

The Investment Development Path of Poland Revisited: A Geographic Analysis

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1. Introduction

This study is a continuation of the authors' previous research on the investment development path (IDP) and Poland. In an earlier paper (Gorynia, Nowak, Wolniak, 2005) the IDP for Poland was analysed, using FDI and GDP data for the period of 1990-2003. The main documented conclusion of this analysis was that Poland, at the end of 2003, had been at the end of stage 2 of her IDP.

In the research that follows the analysis of the IDP is extended to focus on the geographic dimension of Poland's inward and outward FDI and hence the positioning of Poland on the different IDP paths with different countries and regions. The need for this geographic approach stems from two main considerations. On the one hand, there is a general paucity of IDP studies which go beyond the analysis of the classic, aggregate variables – total FDI inward and outward stocks correlated with a country's economic development, invariably measured by the GDP or GNP per capita. On the other hand, some scholars studying the subject recognise the need for a structural analysis (including geographic patterns of a country's FDI) that would reflect not only the degree of economic development and overall IDP position but also each country's FDI peculiarities and the nature of its international trade. Therefore the subject of this study is the issue of the influence of Poland's FDI specificity in terms of its geographic patterns on the country's net outward investment position (NOI) broken down according to geographic criteria, leaving out the complementary problems of the relationships between the IDP and the international trade development path for further scrutiny.

Moreover in such a context, the present study attempts to incorporate geographic analysis of FDI into the classic IDP model. By supplementing the traditional analysis of NOI (outward FDI stock – inward FDI stock), which has been criticized as being an incomplete indicator of a country's position on the IDP (see e.g. Durán and Úbeda, 2001 and 2005) , with

an analysis of geographic patterns in inward and outward FDI (with respect to the main country groups and individual countries being providers and/or recipients of FDI to and from Poland), the authors strive to offer a better explanation of Poland's current NOI position and provide more in-depth support to certain policy recommendations. Hence the main contribution of this study to international business scholarship is believed to be two-fold: (a) further development of the IDP research methodology and, (b) better understanding of the idiosyncratic nature of the IDP of Poland.

The statistical information used in this study comes from the databases of the National Bank of Poland (NBP). To the best of the authors' knowledge, NBP is the only reliable source of information on Poland's FDI inflows and outflows broken down by individual countries or groups of countries. Unfortunately, NBP started to compile geographic FDI data only in 1996. Therefore, the present research covers the period from 1996 to 2004, which is partly different from the period analysed in the authors' previous study of IDP (1990-2003). Coincidentally 1996, as demonstrated in the said previous study, marks Poland's transition from stage 1 to stage 2 of the IDP.

The structure of the present study is as follows: the next section provides a literature review with focus on identifying such research that incorporates geographic analysis into the IDP model. In the following two sections, which constitute the main part of the study, an analysis is conducted of the geographic patterns and Poland's NOI position with the Triad and transition countries respectively. The last section contains conclusions and policy implications.

2. Literature Review

The concept of IDP was introduced by Dunning in the early eighties (Dunning, 1981 and 1986). It was thereafter refined by Dunning and Narula (1996), and extended to incorporate trade by Dunning, Kim and Lin (2001).

According to the basic IDP proposition, the 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 gross outward direct investment stock and 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 to enter into 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 (5th) 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. Throughout the IDP multinational corporations (MNCs), as agents of FDI, become more global and contribute to the blurring of national borders.

Based on a study of Korea and Taiwan, the IDP concept has been extended further by Dunning, Kim and Lin (2001). They argue that there is an interface between trade and FDI and introduce a parallel concept of the trade development path (TDP). They find the growth of trade and FDI positively correlated with GNP per capita and with created assets intensity.

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.

A more recent comprehensive evaluation of the IDP concept, its shortcomings and suggestions for its modification are found in the studies of Durán and Úbeda (2001 and 2005). 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 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 made by Durán and Úbeda concerns their redefinition of the 4th 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 5th 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.

