

FOREIGN DIRECT INVESTMENTS IN POLAND – REPORT FOR THE END OF 2004 AND NEW FACTS

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Abstract

Joining the European Union is regarded as a chance for Poland to improve its economic growth and to catch up the EU-15 wealth level. However, it is necessary to remember that this is going to be a difficult and long-lasting process, where success is possible only on the condition that suitable economic policy is implemented. Such policy should provide stable frameworks to support business development, attract foreign direct investments (FDI), keep the discipline in public finances and assure the right institutional ability and managerial skills to absorb the EU funds. In the study:

- FDI inflows to Poland and other new EU member states have been evaluated from the viewpoint of the size of the economy represented by its GDP per capita;
- The amount of FDI inward stock in Poland over the years 1993-2004 and its structure from the viewpoint of the investor's country of origin and sector of allocation have been evaluated (data published by PAIiZ);
- The activity of foreign capital in special economic zones (SEZ), entrepreneurship-supporting enclaves in the regions characterised by extremely difficult socio-economic conditions, has been identified;
- FDI inflows to Poland in 2005-2007 (data published by NBP) have been presented.

According to the estimates, appropriate economic transformation in Poland and keeping a 5% economic growth rate in Poland require approx. USD 10 billion of annual FDI inflow. With regard to those forecasts, the amount of FDI inflow to Poland seems to be insufficient to keep the desired economic growth rate, and the investment incentives in the form of special economic zones do not meet expectations.

Keywords: development, foreign direct investments, special economic zones.

JEL classification: F21, O16, R38.

1. Research Object and Definitions

Research object: According to OECD benchmark definition, a direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. The numerical guideline of ownership of 10 per cent of ordinary shares or voting stock determines the existence of a direct investment relationship. An effective voice in the management, as evidenced by an ownership of at least 10 per cent, implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor¹.

According to the definition adopted by the United Nations Conference on Trade and Development, and applied also by the Polish Information and Foreign Investment Agency:

FDI inflows comprise the capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or the capital received by a foreign direct investor from an FDI enterprise. FDI includes the three following components: equity capital, reinvested earnings and intra-company loans.

- Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than that of its residence.
- Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
- Intra-company loans or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises².

Source of statistical data: data provided by the Polish Information and Foreign Investment Agency (PAIIZ).

Spatial range: Poland (and new EU member states as benchmarks, selectively).

Time range: years 1993-2004.

Since 2006 Polish Information and Foreign Investment Agency (PAIiZ) no longer publishes the value of foreign direct investments inflow to Poland. Data on FDI inflow (its structure and amounts of payments due to foreign investments) are published now by National Bank of Poland (NBP). Because of methodological differences it is not possible to compare data published by NBP with those published by PAIiZ. Closing data collected by PAIiZ concerns 2004.

2. Economic Development and FDI

According to the estimates, appropriate economic transformation in Poland and keeping a 5% economic growth rate in Poland require approx. USD 10 billion of annual FDI inflow³.

The relationship between FDI and economic growth has two aspects: FDI stimulates economic growth, but also reacts to economic growth and progress of transformation. Growth is generated by FDI through imported means of investment, new technologies and capabilities transferred by foreign multinationals and international networking. On the other hand, foreign investors react positively to the consolidation of market-economy rules and the resumption of economic growth⁴. High technology is of particular importance as it supports technological development, value creation, enhancement of staff qualifications, improvement in management quality, better competitiveness of enterprises, regions, related sectors and the whole economy. The form of FDI is relevant just next to its sector structure – the variety of organisational forms contributes significantly to the creation of new jobs, structure of the economy and development of individual regions (greenfield investments are particularly desired as well as other export-supporting projects). Another important factor related to FDI inflow is its proper portfolio by the investor's country of origin⁵.

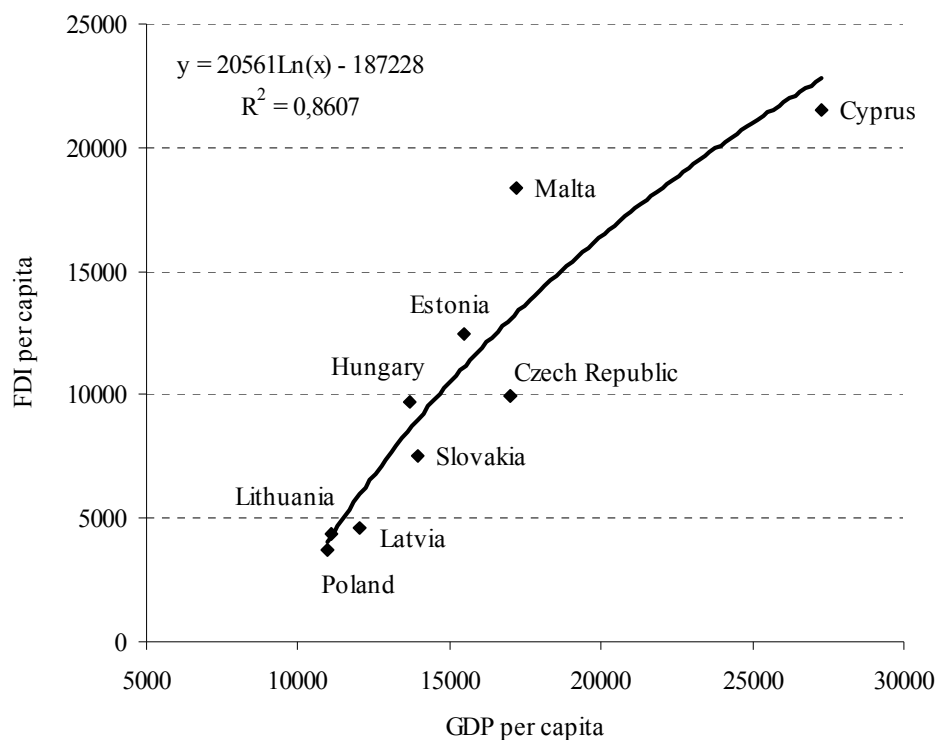


Fig. 1. FDI and economic development in new EU member countries, 2007
Source: compiled on the basis of UNCTAD data.

The relationship of development and FDI is demonstrated by the similarity of *per capita* GDP and *per capita* FDI. Outliers matter most in this case. Countries above the regression line have higher FDI stocks than the level of economic development would suggest. Among ten new EU members, Malta, Estonia, and Hungary have higher than average FDI stock/GDP. Negative outliers, Czech Republic, Latvia, Slovakia and Cyprus attracted less FDI than their development level would allow. Poland and Lithuania lie exactly on the regression line (Slovenia was eliminated as an untypical observation).

