Academy of International Business

INSIGHTS

Vol. 18, No. 1, 2018

Focus on Central and Eastern Europe

An official publication of the Academy of International Business

LETTER FROM THE EDITORS

Daniel Rottig, Ph.D., Editor

John Mezias, Ph.D., Associate Editor

Alan Rugman and Alain Verbeke sparked a considerable debate with their 2004 JIBS article titled "A perspective on regional and global strategies of multinational enterprises." Their analyses of sales data revealed that many large multinational enterprises (MNEs) appeared to be much more regional than global. While the global versus regional debate is ongoing, most would agree that more analyses and improved understanding of regions is warranted. Heeding this call, we are excited to begin AIB Insights' eighteenth year of publication with an issue focused on the Central and Eastern European (CEE) region.

In our first article, Andreja Jaklič, Matevz Raskovic, and Arnold Schuh explore the rich context of the complex CEE region. They note significant divergence in defining this region, which they argue reflects not only the ideological divide between east and west, but also an aggregation of often conflicting economic, political, social, and geographic meanings. They believe this economic, political, and social transition, and the resulting tension, make this an ideal region for scholarly inquiry.

Arkadiusz Kowalski's analysis of the international competitiveness of CEE countries constitutes our next article in this focused issue. He utilizes multiple measures to assess country-level competitiveness in this region. He demonstrates how broadening the analyses to go beyond the common, yet simplistic comparison of gross domestic product data results in different conclusions about different aspects of international competitiveness of CEE countries.

In our third article, Marta Götz examines both incoming (IFDI) and outgoing foreign direct investment (OFDI) policies adopted by CEE countries after the Great Recession. Her examination distinguishes between "pro" and "anti" investment policies for both types of FDI. She then classifies each country's IFDI and OFDI based on distinct policy indicators to create a framework of four FDI policy models that can be applied across regions.

In our final article, Attila Chikán, Erzsébet Czakó, Péter Juhász, and László Reszegi also assess the international competitiveness in the CEE region. They utilize data from their study of Hungary to examine whether foreign subsidiaries of MNEs improve host-country competitiveness. By examining multiple measures, they provide insight into how different types of firms affect country-level competitiveness. They suggest that what makes MNEs competitive may not necessarily improve competitiveness of their host countries, which provides challenging implications for policy makers.

These articles present interesting arguments and findings from analyses into a relatively under-researched region. Taken together, these articles bolster the argument for more regional studies, and the need for testing the often assumed global applicability of existing theory in different regions. AIB Insights continues to seek manuscripts that articulate what differentiates regions and draw insights into how this specific regional differentiation affects country-level competitiveness, internationalization, and multinational operations.

We would like to thank guest editors Łukasz Puślecki (Chair of AIB's CEE Chapter), Piotr Trąpczyński (Vice Chair for Communication at AIB's CEE Chapter) and Mirosław (Mirek) Jarosiński (2015 Program Chair for AIB's CEE Chapter) for their dedicated work and efforts on this focused issue, which we had conceived at the 2015 AIB annual conference in Bengaluru, India and worked on in a collaborative effort since. Łukasz's, Piotr's and Mirek's outreach to and coordination with local authors in the CEE region was instrumental for realizing this focused issue and their work and efforts regarding the establishment and further development of AIB's CEE chapter have been remarkable.

Daniel Rottig John Mezias

Reference:

Rugman, A. M., & Verbeke, A. 2004. A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35(1): 3-18.

Examining the Contextual Richness of Central and Eastern Europe

Andreja Jaklič, University of Ljubljana, Slovenia
Matevz Rasković, University of Ljubljana, Slovenia
Arnold Schuh, Vienna University of Economics and Business, Austria

Introduction

We discuss how context richness in Central and Eastern Europe (CEE) can be leveraged to further international business (IB) research and advance business practice in a new multipolar, regionalized, and increasingly "glocalized" world. We argue that CEE markets and multinational companies (MNCs) have faded to the background of existing research on emerging markets (EMs) and emerging market multinationals (EMNCs). Yet, the increasingly regional focus and specific CEE context call on IB scholars to re-examine the "CEE research stream" to provide insights on how (foreign and domestically grown) MNCs adapt their strategies in resource-constrained business environments that have undergone incredible socio-economic transitions over the last 25 years and are characterized by dynamic institutional evolution, unique transition processes, geographically compressed cultural diversity, diverse types of embeddedness, sophisticated market behaviour, and idiosyncratic innovation patterns.

CEE: From Simple Geography to Context Richness

What is CEE? Is it a region, or a common identity? Where does it begin and end? CEE is a very time- and context-specific construct transcending simple geography. It first emerged after the institutional drift and rebirth of serfdom following the Great Plague in the middle of 14th century (1348–1350) (Acemoglu & Robison, 2013) but became a much more prominent concept of political geography and economy after WWII and the ideological divide between West and East. Since the fall of the Berlin Wall in 1989, a mixed geographic and political view has become popular: CEE encompasses European countries which have been under socialist/communist rule and have undergone transformations from centrally-planned to market-based economies after the fall of the Iron Curtain. Thus to many, CEE countries as a region are uniquely at an intersection between advanced, emerging and developing economies (Hoskisson et al., 2013)—somehow "stuck in the middle" between West and East and between emerging transition and developed markets.

There are varying definitions of CEE. The OECD defines CEE as 12 Eastern European countries (excluding non-EU Western Balkans). UNCTAD seems to have struggled to define this region, first describing CEE as "emerging Europe," but then moving to a distinction between "developed" and "developing" Europe, with CEE countries in the latter along with CIS (Commonwealth of Independent States) countries and South-East Europe. Although the UNCTAD label of "developing Europe" implies an economic classification, grouping CEE with CIS countries comingles the political remnants of Soviet impact. North America sees CEE as a region dominated by a common socialist history, political ideology, adolescent democracy, and (once) absence of proper market institutions. China sees CEE within the so-called 16+1 platform (referring to 16 countries of CEE which are or aren't EU members and China as the +1) where CEE is mostly a gateway for China's "One Belt, One Road" commercial and connectivity initiative. Russia, on the other hand, sees some parts of CEE in terms of its ethnic minorities and areas of cultural and historic influence. It evaluates CEE as a region in political and military terms as a "buffer zone" against NATO.

Rather than being defined internally by a common identity, CEE is in many ways defined externally in ways that aggregate economic, political, social, and geographic meanings, which reflects the region's rich context. It has been constructed in a Western discourse as being European, yet also an Eastern enigma (Wallace, 2008: 37). While it is impossible to talk of CEE in terms of a common regional identity, the ideological Iron

Curtain and the fall of the Berlin Wall, followed by the corresponding transformation from socialist to (more or less) market economies, have nonetheless created a unique and complex common CEE identity of "newcomers" within an emerging EU of "two speeds." This has been underpinned by common feelings of historical injustice, sense of victimization, ambivalent attitudes towards "the state," as well as a mix of aspirations and disillusionment with the West.

Internationalization as the Norm for CEE Firms

Small domestic markets and size of the region have made an international orientation in business the norm, not the exception. For example, 75% of Slovenia's GDP is driven by exports. This is twice as high as in China and almost seven times higher than in the United States. In spite of different socio-political traditions, firms in many CEE countries possess long entrepreneurial traditions preceding socialism, and a well-educated labour force. This is accompanied by strong intra-regional business relationships (CEFTA, EU), not only exemplified in trade, but increasingly in intra-regional FDIs.

Policymakers and MNCs have long viewed the complexity and heterogeneity of CEE countries as a burden and barrier to faster regional development. The global economic crises, which hit the region hard, but with a slight delay, shattered managerial assumptions of how CEE markets function and how to operate in them. More regional solutions emerged as the resulting loss of growth led many regional players to scrap investment plans, cut costs, and shift from expansion to optimization of business in the region.

While some global MNCs restructured to merge the CEE region with CIS and North Africa into one organizational division (to mitigate poor sales results), others used intensive consolidation of CEE affiliates or experimented by exploring location advantages within CEE. Managers in regional summits often agreed that "there is no rule in CEE" for optimally placing and (re)structuring production processes and sales across CEE affiliates. To date, IB research has not provided insight into this new "set of rules" for the region.