The literature review reveals two main strands in the empirical studies on IDP. One strand represents multi-country studies using cross-sectional analysis. The other strand of studies focuses on one country's NOI position either vis-à-vis all countries of the world or countries (world regions) that represent the main destination for FDI as well as the main source of FDI. These studies incorporate, to a varying degree, geographic factors into the analysis of the IDP and NOI positions of a given country with other groups of countries/regions or other specific countries. They are longitudinal in nature.¹

The first group of studies is represented by research output of such authors as: Duning and Narula (1996); Narula (1996); Zhang and Van den Bulcke (1996); Durán and Úbeda (2001 and 2005), and Boudier-Bensebaa (2004). Two of these studies include Poland – those of Duran and Ubeda (2001) and Boudier-Bensebaa (2004). The first study (Durán and Úbeda, 2001) puts Poland in stage 3 of the IDP and the second study allocates Poland to the group of most advanced “Eastern” countries (together with the Czech Republic, Estonia, Slovenia, Hungary, Slovakia, 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 (Boudier-Benseba, 2004).

The second strand of studies is more prevalent. It attempts to test the validity of the IDP paradigm by analysing IDP and related variables for a particular country with respect to its total FDI flows and stocks or by introducing a breakdown of the world by region, country or industry sector. The studies by: Ozawa (1996) for Japan; Campa and Guillen (1996) for

¹ There are also a few studies that combine both cross-section and time series analysis (see e.g. Tolentino, 1993 and Narula, 1993).

Spain; Graham (1996) for USA; Buckley and Castro (1998) for Portugal and Dunning, Kim and Lin (2001) for Korea and Taiwan are examples focusing on the former approach, and studies by: Dunning and Narula (1994) on US-Japanese FDI relationships; Bellak (2001) on Austria's NOI position with Germany and the USA; and Barry, Goerg and McDowell (2003) on Irish-US FDI relationships represent the latter approach. A unique position within the latter approach is occupied by Clegg's study (Clegg, 1996), which represents a comprehensive and detailed analysis of the geographic and sectoral patterns of FDI in the context of the IDP model as applied to the UK economy. In the geographic aspect, Clegg investigates UK's IDP with the developed regions singling out Europe and the impact of market integration in this region, then moving to North America, Asia, Africa and finally South America. In the following step he goes deeper into UK's bilateral IDP positions with only the developed countries, including in this more detailed analysis also Australia and New Zealand.

A growing amount of research related to the IDP concept focuses on the transition economies of Central and Eastern Europe. Kubiela (1996) invokes the early version of the IDP as an important factor 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. The study by Antalóczy and Éltető (2002), on the other hand, includes an analysis of home-country and host-country factors determining Hungarian outward FDI. These authors find that neighbouring countries are favoured by Hungarian investors. While

Hungarian companies in the EU tend to set up only sales offices and trading posts, most Hungarian affiliates in the CEE region are manufacturing firms.

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.

In yet another study focused on Central and Eastern Europe, Kottaridi, Filippaios and Papanastassiou (2004) attempt 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 analyse 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 find evidence of the ten CEE countries going through the second stage of the IDP and gradually moving towards the third stage. They also find support for the complementarity between inward FDI and imports, and for the importance of location advantages, *viz.* market size and the quality and cost of labour, in attracting FDI to the region.

Summing up, a growing number of IDP studies have concentrated their attention on Central and Eastern European transitional countries, including Poland. However, none of the previous studies reviewed in this section attempted to enrich the classic analysis of a country's IDP by explicitly analysing the NOI position with respect to main destinations of

outward FDI. The present study attempts to at least partially fill this gap by focusing on the geographic patterns of Poland's NOI position.

3. Poland's Position on the IDP vis-à-vis All Countries

In the earlier research of the authors of this study mentioned at the beginning (Gorynia, Nowak, Wolniak, 2005) the NOI position of Poland vs. all countries was investigated, covering the period dating back to the beginning of the transition era in 1990 and ending in 2003. All the data were compiled in US dollars instead of euros as in this study. The analysis led to the following results:

- 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.
- ii. As a result of i. a gradual deterioration of Poland'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 changes in GDP per capita it appeared 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. 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 was interpreted as a weak signal of the beginning of the expected transition from stage 2 of the IDP to stage 3.

vii. Poland remained in stage 1 of the IDP from 1990 to 1995, passing thereafter to stage 2. Presence in stage 2 was firstly determined by the fact that the growth rate of inward FDI started to increase substantially from 1995. At the same time outward FDI remained quite low although in 2002 and 2003 there were signs of growing importance of such investment. The net effect of these two trends was the already stated continuing fall in Poland's NOI position.

