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Global Challenges and Policies of the European Union
– Consequences for the "New Member States"

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THE POSITION OF POLAND IN THE FLOWS OF FOREIGN DIRECT INVESTMENTS WITHIN THE EUROPEAN UNION IN XXI CENTURY

1. Introduction

The integration of Poland with the EU should facilitate its joining the globalisation stream and taking advantage of its positive sides. Fulfilling these aims, however, depends primarily on the country's activity, including individual enterprises, in making use of the opportunities offered to Poland by the EU. The membership in the Union creates above all a unique chance for a sustained social and economic growth.

Whether Poland will manage the challenges of globalisation is going to be decided to a great extent by the amount and quality of inflow of foreign direct investments (FDI) to that country. FDI in an obvious manner influence structural changes in the Polish economy, dynamics of its growth, including the level and dynamics of Polish export and its quality, by means of the transfer of capital and technologies. They also indirectly increase the chance to reduce the development gap in relation to other countries. Thus, in the face of the decrease in FDI inflow in the recent years and the growing competition for them among the Central-Eastern European countries, it is necessary to introduce an active policy ensuring that foreign investors notice as much Poland's investment attractiveness as possible. That has to be accomplished by means of the macroeconomic stability, thorough improvement of the investment climate, and creation of effective incentive system. At the same time, it is necessary to create the highest possible quality of FDI by adapting the strategy of promoting above all those investments which are pro-export oriented and which support the technological progress.

2. Theoretical justification of FDI influence on economy

The economic theory provides for two streams examining the FDI influence on the economy of the host country. The first of them originates from the classic trade theory and is based on the static partial equilibrium model by MacDougall (1960). According to this approach, the inflow of foreign capital in the form of direct and portfolio investments leads to the increase of the marginal product of labour and decrease of the marginal product of capital in the host country. The other stream is connected with the theory of enterprise organisation created by Hymer (1960), and represented above all by: Buckley and Casson (1976), Caves (1971), Dunning (1973), Kindelberger (1969), and Vernon (1966). The representatives of this stream do not restrict the role of FDI to the import of capital, but mark also the indirect effects in the form of diffusion of knowledge and technology (resulting from specific ownership advantages) and the influence of investments on the labour market structure [Golejewska 2008, pp. 103-114]. The potential role of international enterprises in spreading knowledge in capital-hosting countries is emphasised by the stream of the economic literature related to the theory of economic growth. Romer (1993) argues that FDI most rapidly and credibly support creating such an economic environment in the investment country that will permit eliminating the so-called ideological gap.[1] One of the most rapid and credible ways to do so is to create such conditions that would facilitate the inflow of foreign direct investments.

An extremely interesting innovation, which enriched the achievements of theories related to FDI, was introduced in the 1990s by Ozawa (1992). By analysing the individual stages of the economic development of countries, he presented the evolution of comparative advantages and their connection with foreign investments, the so-called dynamic paradigm of FDI-facilitated development. In his concept, Ozawa indicated two basic types of investment regimes. One consists in opening the economy and increasing export (*outward-looking, export-oriented regime*), while the other in focusing on domestic production, which leads to import substitution (*inward-looking, import substituting regime*). According to Ozawa, the former regime affects the economic growth of developing countries far more positively. However, it should be stressed that a significant condition for this strategy's success is maximising the existing and supporting the potential comparative advantages of countries by inflowing investments. This approach indicates the pro-export nature of FDI, and cross-national corporations are attributed by Ozawa the role of the "economic pacemaker" [Wojtyna 2008, pp. 84-85].

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[1] The notion of ideological gap stands for the lack of intellectual capital. Apart from the technological gap, "the lack of ideas" may also concern other areas of economic activity, such as: marketing, distribution, accounting systems, information systems or ways of motivating employees.

The mechanism explaining the above described process occurs in the following sequence: strategy of opening economy to foreign countries → FDI inflow → export increase → change in the structure of economy (growth of sectors of a high added value) → rapid economic growth.

Central-Eastern European countries, including Poland, have been trying to implement the mechanism of economic growth activated due to the acquired strategy of opening economy to cooperation with foreign countries, including FDI.

3. The position of the European Community in global flows of foreign direct investments

The dominant region of the global economy, among the entities participating in the international flows of capital in the form of FDI is – apart from the United States – the European Union. It should be marked at the same time that the internal flows of capital between the EU member states were to a great extent responsible for a high level of FDI inflow to the EU countries both in 2006 and 2007 [*World Investment Report 2007*..., p. 68; *World Investment Report 2008*..., p. 72].

