PRZEGLĄD ZACHODNI
2016, nr 3

MARTA GÖTZ
Warszawa
PIOTR TRĄPCZYŃSKI
Poznań

THE INVESTMENT DEVELOPMENT PATH – A BILATERAL PERSPECTIVE OF GERMANY AND POLAND

INTRODUCTION

Germany is Poland's neighbour, the main trading partner and one of the top destinations for foreign direct investment. It is the strongest European economy whose macroeconomic development profoundly affects the Polish economy. Hence, it seems legitimate to look more precisely into the long-term tendencies and evolution of the most advanced form of capital flows, i.e. foreign direct investment (FDI). While export and import developments have been closely monitored, much less is known with regard to mutual investments. Due to intensified foreign operations of Polish companies, outward FDI from Poland has started attracting the attention of practitioners and business media, although this is only a recent phenomenon. It is, however, a rare element of existing research.

In order to fill the gap and enrich our knowledge about the Polish-German investment relationship, we conduct an analysis of mutual FDI developments. We aim at detecting and evaluating the pattern of bilateral direct investment stocks, which would provide an insight into the maturity of the relations between Poland and Germany and would enable formulating an evidence-based policy. This examination is conceptually based on the Investment Development Path (IDP). The key contribution of the presented study consists in discussing the bilateral aspect of IDP and hence enriching the existing studies, most of which either touch upon general IDP developments, or simply focus on facts and figures on the Polish-German economic connections without contextualising them in broader conceptual framework.

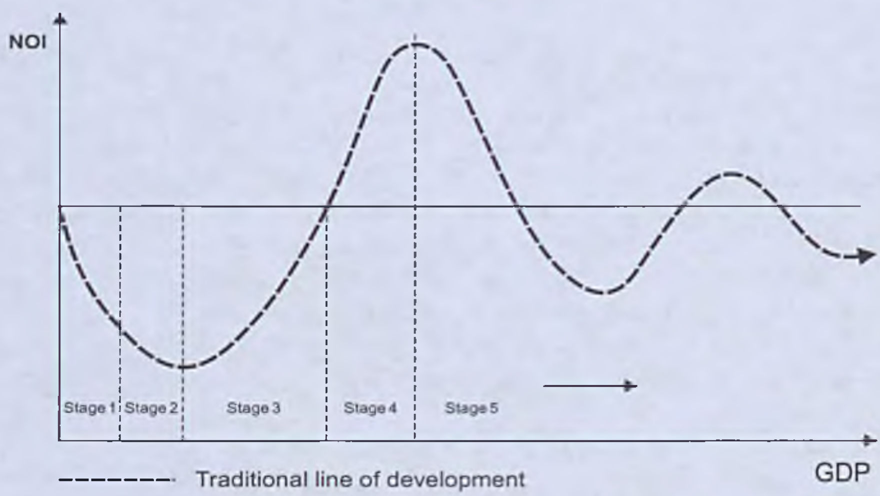
This paper is structured as follows. First, we outline the basic premises of the classic and modified version of IDP. Next, selected studies in the area of German-Polish investment and bilateral IDP are briefly reviewed. Finally, we discuss the results of conducted analysis of mutual FDI. The paper closes with conclusions and results-based recommendations.

INVESTMENT DEVELOPMENT PATH – CONCEPTUAL FRAMEWORK

The concept of investment development path (IDP) proposed by J. H. Dunning suggests that countries tend to go through five main stages of development and these stages can be classified according to the propensity of these countries to be outward or/and inward investors. IDP remains in a strong relationship with Ownership-Location-Internalisation (OLI) Paradigm. The aforesaid propensity is related to three broad sets of advantages: O – ownership advantages of companies, L – location advantages of host countries, as well as on I – internalisation advantages. Dunning introduces a diagrammatic representation of the IDP, which relates GDP to the NOI (net outward investment) position of countries as a continuous line.

Scheme 1

Classic form of IDP



Source: J. H. Dunning, R. Narula, *The Investment Development Path Revisited*, in: J.H. Dunning (ed.), *Theories and Paradigms of International Business Activity. The Selected Essays of John H. Dunning*, Vol. 1, Edward Elgar, Cheltenham 2002, p. 139.

