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### The investment development path of Poland: a current assessment

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## The investment development path of Poland: a current assessment

**Abstract:** This paper explores the concept of investment development path (IDP) as applied to Poland as the economy of Central and Eastern Europe (CEE). Specifically, the objective of the study is to evaluate Poland's current positioning and, hence, stage of development. The paper begins with a brief literature review devoted to the concept of IDP. It is followed by a review of extant research applying the IDP model to CEE economies. Analysis of macroeconomic data indicating Poland's IDP path follows. The main conclusion is that Poland is at the end of stage 2 of its IDP, i.e. it is behind the position that its GDP level would imply. This is mainly due to the pull of the large internal market, the still weak competitiveness of domestic firms in international markets and the reluctance of government to adopt more active, firm specific ownership advantage stimulating policies towards outward FDI.

**Keywords:** CEE economies, economic growth, investment development path, Poland, foreign direct investment, economic transition

### Introduction

The concepts of macroeconomic competitiveness and foreign direct investment (FDI) have always stood at the forefront of international business (IB) research. In particular, they have played a vital role in the context of transition of former centrally planned economies of the region of Central and Eastern Europe (CEE) towards a market-led system.<sup>1</sup> This process of economic transformation<sup>2</sup> was accompanied by an increasing

1 A. Visvizi, 'A country is never on its own, others can be helpful. External linkages: institutionalization and support of individual states', in: K. Żukrowska (ed.), *Transformation in Poland and in the Southern Mediterranean. Sharing experiences*, Warsaw: SGH/Poltext, 2010, pp. 60-80.

2 Cf. K. Żukrowska (ed.), *Transformacja systemowa w Polsce* [System transformation in Poland], Warszawa: Oficyna Wydawnicza SGH, 2010.

integration of local economies into the global business environment.<sup>3</sup> Accordingly, one of the significant features of the transformation initiated in the region back in 1989 was the systematic opening of the local economies to FDI. This process was facilitated by economic reforms, including, *inter alia*, the liberalisation of legal regulations concerning the inflows of FDI, liberalisation of foreign trade and principles of currency convertibility, as well as privatisation of state-owned enterprises.<sup>4</sup>

The interplay between inward and outward FDI in conjunction with the economic development of a given country constitutes the essence of the investment development path (IDP) paradigm.<sup>5</sup> In this context, the present paper sets out to explore the concept of investment development path (IDP) as applied to a transition context of the CEE region based on Poland as an economy which has been particularly exposed to inward and outward FDI.

The point of departure for the data analysis is the beginning of Poland's transition process to a market-led system in 1990. The application of the IDP approach seems to be appropriate in that it captures the effects of inward and outward FDI on the country's growth and development patterns. More specifically, the objective of this study is to examine Poland's development along the IDP model in order to evaluate Poland's current positioning and hence stage of development. Moreover, the paper aims to critically reflect on the factors that have influenced the observed evolution of Poland's position.

The paper starts by explaining the IDP model and synthetically presenting its five stages. The subsequent section reviews extant studies which used the IDP model in the context of CEE countries. In the en-

3 L. Csaba, 'The Bumpy Road to the Free Market in Eastern Europe', *Acta Oeconomica*, vol. 42, no. 3-4, 1990, pp. 197-216.

4 S. Kubiela, S. Markowski and S. Jackson, 'Atrakcyjność Polski dla zagranicznych inwestycji bezpośrednich po pięciu latach transformacji' [Poland's attractiveness for foreign direct investment after five years of transformation], in: M. Okólski and U. Sztanderska (eds), *Studia nad reformowaną gospodarką. Aspekty instytucjonalne* [Studies on a reformed economy. Institutional aspects], Warszawa: Wydawnictwo Naukowe PWN, 1996.

5 J.H. Dunning, 'The Investment Development Cycle Revisited', *Weltwirtschaftliches Archiv*, vol. 122, 1986, pp. 667-676; J.H. Dunning, *Alliance Capitalism and Global Business*, London and New York: Routledge, 1997; J.H. Dunning and R. Narula, *Transpacific Direct Investment and the Investment Development Path: The Record Assessed*, Essays in International Business, 10, University of South California, 1994; J.H. Dunning and R. Narula, 'The Investment Development Path Revisited: Some Emerging Issues', in: J.H. Dunning and R. Narula (eds), *Foreign Direct Investment and Governments: Catalysts for Economic Restructuring*, London and New York: Routledge, 1996, pp. 1-41.

suing section, the authors attempt to verify the current positioning of Poland along the IDP model. The data used in the present analysis have been adopted from UNCTADstat. The data collected cover the entire period of Poland's transition process up to 2013. The authors analyse data on FDI inward and outward stocks, as well as GDP of Poland in the period 1990-2013. Subsequently, the NOI position for the period under study is computed. The analyses involve graphs depicting inward FDI stocks as percentage of GDP, Poland's NOI per capita, as well as Poland's GDP per capita and NOI per capita. Finally, data on Poland's Inward and Outward FDI Performance Index are presented in tabular form. In the concluding sections, the authors summarise their findings and reflect upon policy recommendations pertaining to Poland's further internationalisation.

## 1 The Investment Development Path (IDP) model

The IDP model provides a framework to analyse the dynamic relationship between FDI and economic development. The model was developed by Dunning<sup>6</sup> several decades ago and subsequently refined and extended at several occasions, with most significant modifications introduced by Dunning<sup>7</sup>, Dunning and Narula<sup>8</sup>, and Narula and Dunning<sup>9</sup>. Several other authors have made their contributions to the development of this concept, including Lall<sup>10</sup>, and Durán and Úbeda<sup>11</sup>.

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

7 Dunning, 'The Investment...', pp. 667-676; Dunning, *Alliance Capitalism...*

8 Dunning and Narula, *Transpacific Direct...*; Dunning and Narula, 'The Investment Development Path Revisited: Some Emerging Issues...', pp. 1-41; J.H. Dunning and R. Narula, 'The Investment Development Path Revisited', in: J.H. Dunning (ed.), *Theories and Paradigms of International Business Activity. The Selected Essays of John H. Dunning*, vol. 1, Cheltenham, UK and Northampton, MA: Edward Elgar, 2002.

