

# **Investment Development Paths of Central European Countries: A Comparative Analysis**

Workshop paper

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## **Abstract**

The purpose of the paper is twofold. Firstly, it attempts to determine the timing and other determinants which have influenced the movement of each of the four CE countries through their IDP stages. Secondly, it aims at identifying differences and similarities between the individual countries' IDP trajectories and at drawing conclusions which might prove to be useful for other countries of the region.

The data sets used in this study have been derived from UNCTAD's World Investment Reports and Handbook of Statistics. The period covered by the authors' analysis spans the entire period of the four countries' transition (with the exception of the Czech Republic and Slovakia, for which data series do not include the years 1990-92), up to 2006, the last year for which the relevant data were available.

The paper sets out by presenting the IDP model and reviewing empirical studies applying, or at least relating to, the IDP model in CEE. The main body of the paper contains a comparative analysis of IDP trajectories of the four countries under study. Here, analysis focuses on three key issues: the passing from IDP stage 1 to stage 2; the effects of the EU accession on the countries IDP trajectories and the movement towards IDP stage 3. The concluding section summarizes the main findings, pinpoints their limitations and identifies future research avenues.

## **Introduction**

Central Europe has for years been a magnet for FDI. Until the recent surge of FDI inflows into Russia and Romania, the four Central European (CE) countries – the Czech Republic, Hungary, Poland and Slovakia – were attracting two-thirds of the total FDI destined for the entire Central and East European (CEE) region. Central Europe has also been the first sub-region of CEE to emerge as a major outward foreign direct investor. In 2006, the four countries collectively accounted for 89% of the region's outward FDI (UNCTAD, 2007).

The interplay between inward and outward FDI is at the heart of the investment development path (IDP) paradigm, the central theoretical construct of this study. In the context of this construct, the authors conduct a comparative analysis of IDPs of the four CE countries identified above. The choice of this relatively homogeneous group, in terms of geographical proximity, generally the same stage in establishing and developing a market economy system, common experience in acceding to the European Union (EU), and even many similar components of culture (with the exception of Hungary, which is the only non-Slavic country of the four ) was intentional. The authors hoped to be able to determine if this relative homogeneity will translate into similarities in the individual countries IDP trajectories, and if not, what factors differentiate those trajectories in spite of the group's relative homogeneity.

The purpose of the paper is therefore twofold. Firstly, it attempts to determine the timing and other determinants which have influenced the movement of each of the four CE countries through their IDP stages. Secondly, it aims at identifying differences and similarities between the individual countries' IDP trajectories and at drawing conclusions which might prove to be useful for other countries of the region.

The data sets used in this study have been derived from UNCTAD's World Investment Reports and Handbook of Statistics. All the necessary calculations of indicators, ratios and indices based on those data sets were conducted by the authors in accordance with the IDP model and its applications in academic research. The period covered by the authors' analysis spans the entire period of the four countries' transition (with the exception of the Czech Republic and Slovakia, for which data series do not include the years 1990-92), up to 2006, the last year for which the relevant data were available. The paper sets out by presenting the IDP model and reviewing empirical studies applying, or at least relating to, the IDP model in CEE. The main body of the paper contains a comparative analysis of IDP trajectories of the four countries under study. Here, analysis focuses on three key issues: the passing from IDP stage 1 to stage 2; the effects of the EU accession on the countries IDP trajectories and the movement towards IDP stage 3. The concluding section summarises the main findings, pinpoints their limitations and identifies future research avenues.

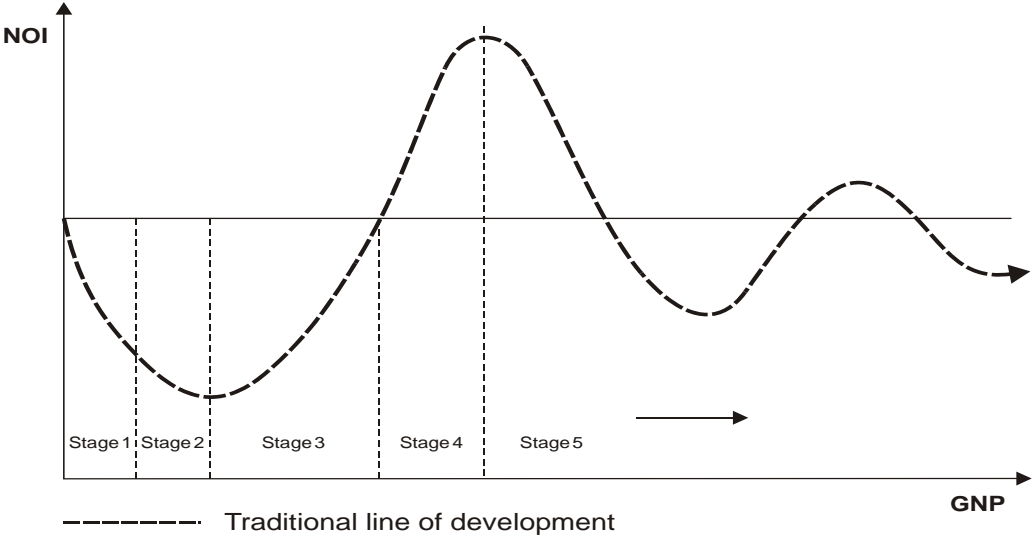
### **The IDP Concept and Its Application to the CEE Countries**

The concept of IDP was first proposed by J. Dunning in the early eighties (Dunning, 1981). Since then it has been refined and extended several times, with most significant modifications contained in Dunning (1986), Dunning (1997), Dunning and Narula (1994, 1996 and 2002), and Narula and Dunning (2000). Several other authors have made contributions to the development of this concept, including Lall (1996), and Durán and Úbeda (2001 and 2005).

