POLAND`S OUTWARD FOREIGN DIRECT INVESTMENT

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Abstract: *The paper contributes to the discussion of motives, determinants and effects of outward FDI of companies from emerging economies. We analyze the the scale, structure, geographical location and effects of Polish foreign direct investments as well as we prioritize their determinants. The interest of Polish companies in investing abroad has increased sharply over the last decade, due to the need to broaden the scale of business operations and geographical scope of their economic activities after the Poland`s accession to the European Union.*

Key word*: Poland; active internationalization of enterprises; outward foreign direct investment; FDI impacts; FDI determinants*

JEL classification: *F21*

1. Introduction

Internationalization of business entities through FDI relationship significantly increases the scale of the local economy with the global system of production and is an important part of building its international competitiveness. Foreign direct investments have been a major factor contributing to the Polish economic growth. The socio-political and economic transformation that has taken place over the last 20 years completely changed the conditions for the functioning of Polish companies, which in recent years increasingly decide to invest abroad, because in the course of their development, the natural need to broaden the scale of operations and the geographical scope of their activities appeared.

The aim of this paper is to identify and prioritize determinants of foreign direct investments made by Polish companies and show their geographic directions of and industry profile and barriers to expansion capital.

There is no one theory that explains the process of internationalization of companies entirely, so it is necessary to use the achievements of various theories together. Selection of the appropriate theoretical framework for the study of various aspects of the country`s investment expansion, also depends on what aspect of internationalization is analyzed. For the analysis of international economic expansion, in terms of the home or host country, the mainstream macroeconomic theories are used. Theoretical concepts explaining the phenomenon of FDI at the macro level (Dunning,1981,1986; Ozawa,1992) indicate that the economy has to reach a certain threshold level of development, to be able to become an exporter of FDI. Comparative advantages currently held by Poland are specific to the phase of international expansion, so it can be concluded that in selected sectors of the economy, this level has already been reached.

If the analysis of internationalization applies to the company, the more relevant are microeconomic concepts (Caves, 1996; Knickerbrocker,1973; Spencer, 2008) that emphasize the specific competitive advantages of individual companies undertaking FDI. They can be of economic nature as well as of psychological and behavioral one. They include the theory of the firm and of market structure. Common feature of microeconomic theories is the assumption that because of the need to operate in a different political, economic, institutional (Cantwell et al., 2010; Dunning and Lundan, 2008), legal and cultural environments, companies, undertaking international expansion, incur additional costs, which must be compensated in surplus. The reasons for international expansion are as many as the number companies being involved in it, but it is also influenced by the specificity of the sector, as well as by the driving forces of globalization (Porter 1996; Yip, 2004). Thus, the foreign expansion of companies depends on a number of motives like: high profits, business growth or motives that determine the achievement of such goals. The reasons for internationalization boil down mainly to the implementation of the objectives pursued by the company. Types of motives and their classification are very diverse, but the most distinguished are: market conditions (economic, business), costs, resources - in particular the acquisition of strategic resources - and political ones.

2. FDI size and growth

Since the beginning of this century, the investment activity of Polish enterprises at the world economy has been growing significantly. By the year 2000 Polish cumulative value of direct investments abroad (FDI) amounted to only 1 billion USD (see Figure 1). The rapid growth was observed after the accession of Poland to the European Union in 2004, with the record high of 9.2 billion USD in 2006. Now, after a decline, in relation to the global financial crisis, Polish FDI regain their momentum i.e. 7,3 billion USD in the year 2011 (see Table 1), increasing the cumulative value of to 49,7 bln USD in 2011 and 57,5 bln USD in 2012. This means that in the past 5 years of the financial crisis, the cumulative amount of funds invested by Polish companies rose by over 200%. In terms of outward investments Poland is in the 44th place in the global league table.
It is worth mentioning that a large part of Polish foreign investments are made through the companies located in countries with favorable tax regulations or/and favorable to the formation of the holding structures, which means that the official statistics do not account for a large part of such investments.

