

## ACTIVITIES OF FOREIGN INVESTORS ON THE POLISH MARKET ON THE EXAMPLE OF LOWER SILESIA

Katarzyna WITCZYŃSKA

Wroclaw University, Institute of Economic Sciences; katarzyna.witczynska@uwr.edu.wroc.pl,  
ORCID: 0000-0002-8021-3967

**Purpose:** The paper presents the issues related to the movement of activities of foreign investors on the Polish market on the example of Lower Silesia.

**Design/methodology/approach:** The study used World Bank reports from Statistics Poland (GUS), Department of Enterprises.

**Findings:** The purpose of this article is to present the investment climate of Poland on the example of Lower Silesia, created by economic, social, political, as well as legal and administrative conditions. The economic conditions inform the foreign investor about the condition of the economy of the country receiving the investment.

**Originality/value** The publication presents the results of research conducted on the basis of GUS, Department of Enterprises.

**Keywords:** foreign direct investment, investment climate, relocation.

**Category of the paper:** Research paper.

### 1. Introduction

Enterprises looking for a potential location of their direct investments assess the investment climate by defining opportunities and threats that may occur on foreign markets. Countries which, according to the general assessment and analyzes of international institutions, offer the best investment possibilities, are the most attractive for investors. Areas willing to accept direct investments should create favorable conditions for enterprises, thus respecting macro-economic determinants. Their hierarchy depends, among other things, on the type of investment, the motives for undertaking it, the industry, in which the enterprise prospers, or its size. It is worth mentioning, that business entities take into account the factors determining the geographical area of investment, while bearing in mind their ownership and internalization advantages.

## 2. Investment incentives that attract investors to Poland

Enterprises seeking potential locations for their direct investments assess the investment climate by determining the opportunities and threats that may occur on foreign markets. The countries which, according to the general assessment and the analyzes of international institutions, are the most promising, are the most attractive for investors. Areas willing to accept direct investment should create favorable conditions for enterprises, thus respecting macroeconomic determinants. Their hierarchy depends, among others, on the type of investment, the motives for undertaking it, the industry, in which the company thrives, or its size. It is worth mentioning, that economic entities take into account the factors determining the geographical area of investment, while bearing in mind their ownership and internalization advantages. The range of location factors includes not only the conditions that exist thanks to supranational, state or local authorities, but also the results of activities of other entities in the socio-economic area. When discussing the macroeconomic sphere of direct investment location factors, it should be noted, that everyone is of considerable importance (Oczkowska, 2013). With reference to the group of environmental and spatial factors, also recognized as geographical factors, it is worth pointing out the growing importance of the element concerning the natural environment. Citizens of many countries already have ecological awareness at such a level, that they expect investors to feel responsible for them and implement pro-environmental actions. The condition of the environment also has a clear impact on the quality of natural resources used in the functioning of the enterprise (Oczkowska, 2013). By promoting actions aimed at protecting the natural environment, investors are more favorably received by the society. If they want to appear on the global market, they must take into account the additional obligations associated with their activities within a given territory, as countries constantly introduce legal acts requiring care and protection of the environment. The political and legal climate is most thoroughly analyzed by foreign companies intending to invest in developing countries. They are often politically unstable regions, which increases the risk, but it is worth bearing in mind their considerable investment needs. The investment incentives they offer should not be made subject to compliance with strict conditions, since the whole process of meeting them may discourage investors. Political and legal factors depend heavily on government power movements. The responsibilities include adapting restrictions and goals to individual groups of companies or for one type of enterprise. Units of different sizes perceive the imposed restrictions in different ways (Lizińska, 2012). Determinants covering the administrative sphere are considered as the extent of interference of state factors on the economic life, in which the direct investment is located (Kozłowska, 2015). Local government and government administration play an important role here. In order to attract new foreign investors and create new jobs during the transformation period, Special Economic Zones (SEZ), as well as Industrial and Technology Parks were established in Poland. Special Economic Zones

are particularly attractive, due to the convenience offered in their area, in the form of tax exemptions, which are identical with public aid. They mainly consist in the exemptions from income tax, income generated in the zones or on exemptions from property tax. They also provide complete and grounded infrastructure. Special Economic Zones are a connection of investors' needs with the needs of particular regions, on the territory they were created. Such zones are administratively separated and uninhabited parts of the country's territory, intended for conducting business activities on preferential terms. Entrepreneurs in SEZ have guaranteed tax breaks, as well as an additional benefit in the form of a possibility of starting operations on specially prepared, secured grounds. SEZ were created mainly for the purpose of (KMPG Report, 2014):

- accelerating the economic development of the regions,
- creating new jobs,
- developing post-industrial assets and infrastructure,
- attracting foreign investors to Poland (Regulation of the Council of Ministers of December 10, 2008).

