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Poland's investment development path: Going beyond conventional explanations

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ABSTRACT

Objective: This article examines several critical factors influencing the progression of a nation's investment development path (IDP), using Poland's post-transition economy as a case study.

Research Design & Methods: Alongside the conventional analysis of foreign direct investment (FDI) as a correlation between economic development, indicated by GDP/GNP growth, and the net outward investment position (NOIP), we examined the influence of institutional factors, particularly government policies, the significance of the domestic and foreign markets, as well as the effects of recent external factors: the COVID-19 pandemic and the conflict in Ukraine. Consequently, we incorporated diverse viewpoints, including those of international business, economic policy, institutional theory, and political economy.

Findings: The primary conclusion of this study is that Poland remains firmly embedded at the end of Stage 2 of its IDP, with no tangible indication of progressing, as per the theoretical model, to the more advanced and recommended Stage 3.

Implications & Recommendations: One explanation for this seemingly paradoxical scenario of remaining in Stage 2 may reside in the country's peculiarities, partly due to foreign investors' persistent perception of Poland as a moderately developed economy, characterised by a substantial internal market and promising GDP growth potential.

Contribution & Value Added: In the analysis of Poland's IDP, we go beyond the variables of the original IDP model. Thus, we significantly contribute to its theoretical development and practical applications.

Article type:	research article
Keywords:	investment development path; foreign direct investment; economic growth; Central and Eastern Europe; institutional factors
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INTRODUCTION

The interaction of inward and outward foreign direct investment (FDI) with a country's economic development forms the core of the investment development path (IDP) framework (Dunning, 1986; Dunning & Narula, 1994; 1996). In post-transition economies, especially the formerly centrally planned economies of Central and Eastern Europe (CEE), inward FDI has been crucial for economic advancement (Gorynia *et al.*, 2019b). On the other hand, the gradual rise of outward FDI from the region reflected an increasing international competitiveness of previously domestic firms. However, as it has been found so far, the IDP paths of different economies display significant idiosyncrasies depending on a number of country-specific determinants, such as their size, geographic location or government policies (Gorynia *et al.*, 2012; Djokoto & Pomeyie, 2021; Zhubikenov, 2022).

The present study contributes to extant research on Poland's IDP, covering the years from 2013 to 2021 (or the last year with available data, where applicable), though set against a much wider time

frame ranging back to 1990, the beginning of Poland's transformation process. At the same time, we broadened our perspective and analysed several key factors that affect the evolution of a country's IDP, in this case, that of Poland, thus going beyond the variables of the original IDP model. These include the possible effects of institutional factors, the internal market, foreign markets, or external shocks caused by the COVID-19 pandemic and the Russian invasion of Ukraine. Thus, we combined several perspectives, including IB, economic policy, institutional theory, and political economy.

The first part of our article presents the theoretical underpinnings of the IDP concept (model) and a review of extant literature. This is followed by an outline of postulated government policies to be applied in each stage of the IDP. The third part contains a descriptive analysis of Poland's IDP trajectory, where the net outward investment (NOI) position (NOIP) is investigated against the backdrop of changes in inward FDI and outward FDI, parallel to the dynamics of GDP per capita. Afterwards, we qualitatively analyse the impact of other factors affecting the IDP's trajectory. The article wraps up with conclusions, policy implications, and suggestions for further research.

LITERATURE REVIEW

The IDP concept: Theoretical Underpinnings and Extant Research

The IDP concept centres on the dynamic interaction between two macroeconomic variables: net outward investment (NOI) per capita and GNP or GDP per capita, which establish a country's placement on the IDP. NOI is determined as the difference between outward FDI and inward FDI stocks. GDP progression is regarded as an indicator of economic advancement and national competitiveness. As nations progress, they typically undergo five sequential stages/phases of the investment development path (IDP). Figure 1 provides a diagrammatic illustration of these IDP stages. Each stage is characterised by different dynamics of NOI values in relation to growing GDP/GNP and is typical for countries at different levels of economic development and different interactions between inward and outward FDI. In Table 1, we present summary characteristics of the five stages of the IDP, considering the interplay between the ownership (O-specific), location (L-specific), and internalisation (I-specific) advantages in determining a country's position on the IDP (Dunning & Narula, 2010).

