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Outward FDI Policies in Visegrad countries **Country report – Poland**

Poland is the sixth largest country in the EU in terms of population and the largest market among the V4. Since 1990 Poland like other V4 countries has pursued the policy of economic liberalization. However, according to Eurostat among the V4 and even among the whole EU only Poland achieved the 1.6%GDP growth in 2009. The avoidance of the economic recession in the time of the world economic turmoil 2008-2009 gave Poland the name of “green island”. The relatively good performance of the Polish economy in the group of the CEE countries makes the Polish market still very attractive for the inflow of foreign direct investment (FDI). The World Bank report Doing Business 2013 confirms that the business climate in Poland has been improving. From the perspective of firms eager to invest in Poland there are some investment incentives like the opportunity to locate their business within one of the 14 Special Economic Zones, where investors can enjoy attractive tax exemptions, employment incentives and well-prepared infrastructure. Total FDI positions in Poland totaled 160 500 mln EUR at the end of 2013. The leading investors came from the EU. Having in mind the perception of Poland as a country with relatively good performance among the V4 group and thereof very attractive for the inflow of FDI we attempt to briefly describe the trends in the Polish OFDI stocks and flows and discuss the OFDI promotion. The question arises if we can perceive Poland as a location offering favorable conditions for firms eager to expand abroad not only via exporting but also foreign direct investment that calls for more resources and bears higher risk.

Description of OFDI trends

Following the transition commence, Poland's OFDI was almost negligible and limited to trade-supporting activities in key export markets for many years. It actually took off after EU accession in 2004, when the Polish private sector had matured enough to start generating home-grown multinational enterprises (MNEs) and state owned enterprises (SOEs) also began investing abroad. According to the data of the National Bank of Poland the Polish FDI stock has grown from 4 790 mln EUR to 20 650 mln EUR in the period from 2005 to 2013. The Polish OFDI flows were relatively volatile throughout the above mentioned period. In the years 2008-2009 that are recognized as time of economic downturn the flows were lower than in the pre-crisis time. But the decreases were not drastic as the flows amounted to EUR 3011 mln and EUR 3745 mln in 2008 and 2009 respectively. In 2013 Polish entities switched from investment to disinvestment and withdrew from abroad 1063 mln EUR. The Polish direct investment abroad declined mainly due to the reduced FDI activity with some traditional partners – Europe (395 mln EUR), especially Luxembourg (-2139 mln EUR), Sweden (-299 mln EUR) and Ukraine (-244 mln EUR).

As far as the geographical distribution of Polish OFDI is concerned, the main holder of Polish FDI stock is Europe. The share of Polish FDI in Europe in total stock oscillated between 90% (in 2005) - 93% (in 2013). A more detailed analysis reveals that Polish FDI stock has grown in almost all European country from 2005 till 2012. The top locations in Europe in terms of the total value of the outward stock (mln EUR) in 2013 were Luxembourg, the Netherlands, Cyprus, the Czech Republic, Lithuania and Switzerland. The leading position of Europe in the set of regions hosting Polish affiliates is followed by North America and Asia. The main North American location attractive for Polish investors were United States with the stock of 397 mln EUR in 2013. The share of Polish FDI located in North America (The United States, Greenland and Canada) in the period 2005-2013 was relatively stable at the level of 2%. Central America lured some Polish firms too. However, the share of Polish FDI in this market in total stock of Polish OFDI was quite small - around 1% in 2005 and less than 1% in 2013. South American markets are still less penetrated by Polish firms. But it is worth mentioning that the Polish FDI stock grew substantially in Brazil from 1 mln EUR in 2005 to 17 mln EUR in 2013.

Asia accounted for 3% of total Polish outward stock in 2013. The share of Polish FDI in Asia in total Polish outward stock fluctuated in the studied period between 3% and 4%. The most important Asian markets for Polish investors were India, China and Japan. The leading position of China was taken in 2010 by India.



African markets are still less popular among Polish investors. The share of Polish FDI in Africa in total Polish outward stock oscillated around 1%. The most popular markets for Polish companies are Liberia (113 mln EUR in 2013), Senegal (41 mln EUR in 2013) and Morocco (32 mln EUR in 2013).

As far as the sectoral structure of Polish OFDI is concerned it is dominated by services. There is visible a strong rise in services in the share of outward FDI stock in total outward stock from 29% in 2005 to 77% in 2013. The largest contribution to outward stock made the financial and insurance services as their shares in total outward stock grew from 31% in 2010 to 43% in 2013. High growth was recorded by the financial intermediation, too. This subsector increased its share in total outward stock from 3% in 2005 to 42% in 2013. Among industry sectors manufacturing has definitely prevailed with strong position of food products, beverages and tobacco products. Manufacturing was followed by construction and mining. Mining and quarrying have recorded a substantial increase since 2010.

The sectoral structure of Polish OFDI flows was changing in the period from 2005 and 2013. In 2013 the highest value of flows was recorded in construction (1108 mln EUR). The second position goes to financial and insurance activities (248 mln EUR). Polish entities withdrew their capital from professional, scientific and technical activities (-1894 mln EUR).

OFDI promotion

In the system of Poland's promotion abroad following instruments can be distinguished. There are measures aiming at advertising Poland as a brand and improving the image of Polish firms by addressing the *Polishness* as liability. Besides, during state visits Polish officials are frequently accompanied by representatives of Polish business (economic missions). Departments of Polish Embassies - Promotion and Trade and Economic Units - offer assistance to Polish firms setting up business there. Additionally, special system of information provision has been set up which provides insight into conditions for business activities on foreign markets. Finally, financial support for export is made available.

