

## **POLAND AS A COMPETITIVE AND ATTRACTIVE TO FOREIGN INVESTORS COUNTRY IN RELATION TO OTHER CENTRAL AND EASTERN EUROPE COUNTRIES**

### **1. Introduction**

In global world, countries (nations) compete with each other in order to make permanent rise in living standards. As a starting point is used so called scientific definition of nations competitiveness<sup>1</sup>: “Nations competitiveness is a branch of economic knowledge, which analyses facts and policies shaping country’s ability to create and maintain the surrounding, which promotes creating by companies higher added value and getting material well-being by the people.” Economists use many different definitions of competitiveness, often proposing their own solutions to the problem. Economy competitiveness is also an ambiguous term, which has got internal, external, statistical and dynamical meaning and in the subject literature there is no unambiguous term “competitive economy” or “competitiveness”. Generally, in economy “competitiveness”<sup>1</sup> is defined as the ability to achieve success in economic rivalry. In the European Union there has been formulated one of the most often cited definitions of competitiveness<sup>2</sup>: „Competitiveness results from productivity, effectiveness and profitability, but it is not an aim itself. It’s an effective means of achieving improvement in living standards and social well-being – a tool for reaching goals. In global viewing, by increasing productivity and effectiveness in the context of international specialisation, competitiveness gives the basis for income increase in a non-inflationary way”. In international studies there is often used synthetic definition of competitiveness used in OECD<sup>3</sup> documents: „Competitiveness is a degree in which a country in free trade conditions can produce goods and services which stand the test of international markets and at the same time assures real income rise for a long period of time.”

The purpose of article is qualification of attractiveness and competitiveness of Poland for foreign investors country in relation to other Central and Eastern Europe countries on basis of opinions accomplished by rating agencies and other international institutions in years 2000 - 2005.

### **2. Competitiveness while investment attractiveness**

A country, to become or remain competitive, should follow these competitiveness rules, called ten gold rules of competitiveness<sup>4</sup>. According to the first rule, a country should create stable and predictable law conditions, secondly it should aim at creating flexible and resistant to external conditions economic structure, thirdly, should promote domestic savings and domestic investment. The fourth rule says, that a country should develop its activity on international markets and create favourable conditions for foreign investment, and the fifth one, that should aim at rationalization and improving administration, and the sixth which says, that it should keep proper proportions between payments level, productivity and taxes. In the

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<sup>1</sup> K.Kłosiński, Sektor usług w procesie podnoszenia konkurencyjności gospodarki, część I, IRWiK, Warszawa, 2003

<sup>2</sup> Competitiveness Advisory Group (Ciampi Group), “Enhancing European Competitiveness”, First report to the President of the Commission, the Prime Ministers and the Heads of State, June 1995

<sup>3</sup> OECD, Industrial Structure Statistics, Paris, 1996 r., s.17-19

<sup>4</sup> IMD World Competitiveness Yearbook 2003

light of the seventh rule, a country should aim at reducing payment differences and strengthen the middle class, and the eighth rule says that it should invest in education, the ninth, that it should invest in infrastructure and according to the tenth rule it should balance local and global aspects of economic processes.

A country competitiveness is tightly connected with its investment attraction, which is mostly an investor's opinion. Investment attraction concerns the market of production factors and potential increase in net benefit as a result of inflow of foreign investment, being also a carrier of new technologies, know-how and financial and trade links with international market.<sup>5</sup> Investment attraction is influenced by: level of taxation, degree of economy liberalization, changes in country's income policy, economic and social balance and changes in ownership structure. Important role is also played by tendency on the labour market, especially the level of individual labour costs and relations of companies and the state with trade unions.

International companies investing in a certain country, use two-step approach while estimating investment risk. The first step is a macroeconomic analyses, so called *Country risk analysis*, which enables to define the general level of the country risk on the whole country scale, whereas the second one is a microeconomic analyses which allows to estimate the scale of the country risk referring to the specific market branch or segment, or even a specific investment project.