Investors in the region now pay more attention to the quality of national institutions and government performance. Also, national government attitudes toward foreign investors have changed. Governments still welcome and court investors interested in building export platforms which generate jobs and revenues, but they are more cautious toward those which focus only on their domestic market and occupy strong market positions (i.e., banks, insurances, retailers, energy producers and distributors). CEE countries such as Poland, Romania, Hungary, Slovakia, and Slovenia are still building on their industrial strength and are attracting considerable numbers of greenfield projects in manufacturing. Enhanced re-industrialization has made CEE more popular as a production and sourcing site.

FDIs have driven many changes within CEE and contributed its positioning in Europe and globally. MNC subsidiary roles vary according to headquarters (HQ) locations. The rise of Asian, Turkish, and Arabic investors in CEE that have been filling the void left by Western investors departing after the global crises have contributed to transforming CEE from a provider of geographically convenient low-wage labour to experiential laboratories at the doorstep of Europe. For example, investment motives from Chinese, Japanese, and Korean MNCs (large greenfield investors) revealed changing dynamics in location specific advantages of CEE. CEE markets increasingly offer sophisticated environments where affiliates can develop a high degree of competencies, while their small size makes them ideal testing grounds and learning laboratories for large MNCs. The 'cherry on the cake' for these foreign investors is much lower logistics costs.

Consumer Demand and Innovation

Resource constraints (budget constraints, limited natural resources, small market size, limited capital accumulation, high brain drain, etc.) drive continuous business model and market-based innovation. These result in considerable productivity upgrading and supply-side improvements. The region has many great cases of born globals and leading digital performers. The demand side is marked by price sensitive, yet demanding and sophisticated consumers, which have lower disposable incomes, but are highly cosmopolitan and similar to mainstream European customers. High levels of consumer driven innovativeness has been identified as a specific market characteristic. Different kinds of innovation, such as social innovation, efficiency, and market innovation are also strong, due to high skill levels, competencies, and capabilities, as well as a high degree of digitalization. The large degree of cultural sensitivity, extensive travel, and economically and politically-induced migration creates very high levels of cosmopolitanism among young CEE consumers. Lastly, large brain drains and diaspora communities further underpin not only consumer sophistication and resourcefulness, but also the entrepreneurial orientation and a predisposition for internationalization. While CEE may not be a strategically important market in terms of MNC profits, the potential for innovation and experimenting is huge, since it allows small-scale experimentation in a sophisticated market with high organizational competencies.

The Context of IB Teaching

Business education in CEE countries has expanded in last two decades with a dynamic increase in the number of inter-

national students, the emergence of private institutions, and the expansion of public academic centres. Internationalization, induced by huge intra-country and regional rivalry and a more open education space in the EU, has incentivized improvement and innovation in IB teaching and research across CEE. One area that has really acted as a catalyst has been inward student internationalization. Originally attracted by low living costs, the "different Europe" mystique, and prevalence of English, the internationalization pattern of CEE universities has been much more diverse than in the West. This has created an internationalization pattern more similar to a mosaic than a melting pot. Whereas one can find large groups of Chinese and Indian students in an international class at British, French, or German business schools, an average international class at a CEE business school has students representing up to 25 different nationalities. The immense diversity of this unique mosaic-type of inward internationalization pattern helps create a great natural environment for developing cross-cultural skills, a *glocal* mindset, and innovation.

IB Research Opportunities in CEE

Based on the unique context and current economic developments in CEE we believe IB scholarship in CEE should focus on three specific areas: institutional environments, differences in local and foreign firms' investment goals and strategies, and benefits of the mosaic-type internationalization. Within the institutional stream, research should focus on the positive role of institutional voids, the emerging role of economic nationalism, and the business-government relations (given large shares of state ownership and role of state-owned enterprises). The unique context of CEE may help scholars better assess if institutional differences and voids are mostly impediments for business, or under what conditions do these serve as incentives for rapid internationalization, relocation, and/or development of unique firm specific advantages (Trąpczyński & Banalieva, 2016).

Scope and speed of changes in CEE offer opportunities for evaluating the effectiveness and impact of a specific IB policies or trade and investment promotions for business. There is also a revival of economic nationalism in CEE, seen already in a public resistance to selling state-owned enterprises to foreign firms in 1990s privatization. Such public pressure and specific interest groups seem to have affected government interventions, which have become more widespread again in recent years. Measures taken by governments in countries such as Hungary and Poland are aimed at favoring local businesses, discouraging foreign investment, and eventually re-gaining control over industries dominated by foreigners (e.g, banking, retailing, utilities).

The widely discussed topics of internationalization of local firms and, at a more advanced level, the emergence of MNCs from CEE show a major turn in perspective (Svetličič & Jaklič, 2003). After following the market entry and expansion of foreign firms in CEE in the 1990s and early 2000s, now domestic firms and their internationalization patterns have become the center of attention. This environment provides an opportunity to test prevailing internationalization theories under new conditions, and to reveal if CEE firms are acting differently in terms of strategy and organization. Studies of new exporters show that they are less focused, and geographically more diversified than theory would predict (Dikova et al. 2016). Complexity of internationalization strategies goes through broader product and service portfolios, combination of different entry modes and cross-industry activity.

"IB scholarship in CEE should focus on three specific areas: institutional environments, differences in local and foreign firms' investment goals and strategies, and benefits of the mosaic-type internationalization

A particularly promising area of research is also de-internationalization and re-internationalization, of either foreign MNCs in CEE or local MNCs and born globals. Factors leading to de- and re-internationalization and differences between born globals, state-owned enterprises, and other internationalizing actors have become a prominent research topic after the global economic crisis. Particularly, a better understanding of the internationalization efforts of domestic firms is necessary as most of the outstanding export performance stems from intermediate product transfers within foreign MNC networks. Changes in subsidiary–HQ relations and the role of CEE economies within MNC networks are other topics that warrant further investigation (Schuh, 2012). Attempts to optimize regional corporate structures challenge the role of regional headquarters in guiding expansion into the region. With declining regional expansion, management has to search for synergies across the existing structures, particularly in the distribution of tasks and power among corporate, regional headquarters, and subsidiaries as well as relationships with local suppliers. Searching for synergies has also resulted in newly established regional value chains, the creation of indigenous global value chains (GVCs)

by local firms, and their presence in multiple GVCs. In all these areas, examining CEE may yield valuable insights.

Lastly, a norm at Western journals seems to discourage scholars investigating other regions to ask "the same questions," apply the "same theories," and look at the "same phenomena" that have been examined in the West. However, this may not be a predominant view since many reviewers at these journals often do not advocate this approach. We believe a better understanding of CEE and other non-Western regions will come from exploring their rich contexts; these rich contexts allow for testing the often presumed globally applicability of theories whose replication has been limited to very similar environments. Encouraging openness in replication and in context diversity of scientific inquiry is likely to yield insights and opportunities to improve theory development.

References

Acemoglu, D. & Robinson, A. J. 2013. *Why Nations Fail: The Origins of Power, Prosperity and Poverty.* London: Profile Books.

Dikova, D., Jaklič, A., Burger, A. & Kunčič, A. 2016. What is beneficial for first-time SME-exporters from a transition economy: a diversified or a focused export-strategy? *Journal of World Business*, 51(2): 185-199.

Hoskisson, R., Wright, M., Filatotchev, I. & Peng, M. 2013. Emerging multinationals from mid-range economies: The influence of institutions and factor markets. *Journal of Management Studies*, 50(7): 1295-1321.

Schuh, A. 2012. Strategy review for Central and Eastern Europe: Strategic responses of foreign multinational corporations to the recent economic and financial crisis. *Journal of East-West Business*, 18(3): 1-23.

Svetličič, M., & Jaklič, A. 2003. Outward FDI by transition economies. In: M. Svetličič & M. Rojec (Eds), *Facilitating transition by internationalization: outward direct investment from Central European economies in transition*: 49-76. Burlington, VT: Ashgate.

Trąpczyński, P., & Banalieva, E. 2016. Institutional difference, organizational experience, and foreign affiliate performance: Evidence from Polish firms. *Journal of World Business*, 51(5): 826–842.

Wallace, D. 2008. Hyperrealizing "Borat" with the Map of the European "Other", *Slavic Review*, 67(1): 35-49.