3. FDI Inward Stock in Poland, 1993-2004

According to a report issued by the Polish Information and Foreign Investment Agency, FDI inward stock in Poland on 31 December 2004 amounted to USD 84.48 billion. Investments exceeding USD 1 million accounted for 95% (USD 80.65 billion) of the total amount of FDI inward stock. The value of the capital invested by entities with the share of foreign capital below USD 1 million was estimated at USD 3.83 billion.

In 2004 total value of foreign capital inflow to Poland reached USD 7.86 billion and it was the highest figure reported since the year 2000, when the country received a record high

value of FDI inflow. The analysis of the structure of FDI inflow to Poland in 2004 confirms previous years observations that there is an increasing interest in greenfield investments. The share of greenfield investments in 2004 stood at 58% of total FDI inflow. This concerns both entrepreneurs who started their business in Poland in 2004, as well as those who reinvested their profits received in previous years in the form of greenfield investments.

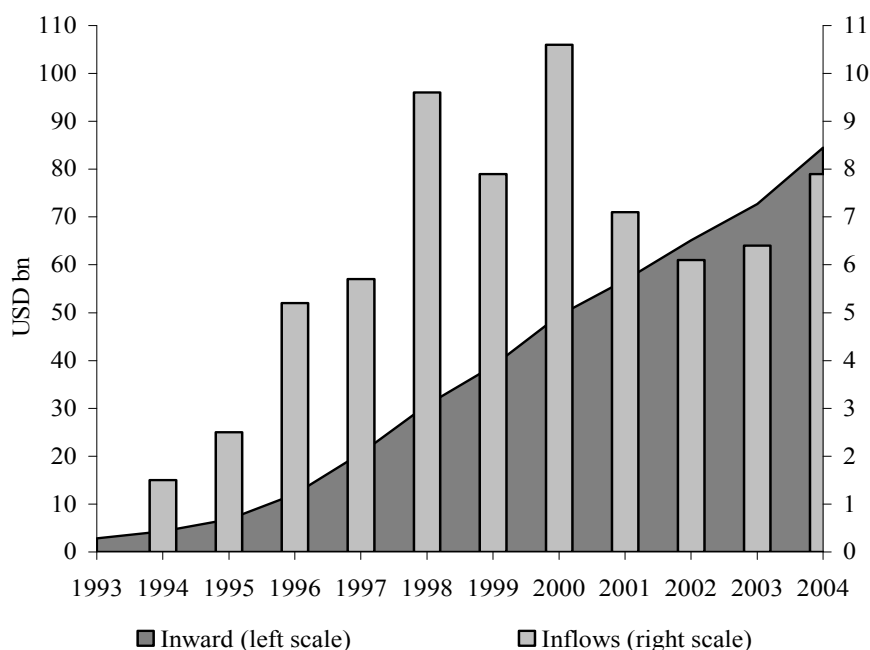


Fig. 2. Foreign direct investment in Poland, 1993-2004

Source: Table A1.

Privatization and M&As also have a significant share in the structure of foreign direct investments inflow. The former accounted for 17% and the latter for 25% of the total FDI inflow in 2004. In 2004 foreign investors created directly 14,800 new jobs in total. The investors also declared they would create roughly 13,000 more new jobs in 2005.

Foreign investors who invested in Poland at least USD 1 million come from 35 countries all over the world. The special group of investors comprises companies described as international corporations. This is the effect of on-going globalization processes and the related free flow of capital. As a result this foreign investment have transnational features and character and thus in many cases it is impossible to point at one country from which the capital originated. For this reason, many entrepreneurs described their shareholders as international corporations.

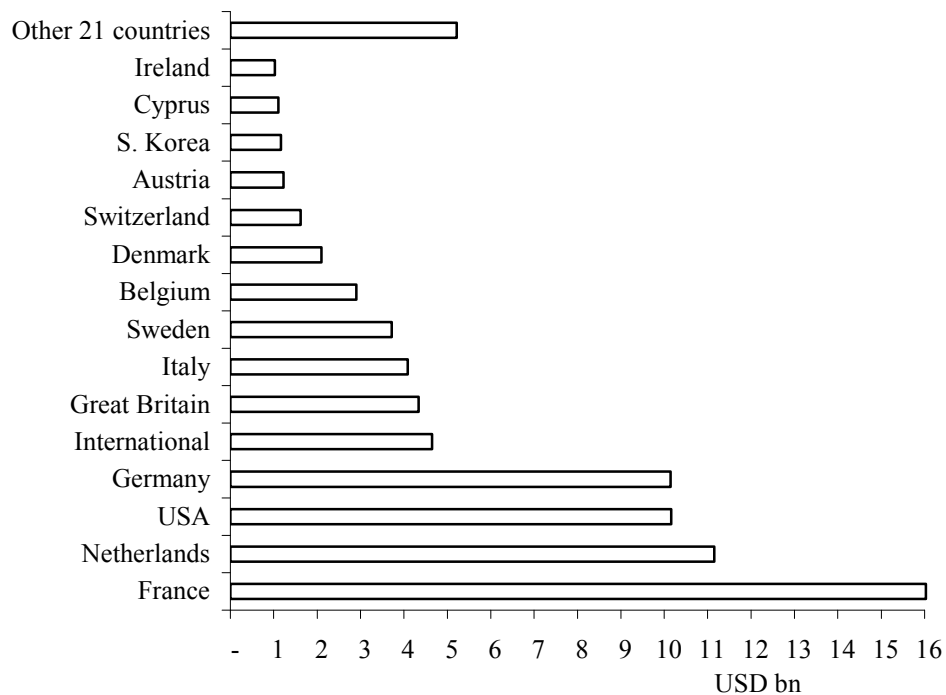


Fig. 3. FDI inward stock in Poland according to the investor's country of origin (31 December 2004)

Source: Table A2.

In terms of FDI inward stock, the “old” EU countries remain the largest group of foreign investors in Poland (they account for 60% of the total figure) with French companies being leaders in this group (20% of FDI inward stock in Poland). The second most important group comprises Dutch investors (14%), followed by American and German investors (12% each).

Foreign capital from four out of ten new EU member countries constitutes only 1.5% of the total amount. Among 1,101 investors, 55% come from only four countries: Germany (258), the Netherlands (126), USA (118) and France (101).

FDI inward stock in Poland with regard to the investor's country of origin is shown in Table A2.

