

Influence of FDI on Polish Economy

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1. OVERALL FDI INFLOWS IN POLAND DURING THE TRANSITION PERIOD

In Poland, the legal act regulating terms of operation of companies with foreign shareholding took effect much later than in the Czech Republic and Hungary, delaying inclusion of these entities in the privatisation process. Although, especially in the early 90s, foreign direct investments flew to Poland in lower volumes than to our competitors, with time, Poland managed to surpass them in terms of cumulated value of FDI. 13 years after introduction of economic reforms, Poland was the Central European leader in total value of FDI. It is worth adding that till 2002, Poland has attracted more than USD 61 billion, while by the year 1998 this value amounted to USD 30.7 billion, i.e.: 1.5 times more than in Hungary and almost 3 times more than in the Czech Republic. Moreover, it is worth mentioning that in terms of cumulated value of FDI, Poland outstripped the Czech economy in 1993, lagging behind Hungary for the next four years.

Fatherly, out of the countries compared, Poland is the only one to show positive growth rates of FDI in the whole period before 1998, while the Czech Republic experienced a decline in the years: 1993, 1996 and 1997. In case of Hungary, the negative FDI ratios were registered respectively in 1994, 1996 and 1998.

According to available data, the positive growth of FDI flows to Poland was reversed in 1999. The reasons for such a breakdown were of various natures, although the major responsibility was born by external determinants (the crisis in Russia), reduced re-investments of foreign companies, limited absorptive ability of Polish market (because

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of the implementation of 4 socio-economic reforms), and finally a slowdown of economic growth in Poland².

Table 1
FDI inflows to Poland in 1991 - 2000 (millions of USD)

Measure	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Cumulated FDI	369	1605	3224	4926	7788	14028	20587	30651	38951	49551*
Cumulated FDI per capita (USD)	10	42	84	128	202	363	533	794	675	1007
Cumulated FDI (% GDP)	0,47	1,90	3,75	5,32	6,54	10,42	15,17	19,66	n/a	n/a
FDI inflows	291	924	1300	1600	2500	6200	6600	10100	8300	10600
FDI inflows (% GDP)	0,38	1,09	1,48	1,72	2,10	4,63	4,85	6,92	n/a	n/a

Source: own study based on "World Investment Report 2001: Promoting Linkages", United Nations Conference on Trade and Development, UN, NY and Geneva, 2001, "Transition Report 2000" EBRD, *data for 1999,2000

*The figures for 2001 amounted to 56.698 and for 2002 – 62762millions USD (According to PAIZ)

By the year 1998, the cumulative FDI stock in CEE reached the level of USD 93 billion, out of which Poland, Hungary and the Czech Republic absorbed 33.1%, 24.2% and 9.7% respectively³. Such approach shows a strong position of Poland, however, in terms of per capita value it is the Czech Republic and Hungary⁴ to have an invariable advantage: USD 1447 and USD 1764 respectively, against USD 675 in Poland⁵. According to the statistics, the per capita value of FDI in Poland was calculated at USD 1007 in

² There is a connection between the growth rate and the volume of FDI flows. According to estimations made, a 1% growth of GDP complies with a 3-4% increase in FDI flows, although in Poland this phenomenon has more indirect influence, compare: D. Miłaszewska, „Wybrane aspekty wpływu zagranicznych inwestycji bezpośrednich na polską gospodarkę”, Uniwersytet Szczeciński, 2000

³ Comparing the data with statistics concerning the year 2000 published by Nowe Źycie Gospodarcze, the share of Poland, the Czech Republic and Hungary in cumulative stock of FDI to CEE accounted for 36%, 21%, and 20% respectively, compare: G. Garlińska, „Umieć się pokazać”, Nowe Źycie Gospodarcze, No 20/ 312, 21 November 2001 and „World Investment Report 2001, UNCTAD

⁴ With relatively lower demographic potential

⁵ The data concern 1999, order of classification remained the same in 1998

2000 and in 2002 – 1275 USD. It does not change the order of classification, locating Poland after both Hungary (USD 1900) and the Czech Republic (USD 1752), although a considerable improvement can be noticed.

Growing inflows of FDI in Poland were driven by many determinants but the following are assumed to be major: political and economic stabilization, improved overall business climate, size of the market and perspectives for its development. Owing to the positive influence of these factors on the perception of Poland as a potential investment location, the share of FDI (both stock and flows) in GDP was gradually increasing, what reflects a growing role of the investments in the Polish economy. In 1998, inflows of FDI to Poland accounted for 7% of GDP (the highest out of the countries considered), while in 1991 – for merely 0.38%. The share of FDI stock in GDP increased over the same period from 0.47% to 19.66%, remaining lower than in Hungary (42.2%) and the Czech Republic (20.0%). Table 2. presents a synthetic illustration of Poland's position against the countries compared in terms of various measures of FDI in 1998⁶.

Table 2
Ranking of Poland, the Czech Republic and Hungary, various breakdown, 1998

Criterion	Position in the analysed group, 1998		
	First	Second	Third
Cumulated FDI	Poland (30 651)	Hungary (19 700)	The Czech Republic (10 901)
Cumulated FDI per capita (USD)	Hungary (1950)	The Czech Republic (1058)	Poland (794)
Cumulated FDI (% GDP)	Hungary (42,2)	The Czech Republic (20,2)	Poland (19,66)
FDI inflows	Poland (10 100)	The Czech Republic (2540)	Hungary (1900)
FDI inflows (% GDP)	Poland (6,92)	The Czech Republic (4,69)	Hungary (4,07)

Source: A.Szymaniak: *Kapitał zagraniczny w Polsce. Uwarunkowania napływu i działalności*, Uniwersytet im.A.Mickiewicza, Poznań 2001, p.63

In defiance to some predictions, the year 2000 turned out to be record-breaking in terms of the FDI inflows, which were registered at the level of USD 10.6 billion. Taking under consideration that they grew by USD 8.3 billion the year before, it is

⁶ The most current and comparable (coherent sources) data have been collected for the year 1998 for all three compared countries

apparent that the two years of significant inflows additionally strengthened Poland's leading position in CEE in this respect. It is worth emphasizing that the amazing result of 2000 was achieved, among all, thanks to privatisation of large companies, such as Telekomunikacja Polska S.A.⁷. Similarly to the Czech Republic and Hungary, there is however a justified ground for concern since the completion of privatisation in Poland might cause a decline in FDI inflows⁸. Unfortunately, the year 2001⁹ with approximately USD 7 billion of new FDI and the year 2002 with about 6 billion USD appeared to be the initiation of a gradual slowdown in investment activities of new foreign companies. This, in turn, implicates the necessity of identifying possible reasons for the reduced interest in Poland as a potential investment target. The following aspects can be indicated in that respect:

- a) Worldwide tendency towards reduction of transnational capital flows under growing uncertainty and deteriorated economic climate,
- b) Forthcoming completion of privatisation process and in consequence, lower attractiveness of privatisation offers left,
- c) Decline in GDP and unfavourable changes in regulations concerning Special Economic Zones (SEZ).