Andreja Jaklič (andreja.jaklic@fdv.uni-lj.si) is Professor and Research Fellow at the Centre of International Relations, Faculty of Social Sciences, University of Ljubljana, Slovenia, also a co-founder and board member of AIB–CEE Chapter. Her experience on internationalization, MNEs and their effects arise from academic and applied research projects, consultancy to international organizations, national agencies and business. Her work appeared in *Journal of World Business, The Services Industries Journal, Transnational Corporations, Eastern European Economies*, among others.

Matevz Raskovic (matevz.raskovic@ef.uni-lj.si) is Assistant Professor of IB at Faculty of Economics, University of Ljubljana, Slovenia. His research applies economic sociology in IB. He is a guest editor of a forthcoming special issue on business with Central and Eastern Europe in Journal of Business Research. He is assuming a new Senior Lecturer position at Victoria University of Wellington, New Zealand in February 2018.

Arnold Schuh (arnold.schuh@wu.ac.at) is Director of the Competence Center for Emerging Markets & CEE and Assistant Professor at Vienna University of Economics and Business (WU Vienna), Austria. He is also Adjunct Associate Professor of International Business Studies at the Carlson School of Management, University of Minnesota, USA, and Honorary University Professor at Corvinus University of Budapest, Hungary. His primary research areas are marketing and strategies for CEE.

Benefits of Broadening the Analysis of International Competitiveness: The Case of CEE Countries

Arkadiusz Michał Kowalski, Warsaw School of Economics, Poland

Introduction

Improving our understanding of country-level international competitiveness, in either regional or global studies, requires analyses that go beyond aggregated comparisons of Gross Domestic Product (GDP). This article discusses results from a broad analysis of the international competitiveness of Central and Eastern Europe (CEE) countries to make this argument. After illustrating what a narrow analysis of just aggregated, top-line GDP numbers comparison would indicate, data on CEE countries' position in the global marketplace, investment attractiveness, and capital flows are provided and discussed to demonstrate benefits of utilizing a broader set of analyses. The basic finding from these analyses are that persistent competitiveness gaps between CEE economies and Western European countries have been diminishing in the last decade. In particular, almost all CEE countries experienced higher growth of the share of export in GDP than the averages for the EU and Eurozone. It reflects the growing CEE position in the global marketplace and increasing openness to international trade. When it comes to investment competitiveness, data on the inward stock of FDIs show that CEE countries have been becoming increasingly more popular destination for foreign capital in comparison with the whole European and world economy. Moreover, CEE economies play an increasing role as the source of FDI outflow, and this process confirms that this region is moving forward the stages of internationalization.

Dimensions of economic competitiveness

Although "competitiveness" is one of the most widely used terms in modern economics, there is a significant lack of consensus on what it really means. This is why Ketels (2015) called for a shared definition of this term to make it a useful category for the policy dialogue, proposing the adoption of Aiginger et al.'s (2015) definition of competitiveness as the "ability of a country (region, location) to deliver the beyond-GDP goals for its citizens." This definition reflects the comprehensive nature of the concept of economic competitiveness, which refers not only to income levels, but also other economic categories related to trade or investments. This article follows the methodology applied in the World Economy Research Institute at the Warsaw School of Economics' annual competitiveness reports (e.g., Weresa, 2016), where competitiveness is understood as an economy's ability to achieve:

1. a sustainable increase in the standard of living (income competitiveness),
2. an improvement in country's position in the global marketplace (trade competitiveness),
3. enhanced investment attractiveness, mostly for foreign capital (investment competitiveness).

With respect to the level of aggregation or geographical dimension, competitiveness may be analysed at different system levels:

1. microeconomic competitiveness (single company level),
2. mesoeconomic competitiveness (regional or sectoral perspective),
3. macroeconomic competitiveness (country level),
4. mega-economic competitiveness (the group of countries perspective),
5. meta-economic competitiveness (competition between different models of capitalism).

A study on international competitiveness of the CEE economy falls, therefore, into the category of mega-level analysis, as it focuses on the group of countries sharing similar characteristics.

However, it should be noted that all above-mentioned levels are strongly interconnected, as these are the successes of single companies that determine the prosperity of local regions, which subsequently contribute to the development of particular countries forming CEE.

Income Competitiveness of the CEE Countries

The basic measure of income competitiveness of an economy is the value of GDP per capita in purchasing power standards (PPS), which, despite all its shortcomings, is still the most common indicator of economic performance used in macroeconomic analyses. The volume index of GDP per capita in PPS is expressed in relation to the EU-28 average (set to equal 100), allowing a brief assessment of CEE economic position in the European Union (EU), as presented in Table 1. It starts from 2004, i.e., the EU enlargement with 10 new member states, out of which 8 (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) are from CEE.

As presented in Table 1, all CEE countries experienced lower levels of GDP per capita in the analyzed period in comparison with the EU average. However, the process of convergence is observable; in almost all countries (except Slovenia) the income gap with the EU has been reduced. The statistical data on the economic growth (measured by real GDP growth rates) in individual CEE countries, the whole EU, and Eurozone is presented in Table 2.

Table 2 shows that after EU enlargement in 2004, most CEE countries experienced higher average annual real GDP growth rates than the EU average, and the countries forming Eurozone. In this period, the fastest economic growth took place in Slovakia (4.01% annual average) and Poland (3.93%). An interesting observation may be made for the Baltic States, which experienced very high economic growth before economic crisis and negative real GDP growth rates after 2007. This reflects the typical impact of financial crisis on small economies, which are characterised by high openness to international trade and capital flows (a similar scenario was followed by, e.g., Iceland or Ireland [Kowalski, 2014]).

Trade Competitiveness of the CEE Countries

One of the main economic dimensions of international competitiveness is competitive advantages in foreign trade, which determine an economy's position in the global marketplace. Basic indicators of trade competitiveness are connected with different aspects of export (e.g., the composition, orientation, growth, diversification across products and markets, the level of sophistication). These measures reflect the ability to sell goods and services to foreign markets. Data on the share of exports of goods and services in the gross domestic product (GDP), which reflects the openness of the economy to international trade, are presented in Table 3.

Table 1: GDP per capita in PPS, Index (EU28 = 100), 2004–2015

geo\time	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change, p.p., 2004-2015
Bulgaria	35	37	38	42	45	46	45	45	46	46	47	46	11
Czech Republic	79	80	81	83	81	83	81	83	82	83	84	85	6
Estonia	55	59	64	68	68	62	63	69	74	75	76	74	19
Croatia	57	58	58	61	63	61	59	59	60	59	59	58	1
Latvia	47	51	55	60	60	52	52	56	60	62	64	64	17
Lithuania	50	53	56	60	63	56	60	65	70	73	75	74	24
Hungary	62	62	62	61	63	64	65	65	65	66	68	68	6
Poland	49	50	50	53	54	59	62	64	66	67	68	69	20
Romania	34	34	38	41	48	49	50	51	54	54	55	57	23
Slovenia	85	86	86	87	89	85	83	82	81	80	82	83	-2
Slovakia	56	59	62	67	71	71	73	73	74	76	77	77	21
Euro area (19 countries)	109	108	108	108	108	108	108	108	107	107	107	106	-3

Source: Eurostat, Code: tec00114 [date of extraction: 28 July 2016].

Table 2: Real GDP growth rate (percentage change on previous year), 2004–2015

geo\time	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2004-2014 average
EU 28 countries	2.5	2.1	3.3	3.1	0.5	-4.4	2.1	1.8	-0.5	0.2	1.4	2	1.18
Euro area (19)	2.3	1.7	3.2	3.1	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9	1.7	0.95
Bulgaria	6.6	7.2	6.8	7.7	5.6	-4.2	0.1	1.6	0.2	1.3	1.5	3	3.12
Czech Republic	4.9	6.4	6.9	5.5	2.7	-4.8	2.3	2	-0.8	-0.5	2.7	4.5	2.65
Estonia	6.3	9.4	10.3	7.7	-5.4	-14.7	2.5	7.6	5.2	1.6	2.9	1.1	2.88
Croatia	4.1	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4	1.6	0.74
Latvia	8.3	10.7	11.9	10	-3.6	-14.3	-3.8	6.2	4	3	2.4	2.7	3.13
Lithuania	6.6	7.7	7.4	11.1	2.6	-14.8	1.6	6	3.8	3.5	3	1.6	3.34
Hungary	4.9	4.4	3.8	0.4	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7	2.9	1.42
Poland	5.1	3.5	6.2	7	4.2	2.8	3.6	5	1.6	1.3	3.3	3.6	3.93
Romania	8.4	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.5	3	3.8	3.35
Slovenia	4.4	4	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3	2.9	1.70
Slovakia	5.3	6.4	8.5	10.8	5.7	-5.5	5.1	2.8	1.5	1.4	2.5	3.6	4.01

Source: Eurostat, Code: tec00115 [date of extraction: 28 July 2016]

Table 3 shows that almost all CEE countries experienced higher growth of the share of export in GDP than the averages for the EU and Eurozone. It reflects the growing CEE position in the global marketplace and increasing openness to international trade. There is a clear pattern that small countries are characterised by higher dependence on foreign trade, as the value of their exports of goods and services represents a significant part of their GDP. Slovakia with exports equal to 93.8% of GDP in 2015, followed by Hungary (92.1%), are notable exceptions.

