
ARGUMENTA OECONOMICAE

2 • 1996

Academy of Economics in Wrocław
Wrocław 1996

TABLES OF CONTENTS

INAUGURAL LECTURE FOR OPENING THE ACADEMIC YEAR 1994/1995

Bogusław Fiedor

ECOLOGICAL ASPECTS OF ECONOMIC RELATIONSHIPS BETWEEN POLAND AND EUROPEAN UNION	7
---	---

I. ARTICLES

Jerzy Rymarczyk

MODIFICATION OF PROTECTIVE INSTRUMENTS IN INTERNATIONAL TRADE AS A RESULT OF THE URUGUAY ROUND – GATT	19
--	----

Stanisław Czaja, Bogusław Fiedor, Andrzej Graczyk

THE LINKAGES BETWEEN TRADE AND ENVIRONMENT. A CASE OF POLAND	29
---	----

Jerzy Czupiał, Jolanta Żelezick

FOREIGN DIRECT INVESTMENT IN POLAND	59
---	----

Bożena Klimczak, Bożena Borkowska, Andrzej Matysiak,

Grażyna Wrzeszcz-Kamińska,

MICROECONOMIC PHENOMENA ACCOMPANYING THE PRIVATIZATION PROCESS OF STATE-OWNED ENTERPRISES (RESULTS OF RESEARCH OF 1990-1993)	67
--	----

Aniela Stys

STRATEGIC MARKET PLANNING AND THE EFFECTIVENESS AND EFFICIENCY OF THE ORGANIZATION'S ACTIVITY	85
--	----

Paweł Dittmann

SALES FORECASTING IN A TELECOMMUNICATION COMPANY	93
--	----

Andrzej Baborski

ON SOME MORAL, LEGAL AND ECONOMIC PROBLEMS RELATED TO COMMUNICATION NETWORKS	101
---	-----

<i>Andrzej Malachowski, Elzbieta Niedzielska</i> NEW COMMUNICATION TECHNOLOGIES AS THE CHALLENGES FOR THE CONTEMPORARY CIVILISATION	113
<i>Adam Nowicki, Jacek Unold</i> COMPUTER REPRESENTATION OF THE INFORMATION SYSTEM FOR THE HOUSING SECTOR	123
<i>Bożena Baborska</i> THE FATE OF STATE OWNED FARMS IN POLAND	133
<i>Marian Kachniarz</i> AGROTOURISM AS AN ELEMENT OF RURAL AREAS DEVELOPMENT STRATEGY FOR THE SUDETY MOUNTAINS	143
<i>Ryszard Antoniewicz, Władysław Bukietynski, Andrzej Misztal</i> ON A JUST DISTRIBUTION WITH PREFERENCES	151

II. REVIEWS AND NOTES

Andrzej Baborski (ed.): EFEKTYWNE ZARZĄDZANIE A SZTUCZNA INTELIGENCJA [EFFECTIVE MANAGEMENT AND ARTIFICIAL INTELLIGENCE]. Wrocław 1994. (<i>Henryk Sroka</i>)	163
Zygmunt Bartosik, Bogumił Bernaś, Stefan Forlicz, Andrzej Kaleta: ZMIANY STRUKTURALNE W PRZEMYŚLE POLSKI – SPOJRZENIE PROSPEKTYWNE [STRUCTURAL CHANGES IN POLISH INDUSTRY – A PROSPECTIVE VIEW]. Wrocław 1994. (<i>Ryszard Broszkiewicz</i>)	164
Krzysztof Jajuga (ed.): EKONOMETRYCZNA ANALIZA PROBLEMÓW EKONOMICZNYCH [ECONOMETRIC ANALYSIS OF ECONOMIC PROBLEMS]. Wrocław 1994. (<i>Teodor Kulawczuk</i>)	165
Danuta Misińska: PODSTAWY RACHUNKOWOŚCI [THE ELEMENTS OF ACCOUNTING]. Warszawa 1994. (<i>Kazimierz Sawicki</i>)	167
Edward Nowak: DECYZYJNE RACHUNKI KOSZTÓW. (KALKULACJA MENEDŻERA) [DECISIONAL COST ACCOUNT (MANAGER'S CALCUL- LATION)]. Warszawa 1994. (<i>Kazimierz Zajac</i>)	168
Stanisław Nowosielski: PODSTAWY KONTROLINGU W ZARZĄDZANIU PRODUKCJĄ [THE ELEMENTS OF CONTROLLING IN PRODUCTION MANAGEMENT]. Wrocław 1994. (<i>Adam Starostecki</i>)	169

