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SCALE AND STRUCTURE OF FOREIGN DIRECT INVESTMENTS IN- FLOW TO POLAND IN THE CENTRAL – EASTERN EUROPEAN CONTEXT

Abstract

In the article the authors would like to be concerned with the analysis of the process of inflows of foreign direct investments to Poland. In particular, they would like:

- to identify the scale of FDI inflow to our country,
- to analyze the structure of FDI,
- to compare the flow of the foreign investments in Poland and other Central and Eastern European countries.

Keywords: foreign direct investments, international capital flows

Introduction

The wave of the globalisation¹ has rolled across the world since nineties last century. This process consists first of all in:

- raising the barriers of the international trade,
- introducing the regulations enabling free transfers of the capital and production factors among the countries.

The “explosion” of the international capital flows, in the form of foreign direct investments (FDI), constitutes one of the basic aspects of the “global economy” development.

The phenomenon of FDI had reached Poland in the nineties of the last century. Considering of the capital shortage in Poland during the system transition, it seemed that the inflow of capital would be much desired. In spite of this, the inflow of the investments has been appraised differently by some persons. There are opinions emphasizing “the sale of the national property” and the “subordination” of Polish economy on the foreign powers.

In this article the authors would like to be concerned with the analysis of the process of inflows of FDI to Poland. In particular, they would like:

- to identify the scale and the structure of FDI,
- to compare the flow of the investments in Poland and other Central and Eastern European countries.

One can find in the literature the common opinion that the foreign direct investments profitably affect the economic development of the country. Therefore, one can suppose that

¹ I.e., Creation of a integrated, liberal , global economic system.

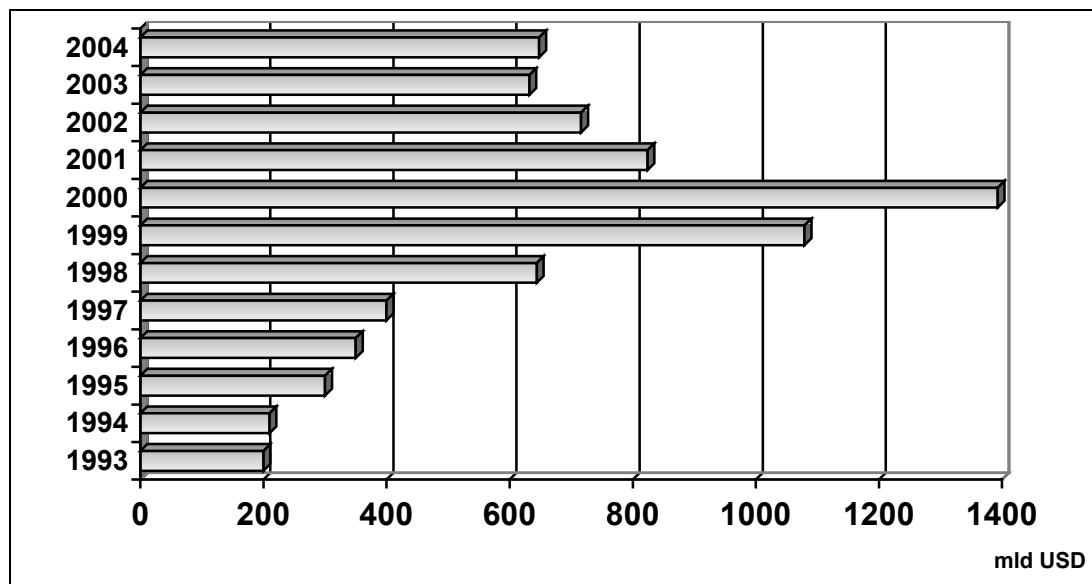
the inflow of great deal of FDI is one of the most important factor contributed to the increase of the international competitiveness of the country. The flow of FDI can be considered as the element reducing the distance of the economic development between so called “old” and “young” countries of European Union.

The proper structure of the inflows of FDI constitutes the next issue. The investments should be placed in such sectors of economy which are characterized by the advanced technology. The flow of FDI can be of use in the reduction of “technology gap” between countries. Therefore, the analyze of the branch structure of the inflows of FDI should be conducted.