viii. 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 was observed in Poland. Thus this was interpreted as a possible sign of Poland entering stage 3 of her IDP. The final conclusion was that Poland at the end of 2003 was close to the border of stage 2 and stage 3.

ix. What was keeping Poland still in stage 2 of her IDP was the continuing pull of the large internal market. However this and other factors in that market were becoming more correlated with strategic assets and efficiency which were gradually supplanting sheer market size and its growth potential. Also of importance was the propensity to expand into foreign markets by other means than FDI, mainly via exporting.

x. The observed rising growth rate of outward FDI stock since 2000 was also pointing to the movement towards stage 3 of the IDP. It was a paradox of the most developed transition economies that Poland's and Hungary's IDP showed that their NOI positions were lower than

the values which would fit and be commensurate with their level of development. A specific IDP gap was thus identified which could be perceived as a characteristic trait in the IDP of transition economies.

4. Poland's Position on the IDP vis-à-vis the Triad Countries

The NOI position of Poland with countries constituting the Triad, as evidenced in Table 1, shows a clear deteriorating trend, increasing its negative values throughout the studied period of 1996-2004. The sole and insignificant exception is the NOI with Japan which in 1999 was negative but smaller than in the previous year, but in 2000 re-entered again the general decline. Within the Triad the highest NOI values are those recorded for the European Union (EU), followed by USA and Japan. Also if one looks at Germany, Poland's closest neighbour from the "old" 15 EU countries, the negative NOI values are higher than those for USA and Japan. These data indicate that with the Triad, considered as the world's most developed economic area, Poland was firmly in the second stage of her IDP path reflecting on one side the attracting pull of her large internal market as well as a dynamic and growing economy, and on the other side the weak competitive position of firms in Poland as demonstrated by their minimal (with the exception of Germany as the destination) outward FDI. This tendency also indicates the approach in Poland's economic policies which throughout the studied period were more geared to stimulate inward FDI, practically leaving aside outward FDI.

Table 1. NOI position of Poland with selected developed countries and all countries, in mln EUR, 1996-2004.

Year	Germany	Prev. Year 100	USA	Prev. Year 100	Japan	Prev. Year 100	EU (15)	Prev. Year 100	All countries	Prev. Year 100
1996	-870.2		-363.1		-6.1		-2795.4		-3549.6	
1997	-1740.0	200	-976.4	269	-12.0	197	-6066.0	217	-7853.0	221
1998	-2960.0	170	-1638.4	168	-100.5	838	-10339.2	171	-13247.0	169
1999	-4119.6	139	-2050.0	125	-98.5	98	-16490.0	160	-20041.8	151
2000	-5142.4	125	-2399.4	117	-140.7	143	-26086.9	158	-26511.0	132

2001	-6345.0	123	-3050.1	127	-176.1	125	-32177.1	123	-32980.2	124
2002	-6899.4	109	-3498.7	115	-359.3	204	-36079.5	112	-37123.0	113
2003	-7006.7	102	-3982.6	114	-507.2	141	-39038.9	108	-41263.1	111
2004	-7958.7	114	-4092.9	103	-659.9	130	-47551.2	122	-50621.6	123

Source: National Bank of Poland (2000, 2001, 2002, 2003, 2004 and 2005)

Conclusions concerning the weak competitiveness of Polish firms, based on their minimal outward FDI performance should be however treated with some caution. This is due to the unfortunate proclivity, repeatedly stressed by the authors in other research, of Polish firms (especially those domestically owned) to strive for success in foreign markets uniquely via exporting, neglecting or, because of lack of resources (especially financial), being forced to neglect FDI as the foreign market expansion strategy offering better sustaining power for achieved market positions.

Nevertheless, the following observations tend to indicate that even vis-à-vis the countries of the Triad the declining NOI seems to show some signs of softening, signalling the advent of the evolution towards stage 3 of the IDP. Up to the end of 2003 all the countries and regions specified in Table 1 show a declining growth rate of the negative NOI. There are annual exceptions for USA in 2001 and for Japan in 1998, 2000 and 2002 which do not alter the general slowdown of the said growth rate. For Germany and the EU (15) the year of 2004 shows an increase of 14% and 22% respectively, of the negative NOI which is also reflected in a 23% increase in the negative value of Poland's NOI vis-à-vis all countries. This change was due to Poland's accession to the EU as full member in May of that year resulting in increased attractiveness of the country for EU investors. It remains to be seen how long will this "entry effect" affect Poland's NOI and her position on the IDP: will it intensify or, as the authors predict, it will rather die down in a few years. It is also worth stressing that no such reversal has yet been visible for the NOI position with USA and Japan.

