

POLISH GOVERNMENT IMPACT ON FOREIGN DIRECT INVESTMENTS

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Abstract: In the economies of many countries, free competition is protected by antitrust laws and regulations in terms of unfair competition, whose recipients are entrepreneurs. On one hand FDI facilitates an access to technologies, know-how and management skills, accelerating the integration of national economies with international markets, production and distribution networks, and strengthening the international competition of companies but on the other hand governments interfere to with competitions supporting FDI actions. The state aid impact the country internal Foreign Direct Investment as well as support of external FDI of national corporations. The papers presents the government impact in those situations in Poland.

Keywords: state aid, FDI inflow, market competition

Introduction

Currently, investment capital in its various forms is probably one of the economic resources has the greatest ability for mobility. Capital flows can be observed not only internationally, but also the increased capital flows can be observed in national economies and cross-sectors and within the different sectors.

The still growing economic, financial and social interdependencies which result from globalization have twofold consequences. On the one hand, these consequences are positive: influx of foreign capital, scientific and technological development, and expansion of potential customers' market, increasing effectiveness of economic activities, investment boom, and economic growth. On the other hand, a disadvantage of globalization is the fact that national economies have become very sensitive to economic fluctuations in geographically distant regions. This is especially noticeable in the sphere of finance.

In the economies of many countries, free competition is protected by antitrust laws and regulations in terms of unfair competition, whose recipients are entrepreneurs. The phenomenon of state aid, although it has a considerable impact on competition, does not concern the behaviors of entrepreneurs. Public authorities, with their public resources, are always a subject which disturbs or threatens competition through state aid that they grant to the entities. Therefore, regulations which define state aid are of essential importance. In fact, they constitute a self-limitation to the state in terms of allocation of public resources to public law entities. Existence of these regulations for state aid is proof of the maturity of legislature since it formulates legal barriers to free intervention of the state to limit free market [3].

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State aid is distinguished from other state regulatory or intervention actions, its selective nature with respect to particular firms or economic sectors [4]. The goal of state aid, being an element of economic interventionism of the state is to stimulate positive economic processes or to prevent negative processes. The state, with its intervention in market economy, uses its authority to form monetary and currency policies and decides on the form of tax system. It influences formation of economic system and affects the employment rate or social services.

The conditionally accepted aid, i.e. based on the decision by the European Commission, was divided into three fundamental categories: regional, sectorial and horizontal aid.

Horizontal aid is an aid which considers the public welfare in the largest degree, while the benefits for the entrepreneurs are overridden. This occurs because horizontal aid is not connected with the given sector and localization of the beneficiary. This type of aid is oriented towards solving a particular problem which frequently arises for the whole country. The European Commission separated e.g. the following groups of issues: research and development, small and medium enterprises, environment protection, saving and restructuring enterprises which are in a difficult situation, employment and training [3].

Sector aid is granted in the economy sectors where economic problems appear. The support may be twofold in this case: protection - aimed at restructuring or sector maintenance by limiting the production growth and stimulating production growth - if the sector is not able to satisfy growing demand for products based on its own resources.

Regional aid is granted to the entities that operate in underdeveloped areas of the European Community where level of economic growth is lower than the average for the Community [6]. Regional aid is supposed to be conducive to development of less developed regions through support for investments and creation of new job vacancies as well as through promotion of modernization, diversification and stimulation of focus on enterprise activities in these regions. This aid is aimed at the areas where the level of economic growth is lower than the average for the whole European Union. *RAG* is applied to all the sectors excluding support for production, processing and distribution of agricultural products. It also does not cover fishing and coal industry and, in the case of some sectors (transport, steel industry, ship-building, synthetic fibers, and automotive industry), the special regulations are enforced [1]. The basis for granting regional aid is also underlain by development of *region maps* by member states, which determine the areas where regional aid can be granted [2].