2. FDI IN POLAND - BREAKDOWN BY COUNTRIES OF ORIGIN

According to the PAIZ's data, foreign companies have invested more than USD 62,7 billion over the last 13 years (including the estimated value of FDI lower than USD 1 million). Taking into consideration the inward stock of the investments made over the last decade, the club of major foreign investors consists of: the French, the American, the German and the Dutch, whose investments totalled at the end of 2002: USD 12,1 billion, USD 8,7 billion, USD 7,8 billion and USD 5,8 billion respectively. Furthermore, the highest number of investors operating in Poland comes from the same countries: 231 companies from Germany, 130 from the US, 93 from France and 91 from the

⁷ It was the most expensive privatisation transaction in Poland: France Telecom paid USD 3.2 billion for Telekomunikacja Polska S.A.

⁸ According to „Transition Report 2000. Employment, skills and transition”, EBRD, the degree of privatising Polish economy is estimated at 70%, while in case of the Czech Republic and Hungary at 80%.

⁹ Data have been cited from the article: J. Brzozowski, „Zagraniczny kapitał napływa gdzie chce”, BOSS Gospodarka, No 3 (418), 19 January 2002.

Nederland. The subsequent positions in terms of total investments made belong accordingly to Italian capital (USD 3,7 billion) and international organizations (USD 3 billion). Investors from Great Britain, Sweden, Korea and Russia complete the top ten ranking.

Moreover, the analysis of the data included in Table 3 allows to draw several conclusions, namely:

- FDI inflows are comparatively diverse in terms of origin of capital but investors from the OECD have a 91.0% share in cumulative value of FDI located in Poland, which corresponds to more than USD 55 billion¹⁰,
- The majority of foreign investments is invariably made by the capital from the EU: approximately 67% of the total stock corresponding to USD 41 billion,
- North American investors channelled 14,5% of the FDI stock to Poland what equals USD 9 billion, while the investments made by the Asian countries constituted 5.1% of the value,
- The top of the most active foreign investors in Poland have not experienced any serious changes over the analysed period (1991-2002), following only slight reshuffles in positions of the classification,
- It has been observed that FDI in Poland are strongly dependent from privatisation; changes in Table 3 take place each year in consequence of privatisation transactions¹¹.

¹⁰ <http://www.paiz.gov.pl> and "Zagraniczne inwestycje w Polsce w 2000 roku", Biuletyn Departamentu Statystyki NBP, Warsaw 2001

¹¹ According to the PAIZ's data, about 35.5% of all foreign investments in 2000 resulted from privatisation of Polish enterprises

Table 3
**Foreign investors in Poland according to inward stock in 2000,
 volume and % structure of FDI in 1998**

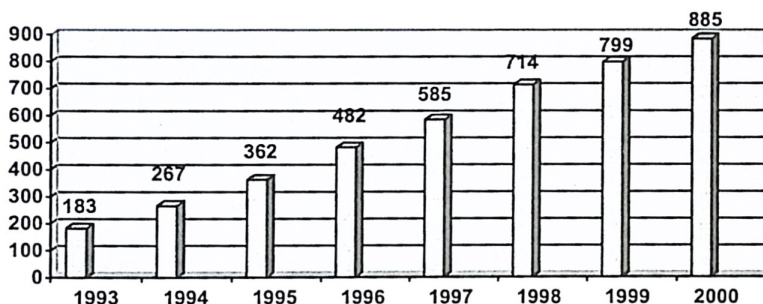
Country of origin	2002		1998		
	Position according to total investment stock	Cumulated value of FDI	Cumulated value of FDI	Position according to total investment stock	Structure %
France	1	12172,1	2398,9	3	8,8
USA	2	8736,1	4911,2	2	18,0
Germany	3	7841,1	5117,3	1	18,8
Holland	4	5846,1	1878,9	6	6,9
Italy	5	3696,2	2037,6	4	7,5
International organizations	8	2496,7	1813,1	7	6,6
Great Britain	6	4051,8	1929,5	5	7,1
Sweden	7	2788,9	691,5	11	2,5
Korea	11	1465,4	1412,4	8	5,2
Russia	12	1323,2	958,0	9	3,5
Austria	16	795,1	758,3	10	2,8
Ireland	13	1059,7	226,1	16	0,8
Switzerland	15	925,5	666,2	12	2,4
Denmark	9	1839,2	558,4	13	2,0
Belgium	10	1645,5	156,8	19	0,6
Greece	19	558,5	3,6	33	0,01
Norway	23	304,3	455,8	14	1,7
Japan	21	351,8	198,3	17	0,7
Spain	17	592,2	62,3	24	0,23
Portugal	18	560,2	147,2	20	0,5
Finland	20	405,6	191,2	18	0,7
Canada	22	314,2	235,6	15	0,9
Croatia	24	173,0	138,0	21	0,5
Turkey	26	100,1	48,0	25	0,18
Israel	27	70,4	5,4	33	0,02
Australia	31	28,5	98,1	22	0,4
The Czech Republic	28	60,7	68,4	23	0,3
China	30	45,0	25,0	27	0,09
RSA	33	25,0	25,0	28	0,09
Liechtenstein	34	14,4	29,5	26	0,11
Luxembourg	25	143,3	2,3	34	0,01
Slovenia	32	10,0	6,0	30	0,02
Cyprus	14	998,9	Unclassified		
Taiwan	35	5,7	5,7	31	0,02
Malta	Unclassified	1,0	Unclassified		
Hong Kong	Unclassified		20,0	29	0,07
Total investments exceeding USD 1 million		61447,4	27279,6		
Estimated investments below USD 1 million		3667,2	3371,6		
Total		65114,4	30651,2		

Source: PAIZ's Research Departmentu and K. Przybylska, „Determinanty zagranicznych inwestycji bezpośrednich w ESW”..., op. cit., pp. 42

3. MAJOR FOREIGN INVESTORS IN POLAND

The list of major foreign investors (covering only investments exceeding USD 1 million) published by the PAIZ in 2002 consists of 975 companies (including 127 new ones) from 35 countries, against 799 from 35 countries at the end of 1999, 714 from 34 countries in 1998 and 585 from 30 countries a year earlier. It is noticeable that the number of investing corporations follows a systematic growth. Growing attractiveness of Poland is reflected in a much more forcible way by comparison of current number of foreign investors with only 192 entities operating in Poland in the first year of the PAIZ's publication.