In the first stage of the IDP path (NOI <0, negative slope), the L-specific advantages are assumed to be insufficient to attract inward direct investment, with the exception of possessing natural assets. As suggested by Dunning, the deficiency of location-bound created assets may reflect among others: inappropriate economic system of governments policies, inadequate infrastructure, like transportation and communication facilities, limited domestic market due to low incomes, and poorly motivated and educated work force. In stage 2 (NOI<0, negative, however, less steep slope than in stage 1) inward investments start to rise, and outward investments remain very low. Country must possess some desirable L characteristics to attract investors. Domestic markets may have grown in size, purchasing power, although inward investment in this stage is frequently stimulated by government policies which incite multinational enterprises (MNE) to conduct tariff-jumping investments. In stage 3 (NOI<0, positive slope) growing L advantages including market potential and improved domestic innovations can provide economies of scale, and given rising costs can encourage more technology-intensive manufacturing. As stressed by Dunning, "the motive of inward direct investment will shift towards efficiency seeking production and away from import substituting production. Moreover in industries where domestic firms have a competitive advantage, there may be some investment directed towards strategic asset acquiring activities".[1] Stage four is characterised by NOI>0 with a visible positive slope. At this stage, a country's outward direct investment stock exceeds or equals the inward investment stock from foreign-owned firms. In this stage, as stressed by Dunning, L-advantages will be based almost completely on created assets. Inward investments are directed towards rationalised and asset-seeking investment by firms from other "stage-four" countries. Stage five, as seen by Dunning is an open ended phase with NOI<0, as well as NOI>0. The NOI position of a country is believed to fluctuate around 0 level in this development stage. This is, according to Dunning, the scenario for advanced industrial nations.

J. H. Dunning, Ch. Kim and D. Park have suggested an updated version of IDP.[2] Available data allow to claim that the shape and course of IDP for catching-up economies which recently engaged in global capital flows may differ as compared to advanced economies. Particularly, noticeable trends include faster phasing in to next stages, lower scale of fluctuations i.e. absolute negative and positive values of ratio OFDI/IFDI, as well as some intertwined, repetitive stages when NOI takes values below and above zero (final fifth stage).

The theoretical discourse on direct investment originating in CEEC implies some deviations from the mainstream FDI theories. These variances, nevertheless, do not seem to be large enough to justify questioning or even falsifying of existing conventional approaches and devising a distinct framework for studying OFDI from transformation economies and Central and Eastern European countries (CEEC).[3] Differences may be attributed mainly to certain delays as firms from those countries have become

[1] J. H. Dunning, R. Narula, *op. cit.*, p. 5.

[2] J. H. Dunning, Ch. Kim, D. Park, *Old wine in new bottles: a comparison of emerging-market TNCs today and developed country TNCs thirty years ago*, in: K. Sauvant (eds.), *The Rise of Transnational Corporations from Emerging Markets. Threat or Opportunity?* Edward Elgar, Cheltenham UK, Northampton, MA, USA, 2008, p. 158-179.

[3] C. Stoian, *Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment*, "International Business Review" 2013, 22: 615-637; M. Svetličič, *Theoretical context of outward foreign direct investment from transition economies*, in: M. Svetličič, M. Rojec, *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition*, Ashgate Publishing, Aldershot, UK and Burlington, VT 2003: 15; M. Svetličič, *Slovenia Transition Economies' Multinationals - Are They Different From Third World Multinationals?* in: Ch. Chakraborty (ed.), *Proceedings of the 8th International conference on Global Business and Economic Development*, January 7-10, 2004, Guadalajara, Mexico (Montclair: Montclair State University).

involved in globalisation processes relatively recently.[4] This latecomer status is additionally aggravated by the speed of globalisation processes themselves. Studies on FDI from transition economies have found that the original and dominating motive for expanding abroad were pull rather than push factors.[5]

