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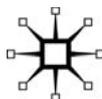
# Determinants of FDI Flows within Emerging Economies

A Case Study of Poland

Arkadiusz Mironko

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# Foreword

This book makes an important contribution to the recent revitalization of interest in the drivers and effects of the location of foreign direct investment (FDI) in sub-national regional areas or clusters within countries. The renewed attention being paid to this research topic returns the international business (IB) field to one of the areas in which it began. In some of his early work in the 1950s and 1960s, for example, John Dunning examined issues connected with the location of firms in cities or local areas. However, as the focus of attention in the IB field gradually shifted from the host location – in which FDI was sited to the multinational corporation (MNC) as the actor responsible for such investment – IB researchers came to interact much more with scholars working on industrial organization or business strategy, and less with those in economic geography or regional science. The MNC was itself defined as an organization which conducts business across national borders, which required a cross-national perspective, and therefore lent itself most naturally to treatments of the host location as a country. This approach was reinforced by the greater availability of data at a country level than at a sub-national, regional level, especially in a comparable form across different countries or parts of the world. As a consequence, the subject of FDI in sub-national regions was, for a time, addressed mainly by economic geographers and regional scientists, and in a specialist literature. Thankfully, this research topic has moved back to center stage for the wider IB field once more, and it is gradually being reintegrated with the mainstream IB literature. This book helps to achieve just such a reintegration of key ideas and concepts, and provides a framework for doing so.

One factor behind the revival of interest among IB scholars in a more nuanced analysis of location has been the rediscovery of the role of clusters and localized knowledge spillovers (LKS) in the business strategy literature. This rediscovery began with the principle that the location may become a source of competitive advantage or capabilities for the firm and, hence, must be recognized as part of its strategic configuration. Inevitably, this gave rise before long to various strands of work that have emphasized the heterogeneity of firms when considering the nature of their interaction with the locations in which their activities are sited. That is, not all firms can benefit to the same extent from locating

in a given cluster, and firms are likely to make very different location choices according to their own distinctive profile of potential gains and losses from being situated in a range of possible alternative locations. The story becomes further complicated once we acknowledge that such firm location decisions may well not be independent of one another, so firms are likely to respond over time to the location decisions made by other firms in their industry, or from the same country-of-origin. Indeed, certain strands of this literature have argued that some firms may lose from LKS, where others gain (so the spillover principle that a rising tide of knowledge lifts all boats is not the only principle in play) and, therefore, location decisions are based in part on strategic calculations. Given this backdrop, it is highly appropriate that in examining the regional location of foreign MNCs in Poland, Arkadiusz Mironko takes a strategic approach and distinguishes between the leading firms in an industry and others.

The findings reported here are very interesting in this respect. The existing presence of leading MNCs in a region can deter smaller followers from locating there, as the resources and networking opportunities available in the location are disproportionately drawn to the dominant player. In a recent paper, Ram Mudambi and I discussed a similar effect that we had observed in a UK context, one which we termed the physical attraction exercised by the dominant firms in an industry (Cantwell and Mudambi, 2011). Yet, this is not a uniform effect since, as suggested in our paper, it depends on the extent of the dispersion of large firms that are active in a local industry, rather than on the presence of large incumbent firms in the industry. Thus, where a region is large and munificent enough to allow for the co-presence of multiple leading firms, the firms compete with one another to bring greater vibrancy, and in so doing provide an increased variety of potential networking opportunities for other actors in the local industry. While large established firms are present, they share the market, and industrial concentration remains lower than in a situation in which there is a single dominant firm operating in a location – which single major channel tends to be associated with dependency on the part of other actors in that place, and a lack of entrepreneurial networking opportunities for independent smaller firms of a more innovative kind. Therefore, the findings of Arkadiusz Mironko's valuable research show us that, when explaining different FDI locational strategies, we have to take into account the heterogeneity of regions or locations, as well as the heterogeneity of firms in an industry. Regions that attract few leading foreign firms may deter the entry of other companies and, so, never really take off, whereas regions

that attract a diversity of leading foreign firms may enter into a virtuous cycle of favorable cumulative causation, in which the strategic interaction between firms helps to promote further local resource development and thereby sustains growth.

