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THE MAIN DETERMINANTS OF THE SECTORS AND INDUSTRIES OF THE POLISH ECONOMY FOR FOREIGN DIRECT INVESTMENT

Abstract:

On the basis of the available material I shall investigate the attractiveness of sectors and branches of the Polish economy for foreign direct investment (FDI).

First of all, they are identified sectors and industries of the Polish economy which now became attractive from the foreign direct investors point of view. I shall also identify and specify the general conditions for investment in those sectors and industries.

Next I shall indicate the change of the sectorally-trade attractiveness of the Polish economy since the 90s., that is since the initial period of transformation of the socio-economic development in the country took place. In that period there was a significant improvement in the general conditions for foreign capital in comparison with the period of real socialism.

In the process of analysis I will attempt to compare the attractiveness of sectors and industries of the Polish economy and the economies of European countries, especially the Central and Eastern Europe as direct competitors in the Polish struggle for obtaining foreign capital.

The basis of all of the analyzes will be mainly sources of the Polish Agency for Information and Foreign Investment, which, among other things, deals with searching for attractive locations for investment as well as materials Ministry of Economy and of the well-known consulting firm Ernst & Young.

Keywords:

attractiveness of sectors, attractiveness of industries, foreign direct investment

JEL Classification: A10, F00

Introduction

In the period of real socialism in Poland there were favorable conditions for foreign capital. The transformation of the socio-economic development in the market contributed to the gradual improvement of conditions at the micro-, meso- and macroeconomical level. You can believe that a change in the structure of sector investment attractiveness, has taken place.

The aim of the thesis is to identify sectors of the Polish economy, which are attractive for investments (especially in terms of FDI inflows) to identify and changes in the attractiveness of the turn of the transformation, as well as to identify the factors determining the attractiveness and its changes.

Attractive economic activities – current status and its causes

Based on the analysis, it was found that the currently attractive economic activities in Poland include the following sectors (www 6):

- modern services (especially business services and shared services),
- electronics,
- automotive,
- aviation,
- production of household appliances,
- engineering and metal,
- renewable energy sources (especially wind power),
- biotechnology,
- health tourism.

Some of these have a high priority. The priority sectors as having significant importance for the Polish economy, included the following (*Program wspierania...*, p. 27-34):

- automotive industry – in particular the manufacture of motor vehicles, bodies, trailers and semi-trailers, parts and accessories for vehicles and their engines,
- electronics – particularly the production of computers, equipment, and radio, television and telecommunications, systems and components (especially for automotive, energy, manufacturing household appliances, military),
- aviation – mainly the production of aircraft, parts and accessories for aircraft and engines, service activities in the field of repair, maintenance and overhaul of aircraft and aircraft engines,
- biotechnology – especially production in the field of white biotechnology applicable in industrial processes and red associated with medicine and health care (eg. the creation of new medicinal products),
- modern services,

- research and development.

Despite short-term volatility caused by the economic crisis, the yacht industry received high attractiveness. Polish company specialized in the construction of mainly small and medium-sized yachts. The high quality of the final product is the result of precise materials processing and traditional (manual) performed elements. In addition, Poland is regarded as a producer of good quality food. Food products enjoy popularity in Europe, having the opinion of very healthy, cultivated in an environmentally friendly environment, with high nutritional values (www 6).

Mentioned below are such general conditions for investing in attractive sectors of the economy as (www 6; *Program wspierania...*, p. 11; www 5; *Polska...*, p. 36):

- long-standing tradition in manufacturing (electronics sector, aviation, production of household appliances, health tourism),
- very well trained personnel, offering the highest standards of knowledge in their field – the existence of the human resources with expertise in industrial regions and the high level of education in the metropolitan sub-regions,
- high quality products and services, efficiency and low cost (the latter ceased to be one of the most important investment location),
- availability of raw materials base and expanded base of suppliers (including small and medium-sized enterprises prepared to work with large corporations as subcontractors),
- state support (the availability of government grants, especially for priority sectors, investment incentives for renewable energy producers, an obligation by law to purchase energy from renewable sources by enterprises engaged in the trading and sale of electricity, priority access to the grid for power producers renewable exemption from excise duty for producers of electricity from a renewable source, relief for small installations, the possibility of co-financing investments in clean energy from the Fund for Environmental Protection and Water Management),
- the numerous help of local authorities (tax incentives, the creation of relationships between enterprises and business environment institutions – in terms of industrial and technological parks and clusters, for example the Aviation Valley),
- the functioning of clusters created as a result of grassroots business initiatives without the participation of local authorities, which recently has a place in Poland,
- access to markets, including the EU's single market – a large potential for sales growth in Poland and other European countries (Poland an attractive place for developing export production),
- increase in investment in other sectors – generate demand for products of a given sector (eg. an increase in the metal sector contributed to an increase in the production of household appliances, automotive sector, construction sector,

which was the main beneficiary of the development programs of infrastructure – construction of new roads, bridges and stadiums),

- availability of land prepared for investment,
- originality of the industrial design (steel products, steel structures, plastic products, sanitary ware, ceramic tiles),
- the presence of foreign corporations that make reinvestments – on the one hand confirm the attractive business environment, and on the other – impact on improving the competitiveness of the sector.