9 R. Narula and J.H. Dunning, 'Industrial development, globalization and multinational enterprises: New realities for developing countries', *Oxford Development Studies*, vol. 28, no. 2, 2000, pp. 141-167; R. Narula and J.H. Dunning, 'Multinational enterprises, development and globalization: Some clarifications and a research agenda', *Oxford Development Studies*, vol. 38, no. 3, 2010, pp. 263-287.

10 S. Lall, 'The Investment Development Path: Some Conclusions', in: J.H. Dunning and R. Narula (eds), *Foreign Direct Investment and Governments: Catalysts for Economic Restructuring*, London: Routledge, 1996, pp. 78-100.

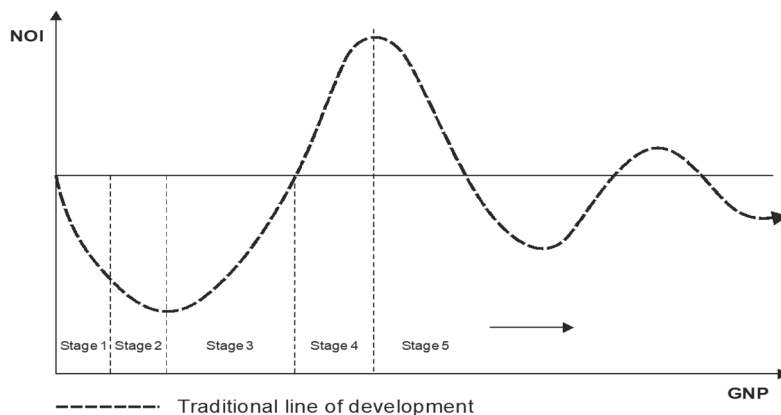
11 J. Durán and F. Úbeda, 'The Investment Development Path: a New Empirical Approach', *Transnational Corporations*, vol. 10, no. 2, 2001, pp. 1-34; J. Durán and F. Úbeda, 'The Investment Devel-

The model essentially assumes the existence of a dynamic interplay between two macroeconomic variables, net outward investment (NOI) per capita and GNP or GDP per capita, which determine a country's position on the IDP. The NOI position is calculated as the difference between outward FDI and inward FDI stock. Changes in the GDP are treated as a proxy of economic development. As countries develop, they pass through five consecutive stages of the IDP, which are shown on Figure 1.

Each stage can be briefly described in the following manner:

Stage 1 – Countries receive little inward FDI and make virtually no outward FDI, although the latter appears towards the end of this stage. The NOI position is initially close to zero but subsequently assumes negative and decreasing values. Inward FDI is low because countries in this stage possess few location advantages vis-à-vis foreign investors, and if they have attractive resources to exploit, these are usually natural resources. Therefore, FDI flows in mostly to take advantage of the country's natural assets. Outward FDI is almost non-existent, as local firms lack ownership advantages and foreign firms prefer to export, import and/or to enter into non-equity relationships with local firms.

Figure 1. The Pattern of the Investment Development Path<sup>1</sup>



Note: Not drawn to scale – for illustrative purposes only

Source: Dunning and Narula, 'The Investment Development Path Revisited'..., p. 139.

opment Path of Newly Developed Countries', *International Journal of the Economics of Business*, vol. 12, no. 1, 2005, pp. 123-137.

Stage 2 – As countries develop and improve their location advantages (e.g. market growth, low input costs or tax incentives) they receive increasing amounts of inward FDI, but they still invest relatively little abroad, thus becoming large net FDI importers. At the end of this stage, however, outward FDI grows faster than inward FDI and the negative NOI stops falling.

Stage 3 – Countries still record more inward than outward FDI stock, but the latter is growing faster than the former. Inward FDI is typically driven by efficiency-seeking motives and moving away from import-substituting production, as was the case in the previous stages. Outward FDI is stimulated by domestic firms acquiring new ownership advantages, which are increasingly based on intangible assets and reflect these firms' ability to manage and co-ordinate activities across national borders<sup>12</sup>. As a result, at the end of this stage the NOI assumes values close to zero.

Stage 4 – In this stage outward FDI stock continues to rise faster than the inward FDI, and the NOI position crosses the zero level and becomes positive. Location advantages are now mostly derived from created assets, the local firms' ownership advantages are more developed and lead to their increased international competitiveness, which these firms seek to maintain by moving their operations to foreign countries. Therefore, stage 4 countries have more outward than inward FDI stock, thus becoming net FDI exporters.

Stage 5 – After having witnessed inward FDI growing faster than outward FDI, countries experience balanced (yet fluctuating), high levels of inward and outward FDI. This stage is characterised by two important phenomena. Firstly, multinational enterprises (MNEs) become more inclined to internalise their cross-border transactions (as opposed to relying on the market), engaging in an increasingly complex network of co-operative agreements among themselves. Secondly, there is visible convergence of economic structures among stage 4 countries, as well as their FDI positions<sup>13</sup>.

The IDP changes occur in response to the interplay between the investment attractiveness of a country and the international compet-

12 Dunning and Narula, 'The Investment Development Path Revisited'..., p. 142.

13 Ibid., pp. 143-144.

itiveness of its firms. Moreover, the move along the IDP path generally occurs in line with these countries' growing wealth, as measured by GNP or GDP. Accordingly, developed countries are typically in stages 4 and 5, least-developed countries are in Stage 1 and developing and transition economies are in stage 2 or 3. However, Narula and Dunning<sup>14</sup> warn against a simplistic, or narrow, application of these two variables – NOI and GDP – in order to identify and explain the IDP trajectories and positioning of countries. They argue that studies building on the IDP framework should adopt a broader perspective on changes in FDI flows and stocks, considering the idiosyncratic economic structure of each country, as well as the complex interactions that determine the turning points of the IDP path in each case.

A conceptual evaluation of the IDP paradigm, as evidenced in developed as well as in developing and newly industrialised countries, is undertaken by Lall<sup>15</sup>. Lall maintains that structural changes in ownership and location factors influence trends in international capital flows, corporate behaviour 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 primarily by the nature and efficacy of government policy. This might necessitate extending and modifying the model itself so as to encompass all identified sub-patterns.