Investment risk defines the degree of probability of achieving the investor's strategic goals and is characterized by means of relative ratings:<sup>6</sup> macroeconomic results, social and political risk, financial balance, financial liquidity, credit worthiness, debt level, access to bank financing, access to capital markets. The influence of the mentioned factors is not the same. The first two play the key role and have the customary weight of 0,25 each. The next three factors have the weight of 0,1 of the whole, whereas 1/5 of the weight is connected with the rating for the access to financing on the bank and capital market. Another approach to risk is presented by W.Karaszewski<sup>7</sup>, who claims, that risk of the investment made abroad focus a general risk connected with investing and a special risk resulting from making investment beyond the investor's homeland. According to W.Karaszewskiego there are many factors of general risk investment project, which result from different, connected with each other, investment project danger sources groups.

### **3. Competitiveness and investment attractiveness in Central and Eastern Europe countries**

The foreign investors attitude to a country is showed by attraction and investment risk ratings drawn up by international institutions, often called rating agencies. At present there are about 45 rating agencies in the world. Most of them offer their services on local markets, some of them act internationally. Among the agencies the strongest position have 10 agencies, 10 of which come from the USA, 3 from Japan, 2 from Canada and 1 from Great Britain. The most significant seem to be 3 American agencies: Standard & Poor's, Moody's Investors Service and Fitch IBCA.

Rating system used by those agencies is similar. If the rating contains three or two letters "A" it means very safe investment stocks – („*high quality*”), while if only one letter „A”, three letters „B” and „a” show stocks fit for investment purposes („*medium quality*”).

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<sup>5</sup> J.W.Bossak, W.Bieńkowski, Międzynarodowa zdolność konkurencyjna kraju i przedsiębiorstw. Wyzwania dla Polski na progu XXI wieku, Szkoła Główna Handlowa w Warszawie, Warszawa, 2004, s.132

<sup>6</sup> J.W.Bossak, W.Bieńkowski, *Międzynarodowa zdolność...*, op.cit., s.134

<sup>7</sup> W.Karaszewski, *Przedsiębiorstwa z udziałem kapitału zagranicznego w Polsce w latach 1990 – 1999*, Wydawnictwo Uniwersytetu Mikołaja Kopernika w Toruniu, Toruń 2001 s. 44 – 46

Two or one letter „B” and at least one letter „C” or „D” indicate speculative stocks. Category „c” contains stocks with high risk of return on the invested capital, whereas rating „D” describes very risky stocks emitted by incredible subjects (*“low quality”*). Adding a sign „+” or „-” or numbers „1” or „2” or „3” describes the place in the main category. Those agencies in their reports rate countries in respect of risk level and investment attraction. The table below presents this rating for some countries from the Central and Eastern Europe.

Table 1  
Investment credibility rating of some the Central and Eastern Europe countries made by three biggest rating agencies

Country	Standard & Poors	Moody’s Investor Services	Fitch IBCA
Slovenia	A	A3	A
Czech Republic	A-	Baa1	BBB+
Hungary	BBB+	Baa1	BBB+
Poland	BBB+	Baa1	BBB+
Estonia	BBB+	Baa1	BBB
Slovakia	BB+	Ba1	BB+
Romania	B-	B3	B-
Russia	D	B3	CCC

Source: J.Brzozowski, *Czym Czesi przyciągnęli Toyotę?*, Boss Gospodarka, 9/2002

Among the Central and Eastern Europe countries the best one in respect of credit credibility and investment risk level according to well-established rating agencies is Slovenia. From all three agencies it got ratings meaning: „good quality, possible susceptibility to dangers in the future”. This rating also got Czech Republic, but only from Standard & Poors. The other agencies gave this country the same rating like to Hungary, Poland and Estonia – „satisfactory quality and partial protection against future dangers”. A little worse rating got Slovakia: „questionable quality, moderate ability to meet its obligations”. The worst ratings got Romania and Russia.

In the ranking of the most competitive countries „Global Competitiveness Report 2004 – 2005” prepared annually for World Economic Forum, the Central and Eastern Europe were classified in respect of current competitiveness – *BCI Business Competitiveness Index* growth competitiveness, *GCI – Growth Competitiveness Index*. There has been analysed the economic situation of 104 countries of the Central and Eastern Europe.