Figure 1
Number of foreign investors operating in Poland, 1993 - 2000



Source: Polish Agency for Foreign Investments, www.paiz.gov.pl

While analysing the database of major individual foreign investors¹² in a period 1998-2000/2001, significant changes in the classification registered every year are visible. From the comparison of the top ten investors in 1999 and 1998, it can be noticed that four new companies joined the group, namely:

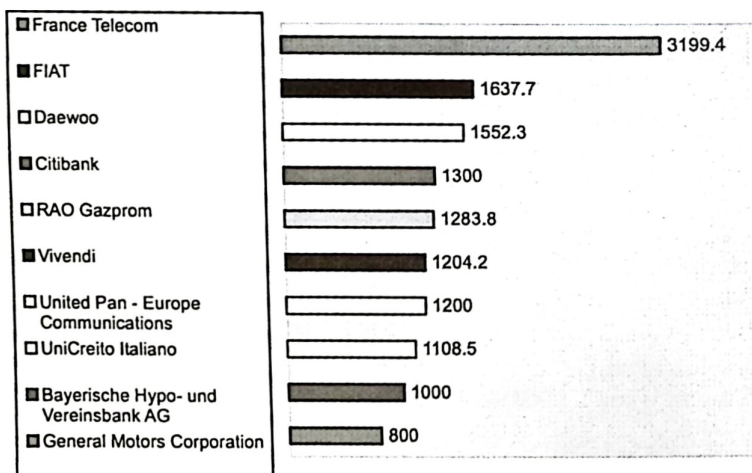
- French Vivendi: got possession of shares of Electrim Telekomunikacja,
- Dutch United Pan - Europe Communications: purchased a stock in digital platform Wizja TV and the Polish Cable TV,

¹² criterion - cumulated value of FDI

- Irish Allied Bank Pic: owner of shares of Bank Zachodni and Wielkopolski Bank Kredytowy
- International Corporation Eureco B. V.

It is worth adding that over the analysed period, Daewoo Corporation took the leading position, surpassing the previous leader - FIAT, currently ranked 2nd. In the year 2000 (Figure 2), France Telecom was classified 1st thanks to its investment of more than USD 3 billion in privatisation of Telekomunikacja Polska S.A. FIAT managed to hold the second position by expanding own capital involvement to USD 1.6 billion and channelling investments to banking and insurance sectors, apart from automotive industry. The third, in turn, appeared to be Daewoo Corporation, which did not enlarge own investments (at USD 1.5 billion), wrestling with financial difficulties. As compared with 1999, Citibank, which invested USD 1.3 billion and became a major shareholder of Bank Handlowy S.A., expanded the leaders' club. The subsequent positions belonged to: Russian GAZPROM, Vivendi and United Pan -Europe Communications to be supplemented by investments of Unicredito Italiano, Bayerische Hypo- und Vereinsbank AG and General Motors.

Figure 2
Major foreign investors in Poland, section according to FDI stock, 30 June 2001
(millions of USD)



Source: PAIZ and "Businessweek" No 1(118), January 2002

4. INFLUENCE OF FDI ON POLISH ECONOMY - BROAD EFFECTS

The measure of macroeconomic effects resulting from the involvement of FDI in Polish economy is a share of the investments in creation of GDP. It can be observed that since 1990, both the FDI inflows and stock have been gradually increasing in relation to GDP (compare: Table 1.), what forcibly points at a growing position of foreign long-term capital in a development of Polish economy. It is worth underlying that GDP goes up accordingly to an increase in FDI flows, however, provided foreign capital does not squeeze out local competitors¹³. It should be also taken into account that although FDI have a long-term character, it does not mean that the capital invested does not make sudden decisions about a radical withdrawal from a host market. According to the estimations made¹⁴, the share of companies with foreign shareholding in Polish reached the level of 33% in 1999, against 29% in 1998, 23% in 1997, 19% in 1996 and 13 in 1994. In the year 2000, the share amounted to 37-38% thanks to record-breaking inflows of FDI. In 2002 it was about 33 per cent. Along with a growing share of foreign companies, the scale of their economic influences on Polish economy increases as well.

Naturally, the influence of FDI goes far beyond the benefits resulting from sales of privatised enterprises or benefits from the exports of locally made products. In the opinion of scientists from the Institute for Research over Market Economy, there are four principal characteristics of a direct influence of FDI on a host country, namely: higher level of investments, production, demand and economic effectiveness, with indirect effects such as: improvement of credibility of a country at international arena, increase in national income and budget revenues or significant upgrade of infrastructure.

5. FINANCIAL INDICATORS ACHIEVED BY COMPANIES WITH FOREIGN CAPITAL SHARE

Constantly increasing share of foreign companies in total revenues of all entities proves a growing relevance of these companies in Polish economy. In 2002, the revenues

¹³ GDP is a measure of production generated by production factors localised on the territory of a certain country, regardless of investors' origin.

¹⁴ The following categories were analysed: number of operating foreign entities, scale of employment generated by them, their revenues from overall activities and exports, investment outlays, fixed assets and circulating capital, own and external capitals

generated from an entirety of operation of companies with foreign shareholding accounted for 31.6% of total revenues registered by the entities, which prepared their statistical reports, against the data concerning preceding years: 26.8% in 1998, 20% in 1997 or 12.4% in 1994. It is worth emphasizing that the main source of these revenues has been irreversibly the sales of goods and services in the local market.

While analysing the list of the biggest 500 companies operating in Poland ('List of 500'¹⁵, 2001), it can be observed that the total revenues of foreign companies included in the classification are almost equal to the revenues generated by companies with an exclusive Polish ownership. Authors of the report also point at a 19% increase of the revenues of wholly foreign companies in comparison to 2000 and the fact that their gross profitability¹⁶ went up by more than a half (from 1.8 to 2.8%). The analysis of data included in Table 4. allows for the following conclusion: any degree of foreign capital participation in enterprises covered by the report has a positive influence on the scale of revenues, gross profitability and the volume of investments made.

As far as net profitability is concerned, there is a visible advantage of companies with foreign shareholding again: in 2002, the index for all the entities was registered at 0.1%, while in case of foreign companies it achieved the level of 0.7%.

Table 4
Influence of the kind of ownership on operation and economic results of the companies from the 'List 5000', 2001

Ownership	Average value of revenues per one company		Gross profitability (%)	Relation of investments to revenues (%)
	In millions of PLZ	Change against 2000 (%)		
Wholly state-owned	1595	6,9	0,5	5,7
With a state controlling share	2535	6,4	2,3	4,9
With Polish private capital exclusively	549	10,1	2,1	4,7
With a controlling share of Polish private capital	718	-3,7	3,3	9,7
With foreign capital exclusively	745	18,9	2,8	13,3
With a foreign majority shareholding	1532	4,4	3,0	14,8

Source: 'List of 500. The biggest companies in Poland', supplement to 'Rzeczpospolita', 8 May 2002

¹⁵ 'List of 500. The biggest companies in Poland' - classification according to sales revenues, supplement to 'Rzeczpospolita', 8 May 2002

¹⁶ Gross profitability - relation of gross profits to sales revenues, it is not affected by differentiated tax influence of individual companies, as it is the case of net profitability

It is worth also noticing that over the period of 1994-2002, there was a significant growth of foreign companies' share in the profits achieved from a strictly production operation in Poland. In 1994, the share amounted to merely 2.4% to achieve the level of 66.0% eight years later¹⁷.

