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Poland and Its Investment Development Path

ABSTRACT: *This paper attempts to explore the concept of an investment development path (IDP) and its key component, the net outward investment position, as applied to Poland, treated here as a transitional economy. The point of departure for data analysis is the beginning of Poland's transition to a market-based system in 1990. The paper analyzes the available macroeconomic data identifying the IDP path for Poland and formulating the reasons for, and consequences of, the country's current IDP position. The role of government regulations and policies affecting foreign direct investment (FDI) is also investigated. Poland is at the end of the second stage of its IDP and behind the position that its gross domestic product would justify. This is mainly due to the pull of the large internal market, the still weak competitiveness of domestic firms in international markets, and government reluctance to adopt more active, firm-specific ownership advantage stimulating policies toward outward FDI.*

The notions of country competitiveness, growth and development, and foreign direct investment (FDI) have always been at the forefront of international business research. In this context, this paper explores the concept of the investment development path (IDP) as applied to a transitional economy—Poland. The point of departure for data analysis is the beginning of Poland's transition process to a market-led economic system in 1990. The IDP approach seems to be appropriate, in that it

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tries to combine the effects of inward and outward FDI on the country's growth and development patterns, exerting a major influence on the extent and speed of the transition process.

Literature Review

The IDP concept was introduced by Dunning (1981; 1986). Dunning and Narula (1996) refined the concept and Dunning et al. (2001) extended it to incorporate trade.

According to the concept's basic proposition, the inward and outward investment positions of a country are tied to the country's economic development. Changes in the volume and structure of FDI lead to different values in the country's net outward investment (NOI) position, defined as the difference between the gross outward direct investment stock and the gross inward direct investment stock. The changing NOI position passes through five stages intrinsically related to the country's economic development (Dunning and Narula 1996).

In Stage 1 of the IDP, the NOI position is negative and its negative value increases due to growth in inward FDI, flowing mostly to take advantage of the country's natural assets. Outward FDI is negligible or nonexistent, as foreign firms prefer to export and import as well as conclude nonequity relationships with local firms. Stage 2 is characterized by an increased inflow of FDI. Outward FDI remains low, but there is more than in the previous stage. The NOI position decreases, but at a slower rate. Countries in Stage 3 are said to exhibit a growing NOI position due to an increased rate of growth of outward FDI and a gradual slowdown in inward FDI, geared in this case more toward efficiency-seeking motives. In Stage 4, outward FDI stock continues to rise faster than does inward FDI and the country's NOI position crosses the 0 level and becomes positive. Country-location advantages are now mostly derived from created assets. This stage, as well as the fifth and final stage, is typical of the most developed countries. In Stage 5, the NOI position first falls and thereafter tends to fluctuate around the 0 level, but usually both inward and outward FDI increase. Multinational corporations (MNCs), as agents of FDI, become more global and contribute to blurring national borders.

Based on a study of Korea and Taiwan, the IDP concept has been extended further by Dunning et al. (2001). They argue that there is an interface between trade and FDI and introduce the parallel concept of

the trade development path (TDP). They find that the growth of trade and FDI are positively correlated with both gross national product per capita and created assets intensity. In other words, as economic development progresses, both outward investment and exports increasingly come from created asset–intensive sectors and the proportion of intraindustry trade and FDI to total trade and investment increases.

Because development is a macroeconomic concern, it is the principal domain of government responsibility, and thus, the scope and nature of government policy in this area is a key influence in explaining country patterns of IDP. However, FDI arises out of decisions made by MNCs, and in this sense it has a microeconomic focus, albeit with macroeconomic consequences related to development. The strategies of MNCs can then be considered as the principal determinant of the pattern of NOI.

Research on the IDP concept as applied to different countries encompasses many additional factors. In looking at the case of the United Kingdom, Clegg (1996) frames his analysis in the context of country competitiveness. He draws attention to technological factors that influence competitiveness besides FDI and government policy, and extends the investigation of the UK IDP to bilateral components according to region and country as well as to the sectoral destination of FDI. Graham (1996) explores the U.S. IDP using data beginning with 1950 and questions the original model's assumption that, in the fifth and final stage, the NOI position tends to fluctuate around the 0 level. Ozawa's (1996) analysis of the Japanese experience stresses the effects of restrictions placed on inward FDI and introduces the technology development path as a surrogate for the IDP concept.

The IDP in the Spanish economy is of special interest to the present study because the development trajectories of Spain and Poland resemble each other, albeit separated by a considerable time gap (eighteen years if access to the European Union is considered as the base). Campa and Guillen (1996) extensively present the Spanish case, concluding that Spain has difficulty moving out of Stage 2 of the IDP model, not because of a deficiency in ownership or internalization advantages of Spanish firms, but because of the continuing attractiveness of location advantages in the Spanish market.

