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*FOREIGN DIRECT INVESTMENT IN THE ECONOMIC DEVELOPMENT
OF LOWER SILESIAN REGION 1998-2005*

**BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE W ROZWOJU
EKONOMICZNYM REGIONU DOLNEGO ŚLĄSKA W LATACH 1998-2005**

Key words: foreign direct investment, economic development

Słowa kluczowe: zagraniczne inwestycje bezpośrednie, rozwój ekonomiczny

Abstract. The article is an attempt of estimation of foreign direct investment meaning in the economic development of Lower Silesia 1989-2005. The article consists of three chapters: „The inflow and location of FDI in Lower Silesia”, „Phases of FDI inflow on Lower Silesia according to the number of companies and the value of foreign capital” and „Influence of FDI on economic development of Lower Silesia”. The first chapter consists of the synthetic analysis of the main terms and reasons of the inflow to Lower Silesia, location of FDI in subregions. The second chapter points the phases of FDI inflow on Lower Silesia according to the number of companies and the value of foreign capital. The last chapter is an attempt of pointing the influence of FDI on economic development of Lower Silesia. It consists of: investment expenditure of FDI in the region, an influence of FDI on the work market, level of employment and unemployment level, exports and imports of foreign capital companies, extension of innovation and organizational-technological development, the impact on the economic level development and the influence on the economy in Lower Silesia in the process of privatization.

Introduction

Against a background of the region Lower Silesia is considered as a very attractive region for the foreign investors, being in the country's province ranking close behind Masovia, Silesia and Małopolska. Its most important assets are great economic potential and convenient location. In the article there was shown the inflow process, location and influence of the FDI on the economic development of Lower Silesia in the transformation process based on rich subject literature and source data of the Central Statistic Office (CSO). The inflow and location of FDI in Lower Silesia

In Lower Silesian voivodeship there are very attractive terms for business operating, and also for location of foreign capital¹ [Kapitał 1990]:

- fast tempo of economy's transformation,
- long term and many area region economic development strategy,
- special economic zones,
- high communication access,
- fast telecommunication,
- developed banking net and business supporting institutions,
- high level of urbanization and concentration of the economic activity in the city centers,
- high level of job qualifications of the region citizens,
- access to the unemployed labour,
- valuable natural mineral resources,
- attractive environment, diversified green belts and mineral waters.

According to the studies ran by the Department of Economic Development of the Wrocław City Office the direct reasons that encourage foreign investors to run their business activities are²: absorptivity of the local market linked to the economic activity, human capital, high level of the

¹ On base of: Kapitał zagraniczny w województwie dolnośląskim w latach 1998-1999, SO Wrocław 2000, p.17-19; Spółki z udziałem kapitału zagranicznego w województwie dolnośląskim w latach 2000-2003, SO Wrocław 2004, p.18-21

² Data of the reasons of foreign capital inflow of the Wrocław City Office

technical and social infrastructure, developed economic structure, location at the important communication tracks, privatization and restructuring of the industry and also tourist attractiveness.

Among above mentioned the greatest meaning have: labour cost, geographical location, investing tradition (German capital) and region's developing perspectives that are expressed by the big economic potential of the voivodeship – its among the four provinces (Masovia, Great Poland and West Pomerania) with the greatest economic potential in the country [Leśniak 2004].

According to the IBnGR data Lower Silesia is placed on the 4th position in the investment attractiveness ranking behind Silesia, Masovia and Little Poland and its most important attribute is economical and social infrastructure and also activity of the authorities to the investors.

A very important meaning for the Polish regions restructuring have special economic zones (SEZ). The competition among regions refers, next to the subventions gaining and other forms of support from the central budget or EU means, firstly to the private investment encourage – businessmen, business organizations (domestic and foreign ones) [Winiarski 1999], so among the others in the form of SEZ creating. In Poland 1995-1997 there were 17 SEZ created (nowadays there exist 14 of them), three of them are located in Lower Silesia: Wałbrzyska, Legnicka and Kamiennogórska SEZ. In Lower Silesia SEZ have a developed infrastructure, besides greenfield fields they offer some industrial objects, buildings and halls as well as qualified labour force. Together in the Lower Silesian zones 7.5 billion PLN has been invested and the employment was 27 200 people.

