Institutional Impacts on Firm Internationalization

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Should Governments Support Outward FDI? The Case of Poland

Marian Gorynia, Jan Nowak, Piotr Trapczyński and Radosław Wolniak

Introduction

Policy discussions in extant literature have been disproportionately centred around government support for inward foreign direct investment as compared to outward foreign direct investment (Solis, 2003; Te Velde, 2007; Buckley et al., 2010; Globerman and Chen, 2010). This apparently corresponds to the fact that the economic impacts of inward FDI have been widely discussed, while the economic impacts of outward FDI are far less understood, as the subsequent sections of this chapter illustrate. While there is no unanimous empirical support for a positive or negative impact of outward FDI on home economies (Globerman and Shapiro, 2008) and the impact of an increased internationalization degree has only an ambiguous influence on the economic performance of transnational corporations (TNCs) (Matysiak and Bausch, 2012), there is no universal basis for governments to promote or discourage outward FDI. Globerman and Shapiro (2008: 263) argue that 'higher profits realized by owners of home-country TNCs do not justify public policies that subsidize or otherwise lower the costs of undertaking OFDI for home-country TNCs', since such policies require efficiency improvement of the home economy, in the first place. However, they also argue that the linkages between outward FDI, globalization and the real income growth, which exist in developing countries, might not be as evident as in the case of developed countries. Thus, policy makers – particularly in emerging markets – should carefully evaluate the impacts of outward FDI on the economic and political objectives of their home countries (Moran, 2008; Buckley et al., 2010).

After a period of capital controls aimed at restricting outward FDI throughout the 1980s and 1990s among industrialized nations, as well as known instances of a skeptical stance towards outward FDI by emerging country authorities (Sauvant, 2005; Jaklič and Svetličič, 2010), many governments, including those in emerging countries, are actively encouraging their firms to invest abroad (UNCTAD, 2006; Yamakawa et al., 2008; Cui and Jiang, 2010; Luo et al., 2010; Marinova et al., 2012; Wang et al., 2012). Indeed, outward FDI can become a vehicle towards reaching the strategic objectives of home countries (Dunning et al., 2008).

Since there is no international regime comparable to the OECD agreement on export credits (Solis, 2003), states generally have the autonomy to influence outward FDI flows with different financial and non-financial measures. The aim of this paper is to assess the benefits of outward FDI and propose an approach to classifying outward FDI promoting measures and evaluate their appropriateness based on the case of Poland as an emerging source of outward FDI. In order to achieve this objective, a discussion of the consequences of outward FDI for both firms and home countries ensues.

Advantages of outward FDI: The investing firm perspective

Undertaking outward FDI, in the most commonly employed form of foreign production, is usually motivated by the desire of the investor to achieve certain strategic aims. These aims can be perceived as leading jointly and/or separately to increasing and sustaining the investor's organization (TNC) global competitiveness. As such, outward FDI is also viewed as a significant stage in the internationalization process of an organization which affects its competitive position. Many of the advantages/benefits outlined below are very similar to those accruing to the home countries of TNCs. Furthermore, for the individual TNC most of the benefits are obvious to every scholar of international business. Nevertheless evoking only the most salient ones in the context of the present study allows to achieve: 1) a better interface with those that apply to countries and/or regions/groups of countries and 2) a sharper focus on policy measures that home countries (in this case Poland) should undertake to support and stimulate outward FDI.

The pursuit of strategic aims by TNCs generally focuses on two categories:

1) Presence in and better control of foreign markets for the products TNCs produce and/or distribute (distributing only as in the case of global commodity chains) and
2) Control of resources and strategic assets necessary to implement the production and distribution process.

Within the first category, this is generally operationalized by variables that reflect reaching marketing targets such as sales, market shares and their growth rates, as well as financial objectives such as revenues, profits and their various rate of return measures.

Outward FDI, while being in itself a macroeconomic concept, in general allows in a microeconomic perspective for the firm to stay closer to the customer and be in a position to react swiftly to changes in the local and/or regional environment. From financial effectiveness point of view, there may be higher profits to be achieved abroad. Fiscal and financial incentives offered by host countries in the form of local tax reduction or waiver for a certain time span will also contribute to lower costs and/or optimize the total corporate cost structure. In this context, Moran (2008), for example, indicates that 'developed country firms that invest abroad enjoy lower levels of bankruptcy and are less likely to suffer job losses than counterpart firms that do not engage in outward investment' (Moran 2008: 278). Lundan and Dunning (2008) point to the role of backward linkages of TNCs to local suppliers in foreign markets leading to better performance and higher efficiency of the foreign investors. The said authors investigate the benefits accruing to the TNCs from the perspective of: (a) the local suppliers cost structures, (b) transaction costs of using external suppliers, (c) the host-country's stage of development and (d) government institutions and policies. This multi-faceted analysis explores the extent of local sourcing and is structured around the following types of TNC affiliates: market-seeking manufacturing affiliates serving the local market, efficiency-seeking manufacturing affiliates aiming to export, natural resource-seeking affiliates and finally, market- and efficiency-seeking affiliates producing services (Dunning and Lundan, Ibid.)