A more systematic evaluation of the IDP concept, its shortcomings and suggestions for its modification can be found in the studies of Durán and Úbeda<sup>16</sup>. In their call 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 analysing the effects of structural changes on inward and outward FDI, as well as the insufficiency of GDP per capita as an indicator of a country's level of economic development. The first dilemma appears in countries where hardly any inward and outward FDI is present and which are positioned in stage 1 of the IDP. Their NOI position will be close to

14 Narula and Dunning, 'Multinational enterprises...', pp. 263-287.

15 Lall, *op. cit.*, pp. 78-100.

16 Durán and Úbeda, 'The Investment Development Path: a New...', pp. 1-34; Durán and Úbeda 'The Investment Development Path of Newly...', pp. 123-137.

zero, similarly to developed countries in stage 5 of their IDP. To solve this paradox, Durán and Úbeda propose to look at inward and outward FDI in absolute and relative terms. Suggestions to deal with the second issue revolve around the inclusion of structural variables which would reflect not only the degree of economic development, but also each country's peculiarities and the nature of its international trade.

Another significant contribution to the debate around the IDP concept was made by Durán and Úbeda and concerns their redefinition of Stage 4. They proposed to include developed countries which have: a) a structural gap due to fewer endowments with created assets; b) the same levels of inward FDI as those in Stage 5, but smaller outward FDI compared to those in stage 5; c) a positive or negative NOI position, but in all cases lower than that of countries in stage 5. All the proposed modifications depend on the availability of additional or more detailed data and offer much wider analytical possibilities.

## 2. IDP studies focused on Central and Eastern Europe

The IDP model has been used as a framework in numerous empirical studies, which by and large attempted to validate it by either employing cross-sectional or longitudinal data sets. However, a relatively small number of studies can be identified that directly or indirectly deal with IDPs of CEE countries, of which five represent a cross-nation comparative analysis.

While not using the IDP paradigm as a framework, Svetličič and Jaklič<sup>17</sup> conducted a comparative analysis of several CEE countries' outward FDI (the Czech Republic, Estonia, Hungary, Poland and Slovenia). Their analysis clearly demonstrated that major increases of FDI outflows began in the second half of the 1990s. This was an indication of the CEE countries entering stage 2 of their IDPs during that period. At the same time, Svetličič and Jaklič<sup>18</sup> found positive correlation between a country's level of development and its rate of investment

17 M. Svetličič and A. Jaklič, 'Outward FDI by Transition Economies: Basic Features, Trends and Development Implications', in: M. Svetličič and M. Rojec (eds), *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition*, Aldershot: Ashgate, 2003, pp. 49-76.

18 Ibid.



abroad, and also observed that outward FDI of the five countries tends to be geographically concentrated in countries with close historical or cultural ties.

Also using the IDP framework, Kalotay<sup>19</sup> (2004) examined outward FDI from most of the 2004 European Union (EU) accession CEE countries plus Croatia, placing these countries in stage 2 of their IDPs. This author predicted that the accession of the eight CEE countries to the EU in 2004 would give a major push to both their outward and inward FDI, with an uncertain net impact of such a development on the IDP. However, based on the experience of Portugal<sup>20</sup> and Austria<sup>21</sup>, Kalotay hypothesised that CEE countries being on the verge of moving from stage 2 to 3 at the time of accession to the EU would be held back in their transition to stage 3.

Kottaridi, Filippaios and Papanastassiou<sup>22</sup> attempted to integrate Dunning's IDP model with Vernon's Product Life Cycle and Hirsch's International Trade and Investment Theory of the Firm. These authors analysed the location determinants of inward FDI and the interrelationship between inward FDI and imports during the years 1992-2000 in eight new EU member states from CEE and two candidate countries – Bulgaria and Romania. They found evidence of the ten CEE countries progressing through the second stage of the IDP and gradually moving towards the third stage.

The latter finding is corroborated by the study of Boudier-Bensebaa<sup>23</sup>, who undertook a comparative analysis of the IDP in the whole region of Central and Eastern Europe (including the former Soviet Republics) and the European Union of 15 member states. The “Eastern”

19 K. Kalotay, 'Outward FDI from Central European Countries', *Economics of Planning*, vol. 37, no. 2, 2004, pp. 141-172.

20 P.J. Buckley and F.B. Castro, 'The Investment Development Path: the Case of Portugal', *Transnational Corporations*, vol. 7, no. 1, 1998, pp. 1-15.

21 C. Bellak, 'The Austrian Investment Development Path', *Transnational Corporations*, vol. 10, no. 2, 2001, pp. 68-107.

22 C. Kottaridi, F. Filippaios and M. Papanastassiou, *The Investment Development Path and the Product Cycle – An Integrated Approach: Empirical Evidence from the New EU Member States of CEE*, University of Reading Economics and Management Discussion Papers 003, Reading: University of Reading, 2004.

23 F. Boudier-Bensebaa, 'FDI-Assisted Development in the Light of the Investment Development Path Paradigm: Evidence from Central and Eastern European Countries', *Transnational Corporations*, vol. 17, no. 1, 2008, pp. 37-67.

countries concerned were classified into 4 distinct groups according to their per capita level of GDP and NOI. The NOI of “Eastern” countries placed them in stages 1 or 2 of the IDP, while that of EU countries pointed to stages 4 or 5. The first most advanced group of “Eastern” countries consisted of the Czech Republic, Estonia, Slovenia, Hungary, Slovakia, Poland, Latvia, Lithuania and Croatia. The said group was identified as moving towards the end of stage 2 of their IDPs or even towards the beginning of stage 3. Within the “Eastern” countries groups and sub-groups, their NOI revealed a tendency to converge. But as far as income levels are concerned, no convergence was found either inside the “Eastern” countries or between them and the EU. Finally, the author drew attention to the fact that data on FDI stocks and GDP did not cover all factors affecting FDI and development. In the FDI sphere, the non-equity forms of investment were also quite notably left out. As for the effect on FDI, apart from GDP, variables such as EU accession, globalisation and the transformation process *per se* should be also taken into account. Boudier-Bensebaa focused on a cross-sectional analysis across countries and did not attempt to assess and explain the individual countries’ IDP trajectories.

