

# Studies in Economic Transition

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## PREFACE

The change of East Central European (ECE) countries from centrally planned to market economies resulted in increasing inflows of foreign direct investment (FDI) to these transition countries. During the transition, the region went through radical economic changes, which had been largely induced by foreign capital. Foreign multinationals realized significant investment projects in ECE and established their own production networks. Investors, mainly from core European Union countries, were attracted by macroeconomic factors such as relatively low unit labour costs, market size, openness to trade and proximity. When it comes to institutional factors that influence inward FDI, the prospects of ECE countries' economic integration with the EU have already increased FDI inflows into the region.

Although the majority of investors arrived from Western Europe, the first phase of inward Asian FDI came also right after the transition, as Japanese and Korean companies indicated their willingness of investing in the ECE region already before the fall of the Iron Curtain. The second phase came after the New Millennium, when the Chinese government initiated the going global policy, which was aimed at encouraging domestic companies to become globally competitive, while Indian as well as other MNEs also made their first investment attempts in the ECE region already in the early 2000s.

Today, the rise of emerging-market MNEs is driven by the Asian economy, mainly China and India; however, this process is broader, incorporates a growing number of developing economies and is complemented by

the growing share of emerging markets in world exports. In addition, emerging MNEs have become important players in several regions around the globe, ranging from the least developed countries of Africa through the developing markets in Latin America and Asia to the developed countries of the United States or the European Union, including East Central Europe. The ECE region is indeed a possible gateway to Europe for emerging MNEs. At the same time, the ECE region's appetite for investment is still significant, and emerging MNEs are offering an alternative source.

This volume brings together a collection of selected original studies conducted in the framework of the research project "Non-European Emerging-Market Multinational Enterprises in East Central Europe" supported by the National Research, Development and Innovation Office (NKFIH) of Hungary. Topics include the main theories of internationalization and foreign direct investment, the global patterns and recent trends of emerging MNEs as well as home and host country determinants behind the international expansion strategies of emerging companies. Besides its global focus, the volume maps out emerging countries' investment flows and types of involvement, and identifies the motivations of emerging MNEs' transactions in East Central Europe. Chapters present how pull determinants of emerging MNEs' investments differ from that of Western companies in terms of specific institutional and political factors that seem important for some of the emerging—especially Chinese—companies. This hypothesis echoes the call to combine macroeconomic and institutional factors for a better understanding of internationalization of companies.

This volume represents the first-ever attempt to systematically analyse emerging market multinationals' investment into European emerging countries. This type of investments, as we believe, differ from both emerging MNEs' investment into the core European countries and developed MNEs' investment into the emerging regions of Europe. An additional novelty of the research endeavour is that besides macroeconomic and institutional factors it incorporates political factors into the analysis which may also have an important role to play in attracting emerging, especially Chinese, companies to a certain region.

After this brief introduction to our research, the first section of the volume includes two chapters. Szunomár's chapter presents a review of the main scientific literature relating to the traditional and new theories of internationalization and foreign direct investment while Szanyi's chapter

analyses the changing trends and patterns of foreign direct investments in East Central Europe. The following chapters—in two separate sections—examine several emerging country case studies by discussing the driving forces behind their international expansion strategies, focusing on these companies' global as well as European investments, with a special focus on the major host country determinants of East Central Europe, using various statistics as well as company interviews.

The second part of the volume focuses on Asian emerging MNEs and their activities in East Central Europe. The chapter by Szunomár examines the rise of Chinese multinationals, the role of the Chinese state in promoting the international expansion of Chinese companies as well as those factors that attracted Chinese MNEs into ECE countries. Gerőcs's study analyses Indian companies' experiences about going international with a particular focus on their investment strategy in ECE, building on macro statistical evidence and on a collection of qualitative data. Völgyi and Peragovics in their chapter offer a wider geographical focus concerning outward FDI of six emerging Asian countries—South Korea, Taiwan, Malaysia, Thailand, Indonesia and Vietnam—and their MNEs' activities in ECE region.

The third—and final—section of this volume deals with non-Asian emerging MNEs and analyses their presence in East Central Europe. Weiner presents the characteristics of Russian multinationals, with a special focus on domestic push and international pull factors that are equally important when examining the motives behind Russian outward FDI. Szigetvári discusses forms of Turkish outward FDI and the motivations of Turkish MNEs in his chapter, including those factors that drive Turkish companies into the ECE region. Ricz widens the geographical focus of this volume to the Latin American continent, by focusing on outward investment activities of the largest Latin American economy, Brazil. Last but not least, Kiss's chapter studies the internationalisation strategies of South African MNEs and the main driving forces from both the home and the ECE host country side.

As mentioned above, in order to gather corresponding data, the authors conducted face-to-face as well as online interviews with representatives of various emerging MNEs in the ECE region. Interviews were conducted anonymously in the form of semi-structured questionnaires. This approach was chosen as the topic of emerging FDI in European peripheries is new and has sparked academic interest only recently. Moreover, the available literature is rather limited and mostly based on secondary sources. In cases

where interviews were not applicable, the authors often relied on other sources, such as the insights from business professionals, experts and academics from ECE countries.

In order to assess whether host or home country impact dominates in emerging MNEs' subsidiaries operating in ECE, the authors have compiled a set of questions (see the Annex). These questions were used to conduct interviews with the company representatives, mainly with top-level managers. The interviews were conducted by the authors between June 2017 and September 2019. Each interview lasted one to two hours, and all interviewees were guaranteed confidentiality. The answers were noted down by the respective authors in detail and were then analysed. Information from the company interviews was supplemented by data from the balance sheets of the subsidiaries. Since there are relatively few emerging MNEs in the ECE region, the number of interviews did not justify the use of qualitative data analysis software or to apply any coding techniques.

Throughout the research ECE is referred to as the five new EU member states which are also members of the OECD, namely, the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia. The Central and Eastern European (CEE) region is a broader term—comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States, Estonia, Latvia and Lithuania. Therefore, the book does not focus on the whole CEE region; however, in some cases the examples of the ECE countries will be supplemented with some of the CEE countries.

Since data in FDI recipient ECE (host) countries and emerging home countries show significant differences, the two data sets will usually be compared to point out the potential source of discrepancies in order to get a more complex and nuanced view of the stock and flow of investments. Besides home and host country statistics, international databases, especially that of the United Nations Conference on Trade and Development (UNCTAD) and Organisation for Economic Co-operation and Development (OECD), will be considered and compared.

Budapest, Hungary

Ágnes Szunomár

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