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## **FOREIGN DIRECT INVESTMENTS OF THE EUROPEAN UNION IN POLAND**

### **1. Introduction**

Foreign investments are an important factor which increases economic connections on the world scale. They influence the development of international trade and the acceleration of economic growth. The governments of developing as well as developed countries are facing the problem of creating such conditions which will be propitious for investments on their local markets. Investors have to decide on a kind of investment on international markets. Streams of foreign capital which pour into a given country can have different forms and they are entered in the books in a given item of the capital turnover account of the balance of payment. The main elements of this account are direct investments and portfolio investments. Credits which raise the level of a given country's debts are an additional source of foreign capital. Joint venture, fusions, takeovers or licensing can be alternative activities (Kowalik, Kwiedorowicz 2003, p. 407).

Investor's decisions depend on an estimation of the credibility of a country. That estimation is formed by international rating institutions. If it gets worse it leads to the loss of confidence among foreign investors causing that they become less interested in conducting direct investments. It has also an effect on decreasing opportunities to take new credits or gain means through the issue of bonds on international financial markets.

In practice we can observe both positive and negative attitudes towards foreign investment. In the article its authors will try to answer the question: have direct investment from the European Union countries affected the economic development of Poland? The authors are not going to deal with the estimation of this phenomenon from the political and sociological point of view.

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## 2. Direct investment

Direct investments consist in investing a capital in an enterprise of a foreign country to get permanent influence on its functioning and this way to draw profits. The investments take the form of a complete or partial share in an already existing enterprise. They can also consist in establishing, building and providing a new enterprise alone or together with other economic units. This kind of capital flow is perceived as the most profitable considering its close connection with the real sphere of economy and the lack of threat for the balance of payment. However, we sometimes take note of a given less positive aspect of the direct investments inflow which is connected with the danger of the increase of the balance of payment deficit. The direct investments, after all, do not have to be a safe compensation of the negative balance of current turnovers unless they are mainly invested in the sector of production of renewable goods which are to be exported. Profits which are transferred abroad can later contribute to the deficit increase on the account of the current turnover and as a result they can increase the risk of the loss of credit credibility of a debtor country (Goetz-Kozierkiewicz 2002, p. 130). Furthermore, the influx of direct investments increases the rate of foreign investors trust towards a given economy making it more attractive for the short-term capital (Chrzan 1999, p. 28).

## 3. The direct foreign investments in the world

In 2000 the world receipts of the direct foreign investments reached the record level of almost 1,5 trillion USD. The main driving forces of this process were international fusions and takeovers and the liberalising policy of the foreign capital influx (K. Dziworska, K. Szczepaniak 2003, p. 206). In 2001 and 2002 a slump on the direct foreign investments market was observed. In 2001 the volume of the capital influx decreased by 50% in comparison with the record 2000 year. In 2002 according to the prognoses of the United Nations Conference of Trade and Development (UNCTAD) the volume of influx of these investments decreased by another 27%, i.e. by 200 billion USD. It is probably connected with the slackening of the growth rate of the world economy, the increase of the investment risk and the decrease of the fusions and takeovers number.

Terrorist attacks, the slackening of the biggest economies and financial crises do not help foreign investments. Corporations have become more careful, they have problems with their resources sales and they do not expand on new markets. In connection with the slump in the market, concerns have financial problems.