This missing aspect of individual countries’ idiosyncrasies was taken up by Gorynia et al.<sup>24</sup> These authors applied regression analysis to determine the relationship between NOI and GDP of 10 CEE countries and found that a quadratic specification best describes the IDP trajectories of these countries. They concluded that from a time perspective of 19 years from the start of transition, the 10 CEE countries all followed the basic premises as set in the original IDP model, with most of them being well in stage 3 of their IDP trajectories.

In contrast to Boudier-Bensebaa<sup>25</sup> and Gorynia et al.<sup>26</sup>, Narula and Guimón<sup>27</sup> argued that based on the NOI calculations for 1990–2009,

24 M. Gorynia et al., ‘Foreign Direct Investment in New EU Member States from Central and Eastern Europe: An Investment Development Path Perspective’, in: M. Marinov and S. Marinova (eds), *Internationalization of Emerging Economies and Firms*, Basingstoke, Hampshire, UK: Palgrave Macmillan, 2012, pp. 64–86.

25 F. Boudier-Bensebaa, ‘FDI-Assisted Development in the Light of the Investment Development Path Paradigm: Evidence from Central and Eastern European Countries’, *Transnational Corporations*, vol. 17, no. 1, 2008, pp. 37–67.

26 Gorynia et al., op. cit., pp. 64–86.

27 R. Narula and J. Guimón, ‘The Investment Development Path in a Globalised World: Implications for Eastern Europe’, *Eastern Journal of European Studies*, vol. 1, no. 2, 2010, pp. 5–19.

the four CEE countries included in their analysis (Bulgaria, Czech Republic, Hungary and Romania) were in stage 2 of the IDP. These authors also noted that although inward FDI per capita grew dramatically in these countries from 1990 to 2009 (significantly faster than in Western European countries or compared to the average for developed or developing countries), the growth of outward FDI was much lower. This led to increasingly negative NOI positions and held the four CEE countries back in stage 2.

Studies on IDP focused on single CEE countries include those of Kalotay<sup>28</sup> (2005 and 2008) for Russia, Gorynia, Nowak and Wolniak<sup>29</sup>, and Ciesielska<sup>30</sup> for Poland; Maşca and Văidean<sup>31</sup> for Romania, and Ferencikova and Ferencikova<sup>32</sup> for Slovakia.

Quite strikingly, Kalotay's studies of the outward FDI from the Russian Federation<sup>33</sup> revealed a paradoxical pattern of IDP development. In spite of being a lower middle-income country, Russia was already a net FDI exporter, thus technically passing stage 4 of the IDP. Although Kalotay called Russia "a premature outward investor"<sup>34</sup>, he wondered whether this finding should trigger a paradigm change in FDI theories, including the IDP paradigm.

Gorynia et al. conducted a series of studies of Poland's IDP, first for the period 1990-2003<sup>35</sup>, then for the period of 1990-2005<sup>36</sup> and the pe-

- 28 K. Kalotay, 'Outward Foreign Direct Investment from Russia in a Global Context', *Journal of East-West Business*, vol. 11, no. 3-4, 2005, pp. 9-22; K. Kalotay, 'Russian transnationals and international investment paradigms', *Research in International Business and Finance*, vol. 22, no. 2, 2008, pp. 85-107.
- 29 M. Gorynia, J. Nowak and R. Wolniak, 'Poland and Its Investment Development Path', *Eastern European Economics*, vol. 45, no. 2, 2007, pp. 52-74; M. Gorynia, J. Nowak and R. Wolniak, 'Poland's Investment Development Path and Industry Structure of FDI Inflows and Outflows', *Journal of East-West Business*, vol. 14, no. 2, 2008, pp. 189-212; M. Gorynia, J. Nowak and R. Wolniak, 'Poland's Investment Development Path: In Search of a Synthesis', *International Journal of Economic Policy in Emerging Economies*, vol. 2, no. 2, 2009, pp. 153-174.
- 30 D. Ciesielska, 'Polish Foreign Direct Investments – Trends, Patterns and Determinants', *The Macroeconomic Review*, vol. 3, no. 1, 2014, pp. 214-229.
- 31 S.G. Maşca and V.L. Văidean, 'Outward FDI and the Investment Development Path in Romania', *Young Economists Journal*, vol. 1, no. 15S, 2010, pp. 27-38.
- 32 S. Ferencikova and S. Ferencikova, 'Outward Investment Flows and the Development Path. The Case of Slovakia', *Eastern European Economics*, vol. 50, no. 2, 2012, pp. 85-111.
- 33 Kalotay, 'Outward Foreign...', pp. 9-22; Kalotay, 'Russian transnationals...', pp. 85-107.
- 34 Kalotay, 'Russian transnationals...', p. 89.
- 35 Gorynia, Nowak and Wolniak, 'Poland and Its Investment...', pp. 52-74.
- 36 Gorynia, Nowak and Wolniak, 'Poland's Investment Development Path and Industry...', pp. 189-212.

riod of 1990-2006<sup>37</sup> and finally for the period of 1990-2008<sup>38</sup> (the latter study of Poland's IDP was conducted alongside the IDPs of other CEE countries). All these studies were showing Poland's progressing movement from stage 2, which the country entered in 1996, towards stage 3. However, this movement was not without setbacks and the conclusion that Poland was at the beginning of stage 3 around 2008, was still tentative. This was due to a paradoxical effect of the global recession, which was pushing Poland – perhaps prematurely – into stage 3. Nonetheless, the latter assertion was later corroborated by Ciesielska<sup>39</sup>, who analysed Polish inward and outward FDI for the period of 2000-2012 and, after applying the concept of IDP, concluded that the Polish economy was at the beginning of stage 3.

Maşca and Văidean<sup>40</sup> found the IDP concept to be generally applicable to Romania, although its specific feature was the faster growth of FDI inflows than economic growth. These authors concluded that Romania was situated in the second stage of IDP at the end of the first decade of the 2000s.

