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Transition Economies' Multinationals - Are They Different From Third World Multinationals?

Marjan Svetličič

University of Ljubljana, Slovenia

Abstract

The article first evaluates the recent expansion of selected Central European firms' outward FDI and compares this expansion with that of third world multinationals. Differences and similarities are identified. In both cases the most advanced countries proved to be the biggest investors abroad. The motives were similar although there are some differences particularly those that are specific to the system/transition and starting base. Similarities are stronger if we compare the starting phases of both groups of firms. Both groups of investors followed certain stages in which the macroeconomic strategy of the home countries proved to be important. There are also many differences between groups and within them. One is the more important role of pull factors [globalisation] in the case of late-coming investors abroad stemming from transition economies. The scarce data still do not allow any robust generalisations. Some modification at least in terms of the specific weight played by different factors can be identified in the case of Central European investors abroad.

1. Introduction

So far, when discussing transition most attention has been given to inward foreign direct investment [FDI]. Outward FDI or outward internationalisation has almost been left out of considerations. Nevertheless, since 1997 firms from more advanced transition economies [TEs] have started investing abroad at quite substantial levels even though they were devoid of any previous experiences from the socialist period [see Macmillan 1987, Hamilton 1986, Artisien, McMillan and Rojec 1992]. Firms from certain TEs have now established themselves as major investors in some host TEs. Even now the enhanced internationalisation of firms from TEs has not attracted much attention either, again with few exceptions [Svetličič's two ACE projects¹ gathering a group of authors, Andreff 2002 and 2003, Kalotay 2003, Liuhto and Jumpponen 2003].

The situation has also been similar regarding third world multinational companies [TWMNCs]. Only a few authors started in the 1980s to look at the emerging international expansion of third world firms [Kumar and McLeod 1981, Wells 1982 and 1983, Lall 1983, Khan 1986, Dunning 1986, Svetličič 1986 and 1987].

Originally the TWMNCs literature concentrated on the “exotic” nature of such corporations. Recent literature has started to look into such internationalisation in its own right, why they expand internationally, what are their characteristics, driving forces etc. [see Mathews 2002] and this is also the case with Central European transition economies’ multinational companies [CETEMNCs].

In spite of this benign neglect both types of firms are putting themselves on the map of multinational companies [MNCs]. Third world ones are already competing with the largest multinationals in the world, they are already global firms while those from former socialist countries are still lagging much behind Western companies and TWMNCs. Yet they seem to be catching up quite fast. Therefore, they deserve much more attention particularly since the external environment is quite different which might give rise to some theoretically different explanations. Although the data is still limited it is nevertheless important to look into such outward FDI trends in order to see to what extent they are different or similar to TWMNCs which developed much earlier at first glance at a similar development level but in different systemic environments.

The aim of this paper is limited to identifying the similarities and differences between TWMNCs and CETEMNCs in different aspects from the timing of internationalisation, the motivations to the type of competitive advantages and the role of the external environment. On this basis we can start exploring some ideas as to whether there can be a general explanation of the internationalisation of less developed countries’ firms or whether there is a need for differentiated approaches due to the different internal and external conditions involved.

The paper will compare the similarities and differences between CETEMNCs on the basis of our own survey² of outward FDI by 5 Central European economies/CEEs [Czech Republic, Estonia, Hungary, Poland and Slovenia³], and general data on FDI flows abroad. Secondary sources were used in the case of TWMNCs. We will confine our analysis mostly to manufacturing firms’ expansion abroad. The different types of sources and the availability of data prevented the application of any more robust statistical methods.

The structure of the paper is as follows. After this introduction stating the objectives, the limitations and background of the paper we proceed in the second chapter to the theoretical framework. The third chapter is devoted to the characteristics of outward FDI by CEEs. The fourth chapter provides a short overview of third world firms’ investments abroad merely to set the stage for the fifth chapter, namely a comparative evaluation of the two types of MNC identifying the similarities and differences between the two. The paper ends with some generalisations in the conclusions.

2. Theoretical Framework

The eclectic paradigm [Dunning 1973 and 1993] predicts that a firm has to possess firm-specific advantages [FSAs] to be able to invest abroad⁴, that the foreign location should be better than the one at home and that internalisation is the best mode for the maximisation of such FSAs. The issue therefore is whether firms from TEs possess strong enough ownership-specific advantages to invest abroad, where they can best complement such advantages with location-specific ones and whether they are able to internalise them.

The investment development path paradigm [IDP, Dunning 1981a] postulates that, before investing abroad, countries first host FDI and that investing abroad is a function of GDP per capita. Later it was established that the changing net outward investment position of a country could not only be explained by rising GDP but also by the changing configuration of a firm, location and internalisation advantages and macro-organisational policies. The new version of the IDP model [Dunning and Narula, 1998] postulates that in a globalised world outward FDI starts earlier and the amplitudes of the stages are shorter.