5. Poland's Position on the IDP vis-à-vis Transition Countries

Poland's NOI position with her neighbouring, eastern transition countries is presented in Table 2 and is somewhat different from that outlined above with respect to the highly developed countries. Two key "mature" transition economies: the Czech Republic and Hungary, exhibit opposing trends. The negative value of the NOI with the Czech Republic grows from 1996 to 1999, then decreases until 2001 and from 2002 onward shows rapidly rising positive values. The trend in the NOI growth rate is quite clear: the growth index falls quickly to the end of 2002, then shows a spectacular growth (3538) and settles to a value of 217 in 2004. Thus the IDP of Poland vs. Czech Republic changes from stage 2 in 1998 to stage 3 in 1999 and then passes to stage 4 in 2002. On the other hand, the NOI position with Hungary shows a trend typical for a developed country: its negative values increase throughout the period of study with the exception of 1999 and 2000. The NOI growth index fluctuates considerably with no clear tendency visible yet. This indicates that Poland versus Hungary is in the same stage 2 of the IDP. However there are no signs of change to stage 3 apparent. This may indicate that Hungary is more competitive and higher up the general IDP than Poland.

Table 2. NOI position of Poland with selected East European transition countries plus China, in mln EUR, 1996-2004.

Year	Bela- rus	Prev. Year 100	Czech Repu- blic	Prev. Year 100	Hun- gary	Prev. Year 100	Baltic States	Prev. Year 100	Russia	Prev. Year 100	Ukra- ine	Prev. Year 100	China	Prev. Year 100
1996	-0.2		-10.8		-0.3		1.0		-2.2		4.8		1.1	
1997	0.0		-25.9	240	-3.1	1033	1.0	100	0.3	14	10.6	221	3.9	355
1998	1.3		-32.9	127	-12.3	397	3.4	340	-2.3	767	12.5	118	3.7	95
1999	1.9	146	-31.9	97	-10.1	82	6.5	191	1.4	61	16.7	134	2.7	73
2000	2.3	121	-20.6	65	-6.8	67	7.3	112	23.9	1707	12.8	77	-2.1	78
2001	2.7	117	-11.3	55	-13.9	204	12.2	167	-11.8	49	22.2	173	-2.6	124
2002	4.1	152	0.8	7	-78.6	565	12.7	104	32.3	274	47.5	214	-0.6	23
2003	7.6	185	28.3	3538	-112.6	143	0.2	2	125.7	389	98.8	208	-10.6	1767

2004	10.9	143	61.5	217	-250.3	222	6.8	3400	708.3	564	118.0	119	-10.8	102
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Source: National Bank of Poland (2000, 2001, 2002, 2003, 2004 and 2005)

The development level of the Baltic countries is not dissimilar from that of Poland. But with respect to this group the NOI values are positive all the way, rising to 2002 and then slightly decreasing the next year and rising again in 2004. This shows that Poland vs. the Baltic countries is in the fourth stage of her IDP and perhaps moving into stage 5, as the dip in the NOI almost to 0 level (0.2) in 2003 might indicate. The move toward these two stages however is made from a base of bilateral FDI flows being at a very low level and not surpassing 1.6 mln EUR (National Bank of Poland, 2000), indicating that the preceding stage was stage 1 on the IDP. Thus we have a departure here from the ideal IDP with stages 2 and 3 missing.

As for the IDP of Poland vs. Russia the change from stage 3 to stage 4 seems to have occurred in 1997, since the value of NOI begins to be positive from that year although in 1998 and then again in 2001 it becomes negative. The rising dynamics of NOI increase (in positive values) from 2002 onward show that the IDP of Poland vs. Russia is becoming firmly entrenched in stage 4. The absolute dimension of the said NOI by reaching 3 digit values also indicates rising competitiveness of firms investing from Poland which does not mean that they are domestic Polish owned entities and might be subsidiaries of foreign MNCs operating out of Poland.