Table 1. The participation of foreign direct investments of the European Union in the FDI inflow and outflow in the world in the years 2000-2007

Year	FDI inflow				FDI outflow			
	world		European Union		world		European Union	
	USD bln	in %	USD bln	in %	USD bln	in %	USD bln	in %
2000	1409.6	100	696.1	49.3	1097.5	100	813.0	74.1
2001	832.2	100	382.0	45.9	684.8	100	435.4	63.5
2002	617.7	100	307.1	49.7	485.1	100	265.8	54.7
2003	557.8	100	253.7	45.4	561.1	100	286.1	50.9
2004	710.7	100	213.7	30.0	813.1	100	334.9	41.2
2005	916.3	100	421.9	46.0	778.7	100	555.8	71.3
2006	1305.9	100	531.0	40.6	1215.8	100	572.4	47.1
2007	1833.3	100	802.3	43.8	1966.5	100	1142.2	58.1

Source: own work on the basis of UNCTAD, FDI/TNC database.

The dominant role as the participants in capital flows around the world is played by the countries of the “old” European Union (15), which, since the beginning of the 1980s, have been attracting over 90% of FDI inflows to Europe. In 2003 the EU participation in the world FDI inflows amounted to 45.4%. In 2004 the EU significance as a world capital importer in the form of FDI decreased to the level of USD 213.7 bln, which constituted 30% of the world inflow, while in 2005 the share of FDI inflow to the EU again increased to 46% on the global level. In 2006 ca. 41% of the world FDI stream flowed into the EU countries, and in 2007 – nearly 44%. As a source of capital in the form of FDI, the EU position is also significant from the global economy viewpoint. Between the years 2000 and 2007 the participation of the EU as a source of capital in the form of FDI did not decrease below 41%, and in the record-breaking in this respect 2005 it amounted to over 71%, which is presented in Table 1.

The decrease in the flow of foreign direct investments to the European Union countries observed in the years 2002-2003 might by explained by the occurrence of two correlated phenomena. The most important one is the global downward tendency in the FDI flows amount observed from 2001 to 2003, which was a result of the economic effects of terrorist attacks. Secondly, a number of sources indicate also a growing importance of the Central-Eastern European countries (mainly the 10 new members of the EU), whose participation in the global FDI import has been slowly increasing (3.14% in 2004). The participation of the "new" member countries in the foreign investments import constituted 9.4% of the FDI inflow to the European Union in 2005, and 7.3% in 2006, while the value of the capital flowing into the 12 new EU members in 2007 amounted to USD 64.795 bln, which constituted 3.5% of the global FDI inflow.[2]

Thus, the fact that Poland has acquired a leading position among the importers of capital in the form of FDI is even more significant. Compared to the 12 new EU members, it is Poland that has shown the greatest value of foreign direct investments import during the past 15 years. In contrast, in 2007 Poland came in eighth among all EU countries, with the value of USD 17.6 bln of the attracted investments [*Zagraniczne inwestycje*... 2008].

The strong position of the "old" EU countries as capital exporters in the years 1980-2000 never fell below 90% of the Union's FDI export value, and in the record-breaking years 2001-2002 it exceeded 95% of that value. The leaders of the direct investments export in the EU are as follows: Great Britain, France, Spain, Germany, Luxembourg, the Netherlands, and recently Italy as well. The record-breaking export from the Netherlands, which was not only the Union's but also the world's leader in FDI export in 2005, deserves particular attention. In 2006, in turn, France was the European leader among capital exporters with FDI value of USD 115.1 bln, while in 2007 – Great Britain which invested USD 265.7 bln[3] abroad.

In comparison to the Union leaders in FDI export, the ability of the Central-Eastern European countries (the new EU members) to export capital proves to be very poor. In the record-breaking 1997 FDI of this part of Europe constituted 1.7% of foreign investments made by the continent's countries. In the subsequent years, the analysed value fluctuated between 0.3% (1999) and 1% (2002). In 2004 the value of direct investments abroad constituted 1.25% of the Union's FDI values [Karaszewski 2005, p. 113]. In contrast, in 2006 the participation of the new member countries as the source of the Union's capital constituted 2.1%, while in 2007 – merely 1.3% [Sporek (ed.) 2009, pp. 74-75].