In 2001, the percentage of enterprises revealing their net profits was still lower among companies with foreign shareholding (55%) than in companies with an exclusive Polish ownership (68%). However¹⁸ there has been an absolute and relative improvement of financial indicators in companies with foreign shareholding, what, in defiance to the general opinions, implicates an increase in funds collected by the budget from taxes¹⁹. Breakdown of the most profitable companies with foreign controlling share from the 'List of 500', (Table 5) does not confirm the opinion about a mass transfer of profits made by the companies. If foreign companies were to follow such practises on a large scale, it would be impossible for them to be in the lead in terms of gross profitability. If, however, they do transfer profits and despite of that they still generate the highest profitably, it is the symptom of their better effectiveness in allocation and utilisation of resources, which is definitely to the advantage of Polish economy.

¹⁷ The Vienna Institute for International Economic Studies (WHW) Research Reports, No. 268, 2000 in: T. Pakulska, M. Poniatowska - Jaksch, "Bezpośrednie inwestycje zagraniczne w krajach ECEW", Instytut Funkcjonowania Gospodarki Narodowej, SGH, Warsaw 2001, pp. 51

¹⁸ Director of IKiCHZ

¹⁹ The literature indicates that unfavourable phenomenon of profit transfers was especially intensive in the beginnings of operation of foreign entities in Poland, while it has been reduced recently: long operation in the market with constant losses revealed raises suspicions of fiscal authorities, although on the initiation of operation it could have been justified

Table 5
Economic indicators of companies with foreign controlling share from the, List of 500' - classification according to gross profitability, 2001

No	Position on the 'List of 500'	Enterprise	Gross profitability index (%)**	Income tax (in thousands of PLZ)
1.	421.	BNP Paribas Bank Polska S.A., Warsaw	23,68	17440,0
2.	249.	Wrigley Poland Sp. z o. o., Poznan	22,38	34 904,0
3.	42.	Kompania piwowarska S.A., Poznan	21,36	161 799,0
4.	137.	AIG Amplico Life S.A., Warsaw	19,45	69 487,0
5.	7.	Bank Pekao S.A., Warsaw	18,76	499 384,0
6.	71.	International Paper - Kwidzyn S.A., Kwidzyn	18,30	0,0
7.	222.	Avon Cosmetics Polska Sp. z o.o., Warsaw	19,16	3614,4
8.	426.	Pilkington Sandoglass Sp. zo.o., Sandomierz	17,30	1098,1
9.	300.	ABN Amro Bank (Polska) S.A., Warsaw	16,69	215 408,7
10.	463.	PTE Commercial Union S.A., Warsaw	16,04	0,0

Source: 'List of 500. The biggest companies in Poland', supplement to 'Rzeczpospolita', 8 May

**Gross profitability index from the 'List of 500' in 1992-2000: max: 41,57 (PERN Przyjaźń - the monopolist), min: -39,96, average: 2,08

It must be emphasised that the above data concern only the companies with a majority foreign shareholding from the 'List of 500', what prevents from generalization and treating the problems of profit transfers and manipulations with transfer prices as inexistent. The data prove, however, that such practices do not have a mass character, as it is often described by some press publications. It is worth emphasising that Poland has not completely worked out the mechanisms enabling better control over the companies suspected of transferring profits. The assessment of this phenomenon remains difficult, since the capital linkages are precisely organised and make it difficult to call the transfers into question.

6. INVESTMENT ACTIVITY OF COMPANIES WITH FOREIGN SHAREHOLDING IN POLAND

In the early phase of economic structural reshaping in Poland, access to external capital markets was significantly limited and highly difficult in practice. In addition to the funds made available by foreign creditors and international financial institutions,

foreign direct investments played an important role in financing development of market mechanisms, although their flows and dynamic remained unsatisfactory.

In 1990, the participation of foreign capital in total investment outlays amounted to only 2.2% (small investors excluded) to rise in 1993 to 3.3%, in 1994 to the level of 8.5% and account for almost 13% a year later.

Table 6
Investment activity of companies with foreign shareholding in 1990-2000

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Share of FDI in total investment outlays (%)	2,2	2,8	3,1	3,3	8,5	12,9	20,4	19,4	25,1	28,2	30,1
Rate of changes of investment outlays in Polish economy (constant prices, previous year = 1)*	-10,1	-4,1	0,4	2,3	8,1	17,1	19,2	22,2	15,3	5,9	2,2

Source: own calculations based on Central Statistical Office and PAIZ,

*Nowe Życie Gospodarcze, No 8/300, 22 April 2001

As Table 6 shows, the growing share of FDI in total investment expenditures is more noticeable in subsequent years of the analysis. 2002 it amounted to 34 per cent. Despite the dominant approach of satisfying mainly the local demand, what is in any case dependent from the government's policy towards foreign investors, it is impossible not to appreciate the growing activity of foreign capital in Poland.

Relation of investment outlays to the fixed assets of companies with foreign shareholding amounted to 32 per cent²⁰ in 2002 (in sections: processing industry and financial intermediaries) with almost the third part channelled on brand new buildings, including Greenfield investments of 24%²¹. Higher propensity to undertake investments characterises companies with various level of foreign shareholding from the 'List of 500', which is also presented in Table 4.

Investment activity of foreign capital is regarded as an important stimulus for growth and economic development of a host country, constituting serious replenishment of domestic investment funds. Entrance of foreign investor into sectors or enterprises crucial to economy or region, activates a multiplier mechanism (in

²⁰ Exceeding significantly the average of 8.6%

²¹ P. Glikman, "Kontrowersje wokół kapitału zagranicznego w Polsce", *Gospodarka Narodowa*, No. 11 - 12/ 2000, Year XI, SGH, June 2001, pp. 65

simplification) by creation of new jobs, new volume of incomes and an increase in demand.

It is worth pointing out here that regardless of the current situation of Polish economy, low level of domestic investments remains its main long-term problem. Nowadays, about 24% of GDP is invested in Poland, what does not constitute the level sufficient for quick development of production potential in order to assist the growth of GDP at the desirable level of 5-6%, all the more that the scale of domestic savings remains close to 20% of GDP²².

Such a dynamic investment activity of foreign capital is a natural consequence of establishment of new companies and a replacement of production machinery in taken-over enterprises. Therefore, foreign investments play a considerable role in technological reshaping and modernization of Polish economy.

Growing propensity of companies with foreign shareholding to undertake investments in Poland leads to strengthening their role in economic development of the country, as well as in the adopted restructuring processes. It should be taken into account that the condition and structure of fixed assets are one of the basic factors determining productivity and the level of unit labour costs, which influences also the degree of modernity and competitiveness of Polish economy. Therefore, the increase of FDI in the base of fixed assets from the level of 8.9% in 1994 to 32 per cent in 2002 should be perceived positively. It is worth adding that at the end of 1999 the value of fixed assets in companies with foreign shareholding amounted to PLZ 125.3 billion, including PLZ 62.4 billion in industry.