According to Hymer (1976), the investing firm exploits its monopolistic position and power derived from it on foreign markets thus compensating the investor for the liability of foreignness associated with the inferior knowledge compared to that of local competitors in the host-country environment. Other authors stress also that TNCs replace imperfect markets in intermediate products with their own hierarchical corporate strategies and appropriate the returns that this replacement generates (Sauvant, 2008). Internalizing the market permits, TNCs benefit from lower transaction costs (such as communication and contracting costs), improved protection of intangible assets, increased bargaining power, improved buyer-seller certainty and expanded transfer pricing possibilities.

Within the second category, controlling resources allows to lower costs and optimize resource utilization, secure and/or increase competitive advantage resulting from technology and know-how acquisition or implementation. With the experience and expertise gained from operating in a previously unknown foreign national environment (especially cultural), the firm becomes capable of continuing expansion into other similar national markets in the same region or continent. Profits obtained in foreign markets from outward FDI may be repatriated at a certain point in time to the parent company of the TNC or other locations where they will be used in line with corporate strategies and needs. According to the Knickerbocker's theory of oligopolistic reaction, outward FDI is perceived as a means for a TNC of securing global market share and stability in an international oligopoly structure (Knickerbocker, 1973). Moreover, outward FDI is commonly used as an effective method of overcoming host-country trade barriers in attempting to get access to foreign markets. Combining the market- and resource-seeking thrusts gives the TNC more possibilities to obtain economies of scale and scope leading to specialization and thus to the reduction of costs and increased productivity. This permits TNCs to reap higher profits or lower prices and thereby sustain their sales volumes and/or market shares. In the context of evidence of outward FDI from Poland in the last decade, the capital flight also comes into focus, whereby firms use outward FDI to migrate to foreign destinations where their capital loses home-country identity. Such actions provide firms with greater security and freedom, both geographically and fiscally. In this way, the firms can continue on their global expansion path. The increased productivity aspect for the investing firm can also be of an indirect character leading to increased specialization of production and allowing for inflows of factor inputs such as technology and new management practices (Sauvant et al., 2010) which can enhance the firm's competitive potential in both domestic and foreign markets.

The simplistic notion that investing abroad diminishes the amount of capital available for investment in the domestic market can be challenged by two counterarguments. Firstly outward FDI can be financed using foreign/international capital markets without reducing the pool of capital available for domestic investment. This was clearly demonstrated, for example, last century in the second half of the 1960s when US TNCs generally complied with the block on capital exports imposed by the US administration in its attempt to reduce the US balance of payments and financed their expansion in Western Europe using to a large extent the euro-dollar market. Secondly, in many cases, expansion abroad via outward FDI occurs only when the investor concludes that the home-country market becomes saturated or the possibilities of extending market share on it are judged as limited and thus not viable under existing circumstances.

The effects of outward FDI on the home country

While the impacts of inward FDI on host economies have been extensively studied and there is a near consensus that such investment is beneficial to the host country, the benefits of outward FDI to the home country are less evidenced and much more contested. It is therefore indispensable for this paper to review the arguments for and against and the evidence of the effects of outward FDI on home economies. An extensive literature review allows to identify two primary and several secondary benefits of outward FDI to home economies. The two primary benefits include strengthening competitiveness of national firms and increasing an economy's productivity levels. Secondary benefits include increased taxation, increased imports and exports, shareholder-value creation and labour-force skill development.

Possible major disadvantages include decreasing domestic capital stock and employment. A minor possible disadvantage from the emerging-market countries' point of view is inefficient capital allocation.

Benefits of outward FDI to the home economy

The benefit of increased competitiveness of national firms as a result of outward FDI is associated with two phenomena. Firstly, investing firms gain economies of scale and scope, which lead to their increased profitability and market power. Secondly, investing firms augment their capabilities through asset acquisition abroad and synergistic combination of the acquired assets with their own capabilities, thus not only becoming more competitive internationally but also imposing a 'competitive upgrade' benchmark on domestic firms (Buckley et al., 2010). The latter phenomenon seems to be of paramount importance to firms of emerging economies. Indeed, it is often argued that emerging-market TNCs are less competitive than their developed-country counterparts due to an underdeveloped institutional infrastructure of their home countries (Cuervo-Cazurra and Genc, 2008) and lack of ownership advantages (Aggarwal and Agmon, 1990; Peng, 2012). Through outward FDI, emerging-market TNCs can gain access to foreign strategic assets and capabilities, such as proprietary technology, brands and distribution channels, to offset their competitive disadvantages (Child and Rodrigues, 1995; Luo and Tung, 2007; Rui and Yip, 2008). Many studies, particularly on China, confirm that indeed strategic assets seeking is a main motive of both the investing firms and the home governments (Taylor, 2002; Deng, 2003 and 2009; Buckley et al., 2007; Malik and Kotabe, 2009; Luo et al., 2010). In this context, Luo et al. (2010) note 'When investing in developed countries, EMEs seek sophisticated technology or advanced manufacturing know-how by acquiring foreign companies or their subunits that possess such proprietary technology' (p. 77).