Table 3: Exports of goods and services in % of GDP, 2004–2015

geo\time	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change, p.p., 2004-2015
EU 28	34	35.4	37.5	38.1	39.1	34.9	38.6	41.4	42.6	42.9	43.1	43.6	9.6
Euro area (19)	34.9	36.2	38.3	39.5	39.9	34.9	39	41.9	43.7	44	44.7	45.8	10.9
Bulgaria	41.1	42.6	47.1	52	52.3	42.4	53.7	62.3	63.4	67	65.1	66.5	25.4
Czech Republic	57.4	62.3	65.3	66.6	63.4	58.8	66.2	71.3	76.2	76.9	82.5	83	25.6
Estonia	61.5	65.9	63.5	63.2	66.8	60.8	75.1	86.5	86.6	86.8	83.9	79.8	18.3
Croatia	39.5	39.3	39.7	39	38.5	34.5	37.7	40.4	41.6	43	46.3	49.4	9.9
Latvia	39.1	43.2	40	38.5	39.6	42.6	53.7	58	61.5	60.4	59.5	58.8	19.7
Lithuania	47.4	53.9	55.7	50.4	57.1	51.9	65.3	75	81.7	84.1	81.2	76.5	29.1
Hungary	59.7	62.8	74.3	78.3	79.7	74.8	82.3	87.2	86.8	88	89.3	92.1	32.4
Poland	34.3	34.6	37.9	38.6	37.9	37.2	40	42.5	44.4	46.3	47.5	49.4	15.1
Romania	35.6	32.9	32.1	29.1	26.9	27.4	32.3	36.8	37.5	39.7	41.2	41.1	5.5
Slovenia	55	59.6	64.7	67.6	66.1	57.2	64.3	70.4	73.3	75.2	76.5	77.8	22.8
Slovakia	68.7	72.3	81.3	83.5	80.2	67.8	76.6	85.3	91.8	93.8	91.9	93.8	25.1

Source: Eurostat, Code: tet00003 [date of extraction: 28 July 2016]

Table 4: Foreign direct investment: inward stock, annual, 2004–2014
(USD at current prices and current exchange rates, in millions)

GEO/ TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CEE	301,383	323,501	453,676	623,480	597,723	658,771	662,817	631,625	714,525	802,620	730,598
CEE/ UE28	7.57%	7.61%	8.40%	9.08%	9.31%	9.21%	9.32%	8.52%	9.57%	9.64%	9.42%
CEE/ World	2.96%	2.94%	3.34%	3.64%	3.99%	3.74%	3.38%	3.09%	3.24%	3.28%	2.97%

Source: UNCTAD Statistics [date of extraction: 07 December 2015]

Investment Attractiveness of CEE Countries

In response to the political changes and economic transition initiated in 1989, foreign direct investments (FDIs) started to flow rapidly into the CEE countries. As the economies from this region lack capital, they are dependent on Western investors, which have been attracted by the excellent geographic location, privatisation process, new opening markets (and consumers), cheap but well-educated labour force, different investment incentives, and accession to the EU. Data on the inward stock of FDIs in CEE countries are presented in Table 4.

Table 4 shows that CEE countries have improved their investment competitiveness, as they were becoming an increasingly more popular destination for foreign capital, both in absolute terms (an increase of FDIs inward stock from 301,383 million USD in 2004 to 730,598 million USD in 2014), as well as a share in total world (small increase by 0.01 p.p.) and especially the whole EU (increase by 1.85 p.p. in an analyzed period). Analyzing this indicator from the perspective of the world economy, CEE economies experienced a parabola-like share of inward FDIs, with the peak equal to 3.99% in 2008. It means that the global economic crisis had stronger negative effects on inward foreign direct investment in CEE in comparison to the total world, but weaker than in old EU member states.

In the context of international capital flows, CEE is traditionally treated as a recipient region. However, the question arises if we can perceive this region as a location offering favourable conditions for companies eager to internationalise their economic activity not only through export but also foreign direct investments. The second type of foreign market entry mode is more challenging as it calls for more resources and bear higher risk. Table 5 presents data on the value of annual outward FDI (OFDI) stock from CEE, both in absolute terms and in relation to the whole EU and total world.

Table 5 confirms that in recent years we observe relatively small, but dynamically growing foreign investments made by companies located in CEE. For many years, CEE OFDI was almost negligible and limited to trade-supporting activities in key export markets. Since the EU enlargement in 2004, we observe fast increase of CEE OFDI, from 0.42% of the whole EU to 1.65% in 2014 (and from 0.19% of the total world to 0.62%). This pattern confirms that CEE economies are moving forward the stages of internationalization, which result in the growing value of OFDI, as provided by the Investment Development Path (IDP) hypothesis, first formulated by Dunning (1981).

Conclusions

Although recent approaches to economic competitiveness have begun to focus on a broad range of aspects going beyond

Table 5: Foreign direct investment: outward stock, annual, 2004–2014
(USD at current prices and current exchange rates, in millions)

GEO/ TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CEE	20,145	25,083	43,668	66,666	78,311	88,176	88,277	95,063	115,009	160,329	151,574
CEE/ UE28	0.42%	0.49%	0.68%	0.84%	0.99%	1.01%	0.99%	1.03%	1.26%	1.67%	1.65%
CEE/ World	0.19%	0.21%	0.30%	0.37%	0.49%	0.47%	0.43%	0.45%	0.51%	0.65%	0.62%

Source: UNCTAD Statistics [date of extraction: 09 Dec 2015]

income levels, like involvement in international trade or investment attractiveness, GDP per capita still remains the most popular measure in this area. From this perspective, after 2004 there have been persistent income gaps between CEE countries and the EU average, but they are progressively diminishing. However, analyses going beyond simple evaluation of levels of GDP allow for more in-depth cross-country comparisons of different aspects of international competitiveness and its determinants. Hence, broader analyses reveals that the process of income convergence in Europe was accompanied by increasing (faster than EU average) share of CEE exports of goods and services in GDP, indicating a growing trade competitiveness. Progressive internationalisation of CEE countries was also manifested by augmenting flows of inward FDI (which demonstrate an improvement of investment competitiveness), and dynamically growing (however still relatively small) outward FDI, proving the Investment Development Path hypothesis. Thus, the CEE countries experience relatively fast rates of economic growth, as their international competitiveness in terms of income levels, position in the global marketplace, and investment attractiveness have all been improving in the last decade; however, the convergence toward Western Europe will be a long-term process. Multidimensional character of international competitiveness means that its analysis must move beyond a simple comparison of GDP, and this is the case for all regional and not just CEE countries.

References

Aiginger, K., & Vogel J. 2015. Competitiveness: From a misleading concept to a strategy supporting Beyond GDP goals. *Competitiveness Review*, 25(5): 497-523.

Dunning, J. H. 1981. Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Developmental Approach. *Weltwirtschaftliches Archiv*, 117(1): 30-64.

Ketels, C. 2015. *Competitiveness and Clusters: Implications for a New European Growth Strategy*. WWWforEurope Working Paper No. 84, Vienna: WIFO.

Kowalski, A. M. 2014, International Competitiveness of Countries with Dynamic Innovation Systems. Case study: Ireland. In M. A. Weresa (Ed.), *Innovation, Human Capital and Trade Competitiveness. How are They Connected and Why Do They Matter?*: 204-228. Washington, DC: Springer.

Weresa, M. A. 2016. Preface. In M. A. Weresa (Ed.), *Poland: Competitiveness Report 2015. The role of economic policy and institutions*: 7-8. Warsaw: Warsaw School of Economics Press.