Global flow of FDI

During five years, from 1993 till 1998, the global flow of FDI had increased rapidly from about 200 milliards USD in 1993, through 350 milliards USD in 1996, and 400 milliards USD in 1997, up to about 644 milliards USD in 1998.

Picture 1. Global flow of FDI in 1993 – 2004 (in milliards USD)



Source: Own studies based on: Z. Olesiński, Uwarunkowania bezpośrednich inwestycji zagranicznych, w pracy zbior. pod red. Z. Olesińskiego, *Bezpośrednie inwestycje zagraniczne*, Warszawa 1998, s. 40; World Investment Report 1998, Trends and Determinants, United Nations, New York and Geneva 1998, s. 361-365; World Investment Report 1999: Foreign Direct Investment and the Challenge of Development, New York and Geneva 1999, s. 9; World Investment Report 2003. FDI Policies for Development: National and International Perspectives, New York and Geneva 2003, s. 249; World Investment Report 2004. The Shift Towards Services, New York and Geneva 2004, s. 367; World Investment Report 2005, Transnational Corporations and Internationalization of R&D, New York and Geneva 2005, s. 303.

The flow of FDI increased from a little above one milliard USD in 1999 to almost 1,4 milliard in 2000. During the years 2001 – 2003, a considerable decrease of the FDI flow has been observed. In the opinion of economists, this situation has been related to the slowing down of the global economy and the spreading of the international terrorism.

The global flow of FDI increased about 2,5% and amounted over 648 milliards USD in 2004.

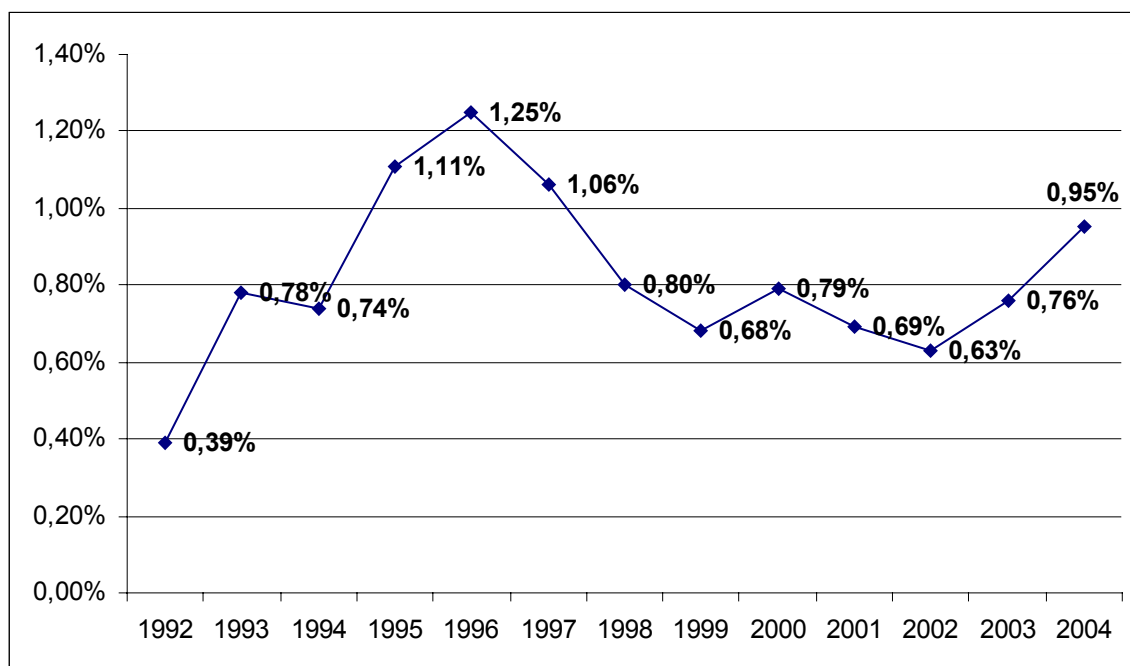
In 2002, 56% of all investments in the world was flowing into West Europe, 14% - to Asia, 7,6% - to Latin America, and only 12,4% - to North America.² The least share of FDI went to the African and the Central and Eastern European countries - about 2% and 4,5% of all investments, respectively (Górniewicz, Siemiątkowski, 2004, p. 11).