According to the basic IDP proposition, the inward and outward investment position of a country is connected with its economic development. Changes in the volume and structure of FDI lead to different values in the country's net outward investment position (NOIP), defined as the difference between gross outward direct investment stock and gross inward

direct investment stock. As illustrated in Figure 1, the changing NOIP passes through 5 stages intrinsically related to the country's economic development, measured by its GNP.

**Figure 1. The Pattern of the Investment Development Path**



*Note: Not drawn to scale - for illustrative purposes only*

Source: Dunning and Narula, 2002, p. 139.

At the beginning of stage 1 of the IDP, the NOIP - reflecting the difference between outward and inward FDI stocks - is close to zero and later on assumes negative, and rapidly growing, values. Inward FDI, negligible or low in absolute values, flows in mostly to take advantage of the country's natural assets. Outward FDI is also negligible or non-existent, as foreign firms prefer to export, import and/or 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 although larger than in the previous stage. Therefore, the NOIP continues to decrease, although towards the latter part of stage 2, the rate of the decrease slows down as the growth of outward FDI converges with that of inward FDI. Countries in stage 3 are said to exhibit a growing NOIP 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 NOIP

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 NOIP first falls and thereafter demonstrates a tendency to fluctuate around the 0 level but usually with both inward and outward FDI increasing.

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.<sup>1</sup> However, a relatively small number of studies could be identified that directly or indirectly deal with IDPs of CEE countries, of which only two represent cross-nation comparative analysis.

Boudier-Bensebaa undertakes 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” countries concerned are classified into 4 distinct groups according to their per capita level of GDP and NOIP. The NOIP 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 NOIP 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. Boudier-Bensebaa focuses on

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<sup>1</sup> A succinct review of the two types of IDP empirical studies, cross-sectional and longitudinal, can be found in Gorynia, Nowak and Wolniak (2006)

cross-sectional analysis across countries and does not attempt to assess and explain the individual countries' IDP trajectories. And yet, the individual countries' IDP idiosyncrasies can provide a deeper understanding and more insightful explanation of the varying IDPs and their convergence or divergence within groups of countries.

In the second cross-nation 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 analyze 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, which corroborates the findings of Boudier-Bensebaa (2004) with respect to the most advanced CEE countries, labelled CEECs1.

Although focused on outward FDI only and not using the IDP concept as a framework, the study of Svietličič and Jaklič (2003) is worth mentioning in the context of this review as it also represents a comparative analysis of several CEE countries (the Czech Republic, Estonia, Hungary, Poland and Slovenia). The analysis clearly demonstrates that major increase of FDI outflows started in the latter part of the 1990s. This is yet another indication of the Central European countries entering Stage 2 of the IDP during that time. At the same time, Svietličič and Jaklič find positive correlation between a country's level of development and its rate of investment abroad and observe that outward FDI of the five countries under study tends to be geographically concentrated in countries with close historical or cultural ties.

Several studies focus on individual CEE countries' IDP. In particular, Poland's IDP has attracted notable attention on the part of researchers. The studies of Kubiela (1996), Rosati and Wilinski (2003), and Gorynia, Nowak and Wolniak (2007 and 2008) provide empirical

findings and interpretive insights into Poland's IDP trajectory, identifying and explaining the stages of the IDP the country has gone through. According to the most recent of these studies (Gorynia, Nowak and Wolniak, 2008), Poland entered the second stage of her IDP in the mid-1990s and by 2006 had been advancing to the end of that stage. This finding is consistent with the results of the multi-nation studies mentioned above.

The relevant studies of other Central European countries' either explicitly use the IDP model or focus on some of its elements, typically on outward FDI. Antalóczy and Éltető (2003) analyse Hungary's outward FDI and pay only a cursory attention to the country's IDP trajectory. These authors do not attempt to identify Hungary's stage on the IDP, but it can be implied from their analysis that the competitiveness of Hungarian companies investing abroad is strengthening and the empirical data presented in these authors' work clearly show a narrowing gap between inward and outward FDI between 1997 and 2001, which may be interpreted as an indication of Hungary's firm positioning in the latter part of IDP stage 2. Similarly, the study by Bohata and Zeplinerova (2003) on the Czech Republic's outward FDI provides evidence of an accelerated growth, although at relatively low levels, of outward FDI between 1996 and 2001. Nevertheless, these authors note that the gap between inward and outward FDI remains large in the Czech Republic at the end of the studied period. Svietličič & Bellak (2003), on the other hand, do use the IDP paradigm framework when conducting a comparative analysis of Slovenia's and Austria's NOIP. They come to the conclusion that both countries' IDP trajectory does not conform to the theoretical expectations derived from Dunning's model. According to these authors, the Slovenian IDP is highly idiosyncratic, as is Austria's IDP, but for different reasons. In Slovenia, deviations are more transition and history-related.

