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The investment development path in a globalised world: implications for Eastern Europe

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Abstract

This article summarises recent revisions to the investment development path (IDP) as postulated by Narula and Dunning (2010). The IDP provides a framework to understand the dynamic interaction between foreign direct investment (FDI) and economic development. The revisions take into account some recent changes in the global economic environment. This paper argues that studies based on the IDP should adopt a broader perspective, encompassing the idiosyncratic economic structure of countries as well as the heterogeneous nature of FDI. It is critical to understand the complex forces and interactions that determine the turning points in a country's IDP, and to more explicitly acknowledge the role of historical, social and political circumstances in hindering or promoting FDI. We discuss some of the implications for Eastern European countries and provide some guidelines for future research.

Key words: FDI, investment development path, Eastern Europe, multinational enterprises, transition

JEL Classification: F21, O52, F23, P45

1. Introduction

The investment development path (IDP) was developed as a framework to understand the dynamic relationship between foreign direct investment (FDI) and the level of development of a given country (Dunning, 1981; Dunning and Narula, 1996; Narula, 1996). It has since become the basis for a wide range of theoretical and empirical studies covering many countries around the world¹. However, lessons learnt over the last decade, and the myriad effects of

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¹ See Boudier (2008, Table 2, p. 44) for selected examples from 1993 to 2005, and Narula and Dunning (2010) for a more recent review.

globalization, have required it to be revised and updated. These changes have diluted – and in some cases completely altered - the efficacy of traditional policy options used by countries. At the same time, multinational enterprises (MNEs) have responded proactively to globalization by modifying their strategies, their spatial organization and the modalities by which they interact with host economic actors. These changes by MNEs, in turn, have influenced the scope of opportunities and challenges facing governments that follow FDI-assisted development strategies.

These revisions are the basis of Narula and Dunning (2010), and in this paper we revisit this ‘updated’ IDP framework and examine the implications of these changes for an analysis relevant to Eastern Europe. The ‘new’ IDP deliberately distinguishes between a narrow and a broad version. Often scholars have adopted a *narrow* definition for the benefit of empirical modelling. The *broad* version of the IDP pays more attention to the idiosyncratic economic structures of countries, to the heterogeneity of FDI and to the effect of government policies. Building on Narula and Dunning (2010) in Section 2 we discuss some key components of such broader conception of the IDP. Following the theoretical discussion, Section 3 focuses on Eastern Europe, suggesting some guidelines for analyzing the interaction between FDI and development based on the broad version of the IDP. In doing so, we do not attempt to perform a comprehensive analysis of the IDP of Eastern European countries but rather to provide some input for a future research agenda.

2. Revisiting the investment development path

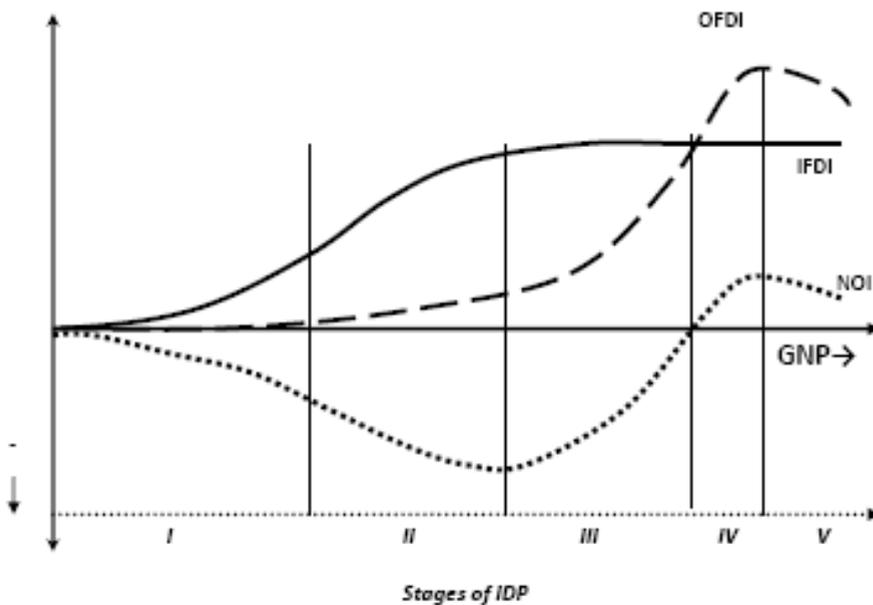
The IDP envisages economic development as a succession of structural changes and contends that such economic and social transformations have a systematic relationship with the behaviour of inward and outward FDI. Drawing on Dunning’s eclectic paradigm (Dunning, 1980), the IDP analyzes how patterns in FDI respond to changes in the ownership (O) advantages of domestic firms; the O advantages of MNEs; and the location (L) advantages of countries. This three-way dynamic interaction can be categorized in five stages which may be observed in most countries, although with significantly different rates of change and points of inflection.