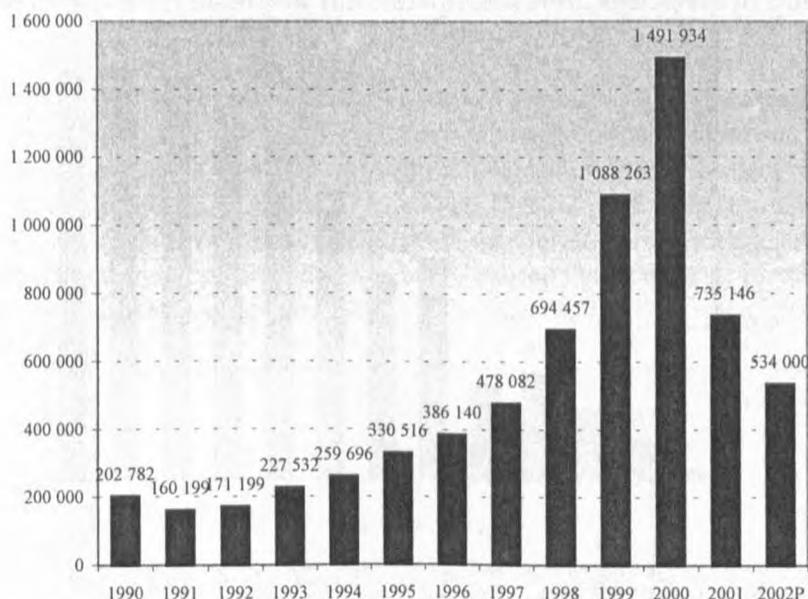


Fig. 1. The influx of the direct foreign investments in the world in millions of USD  
 Source: Own study on the basis of the UNCTAD data (P – Prognosis).

#### 4. The direct foreign investments in East-Central and Eastern Europe

The decrease of the direct foreign investments value affected mainly developed countries. Trends on the world market had also some consequences in East-Central and Eastern Europe. In 2002, for the first time since 1996, the decrease of the investments influx by 200 million USD was observed. The dynamics of the direct investments influx to this region was much lower than in the world. The contribution of this region in the world capital flows is also low. It reached about 5% in 2002 and less than 2% in the discussed record 2000 year.

In respect of invested capital in east-central and Eastern Europe, Poland has taken the lead. However, in comparison with the number of inhabitants, it is not the first. The countries from our region still need direct investments, but they still cannot get enough of them.

