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Evaluation of the *Investment Development Path* concept in selected Baltic Sea Region states: **Where are we?**

Ocena koncepcji Ścieżki Rozwoju Inwestycji w wybranych państwach regionu Morza Bałtyckiego: Gdzie jesteśmy?

Abstract: In the European Union (EU), there are four Baltic Sea Region (BSR) states – Estonia, Latvia, Lithuania, and Poland – which are interlinked by the following facts: the common moment of obtaining EU membership, a common historical path from communism to democracy, and being part of the BSR. Although the selected countries share common roots, it seems that, in terms of the economic development, they may follow a different path. *Investment development path (IDP)*, a concept developed by J.H. Dunning, stresses that the development of a country is a result of being an active exporter of capital. This paper aims to evaluate the progress of the four selected economies in terms of their IDP. The analysis takes into consideration their peculiar economic determinants. The methods used include quantitative and qualitative methods. Among the qualitative methods, a literature review briefly presents Dunning's IDP paradigm. The review of existing empirical research highlights the contributions of the paper. The quantitative methods cover the statistical data illustrating the progress of the selected countries in terms of the IDP. The data were obtained from United Nations Conference on Trade and Development (UNCTADStat) and Eurostat. The BSR states under investigation differ in terms of their economic growth. However, they share a common denominator of maintaining the role of importer of capital. The highest dynamics of the growth of the outward stock of Foreign Direct Investment (FDI) was observed in Poland and Lithuania. It is Poland and Estonia, however, that seemingly will climb on the ladder of IDP faster than Latvia and Lithuania. In all cases, these countries deal with higher dynamics of annual growth of Outward Foreign Direct Investment (OFDI) than Inward Foreign Direct Investment (IFDI), which suggests that all are at the third stage of IDI. However,

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complex analysis reveals differences that shed new light on the progress of development paths of these BSR states.

Keywords: Investment development path, Baltic Sea Region States, Foreign Direct Investment

Streszczenie: W Unii Europejskiej (UE) znajdują się cztery państwa regionu Morza Bałtyckiego (BSR) – Estonia, Łotwa, Litwa i Polska – które łączą następujące fakty: wspólny moment uzyskania członkostwa w UE, wspólna droga historyczna od komunizmu do demokracji i bycie częścią BSR. Choć wybrane kraje mają wspólne korzenie w wymiarze zarówno historycznym, jak i ekonomicznym, wydaje się, że pod względem rozwoju gospodarczego mogą podążać inną ścieżką. Ścieżka rozwoju inwestycji (IDP), opracowana przez J.H. Dunninga, wskazuje na to, że rozwój kraju jest konsekwencją dynamicznego wzrostu zasobu kapitału za granicą. Celem artykułu jest ocena postępu czterech wybranych gospodarek pod kątem ich IDP. Analiza uwzględnia specyficzne uwarunkowania ekonomiczne. Stosowane metody obejmują metody ilościowe i jakościowe. Wśród metod ilościowych przegląd literatury pokrótce przedstawia paradygmat IDP Dunninga. Przegląd istniejących badań empirycznych podkreśla wkład pracy. Metody jakościowe obejmują dane statystyczne obrazujące postęp wybranych krajów w zakresie IDP. Badane kraje BSR różnią się pod względem wzrostu gospodarczego. Łączy je jednak wspólny mianownik utrzymania roli importera kapitału. Największą dynamikę przyrostu zasobów zagranicznych inwestycji bezpośrednich (ZIB) zaobserwowano w Polsce i na Litwie. We wszystkich przypadkach kraje te mają do czynienia z wyższą dynamiką rocznego wzrostu Wychodzących Bezpośrednich Inwestycji Zagranicznych (OFDI) niż Przychodzących Bezpośrednich Inwestycji Zagranicznych (IFDI), co sugeruje, że wszystkie znajdują się na trzecim etapie. Jednak kompleksowa analiza ujawnia różnice, które rzucają nowe światło na przebieg ścieżek rozwoju tych państw BSR. To Polska i Estonia w przyszłości najszybciej mogą awansować na ścieżce IDP.

Słowa kluczowe: Ścieżka Rozwoju Inwestycji, państwa regionu Morza Bałtyckiego, bezpośrednie inwestycje zagraniczne

Introduction

The foreign direct investment (FDI) phenomenon has always been in the interest of international economy. The important role that FDI plays in the development of the economies of developing countries is indisputable. The catalytic role of FDI, brings to the host economy are creation of jobs, filling the capital gap, introducing and sharing know-how, technology, or managerial practices, cooperation with local suppliers, and many more. An interesting case is the assessment of the progress made on their development path, which shows the transformation from an absorber of FDI to an exporter of FDI. The great interest of foreign investors in countries such as Estonia, Latvia, Lithuania, and Poland is the result of the probable profits it can bring

to multinationals, especially those that develop FDI, seeking for new markets or assets¹.

For this analysis, the following countries were chosen: Poland, Latvia, Lithuania, and Estonia. They comprise the Baltic Sea Region (BSR) states and share a common history in terms of the strong influence of the Russian Federation in the past. The process of the evolution from the centrally planned economies in the direction of market-led economies have strongly affected their economic development. The selected BSR states joined the European Union in 2004. It is important that they create alliances not only in political terms but also in terms of international economic relations. These BSR states do not create a homogenous group of economies, as main differences are observed in terms of the size of the economy, factor endowments, and the continuing reform of the economy structure. However, it seems that the opportunities provided by EU membership were seized differently by each of these countries.

There are two distinct gaps in the literature regarding the selected BSR states. First, there is a lack of research focusing on comparative analysis of the selected countries in the scope of IDP. Secondly, the existing research mainly touches on the period of the biggest enlargement, in 2004. This article attempts to fill in the existing gaps by addressing the following research questions:

- What is the investment position of the selected BSR states?
- What progress has been made since their EU membership in 2004 in terms of the IDP?
- Which of the investigated economies has the potential to move on the IDP ladder?

The aim of the study is to evaluate the countries' net outward investment positions (NOIP) and identify the stage of the IDP currently occupied by the selected BSR states. The specific goal is to address the features that prove each country's position on IDP. This is supported by a review of the literature devoted to the IDP concept and chosen countries. The analysis takes into consideration peculiar economic

1 J.H. Dunning, *Multinational Enterprises and the Global Economy*, reprinted, International business series, Harlow 1998.

determinants. It fills the existing gap in the literature broadly covering the period 2004-2019.