[2] According to IMF data.

[3] Own work on the basis of IMF data.

4. The position of Poland in flows of capital on the European Union market

4.1. Poland against the new EU member countries

The opening of the economy and the success of the market reforms conducted in Poland resulted in the Polish market becoming an attractive place for foreign direct investments in the 1990s. In addition, both macroeconomic stability and the introduction in 1991 of a more liberal law which governed the establishment and activity of companies with foreign capital and abolished the limitations of profit transfer as well as withdrawal of the invested capital abroad caused that the value of the inflowing capital and the number of entities with foreign capital operating in Poland began to increase rapidly in the 1990s [Cieślik 2005, pp. 70-72].

In the years 1991-1995 the average annual capital inflow to Poland was running at about 0.7% of the global direct investments inflow. During the successive five years the share increased and fluctuated at ca. 1.1% of the global investments inflow. The average annual growth rate of the FDI inflow dynamics to Poland in the years 1991-1995 amounted to 139.8% and was extremely high, which is not surprising since the entire amount of the investment was low at that time. During the subsequent years the pace of growth slowed down significantly (34.1% in the years 1995-2000). In 2000 Poland accepted investments of the total value of USD 9.3 bln [Sporek (ed.) 2009, p. 80]. According to UNCTAD data, USD 4.6 bln flowed to Poland in the form of FDI in 2003, and in the following years, respectively, USD 12.9 bln in 2004 and USD 9.6 bln in 2005. In 2006, in turn, a record-breaking value of FDI which flowed to Poland amounting to USD 19.2 bln was noted. In 2007 foreign investors invested USD 17.6 bln in Poland in the form of direct investments (Table 2).

Despite the permanent growth of the capital inflow value, the position of Poland as an FDI importer on the EU market is not significant. The participation of Poland in the Union's capital import in the years 2003-2007 was running at about from 1.8% to 2.2%. The year 2004 was record-breaking – 6.3% of the FDI accepted by the EU in total flowed into the Polish market then. Even less significant is the participation of Poland as a capital exporter on the EU market, which in the analysed period fluctuated from the level of 1.0% in 2003 to 0.3% in 2007. The most successful year was 2006, when the level of the Polish economy participation in the Union's capital outflow amounted to 1.6% in total (Table 2).

Given the foregoing, it is worth examining how the position of Poland develops in the cumulated FDI value against the European Union, including the new member states.

The increase of FDI inflow to the individual countries is connected with their progress in introducing reforms to their economies. At the turn of XX and XXI centuries, direct investments, being an effect of privatisation, lost their significance, and the analysed countries' markets were dominated by the *greenfield* investments. At the beginning, foreign investors concentrated mainly on the host country's market activity, while from the mid-1990s one could observe a trend which proved that foreign companies allocate an increasingly greater portion of the production output to the old European Union countries [*Transition Newsletter*... 1999].

Table 2. The position of Poland in the international flows of capital in the years 2003-2007 (in USD bln)

	FDI inflow					FDI outflow				
Year	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
World	557.9	742.1	945.8	1305.6	1833.3	56.1	877.3	837.2	1215.8	1996.5
European Union	253.7	204.2	486.4	530.9	804.3	28.6	359.9	608.8	572.4	1142.2
Poland	4.6	12.9	9.6	19.2	17.6	0.3	0.8	3.0	8.9	3.4
Participation of Poland in the flows of capital in EU (in %)	1.8	6.3	2.0	3.6	2.2	1.1	0.2	0.5	1.6	0.3

Source: own calculations on the basis of UNCTAD data.

At the end of the 1990s a certain stability in the FDI inflow to the Central-Eastern European countries was observable. That was in line with the global trend, and after 2000 a decrease in the FDI inflow to the region occurred, despite the former forecasts concerning the further growth. The FDI inflow to the Central-Eastern European countries fell from USD 31 bln in 2002 to USD 21 bln in 2003. The reason for this significant fall was the completion of the privatisation process in the Czech Republic and Slovakia [*World Investment Report 2004*...]. Within the group of 8 countries of the region which joined the EU in May 2004, the total FDI inflow decreased from USD 23 bln to merely USD 11 bln. The newly admitted countries had to put a number of the Union's regulations into force pursuant to *acquis communautaire* in order that their legal environment was compliant with the one prevailing in the old EU countries. On the one hand, that positively affected the investment attractiveness of those countries, but on the other, the harmonisation of regulations in some areas, such as environmental protection or work conditions, increased the cost of maintaining economic activity there [Cieślik 2005, pp. 64-67].