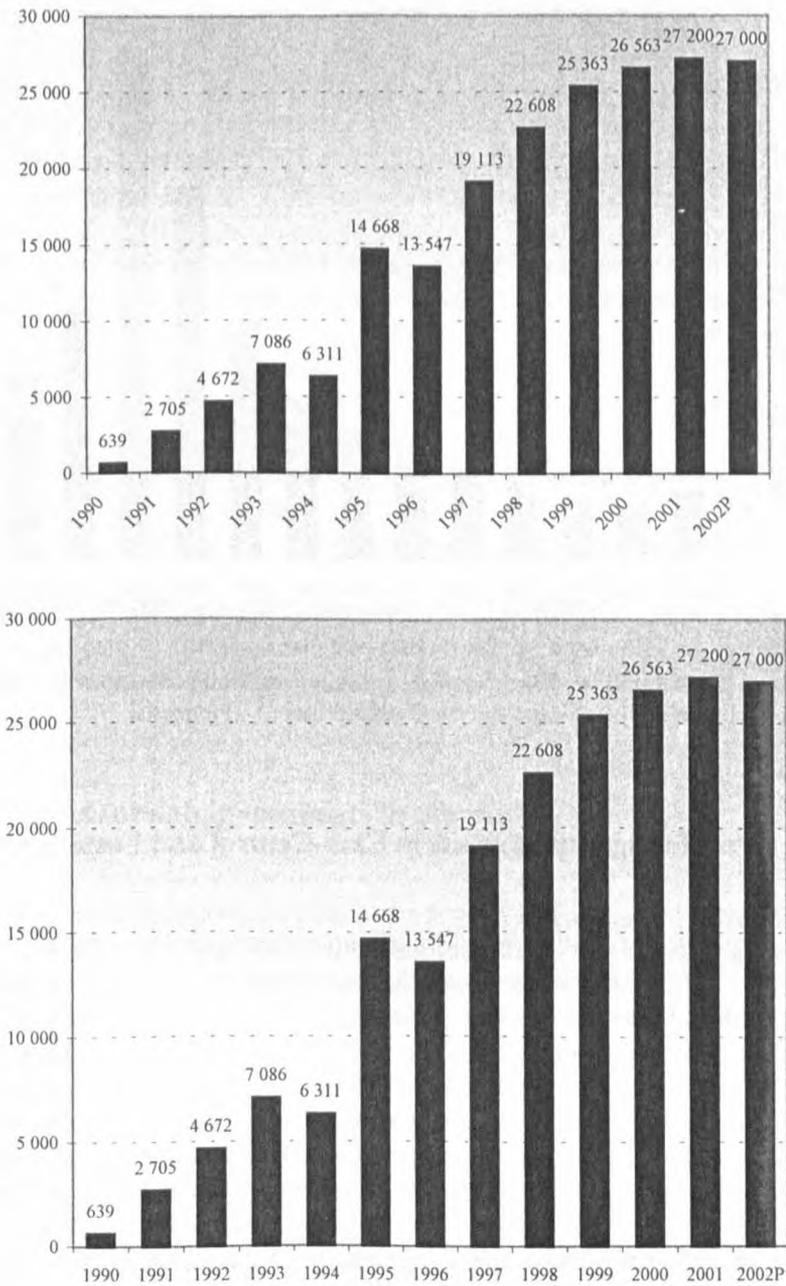


Fig. 2. The influx of the direct foreign investments to east-central and east European countries in millions of USD

S o u r c e: As same as Fig. 1 (P – Prognosis).

## 5. The direct investments of the European Union members in Poland

At the beginning of the nineties Poland had to create regulations protecting itself from the capital outflow. It was connected with the economic and social transformations, and thereby high level of indebtedness, low level of official gross reserves and fixed exchange rate. The first reforms were introduced in Poland in 1999–1994. Their results – the inflation decrease, and the improvement of other macroeconomic rates – caused the increase of investments level, though it was not high enough.

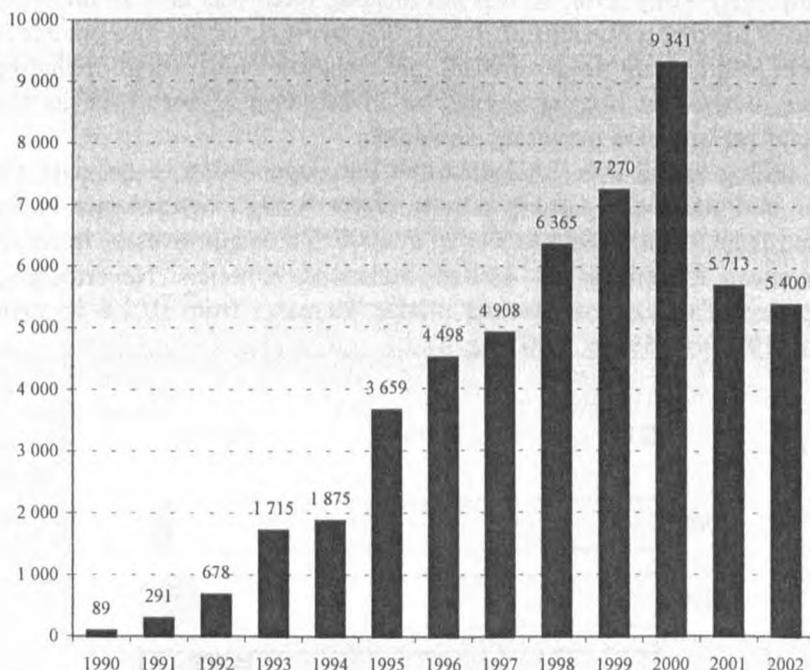


Fig. 3. The influx of the direct foreign investments to Poland in millions of USD

Source: Own study on the basis of *World Investment Prospects*. The Economist Intelligence Unit Limited 2003, p. 69.