Due to its nature, what requires supplementation is all which is associated with health tourism. Most of the spas located in areas offer unique (on a European scale) conditions of naturopathy and health services. Located in regions with diverse terrain and climate, close to the national parks and reserves, they offer the possibility of spending free time and use of the advantages of ecotourism. In addition to the high standard and quality of services, there are attractive prices and professional medical staff, characterized by modern equipment. A few years ago, the Polish tourist offer was enriched by "beauty farms", SPA institutes and wellness centers. Dental surgeries and cosmetic surgery clinics have also become a tourist attraction. Since Poland's accession to the EU, Polish medical practices and clinics have been signing contracts with the sickness funds of all member countries. Healthcare institutions cooperate with hotels, holiday resorts, yacht marinas, golf courses, travel agencies, which allows you to combine treatment with leisure (www 6).

It should also be noted that the more attractive Polish economy sectors contributed to the possibility of obtaining foreign aid, which were taken from the start of market reforms. The vast majority of aid programs was devoted to agriculture (its modernization, rural development), forestry and fisheries. Despite the fact that these sectors are not attractive, is undoubtedly foreign aid contributed to the improvement of their condition (Nosowicz, 2002, p. 4—201; www 1; www 2; www 4; *Program operacyjny...*, p. 8; www 3) .

Changes in sector investment attractiveness and their factors

In recent years, the rapidly increasing attractiveness as a location for Polish investments in service centers – you can say that becoming a regional and global services platform. FDI invested in our country in the 90s of the twentieth century were mainly concentrated in the manufacturing sector. Since then, the trend has been visible shift of FDI from production activities in the direction of services and increase the share of services in the structure of FDI inflows (*Program wspierania...*, p. 7,15).

More specifically, in recent years the importance of Poland has increased as a place of modern services, which include business services and common services. Poland has become one of the most promising in the world centers outside the company non-business processes (BPO – Business Process Offshoring). This was especially true of Krakow, which was in the forefront, and further - Lodz, Katowice, Tri-City, Wroclaw. A great potential for investments BPO has been indicated also by Rzeszow, Bydgoszcz,

Torun, Lublin, Szczecin and Poznan. But they put forward objections to the government about underestimating of the strengths of these places (*Kraków...; Improving...*, p. 8-44). Besides the conditions for investment in BPO, Poland has become attractive location of non-productive functions of the company. These shared services centers (SSC – Shared Service Centres), especially logistics, which is due to the strategic location of the country and the size of the internal market for the domestic buyers. For developed countries, Poland ceased to only be an attractive place for investment in industrial production due to cheap labor. Investments began to be more and more oriented towards intellectual potential of employees. Compared with other countries, Poland is a European leader in terms of placement of FDI in the sector of business services (BSS – Business Services Sector) and the services sector in common, and first place in the region of Central and Eastern Europe, having huge potential in this regard (*Atrakcyjność...*, p. 9-11; *Otwarty...*, p. 14; *www 6*).

In Poland, modern services began to develop after 2000. Mainly in the form of international service centers in the field of accounting and finance, information technology, customer service, warehousing, but also in research and development. In addition to the advantages of Poland as a country attractive for FDI in general, in the case of investments in the modern services sector, we should mention a large supply of modern office space (office market development) (*www 6; Przewodnik...*, p. 9).

Of the above-mentioned activities, referred to as modern services, Poland has become an increasingly counting center of advanced services. About this fact the following factors were decisive: a strongly growing market and an increase in domestic demand (telecommunications, financial sectors, manufacturing, administration and local government, small and medium-sized enterprises), the presence of well-known corporations sector, information technology, availability of personnel, quality of services and the level of creativity (the highest place of the young Polish specialists in international competitions for developers), the availability of high-quality aviation services and IT infrastructure, cost effectiveness (this factor, however, has lost its importance) (*www 6*).

