

# **Poland and its Investment Development Path**

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## **Abstract**

*The paper attempts to explore the concept of investment development path (IDP) and its key component, the net outward investment position, as applied to Poland, treated here as a case of a transitional economy. The point of departure for data analysis is taken as the beginning of Poland's transition process to a market based system in 1990. The paper begins with a brief literature review, followed by an analysis of the available macroeconomic data identifying the IDP path for Poland and formulating the reasons and consequences of the country's current IDP position. The role of government regulations and policies affecting FDI is also investigated. The main conclusion is that Poland is at the end of stage 2 of her IDP and behind the position that its 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 the reluctance of government to adopt more active, firm specific ownership advantage stimulating policies towards outward FDI.*

**Key words:** Investment development path (IDP), FDI, transitional economies, Poland

## **Introduction**

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, the present paper attempts to explore the concept of investment development path (IDP) as applied to a transitional economy, in this case Poland. The point of departure for data analysis is taken as the beginning of Poland's transition process to a market led economic system in 1990. The role of the IDP approach seems to be very appropriate in that it 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.

The present study begins with a brief literature review of writings selected for their relevance to the issues raised here, followed by an analysis of the available macroeconomic data identifying the IDP path for Poland and formulating the reasons and consequences of the country's current IDP position. The role of existing government regulations affecting FDI and proposed strategic policy options are also considered.

## **Literature Review**

The concept of IDP was introduced by Dunning in the early eighties (Dunning, 1981). It was thereafter developed and refined by Dunning (1986), and Dunning and Narula (1996). According to its basic proposition, inward and outward investment position of a country is tied with its 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 5 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 is increasing due to growth in inward FDI, flowing mostly to take advantage of the country's natural assets. Outward FDI is, at the same time, negligible or non-existent, as foreign firms prefer to export and import as well as conclude non-equity relationships with local firms. Stage 2 is characterized by an increased inflow of FDI with outward FDI remaining still low but larger 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 towards efficiency-seeking motives. In stage 4 outward FDI stock continues to rise faster than the inward one 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 last (5<sup>th</sup>) one, is typical of the most developed countries. In stage 5 the NOI position first falls and thereafter demonstrates a tendency to fluctuate around the 0 level but usually with both inward and outward FDI increasing. Multinational firms (MNCs), as agents of FDI, become more global and contribute to the blurring of national borders.

Development being a macroeconomic category is the principal domain of government responsibility and thus the scope and nature of government policy in this area is a key influencing factor in explaining country patterns of IDP. On the other hand, FDI arises out of decisions made by MNCs and in this sense it has a microeconomic focus with macro consequences related to development. The strategies of MNCs can be considered then as the principal determinant of the pattern of NOI.

Research on the IDP concept as applied to different countries encompasses many additional factors. Clegg (1996), in looking at the case of the U.K., frames his analysis in the context of country competitiveness. He draws attention to technological factors influencing competitiveness besides FDI and government policy and extends the investigation of the U.K. IDP to bilateral components according to region and country as well as according to industry sector. Graham (1996) explores the IDP in the USA using data beginning with 1950 and questions the original model's assumption that in the last, 5<sup>th</sup> stage, the NOI position tends to fluctuate around the 0 level. Ozawa's analysis of the Japanese experience stresses the effects of restrictions placed on inward FDI and introduces the technology development path as a surrogate of the IDP concept (Ozawa, 1996).

The IDP in the Spanish economy is of special interest to the present study since both Spain and Poland bear some resemblance as to the followed trajectories in their development, albeit separated by a considerable time gap (18 years if access to the EU is considered as the base). The case of Spain is extensively presented by Campa and Guillen (1996). They conclude that

Spain has difficulty in moving out of stage 2 in the IDP model not because of a deficiency in ownership or internalisation advantages of Spanish based firms but because of the continuing attractiveness of location advantages of the Spanish market.