Lall (1996) offers a synthetic evaluation of the IDP concept, as evidenced in developed as well as developing and newly industrialized countries. He maintains that structural changes in ownership and location

factors influence trends in international capital flows, corporate behavior, and government policy. According to one of his suggestions, the IDP could be better measured by the international transfer of intangible assets instead of relying only on FDI. His main observation is that countries exhibit long-term deviations from the IDP model, caused mainly by the nature and efficacy of government policy. This might necessitate extending and modifying the model to encompass all of the identified subpatterns. As for the role of government policy in the said model, Lall identifies three main types: a passive approach to FDI and technology upgrading; a proactive approach to "attract and guide FDI to activities that most benefit local development" (Lall 1996, p. 440); and a selective approach to FDI, using it to acquire foreign-created assets and at the same time, developing the potential and especially the technological base for local firms.

Buckley and Castro (1998) look at the IDP of Portugal, pointing out some key weaknesses of the IDP concept. They question the IDP's predictive capacity, given the unpredictable character of economic and noneconomic factors. Among the noneconomic factors, they cite political events such as Portugal's entry into the European Free Trade Association (EFTA) and the European Economic Community (EEC), the 1974 revolution, and the transformation in Central and Eastern Europe.

Bellak (2001) analyzes the Austrian IDP, stressing the usefulness of distinguishing an IDP approach for small countries and focusing on bilateral and sectoral analysis similar to that of Clegg (1996). Bellak (2001) argues that, on the basis of collected empirical evidence and taking the level of development as the main criterion, Austria may be classified as being in Stage 4 or 5 of its IDP. If, however, its constantly deteriorating NOI position is considered, the country falls into the category of Stage 2.

Austria's inconsistency with the ideal IDP model may be explained by its extensive use of exporting as an alternative to outward FDI: Austrian firms' weak technological base led to their low capacity to generate firm-specific advantages and inward FDI increased after Austria entered the European Union in 1995. Much of the outward Austrian FDI is undertaken by foreign subsidiaries of MNCs resident in Austria, and therefore, any ownership advantages should be de facto attributable to the parent company from the relevant home country.

Barry et al. (2003) find support for the IDP model in their study of Ireland. The IDP concept is also positively verified in a bilateral

U.S.–Irish framework, because the United States is the largest source of incoming FDI, as well as the principal destination of outward FDI from Ireland. Outward FDI is mainly oriented toward nontraded products, such as construction materials, paper, and packaging, and the ownership advantages of Irish MNCs tend to be based on management and experience.

A complex evaluation of the IDP concept and its shortcomings, and suggestions for modifying it, are found in Durán and Ubeda (2001). Calling for a new approach to the IDP, they draw attention to such methodological problems as the incompleteness of the concept of NOI position as an indicator for analyzing the effects of structural changes on inward and outward FDI, and the insufficiency of gross domestic product (GDP) per capita to indicate a country's level of economic development.

The first dilemma appears in countries in which hardly any inward and outward FDI is made and which are classified as being in Stage 1 of the IDP. Their NOI position will be close to zero, similar to developed countries in Stage 5 of their IDPs. To solve this paradox, Durán and Ubeda (2001) propose to look at inward and outward FDI in absolute and relative terms. Suggestions to deal with the second issue revolve around including structural variables that reflect not only the degree of economic development, but also each country's peculiarities and the nature of its international trade.

Another of Durán and Ubeda's (2001) significant contributions to the debate around the IDP concept concerns their redefinition of the fourth stage. Their amended version includes developed countries that have a structural gap due to fewer endowments of created assets; the same levels of inward FDI but lower levels of outward FDI compared to countries in Stage 5; and a positive or negative NOI position, but in all cases, lower than that of countries in Stage 5. All of the proposed modifications depend on the availability of additional or more detailed data and offer much wider analytical possibilities.

A growing amount of research on IDP relates to the transition economies of Central and Eastern Europe. Kubielas (1996) invokes the early version of the IDP in his analysis of the role of technology transfer and FDI in restructuring the Polish economy during the first five years of transformation to a market-based system. The first stage of the IDP is driven by basic production factors, which are abundant and relatively

inexpensive. The next two stages fall into the investment-driven category, in which inward FDI is focused on standardized products and then on export-oriented mass production of medium-technology products that generate economies of scale. Finally, there is the innovation-driven (fourth) stage, in which technology is not only imported, appropriated, and improved, but also generated domestically. Inward FDI is now of the strategic asset–seeking type.