Our country acquired a better international reputation after having signed in the Paris and London Clubs agreements to reduce and restructure its indebtedness. Since 1994 the rate of the investment outlays increase had been bigger and bigger. In 1995 for the first time the investment risk in Poland was estimated by international rating agencies. The barriers lifting were accelerated in 1996 after Poland joined OECD. The consolidation of geopolitical situation

owing to the accession to NATO in 1999 influenced also the decrease of risk of investments in Poland. Nowadays, in connection with the accession to EU, no restraints on capital flux are in practice. All these changes caused that foreign investors became more interested in our market.

The influx of investments to Poland had been increasing to 2000. It was a record year in respect of the influx of the direct foreign investments to Poland. The dynamics of the direct investments influx on the Polish market, like on the world market, slumped. According to the EU data in 2001 there was the decrease of their influx by 40% and according to the *Państwowa Agencja Inwestycji Zagranicznych SA* (the State Agency of Foreign Investments Joint-Stock Company [SAFI]) by 33%. At the end of 2002 there was also an unfavourable dynamic of the direct investments influx. The decrease of the investments influx to Poland results from the poor economic situation in the world, including EU countries, where the biggest number of investments comes from, as well as because of privatisation processes slowdown.

According to the UNCTAD data, the European Union is the main foreign investor in Poland. Its participation in direct foreign investments in Poland increased from 78% in 1996 to 94.5% in 2000. The main investor from outside the European Union is the United States of America. Nevertheless, the participation of this country on our market decreases from 10.2% in 1996 and 14.2% in 1997 to 3.5% in 2000 (Fig. 4).

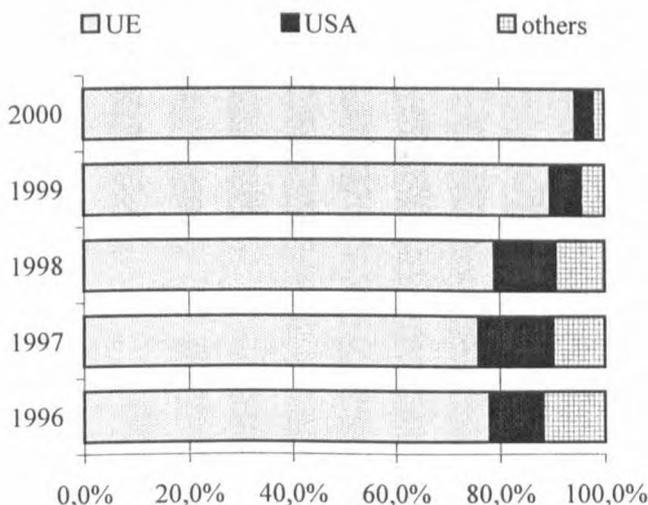


Fig. 4. The influx of the direct foreign investments to Poland from 1996 to 2000 from EU, USA and other countries (with the exception of international corporations)

Source: Own study on the basis of *WID Country Profile: POLAND*. UNCTAD.

In the first part of 2002 the greatest number of investments came from the European Union countries – 81%, in comparison with 10% from international corporations, 4% from North America, 3% from Asia and 2% from other countries, mainly European ones<sup>1</sup>.

979 firms, from which 733 come from the European Union countries, are on the list of the biggest foreign investors in Poland from the end of 2002, prepared by the SAFI.

Investors from France are first with regard to the invested capital value – over 12 billion USD, from which 3,2 billion USD was invested by the France Telecom. That way at the end of 2002 it became the biggest foreign investor. It was possible owing to the involvement of that firm in the *Telekomunikacja Polska SA* privatisation. Vivendi Universal invested over 1,2 billion of USD. Both of these firms invested in the telecommunication sector. The French firm Carrefour invested much in the trade sector.