The evolutionary approach of internationalisation is also a characteristic of the **Upsalla sequential internationalisation process model**⁵ [Johanson and Vahlne 1977 and 1990, Johanson & Wiedersheim-Paul 1975] predicting a “normal” sequential step-by-step learning process of internationalisation in stages. Critics of the sequential internationalisation model claim that internationalisation is not necessarily sequential, that ‘internationalisation’ knowledge can be gained from other firms instead “without having to go through exactly the same experience” [see Eriksson, Johanson, Majkgård and Sharma 1997, Turnbull 1987], and **by networking** with others [Mattson 1985, Johanson and Mattson 1986 and 1993, Vissak 2000].

The fourth stage of the product life cycle, proposed by Balakrishnan [1975] in his Ph.D. thesis, predicts investment among countries at lower stages of development. His argument is that in the fourth, post-mature stage FDI takes place among developing countries and here we can also add among TEs. In the third stage of the product life cycle, technology gets adapted to local needs. Smaller producers acquire certain FSAs based on adapted more labour-intensive technology and by using less standardised local inputs. Large multinationals simply may not be interested in such adaptations, being more preoccupied with innovating new products and/or technologies and/or small, less developed countries’ markets are not enough attractive for large firms.

Many studies indicate that management is crucial for the internationalisation of firms and that investing abroad has been strongly influenced by managers courageous enough to undertake such a risky operation at the early stage of their firm’s development in the very risky markets of less developed countries [LDCs]. Therefore, outward FDI cannot be explained without looking into **[strategic] management** theories or “why micro-management superiority of foreign investors over their domestic counterparts is more pronounced when the corporate governance in the host country is weak and financial institutions are not so well developed” [see Razin 2002, p. 17]. This is precisely the situation in TEs where institutions are still weak and their activities not transparent enough and frequently unpredictable. This has two main implications. First, that managerial superiority plays a relatively more important role in the case of investing in transition than in developed industrial countries and, second, that firms from more advanced transition countries have developed transition-management-specific advantages which they can ‘cash in’ in other TEs still waiting to undergo certain changes [privatisation etc.].

Let us see whether we can agree with L. Wells’ old statement that “the theories have done little to answer why firms from developing countries [or TEs for that matter, op. SM] invest abroad” [Wells 1983:13] or whether we should be less pessimistic and conclude that the empirical data do confirm some of the major internationalisation theories indicated above. Mathews [2002] also found the “inadequacy of “most leading theories of TNCs growth and expansion” and offers “a process oriented account of dragon multinationals’

transnationalisation in which three key elements are emphasised: outward orientation, leverage through building linkages and achieving organizational efficiency through integration” [Wai-chung Yeung 2002, p. 192].

3. Outward FDI By Five Central European Transition Economies⁶

Although investing abroad by state-owned enterprises started decades ago in socialist times today it is a totally new challenge. The early 1990s saw slow progress in outward investment activities by large exporters with substantial international experience from the previous regime, whereas post-1997 has speeded up outward FDI also with seeing the involvement of newcomers. Nevertheless, the total stock of the outward FDI of the five CEE transition economies [USD 5.5 billion in 2000] is still very modest. This is, however, only a small part of overall outward FDI by all TEs which had accumulated to USD 29 billion by the end of 2002. The biggest investor abroad is Russia [accounting for 62% of total outward FDI stock by TEs end 2002; [UNCTAD, 2003, P.265], which is a very specific case. Its investments abroad are mostly by natural-resource-based firms and are to a large extent of a speculative nature⁷. Therefore, our analysis will concentrate on CETEs and manufacturing firms.

Investors in the sample are nearly 28 years old on average with some dating back even to before World War II, while many are spin-offs of old socialist, now disintegrated companies. They inherited management, brand names and business contacts and can hardly be regarded as totally new firms. Although big companies represent the smallest share of the number of investors abroad, they are the most influential, quickest and most successful in their internationalisation in terms of volumes. Investors are on average large although the majority of sample companies have less than 250 employees.