BILATERAL IDP AND GERMAN-POLISH FDI IN AVAILABLE STUDIES

The proportion between country's outward and inward FDI depends on the pursued policy. Nevertheless, it is intrinsically related to a country's economic development as laid out by Investment Development Path.[6] According to this paradigm, the net investment position defined as difference between outflowing and incoming FDI will fluctuate as the country progresses in terms of development. This is depicted by the U-shaped relation between economic development and net outward investment position. In the earliest phase, the basic infrastructure offered does not suffice to attract even vertical i.e. low-cost seeking IFDI.[7] It starts coming once the country manages to upgrade its infrastructure. Meantime, domestic firms would improve their competitiveness within a "learning by doing" process and create assets which shall allow them to venture abroad. Simultaneously, however, some of the traditional advantages (cheap labour, low cost) would erode and become replaced by other factors (scale economies), thereby encouraging market-seeking or horizontal FDI oriented towards gaining access to the growing market of developing country.

IDP has undergone some refinements and reconfigurations aimed at resolving some of its shortcomings.[8] One of the major caveats is the fact that a net FDI position close to zero can emerge in the first stage of IDP (very little IFDI), as well as in the fifth (equally high levels of IFDI and OFDI). Another controversy arises due to the

---

[4] P. Gammeltoft, H. Barnard, A. Madhok, *Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies, Emerging multinationals, emerging theory: Macro- and micro-level perspectives*, "Journal of International Management" 2010, 16(2), p. 95-101.

[5] M. Gorynia, J. Nowak, R. Wolniak, *Investment Development Paths of Central European Countries: A Comparative Analysis*, "Argumenta Oeconomica", 2010, 1(24), p. 65-87; M. Svetličič, *Conclusions, Policy Suggestions and Future Perspective*, w: M. Svetličič, M. Rojec, *op. cit*., p. 244.

[6] J. H. Dunning, *Explaining the international direct investment position of countries: towards a dynamic or developmental approach*, "Weltwirtschaftliches Archiv" 1981, 117, p. 30-64; J. H. Dunning, *The investment development cycle revisited*, "Weltwirtschaftliches Archiv" 1986, 122, p. 667-677; J. H. Dunning, R. Narula, *The investment development path revisited: some emerging issues*, in: J.H. Dunning, R. Narula (eds.), *Foreign direct investment and governments*, London, Routledge, 1996, p. 1-41.

[7] F. Barry, H. Görg, A. McDowell, *Outward FDI and the investment development path of a late-industrializing economy: evidence from Ireland*, Reg. Studies 2003, 37, p. 341-349.

[8] C. Bellak, *The Investment Development Path of Austria*, Department of Economics Working Paper no. 75, Vienna University of Economics and B.A., November 2000; M. Fonseca, A. Mendonca, J. Passos, *The Investment Development Path Hypothesis: Evidence from the Portuguese Case – A Panel Data Analysis*, School of Economics and Management, Technical University of Lisbon, Working Paper 021/2007/DE, p. 9-14.

inadequacy or insufficiency of GDP as a proxy of a country's development. This needs to be complemented by an analysis of elements such as innovativeness.

A more disaggregated - bilateral or sectoral - approach in exploring IDP is rare. Yet, the concepts of structural and bilateral IDP should be viewed as complementary to the general macro-level IDP view. One available study analyses the growth, the stability, and the sign of the NOI position of Austria.[9] While the NOI at the macro level has been negative by 2000, considerable variation at the industry and the bilateral was detected. Given the small domestic market size, Austrian NOI does not reflect the high level of development in terms of GDP, which can be explained by various factors. In the Austrian case, determining is geographical and industrial structure of domestic production and the policies pursued, as well as external political events like joining EFTA or UE.[10] The policy underway changes, as well, from the reduction of market failures towards promoting better integration between domestic and foreign firms and stimulating domestic companies to venture abroad.[11] The IDP concept has been also explored in terms of the bilateral investment relationship between Ireland and the US.[12] Econometric work on the Irish-American FDI linkages provide support for the IDP hypothesis. A study covering Portuguese FDI developments has found support for the IDP paradigm, although it proved impossible to capture all the stages theoretically predicted, *inter alia* due to the short period considered.[13]

Based on our literature review, no studies on bilateral aspects of IDP have been conducted for Poland so far. According to M. Gorynia, J. Nowak and R. Wolniak and the studies quoted by them[14], Poland can be located in late second phase of IDP or early third stage.[15] This can be confirmed by the Polish Central Bank (NBP) statistics on Polish international investment position in 1994-2009,[16] as well as those available from UNCTAD in the period 1990-2013[17]. Interestingly, Poland consistently remains

[9] C. Bellak, *op cit.*

[10] C. Bellak, *op. cit.*, p. 20; M. Fonseca, A. Mendonca, J. Passos, *op cit.*, p. 16.