Table 1. Accumulated value of the direct foreign investments from the European Union in Poland according to a country of capital origin. The state on December, 31 2002

Position on the list	Country	Capital invested in millions of USD	Investment plans in millions of USD	Number of firms on the list of the biggest investors of the SAFI
1	France	12172.1	2261.2	93
3	Germany	7841.0	1672.3	231
4	Dutch	5846.2	728.3	91
5	Great Britain	4051.8	515.8	45
6	Italy	3696.2	1085.5	62
7	Sweden	2788.8	334.7	57
9	Denmark	1839.2	303.0	43
10	Belgium	1645.4	205.8	23
13	Ireland	1059.7	31.2	2
16	Austria	795.3	81.1	39
17	Spain	592.2	38.5	13
18	Portugal	560.2	66.6	4
19	Greece	558.0	4.0	4
20	Finland	405.6	102.8	16
25	Luxemburg	143.3	23.3	10

Source: Own study on the basis of SAFI data, May 2003.

<sup>1</sup> *Bezpośrednie inwestycje zagraniczne w Polsce w I półroczu 2002 r.*, Ministerstwo Gospodarki. Departament Analiz i Prognoz, Warszawa 2002.

Table 2. The biggest investors from the European Union in Poland.  
The state on December, 31 2002

Position on the list	Investor	Capital invested in millions of USD	Country of origin	Sector
1	France Telecom	3 199.4	France	Telecommunication
2	Fiat SpA	1 749.3	Italy	Motor industry
4	HVB Group	1 336.0	Germany	Banking, finance and insurance
7	Vivendi Universal	1 243.4	France	Telecommunication
8	United Pan-Europe Communications	1 200.0	Dutch	Media and entertainment
9	UniCredito Italiano SpA	1 200.0	Italy	Finance
11	KBC Bank N.V.	1 146.0	Belgium	Banking, finance and insurance
12	Metro AG	1 125.0	Germany	Trade and repairs
14	Casino	923.0	France	Trade and repairs
15	Tesco Plc	850.0	Great Britain	Trade and repairs
16	Carrefour	814.7	France	Trade and repairs
18	Allied Irish Bank Plc	746.7	Ireland	Banking, finance and insurance
19	Credit Agricole S.A.	740.0	France	Banking, finance and insurance
20	ING Group NV	677.0	Dutch	Banking, finance and insurance
22	Auchan	658.5	France	Trade and repairs
23	Saint-Gobain	610.0	France	Production of goods from the remaining non metallic raw materials
24	Vattenfall AB	533.0	Sweden	Supply of electric energy, gas and water
25	Electricite de France Internationale (EDF)	523.0	France	Production of goods from the remaining non metallic raw materials
26	CC HBC (Coca-Cola Hellenic Bottling Company)	513.0	Greece	Production of foodstuffs
29	Imperial Tobacco Plc	500.0	Great Britain	Production of tobacco products
30	CBR Baltic BV	496.5	Dutch	Production of goods from the remaining non metallic raw materials

Source: As same as Tab. 1.

The German investors who held the first position were outdistanced by the French ones in 1999. The Dutch have been placed third since 1999. Investors from Great Britain and Italy changed their positions with each other in comparison with 2001 (Polak 2003, p. 109).

Among ten biggest investors in regard to accumulated value of invested capital, six come from the European Union countries. The aforementioned France Telecom holds the first position. The Italian Fiat, which increased its capital investments to 1749,3 million USD, is placed second on the market. Besides the motor sector, this firm also invests in banking and insurance sectors. The HVB Group from Germany, the main shareholder of the *BPH PBK SA* (over 70% of shares) is fourth. The Vivendi Universal, the second investor from France, is seventh. It invested the capital worth over 1,2 billion USD. (It invested among others in the *Elektrim Telekomunikacja SA* and the *Cyfra Canal Plus Polska*). The Dutch United Pan–Europe Communications (media industry) and the Italian UniCredito Italiano (the main shareholder of the *PeKaO SA*), two firms with the same value of invested capital, are respectively eight and ninth. Out of the next twenties firms, fifteen come from the European Union market.