3. Geographical location

Polish firms have invested mainly in Europe (92,4% of all FDI – see Figure 2). They have carried out 78% of investments in the wealthiest, demanding and highly competitive the European Union markets (see Figure 3).

Table 1: Polish direct investment abroad in millions of USD (net transactions)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
16	-90	230	305	955	3392	9168	5664	4613	4562	7484	7335

Source: Balance of Payments Statistics, National Bank of Poland, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html.

However, most of these investments, in particular in Luxembourg, Belgium (and non-member Switzerland) are primarily financial in nature and associated with the capital structure of companies, transactions at third markets and tax issues. Luxembourg, that is perceived as a transit country for investments, has attracted 30,6% of Poland's cumulative FDI in the EU (or 23,8% of all Polish FDI), ranking ahead of Britain with 14,2% and two other transit countries i.e. Cyprus with 8,4% and the Netherlands with 7,8%, Belgium 7,1%. Lithuania with 6.4%, the Czech Republic with 6.3% and

Germany with 5.4% (see Figure 4). The most common directions of all Polish FDI is also Ukraine, USA, Russia and Romania.

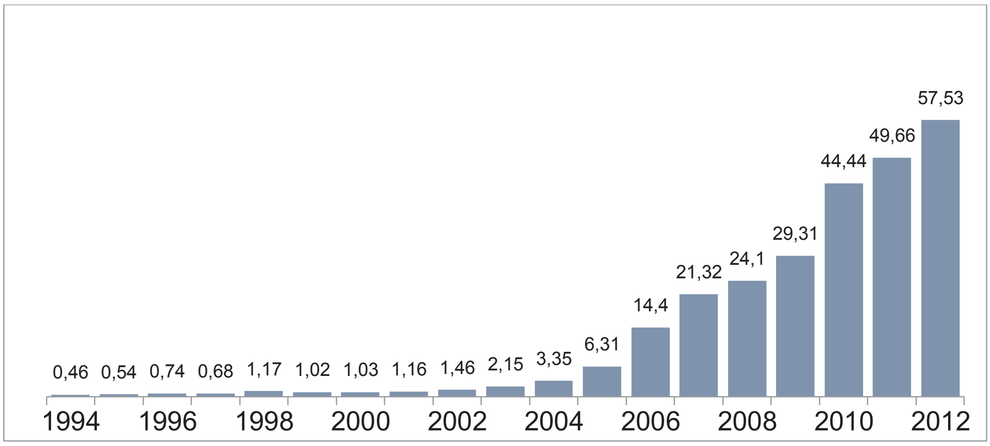

Figure1: Polish cumulative foreign direct investment,1994-2012 (in billions of USD)
Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html.

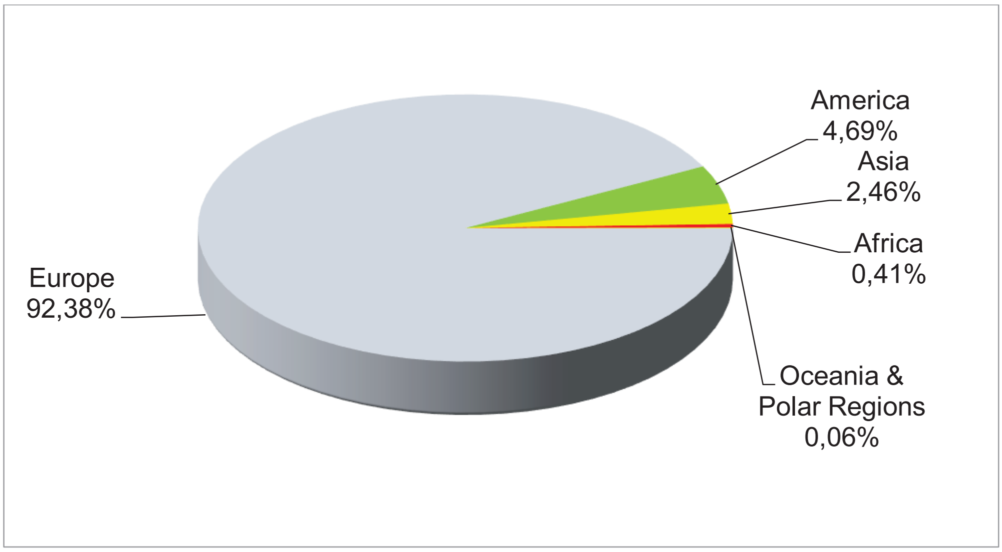

Figure 2: Polish cumulative FDI outward position at the end of 2011 broken by regions
Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html.