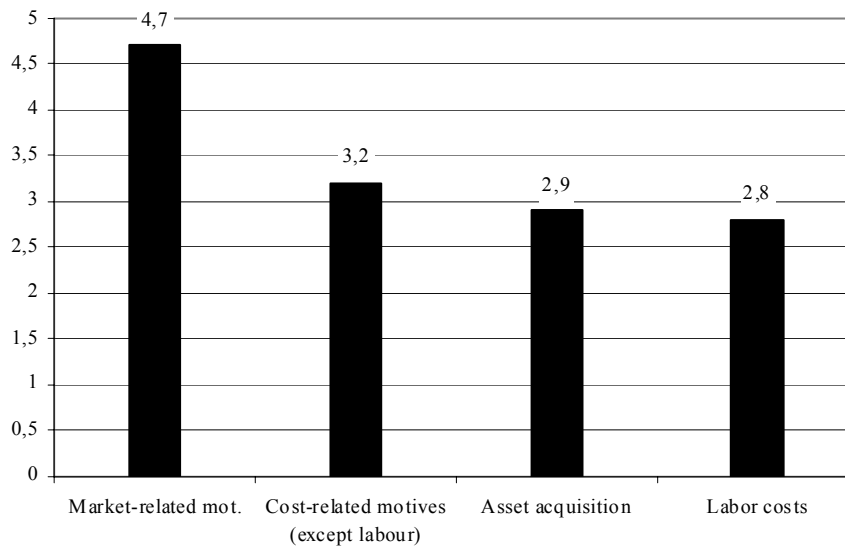
The majority of outward investors from the analysed countries are manufacturing firms – 51 percent [20 percent are in trade and 29 percent are in other services], which does not necessarily mean that the firm also undertakes manufacturing investments abroad. Trade is the prevailing activity of foreign affiliations, followed by other services and only then by production activity.

The total number of affiliations established abroad by the sample firms was 293 in 1997 and had almost doubled to 477 in 2000.

The gradual enhancing flows of outward FDI following previous exports but jumping over most other forms of co-operation, the distribution of stock and the location of affiliations confirms that the sequential pattern of penetration does matter. Neighbouring countries, countries with strong trade relationships or cultural and/or historical ties have priority in investment location decisions by all the surveyed countries⁸.

The market-seeking motive was the most important motive of outward FDI. This is also reflected in the predominance of trade units among affiliations abroad. Investing abroad is regarded as an additional way to keep and increase market shares abroad. Lower labour costs were, on average, the least important motive for investing abroad, also reflected in the modest frequency of locating production units abroad. Even if investing companies decide to produce abroad, lower labour costs are more a facilitating and not a decisive factor.

Investors are primarily looking for business opportunities and ways to exploit their ownership-specific advantages, which often have a limited time duration.



Note: 1= Not important, 5 = Very important.

Source: Survey 2001

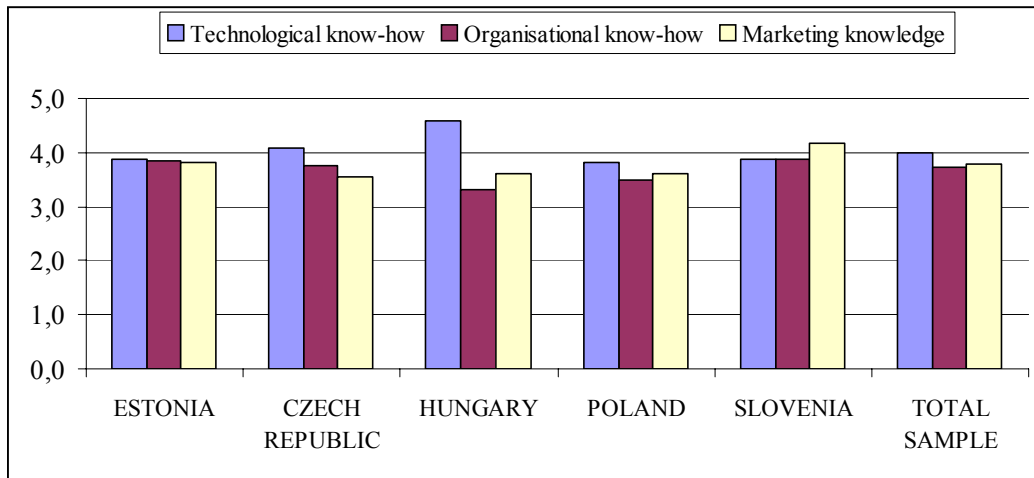
Figure 1 THE IMPORTANCE OF INDIVIDUAL GROUPS OF MOTIVES FOR OUTWARD FDI BY 5 CEE'S FIRMS: AVERAGE SCORES

3.1. What Are The Investor's Competitive Advantages?

The reasons for the rapid rise in outward FDI by selected CEEs can be classified into push and pull factors. The two push factors are the existing FSAs coupled with the limited opportunities to increase market shares in existing [small domestic] markets. Firms have realised that by exporting alone they can no longer keep market shares abroad and that they also have to upgrade their foreign presence by establishing subsidiaries there in order to be closer to customers. On the other hand, the march of globalisation forcing firms to 'race costs to the bottom', the need to acquire economies of scale and scope, and the ongoing privatisation and other aspects of less advanced TEs have all been attracting investors to grasp the new opportunities emerging there. These opportunities are also home country location-based due to having once lived together in the same country [Slovenia, Czech Republic, Estonia or minorities' connections in the case of Hungary].