State Support for Foreign Investors In Poland

In Poland, there were strong changes in state aid components. In the beginning of the analyzed period, horizontal aid was the most important; more than half of all aid, when regional aid amounted to 9.7 percent and sectorial 32.0 percent. During

the analyzed period horizontal aid lost importance and regional aid became crucial (table 1).

Table 1. State aid for foreign direct investment in Poland according to categories 2004-2010 [%]

State aid:	2004	2005	2006	2007	2008	2009	2010
Horizontal	50.5	49.9	48.9	65.5	42.7	33.4	29.3
Regional	9.7	21.0	34.9	24.9	35.1	48.2	50.5
Sectorial	32.0	28.8	15.7	9.3	21.9	16.5	16.0
Others	7.8	0.3	0.6	0.4	0.3	1.9	4.3

Source: Authors elaboration based on "State aid reports" 2004-2010,
http://www.uokik.gov.pl/raporty_i_analizy2.php

Realization of foreign direct investment in Poland is often supported by the Polish state in the form of public aid. The objectives of FDI and their impact on Polish economy development are parts of the public aid foundation, especially those of horizontal and regional levels. The FDI support programs particularly are based on implementation of new innovative investments; those will create new jobs with high productivity.

Additional aspects of foreign investment projects are as follows:

- creation of new jobs and maintaining of subcontractors jobs
- improvement in the local labor market,
- development of cooperation between the science sector and business,
- industries technological level improvement
- development of modern services sector in Poland
- export growth
- raising the economy innovation level in local scale

The amount of support for investors is determined in accordance with the principles of the "Support system of investments of high importance for the Polish economy"². This document is particularly devoted to the role of foreign direct investment in the modernization of the Polish economy by introducing new technologies, new management ideas and production organization.

Support is given in the form of grants based on bilateral agreement between the Ministry of Economy and the investor within the resolution of the Ministry Council on long-term program investment support. This public aid must be compatible with state aid rules in the European Union.

Long-term programs, those forms of support for foreign direct investment fulfill European Union, national and regional development strategies established in existing strategic documents. The main objectives of the documents focus on increasing the economic competitiveness and innovation; increase in employment and labor skills development; and respecting the principles of sustainable development. Investment projects supported from the state budget fully realizes

² Ministry Council Document on 23 September 2008

established priorities. Table 2 lists the selected long-term programs containing projects realization of foreign direct investment, for the period of 2007-2015.

Table 2. Long-term programs of foreign direct investment supported by state in Poland for the period of 2007-2015

Investor	Investment	Period of investment	Investor expenditures [US\$]	Support amount [US\$]	Number of jobs
The Royal Bank of Scotland	RBS Global Hub Europe	2011-2012	10 217 631	693 431	620
Atos Origin IT Services	IT Process Support Center	2010-2012	1 970 313	818 281	250
Cadbury Wedel	Construction of innovative and environmentally friendly chocolate products manufacturing plant in Skarbimierz	2008-2012	299 996 875	4 431 080	750
Citibank International Plc	Centre of Business Process Excellence	2010-2012	445 703	445 484	350
Fiat Powertrain Technologie Poland	Production plant of small gasoline engines	2010-2013	210 375 000	4 595 000	400
Ford Werke Gmbh	Start of new Ford Ka car production	2009-2010	98 406 250	5 234 375	-
Franklin Templeton Investment Poland	Shared Service Centre- Transfer Agency in Poznaniu	2008-2011	5 424 165	1 550 781	500
Fujitsu Services	Technical Support and Customer Service Centre	2009-2011	1 562 500	442 688	450
Geoban S.A.	Service centre	2010-2011	456 367	514 748	447
Global e-Business Operations	Business Centre for Innovation and Transformation	2010-2012	1 185 162	3 117 266	1100
Goodrich Aerospace Poland	Aircraft landing gears factory	2010-2014	46 750 000	3 928 169	250
IBM Global Services Delivery Centre Poland	Shared Service Centre IT – IDC	2010-2013	23 351 085	9 843 750	3000