Also the Estonian study contained in the book edited by Svetličič and Rojec (2003) refers to the concept of IDP when analyzing specifically the role of outward FDI in the



internationalization of Estonian firms (Varblane, Reiljan & Roolaht, 2003). Similarly to the other CEE countries referred to above, the Estonian case shows the emergence of outward FDI around mid-1990s, followed by a boom in 1997. Although Estonia's NOIP deteriorated in the subsequent years, the measure's rate of decline showed signs of abating in the early 2000s. That, again, can be interpreted as a sign of Estonia passing through stage 2 of her IDP.

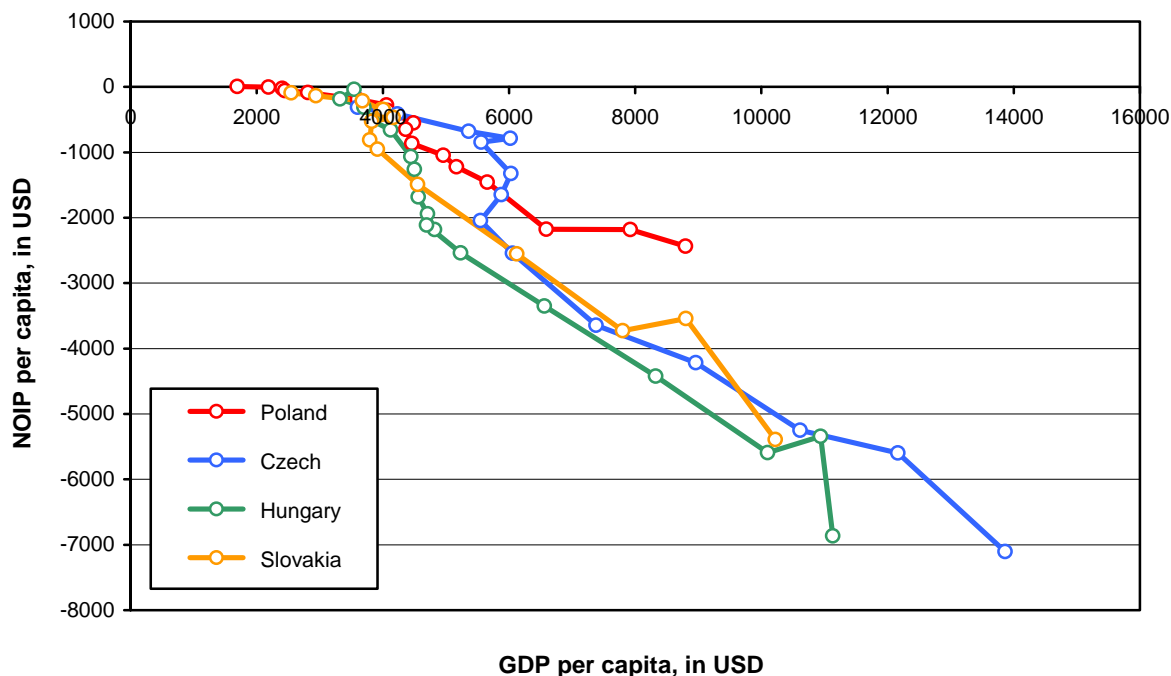
In the context of the existing literature on IDP of CEE countries, the present study attempts to make a contribution to the development of our knowledge of CEE countries' IDP idiosyncrasies by conducting a comparative analysis of a fairly homogenous group of CE economies, using longitudinal data sets, and covering the entire transition period. It therefore fills important gaps in the hitherto undertaken research of IDP in transitional economies, which has been fragmentary and has become largely outdated when it comes to other than Poland CE countries. The advantage of comparing a small and homogenous group of countries, all being at roughly the same stage of the transition process completion and showing only moderate differences in the level of development, is that any differences in these countries' IDP trajectories can be attributed to other than the GDP and the transition stage factors, thus enriching our understanding of IDP determinants, beyond those envisioned in the classic IDP model.

### **IDP Trajectories of Central European Countries**

The four country tables as well as the table with outward FDI performance index, presented in Appendix 1, allow for a detailed analysis of each country's relative positioning on its respective IDP from the point of view of three crucial issues, the first one having to do with the movement from IDP stage 1 to stage 2. Figure 2 shows the relationship between NOIP per capita and GDP per capita for the four countries under study. The dots represent the

points of intersection of NOIP and GDP per capita values for each year of the analysed period.

**Figure 2. The NOIP per Capita and GDP per Capita in USD\* of Poland, Czech Republic, Hungary and Slovakia, 1990 – 2006.**



\*At current prices.

Source: Derived from tables 1 to 4 in Appendix 1.

