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Marian Gorynia, Jan Nowak**, Piotr Trąpczyński*,*
*Radosław Wolniak****

GOVERNMENT SUPPORT MEASURES FOR OUTWARD FDI: AN EMERGING ECONOMY'S PERSPECTIVE[1]

The objective of this paper is to critically review and evaluate the literature related to outward FDI (OFDI) support measures, as well as to propose an approach to classifying them. The review is preceded by a discussion of the positive and negative effects of OFDI on investing firms and home country's economies and firms, which is an important consideration in decisions related to OFDI support. Subsequently, a typology of various financial and non-financial support measures is proposed and applied to the case of Poland as an emerging source of FDI outflows. In this context, current support measures in Poland are identified and a model policy framework is proposed with implications for the overall effectiveness of an OFDI support system.

Keywords: foreign direct investment, government support, home-country measures, emerging markets
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1. INTRODUCTION

Policy discussions in extant literature have been disproportionately centered around government support for inward foreign direct investment (IFDI) as compared to outward foreign direct investment (OFDI) (Buckley et al., 2010; Globerman and Chen, 2010; Solis, 2003; Te Velde, 2007). This apparently corresponds with the fact that the economic impacts of IFDI have been widely discussed, while those of OFDI are far less understood, as the subsequent sections of this paper illustrate. While there is no unanimous empirical support for the positive or negative impact of OFDI on home economies (Globerman and Shapiro, 2008), and the impact of the degree of increased internationalization has only an ambiguous influence on the

* Poznań University of Economics
** Tischner European University, Cracow
*** University of Warsaw
[1] An earlier version of this study can be found in Gorynia et al. (2014a).

economic performance of transnational corporations (TNCs) (Matysiak and Bausch, 2012), there is consequently no universal basis for governments to promote or discourage OFDI. Globerman and Shapiro (2008, p. 263) argue that "higher profits realized by owners of home-country TNCs do not justify public policies that subsidize or otherwise lower the costs of undertaking OFDI for home-country TNCs", since such policies require improving the efficiency of the home economy in the first place. However, they also argue that the linkages between OFDI, globalization and real income growth which exist in developing countries might not be as evident as in the case of developed countries. Thus, policy makers – particularly in emerging markets – should carefully evaluate the impact of OFDI on the economic and political objectives of their home countries (Buckley et al., 2010; Moran, 2008).

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

Since there is no international regime comparable to the OECD agreement on export credits (Solis, 2003), states generally have the autonomy to influence OFDI flows with different financial and non-financial measures. The aim of this paper is to review the literature on OFDI promotion measures, propose an approach to classify them and evaluate their appropriateness based on the case of Poland as an emerging source of OFDI. In order to achieve this objective, the paper starts with a discussion on the positive and negative effects of OFDI for both firms and home countries.

2. ADVANTAGES OF OFDI: THE INVESTING FIRM'S PERSPECTIVE

Undertaking OFDI as the most commonly employed form of foreign production is usually motivated by the desire of the investor to achieve certain strategic aims. These aims can be perceived as leading jointly and/or separately to increasing and sustaining the investor's organization (TNC)

global competitiveness.[2] As such, OFDI is also viewed as a significant stage in the internationalization process of an organization which affects its competitive position. Many of the advantages/benefits outlined below are very similar to those accruing to the home countries of TNCs. Furthermore for the individual TNC most of them are obvious to every scholar of international business. Nevertheless evoking only the most salient ones in the context of the present study allows to achieve: (1) a better interface with those that apply to countries and/or regions/groups of countries, and (2) a sharper focus on policy measures which home countries (in this case Poland) should undertake to support and stimulate OFDI.

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

1) presence on and better control of foreign markets for the products TNCs produce and/or distribute (distributing only as in the case of global commodity chains), and

2) control of the resources and strategic assets necessary to implement the production and distribution process. Within the first category this is generally operationalized by variables that reflect reaching marketing targets such as sales, market shares and their growth rates, as well as financial objectives such as revenue, profit and their measures of various rates of return.