This article is based on international literature and highly cited papers in distinguished journals. It refers to the official documents of the European Union. The methods used include quantitative and qualitative methods. A literature review of Dunning's IDP paradigm is provided. The review of existing empirical research highlights the contributions of this paper to the literature. It provides a background for its statistical survey. The quantitative methods cover the statistical data illustrating the progress of the revised countries in terms of IDP. Based on the literature review, the following performance indices of the selected countries are assessed, leading to proposing the IDP stage of each country:

1. Stock of outward FDI and stock of inward FDI.
2. Analysis of net outward investment position.
3. The GDP growth annual, real GDP per capita, and GDP per capita in the PPS index (EU average = 100 in the selected years).
4. Productivity measured according to the Eurostat data by nominal productivity per employee (EU = 100 in the investigated year).
5. Dynamics of the stock of outward FDI and inward FDI.

Data comes from the United Nations Conference on Trade and Development (UNCTADStat) and Eurostat.

1. Investment Development Path and its main components

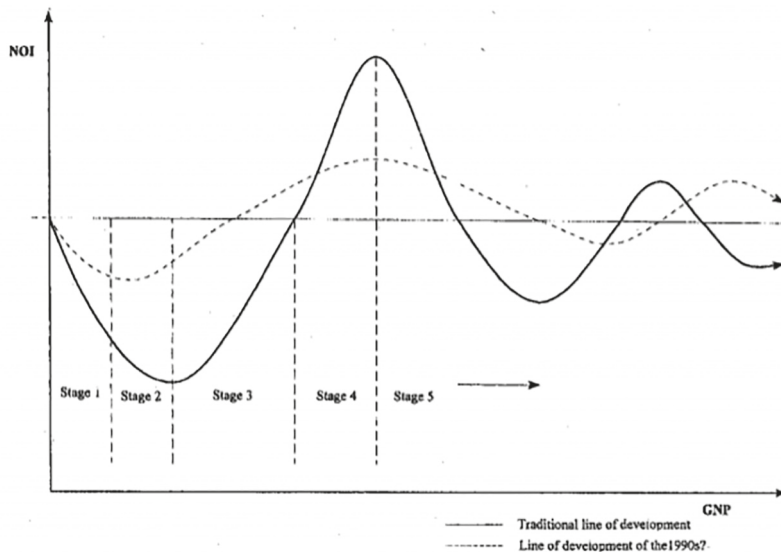
The Investment Development Path (IDP) is a concept that has undergone significant development in recent decades. J.H. Dunning (1982), who introduced the concept, drew attention to the fact that a country's outward and inward direct investments are directly related to the level of its economic development². This path shows the relationship

2 J.H. Dunning, *Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Developmental Approach* [in:] *International Capital Movements. International Economics Study Group*, J. Black, J.H. Dunning (eds.), London 1982; J.H. Dunning, R. Narula, *The Investment Development Path Revisited: Some Emerging Issues* [in:] *Foreign Direct Investments and Governments: Catalysts for Economic Restructuring*, J.H. Dunning, R. Narula (eds.), London 1996, pp. 1-41.

between the level of economic development and the investment position of the state (the relationship between export and import). According to his observations, countries go through five stages. Each stage represents a different level of economic development. As a result, the level of net exports is influenced. According to the assumptions of the theory of economic development, the motives behind investors' decisions to implement FDI differ from the decisions of enterprises in a given country that want to invest abroad themselves.

The idea underlying the concept of IDP (Fig. 1) is a relationship existing between a country's investment position, measured by the net outward investment (NOI)³, and the level of economic development measured by gross national product (GNP). The investment position changes as the economy enters the next stage; thus, the main criterion is the change in the relationship between exports and imports of foreign capital.

Fig. 1. The concept of the investment development path



Source: J.H. Dunning, R. Narula, *The Investment Development Path Revisited: Some Emerging Issues* [in:] *Foreign Direct Investments and Governments: Catalysts for Economic Restructuring*, J.H. Dunning, R. Narula (eds.), London 1996, p. 2.

3 Net Outward Investment is measured by the difference of outward and inward investment stocks of FDI.

The first stage characterises economies with slight location advantages, which most often result from the possessed natural resources. The economy is characterised by low domestic demand and a too small market. This is reflected in the low level of Gross National Product (GNP) per capita. In these types of economies, deficiencies in infrastructure and regulation can be identified. The economy is a limited recipient of FDI, and it does not invest abroad. In the area of foreign trade, the state plays the role of a regulator.

In the second stage, an increased inflow of FDI is observed, while in the economy, labour-intensive goods are locally produced, and production is replaced by imports. Strong state involvement aims to attract investment in labour-intensive industries.

On the third stage, economies experience declines in inward foreign investment and an increase in exports of direct investment. S.P. Magee (1977) pointed out that new location advantages are emerging as a result of improvements in the area of innovation and the level of education, which moves the economy in the technological cycle⁴. The third stage is a turning point as the economy begins its FDI specialization phase. It is at this stage that it is indicated that the economic development may improve due to the growing productivity and the increase in the wealth of the society, which results from the increase in demand for high-quality goods. In this context, domestic goods more and more often displace imported goods. At the end of the third stage, the growth of outward investment exceeds the growth of inward investment and as a result, the cutting edge moment will be NOI at level close to "0".

On the fourth stage, the FDI export is equal to or greater than the import. The growth rate of investment exports is higher than the rate of their inflow. Domestic companies effectively compete both on the local and foreign markets with foreign companies. The ownership advantages of local companies grow stronger. The cost of capital starts to be lower than the cost of labour, which results in an increase in the production of more processed goods. Much of the investment

4 S.P. Magee, *Information and the Multinational Corporation: An Appropriability Theory of Direct Foreign Investment* [in:] *The New International Economic Order; The North-South Debate*, J. Bhagwati (ed.), Cambridge 1977.

comes from other countries at the same stage of development. Investments from lower-tier countries take advantage of market size, trade relations, and access to local assets. Local companies develop their foreign operations based on an ownership advantage, looking for locations where work is cheaper and has greater production efficiency. According to Gorynia et al. (2019), NOI reaches positive values and achieves stable growth⁵.