Table 2  
Ratings of competitiveness of the Central and Eastern Europe countries in the ranking „Global Competitiveness Report 2004 – 2005”

Country	COMPETITIVENESS					
	current - BCI			growth - GCI		
	Place in 2004	Place in 2003	Rise / fall to 2003	Place in 2004	Place in 2003	Rise / fall to 2003
Estonia	27	28	↑	20	22	↑
Slovenia	31	30	↓	33	31	↓
Czech Republic	35	35	←→	40	39	↓

Lithuania	36	40	↑	36	40	↑
Slovakia	39	43	↑	43	43	←→
Hungary	42	38	↓	39	33	↓
Latvia	49	29	↓	44	37	↓
Romania	56	73	↑	63	75	↑
Poland	57	47	↓	60	45	↓
Russia	61	65	↑	70	70	←→
Ukraine	69	71	↑	86	84	↓
Croatia	72	62	↓	61	53	↓
Bulgaria	75	74	↓	59	64	↑
Macedonia	83	82	↓	84	81	↓
Serbia and Montenegro	85	No data		89	77	↓
Bosnia and Herzegovina	93	No data		81	No data	

Source: prepared on the basis of World Economic Forum - [www.weforum.org](http://www.weforum.org)

General rating of current competitiveness of individual economies of the Central and Eastern Europe countries in this ranking went well. The highest possible rating to achieve is 7 pts, and the countries belonging to the Central and Eastern Europe got the following ratings: Estonia – 5,08 pts, Slovenia 4,75 pts, Lithuania – 4,57 pts, Hungary – 4,56 pts, Czech Republic – 4,55 pts, Slovakia – 4,43 pts, Latvia – 4,43 pts, Bulgaria – 3,98 pts, Poland – 3,98 pts, Croatia – 3,94 pts, Romania – 3,86 pts, Russia – 3,68 pts, Bosnia and Herzegovina – 3,38 pts, Macedonia – 3,34 pts, Ukraine – 3,27 pts and Serbia and Montenegro – 3,23 pts

Another ranking is published by A.T.Kearney Inc.<sup>8</sup>, which examines market attraction to foreign investors by means of so called confidence index – *FDI Confidence Index*<sup>9</sup>, describing development prospects. This index is constructed on the basis of opinion of leading managers of 1000 biggest corporations in the world representing 41 countries and 24 branches of economy. In the ranking from September 2003, countries of the Central and Eastern Europe took the following places: Poland – place 4 ( in 2002 – 11), Russia - place 8 (in 2002 – 17), Czech Republic – place 13 ( in 2002 – 14) and Hungary – place 17 ( in 2002 – 16).

Together with bimonthly „Foreign Policy” A.T.Kearney Inc. company also publishes globalisation ranking. In 2004 there have been rated 62 developed and developing countries<sup>10</sup>. Globalisation index is calculated as a sum of four factors: economic integrity, personal contacts, informatics technologies and political engagement. Czech Republic was found the most globalised country of the Central and Eastern Europe (14<sup>th</sup> place among all the countries in the ranking), next was Slovenia (place 19), next Slovakia (place 21), and then Croatia (place 23). 26<sup>th</sup> place took Hungary, and just after it, Poland (place 31). After Poland there was Romania (place 39), Ukraine (place 43) and Russia (place 44).

The greatest credibility according to „Institutional Investor” has Slovenia, which takes first places among the Central and Eastern Europe Countries and 27<sup>th</sup> in the group of 172 classified countries. It got 70,8 pts out of 100 possible to gain. Poland got 61,3 pts, which placed it on 40<sup>th</sup> place in the world and 4<sup>th</sup> among the Central and Eastern Europe countries. Higher than Poland was classified Hungary – place 37 and Czech Republic, place 31.

<sup>8</sup> Prepared on the basis of A.T.Kearney Inc. company data- [www.atkearney.com](http://www.atkearney.com)

<sup>9</sup> *FDI Confidence Index, Global Business Policy*, A.T.Kearney, September 2003, Vol.6

<sup>10</sup> *Measuring Globalization: Economic Reversals, Forward Momentum*, A.T.Kearney, Foreign Policy

IMD report, that is World Competitiveness Yearbook (WCY) contains 60 countries. Rating economy competitiveness, IMD distinguishes four categories of factors: economic results on macro-scale, government effectiveness and institutions quality, business situation and effectiveness and efficiency and work, and also transport, technologic, scientific and social infrastructure quality and set of values. In 2004 in the general WCY ranking the USA was found the most competitiveness country, receiving 100 pts, the second place took Singapore (89 pts) and the third, Canada (86,6 pts). Among the Central and Eastern Europe countries, the most competitive country was found Estonia, whereas Poland took the last place among those countries.