A synthetic evaluation of the IDP concept, as evidenced in developed as well as in developing and newly industrialized countries, comes from Lall (1996). He 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 mainly by the nature and efficacy of government policy. This might necessitate extending and modifying the model itself to encompass all the identified sub-patterns. As for the role of government policy in the said model, Lall identifies three main types: a) passive approach to FDI and technology upgrading; b) pro-active approach to “attract and guide FDI to activities that most benefit local development” (Lall, *ibid.*); and c) selective approach to FDI, using it to acquire foreign created assets while developing at the same time the potential and especially the technological base of local firms.

Buckley and Castro (1998) look at the IDP of Portugal. In their findings they point out to some key weaknesses of the IDP concept. They question, for example, its predictive capacity. This, they maintain, is probably due to the unpredictable character of economic and non-economic factors. Among the non-economic ones they quote political events such as Portugal’s entry into EFTA and the EEC, the 1974 revolution and the transformation in Central and Eastern Europe.

The analysis of the Austrian IDP is undertaken by Bellak (2001). He stresses the usefulness of distinguishing an IDP approach for small countries with a focus on bilateral and sectoral analysis similar to the one evident in the earlier mentioned study of Clegg. Bellak argues that

on the basis of collected empirical evidence Austria may be classified, taking the level of development as the main criterion, as being in stage 4 or 5 of its IDP. If, however, its constantly deteriorating NOI position is considered, the country falls into the stage 2 category. This inconsistency with the ideal IDP model may be explained by extensive use of exporting as an alternative to outward FDI, because of the weak technological base of Austrian firms leading to their low capacity to generate firm-specific advantages and by the increase in inward FDI after entering the EU in 1995. Attention is also drawn to the fact that much of outward Austrian FDI is in reality 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, Goerg and McDowell (2003) find support for the IDP model in their study of Ireland. The IDP concept is also positively verified in a bilateral US-Irish framework, since the US is the largest source of incoming FDI as well as the principal destination of outward FDI from Ireland. Outward FDI is mainly oriented towards non-traded 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, its shortcomings and suggestions for its modification are found in the study of Durán and Ubeda (2001). In 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 analysing the effects of structural changes on inward and outward FDI, and then the insufficiency of GDP per capita as the indicator of a country's level of economic development.

The first dilemma appears in countries where 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, similarly to developed countries in stage 5 of their IDP. To solve this paradox, Durán and

Ubeda 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 made by Durán and Ubeda concerns their redefinition of the 4<sup>th</sup> stage. In the amended version it is proposed to include developed countries which have: a) a structural gap due to fewer endowments of created assets; b) the same levels of inward FDI as those in the 5<sup>th</sup> stage 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.

A growing amount of research on IDP relates to the transition economies of Central and Eastern Europe. Kubiela (1996) invokes the early version of the IDP as an important concept in his analysis of the role of technology transfer and FDI in restructuring the Polish economy during the first five years of transformation to the market-based system. The first stage of the IDP is basic production factors driven, which are abundant and relatively inexpensive. The next two stages fall into the investment driven category, where inward FDI is focused on standardised products and then on export oriented mass production of medium technology products generating economies of scale. Finally there is the innovation driven (fourth) stage, where technology is not only imported, appropriated and improved but also generated domestically. Inward FDI is now of the strategic assets seeking type.

A comprehensive and insightful analysis of outward and inward investment into selected countries of Central and Eastern Europe is conducted in a study edited by Svetlicic and Rojec (2003). One of its principal recurring themes states that the IDP concept is useful in understanding and explaining the outward internationalisation process of transition economies.

Within the same study, Rosati and Wilinski (2003) investigate how the IDP concept fits with FDI in Poland. In examining outward FDI from Poland, they find that its limited extent is due to factors such as a large and growing domestic market, low savings rate and a still low degree of openness of the economy. This outward FDI is mostly market seeking and focused on the markets of Europe.