OFDI, while being in itself a macro-economic concept, in general allows in a micro-economic perspective for the firm to stay closer to the customer and to be in a position to react swiftly to changes in the local and/or regional environment. From the financial effectiveness point of view there may be higher profits to be achieved abroad. These can be due to many factors such as less exacting competitors, lower labour costs or cheaper raw materials and components. Fiscal and financial incentives offered by host countries in the form of local tax reduction or a waiver for a certain time span will also contribute to lower and/or optimize the total corporate cost structure. In this context, Moran (2008), for example indicates that "developed country's firms that invest abroad enjoy lower levels of bankruptcy and are less likely to suffer job losses than the counterpart firms that do not engage in outward investment" (p. 278). Lundan and Dunning (2008) point to the role of

[2] While small and medium enterprises (SMEs) are also engaging in OFDI, the largest 30 leading Polish non-financial MNEs held a combined total of over 12 billion USD in foreign assets (IBRKK, 2013). At the same time, the combined OFDI stocks of Polish firms in 2011 amounted to 49.7 billion USD (Trąpczyński, 2014b). Thus, the focus on large firms in the review of theoretical concepts is legitimate in the Polish context.

backward linkages of TNCs to local suppliers in foreign markets leading to the better performance and higher efficiency of foreign investors. The said authors investigate the benefits accruing to the TNCs from the perspective of: a) the local suppliers cost structures, b) transaction costs of using external suppliers, c) the host country's stage of development, and d) government institutions and policies (pp. 554–569). This multi-faceted analysis moves deeper into the extent of local sourcing and is structured around the following types of TNC affiliates: market seeking manufacturing affiliates serving the local market, efficiency seeking manufacturing affiliates aiming to export, resource seeking affiliates and finally market and efficiency seeking affiliates producing services (Dunning and Lundan, ibid.).

According to Hymer (1976), the investing firm exploits its monopolistic position and the power derived from it on foreign markets thus compensating the investor for the liability of 'foreignness' associated with inferior knowledge compared to that of local competitors in the host country's environment. Other authors, such as Buckley and Casson (2002), stress also that TNCs replace imperfect markets in intermediate products with their own hierarchical corporate strategies and appropriate the returns that this replacement generates (after Sauvant, 2008, p. 249). Internalizing the market permits TNCs to "benefit from lower transaction costs (such as communication and contracting costs), improved protection of intangible assets, increased bargaining power, improved buyer-seller certainty, and expanded transfer pricing possibilities" (ibid.).

Within the second category, controlling resources allows to lower costs and optimize resource utilization, secure and/or increase the competitive advantage resulting from technology and know-how acquisition or implementation. OFDIs (especially from developed economies) are used to exploit to their advantage the regulatory gaps visible in many less developed markets in areas such as workers' rights or natural environment protection (for example against pollution) and conservation. Also by the experience and expertise effect of operating in a previously unknown foreign national environment (especially cultural) the firm becomes capable of continuing expansion into other similar national markets in the same region or continent. The profit obtained in foreign markets from OFDI may be repatriated at a certain point in time to the parent company of the TNC or other locations where they will be used in line with corporate strategies and needs. According to Knickerbocker's theory of oligopolistic reaction, OFDI is perceived as a means for a TNC of securing global market share and stability in an international oligopoly structure (Knickerbocker, 1973).

Moreover OFDI is commonly used as an effective method of overcoming the host country's trade barriers in attempting to gain access to foreign markets. Combining the market and resource seeking thrusts gives the TNC more possibilities to obtain economies of scale and scope leading to specialization and thus to a reduction of costs, increased productivity, and permitting the said TNC to reap higher profits or lower prices and thereby sustain its sales volumes and/or market shares. In the context of the evidence of OFDI from Poland in the last decade, the factor of capital flight also comes into focus whereby firms use OFDI to migrate to foreign destinations where their capital loses home country identity, thus providing them with more security and permitting more freedom, both geographically and fiscally, to continue on their global expansion paths. TNCs from other emerging economies such as Russia have also been using OFDI to spread and diminish investment risk by targeting Western developed country markets.

The increased productivity aspect for the investing firm can also be of an indirect character, leading to the increased specialization of production and allowing for inflows of factor inputs such as technology and new management practices (Sauvant, Maschek and McAllister, 2010, p. 27) which can enhance the said firm's competitive potential in both domestic and foreign markets.

The notion (elaborated on more in the following section) that investing abroad diminishes the amount of capital available for investment in the domestic market can be challenged by two counter-arguments. Firstly, OFDI can be financed using foreign/international capital markets without reducing the pool of capital available for domestic investment. This was clearly demonstrated for example last century in the second half of 1960s when US TNCs generally complied with the ban on capital exports imposed by the US administration in its attempt to reduce the US balance of payments and financed their expansion in Western Europe using to a large extent the euro-dollar market. Secondly, in many cases, expansion abroad via OFDI occurs only when the investor concludes that the domestic/home country's market becomes saturated or the possibilities of extending their market share on it are judged as limited and thus not viable under existing circumstances. One could argue that abstaining from OFDI might increase the volume of domestic investment and employment thus leading OFDI to be perceived as generating a "hidden" negative effect. However such reasoning does not take into account the highly probable loss of economic effectiveness resulting from the imposed lack of choice in allocating investment funds.