[11] M. Fonseca, A. Mendonca, J. Passos, *op. cit.*, p. 6

[12] F. Barry, H. Görg, A. McDowell, *op. cit.*

[13] M. Fonseca, A. Mendonca, J. Passos, *op. cit.*, p. 6.

[14] F. Boudier-Bensebaa, *FDI-Assisted Development in the Light of the Investment Development Path Paradigm: Evidence from Central and Eastern European Countries*, "Transnational Corporations" 2008, 17(1), p. 37-67; C. Kottardi, F. Filippaios, M. Papanastassiou, *The Investment Development Path and the Product Cycle – An Integrated Approach: Empirical Evidence from the New EU Member States of CEE*, University of Reading Economics and Management Discussion Papers, 2004 no. 003, Reading: University of Reading, as quoted by: M. Gorynia, J. Nowak, R. Wolniak, *Foreign direct investment of Central and Eastern European countries, and the investment development path revisited*, „Eastern Journal of European Studies" 2010, 2(1), p. 23-25.

[15] M. Gorynia, J. Nowak, R. Wolniak, *op. cit.*, p. 26.

[16] M. Götz, *Bezpośrednie inwestycje polskie w Niemczech*, Ekspertyza Instytutu Zachodniego dla MSZ, Poznań 2012.

[17] M. Gorynia, J. Nowak, P. Trąpczyński, R. Wolniak, *The Investment Development Path of Poland: a Current Assessment*, Conference proceedings of the European International Business Academy (EIBA)

at the end of stage 2 of her IDP, which is clearly behind the position that the country's GDP level would imply. According to the cited authors, this development can be attributed to the pull of the large internal market, the still weak competitiveness of domestic firms in international markets and the reluctance of government to adopt more active, firm specific ownership advantage stimulating policies towards outward FDI. In general, the available few studies devoted to bilateral IDP point out the idiosyncrasy of path developments and highlight the importance of modifying factors, such as sector under consideration or policy pursued, as well as one-off events such as accession to the EU or the financial crisis, which in particular cases can both promote outward FDI or inward FDI.

As far as Polish-German bilateral investment relationships are concerned, a huge asymmetry can be observed. Polish FDI in Germany accounts for some 1% of all German inward FDI, whereas German firms operating in Poland belong to the most active and largest foreign investors. According to the figures provided in the Report by KPMG and Polish German Chamber AHK, Polish firms have invested so far in Germany 30 times less than German companies in Poland.[18] There are around six thousand German firms operating in Poland, which employ approximately 300 thousand people. The stock of German investment in Poland constitutes 17% of all FDI in Poland. According to the KPMG/AHK Report, the stock of Polish investment in Germany totals some 3.6 billion PLN by the end of 2013, whereas 6230 German firms have invested in Poland around 114 billion PLN. These investments tend to be concentrated in Masovian region and Western voivodships.[19]

Earlier qualitative studies based on in-depth interviews with stakeholders involved in Polish investment in Germany show that Polish firms tend to act in this market rather independently, i.e. regardless of the behaviour of other firms.[20] Rivals' moves do not impact directly the firm's own choice to invest or not in Germany. Clear strategies of "follow the leader" or "pre-emptive strike" cannot be hence detected and confirmed. Decisions of examined Polish companies do not seem to be cost-motivated, but rather influenced by the attractiveness of the host country. Despite Germany's physical proximity, its business environment constitutes a significant investment barrier for many Polish firms pointing to its particularly high degree of regulation. Bureaucratic hurdles are cited as the main hindrance in the German market. "Some problems can be actually traced back to scrupulous observance of the law by German civil servants"[21]. However, they clearly stress that this difficulty pertains mainly to the first steps in investments. Later on, the rules and norms may in fact provide a transparent and clear business environment easy to operate in. "The Polish way of doing business

41st Annual Conference, 2015.