The situation changed a little in 2003. The flow of FDI decreased to 55,4 % into West Europe, about 6,5 % - to North America and 3,7% - to Central and East Europe. The share of the foreign investments in Asia increased to 19%.

The international statistics of FDI changed a little in 2004. In consequence of the enlargement of European Union, the statements of FDI include: European Union, Southern-Eastern European countries and CIS countries, i.e. the countries of former Union of Soviet Socialist Republics. Taking into account the new World Investment Report, the share of investments realized in Europe decreased to 34,4%. About 24% of all direct investments flowed to Asia and 15,7% - to North America.

The share of the foreign investments realized in Poland amounted to only 0,39% of the global investments in 1992. It increased twice, to 0,78%, in 1993. Next, it decreased slightly (0,74%) in 1994 and increased again to 1,25% in 1996. The share of Poland in the global volume of FDI decreased during the next three years, and it amounted to 0,68% in 1999. This share amounted to: 0,79%, 0,69% and 0,63% in the years 2000, 2001, 2002, respectively. During the years 2003-2004, the share of our country in the global volume of FDI increased to 0,76% in 2003 and to 0,95% in 2004. One can consider that there took a place the beginning of the upward tendency of the inflow of FDI to Poland.

Picture 2. Share of Poland in the global volume of the foreign investments in 1992 – 2004



Source: Own studies based on: World Investment Report 1998..., op. cit., s. 361-365; World Investment Report 1999..., op. cit., s. 476-480, World Investment Report 2001..., op. cit., s. 291-294; World Investment Report 2003..., op. cit., s. 249-252; World Investment Report 2004..., op. cit., s. 371; World Investment Report 2005..., op. cit., s. 303.

² In the latter part of the nineties of the last century, about 30% of all FDI in the world flowed into North America, particularly to USA.

During a pretty long time, Poland, with respect to the absolute inflow of FDI, has been placed on the top of the countries in our region of Europe. Poland dominated over other countries till 2001. But in 2002 most of the investments came to the Czech Republic.

Table 1. Inflow of FDI to Central and Eastern European Countries in 1993 – 2004 (in millions USD)

COUNTRY	Ranking of Central and Eastern European Countries	Year											
		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Russia	1	1211	640	2016	2479	6243	2183	3309	2704	2469	3461	1144	11672
Poland	2	1715	1875	3659	4498	4908	5129	7270	10000	5713	4119	4225	6159
Romania	3	94	342	420	265	1229	2063	1041	998	1157	1106	1566	5174
Czech Republic	4	653	868	2561	1429	1301	2540	6324	4595	5639	8483	2583	4463
Hungary	5	2339	1146	4453	1983	2085	1935	1944	1957	2440	2845	2470	4167
Bulgaria	6	40	105	90	109	505	401	819	1002	813	479	1419	2488
Ukraine	7	200	159	267	521	624	743	496	595	792	693	1424	1715
Slovakia	8	168	245	195	251	177	466	356	2075	1579	4123	574	1122
Estonia	9	162	214	201	151	267	581	305	398	542	307	891	926
Lithuania	10	30	31	73	152	355	926	486	379	446	732	179	773
Latvia	11	45	214	180	382	521	274	348	407	164	396	360	647
Albania	12	68	53	70	90	48	45	41	92	207	213	180	426
Byelorussia	13	18	11	15	73	200	144	444	90	96	227	171	169
Moldavia	14	14	28	67	24	72	85	39	128	156	111	58	151

Source: Own studies based on: World Investment Report 1997, Transnational Corporations, Market Structure and Competition Policy, United Nations, New York and Geneva 1997, s. 307; World Investment Report 1998..., op. cit., s. 364 –365; World Investment Report 1999..., op. cit., s.480; World Investment Report 2001..., op. cit., s. 291-295; World Investment Report 2003..., op. cit., s. 252; World Investment Report 2004..., op. cit., s. 371; World Investment Report 2005..., op. cit., s. 303-307.