### *Passing from IDP Stage 1 to Stage 2*

Determining and comparing the points in time of each country's passing from stage 1 to stage 2 of their respective IDPs is truly a difficult and daunting exercise, tainted to a certain extent with subjective evaluation of available data. For Poland the authors' previous research determined the end of year of 1995 as the moment when the country moved from stage 1 to stage 2 of its IDP. An indication of that moment of change to stage 2 was firstly a marked increase in the negative NOIP per capita and secondly the growth index of that measure, relative to the previous year, reaching the value of over 219 and then falling to 146.8 next year. For the Czech Republic and Hungary also 1995 was identified as the last year of stage 1 presence with the negative NOIP per capita growth index reaching 165 and then subsiding to 115.4 for the Czech Republic, and for Hungary going up to 162.4 and then dwindling to a

mere 118.2. Slovakia was positioned as ending its stage 1 presence in 1996 with the said growth index attaining a level of 160.6 and being very close to those of her neighbours: Hungary and the Czech Republic, as identified above. The slide the following year was however much steeper remaining on practically the same level with a growth index of 100.1. Thus for the group of four countries there was a remarkable concentration of the time of moving from stage 1 to stage 2 of each country's IDP: for Slovakia it was 1996, for the remaining three 1995. An emerging hypothesis for transition economies of CE thus appears to be that the duration of stage 1 of their IDPs lasts from 6 to 7 years, taking the beginning of the transformation process as the starting point.

As for the absolute values of each country's NOIP and NOIP per capita the highest (i.e. lowest in reality because of the minus sign) were recorded for Hungary (in 1995): 11026 mln USD and 1067 USD respectively. This was reached at the second highest level of GDP per capita of 4443 USD. The Czech Republic was second with a negative NOIP (also in 1995) of 7005 mln USD, NOIP per capita of 679 USD but with the highest level of GDP per capita in the group reaching 5360 USD. Slovakia followed with NOIP per capita of 347 USD and GDP per capita of 3977 USD but at the same time the NOIP itself was lowest in the group with the absolute value of 1863 mln USD in 1996. At the very end of this peculiar ranking came Poland (in 1995 again) with a NOIP per capita of 189 USD and GDP per capita of 3603 USD but with an absolute NOIP of 7304 mln USD - close to that of the Czech Republic.

The leading position of Hungary at the end of the IDP stage 1 reflects the existence of pull factors other than those connected to the size of the country's internal market, such as low labour costs and the quality of created assets, but also the role of economic policy, especially towards privatization of state owned firms, which adopted a more active approach than for ex. in the case of Poland, steering FDI to selected sectors of the economy (Antalóczy and Éltető, 2003). The second rank of the Czech Republic with a NOIP and NOIP per capita which were

both 64% of those of Hungary but with a GDP per capita being 21% higher than the Hungarian one also reflects the relative abundance of created assets in attracting FDI. At the lower end there was Slovakia with 17% of Hungary's NOIP, 33% of Hungary's NOIP per capita but almost 90% of Hungary's GDP per capita indicating a relatively developed transition economy however with relatively little appeal to foreign investors. This lesser attractiveness to FDI was reflected also in the one year longer duration of stage 1 compared with the rest of the group under investigation. And "last but not least" there was Poland where the values of NOIP per capita and GDP per capita were lowest pointing to a relatively weakest interest of foreign direct investors but at the same time where the value of the absolute NOIP was 66% of that for Hungary revealing thus the compensating effect of the extensive factor attracting FDI, i.e. market size and its growth potential. Overall there was no common denominator discernable in the group of four countries as to the level of NOIP per capita and GDP per capita at which transition from stage 1 to stage 2 of each country's IDP occurred.

### ***The EU Accession Effect***

The most significant external factor which affected the evolution of the NOIPs of the four countries was their accession to the EU as full members in 2004. All countries recorded a marked slowdown in 2005 in the increase of the negative values of their NOIP per capita relative to the previous year, which indicated a more or less intensive surge of outward FDI by firms from the four countries taking advantage of the fuller opening of the EU markets for investment and/or penetrating and consolidating further acquired market positions abroad. Figure 2 also illustrates a characteristic kink of the IDP line at the end, first up (corresponding to 2005) and then down (corresponding to 2006), with respect to all the four countries under study, although the most dramatic change in that line occurred with respect to Hungary.

However there were slight differences in the aforementioned reaction under the “EU accession effect” as applied to FDI.

The softest response to the opening up of the EU markets was observed in the Czech Republic. Firstly, however, it should be noted that the absolute values of the negative NOIP per capita were 2.4 times higher than in Poland in 2004 and 2.9 times higher in 2006, indicating a much higher level of internationalization of the Czech economy. Also the FDI absorption potential as measured by the negative NOIP/GDP ratio declined from 0.49 USD in 2004 to 0.46 USD in 2005 and then went up to 0.51 USD in 2006. Another measure focused more on the country’s ability to generate outward FDI relative to its market size and wealth as reflected by its GDP per capita, i.e. the outward FDI performance index<sup>2</sup>, showed a similar pattern. Thus there was a sharp decline from 0.44 in 2004 to –0.01 in 2005 (the minus sign resulting from disinvestment that year) and then an increase to the same level of 0.44 in 2005, indicating for firms from this relatively small country the existence of a still sizable potential to invest abroad. As for the negative NOIP per capita dynamics, the trend was also similar: in 2004 it increased 24.4% slowing down to 6.7% in 2005 and then picking up momentum to 26.9% in 2006.