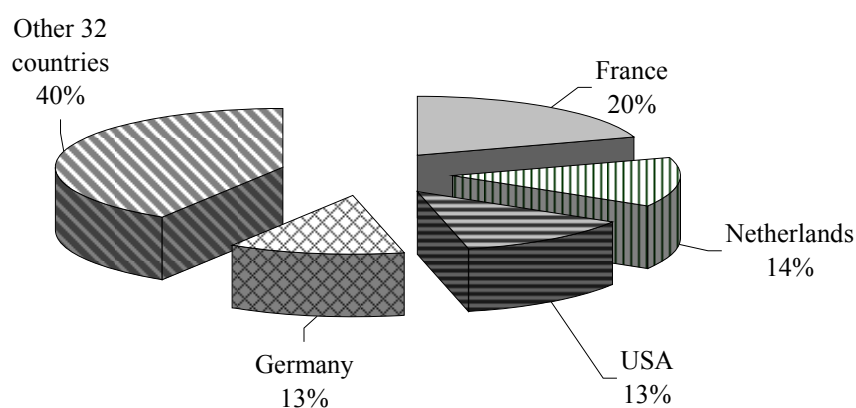


Fig. 4. Major foreign investors in Poland by the country of origin (as of 31 December 2004)
Source: Table A2.

Sector structure of FDI inward stock shows that manufacturing and financial intermediation sectors are dominating and attracted USD 32.2 billion (40%) and USD 18.8 billion (23%), respectively. The third most attractive sector for foreign investors is trade and repairs. Nearly 12% of FDI was allocated in this sector.

Another sector with significant importance to foreign investors includes transport, storage and communication (10%). The above-mentioned sectors of Polish economy attracted 85% of the total amount of foreign direct investments.

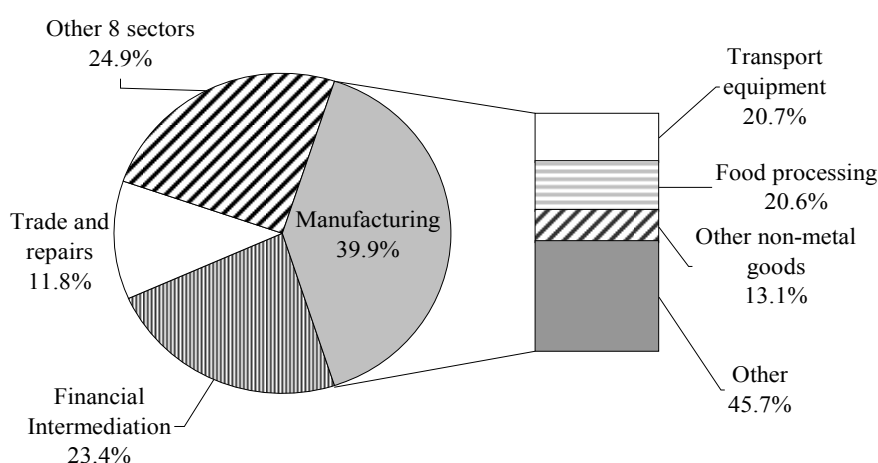


Fig. 5. FDI inward stock in Poland according to the sectors of Polish Classification of Activities, 2004
Source: Table A3.

Special stress should be put on the two manufacturing subsectors: transport equipment and food processing, which attracted most of the investments – 21% of total investments in the manufacturing sector each. Significant share in attracting foreign capital is owned also by the “other non-metal goods” subsector (its share in the total capital allocated in the manufacturing sector amounts to roughly 13%). FDI inward stock in Poland according to Polish Classification of Activities (PKD) is shown in Table A3.

At the end of 2004, there were 15 foreign companies which allocated in Poland more than USD 1 billion. Two biggest of them, France Telecom and EBRD, invested USD 4.5 bn and USD 4.0 bn, respectively. The third largest company was the Italian Fiat, its investment was estimated at USD 1.8 bn. The capital allocated by other major foreign investors ranged from USD 1.7 bn to USD 1.0 bn. Among major foreign investors’ activities, the dominant one is financial intermediation– in this sector of Polish economy, 5 out of 15 major investors allocated USD 9.5 bn. The list of companies whose investments exceeded USD 1 billion and sectors they are operating is presented in Table 1.

Table 1. Major foreign investors in Poland – investments exceeding 1 billion USD
(as of 31 December 2004)

Investor	Capital invested USD mln	Country of origin	Activity
France Telecom	4,470.4	France	Telecommunications
European Bank for Reconstruction and Development	4,000.0	International	Financial intermediation - banking, capital investment
Fiat	1,800.6	Italy	Transport equipment; financial intermediation, manufacturing of motor vehicles, life insurance, pension funding, non-life insurance, banking
KBC Bank N.V.	1,743.4	Belgium	Financial intermediation – banking, insurance
Metro Grup A.G.	1,508.0	Germany	Wholesale and retail trade
HVB	1,336.0	Germany	Financial intermediation – banking, other credit granting
Citigroup	1,300.0	USA	Financial intermediation – banking, other credit granting
Tesco Plc	1,300.0	United Kingdom	Wholesale and retail trade – retail sale in nonspecialized stores with food, beverages or tobacco predominating
Apollo-Rida Poland Llc.	1,300.0	USA	Construction, real estate and business activities - general construction of buildings and civil engineering works
Vivendi Universal	1,243.4	France	Transport, storage and communication; real estate, renting and business activities; wholesale and retail trade
United Pan Europe Communications N.V.	1,200.0	Netherlands	Social and personal service activities - radio and television activities
Uni Credito Italiano Sp. A.	1,200.0	Italy	Financial intermediation - banking

Kronospan Holdings Ltd.	1,061.8	Cyprus	Manufacture of wood and wooden products
Vattenfall AB	1,029.2	Sweden	production and distribution of electricity, steam and hot water supply
General Motors Corporation	1,010.0	USA	manufacture of motor vehicles

Source: *The List of Major Foreign Investors in Poland, December 2004*, PAliIZ (<http://www.paiz.pl>).

4. FDI Inflows to Poland in 2004

In 2004, USD 7,857.7 million of foreign capital was allocated in Poland by investors coming from 29 countries (including multinational corporations). The majority of that capital was invested by French investors who allocated USD 1.57 billion, which constituted roughly 20% of the total FDI inflow to Poland. They were followed by American enterprises, which invested USD 1.43 billion in 2004 (18% of the total FDI inflow). The third largest group of foreign investors comprised international corporations. Total value of investments made by those corporations amounted to USD 1.3 billion, which constituted 17% of the total FDI inflow to Poland. Investors representing the “old” EU countries accounted for 70% of the total FDI inflow to Poland. Apart from France, most of the capital was invested by German (USD 1.17 billion), Dutch (USD 987.1 million) and Swedish corporations (USD 437.5 million). In 2004 a higher interest of Asian investors in the Polish market was observed. Entrepreneurs from the Republic of Korea invested USD 202 million, while Japanese investors – USD 108 million. In 2004 investors from Finland allocated USD 122.1 million, which constituted 1.6% of the total FDI inflow to Poland.