Apart from increased specialization of production, the hypothesized positive effect of outward FDI on productivity is through reverse spillover efficiency benefits, which should ultimately lead to higher real incomes in the home country (Globerman and Chen, 2010). Through outward FDI, firms upgrade their technological capabilities, transfer technology to their home countries and subsequently allow for spillover of foreign-acquired technology among domestic firms, through competition benchmarking, demonstrative effects and the mobility of trained labour (Zhao et al., 2010). There are also leakages of management expertise brought into the home country by domestically based foreign investors. More recent studies of outward FDI effects emphasize the importance of resource- and strategic-asset-seeking motives, which lead to the acquisition of high-equity brands, new product designs, and new technologies to be exploited in the home country. However, the extent to which indigenous firms in the investor's home country can take advantage of these resources and capabilities is a function of their absorptive capacity (Globerman and Chen, 2010).

Most of the available studies of spillover effects concern the investors' host countries, and evidence of spillover benefits to host countries is ample. Reverse spillovers and knowledge dissemination from outward FDI have been studied less intensively, although the interest in such spillover benefits was heightened many years ago when Japanese firms were found to be motivated to invest in the United States in order to gain access to advanced technology there and close the technology gap with their competitors (see e.g. Kogut and Chang, 1991). More recent empirical investigation of the relationship between productivity and outward FDI provides inconclusive evidence regarding the spillover benefits from outward FDI, both in developed and emerging countries. For example, while the study of Xu and Wang (2000) for OECD countries supports the view of the positive spillovers from outward FDI, although weaker in comparison to international trade in capital goods, Braconier et al. (2001) could not find any evidence of FDI-related R&D spillovers – neither at the firm-level nor at the industry-level in Swedish manufacturing. Zhao et al.'s study (2010) of the contribution of outward FDI to productivity changes in China confirms the hypothesis that outward FDI has beneficial spillover effects in improving total factor productivity growth, although these authors also found that domestic R&D is by far the most important source of productivity growth. On the other hand, Vahter and Masso (2006, 2007) did not find much spillover from outward FDI and inward FDI in Estonian manufacturing and services sectors. However, as Globerman and Chen (2010) point out, the lack of strong evidence of spillover benefits should not lead to a conclusion that outward FDI has no net economic benefits to home countries.

Remitted profits from TNC activity abroad also represent an outward FDI benefit to the home country (Buckley et al., 2010). In his elegant theoretical analysis, Casson (2007) advances an argument for the existence of considerable benefits home governments can derive from outward FDI in terms of profit repatriation and taxation and points out that 'in many countries, government policies towards MNEs exaggerate the benefits of inward investment and understate the benefits of outward investment' (p. 323). However, in the context of emerging markets such benefits are more problematic. Reports of outward FDI flowing to tax havens (Morck et al., 2008; Panibratov and Kalotay, 2009) or constituting the so-called 'capital in transit' which is used to create companies headquartered in other countries (Gorynia et al., 2012) put outward FDI tax benefits to emerging economies in question.

The studies referred to by Visser (2006) and Lipsey (2002) point to a generally positive relationship between outward FDI and exports in developed countries, although a distinction between horizontal and vertical investment brings more nuanced effects, with the horizontal type likely to have a negative effect on exports. While Globerman and Shapiro (2008) conclude that 'OFDI contributes to increased and more specialized international trade for the home country', Buckley et al. (2010) consider the effects of outward FDI on exports to be positive in the mid-term and negative in the long term. The opposite is indicated for imports (Table 13.3, p. 290).

While there is inconclusive evidence on shareholder value creation resulting from international acquisitions in developed countries reported by Gubbi et al. (2010), these same authors' study of acquisitions by Indian firms indicates that such investments can lead to a higher company valuation in emerging markets. They also find a positive correlation between increased market valuation of acquiring firms and the level of economic and institutional advancement of the host country. In explaining this positive impact of acquisitions on the market value of investing firms, Gubbi et al. (2010) propose that '...international markets offer better variety and quality of strategic resources and capabilities that emerging-economy firms need to overcome the shortcomings of their home environments' (p. 412). Obviously, more studies are needed to verify this proposition.

According to Lipsey (2002) and Visser (2006), outward FDI normally leads to a shift from lower- to higher-skilled jobs at home. This view is echoed by Buckley et al. (2010), who note a 'relocation of "blue-collar" employment to foreign affiliates, while efforts in R&D, marketing, and general headquarters management are increased at home, leading to greater employment, especially of "white-collar" workers'. Labour-skill development as a result of outward FDI may be particularly important in emerging markets, where technical, marketing and managerial skills are very often scarce. However, empirical research into this issue is lacking.

Disadvantages of outward FDI

Politicians and trade unions alike often argue that outward FDI weakens a home-country capital stock and shifts domestic jobs abroad. This concern is acknowledged by Sauvant (2008, 2012), who, in reference to emerging market governments' doubts about whether outward FDI is beneficial to their economies, remarks: 'Allowing outward FDI, let alone encouraging it, is counterintuitive, even if they understand that their firms, to remain internationally competitive, require a portfolio of locational assets' (2008: 10). In the same vein, Moran (2008) refers to the preoccupation of developed country policy makers with 'runaway plants and loss of good jobs' as a result of outward FDI (p. 278) but notes that this view is unfounded empirically.