A synthetic and comparative approach applying the IDP concept to the whole region of Central and Eastern Europe (including Russia and its former republics) and to the European Union of 15 member states is undertaken by Boudier-Bensebaa (2004). The “Eastern” countries concerned are classified into 4 distinct groups according to their per capita level of GDP and NOI position. The NOI position of the “Eastern” countries places them in stages 1 or 2 of the IDP, while that of the EU countries points to stages 4 or 5. The first most advanced group of the “Eastern” countries consists of the Czech Republic, Estonia, Slovenia, Hungary, Slovakia, Poland, Latvia, Lithuania and Croatia. The group is identified as moving towards the end of stage 2 of their IDP or even towards the beginning of stage 3. Within the “Eastern” countries groups and sub-groups their NOI position reveals 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 EU. Finally the author draws attention to the fact that data on FDI stocks and GDP do not cover all the factors affecting FDI and development. In the FDI sphere, left out are the non-equity forms of investment. As for the effect on FDI, besides GDP, elements such as EU accession, globalisation and the transformation process per se should be also taken into account.

## **Poland’s Position on the IDP**

### ***Evolution of the legal-institutional conditions for the inflow and outflow of foreign capital***



When trying to establish Poland's position on the IDP, it must not be forgotten that the economic system which existed up to 1989 created serious distortions in the natural or ideal evolution of the country's NOI position according to the original model of Dunning. The system based on central planning had a natural proclivity to a high degree of economic autarchy which manifested itself in a 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 the outward looking, export oriented one (OL – EO).

In the context of development, 1990 was the year of radical, institutional change which activated a process of evolutionary adjustments in the Polish economy to meet the challenges of the international environment. Thus before embarking on the analysis of data on the Polish IDP it is worth considering the main characteristics of the evolution of the legal-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 foreign direct investment. 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, Markowski and Jackson 1996, p.428):

- liberalisation of legal regulations concerning the inflow of foreign direct investments,
- liberalisation of foreign trade and principles of currency convertibility,
- privatisation of state-owned enterprises.

From a policy perspective, before the beginning of the transformation process in Poland, FDI was regulated by the enclave model, which treated foreign direct investment in a special

way as compared with the remaining part of the economy (Samonis, 1992, pp.101–112). The said enclave model functioning in Poland had the following characteristics:

- FDI was allowed only in the so-called small foreign business operations or in joint venture companies with a minor share of foreign capital,
- Foreign investors had to obtain permits available under a complicated procedure,
- There was a wide range of sectors which were out of bounds for FDI (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 underway the legal-institutional changes in the conditions for the inflow of foreign capital made it necessary to change this model in favour 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 the share of foreign capital contributed significantly to the national treatment of FDI. Its most important features concerning foreign investment included:

- 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,
- foreign entities could 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 Organisation of Economic Cooperation and Development (OECD).

The present situation in Poland from the point of view of regulations concerning FDI is similar to the one existing in developed countries. Considerable progress has been made in adjusting Polish law to the standards of the EU and OECD, and in consistently implementing the national treatment rule, i.e. treatment of foreign investors on equal terms and conditions with domestic entities. It is worth underlining that Poland's accession to the European Union necessitated 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***