[18] *Perspektywiczne sąsiedztwo. Polsko-niemieckie relacje gospodarcze,* Raport KPMG in Poland and Polish-German Chamber AHK http://www.kpmg.com/pl/pl/issuesandinsights/articlespublications/strony/ip-polska-przyciagnela-ponad-114-mld-zlotych-niemieckich-inwestycji.aspx.

[19] M. Götz, *Wybrane aspekty ….*, p. 41-49.

[20] M. Götz, *Outward Foreign Direct ..*, p. 30-53.

[21] *Ibidem*, p. 43.

resembles rather the Anglo-Saxon way, as it prefers short-term gains over long-term relation-building or gradual development of trust, as is the case in Germany. Such behaviour requires a huge amount of time and resources, though in the long run it certainly pays off; it is invaluable in the long perspective".[22]

Available studies, often relying on simple case studies or small heterogeneous samples, while undoubtedly very insightful, must be taken with a certain degree of caution. The analysis presented in the ensuing sections drawing on the aggregated balance of payment statistics and framed in the context of IDP concept may enrich existing literature.

EMPIRICAL STUDY

To explore the mutual FDI relations between Poland and Germany, we retrieve data from annual reports compiled by the Polish Central Bank (NBP) with respect to Balance of Payments statistics.[23] The investigated period covers the years 2003-2014.

We (i) analyse and (ii) assess bilateral FDI between Poland and Germany in order to detect possible patterns and be able (iii) to formulate evidence-based recommendations and policy guidelines, with a particular focus on the following elements:

1. Overall evolution of bilateral FDI
2. Development of the net FDI position (OUT-IN) p.c. in relation to changes in GDP p.c.
3. Trends in NOI position development in subsequent years.

This exploration enables in particular:

- to answer how mutual investments have been developing over last decade, do they rise or fall, how is the relationship between them, and how much one category exceeds the other;
- to confirm or question the IDP model which assumes that as GDP p.c. increases NOI changes as well and finally,
- to answer how this relation (outward minus inward FDI to GDP) has fluctuated over time.

RESULTS

Plotting the Polish FDI in Germany against the German FDI in Poland reveals a significant asymmetry with the latter exceeding profoundly the former. The ratio (stock of Polish FDI to the stock of German FDI) varies between 2% to 8%.

[22] *Ibidem.*

[23] Narodowy Bank Polski, or NBP (Polish Central Bank) Statistics - http://www.nbp.pl/homen.aspx?f=/en/publikacje/ziben/ziben.html Foreign Direct Investment in Poland; http://www.nbp.pl/homen.aspx?f=/en/publikacje/piben/piben.html Polish direct investment abroad.

Figure 1

Polish FDI stocks in Germany compared to German FDI stocks in Poland (values in million euros for 2003-2014)

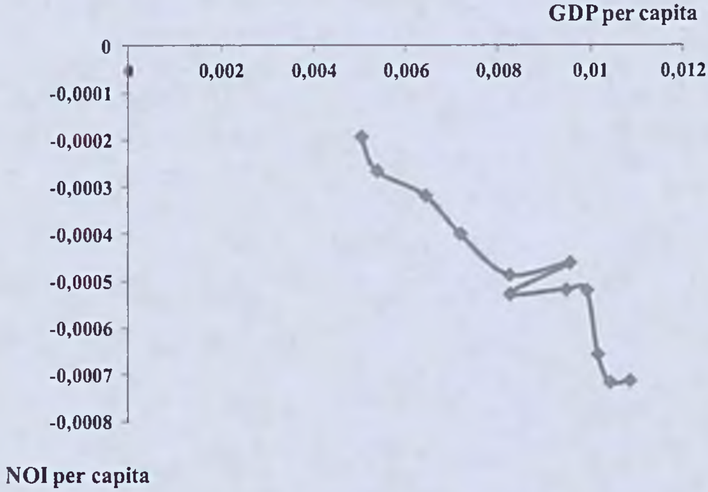
Source: own calculations based on annual reports of the Polish Central Bank (NBP).