Arkadiusz Michał Kowalski (arkadiusz.kowalski@sgh.waw.pl) is an Associate Professor and a Head of East Asian Research Unit in the World Economy Research Institute in the Warsaw School of Economics. His research and academic teaching focus on international competitiveness, innovation systems, clusters, and internationalization of firms. He is an author and co-author of more than 50 publications in these areas. Additionally, he has been engaged into consultancy work with governmental bodies, enterprises, and clusters.

OFDI and IFDI Policies Adopted by Central and Eastern European Countries after the Great Recession of 2007-2010 [1]

Marta Götz, Vistula University, Poland

Introduction

The significant decline in foreign direct investment (FDI) after the Great Recession, and the accompanying ideological shifts in the role of the state in an economy, have inspired research on the interactions between the two (Szalavetz, 2015; Evenett, 2012). In particular, the developments have called into question likely changes in internationalization policies adopted in Central and Eastern Europe (CEE). There are many "FDI in CEE" case studies on best practices and government policies, but broader analyses contrasting Outgoing FDI and Incoming FDI policies of countries in this region are lacking. I define the CEE region as the thirteen countries which have joined the European Union (EU) since 2004: Poland, Czech Republic, Slovakia, Hungary, Estonia, Latvia, Lithuania, Cyprus, Malta, Romania, Bulgaria, Slovenia, and Croatia. These countries have long been regarded as very friendly for foreign investors, but their domestic firms are much less involved in international expansion than their Western European ("old EU") counterparts. I examine if FDI policies pursued by these states changed after the Great Recession and if the CEE region became more restrictive or liberal toward foreign investors or the internationalisation processes of domestic companies. To address these questions, I map the CEE countries' approach to incoming (IFDI) and outgoing (OFDI) investment.

FDI and OFDI Policies

In empirical studies, FDI policies, defined as actions or principles adopted in the form of dedicated or even discriminatory measures, are modelled as independent variables influencing investor choices of company location. Despite a growing prominence of such policies in public debate, in particular in the CEE countries, reliable data for international comparisons continue to be sparse: "…few efforts have been undertaken to quantify and systematically compare national FDI policies" (Golub, 2009, p. 1248). While conceptual aspects seem to be well covered in the FDI literature, cross-country policy research remains significantly asymmetrical. Existing studies are profoundly biased toward incoming FDI (Casson, 2007; Buckley et al., 2010). FDI policy research deals predominantly with overall terms and conditions and general host country regimes impacting domestic and foreign investors. To evaluate and detect possible changes in FDI policies pursued by CEE countries after the Great Recession, I rely on alternative indicators that proxy for FDI policies. Compiling these and assessing tendencies in their development enables establishing the FDI policy profile of each CEE country. Table 1 summarizes data sources used.

The above indicators provide insights into the progress achieved in ongoing reforms, the degree of openness to the international community and the level of compliance with existing anti-discriminatory laws. Hence, in the light of scarcity of indicators reflecting genuine FDI policy, these selected measures provide insight into attitudes adopted in Central and Eastern Europe toward the incoming and outflowing investors. In general, the CEE countries have been classified as running rather friendly (or unfriendly) policies toward incoming investors if they were:

- assessed as positive (or negative) in the Global Trade Alert, based on the reported number of instances of discriminatory measures implemented
- posting fewer (or new and/or more) Investment State Dispute Settlement (ISDS) cases, which have concluded new BITs and whose total number of BITs is above (or below) the EU average,

[1]This article presents selected outcomes of the Research Project "The State's role in Europe's (post)crisis economy – policies towards foreign direct investment" funded by the National Science Centre by decision DEC-2014/13/B/HS4/00165.

Table 1: Databases used to study and approximate IFDI and OFDI policies

FDI policy	Data Source
Inward FDI	The OECD's Investment Regulatory Restrictiveness Index (IRR)
	The existing Bilateral Investment Treaties (BITs) provided by the EU and UNCTAD
	The number of claims lodged under Investment State Dispute Settlement procedures (ISDS) reported by UNCTAD
	The attractiveness ranking provided in the Global Competitiveness Report (GCR) of the World Economic Forum
	The indicators on discriminatory measures that are "harmful to foreign commercial interests", as reported by the Global Trade Alert (GTA)
Outward FDI	The Reform Responsiveness Index (RRI)
	The Doing Business ranking of the World Bank
	The statistics on the number of OFDI support centres provided by the EU Commission
	The corporate income tax rates published by the US-based Tax Foundation
	The Index of Economic Freedom, an annual guide published by The Wall Street Journal and The Heritage Foundation

- having a low (or high) Investment Restrictiveness Index, and
- with above (below) the average EU score in GCR subindex on FDI attractiveness.

The CEE countries:

- whose Reform Responsiveness Index is below (or above) the EU average,
- who have less (more) than the EU average number of OFDI support centres,
- who have higher (lower) than the average and increasing (decreasing) corporate tax rates,
- whose Economic Freedom ranking is worsening (improving) and
- whose Doing Business ranking is decreasing (or increasing)
- have been classified as pursuing rather unfriendly (or stimulating) policies toward outward FDI.

Categorizations adopted in this paper draw on the simple division between the IFDI and OFDI policy and between investing friendly and unfriendly policy. In particular, I adopted the following simple technique. Firstly, I categorized countries according to rankings such as IRR, RRI, Doing Business, Tax rates, Freedom index, or Attractiveness as measured by GCR. The best performing countries and/or those recording the most positive changes were classified as running "pro" FDI policy, whereas the laggards and/or these with deteriorating performance were assessed as running "anti" FDI policy. For each ranking the average values were calculated to serve as benchmarks. Referring to these averages enables sorting and classifying all countries depending on the indicator (e.g., for attractiveness GCR "above" would mean "pro IFDI," for restrictiveness IRR "above" would mean "anti IFDI").

Secondly, in the case of Bilateral Investment Treaties and OFDI support institutions, categorisation reflects the total number of concluded agreements or officially registered facilities. Country averages in each case can be regarded as a reference point (above as more "pro OFDI," below as more "anti FDI").

Thirdly, for irregular signal information such as reported ISDS claims, or GTA "naming and shaming" (i.e., when some countries appear but some are not mentioned), I classified these "negative" cases as pursuing "anti" FDI policies. In the future, I hope to employ a more nuanced scale of evaluating FDI policies, which exceeds the simple dichotomy "pro/anti" or "friendly/hostile."

Aggregating each country's IFDI and OFDI policy indicators generated a simple composite index. Once I have combined a given country's approaches to IFDI and OFDI, these are suited for FDI policy classification. The applied methodology distinguishes between four FDI policy models:

1. Open: a "double positive" strategy with both types of FDI making positive contributions to the national economy ("pro" approaches dominate both OFDI and IFDI);

2. Closed: a "double negative" strategy with both types of FDI associated with losses to the national economy ("anti" approaches dominate both OFDI and IFDI);

3. Competitive: a "positive OUT, negative IN" strategy; the state encourages internationally competitive domestic companies while restricting foreign investment ("pro" approaches dominate for OFDI and "anti" approaches dominate for IFDI);

4. Capital: a "positive IN, negative OUT" strategy; the state promotes capital accumulation by attracting foreign investment while restricting outflows by domestic businesses ("pro" approaches dominate for IFDI and "anti" approaches dominate for OFDI).

Table 2: Diagnosed Models of FDI policies pursued by CEE countries

Policy towards IFDI*	Policy towards OFDI*	Country	FDI Policy Model
pro	pro	Bulgaria	**Open**
anti	pro	Croatia	**Competitive**
anti	anti	Cyprus	**Closed**
anti	pro	Czech Republic	**Competitive**
pro	anti	Estonia	**Capital**
anti	neutral	Hungary	**Closed or Competitive**
anti	pro	Latvia	**Competitive**
anti	pro	Lithuania	**Competitive**
pro	anti	Malta	**Capital**
anti	pro	Poland	**Competitive**
anti	pro	Romania	**Competitive**
anti	anti	Slovakia	**Closed**
anti	pro	Slovenia	**Competitive**

* dominating approach based on the compiled indicators

This research identified only one Open, seven Competitive, two Capital, and three Closed models. The Hungarian model could not be diagnosed due to its unclear (neutral) stance on OFDI flows. The map of the CEE countries' (post) crisis FDI policies shows that only three adopted friendly IFDI policies while eight pursued favourable OFDI policies. The most common approach was the competitive model aimed at stimulating OFDI and preventing IFDI. Though no clear homogeneity can be diagnosed with respect to the sub-regions (i.e. within the Visegrad group or among the Baltic states). The Closed strategy of Slovakia and Cyprus contrasts with the Open approach adopted apparently in Bulgaria.