Table 3. Investment outlays according to sectors from 1993 to 2002 (current prices)

Year	Total	Public sector	Private sector	
	In million of Polish zloty			In per cent of a total
1993	13 848.5	9 387.2	4 461.3	32.2
1994	19 387.2	13 115.7	6 271.5	32.3
1995	28 537.2	18 317.1	10 220.1	35.8
1996	41 277.9	24 204.2	17 073.7	41.4
1997	56 960.0	27 340.8	29 619.2	52.0
1998	74 607.2	29 699.6	44 907.6	60.2
1999	83 664.3	30 479.9	53 184.4	63.6
2000	81 529.2	26 986.2	54 543.0	66.9
2001	63 979.3	18 373.2	45 606.1	71.3
I-IV 2001	26 214.3	6 628.6	19 585.7	74.7
I-IV 2002	22 289.9	6 245.8	16 044.1	72.0

Source: Own study on the basis of *Nakłady inwestycyjne w sektorze przedsiębiorstw w I półroczu 2002 r.* The Ministry of Economy – Analysis and Prognoses Department, Warsaw 2002, p. 13.

The contribution of the private sector in the total of outlays changed in the last decade. Nowadays it exceeds 70% of all investments. The table below presents the exact structure.

So far foreign investments have been mainly concentrated in a production activity (24 753.3 million USD) and financial exchange (13 393.2 million of

USD). The trade and repairs sector, the third one taking the scale of investments into consideration, makes up over 12% of all foreign investments.

From the total sum of 24 753.7 million of USD, which was invested in the production activity, the greatest amount of resources was allocated for the production of transport equipment (25%), foodstuffs, beverages and tobacco (24%) and the other non-metallic raw materials (13.7%).

Table 4. Accumulated value of foreign investments in Poland according to the European Activity Classification EAC. The state on December, 31 2002

EKD	Capital invested in million of USD	Investment plans in million of USD	Capital invested share in %
I Production activity	24 753.7	5 475.3	40.28
II Financial exchange	13 393.2	197.4	21.80
III Trade and repairs	7 586.3	908.5	12.35
IV Transport, stock management and communication	6 251.4	625.9	10.17
V Civil engineering	3 274.8	1 225.7	5.33
VI Supply of electric energy, gas and water	2 272.2	1 306.1	3.70
VII The other service, municipal and social activity	1 825.7	535.9	2.97
VIII Property service, activity connected with doing business	1 174.2	2 261.2	1.91
IX Hotels and restaurants	652.6	301.2	1.06
X Mining	218.5	13.0	0.36
XI Agriculture	44.8	16.3	0.07
Investments over 1 million	61 447.4	12 866.5	100.00
Estimated value of investments below 1 million US dollars	3 667.2		
Total	65 114.6		

Source: Own study on the basis of SAFI data, May 2003.

Favourable changes take place in the structure of direct investments in Poland. Investments from the very beginning, so called *green field*, make up over one fourth (27%) of new investments in 2002. They form the greatest number of vacancies. In comparison with the last year their share increased by 14 percentage points<sup>2</sup>.

<sup>2</sup> Bezpośrednie inwestycje zagraniczne w Polsce w I półroczu 2002 r. Ministerstwo Gospodarki – Departament Analiz i Prognoz, Warszawa, 2002.

## 6. Summary

It is difficult or maybe even impossible to present an unambiguous evaluation of costs and advantages of direct foreign investments influx to Poland. Nobody has even tried to make assessments which aim is to present the balance of positive and negative influence of these investments on Poland.

The direct foreign investments of economic units from the European Union states were and still are an important factor which accelerates the economic growth. On the other hand the economic growth and reforms which are being introduced have a significant influence on attracting foreign investors. Direct foreign investments, in particular those from the European Union, are and will be an important source influencing the developmental process of Poland due to the shortage of the country's capital, limited accumulation ability of enterprises and poor functioning of public-sector finance.