The data presented in Table 3 disclose that the distribution of cumulated foreign direct investments in the European Union, as well as in the new member countries, is not uniform.

Between the years 2004-2007 the greatest values of the cumulated capital were invested in Great Britain, France and the Netherlands. Among the new member countries, the greatest value of cumulated FDI was reported in Poland – USD 142 bln, while the subsequent positions were occupied by the Czech Republic – USD 101 bln and Hungary – USD 97 bln at the end of 2007. The position of Poland as the leader in this group of countries in receiving FDI inflows is confirmed by the data presented in Table 3.

Table 3. Cumulated FDI inflows to the new member countries of the EU in the years 2004-2007 (in USD bln)

Country/region	2004	2005	2006	2007	FDI share % in GDP in 2007	Position among the new EU states	Share % in cumulated inflow to the EU in 2007
EU total	4023.935	4499.128	5434.329	6881.625	40.9	–	100
Great Britain	771.658	816.716	1135.265	223.966	48.6	–	3.25
France	535.201	600.821	782.825	1026.081	40.1	–	14.91
Netherlands	428.803	463.416	451.491	673.430	87.9	–	9.79
New EU states	255.312	306.869	409.327	556.699	–	–	8.09
Bulgaria	7.569	9.173	20.707	36.508	92.3	6	0.53
Cyprus	8.132	8.768	10.194	18.414	86.5	7	0.27
Czech Republic	56.415	59.459	77.460	101.074	57.7	2	1.47
Estonia	9.530	12.274	12.664	16.594	78	8	0.24
Lithuania	6.389	6.461	10.939	14.679	38.3	9	0.21
Latvia	4.493	4.783	7.532	10.493	38.6	10	0.15
Malta	3.557	4.195	5.675	7.457	100.7	12	0.11
Poland	**61.427**	**93.329**	**103.616**	**142.110**	**33.8**	**1**	**2.07**
Romania	18.009	23.818	41.001	60.921	36.7	4	0.89
Slovakia	14.501	15.324	30.327	40.702	53.6	5	0.59
Slovenia	4.962	8.064	7.452	10.350	22.5	11	0.15
Hungary	60.328	61.221	81.760	97.397	70.5	3	1.42

Source: own work on the basis of: [World Investment Report 2005..., p. 308; *World Investment Report 2006*..., p. 303; *World Investment Report 2007*..., p. 255; *World Investment Report 2008*..., p. 257].

Beginning with 2004 one may observe a stable upward tendency in the cumulated FDI inflow to the new EU countries among which Poland is dominant – just as in the pre-accession period. However, the analysis of the data presented in Table 3 indicates that the old member countries still remain the leaders in attracting investors. In 2007 the participation of the new member countries in the cumulated FDI inflow was running at around 8.09%, and the participation of Poland – 2.07%.

4.2. Sector- and branch-based distribution of foreign direct investments in Poland

The leading role among the direct investors investing capital in Poland is played by the developed countries, particularly the European Union states. This domination is not surprising in the context of global tendencies and the membership of Poland in OECD and the European Union.

The most important foreign investors in Poland – from the point of view of the number of established companies and the value of the invested capital – are the Netherlands, France and Germany. Entities from these three countries have invested over 60% of foreign direct investments (Table 4). Switzerland and Norway are the significant investors from outside the Union. The USA, Japan, South Korea and China are the greatest foreign investors from outside Europe in terms of the invested capital value [*Zagraniczne Inwestycje*... 2008, p. 2]. An important position in the classification of foreign investors is occupied by international enterprises. Their presence is connected with the globalisation process in progress, internationalisation of enterprises' activities and liberalisation of capital flows in the global economy.

Table 4. The most important foreign investors in Poland by the country of capital origin in the years 2000-2007

Country	Companies				% of foreign capital			
	2003	2005	2007	average 2003-2007	2003	2005	2007	average 2003-2007
Germany	5525	5666	5567	5586	15.8	16.29	17.57	16.55
Netherlands	1633	1807	2011	1817	29.8	26.98	23.97	26.92
France	934	1017	1075	1009	16.5	15.94	18.13	16.71
Italy	587	942	1002	844	2.2	2.76	2.94	2.63
Great Britain	645	777	960	794	3.4	3.82	3.38	3.53
Austria	702	710	753	722	1.7	1.83	1.72	1.75
Denmark	513	568	674	585	3.4	3.25	3.20	3.28
United States	810	757	664	744	7.0	5.74	3.91	5.55
Sweden	587	628	646	620	3.1	3.17	2.56	2.94
Luxembourg		374	626			2.87	3.43	
Switzerland	410	434	507	450	1.7	2.78	3.18	2.53
European Union	12435	14479	16178	14364	82.9	87.0	87.76	85.89

Source: own work on the basis of: [*Działalność gospodarcza*…], various editions from the years 2003-2008.