In the fifth stage the value of net exports is close to 0. Both the value of incoming investments and their exports show dynamics of growth. The linkages can fluctuate. Only highly developed countries are at this stage. There are 2 distinguishing features of this stage. Firstly, international transactions are growing within TNCs. Secondly, countries change the asset structure so that it becomes similar. At this stage, ownership advantages are not only based on natural resources, but also on the ability to acquire assets and the ability to effectively plan and use one's advantages. The inflow of FDI is based on market-seeking and knowledge-seeking advantages.

It is a Dunning endeavour to determine the moment of an increase of a given economy's propensity to engage outwards. The diversified position of a country was presented as a result of a matrix of the following determinants: stage of economic development, the structure of the factors endowments and markets, its political and economic systems, and the character of the presence of the market failure in the transactions of intermediate products between countries⁶. What should be emphasized is that the current research uses the IDP as a tool in order to present the progress made by selected economies in terms of economic development⁷.

- 5 M. Gorynia, J. Nowak, P. Trąpczyński, R. Wolniak, *EU Countries from Central and Eastern Europe, and the Investment Development Path Model: A New Assessment*, "Argumenta Oeconomica" 2019, vol. 43, no. 2, pp. 385-406, <https://doi.org/10.15611/aoe.2019.2.16>.
- 6 J.H. Dunning, *The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions* [in:] *The Eclectic Paradigm*, J. Cantwell (ed.), London 2015.
- 7 M. Kola, M. Kuzel, *Bezpośrednie inwestycje zagraniczne polskich przedsiębiorstw na gruncie teorii ścieżki inwestycyjno-rozwojowej* [in:] *Bezpośrednie inwestycje zagraniczne w budowaniu potencjału konkurencyjności przedsiębiorstw i regionów*, W. Karaszewski (ed.), Toruń 2007, pp. 171-202; M. Gorynia, J. Nowak, P. Trąpczyński, R. Wolniak, *Ścieżka rozwoju inwestycji zagranicznych Polski – próba syntezy*, "Optimum. Economic Studies" 2019, vol. 2 no. 96, pp. 18-36, <https://doi.org/10.15290/oes.2019.02.96.02>; R. Narula, J. Guimon, *The investment development path in a globalised world: implications for Eastern Europe*, "Eastern Journal of European Studies" 2010, vol. 1,

The pandemic outbreak, as a black swan, changed the rules of the game in terms of FDI flows. It is foreseen that flows of foreign direct investment will recover⁸. This recovery may be supported by deepening regional integration and new regional trade agreements which may appear. It may lead to changes in global FDI flows⁹.

In recent years there has been increasing interest in the area of IDP for different countries. There are few articles based on comparative analysis of countries in the region of Baltic Sea. Geographical localization, historical common backgrounds in the area of transformation after the collapse of Berlin Wall, and the fact of EU membership seem to be underestimated in much of the research.

Current literature is dominated by presenting the context of EU enlargement in 2004 and the first effects of membership among the new states in EU. Most of the research underlines the fact that countries of Central and Eastern Europe are at the second stage of IDP¹⁰. In a 2004 case study, Poland was already on the second stage of IDP,

- issue 2, https://ejes.uaic.ro/articles/EJES2010_0102_NAR.pdf [9.08.2021]; S.S. Kayam, M. Hisarciklir, *Revisiting the Investment Development Path (IDP): a Non Linear Fluctuation Approach*, "International Journal of Applied Econometrics and Quantitative Studies" 2009, vol. 6, no. 2, <https://www.usc.es/economet/reviews/ijaeqs925.pdf> [12.05.2021]; M. Kuzel, *The Investment Development Path: Evidence from Poland and Other Countries of the Visegrád Group*, "Journal of East-West Business" 2017, vol. 23, no. 1, <https://doi.org/10.1080/10669868.2016.1180659>; K. Marton, C. McCarthy, *Is China on the Investment Development Path?*, "Journal of Asia Business Studies" 2007, vol. 1, no. 2, <https://doi.org/10.1108/15587890780001290>; M. Fonseca, A. Mendonca, J. Passos, *The Investment Development Path Hypothesis: Evidence from the Portuguese Case – a Panel Data Analysis*, "Working Papers (School of Economics and Management; Technical University of Lisbon)" 2009, WP 021/2007/DE, https://www.repository.utl.pt/bitstream/10400.5/814/1/wp21-2007-%20de.pdf?origin=publication_detail [20.05.2021].
- 8 S. Umiński, A. Borowicz, *Will Multinational Enterprises Contribute to Poland's Economic Resilience and Recovery During and Post COVID-19 Pandemic*, "Transnational Corporations Review" 2021, vol. 13, no. 1, <https://doi.org/10.1080/19186444.2021.1888638>.
 - 9 ABSL, *Business Services Sector in Poland 2020*, Warsaw 2020, <https://absl.pl/pl/publikacje> [29.06.2020]; P. Enderwick, P. Buckley, *Rising Regionalization: Will the Post-COVID-19 World See a Retreat from Globalization?*, "Transnational Corporations. Investment and Development" 2020, vol. 27, no. 2, <https://doi.org/10.18356/8008753a-en>.
 - 10 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, vol. 17, no. 1; M. Gorynia et al., *Foreign Direct Investment in New EU Member States from Central and Eastern Europe: An Investment Development Path Perspective* [in:] *Internationalization of Emerging Economies and Firms*, M. Marinov, S. Marinova (eds.), London 2012, https://doi.org/10.1057/9780230363663_4; M. Gorynia, J. Nowak, P. Tarka, R. Wolniak, *Foreign Direct Investment in Central and Eastern Europe: The IDP Trajectories of Selected Countries 10*, "Poznań University of Economics Review" 2010, no. 1, https://www.ebr.edu.pl/pub/2010_1_5.pdf [13.05.2021].

and it was perceived as the closest to advance to the third stage¹¹. According to research by Andreff & Andreff (2017) the countries were definitely in 2nd phase of IDP before joining the EU, but at the end of 2015 they were at the edge between 2nd and 3rd stage¹². Further research underscored the development of the examined group as a result of their accession to the EU and the turbulence connected with the global financial crisis that moved, for example, Poland to the 3rd stage¹³.