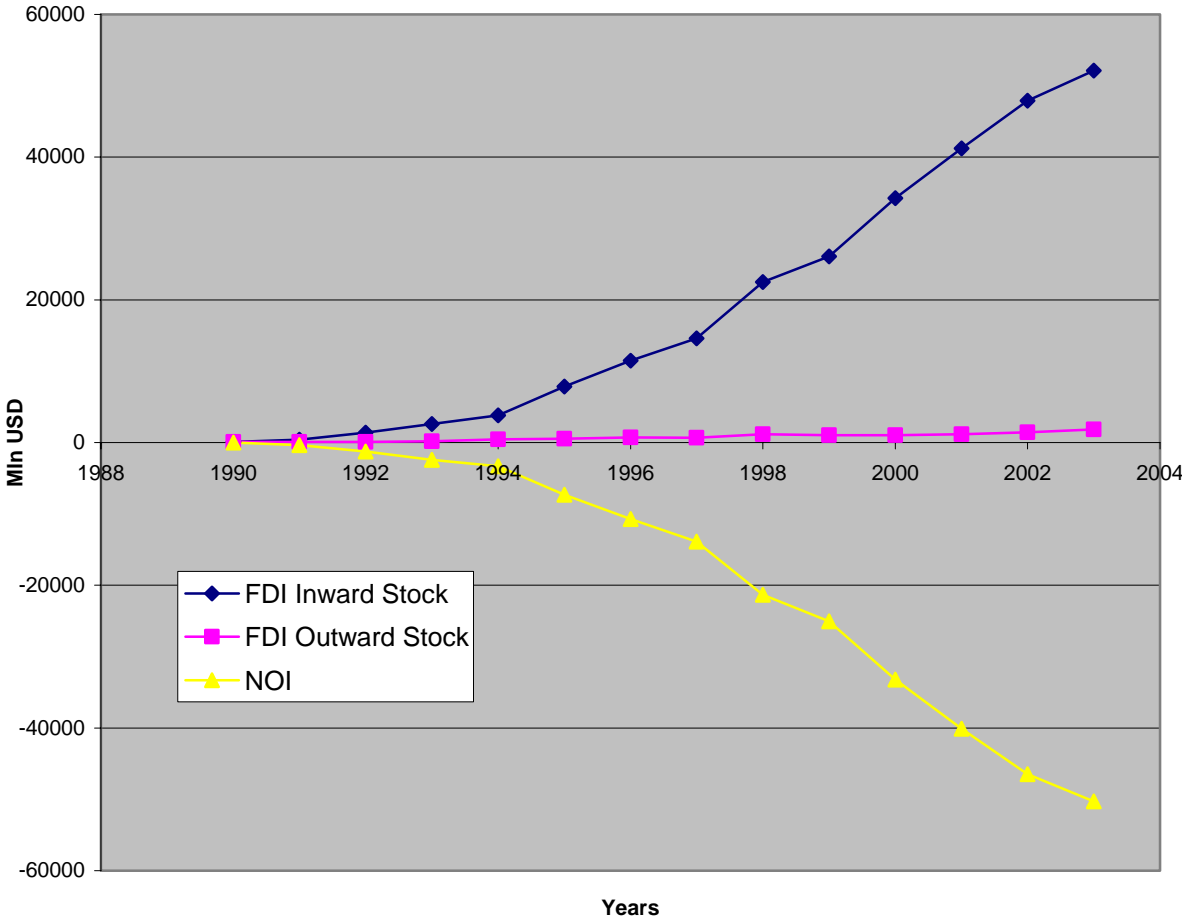
In order to identify Poland's IDP, three tables containing data on the country's development as it relates to inward and outward FDI have been analysed. These tables are presented in Appendix 1. The three key indicators of Poland's IDP - FDI inward stock, FDI outward stock and NOI – were derived from those tables and are presented in a graphical form in Diagram 1. The analysis that follows below, while using Diagram 1 as a synthetic expression of Poland's IDP and the point of departure, interprets the detailed information from the Appendix Tables A, B and C to enrich and expand on the traditional approach to the study of the Investment Development Path.

Table A 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 non-existent and the significance of inward FDI as related to the country's GDP in 1990 was also minute (0.2%). Starting from 1991, FDI inflows have been continually rising until 2000, thereafter to fall for the next two years and then to exhibit a slight tendency to rise. Throughout the 13 years of transition, they exhibited a stunning growth of

4747%. In the same period, FDI outflows showed an increase of “only” 2413%. Moreover there were 2 years (1991 and 2001) during which disinvestment by Polish firms abroad was observed. The role of inward FDI in the whole economy (percentage of GDP) increased most spectacularly, achieving a growth index of 12450 % and reaching in 2003 the share of almost 25% of the Polish GDP.

