
Volume 25

Issue 3 *Thematic Issue: Internationalization and
Foreign Direct Divestment Flows in Central and
Eastern European Economies*

Article 1

September 2023

Internationalization and Foreign Direct Divestment Flows in Central and Eastern European Economies

Badar Alam Iqbal

Tshwane University of Technology, Department of Economics, Pretoria, South Africa

Arti Yadav

University of Delhi, Ramanujan College, New Delhi, India

Follow this and additional works at: <https://www.ebrjournal.net/home>



Part of the [International Economics Commons](#)

Recommended Citation

Iqbal, B., & Yadav, A. (2023). Internationalization and Foreign Direct Divestment Flows in Central and Eastern European Economies. *Economic and Business Review*, 25(3), 128-130. <https://doi.org/10.15458/2335-4216.1322>

This Editorial is brought to you for free and open access by Economic and Business Review. It has been accepted for inclusion in Economic and Business Review by an authorized editor of Economic and Business Review.

EDITORIAL

Internationalization and Foreign Direct Divestment Flows in Central and Eastern European Economies

Badar Alam Iqbal ^{a,*1}, Arti Yadav ^{b,2}

^a Tshwane University of Technology, Department of Economics, Pretoria, South Africa

^b University of Delhi, Ramanujan College, Department of Commerce, New Delhi, India

Globalization has given rise to the critical concept of firm internationalization, resulting in a boundaryless world. Numerous studies have been conducted on the determinants of foreign direct divestment (FDD) in European countries. However, there is a lack of research on FDD in the Central and Eastern European countries (CEE). Therefore, it can be concluded that studies focusing on the internationalization of firms, particularly those owning and operating units in foreign locations, are necessary. Multinational companies that own and operate units in CEE countries are considered drivers of internationalization and globalization. These companies promote interdependence between CEE countries, playing a crucial role in the globalization process of their economies.

Several factors contribute to internationalization and FDD in developing CEE economies. One of the primary factors is political instability, which can erode investor confidence in the host country's economy and the security of their investments. Changes in the global economic environment also play a role in FDD. Global economic downturns lead investors to seek more stable investment opportunities in developed countries, resulting in declining FDI in developing nations. Insufficient infrastructure is another factor contributing to FDD in developing countries. Inadequate infrastructure increases business costs, prompting investors to seek more efficient opportunities elsewhere. FDD can also negatively impact technology transfer. Foreign investors often introduce new technologies and management practices to the host country, but divestment may lead to the withdrawal

of these assets, causing a decline in productivity and competitiveness.

Moreover, FDD can decrease the host country's overall attractiveness to foreign investors. If the host country is perceived as unstable or risky, future investment becomes less likely, creating a cycle of divestment that is difficult to reverse and resulting in long-term negative impacts on the economy. This thematic issue aims to compile studies on internationalization and divestment flows in the context of CEE economies.

Although there are numerous qualitative studies on the determinants of FDD, empirical (quantitative) studies on the drivers of FDD flows are scarce for CEE countries. Limited qualitative research exists regarding the impact of COVID-19 on the economies of these countries as well. Consequently, it is imperative to examine the post-COVID-19 drivers of internationalization and FDD flows in these economies. To ensure a high-quality thematic issue, a call for papers was circulated, resulting in many submissions. After careful consideration of the papers' contents, quality, and presentation style, only three papers were selected for publication in this issue.

The first paper, authored by Beri and Mhonyera, provides a comprehensive investigation of the transition to market-oriented economies in the CEE region and the significant structural economic and institutional reforms that accompanied it. Previous studies have examined how these reforms influenced foreign direct investment (FDI) inflows, but the evidence remains debatable and varies across countries. This study offers new insights by considering the

Available online 5 September 2023

* Corresponding author.

E-mail addresses: IqbalBA@tut.ac.za (B. A. Iqbal), artiyadvdse@gmail.com (A. Yadav).

¹ Guest editor. Prof. Dr. Badar Alam Iqbal is a Professor Extraordinaire at the Department of Economics, Tshwane University of Technology in South Africa.

² Guest editor. Dr. Arti Yadav is an Assistant Professor at the Department of Commerce, Ramanujan College, University of Delhi in India.

<https://doi.org/10.15458/2335-4216.1322>

2335-4216/© 2023 School of Economics and Business University of Ljubljana. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

impact of macroeconomic factors and governance, as well as the moderating effect of governance on the macroeconomic drivers of the FDI nexus. The paper suggests that policymakers should strengthen domestic macroeconomic policies and trade liberalization to attract more FDI in CEE countries. The authors contribute to the literature by documenting new linkages between macroeconomic drivers, governance, and FDI across the CEE region from the lens of SUR, a gap largely ignored by previous studies. The paper reveals weak evidence for the effect of market size, but substantial heterogeneous responses across countries. It also highlights the significant influence of human capital and governance on FDI flows in CEE.