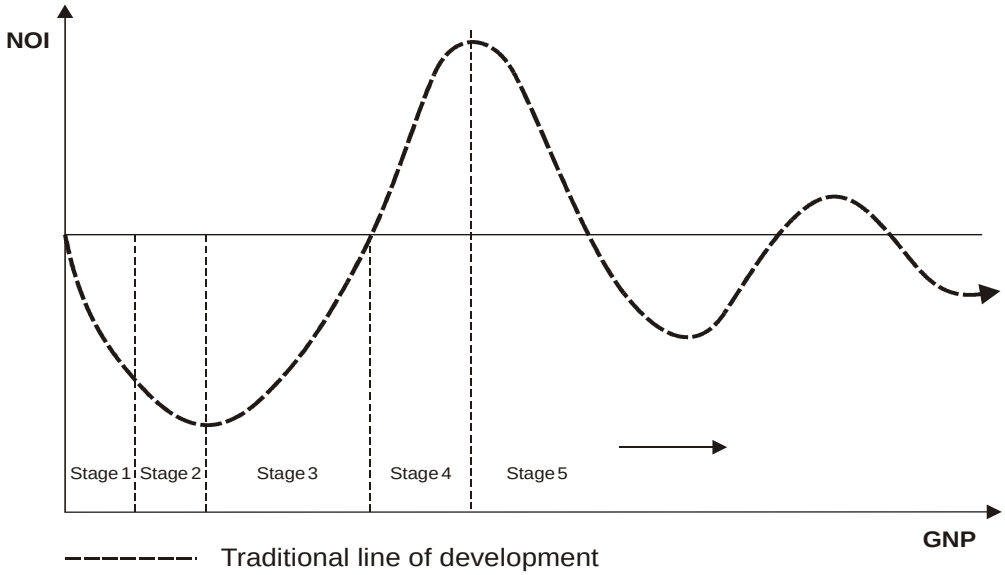

Figure 1. The investment development path[1] model

Note: Drawn for illustrative purposes only, *not* to scale.

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

[1] Dunning and Narula (2002) termed the IDP referenced line as a traditional one. They overlaid a flatter line, parallel to the old one, which, according to these authors, represents the technological and organisational transformations in foreign direct investment that emerged in the 1990s (Dunning & Narula, 2002, p. 139).

The literature review points to two main areas of IDP-related empirical research:

- Cross-sectional studies comparing several countries (see *e.g.*, Dunning, 1981; Durán & Úbeda, 2001, 2005; Boudier-Bensebaa, 2008; Ragoussis, 2011; Djokoto & Pomeyie, 2021).
- Longitudinal studies concentrating on specific countries (see *e.g.*, Clegg, 1996; Buckley & Castro, 1998; Barry *et al.*, 2003; Bellak, 2001; Gorynia *et al.*, 2007, 2018; Marton & McCarth, 2007; Maşca & Văidean, 2010; Verma & Brenan, 2011; Ferencikova & Ferencikova, 2012; Zhubikenov, 2022).

Table 1. IDP stages and their basic characteristics: A normative framework

IDP Stages	Characteristics
Stage 1: Less-developed economies	L-specific advantages: mostly related to natural resources and abundance of low-cost labour. O-specific advantages of domestic firms: virtually non-existent. FDI flows: little inward and virtually no outward FDI. NOIP: negative and increasing due to some inward FDI.
Stage 2: Newly-industrialised, developing, and emerging economies	L-specific advantages: gradually shifting from resource-based and low-cost labour to semi-skilled labour and moderately technology-intensive sectors. O-specific advantages of domestic firms: increasing, focused on medium-technology industries. FDI flows: rapidly growing inward FDI; outward FDI still limited. NOIP: increasingly negative, but stabilises at the end.
Stage 3: Middle-income developed economies	L-specific advantages: shift away from labour-intensive sectors toward higher value-added and technology-intensive production. O-specific advantages of domestic firms: based on advanced technology and proprietary assets, increasingly exploited through exports and outward FDI. FDI flows: outward FDI exceeds inward FDI. NOIP: negative values diminish and tend to 0.
Stage 4: High-income developed economies	L-specific advantages: rooted in created assets; production is capital- and knowledge-intensive. O-specific advantages of domestic firms: linked to multinationality. FDI flows: outward FDI grows faster than inward FDI. NOIP: significantly positive.
Stage 5: Most advanced economies	L-specific advantages: based on knowledge- and service-oriented created assets. O-specific advantages of domestic firms: on par with those from other advanced economies. FDI flows: high levels of both inward and outward FDI, dominated by intra-firm and intra-industry flows. NOIP: initially falls, then fluctuates around zero.

Source: own study based on Dunning (1997), Dunning and Narula (1996, 2002), Dunning and Lundan (2008), and Narula and Dunning (2010).

As it has been argued, cross-sectional analysis is burdened with significant limitations since the IDP per se is a dynamic and country-specific model (Dunning & Narula, 1996). Therefore, it can provide wrong conclusions about an 'optimal' level of FDI for a certain GDP level (Narula & Dunning, 2010). Moreover, the transition between the stages is affected by the economic structure of a country, the types of FDI it creates and receives, and factors such as market size, government policies, or resource endowments (Durán & Úbeda, 2001). Unsurprisingly, similarly developed countries differ in their IDP positions (Iacovoiu & Panai, 2014). For CEE economies, institutional reforms and policies, including those induced by EU membership, have been found to affect IDP patterns (Narula & Guimón, 2010; Stoian, 2013; Gorynia *et al.*, 2019a). Thus, in the next section, we turn to the role of government policies in determining the juxtaposition of inward and outward FDI.

IDP and Government Policies

Government policies can play an important role in positioning a country on its IDP (Sawatiri & Brennan, 2022). Governments aim at creating conditions conducive to inward FDI and promoting the country to foreign investors. Conversely, they should also apply policies and regulations that are supportive of outward FDI. Each IDP stage will require different approaches to FDI, different object-

tives and different sets of policy measures emphasising either inward FDI (IFDI) or outward FDI (OFDI), an evolution that we shall review below.

Government policies in Stage 1 should aim at improving basic infrastructure, as well as upgrading human resources via education and training (Dunning & Narula, 2002). Import protection and export subsidies will be typical policy measures undertaken by the government. Limited, if any, policies will be deliberately applied to upgrade the country's created assets, as O advantages of local firms will be limited (Dunning & Narula, 2002).