A comprehensive and insightful analysis of outward and inward investment in selected Central and East European countries is conducted in a study edited by Svetlicic and Rojec (2003). One of its principal recurring themes states that the IDP concept is useful to understand and explain the outward internationalization process of transition economies. Within the same study, Rosati and Wilinski (2003) investigate how the IDP concept fits with FDI in Poland. They find that the limited extent of outward FDI from Poland is due to factors such as a large and growing domestic market, low savings rate, and a still-low degree of openness in the economy. The outward FDI is mostly market seeking, focused on the markets of Europe.

Boudier-Bensebaa (2004) undertakes a synthetic and comparative approach, applying the IDP concept to the entire region of Central and Eastern Europe, including Russia and the former republics of the Soviet Union, and to the fifteen members of the European Union. The Eastern countries concerned are classified into four distinct groups according to their per-capita level of GDP and NOI position. The NOI position of the Eastern countries places them in Stage 1 or 2 of the IDP, while the NOI position of the EU countries suggests Stage 4 or 5. The first and most advanced group of the Eastern countries consists of Czech Republic, Estonia, Slovenia, Hungary, Slovakia, Poland, Latvia, Lithuania, and Croatia. The group is identified as moving toward the end of Stage 2 of their IDP, or even toward the beginning of Stage 3. The NOI positions of the Eastern country groups and subgroups reveal a tendency to converge. But as far as income levels are concerned, no convergence is found either inside the Eastern countries or between them and the European Union. Finally, the author posits that data on FDI stocks and GDP do not cover all of the factors affecting FDI and development. In the FDI sphere, nonequity forms of investment are left out. As for the effect on FDI, besides GDP, elements such as EU accession, globalization, and the transformation process per se should also be taken into account.

Poland's Position on the IDP

Evolution of the Legal–Institutional Conditions for the Inflow and Outflow of Foreign Capital

In establishing Poland's position on the IDP, it must not be forgotten that the economic system that existed until 1989 created serious distortions in the natural or ideal evolution of the country's NOI position according to the original model of Dunning (1981; 1986). The system based on central planning had a natural proclivity to a high degree of economic autarky, manifest in the relatively low importance of international trade and even lower significance and attention given to FDI. The institutional framework of a centrally planned economy also contributed to the very marginal role assigned to FDI. According to the classification of Ozawa (1992), the orientation of the pre-1990 Polish economy could be identified as inward looking and import substituting (IL-IS), as opposed to outward looking and export oriented (OL-EO).

In the context of development, 1990 was a year of radical, institutional change that activated evolutionary adjustments in the Polish economy to meet the challenges of the international environment. Before embarking on the analysis of data on the Polish IDP, it is worth considering the main characteristics of the evolution of the legal and institutional conditions for the inflow and outflow of foreign capital to and from Poland.

A significant feature of the Polish transformation, initiated in 1990, was the systematic opening of the economy to FDI. This was facilitated by changes in the existing regulatory framework. The following factors had the most powerful influence on the opening of the country to the inflow of foreign capital in the form of direct investment (Kubielas et al. 1996, p. 428):

- Liberalization of legal regulations concerning FDI inflow
- Liberalization of foreign trade and principles of currency convertibility
- Privatization of state-owned enterprises

From a policy perspective, before the beginning of transformation in Poland, FDI was regulated by the enclave model, which treated FDI in a special way compared with the remaining part of the economy (Samonis

1992, pp. 101–112). The enclave model functioning in Poland had the following characteristics:

- FDI was allowed only in so-called small foreign business operations, or in joint-venture companies with a minor share of foreign capital.
- Foreign investors had to obtain permits through a complicated procedure.
- A wide range of sectors were out of bounds for FDI, either forbidden or rationed.
- There was an obligation to resell foreign currency revenues from exports to domestic banks.
- There were restrictions on the transfer of profits abroad and on the purchase of real estate.
- FDI could benefit from tax holidays on corporate income tax.

With transformation under way, the legal and institutional changes in the conditions for the inflow of foreign capital made it necessary to change the model in favor of treating FDI on par with domestic investment. This was, in other words, the application of the principle of national treatment. The 1991 act on the operation of economic entities with a share of foreign capital contributed significantly to the national treatment of FDI. Its most important features concerning foreign investment included the following:

- No restrictions on the transfer abroad of profits and initial capital
- Necessity of foreign investors to obtain permits issued by the state administration only in cases of buying equity, or leasing or purchasing assets of state-owned firms
- Abandoning the principle of automatic three-year corporate income-tax holidays
- Full guarantee of compensation in the unlikely case of expropriation
- Ability of foreign entities to start their activity in two forms exclusively: limited liability companies and joint-stock companies; this was an exception to the principle of national treatment, approved by the Organization for Economic Cooperation and Development (OECD)

The present situation in Poland for regulations concerning FDI is similar to the situation in developed countries. Considerable progress has

been made in adjusting Polish law to EU and OECD standards and in consistently implementing the national treatment rule—that is, treating foreign investors on equal terms and conditions as domestic entities. Poland's accession to the European Union required changes in the principles of granting state aid to investors, including foreign firms (Durka and Chojna 2004). These rules were adjusted to those applicable in the European Union.