McKinsey EMEA Shared Services	Competency Centre in w Poznaniu	2011-2015	2 524 375	251 314	251
MTU Aero Engines Poland	Production Center for aircraft engine components, aircraft engine service center and engineering center	2009-2012	80 736 081	3 901 638	418
Nidec Motors & Actuators	The factory for electric motors and electric drives for the automotive industry	2008-2013	17 591 689	914 063	450
Nokia Siemens Network	Software development centre	2010-2011	3 475 074	6 765 344	400
Nordea Bank AB	Operating centre	2011-2013	2 458 069	431 875	250
Orion Electric	LCD TV factory	2010-2014	51 704 844	8 289 606	500
Samsung Electronics Poland	Telecommunications Research and Development Centre	2009-2011	7 748 813	1 168 750	250
State Street Services Poland	Centre for Business Process Support	2009-2011	3 268 750	580 000	334
Steria Poland	Global Support Center of IT Processes	2009-2011	435 563	750 047	250
Tieto Poland.	Research and Development Centre	2010-2011	1 250 000	1 757 969	500
Toyota Motor Manufacturing Poland	Gearbox factory	2007-2010	167 109 706	3 184 064	255
UniCredit Business Partner Societa per Azioni Poland	Centre of Expertise for the countries of Central and Eastern Europe in the framework of a shared service center	2009-2010	3 353 878	418 168	340
Volkswagen Motor Poland	The production line of diesel engines, the new generation 1.6 TDI Common Rail	2009-2010	74 537 500	3 656 250	50

Source: Authors elaboration based on long term projects established for chosen firms.
<http://www.mg.gov.pl/Wspieranie+przedsiębiorczosci/Wsparcie+finansowe+i+inwestycje/Pomoc+na+inwestycje+o+istotnym+znaczeniu+dla+gospodarki>

It presents the most important investments supported by the state budget; the aid level is various and causes different efficiency in job creation. The supported investments are realized in various sector and the investments mainly introduce new technologies, services or organizational solutions. It is important to notice that some companies also received public aid in the form of not having to pay tax (tax vacation) on income earned in the Special Economic Zones, tax vacation from personal incomes or property tax besides the direct support in the form of expenditures from the state budget.

Analyzing foreign direct investment in Poland it is important to remember that is in the context of global FDI. Global flows of foreign direct investment increased gradually over the past 30 years, noticing some declines in the early 80s, 90s and at the beginning of the new millennium, until the global financial crisis in 2008. FDI increase occurred in all regions and was partially caused by increasing corporate profits worldwide and resulted in higher shares rates, which raised the value of cross-border mergers and acquisitions.

In comparison to other countries in Central and Eastern Europe, Poland still acquires most of the investment. That does not mean that the volume of FDI inflow to Poland is adequate for the potential of the Polish economy or large market size, which is mentioned as the main reason for investment in Poland. The studies analyzing the size of FDI in Poland in relation to the size of GDP (table 3) or in relation to population show that Poland is one of the last places among the countries of Central and Eastern Europe in the rankings of both FDI in relation to GDP and population, which undoubtedly indicates the great potential to increase FDI in Poland, as well as confirms that inefficient and ineffective means have been used to encourage foreign businesses to invest in Poland. As very significant barriers of FDI in Poland one can point to: complicated administrative procedures related to the process of investment, changing legal and tax rules and difficulties in their interpretation. Increasing costs of labor and production are becoming more and more crucial barriers.

Estimating the value of inflows of FDI to Poland between 2004 and 2010, and the FDI stock amounted to 199,268 million US\$ in 2010, it can be stated that foreign investors positively assess the investment climate, and Poland is increasingly integrated in the global economy through increased foreign direct investment and international trade.

Polish direct investments abroad are a direct effect of changes that have occurred in the Polish economy, particularly in the context of the level of its globalization. A dynamic increase in these investments points to the growing potential of Polish enterprises which have become active participant of the international system of investment capitals turnover. The intensifying trend in export of Polish capital has also caused changes in the international position of Poland, which gradually transforms from a recipient of capital in the form of foreign investments towards a more substantial source of this type of capital.