Firms themselves claim that, among the relatively equally weighted different advantages, technological ones were the most important ones, followed by marketing knowledge. There is, however, no systematic evidence as to whether such technological advantages are based on new products or new technologies or more on the adaptation of products and processes to local conditions. In the case of TEMNCs it was more standardised technology [65% of subsidiaries were established up to the 1970s in low research intensity activity; Svetličič 1987,

The second crucial source of FSAs of the investing companies surveyed is the management of those companies. The capabilities of the managers who undertook investments abroad before the theory would have predicted, that is before all the necessary capabilities are accumulated, have been crucial. Managers have frequently demonstrated a strong vision at times when investing abroad was considered unpatriotic or at least unusual [in socialist times and the first years of transition]. Some managers have developed a very specific management style based on personal contacts and highly assimilated to the culture of the host countries.



NOTE: 1= not important, 5=very important

Source: Survey on outward FDI in CECs, 2001.

Figure 2 THE IMPORTANCE OF COMPETITIVE ADVANTAGES BY COUNTRIES

On average, organisational know-how, as a specific type of FSAs, was assessed as somewhat less than ‘important’. However, the case firms claimed they have developed specific management advantages partly as result of faster privatisation compared to the core destination countries. This type of advantage is temporary. Firms have to exploit it fast, before other competitors can catch up or outperform these advantages through other stronger competitive advantages. It is therefore crucial to achieve a *first-mover advantage* already in the rebuilding phase of these countries and to upgrade other advantages before the advantage of how to do business in a specific environment expires.

The more risky environment found in other CEEs, less stability and predictability make firms choose FDI [internalisation] as a safety-net solution in spite of the larger sunk costs. One incentive is to achieve the better protection of intellectual property, which is still very poor in this region. Companies have found it easier to control their intellectual property and defend their original products against imitations when they have a direct presence [see Jaklič and Svetličič 2003].

The greenfield investment [the majority was totally owned or majority owned] strategy that dominated in the early and mid-1990s was later combined with an acquisition strategy. The explanation of the desire to acquire control is not so much a reflection of their strong

FSAAs but of some weaknesses, the unavailability of appropriate partners abroad or different uncertainties. Privatisation processes and the favourable prices of companies available for acquisition were the key reason for this. The rise in acquisitions after 1998 was also easier because the acquisition process in the domestic market had gained some momentum.

4. Third World Multinational Companies

The first internationalisation of third world firms dates back to 1928 when the Argentine manufacturer S.I.A.M. di Tella established a subsidiary in Brazil to produce gasoline pumps [Wells 1983, p. 1]. But this was more an exception than a rule. Real internationalisation started in the 1960s [see Wells 1983, Lall 1983, Kumar and McLeod 1981, Khan 1986, Svetličič 1986, Dunning 1981, White 1983, and Tolentino 1992].

Dunning and Narula [1998] and Chudnovsky and Lopez [2000] distinguish three waves of such outward FDI by third world firms. The first wave started from Latin America in the seventies. It was going on alongside an industrialisation strategy based on import substitution in home countries. Latin American MNCs have spread abroad thanks to products meeting the needs of their growing domestic markets. The second stage is markedly characterised by predominant Asian MNCs in the eighties, namely those from South Korea, Taiwan, Hong Kong, Singapore, and then Malaysia, Thailand, China, India and the Philippines, while Latin American MNCs have stepped back relatively. Outward FDI from Asian newly-industrialised countries [NICs] accompanies their home country strategy of export promotion, growing markets in LDCs but also in order to benefit from the cheap labour there. The third stage, in the nineties, exhibits the recovery of Latin American outward FDI in the context of globalised competition in all manufacturing and service industries, on one hand; whereas on the other hand the biggest Asian MNCs now compare to and compete with Western MNCs as demonstrated by their investments in developed countries [see Andreff 2003, p. 19]. Chudnovsky and Lopez [2003] found in such development a confirmation of the IDP paradigm, as did Andreff [2003].

As in the case of CETEMNCs we also obviously have wide heterogeneity among TWMNCs. They differ in terms of the timing of their internationalisation as well as the characteristics of their competitive advantages, motives or other characteristics [see tables]. What is also important to note here is that the general development strategy, a kind of systemic characteristic, also proved to be highly important for internationalisation as clearly demonstrated in the case of Asian and Latin American firms originating in totally different strategic backgrounds like the system had been in the case of TEs.

5. Comparing Third World and Central European Transition Economies' Multinational Companies

Both groups of countries are so heterogeneous that any comparison is highly subjective and could be highly biased. The most important general conclusion is that there are many more similarities than differences in internationalisation development between the two groups of countries' firms although TE lags 31 times behind in terms of outward FDI stock. Therefore, it is not surprising that many authors researching into both phenomena confirm the validity of the IDP paradigm since both groups of countries firms investing abroad do share many similarities in terms of the timing of internationalisation, its evolution [by stages] and development level. LCDs' outward FDI stock was at today's TE level approximately 20 years ago.

