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Urmas Varblane, Tõnu Roolaht, Ele Reiljan, Rein Jüriado

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Abstract

This paper aims to analyse the role of outward foreign direct investments in the Estonian economy. The research is based on the macro data provided by the Bank of Estonia and on the results obtained from 70 firms that responded to the survey conducted by the authors in autumn 2001. In the process of research the firms in the sample were classified as follows: by the type of investors (direct and indirect), by the type of investments (production, trade, other services), and by the age of affiliations. It allowed us to find interesting differences in the behaviour patterns of various investors. The survey revealed

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that market related motives appear to be predominant among the factors that make Estonian firms to invest abroad. The most important effects on the parent company are related to additional market shares gained abroad and enhanced exports. Investments into the other Baltic countries have been more in line with earlier expectations than those into the CIS or the European Union.

CONTENTS

Introduction

In recent years outward foreign direct investments (OFDIs) from Estonia have been growing rapidly. There is a relatively extensive list of publications addressing themselves to the role of inward foreign direct investments in the Estonian economy. More specifically, these papers direct their attention to the overall impact of foreign direct investments (Otsesed, 1998 and The role of FDI, 2001), FDI determinants (Reiljan, 2000), the impact of FDIs on technology transfer (Männik, 2001), export (Varblane, 1999), restructuring (Varblane, Hannula, 2000) and employment in Estonia (Varblane, 2000).

Very limited is the pool of literature tackling issues related to internationalisation of Estonian firms (Roolaht 2001, Varblane, 2001). The authors have mainly concerned themselves with the problem of entering foreign markets by using different methods of export – indirect or direct. The major characteristics of outward direct investments as a method of internationalisation have never before been evaluated on a systematic basis in Estonia. There is only the paper by K. Kilvits and A. Purju of Tallinn Technical University, focussing mainly on the macroeconomic aspects of OFDIs (Purju, 2001) and several papers by T. Roolaht (2000) and T. Vissak (2000) about the role of FDIs and networking in the internationalisation process.

The current paper is thus a pioneering attempt to analyse Estonia's outward FDIs (OFDIs). The researchers could use secondary data from the Bank of Estonia sources and primary data from the survey carried out among the Estonian firms investing abroad. The questionnaires were sent to 196 firms, which represented more than 95 per cent of all Estonian investments abroad.

In the paper Estonian firms investing abroad were analysed in order to fulfil the following three main research tasks:

- determine the factors that motivate Estonian firms to invest abroad;
- analyse the effects of outward investments on the parent company;
- find how content the firms are with the results of their hitherto investments and their future plans about further investments

In the process of research the firms in the sample were grouped as follows: by the type of investors (direct and indirect), by the type of investments (production, trade, other services), and by the age of affiliations. This allowed us to disclose interesting differences in the behaviours of particular investors.

1. The Dynamics of Direct Investment Flows in the Estonian Economy 1993-2001

The internationalisation of Estonian firms was accomplished in early 1990 primarily via indirect and direct exports. Estonia as a small country with extremely liberal foreign trade policies combined with successful signing of free trade agreements with all major trading partners offered for Estonian firms good opportunities to enter foreign markets. Estonia has been rather successful in attracting foreign capital. Although the inflow of foreign capital into Estonia (see Figure 1.) has followed certain cycles, a manifest tendency for quarterly inflows to grow is obvious.

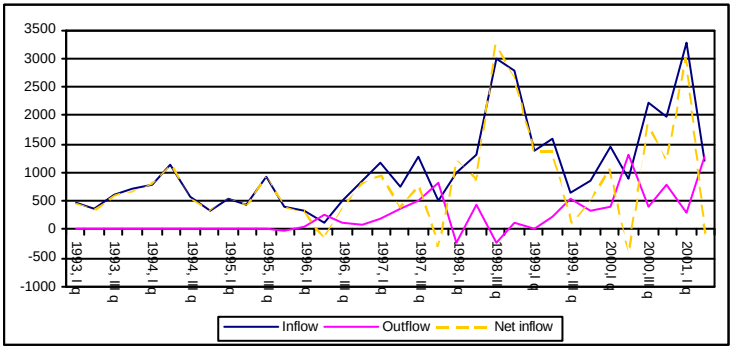


Figure 1. FDI inflows, outflows and net inflow in Estonia during the period 1993 – second quarter of 2001 in million EEK. (Bank of Estonia (http://www.ee/epbe))

As late as 1996 Estonian firms started to invest abroad as a method of entering foreign markets. (See Figure 2). It was followed by the first significant outflow boom in 1997 with out-

ward FDIs totalling 1913 million EEK[2]. In 1997 Estonia was leading among the transition countries by per capita outward investments. In 1998, however, a heavy fluctuation and stagnation of outward FDIs occurred. High volatility of FDI outflows appears to be typical as the total stock of FDIs abroad is indeed very limited.

Even a single operation of reducing investments abroad will cause significant changes in outflows. After the Russian crisis in late 1998 the FDI outflows were replaced by the process of withdrawing loans from the Estonian firms' affiliates abroad, which is shown in Figure 2 by negative FDI outflows in the third quarter of 1998. In the conditions of Estonia's mostly improved economic climate in the second half of 1999 the FDI outflows from the country increased again, peaking at the beginning of 2000. This rapid growth has continued afterwards.

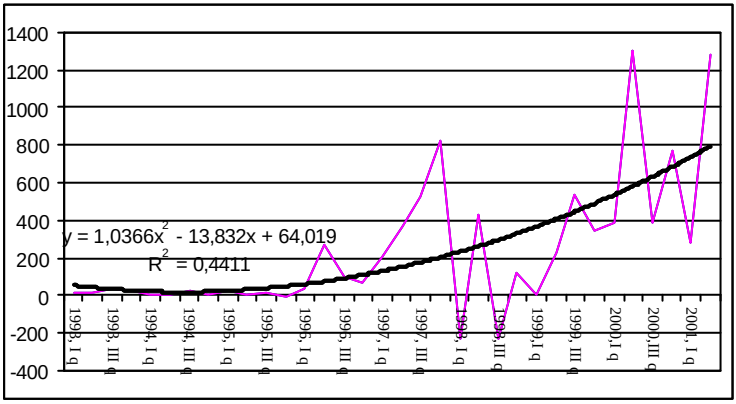


Figure 2. Quarterly FDI outflows from Estonia in 1993 – 2001 (million EEK) (Bank of Estonia, 2001).

[2] In the present paper all data are given in the local currency, Estonian kroon (EEK) which is pegged to the Euro, the exchange rate being 1 EUR = 15.6466 EEK.

The analysis of quarterly data about the outward direct investment flows and the GDP growth allows us to establish a strong relationship between these two economic indicators. The following Figure 3 describes the quarterly GDP growth data and the OFDIs in Estonia during the period 1994-2001. On the left hand scale are given the OFDI data in million EEK and on the right hand scale the GDP growth in %. Estonia being a very small economy, the OFDI flows are fluctuating heavily because a single reasonably sized investment alone will influence the data significantly. In order to reduce this type of bias, both trendlines were smoothed by three period moving averages (see Figure 3).

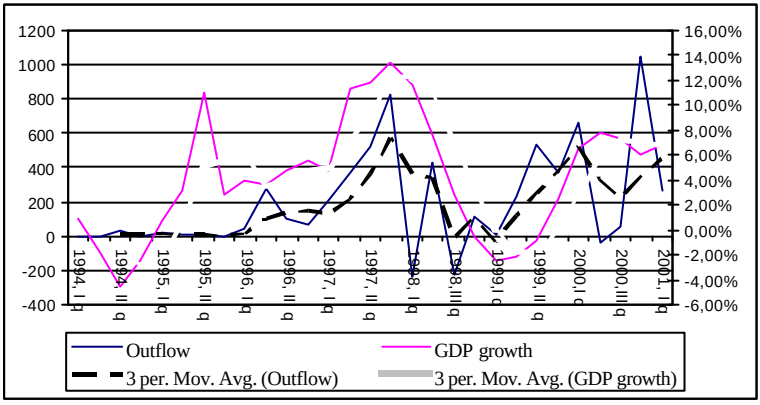


Figure 3. Quarterly GDP growth and outflow of direct investments from Estonia in 1994 – 2001 (absolute data and smoothed lines with 3 period moving averages).

A comparison of the trendlines corroborates the view that during periods of economic growth the FDI outflow is also intensive. However, it is interesting to observe that after the GDP growth was regained at the beginning of 1995 it took two years to transform it into the growth of OFDIs. Later on the Russian crisis brought the GDP growth to a standstill, which was subsequently followed by negative OFDI flows. After the 1998-1999

crisis the GDP growth and OFDIs are now moving in a very similar manner. There must be an explanation to the change in the logic of the relationship between the GDP growth and OFDI flows at the time indicated above.