An important benefit of investing in SEZ is the possibility of reducing costs through the use of a tax credit. It involves exemption of the entrepreneur from income tax. It is the so-called regional state aid to accelerate the development of the least-operating EU regions by supporting new investments and creating jobs. The allowable amount of regional aid that an investor can obtain depends on the location of the investment, the amount of capital expenditures or employment costs of new employees, as well as the size of the enterprise in accordance with the regional aid map, which determines the amount of aid for each region. The minimum amount of capital expenditure entitling to use public aid in SEZ is EUR 100,000 (PAIZ Report, 2016). Permits to operate in Special Economic Zones are issued by the management of each zone. Fourteen special economic zones were established in Poland. In Lower Silesia, the most important centers for attracting investors are three Special Economic Zones: in Legnica, Wałbrzych and Kamienna Góra. Legnica SSE (LSSE) was established in 1997 for a period of twenty years. It is located in the central part of the Lower Silesian Voivodeship. It covers an area of 457 hectares of investment areas – usually greenfield type. It consists of 12 subzones: Legnica, Legnica 2, Legnickie Pole, Polkowice, Krzywa, Złotoryja, Lubin, Chojnów, Głogów, Przemków, Prochowice and Środa Śląska. The zone is characterized by a convenient location. Motorization is the leading industry here. Investors come mainly from Germany, but also from France, Japan, Great Britain and America. The largest investors are Volkswagen Motor Poland, Volkswagen AG, Sitech GmbH, Gates Poland, Rogal Europe, Voss Automotive Poland, Winkelmann, and Brugman Fabryka Grzejników. Wałbrzych Special Economic Zone Invest Park (WSSE) was founded in 1997. It is one of the largest and fastest growing industrial zones in the country, in the forefront of domestic entities of this type. It is located in south-western Poland, in the Lower Silesian Voivodeship, and consists of 40 subzones, of which 24 are located in Lower Silesia. These are: Wałbrzych, Nowa Ruda, Kłodzko, Dzierżoniów, Żarów, Jelcz-

Laskowice, Kudowa Zdrój, Świdnica, Wrocław, Oława, Strzelin, Bielawa, Strzegom, Brzeg Dolny, Bolesławiec, Wiązów, Wołów, Ząbkowice Śląskie, Syców, Świebodzice, Bystrzyca Kłodzka, Twardogóra and Oleśnica. The advantage of the zone is favorable communication with the largest industrial centers in Poland and in Europe. From the beginning of the functioning of the zone, 141 companies took part in it. The most investments were made in the household appliances and automotive sectors (<https://invest-park.com.pl/>, 2012). The main investors of WSSE are Toyota Motor, WABCO Polska, BASF and Autolive Polska. Kamienna Góra Special Economic Zone for Medium Business (KSSEMP) was established on the basis of the Act of October 20, 1994, about Special Economic Zones and will operate until 2020. The zone is located in the area of the Lower Silesia and Greater Poland. KSSEMP has investment areas in the following cities: Jawor, Jelenia Góra, Kamienna Góra, Lubań, Kowary, Ostrów Wielkopolski, Piechowice, as well as municipalities: Dobroszyce, Gryfów Śląski, Janowice Wielkie, Kamienna Góra, Nowogrodzic, Odolanów, Lubawka, Prusice and Żmigród. This area is characterized by a developed multisectoral economy, dynamic development of small and medium enterprises and a high level of services. Due to the location of KSSEMP, German capital dominates ([www.stemp.pl](http://www.stemp.pl), 2012). There is also one subzone of the Tarnobrzeg Special Economic Zone (TSSE), namely the Wrocław-Kobierzyce subzone. This area is managed by the Branch of the Industrial Development Agency in Wrocław. The subzone is located in the immediate vicinity of Wrocław and the A4 motorway. It was opened in October 2005 for the purpose of implementing the project of the European production center of the Korean company LG. The main seat of the Leoni Kabel company is also located in this area. Special Economic Zones have become an instrument conducive to the development of new production investments and have significantly contributed to the creation of economic infrastructure, as well as new and flexible jobs, leading to increased production and increased GDP. They provide significant support for the restructuring processes of industrial regions with a diversified industry structure.