**Diagram 1**

**FDI Inflow and Outflow Stocks, and Poland’s NOI, 1990-2003**



What do those figures reveal? Firstly, 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. Size of the national market should be stressed as the foremost factor in this respect but other factors have been at work as well, such as low labour costs coupled with well-developed labour skills and foreign firm strategies aiming to use Poland as a springboard to acquire knowledge and expertise in doing business in the environment of Eastern Europe and using such knowledge and expertise to expand further east, especially to the markets of the former Soviet Union (Wolniak 1998, p.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.

Secondly, the very weak performance in outward FDI was due to lack of ownership advantages of domestic firms 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 and/or engagement in cross-border transfer of final products and/or supplies inside the MNCs. The lack of ownership advantages sufficient to motivate and lead domestic firms to expand via FDI was due not 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, p.89-94).

Also much of the explanation concerning outward FDI 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 fragmentary government programs were 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.

Diagram 1 depicts changes in the FDI inward and outward stock, while Table B in Appendix 1 details the same in relation to 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 whole region of Central and Eastern Europe. In 2000 Poland's share was over 25% of the said total (Kopeć, 2002). What is more important here 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 were of a fluctuating character until 1999, with annual increases ranging from 27% to 107%. But from 2000 on, a clear slowing down tendency became visible (from plus 31% in 2000 to only plus 9% in 2003). This has been attributed to: a) the ending of the privatisation process in Poland with the pool of state owned companies available for acquisition and attractive for foreign investors being considerably diminished; b) a general slowdown in business activity in the developed countries; and c) lower labour cost and efficiency seeking MNCs beginning to look at other locations. It should be noted however that the time period of only 3 years is short and a reversal is possible due, for example, to Poland accession to the EU in 2004.

The situation with outward FDI stock is somewhat different. Up to 1999 fluctuating changes are observed. But starting from 2000 on, its growth rate 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 as an indication that with overall economic development Polish firms are beginning to internationalise more aggressively abroad via FDI.

Their expansion is mainly of the market seeking type and geographically focused in two areas: that of the EU and the markets of less developed Central and East European countries. In the former, Polish firms also tend to exploit ownership advantages stemming from the possession of proprietary assets such as unique technologies, products and know how.<sup>1</sup>

Diagram 1 and Table C in Appendix 1, by presenting data on the NOI position of Poland in relation to the country's GDP statistics, serve to identify the stages of development which have been reached so far according to the IDP model. The first basic observation when looking at the evolution of the NOI position and GDP in both absolute and per capita terms is that the NOI position has been deteriorating throughout the studied period. This was accompanied by a systematic rise in GDP which may be interpreted as indicating 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 Wiklinski (2003) as well as Boudier-Bensebaa (2004). A very similar positioning on the IDP path was found for Hungary by Antaloczy and Elteto (2002). The importance of this similarity arises from the fact that both Poland and Hungary are widely perceived as being in the same group of countries that have been most advanced in the transformation of their economies to a market-led system.

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

i) 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.

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<sup>1</sup> For more analysis on the international expansion of Polish firms see Gorynia, Nowak and Wolniak (2005).

- ii) As a result of i) a gradual deterioration of the country's NOI position occurred, going down in nominal terms from –14 mln USD in 1990 to –50286 mln USD in 2003.
- iii) Nevertheless, the NOI per capita dynamics, calculated as the ratio of NOI per capita in a given year to the previous one (taken as 100) showed a tendency to decrease, falling in the studied period from 2391 in 1990 to only 108 in 2003.
- iv) When 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 the NOI per capita.
- v) In the context of iv), it is worth noting that the difference in the absolute values of changes in the NOI per capita and GDP per capita was falling. In 1991, for example, the said difference was 2262, in 1998 it was reduced to 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.
- vi) In the years 1990 – 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. Then in 2003 an absolute decrease was observed to the value of 23.99. This 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. This conclusion requires of course 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 did Poland pass in the years 1990-2003 poses some problems. A formal analysis of the available data has indicated that only stage