7. ENTITIES WITH FOREIGN CAPITAL SHARE AND POLISH FOREIGN TRADE

Competitive position of economy refers mainly to its participation in international exchange, while any reshuffling of this position follows the changes in the role and terms of this country's share in the exchange. Foreign direct investments have an important influence on balance of trade and financial equilibrium of a host country.

Influence of FDI on the balance of trade can manifest itself in:

- The burden put on balance of trade owing to an increased supplying imports and imports of capital goods,
- Creation of exports, what may balance the increased imports,

²² W. Orłowski, "Nie lekarstwo, ale kuracja", *Rzeczpospolita* No 9 (6086), 11 January 2002, pp. A8

- Substitution of the import, which may positively influence the balance of trade.

Foreign companies, especially transnational corporations, are characterised by a generally higher share in exports and imports than in the total value of a host country's production. It results from the concentration of these entities in trade intensive sectors and from their higher propensity to foreign trade than this of domestic companies²³. It is also a natural consequence of the TNCs' advantage in access to information and their broader experience in operating globally, as well as their specialization in intra-trade of semi-processed goods among the headquarters and subsidiaries.

In Poland, companies with foreign shareholding present a significant involvement in foreign trade, revealing higher propensity to both exports and imports than Polish enterprises. In the year 2002, in comparison to 1995, companies with foreign shareholding strengthened their position in Polish exports, what can be confirmed by an increase in their share in the total exports from 24.4% to 56.2% respectively (in the earlier period the share had grown from 10.0% in 1992 to 17.7% in 1994)²⁴. As far as the imports of these companies is concerned, it can be observed that its share in the total imports decreased from 55.8% in 1999 to 54.2% in 2002²⁵, although in comparison with 1995 and 1996, when the share amounted to 42.4% and 47.7% a considerable increase can be observed²⁶. It is worth emphasising here that the dynamic of foreign companies' exports was almost eight times higher than of their imports, which was partially caused by a declining dynamic of internal demand.

Undoubtedly, the faster growth of exports of companies with foreign shareholding in comparison with the growth of their imports contributed to reduction of their adverse balance of trade from USD 11 478.9 million in 1999 to USD 8737.8 million in 2002. At the same time, the share of the deficit in a total negative balance of Polish foreign trade declined from 62.0% to 50.5% respectively. There is, however, the question if such tendency (of faster growth of exports) can be kept in the near future. In the opinion voiced by the authors of the report from IKiCHZ²⁷, the analysis of a mid-term correlation

²³ J.H. Dunning, "Multinational enterprises and the global economy", Addison Wesley Publ. Comp., 1995, s. 386

²⁴ J. Chojna, "Miejsce podmiotów z udziałem kapitału zagranicznego w gospodarce narodowej Polski", w "Inwestycje zagraniczne w Polsce", IKiCHZ, Warszawa 1997, s. 54

²⁵ with an increased share of Polish companies

²⁶ B. Durka, J. Chojna, "Udział podmiotów z kapitałem zagranicznym w polskim handlu zagranicznym", w „Inwestycje zagraniczne w Polsce”, Ibidem, pp. 67

²⁷ Instytut Koniunktur i Cen Handlu Zagranicznego (Institute of Economics and Foreign Trade Prices)

between the structure of FDI and the structure of sold production of industry, exports and imports do not provide any grounds for such expectations. As it has been already mentioned, the study over the influence of FDI on foreign trade flows and the balance of current payments conducted by IKiCHZ reveals that FDI in Poland are much more oriented towards domestic market and have a pro-imports character.

It is additionally confirmed by the analysis of sources of foreign companies' revenues that they are prevailing generated from goods and services sold in domestic market. The share of exports in total revenues of these companies totalled 13.2% in 2002 with a downward tendency registered since 1994, when it had reached a 15.6% share (1995: 15.3%).

Considering the future perspectives for economic development of a host country, one should be aware of a considerable influence of the structure of foreign trade realized by foreign companies.

In contrary to the influence on the balance of trade exerted by FDI, which could either positive or negative for a host country, the FDI impact on the balance of payments is in general positive. FDI contribute to the reduction of problems with financial payments, provided, however, that the capital for the payments is not collected from domestic market but transferred from abroad. Foreign financial obligations resulting from FDI are not charged to the receiver – country's account, while the transfer of profits to the country of investor's origin depends on economic results generated thanks to the investments. Moreover, financial benefits associated with the inflows of FDI, apart from the transfers of the capital itself, refer also to the exports of foreign companies and the phenomenon of substitution of the exports.

8. INFLUENCE OF FDI ON POLISH LABOUR MARKET

The capital brought by foreign companies into Poland has a broad impact on domestic labour market as well, which has a tremendous relevance in the situation of current unemployment rate registered at about 18.5%. Percentage share of the people employed in companies with foreign shareholding in a total number of the employed has been systematically increasing for the last several years. According to the Central Statistical Office (CSO), in 1993, 7935 companies with foreign shareholding employed 310 810 people. In 2002 the foreign companies employed more than 980 million employees (more than a double increase against 1993), accounting for 15% of the total employment in Poland (excluding the sector of agriculture). It is apparent that the number of the employed in foreign companies grew much faster than the number of

these entities, what points at the gradual expansion of human resources in these corporations.

Table 7
Influence of companies with foreign shareholding on employment in Poland in 1990-1999

Categories	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Employment in companies with foreign shareholding (thousands of people)	168,2	117,6	230,0	310,2	370,0	500,0	626,0	682,8	840,9	923,5	940,5
Share in total employment in non-agricultural sectors of economy (%)	1,0	1,3	2,0	2,8	3,3	4,5	5,4	5,9	7,3	13*	n/d

Source: own calculations based on CSO and PAIZ, *Nowe Życie Gospodarcze, No 8/300, 22 April 2001

Nevertheless, it should be emphasised that the role of these entities in creation of new jobs is visibly below their general position in Polish economy resulting from the number of the companies, their production potential, scale of their revenues or their exports. The studies conducted in 1996 by the Research Institute over Democracy and Private Enterprise revealed that there is no direct inter-dependency between the growth of FDI and the increase in employment²⁸. Partial responsibility for that could be put on the fact that foreign investors obliged themselves to temporarily hold an excessive employment or, in other words, to postpone necessary redundancies in time. However, according to the authors of the report from IKiCHZ²⁹, it is prevailingly associated with a much more efficient allocation and management of the labour force employed in the companies in comparison to Polish enterprises. Efficiency of labour force in foreign companies, measured per one employee appears to be almost twofold higher than in the wholly state-owned enterprises³⁰. Confirmation of the fact can be found in the data included in Table 8, concerning the companies from the latest 'List of 500'.