Poland's Investment Development Path: Empirical Evidence

To identify Poland's IDP, three tables (Tables 1–3) containing data on the country's development as it relates to inward and outward FDI have been analyzed.

The three key indicators of Poland's IDP—FDI inward stock, FDI outward stock, and NOI—were derived from the tables. Figure 1 presents them in graphical form. The analysis that follows below, using Figure 1 as a synthetic expression of Poland's IDP and the point of departure, interprets detailed information from Tables 1, 2, and 3 to enrich and expand on the traditional approach to studying IDPs.

Table 1 shows inward and outward FDI flows, as well as relative inward FDI stock. Inward FDI flows at the beginning of the transformation period in 1990 were minimal and reflected the still smaller amounts that were registered in the previous economic system in Poland. FDI outflows were practically nonexistent, and the significance of inward FDI as a share of Poland's GDP in 1990 was also minute (0.2 percent). Starting in 1991, FDI inflows rose continually until 2000, falling thereafter for the next two years and then tending to rise slightly again. Throughout the thirteen years of transition, inflows exhibited a stunning growth of 4,747 percent. In the same period, FDI outflows showed an increase of 2,413 percent. In 1991 and 2001, disinvestment by Polish firms abroad was observed. The role of inward FDI in the entire economy (as a percentage of GDP) increased most spectacularly, achieving a growth index of 12,450 percent and reaching a share of almost 25 percent of the Polish GDP in 2003.

What do the figures reveal? First, they indicate a growing, albeit fluctuating, absorptive potential of the Polish economy for FDI. This potential was due to the location advantages of the Polish marketplace. The size of the national market is the foremost factor in this respect, but other factors have been at work as well, such as low labor costs, well-

Table 1

FDI Inflows and Outflows from Poland and Relative Inward FDI Stock Between 1990 and 2003

	FDI inflows (mln USD)	FDI outflows (mln USD)	Inward FDI stock as a percentage of GDP
1990	89	16	0.2
1991	291	–7	0.6
1992	678	13	1.6
1993	1,715	18	3.0
1994	1,875	29	3.8
1995	3,659	42	5.8
1996	4,498	53	7.5
1997	4,908	45	9.5
1998	6,365	316	13.3
1999	7,270	31	15.9
2000	9,341	17	20.6
2001	5,713	–90	22.2
2002	4,131	230	25
2003	4,225	386	24.9

Source: UNCTAD and *Statistical Yearbook of the Republic of Poland* (2000, 2001, 2002, 2003, 2004).

developed labor skills, and foreign-firm strategies to use Poland to acquire knowledge and expertise in doing business in the environment of Eastern Europe, especially in the markets of the former Soviet Union (Wolniak 1998, pp. 130–131). The end result has been a significant role attributed to foreign investors as evidenced by the share of inward FDI stock in the country's GDP.

Second, the very weak performance in outward FDI was due to domestic firms' lack of ownership advantages, and the corresponding relative paucity of created assets to support foreign expansion. Moreover, in the said outward FDI, there was practically no investment undertaken by Polish subsidiaries of MNCs because of their focus on exploiting the internal market or engaging in cross-border transfer of final products or supplies inside the MNCs. The lack of ownership advantages sufficient to motivate and lead domestic firms to expand through FDI was due not

Table 2

FDI Inward and Outward Stock, and GDP of Poland in 1990–2003

	FDI inward stock (mln USD)	FDI inward stock (previous year = 100)	FDI outward stock (mln USD)	FDI outward stock (previous year = 100)	GDP* (mln USD, at current prices)	GDP (previous year = 100)
1990	109		95		58,976	
1991	425	390	88	92	72,924	124
1992	1,370	322	101	115	84,326	116
1993	2,621	191	198	196	85,853	102
1994	3,789	145	461	233	117,978	137
1995	7,843	207	539	117	126,348	107
1996	11,463	146	735	136	134,550	106
1997	14,587	127	678	92	143,066	107
1998	22,479	154	1,165	172	157,274	110
1999	26,074	116	1,024	88	155,151	99
2000	34,227	131	1,024	100	158,839	102
2001	41,247	121	1,156	113	183,400	115
2002	47,900	116	1,453	126	189,000	103
2003	52,125	109	1,839	127	209,600	111

Source: UNCTAD and *Statistical Yearbook of the Republic of Poland* (2000, 2001, 2002, 2003, 2004).

* According to official exchange rate.