Finally, the Slovakian IDP was studied by Ferencikova and Ferencikova<sup>41</sup> for the period 1993-2008. These authors found Slovakia in many respects showing signs of being in stage 3, at the same time noticing that the country lagged behind in the competitiveness of local companies, their capital adequacy, strengths, and efforts to find investment opportunities abroad.

In the light of previous studies on the IDP of Poland and of other CEE countries, particularly those comparable to Poland in terms of economic development, one would expect Poland to be already at the beginning of stage 3 of its IDP. This assumption will be verified in the subsequent sections.

Table 1 summarises this literature review.

37 Gorynia, Nowak and Wolniak, 'Poland's Investment Development Path: In Search...', pp. 153-174.

38 M. Gorynia, J. Nowak, P. Tarka and R. Wolniak, 'Foreign Direct Investment in New EU Member States from Central and Eastern Europe: An Investment Development Path Perspective', in: M. Marinov and S. Marinova (eds), *Internationalization of Emerging Economies and Firms*, Basingstoke, Hampshire, UK: Palgrave Macmillan, 2012, pp. 64-86.

39 Ciesielska, op. cit., pp. 214-229.

40 Maşca and Văidean, op. cit., pp. 27-38.

41 Ferencikova and Ferencikova, op. cit., pp. 85-111.

Table 1. Summary of IDP studies in the CEE context

Study	Key findings
Kalotay (2004)	<ul style="list-style-type: none"> <li>■ 2004 European Union (EU) accession CEE countries plus Croatia – stage 2 of their IDPs</li> <li>■ Accession was prognosed to provide a major push for outward and inward FDI</li> </ul>
Kottaridi et al. (2004)	<ul style="list-style-type: none"> <li>■ Inward FDI and imports during the years 1992-2000 in 8 new EU states + Bulgaria and Romania</li> <li>■ 10 CEE countries going through 2nd stage of the IDP and gradually moving towards 3rd stage</li> </ul>
Kalotay (2005-2008)	<ul style="list-style-type: none"> <li>■ Paradoxical pattern of IDP development</li> <li>■ In spite of being a lower middle-income country, Russia is already a net FDI exporter, thus technically passing stage 4 of the IDP</li> </ul>
Gorynia et al. (2007-2009)	<ul style="list-style-type: none"> <li>■ Poland's progressing movement from stage 2, which the country entered in 1996, towards stage 3</li> <li>■ Paradoxical effect of the global recession pushing the country into stage 3</li> </ul>
Boudier-Bensebaa (2008)	<ul style="list-style-type: none"> <li>■ NOI of "Eastern" countries places them in stages 1 or 2 of the IDP, while that of EU countries points to stages 4 or 5</li> <li>■ Most advanced: Czech Republic, Estonia, Slovenia, Hungary, Slovakia, Poland, Latvia, Lithuania and Croatia (stage 2)</li> </ul>
Maşca & Văidean (2010)	<ul style="list-style-type: none"> <li>■ IDP concept generally applicable to Romania, but faster growth of FDI inflows than economic growth (stage 2 by 2010)</li> </ul>
Narula and Guimón (2010)	<ul style="list-style-type: none"> <li>■ NOI calculations for 1990-2009</li> <li>■ Bulgaria, Czech Republic, Hungary and Romania are in stage 2 of the IDP</li> <li>■ Despite fast inward FDI growth, outward FDI lagging behind and holding the countries in stage 2</li> </ul>
Gorynia et al. (2012)	<ul style="list-style-type: none"> <li>■ Regression analysis to determine the relationship between NOI and GDP of 10 CEE countries</li> <li>■ Quadratic specification best describes the IDP trajectories of these countries</li> <li>■ Most 10 CEE countries well into stage 3 of their IDPs</li> </ul>
Ferencikova & Ferencikova (2012)	<ul style="list-style-type: none"> <li>■ Slovakia seemingly in early stage 3, but signs of deficient competitiveness of local firms</li> </ul>

Source: The Authors.

### **3. IDP trajectory of Poland in the 2004-2013 period**

● Among the many previous investigations of Poland's IDP trajectory, published by Gorynia et al., those which are most relevant in this section, appeared in 2007 (with data ending in 2003), in 2009 (with data ending in 2006) and in 2012 (with data ending in 2008). In 2007, their conclusion was that in 2003 Poland "was close to the border between Stages 2 and 3 of its IDP". The main factors explaining such positioning were the following:

1/ The continuous pull of Poland's large internal market attracted large FDI inflows and thus increased the negative NOI values, which in turn prevented the country's transition to Stage 3.

2/ Small- and medium-sized Polish firms were traditionally inclined to expand abroad much more often via mere exporting and less so via FDI, which also kept the country persistently locked in IDP Stage 2.

3/ The rising growth rate (starting from 2000) of outward FDI stock seemed to be pointing to an imminent move to Stage 3.

In their next study in 2009, the said authors partly revised their perspective by pointing to the fact that there were "no new, clear signs showing movement towards Stage 3 yet". This was accounted for by:

1/ The sustained influence of the attracting pull of the large domestic market for inward FDI despite the growth in labour costs and other FDI disincentives.

2/ Poland's accession as a full member to the EU, thereby increasing the economy's attractiveness for inward FDI.

3/ The dynamic growth of outward FDI being still unable to generate investment outlays that could match the level of inward FDI.

The last study of 2012 concluded that Poland was firmly positioned at the brink of Stage 3 of its IDP trajectory. This was paradoxically attributed to an external factor of a downturn in the business cycle, which was perceived as leading to a curb in inward FDI, while not at all affecting the growth of outward FDI. The authors were quick to add, however, that this set of factors exhibited a relatively short-term effect and that reversals could be expected likewise. Such irregular behaviour was also observed in the case of the IDP paths of Slovenia, Hungary, Slovakia and Estonia.

This paper resumes the previous analyses of the IDP of Poland and its constituents and updates them for the period 2004-2013, which includes a partial overlap with the previously investigated time span.