²⁸ M. Poniatowska - Jaksch, „Atrakcyjność inwestycyjna przestrzeni gospodarczej Polski dla firm europejskich”, in: (ed.) M. K. Nowakowski “Na progu UE. Szanse dla polskich przedsiębiorstw”, Monographies and studies No 450, Instytut Funkcjonowania Gospodarki Narodowej, SGH, Warsaw 1998, pp. 121 -143

²⁹ (ed.) B. Durka, “Inwestycje zagraniczne w Polsce”, IKiCHZ, Warsaw 2000

³⁰ In 1995 efficiency of labour force in companies with foreign shareholding (measured by revenues per one person employed) was higher than the average efficiency in domestic economy by 65%

Table 8
Efficiency of labour force and remuneration in the companies from the 'List of 500'
- Section according to the type of ownership

Ownership	Average employment per one company	Average annual remuneration in thousands of PLZ	Efficiency of the employed person (revenues in thousands of PLZ per the employed)
Wholly state-owned	5629	42,5	298,6
With a state controlling share	4410	53,0	596,5
With Polish private capital exclusively	664	28,1	783,2
With a controlling share of Polish private capital	1325	43,0	546,2
With foreign capital exclusively	1495	45,1	688,5
With a foreign majority shareholding	3179	47,4	530,8

Source: 'List of 500. The biggest companies in Poland', supplement to 'Rzeczpospolita', 8 May 2002

Bearing in mind that certain number of current jobs in companies with foreign shareholding existed before the entrance of foreign investors, it is difficult to estimate unambiguously the degree into which foreign companies contributed in creation of employment and into which they only held the jobs existing.

Nevertheless, along with investments undertaken by foreign corporations, the sphere of their influence, especially on regional labour markets, becomes tremendous and unlimited exclusively to the creation of own jobs. Activity of foreign companies provides a stimulus for expansion of employment at cooperating entities and local subcontractors as well. The best illustration of this influence can be the loss of more than 6000 potential jobs because of a fiasco of two large investment projects³¹, which were expected to provide additional employment for several thousand of people at cooperating companies. It is worth adding that according to estimations, one job generated because of FDI, creates on average 4 new ones³².

Operation of foreign companies on the Polish market demonstrates itself also in a higher level of professional qualifications revealed by employees. Although foreign investors rate the skills of Polish staff highly, almost 88% of all the companies with

³¹ The projects mentioned concern the investment of Philips and a joint-investment of PSA Peugeot, Citroen and Toyota

³² PAIZ's press communique dated 8 April 2002, at 14.00, www.paiz.gov.pl

foreign shareholding organize active professional trainings.³³ As such, the companies with foreign shareholding have contributed enormously to changes on the Polish labour market by creation of new opportunities and constantly pressurising for expansion of skills and education.

Radical changes are also introduced in the sphere of human resource management - the domain especially backward in Polish enterprises, which lag behind their foreign competitors in that respect. This problem refers, first of all, to the aspects such as: professional selection systems (in 76% of the companies with foreign shareholding pooled)³⁴, motivation systems (84%) and transparency of organizational structures (76% or delegating competencies (70%).

Higher skills of employees in foreign companies transfer themselves onto adequate raise in salaries and increase in domestic savings, proceeding along with a growth of incomes. The researches conducted³⁵, as well as more current analysis of remunerations in companies with foreign shareholding from the previously cited 'List of 500' (Table 8), suggest that people employed in the sectors of industrial production with a majority share of foreign companies receive on average higher wages. It is a confirmation of the general opinion that foreign companies provide indirect (immaterial) production inputs, contributing to a growth of labour productivity of a host country's industry. As such, foreign investors stimulate the diffusion of knowledge and higher productivity in the sectors of their own operation in a host economy.

Another important aspect associated with activity of foreign companies is an increasing position of medium-size enterprises (with employment of 50-250 people)³⁶ in Polish economic reality. In the early stage of transformation, an absolute domination of industrial giants was a sensation in the world of real socialism, being a rare phenomenon in the world at that time. Nowadays, the share of the employed in medium enterprises, in the whole economy and industry, has become more alike in the EU Members (20 - 21%)³⁷, which is also owed to foreign capital.

³³ The research was conducted by a poll covering 196 companies with foreign shareholding of at least 22 employees. Respondents: the people with previous work experience in domestic companies; compare: M. Bak, P. Kulawczuk, "Analiza wp'ywu inwestycji zagranicznych na polsk' gospodarkę" - results of researches commissioned by PAIZ, Warsaw 1996, pp. 54-68

³⁴ Ibidem, pp. 55

³⁵ A. Bendi, Z. Ciećlik, "Formy dzia'alnoci inwestycji zagranicznych a dyfuzja kapita'u intelektualnego w polskim przemyśle", *Ekonomista*, No 4/1999, pp. 419-438

³⁶ the share of these entities in Polish economy accounted for 12% in 1989, while in the OECD countries for approximately 20-30%; medium size industrial companies employed 5.5% of the total working population

³⁷ "The European Observatory for SMEs", Zoe termeer, Holland 1997 in: P. Glikman, "Kontrowersje wokó' kapita'u zagranicznego w Polsce", op. cit, pp. 66

9. FDI AND MODERNIZATION OF POLISH ECONOMY

In the modern world economy, competitiveness of individual country is a product of complex quality factors, including new revolutionary high technologies. Foreign direct investments constitute an effective transferring channel of these technologies, generating a spin-off effect and even a catching-up process. As results from the researches conducted by the Marketing Company - Indicator³⁸, 62,8% of companies with foreign shareholding applies 1-year-old technologies, while the numerous modern technological solutions (not older than 1 year) have been implemented by the companies with Canadian, British, Austrian and American shareholding. It is also observed, that the latest technologies have been introduced by investors in the sectors such as computing (94,1%), publishing and printing, hotels or production of machinery and apparatus (73,5%)³⁹.

It is the choice of the sector of the FDI allocation and the level of technologies implemented which influence the changes of industrial structure. Initially, transnational corporations investing in Poland adopted so-called *market seeking*⁴⁰ strategy and produced consumer goods designed for domestic market, what did not required latest technologies neither the changes in their products. Transition towards industrial production aimed at exports (export ~ *oriented manufacture*), resulted in an increase in innovative technologies and improvement of quality of the products⁴¹. Nevertheless, the data cited above do not appear to deny the hypothesis that the technology imported to Poland is obsolete or typical for matured or declining products. Bearing in mind the low level of domestic technologies, the superiority of foreign technological solutions might held, despite the fact that they do not belong to the most modern ones.