Table 1 KEY DATA AND CHARACTERISTICS OF THIRD WORLD AND CENTRAL EUROPEAN TRANSITION ECONOMIES' MULTINATIONAL COMPANIES

	TWMNCs	CETEMNCs
Beginnings and developments	<p>Three stages:</p> <ul style="list-style-type: none"> a) 1960s to 1970s, mostly L.A. firms; b) 1980s [Asian firms] ; and c) 1990s onwards. <p>[see Wells 1983, and Chudnovsky and Lopez 2000]</p> <p>External incentives; ASEAN integration</p> <p>Incremental expansion [Matheus 2002, p. 192]</p> <p>Exports preceded in 85% cases outward FDI [Wells 1983, p. 68]</p>	<p>Three stages:</p> <ul style="list-style-type: none"> a) pre-transition infant stage; b) early beginning till 1996; and c) real upswing after 1997. <p>Specific system escape motivation in socialism [Svetličič, Rojec and Lebar 1994] or institutionally-based [Andreff 2003, p. 10]</p> <p>Later EU integration accession, and increased globalisation pull factors,</p> <p>exports almost always the first step before FDI</p>
Data on OFDI and MNCs	<p>Stock 2002 for all developing countries USD 849 billion⁹ [UNCTAD, 2003, p. 264]</p> <p>USD 5-10 billion by 1980s [Wells 1983:2]</p>	<p>stock 2002 USD 29 billion for all TEs [UNCTAD 2003, p. 265]</p> <p>USD 1,483 million in outward FDI by PETs¹⁰ or 0.1% of world outflows of outward FDI in 1990 [Andreff 2003, p. 4]</p>

	<p>USD 29-34 billion estimated stock of FDI by selected LDCs in 1982 [Dunning 1986]</p> <p>1,964 subsidiaries abroad but estimate goes up to 6,000-8,000 [Wells 1982 and 1983, p. 2]</p> <p>1% of outward FDI stock in 1960, 3.2% in 1978 and 11.9% in 2000 [Andreff 2003, p. 18]</p> <p>USD 23-26 billion of Inter- Arab and Arab investments in other LDCs [Svetličič 1987, p. 22]</p>	<p>USD 2.5 billion in outward FDI stock of 5 CEEs in 1997 increased to USD 6 billion in 2001 [Svetličič and Jaklič 2003¹¹]</p> <p>863 affiliates in developed countries in 1992 [Andreff 2003, p. 4, 10]</p> <p>outward flows from TEs increased from 0.29% in 2000 to 0.56% of total worldwide flows in 2001</p> <p>USD 20 billion in 2000 or 0.38% of world outward FDI flows ¹² [Andreff, 2003, p. 7]</p>
Ownership of subsidiaries	<p>JVs and 100% owned [57% in manufacturing; Wells 1983, pp. 3 and 108]</p> <p>In other LDCs mostly joint ventures [90%; Svetličič 1986, p. 80],</p> <p>65% of subsidiaries in other LDCs private, 20% state 15% mixed [based on Wells' data bank, see Svetličič 1986, p. 81]</p>	<p>Mostly 100% owned and greenfield</p>
Ownership and type of investors	<p>Mostly private large, old firms</p> <p>Only 6 qualify for large MNC having more than 6 manufacturing affiliations abroad [Wells 1983, p. 9]</p> <p>43% of investments in other LDCs are small, 20% medium and 16% large [Wells' data bank, see</p>	<p>Originally state-owned trading companies</p> <p>After transition private or mixed</p> <p>Mostly manufacturing firms but expanding in trade</p> <p>Major investors by capital invested are large old /experienced firms while by numbers SMEs prevail</p>

	Svetličič 1986, p. 77]	
Type of activity	Trade units [Wells 1982] In other LDCs mostly manufacturing [Wells 1983] Now some real global firms	Sales units prevail pre and during transition Production units more of a client-follower type to preserve [export] market positions
geographical orientation	High regional concentration [Wells 1983, p. 4] Mostly other LDCs, increasing in ind. countries	In socialist times advanced countries [system escape and export promotion] and production in LDCs [also political motives] Now high regional concentration in less developed and neighbouring TEs
Transnationality index	39% for 50 biggest TWMNCs and 53% for largest 100 [UNCTAD 2001]	32% for 25 biggest MNCs from TEs in 1999 [UNCTAD 2001]

In both groups of countries large firms are the dominant investors abroad and flows are highly concentrated within the region. That also applies to inter-Arab investment which is much less known among those within the developing countries group [see Svetličič 1987]. In both groups of countries systemic characteristics play an important role in the internationalisation of their firms albeit for different reasons. Socialism was to a certain extent a push factor for internationalisation while in the capitalist economies of developing countries' firms there were more limitations to the full functioning of market economies. In most countries the exporting of capital was initially de-stimulated if not prohibited. Many countries restricted imports [even by quotas], which stimulated firms to circumvent such barriers by tariff factories in such countries. Market-seeking has been the major driving force behind internationalisation together with other home country push factors.