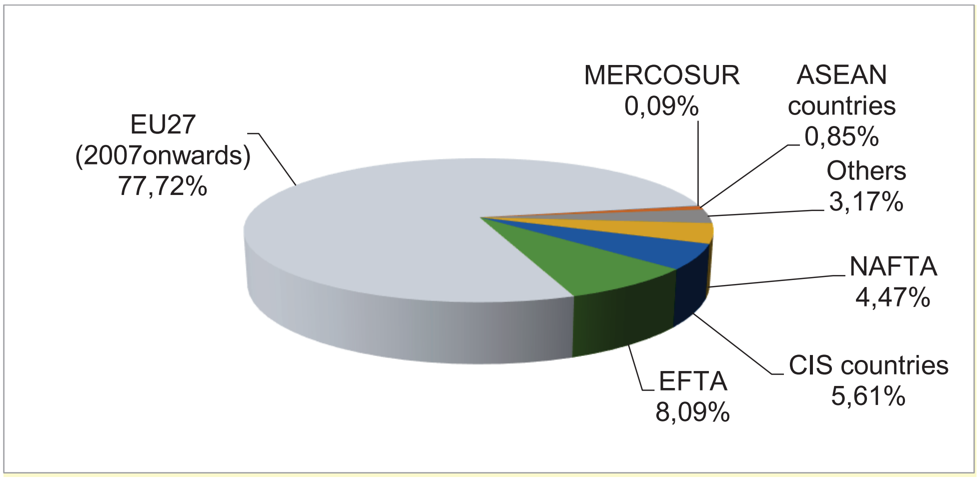

Figure 3: Polish cumulative FDI outward position at the end of 2011 broken by economic zones
Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html.