3. THE EFFECTS OF OFDI ON THE HOME COUNTRY

While the impacts of IFDI on host economies have been extensively studied and there is a near consensus that such investment is beneficial to the host country, the benefits of OFDI to the home country are less documented and much more contested. It is therefore indispensable for this paper to review the arguments for and against, and the evidence of the effects of OFDI on home economies. An extensive literature review allows to identify two primary and several secondary benefits of OFDI to the home economies. The two primary benefits include strengthening the competitiveness of national firms and increasing the economy's productivity levels. Secondary benefits include increased tax revenues, increased imports and exports, shareholder-value creation, and labour-force skill development. Possible major disadvantages include decreasing the domestic capital stock and employment. A minor possible disadvantage from the emerging-market countries' point of view is inefficient capital allocation.

3.1. Benefits of OFDI to the home economy

The benefit of the increased competitiveness of national firms as a result of OFDI is associated with two phenomena. Firstly, investing firms gain economies of scale and scope, which lead to their increased profitability and market power. Secondly, investing firms augment their capabilities through asset acquisition abroad and the synergistic combination of the acquired assets with their own capabilities, thus not only becoming more competitive internationally but also imposing a "competitive upgrade" benchmark on domestic firms (Buckley et al., 2010). The latter phenomenon seems to be of paramount importance to emerging economies' firms. Indeed, it is often argued that emerging-market TNCs are less competitive than their developed-country counterparts due to the underdeveloped institutional infrastructure of their home countries (Cuervo–Cazurra and Genc, 2008) and the lack of ownership advantages (Aggarwal and Agmon, 1990; Deng, 2009; and Peng, 2012). Through outward FDI, emerging-market TNCs can gain access to foreign strategic assets and capabilities such as proprietary technology, brands and distribution channels to offset their competitive disadvantages (Child and Rodrigues, 2005; Luo and Tung, 2007; Rui and Yip, 2008). Many studies, particularly on China, confirm that indeed strategic assets seeking is the main motive of both the investing firms and the home governments (Buckley et al., 2007; Deng, 2003 and 2007; Luo et

al., 2010; Malik and Kotabe, 2009; Taylor, 2002). In this context, Luo et al. (2010) note: "When investing in developed countries, EMEs seek sophisticated technology or advanced manufacturing know-how by acquiring foreign companies or their subunits that possess such proprietary technology" (p. 77).

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

Most of the available studies of spillover effects concern the investors' host countries and there is ample evidence of the spillover benefits to such host countries. Reverse spillovers and knowledge dissemination from OFDI have been studied less intensively, although the interest in such spillover benefits was heightened many years ago when Japanese firms were found to be motivated to invest in the US in order to gain access to advanced technology there and close the technology gap with their competitors (see e.g. Kogut and Chang, 1991). More recent empirical investigation of the relationship between productivity and OFDI provides inconclusive evidence regarding the spillover benefits from OFDI, both in developed and emerging countries. For example, while the study of Xu and Wang (2000) for OECD countries supports the view of positive spillovers from OFDI, although weaker in comparison to international trade in capital goods, Braconier et al. (2001) could not find any evidence of FDI-related R&D spillovers – neither at the firm level nor at the industry level in Swedish manufacturing. Zhao et al.'s (2010) study of the contribution of OFDI to productivity changes in China confirms the hypothesis that OFDI has beneficial spillover effects in improving total factor productivity growth, although these authors also

found that domestic R&D is by far the most important source of productivity growth. On the other hand, Vahter and Masso (2007) did not find much spillover from OFDI and IFDI in Estonian manufacturing and service sectors. However, as Globerman and Chen (2010) point out, the lack of strong evidence of spillover benefits should not lead to the conclusion that OFDI has no net economic benefits to the home countries.

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

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

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

Obviously, more studies are needed to verify this proposition. Also the concept of shareholder value creation can certainly be positioned as generating advantages from the perspective of the home economy as well as of each firm undertaking OFDI .

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

3.2. Disadvantages of OFDI

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

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

As far as the effects on employment are concerned, there is hardly any evidence that FDI outflows lead to job losses in the source countries. Visser

(2006), concludes that available research does not show any systematically negative effect of OFDI on the level of employment. For example, Sunesen et al. (2010) did not find any measurable negative effect on aggregate EU employment. At the same time, as pointed out earlier, OFDI can have a positive effect on the quality of employment in the home country.