In fact, empirical evidence regarding the impact of outward FDI on domestic investment is mixed. While some studies of developed countries' outward FDI generally point to a positive correlation between investment at home and abroad (e.g. Stevens and Lipsey, 1992; Herzer and Schrooten, 2007), other studies report negative effect of outward FDI on the domestic capital stock (e.g. Svensson, 1993; Feldstein, 1995). Empirical evidence from emerging markets is scarcer and even more ambiguous. While Kim (2000) could not find any evidence of Korean overseas investment crowding out domestic investment, a large-sample study of developing and transition countries, conducted by Al-Sadig (2013), suggests that FDI outflows negatively impact the rate of domestic investment.

As far as the effects on employment are concerned, there is hardly any evidence that FDI outflows lead to job losses in the source countries. Visser (2006) concludes that available research does not show any systematically negative effect of outward FDI on the level of employment. For example, Sunesen et al. (2010) did not find any measurable negative effect on aggregate EU employment. At the same time, as pointed out earlier, outward FDI can have a positive effect on the quality of employment in the home country.

Most of the evidence supports the view that outward FDI at least does not have a significantly negative impact on domestic investment and employment, particularly in developed countries (Globerman and Shapiro, 2008). As far as emerging markets are concerned, the scarcity of research does not allow one to draw any conclusion. The effects of outward FDI on domestic capital stock seem to vary, depending, among other things, on how the domestic investment is financed, what the motives for investing abroad are and how far the analysis is stretched to allow for indirect effects, such as profit repatriation or increased demand for imports as a result of outward FDI. The effects also depend on the time horizon considered. Potentially, however, the effects of outward FDI on domestic capital formation are justifiably of more concern in developing than in developed countries (Globerman and Shapiro, 2008).

In the context of emerging markets, there is also a concern about the possible distortions in capital allocation and outward FDI direction due to the peculiar characteristics of investing firms, their governance system, and the institutional environment of the home country. With respect to Chinese investment abroad, where the leading players are large state-owned enterprises operating in state-enforced monopolies, Morck et al. (2008) cast doubt on the efficiency of an outward FDI driven by a political agenda ('grandiose and patriotism-inspiring initiatives') and inefficiencies of the banking sector. They note: 'Over the longer term, deflecting capital away from more efficient private sector ventures may compromise both continued economic growth and political stability' (p. 344). They do not argue that all outward FDI from China is distorted and inefficient but caution that the current governance and bank lending suggest a likelihood of wasteful overseas investments. A similar view is expressed by Buckley et al. (2007), who point to several capital market imperfections determining China's outward FDI. At the same time, these authors acknowledge the idiosyncrasies of Chinese outward

Table 6.1 Summary of the effects of outward FDI on home economies

Effects on	Developed home economies		Emerging home economies	
	Mid-term effects	**Long-term effects**	**Mid-term effects**	**Long-term effects**
Competitiveness of national firms	Positive	Positive	Positive	Positive
Productivity	Positive/ neutral	Positive/ neutral	Positive/ neutral	Positive/ neutral
Employment	Positive/ neutral	Positive/ neutral	Unknown	Unknown
Labor-skill development	Positive	Positive	Unknown	Unknown
Tax revenues	Positive	Positive	Unknown	Unknown
Imports	Negative	Positive	Unknown	Unknown
Exports	Positive	Negative	Unknown	Unknown
Domestic capital formation	Mixed	Mixed	Unknown	Mixed
Efficiency of capital allocation	Positive	Positive	Unknown	Unknown
Shareholder value	Mixed	Mixed	Likely Positive	Likely Positive

investment, which make the foreign investors' behaviour in China distinct from their counterparts in other emerging economies.

In conclusion, it is fair to state that contrary to the economic gains of attracting inward FDI, such gains being largely uncontested (Buckley et al., 2010), the outlook for the benefits of outward FDI to the home country is not entirely clear. Table 6.1 summarizes the effects of outward FDI on both developed and emerging home economies identified during the literature review. A distinction is made in this table between mid- and long-term effects. The unknown elements in the 'emerging home economies' column reflect the limited research that has so far been conducted on the effects of outward FDI on those economies, thus pinpointing an urgent need to draw more attention to this research area, particularly in the light of the rapid growth of outward FDI flows from the leading emerging markets. The table also indicates that no unequivocally negative effects of outward FDI on home economies were identified in the literature; however, mixed effects may suggest that under certain conditions these effects can be negative.

A classification of outward FDI support measures

Despite the clear relevance of outward FDI for home countries and indigenous firms, there is no common classification of home-country measures supporting outward FDI (UNCTAD, 2001; Te Velde, 2007). Buckley et al. (2010: 244) observe that '...OFDI policy, in both developed and developing countries, is generally much more amorphous, diffused, and less clearly delineated in comparison with the policies toward export promotion, inbound FDI and IIAs'. Thus, we propose a broad classification of OFDI support measures (see Figure 6.1) which takes into account that they can be of both financial and non-financial character (Torres and De Lemos, 2012). On the other hand, governments can support FDI outflows both through dedicated OFDI measures and, more implicitly, through wider policies supporting a host economy's internationalization, which also do affect OFDI, or policies aimed at increasing a country's international competitiveness, thus indirectly stimulating OFDI in the long run (Globerman and Chen, 2010). In Rugman's (2010) terms, it can be argued that the various support measures discussed below affect firm-specific advantages (FSA) as well as home and host country-specific advantages (CSA).