Actively involved is not only the Ministry of Economy but also specialised regional units (COIE), Agencies (PAIZ) and even Scientific Centres (NBR) promoting commercial dissemination of innovations of Polish scientists on foreign markets via competition/calls. The available support for the foreign expansion of Polish firms can be also divided into four groups:



- direct assistance - subsidies for licenses, publications, "passports for export", etc.;
- indirect - international promotion of the Polish economy financed by EU funds;
- institutional support for the business environment - pursued through departments for promotion and trade at embassies as well as Investor and Exporter Support Centers (COIE);
- financial instruments - guarantees, insurance, .

There is no comprehensive strategy for "going global", though selected strategies exist - "Go China" as well as the "Go Africa". In 2013 informational and promotional campaign "Made in Poland" has been launched with the aim to strengthen the image of Poland as reliable strategic partner among business and public opinion in Germany, Czech Republic, Ukraine, China, Russia. There are also some more unconventional support measures. The National Center for Research and Development runs a competition targeting innovative companies which commercialize research findings globally. The US-Poland innovation hub of Paulo Alto formed in the Silicon Valley which supports smaller but innovative and promising companies in networking and establishing partnerships with local businesses and ultimately moving into local markets and new promotional activities by some cities such as in Wrocław, where a hall of fame to recognize internationally successful companies has been set up. Another interesting option are dedicated programs and contests. Companies which successfully invest can enter a prestigious contest "Polish Company – International Champion" organized by PricewaterhouseCoopers under the auspices of the *Rzeczpospolita* daily. On the initiative of the ICAN Institute (the publisher of *Harvard Business Review Polska*) and KGHM, a Poland Go Global think tank was set up which commenced its activities with a conference in 2012. Its main purpose was to support the internationalization of Polish businesses by exchanging good practices and carrying out joint commercial projects. Support for the international expansion of Polish enterprises comes also from Citi Bank Handlowy which, together with the *Puls Biznesu* daily, acts as partner in the "Time for Economic Patriots" program.

Recent figures of participants in state arranged foreign economic missions seem to suggest that the perception of public support in internationalisation has changed. Whereas in 2012-2013, 460 companies participated, only in first half of 2014 there were 350 of them. There have been more missions and they have attracted more members.



Firms as beneficiaries of support

From 20th November 2014 until mid-February 2015 survey among representatives of Polish firms that invested abroad were conducted. From 19 approached companies only four have agreed and answered the survey. The short questionnaire encompassed 7 questions. One of the questions regarded the potential support delivered by the home government or any other bodies and institutions. The companies were given the short list of the following potential supporters such as Chambers, Ministry, Inv. Agency, EximBank, other bank, advisor firm, other. The next issue covered was the type of the incentive. Participants could indicate: fiscal (e.g. tax reduction), financial (e.g. grant), technical, information, matchmaking. One of the questions regarded the costs of the support and the multidimensional evaluation of the incentives - with the 5-degree scale from 1 to 5, where 5 stood for the best mark. The dimensions of the evaluation included: the speed of the service, its relevance and the level of bureaucracy the firm had to face. Last but not least, in case when firms took advantage of the incentives several times they were supposed to express their perception of the tendency visible in the support services. They could indicate improvement, worsening or "no change".

The investors surveyed in Poland represented IT sector, special appliances production, vehicles manufacturing and chemical industry. Among these four firms there was only one company that explicitly admitted using the public support measures in expanding abroad. It has taken advantage of diplomatic information and contacts. Thus the assistance received can be classified as "information. The support was free of charge. It was assessed as quick and relevant (4/5) and not much bureaucratic (3/5). Since the company applied for the aid more than once it can value its changes which it assessed as "improving". Surveyed appliances provider has taken part in some foreign fairs and economic missions. The vehicles producer named benefiting from fiscal and financial incentives mainly in the form of grants from the EU Funds. But this support received has not been directly linked to expansion process, nevertheless, it made the firm better equipped for internationalisation and in this way contributed to FDI.

Difficulties to obtain information from firms undergoing internationalisation and active abroad, which seem to be a commonplace unfortunately, may suggest the urgent need to consider launching some sort of reporting system. Obligatory reporting - duty to provide on a regular base official statistical offices with some basic information which will be then publicly available should not be underestimated particularly from research perspective but not only. It is even more important from the perspective of promotion of Polish firms in the international market. The justification for this initiative are the recent figures of



participants in state arranged foreign economic missions mentioned in the previous section. It seems that firms are beneficiaries but rather prefer not to admit being supported by public bodies.

Conclusion

The growing approval for foreign expansion with evident state support and promotional actions in this respect in Poland shall be seen as the result of long-term processes which started 25 years ago. Transformation induced several processes and triggered profound changes in economic landscape but foreign expansion does not seem to be one of them. Such presence of Polish firms abroad has barely begun. The recently observed acceleration of pro-expansionary actions seems to be path dependant. The last economic crisis may have only catalysed this tendency by giving more opportunities for cheaper acquisitions. Thus, internationalisation is not reaction to crisis but rather part of comprehensive processes of strengthening the economy by building larger multinational companies.

The statements expressed in this text exclusively reflect the views of its author.

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