Few studies implement cross-economy analysis devoted to general overviews of Central and Eastern Europe¹⁴. In many cases, analyses, focusing on the time period up to 2010, were influenced by the one main variable – EU accession. As such, new member states were evaluated as participants of stage two or entering/moving towards stage three¹⁵. Very often, the utilized approach takes into consideration the Visegrad Group¹⁶.

The analysed group of countries do not cover the coherent picture. They differ especially in terms of the size of the economy. There is a common view in literature that small states could be less attractive based on the size of their economies and small populations for inward investments. The small size of economy suggests that businesses in small states would have to invest abroad as a growth strategy, thus leading to increases in outward investments¹⁷.

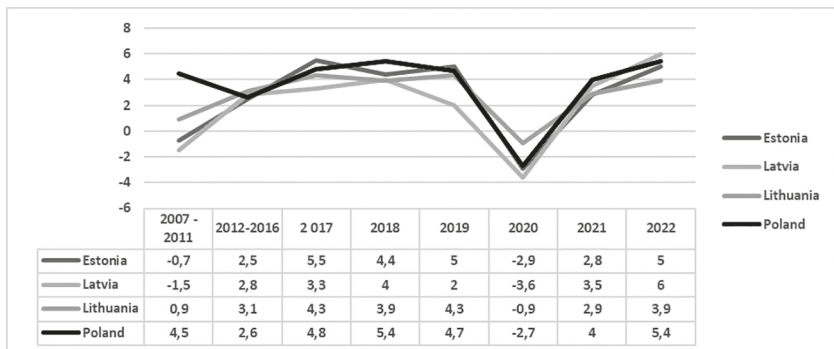
- 11 M. Gorynia, J. Nowak, R. Wolniak, *Investment Development Paths of Central European Countries: Comparative Analysis*, "Argumenta Oeconomica" 2010, vol. 24, no. 1, https://dbc.wroc.pl/Content/6450/PDF/Gorynia_Investment_Development_Paths_Of_Central_European_2010.pdf [10.05.2021].
- 12 W. Andreff, M. Andreff, *Multinational Companies from Transition Economies and Their Outward Foreign Direct Investment*, "Russian Journal of Economics" 2017, vol. 3, no. 4, <https://doi.org/10.1016/j.ruje.2017.12.008>.
- 13 M. Kuzel, op. cit.
- 14 F. Boudier-Bensebaa, op. cit.
- 15 M. Gorynia et al., op. cit.
- 16 M. Kuzel, op. cit.; G. Tchorek, *Foreign Direct Investment and Investment Development Path. The Case of Visegrad Countries*, "Studia i Materiały Wydziału Zarządzania UW" 2016, vol. 2, no. 22, <https://doi.org/10.7172/1733-9758.2016.22.16>.
- 17 J.G. Djokoto, *The Investment Development Path Theory and Small States*, "Research in Globalization" 2021, no. 3, <https://doi.org/10.1016/j.resglo.2021.100048>; J.H. Dunning, R. Narula, op. cit.

2. Starting point for the discussion on the position of BSR countries on IDP

The figure below presents changes to GDP since 2007. Among the countries, the GDP changed especially in the first years of the membership in the EU. Poland exhibited the highest growth rate during the years 2007-2011. However, it is crucial to note that in that period of time, other countries were already in exchange rate mechanism (ERMII), which eventually resulted in their presence in the European Monetary Union (EMU). At the same time, the crisis of 2007 left its marks on all European economies. In the case of Estonia, Latvia, and Lithuania the path to eurozone inclusion has been significantly lengthened. According to H. Wolf, these three economies experienced the boom-bust cycle on their way to eurozone and avoided currency and sovereign debt in the years 2004-2010. The lesson from being a part a board currency for two decades was well learnt by them¹⁸.

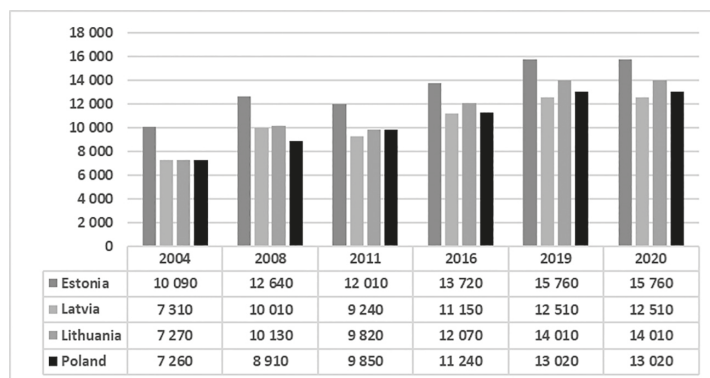
Starting in 2012, the situation in all four countries was more stable until 2020. In the time period 2012-2016, Latvia and Lithuania joined the eurozone (in 2014 and 2015 respectively), and, in comparison with Estonia, which joined eurozone in 2011, and Poland, staying outside the eurozone, the situation did not vary remarkably in terms of GDP growth rate. The scenarios for 2021 and 2022 can be characterized as

Fig. 2. Gross domestic product, volume (percentage change on preceding year, 2007-2022)

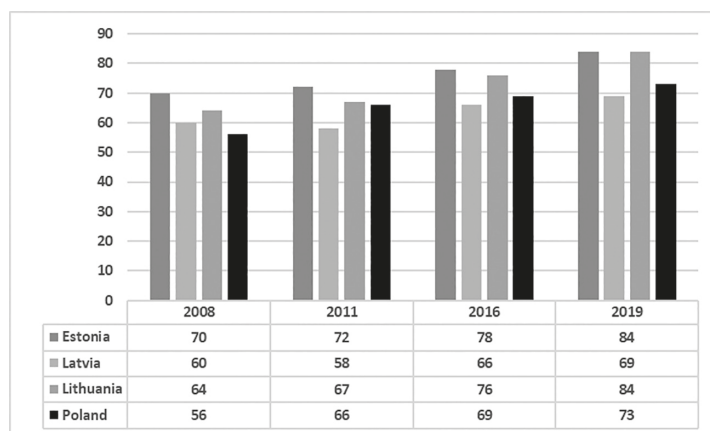


Source: Own elaboration on the basis: European Commission (2021).

18 H. Wolf, *Currency Boards as a Path Towards the Eurozone: Lessons from the Baltics*, "International Economics and Economic Policy" 2016, vol. 13, no. 1, <https://doi.org/10.1007/s10368-015-0327-x>.