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

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

In conclusion it is fair to state that, contrary to the economic gains of attracting inward FDI, such gains being largely uncontested (Buckley et al., 2010), the outlook for the benefits of outward FDI to the home country is not entirely clear. Table 1 summarizes the effects of OFDI on both the

developed and emerging home economies identified during the literature review. A distinction is made in this table between the mid and long-term effects. The unknown elements in the “emerging home economies” column reflect the limited research that has so far been conducted on the effects of OFDI on those economies, thus pinpointing the urgent need to draw more attention to this research area, particularly in light of the rapid growth of outward FDI flows from the leading emerging markets. The table also indicates that no unequivocally negative effects of OFDI on home economies were identified in the literature; however, mixed effects may suggest that under certain conditions they may become negative.

Table 1

Summary of OFDI effects on home economies

	Developed home economies		**Emerging home economies**	
Effects on:	***Mid-term effects***	***Long-term effects***	***Mid-term effects***	***Long-term effects***
Competitiveness of national firms	positive	positive	positive	positive
Productivity	positive/neutral	positive/neutral	positive/neutral	positive/neutral
Employment	positive/neutral	positive/neutral	unknown	unknown
Labour-skill development	positive	positive	unknown	unknown
Tax revenues	positive	positive	unknown	unknown
Imports	negative	positive	unknown	unknown
Exports	positive	negative	unknown	unknown
Domestic capital formation	mixed	mixed	unknown	mixed
Efficiency of capital allocation	positive	positive	unknown	unknown
Shareholder value	mixed	mixed	likely positive	likely positive

Source: the authors, based on literature review.

4. CLASSIFICATION OF OFDI SUPPORT MEASURES

Despite the clear relevance of OFDI for home countries and indigenous firms, there is no common classification of home-country measures supporting OFDI (Te Velde, 2007; UNCTAD, 2001). Buckley et al. (2010, p. 244) observe that “(...) OFDI policy, in both developed and developing countries, is generally much more amorphous, diffused, and less clearly

delineated in comparison with the policies toward export promotion, inbound FDI and IIAs." Thus, we propose a broad classification of OFDI support measures (see Figure 1) which takes into account that they can be of both a financial and non-financial character (Torres and De Lemos, 2012). On the other hand, governments can support FDI outflows both through dedicated OFDI measures and, more implicitly, through wider policies supporting a host economy's internationalization, which also do affect OFDI, or policies aimed at increasing a country's international competitiveness, thus indirectly stimulating OFDI in the long run (Globerman and Chen, 2010). In Rugman's (2010) terms, it can be argued that the various support measures discussed below affect firm-specific advantages (FSA), as well as home and host country-specific advantages (CSA).

Type of measures	Explicit reference to FDI projects: **OFDI-dedicated**	Explicit reference to FDI projects: **Non-OFDI-dedicated**
Financial	• direct financial support – preferential loans for investment – loans and loan guarantees – grants for feasibility studies and project development – equity participation in the project • investment insurance and guarantees • fiscal incentives	• support by Export Credit Agencies (ECAs) • grants for new business projects and entrepreneurship development • home-country fiscal policy
Non-financial	• information provision and contact development • support through International Investment Agreements (IIAs)	• technical assistance and technology transfer • support through Investment-Related Trade Measures (IRTMs) • training and consulting services • support for hosting trainees in foreign firms • competitiveness-enhancing policies (regulatory regime, macroeconomic policy, investment in infrastructure and education)

Figure 1. A classification of OFDI promoting measures

Source: authors' own work based on the literature review

4.1. OFDI-dedicated financial measures

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

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

Fiscal incentives for OFDI can include tax breaks by means of tax exemptions, deferrals or credits for the taxation of foreign profit, as well as overall tax-sparing regulations. While some countries, including Switzerland and Argentina, have adopted a territorial approach, taxing merely the income generated within the country, the United States has taxed its own firms and individuals regardless of the location of profit generation (Sarmah, 2003). Thus, Double Taxation Treaties (DTT) are concluded between countries to allocate the taxation rights between them, reduce double taxation and encourage mutual FDI flows, but also to control tax avoidance by TNCs. Therefore it can be argued that bilateral tax treaties do not necessarily intensify FDI activity if they contradict or restrain firm strategies. Moran (2008) discusses three alternatives for tax policy in relation to OFDI. "National Neutrality", the most restrictive approach, is aimed at refraining the international operations of domestic firms by disabling any credit for

taxes paid abroad and allowing only to deduct foreign taxes as a cost of doing business. Conversely, "Capital Import Neutrality" assumes that domestic firms should benefit from the fiscal incentives in the foreign market while not being taxed for their offshore operations at home (Moran, 2008). Therefore, host-country taxation becomes a crucial location choice variable in the decision-making process of TNCs. The third option, in-between the two previous approaches, is based on the doctrine of Capital Export Neutrality, which assumes the domestic taxation of global operations of outward investors, while granting them tax credit for taxes paid abroad. Consequently, tax considerations cease to be a determinant of investing abroad, thus business operations are allocated on a worldwide basis without any artificial distortion.