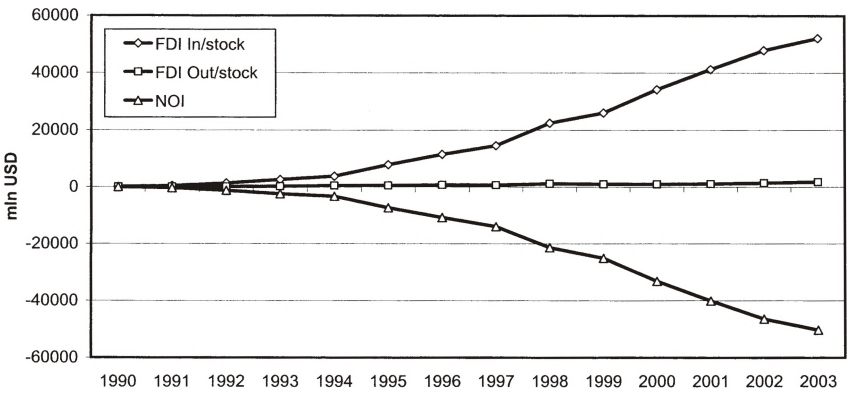
Table 3

GDP and NOI Position of Poland in 1990–2003

	NOI position	GDP* (mln USD)	NOI/GDP	NOI per capita in USD	GDP* (per capita, in USD)	NOI per capita (previous year = 100)	GDP per capita (previous year = 100)
1990	–14	58,976	–0.02	–0.37	1,547		
1991	–337	72,924	–0.46	–8.85	1,998	2,391	129
1992	–1,269	84,326	–1.5	–33.31	2,198	376	110
1993	–2,423	85,853	2.82	–63.59	2,232	191	102
1994	–3,328	117,978	–2.82	–87.34	3,057	137	134
1995	–7,304	126,348	–5.78	–191.71	3,086	219	101
1996	–10,728	134,550	–7.97	–281.57	3,484	147	113
1997	–13,909	143,066	–9.72	–365.07	3,702	130	106
1998	–21,314	157,274	–13.55	–559.42	4,068	153	110
1999	–25,050	155,151	–16.14	–657.48	4,014	118	99
2000	–33,202	158,839	–20.9	–871.44	4,110	133	102
2001	–40,091	183,400	–21.86	–1,049.50	4,746	121	115
2002	–46,447	189,000	–24.58	–1,215.89	4,944	116	104
2003	–50,286	209,600	–23.99	–1,316.39	5,486	108	118

Source: UNCTAD and *Statistical Yearbook of the Republic of Poland* (2000, 2001, 2002, 2003, 2004).
* According to official exchange rate.

Figure 1. **FDI Inflow and Outflow Stocks and Poland's NOI, 1990–2003**



so much to the lack of new products or technologies as to the underlying financial weakness and relatively small size of such firms (Gorynia and Wolniak 2001a, pp. 89–94).

Much of the explanation concerning outward FDI also rests with government economic policy. Throughout the transformation period since 1990, successive governments paid only lip service to the pressing need to stimulate and support the internationalization of domestic Polish firms. The prevailing policy was closest to a passive, liberal, laissez faire approach without elements of guidance or support, especially in providing or guaranteeing funds for outward expansion. Only in the last two years were fragmentary government programs introduced, designed to promote Poland and Polish products in international markets, and thus, attempt to reduce the negative country-of-origin effect afflicting many product categories, especially high-technology manufactured products and services.

Figure 1 depicts changes in the FDI inward and outward stock; Table 2 details the same for Poland's GDP growth. In looking at the data for inward FDI stock, it should be remembered that Poland accounts for the largest part of the total FDI stock invested in the entire Central and East European region. In 2000, Poland's share was over 25 percent of the said total (Kopeć, 2002). More important, however, is the evolution of inward FDI stock dynamics. The second and third year of the transition process witnessed an initial surge of FDI due to the opening up of the Polish economy after abandoning central planning. Thereafter, changes

fluctuated until 1999, with annual increases ranging from 27 percent to 107 percent. From 2000 on, a clear slowing-down tendency emerged, from 31 percent in 2000 to only 9 percent in 2003. This has been attributed to the ending of the privatization process in Poland, as the pool of state-owned companies available for acquisition and attractive for foreign investors was considerably diminished; a general slowdown in business activity in the developed countries; and MNCs seeking lower labor costs and efficiency beginning to look at other locations. A time period of only three years is short, however, and a reversal is possible, for example, due to Poland's EU accession in 2004.