Until the end of the Russian crisis direct investors (e.g. Estonian capital based firms) provided the majority of the OFDIs. Their investment potential depended heavily on the success of their current business and they could not afford large-scale long-term-oriented strategic investments. In their case the reduced GDP growth also correlated with their deteriorating financial situation and their ability to invest abroad. Starting from 1999, a majority of these firms were acquired by foreign firms and since then these investors have been indirect. Their ability to invest abroad will increase if their mother company is able to provide funds for strategic investments into foreign countries. Thus the correlation between the GDP growth and OFDI flows has changed since late 1999.

At the end of June 2001 the total stock of outward FDIs of Estonian residents amounted to 5.96 billion EEK, which is eight times less than inward FDIs. However, outward FDI flows over the period of 1993–2001 have been following a growing trend, which was shown on the Figure 2 above. This indicates that Estonian firms are entering a new stage of internationalisation, where exports are complemented by investments.

In the first stage it is still mainly related to the opening of small distribution networks in the neighbouring export target countries like Latvia and Lithuania, which together formed 80.4 per cent of Estonia' s OFDI stock (see Table 1). The relatively big share of Cyprus (10.3 %) in the OFDI stock refers to the investments made by the Estonian Shipping Company, who keep their fleet there. The Ukraine, Russia and Poland together form 3.7 % of the total OFDI stock from Estonia. Investments to the Western countries are miraculous.

Table 1

OFDI stock from Estonia by host countries (end of June 2001)

Host country	Stock (in million EEK)	Share of total outward stock (%)
Latvia	2504	42.0
Lithuania	2287	38.4
Cyprus	616	10.3
Italy	522	8.8
Ukraine	97	1.6
Russia	74	1.2
Poland	54	0.9
Sweden	29	0.5
Others	-224	-3.7
Total	5957	100

Source: Bank of Estonia (http://www.ee/epbe)

Another way of classifying OFDIs from Estonia is by the sectors of economy. According to the data from Table 2, the major group of outward investments (40.4 per cent) comes from the banking sector. Internationalisation of the Estonian banking sector by outward investments into Latvia and Lithuania started already in 1996 and indicates that the domestic market became too small for the Estonian commercial banks. The major investors were Hansapank and Ühispank, the two biggest commercial banks of the Baltics at that time. This also explains why the biggest part, 60.3 per cent of the total outward FDIs of the Estonian firms, were made in the form of loan capital. Share capital formed only one third of all the outward FDIs, while the share of reinvestments was around 10 per cent in 1999.

Manufacturing industry related firms have not used outward investments eagerly as a method of entering foreign markets.

Their major outward investments are associated with small investments in the food processing industry.

Table 2

The structure of the Estonian outward FDI stock (end of June 2001)

FDIs from Estonia abroad	In million EEK	As share of total stock (%)
Financial intermediation	2 408	40.4
Real estate and business activities	1 399	23.5
Manufacturing	948	15.9
Transportation, communication	812	13.6
Trade and repairs	284	4.8
Construction	47	0.8
Not classified	47	0.8
Total	5 959	100.0

Source: Bank of Estonia, 2001.

The total amount of outward investments made by the manufacturing industry in 1994–2001 equals 948 million EEK, or only around 120 million DEM (see Table 2).

2. Description of the Sample of Estonian Firms Investing Abroad

The following results were obtained from the survey carried out between June and September 2001 by the research group in the Chair of International Business, the University of Tartu. The questionnaires were sent to 194 firms registered in Estonia which engage in foreign direct investments. In total 70 respon-

ses were returned, which made the final response rate 36.1 per cent.

Out of the 70 responding firms, 18 are manufacturing firms and 60 are involved in services. 8 companies fall into both categories. This selection represents quite well the general distribution of Estonia's outward investment stock by activities (compare with Table 2). In manufacturing, five firms are involved in the textiles and textile products sector, while the second largest subgroup of manufacturing are the producers of basic metals and fabricated products (4 firms). In services the largest group is wholesale and retail trade (25 firms), followed by financial intermediation (12 firms); transport, storage and communications (8 firms), and real estate, renting and business activities (also 8 firms).

The time when the Estonian companies investing abroad were started mostly falls into the first half of the 1990s. The survey indicates that 60 per cent of the companies presently having foreign affiliates were established between 1991 and 1993. Only 9 companies out of the 68 that responded to the question had been launched before the year 1991 when Estonia regained its independence. This can have two explanations. Firstly, it may demonstrate that foreign expansion is more characteristic of new businesses, launched in early 1990s, than of older companies. The second explanation is related to the privatisation process. In the early 1990s a large majority of the firms were re-registered, therefore their high share among the investing companies may be a logical outcome. Those firms which were established in 1994 or later appear to be less attracted to foreign expansion. It seems that they, due to number of reasons (organisational or financial problems, growth expectation and competition in foreign markets, etc), are not ready yet to invest abroad. The presence of Estonian enterprises abroad has increased between 1997 and 2000. The number of foreign affiliates among the firms surveyed increased from 87 to 141 (62 % growth). The total amount invested in foreign affiliates has grown even more rapidly: from 501 million EEK in 1997 to 2.018 billion EEK in 2000 (growth by 302 %). According to the

Bank of Estonia official statistics, the Estonian foreign direct investments stock abroad was 3,086 billion EEK at the end of 1997, which by the end of 2000 had risen to 4,358 billion EEK. This means that the current survey covers 16.2 and 46.3 per cent of all the outward investments in 1997 and 2000, respectively.

According to the survey, 85 per cent of the affiliates are located in Central and Eastern Europe, followed by the European Union (EU) with 8 per cent and the Commonwealth of Independent States (CIS) with 7 per cent (Figure 4). A more detailed analysis indicates that 64 % of the firms have expanded to Latvia, a neighbouring country which is probably the closest to Estonia in economic, social and cultural terms of their common Soviet past.

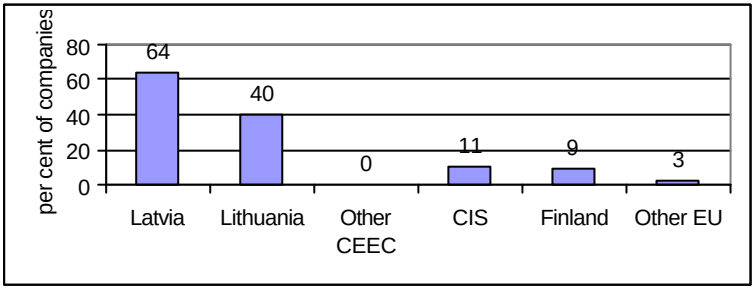


Figure 4. Geographical distribution of companies having at least one affiliate in the selected region or country (in %).

Lithuania, the southernmost of the three Baltic countries, follows Latvia, as 40 per cent of the Estonian enterprises having OFDIs own at least one subsidiary there. Its geographic proximity puts Finland third in the list (9 %). Neither Russia nor any other former socialist country has attracted Estonian investors as much as the three countries mentioned above. Note that Figure 5 fails to furnish information about all the subsidiaries

located overseas, since the questionnaire requested detailed data only about two most important foreign affiliates.

According to the survey, 65 per cent of the Estonian companies investing abroad are indirect investors, i.e. they belong at least partially to foreign owners. Around 82 per cent of such companies have stockholders in the EU countries (Figure 5). This implies that European companies often enter the Estonian market with the aim to expand to the other Baltic markets. In this respect the most active are Finnish and Swedish investors, who dominate in Estonia.

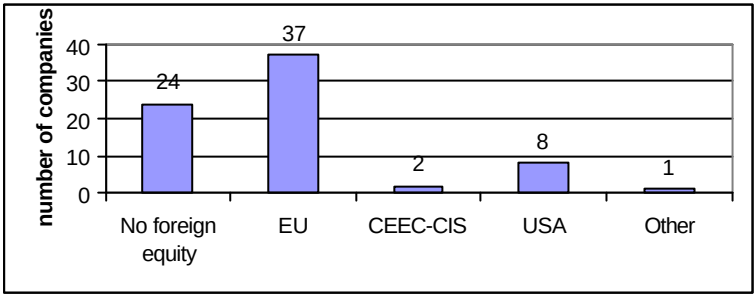


Figure 5. Origin of foreign equities in companies making OFDIs from Estonia.

Company size is not an important factor in explaining the intensity of foreign expansion by investments. The majority of the companies making OFDIs from Estonia tend to be small, 33 per cent of the respondents have 25 or fewer employees. Large companies that should be less constrained financially are in the minority: only 6 per cent of the companies investing abroad employ more than 500 people. This result can partly be explained by the general distribution of Estonian firms, where the share of big firms is comparatively small. On the other hand, it may be due to the fact that the newly established companies tend to be smaller, more dynamic and more willing to

expand abroad, whereas the large firms are content with their current export orientation and see no need to invest.