In Stage 2, government policy should aim at attracting foreign investors by engaging, *inter alia*, in bilateral or multilateral investment agreements, joining regional integration groupings, improving commercial infrastructure (*e.g.*, assuring competitive transportation costs), enlarging the pool of skilled labour and professional workers through education and training, aligning FDI regulations with those of major investing countries, and engaging in promotional activities at both national and regional levels (Cass, 2007; Gorynia *et al.*, 2020; Sawatiri & Brennan, 2022). For domestic firms to develop O advantages and engage in OFDI, the government should focus on building technological capacity in selected industries (typically primary industries) and on the development of labour skills (Dunning & Narula, 2002). Governments can also stimulate joint venture formation between domestic companies and multinational enterprises (MNEs), thus generating spillover effects (Sawatiri & Brennan, 2022), and assist local firms wishing to invest abroad by providing foreign-market intelligence, loan guarantees and other forms of financial support and fiscal incentives (Gorynia *et al.*, 2015b). If there are any restrictions to investing abroad, they should be removed (Yin *et al.*, 2021), as deregulation policies generally tend to promote OFDI (Buckley *et al.*, 2010).

In Stage 3, attracting IFDI remains one of the main objectives of government policies, yet with a focus on attracting MNEs activity with potential for linkage and spillover creation (Narula & Dunning, 2010). Governments should focus on market-seeking and efficiency-seeking IFDI, particularly destined to less competitive industries and regions (Sawatiri & Brennan, 2022). Specific policy measures include simplifying investment procedures; creating special economic zones and industrial clusters; providing land and infrastructure; providing investment assistance and offering financial and fiscal incentives on a selective basis (ibid.), if permitted. Governments should also engage in policies aimed at encouraging and assisting exporting firms to internalise the market for their O advantages by engaging in FDI rather than exports or other contractual entry modes (Dunning & Narula, 2002). Governments should also attempt to create and transform national champions into MNEs.

In Stage 4, policies become less interventionist and more oriented towards ensuring that markets can operate efficiently. Moreover, in the face of the increasing competition between countries with similar income levels, economic structures, resources, and capabilities, governments assume a more strategic role in their policy formation towards FDI (Dunning & Narula, 2002). In terms of IFDI, governments should maintain their supervisory and regulatory function to safeguard fair competition and beneficial contributions made by foreign-based MNEs to the country's development (Cass, 2007; Sawatiri & Brennan, 2022). As far as OFDI is concerned, which is already growing faster than IFDI, there is no need to stimulate its growth per se. Instead, it is pertinent for governments to assist in upgrading the innovatory capacity of domestic companies to strengthen their international competitiveness and help turn some of the home-grown multinationals into truly global players.

In Stage 5, the role of government in attracting IFDI and stimulating OFDI is further reduced (Sawatri & Brennan, 2022), as both forms of FDI continue to grow autonomously, mostly through intra-firm investment and M&As (Dunning & Narula, 2002). What comes to the fore in this stage are policies aimed at developing linkages and creating clusters of domestic firms around multinationals. Thus, policy measures should prioritise the development of relationships between multinationals and domestic businesses, universities, research institutes and industry associations (Narula & Gimón, 2010). Generally, the role of governments is no longer that of an interventionist and selective promoter of FDI projects but assumes a more strategic orientation.

In the context of the present article, we were primarily interested in government policies in IDP Stages 2 and 3. The analysis presented later suggests that during the period under study, Poland went through and is still at the end of Stage 2. Thus, apart from analysing the impact of government policies throughout Stage 2, it is pertinent to make policy recommendations for facilitating the country's move

into the next IDP Stage 3.

RESEARCH METHODOLOGY

Once we have introduced the IDP framework, with a particular focus on the factors driving the transition between its stages and the role of institutional factors in this progression, we follow up with a descriptive analysis of Poland's IDP trajectory based on available UNCTAD data. The analysis sets out with several insights into the main building blocks of the IDP concept, namely the country's inward and outward FDI stocks as well as its GDP.

Subsequently, Poland's NOIP, NOIP per capita (p.c.), GDP, GDP p.c. and their dynamics will be analysed. Finally, we qualitatively reviewed a number of factors which affected the development of Poland's inward and outward FDI, leading to outcomes which are partly divergent from theoretical expectations, most notably the country's staying in Stage 2 of its IDP.

RESULTS AND DISCUSSION

Tracing Poland's IDP Trajectory (2013-2021)

In the investigated time frame (2013-2021), Poland's GDP recorded continuous growth except for two years (2015 and 2016). It should be noted at this point that in 2020, during the COVID-19 pandemic, GDP was up but by only 1%, however, in 2021, it swiftly recovered, rising by 13%.

Changes in GDP were accompanied by those in the country's inward and outward FDI stocks (see Table 2). In 2014, inward FDI stock (IFDIS) was down (year to year) by 8% whereas outward FDI stock (OFDIS) remained practically unchanged, with GDP rising by 5% In 2015, IFDIS recorded a sharper drop of 12%, but OFDIS declined by only 1%, with GDP falling this time by a substantial 11% In 2018, IFDIS declined again but only by 5%, however, OFDIS went down much more (16%) with GDP rising 12%. In 2021, both IDFIS and GDP increased, but OFDI declined slightly by 2% All the above changes seemed to be haphazard as to the links between them, but did not alter the general rising trend in all three investigated variables. As far as the share of IFDIS in GDP is concerned, one could likewise observe an overall rising trend (Table 3) in the whole period from 1990 to 2021. In the currently analysed time frame from 2013, the said share showed signs of relative stabilisation with an average of 40.9%, although the share in 2021 was 40.3%, down from 44% in 2013.