The situation is somewhat different for outward FDI stock. Until 1999, fluctuating changes are observed. Starting in 2000, the growth rate of outward FDI consistently rises, coinciding with a growth in absolute terms of GDP in the same period. This seems to be a very positive and promising sign. It can be interpreted to indicate that with overall economic development, Polish firms are beginning to internationalize more aggressively through FDI. Their expansion is mainly of the market-seeking type and geographically focused in two areas: the European Union and the markets of less-developed Central and East European countries. In the latter, Polish firms also tend to exploit ownership advantages stemming from possessing proprietary assets, such as unique technologies, products, and know-how.[1]

Figure 1 and Table 3 present data on the NOI position of Poland in relation to the country's GDP statistics and identify the stages of development that have been reached so far according to the IDP model. Regarding the evolution of the NOI position and GDP in both absolute and per-capita terms, the NOI position deteriorates throughout the studied period. This is accompanied by a systematic rise in GDP, which may suggest that with the development and transition process of Poland thus far, the increasingly negative NOI position indicates that the country has gone through Stage 1 and is currently in Stage 2 of the IDP model. This is consistent with research carried out by Rosati and Wilinski (2003), as well as Boudier-Bensebaa (2004). Antalóczy and Éltető (2002) found a similar position on the IDP path for Hungary. The importance of this similarity arises from the fact that Poland and Hungary are widely perceived as being in the same group of countries that have most transformed their economies to a market-led system.

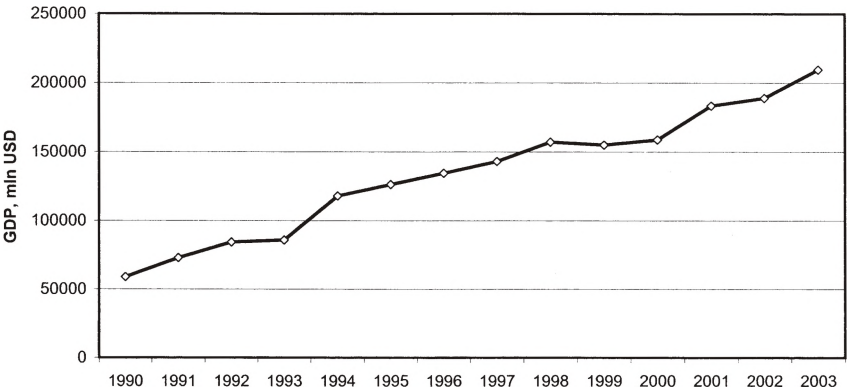
Proceeding now to a joint analysis of the data assembled in all of the tables, the following observations can be made:

1. In every year of the studied time period, FDI inflows were greater than FDI outflows. The ratio of inward FDI stock in 2003 to inward FDI stock in 1990 was 478.2, whereas the ratio of outward FDI stock in 2003 to outward FDI stock in 1990 was only 19.4.
2. As a result of 1, a gradual deterioration of the country's NOI position occurred, dropping in nominal terms from –$14 million in 1990 to –$50.286 billion in 2003.
3. Nevertheless, the NOI per-capita dynamics, calculated as the ratio of NOI per capita in a given year to the previous years—taken as 100—showed a tendency to decrease, falling in the studied period from 2,391 in 1990 to only 108 in 2003.
4. Comparing the dynamics of change in the NOI per capita with the changes in GDP per capita, it appears that every year, the change in NOI per capita was substantially greater than the change in GDP per capita. This also reinforced the worsening of the NOI position for Poland. A departure from this pattern occurred only in 1994, when the dynamics of GDP per capita and NOI per capita were practically identical, and in 2003, when the growth rate in GDP per capita was greater than the negative growth rate in NOI per capita.
5. In the context of 4, the difference in the absolute values of changes in the NOI per capita and GDP per capita was falling. In 1991, the difference was 2,262. In 1998, it was 43, and in 2003, it amounted to only 10, but with a minus sign for the first time, indicating the aforementioned change in the identified trend.
6. From 1990 to 2002, there was a clear growth trend in the absolute value of the NOI/GDP ratio. In 1990, its value was 0.02, and in 2002, it went up to 24.58. In 2003, an absolute decrease was observed to the value of 23.99. The change of trend in the evolution of the NOI/GDP ratio can be interpreted as a weak signal of the beginning of the expected transition from Stage 2 of the IDP to Stage 3. Of course, this conclusion requires appropriate verification and testing in the future.

Poland's Investment Development Path: Interpretation of Empirical Evidence

Attempting to answer through which stages of the IDP Poland passed from 1990 to 2003 poses some problems. A formal analysis of the available data indicates that Poland has so far gone through only Stages 1

Figure 2. **Growth of GDP in Poland, 1990–2003**



and 2 of the Dunning (1981; 1986) model. This is also illustrated in Figures 2, 3, and 4.