The EU accession produced a more pronounced effect in Poland. The negative NOIP per capita values increased from –2174 USD in 2004 to – 2189 USD in 2005 and finally to – 2436 USD in 2006, revealing dynamics of 49.4% growth in 2004 decreasing to 0.3% growth in 2005 which captured the full effect of FDI right after EU accession, and finally settling on a renewed increase of 11.8% in 2006. A similar but softer trend was observed in the absolute values of the NOIP/GDP ratio: falling from 0.33 USD per one USD of GDP in 2004 to 0.275 USD in 2005 and then rising very slightly to 0.277 USD in 2006. The low absolute values of the said NOIP/GDP ratio, falling below the 0.3 USD per each GDP dollar level also reflected

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<sup>2</sup> The outward FDI performance index reflects the ratio of the share of a country’s outward FDI in a given year in world outward FDI, to the share of the country’s GDP in a given year in world GDP. The values of the said index higher than 1 indicate more outward FDI is recorded than the size and wealth of a country would justify.

a still high absorptive potential for FDI in Poland, thus further pointing to the possibility of Poland remaining in stage 2 of her IDP for some time to come. The outward FDI performance index however rose sharply from 0.15 in 2004 to 0.53 in 2005 and then remained at the level of 0.50 in 2006 also indicating underperformance of outward FDI relative to the potential of the Polish economy.

Hungary exhibited similar values of NOIP per capita as the Czech Republic but showed a steeper decline in the year after accession indicating a more intense involvement in outward FDI than in the case of the Czech Republic and Poland. The negative NOIP per capita grew in 2004 by 26.5%; in 2006 its growth was negative (only on the level of 95.5% of the previous year), and 2006 witnessed resumed growth by 28.5%. The measure of FDI potential for Hungary, the NOIP/GDP ratio, decreased in absolute values from 0.55 USD in 2004 to 0.49 USD in 2005, only to rise again in 2006 to the level of 0.62 USD per each dollar of GDP, showing the highest saturation with FDI among the studied countries in the CE region and reflecting as well the highest international competitiveness of Hungary among the four countries under investigation<sup>3</sup>. This was furthermore confirmed by changes in the outward FDI performance index which rose to 1.29 a year before EU accession then went down to 0.52 in 2004 and then up again to 1.13 in 2005 and settled slightly lower in 2006 at 1.07. The said index was larger than 1 only for Hungary among all the studied countries which indicated more than proportional involvement in outward FDI for the Hungarian economy.

Slovakia exhibited lower negative NOIP per capita values than Hungary and the Czech Republic but higher than those recorded for Poland indicating deeper penetration of the economy by FDI than in the case of the largest domestic market (i.e. that of Poland). Fluctuations of the NOIP per capita dynamics were the highest in this case among the group of four countries: the said ratio grew by a high of 46% in 2004 then fell to the level of 94.99%

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<sup>3</sup> The indication of overall country competitiveness based on the level of NOIP per capita/GDP per capita ratio is derived from a similar concept used in the analysis of the IDP model by J. Clegg (Clegg 1996, p.45).

with respect to the previous year in 2005 and then rose again by a stunning 52.3% in 2006. The absolute value of the negative NOIP/GDP ratio went down from 0.48 USD to 0.4 USD in 2005 and then up again to 0.53 USD in 2006 showing a utilization of the country's FDI potential that was in line with the two other small CE countries and markedly larger than in the case of Poland. Changes in the outward FDI performance index were from 2004 in ascending order, moving from – 0.02 (because of disinvestment) in 2004 to 0.18 in 2005 and only 0.26 in 2006, showing for all those years a grossly unexploited outward investment potential relative to the size of this small economy which in turn reflected a paucity of distinct competitive advantages of firms investing out of Slovakia. The said index for 2006 was the lowest one for all the four countries under investigation.

Looking at the group of four countries as a whole, the accession effect with respect to FDI occurred in all of them but with varying intensity. Moreover it was quite short lived, being limited practically to only one year (2005), the following one after formal accession as full members of the EU. Its short, one year duration seems to point to the continuing attractiveness of this region for foreign direct investors as evidenced by the rising values of each country's negative NOIPs. The said accession effect was seen in the sudden decrease in the rate of the NOIP per capita year to year growth. Poland, the country with the largest internal market, exhibited the smallest decrease in the said growth rate while the biggest slowdown was observed in the relatively small market of Slovakia. Consequently in the year 2006, also in all four countries, the growth rates bounced back to higher numbers in the same order, i.e. the lowest being recorded for Poland, then somewhat higher for the Czech Republic, then much higher for Hungary and finally the highest being scored by Slovakia. Thus this limited evidence seems to point to the following pattern: the sharper the slowdown in the rate of NOIP per capita growth the larger the subsequent increase in the following year.

The utilization of the FDI potential in each country, measured by the NOIP/GDP ratio, showed two contradictory patterns. For Poland the said ratio decreased in absolute terms while for the remaining members of the group it increased with a drop observed just for the year 2005, i.e. one year after accession. This may be pointing to the fact that for a large market the pulling factor of market size and subsequently the role of FDI in GDP creation might be relatively weakening whereas for small economies and domestic markets the role of FDI exhibited an upward, albeit fluctuating, tendency. All the above findings are of course subject to verification by data for 2007 and the following years.