Stanisława Ostasiewicz, Wanda Ronka-Chmielowiec: RACHUNEK UBEZPIECZENIOWY [INSURANCE ACCOUNT]. Wrocław 1994. (<i>Tadeusz Stanisz</i>)	171
Andrzej Rapacz: PODSTAWY EKONOMIKI PRZEDSIĘBIORSTWA [THE ELEMENTS OF ECONOMY IN A TOURIST ENTERPRISE]. Wrocław 1994. (<i>Władysław Włodzimierz Gaworecki</i>)	173
Jerzy Sokołowski: STRATEGIA PODATKOWA PRZEDSIĘBIORSTWA. JAK ZMNIĘSZYĆ OBCIĄŻENIA PODATKOWE [TAX STRATEGY OF AN ENTERPRISE. HOW TO DECREASE TAX BURDENS]. Warszawa 1994. (<i>Ryszard Wierzba</i>)	174
THE WROCLAW SCHOOL OF ECONOMIC POLICY IN MARKET ECONOMY (<i>Janusz Kroszel</i>)	175
Stefan Wrzosek: OCENA EFEKTYWNOŚCI RZECZOWYCH INWESTYCJI PRZEDSIĘBIORSTW [THE APPRAISAL OF THE EFFECTIVNESS OF MATERIAL INVESTMENT OF ENTERPRISES]. Wrocław 1994. (<i>Lesław Martan</i>)	177
III. HABILITATION MONOGRAPHS 1994-1995 (summaries)	179
IV. LIST OF PUBLICATIONS BY THE ACADEMIC STAFF OF THE WROCLAW ACADEMY OF ECONOMICS 1994-1995	183

ARGUMENTA OECONOMICA

No 2 · 1996

PL ISSN 1233-5835

Jerzy Czupiał, Jolanta Żelezik

FOREIGN DIRECT INVESTMENT IN POLAND

Foreign investment is an activity specific to multinational enterprises. Poland which started economic reforms aimed at transforming the centrally planned economy into a market economy needs capital, modern technology and managerial skills. These can be transferred to the country from abroad by multinational enterprises.

In order to encourage foreign investment Poland has made changes in its legal, political and economic environment.

These changes speeded up the growth of foreign investment but the inflow of foreign capital seems to be insufficient and its rate tends to diminish.

1. INTRODUCTION

One of the most dramatic and significant trends of today's economy is the sustained growth of international business. It has developed in two forms - in its traditional form of international trade and in its newer and more dynamic form of multinational business operations. The second form, which consists in organizing production abroad, generally requires foreign investment.

Foreign investment may be divided into two components: portfolio investment and direct investment. Portfolio investment means the purchase of stocks and bonds solely for the purpose of obtaining a return on the funds invested. Foreign direct investment is an activity which is specific to multinational enterprises. Multinational enterprises are organizations consisting of parent companies in home countries owning relatively autonomous subsidiaries in various host countries. By locating its entity in a foreign country the multinational enterprise extends itself to the new location in ways which go well beyond the mere transfer of capital. In addition, technological and managerial skills are transferred to the host country and integrated with local factors of production.

Foreign direct investment sometimes is called „joint venture”. But there are differences between these two notions.

Foreign direct investment means only that the place of residence of an investor lies outside the country in which the investment is done. It says nothing about other possible partners of the enterprise.

The joint venture has a narrower meaning. It may mean:

- a corporate entity between a foreign and local owners,
- a corporate entity between two or more owners which are foreign to the area where the joint venture is located,
- a cooperative undertaking between two or more firms (investors) for a limited-duration project.

We do not have sufficient data for joint ventures development in Poland. Therefore, we will concentrate our attention on foreign direct investment, which involves not only joint ventures but also entities belonging as a whole to a foreign investor.

Poland, which started economic reforms aimed at transforming the centrally planned economy into a market economy, is deeply interested in foreign direct investment. Our country needs capital, modern technology and managerial skills and these can be transferred to the country from abroad by means of foreign direct investment, among other things.

In order to encourage foreign investors, Poland has made changes in its legal environment.