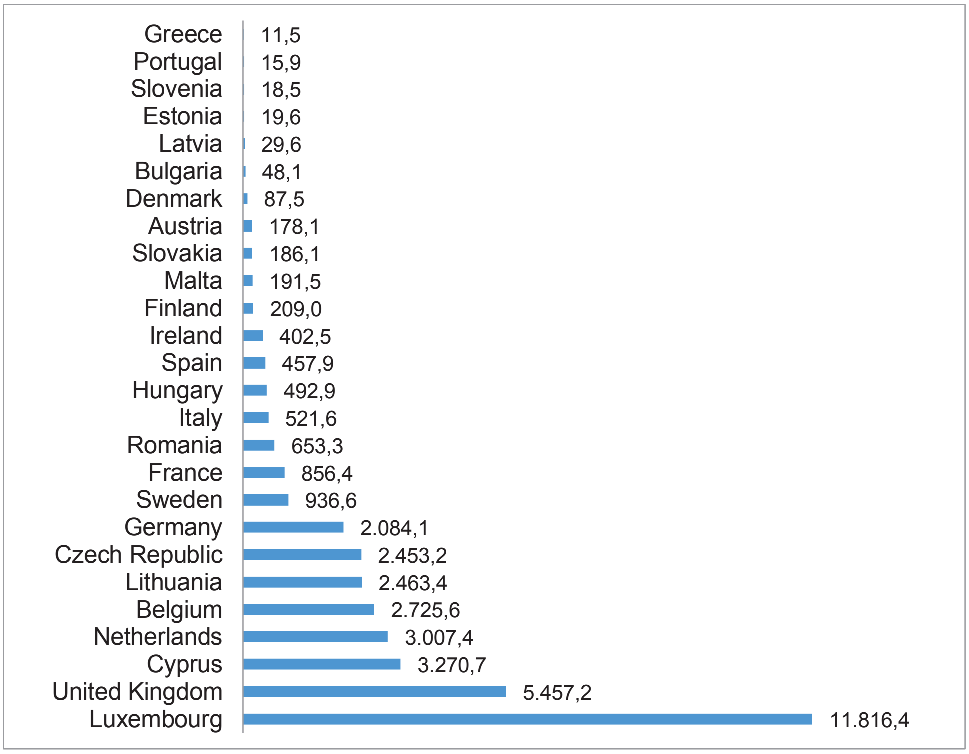

Figure 4: Polish cumulative FDI outward position in the EU at the end of 2011 broken by country (millions of USD)
Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html.

4. Distribution by sector

The investments are most highly concentrated in the service sector, which accounted for 53,5% of total cumulative FDI and 57,2% of total income on FDI in 2011, as well as in manufacturing sector that accounted for 34,6% of FDI and 15,1% of total income on FDI (see Figure 5, 6). Three industries stand out in service sector. Firstly, the professional, scientific and technical (holding activities) that accounts for 39,6% of FDI in services (20% of all cumulative FDI), but giving relatively small fraction of sectoral income, i.e. 7% and 4% of total income in 2011 (22% and 16% in 2010). Secondly, financial and insurance activities that accounted for 30,2% of sectoral FDI (15,3% of all FDI) and 60% of sectoral and 36% of total income on FDI. Thirdly, wholesale and retail trade, repair of motor vehicles and motorcycles that accounted for 21,4% of sectoral investments (10,9% of all FDI) and 18% of sectoral and 11% of total income on FDI (see Table 2).

Four industries stand out in manufacturing sector. Firstly, refined petroleum products and coke that accounts for 21% of sectoral FDI (7% of all cumulative FDI). Secondly, vehicles and other transport equipment that accounted for 14,9% of sectoral FDI (5% of all FDI) and 55% of sectoral and 9% of total income on FDI. Thirdly, food products, beverages and tobacco products that accounted for 14,3% of sectoral investments (5% of all FDI) and 20% of sectoral and 3% of total income on FDI. Fourthly, basic metals and fabricated metal products that accounted for 11,4% of sectoral investments (4% of all FDI) and 27% of sectoral and 4% of total income on FDI (see Table 3).

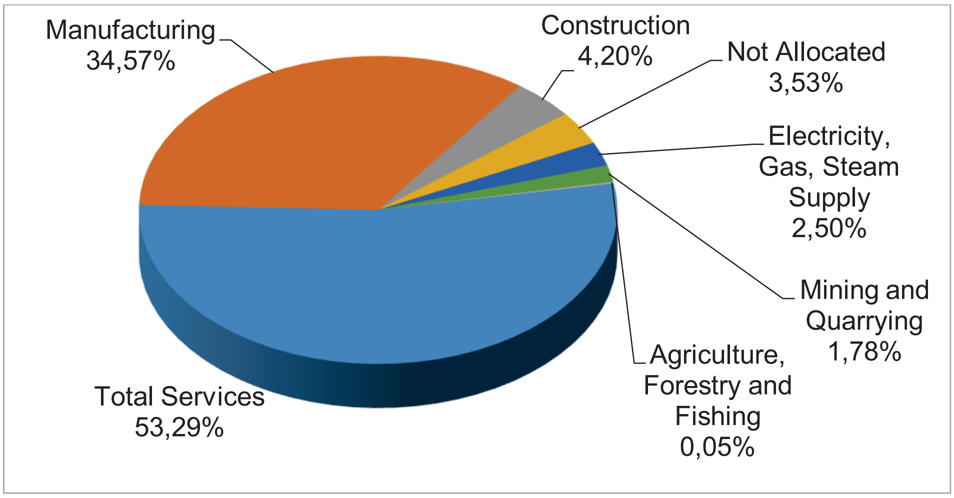

Figure 5: Polish cumulative FDI outward position at the end of 2011 broken by economic activity **o**f the non-resident direct investment enterprise
Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html.