The geographical structure of foreign investment in Lower Silesia has been changing for years. With regard to the capital location 1998-1999 the most of it was invested in Wrocław – 1977.1 million PLN (58.5% of all foreign capital), then in Polkowicki district – 395 million PLN (11.7%) and Strzeliński district – 253.8 million of PLN (7.5%) and in Legnica – 90.2 million PLN (2.7%). In Wrocław among many in region operating companies 1914 located their activity in the city or on its suburbs (Toyota, Volkswagen, Volvo, Coca-Cola and Pepsi Co). Particularly interests is in banking sector in where 72% of all city's foreign capital quantity were engaged (for example Irish capital in Bank Zachodni WBK SA – 585 million of USD and French Credit Agricole in Lucas bank SA – 260 million of USD). Next to it over 355 million of USD that is only 25% engaged the foreign capital in production (for example French Alcatel – over 150 million of USD and British Oxygen Corporation (BOC Group) – near 130 million of USD). In years 1999-2000 an interest of foreign capital in immobility services activity, hiring and business running³. Among urban boroughs of the region the most investments are located in subwrocławian Kobierzyce (Bielany cross): a chocolate factory Cadbury and glucose syrup works of American Cargill (36 million of USD), and also ice-cream works of Shoeller (10 millions of USD). A great investment is a furniture hypermarket IKEA (90 million of USD) and Castorama hypermarket (40 million of USD), Makro Cash and Carry (17.5 million USD), Tesco and OBI. Foreign companies willingly invest in other boroughs around Wrocław for example German Selgros in Długoleże, Roebben firm in Środa Śląska and British GKN in Twardogóra [Dolnośląska... 2002]. Taking into consideration the location of foreign capital in Lower Silesian voivodeship at the end of 2003 the greatest capital was still invested in Wrocław – 1698.9 million of PLN (32.7% of general quantity of foreign capital located in 695 companies), then in Wałbrzyski – 933.2 million of USD (18% in 50 companies) and in Polkowicki – 449.5 million of PLN (8.7% in 24 companies).

Phases of FDI inflow on Lower Silesia according to the number of companies and the value of foreign capital

Phases of foreign capital inflow to Lower Silesia in comparison to the phases of foreign capital inflow to Poland, according to the number of companies and the capital involved, show a great discrepancy.

1989-1994. Number of companies with shar owned by foreign capital was dynamically growing in that phase from 61 to 1742 which determined about 11% of companies on the whole, with foreign capital in Poland. Only in 1994, there were 936 new companies registered. Until 1994 the amount of the capital invested was systematically growing as well as due to its value and dynamics, and its accumulated value exceeded 333 mln PLN.

1995-1999. With the decrease of newly established joint stock companies with a foreign capital in

³ On base of the Economic and Analysis Department in Wrocław City Office Economical Initiative Department studies 2004

Poland, the dynamics of their growth became weaker in Lower Silesia. They constituted only 9.7% of companies with the foreign capital in Poland on the whole. In the valuable configuration it is possible to notice a constant increase of the amount involved in foreign companies capital. In 1999 a dynamic investment leap took place and 3.4 billion PLN were invested.

2000-2004. The decrease of the number of newly established companies with foreign capital was similar in Lower Silesia to whole country. In 2001 only 113 new companies were established and their participation in the foreign capital in Poland was kept on the level of 10%. In the valuable configuration the dynamics of capital invested into those companies was weaker and on the whole 3.1 billion PLN were invested. Since 2001 investments accelerated and reached 9.6 billion PLN in 2005.

Influence of FDI on economic development of Lower Silesia

In the whole period being examined, the share of foreign capital companies in investment expenditure was growing from 35.5% (1.9 billion PLN – persistent funds 1.5 billion PLN) to 40.5% (2.2 billion PLN persistent funds in it – 1.8 billion PLN). Companies dealing with industry, commerce and repairs, building services and property and firms services.

The share of employed in foreign capital companies in Lower Silesia county in 1998-2003 systematically grows (from 5.5% in 1998 to 8.4% in 2003). Hotels, restaurants and industry companies employ the highest number of people.

Out of existing and functioning companies in Lower Silesia country, in 1998 304 dealt with goods export and 241 exported their services. Out of the exporting companies, 237 dealt with production activity and the value of their export equaled 1.3 billion PLN which meant 95% of the general value of exported goods. In 1999, 594 companies dealt with export activity put of which 358 exported goods and 236 their services. The value of export increased twice as much as it was in 1998 and equaled almost 3 billion PLN. The value of services levelled the same and equaled 271.8 mln PLN. In 2000-2003, 45% of firms imported and 35% exported goods and services. In 2001 a higher rate of growth was observed, however, from the beginning of 2002 after a meaningful growth of export value by 18.7% in comparison to the previous year and the decrease import value by 13.5%, a faster pace of export could be noticed.

The biggest group of exporters and importers as well were entities dealing with industry and commerce.

Extension of innovation and organizational-technological development comprise the effect of demonstration, competition and effect learning by watching.

As it can be concluded from opinion pools conducted in December 2003 by Institute of Social Research in Sopot for the Centre of European Integration at Gdańsk University⁴, among categories of technologies introduced to enterprises with the arrival of foreign investor, the biggest meaning was played by new machines and devices, new methods and general quality improvement.