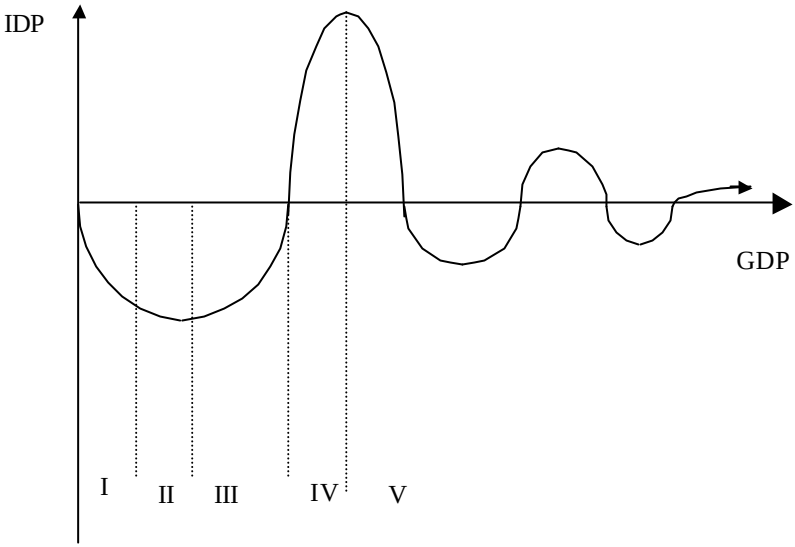
In terms of the number of employees the affiliates established abroad tend to be smaller than their Estonian mother companies. Slightly less than three-quarters of the companies have increased the number of their personnel between 1997 and 2000. Spending on Research and Development (R&D) tends to be low among most companies investing abroad. The average R&D level was 1 per cent in 1997 and had risen to 2.3 per cent by 2000. Also, the level of education of the personnel within the investing companies is rather low: in 1997 about 11 per cent were university graduates, by 2000 the figure had risen to 12 per cent.

3. Determinants of Estonian Outward Foreign Direct Investments

The following Figure 6 gives an overview of the investment development path (IDP) suggested by Narula (1996), which takes into account the size of the host country's GDP. Taking into consideration the volumes of Estonia's inward and outward foreign direct investment stocks, it seems to be placed between the second and third stage in the IDP.

At the same time, the main target countries of the Estonian outward foreign direct investments – Latvia and Lithuania – appear to be in the second stage of the investment development path. This means that Estonian foreign direct investments abroad are expected to have mainly a market-seeking nature. Some of the Estonian investors could also be interested in increasing efficiency or acquiring strategic assets. However, the share of such foreign direct investments is relatively low.

The results of the foreign investors' survey in Estonia also suggest that foreign investors have mainly been interested in market-related motives (see Figure 7), which is in full agreement with the theoretical principles.



Stage	Investment flows	Motivation
Stage 1	Small inward direct investments to primary sector	Natural-resources-seeking FDIs
Stage 2	Inward direct investment starts to rise, outward investment remains low or negligible	Resource-seeking and market-seeking FDIs in developing countries
Stage 3	Increase in outward direct investment	In developing countries resource- and market-seeking FDIs, in industrial countries strategic-assets-seeking and market-seeking FDIs
Stage 4	Outward direct investment flows exceed or equal the inward investment flows	Efficiency-seeking, market-seeking and strategic-assets-seeking FDIs
Stage 5	Outward and inward investment become more balanced	

Source: Dunning 1981, pp. 37-39; Dunning *et al.* 1996, p. 6; Narula 1996, pp. 26-34; Narula *et al.* 1998, p. 26.

Figure 6. Motives and trends of foreign direct investments.

At the same time, the role of labour costs and other cost-related motives (cheaper inputs, transportation costs, taxes, tariffs) tends to be comparatively unimportant in investing abroad. There are several explanations to this. The most important of them is that the share of Estonian investments abroad made by manufacturing firms is relatively low. It is also worth mentioning that there are no significant differences in labour costs between Estonia and the main target countries of Estonian FDIs and thus a decrease in production costs is not very likely. Because of the small size of the Baltic States' markets, relatively low transportation costs and free trade agreements, most of the producers have concentrated their production on one country in order to achieve economies of scale.

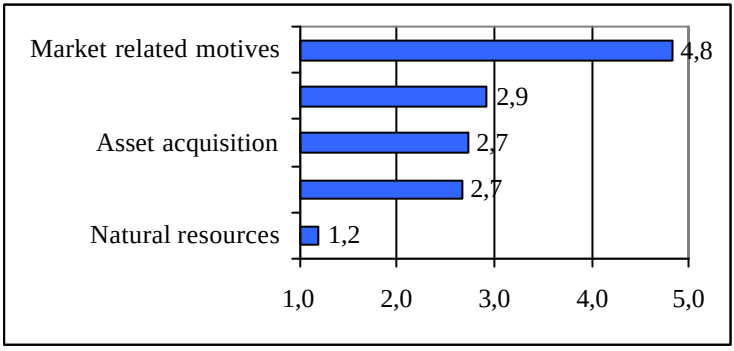


Figure 7. Importance of different motives for Estonian firms making direct investments abroad (1 – not important … 5 – very important).

The differences in the motives leading to outward FDIs were analysed by means of the Pearson Chi-square test. The activities carried out by the Estonian company and its foreign affiliation, the years of establishment of both the parent company and its foreign subsidiary, the activities carried out by the investing company and its foreign affiliate, and the host country of the investment were considered when grouping the enterprises. There are only a few statistically significant differences

between different groups of investors. The main reason for this is the small size of the sample. At the same time, the firms in the sample describe about 80% of the Estonian outward foreign investments.

Figure 8 shows that there are almost no differences between the motives of Estonia's direct and indirect investors. In both cases the market-related factors clearly outperform all the other motives. However, there is a statistically significant difference in the role played by the natural resources.

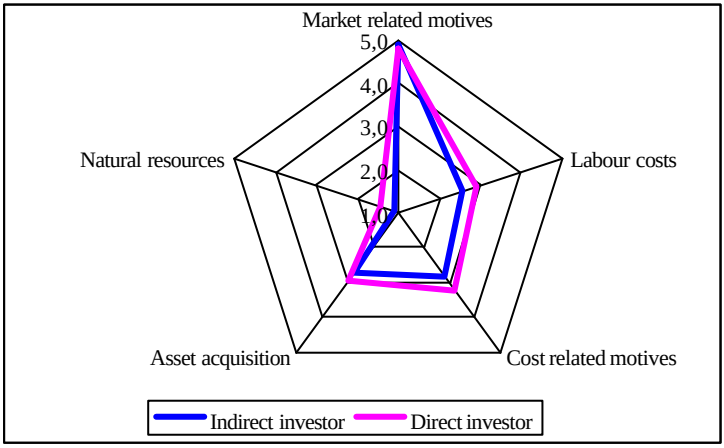


Figure 8. Importance of different motives for Estonia's indirect and direct investors making direct investments abroad (1 – not important … 5 – very important).

Interesting differences between the motivating factors existed by fields of activity of investor. The results presented in Figure 9 support the idea that the enterprises that are active in the finance sector are mainly interested in market-related factors and the level of costs is relatively unimportant. On the other hand, labour costs are much more important for those investors from Estonia who are active in the manufacturing industry or

trade. Other cost-related motives are equally important for all investors.

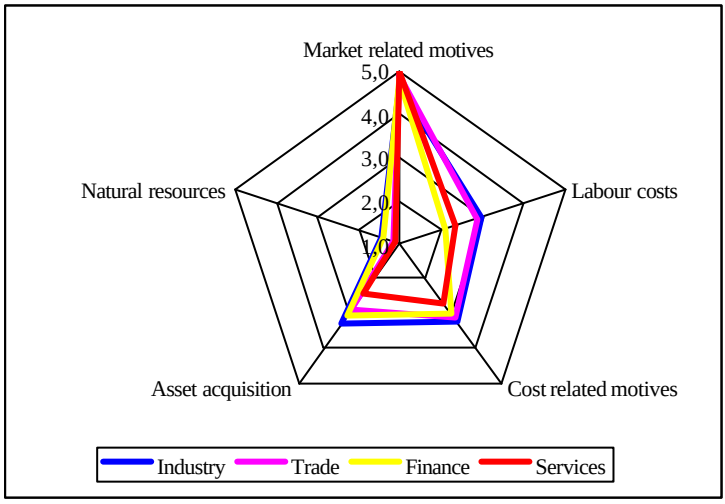


Figure 9. Importance of different motives in making direct investments abroad for the firms grouped on the basis of what activities the Estonian company is concerned with (1 – not important … 5 – very important).

It is interesting to observe that labour costs were not very important for those enterprises that were established in 1997 or later (see Figure 10). This refers to the change in the structure of outward FDIs from Estonia. As the share of foreign investments to the service sector has rapidly increased since 1998, the main motivating factor of these investors has been to provide services in a larger market and therefore cost-related factors are not the most significant ones.

The results presented in Figure 11 fully accord with the theoretical standpoints. Outward foreign direct investments into countries that are in higher stages of the investment development path have mostly a strategic-assets-seeking nature (see the

high importance of assets acquisition in the case of foreign investments into the EU member states). Differences in the importance of labour costs are statistically significant at the 5% level of significance.