Table 2. Inward, outward FDI stocks, and GDP of Poland in million USD, 1990-2021

Year	Inward FDI Stock	Inward FDI Stock (previous year = 100)	Outward FDI Stock	Outward FDI Stock (previous year = 100)	GDP(a) at current prices	GDP (previous year = 100)
1990	109		95		66050	
1991	425	390	88	93	85651	130
1992	1370	322	101	115	94472	110
1993	2307	168	198	196	96310	102
1994	3789	164	461	233	110945	115
1995	7843	207	539	117	142294	128
1996	11463	146	735	136	160193	113
1997	14587	127	678	92	159358	99
1998	22461	154	1165	172	174686	110
1999	26075	116	1024	88	170031	97
2000	33477	128	268	26	172220	101
2001	40394	121	304	114	190905	111
2002	47295	117	432	142	199070	104
2003	56110	119	382	89	217829	109
2004	84102	150	698	183	255107	117
2005	86345	103	1776	254	306146	120
2006	115792	134	4402	248	344627	113
2007	164370	142	7279	165	429021	124

Year	Inward FDI Stock	Inward FDI Stock (previous year = 100)	Outward FDI Stock	Outward FDI Stock (previous year = 100)	GDP(a) at current prices	GDP (previous year = 100)
2008	148417	90	8205	113	533600	124
2009	167399	113	11504	140	439732	82
2010	187602	112	16407	143	475697	108
2011	164424	88	18928	115	524374	110
2012	198953	121	26102	138	495231	94
2013	229167	115	27725	106	515762	104
2014	211484	92	27757	100	539081	105
2015	185986	88	27492	99	477111	89
2016	188734	101	27874	101	470025	99
2017	240382	127	29190	105	524641	112
2018	229527	95	24618	84	588780	112
2019	240586	105	26939	109	596058	101
2020	249723	104	28136	104	599443	101
2021	269225	108	27562	98	679442	113

Note: (a) – according to the official exchange rate.
Source: UNCTAD, (http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx. 25.05.2023).

Table 3. Poland's inward FDI stock as a percentage of GDP, 1990-2021

Year	Inward FDI stock as % of GDP
1990	0.2
1991	0.5
1992	1.5
1993	2.4
1994	3.4
1995	5.5
1996	7.2
1997	9.2
1998	12.9
1999	15.3
2000	19.4
2001	21.2
2002	23.8
2003	25.8
2004	33.0
2005	28.2
2006	33.6
2007	38.3
2008	27.8
2009	38.1
2010	39.1
2011	31.1
2012	39.9
2013	44.0
2014	39.0
2015	38.9
2016	39.9
2017	45.7
2018	39.1
2019	40.3
2020	41.9
2021	40.3

Source: UNCTAD, (http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx, 25 May 2023).

Net Outward Investment Position of Poland

Table 4 presents Poland's NOIP, NOIP per capita (p.c.), GDP, GDP p.c. and their dynamics and Figures 2, 3, and 4 visualise it. We observed improvement in both the absolute and per capita values of NOIP in 2014, 2015, and later in 2018, in the sense that these values were negative but decreasing, indicating the desired movement towards Stage 3 in the IDP model. This positive change evidenced once more the possibility of IDP reversibility, which we noted also in the previous studies, not only concerning Poland but also other countries of CEE and EU members. Noteworthy, Dunning's original IDP model did not account for such reversibility and therefore we may consider it as its idiosyncratic modification, at least when applied to the region of CEE.

Table 4. NOIP and GDP of Poland in million USD, 1990-2021

Year	NOIP	GDP(a)	NOIP p.c. in USD	GDP(a) p.c. in USD	NOIP p.c. (previous year = 100)	GDP p.c. (previous year = 100)
1990	-14	66050	-0.4	1735		
1991	-337	85651	-8.8	2244	2400.6	129.3
1992	-1269	94472	-33.2	2470	375.7	110.1
1993	-2109	96310	-55.0	2513	165.9	101.8
1994	-3328	110945	-86.7	2891	157.6	115.0
1995	-7304	142294	-190.2	3705	219.3	128.2
1996	-10728	160193	-279.4	4172	146.9	112.6
1997	-13909	159358	-362.3	4150	129.7	99.5
1998	-21297	174686	-554.9	4551	153.2	109.7
1999	-25051	170031	-653.1	4433	117.7	97.4
2000	-33209	172220	-862.5	4473	132.1	100.9
2001	-40090	190905	-1036.9	4938	120.2	110.4
2002	-46864	199070	-1212.6	5151	116.9	104.3
2003	-55727	217829	-1442.9	5640	119.0	109.5
2004	-83404	255107	-2160.9	6610	149.8	117.2
2005	-84569	306146	-2192.3	7936	101.4	120.1
2006	-111390	344627	-2889.7	8940	131.8	112.7
2007	-157091	429021	-4078.0	11137	141.1	124.6
2008	-140212	533600	-3639.7	13852	89.3	124.4
2009	-155895	439732	-4043.4	11405	111.1	82.3
2010	-171196	475697	-4435.4	12325	109.7	108.1
2011	-145497	524374	-3767.3	13577	84.9	110.2
2012	-172851	495231	-4475.0	12821	118.8	94.4
2013	-201442	515762	-5217.7	13359	116.6	104.2
2014	-183727	539081	-4762.0	13972	91.3	104.6
2015	-158494	477111	-4111.1	12375	86.3	88.6
2016	-160859	470025	-4174.7	12198	101.5	98.6
2017	-211192	524641	-5480.8	13615	131.3	111.6
2018	-204909	588780	-5319.3	15284	97.1	112.3
2019	-213647	596058	-5550.2	15485	104.3	101.3
2020	-221587	599443	-5766.2	15599	103.9	100.7
2021	-241663	679442	-6308.5	17736	109.4	113.7

