World: Growth of Foreign Investment by Soviet and East European Enterprises*, Macmillan Press, Houndmills, Basingstoke.
- Ohlin, B. (1933): *Interregional and International Trade*, Harvard University Press, Cambridge, Massachusetts.
- Sachwald, F. (ed.) (2001): *Going Multinational: The Korean Experience of Direct Investment*, Routledge, London.
- Samuelson, P. (1948): *International Trade and the Equalisation of Factor Prices*, *The Economic Journal*, Vol. 58 (June), pp. 163-184.

- Samuelson, P. (1949): International Factor-Price Equalisation Once Again, *The Economic Journal*, Vol. 58 (June), pp. 181-197.
- Sheets, N. (1996): Capital Flight from the Countries in Transition: Some Empirical Evidence, *Journal of Policy Reform*, Vol. 1, pp. 259-270.
- Stare, M. (2002): Service Sector Internationalisation via OFDI: Comparative Analysis of Czech Republic, Estonia, Hungary, Poland, Slovenia, presentation at the Workshop on "EU-integration-driven investment networking: Outward foreign direct investment of candidate countries", Bled, Slovenia.
- Svetličič, M., Trtnik, A. (2000): Outward foreign direct investment by Czech Republic, Hungary and Slovenia: Does transition matter?, In: *Maastricht 2000 - European Business in the Global Network*, CD Rom, Ed. by Hagedoorn J., Lundan S., Universiteit Maastricht, Maastricht.
- Svetličič, M., Jaklič, A. (2001): Outward Internationalization: Challenges for Managers: The Case of Slovenia, In: *Challenges and Opportunities for International Business in the Shifting Global Economic Environment*, Ed. by Fatemi, K., Kaynak, E. (Proceedings of the International Management Development Association), University of Zagreb, Zagreb, pp. 234-245.
- Svetličič, M. et.al. (1994): Internationalization Strategies of Slovenian Firms: the German Market Case, In: *High Speed Competition in a New Europe: Proceedings of the 20th Annual Conference of the European International Business Academy*, Vol. I, Ed. by Oblój K., International Management Centre, University of Warsaw, Warsaw, pp. 361-383.
- UNCTAD (1995): *World Investment Report 1995: Transnational Corporations and Competitiveness*, United Nations, New York and Geneva.
- UNCTAD (1997): *World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy*, United Nations, New York and Geneva.
- UNCTAD (1998): *World Investment Report 1998: Trends and Determinants*, United Nations, New York and Geneva.
- UNCTAD (1999): *Handbook on Outward Investment Agencies and Institutions*, United Nations, New York and Geneva.
- UNCTAD (2000): *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development*, United Nations, New York and Geneva.
- UNCTAD (2001): *World Investment Report 2001: Promoting Linkages*, United Nations, New York and Geneva.
- UNCTAD (2002): *World Investment Report 2001: Transnational Corporations and Export Competitiveness*, United Nations, New York and Geneva, United Nations publication, forthcoming.
- UNTCMD (1992): *The East-West Business Directory 1991/1992*, United Nations, New York.
- Vernon, R. (1966): International Trade and International Investment in the Product Cycle, In: *Quarterly Journal of Economics*, Vol. 80, No 2, pp. 190-207.
- Wells, L. T. (1977): The Internationalization of Firms from the Developing Countries, In: *Multinationals from Small Countries*, Ed. by Agmon T., Kindleberger C. P., MIT Press, Cambridge, Massachusetts, pp. 133-156.

- Wells, L. T. (1983): *Third World Multinationals*, MIT Press, Cambridge, Massachusetts.
- Yeung, H. W. (1999): Introduction: Competing in the Global Economy: The Globalization of Business Firms from Emerging Economies, In: *The Globalization of Business Firms from Emerging Economies*, Vol. 1, Ed. by Yeung, H. W., Edward Elgar Publishing, Cheltenham and Northampton, Massachusetts, pp. xiii-xlvi.
- Zhan, J. X. (1995): Transnationalization and Outward Investment: The Case of Chinese Firms, *Transnational Corporations*, Vol. 4, No 3, pp. 67-100.