Taking into account FDI/income ratio in service sector, the most income bringing were investments in financial and insurance activities, education, and wholesale and retail trade, repair of motor vehicles and motorcycles. Professional, scientific and technical activities, in which cumulative FDI have been the highest ones, FDI/income ratio was very low (see Table 2). In manufacturing sector the highest FDI/income ratio was in chemicals and chemical products industries, vehicles and other transport equipment, machinery and equipment, and basic metals and fabricated metal products. The lowest ratio was in refined petroleum products and coke industries in which cumulative FDI have been the highest ones in manufacturing sector (see Table 3).

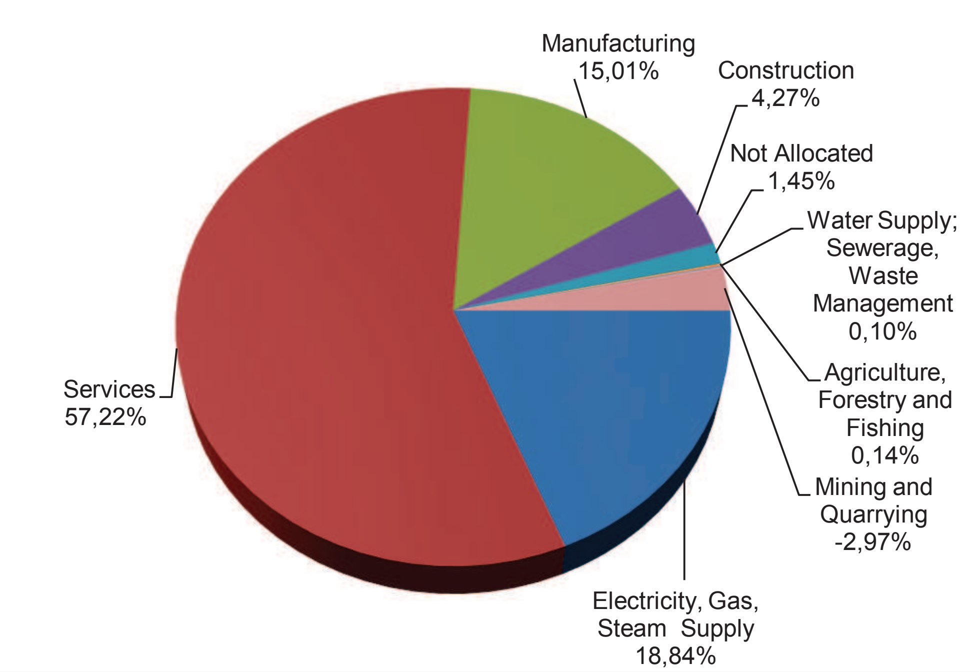

Figure 6: The share of sectors in total income on FDI at the end of 2011
Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html

Table 2: Polish cumulative direct investment in service sector at the end of 2011 broken down by industries (millions of USD)

Description	FDI	Percent of total	FDI income	Income/FDI ratio
Total services	26496.8	100,00	1020,0	0,038
Professional, scientific and technical activities	10 481,50	39,56	74,9	0,007146
Financial and insurance activities	7 994,20	30,17	606,9	0,076
Wholesale and retail trade; repair of motor vehicles and motorcycles	5 662,30	21,37	185,4	0,033
Real estate activities	2 002,80	7,56	-121,6	-0,061
Administrative and support service activities	933,3	3,52	84,2	0,09
Transportation and storage	418,7	1,58	7,9	0,019

Description	FDI	Percent of total	FDI income	Income/FDI ratio
Accomodation and food service activities	260,7	0,98	10,5	0,04
Education	11,2	0,04	0,7	0,063
Arts, entertainment and recreation	10,1	0,04	-1,5	-0,149
Information and communication	-1 326,30	-5,01	163,8	-0,124
Other service activities	39,9	0,15	-	-

Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html

Table 3: Polish direct investment in manufacturing sector at the end of 2011 broken down by industries (millions of USD)