The above considerations implicate also the question about the scale of foreign capital outlays invested in the R&D operation. Unfortunately, according to the data, 53.3% of the foreign companies pooled, allocated less than 1% of their turnovers on R&D within the previous 3 years, while 20% of the companies expended 1%-2% of the turnovers on this activity. Simultaneously, as many as 76.9% of the companies declared that they sub-contracted analysis and researches from Polish research and consulting

³⁸ compare: 'Foreign investors in Poland', PAIZ's report, Warsaw 1996

³⁹ "Nowe technologie i wzrost inwestycji", Rzeczpospolita No 61, 12 March 1996

⁴⁰ J. H. Dunning, "Re-evaluating the Benefits of Foreign Direct Investment", "Transnational Corporations", Vol. 3, No. 1, February 1994, pp. 35-36

⁴¹ compare: B. Liberska, "Rola bezpośrednich inwestycji zagranicznych w rozwoju gospodarczym i transformacji systemowej w Polsce", in: (ed.) M. Belka, W. Trzeciakowski, "Dynamika transformacji polskiej gospodarki", INE PAN, POLTEXT, Warsaw 1997, pp. 247

institutions, spending less than 1% of their turnovers on that. At the same time, 15.4% of foreign companies relied on external provision in the R&D sphere, channelling from 1% to 3% of own turnovers onto these services. The figures assume the headquarters to be the main source of R&D activities, (53.8% of the outlays in the area were borne by the mother-companies). It is worth adding that such phenomenon remains consistent with the theoretical indications of successive stages of TNCs' internationalisation and confirms the necessity of reshuffling the Government's policy towards assisting private R&D researches (both Polish or foreign ones) with financial support from the state.

10. OTHER FORMS OF THE FDI INFLUENCE

One of the principal aims of the systemic transformation is a creation of a desirable structure of ownership, development of market institutions and building widespread business-like behaviour with an emphasis on private initiative and entrepreneurial attitude. Foreign direct investments also contribute to the achievement of this aim, although their role in the process is difficult to quantify. On the one hand, the entrance of foreign investors into Polish market resulted in expansion of private sector and led to improvements of economic efficiency. On the other, however, investors taking part in the privatisation process, contributed to a quality progress in the management of the companies privatised.

To cut in short, foreign capital in the form of FDI breaks internal limitations in competitiveness of Polish enterprises. Foreign investors bring financial support, technologies, qualifications and modern methods of management and organisation, distribution or marketing into Polish business reality. Furthermore, many of them make their own distribution networks available to Polish producers. This overall influence triggers improvement in competitiveness of the enterprises with foreign shareholding, and indirectly stimulates the raise in competitiveness of selected sectors and the whole economy. The positive effect of the FDI activity in Polish economy is not, however, limited to foreign companies exclusively. It is worth underlining that FDI influence Polish companies also through the effects of diffusion (or of imitation). The necessity to withstand the growing competition triggers positive changes in Polish enterprises, stimulating introduction of new technologies, strategies and managerial

concepts. Observations of experiences gained by the Irish market⁴² prove that domestic industry learns fast through adopting patterns of foreign⁴³ companies' style of operation.

11. NEGATIVE ASPECTS OF FDI

Negative aspects of FDI influence on Polish economy have been already discussed in the profile of FDI in Poland, which was included in chapter 3. Among others, it was pointed out that Poland has not able to successfully deal with certain essential internal economic problems, such as: discrepancies in regional development or inefficient, obsolete structure of the economy. Although these issues appear to be independent from FDI, the investments deepen them additionally. It is possible to indicate the following negative consequences of an adverse influence of FDI on Polish economy:

- Foreign investors additionally enlarge considerable disproportions in economic development of individual voivodships by concentrating their operation in the biggest urban areas of the country.
- Companies with foreign shareholding have been interested mainly in setting up of their production in traditional industrial sectors of labour intensive nature. As such, they strengthen the backward economic structure of Poland.
- Although the share of foreign capital in development of the Polish sector of services is significant and prevailing in comparison with Polish capital, its dominant position in the banking sector for instance raises the question about the scale of safe involvement and control of foreign capitals over such a crucial sector of economy.
- Unfortunately, Poland attracts FDI of the highest level of technological advancement in an only limited degree, what raises concerns that Poland may become the back of cheap labour force and an absorptive market for the products sold by foreign corporations. These presumptions are confirmed by the analysis of foreign companies' investment motivations in Poland.

⁴² More detailed information in: B. Liberska, "Doświadczania Irlandii w wykorzystaniu zagranicznych inwestycji bezpośrednich w rozwoju nowoczesnego przemysłu" in: (ed.) Z. Sadowski, "Kapitał zagraniczny w Polsce", op. cit., pp. 46-50

⁴³ The effect of fast learning of new technologies in domestic countries is described in: S. Dax, "Externalities and Technology Transfer Through Multinational Corporations. A Theoretical Analysis", *Journal of International Economics*, 1987, No 1/2, pp. 171-182

- Foreign companies take advantage of the R&D potential of domestic institutions insufficiently. They are not interested in co-operation with local sub-contractors of components.
- The analysed structure of imports of foreign companies signalises that such a large scale of supplying and consumer imports of foreign entities negatively affects Poland's balance of trade.
- Although the Decree of the Ministry of Finance, regulating the principles of calculation of taxpayer's income through estimation of transfer prices, the phenomenon of dishonest internal pricing remains significant, especially in case of the initial stage of foreign investment.

The analysis and studies⁴⁴ conducted, point out that the lack of positive effects of FDI might take place only in the early stage of TNCs' operation in a host country. Many developing countries or those undergoing systemic transformation might presumably experience negative consequences of operation of these entities associated with technological change reducing the demand for labour. However, the question if the host country manages to leave the stage and realise the benefits resulting from capital inflows and the diffusion of knowledge depends largely on the policy of government towards foreign investors. The fear for excessive involvement of foreign capital, partial liberalisation and the lack of credibility in the world, in addition to rigidity of Polish labour market may lead to the consequences opposite to those intended.

12. FDI IN POLAND PRIOR TO POLISH ACCESSION TO THE EU – PERSPECTIVES AND POTENTIAL INFLOWS

Influence of European economic integration on the FDI flows are object of a broad discussion in the literature and all the conclusions made confirm that international integration is an important determinant of scale and directions of FDI flows in the world economy. It has been proved by the intensified flows of FDI which triggered off as a response to such integration attempts as: NAFTA, APEC, ASEAN or the EU

⁴⁴ A. Ciećlik, "Makroekonomiczne konsekwencje napływu bezpośrednich inwestycji zagranicznych dla gospodarki kraju goszczącego. Analiza teoretyczna", *EKONOMIA* No 5/ 2002, Kwartalnik Wydziału Nauk Ekonomicznych Uniwersytetu Warszawskiego, Warsaw 2002, pp. 94 - 115

market⁴⁵. The influence of FDI with reference to CEE seems to be positive, in the light of both theoretical analysis and the empirical researches conducted. As the integration processes between the EU and CEE reach more advanced levels, foreign direct investment motivated by such factors as: search for new markets and resources or the platform for exports are expected to increase. Experiences of the EU Members authorise to such conclusion as well. There is only one question left: what would be the effect of Poland's accession to the EU on the long-term investments channelled into the country?