Table 2 MOTIVATION

	TWMNCs	CETEMNCs
Motivation	<p>Originally systemic based, avoiding quotas... [Wells 1982]</p> <p>Market-seeking less important [large domestic markets the most important], acquiring strategic assets, improving responses to customers,</p> <p>lower labour costs as a defensive instrument [against the introduction of quotas; Wells 1983, p. 78]</p> <p>Diversification of risks [Wells 1983; p. 68]</p>	<p>dominantly market-seeking outward FDI [small domestic markets], but also strategic-asset-seeking, and other</p> <p>lower labour costs as a defensive instrument [against the introduction of import limitations due to huge trade deficits by host countries</p> <p>utilisation of temporary FSAs [knowing how to do business knowledge]</p>
Domestic push factors	<p>Major determinants of outward FDI</p> <p>Home country factors push internationalisation</p> <p>Later own innovations with industrialisation which also became a push factor [Tolentino 1993]</p>	<p>Small domestic markets a major determinant of outward FDI</p> <p>Bad domestic investment climate, prohibitive taxation, political instability and high inflation and circumventing export quotas [Andreff 2003, p. 18]</p> <p>Exploitation of specific knowledge and brand names reputation</p>
External pull factors	<p>Less important than internal factors</p> <p>Regional integration schemes</p>	<p>More important than in the case of TWMNCs due to enhanced globalisation and other external changes including accession to the EU</p>

Similarities in motives should have led to similarities in strategies as well. However, one can see more differences in strategies than in motives. The Balakrishnan hypothesis [see theory] has proved quite relevant to both groups of countries [relatively more in the case of early TWMNCs], meaning that it may be of [temporary] relevance in the infant stages of internationalisation. Firms start by building on advantages more in areas Western multinationals are not interested in pursuing, more on assimilating or adapting their technologies but simultaneously upgrading their own specific advantages although initially more in organisation, design than of totally new quality

products. TWMNCs are much more advanced in their domains but there are signs that CETEs are following in their footsteps and will, because of their better starting level, soon catch up and start evolving as truly global companies. At the moment, they are more oriented to becoming regional multinationals.

The eclectic paradigm clearly states that investors must have some FSAs in order to qualify to invest abroad.

Table 3 ADVANTAGES AND STRATEGIES

	TWMNCs	CETEMNCs
Competitive advantages	<p>Location-specific, some brands, small series, adapted technology, cheaper overheads [managers' salaries are lower], more use of local inputs products/services more suited to the local environment [Wells 1983, p. 48]</p> <p>Specific skills in marketing, productive or technological knowledge [Lall 1983a]</p> <p>Intensive-intensive technologies and small-scale production [Lecraw 1977, Wells 1983, Agarwal 1986]</p> <p>Innovations in strategy and organisation [Mathews 2002, p. 191]</p> <p>Tapping into external advantages and networks [cellular »clusters« among strategic units of dragon multinationals, efficient managing of them [Mathews 2002, p. 192]</p> <p>FSA are changing along the IDP from the adaptation and assimilation of technology</p>	<p>Macro-location-institutionally-based [politically the same systemic background]</p> <p>knowing how to do business in a similar environment, established networks based on previous [export...] co-operation</p> <p>Cultural vicinity, languages</p>

	towards more own innovative FSAs [Cantwell and Tolentino 1990]	
Strategy	<p>Cost- and following-the-customers based [Wells 1983, pp. 54 and 63]</p> <p>Adaptation of products/processes to fit the prices and quality requirements of LDCs</p> <p>Niches abandoned by conventional TNCs [Wells, see Chudnovsky and Lopez 2000, p. 37]</p> <p>Ever increasing inclusion in global production chains</p> <p>No specific international strategies until the late 1990s</p>	<p>Defensive, defending previous export markets</p> <p>Following the [industrial] clients supplying intermediate products</p> <p>Efficiency-seeking strategy [low wages] very rare but growing [see also Andreff 2003, p. 17]</p> <p>regional trading multinationals</p> <p>leapfrogging internationalisation, even some born globals</p> <p>No specific international strategies until the late 1990s</p>