2. LEGAL FRAMEWORK OF FOREIGN DIRECT INVESTMENT IN POLAND

The legal framework of foreign direct investment in Poland is being adjusted to reflect political and economic reforms which have been developing since 1989. The new foreign investment law is the Law on Companies with Foreign Participation of June 14, 1991 (*Ustawa o spółkach...* 1991). The new foreign investment law together with improvements in taxation systems has created transparent and less bureaucratic conditions for foreign capital investment.

The decision makers in Poland realize that without external sources of capital, the economy of this country will be incapable of facing up to contemporary challenges and the social expectation of early improvements in living conditions.

The 1991 Law on Companies with Foreign Participation represents law of the transitional period from central planning to market economy. To some

extent it brings cohesion to earlier legislation governing foreign investment in Poland split between three parliamentary acts and their follow-up regulations: the 1982 Law on Polonian Small Manufacturing Enterprises; the 1988 Joint Ventures Law and the 1990 Law on Privatization of State Enterprises.

The title of the 1991 Law reflects the fact that the form of business corporation (limited liability or joint stock company) was accepted as the sole form of foreign investment to be governed by this Law.

The crux of the 1991 Law boils down to the following:

1. Elimination of the requirement to obtain a permission for setting up every foreign-share company. Permission is required only for investment in a few, enumerated, particular „sensitive” areas not licensed and in cases where a Polish state entity invests major assets in the venture (permission is to be issued by the Minister of Ownership Transformations, as the head of the government department responsible for privatization is officially designated).

2. Elimination of the need to obtain permission for joining an existing Polish (or foreign) capital company as a foreign partner. Permission is required only when a company is to be joined by a foreign partner when such a company operates in „sensitive” areas enumerated in the Law.

3. Elimination of the requirement to present a Feasibility Study before setting up a company.

4. Elimination of automatic tax holidays for companies with foreign participation.

5. Elimination of specific minimum equity requirements.

6. Extension of the catalogue of permitted sources of foreign equity contributions to a company (in specified cases this is to be decided by the Minister of Finance).

7. The right to full repatriation of the foreign investor's revenues.

The changes in the tax status of foreign equity companies are synchronized with introduction, by other legislation, of rules for accelerated depreciation of fixed assets and the right to charge the losses incurred in the initial period of operations against future company profits (Domański 1991, pp. 11-12).

The June 26, 1994, Order of the Cabinet brought further liberalization of foreign investment. According to this rule for example, no permission is needed for foreign investors if they want to buy shares of the companies, even operating in „sensitive” areas, if the shares are bought at the stock exchange (*Rozporządzenie RM*, 26 lipca 1994), or if they want to establish a company in „sensitive” areas in cases when only the permission of regional administration is needed.

3. FIRMS WITH FOREIGN PARTICIPATION IN POLAND

Political and economical changes at the end of the 80's and at the beginning of the 90's have caused the growth of interest from foreign investors in Poland even if there were no precise and profitable legal regulations. In 1990 in Poland there were 1119 companies with foreign participation and 862 foreign small businesses (*Podmioty gospodarcze...* 1992, p. 5). The data in Table 1 shows a considerable growth in absolute numbers of companies firms in 1990-1994. During this time the number of these firms has increased eighteen times. The problematic fact is a decreasing rate of growth in the number of these firms. The increase in 1991 in comparison to 1990 (100%) amounted to 429%, while in 1994 treating 1993 as the base year it amounted to 125%. This means more than a double decline in the rate of growth of the firms with foreign participation.

Table 1
Companies with foreign participation (according to registration data)

Year	Firms		Foreign capital invested	
	Number	Previous year = 100	USD million	Previous year = 100
1990	1119	-	180	-
1991	4796	429	349	194
1992	10131	211	693	199
1993	15815	156	776	112
1994	19737	125	-	-
1st Quarter 1995	20400	-	-	-

Sources: *Podmioty gospodarcze...* 1992, p. 5; Mozejko 1995, p. 20.

On the basis of the data published by Central Statistical Office (GUS) in 1993 (Table 2) foreign capital was coming mainly from Germany – 23%, Italy – 19,3% and USA - 16,4%, but German capital was dispersed among a greater number of firms while the Italian and American capital investment was concentrated in a smaller number of companies. Among the foreign investors in Poland there are also firms from Holland, France, Austria, Sweden, and other countries.