4.2. Non-OFDI-dedicated financial measures

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

4.3. OFDI-dedicated non-financial measures

The category of non-financial measures opens with those aimed at gathering and disseminating information on FDI opportunities and providing technical assistance to facilitate investment. Thus it helps outward investors overcome some of the information-related market failures in the private sector, which is particularly relevant in the case of physically distant locations and smaller or less-experienced firms (Te Velde, 2007). The

Table 2

FDI promoting institutions in China and Germany

	Institution	OFDI-dedicated financial measures	Non-OFDI-dedicated financial measures	OFDI-dedicated non-financial measures	Non-OFDI-dedicated non-financial measures
China	Ministry of Commerce	Double-taxation treaty network, insurance for Chinese expatriates, preferential credits for specific approved projects (rare natural resources, R&D, M&A increasing competitiveness)	-	Mutual FDI protection agreements (115), “Countries and Industries for Overseas Investment Catalogue”, databases of Chinese firms intending to go abroad	Issue of the ”Report on the Trade and Investment Environment in Different Countries”
	Export-Import Bank of China	Subsidies for key OFDI projects, preferential loans, credits	Export credit insurance and guarantees, credit facilities (e.g. letters of credit)	-	-
	Ministry of Finance	Subsidies for resource-oriented OFDI projects, interest discounts	Export finance and insurance, “International Market Developing Funds of Small- and Medium-Sized Enterprises”	-	-
Germany	Federal Ministry of Economics and Technology (Foreign Trade and Investment Campaign)	Investment guarantees	Untied loan guarantees, export credit guarantees	Bilateral investment treaties (127 in 2010)	Political support (e.g. official delegations, government participation in trade fairs, business matchmaking), manager training programs, support for procurement processes, active contribution to openness in international trade
	Germany Trade & Invest	-	-	-	information on foreign markets, international tenders , investment projects, access to international business partners
	Credit Institute for Reconstruction (KfW)	Investment loans, feasibility study financing, risk capital, guarantees, insurance	Export credits and related guarantees, domestic investment finance	Project consulting, business plan revisions (SMEs), local partner search	Technical assistance in host countries
	German Chambers of Commerce (AHK)	-	-	-	Promotion of German business in other countries, missions abroad, business matchmaking

Sources: own classification based on Solis (2003, p. 158), Xue and Han (2010, p. 306–321), Luo, Xue and Han (2010, pp. 75–77), kfw.de, deginvest.de, ahk.de, bmwi.de.

information provision by home-country governments or the appropriate international institutions includes general investment information on a country or region, or sector-specific databases on concrete investment opportunities (Sarmah, 2003). Furthermore, seminars, investment missions, trade fairs or conferences organized with the support of government agencies or chambers of commerce and business associations in host-countries provide occasions for personal exchanges with potential host-country partners and government officials and the identification of investment opportunities (Te Velde, 2007).

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

4.4. Non-OFDI-dedicated non-financial measures

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

Torres and Varum (2011) note that training and consulting services improve potential investors’ capabilities by providing knowledge related to foreign expansion. A similar role can be played by international human resources exchange programs comprising of traineeships in foreign firms in order to improve employee skills. Moreover, as in the case of financial support measures, one must note that also other public policies which *per se* aim at increasing IFDI flows in the short run, can act as a driving force of OFDI in the long run. Globerman and Chen (2010, p. 2) argue that the establishment of “legal and regulatory regimes that protect property rights, create transparent and fair rules of law” contributes to the increased efficiency and international competitiveness of domestic firms. They point to the similar role of macroeconomic growth-stimulating policies as well as domestic investment in infrastructure and education.

By no means do the said measures constitute an exhaustive catalogue, and different countries, both developed and developing, implement some of these instruments through different institutional designs. A classification of such measures is provided with the FDI promoting institutions in China and Germany (see Table 2). The former, which had launched its “Go Global” policy in 2000 and joined the WTO in 2001, represents a well-known case of strict control of FDI flows, accompanied by substantial government support (Buckley et al., 2008). Despite the simplification of the approval process and the comprehensive use of promotion measures, there are still functional overlaps between different departments involved in the OFDI regulation and approval (Xue and Han, 2010). Germany, on the other hand, has had a long tradition of institutional support for its firms' internationalization as an export-oriented economy and has been one of the leading sources of OFDI globally (UNCTAD, 2012). Its network of government-dependent institutions promoting trade and investment has recently been unified by an initiative of the Federal Ministry of Economics and Technology (2010) to coordinate their dispersed efforts under the Foreign Trade and Investment Campaign.