The NOI of Poland vs. Ukraine is more clear cut, showing positive values throughout the studied period and rising constantly with the exception of the year 2000. The dynamics of NOI change show fluctuations from 1996 to 2001 and from then onwards exhibit a distinct slowdown. This in general means that Poland's IDP vs. Ukraine has been in stage 4 but from 2002, because of the slower NOI growth, seems to be moving to stage 5.

The transition into stage 4 on the IDP of Poland vs. Belarus occurred in 1998, at least one year later than with Ukraine and somewhat similarly as with Russia. In 1997 the NOI value reaches the 0 level and from there on it continues to rise, attaining a low, 2 digit value in 2004. The NOI dynamics in this case appear quite erratic with no trend visible as yet. But Belarus vs. Poland demonstrates a very weak competitive position with practically 0 level FDI directed to Poland (National Bank of Poland, 2000-2005), signifying that the country is still in stage 1 of its IDP. From the Polish IDP position the FDI ties with Belarus or rather their absence up to the end of 1997 (National bank of Poland, 2000) place Poland likewise in stage 1, but then the jump to stage 4 occurs thus eliminating, as in the case of the Baltic countries, stages 2 and 3 of the IDP construct.

An interesting case is that of Poland's NOI position with the world's largest emerging market, i.e. China. There is a jump in the positive value of the NOI from 1996 to 1997, then a decline to the end of 1999 followed by the appearance of negative values which continue to rise, with the exception of the year 2002, reaching in 2004 a negative 2 digit figure. But this sequence cannot be interpreted as reaching stage 4 on the IDP and then suddenly diving into the earlier stage 2. The close to 0 figures for FDI outflows from Poland to China for the period from 1996 to 1999 and a similar very low level of inward FDI activity into Poland (National Bank of Poland, 2000-2002) indicate that the corresponding positive NOI values reflect in reality an extended stay in stage 1 of the IDP. From the year 2000 on Poland vs. China remains in stage 2 of the IDP although in absolute terms the negative NOI figures for 2003 and 2004 being barely more than 10 mln EUR can be interpreted as signifying a relatively weak interest of the Chinese investors in the Polish market. However what should not pass unnoticed is the fact that it is stage 2 of Poland's IDP which otherwise has been found earlier in this research to characterize the relationship of Poland with the highly developed countries. A similar stage 2 positioning applies to Hungary as also observed above

but the difference lies in the magnitude of the negative NOI values: from 2001 they (-13.9 mln EUR) surpass the -10.8 mln EUR mark for China registered in 2004 and reach -250.3 mln EUR in 2004. This of course reflects a much more intense penetration of the Polish market by firms investing from Hungary, rightfully confirming the perception of Hungary as a highly developed transition economy of Eastern Europe.

6. Conclusions and Policy Implications

As has already been pointed out (also in other research) the general position of Poland on her IDP path has been identified as being at the end of stage 2 and approaching stage 3 (Gorynia, Nowak and Wolniak, 2005). The attempt to conduct a country breakdown of the NOI position of Poland in the whole transformation period since 1990 encountered certain data barriers, limiting the availability of such country data and permitting the calculation of country NOI only from the year 1996 onwards. Thus the conclusions are somewhat protracted since one can only infer by reference from the single set of data for Poland's NOI with all countries and the level of bilateral FDI flows in 1996, the first year of full data availability, about what was Poland's positioning before that year.

The analysis covering the period from 1996 to 2004 has revealed that Poland vs. the highly developed economies, the Triad countries, was in later part of stage 2 of her IDP coming closer to the expected evolution into stage 3. There was the counter effect of Poland's accession to the EU which in the short run indicated a tendency to prolong the stay in stage 2 but which is estimated to be counterbalanced in the medium term by firms increasing their FDI outflows from Poland into the EU thus bringing the country's NOI position back to the original trajectory of change into stage 3. The "distorting EU accession effect" left its imprint on the increased rate of NOI growth in the year 2004 vs. 2003 for all countries. This was due to the fact that for the year 2004 the share of the NOI for the region of 15 EU states in the

NOI for all countries was 93.9% whereas the share of the NOI for USA and Japan for that same year was 8.1% and 1.3% respectively and for both these countries the slowdown in the negative NOI growth could be considered as evidence of moving into stage 3 of the IDP.