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Analysis of the cases of Polish investments abroad reveals that the factor which is more conducive in making entrepreneurs expand abroad is new markets.

It seems to be certain that searching for resources has also been gaining in importance in recent years. One spectacular example is provided by KGHM corporation which bought Canadian company Quadra that owns large copper deposits in e.g. Chile. Moreover, the corporation also gained access to a number of other sought-after metal such as molybdenum, nickel, palladium or selenium. This allowed KGHM to broaden their opportunities of extraction and the company will become a more important market player.

PGNiG gas corporation also invested in deposits, particularly in Norway, where they have e.g. 12% share in an international project operated by BP. Its daughter companies get contracts for exploration of oil and natural gas in many regions of the world, but PGNiG have not bought big concerns from other countries to date. However, this is yet to come. PGNiG is currently planning to buy a package of 49% of shares of Słowacki Przemysł Gazowniczy, which controls an important transit piping that supplies natural gas to Western Europe.

Polish companies are also active in seeking strategic assets, which manifests in acquisitions of foreign companies with unique technological solutions and established position in their parent markets. This concerns in particular IT and automotive sectors. Although risky, the strategy preferred by Asseco has so far been successful, which is confirmed by the company's good financial results and constant entering into new markets. Buying local market players makes it easier for the enterprises to bid for tenders, especially those organized by the state authorities or self-governments, or to develop different IT systems. Asseco Group often finds small innovative enterprises and buys them before they are found by competitors. At the moment, their foreign assets are estimated to be roughly over 600 billion dollars.

Foreign direct investments that have been made by Polish companies since 2000 show in general an upward tendency (Fig. 1). The exceptional year was 2001, when economic downturn and reduction in investments by Polish banks caused withdrawal of nearly €0.1 million. A record-breaking year was 2006, mainly because of a single transaction which remains to be the biggest Polish foreign investment i.e. purchase of a refinery in Lithuanian city of Mažeikiai by Polish giant PKN Orlen (the transaction was priced at ca. €1.86 billion).

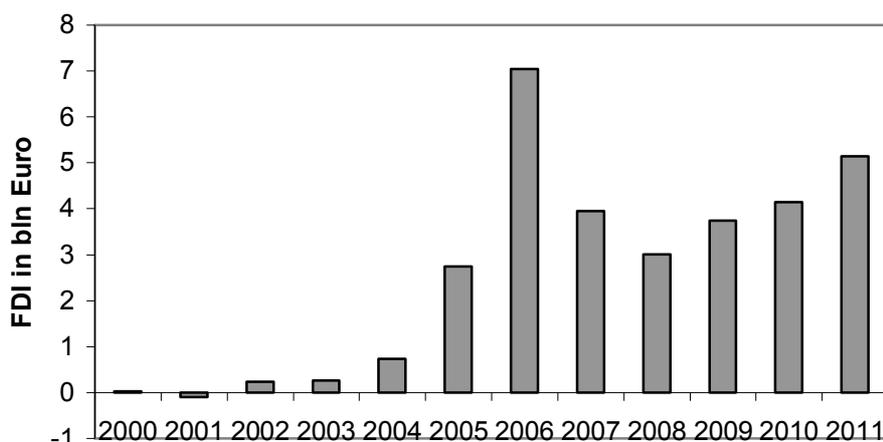


Figure 1. Polish FDI in 2000-2011 (billion Euro)

Source: Author's own study based on: Polskie inwestycje bezpośrednie za granicą, 2011-2000

The years 2008-2009 were marked in the world economy by global economic crises. Although the value of FDI made by Polish companies was reduced insignificantly in 2008 compared to the previous year, it was revived in 2009. They year 2010 was a continuation of the upward tendency with the value of FDI exceeding the level from 2007.