I believe the identified policy-mix and our FDI policy model classifications reflect the deliberate strategy chosen by a given country, not just an unintended consequence. I speculate about the implications these policies have on policymakers and for domestic and foreign firms (Table 3). The knowledge about the pursued FDI policies, which is anchored in a broader context (i.e., showed in a more standardised fashion against the background of other countries), might enable practitioners to better formulate the firm strategies and policy makers to improve government policies. For FDI scholars, this framework might encourage more nuanced explorations.

An interesting observation from this research is that CEE countries commonly associated with an IFDI-welcoming culture and with neglectful internationalization policies seem to pursue some opposite policies. They have become less friendly towards incoming FDI but have adopted a more positive approach towards the OFDI. Based on other data, the "old EU" member states (including UK) have recently adopted policies more friendly toward incoming FDI and have a rather unfriendly attitude toward OFDI. Hence, the Competitive model seems widespread among the CEE countries, whereas the Capital model is more popular among "old EU" members.

The common trends and limited homogeneity of the preferred models may come as a surprise. Whether these results are simply influenced by the selected variables and affected by the quality of the FDI policy approximations or indeed suggest the start of new trends remains to be seen. It does not seem justified, however, to argue that this classification is a clear manifestation of the preferred policies. By combining two policy approaches, these FDI policy models provide evidence for actual strategies towards incoming and outflowing investors in (post) crisis years. In other words, if policies toward the incoming and outflowing investors are unfriendly, it does not necessarily mean that governments and policymakers view such flows as a drag on their home economies or a distortion of domestic competitiveness. Inconsistencies between policies that constitute countries' development strategies and the day-to-day policymaking has also been stressed in recent studies which suggest that bold, anti-liberal declarations fail to trickle down to the level of actual measures (Aalbers, 2013: 1083; Sellar & Pástor, 2015: 352). Nevertheless, one may not rule out the possibility that the CEE policymakers have realized they need to be more selective towards incoming foreign investors and to internationalize their domestic businesses.

There is no golden rule of what policy towards FDI should look like, and empirical evidence does not provide clear findings and recommendations as to the preferred design of such policy or desired levels of IFDI and OFDI because countries at various stages of development might require different sets of strategies. Thus, no simple advice can be forwarded with respect to the optimal FDI policy. Hence, it is not warranted to either criticize governments, or praise them based on their pursued FDI policy mix. The chosen combination usually reflects the political economy of the inward and outward FDI flows' management.

Conclusions

This classification of the CEE countries' FDI policies draws on a set of variables which, in most cases, have been fairly imperfect substitutes for FDI policy measures selected in the view of the limited availability of data and/or the sensitivity of the subject matter. Hence, the findings must be treated with caution to prevent possible misinterpretations. Future detailed research should certainly rely more on country specific first-hand data, surveys of experts, national economic press' review, and should

Table 3: Possible Implications of Chosen FDI Policy Models

Implications	Closed model	Open model	Competitive model	Capital model
Policymakers need to:	provide better incentives for channelling domestic savings into valuable investments	conduct reforms and provide conducive business environment pursue more "externally oriented" policy; closely watch other countries' incentives policies and outbid these if necessary assess risks of crowding-out (IFDI) and hollowing-out (OFDI)	only accept IFDI aligned with domestic goals pursue more "internally driven" IFDI policy – adjusted to national economic strategy safeguard business-friendly environment facilitate domestic firms to venture abroad assure supply of necessary internationalisation tools	promote and reward domestic businesses improve country attractiveness to encourage foreign investors (mainly via created assets – clusters)
Domestic companies should:	focus on strategies of diversified products, services instead of geographic expansion and diversification enjoy relative protection against foreign investors	expect internationalisation assistance from public authorities find more opportunities of foreign expansion be prepared to face increased competition from incoming FDI	pursue bold internationalisation strategies expecting significant state aid receive protection from foreign competitors	fine-tune strategies to supply local markets expect more competition from inflowing FDI learn to establish relations and benefit from new linkages with IFDI
Foreign investors should:	be prepared for new barriers erected to prevent them from investing guarantee high quality investments aligned with host country economic goals	take advantage of liberal host-countrypolicies utilize available incentives enjoy emerging cooperation possibilities along the value chains	assure the highest quality of planned investment and align it with host economy provide benefits for local economy via spillovers and building ties with local suppliers	benefit from welcoming culture expect certain concessions enjoy better negotiating position, express own requirements

build advanced models which may account for the likely policy shifts (Éltető et.al., 2015). These findings may contribute to the ongoing debate on the FDI policies adopted by the CEE countries. It should be stressed, that this research comes out in pretty unique moment. It namely captures the peculiarities of transition time—on the one hand—shortly after the Great Recession and—on the other hand—before the EU-wide common investment policy is fully operational.

References

Aalbers, M. 2013. Neoliberalism is dead…long live neoliberalism! *International Journal of Urban and Regional Research*, 37(3): 1083-1090.

Buckley, P. J., Clegg, L. J., Cross, A. R., & Voss, H. 2010. What Can Emerging Markets Learn from the Outward Direct Investment Policies of Advanced Countries? In K. P. Sauvant & G. McAllister (Eds), *Foreign Direct Investments from Emerging Markets: The Challenges Ahead*: 243-276. New York: Palgrave Macmillan.

Casson, M. 2007. Multinational enterprises: their private and social benefits and costs. *World Economy*, 30(2): 308-328.

Éltető, A., Ferenčková, S., Götz, M., Hlušková, T., Jankowska, B., Káž, E., & Sass, M. 2015.*Outward FDI Policies in Visegrad Countries*. IZ Policy Papers no. 16.

Evenett, S. J. 2012. The Landscape of Crisis-Era Protectionism. In S. J. Evenett, *Débâcle: The 11th GTA Report on Protectionism*: 19-40. London: Centre for Economic Policy Research.

Golub, S. S. 2009. Openness to Foreign Direct Investment in Services: An International Comparative Analysis. *World Economy*, 32: 1245-1268.

Sellar, C., & Pástor, R. 2015. Mutating Neoliberalism: The Promotion of Italian Investors in Slovakia before and after the Global Financial Crisis. *International Journal of Urban and Regional Research, 39*: 342-360.

Szalavetz, A. 2015. Post-crisis approaches to state intervention: New developmentalism or industrial policy as usual? *Competition & Change*, 19(1): 70-83.

Marta Götz (m.gotz@vistula.edu.pl) is an associate professor at the Vistula University (Warsaw) at the Faculty of Business and International Relations and serves as Vice-Rector for Science. She completed her PhD in 2007 at the Poznań University of Economics and defended her habilitation at the same University at the Department of International Economy in 2015. From 2007-2015 she worked as research fellow at the Institute for Western Affairs in Poznań – a think-tank under auspices of Ministry of Foreign Affairs and the Ministry of Science and Higher Education. From 2004-2006 she was a teaching assistant at the Warsaw School of Economics.