Note: (a) – according to the official exchange rate.
Source: own study based on UNCTAD, (http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx. 25 May 2023).

In the years 2016-2021, with the exception of 2018 noted above, NOIP and NOIP p.c. of Poland declined continuously, thus further embedding the whole economy in Stage 2. The latest sign of perpetuation of this trend was the increasing rate of the said decline in 2021 of 9.4% (year to year) vs. 2020 and

3.9% respectively. Further evidence of this was the growing gap between the much larger values of IDFIS and OFDIS. In 2013, the share of OFDIS in IFDIS was 12.1%, whereas in 2021, it went down to 10.2%.

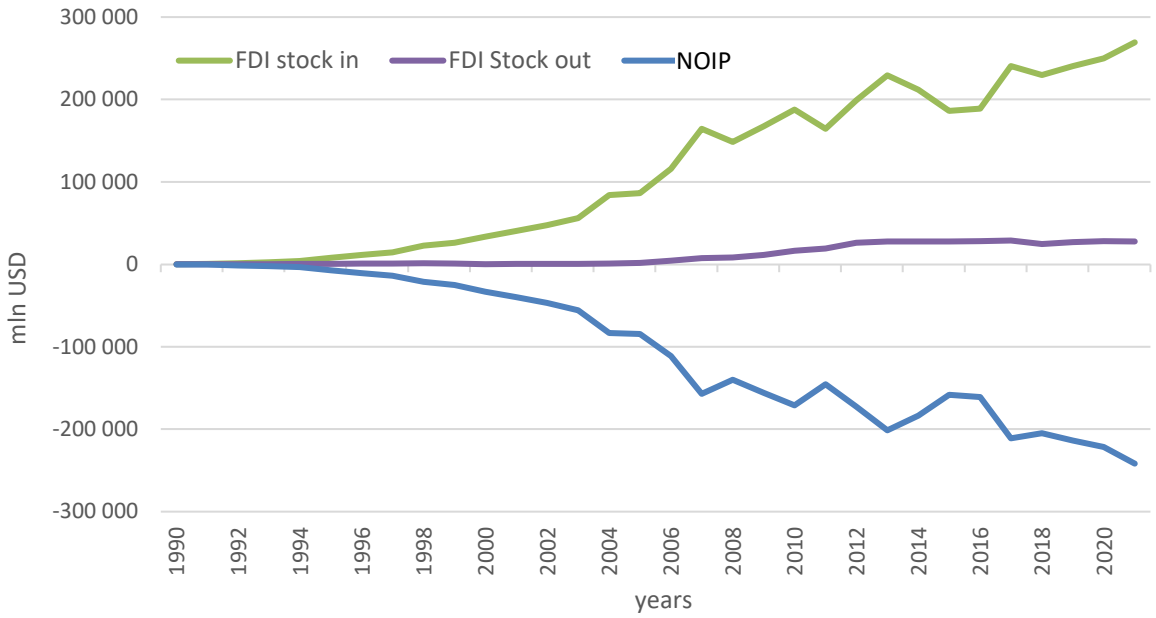

Figure 2. Poland's inward FDI stock, outward FDI stock and NOIP in million USD, 1990-2021
Source: own elaboration.