One cannot identify any discernible pattern suggesting some closure of this gap. In fact, the catching up of Polish investment which could be considered as a steady development until 2012, ended abruptly in 2013 and remain at a lower level in 2014. This decline can be attributed to the substantial decline of Polish FDI stock in Germany in 2013. Worth stressing are periods of significant increases (such as in 2010, when the value increased more than twofold) and falls (in 2013, when it more than halved) of the value of Polish FDI in Germany which indicate some erratic developments. German investors, on the other hand, seem to follow a more stable path of development.

This unclear evolution can be further supported by the analysis of GDP p.c. versus NOI p.c. For the same or similar values of GDP p.c. the construct "NOI p.c." takes different values and *vice versa*, when nearly the same values of NOI p.c. correspond with diverse levels of GDP p.c.

Figure 2

NOI for Polish – German FDI (values in million euros for 2003-2014)



Source: own calculations based on the annual reports of the Polish Central Bank (NBP)

This is further confirmed by temporary changes of NOI p.c., whose values have been fluctuating in subsequent years.

Figure 3

Evolution of bilateral NOI p.c (values in million euros for 2003-2014)

Source: own calculations based on the annual reports of the Polish Central Bank (NBP)

NOI p.c. has been declining until 2007, then rose in 2008, fell again in 2009, was on the rise till 2011, declined in 2012 and 2013 and slightly begin to increase in 2014. It stands in contrast with the classic IDP pattern, where the NOI values show a more clear tendency, first showing a decline of negative values, then gradually increasing from negative to positive values. These developments might be, however, interpreted as only some minor deviations from the general trend of decreasing NOI p.c. If indeed true, the bilateral Polish-German FDI stance would reflect early IDP stages – most likely late first – early second phase.

Figure 4

Graphic representation of the IDP: Poland-Germany

Source: own calculations based on the annual reports of the Polish Central Bank

To sum up, it cannot be confirmed that Poland follows classic IDP stages as far as bilateral FDI with Germany is concerned. Outward FDI from Poland to Germany is significantly smaller than inward FDI from Germany. As time goes by, the difference between Polish-German outward and inward investment in relation to GDP is fluctuating with an upward and downward trend. As far as Polish-German FDI ties are regarded Poland seems to be an "outlier", when its bilateral IDP is compared to the "idealised" IDP.

A refined approach[24] to IDP which confronts country's OFDI p.c. (vertical axis) with IFDI p.c. (horizontal axis) in its graphic version provides insight to the possible changes of host country attractiveness and domestic firms competitiveness[25]. A horizontal movement to the right means an improvement of location advantages, likewise a movement to the left suggests a loss of location attractiveness. Improvement of competitiveness of domestic firms can be measured by a vertical upward movement.

The dominance of "north-east bound" changes (7 times) can be hence seen as double positive tendency – increasing location attractiveness and domestic companies' competitiveness. Nevertheless, recent significant "south bound" changes if interpreted as suggested by Duran and Ubeda, seem to have offset completely previous improvements, at least in terms of home firms' competitiveness.

PRELIMINARY RECOMMENDATIONS

The presented findings, confirming a significant and persistent asymmetry in terms of mutual FDI, can be regarded as a starting point for some evidence-based policy-making. One has to be aware of the obviously limited space available for policy makers with respect to actively affecting FDI flows. Nevertheless, some recommendations can still be formulated. The presence of German capital should be exploited to enable the host country economy to climb up higher in the global value chain, which has been already suggested in some earlier studies.[26] Poland should predominantly focus on hosting more advanced and technology-intensive foreign firms. Bearing in mind the difficulties arising from a potentially still limited absorptive capacity, an important externality of such higher-end value activities would pertain to qualitative upgrading of existing firms. Thereby not the absolute volume of investment projects should be a priority, but rather their objectives and impacts on the host economy. The already established German investors in Poland should possibly be encouraged to intensify their involvement in Poland and enhance cooperative ties with domestic firms. However, conditions for such fruitful spillovers need to be provided, for instance by providing subsidies or fiscal incentives for such collaborative projects. Given Germany's gradual progress towards Industry 4.0 and the anticipated huge production modifications[27], Poland may seek possibilities to learn from German firms. In the future, hosting such investors would require much more sophisticated ecosystem. Learning how to deal

[24] This resembles the pattern plotted on figure 1.