Table 2 presents the situation concerning inward and outward FDI stock, as well as GDP dynamics since 1990. The first observation is that as far as inward FDI stock is concerned, its constant increase was recorded until 2008. At that moment it dropped by 8 p.p. as the consequence of the global downturn. Thereafter it rose again for two years to drop again in 2011 by 6 p.p., and resumed growth for the last two years. With respect to outward FDI stock, its value was continuously rising until 2013, when it decreased by 4 p.p. Those two trends occurred with rising GDP values, with the exception of two years: 2009 and 2012, when GDP was lower but still was accompanied by rising inward and outward FDI stock.

Table 2. FDI Inward and Outward Stock, and GDP of Poland in 1990-2013

Year	FDI Inward Stock, mln USD	FDI Inward Stock, (previous year = 100)	FDI Outward Stock, mln USD	FDI Outward Stock, (previous year = 100)	GDP <sup>(a)</sup> , mln USD, at current prices	GDP (previous year = 100)
1990	109		95		64 550	
1991	425	390	88	93	83 705	130
1992	1 370	322	101	115	92 326	110
1993	2 307	168	198	196	94 122	102
1994	3 789	164	461	233	108 425	115
1995	7 843	207	539	117	139 062	128
1996	11 463	146	735	136	156 684	113
1997	14 587	127	678	92	157 154	100
1998	22 461	154	1 165	172	172 902	110
1999	26 075	116	1 024	88	167 802	97
2000	34 227	131	1 018	99	171 276	102
2001	41 247	121	1 157	114	190 421	111
2002	48 320	117	1 456	126	198 179	104
2003	57 872	120	2 144	147	216 801	109
2004	86 755	150	3 351	156	252 769	117
2005	90 877	105	6 308	188	303 912	120
2006	125 782	138	14 392	228	341 597	112
2007	178 408	142	21 317	148	425 129	124
2008	164 307	92	24 094	113	529 423	125
2009	185 202	113	29 307	122	430 912	81
2010	215 639	116	44 444	152	469 799	109

Year	FDI Inward Stock, mln USD	FDI Inward Stock, (previous year = 100)	FDI Outward Stock, mln USD	FDI Outward Stock, (previous year = 100)	GDP <sup>(a)</sup> , mln USD, at current prices	GDP (previous year = 100)
2011	203 111	94	52 849	119	515 763	110
2012	235 113	116	57 367	109	489 852	95
2013	252 037	107	54 974	96	516 534	105

<sup>(a)</sup> – according to official exchange rate

Source: UNCTAD, (<http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>, 27.03.2015).

The key information determining the IDP of Poland is presented in Table 3. Firstly, the NOIP was constantly deteriorating (rising with negative values) until 2008 when it improved (was smaller), then deteriorated again for two consecutive years. Then it went up again in 2011, and in the last two years dropped again. This characteristic fluctuation was evident also in the values of NOIP per capita. It was decreasing until 2008, in that year it rose, thereafter deteriorated again for two years, improved in 2011, and finally went down in the last two years. The dynamics of NOIP per capita versus the previous year further strengthened this peculiar pattern. In fact, its numerical value increased until 2007 (inclusively), then it dropped in 2008 to the level of 89.3% of the previous year. Thereafter it increased, then dropped again in 2011 to the level of 87.8% of the previous year in order to rise for two consecutive years.

Table 3. NOI Position and GDP of Poland in 1990-2013

Year	NOI Position	GDP <sup>(a)</sup> , mln USD	NOI p.c. in USD	GDP <sup>(a)</sup> , p.c., in USD	NOI p.c. (previous year = 100)	GDP p.c. (previous year = 100)
1990	-14	64 550	-0.4	1 692		
1991	-337	83 705	-8.8	2 188	2400.5	129.3
1992	-1 269	92 326	-33.1	2 408	375.7	110.1
1993	-2 109	94 122	-54.9	2 450	165.9	101.7
1994	-3 328	108 425	-86.5	2 819	157.6	115.1
1995	-7 304	139 062	-189.8	3 614	219.3	128.2
1996	-10 728	156 684	-278.8	4 072	146.9	112.7
1997	-13 909	157 154	-361.6	4 086	129.7	100.3
1998	-21 296	172 902	-554.2	4 499	153.2	110.1



Year	NOI Position	GDP(a), mln USD	NOI p.c. in USD	GDP(a), p.c., in USD	NOI p.c. (previous year = 100)	GDP p.c. (previous year = 100)
1999	-25 051	167 802	-652.5	4 371	117.8	97.2
2000	-33 209	171 276	-865.9	4 466	132.7	102.2
2001	-40 090	190 421	-1046.3	4 970	120.8	111.3
2002	-46 864	198 179	-1224.2	5 177	117.0	104.2
2003	-55 728	216 801	-1456.9	5 668	119.0	109.5
2004	-83 404	252 769	-2181.9	6 613	149.8	116.7
2005	-84 569	303 912	-2213.5	7 954	101.4	120.3
2006	-111 390	341 597	-2916.4	8 944	131.8	112.4
2007	-157 091	425 129	-4113.5	11 132	141.0	124.5
2008	-140 213	529 423	-3671.5	13 863	89.3	124.5
2009	-155 895	430 912	-4081.7	11 282	111.2	81.4
2010	-171 195	469 799	-4481.7	12 299	109.8	109.0
2011	-150 262	515 763	-3933.0	13 500	87.8	109.8
2012	-177 746	489 852	-4651.7	12 820	118.3	95.0
2013	-197 063	516 534	-5156.4	13 516	110.9	105.4

(a) – according to official exchange rate

Source: UNCTAD (<http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>, 27.03.2015), Authors' own calculations.

A similar fluctuation was observed in the evolution of the share of inward FDI stock in GDP of Poland as presented in Table 4. The said share was rising until the end of 2004, reaching 34.3%. It decreased for the first time in 2005 to 29.9%, but then rose for two years reaching 42% in 2007. Subsequently, it fell again to 31% in 2008, and again went up for two years to 46% in 2010. Finally, a fall occurred to 39.4% in 2011 and at the end the share increased for the two last years.