The inflow of foreign direct investments to Poland according to the investor’s country of origin in 2004 (millions of USD) is presented in Table A4.

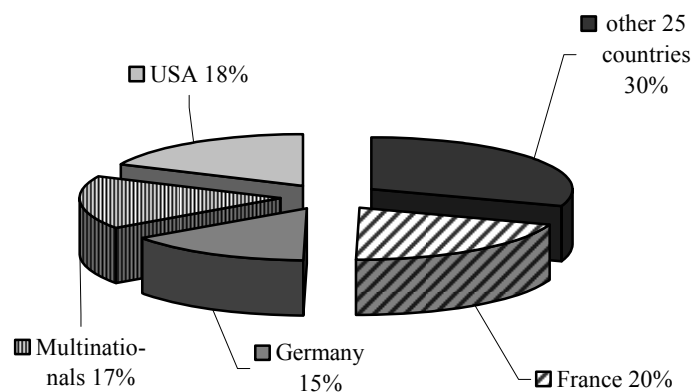


Fig. 6. Percentage share in total FDI inflow of foreign direct investment to Poland according to the investor's country of origin in 2004

Source: Table A4.

Sector structure of foreign direct investments in 2004 confirms that still the majority of investments is flowing into the manufacturing sectors of the Polish economy. In 2004 total inflow to this sector amounted to USD 3.25 billion, which constituted 41% of the total FDI inflow to the country.

- Special stress should be put on the automotive subsector, which received most of the investments – USD 703 million (9% of the total figure for 2004 and 22% of the manufacturing sector total).
- Entrepreneurs from the chemical and pharmaceutical subsectors are continuing their investments in Poland and in 2004 they allocated USD 486 million in the country. This constituted 7% of the total inflow of foreign capital to Poland in 2004 and 15% of the capital inflow to the manufacturing sector.
- The capital is also pouring into metals and metal products. This subsector attracted USD 468.5 million, which constituted 14% in the total inflow.

The three subsectors mentioned above attracted 50% of the total foreign capital invested in the manufacturing sector of Polish economy in 2004.

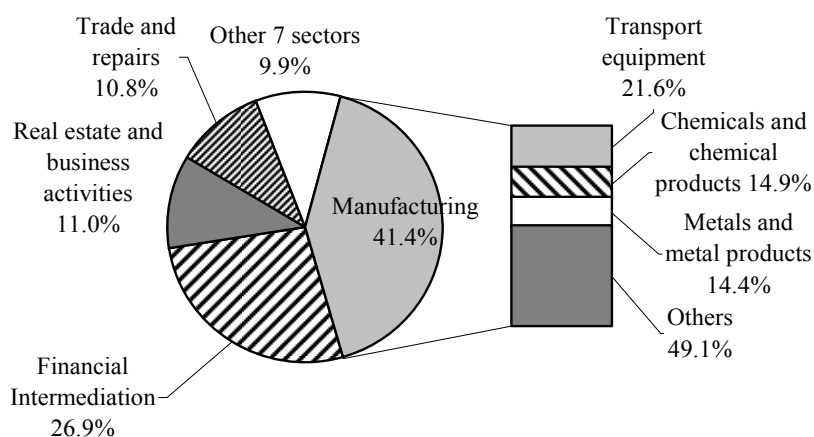


Fig. 7. FDI inflows to Poland in 2004 according to the sectors of Polish Classification of Activities

Source: Table A5.

The second most attractive sector for foreign investors is broadly understood financial intermediation. In 2004 investors allocated USD 2.1 billion in this sector, which constituted 27% of the total FDI inflow to Poland. Foreign direct investments were also flowing to the real estate sector and trade and repairs, the value of investments in these sectors is estimated at the level of USD 865.5 million and USD 848.5 million, respectively. Those sectors attracted roughly 90% of foreign capital invested in Poland in 2004. The inflow of foreign investment to Poland according to the sectors of Polish Classification of Activities (PKD) in the year 2004 is presented in Table A5.

Among 10 major investors in 2004 there were 5 companies from EU countries, as well as three Asian and two American enterprises. The American Apollo Rida was the biggest investor in 2004 in Poland, and its investment into real estate was estimated to USD 800 million. The second largest investor was France Telecom (USD 450 million) and the third - an Indian company LNM Holding N.V which invested USD 390 million into metallurgy.

Table 2. List of ten major foreign investors in Poland in 2004

Investor	Capital invested in 2004 USD mln	Country of origin	Activity
Apollo Rida	800	USA	Real estate
France Telecom	450	France	Telecommunications
LNH Holding N.V.	450	France	Metallurgy
BEG S.A.	356	France	Constructions
Vattenfall AB	305	Sweden	Power, gas and water supply
Toyota	220	Japan	Automotive
IVAX Corporation	210	USA	Pharmaceutics Production
Volkswagen AG	195	Germany	Automotive
KBC Bank N.V.	192	Belgium	Financial intermediation
LG Electronics	178	Republic of Korea	Electrical equipment manufacturing

Source: *The List Of Major Foreign Investors In Poland, December 2004*, PAIIZ (<http://www.paiz.pl>).

5. Special Economic Zones as a Regional Development-Supporting Instrument

To initiate development in regions which are particularly affected by the transition in Poland, an investment-supporting instrument of economic policy in the form of Special Economic Zones (SEZ) has been implemented.

A special economic zone is a designated area where manufacturing or distribution activities can be conducted on preferential terms. Special Economic Zones began their activity in 1993 and they were created to:

- accelerate the economic growth of Polish regions,
- develop and make use of the most modern technological solutions in national economy,
- increase the competitiveness of products and services,
- render post-industrial property and infrastructure,
- create new jobs.

Currently, there are 14 Special Economic Zones in Poland. Since 2001, new regulations on SEZs and public aid have been in force. Since January 1, 2001, entrepreneurs who had obtained a permit to conduct activities in SEZs, have been eligible for income tax exemption, which is regarded as a form of public aid⁶.

The aid can be granted only for supporting new investment or creation of new jobs related to the investment. The operations in SEZs have been considered as a form of regional aid.

Regional aid is aimed at the initiation of long-term development of the regions characterised by the GDP *per capita* level below 60% of the EU average.

The amount of that aid for individual regions is determined by various factors such as: unemployment, changes in its level and structure, GDP, demographic factors, condition of infrastructure.