Comparing investors from the third world with those from TEs demonstrates there are substantial similarities particularly if we compare the initial stages of such investments. New entrants among investors abroad can hardly compete on highly sophisticated technologies or know how if they come from less developed countries as is happening with firms from former socialist countries or more advanced third world countries. Both firms gradually upgrade their FSAs from more assimilated adapted technologies to the specific conditions of investment destination-countries to more original innovation-based knowledge¹³. The process of such upgrading was faster in Asian countries because outward-oriented development strategies and targeted industrial policies forced firms to meet targets in order to qualify for specific assistance. Import substitution strategies of Latin American countries dissimulated such efforts so it is therefore no surprise that they started to lag behind internationalisation after their initial pioneering role. Former socialist firms have found themselves in a similar situation to Latin American countries, living behind high-protected tariff walls. Very few firms with ambitious and visionary managers, in spite of such protection, started to strengthen their capabilities and invest abroad, even in the 1960s. Now the process of the catching up of “dragon investors” is very rapid due partly to the better starting position of such firms in terms of technical manpower. Therefore, we can expect that CETEs’ firms will soon join the many TWMNCs first as regional [as they did first] and also increasingly as

global players. Membership in the EU will also stimulate this process. It seems that a certain convergence is also going on in strategies where lower labour costs have not played a major role. Erosion of its role by technical change can only be one explanation today.

5.1. Differences

The huge differences within both groups of countries make comparisons very difficult and prevent any reliable generalisations. Firstly, there is a huge difference in the number of countries and the size of their economies. MNCs from Latin America are quite different from those from Asia. TEs' firms also differ in terms of the development level of countries, their size, stage of EU membership, privatisation and previous development strategies. Firms from small countries are more driven into going international than those from large ones like Poland or Russia.

The stronger involvement of small and medium-sized enterprises [SMEs] in the case of CETEMNCs can be traced to macro location-based factors, previously established networks in the common market of now disintegrated countries. Previous experiences of managers of the larger state monopoly firms which later established their own firms but inherited all the experiences and networks from previous international businesses is an additional explanation. The new information technology infrastructure also makes it easier for SMEs to internationalise today, particularly as suppliers to large MNCs [client-driven internationalisation]. It was not so important when integrated global production was not as advanced.

The timing of the starting period of internationalisation was also different. TWMNCs started earlier, in the 1960s, while only very few firms from socialist countries started to invest abroad then. The time lag of the internationalisation of CETEs' firms is therefore about 25 years¹⁴. After 1997, the internationalisation of CETEMNCs seems to be faster, firms are leapfrogging over stages, some can even be considered born globals. This can be explained: i] by globalisation pull factors which are now much stronger than in the period of the first wave of TWMNCs' expansion and when electronic communications make it easier to internationalise; and secondly ii] due to better human capital capabilities. It can be expected that within some 10-15 years the convergence particularly of firms from new EU members will come about.

Due to the specific historical context not so few CETEMNCs have evolved as "inherited investments" [Svetličič and Jaklič 2001] or what Andreff called "institutionally founded MNCs" [2003, p. 10] established overnight as a consequence of the disintegrating of countries in which those firms operated before. In this way such firms evolved from large domestic firms to small international ones by the simple new political reality.

Ethnic ties are much stronger in the case of Asian TWMNCs than CETEMNCs. The large Chinese population outside of China and strong traditional family ties in their society make ethnic ties much more important. There are minorities outside homelands in CEEs but they are not so strongly or traditionally interconnected. They more facilitate than induce outward internationalisation in infant stages.

Trade names have not proved to be a major driving force for outward FDI by either TWMNCs or CETEMNCs, although they are not nonexistent. Its relevance is of a somewhat different nature. TWMNCs initially designed some brand names to serve the specific tastes of developing countries' populations [now already global brand names] while, in the case of CETEMNCs, we see more the exploitation of general brand names of investors established originally by exporting [customisation]. This is more the defence of existing brand names by upgrading entry methods when threats of import limitations emerge while in the case of TWMNCs we can talk more of the offensive penetration of brand names first suited to local tastes, and later also of a global nature.

CETEMNCs are also less inclined to regard their FDI as an instrument of the differentiation of risks while this argument is stronger in the case of TWMNCs.

The ownership structure of subsidiaries abroad also differs: TWMNCs are much more keen to enter into JVs with local partners [see Wells 1983:115] than CETEMNCs which firms have wanted to control their operations abroad [partly out of weaknesses not strengths, [see Svetličič and Jaklič 2003]. Explanation is partly system-specific [late privatisation in host countries, non-transparent systemic conditions and other instability] which would increase risks in the case of shared ownership. The other explanation is the type of FSAs. They are similar to those a local partner might bring in to a venture therefore there is no need to acquire them. The summary relative weight of the different factors of internationalisation is different although similar factors play a role.

6. Conclusions

The lack of reliable data and the heterogeneity of both groups of countries prevent us making any robust generalisations. Investing abroad is a relatively new phenomenon for TEs' firms. Therefore, it is also too early to draw generalisations although a more robust test of the IDP model on the two groups of firms has confirmed there are no significant differences among them in terms of sequencing internationalisation [see Andreff 2002, p. 377].

Comparing CETEMNCS with TWMNCs 20 years ago we can find several common features. Similarities prevail over the differences, which may indicate that outward internationalisation is less systemic, but more specific to the macro development level, location [transition] and firm¹⁵ and is more contingent on external environment conditions.