In the first years of the investigated time period—it is difficult to pinpoint the end year exactly—Poland's development showed the following signs typical of Stage 1:

1. A relatively small inflow and outflow of FDI. It seems that a turnaround to a certain degree occurred in 1995 and 1996.
2. Low per-capita GDP, but with a considerable growth potential.
3. The need to solve transition adjustment problems in education, training, and motivation of the labor force.
4. Inadequate infrastructure for the needs of foreign investors, especially regarding transportation and communication facilities.
5. Export to and import from Poland as the preferred forms of foreign-firm activity.
6. The economic policy of government directed, but to an unsatisfactory extent, toward eliminating problems and upgrading created assets (material and human infrastructure).

The assertion that Poland has been in Stage 2 since 1995 can be based on the following factors. First, the growth rate of inward FDI started to increase substantially from 1995. At the same time, outward FDI has remained quite low, though the last two years of the studied period produced some signs attesting to the growing importance of such invest-

Figure 3. **Growth of GDP Per Capita in Poland, 1990–2003**

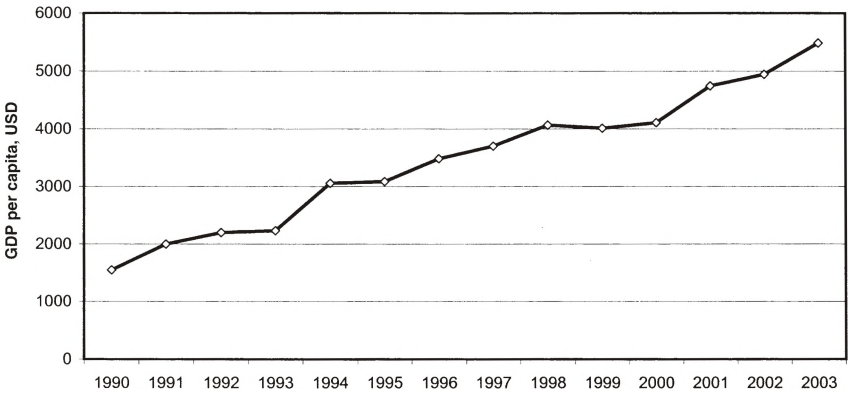
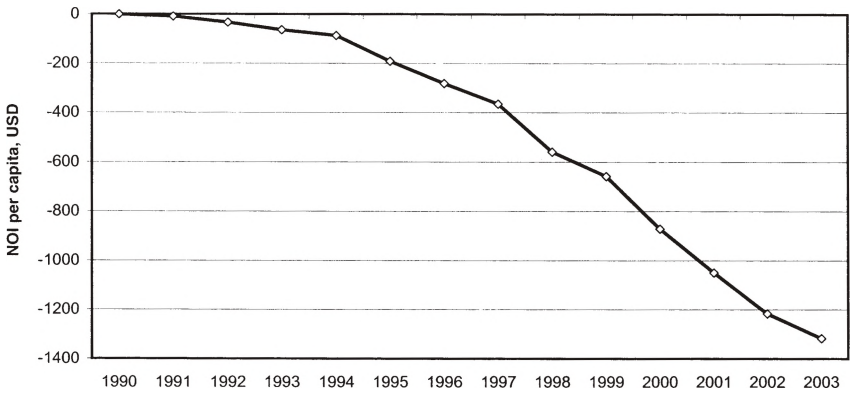


Figure 4. **Changes of Poland's NOI Per Capita, 1990–2003**



ment. Third, the net effect of the two trends was the already stated continuing fall in Poland's NOI position.

In Stage 2, according to the ideal IDP, at least in its second half, there should be a visible trend for the growth rate of the negative NOI position to decrease. This is, in fact, what has been observed in Poland, suggesting that Poland may be entering Stage 3 of its IDP. Some authors, such as Durán and Ubeda (2001), straightforwardly assert that Poland, together with such countries as Greece, Portugal, and Hungary,

should be classified as being already in Stage 3. Many authors position the same country differently. Campa and Guillen (1996) maintain that Spain is in Stage 2, whereas Durán and Ubeda classify it as being in Stage 4.

The authors of the present study conclude that Poland, in 2003, was close to the border between Stages 2 and 3 of its IDP. One of the major factors keeping Poland's NOI position in Stage 2 is the continuing pull of the large internal market. However, this and other factors in that market are becoming more correlated with strategic assets and efficiency, which are gradually supplanting sheer market size and growth potential. Also of importance is the propensity to expand into foreign markets by other means than FDI. In the case of small- and medium-sized Polish firms, the alternative method is mainly through exporting. The rising growth rate of outward FDI stock, observed since 2000, also points to expected movement to Stage 3. It might be construed as a paradox of the most developed transition economies that Poland's and, for that matter, Hungary's IDP show that their NOI positions are lower than the values that would fit and be commensurate with their level of development. A specific IDP gap thus arises, which might be perceived as a characteristic trait in the IDP of transition economies. But this and other related issues need more testing and research.