### ***Moving Towards IDP Stage 3***

According to the IDP model none of the countries under investigation is in stage 3. Thus it is worth determining which of those countries is closest to that stage. Two indicators may be used for that purpose: NOIP per capita and the absolute level of NOIP. The first one neutralizes to some extent the influence of country market size whereas the second one reflects primarily that factor. Therefore according to the NOIP per capita criterion the closest to stage 3, by virtue of the measure being closest to “0” level, has been Poland (-2436 USD), followed by Slovakia (-5391 USD), then by Hungary (-6867 USD) and ending with the Czech Republic (-7106 USD). This assertion is also visible in Figure 2, which clearly shows that Poland’s IDP trajectory is generally flatter, indicating closeness to stage 3, whereas the trajectories of all the other three countries exhibit a continuing stretching down tendency.

Those numbers point to a certain paradox in that Poland, being the least developed among the four countries, according to GDP per capita data, appears to be closest to the point of evolution into the more advanced stage 3 of the IDP. It should be recalled at this point that one of the basic assumptions of the IDP model stipulates that a country moves through the five stages of its IDP as a consequence of overall development and wealth accumulation.



Slovakia, Hungary and the Czech Republic are all lined up according to increasing GDP per capita and being at the same time higher than that for Poland thus offer contradictory evidence to received theory.

However if the analysis of proximity to the IDP stage 3 is undertaken on the basis of absolute levels of the NOIPs of each country, a slightly different picture emerges. The closest to that stage is now (i.e. in 2006) Slovakia with a NOIP of -29045 mln USD, followed by Hungary with the NOIP of -69067 mln USD. Then comes the Czech Republic with a NOIP of -72402 mln USD and at the end is Poland with her NOIP of -92911 mln USD. Thus when country market size is brought into focus, Poland with its largest market in the group of four countries, is pushed back into the last position, indicating a prolonged stay in IDP stage 2. Smaller countries with much smaller NOIPs are in this ranking closer to the IDP stage 3. It is also worth noting that the order of the other three countries besides Poland (i.e. Slovakia, Hungary and the Czech Republic) is the same as in the previous classification. This finding tends to confirm a pattern that movement into stage 3 of CE countries is liable to be delayed in cases of large country markets, such as that of Poland, continuing to attract increasing amounts of inward FDI, although other factors are at work here as well (such as EU membership and preference of domestic Polish firms to expand abroad via exports instead of undertaking outward FDI). The leader's (Slovakia's) NOIP is 42.1% of that of the next country – Hungary, which indicates that Hungary's distance to the said leader is quite substantial. However, Hungary's NOIP is just 95.4% of that of the Czech Republic, which shows that the two countries roughly display a similar positioning on the path toward stage 3. And finally the ratio of the Czech Republic's NOIP to the Polish one is 77.9%, meaning that the hypothetical and relative distance separating the two countries from each other in the advance toward IDP stage 3 is larger than in the case of Hungary vs. the Czech republic but much smaller than in the case of Slovakia vs. Hungary. Thus it may be generalized that

Slovakia is considerably ahead of the next two countries - Hungary and the Czech Republic - both being in practically the same position. For Poland in turn it seems easier to catch up with the aforementioned pair than to level up with the leader. Hungary though appears as the leader in the role of outward FDI relative to the size of the home economy as evidenced by the outward FDI performance index in the whole period under consideration (Table 5.), reflecting the highest relative effectiveness in outward expansion, which is the key factor in upgrading the country's international competitiveness and at the "bottom line" allowing the whole economy to advance on its IDP trajectory. Only in 1993 and 1994 did the Czech Republic perform better in this respect but this was still in stage 1 of every country's IDP. Also briefly in 1996 and 1998 Slovakia was the leader in the ranking of the said index.

## **Conclusions**

The study revealed that for the four countries investigated and commonly identified as the CEE leaders in the transformation process to a market led economy needed from 6 to 7 years from the initiation of their reforms to reach the end of stage 1 on their respective IDPs and then a time frame almost twice as long, i.e. from 12 to 13 years, to reach the point where they are now, which is located towards the end of their IDP stage 2. The passing from stage 1 to stage 2 coincided with reaching negative NOIP per capita and GDP per capita levels which, synthesised, allow for a general conclusion that CE countries with relatively small domestic markets must be more developed and have a larger influx of or a higher saturation with inward FDI per capita to be able to pass to stage 2 of their IDPs. On the other side of the spectrum, for countries with large internal markets, such as Poland in this study, it is sufficient to record quite low negative NOIP per capita values and relatively low GDP per capita levels to be able to pass to the IDP stage 2. This also has implications for economic policy which in the case of large economies and domestic markets does not have to focus on

selectivity towards incoming FDI and its quality but instead a liberal open door policy will be sufficient to attract foreign investors.