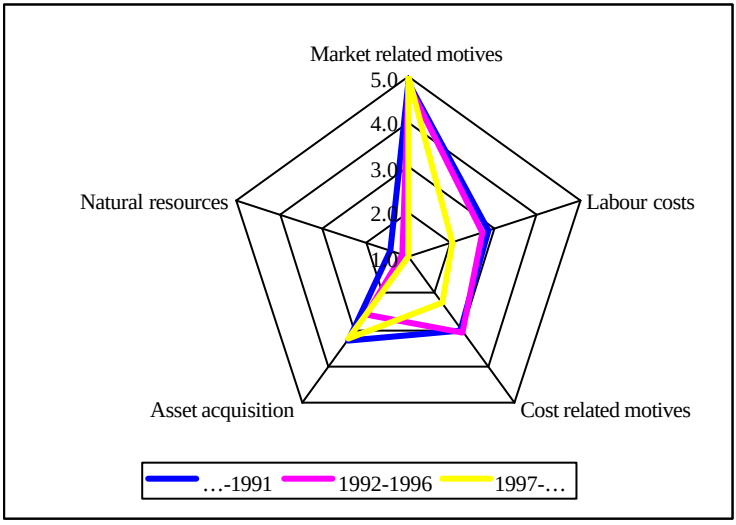


Figure 10. Importance of different motives in making direct investments abroad for the firms grouped on the basis of the year when the Estonian company was established (1 – not important … 5 – very important).

Figures 12-16 present the results of the analysis of differences between the problems that the Estonian firms have encountered when making FDIs abroad. As can be concluded from the figures, the problems are mostly related to host country specific factors (for example, risks and the investment climate). Such problems as lack of personnel, and information and financing also play an above-average role. At the same time, the home country specific problems (related to regulation and administration) have no significant effect upon investing abroad.

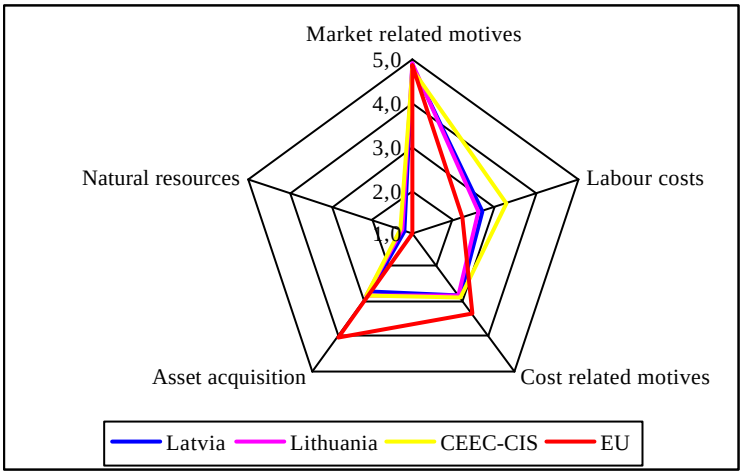


Figure 11. Importance of particular motives in making direct investments abroad for the companies grouped on the basis of the host country of the foreign subsidiary (1 – not important … 5 – very important).

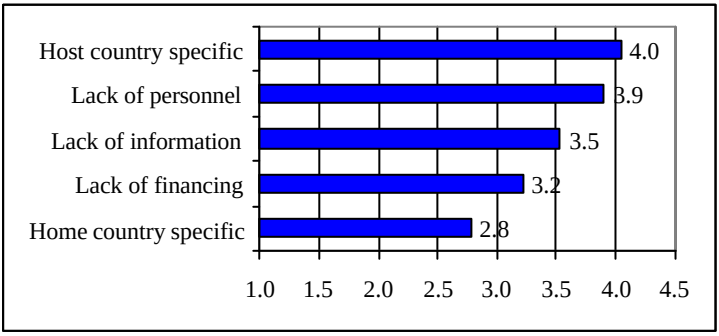


Figure 12. Importance of particular problems for the Estonian companies making direct investments abroad (1 – not important … 5 – very important**).**

The results presented in Figure 13 show that the differences between the troubles indicated by direct and indirect investors are relatively similar. However, there are statistically significant differences in the importance of problems related to lack of information. This problem is less important for indirect investors because these companies have access to the same information as their parent companies. In some cases all the strategies are worked out in the home country and the Estonian affiliates do not need additional information in order to expand their activities to new markets.

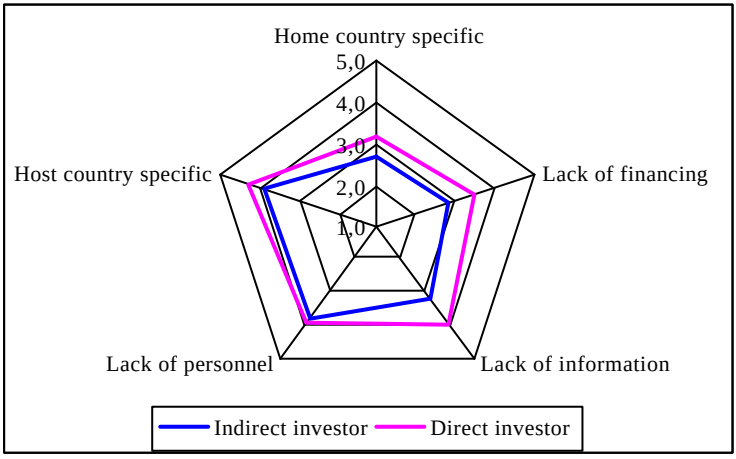


Figure 13. Importance of particular problems in making direct investments abroad for the indirect and direct investors in Estonia (1 – not important … 5 – very important).

The foreign investors engaged in different activities evaluated their problems to be rather similar (see Figure 14). The only bigger difference was related to the importance of lack of financing – indeed, lack of finances seems to be no problem for the finance sector. Nevertheless, these differences are statistically insignificant.

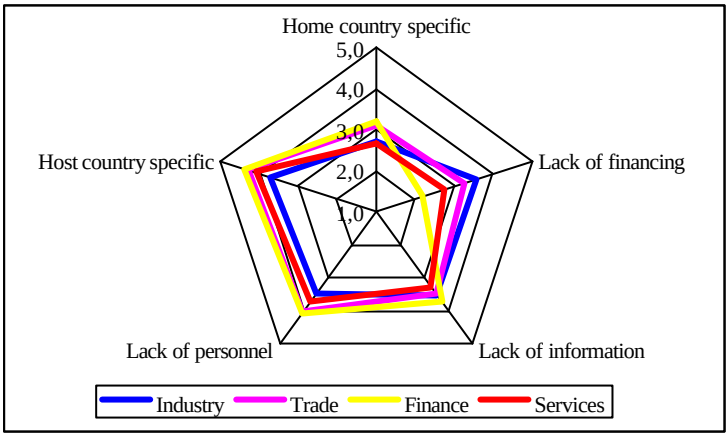


Figure 14. Importance of particular problems in making direct investments abroad for the companies grouped on the basis of what activities the Estonian company is concerned with (1 – not important … 5 – very important).

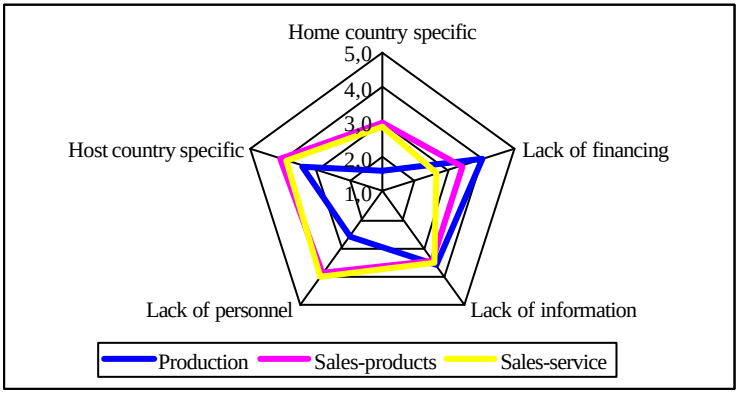


Figure 15. Importance of particular problems in making direct investments abroad for the companies grouped on the basis of the activities that the foreign subsidiary is concerned with (1 – not important … 5 – very important).

At the same time, significant and very interesting differences in the evaluations of the importance of different problems are presented in Figures 15 and 16. In the first case, those companies that have invested into production activities do not see problems in either lack of personnel or home country factors. The fact that lack of financing is somewhat more important than in the case of other investors could be expected since the amount of finances needed in the case of investments into production affiliates is usually relatively high.

Figure 16 shows that those investors who made investments before 1993 evaluated almost all the indicated problems as not significant. The explanation to such a result could be that those companies entered several markets almost simultaneously and have been active in these markets for a long time, therefore they see no significant differences between the activities carried out in Estonia and in other markets.