5. OFDI SUPPORT MEASURES: THE CASE OF POLAND

5.1. Overview of current support measures

Poland as a country that has gone through the process of transition to a market-led economy has simultaneously proceeded on a path of accelerated integration with its global environment. While export relations with foreign

partners had already existed in the previous political and economic system, OFDI on an important scale by CEE firms, including those from Poland, has emerged only recently. Although Polish outward FDI flows were already recorded in the 1990s, only the 2000s witnessed their increased pace, with a peak of USD 8.9 billion in 2006 (UNCTAD, 2011, p. 187). These processes generated intense interdependencies of the emerging Polish market with other countries through international trade and international investment, whereby Poland's economy was successfully modernized and restructured (Gorynia, 2009).

The discussion of support measures of Polish outward investment has to be placed within the context of the motivations underlying the foreign expansion of Polish firms, as well as the related strategies, geographic and sectoral patterns. Polish outward investors are mostly driven by market-seeking motives (Gorynia et al., 2013, 2014b), followed by less meaningful efficiency-seeking, strategic asset-seeking and resource-seeking motives.[3] These motives are also reflected in the positioning of foreign affiliates within the value chain of Polish multinationals: in fact, marketing and sales activities account for the majority of foreign operations (59%[4]), followed by manufacturing (38%) and services (30%) (Trąpczyński, 2014b). In terms of entry modes, 58% of Polish investors had engaged in greenfield investments, followed by acquisitions (43%) and joint ventures (24%) (Trąpczyński, 2014a). The major affiliates of Polish outward investors were located in nearby countries, such as Germany, Ukraine, Romania, the Czech Republic or Slovakia. Hence, these locations include both advanced economies and emerging markets, whereby Western host countries are more strongly related to such expansion motives as new brand and technology acquisition or access to distribution channels (Trąpczyński, 2014b).

While Poland has not adopted a "go global" strategy similar in scope to that of China and its promotion efforts related to the internationalization of domestic firms still remain fragmented and dispersed over a range of institutions (see Table 3), a change in the government's approach to this issue as compared to previous years can be clearly discerned (Kaliszuk, Błaszczuk–Zawiła and Wancio, 2012). In particular, the role of economic diplomacy, and specifically commercial diplomacy (Kostecki and Naray, 2007), in supporting the expansion of Polish firms has visibly increased. Initially, outward investors could partly rely on the support of Trade and Investment Promotion Sections of Polish Embassies (however not explicitly

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[3] Based on managerial evaluations from a survey of 60 Polish outward investors.
[4] Based on a sample of 100 Polish outward investors.

specialized in OFDI promotion)[5] (Grzegorczyk, 2011). In 2006, the Ministry of Foreign Affairs and the Ministry of Economy signed two agreements related to defining the scope of economic diplomacy and to the realization of the tasks assigned to the Ministry of Economy in the area of trade and investment promotion by Polish embassies or other entities where no Trade and Investment Promotion Sections were operating (Marchewka–Bartkowiak, 2014). Apart from coordinating the partly overlapping activities of Trade and Investment Promotion Sections reporting to the Ministry of Economy and Economic Sections operating at diplomatic units of the Ministry of Foreign Affairs, the two ministries were supposed to establish the Polish Agency for Trade and Investment. However, no such agency has been established so far.

The two-fold objective of the economic diplomacy of Poland has been to foster a favourable image of Poland as a stable trade and investment partner, as well as to support exporters and outward investors from Poland in their foreign expansion. Clearly, OFDI has entered the agenda of political relations, most notably with Asian destinations. In this context the Polish President signed a strategic agreement between Poland and China during his visit to Beijing in December 2011, while in April 2012 the Chinese Prime Minister visited Poland (Kaliszuk, Błaszczuk–Zawiła and Wancio, 2012). These meetings were followed by the official visit of the Polish Minister of Economy accompanied by business representatives in China in May 2012.

To enhance the scope of support, the Polish Information and Foreign Investment Agency, previously focused only on attracting inward FDI to Poland, launched a dedicated OFDI support program in 2011. The initiative was initially targeted at Germany, the Czech Republic, Ukraine, Russia, France and the UK, which are among the most important locations for Polish OFDI. The support program entails the provision of detailed information on local markets, assistance in identifying business partners or mediation in case of disputes with local authorities.