### **3. Industrial and technological parks**

Industrial parks are entities that have all features of an institution supporting the development of entrepreneurship and economic activity. In Western Europe, this is a relatively well-known formula for the operation of organized industrial areas, aimed at creating a new economic order in a given area, attracting new businesses and creating new jobs. Thus, Industrial Parks are one of the most important instruments of regional development, also in our economic reality. In the development strategy of the voivodeship, “the vision of Lower Silesia as the European nodal region” (Development Strategy of the Lower Silesian Voivodeship until 2020, 2012) has been formulated in Lower Silesia. It presents the

voivodeship's aspirations to play a special role on the map of the European Union. The role of a nodal region, which would be characterized by a high degree of socio-economic progression, is to stimulate economic activity and create excellent conditions for the development of entrepreneurship and innovation.

The Technology Park is a set of separate properties, together with the technical infrastructure, which was created in order to implement knowledge and technology flows between scientific units and entrepreneurs. Entrepreneurs using modern technologies are offered consultation services in the creation and development of enterprises, transfer of technology, transformation of research and development results, technological innovations and creating favorable conditions for business operations (Matusiak, 2003). Local parks, supported by local authorities, attract new investors to the region, motivated by the following benefits:

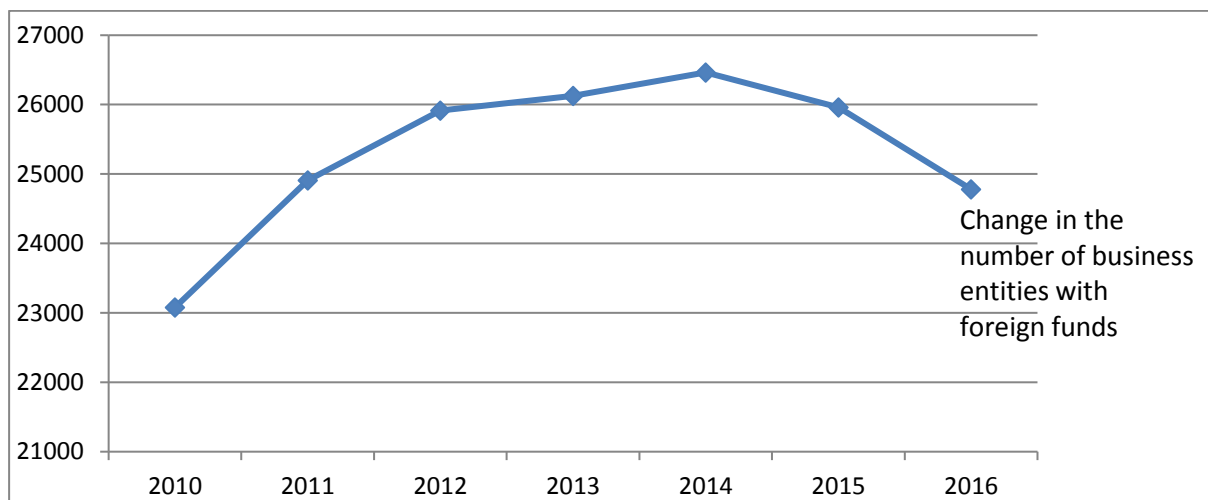
- reduced of fixed costs of transport operations,
- use of infrastructure and operation of property,
- concessions in taxes and local fees,
- use of auxiliary services, such as business consulting, legal and accounting services, technology transfer,
- use of cooperative services by using the potential of the restructured entrepreneur,
- the right to apply for assistance under the law on financial support for investments.