Do Foreign Subsidiaries Improve Host Country Competitiveness? Insights from Hungary

Attila Chikán, Corvinus University of Budapest, Hungary
Erzsébet Czakó, Corvinus University of Budapest, Hungary
Péter Juhász, Corvinus University of Budapest, Hungary
László Reszegi, Corvinus University of Budapest, Hungary

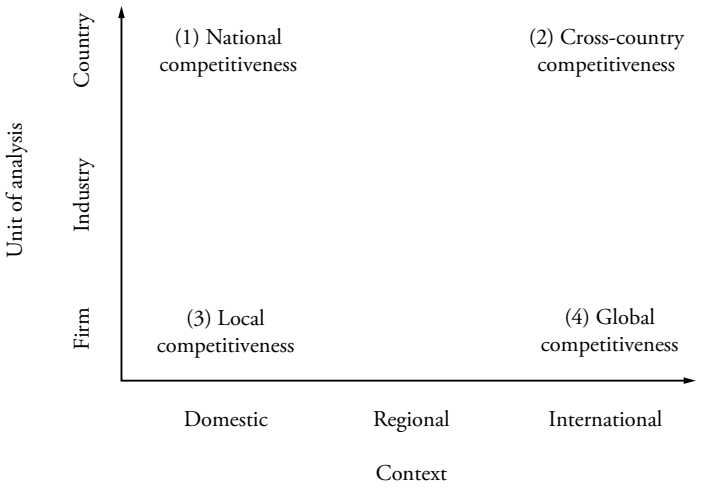
Introduction

Boosting FDI and promoting internationalization are usually considered to be among the best ways to enhance the competitiveness of a country in the long run. However, the question arises if, after establishing a local subsidiary(ies), foreign firms (MNEs) will indeed create connections to locally-owned firms, and if these business connections can raise the general level of host-country efficiency and/or competitiveness. Recent results from our study of competitiveness show that policymakers in Central and Eastern Europe (CEE) should not be very confident of this. Instead, there is a threat that MNEs often operate independently of local firms, thus creating a dual economy that might limit rather than boost development of a given country. On the other hand, the classic view of a dual economy with highly developed foreign firms and underperforming local ones with outdated technology does not hold entirely either. Setting economic policy that enhances country competitiveness requires going beyond basic stereotypes to obtain a more detailed and nuanced picture. Our paper presents such a view for Hungary.

Dimensions of Competitiveness

Competitiveness might cover very different approaches: it may be addressed at a local, national, regional or even global level. For example, it is not trivial that an economy dominated by highly competitive firms at a local level would be competitive when compared to other countries. It is enough to think of countries with economies built on one single natural resource e.g. oil. Even if oil companies use the most developed technology with high efficiency, the country itself would be lagging behind due to its dependence on commodity prices if public revenues are not spent to develop an "alternative" economy. To clearly separate dimensions, we developed a map of competitiveness investigations, inspired by Guerras-Martín et al. (2014) who applied a similar framework for mapping and classifying the schools of strategy research (Figure 1).

Figure 1. Classifying competitiveness investigations



Our approach uses two dimensions. The vertical axis refers to the two most widely used units of analysis: the national economy and the firm(s). At the former level of analysis, macroeconomics and international economics often serve as academic backgrounds. At the latter level, a firm is the micro-unit of pro-

duction bound by law. Amongst the most often used academic backgrounds we find firm theories, business and management studies, and international business research.

The horizontal axis indicates the context. Domestic context means that this approach takes the national economy as a standalone identity, mostly independent of its international economy context. This approach can be well interpreted in the case of the national economy, but nowadays its use is not evident when studying firms. Despite globalization, the institutional context for the firm is, to a large degree a domestic one, which sets out the same law compliance requirements to all registered firms in a given country. This context provides a meaningful approach, especially for the home-market oriented small firms. The international context approach means that we take for granted that there is integration amongst economic actors across borders.

Papers examining (1) national competitiveness focused on the time dimension describe the past, present, and future macroeconomic performance of a country and their determinants (e.g. growth, productivity, trade, foreign investments, employment, educational level, R&D). Reports on national competitiveness agencies fall into this domain. The central research question is how and why a given country is competitive, or could be more competitive than it was.

(2) Cross-country competitiveness studies focused on a horizontal comparison of past macro-level economic performance and its determinants in an international context. They use comparable data and datasets on national economic performance. Two well-known examples for this are the competitiveness rankings prepared by IMD World Competitiveness Center (IMD 2016) and World Economic Forum (WEF 2016). Instead of longitudinal analyses, we focus on whether a country is (and how it could be) superior to other countries.

The concept of (3) local competitiveness is aimed at firms. Economic performance and influencing factors (e.g. profitability, productivity, competitive advantages, and exports) are defined accordingly. Examples thereof are research on firm-level advantages and firm renewal, or the contributions of intra-firm activities (e.g. marketing, HRM) to firm-level advantages and their renewal. The related research papers aim to identify the most competitive strategies (like various economic policy measures) within a country.

Finally, (4) global competitiveness compares firms across borders emphasizing that those are present on the same (global or regional) market. Key business activities and their performance measures (e.g. exports, imports, MNEs, and foreign subsidiaries) are selected to track the ability to sell on foreign markets. The main question to answer in these papers is how and why a given firm is better than its counterparts in the same market including firms from other countries.

Our recent research connects the traditional research categories by analysing firms based on both (3) local (growth, productivity, employment, TFP) and (4) global competitiveness capabilities (ability to export). We also aim to both identify best practices for managers at companies and to come up with a recommendation for national economic policymakers to boost (1) national competitiveness.

Dataset and Methodology

Firms with foreign majority ownership are usually assumed to distinguish themselves by close links to foreign markets and better productivity than locally-owned firms. This stereotype is underpinned by the fact that in 2012 foreign-owned firms (most of them MNE subsidiaries) altogether created 51.8% of the Hungarian added value while being responsible for 58.4% of country-wide import and 53.6% of the total export.

To examine the relationships among ownership, efficiency, productivity, and export, two of the authors of this article (Juhász & Reszegi, 2017) collected the publicly available annual reports of Hungarian non-financial firms with at least 20 employees in 2010 for the period 2008–2011. They also added information on ownership and employment from Bisnode Hungary database. The resulting sample included firms with continuous operations and positive owners' equity throughout the period analysed. Companies included declared clear ownership information (no offshore firms) and published full (non-simplified) annual reports in line with the Hungarian Accounting Standards. Companies in the process of legal transformation (e.g., due to mergers and acquisitions, bankruptcy) and those owned by the state or municipalities were excluded. These restrictions required omitting micro firms and small firms that published simplified statements, so it is very likely that the sample significantly over-performs the average of the whole corporate sector.

Altogether 4,641 companies remained in the sample, and 1,875 were foreign-owned. Sample firms made significant contributions to the Hungarian economic performance. They accounted for 39.6% of employment in the for-profit sector and 52.9% of employment in the manufacturing sector in 2010. In the period from 2008 to 2011, these firms provided 70.9% to 72.9% of the total Hungarian exports.

Key Findings

Our results show that it would be a mistake to consider the Hungarian economy as one homogenous entity. Telling apart locally- and foreign-owned firms is a vital distinction, but not a sufficient one, as we identified several layers of duality. Based on our analyses, even the group of foreign-owned firms is heterogeneous. The relative level of wages was identified as the key variable for separation. The firms that pay less than the aver-

age salary in their industry to (probably) low-skilled workers had an added value that is just around the mean of the locally-owned firms. Thus, these firms were not particularly (3) locally competitive. In contrast, foreign-owned firms with a wage level above the sectoral average (a proxy for highly skilled workers) can be characterised by an added value per employee that is two or three times higher than that of the below-average-wage firms, considering both foreign and locally owned ones.

Foreign firms with a highly trained workforce stand out by far regarding the efficiency of capital usage, productivity, and wage level (2.0-2.5 times the country average). These companies added a considerable amount to Hungary's GDP. Most foreign-owned firms have high export intensity (a hint to (4) global competitiveness), and that of the low-wage foreign companies is particularly high. The median foreign firm had at least two-thirds of its sales coming from international markets, and the average is also above 50%.

How is it possible that a locally (3) not (particularly) competitive subsidiary is competitive on the global scale (4)? Could that be only because they take profits out of their MNE network? If so, is it possible, for example for the locally-owned firms, to be competitive globally (4) without having access to such a network? This problem underlines also the importance of using different measures to judge the overall (3 and 4) competitiveness of a firm. At the same time, it raises the question whether we can measure the stand-alone competitiveness of a local subsidiary of an MNE at all.

According to Marin and Schymik (2015), the export market share of the median exporting firm in each of the seven EU countries (Austria, France, Germany, Hungary, Italy, Spain, UK) examined has at least tripled (in some cases it increased up to tenfold), if the firm combined decentralized management with relocation or outsourcing of their manufacturing to low-wage countries. They emphasize that the dynamic increase in Germany's export to China was due, after all, not to their reliance on cheap suppliers, but rather, to the growth in Chinese demand for production goods in which Germany had a comparative advantage. At the same time, the German economy is extending into cost-competitive markets by relocating manufacturing instead of exporting. Thus, relocation and outsourcing for these firms are not ways of entering new markets, but rather a method of cost reduction. This conclusion means that the major buyer of these foreign firms in low-wage countries is their group headquarters, so the high exporting activity has little to do with (4) global competitiveness. We believe this same process can be observed in Hungary from a bottom-up perspective.