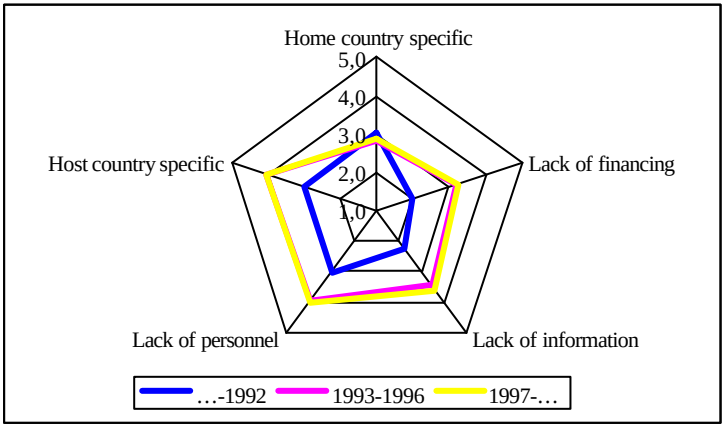


Figure 16. Importance of particular problems in making direct investments abroad for the companies grouped on the basis of the year when the foreign subsidiary was established (1 – not important … 5 – very important).

Finally, the firms were also asked what they thought the home country government and its agencies should do in order to facilitate outward investments. Since that was an open question, the respondents could write whatever they considered important. The requests were grouped as follows in Table 3. Among others, the responses included a wish that Estonian businesses abroad should be given assistance (it was suggested that a governmental strategy for foreign expansion of Estonian companies should be worked out, that Estonia's prestige abroad should be improved, that investments abroad should be protected). The companies mentioned improvement of transport facilities, maintaining and improving relations with the neighbouring countries, and providing equal opportunities with local businesses on the target market.

Table 3

What should be done by the home country government and its agencies in order to facilitate outward investment?

Requests	Number of times proposed
Provide information and contacts	
Information on target markets (legal acts, business culture, etc.)	10
Arrange meetings with Estonian businesspeople working in the target country	2
Legal system or international contracts	
Avoid double taxation (intergovernmental agreements)	8
Negotiate with Russia to abolish higher tariffs	3
Negotiate for a simpler policy of obtaining work permits abroad for Estonian businesspeople	3
Bureaucracy	
Relax customs rules	4
Other	2

Requests	Number of times proposed
Financial support	
Provide guarantees (on export, differences based on taxation, etc.)	3
Improve export credit	2
Other	10

The companies were also asked to add to the list any other institution and what it should do in order to facilitate outward investment. Only 10 companies out of 70 responded to that request. More than a half of them asked for information about target markets from banks, auditing companies, trade chambers or other institutions.

4. Success of Investments

65 companies out of 70 answered the first question about how the investors assessed the success of the investment, i.e. the response rate equalled 93 per cent. Only one respondent indicated that the investment had been more successful than expected. About 65 per cent of the 65 respondents, or 42 companies considered their investments to have been as successful as expected and about 34 per cent, or 22 respondents said that their investments appeared to be less successful than expected (see also Table 4). In conclusion, according to the investors, one third of the investments had failed to live up to the expectations, while two thirds had worked out as planned.

The analysis of the success rate of investments by the investor groups yielded the following results: one company from the 43 responding indirect or foreign-owned investors considered their investment to be more successful than expected, 28 indirect investors from 43 replied that their investment was as successful as expected and 14 companies were dissatisfied with the result (see Table 4).

Table 4

Estimation of success of the investment abroad in the entire sample and by the type of investors (percentage of respondents)

	More successful than expected	As successful as expected	Less successful than expected
All the answers (65 respondents)	1.5	64.6	33.9
Indirect Investors (43 respondents)	2	65	33
Direct Investors (21 respondents)	0	62	38

From the 21 respondents who identified themselves as direct or domestically owned investors 13 companies, or about 62 per cent indicated that their investment was as successful as expected and 8 companies (about 38 per cent) said that their investment was less successful. As can be concluded from the per centages given in Table 5, the direct investors have experienced slightly more disappointment than the investors who were FDIs recipients, although the general trends are the same as for all the companies.

In order to analyse investment satisfaction on the basis of the industry involved, the groups data were divided as follows: Manufacturing Industries (NACE code 15-37), Trade (NACE code 50-52), Finance (incl. insurance, leasing) (NACE code 65-67), and Services (NACE code 40-45, 55-64, and 70-93). This analysis yielded some thought-provoking results (see Table 5). While the satisfaction rate in the trade sector is equal to the sample average, in manufacturing and especially in the finance sector dissatisfaction with the success of the investment is much higher.

Table 5

Estimation of success of the investment abroad by the industry groups (per centage of respondents)

	More successful than expected	As successful as expected	Less successful than expected
Industry (15 resp.)	0	60	40
Trade (23 resp.)	0	65	35
Finance (12 resp.)	0	58	42
Services (22 resp.)	4.5	72.5	23

The service sector, on the other hand, indicates high per centages of success, as close to 78 per cent of the companies consider their investments abroad to be successful or more successful than expected. In manufacturing 4 out of the 6 dissatisfied companies are direct investors and 2 companies are indirect investors, but in finance 4 out of the 5 companies in that segment are indirect investors. Therefore, the relationship between the estimation of success and the investor's ownership type remains inconclusive.

On the basis of the year when the parent company was established, three groups were formed: established in 1991 and earlier, established between 1992 – 1996, established 1997 and later (see Table 6). Unfortunately, due to a very unbalanced sample, it is impossible to draw further conclusions about the companies established in 1997 and later. Estimates of the success of investments made by the companies that were established prior to 1997 are similar to the more general figures presented at the beginning of this section.

The success of the investment by the main activity of the foreign affiliate was determined by dividing the affiliates into the following groups: production, selling, and the affiliate offering

services. The results indicate that 80 per cent of the production affiliates have functioned as the investor expected (see Table 7). The sales affiliates of the production companies are considered to be successful in nearly 2/3 of cases, while the sales affiliates of the service firms mirror the already mentioned positive tendencies in the service sector.

Table 6

Estimation of success of the investment abroad by the groups based on the parent's year of establishment (per centage of respondents)

	More successful than expected	As successful as expected	Less successful than expected
<1991 (17)	0	65	35
1992-1996 (42)	2	62	36
>1997 (4)	0	75	25

Table 7

Estimation of success of the investment abroad by the type of the foreign affiliate (per centage of respondents)

	More successful than expected	As successful as expected	Less successful than expected
Production (5)	0	80	20
Sales-Products (30)	0	63	37
Sales- Services (24)	4	71	25

The conclusion about the production affiliates may be due to the relatively smaller number of companies in this affiliate type segment than in the other two. At the same time, this unbalanced distribution of types may have a theoretical justification, given the relatively early stage of using investments as entry mode.

A comparison of the success estimation by the affiliates' host countries or regions shows that investing to the other Baltic States has been more in line with prior expectations than that to the CIS or the EU region (Table 8). Especially high is the mismatch with expectations in those cases when the CIS countries (Russia, Belarus, or the Ukraine) were chosen as locations for the affiliates. The small number of affiliates represented in the regional groups can be explained by uncertainties in the CIS countries and by the longer psychic or business distance to the EU market. Therefore the authors suppose the given division of the respondents to be fairly close to the actual distribution of the target regions among the entire population of the investors.

Table 8

Estimation of success of the investment abroad by the host country or region (per centage of respondents)

	More successful than expected	**As successful as expected**	**Less successful than expected**
Latvia (44)	2	73	25
Lithuania (28)	0	71	29
Commonwealth of Independent States (7)	14	29	57
European Union (7)	0	57	43

An analysis on the basis of the affiliate's year of establishment reveals that only successful investments from the beginning of the 1990s are represented in the sample (see Table 9).

Table 9

Estimation of success of the investment abroad by the affiliate's year of establishment (per centage of respondents)

	More successful than expected	**As successful as expected**	**Less successful than expected**
<1992 (5)	20	80	0
1993-1996 (17)	0	53	47
>1997 (48)	0	69	31

This may, on the one hand, imply selection bias, because unsuccessful firms that started at the beginning of the 90s are likely to have been closed down, but on the other hand can partially suggest that prolonged experience is an indicator of success. Investments made between 1993 and 1996 seem to have yielded relatively more dissatisfactory results. The cause might be the very turbulent environment. It is also obvious that the latest period, from 1997 onwards dominates the entire sample of success estimates, given that almost 69 per cent of all the respondents made their investments during that time.

In order to determine the relationship between the evaluations of an investment's success and a particular companies' competitive advantage over its competitors, a correlation analysis was made. For that purpose answers a and b received value 1 and answer c value 0. The results are given in Table 10.

Table 10

Correlations between the estimates of success and the sources of a company's competitive advantage

	Success of investment	Technological know-how	Organisational know-how	Marketing knowledge
Success of investment		-0.16	0.14	0.08
Technological know-how	-0.16		0.39	0.07
Organisational know-how	0.14	0.39		0.23
Marketing knowledge	0.08	0.07	0.23	

As can be seen, not very strong relationships emerged. It seems that evaluation of an investment's success does not considerably depend on the type of competitive advantage a particular company has. The strongest correlation is revealed between the importance of technological and organisational know-how.