In the Lower Silesian Voivodeship, in 1998, the Wrocław Technology Park (WPT) was established, located in the south-western economic zone planned by the city. The WPT area is connected with the international airport and is not far from the center of Wrocław. Its aim is to create conditions for the use of the scientific and industrial potential of Wrocław and the region, as well as to stimulate the development of the advanced technology industry. It consists of over fifty enterprises from the IT, electronics, biotechnology and automotive sectors, it is the largest gathering of technology companies in Poland.

Another Park in the capital of Lower Silesia is the Wrocław Industrial Park (WPP), which has been operating since March 2005, established by DOZAMEL Sp. z o.o. The concentration of knowledge in the field of industrial areas and services management makes the park area an ideal place for conducting industrial activities by domestic and foreign production companies. 250 companies have already invested in nearly 60 industries. In addition to Polish companies, there are branches of global corporations, including Alstom Power, Bombardier Transportation, Delaval. Organized infrastructure, access to comprehensive industrial and non-industrial services, a uniform business environment, a consistently built strong brand of the Wrocław Industrial Park, as well as tax exemptions are great incentives for new investors, who consider starting conducting business operations in our region. In Brzeg Dolny, in 2007, a decision was made to create a Technology Park dedicated to the chemical industry at the largest company in the PCC Rokita region. The Park's mission is to create the largest center of innovation for the chemical industry in Poland. The Technological Park of KGHM Letia operates in Legnica. It cooperates with companies from the metallurgy, ICT and environmental protection industries.

#### 4. Foreign investments in Poland

Based on Figure 1, one can see how the number of enterprises with allocated foreign capital has changed over the years. Its gradual increase continued until 2014, but in 2015 it dropped sharply by 1.9%, compared to the previous year. The same decreasing trend can also be seen in 2016. This can be explained mainly by the uncertain internal situation in Poland at a given time, which translated into the fact that investors saw the instability of the country. Rapidly changing legislation, new tax burdens and increasing social spending slowed down the investment activities.

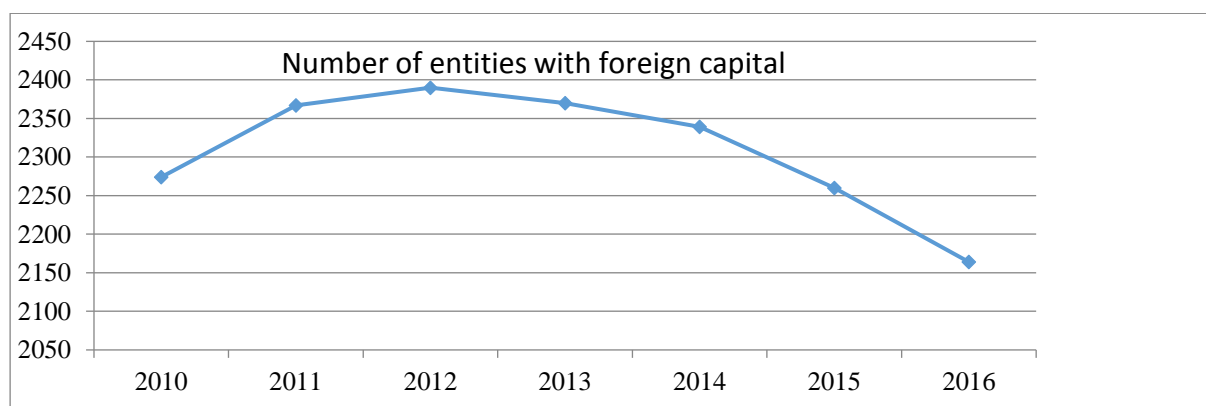


**Figure 1.** Change in the number of business entities with foreign funds in 2010-2016, source: own work based on <https://www.mpit.gov.pl>, 2017.