The first stage of the IDP reflects the situation in most of the least developed countries, where both inward and outward FDI are very small. The country lacks O or L advantages, often due to the combination of a limited domestic market, lack of infrastructure, low-skilled labour force and inappropriate institutions and government policies. In stage 2 inward FDI (IFDI) grows significantly thanks to the development of some L-specific advantages that raise the country’s attractiveness to MNEs. However, outward FDI (OFDI) remains very limited because the O-advantages of domestic firms are still weak, giving rise to an increasingly negative net outward investment (NOI) position.

At stage 3, OFDI increases as domestic firms become more competitive in comparison to foreign firms. In this stage OFDI may surpass IFDI flows, but the IFDI stock remains higher (and hence the NOI position remains negative). In stage 4, the NOI position turns positive after continued growth in OFDI underscoring the development of O advantages. Finally, in the most developed countries (stage 5) the expected outcome is an unstable equilibrium around zero, although often this unstable equilibrium is not achieved at zero but rather around a substantially positive or negative position. It is worth emphasising two points. First, that these stages are indicative. Second, progress within stages and between stages is by no means 'automatic'. Countries may move backwards as well as forwards.

The typical approach to model the investment development path has been to relate a country's net outward investment (NOI) with its level of economic development, usually measured by per capita gross national product (GNP). This gives rise to the standard graphical representation of the IDP (Figure 1), which has become the subject of empirical studies involving both time series of individual countries and cross-sectional analyses across countries.

Figure 1. Graphical representation of the IDP



Source: Narula and Dunning, 2010

Note: Only for illustrative purposes. Not drawn in scale.

Although empirical studies based on the graphical version of the IDP have served to illustrate important issues, they are also problematic in many respects. From a methodological perspective it is important to stress that variables such as NOI represent an aggregation of inward and outward FDI, which are themselves also aggregate variables across a variety of industries as well as different corporate functions within industries. In addition, very often empirical studies use indistinctively different measures of FDI such as stocks, flows, sum-of-flows or average flows; a practice for which more empirical support is still lacking. More importantly, the use of GNP as a proxy for development ignores the fact that countries with the same level of GNP per capita may exhibit completely different economic structures and industrial and technological specialization patterns (Durán and Ubeda, 2001; Narula and Dunning, 2010). It is important to realise that the IDP of individual countries are unique. Each country follows its own particular IDP which reflects exogenously determined characteristics such as size, population, geographic location, natural resource endowments, political economy, and so forth. Thus comparisons between countries by taking a cross-sectional view should only be undertaken with the greatest caution.

Empirical studies testing the graphical IDP may still be useful for detecting deviations of individual countries compared to their expected IDP and explaining possible reasons for those gaps in terms of the country's structural variables, policies or firm strategies. A country's expected IDP is to be interpreted not only in relation with its per capita income, but also considering other circumstances associated with its socio-economic-political structure, other aspects of its development, such as its external economic relationships at the national and supranational level, and the country's policy orientation and institutional profile.