Tabele 3

The Central and Eastern Europe countries in WCY rankings in years 2000 – 2004

Country	Year					
	2000	2001	2002	2003	2004	
	place	place	place	place	Place	Nr.of points (max 100 pts)
Estonia	-	22	21	22	28	68,4
Slovakia	-	41	38	46	40	57,5
Hungary	27	30	30	34	42	57,2
Czech Republic	37	35	32	35	43	56,4
Slovenia	36	38	35	40	45	55,5
Russia	47	43	44	54	50	52,1
Romania	-	-	-	51	54	48,0
Poland	40	47	45	55	57	41,9

Source: World Competitiveness Yearbook – Ranking 2004

Next rating of the Central and Eastern Europe countries is a country ranking taking into account credibility to investors, which is presented by a British monthly „Euromoney”. It takes into account: political risk, debt level and degree of meeting its obligations. In the ranking from March 2003 there were rated 185 countries in respect of 9 criteria. The highest rating among the Central and Eastern Europe received Slovenia (74,25 pts out of 100 possible), next Hungary (70,95 pts), Czech Republic (67,02 pts) and Poland (63,91 pts). The lowest place took Serbia and Montenegro with only 29,36 pts. A year later. In March 2004 a monthly „Euromoney” presented next ranking, in which Poland took 47<sup>th</sup> place among 185 countries, which means a fall by 6 places comparing to March the previous year. The rating Poland got is lower by 2,47 pts than in the previous year. Estonia was ahead of our country, just after Poland was Slovakia. In our region Slovenia, Hungary and Czech Republic have the lead.

Rating of resistance to economic crisis is prepared by Lehman Brothers Eurasian Group company by means of so called *stability index*. At the end of 2002 there were classified 21 countries, including countries of the Central and Eastern Europe. The most points got Hungary, then Poland and Bulgaria.

Heritage Foundation prepares annually index of economic freedom among countries in the world. This index lists the countries with high (from 1 to 1,99 pts), medium (from 2 to 2,99 pts), low (from 3 to 3,99 pts) and very low level of economic freedom (from 4 to 5 pts).

Table 4

Index of economic freedom in the Central and Eastern Europe countries in years 2000 – 2004.

Country	2000		2001		2002		2003		2004	
Albania	3,78	↑	3,48	↓	3,24	↓	3,28	↑	3,10	↓
Belarus	4,13	↓	4,10	↓	4,21	↑	4,24	↑	4,09	↓
Bosnia and Herzegovina	4,40	↓	4,04	↓	3,89	↓	3,49	↓	3,30	↓
Bulgaria	3,35	↓	3,28	↓	3,28	↔	3,26	↓	3,08	↓
Croatia	3,49	↓	3,39	↓	3,29	↓	3,06	↓	3,11	↑
Czech Republic	2,20	↑	2,10	↓	2,29	↑	2,35	↑	2,39	↑
Estonia	2,19	↓	1,89	↓	1,73	↓	1,68	↓	1,76	↑
Lithuania	2,84	↓	2,53	↓	2,35	↓	2,21	↓	2,19	↓
Latvia	2,69	↓	2,49	↓	2,49	↔	2,30	↓	2,36	↑
Macedonia	-	-	-	-	3,35	-	3,23	↓	3,04	↓
Moldova	3,35	↓	3,75	↑	3,30	↓	3,13	↓	3,09	↓
Poland	2,84	↑	2,64	↓	2,60	↓	2,83	↑	2,81	↓
Russia	3,75	↑	3,79	↑	3,74	↓	3,54	↓	3,46	↓
Romania	3,20	↔	3,59	↑	3,78	↑	3,71	↓	3,66	↓
Slovakia	3,18	↓	2,85	↓	2,76	↓	2,71	↓	2,44	↓
Slovenia	3,20	↑	3,01	↓	3,25	↑	2,86	↓	2,75	↓
Ukraine	3,75	↔	3,88	↑	3,84	↓	3,59	↓	3,49	↓
Hungary	2,42	↓	2,38	↓	2,23	↓	2,55	↑	2,60	↑

Source: Index of Economic Freedom – Heritage Foundation 2004

In 2004 were analysed 155 countries from the whole world. The best rating among countries of the Central and Eastern Europe received Estonia. As the only one it has high level of economic freedom and thanks to this it was among 16 countries with highest ratings. It took place 6, and better than Estonia were only: Hong Kong, Singapore, New Zealand, Luxemburg and Ireland. The second place among countries from the Central and Eastern Europe took Lithuania, next Latvia, Czech Republic, Slovakia, Hungary, Slovenia and Poland, which got a rating – medium level of economic freedom. The other countries, except Belarus, which got very negative rating, have low level of economic freedom.