That latest positioning on their IDPs of all the four countries shows no palpable signs and no firm evidence of passage into stage 3 of the IDP model. Thus, it is very likely that all of them will remain there for at least some time to come. But the present study does show that if the NOIP per capita measure is applied as the chief criterion, which has the quality of being best suited for comparative evaluation, it is Poland's economy that is closest to that stage. This implies that, paradoxically, the country which with the "least effort", due mainly to its main natural asset - a large domestic market - passed from stage 1 to stage 2, will be also the first to advance into IDP stage 3, because of the smallest per capita negative NOIP level pointing to a gradual extensive (vs. intensive) switch to an outward investment orientation. The remaining three: Slovakia, Hungary and the Czech Republic, all thus far show few signs of undisputable transition to the beginning of stage 3. This of course creates a challenge for their economic policymakers, since in the long run only full participation in the economic globalisation process offers a reasonable guarantee of sustained GDP growth and economic and social development. The venue to achieve these lofty objectives lies in outward internationalisation of their economies via greater outward FDI. This in turn requires firms located in these countries to have real competitive advantages, the creation and/or development of which should be supported by the said economic policy measures.

The ambiguity of making a firm claim as to which country is closest to its IDP stage 3 rests in the assumptions on the basis of which cause and effect relationships are determined. Thus if a different criterion is adopted, that of absolute level of the country's NOIP, Poland, the former leader, loses its position in favour of Slovakia, followed by Hungary and the Czech Republic. The main reason for this fall of Poland to the last place lies primarily, again, in its large domestic market offering still unabated inward investment opportunities, although

since 2005 Poland has become the leader in outward FDI as well, reflecting possession of created assets generating competitive advantages for its firms. In this approach the size of domestic markets seems to somewhat leverage the position of small countries like the remaining three in this group of four, although due account must be taken of the fact that all three have more developed economies than Poland.

As for the EU accession, its principal effect has been to bring all the countries concerned closer to their IDP stage 3 by spurring outward FDI. The first unfortunate factor is that this said effect has been very short lived, practically not extending beyond one year, that immediately following accession (2005). The second factor appeared in the surprising trend that the stronger the positive accession effect in the context of advancing a country on its IDP the stronger the subsequent countervailing “back tide” effect of returning to accelerated negative NOIP per capita growth rate, consequently prolonging, as the net effect, the stay in IDP stage 2.

All the findings and conclusions of this study should be treated as exploratory and requiring more elaborate verification and testing, also on a larger group of countries in the CEE region. Moreover, more information should be collected and interpreted concerning the country specific and sector or industry specific economic policy measures that influenced the overall performance of each country in the context of the IDP model. The current approach is primarily conducted from a macro perspective, leaving aside important micro economic factors such as cost based competencies or other location based advantages. A viable solution in overcoming those limitations and providing additional valuable insights could include the study of the geographic and sector specific aspects of positioning of each CE country versus other countries in this region.

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## Appendix 1.

**Table 1. GDP and NOIP of Poland in 1990–2006**

Year	NOIP	GDP <sup>a</sup> millions US Dollars	NOIP/GDP	NOIP per capita US Dollars	GDP <sup>a</sup> per capita US Dollars	NOIP per capita (previous year = 100)	GDP per capita (previous year =100)
1990	299	64550	0.01	8	1694	100	100
1991	-24	83705	0.00	-1	2189	-8.0	129.22
1992	-956	92326	-0.01	-25	2406	3970.56	109.91
1993	-2189	94122	-0.02	-57	2446	228.35	101.66
1994	-3328	108425	-0.03	-86	2813	151.73	115.00
1995	-7304	139062	-0.05	-189	3603	219.22	128.08
1996	-10728	156684	-0.07	-278	4059	146.84	112.66
1997	-13909	157154	-0.09	-361	4073	129.73	100.35
1998	-21296	172902	-0.12	-553	4487	153.28	110.16
1999	-25051	167958	-0.15	-651	4364	117.79	97.26
2000	-33209	171332	-0.19	-864	4458	132.75	102.15
2001	-40091	190333	-0.21	-1044	4959	120.88	111.24
2002	-46863	198003	-0.24	-1222	5165	117.032	104.154
2003	-55731	216535	-0.26	-1455	5655	119.060	109.487
2004	-83143	252118	-0.33	-2174	6592	149.370	116.569
2005	-83255	302641	-0.275	-2180	7923	100.268	120.191
2006	-92911	335675	-0.277	-2436	8801	111.762	111.082

<sup>a</sup> - according to official exchange rate  
Source: UNCTAD (2007).



**Table 2. GDP and NOIP of Czech Republic in 1990–2006**

<b>Year</b>	<b>NOIP</b>	<b>GDP<sup>a</sup> millions US Dollars</b>	<b>NOIP/GDP</b>	<b>NOIP per capita US Dollars</b>	<b>GDP<sup>a</sup> per capita US Dollars</b>	<b>NOIP per capita (previous year = 100)</b>	<b>GDP per capita (previous year =100)</b>
1990							
1991	-1816						
1992	-2798						
1993	-3242	37163	-0.09	-314	3603	100	100
1994	-4247	43633	-0.10	-412	4230	131.00	117.40
1995	-7005	55256	-0.13	-679	5360	165.02	126.71
1996	-8074	62011	-0.13	-784	6022	115.41	112.35
1997	-8686	57135	-0.15	-845	5559	107.77	92.31
1998	-13571	61847	-0.22	-1323	6030	156.58	108.47
1999	-16854	60192	-0.28	-1646	5880	124.43	97.51
2000	-20906	56717	-0.37	-2046	5549	124.25	94.37
2001	-25956	61843	-0.42	-2542	6058	124.29	109.17
2002	-37196	75276	-0.49	-3646	7379	143.40	121.81
2003	-43003	91358	-0.47	-4217	8959	115.67	121.41
2004	-53499	108214	-0.49	-5248	10615	124.43	118.48
2005	-57052	123981	-0.46	-5598	12165	106.67	114.60
2006	-72402	141249	-0.51	-7106	13863	126.94	113.96

<sup>a</sup> - according to official exchange rate

Source: UNCTAD (2007).