OFDI-dedicated financial measures

Direct financial support can take several forms, which can be commonly described as lowering the economic risks of investment projects and thus encouraging otherwise reluctant investors (Te Velde, 2007). Direct financial measures include preferential investment loans, grants aimed at feasibility studies or project development as well as equity participation in foreign ventures by government or public organizations. For instance, in the United States, the Overseas Private Investment Corporation (OPIC) provides loans and loan guarantees for investors as well as credits to investment funds which provide equity to firms in less-developed countries (Buckley et al., 2010). Similar functions are performed by the Japan Bank for International Cooperation (JBIC), which differs from its American counterpart in not requiring the applicants to prove the absence of an adverse effect on the domestic employment, exports or environment (Solis, 2003).

The main purpose of insurance and investment guarantees is to protect outward investors from political and other non-commercial risks in host countries, which are not covered by conventional, private insurance schemes (Sarmah, 2003). These can include the risks of expropriation, war, civil disturbance, restrictions on remittances, currency inconvertibility or the breach of host-government undertakings, thus they relate particularly to developing countries (Kline, 2003; De Beule and Van Den Bulcke, 2010). On the international level, the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group has provided insurance against the said risks to investors in developing countries since 1990 (Sarmah, 2003).

Fiscal incentives for outward FDI can include tax breaks by means of tax exemptions, deferrals or credits for taxation of foreign profits as well as

Type of measures	OFDI-dedicated	Non-OFDI-dedicated
Financial	• Direct financial support – preferential loans for investment – loans and loan guarantees – grants for feasibility studies and project development – equity participation in the project • Investment insurance and guarantees • Fiscal incentives	• Support by Export Credit Agencies (ECAs) • Grants for new business projects and entrepreneurship development • Home-country fiscal policy
Non-financial	• Information provision and contact development • Support through International Investment Agreements (IIAs)	• Technical assistance and technology transfer • Support through Investment-Related Trade Measures (IRTMs) • Training and consulting services • Support for hosting trainees in foreign firms • Competitiveness-enhancing policies (regulatory regime, macroeconomic policy, investment in infrastructure and education)

Figure 6.1 A classification of outward FDI-promoting measures

overall tax-sparing regulations. While some countries, including Switzerland and Argentina, adopted a territorial approach, taxing merely the income generated within the country, the United States has taxed its own firms and individuals regardless of the location of profit generation (Sarmah, 2003). Thus, Double Taxation Treaties (DTT) are concluded between countries to allocate taxation rights between them, reduce double taxation and encourage mutual FDI flows but also to control tax avoidance by TNCs. Therefore, it can been argued that bilateral tax treaties do not necessarily intensify FDI activity if they contradict or restrain firm strategies. Moran (2008) discusses three alternatives for tax policy in relation to outward FDI. 'National Neutrality', the most restrictive approach, is aimed at refraining the international operations of domestic firms by disabling any credit for taxes paid abroad and allowing only to deduct foreign taxes as a cost of doing business. Conversely, the 'Capital Import Neutrality' assumes that domestic firms should benefit from fiscal incentives in the foreign market while not being taxed for their offshore operations at home (Moran, 2008). Therefore, host-country taxation becomes a crucial location choice variable in the decision-making process of TNCs. The third option, in between the two previous approaches, is based on the doctrine of Capital Export Neutrality, which assumes domestic taxation of global operations of outward investors while granting them tax credit for taxes paid abroad. Consequently, tax considerations cease to be a determinant of investing abroad, thus business operations are allocated on a worldwide basis without any artificial distortion.

Non-outward FDI-dedicated financial measures

Outward investment can be also stimulated by home-country public authorities in more indirect ways. Firstly, it can be argued that more general measures oriented towards other forms of internationalization, particularly export subsidies and guarantees, can be beneficial to those outward FDI projects which rely on exports from the home country. Many Export Credit Agencies (ECAs) adopt a complex international finance mission, which embraces export finance, domestic investment finance and FDI insurance and lending (Solis, 2003). In a broader sense, governments can indirectly promote outward FDI through decisions affecting the 'international competitiveness, productivity, and performance of domestic firms' (Buckley et al., 2010: 262). Thus, policy instruments related to domestic taxation, which have frequently been discussed in the context of attracting inward FDI, might discourage overseas investments in the short term but increase outward FDI in the long term, especially if the decrease in taxes is accompanied by a degradation of public good amenities (Globerman and Chen, 2010).

Outward FDI-dedicated non-financial measures

The category of non-financial measures opens with those aimed at gathering and disseminating information on FDI opportunities and providing technical assistance to facilitate investment. Thus, it helps outward investors overcome some of the information-related market failures in the private sector, which is particularly relevant in case of psychically distant locations and smaller or less-experienced firms (Te Velde, 2007). The information provision by home-country governments or appropriate international institutions includes general investment information on a country or region or sector-specific databases on concrete investment opportunities (Sarmah, 2003). Further, seminars, investment missions, trade fairs or conferences organized with the support of government agencies or chambers of commerce and business associations in host-countries provide occasions for personal exchanges with potential host-country partners and government officials and the identification of investment opportunities (Te Velde, 2007).