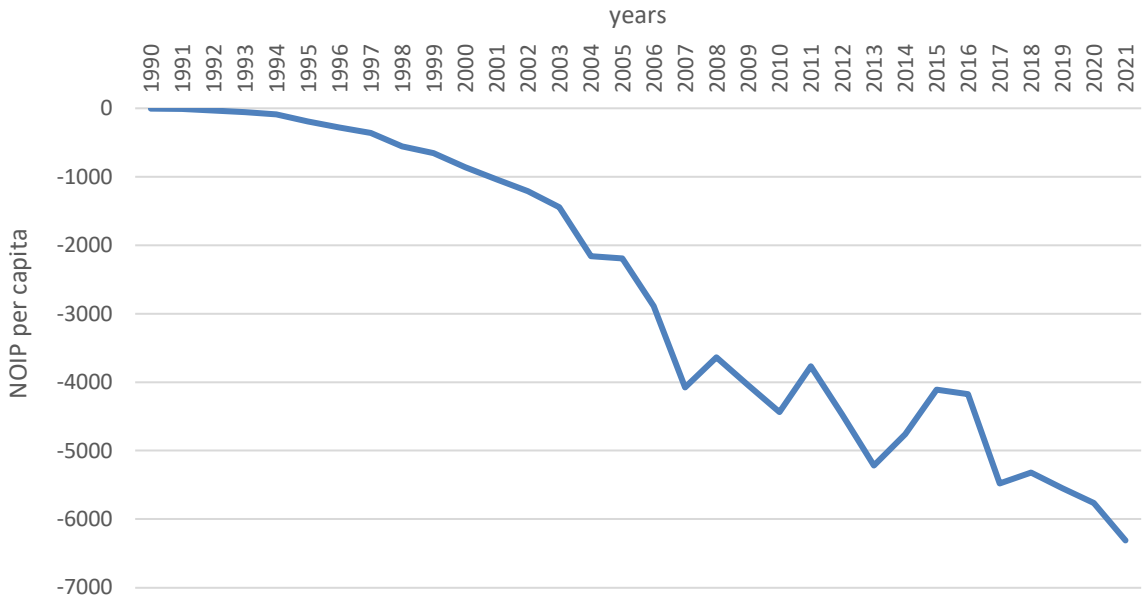

Figure 3. Poland's NOIP per capita in USD, 1990-2021
Source: own elaboration.

Surprisingly, the above facts show that no significant and compelling signs have so far been found that Poland was on the verge of moving into Stage 3 or that such a move was imminent. On the contrary, the economy remained firmly entrenched in Stage 2. The principal factor accounting for this situation seems continuously to be the dominant lure of Poland's large internal market and its growth perspectives as reflected by its GDP dynamics, plus the still favourable general investment climate.

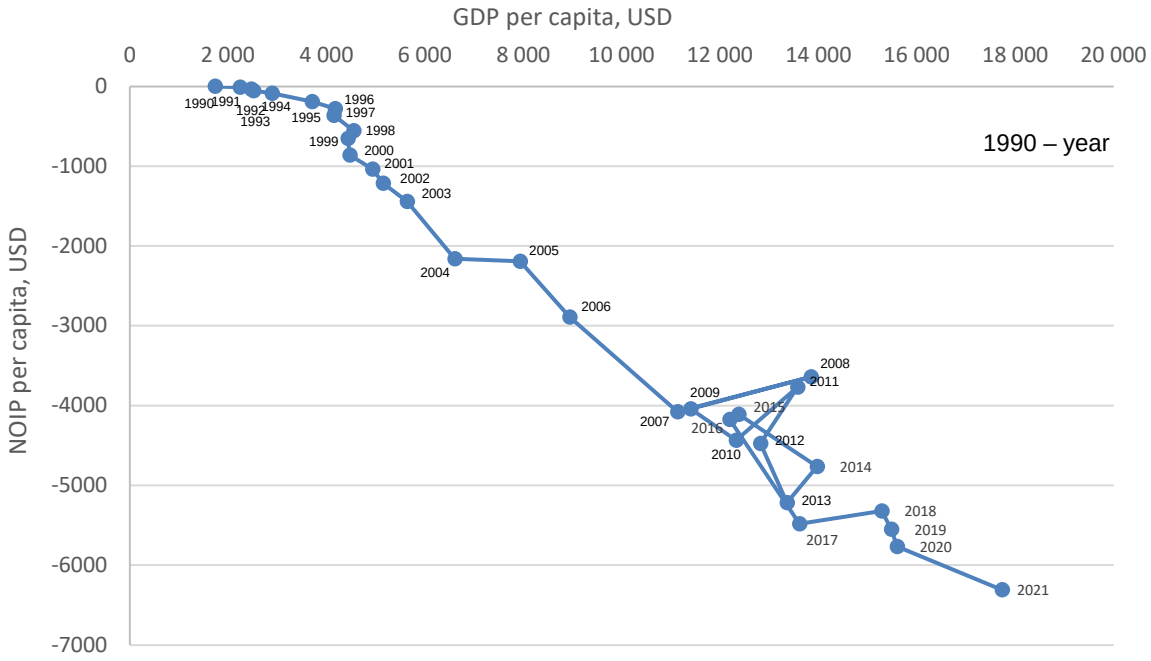

Figure 4. Poland's GDP per capita and NOIP per capita in USD, 1990-2021
Source: own elaboration.

Inward and Outward FDI Performance Indexes

Table 6 presents Poland's inward and outward performance indexes. The values of the inward index have been consistently higher than those of the outward index, reflecting the higher competitiveness of Poland's internal market when compared with domestic firms' international competitiveness.

The inward index in 2013 with the value of 0.375 was very low when viewed from the perspective of the whole period going back to 1990. But right next year it shot up to 1.504, thereafter, fluctuating, it reached the value of 2.232 in 2021, which was the second highest after that of 3.004 in 2004 when Poland had entered the European Union as a full member. Noteworthy, the scale of values above 2 signifies that Poland was receiving substantially more inward FDI than expected on the basis of its economic potential.

On the other hand, the outward index recorded in 2013 had a negative value of -0.047, which in practice indicated disinvestment that year by Polish investors abroad. Then, for three years, it rose to reach in 2016 the maximum value in the whole period from 1990 of 1.183. However, it dropped to only 0.015 in 2021. This latter record, signifying a still relatively low competitive potential of Polish firms, seems to have been at least partly due to the disruptions caused by the COVID-19 pandemic, resulting in the breaking up of global value chains in which these firms were participating. Thus, the data of both indices indicate that Poland was destined to remain at Stage 2 on its IDP trajectory.