According to the theory of internationalisation, the achievement of full liberalisation first, in the trade of goods and then, gradually in exchange of production inputs, is a logical sequence of the stages of liberalisation. Full liberalisation of capital flows constitutes the completion of these processes.

Undoubtedly, the association agreement signed between Poland and the European Communities is an element additionally strengthening stability of political and legal frames for the FDI-inflows. However, the agreement itself does not constitute any guarantee of increased FDI inflows to Poland. It is because a minimization of political risk affecting investments has been supported by a simultaneous reduction of economic risk, which is in turn a derivative of internal economic policy of Poland.

Bearing in mind the theory of integration, it can be concluded that it is the situation in the trade exchange⁴⁶ to determine the balance of opportunities and threats resulting from integration aspirations and the approaching accession of Poland into the community structures. Complementary of trade and foreign direct investments is a well-known phenomenon. At the same time, however, it is observed that FDI are not undertaken unless certain levels of trade linkages are established. Difficulties in access to the EU market might be an element restraining propensity to investment in Poland in case of export oriented FDI. However, it should be also taken into consideration that FDI allocated in Poland are much more focused on satisfying the local market than to export production, as it is the case of the Czech Republic and Hungary.

In the long-term perspective, the favourable influence changing the pattern of comparative advantages of Polish exports is quite probable. It may take place thank to the exposure of Polish producers to piercing competition, higher quality and technical standards.

⁴⁵ The leading importer and exporter of FDI, as it has been already illustrated in chapter 1 of the thesis

⁴⁶ In this situation the selective protective periods imposed on the trade exchange appear to be problematic

Certain resolutions of the association agreement, as well as some chapters of the pre-accession negotiations closed, might adversely affect foreign investors' perception of Poland's location determinants. The motivations of foreign investors undertaking FDI in Poland can be of double nature. Firstly, the investments can be initiated by the companies operating inside the integration grouping in order to find an optimal location. Secondly, they may be also undertaken by the companies from the third countries, encouraged by the possibilities to avoid customs tariffs. External tariffs, currently in force in the EU, may be a motivator of tariff-jumping FDI, being another way to hold the market share previously serviced through exports at the same time, (many TNCs face the necessity of redesigning their strategy of servicing the EU market).

Undoubtedly, perspectives and expectations of an increase in the Polish exports to the EU are not dependent from the value of foreign investments, but mainly from their character. The nature of FDI will be determined by the degree of openness and accessibility of Polish market, which is, in turn, conditioned on obligations and agreements reached.

According to some opinions voiced⁴⁷, expectations that Polish membership in the EU will tremendously increase FDI in the sphere of R&D might never come true, since Poland have not developed any sector requiring exceptionally intensive investment activity of this kind (assembling lines appear to be the most technologically advanced investments in Poland, the Czech Republic and Hungary⁴⁸). Much more probable, however, seems to be the benefits gained from the external technological effects than the inflow of high technologies themselves.

Out of the potential threats connected to the integration with EU, the following two are often indicated⁴⁹, namely: undermining market position of domestic companies and limiting their possibilities to generate own ownership advantages owing to an increased penetration of the EU Member States in the Polish market. However, the analysis of geographical structure of FDI in Poland enables to observe that if the share of the EU investments in the FDI stock is predominant (about 60%), the initiation o

⁴⁷ J. Witkowska, "Bezpośrednie inwestycje zagraniczne w Europie Środkowo- Wschodniej. Próba interpretacji na gruncie teorii BIZ i teorii integracji", op. cit., pp. 201

⁴⁸ They rely on the innovative concepts worked out in technological centres of the headquarters and do not require any R&D operation close to the factories in the countries mentioned

⁴⁹ J. Witkowska, "Przepływy bezpośrednich inwestycji zagranicznych w gospodarce światowej a procesy integracji gospodarczej ze szczególnym uwzględnieniem Unii Europejskiej i Polski", *European Studies*, No 1/ 1997, pp. 73-103

economic integration (1999 – Polish motion for the accession to the EU was put forward) did not raise the attractiveness of Poland in the eyes of European capital. At the end of 1994, the EU investors had a 36% share in the total initial capital (FDI) in Poland, surpassing only slightly the American capital with a 34% share. It is worth comparing these figures to the data in 1991, when approximately 60% of foreign capital invested in Poland came from the EU Members with American share at a merely 10% level.

The fact that the association agreement was signed and the motion for Polish membership in the EU was accepted, initiated the creation of stable political frames in relations between Poland and the EU. Undoubtedly, this should have a positive impact on reduction of investment risk in Poland and in consequence, on improvement in investment climate in the eyes of foreign investors. Future membership in the EU imposes the necessity of intensifying adjustment processes and speeding up the restructuring of many sectors of Polish economy. In practice, however, the approaching accession of Poland is only one of complex factors determining the FDI inflows to Polish economy.

The question of FDI flows in Poland is subject to regulations of the association agreement with the EU, which, on both parties, imposes obligations to assure unrestricted FDI flows provided the companies are set up in accordance with legal regulations of a host country, including institutions associated with formation of companies by the citizens on basis of self-employment. It is justified to assume that targeting the accession to the EU will extract pro-liberal tendency in the policy towards foreign capital, including FDI. Although, stabilization of operational environment is of high relevance, the lack of it does not seem to be indicated as the most problematic barrier faced by foreign investors in Poland.

These aspects are very important because the assessment of the advancement of preparations to the integrated EU system is based on a variety of elements, while legal adjustments to legal regulation and conditions of competition are only of them. Convergence of Poland has been taking place in at least similar extend through real economic linkages, including trade connections, cooperation between economic entities and institutions or capital transfers. The exceptionally important position of FDI in the convergence of Poland to the EU Members should point at the necessity of undertaking active steps towards improvement of investment determinants of Poland, all the more that they appear to be moderately competitive in comparison with the Czech Republic and Hungary - our major rivals of pro-integration aspiration as well.

It is worth emphasising that the expectations of increasing FDI inflows in Poland may turn out to be unjustified unless radical reforms are introduced. This scenario seems to be highly probable bearing in mind that the privatisation process is

approaching twilight. The example of Spain (where the annual FDI flow in the pre-accession period had increased to USD 10 billion on average) shows that the admission of Poland to the EU structures may trigger much higher flows of the investments. However, it cannot be forgotten that Poland is not the sole member of the group of potential candidates. Both the Czech Republic and Hungary have been changing own policy towards foreign capital, what brings them visible economic benefits and many winning investment offers, which the Polish party often loses. For these reasons, the prognosis, based on the experience of Spain and assuming a dynamic increase of FDI in Poland in a longer term of 5-7 years, are not convincing.

It is worth also paying attention to the lack of agreement in pre-accession negotiation concerning the Special Economic Zones (SEZ). Until recently, SEZ were significant encouragement for foreign investors not only in Poland but also in the Czech Republic.

However, the protection privileges in the SEZs have been gradually reduced in Poland because the perspective of the EU membership extracts abolition of this kind of incentives.