Thus, the *narrow* statement of the IDP - which focuses on the relationship between a country's NOI position and its GNP per capita - must be used with caution, because the simplifications needed to reduce the process into a two-dimensional graph hide the complex and intricate interactions between FDI and development. While such numerically driven and graphical representations serve a specific purpose, they are less useful in drawing policy implications. Such empirical analysis need to be complemented with a deeper qualitative assessment of the interactions between FDI and development. Scholars following the *broad version of the IDP* (e.g. Barry et al., 2003; Galan et al., 2007; Liu et al., 2005; Narula and Dunning, 2000) have utilized it as a framework within which to explore the interactive relationship between the O advantages of firms and the L advantages of countries, and how each provides the potential to instigate changes in the other, whether seen at a country, industry or firm level. The broad version of the IDP reflects the fact that while a relationship exists between FDI and development, there is a very large "black box" of intervening mechanisms and processes (Bell and Marin, 2004).

Concepts such as embeddedness, absorptive capacity, institutional inertia, spillovers and linkages become critical for explaining the success of some countries and the failure of others in following FDI-assisted development strategies. Building largely on Narula and Dunning (2010) in the rest of this section we summarize some key perspectives for a broader version of the IDP that better embraces the interactive relationship between FDI and development.

2.1. Refocusing analysis on interactions and turning points

The motivations of inward and outward FDI evolve over the IDP in tandem with the development of location and ownership advantages (Table 1). Progression through the IDP is a learning process that involves developing domestic capabilities in an appropriate sequence that creates the conditions to benefit from knowledge flows and to attract higher value-adding FDI. In parallel, the level and nature of industrial policies that are more adequate to promote FDI-assisted development also change throughout the different stages of the IDP. In stage 1 the key role of governments is to set up the basic legal and commercial institutions and infrastructure. In stage 2 education, transport and ICT infrastructure become increasingly important, while in stage 3 a key role of governments is often to enforce competitive markets. In stage 4 the key role of policy is to minimise transaction costs, support innovation, and foster economic restructuring.

Table 1. Evolving motivations of inward and outward FDI across the IDP

IDP stage	IFDI	OFDI
I	Little IFDI initially. As L advantages improve, resource based motives, and market seeking later.	Very little OFDI. Mainly minor strategic investments and capital flight.
II	Growing presence of market-seeking FDI, which may attract some labour-intensive manufacturing.	Little OFDI. Some resource- and market-seeking investment in other developing countries; some 'escape' investment to developed countries; mostly natural resource investment or light manufacturing employing established technologies.
III	Raising inward FDI, market-seeking and increasing efficiency-seeking FDI in manufacturing, even in activities supplying more sophisticated products for domestic markets, or requiring more skilled labour.	Growing OFDI. All kinds of investment including efficiency-seeking and some asset augmenting investment; mass-produced differentiated consumer goods, e.g. electrical products, clothing; more service investment, e.g. construction, banking.
IV & V	Increasingly market-seeking, efficiency-seeking and asset-augmenting investment	Increasingly efficiency-seeking and asset-augmenting investment; regional and global; more M&As and alliances; investment in knowledge-intensive sectors, e.g. ICT, biotechnology, and high value-added services, e.g. consultancy.

What are the main forces and interactions that determine the turning points of a country's IDP? Why do some countries exhibit a positive cumulative causation between FDI and development while in others the developmental effects of FDI are limited? Much of the research points to threshold levels of *absorptive capacities* without which countries fail to *take off* (Criscuolo and Narula, 2008). However, we have as yet no clear understanding of the catalysts that determine these points of inflection. In addition, there is still a lack of clarity of what are the specific threshold levels of absorptive capacity needed to attract the right kinds of FDI to promote growth in stage 1 countries, or that enable the transition from stage 3 to stage 4. It also remains unclear why some countries have failed to progress towards becoming significant outward investors (and therefore move towards stage 4/5) despite achieving high levels of development. The broad version of the IDP provides the tools to address these and other important questions, thereby providing greater richness to the framework to understand these turning points.