The support of Polish OFDI can be regarded as one of the components of broader programs coordinated by the Ministry of Economy to enhance the competitiveness of Polish companies, including financial support for export-related projects, the establishment of the Network of Investor and Exporter Assistance Centers, and the general promotion of the Polish economy abroad. In January 2013, the Polish government adopted the Strategy of

[5] A complete list of the responsibilities assigned to Trade and Investment Promotion Sections can be found in Marchewka–Bartkowiak (2014).

Table 3

OFDI promoting institutions in Poland

Institution	OFDI-dedicated financial measures	Non-OFDI-dedicated financial measures	OFDI-dedicated non-financial measures	Non-OFDI-dedicated non-financial measures
Ministry of Economy of Poland	-	Financial support for promotion activities (shows, exhibitions, industry meetings, foreign market surveys, promoting commodity groups, services and technologies); grants for export promotion, support for entrepreneurs from selected industries	BIT conclusion	Export promotion portal (infor-mation on foreign markets, database of foreign business inquiries and tenders); Go Poland portal (export/FDI); Network of Investor and Exporter Assistance Centres; creation of institutions supporting entrepreneurs
Bank of National Economy (BGK)	Subsidies for key OFDI projects, preferential loans/credits	Governmental programme of credits for exporters; credits and loan guarantees for entrepreneurs	-	Infrastructure project financing (Polish Investments Programme); investment funds for specific purposes and industry sectors
Corporation of Credit Export Insurance (KUKE)	Political risk insurance for OFDI projects	Receivables insurance; export guarantees, export factoring insurance; customs and excise guarantees; insurance of credits for domestic purposes	-	-
Polish Agency for Enterprise Development (PARP)	-	-	-	Participation of SMEs in economic missions and fair events; Enterprise Europe Network (match-making, information, training and counseling); projects aimed at increasing the competitiveness of the economy
Polish Information and Foreign Investment Agency (PAIIZ)	-	-	Conclusion of BIT and contacts with host country institutions; facilitation of contacts between Polish investors	“The support of Polish companies in selected foreign markets” project (pilot markets: Germany, the Czech Republic, Ukraine, Russia, France, UK): foreign market information, assistance in contact development, organization of foreign missions and seminars
Polish Champion Project	-	-	-	Support of foreign market promotion, research and development, human resources management
Trade and Investment Promotion Sections of Polish Embassies	-	-	-	Promotion of Polish business in other countries, information on foreign markets (for exports and OFDI), match-making, organization of economic missions

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

Innovativeness and Effectiveness "Dynamic Poland 2020". Its main objectives are to improve the regulatory and financial environment, enhance the effectiveness of labour, knowledge, and the usage of natural resources, as well as to increase the internationalization of the Polish economy. Thus, it can be noted that the support for OFDI is perceived in a broader context of an economic policy framework, which is reflected by the rising number of entrepreneurship-oriented programs co-financed by the European Union. At the same time OFDI-dedicated support measures still remain relatively limited, with the corresponding responsibilities dispersed between different institutions.

5.2. Towards an effective policy framework

The Polish outward FDI has not been exceptionally successful so far, as managerial evaluations of foreign affiliate performance are rather on par with or below the initial objectives formulated by the parent firms, particularly in terms of cost efficiency, labour productivity, sales growth and market share (Trąpczyński, 2014b). At the same time, while investors evaluate the market experience gained by operating in Poland prior to expanding abroad as rather useful, the support of the government is perceived as practically irrelevant (*ibidem*). This reflects the still limited availability and scope of the support measures on the one hand, and on the other questions the awareness of these instruments by their potential recipients.

However, there still remains the issue of choosing specific policies. The approach to classifying OFDI support measures presented in this paper accounts for the fact that most extant classifications of such measures focus on instruments which are explicitly targeted at this form of foreign expansion (UNCTAD, 2001; Te Velde 2007; Sarmah, 2003; Kline, 2003). Yet, especially in the context of developing countries, transition and post-transition economies where OFDI policy frameworks remain at a nascent stage or are burdened with a given structural heritage, it is important to note that adopting direct support measures from developed countries might not be effective, unless a broader context of domestic economic policy is taken into account. In evaluating and selecting appropriate policies, a vital question is whether the instruments should aim to increase the firms' FSA in the short run, which can be said of measures such as subsidies, loans, insurance and information provision, or rather focus on the long-term development of host CSA (e.g. via technical assistance), FSA and home CSA. Gorynia (2003)

argues that, in the context of a transition economy's internationalization, the effectiveness of direct support measures might be questionable if the basic conditions of the home economy's competitiveness, including the reduction of transaction costs or the creation of a high-quality labour market, are not fulfilled in the first place. Economic policy should foster both the competitiveness on the level of domestic firms in foreign markets and the competitiveness of firms within the open home market, where they also face foreign rivals (Gorynia, 1998). Such an objective can be fulfilled by a liberal-institutional industrial policy which promotes entrepreneurship and growth through, among others, support for investments, innovations, education and training, as well the creation of appropriate information systems and the promotion of information diffusion (Gorynia, 2002).