5. Effects of Affiliates on the Parent Company

Investigation of the entire sample of the companies showed that the most important effects are related to the additional market shares gained abroad. 45 per cent of the respondents indicated increase in their market shares and 37 per cent perceived change as a strong increase, while only 5 per cent said that their foreign market shares had decreased considerably as a result of investment and other 13 per cent indicated some decrease in their market shares. Strong effects on the exports of the parent com-

pany are also revealed. 42 per cent of the respondents implied that their exports had increased and 14 per cent held the opinion that there had been a strong increase in exports from the Estonian company. Only 11 per cent of the companies admitted a strong decrease or decrease in their exports, while for 1/3 of the companies the situation remained unchanged. The effects on exports are followed by considerable changes in the parent company's output and employment. However, although they are also important and positive, these latter effects are on average not as strong as the first two (see Table 11).

The weakest impact of affiliate creation seems to be on imports of the parent company. Despite that on average some growth in imports was indicated. The causality between outward FDIs and the effects on the parent, described in this section, is prescribed by the configuration of the questions asked.

An analysis by types of investors reveals similar results with only a few minor differences (see again Table 11). The figures imply that for indirect investors (IN-I) changes in imports of the parent company are slightly stronger than those in its output, while for direct investors (DI-I) employment effects prove to be less important than an increase in imports, although the differences are marginal and statistically not significant.

Indirect investors have gained relatively more in terms of foreign market shares and employment. Direct investors, at the same time, have indicated strong positive impacts on the parent company's exports and probably consequently on its output. This difference in the impact on the parent's exports is significant at the 0.05 confidence level.

A comparison by industries also reveals some adverse effects on the Estonian parent companies (see figures in Table 11). For example, the average score below 3 for effects on the parent's output in the trade sector (TRA) points to a shift of activities abroad. A similar effect characterises the parent's employment in the service sector (SER). The general ranking of the effects is clearly supported by the manufacturing companies (IND) where the effects on additional market shares abroad (4.27) and on the

parent's exports (4.07) are stronger than the same effects throughout the entire sample (4.14 and 3.58), but only the last difference proved statistically significant at the 0.1 confidence level.

Table 11

Effects of investment on the parent and its market shares: average scores for the entire sample, by the investor types and economic sectors

	Overall / Investor			Economic sector			
Effect on …	**å**	**DI-I**	**IN-I**	**IND**	**TRA**	**FIN**	**SER**
Additional market shares abroad	4.14	4.00	4.20	4.27	4.22	3.91	4.10
Employment of parent company	3.19	3.05	3.23	3.36	3.09	3.50	2.95
Exports of parent company	3.58	3.89	3.38	4.07	3.45	3.57	3.33
Imports of parent company	3.16	3.11	3.16	3.21	3.17	3.17	3.10
Production volume of parent company	3.22	3.33	3.14	3.64	2.68	3.50	3.19

In that sector also a strong positive impact on the parent company's production volume is revealed. Regarding evaluation of

success of the investment, the data about the financial sector (FIN) appear to be interesting, because in almost all the categories the investments have on average had a strong positive effect on the parent, thus implying the possibility that maybe their pre-investing expectations have been too high compared to the other sectors.

Statistically significant differences in the means were detected between the figures showing impacts on the parent's exports in industry and trade (significant at the 0.05 level), and in the case of industry vs. services, where the means of the same impact were different at the 0.03 significance level. A statistically significant difference exists as well between the means describing impacts on the parent's production volume in industry and trade (significant at the 0.02 level). Average evaluations of the impact on the production volume proved to be significantly different also in trade vs. finance (α=0.03) and trade vs. services (α=0.07) (see Table 11 for the means).

A review of the effects grouped by the parent's year of establishment shows (see Table 12) that older parent companies established in 1991 or before indicate that their investments have very strongly impacted on the increase in their foreign market shares, the exports of the parent and somewhat less on the parent's output. A small group of relatively new parent companies (established in 1997 and later) indicates a predominance of market share, employment, and import related effects on the foreign affiliate. The largest group of parent companies, those established between 1992 and 1996, is described by lowest average scores that are even slightly below those of the entire sample. Here again, because of the small sample size, the figures for the newest companies should be taken with caution. In conclusion, it seems that more experienced parents have stronger positive results.

The following differences in Table 12 proved to be statistically significant:

- means of additional market shares abroad - establishment <1991 vs. 1992–1996 (α=0.1)

- means of employment of the parent - establishment <1991 vs. >1997 (α=0.06)
- means of employment of the parent - establishment 1992-1996 vs. >1997 (α=0.1)
- means of exports of the parent - establishment <1991 vs. 1992–1996 (α=0.06)

Table 12

Effects of investment on the parent and its market shares: average scores by the parent's year of establishment and by the foreign affiliate's type

	Parent's establishment			Affiliate's type		
Effect on …	**<91**	**92-96**	**>97**	**PRO**	**SA-P**	**SA-S**
Additional market shares abroad	4.44	4.00	4.25	4.00	4.34	4.00
Employment of parent company	3.00	3.17	3.75	2.75	3.24	3.09
Exports of parent company	3.93	3.42	3.67	3.25	3.75	3.48
Imports of parent company	3.43	3.00	3.67	3.00	3.24	3.15
Production volume of parent company	3.31	3.19	3.00	2.75	3.16	3.35

Depending on the type of the foreign affiliate, two interesting aspects deserve attention. The sales affiliate of the production company has the strongest positive effects on the parent and its market shares (see Table 12), and a negative impact of the production affiliate on the parent's output and employment (shift of production from Estonia abroad). Differences in impacts on the

parent's employment between the production and the product sales unit could be accepted at the 0.15 significance level, and the differences in the impact on market shares product sales vs. sales of services at the 0.13 alpha level.

Viewed by the location of the affiliate, the gains in market shares are the highest in case of investments into the EU. Latvia too has been very good in that respect (see Table 13).

Table 13

Effects of investment on the parent and its market shares: average scores by the target country/region and the affiliate's year of establishment

	Target country or region				Affiliate's establishment		
Effect on	**LAT**	**LIT**	**CIS**	**EU**	**<1992**	**93-96**	**>1997**
Additional market shares abroad	4.23	4.15	3.71	4.29	4.00	4.25	4.17
Employment in parent company	3.19*	3.00	2.86*	3.14	2.25**	3.24**	3.17
Exports of parent company	3.58	3.63	3.29	4.00	3.00	3.88	3.65
Imports of parent company	3.23	3.35	3.14	3.00	3.25	3.27	3.20
Production volume of parent company	3.26	3.14	3.17	3.43	3.00	3.21	3.23

*significant at α=0.1 level

** significant at α=0.07 level

The effects on the parent's exports have been higher in the case of the EU and Lithuanian affiliates. Regarding most dimensions, the gains have been smaller for those parents who have affiliates in Russia, the Ukraine, and Belarus, while the average effects on employment have even been slightly negative.

Average effects of investment on the parent in conjunction with the affiliate's year of establishment were in all the impact categories strongest when the affiliate was founded between 1993 and 1996, and weakest or negative (effect on employment) for the old affiliates that had been created in the early 1990s. That may be partially put down to the relatively more retrospective judgements than in case of the other groups. On the other hand, in case of new subsidiaries the effects on the parent may be only emerging.

Table 14 shows that a vast majority of all the respondents do not invest in order to gain access to cheap inputs, although for 19 companies this has been so.

Table 14

General impact of investment and reasons for investing (number of respondents)

The sample of 70 companies*	**YES**	**NO**
Have you gained access to cheaper input(s)?	19	41
Did customer feed back improve?	36	27
Did the number of products increase?	30	31
In total, does investment(s) abroad contribute positively to the financial performance of your company?	43	22
Are your new affiliates a response to the investment strategies of your close competitor(s) in your industry?	23	38

*Companies who did not answer that question (na) included.

Over 51 per cent of the companies found that investment had improved customer feedback. The impact on the investor's production indicators can be described by two equal groups - for one the investment has led to an increase in the number of products. A large majority, i.e. over 61 per cent of the respondents agree that investment contributed positively to their financial performance, while only about 1/3 maintained that investment was a response to their competitor's actions. For about 31 per cent of the companies the impact on financial performance was either marginal or adverse. In conclusion, it seems that investments made by Estonian parent companies are somewhat more consumer-oriented than efficiency-oriented.

Some companies in the sample did not answer these questions, but given the type of the question, no answer would characterise complex situations. Therefore this time all the observations were included. From the entire sample 8 firms either had one or no key competitors, 29 companies where essentially oligopolistic, having 2-5 key competitors, while about 15 companies identified more than 10 key competitors, the maximum being 100. The average of the sample was 6.

An analysis of the general impact by investor types reveals that the impact on customer feedback has been more important for indirect investors (see Table 15), whereas more domestics increased the number of products.

Also in these subsamples a positive impact on the financial performance is in accordance with the entire sample. The approximate average number of key competitors for indirect investors was 7 (averages here and elsewhere represent only those companies who gave the exact number, therefore the figures may be somewhat underestimated), while the maximum number indicated was 40. For the direct investors the same approximations are 5 and 100. Although by industry groups some sub-samples, like, for instance, finance, are relatively small, the firms represented in our sample were large companies whose investments covered most of those made in the whole financial sector, hence generalisations are permissible.