A great amount of the foreign capital, in the form of the direct investments, has been directed to Slovakia in 2002. This country achieved this success as a result of the creation of a national strategy attracting the foreign investors. The situation changed in 2003. Taking into account the inflow of FDI, Poland was again on the leading position among the Central and Eastern European Countries. The next change took a place in 2004. Russia, with the inflow of FDI amounted over 11 milliards USD, was placed on the top of the central European countries. A great amount of capital was also placed in Poland, Romania, Czech Republic and Hungary³.

Taking into account the cumulated values of the inflows of FDI to the Central and Eastern European Countries, one can observe that Poland is still on the leading position. In the years 1992 – 2004, the FDI added up in Poland to 59,9 milliards USD, Czech Republic – 42,4 milliards USD, Russia – 39,1 milliards USD, and Hungary – 31,2 milliards USD⁴.

³ According to the data of The National Bank of Poland, our country is still on the leading position among the Central-Eastern European countries.

⁴ Own calculations based on: World Investment Report 1998, op. cit., s. 307; World Investment Report 2003..., op. cit., s. 252; World Investment Report 2005..., op. cit., s. 303-307.

The size and dynamics of the inflow of FDI to Poland

The inflow of FDI started in Poland in the first years of the economical system transition. Prior to that period, the value of the foreign investments had been at a low level. According to the data of The National Bank of Poland, during the period 1990 – 2004, over 62,9 milliards USD entered our country in the form of FDI.

Table 2. Inflow of the FDI to Poland in 1990 – 2004 (in milliards USD)

Year	Inflow of capital in the form of purchasing of shares or material apports				Total	Reinvestment*	Credits of investors		Total inflow of the capital
	In currency		In nature (material apports)				Amount	Share (in %) in total inflow of the capital	
	Amount	Share (in %) in total inflow of the capital	Amount	Share (in %) in total inflow of the capital					
1990	51	57,95	17	19,32	68	20	-	-	88
1991	177	49,30	91	25,35	268	66	25	6,96	359
1992	298	43,95	135	19,91	433	124	91	13,42	678
1993	892	52,01	217	12,65	1109	199	407	23,73	1715
1994	884	47,15	212	11,31	1096	382	397	21,17	1875
1995	1807	49,39	298	8,14	2105	888	666	18,20	3659
1996	2845	63,25	314	6,98	3159	244	1095	24,34	4498
1997	2663	54,26	453	9,23	3116	25	1767	36,00	4908
1998	4323	67,92	281	4,41	4604	-264	2025	31,81	6365
1999	5143	70,74	403	5,54	5546	-453	1256	17,28	7270
2000	8277	88,60	141	1,51	8418	-400	929	9,94	9342
2001	4587	80,29	337	5,90	4924	-1040	1453	25,43	5713
2002	3735	90,41	132	3,20	3867	-1224	1072	25,95	4131
2003	4398	106,66	x	x	4559	-80	-195	x	4123
2004	x	x	x	x	x	6308	x	x	12355
Suma									62956

* Reinvested profits have been reduced by the balanced loss since 1996.

Source: Zagraniczne inwestycje bezpośrednie w Polsce w 1998 roku, NBP, Departament Statystyki, Warszawa 1999, s.12, Zagraniczne inwestycje bezpośrednie w Polsce w 1999 roku, NBP, Departament Statystyki, Warszawa 2000, s.33, Zagraniczne inwestycje bezpośrednie w Polsce w 2000 roku, Departament Statystyki, Warszawa 2001, s.23, Zagraniczne inwestycje bezpośrednie w Polsce w 2001 roku, NBP, Departament Statystyki, Warszawa 2002, s. 17; Zagraniczne inwestycje bezpośrednie w Polsce w 2002 roku, NBP, Departament Statystyki, Warszawa 2002, s. 14; Zagraniczne inwestycje bezpośrednie w Polsce w 2003 roku, NBP, Departament Statystyki, Warszawa 2004, s. 109; Zagraniczne inwestycje bezpośrednie w Polsce w 2004 roku, NBP, Departament Statystyki, Warszawa 2005, s. 97 i opracowanie własne.