The legal regulations concerning regional aid allow for the return of invested capital in the form of income tax exemptions in the maximum amount limited by the aid intensity indicator for given region and the limit of 50% of eligible costs for big enterprises, 55% for medium-sized⁷ and 65% for small enterprises⁸. The amount of regional aid for creation of new jobs is estimated on the basis of staff costs (gross salaries and salary-related costs borne within two years from the moment the number of jobs required by the exemption is created).

In general, the intensity of the aid granted on the majority of Poland's territory is 50%, except for:

- Kraków, Wrocław and the Gdańsk-Sopot-Gdynia Agglomeration: 40%,
- Warsaw and Poznań: 30%.

Appropriate regulations specify the following conditions for SEZ entrepreneurs to be entitled to benefit from regional aid:

- Investment of a minimum of EUR 100,000;
- Business activities related to that investment conducted for at least 5 years from the date the aid was granted;
- The newly created jobs maintained for at least 5 years (regional aid for employment).
- If the entrepreneur is a foreign entity, as defined by the Polish law, in order to purchase land in a SEZ they must obtain a permit from the Minister of Interior and Administration.

The income tax exemption is the most important incentive available in the SEZs. Nevertheless, the entrepreneurs can also benefit from other incentives, both tax-related and other. Forms of tax reliefs and other incentives to encourage investment in the SEZs are shown in the table below.

According to the end-December 2004 data, the total area of SEZs in Poland amounted to 6,529.3 ha. After 10 years of operations, the areas within the zones were developed in 55%.

679 permits for business operations in the area were granted, and employment reached 77,570, and as such was still far from the targeted 166,000.

Table 3. Forms of tax reliefs and incentives to encourage investment in the SEZs

Forms of relief and incentives		Characteristics	
Regional Aid	<p>The value of the aid cannot exceed the maximum intensity of aid for a given region of Poland, as stipulated in the public aid regulations. The intensity indicates the allowable share of regional aid in the costs (investment expenditure) that qualify the investor for being covered by such aid.</p> <p>The intensity of 50% means that, when investing in the zones, entrepreneurs may obtain aid in an amount not exceeding 50% of all eligible costs (investment expenditure). For small and medium enterprises the index is higher by 15 percentage points (i.e. 65% and 55% respectively).</p>	to support new investment projects	<p>The amount of regional aid for new investment projects depends on the amount, nature and structure of investment expenditure of a given enterprise. To determine the amount of regional aid for investment projects it is necessary to establish the level of qualifying costs on the basis of investment expenditure of a given enterprise.</p> <p>The qualifying costs include the following types of expenditure:</p> <ul style="list-style-type: none"> - purchase of land - expenditure on buildings and structures - expenditure on equipping the facilities with tangible assets (machinery and devices, tools and instruments, equipment for office work, technical infrastructure). <p>The qualifying costs may also include expenditure on the purchase of intangible assets, within the limits stipulated in respective regulations⁹.</p>
		for creation of new jobs	<p>The amount of regional aid allocated to job creation is calculated on the basis of two-years' costs of labour of newly employed staff borne by the entrepreneur, which consist of gross payroll costs and all mandatory charges relating to the employment¹⁰.</p>
Non-tax Incentives	Related to Investment Procedures in the SEZs	<p>These include in particular:</p> <ul style="list-style-type: none"> - Full preparation of the plot of land for a given investment project; - Preferential price for the plot of land; - The accelerated procedure for issuing a permit to purchase real estate (within 1 month); - Free-of-charge assistance in handling various formalities, actions and obligations. 	
	Related to Employment of New Employees	<p>There are various types of instruments (such as reimbursement of expenditures borne or in the form of a loan) aimed at supporting the hire of new employees.</p>	

Relief	in Real Estate Tax	The relief is of general nature (for a group of entrepreneurs meeting certain preconditions). Reliefs are granted by the local authorities,
	in Tax on Means of Transport	
	In Customs Duty	The Polish customs law offers numerous incentives for entrepreneurs, such as: - Customs duty exemptions; - Economic customs procedures; - Operations in duty free areas; - Facilitated payments; - Exemption from the obligation to place security for customs duty and tax liabilities.

Source: *Poland Special Economic Zones – a unique investment opportunity*, PAIiIZ, December, 2003.

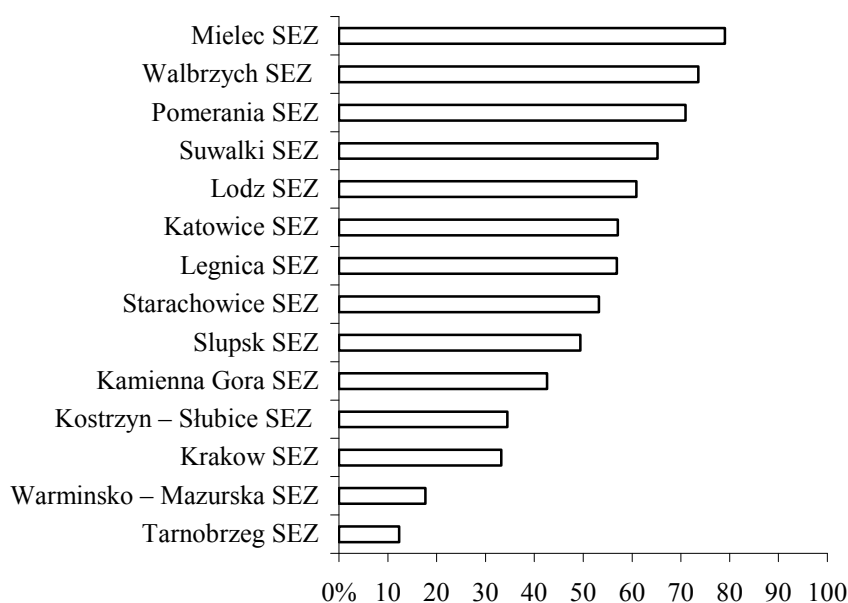


Fig. 8. Development of Special Economic Zones (as of 31.12.2004)

Source: Table A6.

The most active SEZs were: the Mielec SEZ (79% development of the area and employment 66% above the target), Walbrzych SEZ (74% development of the area and employment 80% above the target), and Pomerania SEZ (71% development of the area and employment nearly twice above the target). The biggest area (827 ha) belongs to the Katowice SEZ, where employment, at more than 17,000, is at also the highest level, which accounts for over 22% of the jobs created in Special Economic Zones.