Table 15

Impact of investment and the competiti reasons for investment by the type of investor (number of respondents)*

	Indirect investor (45 respondents)		Direct investor (24 respondents)	
	YES	**NO**	**YES**	**NO**
Cheaper input(s)	13	27	5	15
Customer feedback	25	17	10	10
Production increase	18	23	11	8
Financial performance	27	16	15	6
Response to competitor(s)	15	24	8	13

*Companies who did not answer that question (na) were included in the samples

Table 16

Impact of investment and competition-related reasons for investment by sectors (number of respondents)*

	Industry (18)		Trade (25)		Finance (12)		Services (23)	
	YES	**NO**	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
Cheaper input(s)	5	9	4	17	2	8	9	13
Customer feedback	9	6	13	10	5	5	14	8
Production increase	7	8	11	10	7	3	10	11
Financial performance	13	3	14	10	4	6	17	5
Response to competitor(s)	5	10	10	11	5	5	8	13
Average/max of key comp.	4/8		6/40		4/10		8/100	

*Companies who did not answer that question (na) were included in the sample.

The most important distinction in this division is dissatisfaction with the impact on the financial performance within the financial sector.

The impact on the products offered has been the biggest (see Table 16). These results are in line with our earlier results about expectations. A positive impact on their financial performance was strongly indicated by the manufacturing companies and service firms. It is appropriate herein to point out, too, that the latter are operating in a very competitive environment**.**Based on the parent's year of establishment (YE), the sub-samples are relatively unbalanced. Given that weakness, 3 newest companies said that there was no impact on their financial performance.

Table 17

Impact of investment and competition-related reasons for investment by the year of establishment of the parent company (number of respondents)*

	<1991 (18)		1992-1996 (46)		>1997 (4)	
	YES	**NO**	**YES**	**NO**	**YES**	**NO**
Cheaper input(s)	6	9	11	30	1	2
Customer feedback	9	7	23	18	2	2
Production increase	8	7	17	23	4	0
Financial performance	13	3	28	15	1	3
Response to competitor(s)	8	8	14	26	1	2
Average/max of key comp.	7/100		5/40		5/15	

*Companies who did not answer that question (na) were included in the samples.

The responses grouped on the basis of the type of affiliates show that access to cheap inputs has been important for the production affiliates, while financial performance has improved most in the companies whose affiliates offer services (see Table 18). The firms with production affiliates admitted to having just a few key competitors.

Table 18

Impact of investment and competition-related reasons for investment by the type of affiliates (number of respondents)*

	Production (5)		Sales-Product (31)		Sales-Services (25)	
	YES	**NO**	**YES**	**NO**	**YES**	**NO**
Cheaper input(s)	3	1	7	21	8	15
Customer feedback	2	2	17	13	13	10
Production increase	2	2	14	14	10	13
Financial performance	3	2	20	11	18	6
Response to competitor(s)	1	3	11	17	10	13
Average/max of key comp.	2/4		5/40		6/20	

*Companies who did not answer that question (na) were included in the samples.

Investigation by the target country or region allows us to conclude that affiliates in Belarus, Russia, the Ukraine and the EU have had a strong impact on improvement in consumer feedback, while the average impact on financial performance for

investments made into the Commonwealth of Independent States was not very strong. Approximation of competition indicates the biggest number in the Latvian market (7 key competitors on average).

By the age of affiliates, companies with oldest subsidiaries have mostly had impacts on the prices of inputs and on customer feedback. In terms of production indicators, financial performance, and response to competitors, these companies hold differing opinions. The largest per centage of financial gainers characterises those companies who established affiliates between 1993–1996. In this group, competition is not very intense (on average 5 key competitors). Admittedly, some of the results herein should again be taken with caution because of the differences in sample sizes.

6. Investors' Future Plans

An analysis of the investors' plans shows that in the near future 73 per cent of the companies intend to expand by extending their affiliates, while only 21 per cent want to continue with establishing new affiliates (Table 19). In a 5-year perspective the number of companies intending to establish new affiliates will reach 34 per cent. Only a very small per centage of the respondents are planning to close down their existing foreign affiliates. This speaks of a clear intention to continue with outward FDIs.

9 companies intend to establish or expand their EU-based affiliates. 4 of them intend to deal with 2 affiliates, 2 with one affiliate, one with 1-2, and one with 2-3. In Central and Eastern Europe 30 companies with their parent in Estonia have further plans. 7 companies intend to develop via 2 affiliates, 11 companies via one affiliate, two firms via 5 or more affiliates, one via 3 affiliates, one via 1-2 affiliates or 2-3 affiliates. 7 companies did not specify the number. 13 respondents are determined to continue their foreign activities in the CIS countries, among them 8 plan to do so via 1 affiliate, 3 via two affiliates, one via

4 affiliates, and one did not give the number. Three companies aim at some other target region, not mentioning what region. One of them intends to use 1 affiliate for that purpose. In other words, about 13 per cent of the respondents target the EU, 43 per cent the CEE countries (incl. the Baltics), 19 per cent the CIS, and about 4 per cent some other region.

Table 19

Investors' future plans in the entire sample and by investor types (per centage of companies)

% from all comp.-incl. na	Overall		Direct investor		Indirect investor	
	2y	**5y**	**2y**	**5y**	**2y**	**5y**
EXPAND	73	54	67	46	76	58
ESTABLISH	21	34	21	29	20	36
CLOSE	9	4	8	4	9	4

An analysis of future perspectives by the types of investor shows that a large per centage of indirect investors have plans to expand in two years time and in five years time (see Table 19). A larger part of indirect than direct investors additionally plan to establish new affiliates in five year's time. In other categories the differences are marginal.

Only 3 indirect investors are planning to expand or establish activities in the EU, two of them with 2 units. At the same time, 5 direct investors indicate interest in the same region, two companies with 2 affiliates and 2 with one affiliate, one company gave the range of 1-2. On the other hand, 19 indirect investors said that they intended to expand or establish affiliates in the CEEC, 8 companies with 1 affiliate, 6 with 2 affiliates, one with 3, one with 1-2, and one with 5 or more. 10 direct investors intend to follow the same route, three companies with 1 affiliate, one with 2, one with 5. Other respondents did not specify the number. 9 indirect investors are oriented towards the CIS, 5 of them with 1 affiliate, 2 with 2 affiliates, and one with 4. Only

4 direct investors look towards the CIS, ¾ having 1 affiliate, and one having 2 affiliates in mind. Two indirect investors and one direct investor are contemplating expansion into other regions.

Comparison by sectors shows that the trade and service companies tend to prefer expansion to establishing new affiliates, whereas in manufacturing industries and the financial sector plans to establish new affiliates prevail (see Table 20). Relative dissatisfaction with their foreign activities was exhibited by a comparatively high per centage of those firms who plan to close their affiliates in the financial sector.

Table 20

Investors' future plans by the economic sectors (per centage of companies)

% from all comp.- incl. na	Industry		Trade		Finance		Services	
	2y	**5y**	**2y**	**5y**	**2y**	**5y**	**2y**	**5y**
EXPAND	44	44	84	56	67	42	87	61
ESTABLISH	39	39	8	32	25	42	13	30
CLOSE	6	0	4	4	25	8	4	4

In terms of future target regions, it is interesting to conclude that the trade and service firms are considering to make the CEEC countries (mainly Latvia and Lithuania) their area for heavy expansion, while the firms from the manufacturing industry see the EU as their target area of expansion.

The data grouped on the basis of the parent's year of establishment show that in comparison with the entire sample, a relatively high per centage of the older companies are planning to establish new affiliates within two years. Likewise is the per centage of older companies planning expansion in five years time higher than the per centage of those planning to do it in

two years (78 % vs. 83 %). The companies established between 1992 and 1996 intend to act more or less in accordance with the general pattern revealed earlier. In a small group of new companies the per centage of those intending to close down the affiliate is exceptionally high (25 % in both 2 years and 5 years). Most companies will in the future orientate towards Central and Eastern Europe (including Latvia and Lithuania), although for the older companies the EU and the CIS regions appear to be equally attractive.

The companies having production affiliates indicate a stable rate of expanding their current activities. 20 per cent of the companies are considering closing down the existing affiliate in a short time. The production companies with sales affiliates tend to expand in a shorter period and establish more new affiliates in a longer time than five years. The service companies are characterised by higher share of optimists in terms of expansion plans. These companies too see the CEEC and the CIS region as their future targets.

At present the plans to expand their range of target countries or regions and establish affiliates are more characteristic of those firms that operate in the Baltics (see Table 21).

Table 21

Future plans of the investors grouped by their present target region (per centage of companies)

% from all comp.- incl. na	Latvia		Lithuania		CIS		EU	
	2y	**5y**	**2y**	**5y**	**2y**	**5y**	**2y**	**5y**
EXPAND	87	64	89	75	50	38	63	25
ESTABLISH	20	33	18	21	0	13	25	38
CLOSE	2	2	7	4	25	0	0	0

A much smaller number of EU- or CIS-oriented companies plan to expand or to establish new affiliates in the near future. A quarter of the companies with affiliates in the CIS region are planning to close their affiliate, which is an indication of difficulties. The Baltics-oriented companies will mostly continue expansion and establishment of affiliates in Central and Eastern Europe, while some presently EU-oriented companies will continue working in the same direction.