It is important for Poland to cause a gradual growth of the direct foreign investments value in the next years. The second thing is that the amounts which investors from the European Union want to invest reach the country in the biggest possible part in the form of new firms which are formed from the very beginning.

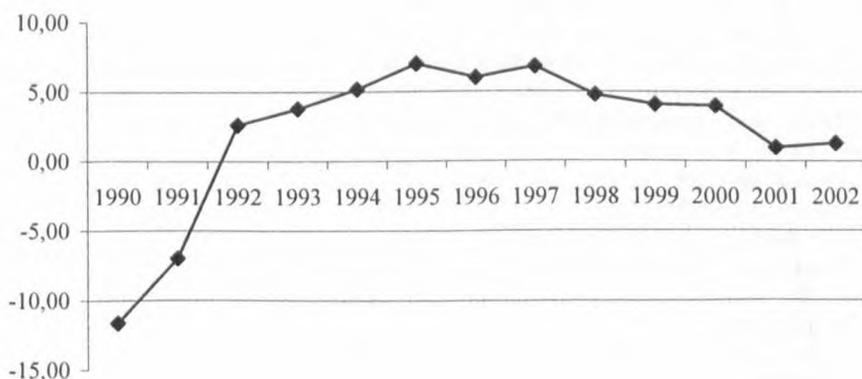


Fig. 5. The real Gross Domestic Product (annual change %)

Source: Own study on the basis of the data base of the Economist Intelligence Unit.

To prove the influence of the direct foreign investments on the economic development we will use the index of the Gross Domestic Product growth. In picture 5 it can be noticed that at the moment of the increased number of investments influx the economic situation of the country, measured by the per cent change of the Gross Domestic Product, improved as early as 1992. It has

remained on the favourable level, though in the last two years Poland has been in the economic stagnation.

The creation of good climate and conditions to invest in Poland is very important, especially because in the nearest future the takings from the privatisation will decrease. Poland is still the main recipient of foreign investments in our region. However, a lot of companies have recently undertaken investments in neighbouring countries. It is caused by administrative barriers connected with obtaining work permission, purchasing properties, getting permission on the basis of the building act or with instability of law regulations.

A danger connected with foreign investments may be essential when they have downward trends (new investments) and increasing costs service of earlier investments (profit transfer, processes without investments – divestments).

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## **BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE UNII EUROPEJSKIEJ W POLSCE**

Ważnym czynnikiem dynamizującym powiązania gospodarcze w skali światowej są inwestycje zagraniczne, które wpływają na rozwój handlu międzynarodowego i przyśpieszenie wzrostu gospodarczego. Rządy krajów rozwijających się, jak i rozwiniętych stają przed problemem stworzenia takich warunków, które będą sprzyjały inwestycji na ich krajowych rynkach. Inwestorzy muszą dokonać wyboru rodzaju inwestycji na zagranicznych rynkach. Strumienie kapitału zagranicznego napływającego do danego kraju mogą przybierać różnorodne formy i podlegają księgowaniu w odpowiedniej pozycji rachunku obrotów kapitałowych bilansu płatniczego. Głównymi składnikami tego rachunku są inwestycje bezpośrednie oraz inwestycje portfelowe.

Decyzje inwestorów zdeterminowane są oceną wiarygodności danego kraju, wystawiane przez międzynarodowe instytucje ratingowe.

W praktyce obserwujemy zarówno postawy pozytywne, jak i negatywne wobec inwestycji zagranicznych. W artykule tym spróbujemy odpowiedzieć na pytanie: Czy bezpośrednie inwestycje zagraniczne z krajów Unii Europejskiej miały wpływ na rozwój gospodarczy Polski. Nie będziemy wnikać w ocenę tego zjawiska z punktu widzenia politycznego czy socjologicznego.

Wydaje się, iż bezpośrednie inwestycje zagraniczne, wobec niedoboru kapitału krajowego, były i będą ważnym i koniecznym czynnikiem wspomagającym wzrost gospodarki Polski – co zostanie wykazane w artykule.