1 and 2 can be taken into account according to the model of Dunning. This is also illustrated by the diagrams in Appendix 2. In the first years of the investigated time period (it is difficult to pinpoint exactly the end year) Poland's development showed the following signs typical of stage 1:

- i) A relatively small inflow and outflow of FDI. It seems that a turnaround to a certain degree occurred in the years 1995 and 1996.
- ii) Low per capita GDP but with a considerable growth potential.
- iii) Necessity to solve transition adjustment problems in education, training and motivation of the labour force.
- iv) Infrastructure inadequate to the needs of foreign investors, especially transportation and communication facilities.
- v) Export to and import from Poland as the preferred forms of foreign firm activity.
- vi) The economic policy of government directed, but to an unsatisfactory extent, towards 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. Firstly, the growth rate of inward FDI started to increase substantially from 1995. At the same time outward FDI has remained quite low although the last two years of the studied period produced some signs attesting to the growing importance of such investment. Thirdly, the net effect of these 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 the case of Poland. Thus this may signify that close at hand is the possibility of Poland entering stage 3 of her IDP. Some authors like Durán and Ubeda (2001) straightforwardly assert that Poland together with other countries such 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) cited at the beginning maintain that Spain is in stage 2 whereas Durán and Ubeda classify it as being in stage 4.

The conclusion of the authors of this study is that Poland, in 2003, was close to the border between stages 2 and 3 of her IDP. One of the major factors which keep 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 its growth potential. Also of importance is the propensity to expand into foreign markets by other means than FDI. In case of small and medium sized Polish firms the alternative method is mainly via exporting. The rising growth rate of outward FDI stock observed since the year 2000 also points to the 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 which 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 her IDP, which it entered in mid 1990s. These findings are consistent with some earlier studies conducted on Poland and other Central and Eastern European countries, especially those that are at the similar level of economic development, like 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 the reluctance of government to adopt more active, firm specific ownership advantages stimulating policies towards outward FDI.

According to received theory economic policy bears the main responsibility for moving a country ahead on its IDP. What then should the strategic policy options in the case of Poland be? In making policy recommendations for Poland two models of economic policy could be used: the ethnocentric model with policies aimed at increasing the competitiveness selectively, i.e. just 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 for the identity and ownership of firms or 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 into a two phase process.

In the first stage support should be offered according to the guidelines of the integral model, i.e. there should be no distinction between instruments supporting exporter competitiveness in foreign markets and producer competitiveness in the open domestic market. This criterion is consistent with the notion of a liberal and institutional industrial policy designed to promote broadly understood development and entrepreneurship (Gorynia, 1995) . This policy uses mainly instruments that are universal in character and uniform (non-discriminating) in all their aspects but go beyond the focus of traditional macroeconomic policy. The whole economy, all sectors and branches, are in principle treated alike.

The effects of economic policy measures in stage one of IDP should result in the continuing and unimpeded inflow of FDI and in the creation of a sound domestic base of firms competing on the domestic Polish market irrespective of their national provenance. Thereafter the focus of economic policy should move to support competitiveness of Polish firms entering and expanding their operations in foreign markets. This would mean drawing more from the ethnocentric model. Still, with respect to the domestic market, the aim of economic policy

measures should be to create conditions conducive to consolidation and then accelerated growth of small and medium sized domestic firms into bigger 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).

The second stage calls for measures in the form of direct and indirect financial support that would stimulate Polish owned firms 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 exporting and moving beyond the export stage into more sophisticated forms like foreign production. Financial assistance in this area would also be advisable.

Both these models suggest that economic policy in stimulating and promoting development should support, and be geared towards the development of company competitiveness per se. The expected medium term effect of such strategic aim of Poland's economic policy should be to create a solid base allowing Polish firms to invest, expand and compete successfully in both developed and developing country markets, moving Poland, as the net result, firmly into stage 3 of her IDP.