During the period 1990 – 2000, the inflow of FDI had been increasing from year to year. Till 1994, one stated a relatively small amount of the inflow of capital (about 2 milliards USD). Beginning from 1995, the values of the foreign investments have been larger and larger: in 1999 they amounted to almost 7,3 milliards USD, in 2000 – over 9,3 milliards USD. The upward tendency of the inflow of FDI was stopped in 2001. The inflow of FDI decreased

also in 2002 and 2003 (4,1 milliards USD) and it increased manifold to over 12 milliards USD in 2004. Nowadays, it is not clear whether one has to deal with the beginning of the constant growth of the inflows of FDI to Poland or the ephemeral deviation from the earlier trend. One can expect that the accession of Poland to the European Union will result in the increase of the inflow of the foreign capital.

In 1996 – 2003, the share of foreign capital⁵ allocated to the purchase of shares or stocks in the total sum of the capital, appropriately amounted: 63,2%, 53,2%, 67,9%, 71,7%, 88,6%, 80,3%, 90% and above 106% (See table 2).

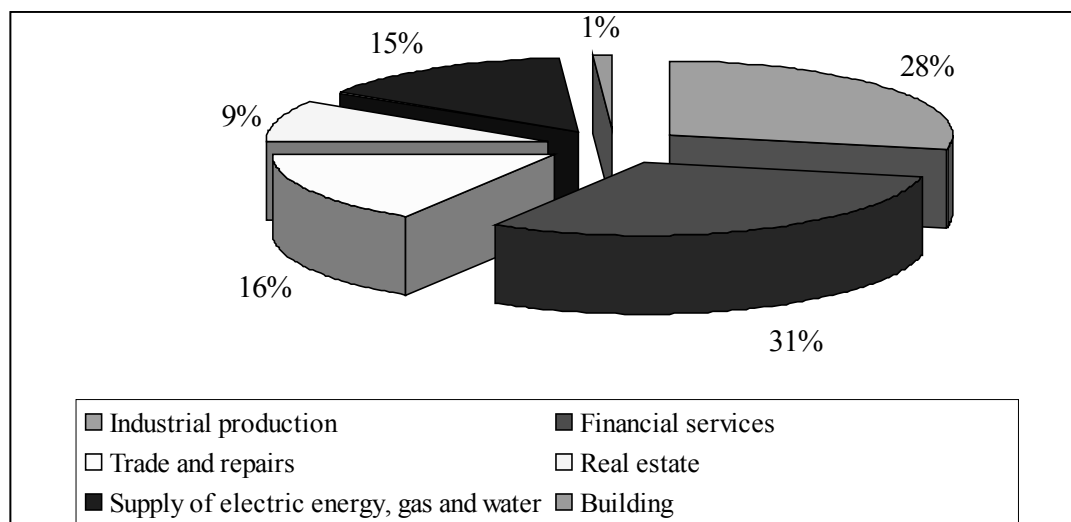
From 1991 till 1997, there occurred an increase of the value of the credits allowed by the foreign investors to the Polish enterprises. The value of these credits added up to 7% of the total inflows of FDI to Poland in 1991 and to 36% - in 1997. During the next three years, the share of the credits allowed by the foreign investors in the total inflow of capital had been gradually decreasing: from 31,8% in 1998 to 9,9% in 2000. And it rapidly increased in 2001 and 2002 to 25%. In 2003, the values of credits placed in Poland were lower than amounts repaid to investors and conversion of credits into shares in Polish enterprises (See table 2).

The great growth of reinvestment⁶ caused a significant increase of the FDI inflow to Poland in 2004.

The branch structure of the inflows of FDI to Poland

A significant impact on the national economy has the branch structure of the inflow of FDI (Wiśniewski, Siemiątkowski, 2001, p.679). Depending on the sectors of the economy where the foreign capital is located, the inflow of FDI not only reduces the capital shortage in the economy, but this flow contributes also to its transformation. This is particular significance in the case of economies which base their development on industrialization.