Table 4. Total employment and investment in Special Economic Zones in Poland in 2004

SEZ	Total employment			Total amount of investment in PLN mln (31.12.2004)
	plan	actual 31.12.2004	execution of plan in %	
Mielec	7,000	11,588	166	2,240.5
Katowice	40,000	17,374	43	6,631.9
Suwalki	15,000	3,235	22	399.9
Lodz	10,000	3,061	31	1,191.7

Legnica	15,000	5,688	38	2,346.5
Walbrzych	6,000	10,786	180	3,263.3
Kamienna Góra	4,500	1,932	43	318.8
Kostrzyn-Słubice	9,000	1,753	20	784.3
Ślupsk	5,000	973	20	108.1
Starachowice	4,500	2,290	51	292.0
Tarnobrzeg	11,000	7,769	71	708.3
Pomerania	3,500	8,210	235	1,126.5
Warmisko-Mazurska	7,500	1,604	21	120.0
Krakow	4,500	1,307	29	395.4
Total	166,000	77,570	47	19,927.2

Source: Compiled on the basis of: E. Czerwińska: Specjalne Strefy Ekonomiczne w Polsce w świetle negocjacji z UE. Kancelaria Sejmu, Informacja No. 751a, XI.2001, p.3; *Specjalne strefy ekonomiczne stan na dzień 31 grudnia 2004 r.*, MG i P, Warszawa, March 2005, p.16-17.

Total amount of investment in SEZs reached nearly 20 billion PLN, of which 33% was located in the Katowice SEZ, more than 16% in Walbrzych SEZ, above 11% in Mielec and Legnica SEZs, each, and the remaining 28% - in the other 10 SEZs.

6. Foreign Investment in Special Economic Zones

According to the 2004 data, nearly 80% of the capital invested in SEZs was of foreign character and came mainly from five countries: 50% from the United States and Germany, 34% from Japan, Italy and Austria. The most numerous group of investors represented EU member countries.

American companies invested mainly in the Katowice SEZ (over 78% of total American FDI), and the German investors – in the Legnica SEZ (over 55%). The biggest investment made by Italian companies were located in the Katowice and Kostrzyn-Słubice SEZs. Austrian companies invested mostly in the Mielec SEZ, while the Japanese were interested mainly in the Walbrzych (85% of total Japanese FDI in SEZs) and Katowice (9%) Zones.

The least attractive Zones to foreign investors were the Suwalki and Słubice SEZs (below 20% of total investment), and the most attractive ones – the Kostrzyn-Słubice and Legnica Zones, which were the destinations of more than 90% of total investment¹¹.

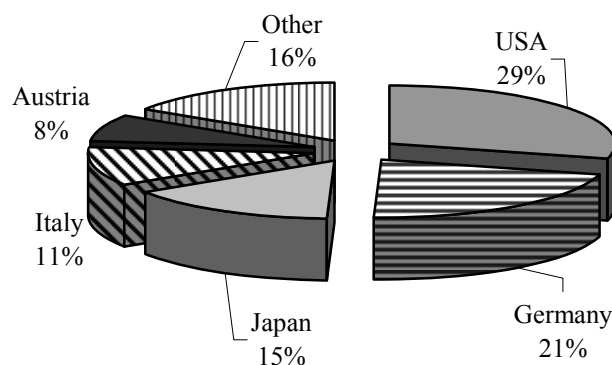


Fig. 9. Foreign capital in SEZs in Poland according to the investor's country of origin, 2004
Source: Table A7.

The dominant companies in the Zones comprised the companies representing the motor industry, mainly manufacturers of parts and components, which accounted for over 42% of the total investment in the SEZs. The paper industry and plastic processing had 9% shares, whereas metals and non-metal raw materials – a 7% share. Investors in the wood industry accounted for over 6% of FDI. The shares of other sectors did not exceed 6%.

Investment in the motor industry made by Opel, Isuzu, Powertrain, Toyota, Volkswagen, Sitach was located mainly in the Katowice, Walbrzych and Legnica Zones. The Mielec Zone was dominated by the wood industry (Kronowood), the Pomerania SEZ – by electronics (Flextronics, Philips), the Krakow and Kostrzyn-Slubice SEZs – by the paper industry and data drives (Donelli, Motorola)¹².

7. Conclusions and New Facts

The above analyses enable the following conclusions:

- Poland belonged to the economies which received the highest share of FDI inflow targeted at CEEC, but its FDI inward stock *per capita* was too low as related to its size in terms of the GDP *per capita* indicator. From this viewpoint, the Czech Republic, Hungary and Estonia left Poland far behind, and its situation was compared to that of Lithuania and Latvia;
- Foreign capital coming to Poland was represented by investors from more than 30 countries, the largest group comprised investors of EU-15 origin, of which mostly of French, Dutch and German origin – their share in the total FDI inward stock in Poland reached 50%;

- At the end of 2004, Poland hosted 1,101 foreign companies; each of them invested at least USD 1 million. Fifteen of those companies invested more than USD 1 billion and accounted for 30% of the total FDI inward stock in Poland (of which 10% was invested by France Telekom and European Bank for Reconstruction and Development);
- 75% of FDI is concentrated in three sectors of Polish economy: manufacturing (40%), financial intermediation (23%), trade and repairs (12%).
- In 2004 we were witnessing an accession-related 23% growth in the FDI inflow to Poland as compared to the preceding year, most of which had the form of greenfield projects (58%), takeovers (25%) and privatization (17%);
- The highest share in the 2004 investment (60%) had the investors from France, the United States, Germany and multinational corporations with the leader being the American Apollo Rida that invested USD 0.8 billion in the real estate sector;
- To encourage the Polish regions which were the most affected by the transition, 14 Special Economic Zones were established, which provide special incentives for business, e.g. tax exemptions;
- Ten years after their establishment, Special Economic Zones are developed only in 55%, and the gap between the most and least developed Zones is huge – 80% in the Mielec SEZ as compared to as little as 12% in the Tarnobrzeg Special Economic Zone;
- In 2004 nearly 80% of the capital invested in SEZs was foreign capital coming mainly from five countries: 50% from the United States and Germany, 34% from Japan, Italy and Austria. The most numerous group of investors represented EU member countries;
- Still, it should be stressed that the foreign capital invested in SEZs accounted for only 4.8% of the total FDI inward stock in 2004 in Poland.

To meet the 5% economic growth target, Poland requires approx. EUR 10 billion of annual FDI inflow. The analyses clearly indicate that the amount of FDI targeted at Poland in 1993 – 2004 was insufficient. Favourable conditions for investment are, therefore, of extreme importance, all the more so that the competition among new EU member states is really strong and the Poland's position as the FDI host country is instable. The situation is even more serious after the last EU enlargement in 2007 when Bulgaria and Romania joined EU.

As according to the National Bank's of Poland data, FDI inflow in 2005 was 23% lower than in 2004¹³.