In the recent years, there has been a steady trend as to the number of entities with foreign capital in Poland (Figure 1). According to the data of the Department of Enterprises of Statistics Poland, the situation has been noticeable for many years, that mainly the enterprises based on the Commercial Companies Code are being established. The largest amount of the discussed group constitute limited liability companies – about 93%, the number of joint-stock companies equals to 3.9%, limited partnerships 2%, branches of foreign entrepreneurs 0.7% and other legal forms 0.4%. Slight increase in the share of legal forms listed last (limited partnerships, branches and other legal forms) in the total number of entities with foreign capital can be seen in 2015 and 2016. After analyzing the reports, it is noticeable that, throughout the analyzed years, the commercial industry, car repair and industrial processing companies prevail. Publications of Statistics Poland indicate, that the largest investors in Poland are the Netherlands, France and Germany, respectively. According to Statistics Poland, 54,126 active limited companies with foreign capital are registered, as at October 5, 2017. In 2015, there were 6,706 such companies, 7,122 in 2016 and 5,014 in 2017. The most attractive voivodeships for new foreign investors are: Mazovia (44.24%), Lesser Poland (8.09%) and Lower Silesia (8.09%).

## 5. Foreign investments in Poland on the example of Lower Silesia

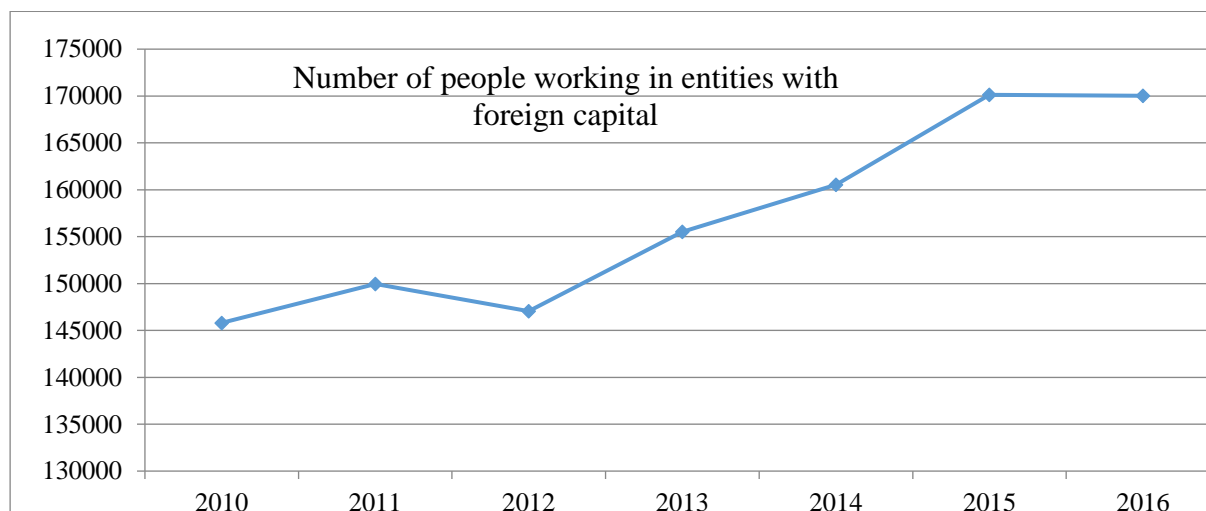
In 2010-2016 research period, Lower Silesia was one of the regions that received the largest amount of foreign capital. What is important, around 80% of these funds were located in five voivodeships. An undisputed leader in this aspect was the Masovian Voivodeship, which accumulated almost 50% of financial resources coming from abroad. By 2013, the next position was occupied by Lower Silesia, which received about 9% of the foreign capital. In the subsequent years, the amount of capital decreased, which contributed to the resignation of the position held for the benefit of the Silesian and Greater Poland voivodeships. In the annual ranking of investment attractiveness of Polish voivodeships and subregions, Lower Silesia occupied the second or third position, depending on the year, being in the group of the most attractive voivodeships. The factors that make up the assessment of a given region, distinguished in the aforementioned reports, are transport accessibility, labor resources, market absorption, economic and social infrastructure, level of economic development, general security, the condition of the environment and the activities of voivodeships towards investors. The components that, for many years, contributed to the high assessment of the Lower Silesian Voivodeship are activities conducted towards investors, economic infrastructure and the social aspect. The graph below illustrates how in 2010-2016 the number of enterprises with foreign capital changed from year to year.



**Figure 2.** Number of entities with foreign capital in 2010-2016, source: own work based on Statistics Poland, Department of Enterprises, Economic activity of entities with foreign capital in 2010-2016.