2.2. Recognizing the heterogeneity of cross-border MNE activity

The broad version of the IDP moves beyond the mere distinction between inward and outward FDI, recognizing the heterogeneity of FDI in terms of corporate motivations, entry modes and developmental impacts. Increased FDI does not necessarily imply progression in the IDP through a proportional increase in economic development. Indeed, FDI does not always contribute to upgrading, but sometimes may even act to reduce the host country's long-run potential, leading to a *crowding-out* effect whereby domestic firms are displaced, out-competed or pre-empted by foreign-owned MNEs.

Therefore, in order to study the relationship between FDI and development, measuring the *quality* of FDI is just as important as measuring its *quantity*. Quality of FDI has to do with how it matches the country's development aspirations and strategies, and with how (and if) it contributes to enhancing domestic technological strengths and location-specific assets. In countries at advanced stages in the IDP, quality often refers to investments in the most dynamic knowledge-intensive industries as well as the most strategic and high value-adding corporate functions within global value chains. Quality is also important for the least developed countries at the earlier stages, in terms of attracting the kind of FDI that provides the potential for externalities to the domestic economy which matches the absorptive capacity at that stage. When the technology gap between the types of domestic absorptive capacity and the activity of foreign MNEs is too large, there tends to be little transfer of knowledge.

Needless to say, the kinds of FDI activity and the nature of the potential externalities made available to the local economy vary by the motivations behind the FDI. The motivations behind FDI have evolved significantly since the 1980s,

suggesting the need for different types of policies. Cross-border organization structures in a pre-globalisation economy were much simpler. Motivations for specific subsidiaries tended to be overwhelmingly resource seeking or market-seeking, with a minority of MNEs engaged in efficiency-seeking or strategic asset-seeking activities. But with time MNEs have become increasingly sophisticated in managing and integrating activities across borders, aiming at maximizing cross-border efficiencies and taking advantages of the economies that derive from multinationality. Thus efficiency-seeking and strategic asset-seeking motivations have become more important. MNEs are progressively fragmenting their activities across regions and countries, and not just their manufacturing and sales functions, but increasingly also their most strategic activities such as R&D.

Globalisation has resulted in the growing use of multiple and heterogeneous entry modes, moving away from a reliance on wholly owned subsidiaries and greenfield investments by MNEs. For instance, firms may engage in mergers and acquisitions as well as enter markets through non-equity agreements which provide them with control of operations, but without the ownership of assets in the host country. In general, there is a growing tendency to use cooperative and/or contractual relationships to manage the external network of the MNE. The MNE itself tends to focus on its 'core competences' with extensive use of outsourcing. Thus it is important to consider not just FDI but also other forms of non-equity relationships and linkages established by MNEs across borders. Different entry modes can be expected to have different developmental effects as well as different policy implications, but the extent of such differences is not as yet clear (Álvarez and Marin, 2010; Globerman and Shapiro, 2009). Further research is also needed to clarify the relative importance of different entry modes in the different stages of the IDP.

Although FDI remains one of the main modes by which MNEs engage in cross-border value adding activities, alliance capitalism implies a shift away from an emphasis on hierarchies towards a richer variety of organizational modes (Dunning and Lundan, 2008). Improved enforceability of contracts and declining transaction and monitoring costs make it easier for firms to monitor, identify and establish collaborative ventures than previously had been the case (Narula, 2003). This has implications for our understanding of the potential for non-internalised means of MNE activity to affect economic development. From a development and policy perspective, the critical issue is the nature and extent of linkages, rather than whether these linkages are organised intra-firm or inter-firm. FDI is not to be interpreted as a discrete, single-period flow, but as a multi-period deepening and spreading of value-adding activities, not all of which occur as a consequence of new flows of foreign capital. This implies to some extent shifting the unit of analysis from FDI towards MNEs and their international network of subsidiaries, suppliers and partners.

2.3. Unveiling the role of policies

The broad version of the IDP allows analysts to distinguish between policy orientations in somewhat greater detail. This needs to be done in a historical context, because previous policy orientations shape the way in which current economic activity is organised. Indeed, institutional inertia and path dependency play a role in shaping current economic structure and the location advantage countries offer, and can limit the efficacy of current policy. For example, despite the large scale liberalisation of the economies of most countries from the mid-1980s onwards, some countries that had hitherto restricted inward FDI flows continue to show attenuated inward MNE activity.