[25] M. Fonseca, A. Mendonca, J. Passos, *op. cit.*; J. J. Duran, F. Ubeda, *The Investment Development Path: a new empirical approach and some theoretical issues,* "Transnational Corporations" 2001, 10(2), p. 1-34.

[26] J. Guimón, S. Filippov, *Competing for High-Quality FDI: Management challenges for investment promotion agencies*, „Institutions and Economies" 2012, 4(2), p. 25-44; J. Guimón, *Government strategies to attract R&D-intensive FDI*, „The Journal of Technology Transfer" 2009, 34(4), p. 364-379.

[27] *Industrie 4.0 – Volkswirtschaftliches Potenzial für Deutschland,* Studie, https://www.bitkom.org/Publikationen/2014/Studien/Studie-Industrie-4-0-Volkswirtschaftliches-Potenzial-fuer-Deutschland/Studie-Industrie-40.pdf.

with these challenges is therefore of utmost importance. All initiatives and actions aiming at assuring the future necessary compatibility between Polish and German partners should be hence supported.

Simultaneously, Polish firms should be advised and assisted in their foreign investment. There is some empirical evidence that Polish firms investing in more advanced countries, like Germany, may actually face serious challenges for their performance, especially given their still limited international experience.[28] Thus, support provided by authorities such as dedicated departments of Embassies, Ministries or Agencies as well as consultancy firms KPMG, Deloitte should be made more available for larger pool of companies.[29] Information of such help is often missing, and companies themselves seem to be meagrely interested in such opportunities. Clearly, this awareness barrier needs to be overcome with more information campaigns.

In general, while trying to attract new German capital, Poland needs to intensify efforts, on the one hand, to upgrade current investors' involvement in Polish economy, and on the other, to stimulate a thoughtful expansion of Polish firms to the German market while preventing the effect of hollowing-out. Public intervention to minimise the negative consequences of delocation resulting from the growth of outward FDI should be adequately designed and implemented. As the latest studies point out, competitiveness, which is in most cases a *sine qua non condition* for successful internationalisation, is determined at the firm level and results from an optimal allocation of resources among entities which provide the right structure of the national economy.[30] Industrial structures and differences in the distribution of firm characteristics are instrumental in explaining aggregate country performance in foreign markets.[31] As it has been argued in the past, if home countries are to benefit from knowledge and efficiency spillovers from FDI, domestic firms must develop an appropriate absorptive capacity.[32] Their domestic upgrading is also essential from the point of view of successfully expanding out of the home country, particularly in the case of emerging markets.[33] This can include the reduction of transaction costs in the home market or the establishment of a high-quality labour market, as well as

---

[28] P. Trąpczyński, E.R. Banalieva, *Institutional difference, organizational experience, and foreign affiliate performance: Evidence from Polish firms*, "Journal of World Business" 2016, 51(5), p. 826-842.

[29] M. Götz, *Polish Foreign Investment - State Aid?* Institute for Western Affairs' Special Bulletin (No. 134/2013), 22.07.2013.

[30] *European firms in a global economy* - EFIGE Project financed by the Seventh Framework Programme of the European Union. http://bruegel.org/efige/.

[31] G. Navaretti, M. Bugamelli, G. Ottaviano, F. Schivardi, C. Altomonte, D. Horgos, D. Maggioni, *The Global Operations of European firms*, EFIGE Policy Report - project 'European Firms in the Global Economy: Internal Policies for External Competitiveness' (EFIGE); http://bruegel.org/wp-content/uploads/2015/09/EU-format-EFIGE-Policy-Brief-2.pdf.

[32] M. Gorynia, J. Nowak, P. Trąpczyński, R. Wolniak, *Government Support Measures for Outward FDI: An Emerging Economy's Perspective*, "Argumenta Oeconomica" 2015, 1(34), p. 229-258.