The increase in the number of units with foreign capital continued until 2011 and 2012. In the subsequent years, their number began to decrease. The reason for this trend is the saturation of the Lower Silesian market with foreign investors and the reduction in the amount of expansion reserves of the Polish market. However, after 2012, the number of newly registered enterprises with foreign capital decreased in Poland, from 1,712 business units in 2012 to 534 in 2015. This translated into a decrease in their number in individual regions.

The activity of direct investors in Lower Silesia also had an impact on the regional labor market. Since the beginning of the surveyed period, until 2016, the number of jobs has increased by nearly 25,000. Each year, among the total number of people employed in business units with foreign capital in Poland, nearly 10% were employed in entities based in the Lower Silesian Voivodeship. Most people worked in large enterprises employing over 250 people.



**Figure 3.** Number of people working in entities with foreign capital in 2010-2016, source: own work based on Statistics Poland, Department of Enterprises, Economic activity of entities with foreign capital in 2010-2016.

The investment attractiveness of the Lower Silesian Voivodeship is also confirmed by the high positions of sub-regions of Lower Silesia in the list of the most favorable areas for industrial, service and technologically advanced activities. In each of these categories, the Wrocław subregion is considered to have the highest degree of attractiveness. In the years covered by the research, it consistently belonged to the top five subregions with appropriate conditions for the development of the industrial sector. Also the Legnica-Głogów, Wałbrzych and Jelenia Góra subregions are considered to have very favorable conditions for the development of advanced technology. Only in terms of the development of the services sector, one of the sub-regions – Legnica-Głogów – achieved the lowest possible assessments. The largest disproportions between the sub-regions are noticeable in relation to service activities. However, foreign direct investment in Lower Silesia is more evenly distributed than in other Polish voivodeships.

For many years, the largest foreign investors in Lower Silesia were mainly German, Dutch, French and Belgian, because the capital coming from these countries is the largest part of the total amount invested in this area.

Confirmation that Lower Silesia is one of the regions with the most investment-friendly climate can be found in the annual reports of the Warsaw School of Economics (SGH), developed at the request of the Polish Information and Foreign Investment Agency (PAIIZ). Publications on the investment attractiveness of the regions give two ways to understand this concept – potential and real attractiveness. Another evidence of the favorable conditions for the



development of foreign direct investment in the Lower Silesian Voivodeship is, awarded in 2016 report, class A, which is the highest class, in terms of potential investment attractiveness for the national economy, and class B in terms of real attractiveness. It gives a very good position in relation to the investment climate of Poland.

## 6. Summary and future work

The purpose of this article was to analyze the course of the process, which is foreign direct investment. Through the review of the collected material, both in the form of literature positions, reports and statistical data, the regularities between the investors undertaking ventures outside the home country were identified. On their basis, it was possible to precisely determine the significance of direct investments with reference to the Lower Silesia region. Due to the multifaceted nature connected with the issue of foreign direct investment, this work is limited to a narrow part of the issue of investor support in the Lower Silesian Voivodeship. Due to the multitude of special economic zones, business incubators, technology parks, chambers and associations, an in-depth analysis of each of these organizations and the aid resources offered by them has become more difficult.

## References

1. Statistics Poland (GUS), Department of Enterprises (2016). *Economic activity of entities with foreign capital in 2010-2016*.
2. KPMG IN POLAND (2014). Twenty years of special economic zones in Poland. Guide to SEZ.
3. Kozłowska, M. (2015). *Determinanty atrakcyjności Polski w aspekcie napływu bezpośrednich inwestycji zagranicznych*. Katowice: Wydawnictwo Uniwersytetu Ekonomicznego.
4. Lizińska, W. (2012). *Klimat inwestycyjny jako czynnik bezpośrednich inwestycji zagranicznych w Polsce (studium na poziomie układów terytorialnych)*. Olsztyn: Wydawnictwo Uniwersytetu Warmińsko-Mazurskiego.
5. Matusiak, K. (2013). *Business incubators in Poland, Entrepreneurship and Innovation Management*, 3.
6. Oczkowska, R. (2013). *Międzynarodowa ekspansja przedsiębiorstw w warunkach globalizacji*. Warszawa.
7. PAIZ (2016). Report REGIONAL INVESTMENT ATTRACTIVENESS 2016 Lower Silesian Voivodeship.