Discussion of Key Factors Affecting Poland's IDP

Internal Market

The first variable explaining the persistent disproportion between inward and outward FDI in Poland is its significant internal market size (Trąpczyński *et al.*, 2019), which has attracted MNEs in their 'going East' strategies since the 1990s. Cost advantages played a particularly significant role in vertical FDI, where plants in CEE were integrated into international supply chains. The gradual shift from production to higher value-adding activities in the value chain led to their functional upgrading and higher productivity (Burger *et al.*, 2018).

However, the large internal market also acts as a factor slowing down the progress of outward FDI (Gorynia *et al.*, 2019b), as local firms may focus on domestic investment supported with exports

(Trąpczyński, 2016). In this sense, these patterns are consistent with the predictions of the internationalisation process model (Vahlne, 2020).

Table 6. Poland's inward (IFDIPI) and outward (OFDIPI) FDI performance indexes, 1990-2021

Year	IFDIPI	OFDIPI
1990	0.150	0.008
1991	0.658	-0.010
1992	1.127	0.017
1993	2.110	0.021
1994	1.862	0.026
1995	2.329	0.026
1996	2.283	0.027
1997	2.037	0.019
1998	1.697	0.084
1999	1.301	0.006
2000	1.365	0.003
2001	1.269	-0.054
2002	1.197	0.048
2003	1.303	-0.102
2004	3.004	0.031
2005	1.343	0.251
2006	1.547	0.425
2007	1.416	0.104
2008	0.992	0.130
2009	1.121	0.211
2010	1.288	0.618
2011	1.396	0.089
2012	1.291	0.343
2013	0.375	-0.047
2014	1.504	0.311
2015	1.168	0.458
2016	1.249	1.183
2017	0.872	0.209
2018	1.625	0.139
2019	1.343	0.243
2020	2.044	0.236
2021	2.232	0.015

Source: own study based on UNCTAD, (http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx, 25 May 2023).

Foreign Markets

Polish outward FDI, particularly that conducted by SMEs, has traditionally focused on Europe (Gorynia *et al.*, 2019b), partly due to limited access to capital, but also due to market-seeking motivations and focus on sales subsidiaries in close markets (Gorynia *et al.*, 2015a), with signs of technology-seeking investments in more developed EU markets (Trąpczyński, 2016). The relatively unfavourable competitive position of Polish investors is particularly reflected by Poland's more negative NOI values (and, therefore, earlier IDP positioning) in relation to more developed economies, explaining the overall position in Stage 2 (Gorynia *et al.*, 2019b). In fact, Polish subsidiaries have performed relatively worse in highly advanced economies (Trąpczyński & Banalieva, 2016), which might be due to their still limited endowment in managerial capabilities (Trąpczyński, 2018).

The tense geopolitical situation since 2022 and the resulting pressure for firms to re-orient their exports and investments towards Western markets may deepen the exposure to markets where Polish firms need to upgrade their capabilities, thus fostering the progression through Stage 3 in the long term but cementing positioning in Stage 2 in the short and middle time frame.

Institutional and Regulatory Environment

Extant research clearly indicates that institutional quality affects MNEs' location decisions (Dunning, 2004). A comparably low quality of intellectual property rights has been suggested to explain a relatively low share of 2.1% of inward investors in the domestic R&D expenses, which is one of the lowest scores in CEE (OECD, 2017). On the other hand, the Corruption Perception Index score for Poland since 2015 has regularly declined (Corruption Perception Index, 2019).

On the side of OFDI, government support was long dispersed across different bodies and also involved IFDI support due to policy priorities (creation of jobs or tax revenue, rather than capital outflows). Thus, state support concentrated mostly on agreements with other countries in aspects such as investor protection or double taxation (Gorynia *et al.*, 2015b). Only in 2011, did the Polish Information and Foreign Investment Agency (PAIiIZ) launch a dedicated OFDI support program (Gorynia *et al.*, 2015a), which complemented measures such as export finance or the creation of the Network of Investor and Exporter Assistance Centres (Trąpczyński *et al.*, 2019). Since 2017, different agencies offering support for OFDI have been integrated around the Polish Development Fund (PFR), with key central units such as PFR TFI (Investment Fund Company), PAIH (Polish Agency for Investment and Trade), BGK (Bank of the National Economy), KUKE (Corporation of Export Credit Insurance), as well as their regional counterparts. A focal entity in the structure of supporting units is the Polish Investment and Trade Agency S.A. (PAIH). The instruments offered by PAIH include investment workshops, foreign missions, foreign location visits (so-called study tours), strategic consulting, advice on acquiring national and local support instruments, advice on obtaining foreign investment incentives, or relational support. A significant role in supporting Polish investors was also assigned to PAIH's Foreign Trade Offices (ZBH), which are the first point of contact for Polish investors.

Apart from PAIH, an important entity supporting Polish investors planning or conducting business activity abroad is PFR TFI, which manages the Foreign Expansion Fund (FEZ). The fund grants loans to foreign subsidiaries owned by Polish enterprises on market terms and also offers equity financing to foreign subsidiaries. Its activities include investments in production, distribution, and service companies, both in the European Union and in high-risk countries.