Moreover, governments can actively affect host-country institutional and economic fundamentals by negotiating international investment agreements (IIAs), which constitute treaties between countries, committing their signatories to adopt standards on issues crucial for outward FDI, such as investment protection, promotion and FDI flows liberalization (Egger and Pfaffermayr, 2004). By signing Bilateral Investment Treaties (BITs) or joining multilateral investment agreements, such as those under the aegis of WTO, NAFTA or ASEAN, home-country governments can facilitate market access for outward investors (other types of IIAs, International Taxation Agreements and Double Taxation Treaties (DTTs), were assigned to financial measures in the present classification).

Non-outward FDI-dedicated non-financial measures

Technical assistance (also referred to as official development assistance, e.g. Buckley et al., 2010) comprises measures offered to host-country governments and local partner firms to improve regulatory regimes and to attract, receive and utilize FDI, including the exchange of know-how and consulting services (UNCTAD, 2001; Mistry, 2003). In a similar vein, technology transfer support, especially towards developing countries, can be offered to improve the general investment climate and comply with international obligations, such as the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). Furthermore, a number of Investment-Related Trade Measures (IRTMs), which embrace trade-restricting or trade-facilitating tools, are used to stimulate or discourage exports back to home countries from efficiency-oriented outward FDI (Sarmah, 2003). These include market access regulations (special tariffs, quotas or duty preferences for imports from select host countries), generalized systems of trade preferences, rules-of-origin (preference schemes for particular countries, from where imports originate with a defined extent of value-added in those countries), anti-dumping regulations or product certifications.

Furthermore, Torres and Varum (2011) note that training and consulting services improve the potential investors' capabilities by providing knowledge related to foreign expansion. A similar role can be played by international human resources exchange programmes comprising of traineeships in foreign firms in order to improve employee skills. Moreover, as in the case of financial support measures, one must note that also other public policies, which *per se* aim at increasing inward FDI flows in the short run, can act as a driving force of outward FDI in the long run. Globerman and Chen (2010:

2) argue that the establishment of 'legal and regulatory regimes that protect property rights, create transparent and fair rules of law' contributes to an increased efficiency and international competitiveness of domestic firms. They point to a similar role of macroeconomic growth-stimulating policies as well as domestic investment in infrastructure and education.

The said measures constitute by no means an exhaustive catalogue and different countries, both developed and developing, implement some of these instruments through different institutional designs. A classification of such measures is provided with the FDI promoting institutions in China and Germany (see Table 6.2). The former, which had launched its 'Go Global' policy in 2000 and joined the WTO in 2001, represents a well-known case of strict control of FDI flows, accompanied by substantial government support (Buckley et al., 2008). Despite the simplification of the approval process and a comprehensive use of promotion measures, there are still functional overlaps between different departments involved in the outward FDI regulation and approval (Xue and Han, 2010). Germany, on the other hand, has had a long tradition of institutional support for its firms' internationalization as an export-oriented economy and has been one of the leading sources of outward FDI globally (UNCTAD, 2012). Its network of government-dependent institutions promoting trade investment has recently been united by an initiative of the Federal Ministry of Economics and Technology (2010) to coordinate their dispersed efforts under the Foreign Trade and Investment Campaign.

Outward FDI support measures: The case of Poland

Overview of current support measures

Poland as a country undergoing transition to a market-led economy has been simultaneously proceeding on a path of accelerated integration with its global environment. While export relations with foreign partners had already existed in the previous political and economic system, outward FDI on an important scale by CEE firms, including those from Poland, has emerged only recently. Although Polish outward FDI flows were registered already in the 1990s, only the 2000s witnessed their increased pace, with a peak of US$8.9 billion in 2006 (UNCTAD, 2011: 187). These processes have created intense interdependencies of the emerging Polish market with other countries through international trade and international investment, whereby Poland's economy has been successfully modernized and restructured (Gorynia, 2009).

While Poland has not adopted a 'go global' strategy similar to that of China and its promotion efforts related to the internationalization of domestic firms still remain fragmented and dispersed over a range of institutions (see Table 6.3), a change in the government's approach to this issue as compared to previous years can be clearly discerned (Kaliszuk, Błaszczuk-Zawiła

Table 6.2 FDI-promoting institutions in China and Germany

	Institution	Outward FDI-dedicated financial measures	Non-outward FDI-dedicated financial measures	Outward FDI-dedicated non-financial measures	Non-outward FDI-dedicated non-financial measures
China	Ministry of commerce	Double-taxation treaty network, insurance for Chinese expatriates, preferential credits for specific approved projects (rare natural resources, R&D, M&A increasing competitiveness)	–	Mutual FDI protection agreements (115), 'Countries and Industries for Overseas Investment Catalogue', databases of Chinese firms intending to go abroad	Issue of the 'Report on the Trade and Investment Environment in Different Countries'
	Export-Import bank of China	Subsidies for key outward FDI projects, preferential loans, credits	Export credit insurance and guarantees, credit facilities (e.g. letters of credit)	–	–
	Ministry of finance	Subsidies for resource-oriented outward FDI projects, interest discounts	Export finance and insurance, 'International Market Developing Funds of Small- and Medium-Sized Enterprises'	–	–

Germany	Federal ministry of economics and technology (foreign trade and investment campaign)	Investment guarantees	Untied loan guarantees, export credit guarantees	Bilateral investment treaties (127 in 2010)	Political support (e.g. official delegations, government participation in trade fairs, business matchmaking), manager training programmes, support for procurement processes, active contribution to openness in international trade
	Germany trade & invest	–	–	–	Information on foreign markets, international tenders, investment projects, access to international business partners
	Credit institute for reconstruction (KfW)	Investment loans, feasibility study financing, risk capital, guarantees, Investment loans, insurance	Export credits and related guarantees, domestic investment finance	Project consulting, business plan revisions (SMEs), local partner search	Technical assistance in host countries
	German chambers of commerce (AHK)	–	–	–	Promotion of German business in other countries, missions abroad, business matchmaking

Source: Own classification based on Solis (2003: 158), Xue and Han (2010: 306–21), Luo et al. (2010: 75– 77), kfw.de, deginvest.de, ahk.de, bmwi.de.