The evaluation of Poland's competitiveness vs. the Triad economies in light of the above observations can be positioned on a satisfactory level: Poland is attracting increased levels of FDI inflows from that region. However the efforts to mark their presence in the said region by firms investing out of Poland are still beset by problems of lack of sufficient resources and effective support of national economic policies stimulating outward FDI expansion.²

The results of the Poland's NOI breakdown with other East European transition countries show in most cases that the competitiveness of Polish firms in that region is much stronger than in the case of the developed economies. With Hungary, Poland has been in stage 2 of her IDP throughout the period under examination with her NOI position reaching the over –250 mln EUR mark but this being due to very low levels of annual outward FDI recorded with the highest value of only 1.3 mln EUR so far in the year of 2000 (National Bank of Poland, 2003). With the Czech Republic, Poland has passed through three stages of her IDP and is currently positioned in stage 4, which attests to growing and superior competitiveness of the Polish firms on the Czech market.

The highest positioning on her IDP is held by Poland vs. its Eastern neighbour, Ukraine. Poland's NOI position tends to be moving to the end of stage 4 and then to the ensuing change to stage 5 with a positive value for 2004 on the 118 mln EUR level. This reflects the superior competitive position of Polish firms on the Ukrainian market which seems to gather momentum nourished by the attractiveness of the large interior market, much lower labour costs than in Poland and the desire of the Ukrainian authorities to continue and enhance the transition process to a market led system.

² For a wider presentation of these problems and policies see Gorynia, Nowak and Wolniak (2005).

With respect to Belarus and the Baltic countries, the bilateral FDI flows have been weak and do not exceed a one digit level in EUR mln. (National Bank of Poland, 2000-2005), indicating the passing of Poland's NOI position from stage 1 to stage 4, without stages 2 and 3. This might be construed as the peculiarity of ties with economies that are either relatively much weaker than Poland and less saturated with created assets (as in the case of Belarus) or that exhibit strong growth tendencies but as new members of the EU do not offer location advantages deemed to be attractive to Polish firms to utilize via FDI (as in the case of the Baltic states).

The appeal of the vast market of Russia plus ownership advantages of firms investing from Poland have moved Poland's NOI position to stage 4, passing the 708 mln EUR level in the year of 2004. But paradoxically the much larger internal market of China has attracted much less outward FDI from Poland, placing the country in stage 2 of the IDP with largest recorded annual FDI outflows amounting to only 1.9 mln EUR (National Bank of Poland, 2005). The key to this paradox lies in the greater psychic distance separating Poland from China and in that the FDI going there from Poland is not of the market seeking only efficiency seeking category.

The general appraisal of the results of this study seems to be offering considerable support for the following propositions regarding Poland's positioning on her IDP according to a geographic breakdown:

- i. The more developed the country the higher the negative value of Poland's NOI and the higher the positioning in stage 2 (i.e. closer to stage 3).
- ii. The less developed the country the higher the position in stage 4 (i.e. closer to stage 5) and the smaller the absolute value of Poland's NOI.
- iii. The less developed the country the greater the occurrence of omission of stages 2 and 3 on the NOI trajectory.

In view of the above conclusions policy recommendations should be geared to the paramount objective of increasing and sustaining the competitive positions of Polish firms (i.e. investing from Poland and not necessarily Polish by equity ownership) in all foreign markets and as the net result moving Poland further on her IDP. The idiosyncratic nature of Polish firm strategy (in this case mostly of Polish owned small and medium sized firms) has so far unfortunately been to focus on exports and not on outward DFI. This approach should be speedily reversed by strong economic policy stimuli supporting outward FDI. These stimuli should address primarily:

- i. the risk associated with cultural and institutional differences of foreign markets;
- ii. the lack or paucity of financial, material and human capital resources;
- iii. the need to educate Polish entrepreneurs about the advantages of moving beyond exporting in elaborating foreign market expansion strategies;
- iv. the need to combat the negative country of origin effect accompanying many Polish products in foreign markets;
- v. the need to educate Polish entrepreneurs about the advantages of different forms of cooperation, especially business alliance formation.

Accomplishing those aims requires time, determination and perseverance All those factors should be taken into account by all authorities and institutions in Poland responsible for creating and implementing economic policy measures in practice. The existing gap in this context between “what is” and “what should be” is still quite wide with little signs and perspectives for a drastic and speedy reduction.

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