Description	FDI	Percent of total	FDI income	Income/FDI ratio
Total Manufacturing	17 200,20	100	267,5	0,0156
Refined petroleum products and coke	3 609,50	21,00	-273,4	-0,076
Vehicles and other transport equipment	2 565,50	14,92	147,8	0,058
Food products, beverages and tobacco products	2 463,90	14,32	52,8	0,021
Basic metals and fabricated metal products	1 961,50	11,40	73,1	0,037
Other manufacturing	1 847,80	10,74	35,7	0,019
Rubber and plastic products	1 203,50	7,00	31	0,026
Chemicals and chemical products	1 079,30	6,27	148	0,137
Computer, electronic and optical products	1 026,70	5,97	4,8	0,005
Textiles and wood activities	524,20	3,05	15,2	0,029
Communication equipment and consumer electronics	502,10	2,92	0,2	0,000
Machinery and equipment	416,20	2,42	23,3	0,056

Source: own calculations based on National Bank of Poland data, http://www.nbp.pl/home.aspx?f=/statystyka/statystyka.html

5. Characteristics of Polish companies investing abroad

1443 Polish entities (in 2010) located their capital in 2988 foreign units in 96 countries. 2512 by acquiring shares, 358 by setting up branches, 84 setting up plants and 34 in other forms. They had direct shares in 2339 foreign units, indirect shares in 560, and both direct and indirect shares in 89 foreign units. In 1782 units they had 100% shares, in 598 from 50.01% to 99.99%, and in 608 units - up to 50%. 926 of 1443 entities, that had braches and subsidiaries abroad, were limited liability companies, 438 – joint-stock companies, 25 - general partnerships, 17 – 37 were limited partnerships and entities organized in other legal forms. The largest number of entities (488) were dealing with manufacturing (in their 921 foreign subsidiaries), 328 entities with trade and repair of motor vehicles (in 709 international units), 189 with construction (in 288 international units), 113 with professional, scientific and technical activities (in 258 international units). 1146 out of 1443 entities belong to groups of enterprises, 1802 were located in all EU countries. Approximately 52% of foreign entities were established in all seven bordering countries. Most of the foreign units were headquartered in Germany - 400, Ukraine - 356, and in the Czech Republic and Russia - respectively 246 and 231. The total number of employees (in all 2988 foreign units) amounted to 148,1 thousand foreign people, of which the largest share was in manufacturing sector (32.1% or 47.6 thousand employees). Exports of products, goods and materials, by foreign entities, amounted to 29,03 bln PLN. The largest share belonged to manufacturing units (85.7% or 24,9 bln PLN). Exports to parent company and to the subsidiaries within the group of companies amounted to 8,1 bln PLN (28.1% of total exports by foreign entities). The value of imports, carried out by foreign units, amounted to 44,6 bln PLN. As in the case of exports, the highest share of imports (83.5% or 37,3 bln PLN) belonged to the entities operating in the field of manufacturing. In contrast to exports, imports from parent and affiliated companies accounted for the vast majority of imports of foreign units (82.5% or 36,8 bln PLN). The investments in tangible fixed assets amounted to 3,7 bln PLN. The largest expenditures on assets incurred in foreign units engaged in manufacturing - 1,2 bln PLN or 32.5% of total expenditures *(*Działalność podmiotów, 2012).

The nature of business was different in the case of 1223 foreign entities (of all 2988) as compared to the basic economic activity of the Polish parent company, while in 1765 units was consistent with the type of business carried out by the Polish entity. Distribution of the number of foreign units according to their activities was as follows: 986 (33.0%) units were involved in the trade, repair of motor vehicles, 535 (17.9%) in manufacturing, 347 (11.6%) in construction, 260 (8.7%) in professional scientific and technical, 239 (8.0%) in transport and storage, and 621 (20.8%) in other types of activities. The largest revenues from sales of products, goods and materials were achieved by foreign units engaged in manufacturing (53,4 bln PLN), and in trade and repair of motor vehicles (35,4bln PLN). Taking into account the location of the foreign units, the highest revenues were achieved by international units based in the Czech Republic – 24,2 bln PLN and in Germany – 24,2 bln PLN. The biggest exports and imports also fell into units which were engaged in manufacturing, and trade and repair of motor vehicles, respectively export – 24,4 bln PLN and 2,5 bln, and imports - 40 bln and 12,6 bln PLN.