Table 6.3 Outward FDI-promoting institutions in Poland

Institution	Outward FDI-dedicated financial measures	Non-outward FDI-dedicated financial measures	Outward FDI-dedicated non-financial measures	Non-outward FDI-dedicated non-financial measures
Ministry of economy of Poland	–	Financial support for promotion activities (shows, exhibitions, industry meetings, foreign market surveys, promoting commodity groups, services and technologies); grants for export promotion, support for entrepreneurs from selected industries	BIT conclusion	export promotion portal (information on foreign markets, database of foreign business inquiries and tenders); Go China portal (export/FDI); Network of Investor and Exporter Assistance Centers; creation of institutions supporting entrepreneurs
Bank of national economy (BGK)	Subsidies for key outward FDI projects, preferential loans/credits	Governmental programme of credits for exporters; credits and loan guarantees for entrepreneurs	–	Infrastructure project financing (Polish Investments Program); investment funds for specific purposes and industry sectors
Corporation of credit export insurance (KUKE)	Political risk insurance for outward FDI projects	Receivables insurance; export guarantees, export factoring insurance; customs and excise guarantees; insurance of credits for domestic purposes	–	–

Polish agency for enterprise development (PARP)	–	–	–	Participation of SMEs in economic missions and fair events; Enterprise Europe Network (match-making, information, training and counseling); projects aimed at increasing the competitiveness of the economy
Polish information and foreign investment agency (PAIIZ)	–	–	Conclusion of BIT and contacts with host country institutions; facilitation of contacts between Polish investors	'The support of Polish companies in selected foreign markets' project (pilot markets: Germany, Czech Republic, Ukraine, Russia, France, the United Kingdom): foreign market information, assistance in contact development, organization of foreign missions and seminars
Polish champion project	–	–	–	Support in relation to foreign market promotion, research and development, human resources management
Trade and investment promotion sections of embassies	–	–	–	Promotion of Polish business in other countries, information on foreign markets (for exports and outward FDI), match-making, organization of economic missions

Source: Own classification based on www.bgk.pl, www.eksporter.gov.pl, www.kuke.com.pl, www.gochina.gov.pl, coie.gov.pl/pl, en.parp.gov.pl, polska.trade.gov.pl/pl, polskiczempion.pl, www.paiz.gov.pl, Wejtko (2012), www.mg.gov.pl, Ministry of Economy (2010).

and Wancio, 2012). Initially, outward investors could partly rely on the support of Trade and Investment Promotion Sections of Polish Embassies (not explicitly specialized in outward FDI promotion). To enhance the scope of support, the Polish Information and Foreign Investment Agency, previously focused on attracting FDI to Poland, launched an outward FDI support programme in 2011. The initiative was initially targeted at Germany, the Czech Republic, Ukraine, Russia, France and the United Kingdom, which are among the most important locations of Polish outward FDI. The support programme entails detailed local market information, assistance in finding business partners or mediation in case of disputes with local authorities (Grzegorczyk, 2011). On the other hand, outward FDI has entered the agenda of political relations, most notably in Asian destinations. In this context, the Polish President signed a strategic agreement between Poland and China during his visit to Beijing in December 2011, while in April 2012 the Chinese Prime Minister visited Poland (Kaliszuk, Błaszczuk-Zawiła and Wancio, 2012). These meetings were followed by the official visit of the Polish Minister of Economy accompanied by business representatives in China in May 2012.

The support for Polish outward FDI can be regarded as one of the components of broader programmes coordinated by the Ministry of Economy to enhance the competitiveness of Polish companies, including financial support for export-related projects, the establishment of the Network of Investor and Exporter Assistance Centres or general promotion of the Polish economy abroad. In January 2013, the Polish government adopted the Strategy of Innovativeness and Effectiveness 'Dynamic Poland 2020'. Its main objectives are to improve the regulative and financial environment, enhance the effectiveness of labour, knowledge and the usage of natural resources, as well as an increased internationalization of the Polish economy. Thus, it can be noted that the support for outward FDI is perceived in a broader context of an economic policy framework, which is reflected by a rising number of entrepreneurship-oriented programmes co-financed by the EU. Meanwhile, outward FDI-dedicated support measures still remain relatively limited, with the corresponding responsibilities dispersed between different institutions.