In geographical terms, Polish investments were made primarily in European countries. This tendency has been steady for several years. In 2010, the above countries absorbed the vast majority of Polish FDI (93.6%). A noticeable dominance of this region as a region for Polish foreign investments shows that geographical and psychical distance is still a decisive factor in starting investment activity among Polish investors. In other continents, Polish investors were substantially less active in 2010 compared to 2009. A capital with the value of €296 million was withdrawn from America due to a considerable outflow of capital from Caymans (- €427 million), which could have been caused by planned taxation of the investments in tax heavens. A significant reduction was observed in the contribution of Asian countries to the structure of Polish FDI: it decreased from 2.1% to 0.5%, whereas nominally, Polish investments in this continent amounted to €21 million. In 2010, a capital of €169 million was withdrawn from Hong Kong back to Poland.

The year 2010 confirmed a high position of Switzerland, Belgium and Germany as the main destinations for location of Polish FDI. However, the country which absorbed the most of Polish investments with the highest value was, similar to 2009, Luxembourg.

However, this big concentration of Polish direct investments in these three countries is not synonymous with high interest of Polish investors in these markets. In the case of Switzerland or Luxembourg (and Belgium and New Caledonia in 2010), it is illegitimate to consider Polish foreign direct investments in classical terms. The most of Polish capital that was poured to these countries is purely financial. However, according to the generally accepted methodologies, it is qualified as foreign direct investments [8].

Summary

State aid for foreign direct investment in Poland has been realized in various ways including horizontal, sector and regional support, however comparing FDI value in Poland to GDP or population it is not sufficient. Analyzing the future trend of FDI in Poland, it should be noted that value of FDI inflow to Poland will probably be the highest compared to other countries in Central and Eastern Europe, however fast and effective activities should be used for labor costs reduction; simplifying and ensuring the stability of legal and tax systems; and development of transport and logistics infrastructure as well as education of skilled workers to increase the possibility of obtaining adequate FDI in relation to the size of the economy and the market.

Foreign investments are a natural stage in development of enterprises. Therefore, they are expected to be on the increase, though Polish companies are more selective in their decisions, especially because some initiatives (e.g. PKO BP in Ukraine or Orlen in Lithuania) were disappointing. The enterprises are aware that the investments abroad open up opportunities for increasing the area of operation and profits but they also generate higher risk and more intense managerial effort. Therefore, some action of governments are foreseen to help enterprises to research foreign markets and to invest minimizing the risks however despite of export support in case of FDI made by Polish companies the government aid is not sufficient [7].

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WPLYW POLSKIEGO RZĄDU NA BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE

Streszczenie: W gospodarkach wielu krajów, wolna konkurencja jest chroniona przez prawa konkurencji i regulacji w zakresie nieuczciwej konkurencji, którego beneficjentami są przedsiębiorcy. Z jednej strony Bezpośrednie Inwestycje Zagraniczne (BIZ) ułatwiają dostęp do technologii, know-how i umiejętności zarządzania, przyspieszają integrację gospodarek narodowych z rynkami międzynarodowymi, produkcję i sieci dystrybucji oraz wzmacniają międzynarodową konkurencję przedsiębiorstw, jednakże, z drugiej strony, rządy państw mogą zakłócać działania wspierające BIZ. Pomoc państwa wpływa zarówno na wewnętrzne BIZ, jak również wspiera zewnętrzne BIZ, podejmowane przez przedsiębiorstwa krajowe. W artykule zaprezentowano wpływ rządu na takie sytuacje w Polsce.

Słowa kluczowe: pomoc stanowa, przepływ Bezpośrednich Inwestycji Zagranicznych, konkurencja rynkowa

波蘭政府對外國直接投資的影響

摘要: 在許多國家的經濟，自由競爭的保護，反壟斷的法律和法規方面的不公平的競爭，是企業家的收件人。一方面，外國直接投資有利於獲得技術，訣竅和管理能力，加快國家經濟一體化的國際市場，生產和分銷網絡，並加強公司的國際競爭力，但另一方面，它干擾與各國政府支持比賽外國直接投資的行動。國家援助影響國家的外商直接投資的內部和外部支持外國直接投資的跨國公司。論文提出了在這些情況下，波蘭政府的影響。