Conclusion and Policy Implications

The findings of this study indicate that Poland is at the end of Stage 2 of its IDP, which it entered in the mid-1990s. These findings are consistent with earlier studies conducted on Poland and other Central and East European countries, especially those at a similar level of economic development, such as Hungary. At the same time, one can conclude that Poland's current IDP position is behind the position that her GDP would justify. This is mainly due to the pull of the large internal market, the still-weak competitiveness of domestic firms in international markets, and government reluctance to adopt more active, firm-specific ownership advantages to stimulate policies toward outward FDI.

According to received theory, economic policy bears the main responsibility for moving a country ahead on its IDP. What should the strategic policy options for Poland be? In making policy recommendations for Poland, two models of economic policy could be used: the ethnocentric model, with policies aimed at increasing competitiveness selectively—that is, of

Polish-owned firms, but in all sectors of the economy—and the integral model, with policies aimed at increasing the competitiveness of the country's economy as a whole, without differentiating among the identities and ownership of firms, or the nature and locus of their operations. Using both models does not have to be contradictory or lead to conflict, because their application can be framed as a two-phase process.

In line with this approach, support should be offered according to the guidelines of the integral model. There should be no distinction between instruments supporting Polish-owned firms and foreign-owned companies. This criterion is consistent with the notion of a liberal and institutional industrial policy, designed to promote broadly understood development and entrepreneurship (Gorynia 1995). The policy mainly uses instruments that are universal in character and uniform (i.e., nondiscriminating) in all of their aspects, but go beyond the focus of traditional macroeconomic policy. The whole economy, all sectors and industries, are in principle treated alike.

If such economic policy measures were implemented in Stage 1 of the IDP, they could have led to a continuing and unimpeded inflow of FDI and the creation of a sound domestic base of firms competing on the domestic Polish market irrespective of their national provenance.

Nonetheless, the envisaged economic policy should focus on creating a business climate that could attract foreign investors. FDI could prove particularly useful in

- Developing management staff and operations personnel
- Raising the professional level of management
- Transferring production and marketing expertise as well as management know-how
- Introducing technologies that save energy and materials and are environmentally friendly
- Continuing the privatization of the economy
- Improving the country's trade balance in the long run

One of the basic indicators of each country's approach to the globalization issue has been government policy toward FDI. Dunning and coauthors put forward a very important and, to some, controversial view on the issue: Because of globalization, action taken by national administrations should not depend on who owns the firms under their jurisdiction (Dunning 1999). Government policies toward FDI should therefore leave aside the issue of ownership of companies operating on or from the Polish market.

Still, with respect to the domestic market, the aim of economic policy measures should be to create conditions conducive to consolidation and then the accelerated growth of small- and medium-sized domestic firms into larger entities. More support should be given for mergers and acquisitions, as well as business alliances. Measures used in this context should include fiscal instruments and a relaxation of antimonopoly legislation (Gorynia and Wolniak 2001b).

Building the international competitiveness of Poland as a host country for FDI requires attaching more importance to human capital, knowledge, and creativity. The sector of services and infrastructure plays a significant role in this context. Under such conditions, the international promotion of country competitiveness should take into account the following factors:

- Ensuring adequate quantity and quality of resources (acting as resource creator and improver), resulting in a higher quality of human capital (through education), high propensity to innovate, and efficient financial markets
- Lowering transaction costs—creating an efficient legal system (especially in the sphere of contract execution), creating an adequate infrastructure, eliminating asymmetry of information, reducing risk (through insurance systems), counteracting discrimination of firms from a given country, and concluding international economic agreements[2]
- Establishing a favorable climate for investments and an entrepreneurial economic ethos (see Dunning 1999)

Once the domestic market has been covered, the focus of economic policy should shift to support the competitiveness of firms located in Poland and entering and expanding their operations into foreign markets. This second stage calls for measures in the form of direct and indirect financial support that would stimulate firms located in Poland to innovate and develop their core competencies, which, embedded in new products and technologies, would provide them with firm-specific ownership advantages in international markets. International expansion should also be supported by an educational campaign showing the rationale and benefits of not only exporting, but also moving beyond the export stage into more sophisticated activities, such as foreign production. Financial assistance in this area would also be advised.

The above considerations suggest that economic policy, in stimulating and promoting development, should support and be geared toward the development of company competitiveness. The expected medium-term effect of such a strategic aim should be to create a solid base allowing Polish firms—that is, firms located in Poland—to invest, expand, and compete successfully in both developed- and developing-country markets, moving Poland, as a result, firmly into Stage 3 of its IDP.

Notes

1. For more analysis on the international expansion of Polish firms, see Gorynia et al. (2005).

2. Social capital responsible for generating social confidence can help reduce transaction costs. See Matysiak (1999).

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