Picture 3. Partition of FDI in Poland according to the type of the activity in 2002



Source: Own studies based on: *Zagraniczne inwestycje bezpośrednie w Polsce w 2002 roku*, NBP, Departament Statystyki, Warszawa 2002, s. 53-55.

Presently, the most of the investments are placed in the following sectors: financial

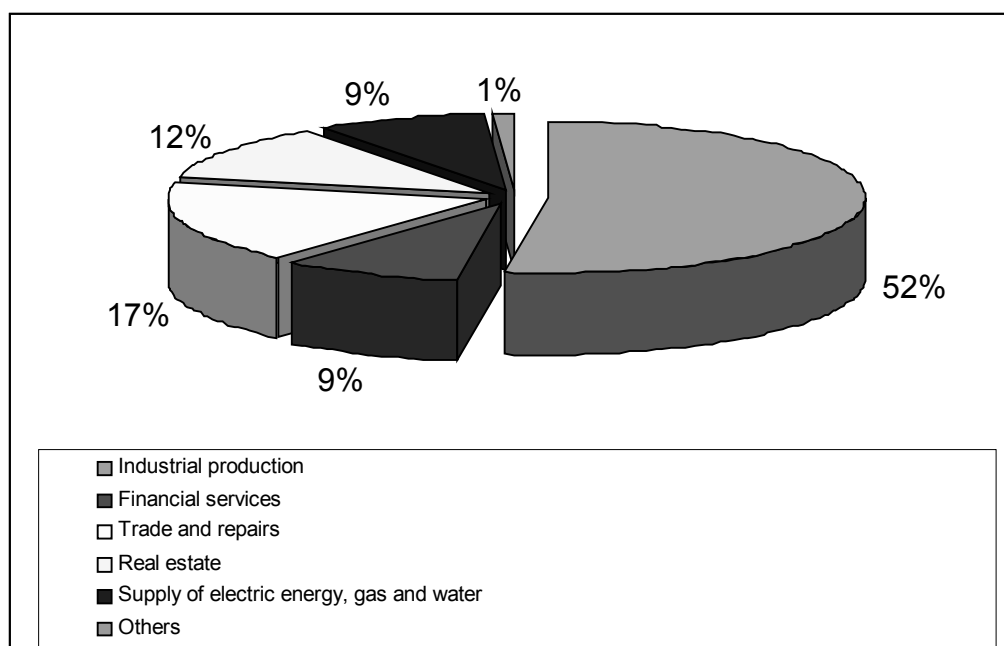
⁵ Flowed into Poland in the form of currency.

⁶ It amounted 6,3 milliards USD

services (31%), industrial production (28%), trade and repairs (16%). The structure of the foreign investments in Poland has considerably changed in the last years. The flow of the investments to the industrial sectors declined from 53% in 1996 to 28% in 2002. In the past years, considerable amounts of foreign capital went also into the sector of transport, magazine management and communication. The share of this sector in the inflow of investments amounted to about 40% in 2000. Some investors have removed a part of their obligations from Polish enterprises, i.e. one had to deal with the phenomenon of so called “negative investments”. The total outflow of capital added up to 770 millions USD (NBP, 2002, p.54).

One can consider that the structure of the direct investments in Poland has improved. In most of the cases the FDI inflow into the enterprises situated in such sectors of the economy which are characterized by a high level of the innovation. Moreover, these enterprises use more advanced technology than their local competitors⁷.