It is worth noting the increased choice of Poland by international corporations, as a place to locate their R & D centres. The sector of research and development is an innovative sector of the economy, based on science and commercialization of its achievements. Opening of R & D centers in Poland is contributing to the expansion of facilities, innovation and ultimately knowledge-based economy (as part of its strategy to build competitiveness of the economy), which gives the opportunity for further development of the country. This is all the more important that spending on research and development in Poland are still relatively lower than in the EU. These centers are also tangible benefits for foreign investors, such as safety studies resulting from the stable growth of the economy, quality of work (to improve the quality of products) and productivity, reduce costs (low costs of research and development activities), access to qualified personnel (success scientists and students), a large development potential (a large number of young educated workers – Poland at the forefront of the EU in terms of growth in the number of young workers in the sector and their share in the

total number of people in the sector), large opportunities for development of cooperation of enterprises with the scientific community, to diversify core business, favorable location in the center of Europe. For these benefits, factors that are largely deciding to locate R & D centers in Poland, you need to add: investment incentives, regional development strategies and regional innovation strategies, the presence of R & D centers of world-renowned companies. International companies increasingly perceived Poland as a good place for investments that require advanced human capital. Achieved by these institutions excellent results motivated them to expand, resulting in increased employment, and optimistic forecast for human capital's further growth. Recent years have seen increased interest in opening of R & D centers both in the manufacturing and business services. Actually, research and development can grow in all sectors of the economy, but in Poland due to the industrial traditions and extensive research facilities, the especially attractive have been: aviation, automotive, electronics, telecommunications, information technology, biotechnology, biochemistry, Internet, medical engineering, pharmaceutical engineering, innovative technology, construction, robotics, nanotechnology (www 6).

Unfortunately, despite the positive phenomena described, Poland has not been found yet in the group of innovation leaders and the most attractive countries for locating R & D centers. It can therefore be expected that the policy towards FDI had not included world events and trends shaping the knowledge-based economy. The restructuring of the economy by the intensive use of knowledge would contribute to improve the international competitive position of the country. It is therefore important that educational challenges were focused on the development of the culture of innovation, higher quality training in new technologies, the introduction of efficient tax breaks for innovative companies, development of entrepreneurship. Generally speaking, a radical improvement of the infrastructure of knowledge (*Ernst & Young's 2013...*, p. 35-36). Although Poland was not in the group of world leaders in innovation, according to data at the end of 2013, it was the leader in the region of Central and Eastern Europe in terms of investment in the field of research and development, and this is mainly due to large IT organizations (Kędzior, 2014, p. 13).

Poland has become one of the most attractive location for international biotechnology projects. Biotechnology has been in recent times and still remains one of the fastest growing economy sectors in the country, and it is still an emerging sector. Particularly noteworthy is the development of technology, biofuel production process (slowly replacing coal and oil) and bio substances. The use of modern genetic engineering techniques results in production of hormones, antibodies, diagnostic tests. Moreover, the products in the field of biopharmaceuticals, enjoy fact of being recognized as the fastest growing branch of the sector. Polish biotechnology market had a substantial amount of untapped potential in the field of vaccines, protein drugs and reagents. In the near future we should expect a further increase in the domestic market of biotechnology. Development of the sector will be stimulated by FDI's, which flow into it intensified by the development of Polish biotechnology are huge scientific and research potential, very well educated staff, government policies conducive to

promoting investment in new technologies (investment incentives for biotechnology projects) developed raw material base, the development of sectors around biotech, finally competitive labor costs (www 6).

Wind energy has become a driving force for the Polish economy in the last few years. It was estimated that in 2012-2020, thanks to investments in wind farms Polish economy can be fund 22 billion zlotys. It estimated that the potential of this sector is huge (*Ernst & Young: energetyka...*).

Until recently, investment attractiveness was determined by the government's policy to promote foreign investors as important partners in the process of modernization and rationalization of the different economic activities, especially manufacturing industries (including high-tech, which uses advanced technology and the latest scientific discoveries), transport, information technology sector, banking and activities related to environmental protection (*Przewodnik...*, p. 9). In the autumn of 2015 the power was taken over by a party which is not a strong supporter of the preference of foreign capital. The phenomenon of non-payment of income tax by companies with foreign capital is not only Polish a problem, but the problem of whole Europe – it causes depletion of revenue for national budgets. The new Polish government is very serious plan to counteract this phenomenon by sealing of the tax system. It can be assumed that it will realise it with an iron consistency by, among others, changing the structure of income tax for companies.

Conclusions

Since the turn of transformation in Poland emerged positive changes on the map of investment attractiveness of sectors and industries. There was a tendency to move FDI from production activity towards services and in addition towards modern services. Despite this, disappointing is the fact that Poland was not among the world leaders of innovation. This means that it did not fully meet the global needs and trends to shape the knowledge-based economy. And the intensive use of knowledge would help to improve the international competitive position of Poland.

It is believed that we should prevent this unsatisfactory facts by taking the following actions towards the promotion of Poland in the group of world leaders in innovation:

- the development of tools for financing innovative projects, including venture capital,
- increase of tax incentives for innovative companies,
- improve the education and training in fields of new technologies,
- development of a culture of innovation and creativity,
- development of entrepreneurship,
- participation in joint research programs at the European level.

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