In many developing countries, the adoption of Washington Consensus policy strategies implied a drastic shift away from import substitution towards liberalization of capital flows, but this did not always facilitate economic growth and development. The sudden exposure of local industries to the vagaries of international competition was a strong structural shock for these economies. Restructuring entailed rapid dismantling of import and FDI restrictions, large-scale privatisation of state-owned enterprises and the reduction of subsidies to domestic firms. This happened at different rates and with varying degrees of enthusiasm, both of which have an impact on the outcomes of FDI-assisted development.

Economic globalization has affected opportunities and challenges for FDI-assisted development. The most successful FDI-assisted development strategies, from Ireland to Costa Rica, to the East Asian NICs, have sought to attract FDI but also to develop and upgrade domestic competitiveness in tandem. They upgraded L advantages to encourage MNEs to both deepen and broaden their local value adding activities. This required a closer integration of FDI policies with industrial policy, involving a more proactive and selective approach to FDI promotion focused on matching domestic capacities with the dynamics of global value chains. In this context, policies aimed at fostering linkages and creating clusters of local firms around MNEs have become increasingly important. This kind of policies are based on the premise that benefits for the host country are magnified when MNE subsidiaries become embedded in the domestic milieu by collaborating with local firms, universities or business associations. But a critical challenge is that as MNEs increasingly seek to rationalize their activities, decisions about local linkages are not always made at the subsidiary level, but rather at the headquarters level by comparing the various options available to the MNE globally.

Active intervention by governments to stimulate FDI is controversial in the neoliberal approach that has dominated policy over the last two decades, because it sometimes leads to a more inefficient allocation of resources. Indeed, the danger of government failure (and inefficiencies) in many countries suggests that markets may be the more optimal channel by which limited resources can be

allocated. While acknowledging the dangers of government failures, scholars such as Lall (2004) have emphasized that the need for active policy intervention to benefit from FDI has become stronger given the fast pace of globalization and technological change. According to Velde (2001) pro-active and strategic FDI policy interventions affecting the dynamic pattern of national comparative advantages are required in order to avoid the risk of a low-skill, low-income trap.

3. Some implications for Eastern Europe

Any attempt to analyze the IDP of Central and Eastern European countries (CEECs) needs to carefully consider their very specific historical and political context. The shape and characteristics of the IDP in the CEECs are heavily influenced by the transition from socialism to capitalism taking place during the 1990s and the subsequent accession into the EU of many of these countries in the mid 2000s. These *structural shocks* make comparisons with other developed or developing countries rather misleading. There are still artefacts of this large scale restructuring that reflect themselves in some of the location advantages of these countries, such as informal institutions and the quality of the knowledge infrastructure (Narula and Jormanainen, 2008).

These path dependencies have created an unusual IDP (in the narrow sense) for most of these countries, which does not resemble the IDP of economies that have operated on market principles for longer periods². Prior to 1990, inward FDI in these post-socialist economies was virtually non-existent. Outward FDI was also limited and often associated with *system-escape* motivations, aiming at overcoming systemic failures to facilitate trade and foreign currency flows. As such, despite the relatively high GDP per capita levels which were at the same level of stage 2 and 3 countries, NOI, IFDI and OFDI were similar to stage 1 countries.

During the 1990s the transition from a socialist to a market system and the prospects of EU accession brought radical changes to the socioeconomic structure of Eastern Europe. In just a few years, many state-controlled industries were transferred to foreign ownership through privatization. This was exacerbated by national budget constraints, pressures from supranational institutions (including EU, IMF, WTO) and, in some instances, the inability of domestic capitalists to compete effectively with foreign firms.

² Boudier (2008) notes that in many CEECs outward FDI appeared before inward FDI really took off, and argues that this contradicts the predictions of the IDP. This illustrates the error of using the 'narrow' IDP and comparing across countries, as well as the limitations derived from ignoring the social, historical and political context and focusing on just two dimensions.