When the data of the locally-owned firms were analysed, another kind of duality emerged clearly when the export intensity (once again a proxy for (4) global competitiveness) was considered. Those achieving more than 25% of their sales from foreign markets were significantly more efficient, productive, and paid a higher average wage than companies in the same industry focusing on local markets. It is critical to see that the profitability gap between a typical export intensive local firm and an average foreign-owned one is quite narrow, while the former group may even over-perform the low waged foreign-owned companies regarding measures for efficiency and profitability ((3) local competitiveness).

Firms with Hungarian majority ownership and low export intensity (exporting less than 25% of sales) drop significantly behind. Their productivity is less than one-third of the foreign-owned high waged firms (subsidiaries). At the same time, this figure is enough to keep up with the least productive foreign-owned firms not only in productivity but also in terms of salary.

Summarizing the above, based on the data we cannot confirm that FDI in general adds to (1) national competitiveness. Therefore, one of the biggest challenges for policymakers may be the identified duality of foreign firms. Should countries offer incentives to both firms employing highly trained employees and firms with poorly trained workers? Foreign investors building on relatively cheap labour (a proxy of low-skilled workers) may increase the country-wide employment level, but for how long? Not only CEE, but also countries just recently joining the globalised markets inevitably face this challenge.

The new EU member states (e.g. CEE) see a continuous decrease in the growth rate of the added value content in their trade. This decrease is most explicit in the case of high-tech industries. At the same time EU-15 countries also signal a general decreasing added value trend, but in manufacturing and particularly in high-tech industries their added value is increasing (Leitner and Stehrer, 2014). This trend is in line with recent research findings, which suggest that export firms in the new EU member states focus mainly on low-added value activities while EU-15 countries retain the high-added value (e.g. R&D, strategic management) activities and jobs.

It is not only at the firm level that the revealed dualities raise challenges for policymakers. Wage inequality for the same job can be high both across regions of the same country and across different countries. Today, two similarly qualified blue collar jobs can have a wage difference of up to 200% within Hungary. This phenomenon signals a severe regional inequality and, in addition to its economic consequences, it may also lead to social tensions within a country.

Conclusions

Drawing from earlier research on strategic management, we suggest a new two-dimensional categorization of competitiveness approaches. Based on this model, the units of analysis

might be firms, industries, or countries, while the scope of investigations could cover a country, a region of countries, or the whole world.

The article also presents some of our recent findings in competitiveness research. We performed the analyses on a database, which contains both financial data of privately-owned firms and their ownership and employment information. The results suggest that there are several layers of duality within the Hungarian economy, one of which can be described by the ownership background. For the locally-owned firms, the primary line of division is export intensity, while foreign firms (subsidiaries) differ greatly based on their wage level compared to industry average. These lines of division do not correlate with ownership, which is usually considered to be the main reason behind the duality of firms. The size of the sample provides robustness and implies that the competitiveness approaches at policy level need to be more differentiated when focusing on diverse groups of firms.

References

Guerras-Martín, L. Á., Madhok, A., & Montoro-Sánchez, Á. 2014. The evolution of strategic management research: Recent trends and current directions. *Business Research Quarterly*, 17: 69-76.

IMD. 2016. *World competitiveness yearbook*. http://www.imd.org/business-school/global-competitiveness-report.html. Accessed August 25, 2016.

Leitner, S. M., & Stehrer, R. 2014. *Trade integration, production fragmentation and performance in Europe – blessing or curse? A comparative analysis of the New Member States and the EU-15*. The Vienna Institute for International Economic Studies, November.

Marin, D., Schymik, J., & Tscheke, J. 2015. *Europe's export superstars – It's the organization!* Bruegel working paper 2015/5, July, http://bruegel.org/wp-content/uploads/2015/07/Europe_-export_superstar.pdf. Accessed December 14, 2015.

Juhász, P., & Reszegi, L. 2017. Parallel and multilayer economic dualities: an example from Hungary. *UTMS Journal of Economics*, 8(1): 1-10.

WEF. 2016. *World Economic Forum global competitiveness report*. http://reports.weforum.org/global-competitiveness-report-2015-2016/. Accessed August 25, 2016.

Attila Chikán (chikan@uni-corvinus.hu) is Emeritus Professor of Business Economics, and Business Policy at the Corvinus University of Budapest (CUB) and an elected member of the Hungarian Academy of Sciences. He served both as a Minister of Economy for Hungary and as a Rector of CUB. He is the founder and the Director of the CUB Competitiveness Research Centre. His main research fields include logistics, and inventory management and firm level competitiveness and its national policies.

Erzsébet Czakó (erzsebet.czako@uni-corvinus.hu) is Professor of Business Economics, and International Strategy at the Corvinus University of Budapest, where her Ph.D was obtained. She has been a Member of the Board of the Academy of International Business Central and Eastern European (AIB-CEE) Chapter since 2013. She is co-editor of the first Hungarian language textbook on IB. Her primary research interest is in the concept of competitiveness and its connectivity to international business (IB).

Péter Juhász (peter.juhasz@uni-corvinus.hu) is Associate Professor of Financial Management, and Business Valuation at Corvinus University of Budapest. He holds a Ph.D from CUB, is a CFA charterholder and serves as the secretary of CFA Society Hungary. His research topics include business valuation, appraisal of off-balance sheet assets, financial modelling, and competitiveness and performance analysis of firms.

László Reszegi (laszlo.reszegi@businesskft.hu) is Honorary Professor and co-chair of Business Development Research Centre at Corvinus University of Budapest. He holds a Ph.D from the Hungarian Academy of Sciences. He lectured Business Valuation, Managerial Accounting, and Performance Analysis for many decades at CUB, and has an extensive experience is business consulting. He is co-editor of the first Hungarian language textbook on IB. His research interest centres on measuring firm financial performance and its relatedness to national level competitiveness.

EDITORIAL POLICY

AIB Insights is the Academy of International Business official publication that provides an outlet for short (around 2,500 words), interesting, topical, current and thought-provoking articles.

Articles can discuss theoretical, empirical, practical, or pedagogical issues affecting the international business community. The publication seeks articles that have an international business and cross-disciplinary orientation with IB researchers and faculty as the intended primary audience.

Authors should highlight the insight of their article in the first paragraph. They should prompt the reader to think about international business and international business teaching/learning in new ways. Articles sought should be grounded in research, but presented in a readable and accessible format.

Articles written for *AIB Insights* should be free of professional jargon and technical terms, light on references, but heavy on insight from the authors' experiences and research. Terminology should be defined if it is not in the common domain of the IB literature. Authors should remember the intended audience of the publication and write accordingly. A regression equation, a correlation matrix, a table or a graph needed to support a point may be included.

AIB Insights does not seek the kind of articles that are intended for traditional journals in international business, such as the *Journal of International Business Studies*. The publication is intended to inform, educate, and enlighten readers with state of the art information on a topic with a broad appeal to the profession. Acceptable articles may fall into one of several categories:

1. Research insights from authors' stream of research
2. Current issues affecting international business as a discipline
3. The use of technology in international business
4. The evolving nature and evolution of the International Business department/function/discipline
5. Internationalization of the curriculum
6. Innovative approaches to teaching international business
7. Teaching pedagogy and content articles
8. Other topics of interest

Please include a cover page with all the authors' contact details (email, university affiliation, full address, telephone, fax if used). The second page should include 50-75 word biographies of participating authors. Articles submitted should follow *JIBS* referencing style for consistency. *AIB Insights* is published four times a year and available in print and digital format. Please submit your manuscript via our online manuscript submission system at *aib.msu.edu/publications/insights.* For any questions, please contact the *AIB Insights* editorial team via email at *insights@aib.msu.edu*.

Submit your manuscript at *aib.msu.edu/publications/insights*

AIB Insights (ISSN: print 1938-9590; online: 1938-9604) is an official AIB publication and provides an outlet for short, topical, stimulating, and provocative articles. Past issues of *AIB Insights* can be accessed at *aib.msu.edu/publications/insights*.

AIB Insights is jointly published with the *AIB Newsletter* by the Academy of International Business Secretariat. For more information, contact the AIB Media and Communications Coordinator at:

Academy of International Business
Michigan State University
Eppley Center
645 N Shaw Ln, Rm 7
East Lansing, MI 48824 USA
Tel: +1-517-432-1452
Fax: +1-517-432-1009
Email: media@aib.msu.edu