Table 4. Inward FDI Stock as percentage of GDP of Poland, 1990-2013

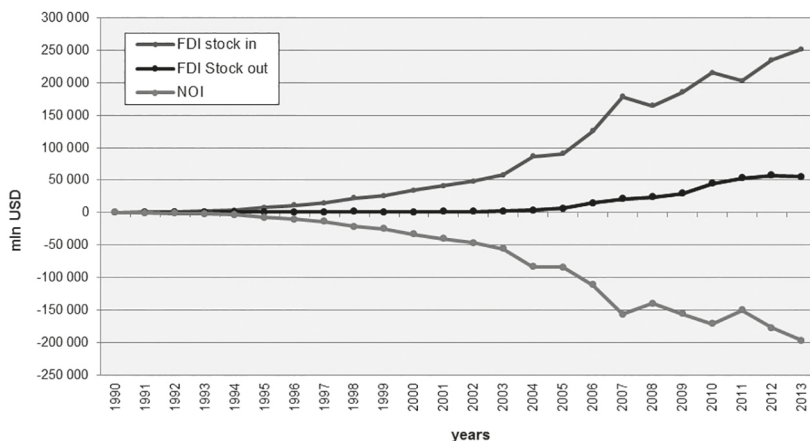
Year	Inward FDI Stock as a % of Gross Domestic Product
1990	0.2
1991	0.5
1992	1.5
1993	2.5

Year	Inward FDI Stock as a % of Gross Domestic Product
1994	3.5
1995	5.6
1996	7.3
1997	9.3
1998	13.0
1999	15.5
2000	20.0
2001	21.7
2002	24.4
2003	26.7
2004	34.3
2005	29.9
2006	36.8
2007	42.0
2008	31.0
2009	43.0
2010	45.9
2011	39.4
2012	48.0
2013	48.8

Source: UNCTAD (<http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>, 27.03.2015).

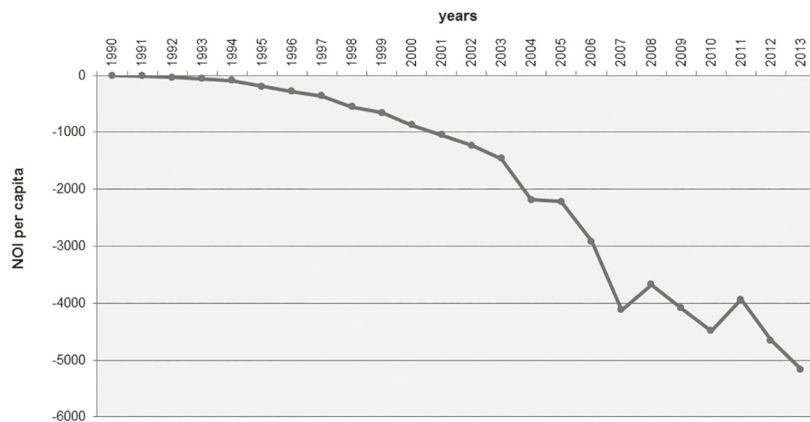
These periodic fluctuations are better visualised in diagrams 1-3. It is clearly visible that the NOI levelled out/stopped the downward trend, but then resumed the downward slide for two years in order to move upward in 2008. However, a fall recurred thereafter for two years, but it was reversed with a steep upward rise in 2011. At the end it continues with the downward decline, albeit with a decreasing rate for the last recorded year of 2013. These fluctuations are the same for the NOI curve in Diagram 1, as for the NOI per capita curve in Diagram 2.

Diagram 1. FDI Inflow and Outflow Stocks, and Poland's NOIP, 1990-2013



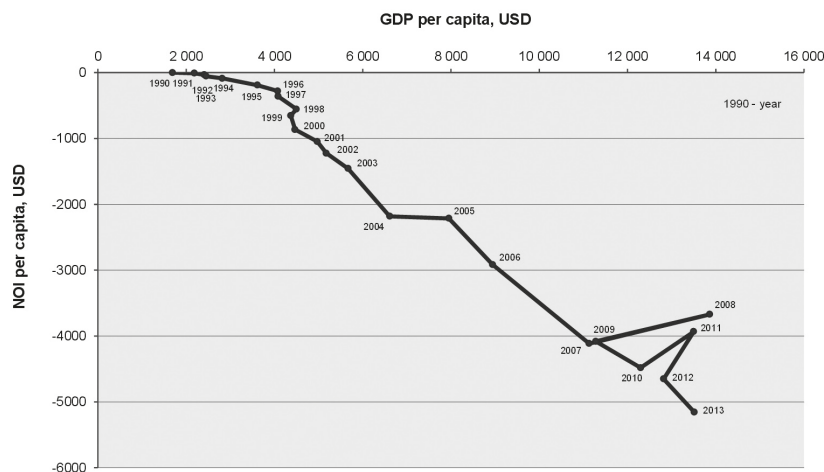
Source: Authors' own calculations.

Diagram 2. Poland's NOIP per capita, in USD, 1990-2013



Source: Authors' own calculations.

Diagram 3. Poland's GDP per capita and NOIP per capita, in USD, 1990-2013



Source: Authors' own calculations.

The above analysed fluctuations of Poland's NOIP are only partly corroborated by the evolution of the country's inward and outward FDI performance indexes as presented in Table 5. They demonstrate considerable volatility and fluctuations often in opposite directions. But the values of the inward index are consistently higher than those related to outward investment, pointing to a higher absorptive capacity of the domestic market vs. similar capacity of external markets. Also, a marked congruity of both indexes emerges after 2011, when both fall dramatically, with the outward index slide being much more pronounced than that of the inward one.