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## Appendix 1

**Table A**

### **FDI Inflows, Outflows from Poland and Relative Inward FDI Stock between 1990 and 2003**

<b>Year</b>	<b>FDI Inflows, mln USD</b>	<b>FDI Outflows, mln USD</b>	<b>Inward FDI Stock as a Percentage of Gross Domestic Product</b>
<b>1990</b>	89	16	0,2
<b>1991</b>	291	-7	0,6
<b>1992</b>	678	13	1,6
<b>1993</b>	1715	18	3
<b>1994</b>	1875	29	3,8
<b>1995</b>	3659	42	5,8
<b>1996</b>	4498	53	7,5
<b>1997</b>	4908	45	9,5
<b>1998</b>	6365	316	13,3
<b>1999</b>	7270	31	15,9
<b>2000</b>	9341	17	20,6
<b>2001</b>	5713	-90	22,2
<b>2002</b>	4131	230	25
<b>2003</b>	4225	386	24,9

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

**Table B****FDI Inward and Outward Stock, and GDP of Poland in 1990 - 2003**

Year	FDI Inward Stock, mln USD	FDI Inward Stock, (previous year =100)	FDI Outward Stock, mln USD	FDI Outward Stock, (previous year =100)	GDP(a), mln USD, at current prices	GDP (previous year =100)
1990	109		95		58976	
1991	425	390	88	92	72924	124
1992	1370	322	101	115	84326	116
1993	2621	191	198	196	85853	102
1994	3789	145	461	233	117978	137
1995	7843	207	539	117	126348	107
1996	11463	146	735	136	134550	106
1997	14587	127	678	92	143066	107
1998	22479	154	1165	172	157274	110
1999	26074	116	1024	88	155151	99
2000	34227	131	1024	100	158839	102
2001	41247	121	1156	113	183400	115
2002	47900	116	1453	126	189000	103
2003	52125	109	1839	127	209600	111

(a) - according to official exchange rate

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

**Table C****GDP and NOI Position of Poland in 1990 – 2003**

Year	NOI Position	GDP(a), mln USD	NOI/GDP	NOI per capita in USD	GDP(a), per capita, in USD	NOI per capita (previous year – 100)	GDP per capita (previous year =100)
1990	-14	58976	-0.02	-0.37	1547		
1991	-337	72924	-0.46	-8.85	1998	2391	129
1992	-1269	84326	-1.5	-33.31	2198	376	110
1993	-2423	85853	2.82	-63.59	2232	191	102
1994	-3328	117978	-2.82	-8734	3057	137	134
1995	-7304	126348	-5.78	-191.71	3086	219	101
1996	-10728	134550	-7.97	-281.57	3484	147	113
1997	-13909	143066	-9.72	-365.07	3702	130	106
1998	-21314	157274	-13.55	-559.42	4068	153	110
1999	-25050	155151	-16.14	-657.48	4014	118	99
2000	-33202	158839	-20.9	-871.44	4110	133	102

<b>2001</b>	-40091	183400	-21.86	-1049.5	4746	121	115
<b>2002</b>	-46447	189000	-24.58	-1215.89	4944	116	104
<b>2003</b>	-50286	209600	-23.99	-1316.39	5486	108	118