Very interesting ranking is a ranking of “economic freedom”, which rates investment attraction of countries in the world – „Economic Freedom of the World - 2004”<sup>11</sup> in respect of level of economy liberalisation. Ranking from 2004 takes into account data from 2002 year, and ranking from 2003 takes data from 2001 year. According to it 123 countries were classified in scale from 1 to 10 points, where 1 indicates a country the least economically free, and 10 a very liberal country in respect of economy.

<sup>11</sup> *Economic Freedom of the World. Annual Report. 2004.* Cato Institute Washington

Table 5

## Ranking of „economic freedom” – 2003 and 2004

Country	Year 2004		Year 2003	
	Place	Points 10 pts max	Place	Points 10 pts max
Estonia	11	7,8	14	7,6
Hungary	22	7,3	30	7,1
Latvia	36	7,0	42	6,8
Czech Republic	41	6,9	40	6,9
Lithuania	44	6,8	61	6,4
Slovakia	51	6,6	67	6,3
Poland	61	6,4	71	6,2
Slovenia	74	6,2	77	6,1
Bulgaria	78	6,0	91	5,7
Croatia	83	5,9	80	6,0
Albania	90	5,7	98	5,6
Romania	103	5,4	113	5,1
Ukraine	107	5,3	115	5,0
Russia	114	5,0	116	4,9

Source: prepared on the basis of: *Economic Freedom of the World. Annual Report.2004*. Cato Institute Washington

Among countries of the Central and Eastern Europe the highest place took Estonia, which was 11 among 123 examined countries, then Hungary, place 22, and Latvia, place 36. Poland took place 61 with 6.4 points, improving the place from the previous year by 10 places. It gave Poland 7<sup>th</sup> place among 14 countries from the Central and Eastern Europe.

#### 4. Conclusions

Analyses of those international rankings shapes the picture of competitiveness of Polish economy, its attraction and investment risk. Rankings results put Poland in the middle of the examined countries of the world. Poland is neither positively distinguished nor very weak at any aspects, but there is no sign of improvement of individual ratings, and even the situation, in some cases, is deteriorating which year. Also among the countries belonging to the region of the Central and Eastern Europe, Poland isn't high in rankings and among 19 countries takes places 8-12. Many countries from the region, which a few years ago were less developed countries, now are ahead of Poland, for example Slovenia, Slovakia, Lithuania or Latvia or, first of all, Estonia. This country almost in all rankings takes the first place.

There is a general opinion, that there is no "universal" formula for competitiveness. Many different elements of economic policy may be points of reference, but each country should adjust certain standards to their situation. Poland has many strong points, that should make use of. Among them there are economy openness together with high ability to transfer goods and services, very favourable geographical location or advanced process of restructuring of economy. A good chance are investment promoting improving competitiveness and creating new places of work, on which should be spent money from structural funds. It is also recommended to make use of Polish presence in the European, which improved its attraction as a country for new investment. Poland has many advantages,

which should be sensibly taken, so that Poland will become more competitive country, at least among the Central and Eastern Europe countries.

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#### **Abstract:**

The foreign investors attitude to a country is showed by attraction and investment risk ratings drawn up by international institutions, often called rating agencies. At present there are about 45 rating agencies in the world. In article the authoress introduced the opinions of competitiveness of economies the Central and Eastern Europe, and in peculiarity of attractiveness and risk investing in them on basis of conducted analysis of reports of different institutions deal with such audits. In reports are compared different economic and political factors there encouraging or discouraging investors to investing in this country. Analyses international rankings shapes the picture of competitiveness of Polish economy, its attraction and investment risk. It shew that the competitiveness of Polish economy on world as it and among countries of Central and Eastern Europe is very low. Rankings results put Poland in the middle of the examined countries of the world. Poland is neither positively distinguished nor very weak at any aspects, but there is no sign of improvement of individual ratings, and even the situation, in some cases, is deteriorating which year. Also among the countries belonging to the region of the Central and Eastern Europe, Poland isn't high in rankings and among 19 countries takes places 8-12. Poland has many advantages, which should be sensibly taken, so that Poland will become more competitive country, at least among the Central and Eastern Europe countries.