The companies that have a long tradition of affiliates indicate very high determination to expand within two years. Many companies in that group also consider establishing new affiliates within five years (see Table 22).

Table 22

Future plans of the investors grouped by the affiliate's year of establishment (per centage of companies)

% from all comp.- incl. na	subs<1992		subs 1993-1996		subs>1997	
	2y	**5y**	**2y**	**5y**	**2y**	**5y**
EXPAND	100	60	88	82	78	56
ESTABLISH	20	40	18	24	20	32
CLOSE	0	0	12	0	6	2

The companies whose affiliates were created between 1993 and 1996 have as a group the highest short-term exit ratio (12 per cent plan to close their affiliate in two years). The firms whose affiliates were created in 1997 and later revealed plans that largely coincide with the general tendencies. This may be so because this subdivision also contains the biggest number of companies.

Summary

In the mid-1990s Estonian firms started to use direct investments as a foreign market entry method. It was followed by the first significant outflow boom year of 1997 when outward FDIs totalled 120 million EUR. After the Russian crisis in late 1998 the FDI outflows stopped. Together with the general improvement of Estonia's economic climate in the second half of 1999 the FDI outflows from Estonia increased again, peaking at the beginning of 2000. Even a mere preliminary analysis of the data about the Estonian outward direct investment flows and GDP growth makes one notice a strong relationship between these two economic indicators.

Like with other transition economies, the internationalisation of Estonian firms has sooner proved to be a spontaneous firm activity than a carefully planned strategy. The firms themselves undertake it in order to obtain market shares abroad (facilitation of export of goods and services). In a majority of cases, the OFDI target is one of the neighbouring transition economies, particularly Latvia and Lithuania, where Estonian firms had specific advantages such as "knowing how to do business" in a specific market. In some sectors it was supported also by the innovative technological capabilities (Internet-banking in the banking industry, modern leasing and factoring know-how, etc.). A specific feature of Estonian OFDIs is the dominating role of services (80 % of total). A most rapidly growing area of OFDIs is business services.

A more detailed analysis of the motivating factors, results and future plans of Estonian firms investing abroad was made on the basis of the results of a survey conducted in May - September, 2001 in the process of which all in all 70 questionnaires were filled in and returned to the University of Tartu. The final response rate was 36.1 per cent. Out of the 70 firms who

returned the questionnaire, 18 are manufacturing firms and 60 are involved in services. 8 companies fall into both categories.

The results of the above survey suggest that the foreign investors have mainly been interested in market-related motives. Labour costs and other cost-related motives (cheaper inputs, transportation costs, taxes, and tariffs) do not tend to be very important in investing abroad. There are several explanations to this, the most important of them being the comparatively low popularity of OFDIs among the manufacturing firms in Estonia. Another reason is the lack of significant differences in labour costs between Estonia and its main FDI target countries. Due to the small size of all the Baltic States' markets, relatively low transportation costs and free trade agreements, most of the producers have concentrated their production to one country for acquiring economies of scale.

The success of investment by the main activity of the foreign affiliate was determined by grouping the affiliates as follows: production, selling, and services. The results indicate that 80 per cent of the production affiliates have functioned as the investors expected. The sales affiliates of the production companies were considered to be successful almost in 2/3 of the cases, while the sales affiliates of the service firms mirrored the already mentioned positive tendencies in the service sector. A comparison of success estimates by the affiliates' host countries or regions shows that investments into the other Baltic States have lived up to the expectations more than those made into the Commonwealth of Independent States (CIS) or the European Union (EU) region. Especially high is the mismatch with expectations in the case when one of the CIS countries (Russia, Belarus, or the Ukraine) served as a location for affiliates.

Investigation of the entire sample of the companies showed that the most important effects on the parent company were related to additional market shares gained abroad. 45 per cent of the respondents indicated an increase in their market shares and 37 per cent perceived change as a strong increase. Strong effects on the exports of the parent company were also revealed. 42 per

cent of the respondents implied that their exports had increased and 14 per cent noted that there had been a strong increase in the exports from the Estonian company. The weakest impact of affiliate creation seems to be on the imports of the parent company, despite the fact that on average some growth in imports was indicated. In terms of the effects on the balance of payments, though, this trend is encouraging.

The indirect investors have gained relatively more in terms of foreign market shares and employment, while the direct investors have indicated a strong positive impact on the exports from the parent company and probably as a result of that on the output of the parent. Depending on the type of the foreign affiliate, two interesting aspects deserve attention. The sales affiliates of the production company had the strongest positive effects on the parent and its market shares. There was also a strong negative impact of the production affiliate on the parent's output and employment (shift of production from Estonia abroad).

Regarding the location of the affiliate, the gains in market shares are highest when investing into the EU. Latvia has also been very good in that respect. Effects on the parent's exports have been higher in case of the EU and Lithuanian affiliates. In most dimensions the gains are smaller for parents with affiliates in Russia, the Ukraine, and Belarus, the effects on employment being even slightly negative.

An analysis of the investors' plans shows that in the near future 73 per cent of the companies intend to expand by extending their affiliates, while only 21 per cent want to continue with establishing new affiliates. In a 5 years perspective the number of companies intending to establish new affiliates will reach 34 per cent. Only a very small per centage of the respondents is planning to close down their existing foreign affiliates. This speaks of a clear intention to continue with OFDIs. Recent statistics about OFDIs supports their decision. Trade and service companies tend to prefer expansion to establishment of new affiliates, whereas in manufacturing industries and the financial sector plans to establish new affiliates have a much higher

share. Relative dissatisfaction with their foreign activities is indicated by a comparatively high per centage of firms who plan to close their affiliates in the financial sector.

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KOKKUVÕTE

Eestist pärit otsesed välisinvesteeringud

Eesti ettevõtted asusid investeeringute kaudu välisturgudele sisenema alles 1990ndate aastate keskpaigast alates. Esimene väljapoole suunatud investeeringute tõusulaine oli 1997. aastal, millele järgnes sügav kriis ja 2000. aastast algas uus tõus. Eesti on alates 1997. aastast olnud välismaale tehtud investeeringutelt ühe elaniku kohta siirderiikide hulgas esikolmikus. Seega on olemas juba teatud kogemus, mis annab alust põhjalikumalt uurida Eesti ettevõtete poolt välismaale tehtud investeeringutega seotud küsimusi.

Töös tegeldi välisinvesteeringute poolt Eestis asuvatele emaettevõtetele avaldatava mõju uurimisega Kasutati 2001. aasta suvel ja sügisel Tartu Ülikooli majandusteaduskonna rahvusvahelise ettevõtluse õppetooli poolt läbi viidud küsitluse tulemusi 70 välismaale investeerinud Eesti ettevõtte kohta. Saadud tulemusi analüüsiti investorite tüübi (otsene või kaudne), investeeringu tüübi (tootmine, kaubandus või muu teenus) ja ettevõtte vanuse järgi.

Uurimistöö käigus uuriti Eesti ettevõtete motiive välisturule sisenemisel investeerimise kaudu, analüüsiti investeeringute mõju emaettevõtetele, samuti selgitati välja ettevõtete rahulolu seniste investeeringutega ja analüüsiti tulevaste investeeringute kavasid erinevate investorite tüüpide lõikes.

Küsitluse tulemuste analüüs võimaldab väita, et turuga seotud motiivid olid määravad Eesti ettevõtete investeeringute puhul välisturule. Madalamad töökulud ja muud kulude kokkuhoiule suunatud motiivid olid vähetähtsad. Täiendav turuosa oli peamine ettevõtteid välismaale investeerima sundiv tegur. Samuti oli selgelt väljendunud investeeringute positiivne mõju

emaettevõtete ekspordi mahule. Peamised investeeringute sihtriigid olid Läti ja Leedu, kus Eesti firmadel oli olemas ettevõttekesksed eelised. Mõnes valdkonnas oli ka Eesti firmadel olemas innovatiivne eelis (näiteks internetipangandus).

Eesti ettevõtted on rahul seniste välismaale tehtud investeeringutega. Küsitlusest selgus, et kõige edukamad on olnud töötleva tööstuse ettevõtete investeeringud tootmisse, neile järgnevad investeeringud müügivõrku ja lõpuks teenuseid pakkuvate ettevõtete investeeringud teenindusvõrgu arendamisse. Eesti firmade turuosa on kõige kiiremini kasvanud Euroopa Liidu liikmesriikides müügivõrgu arendamisse tehtud investeeringute abil. Üldiselt on kõige edukamad olnud investeeringud Lätti ja Leetu ja suurim ebaõnnestumiste osakaal oli investeeringutes Venemaale, Ukrainasse ja Valgevenesse.

Eesti ettevõtted on väga optimistlikud tulevaste välismaale tehtavate investeeringute osas: 73 protsenti vastanutest kavandavad laiendada olemasolevaid allüksusi ja 21 protsenti rajavad uusi allüksusi. See annab tunnistust senise investeerimistegevuse tulemuslikkusest ja Eesti ettevõtete soovist jätkata välismaale investeerimist.