Outward FDI success depends on targeted support instruments and business competitiveness, especially in developed nations. Polish enterprises' digital technology adoption and innovation remain below the EU average (OECD, 2023). After an expanded, volume-based R&D tax reduction was implemented in 2016, the following reforms have increased R&D investment incentives. The 2022 'Polish Deal' tax plan included many incentives to stimulate innovation and attract foreign investment. In particular, incentives have been introduced for R&D organisations that lower the cost of collaboration between firms and research institutions, automation and robotisation, new product and patent development, and business expansion (OECD, 2023). Since SMEs account for a large portion of Polish external FDI, their competitiveness and innovation will determine their success, especially in developed nations.

The Role of Unexpected Factors: The COVID-19 Pandemic and the War in Ukraine

In the case of Poland, after a discernible impact in 2020 related to the disruption of global value chains (GVCs), the pandemic did not affect Poland's inward and outward FDI in the mid-term perspective. Investment projects postponed in 2020 resumed in 2021 and 2022, leading to record OFDI values (PwC, 2022). Record inward FDI values also indicated that Poland indeed benefited from the worldwide reshoring trend and a stronger regionalisation of value chains.

Since the end of February 2022, the Russian invasion of Ukraine has affected the functioning of firms and their supply chains. While the COVID-19 pandemic had already contributed to port congestion, shortages of containers, delays, and increasing rates for transport from China to Europe, the war in Ukraine made these phenomena even more acute, additionally increasing the risk for CEE-based investments. Overall, both the COVID-19 pandemic and the war in Ukraine have raised questions regarding the stability of GVCs. Indeed, we can expect a shift of priorities, within GVCs, towards a greater balance between efficiency and resilience, which can possibly contribute to an increase in IFDI to Poland and a further reinforcement of its positioning in Stage 2 of the IDP. On the other hand, we may

expect CEE locations, including Poland, to act as secure hubs for further investments within a broader strategy of MNEs. Not least, the post-war landscape in Ukraine can also constitute a source of opportunities, for instance in the construction or infrastructure sector. In turn, these factors can accelerate outward FDI from Poland and accelerate the country's progression towards Stage 3 of the IDP.

Policy Implications

In light of the above discussion, an important question pertains as to what policy measures can be conducive to fostering Poland's progression towards and through Stage 3 of the IDP, given the challenging international environment, especially since the beginning of the 2020s. The system of support for OFDI reviewed above still has the chance to become an effective tool to be widely used by Polish investors.

Gorynia *et al.* (2015a) suggested classifying outward FDI support measures to include policies that boost domestic enterprises' competitiveness and internationalisation. As recommended by the OECD (2023), bespoke consultation services that provide expert technical assistance to help SMEs invest in digital technologies can boost local enterprises' innovativeness and international competitiveness. Many ICT investments can be profitable, but SMEs lack the knowledge and skills to choose the right tools, resulting in low demand. The Future Industry Platform programme promotes Industry 4.0 technology in production and provides advisory and technical support. Polish Agency of Entrepreneurship Development, PARP advises and supports new and established businesses and typically promotes product or process innovation. PARP could extend and broaden stand-alone consulting services to advise SMEs on digitalisation and give financial and technical support to ICT-investing enterprises.

Gorynia *et al.* (2019) further note that support programmes for external FDI should assume that different host nations face different obstacles and that outward investors' needs would vary greatly. For countries in the first or second stages of the IDP, support recipients may need image enhancement, legitimacy building, or networking services to compete in economically more sophisticated host economies. However, such situations may require building a more competitive product or service in the home country before expanding abroad. Thus, Polish government policies encourage multinational enterprises to build technological or managerial capabilities to compete in sophisticated economies. Guarantees, loans, and diplomatic aid should serve to increase market understanding and reduce political and business risks in host nations like Poland.

CONCLUSIONS

This study's main finding is that Poland is still in Stage 2 of its IDP, with little sign of shifting to Stage 3 as the theoretical model implies. This seemingly perplexing situation may be due to the country's idiosyncrasies and foreign investors' consistent view of Poland as a mid-developed (or still advancing) economy with a large internal market and dynamic GDP growth over the last decade. These two drivers continue to lure inward FDI to Poland, which may be greater than the Polish enterprises' outbound FDI push. There are also other reasons for Polish OFDI being still limited, including the country's institutional environment over the years, as well as the limited competitiveness of Polish investors in more developed economies, followed by unexpected external shocks of the 2020s. Therefore, the general outlook and prediction emanating from the findings of the present study tend to indicate that Poland, for a still unspecified period, is likely to remain at the end of its IDP Stage 2.

Importantly, one should treat the findings and conclusions of the present study with caution due to the fact that the analysis is of a descriptive and qualitative nature and thus requires further verification using appropriate quantitative methodology. In particular, it would be insightful to create a panel based on secondary data to compare Poland and its CEE peers against more advanced economies, and explore the effects of the variables mentioned in our descriptive analysis, *i.e.*, the domestic market size, the geographic structure of FDI, and the number and type of FDI-supporting policies in these countries. Such comparative analysis could shed more light on the role of these factors, while providing insights into specific countries' idiosyncrasies.

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The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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