In 2006 inflow of foreign direct investment to Poland amounted to EUR 15,061 million, up by 81.9%, when compared with EUR 8,280 million in 2005. In 2006, a phenomenon called "capital in transit" was recorded. It is a direct investment from abroad in a company seated in Poland, which reinvests the capital abroad. Capital which was "in transit" through Poland in 2006 amounts to EUR 3,114 million, i.e. 20.7% of the inflow (respectively in 2005, it was EUR 1,218 million, i.e. 14.7% of the inflow). As from 2006, buying and selling of real estate has also been included in the inflow. The amount of EUR 15,061 million comprises: ownership capital expenditure of direct investment enterprises (37%), reinvested earnings amounting to (29%), and the positive balance of inter-company loans standing (34%). The direct investment flows amounted to EUR 13,242, i.e. 87.9% were from the European Union countries, the rest – EUR 1,819 million from other countries. The largest amounts came from Luxemburg (EUR 3,573 million), Germany (EUR 2,707 million), Italy (EUR 1,353 million), Netherlands (EUR 1,303 million), United Kingdom (EUR 1,170 million) and Spain (EUR 1,125 million). The greatest amount of direct investment inflow in 2006 was invested in real estate and other business activities (33%), manufacturing (EUR 24%), trade and repairs (14%), financial intermediation (11%), and buying and selling of real estate by nonresidents (6%)¹⁴.

In 2007 the value of foreign direct investment inflow to Poland amounted to EUR 12,834 million, down by EUR 2,227 million, i.e. 14.8%, when compared with FDI amount in 2006. The amount of EUR 12,834 million comprises: ownership capital expenditure of direct investment enterprises (30%), reinvested earnings (42%), and the positive balance of inter-company loans (28%). Reinvested earnings were higher by 22.3% when compared with 2006. In 2007, capital for the purchase of shares in direct investment enterprises amounted to EUR 3,859 million and was lower by EUR 1,773 million, when compared with 2006 (i.e. down by 31.5%). The parallel situation occurred in inter-company loans, where its positive balance stood at EUR 3,645 million and was lower by EUR 1,426 million (i.e. down by 28.1%).

The greatest amount of direct investment inflow in 2007 was invested in manufacturing (20%), real estate and other business activities (19.8%), financial intermediation (15.3%) as well as trade and repairs (11.9%). It is estimated that in 2007 85.3% of direct investment flows were from European Union countries, mainly from France, Germany, Austria, Italy and Sweden. The most significant investment from outside the

European Union came from residents of United States of America, Netherlands Antilles, Republic of Korea (South Korea) and Japan¹⁵.

APPENDIX

Table A 1. Scale of foreign direct investment in Poland (USD bn)

FDI	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Inward stock	2.8	4.3	6.8	12.1	20.6	30.7	38.9	49.4	56.8	65.1	72.7	84.5
Inflows	n.a.	1.5	2.5	5.2	5.7	9.6	7.9	10.6	7.1	6.1	6.4	7.9

Source: PAIiZ 2005 (<http://www.paiz.pl>).Table A 2. FDI inward stock in Poland according to country of registration
(31 December 2004)

Country of registration	Number of investors	Capital invested (millions USD)	Country of registration	Number of investors	Capital invested (millions USD)
France	101	16,026.1	Greece	4	561.6
Netherlands	126	11,154.2	Spain	11	486.3
USA	118	10,163.7	Russia	3	409.1
Germany	258	10,149.5	Japan	18	362.3
International	14	4,648.7	Norway	14	345.2
Great Britain	56	4,337.2	Croatia	2	219.0
Italy	67	4,089.3	Canada	13	210.9
Sweden	60	3,715.2	Australia	3	159.5
Belgium	27	2,902.6	Turkey	4	100.1
Denemark	50	2,096.2	Czech Republic	5	75.0
Switzerland	28	1,617.5	Izrael	4	70.4
Austria	40	1,223.7	Slovenia	2	70.3
Republic of Korea	6	1,167.9	RSA	1	57.2
Cyprus	4	1,110.5	Hungary	4	55.8
Ireland	6	1,026.2	China	2	45.0
Portugal	4	678.4	Philippines	1	40.0
Luxemburg	19	673.0	Lichtenstein	5	16.9
Finland	20	578.5	Monako	1	6.8
Total					80 649.8
Investment exceeding USD 1 million					3 827.
Investment below USD 1 million					84 477.6
TOTAL					

Source: PAIiZ 2005 (<http://www.paiz.pl>).Table A 3. FDI inward stock in Poland according to the sectors of Polish
Classification of Activities (31.12.2004)

Polish Classification of Activities	Capital invested (mln USD)	Share (%)
Manufacturing	32,199.9	39.9
<i>Including (manufacturing = 100%):</i>		
<i>transport equipment</i>	6,663.6	20.7
<i>food processing</i>	6,624.8	20.6
<i>other non-metal goods</i>	4,205.5	13.1
<i>others</i>	14,706.0	45.7
Financial Intermediation	18,878.5	23.4
Trade and repairs	9,517.4	11.8
Transport, storage and communication	7,861.4	9.7
Power, gas and water supply	3,207.6	4.0
Real estate and business activities	2,952.7	3.7
Community, social and personal services (incl. media and entertainment)	2,732.2	3.4
Construction	2,110.1	2.6
Hotels and restaurants	885.3	1.1
Mining and quarrying	228.6	0.3
Agriculture	76.3	0.1
Investment exceeding 1 million USD	80,649.8	100.0
Estimated investments not exceeding 1 million USD	3,827.8	
Total	84,477.6	

Source: *The List Of Major Foreign Investors In Poland, December 2004*, PAIiZ (<http://www.paiz.pl>).

Table A 4. The inflow of foreign direct investment to Poland according to the country of registration of the investor in 2004

Country of registration	Value USD mln	Percentage share in total FDI	Country of registration	Value USD mln	Percentage share in total FDI
France	1,575.7	20.1	Spain	38.3	0.5
USA	1,428.1	18.2	Denmark	33.2	0.4
Multinationals	1,305.0	16.6	Czech Republic	13.7	0.2
Germany	1,175.1	15.0	Croatia	12.6	0.2
Netherlands	981.7	12.5	Portugal	10.0	0.1
Sweden	437.5	5.6	Slovenia	8.9	0.1
Belgium	413.8	5.3	Monaco	6.8	0.1
Italy	224.5	2.9	Ireland	5.2	0.1
United Kingdom	204.1	2.6	Cyprus	4.4	0.1
Republic of Korea	202.0	2.6	Australia	1.7	0.02
Austria	179.9	2.3	Greece	1.5	0.02
Finland	122.1	1.6	Lichtenstein	0.6	0.01
Japan	108.4	1.4	Norway	0.5	0.01
Luxembourg	104.5	1.3	Russia ¹⁶	-800.0	-10.2
Switzerland	57.9	0.7	TOTAL	7,857.7	100

Source: *The List Of Major Foreign Investors In Poland, December 2004*, PAIiIZ (<http://www.paiz.pl>).