Table 2. FDI stocks and net outward investment position (1990-2009)

	IFDI stock per capita (1)			OFDI stock per capita (2)			NOI position per capita (2-1)		
	1990	2000	2009	1990	2000	2009	1990	2000	2009
Bulgaria	13	338	6 724	14	8	14	1	-329	-6 550
Romania	2	314	3 478	3	6	81	1	-308	-3 396
Czech Republic	332	2 117	11 177	18	72	1 338	-314	-2 045	-9 840
Hungary	55	2 239	24 886	15	125	17 507	-40	-2 114	-7 379
Greece	559	1 290	4 025	284	557	3 624	-276	-733	-401
Portugal	1 059	3 134	10 392	90	1 936	6 280	-969	-1 198	-4 112
Spain	1 697	3 883	14 933	403	3 209	14 385	-1 294	-674	-549
France	1 677	6 423	17 620	1 927	15 213	26 746	251	8 790	9 125
Germany	1 400	3 309	8 539	1 908	6 602	16 777	508	3 293	8 237
United Kingdom	3 549	7 418	18 206	3 991	15 184	26 729	442	7 766	8 523
<i>Developing economies</i>	129	357	889	40	196	521	-89	-162	-369
<i>Developed economies</i>	1 730	5 869	12 071	2 198	7 354	15 646	468	1 485	3 575

Source: UNCTAD, UNCTADstat, last accessed November 17, 2010

Notes: FDI stocks per capita measured in US Dollars at current prices and current exchange rates. For Romania, 1991 instead of 1990 for IFDI due to lack of data. For Czech Republic 1993 instead of 1990 both for IFDI and OFDI.

For illustrative purposes, Table 2 shows the evolution of inward and outward FDI from 1990 to 2009, focusing on a set of four CEECs, namely Czech Republic and Hungary, which joined the EU in 2004, and Bulgaria and Romania, which joined the EU in 2007. We compare these with the average for developed and developing countries, as well as with the three largest EU economies and with a sample of three Southern EU member states. Inward FDI per capita grew dramatically from 1990 to 2009, significantly faster than in Western European countries or than the average for developed or developing countries. However, growth of outward FDI was much lower, leading to increasingly negative NOI positions, a trend which characterizes countries at stage 2 of the IDP.

Narula and Bellak (2009) show that the share of foreign ownership in total capital stock by the beginning of the 21st century was already typically higher in the CEECs than in Western Europe, although with considerable variation across countries and sectors. Inward FDI had a very important role in the transition process and has often been regarded as one of the main benefits of EU integration. Foreign investors initially moved into the region due to cost advantages (low labour costs and low taxes), but with time, many MNEs upgraded their operations, as evidenced by the growth of high technology

industries and high technology exports. During the 1990s real wages in the CEECs rose steadily, especially in foreign-owned companies (Hancké and Kurekova, 2008). Foreign-led upgrading is further evidenced by the fact that MNE subsidiaries performed significantly better than local firms (Djankov and Murrell, 2002). It is widely acknowledged that liberalization, privatization and inward FDI contributed to institutional change and economic catching-up (Lavigne, 2000; Radosevic, 1999).

When analyzing the IDP of the CEECs, it is essential to note that much FDI during the 1990s occurred through privatization-driven acquisitions. Brownfield investments such as these tend to imply a higher risk of crowding-out than greenfield investments. In some cases the final outcome was that local operations were downsized and linkages with local suppliers were replaced with the MNE's global network of affiliates and partners. The developmental impact of FDI was often limited by the inability of domestic actors to build the kind of linkages with foreign MNEs that enhance domestic competitiveness, either because they lacked sufficient absorptive capacity, because they operated largely in different sectors, or because they evolved separately. Linkages of domestic firms with MNE subsidiaries are not automatic, and nurturing them becomes ever more challenging in high value adding activities such as R&D (Narula and Guimón, 2010).