On the basis of analysed data from Table 2 we can say that the biggest number of firms was set up with a share of German capital. Comparing the situation in 1991 and 1993 we can also observe the decrease of differences in the share of German, Italian and American capital invested in Poland. The very positive symptom is the presence of investors from different countries without substantial predominance of one country. As far as a territorial

Table 2
Foreign direct investment according to the main countries of origins*

Country	Number of firms which made financial reports at the end of the year		Percentage share of capital investment	
	1991	1993	1991	1993
Germany	670	2943	22,0	22,9
Italy	75	387	4,1	19,3
USA	144	532	12,0	16,4
Holland	71	388	8,0	8,3
France	94	425	5,1	5,2
Austria	126	475	9,0	5,0
Sweden	146	404	8,0	3,3
Other countries	-	-	31,8	19,6
Total			100,0	100,0

* Figures in Tables 1 and 2 were obtained on different basis and are not fully comparable.

Source: *Podmioty gospodarcze...* 1994, p. 26.

distribution of foreign investment is concerned, since 1990 the most attractive for foreign investors are the voivodeships of: Warszawa, Gdańsk, Katowice and Poznań (Table 3). In the case of two voivodeships of Bielsko-Biała and Elbląg we may say that their very high position is caused by the investments of Fiat Auto Poland S.A. and ABB in their area. Other voivodeships which also have a good position are the following: Opole, Katowice, Legnica, Radom, Łódź, Bydgoszcz, and Szczecin. Foreign capital has a small share in such voivodeships as: Zamość, Łomża, Chelm and Piotrków Trybunalski (Możejko 1990, p. 20).

Table 3
Territorial distribution of foreign direct investment among the main areas of investment in 1991-1993

Voivodeships	Percentage share of foreign investment		
	1991	1992	1993
Warszawa	27,0	25,6	23,3
Gdańsk	7,0	8,2	13,0
Katowice	7,0	8,2	8,3
Bielsko-Biała	-	-	6,6
Elbląg	-	-	5,7
Poznań	8,4	6,3	-

Sources: *Funkcjonowanie inwestycji...* 1992, p. 72; *Inwestycje zagraniczne...* 1994, p. 45. *Podmioty gospodarcze...* 1994, pp. 22-23.

Among the biggest 500 firms in Poland classified in the „List of 500” in 1993 there were 39 firms with foreign participation, while in 37 cases foreign

capital had a dominant position (Majak 1995, pp. XLII-XLIII). Considering financial indexes of 14 firms from the List, privatized in 1993, we can say that 4 of them obtained negative gross and nett financial result (profit index amounted to 11.8%). Firms with foreign participation which had positive gross and net financial results gained the value of profit index 7.12%. The average of profitability of joint venture firms was 0.76%. The profit index was strongly differentiated and was contained between 20,42%-24,43% (Majak, *ibidem*).

Some of the firms which belong to foreign investors bring very big losses, while they had a relatively low deficit index. The „List of 500” included a company in the tobacco industry which had a 22% deficit. On this basis we can suppose that by the manipulation of prices, profits are realized in the head office which is situated abroad and the deficit showed in Poland intended for avoiding taxation. Of course it does not concern all the firms but surely quite a large number from the branches of industry in which firms with other forms of ownership gained positive financial results (Szwedowski 1995, p. XLVII).

4. POLAND AGAINST OTHER COUNTRIES

Countries which belong to the Vyshehrad Group contain on their territory 65,2 % of foreign capital which is invested in Eastern Europe. At the head of this group is Hungary which obtained 32,8 % of foreign capital invested in Central and East European countries (Table 4).

Table 4
The structure of foreign investment in 1994
in Central and East European countries

Country	Percentage of investments
Hungary	32.8
Poland	16.4
Russia	16.0
Czech	13.9
Romania	4.4
Slovenia	3.4
Ukraine	2.3
Slovakia	2.1
Other	8.8
Total	100.0

Source: *Inwestycje zagraniczne...* 1995, p. 62.