For further exploration of the analysis of regions and FDI, the investigation of the Polish case, in itself, is interesting, since by definition it has not, until recently, been feasible to conduct such studies in emerging market economies in transition. The sudden shock to the structure of the Polish economy constituted by the institutional reform process provides a useful test bed for just such a study as the one documented in this volume, since we can assess the relevant relationships in a relatively pure early-stage form. Some social statisticians claim that this kind of policy-induced shock to a system constitutes the closest one can come, in the social sciences, to a natural experiment of the kind used in the natural sciences – one in which we can isolate the effect we are most concerned with from other complicating factors associated with the complex or systemic heritage carried forward from the past. For this study, the relevant institutional shock was provided by the opening up of Poland to the investments of foreign MNCs.

With all this in mind, I am very happy to commend this work to anyone with an interest in the related themes of the location of FDI and of international business strategy.

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# Preface and Acknowledgments

This book is the product of a research interest that became a passion. In 2004, Poland, my country-of-origin, was at an interesting crossroads when (along with a number of other developing nations of Central and Eastern Europe) it joined the European Union. Poland had an aspirational goal, one which was burdened with a solid risk.

The most obvious task in Poland's endeavor was to attract foreign investment to help the country prosper and develop its economy. This goal is easier to devise than to deliver and, like most developing countries, Poland faced numerous challenges. The members of transition governments do not always see eye-to-eye and, hence, Poland's factions were undoing each other's policies. Initially, during the first phase of privatization, which took place in the early 1990s, it was relatively easy to attract investment. For foreign investors it must have felt like being at a yard sale, where they could buy outdated factories on the cheap and gain access to new developing markets. Not a bad deal.

In turn, the expectation of the Polish government and citizenry was that employment levels would be maintained and that – in addition to capital – new technology, know-how, and skills would be brought in. The hope in such cases is that existing indigenous capabilities will be developed based on increasing knowledge, delivering, in due course, planned or sometimes spontaneously occurring specializations. Such capability and specialization developments often follow a pattern of industrial specialization or country-of-origin commonality, often creating a spontaneous or predetermined collaborative effect in developing networks of firms. The participants in these networks, when they develop, are generally set in geographic proximity to each other due to an existing access to needed knowledge – skills, resources, or markets, which enable efficient and complementary operations.

This book presents empirical evidence generally taken into consideration in the decision-making process of foreign investors setting up operations in Poland and other developing economies – and by national and regional policy makers in an attempt to attract foreign direct investment. Such decisions are often driven by exogenous strengths that specific investors bring with them, and by national and regional

economic factors generally represented in the form of the host regions' existing resources, skills, and capabilities.

The majority of studies on the subject focus on developed economies, while a limited number of studies are dedicated to developing economies. The aim of the present work is (in the Polish context) to shed some light on the methods of analysis of the capabilities of host economies and of the relationships between those economies and foreign investors – not only at a national level, but also at regional and, possibly, sub-regional levels to determine the strengths of developing nations. The focus on the transitional period of Poland's accession to the European Union offers a specific dimension as to the influence, proximity, and openness of the neighboring markets as the economy enters a vastly larger and more affluent free-trade market.

Especially close links promoting development of capabilities in select Polish regions are explored here, with a close view on how MNCs develop relationships in new areas of economic interest by creating collaborative economies similar to those described by Adam Smith in 1776, some of which reach sustainable scales, while some are simply exploited by investors for short-term gain.

In the case of some regions in Poland, a detailed review of the results presented here should give the methodology and an in-depth picture as to the location patterns and integration of foreign investment, results applicable not only to the Polish economy, but also to other developing economies.

Most importantly, I must express my gratitude to Professor John Cantwell, who has offered his advice and guidance to me over the years when I was researching the subject. I appreciate his sharing of ideas and criticisms throughout the process. His wisdom and candor are certainly very much appreciated.

Finally, I want to express particular thanks to the Central Statistical Office of Poland (GUS) for allowing me the use of their materials and data.

# List of Abbreviations

CE	Central Europe
CSO	Central Statistical Office – (Główny Urząd Statystyczny – GUS)
EU	European Union
FDI	foreign direct investment
IMF	International Monetary Fund
ITO	International Trade Organization
NUTS	European Nomenclature of Territorial Units of Statistics
NTS	Nomenclature of Territorial Statistics
PAIIZ	Polish Information and Foreign Investment Agency (Polska Agencja Informacji i Inwestycji Zagranicznych)
PKD	Polish Classification of Activity (Polska Klasyfikacja Działalności)
RDB	Regional Data Bank
RLAco	Revealed Location Advantage for a country-of-origin
RLA	Revealed Location Advantage for industrial specialization
RTA	Revealed Technological Advantage
SME	small and medium enterprises
WB	World Bank