

Multinational enterprises with their rapidly increasing shares in world output, investment and trade flows have become the main actors in the ongoing globalization of the world economy. From the mid-1980s onwards foreign direct investment made by MNEs grew more rapidly than both world trade and world GDP. FDI originates predominantly from developed countries which have been at the same time the major recipients of FDI. In the last several years also Poland has emerged as one of the most attractive host countries for multinational firms among the new European Union member countries. While many theories have been proposed to explain the internationalization of production two distinct hypotheses why a firm should go multinational have been proposed in the literature: market seeking and efficiency seeking. According to the first one MNEs are vehicles to overcome distance and lower costs of foreign markets access. Foreign direct investment undertaken to serve local markets is often called horizontal FDI and refers to producing abroad roughly the same goods and services as in the parent country. According to the second one MNEs internationalize production in order to get access to inputs at a lower cost. Foreign direct investment undertaken with the aim of reducing production costs is often called vertical FDI as it involves fragmenting production processes and locating each stage in the country where the factors used intensively in that particular stage are relatively cheap. These two alternative hypotheses have very different empirical implications.

The main goal of the proposed research project will be to validate empirically the theoretical predictions of competing models of multinational enterprise and identify the main reasons for undertaking FDI in Poland using bilateral panel data on inward FDI during the last two decades. The empirical study will directly refer to the so-called new theories of multinational enterprise that will allow formulating a number of empirically testable hypotheses concerning the absolute and relative country size, differences in relative factor endowments and transaction costs associated with trade and FDI. In particular, the proposed study will attempt to verify the hypothesis that Poland's accession to the EU resulted in increased FDI, having controlled for other factors that may affect investment decisions. The proposed empirical research will be carried out for all the countries of origin of foreign capital jointly, as well as by individual groups of countries, including the old and new European Union countries, as well as third countries which are not members of the European Union.

The proposed research will contribute to better understanding of the reasons for FDI in Poland and differentiate between horizontal and vertical FDI originating not only from other EU Member States, but also from third countries. It will also determine the effects of the Polish accession to the EU for the total amount of FDI as well as FDI made by particular groups of investing countries. Better understanding of the causes of FDI will also contribute to better understanding of the effects of FDI in the Polish economy, in particular their impact on the markets of goods and services, as well as production factors markets and the labor market in particular. This will enable to also develop recommendations for the economic policies, in particular employment policies as well as policies aimed at attract particular types of FDI from different geographical areas.