The second paper, contributed by Gorbunova, Komarov, and Komarova, examines the position of CEE countries in the liberal segment of the global financial system, comparing their peripheral status as latecomers to the EU. The study analyses the dynamics of foreign direct and portfolio investments (FDI and PI), as well as the balances between GNI/GDP and domestic capital formation/domestic savings, shedding light on investment/divestment in CEE. Descriptive statistics indicate that the industrial part of globalization (FDI net inflows) has positively impacted the capital formation of the considered economies from 1995 to 2021. However, PI flows, used as a proxy for financial globalization, have shown volatile dynamics with a tendency toward outflows since the 2008–2010 global financial crisis, when the current unipolar world order entered a decline stage. The regression analysis reveals that FDI has, compared to PI, a major impact on the difference between capital formation and savings, implying that divestment by FDI could significantly affect the transformation of savings into capital. The study highlights the influence of the unipolar order and globalization on investment/divestment mechanisms in peripheral economies, emphasizing the greater impact of FDD as a component of industrial globalization.

The third paper, submitted by Petrakou, Bruno, and Phelps, analyses the impact of FDI and financial depth on regional economic growth in the European Union (EU) between 2005 and 2017. The authors employ a GMM modelling strategy that accounts for endogeneity. The findings suggest income and spatial heterogeneity related to FDI spillovers in EU regions, indicating that more peripheral and less developed regions benefit more from the presence of foreign firms. Financial depth at the regional level is also a significant determinant of regional growth, highlighting the substantial role of financial intermediation, particularly in less developed regions. The paper asserts that FDI and financial development are important determinants of regional growth, but their impact varies

across EU regions, indicating the need for FDI attraction policies that consider both country and regional specificities. The authors emphasize the importance of financial development, capability building, and Investment Promotion Agencies in developing FDI attraction policies at the subnational level, particularly for less developed and peripheral regions.

The selected papers in this thematic issue make significant contributions to the understanding of internationalization and FDD flows in CEE. By delving into this emerging area of research, these papers offer deeper insights into the complex issues and dynamics involved in the internationalization process and the impact of FDD on the economies of CEE. One of the key contributions of this thematic issue is that it sheds light on the factors driving internationalization and FDD in CEE countries. The papers identify various determinants, such as political instability, changes in the global economic environment, and inadequate infrastructure, that can lead to FDD. Understanding these factors is crucial for policymakers and investors in devising strategies to attract and retain FDI in CEE economies.

Additionally, the papers highlight the implications of FDI divestment on technology transfer, productivity, and competitiveness in the host countries. They emphasize the negative consequences that can arise when foreign investors withdraw their investments, technology, and management expertise. These findings underscore the importance of fostering a supportive environment for FDI and creating incentives for foreign investors to remain engaged in the host countries over the long term.

Moreover, the thematic issue emphasizes the significance of regional and country-specific factors in attracting FDI. It highlights the heterogeneity of FDI spillovers and the role of financial development at the regional level in driving economic growth. This insight has important implications for policymakers, as it underscores the need to consider both national and regional characteristics when formulating FDI attraction policies and promoting regional development.

By focusing on the specific context of CEE countries, this thematic issue fills a gap in the existing literature. It not only contributes to theoretical knowledge but also provides practical implications for policymakers, businesses, and investors operating in the region. The findings and recommendations presented in these papers can guide policymakers in formulating effective strategies to enhance internationalization and attract sustainable FDI flows to CEE countries, ultimately fostering economic growth and development.

Overall, this thematic issue serves as a catalyst for further exploration and research in the field of internationalization and FDI flows in CEE. It invites

scholars to delve deeper into the complexities of these topics, expand their knowledge base, and generate new insights. The implications of this research extend beyond academia, as they provide valuable guidance for policymakers and practitioners seeking to navigate the challenges and opportunities associated with internationalization and FDI in CEE economies.

Completing the thematic issue would not have been possible without the help and efforts of various

individuals. Firstly, we express our gratitude to the reviewers for dedicating their valuable time, expertise, and providing feedback on the manuscripts assigned to them. Secondly, we are grateful to the editorial board members, particularly the editors, and everyone involved with the journal for their continuous support, encouragement, and assistance. Their contributions were instrumental in making this thematic issue a reality.