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

Finally, while home countries use all or some of the discussed measures to support OFDI, these may be implemented by separate institutions or, conversely, undertaken by upgraded export promotion agencies or inward investment promotion agencies (De Beule and Van Den Bulcke, 2010), which was the case of the aforementioned Polish Information and Foreign Investment Agency. In many developed countries with a long institutional heritage, the multitude or lack of explicit operational coordination between business support services may prove to be confusing to outward investors. Based on the case of the Polish OFDI policy framework, it seems crucial to ensure that the support instruments are easy to identify and use by their recipients (Gorynia, 2003). It can be questioned whether the current dispersion and specialization of the Polish system of support measures enhances its effectiveness, since it increases transaction costs for its users in relation to the extent of the support provided, as well as the costs of coordinating and managing the system by public authorities. At present, the system of OFDI support measures does not fulfill its key assumption of being centralized within one specialized agency with responsibility for both commercial diplomacy and broader economic diplomacy. Thus the present division of tasks between the Ministry of Economy and the Ministry of Foreign Affairs inevitably leads to overlapping in tasks and administrative

competences, resulting in communication problems at the level of specific diplomatic units.

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

CONCLUSIONS

This paper aims to contribute to the ongoing, albeit inconclusive, debate on the effects of OFDI on home countries and therefore the rationale for governments to promote it. This discussion has recently gained importance in the light of the dynamic growth of OFDI from emerging markets, whereby the role of both government restrictions and support is known to have been substantial on the one hand, yet the policy frameworks in these countries are frequently still at a nascent stage on the other, thus leading to inefficiencies in the distribution of support measures to individual firms, as explained above.

At microeconomic level, a careful scrutiny of FDI theory reveals, more or less explicitly, that OFDI is a means of achieving firms' strategic objectives

and enhancing their international competitiveness. At macroeconomic level, research in international business has been disproportionately concentrated on the impact of FDI on host economies and local firms. The review of the so far inconclusive studies in this area, presented in the first section of the paper, indicates that there is no sound evidence that OFDI has a detrimental effect on home economies, the consequences of OFDI for home economies can vary in the short-run and in the long-run, as well as between developed and developing countries, which makes formulating clear policy recommendations a difficult task.

In order to accommodate the varying and highly context-specific character of OFDI and its consequences, a broader classification of OFDI policy measures has been proposed in this study. Alongside the instruments, both financial and non-financial, which are devised by governments explicitly to promote OFDI, it is argued that broader policies supporting the competitiveness and internationalization of local firms should also be incorporated in the discussion of OFDI support. This approach is of particular relevance in the context of emerging markets, where it is to be evaluated whether direct OFDI support can be effective unless preceded by an overall improvement of the domestic economy's and firms' competitiveness. This aspect should be an important consideration for policy-makers in choosing policies which serve the home country's sustainable development in the long-run.

Based on the case of the Polish system of support measures for outward FDI, it can be concluded that at its early stage of development an important problem afflicting its overall efficiency is its dispersion and overlapping of responsibilities. Thus, a challenge for Poland, like other post-transformation economies from the region, is to establish central authorities with a clearly defined scope of responsibility and appropriate competences in terms of fostering outward foreign direct investment. Such centralization would potentially also contribute to an improvement of awareness by the potential recipients of the support measures. Currently, apart from anecdotal evidence little is known about the barriers of using support measures, as well as their productivity from the perspective of users, hence calling for more analytical efforts. Accordingly, a promising avenue of future empirical research is the effectiveness of specific types of OFDI support based on a sample of Polish outward investors.

Apart from the questions of institutional arrangement, a more nuanced approach seems to be necessary to reflect the potential effects of outward FDI for the home economy. Given the specificity of the Polish context, one

of the important variables determining the access to and type of support measures should be the origin of capital of outward investors, whereby genuinely Polish firms should be fostered rather than foreign subsidiaries located in Poland, whose rationale for investing is vastly different. Moreover, the aforementioned different motivations for Polish OFDI should also be a decision variable in support measures. Currently, innovativeness-oriented investments seem to have been less in the focus of managerial attention as compared to those aimed at only increasing foreign sales. Accordingly, specific support programs connected to the realization of a given set of competitiveness-enhancing objectives should be introduced in addition to the current, more general offering.

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