Fig. 3. GDP per capita in market prices in 2004, 2008, 2011, 2016, 2019 and 2020 (euro)

Source: Own elaboration on the basis on data retrieved from Eurostat.

Fig. 4. GDP per capita in PPS index (Volume indices of real expenditure per capita (in PPS_EU27_2020=100))

Source: Own elaboration on the basis on data retrieved from Eurostat.

moderately optimistic and very analogous. The prospects are slightly less optimistic for Lithuania¹⁹.

The figures below present the GDP per capita in absolute terms and GDP per capita in PPS index (EU=100 in the selected years). On the basis of the data retrieved from Eurostat, all countries improved

¹⁹ European Commission, *European Economic Forecast. Spring 2021*, https://ec.europa.eu/info/publications/european-economic-forecast-spring-2021_en [13.05.2021].

performance in the area of the GDP per capita. Lithuania and Estonia doubled their GDP per capita in years 2009 and 2019. Poland started from the lowest level. However, if we analyse the GDP per capita in PPS as an index, the weakest position was Latvia, and Poland reached the 73% of the EU average in 2019.

Estonia and Lithuania remarkably changed their position in terms of economic development. It is very interesting especially for Lithuania, which was the last member of Eurozone (2015) and went through many turbulences on the path to meeting the convergence criteria. Changing inflation as a result of an overheating of economy after the EU membership in 2004 was a key challenge for Lithuania. But all the analysed Baltic States went through a so-called economic boom, induced by joining the EU, and resulted in the increase of attractiveness for capital flows. At the same time Estonia, Latvia, nor Lithuania during their presence in ERMII experienced domestic currencies fixed to the euro, which led directly to higher inflation²⁰. However, Lithuania made the most impressive progress in terms of *GDP per capita* (doubled the score) and GDP per capita in PPS and reached the level of 84% of GDP EU27 in PPS. Estonia is among the leaders in many of rankings, such as the European Innovation Scoreboard 2020, Doing Business 2020 (18th rank among 190 countries), and EU-startups.com²¹ and is called a digital innovation hub²². In the case of Poland, progress made in terms of GDP per capita in PPS index is almost as high as in Lithuania. Latvia made the smallest improvement (by only 9 percentage points) in 2019 compared to 2008.

Among the surveyed countries, the economy which is mostly penetrated by foreign capital is Estonia. In 2019 it reached the level of share of 88,3% in GDP, whereas Latvia reached 52.3%, Poland – 40.3% and

- 20 S.W. Hegerty, *Macroeconomic Volatility, Monetary Union, and External Exposure: Evidence from Five Eurozone Members*, "Baltic Journal of Economics" 2020, no. 2, <https://doi.org/10.1080/1406099X.2020.1780694>.
- 21 World Bank, *Doing Business 2020. Economy Estonia: Comparing Business Regulation in 190 Economies*, 17th edition, Washington DC 2020; European Commission, *European Innovation Scoreboard 2020*, https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en [22.06.2020]; B. Arnaud, *The 5 Best Countries in Europe for Founders and Startups* (2019), <https://www.eu-startups.com/author/bernardo-arnaud/> [25.05.2021].
- 22 K. Tirmaste, L.Voolma, L. Laidroo, *Fintech Report Estonia 2019*, TalTech School of Business and Governance, 2019, <http://financeestonia.org/wp-content/uploads/2013/02/fintech-report-estonia-2019.pdf> [12.05.2021].

Lithuania – 27.9%. Because of the size of its economy and because it is one of the least restrictive countries towards FDI, creating favourable conditions for entrepreneurs, Estonia is the leader²³.

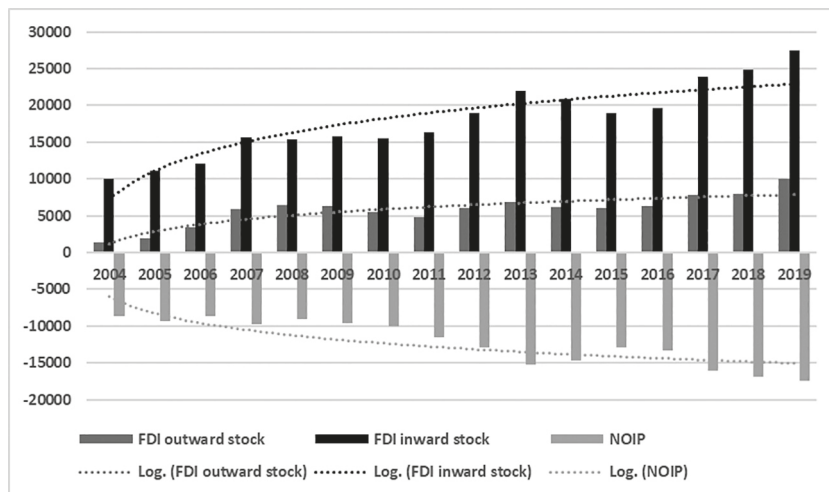
3. Net Outward Investment in Estonia, Latvia, Lithuania and Poland – which stage of the IDP?

3.1. Estonia – 3rd stage of IDP with the prospect of 4th in future

According to UNCTAD database, Estonia reached the level in outward stock of FDI of 10075.7 million of US dollars in 2019. The outward FDI stock in Estonia rose 7-times in comparison to 2004, whereas the inward FDI stock reached the level of 27476.3 million of US dollars in 2019 and rose by 2.7 times compared to 2004. At the same time Estonia maintains the role of importer of the FDI.

Figure 5. illustrates the Net Outward Investment Position (NOIP), outward FDI stock and inward FDI stock in Estonia in 2004-2019. The existing trend shows improvement and the increasing role of the outward stock of FDI, which strongly influences the Net Outward Invest-

Fig. 5. Net Outward Investment Position (NOIP), outward FDI stock, and inward FDI stock in Estonia in 2004-2019 (m of US dollars in current prices) and trend of main indicators



Source: Own elaboration on the basis of data from UNCTADStat.