In the years 2003-2007 the participation of the Union's investments in the structure of FDI flowing into Poland was running at above 80%. It should be emphasised that following the accession to the EU the participation of the Union's investments invested between the years 2005 and 2007 by companies with foreign capital increased to above 87% (Table 4).

The analysis of the data presented in Table 5 proves that between the years 2003-2007 no crucial changes in the direction of foreign capital allocation occurred, while the concentration of capital in selected branches of economy was reported. The production activity boasted the greatest interest on the part of foreign investors. The participation of the processing industry in the foreign capital flowing to Poland during the examined period was running at about 30%. The participation of companies with foreign capital in real estate activities and financial intermediary, with the decreasing interest in the sector of trade and repairs, is also significant. It is also worth highlighting that – as marked above – the participation of investors from the EU, mainly coming from the Netherlands, Germany and France, has been continually growing.

Table 5. Distribution of companies with the participation of foreign capital in Poland by sectors and dominant branches in the years 2003-2007

Sector/branch	2003		2005		2006		2007	
	number	%	number	%	number	%	number	%
Total	15371	100	16837	100	18015	100	18515	100
Primary	546	3.5	607	3.6	635	3.5	651	3.5
Industrial processing	4621	30.1	5042	29.9	5181	28.8	5073	27.4
Services	10204	66.4	11206	66.5	12199	67.7	12610	68.1
Construction	885	5.8	907	5.4	1062	5.9	1131	6.1
Trade and repairs	4861	31.6	5079	30.2	5130	28.5	5051	27.3
Hotels and restaurants	348	2.3	357	2.1	385	2.1	377	2.0
Transport, storage economy	773	5.0	902	5.4	966	5.4	991	5.4
Financial intermediary	188	1.2	211	1.3	234	1.3	267	1.4
Real estates and companies	2645	17.2	3304	19.6	3976	22.1	4362	23.6
Participation of EU entities	12435	80.1	14479	86.0	15648	86.9	16178	87.4

Source: own work on the basis of: [*Działalność gospodarcza*…], various editions from the years 2003-2008.

The statistical data published by the CSO – in the years 2004-2007 – concerning the spatial distribution of companies with foreign capital and of capital flowing into Poland disclose regional diversity. Foreign direct investments concentrate around several most developed regions of the country, namely in the Masovia, Silesia, Lower Silesia and Greater Poland voivodships [*Działalność gospodarcza*...]. That indicates that the positive effects resulting from the activity of companies with foreign capital connected with the transfer of technologies, capital inflow and knowledge diffusion may be limited only to the regions in which they locate their activity. As a result, there is a serious threat that the already noticeable regional disproportions in Poland will become even greater. In relation to the above, the activities of the central and regional government authorities ought to be directed at reducing those disproportions by means of an appropriate development of the institutional environment and creating an investment climate, as well as taking advantage of various financial instruments.

5. Conclusion

The position of Poland in the flows of the European Union's foreign direct investments has been gradually improving. Between the years 2004 and 2007 Poland confirmed its position of a leader among the new member countries with respect to DFI inflows. However, the position of Poland and the remaining eleven countries is marginal from the point of view of the export of capital.

The FDI flowing into Poland are invested most of all in industrial processing and real estates activities as well as in financial intermediary, in central and south-western part of the country. Such a spatial FDI structure is connected with the well-developed transport infrastructure in the voivodships located in those regions, the offered fiscal incentives (e.g. operation of special economic zones) and the level of specialised services performed for foreign investors. Thus, the so-called dynamic paradigm of FDI-facilitated development, created by Ozawa, will hopefully contribute to the change of the economic structure in Poland in the subsequent years, which will make it possible for the country to enter the path of rapid economic growth and join the positive stream of the global economy. However, the issue of how the global crisis of 2009 will affect the behaviour of foreign investors and the economic development of Poland still remains open.

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