6. Motives and perceived effects of investments

The main motive for the investment decisions of Polish companies is the size of local market (86% of all FDI are in the EU and EFTA. See Figure 3). Relatively important is also the level of competition in target markets, the geographic and cultural proximity, the size of local resources, the low risk and political stability. A large geographical distance is a factor negatively influencing the investment decisions (see Figure 3), in the case of greenfield investments and acquisitions by companies in the production and industrial sectors, but it does not matter for services companies (Kowalewski and Radło, 2012). In particular, companies prioritize the reasons for investing abroad as follows:

1. access to the local market, 2. poorer, 3. increase in global market share, 4. blocking competition, 5. competitors has already done so, 5. access to local brands, 5. global market access, 6. access to local technology, 7. competition lower than in Poland, 8. diversification of product portfolio, 9. cheap labor, 10. business environment better than in Poland, 11. optimization of supply chain, 12. exchange rate prevention, 13. higher quality of human resources, that is an important factor when deciding on greenfield investments, and only to a small extent important in the case of brownfield ones (Polski Czempion, 2012*).* So, in the hierarchy of reasons, a development motive (access to foreign markets, or simply an increase in sales) prevails. High on the list is "global" motive, what means that many Polish companies have already recognized themselves as current or potential players in the world market. Significantly low position in that hierarchy occupy cost and efficiency motives. Investors perceive the effects of their investments as being poorer-than-expected, in the case of access to the local market and growth of the company, slightly poorer in the case of global market access and blocking competitors (Aktywność inwestycyjna, 2012). However, significantly higher-than-expected are perceived effects as to: diversification of product portfolio, cheap labour and competition lower than in Poland. The rest effects slightly exceed expectations.The main barriers and challenges in investing abroad, identified by Polish investors, are: cultural differences, organizational and administrative burdens and corruption in the host country). Also important are language barriers, problems with the distribution at local market, high operating costs and the lack of qualified workers (Polski Czempion, 2012*)*.

Many Polish companies point out that thanks to foreign investments are able to maintain or even boost sales, what often would be impossible without entering new markets and without creating new production capacity. They also obtain the stability by becoming less dependent on the situation at the domestic market, and get greater access to raw materials. Thus, foreign investment is a way to ensure the diversification of market risk related to the demand for company's goods and services, as well as the risk related to the security of a supply chain.

Polish firms, investing in the Far East and eastern markets, have competitive advantage in products and services that have been perceived as being of good quality for a long time. The fact that Poland is the member of the European Union strengthens its investors, that are perceived as serious partners providing world-class products. Many Polish entrepreneurs combine knowledge and experience, acquired in the course of over 20 years of transformation, giving them a clear advantage in less developed countries, that are still undergoing such transformation, over the competitors from well-established Western countries. They are able to work in a less stable and supportive institutional and administration environment. They show relatively high flexibility due to the smaller size and shorter decision chains, so they are able to respond quickly to changing market conditions and to adapt their products to the current market situation. The economic crisis may help Polish entrepreneurs to gain entry into foreign markets, as many buyers, even in developed markets, resign from expensive branded products and are looking for goods and services with the same quality, but at a lower price. Such a situation fosters the promotion of new brands (Polski Czempion, 2012).

6. In conclusion

The analysis showed that the Polish outward direct investments are made, as a rule, in Europe and the most popular investment directions are the European Union countries. The transfer of business operations abroad is due to financial surpluses, increased competitiveness and limited capacity of the Polish market. FDI are not nearly motivated by the search for natural resources, reduce the cost or by favorable taxation. Polish OFDI has the tendency to increase in parallel with its economic growth They are largely commercial in nature and are intended to support exports in the form of commercial offices and retail outlets. Thus, the outflow of domestic capital does not substitute for exports significantly so it is not very likely to influence negatively Polish economy.

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