Table 5. Poland's inward and outward FDI performance index, 1990-2013

Year	FDI Inward Performance Index	FDI Outward Performance Index
1990	0.148	0.007
1991	0.655	-0.010
1992	1.113	0.018
1993	2.116	0.020
1994	1.866	0.026
1995	2.334	0.025
1996	2.284	0.027

Year	FDI Inward Performance Index	FDI Outward Performance Index
1997	1.980	0.019
1998	1.609	0.082
1999	1.267	0.005
2000	1.281	0.003
2001	1.168	-0.020
2002	1.125	0.074
2003	1.336	0.092
2004	2.965	0.166
2005	1.580	0.582
2006	1.952	0.919
2007	1.569	0.318
2008	0.957	0.259
2009	1.448	0.549
2010	1.337	0.675
2011	1.674	0.658
2012	0.676	0.080
2013	-0.601	-0.497

Source: Authors' own calculations based on UNCTAD data, <http://unctadstat.unctad.org/wds/ReportFolders/report-Folders.aspx>, 27.03.2015.

The question arises what this situation demonstrates as far as Poland's current positioning on its IDP is concerned.

The first observation is that contrary to the authors' previous predictions and expectations, by 2013 Poland seems to be still in stage 2 of the IDP paradigm model, but possibly at the end of that stage. The slight decline of the downward growth of the NOI per capita in 2013, which could theoretically signal the move towards the bottom of the NOI curve and eventually a transition into stage 3, already proved to be misleading in three similar situations before. In 2005, the leveling-out effect of NOI per capita was much stronger than in 2013. In 2008 the same effect was even stronger than in 2005, and in 2011 the said effect was even stronger than in 2008. This also explains why the authors in their previous research were cautiously anticipating that Poland's move into stage 3 of its IDP was imminent. Unfortunately, the current picture does not provide support for the authors' earlier predictions. The key lesson that emerges from the current positioning

of Poland on its IDP path is that positive signals and tendencies are reversible and should be verified in a much longer period.

From a theoretical and practical perspective, it seems to be of vital importance to explore the possible reasons of the Polish economy's embeddedness in stage 2 of its IDP. The first argument pertains to external macroeconomic factors related to the global economic slowdown, which decreased the stock of inward FDI in Poland in 2008 and in 2012. At the same time, paradoxically outward FDI stock continued to grow, albeit at a somewhat slower rate. This may indicate that firms investing out of Poland showed sufficient competitive advantage to weather unfavourable economic conditions and pursue their expansion to foreign markets. However, a warning sign appeared in 2013 when an absolute fall in outward FDI was recorded (first such occurrence since the year 2000). Foreign companies investing in Poland, in turn, seemed to be much more sensitive to these external factors. Another explanatory factor pertains to the role of Poland's large internal market and its sustained and rising sales potential. This component, coupled with the country's vastly improved institutional environment, continues to attract rising inflows of foreign capital.

A corresponding argument also lies in economic policies pursued by Polish authorities and state or state-supported institutions, which have been continuously soliciting and encouraging foreign investors to invest in Poland. Seemingly, it is only recently that they have noticed that Polish firms desiring to expand into foreign markets also require and deserve outward promotion and support measures.<sup>2</sup> One should not neglect the argument of a possible idiosyncrasy of individual country IDP trajectories, which explains a prolonged positioning at a given stage of the IDP model with little or no signs of advancing to the next one in the short or medium run. An alternative perception of this explanatory factor could be based on the argument that the IDP model with its 5-stage trajectory can be perceived as reversible, in the sense that short-term evidence of movement into a subsequent stage is thereafter countered with a reversed drop into the previous one. All those factors suggest that the attractiveness of Poland for foreign investors remains still exerts a stronger pull than the effect of the outward push for firms investing out of Poland. This peculiar imbalance should not be perceived as detrimental to the Polish economy, but at least currently it definitely constitutes the core of the idiosyncrasy

of her IDP and indicates important areas for improvement of Polish firms' international competitiveness.

## 4. Policy recommendations

● An important component of the original IDP paradigm was related to the economic policy measures introduced at each IDP stage. These were focused on FDI and designed to move an economy along the IDP trajectory and, consequently, to higher levels of domestic and international competitiveness. Considering the somewhat prolonged stay of Poland in stage 2 of IDP, the vital question arises as to the necessary actions that should be taken by the government. An extensive, in-depth answer to this question can be found in the analysis of realised or advocated economic policy measures in Gorynia, Nowak, Wolniak<sup>42</sup>. The most important feature of the government strategy in this field resides in the adoption of a rational approach that stresses both the continuation of efforts to attract foreign investors to invest and expand in Poland, and at the same time to promote, support and encourage Polish firms to expand abroad using all available modes, but focusing especially on exporting and FDI. However, policy efforts should not be focused exclusively on directly supporting the foreign expansion of local firms, as the key to success in international markets is to develop sources of competitive advantage<sup>43</sup>. Thus, the support measures should be oriented towards supporting the product and process innovativeness of companies, their market knowledge and other valuable resources to ensure that they can be competitive even in highly developed markets. Paradoxically, although outward FDI from the CEE region has grown with economic development, the region has strikingly become an exporter of labour (see e.g. Organiściak-Krzykowska<sup>44</sup>). The accession to the EU has contributed not merely to a better access to markets for exports and FDI, but also enhanced labour mobility. Hence, policy efforts should consider more explic-

42 Gorynia, Nowak and Wolniak, 'Poland's Investment Development Path: In Search...', pp. 153-174.

43 M. Gorynia et al., 'Government support measures for outward FDI: An emerging economy's perspective', *Argumenta Oeconomica*, vol. 1, no. 34, 2015, pp. 229-258.

44 A. Organiściak-Krzykowska, 'The Determinants and the Size of International Migration in Central and Eastern Europe After 2004', *Comparative Economic Research*, vol. 20, no. 4, 2017, pp. 159-178.

itly supporting endeavours and projects which require highly skilled employees and increase the international footprint of domestic firms.

Moreover, since the outward thrust of economic policy has been intensified only relatively recently (see e.g. Gorynia et al.<sup>45</sup>), taking advantage of these efforts by the corporate sector and their transmission into foreign expansion, the desired effect of the economy advancing on the IDP trajectory, is yet to be observed. Obviously, the principal aim and design of these policy measures is not guided directly by prescriptions of the IDP paradigm *per se* but by the logical and paramount drive to improve and develop the competitiveness of Polish (and, more broadly, CEE-based) firms in foreign markets.

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45 Gorynia et al., 'Government support measures...', pp. 229-258.



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