In the early eighties, TWMNCs were comparatively small, their small-sized foreign affiliates were less numerous than those of Western MNCs and less scattered over a great number of host countries, like MNCs from TEs are today. In Latin America the small size of the home country and domestic market is a factor pushing local firms to invest abroad so as to enlarge their outlets [Chudnovsky and Lopez, 2000, Andreff 2002, p. 375]. The internationalisation of CETEMNCs was pulled more by the external environment and globalisation trends than pushed by home market factors. FSAs are largely location- and system-based and originated in a common history or in similarities of systems, cultures/languages and related factors. Many of their competitive advantages could gradually "evaporate". Therefore, firms are stimulated to start exploiting them very fast [first-mover advantages].

It is beyond serious doubt that CETEMNCs have established themselves as new players in the global reconfiguration of the structure of industry and services in the world and the ways in which firms pursue their objectives and by newly slicing their value chains. For some authors internationalisation by firms from less advanced countries only confirms the mainstream FDI and internationalisation theories. There are, however, also differences which may call for new theoretical approaches. Differences are more systemic and transition based. It seems that a certain productive combination between the Reading school and evolutionary approaches to internationalisation [the Scandinavian school] is needed which could result in a “leapfrogging eclectic investment path paradigm”. Although TEs are still confined to more competitive “national champions” and/or a small number of new entrants are still relatively small, they are likely to be developed faster than TWMNCs which needed some 20 years to enter the really big league because TEs’ inherited stock of capabilities is bigger.

It seems that vertical integration, following the client-driven type of internationalisation, of vertical efficiency-seeking may prove to be the most dynamic dimension of the internationalisation of CEEs’ firms in the future substituting today’s prevailing market-seeking defensive operations, defending previously attained export markets.

To conclude, it is still impossible to say whether CETEMNCs are a totally new “animal” substituting the previous “red multinationals” [Hamilton 1987]. There are not yet any clear-cut robust data to confirm or refute that such multinationals have their very specific characteristics or even that new theories are needed. Much of such outward FDI is still associated with capital flights, are related to transition instability and cannot be explained by deeply rooted economic rationale alone.

Western multinationals needed several decades to grow into real global companies. The third world ones needed a much shorter time to become world competitors albeit they are still lagging behind the Western ones. The question is whether firms from transition economies will need even less time to become real multinationals. Our research seems to confirm this prediction.

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End Notes

- ¹ This resulted in two books, Jaklič and Svetličič 2003, and Svetličič and Rojec 2003.
- ² The survey contains data on 168 investing firms in 2000 with 477 subsidiaries abroad. In the absence of ready-made national statistics in transition economies on outward investing this was the only reliable source for qualitative but also for most of the quantitative data.
- ³ When available and appropriate we will also refer to internationalisation by other TEs, particularly Russia which is a major investor abroad in terms of volume.
- ⁴ Similarly also the **resource-based** [based on Penrose, 1959] and **evolutionary** theories of internationalisation [Cantwell 1989 and 1994; Lall 1993, Kogut and Zander 1993, Wernerfelt 1984, Rumelt 1984] argued that a precondition for investing abroad are resources and capabilities and that the accumulation of firm-specific advantages is a cumulative process.
- ⁵ Based originally on Carlson [1966] also called the Uppsala Internationalisation process model or Nordic school or Stages Theory of Internationalisation. Broadly speaking, it is also based on behavioural theory of firms [see Aharoni 1966].
- ⁶ Based on Svetličič and Jaklič 2003.
- ⁷ Much of outward FDI refers to “round-tripping” [see Kalotay 2003, p. 14]. According to Liuhto and Jumpponen, the recorded outward FDI stock of Russia is some 10% of capital flight.
- ⁸ Slovenian outward FDI is concentrated in the successor states of former Yugoslavia, Czech’s in Slovakia, Hungarian’s in Czech Republic, Slovakia and Romania [strong national minority], while Estonian outward FDI gravitates towards the Baltic countries, mostly Lithuania and Latvia.
- ⁹ Latin America and Caribbean 173, and Asia USD 632 billion.
- ¹⁰ Data refer to post-communist economies in transition [PETs].
- ¹¹ If not otherwise stated, all data on 5 CEECs are based on Svetličič and Jaklič 2003.
- ¹² Data refer to post-communist economies in transition [PETs].
- ¹³ At first it is mostly organisational.
- ¹⁴ The stock of outward FDI by TWMNCs was then similar to that of CETEMNCs today.
- ¹⁵ It is interesting to note that Indian firms also started to invest abroad in the mid-1990s. This may confirm the importance of external factors [globalisation] as well as the development strategy starting to be more outward oriented. There are also striking similarities in terms of the sources of FSAs [see Pradhan 2003].