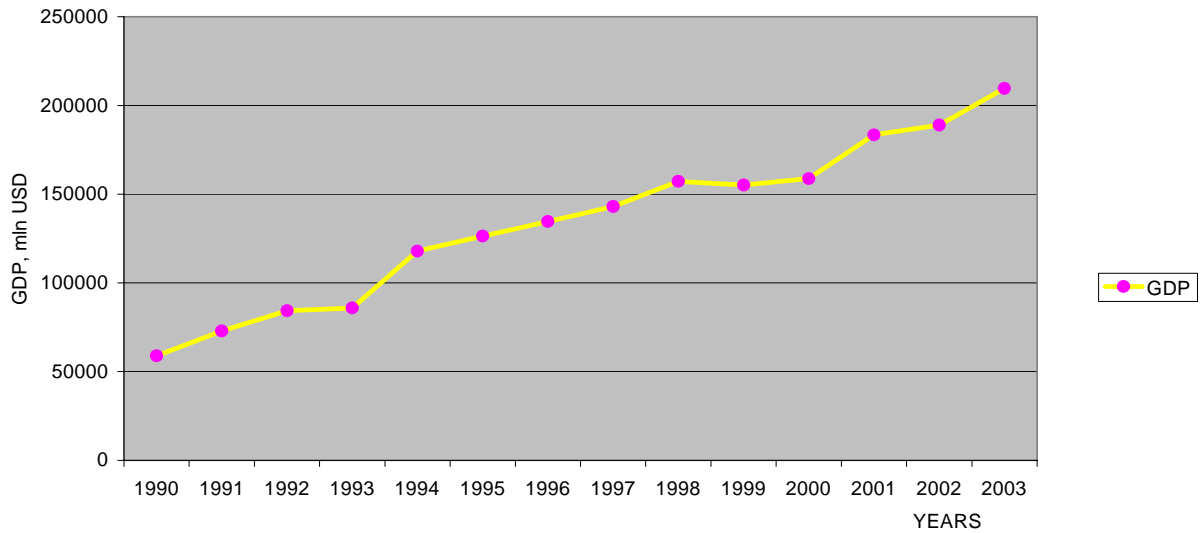
(a) - according to official exchange rate

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

## Appendix 2

### Diagram A

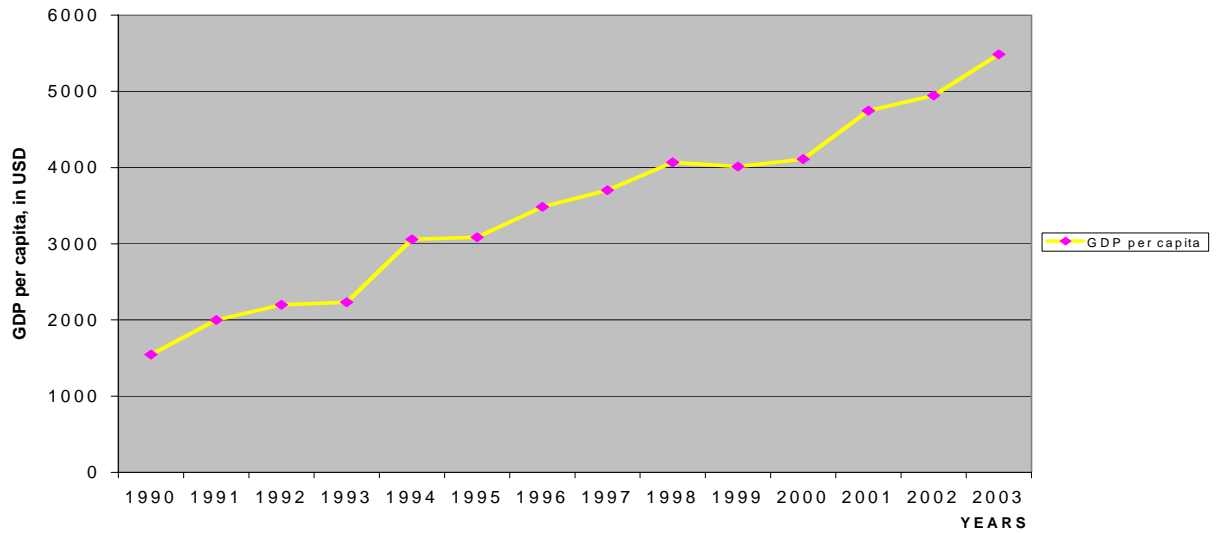
#### GDP of Poland in mln USD, 1990-2003





## Diagram B

### Poland's GDP per capita, in USD, 1990-2003



## Diagram C

### Poland's NOI per capita, in USD, 1990-2003

