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Multinational companies from transition economies and their outward foreign direct investment

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Abstract

Multinational companies (MNCs) based in 26 post-communist transition economies (PTEs) emerged during the 1990s. Their outward foreign direct investment (OFDI) boomed dramatically from 2000 to 2007 in these countries, and then muddled through the financial crisis and great recession at difference paces on different paths. This difference is revealed in a sample of 15 PTEs for which data are available from 2000 to 2015. Most of these economies appear to be on the brink of moving from the second to the third stage of Dunning's investment development path. The geographical distribution of their OFDI favors host countries located in other PTEs, developed market economies, and tax havens while their industrial structure is more concentrated on services rather than on manufacturing and the primary sector. PTE-based MNCs primarily adopt a strategy of market-seeking OFDI.

Econometric testing shows that push factors are major determinants of OFDI. The results demonstrate that OFDI is determined by the home country's level of economic development, the size of its home market, and its rate of growth as well as technological variables: OFDI decreases with an increase in the number of scientists in the home economy and with an increase in the share of high-tech products in overall exports, exhibiting a negative technological gap. A lagged relationship between OFDI and previous inward FDI suggests that Mathews' linkage-leverage-learning theory is relevant in the case of PTEs.

JEL classification: F21, F23, M16, O57, P29.
Keywords: outward foreign direct investment, multinational companies, post-communist transition economies, investment development path, linkage-leverage-learning, push factors.

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1. Introduction

Multinational companies (MNCs) based in 26 post-communist transition economies (PTEs) emerged about twenty-five years ago in the wake of the transition to a market economy. This study attempts to analyze the emergence, development, major features, and determinants of outward foreign direct investment (OFDI) by MNCs originating from PTEs. While the scope should cover all 26 PTEs, this study focuses on a sample of only 15 countries due to non-comprehensive data and rather small OFDI flowing from 11 PTEs. OFDI from PTEs decreased due to the financial crisis and great recession after 2007. This study analyzes the emergence of their OFDI, MNCs, and characteristics; they vary markedly depending on the PTEs' OFDI home countries. Their major strategy is market-seeking, while a significant part of MNCs' expansion from PTEs occurred through cross-border mergers and acquisitions (M&As).

The theoretical background in this study is John Dunning's (Dunning, 1981; Dunning and Narula, 1998) well-known and thoroughly analyzed investment development path (IDP) model, a part of which the OFDI literature in PTEs dwells upon[1]. However, when it comes to testing this model, since Duran and Ubeda (2001), most authors not only commonly used the net inward-outward (NIO) FDI stock balance or position as the dependent variable, but also adopted both inward FDI and OFDI as variables *per se*. Insofar as the present study focuses on PTEs' OFDI exclusively, it is enough to have OFDI as the dependent variable, following Andreff's (2003) method of econometric testing to verify that push factors are IDP explanatory variables, while variables indicating PTEs' attractiveness as host countries for inward FDI can be ignored. This approach enables to check whether the current push explanatory variables are similar to those that pushed PTEs' investment abroad in the 1990s and whether they are in tune with the push determinants of OFDI from new-wave emerging countries (Andreff, 2017).

2. Sampling PTEs in terms of outward foreign direct investment

During the 1980s, 14 countries were centrally planned economies with a communist regime: Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, Poland, Romania, the USSR (15 republics), and Vietnam as CMEA (Council for Mutual Economic Assistance) members, and Albania, China, North Korea, and Yugoslavia (6 republics) as non-CMEA members. Usually, the so-called socialist-orientated developing countries[2] (Andreff, 1989) were not considered in samples of communist centrally-planned economies. At the beginning of the transition toward a market economy and given the break-up of Czechoslovakia, the USSR, and Yugoslavia, and German reunification, the world economy was left with 33 PTEs. All 33 muddled through a stage of communist centrally planned economies in their past history, though not all appear in the current study's sample of PTEs. For one, North Korea and Cuba are not yet clearly

[1] In the literature on Poland's OFDI, Dunning's IDP model is very much popular—Gorynia et al. (2009, 2010, 2012), Radlo and Sass (2012), Radlo (2012), Buczkowski (2013), Zimny (2013), Ciesielka (2014), as well as in Masca and Vaidean (2010) for Romania, and Ferenčiková and Pappová (2010) for Slovakia.

[2] Afghanistan, Algeria, Angola, Benin, Burma, Congo, Ethiopia, Guinea, Iraq, Madagascar, Mozambique, Nicaragua, South Yemen, Syria, and Tanzania.