[33] M. Gorynia, J. Nowak, P. Trąpczyński, R. Wolniak, *Should Governments Support Outward FDI? The Case of Poland*, in:, S. Marinova (ed.), *Institutional Impacts on Firm Internationalisation*, Palgrave Macmillan, 2015, p. 120-145.

fostering entrepreneurship and innovativeness rather than mere internationalisation *per se*. Given some preliminary evidence that Polish firms' performance in more developed foreign markets is to a larger extent based on created assets, the point on enhancing their competitiveness before successfully entering markets such as Germany gains even more relevance.[34]

We are fully aware that formulating any recommendations in this area is burdened with a certain degree of ambiguity. One can namely occasionally encounter contradictory arguments, claiming that outward FDI is too low and hence should be fostered on the one hand, while on the other hand OFDI can be argued to be an outflow of needed capital.

CONCLUSIONS

This paper focuses on the bilateral aspect of IDP, which seems to be a neglected research area, thus far. The evolution along the IDP has been, with some exceptions, studied mainly globally without differentiating between specific sectors or partner countries. As the IDP is associated with policy evolution, findings related to its key trends may offer useful insights in terms of adequate policy making. In particular, it might suggest some appropriate steps to be undertaken in order to shift the economy up on the next level of development. While Poland can be classified as residing somewhere between the second and third stage of IDP in relation to the rest of the world, in bilateral relations with Germany it seems to be at a still earlier stage – late first or early second. This confirmed significant asymmetry between Polish investment in Germany and German ones in Poland is most likely accompanied by the occurrence of single large transactions significantly impacting the shape of IDP.

The Investment Development Path assumes that inward and outward investment position of a country is linked to its economic development. Polish-German FDI linkages seen from this perspective seem to defy such relationship. Other factors than pure economic development, i.e. GDP growth, play role in determining the mutual flows given the rather erratic evolution of NOI position. The fact that Poland is in the late first or early second stage of IDP in relation to Germany, signify the inflow of mainly costs-driven and market-oriented FDI and a still low take-off of investment outflows. In general, Poland seems to be an attractive location mainly due to the market potential whereas domestic firms do not reveal strong competitive advantages enabling them venturing to German market. A refined version of Polish IDP as proposed by Duran and Ubeda (2001) and the recent negative changes of OFDI p.c. as compared to IFDI p.c. also highlight the need of upgrading home business's competitiveness, which should ideally translate into more internationalisation of indigenous.

[34] P. Trąpczyński, *Dissecting the sources of competitive advantage of infant MNEs: performance antecedents of foreign affiliates of Polish firms*, "European Journal of International Management" 2016, article in preparation.

We are aware that there are multiple ways of improving the presented approach in the future. Among others, further research may take into account other investment partners of Poland and compare these bilateral IDPs with the German one. Obviously, as new statistics are available, the considered time series should be extended. More specifically, detailed data with respect to certain sectors may offer an additional refinement and provide a more detailed account on the relative stage of advancement of particular activities, thus contributing to the discussion about Poland's role in international value chains.

Research by Marta Götz has been undertaken within the project funded by the National Science Centre allocated on the basis of decision number DEC-2014/13/B/HS4/00165 titled "State role in (post)crisis European economy – policy towards foreign direct investment".

Piotr Trąpczyński is supported by the Foundation for Polish Science (FNP)

Prof. dr hab. Marta Götz, Akademia Finansów i Biznesu Vistula, Warszawa (m.gotz@vistula.edu.pl)

Dr Piotr Trąpczyński, Katedra Konkurencyjności Międzynarodowej, Uniwersytet Ekonomiczny, Poznań, (piotr.trapczynski@ue.poznan.pl)

Słowa kluczowe: Bezpośrednie Inwestycje Zagraniczne (BIZ), Polska, Niemcy, ścieżka rozwoju inwestycyjnego IDP

Keywords: FDI, Germany, Poland, IDP

ABSTRACT

This paper aims to explore the pattern of foreign direct investment (FDI) between Poland and Germany. It focuses on the bilateral aspects of the Investment Development Path (IDP) which so far seems to have been a rather neglected research area. Evolution along the IDP has been, with some exceptions, studied mainly globally without differentiating between partner countries. The conducted analysis sheds light on mutual Polish-German investment relations by putting them in the context of the IDP concept. The obtained findings can be supportive in formulating policy guidelines.