As EU integration has proceeded, MNEs have continuously restructured their European supply chains to better rationalize their operations (Dunning, 2008). During the first years of transition Eastern European governments tried to ensure that privatized firms continued to operate, create employment and source locally through protectionist policy measures. But as market distortions introduced by protectionist regulations disappeared, following WTO accession and EU integration, many MNEs relocated activities (Chobanova, 2009; Meyer and Jensen, 2003). In the absence of large markets or sufficiently well-developed innovation systems and industrial clusters, many MNEs preferred to seek economies of scale and scope in their existing activities within the core EU countries despite the low cost advantages the NMS offered. Majcen et al. (2009) note how EU countries that are furthest away from convergence with the EU norm are often host to single-activity subsidiaries, primarily in sales and marketing or labour-intensive manufacturing and assembly, as well as in natural resource extraction. In contrast, the most advanced economies with domestic technological capacity, such as the core EU countries, host the least truncated subsidiaries, often with R&D departments and headquarter functions.

As discussed earlier, when analyzing policy orientations as a factor shaping the IDP it is important to consider institutional inertia and the path-dependent nature of policies. This is especially relevant in the case of the CEECs, which have experienced a fundamental shift of economic regime that transforms both formal and informal institutions. Institutional restructuring is not

an instantaneous or costless process and results in inefficient outcomes, often because of a strong institutional inertia which must be overcome. Such institutional inertia can be seen as a self-reinforcing interaction between industrial enterprises, the infrastructure and politics which perpetuates the use of specific technologies, the production of specific products, and the survival of specific processes, networks and associations. Most of the CEECs still demonstrate significant artefacts of the pre-transition era, because modifying and developing informal institutions is complex and slow as it takes considerable time and effort to create informal networks of government agencies, suppliers, policymakers and researchers which, once created, have a low marginal cost of maintaining.

Bourdier (2008) is one of the few studies to empirically test the IDP framework across the CEECs. It sub-divides the CEECs into a set of homogeneous groups through a cluster analysis and then performs a statistical evaluation of their IDP. This study indicates that most CEECs are at stage 1 or stage 2 of the IDP and concludes in the following terms: “*the present research confirms the idiosyncratic nature of the IDP, and thus the difficulty of econometrically testing its applicability on a large group of economies*” (Boudier, 2008, p. 59).

Indeed, studies of the IDP of CEECs as a group should consider that there are significant differences across countries as a result of path dependencies which reflect different socio-political and economic histories. In general, the sub-set of CEECs that joined the EU has proceeded the furthest from a centrally-planned economic structure, and towards economic convergence, and has been more successful in attracting and embedding FDI. But there are also striking differences among the ten CEECs that joined the EU in 2004 and 2007. Chobanova (2009) attributes these differences to their uneven stages of economic development, absorptive capacity, legislative frameworks and industrial policies, and, in addition, to the fact that some countries showed higher transparency in the privatization schemes in the early 1990s, while others delayed market reforms because of political disagreements and multiple shifts in legislations. Other structural factors such as the size and factor endowments of the different CEECs should also be taken into account.

4. Concluding remarks

The IDP is an attempt to provide a framework for a series of concatenated dynamic processes associated with development and MNEs. But the stages of the IDP should be taken as indicative rather than categorical. The IDP framework needs to be used and interpreted in the broad sense, as it is first and foremost a tool to analyze the interaction between FDI and development. The broad version of the IDP pays more attention to the heterogeneity of both

FDI and territories; to interactions and turning points; and to the role of policy orientations.

Based on a broad version of the IDP framework, we have provided some suggestions for a future research agenda to better understand the developmental implications of FDI in Eastern European countries. Our analysis of the case of Eastern Europe serves to illustrate how important it is to place the IDP framework within the context of the region's evolving institutions and policies. It is also important to stress that the overdependence on FDI to drive industrial upgrading has its risks. In recent years, the global economic crisis has had a very negative effect on MNE operations in the region, questioning the formerly prevalent optimistic view of the success of FDI-assisted development. FDI per se does not guarantee increased productivity and industrial upgrading in the long term; the critical issue is the ability of the CEECs to embed MNEs and raise their technological capabilities as wages rise and skill demands change. Changes in the policy options available and the continuous restructuring of MNEs imply a growing pressure to develop the kind of sustainable competitive location advantages that enable upgrading throughout the IDP.

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