Picture 4. Partition of FDI in Poland according to the type of the activity in 2003

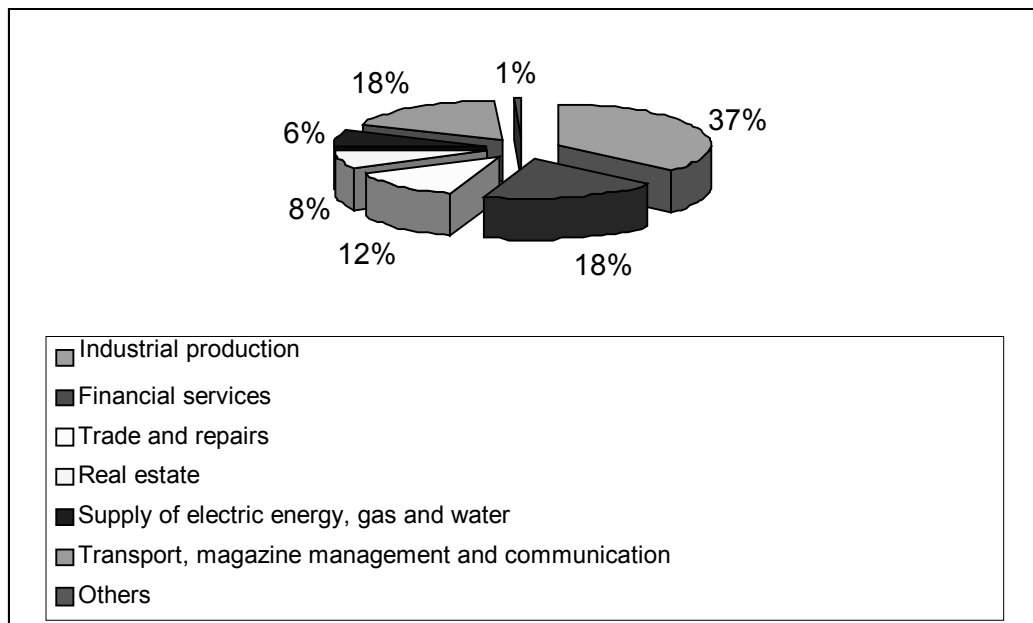


Source: Own studies based on: *Zagraniczne inwestycje bezpośrednie w Polsce w 2003 roku*, NBP, Departament Statystyki, Warszawa 2004, s. 114-119.

The flow of the investments to the industrial production increased to 52% in 2003. The share of the financial services in the FDI inflows to Poland decreased from 31% in 2002 to 9% in 2003.

⁷ On the basis of own questionnaire surveys conducted among the foreign investors.

Picture 5. Partition of FDI in Poland according to the type of the activity in 2004



Source: Own studies based on: *Zagraniczne inwestycje bezpośrednie w Polsce w 2004 roku*, NBP, Departament Statystyki, Warszawa 2005, s. 4.6-48.

A significant increase of FDI inflow to Poland was not the only advantageous signal coming from Polish economy. There also took a place the improvement of the branch structure of the inflows of FDI. The flow of direct investments to industrial production declined in 2004. But the greater amounts of foreign capital went into other sectors of economy, i.e. to sector of transport, magazine management and communication (See picture 5).

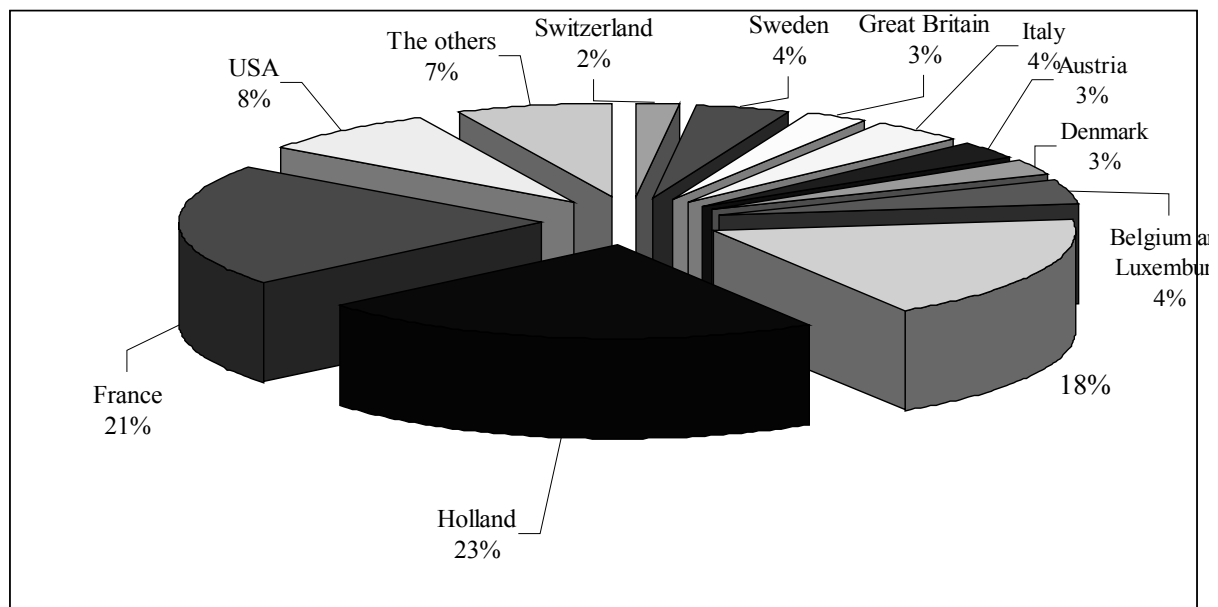
Geographical structure of the inflow of FDI to Poland