Table A 5. The inflow of foreign investment to Poland according to the sectors of Polish Classification of Activities (PKD) in the year 2004

Polish Classification of Activities	Inflow in 2004 (USD mln)	Share (%)
Manufacturing	3,251.5	41.4
<i>Including (manufacturing = 100%):</i>		
<i>transport equipment</i>	703.0	21.6
<i>chemicals and chemical products</i>	485.9	14.9
<i>metals and metal products</i>	468.4	14.4
<i>others</i>	1,594.2	49.1
Financial Intermediation	2,115.2	26.9
Real estate and business activities	865.5	11.0
Trade and repairs	848.7	10.8
Construction	560.3	7.1
Power, gas and water supply	507.8	6.5
Agriculture	14.5	0.2
Hotels and restaurants	10.9	0.1
Community, social and personal services	3.8	0.05
Mining and quarrying	1.6	0.02
Transport, storage and communication	- 321.9	- 4.1
Total	7,857.7	100.0

Source: *The List Of Major Foreign Investors In Poland, December 2004*, PAIiIZ (<http://www.paiz.pl>).

Table A 6. Development of Special Economic Zones (31.12.2004)

SEZ	Number of permits	Area (ha)	Development (%)
Mielec	71	707.1	79.0
Katowice	106	1,118.8	57.1
Suwalki	67	288.1	65.2
Lodz	47	343.6	60.9
Legnica	39	416.7	56.9
Walbrzych	41	616.5	73.6
Kamienna Gora	24	241.2	42.6
Kostrzyn– Slubice	50	542.0	34.5
Slupsk	21	167.9	49.4
Starachowice	39	351.4	53.2
Tarnobrzeg	70	810.8	12.3
Pomerania	47	387.8	71.0
Warminsko– Mazurska	39	412.5	17.7
Krakow	18	121.9	33.2
Total	679	6,529.3	54.8

Source: *Specjalne strefy ekonomiczne stan na dzień 31.12.2004 r.*, MGiP, Warszawa, March 2005, p. 9-10.

Table A 7. Foreign capital in SEZs in Poland according to the country of the investor registration, 2004

Country of registration	Mln PLN	% Share	Country of registration	Mln PLN	% Share
Poland	4 279,896	21.48	South Korea	1,240	0.01
Austria	1 180,067	5.92	Germany	3 344,370	16.78
Belgium	82,301	0.41	Sweden	498,214	2.50
Czech Republic	14,278	0.07	Switzerland	39,600	0.20
Croatia	70,500	0.35	USA	4 550,010	22.83
Denmark	55,012	0.27	Italy	1 688,494	8.47
France	670,809	3.37	Great Britain	196,660	0.99
Greece	25,380	0.13	Ukraine	3,900	0.02
Netherlands	441,399	2.22	Taiwan	0,900	0.01
Spain	317,680	1.59	Lichtenstein	4,160	0.02
Japan	2 396,824	12.03	Other	1,570	0.01
Canada	63,738	0.32			

Source: *Specjalne strefy ekonomiczne, stan na dzień 31.12.2004 r.*, MGİP, Warszawa, March 2005, p.21.

Notes

¹ Organization for Economic Co-operation and Development. (Reprinted 1999). *OECD benchmark definition of foreign direct investment*, Third Edition (p.8).

² UNCTAD, <http://www.unctad.org>.

³ Poland's investment challenge. (2004). *The McKinsey Quarterly*. Vol. 3, www.mckinseyquarterly.com.

⁴ See Hunya (2000), p.3.

⁵ See MGİPS (2003).

⁶ The former legal regulations were contrary to Europe Agreement signed by Poland in 1991, which in article 63.1 does not allow "any public aid which affects or threatens the competition through favouring certain companies or production of certain goods". It was necessary then to adapt Polish legal regulations to those in force in the EU within so-called competitiveness policy even before Poland's accession to the EU structures.

⁷ *Medium-size enterprise* – employing between 50 and 250 people, net revenue in the preceding financial year did not exceed EUR 40 million or the total balance sheet assets did not exceed EUR 27 billion.

⁸ *Small enterprise* – employing less than 50 people, net revenue in the preceding financial year did not exceed EUR 7 million or the total balance sheet assets did not exceed EUR 5 billion.

⁹ *Example*: An entrepreneur plans to set up an enterprise in a SEZ with the intensity index of 50% and will obtain the permit in 2004. The total cost of the investment project will be USD 1,000,000, comprising expenditure on: 1) Purchase of land: USD 20,000; 2) Buildings and structures: USD 300,000; 3) Fixtures and fittings for new facilities: USD 680,000. The total amount of investment expenditure of USD 1,000,000 will be included in the qualifying costs and will constitute the basis for assessing the available public aid (tax exemption). Taking into consideration that the entrepreneur will locate the investment project in an area with the intensity index of 50%, they will be eligible for regional aid up to the amount of USD 500,000 (50% x USD 1 000,000), in the form of tax exemption. The amount of tax-exempt income is calculated as the amount of aid divided by the CIT rate. In this case, the amount of tax-exempt income will be about USD 2 631,579 (USD 500,000 / 19%).

¹⁰ *Example*: An entrepreneur plans to set up an enterprise in a SEZ with the aid intensity index of 50%, in which he/she plans to hire 100 employees. The entrepreneur will obtain a permit to conduct business activities in the SEZ in 2004. The cost of labour of the newly employed people over 2 years will amount to USD 1 000,000 (100 x USD 10,000). In this case, the entrepreneur will benefit from regional aid of maximum USD 500,000 (50% x USD 1 000,000) and the amount of tax exempt income will total about USD 2,631,579 (USD 500,000 / 19%).

¹¹ See MGİP (2005), p.21.

¹² See MGİP (2005), pp.18-19.

¹³ See <http://www.nbp.pl/publikacje/zib/zib2005notatka.pdf>.

¹⁴ See <http://www.nbp.pl/en/publikacje/ziben/ziben2006n.pdf>.

¹⁵ See <http://www.nbp.pl/en/publikacje/ziben/ziben2007n.pdf>.

¹⁶ The outflow of capital in 2004 resulted from the remittance of liabilities by entities with capital cross-ownership.

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