Towards an effective policy framework

The broad approach presented above accounts for the fact that most extant classifications of outward FDI support measures focus on instruments which have an explicit character (UNCTAD, 2001; Kline, 2003; Sarmah, 2003; Te Velde 2007). Especially in the context of developing countries and transition economies, where outward FDI policy frameworks remain at a nascent stage or are burdened with a given structural heritage, it is important to note that adopting direct support measures from developed countries might not be effective, unless a broader context of the domestic economic policy is taken into account. In evaluating and selecting appropriate policies, a vital question is whether the instruments should aim to increase the firms' FSA in the short run, which can be said of measures such as subsidies, loans, insurance or information provision or rather focus on a long-term development of host CSA (e.g. via technical assistance), FSA and home CSA. Gorynia (2003) argues that, in the context of a transition economy's internationalization, the effectiveness of direct support measures might be questionable if the basic conditions of the home economy's competitiveness, including the reduction of transaction costs or the creation of a high-quality labour market are not fulfilled in the first place. Economic policy should foster both the competitiveness on the level of domestic firms in foreign markets and the competitiveness of firms within the open home market, where they also face foreign rivals (Gorynia, 1998). Such objective can be fulfilled by a liberal-institutional industrial policy, which promotes entrepreneurship and growth through, *inter alia*, support for investments, innovations, education and training as well the creation of appropriate information systems and promotion of information diffusion (Gorynia, 2002).

Moreover, if home countries are to benefit from knowledge and efficiency spillovers from outward FDI, domestic firms must develop an appropriate absorptive capacity. Thus, Globerman and Shapiro (2008: 263) suggest that rather than discussing the effectiveness of particular measures, 'the ostensibly weaker linkages between outward FDI and the benefits of globalization point to the fundamental importance of policies focused on improving the capabilities of emerging economies and local companies'.

Finally, while home countries use all or some of the discussed measures to support outward FDI, these may be implemented by separate institutions or, conversely, undertaken by the upgraded export promotion agencies or inward investment promotion agencies (De Beule and Van Den Bulcke, 2010), which was the case for the aforementioned Polish Information and Foreign Investment Agency. In many developed countries with a long institutional heritage, the multitude of and lack of explicit operational coordination between business support services may prove to be confusing to outward investors. Based on the case of the Polish outward FDI policy framework, it seems crucial to ensure that the support instruments are easy to identify and use by their recipients (Gorynia, 2003). It can be questioned whether the current dispersion and specialization of the Polish system of support measures enhances its effectiveness, since it increases the transaction costs for its users in relation to the amount of support provided, as well as the costs of coordinating and managing the system by public authorities.

Unfortunately, little is known about the effectiveness of different administrative approaches and of the performance of particular support measures themselves (UNCTAD, 2006). Te Velde (2007: 100) found for the British outward FDI support measures that technical assistance to host countries was correlated to changes in FDI stocks, while no relationship was observed for investment insurance, however the performance of support measures appeared to be contingent on 'industry; firm characteristics; motive of investment; and home and host country economic conditions'. In the same vein, Buckley et al. (2010) assert that support policies should be nuanced to account for different FDI modes (acquisitions, greenfield, joint ventures), investment motives, firm size, industry or FDI destinations. However, another vital question relates to whether the support policy ought to be selective in sectoral terms or be allocated equally to all types of companies (Gorynia, 2002, 2003). Historical examples from developed countries of state support for the international expansion of the so-called national champions in selected sectors indicate that such strategy may not necessarily lead to the achievement of government objectives as the interests of both involved parties might gradually diverge (Moran, 2008). Gorynia (2011) suggests that in the case of Poland, where many of the leading exporters and outward investors are in fact foreign-owned companies, the creation of national champions based on their current share in the country's exports or outward FDI is less effective than aiming to increase the total number of companies involved in foreign operations.

Conclusions

This paper aims to contribute to the ongoing, albeit inconclusive, debate on the effects of outward FDI on home countries and therefore the rationale for governments to promote it. This discussion has recently gained importance in the light of the dynamic growth of outward FDI from emerging markets, whereby the role of both government restrictions and support is known to have been substantial on the one hand, yet on the other, the policy frameworks in these countries are frequently still at a nascent stage. On the microeconomic level, a careful scrutiny of FDI theory reveals, more or less explicitly, that outward FDI is a means of achieving the firms' strategic objectives and enhancing their international competitiveness. On the macroeconomic level, research in international business has been disproportionately concentrated on the impact of FDI on host economies and the local firms. While there is no firm evidence that outward FDI has a detrimental effect on home economies, the consequences of outward FDI for home economies can vary in the short run and in the long run as well as between developed and developing countries, which makes formulating clear policy recommendations a difficult task.

In order to accommodate for varying and highly context-specific character of outward FDI and its consequences, a broader classification of outward FDI policy measures has been proposed in this study. Alongside instruments, both financial and non-financial, which are devised by governments explicitly to promote outward FDI, it is argued that broader policies supporting the competitiveness and internationalization of local firms should be incorporated in the discussion on outward FDI support. This approach is of particular relevance in the context of emerging markets, where it is to be evaluated whether direct outward FDI support can be effective unless preceded by an overall improvement of the domestic economy's and firms' competitiveness. This aspect should be an important consideration for policymakers in choosing policies which serve the home country's sustainable development in the long run. Finally, on the level of implementation, a crucial determinant of effectiveness of an outward FDI support system is its availability to and awareness by its potential recipients. Following the discussion of the Polish case, where the support measures are dispersed and partly overlapping, future research should examine their current role in the internationalization of firms, their effects and the barriers to their use.

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