The biggest inflow of capital to the Vyshehrad Group Countries took place in 1992 – \$ 4,500 mn, whereas in 1993 and 1994 it amounted to \$ 4,200 mn every year. During the last two years the biggest rate of growth in foreign investment in Eastern Europe took place in Estonia, Lithuania, Slovenia and Poland. The rate of growth of foreign investment was lower than expected and was strongly geographically varied. The main reason for this diversity were differences in political stabilization, economic and legal guarantees for foreign capital, progress of market reform and the level of country's economic development. All these factors greatly influence the attractiveness of the country for foreign investment which is measured by the amount of invested capital per one inhabitant. On that score first place was taken by Hungary, followed by Slovenia, Czech Republic, Estonia, Poland, Lithuania, Slovakia and lastly by Ukraine and Moldova. Not much higher indexes were reached by Belorussia and Russia. The forecast for 1995 shows a considerable inflow of foreign capital, especially to countries with large markets: Russia, Ukraine, Poland and Romania (*Inwestycje zagraniczne...* 1995, p. 62).

It is possible that greater interest in investment in Poland will be caused by the list published quarterly by Emerging Markets Investment Strategy prepared by the British broker's firm James Capel which belongs to the financial group HSBL. James Capel analysts evaluated 26 countries according to the following criteria:

- monetary situation,
- company profits,
- political risk,
- fluctuation and real shareprices.

They put Poland at second place after Chile in their ranking. Poland was ahead of such countries as: RsS, India, Argentina, Hungary (*Wschodzące rynki...* 1995, p. 1).

5. FINAL REMARKS

The above-mentioned facts show that the growth of foreign investment in Poland was speeded up in 1991. This acceleration occurred because of a new law for foreign direct investment which in a radical way facilitated investment and capital inflow.

In spite of high indexes at the beginning during the following years we can notice a stable decrease of the rate of capital inflow which is connected with practices of restricting competition and the lack of confidence on the part of foreign investors. Among the most important restrictions in Poland, foreign investors include:

- political instability,
- high financial risk,
- low development of financial and information structure,
- bureaucracy,
- high inflation.

These restrictions consist in the instability of governments, the weakness of law, the high level of inflation and the underdeveloped banking system, obsolete and inefficient central and local administration systems.

The above-mentioned barriers obstructing foreign capital inflow to Poland are eliminated by an increase in political stability, strengthening of economic growth, further liberalization of laws concerning firms with foreign participation and enabling foreign investors to purchase properties.

REFERENCES

- Domański, G. (1991): *Prawo o inwestycjach zagranicznych w Polsce [Laws of Foreign Investments in Poland]*, T.1. Poltex, Warszawa.
- Funkcjonowanie inwestycji zagranicznych w Polsce [Functioning of Foreign Investments in Poland]*, (1991). IKC, Warszawa.
- Inwestycje zagraniczne w Polsce [Foreign Investment in Poland]*, (1994). Wyd. IKC, Warszawa.
- Inwestycje zagraniczne [Foreign Investment]*, (1995). "Życie Gospodarcze" No 12.
- Majak, R. (1995): *Sprywatyzowane przedsiębiorstwa metodą kapitałową [Privatization of a Company via Capital Method]*. "Życie Gospodarcze" No 1.
- Możejko, E. (1995): *W konkury do Polski [Competing in Poland]*. "Życie Gospodarcze" No 21.
- Podmioty gospodarcze z udziałem kapitału zagranicznego w latach 1990-1991 [Economic Subjects with Participating Foreign Capital 1990-1991]*, (1992). GUS, Warszawa.
- Rozporządzenie Rady Ministrów w sprawie określenia przypadków, w których czynności wymieniające w art. 6, ust.1, pkt 1 ustawy o spółkach z udziałem zagranicznym nie wymagają zezwolenia [Decree of The Council of Ministers on Cases Exempt from Article 6, Statute 1 on Joint-Venture Companies]*, (26 lipca 1994). Dziennik Ustaw 1994, No 92, poz. 428.
- Rozporządzenie Rady Ministrów [Decree of The Council of Ministers]*, (16 sierpnia 1991), Dziennik Ustaw 1991, No 60, poz. 253.
- Szwekowski, S. (1995): *Wynik finansowy i czynniki jego wzrostu [Financial Profit and Determinants of its Increase]*. "Życie Gospodarcze" No 1.
- Ustawa o spółkach z udziałem zagranicznym [Law of Joint-Venture Companies]*, (14 czerwca 1991), Dziennik Ustaw 1991, No 60, poz. 253.
- Wschodzące rynki. Polska liderem wśród Emerging Markets [Emerging Markets. Poland as a Leader Among the Emerging Markets]*, (1995). "Nowe Życie Gospodarcze" No 2.