The major part of the foreign capital, existing as the direct investments, comes from European countries.⁸ The analysis of the geographical structure of the inflow of the investments is very important. Recognizing the sources of the capital allows to:

- predict the size of its future inflows,
- carry on the appropriate economic policy aimed at the attraction of foreign investors.

⁸ Total – over 91% of the capital in the years 1996 – 2002 (own calculations on the basis of the source of picture 1.).

Picture 6. Geographical structure of the inflows of FDI to Poland in 1996 – 2004



Source: own studies based on: *Zagraniczne inwestycje bezpośrednie w Polsce w 1998 roku*, NBP, Departament Statystyki, Warszawa 1999, s.14; *Zagraniczne inwestycje bezpośrednie w Polsce w 1999 roku*, NBP, Departament Statystyki, Warszawa 2000, s. 34; *Zagraniczne inwestycje bezpośrednie w Polsce w 2000 roku*, Departament Statystyki, Warszawa 2001, s.25; *Zagraniczne inwestycje bezpośrednie w Polsce w 2001 roku*, Departament Statystyki, Warszawa 2003, s.23; *Zagraniczne inwestycje bezpośrednie w Polsce w 2001 roku*, Departament Statystyki, Warszawa 2003, s. 43-36; *Zagraniczne inwestycje bezpośrednie w Polsce w 2003 roku*, Departament Statystyki, Warszawa 2004, s. 120–123; *Zagraniczne inwestycje bezpośrednie w Polsce w 2004 roku*, NBP, Departament Statystyki, Warszawa 2005, s. 49-52.

The most of the investments came to Poland from Holland (23%), France (21%), Germany (18%), and USA (8%). The share of other countries (shown on Picture 5) in the inflow of FDI to Poland amounted only a few percentages. Total – over 93% of the foreign direct investments in Poland in the years 1996-2003 – came from countries shown on picture 5.

Conclusions

In spite of many opinions opposing the inflow of the foreign capital to Poland, there should be emphasize that this phenomenon is welcome (Siemiątkowski, 2004, p.400). The global flow of the capital in the form of FDI is valued at hundreds milliards USD. However, the share of Poland in this flow is not higher than 1%.

There occurs the necessity of creation of a compact, multifarious, national strategy of attracting foreign investments. This strategy⁹ should initiate various mechanisms of selective stimulation of the flow of FDI. All related activities should cause the inflow of the investments to these sectors or regions which are relatively underdeveloped. Since, there is no development without capital, Poland has to encourage the investors to locate their resources on its area (Siemiątkowski, 2005, p.127).

During the last years, the countries like Czech Republic or Slovakia were able to compete for attracting foreign investments with the much bigger neighbour like Poland. They offered a

⁹ Consistent with the national strategy of the socio – economic development of the country.

little profitable conditions of investments. The details are particular significance in the case of great foreign investments in the Central and Eastern European countries.

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