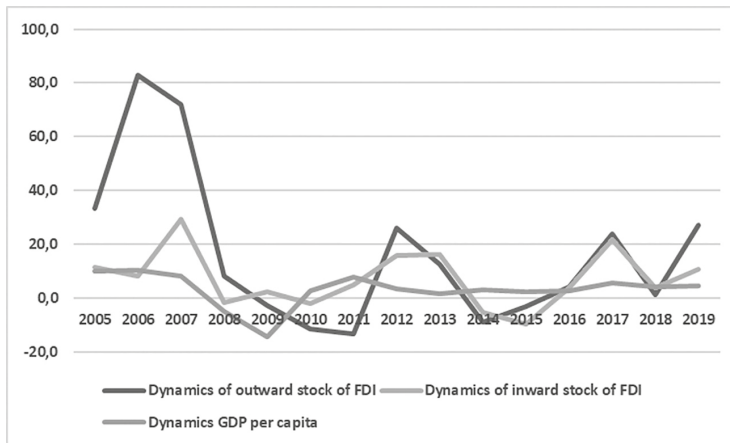
23 S. Umiński, A. Borowicz, op. cit., pp. 74-87.

ment. The data reveals that Estonia is moving towards the 4th phase of IDP, characterized by more dynamic development of the outward FDI. But Estonia is still in the 3rd stage.

The figure above depicts precisely that Estonia is still an importer of foreign capital. The FDI inward stock is systematically increasing. In the investigated period, the dynamics of FDI outward stock measured year to year, where 2004=100 in 9 years was higher than dynamics of FDI inward stock (the same method). Eurostat data reveals the existing gap in terms of labour productivity, which is characteristic for all surveyed countries. Estonia in 2004 noted 60.4% of the EU nominal productivity per employee, as measured by Eurostat. The improvement of the index to the level of 78.8% in 2019 is significant and comparable to Poland's and Lithuania's²⁴.

When we compare the Estonian performance by taking into account the dynamics of outward and inward stock of FDI and the real GDP per capita 2005-2019, the situation seems to be clearer (Fig. 6). The dynamics of outward FDI stock are higher than the inward FDI stock. On average, the outward stock of FDI grew at a pace of 16.9% annually between 2005 and 2019, whereas 7.4% in the area of the in-

Fig. 6. Dynamics of annual growth (year to year) for outward stock of FDI, inward stock of FDI, and GDP per capita (%)



Source: Own collaboration on the basis of data from UNCTADStat and Eurostat.

²⁴ Eurostat, *Labour productivity per person employed and hour worked (EU27_2020=100)*, <https://ec.europa.eu/eurostat/databrowser/view/tesem160/default/table?lang=en> [22.05.2021].

ward stock of FDI. Estonia observed stable growth of GDP per capita annually. The turmoil observed after 2008 are the consequences of the financial crisis of 2008. The direct impact on the net investment position included membership in the eurozone in 2011.

Taking into consideration the facts on FDI, Estonia is in the 3rd phase of IDP, having achieved the following:

1. Estonia has improved its position in terms of the Net Outward Investment Position since 2005.
2. The economy has experienced systematic rise in terms of the outward stock of FDI.
3. Estonia keeps economic growth, as measured by GDP per capita, on a stable and increasing path.
4. The productivity of labour, as measured per person employed, grew to the level of 78,8% of the EU average in 2019 (in 2005 it was 60.4%).

These lead to the conclusion that Estonia may enter the 4th stage in coming years.

3.2. Latvia – confusing image just entering the 3rd stage of IDP

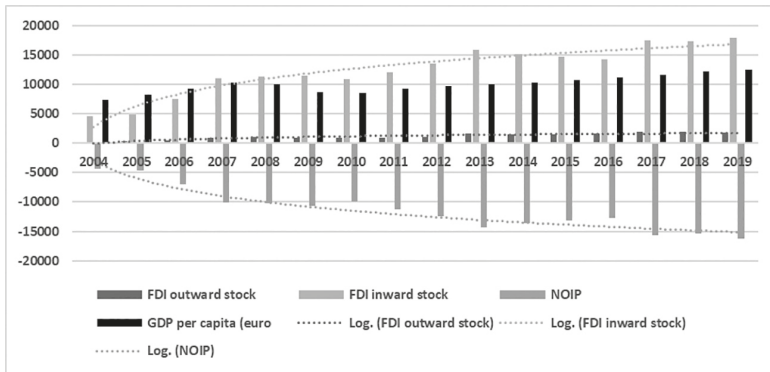
Latvia, as an exporter of FDI in 2019, gained 176.6 million US dollars of outward stock of FDI and 17947.5 million US dollars of inward stock of FDI. UNCTAD data reveals that in comparison to 2004, Latvia increased the outward stock of FDI by 7 times and inward stock of FDI by 3.5 times.

Latvia presents quite a different situation than Estonia. Latvia, since joining the eurozone in 2014, has been dealing with a recovery. Being a small open economy, Latvia has been the most affected by global and European shocks. This has resulted in its high level of volatility to capital flows²⁵. Since EU membership, Latvia improved its economic performance in terms of GDP per capita and is slowly moving towards the EU average (Fig. 3).

In terms of FDI, Latvia is an importer of foreign capital. Since joining the EU and then the eurozone, the activity of Latvian companies in terms of internationalization in the form of FDI is on low level. Latvia is mainly an absorber of the FDI. The existing gap between the stock

25 S.W. Hegerty, *op. cit.*

Fig. 7. Net Outward Investment Position (NOIP), outward stock of FDI, inward stock of FDI (m of US dollars in current prices), and trends of main indicators

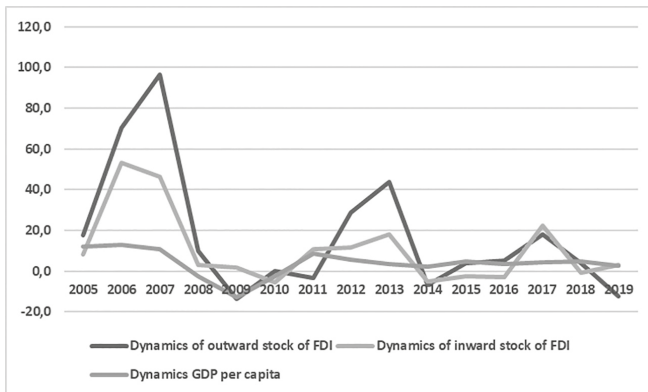


Source: Own elaboration on the basis of UNCTADStat data.

of FDI inward and outward suggests that Latvia has been in the stagnation moment on the investment development path over the last few years (Fig. 7).