**Table 3. GDP and NOIP of Hungary in 1990–2006**

<b>Year</b>	<b>NOIP</b>	<b>GDP<sup>a</sup> millions US Dollars</b>	<b>NOIP/GDP</b>	<b>NOIP per capita US Dollars</b>	<b>GDP<sup>a</sup> per capita US Dollars</b>	<b>NOIP per capita (previous year = 100)</b>	<b>GDP per capita (previous year =100)</b>
1990	-372	36754	-0.01	-36	3546	100	100
1991	-1883	34344	-0.06	-182	3319	507.11	93.60
1992	-3200	38274	-0.08	-310	3702	170.06	111.54
1993	-5350	39652	-0.14	-518	3836	167.20	103.62
1994	-6796	42642	-0.16	-657	4125	127.04	107.53
1995	-11026	45891	-0.24	-1067	4443	162.37	107.71
1996	-13017	46399	-0.28	-1262	4499	118.23	101.26
1997	-17321	46975	-0.37	-1683	4564	133.34	101.45
1998	-19949	48337	-0.41	-1943	4708	115.46	103.16
1999	-22336	49359	-0.45	-2181	4820	112.26	102.38
2000	-21590	47958	-0.45	-2114	4695	96.91	97.41
2001	-25851	53317	-0.49	-2537	5233	120.03	111.46
2002	-34058	66710	-0.51	-3351	6563	132.07	125.42
2003	-44831	84419	-0.53	-4422	8326	131.96	126.86
2004	-56567	102159	-0.55	-5593	10101	126.50	121.32
2005	-53893	110364	-0.49	-5343	10942	95.53	108.33
2006	-69067	111990	-0.62	-6867	11134	128.51	101.76

<sup>a</sup> - according to official exchange rate

Source: UNCTAD (2007).

**Table 4. GDP and NOIP of Slovakia in 1990 – 2006**

<b>Year</b>	<b>NOIP millions US Dollars</b>	<b>GDP<sup>a</sup> millions US Dollars</b>	<b>NOIP/GDP</b>	<b>NOIP per capita US Dollars</b>	<b>GDP<sup>a</sup> per capita US Dollars</b>	<b>NOIP per capita (previous year = 100)</b>	<b>GDP per capita (previous year =100)</b>
1990							
1991	-236						
1992	-327						
1993	-493	13584	-0.04	-93	2550	100	100
1994	-731	15716	-0.05	-137	2939	147.69	115.26
1995	-1158	19714	-0.06	-216	3676	157.94	125.08
1996	-1863	21376	-0.09	-347	3977	160.55	108.19
1997	-1867	21564	-0.09	-347	4007	100.08	100.75
1998	-2512	22423	-0.11	-466	4164	134.47	103.92
1999	-2842	20602	-0.14	-528	3825	113.10	91.86
2000	-4372	20448	-0.21	-811	3795	153.81	99.22
2001	-5133	21106	-0.24	-953	3917	117.41	103.22
2002	-8045	24522	-0.33	-1493	4552	156.73	116.21
2003	-13753	32977	-0.42	-2553	6122	170.98	134.49
2004	-20075	42015	-0.48	-3727	7800	145.97	127.41
2005	-19070	47428	-0.40	-3540	8804	94.99	112.87
2006	-29045	55072	-0.53	-5391	10221	152.28	116.10

<sup>a</sup> - according to official exchange rate

Source: UNCTAD (2007).

**Table 5. Outward FDI Performance Index of Central European Countries, 1990-2006**

<b>Year</b>	<b>Czech Republic</b>	<b>Hungary</b>	<b>Poland</b>	<b>Slovakia</b>
<b>1990</b>	..	0.04	0.01	..
<b>1991</b>	..	0.09	-0.01	..
<b>1992</b>	..	0.00	0.02	..
<b>1993</b>	0.26	0.03	0.02	0.10
<b>1994</b>	0.27	0.11	0.03	0.11
<b>1995</b>	0.05	0.10	0.02	-0.17
<b>1996</b>	0.19	-0.01	0.03	0.20
<b>1997</b>	0.03	0.61	0.02	0.27
<b>1998</b>	0.09	0.25	0.08	0.28
<b>1999</b>	0.04	0.14	0.01	-0.50
<b>2000</b>	0.02	0.33	0.00	0.04
<b>2001</b>	0.11	0.29	-0.02	0.12
<b>2002</b>	0.17	0.25	0.07	0.03
<b>2003</b>	0.15	1.29	0.09	0.49
<b>2004</b>	0.44	0.52	0.15	-0.02
<b>2005</b>	-0.01	1.13	0.53	0.18
<b>2006</b>	0.44	1.07	0.50	0.26

Source: Authors' calculation based on data derived from UNCTAD (2008)