If we compare the dynamics of inward and outward FDI stock with the GDP per capita dynamics, the Hegerty volatility to capital flows is evidenced²⁶. The sensitivity of the Latvian economy is noticeable especially in the context of the FDI stock (inward and outward), whereas the dynamics of annual changes to GDP growth seems to be more

Fig. 8. Dynamics of annual growth (year to year) for outward stock of FDI, inward stock of FDI, and GDP per capita (%)



Source: Own elaboration on the basis of UNCTADStat data.

stable (Fig. 8). Latvia still maintains the position of a country in the 2nd stage of IDP concept or entering the 3rd stage of IDP, as the outward stock of FDI remains on low level.

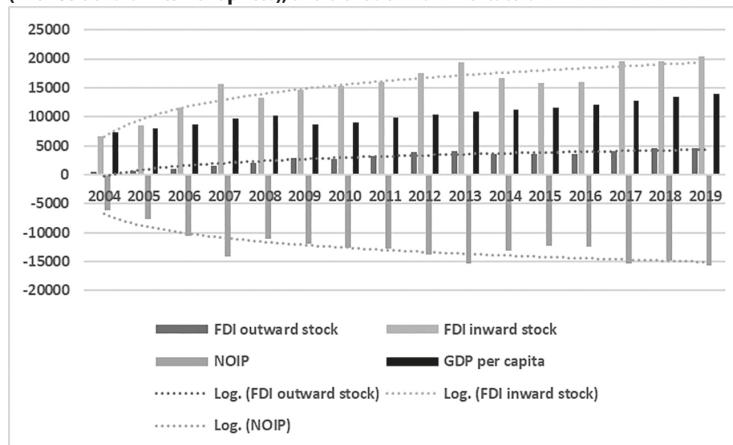
Latvia shall be positioned as an economy between 2nd and 3rd phase of IDP on the basis of the following facts:

1. Latvia maintains the role of an importer of capital.
2. Slow movement on the path of economic development measured by real GDP per capita and the GDP per capita in PPS index.
3. The dynamics of the annual growth of the stock of outward FDI is, however, higher than inward FDI, but the differences are not significant (17.5% and respectively 10.8%).
4. Eurostat data reveals that Latvia reached the level of 66.8% of EU average in terms of labour productivity in 2019 (in 2004: 52.7%).
5. The NOIP seems to be stagnating with no signs of change.

3.3. Lithuania: trapped in 3rd stage of IDP since 2004

Lithuania joined the EMU in 2015 and since then there is a growing gap between stock of FDI outward and inward. From this point of view Lithuania is still in the 2nd phase of IDP. The sharp drop of dynamics in inward FDI was the result of quick reaction of foreign investors to crisis of 2008, but in case of outward the reaction was delayed in time until 2010. The outward stock of FDI seem to follow the path of creeping rather than dynamic growth (Fig. 9).

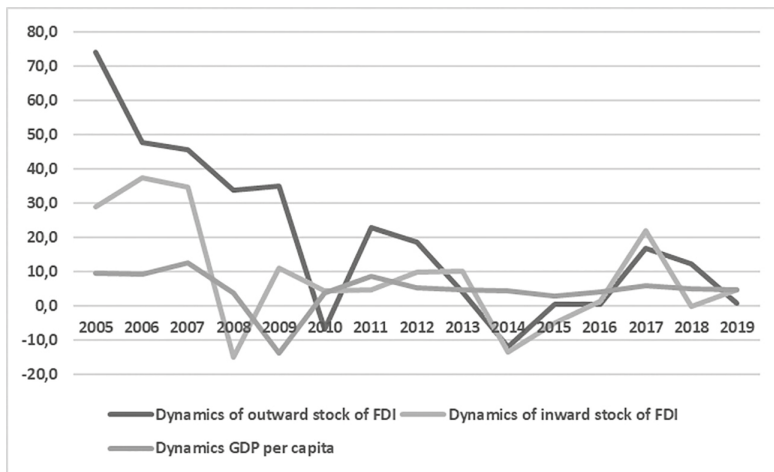
Fig. 9. Net Outward Investment Position (NOIP), outward stock of FDI, inward stock of FDI (m of US dollars in current prices), and trends of main indicators



Source: Own elaboration on the basis of UNCTADStat data.

In the area of dynamics of stock of inward and outward FDI and GDP per capita dynamics, the sharpest declines were noticed in Lithuania until 2010. A flattening of the dynamics of GDP per capita growth (year to year perspective) in combination with the dominant role of inward stock of FDI may distort the picture (Fig. 10). However, the NOIP since 2013 has slowed down. In the future it is expected that Lithuania may improve the NOIP and start approaching the “o” level. Lithuania’s current position on IDP is the 3rd stage.

Fig. 10. Dynamics of annual growth (year to year) for outward stock of FDI, inward stock of FDI, and GDP per capita (%)



Source: Own elaboration on the basis of UNCTADStat data.

Lithuania seemed to enter the 3rd stage of IDP directly after joining EU and has kept that position since then. Arguments that support this statement are following:

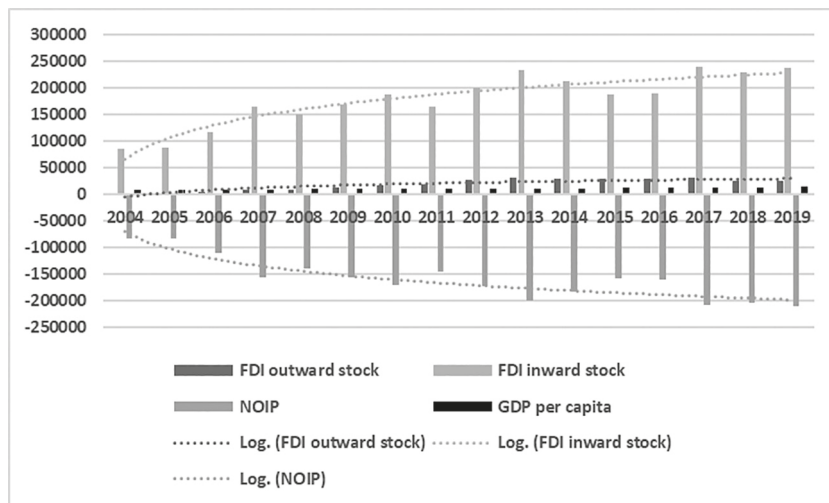
1. Dominant position play of inward stock of FDI as Lithuania is mainly still importer of the foreign capital.
2. Lithuania has seen stable growth of GDP from 2007 to 2019.
3. GDP per capita in 2019 came to 84% of the EU average (from 64% in 2008).
4. The productivity of Lithuania between 2004 and 2019 rose by 22.8 pp. reaching the level of 78.5% of the EU average according to Eurostat.

5. The average dynamics of growth of the outward stock of FDI (19.5%) are higher than the dynamics of growth of the inward stock of FDI (8.9%) between 2005-2019.

3.4. Poland – currently at the 3rd stage of IDP with the highest potential to move forward and reach the 4th stage in coming years

Among the surveyed economies, Poland is the only EU member state outside the eurozone. Poland is one of the leaders in Central and Eastern Europe in attracting FDI²⁷. According to UNCTADStat, Poland reached the level of outward stock of FDI 24835.5 million US dollars and 236506.3 million US dollars of inwards stock of FDI in 2019. In the investigated years, Poland mainly imported foreign capital in the form of FDI (Fig. 11).

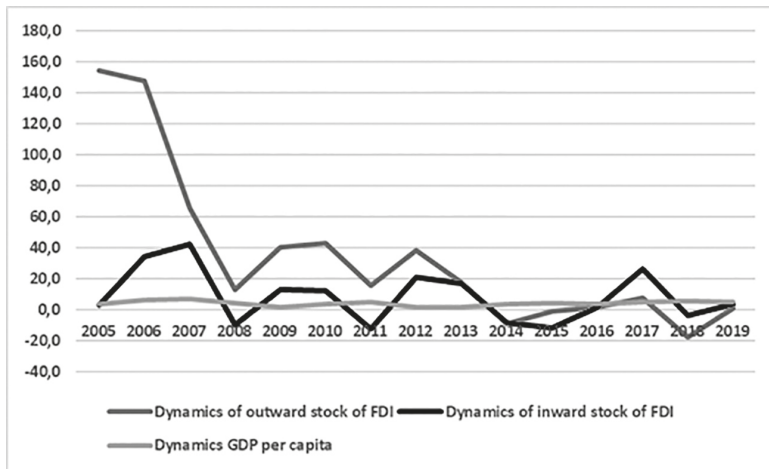
Fig. 11. Net Outward Investment Position (NOIP), outward stock of FDI, inward stock of FDI (m of US dollars in current prices), and trends of main indicators



Source: Own elaboration on the basis of UNCTADStat data.

27 E&Y, *How Can Europe Reset the Investment Agenda Now to Rebuild Its Future? EY Attractiveness Survey. Europe*, https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/attractiveness/ey-europe-attractiveness-survey-2020-v3.pdf [7.09.2020]; UNCTAD, *World Investment Report 2020: International Production Beyond the Pandemic*, United Nations 2020.

Fig. 12. Dynamics of annual growth (year to year) for outward stock of FDI, inward stock of FDI and GDP per capita (%)



Source: Own elaboration on the basis of UNCTADStat data.

However, the dynamics of the outward stock of FDI has seen much higher levels since Poland's accession to the EU (Fig. 12). Until 2014, the dynamics in the outward FDI stock exaggerated the dynamics of the inward FDI stock. The dynamics of the growth of outward stock of FDI is higher than in the case of the inward stock of FDI. The average reached the level of 34.4% in the years 2005-2019, whereas the inward stock of FDI was 8.4%. The year 2014 brought significant change as both measures dropped below the 0 level. It has to be underlined that real GDP per capita and GDP per capita in PPS index positions Poland on the 3rd place. It seems that Poland is a country which has been in 3rd phase since 2014 and is maintaining this position in a very early stage. At the same time, it has the highest potential to move towards 4th phase, which can be concluded on the basis of the following:

Poland is an importer of FDI, but the logarithmic trend line in terms of inward stock of FDI reveals the potential of Polish economy to increase export activity in future.

There is an observed improvement in terms of NOIP, which is a result of lower growth of the inward stock of FDI in comparison with the outward stock of FDI. The average growth of outward stock of FDI was 34.4% and inward stock of FDI 8.5% between 2005-2019.

Productivity of labour per employee measured by Eurostat achieved 79.9% of the EU average in 2019 and was the highest among the examined states.

Between 2007-2019, Poland maintained stable economic growth (Fig. 3).

Real GDP per capita in 2004 was the lowest in the selected group of countries, with 56% of the EU average. In 2019 it was already 73%, and Poland overtook Latvia in this area.

Conclusions

The aim of this study was to evaluate the countries' net outward investment positions and identify the stage of the IDP currently occupied by the selected BSR states. The conducted analysis addressed the features that prove each country's position on IDP.

All the selected BSR countries made huge progress since EU membership in 2004, but there are observed differences, especially since 2010. Estonia, Lithuania, and Poland are obviously in the 3rd stage of IDP. This observation is on the basis of the performance of countries and suggests that Poland has the potential to move within the third stage. The most confusing picture is for Latvia, which seems stagnated at the edge between 2nd and 3rd stage. Estonia improved its NOIP and systematically raised its activity in terms of exporting FDI, and it seems that Estonia may enter the 4th stage of IDP in the coming years. The progress made by Latvia economy is the smallest, and Latvia for the coming years will probably occupy the 3rd stage on IDP. Lithuania is an importer of FDI and has been trapped in the 3rd stage of IDP since 2004. It has to be noticed the dynamics of growth of the outward FDI is higher than inward FDI. It is noted that the highest potential to move towards the 4th stage of IDP in coming years is Poland. Stable economics of growth in Poland and impressive increases of labour productivity suggest that Poland may take a further step on IDP.

It has to be underlined that the aim of this article was not to compare countries, but to assess the moment of the IDP in which the states reside. What does not apply in the article is the fact that the 3 countries besides Poland are eurozone countries and that the size of the economy differs and influences their NOIP. Fundamental to the article is the evaluation of the IDP concept in the selected Baltic States,

which point to specific features suggesting future perspectives. An analysis shall be developed in the future in the direction of designing and implementing the econometric tools.

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