It isn't doubtful that LG Philips LCD constant innovation and technological development have been the most spectacular phenomena in Lower Silesia. The giant of electrical branch announced their decision on building a supermodern factory in suburban community of Kobierzyce. In Biskupice Podgórne, there will be wide-screen screens LCD produced. Primarily production lines will carry 3 mln of screens annually and in 2011 – produced 11 mln of units. LG Philips investment is outstanding not only because of the amount of the edition but also because of new vacancies. Straight after LG Philips there will be 6 new subcontractors in Kobierzyce. They are going to invest 1.1 billion PLN into their factories and will employ about 7000 people.

New enterprise of Taiwan company Advanced Digital Broadcast (ADB) is to be launched in Wołów. The firm was founded by Rybicki, Polish engineer living in Taiwan. It is going to deal with software and decoders for Polish digital television.

⁴ A survey studies ran in December 2003 roku by Pracownia Badań Społecznych for Ośrodek Badań Integracji Europejskiej. Among the surveyed companies there were 151 companies with foreign capital. Surveyed were also companies with Polish capital only (38 companies) to identify and point the intensiveness of technology transfer effects from companies with foreign capital to the Polish ones.

Italian company Adeo Group opened an enterprise producing screens for videopresentations. In the built factory (for 11 mln PLN) there will be 23 vacancies. 30 thousands of screens of the width of 2-4 m will be made and about a thousand of the width up to 20 m.

3 M is also preparing for new modern technology investments. The owner of old Viscoplast has recently bought a 13- hectare land for about 10 mln in Kowalska street.

Americans are going to build a new factory. It is not the only venture of this consortium in Wrocław. In this very year, in Wrocław, there is going to be a production of light plaster launched for 30 mln USD.

Research Centre – so-called prototype house – which is going to be launched by Whirlpool. Engineers from Wrocław will be preparing new models of products for the consortium factories all over the world.

Siemens is also systematically developing its department in Wrocław, where they deal with software for mobile network representing the newest generation (UMTS system). This is the biggest centre of the consortium of this type in Europe.

Lower Silesia is also very much appreciated by household equipment companies. It is mainly due to traditions of the region itself. A classical industrial cluster is being created here. Giants bring subcontractors who very often produce for more than one client.

New ventures are planned, among others by owners of long-term tradition. In April last year, a new board in Whirlpool Europe announced that they are going to invest about 100 mln Euro into rebuilding the factory in Wrocław. In September 2005 kitchen tiles factory was officially launched. About 500 vacancies are to be found there.

A Spanish group Fagor, owner of Wrozamet is going to cover expenditures of 131 mln PLN of new washing machines and fridge factories. Already existing line producing cookers will also be rebuilt. The launch of production is planned to be started in March, next year.

Introduction of a Swedish giant into the market was the most spectacular event of the ending year. Electrolux is building 3 factories in Lower Silesia. In Żarów there will be dishwashers produced. All in all Electrolux is going to invest more than 300 mln PLN into Lower Silesia factories and is going to create 1000 vacancies.

The GDP level of reached economic development in Lower Silesia can express outcomes of industrial conversion in the region. Due to preliminary analysis it can be concluded that GDP developmental slump also influenced Poland and the economy in Lower Silesia 1989-1992 as well. GDP slump in this region *per capita* turned out to be more severe than average in the country. From the very 1993, with a gradual increase of economy, the country experiences GDP growth in Lower Silesia. A question appears: when and if Lower Silesia is going to reach the level of development from 1989? According to the optimistic version the rate of economic development of counties shows that the economic growth in Lower Silesia was faster and its level was being rebuilt till 1995. Simultaneously the GDP rate *per capita* exceeded the average one in the county. According to the new version in 1995-1998, economic growth in the region was slower than in other ones and GDP *per capita* placed the region on 4th position. If that tendency of development had been keeping on it could have been considered as the consequence of double industrial conversion in the region and factors such as outcomes regarding negligence of development in the two primary phases and outcomes of recreations being made under the conversion influence leading to market economy [Kociszewski 2002].

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Analysis of results of FDI inflow to the region of Lower Silesia, outcomes of comparable inflow analysis GDP and FDI per capita, employment and unemployment in 1993-2004 should be taken into account (Table 1, Graph 1). It can be seen from the graph that a considerable growth of GDP dynamics in the region as accompanied by a slow GDO growth *per capita* and also by a slow but constant increase in employment and decrease in unemployment.

Most distinctly the influence of foreign capital on the economy of Lower Silesia can be established on the basis of foreign capital shares in the process of privatization. In this process, among the total number of companies in Lower Silesia, are private companies. Simultaneously in relation to the national rate, this section reached much higher incomes – 56.4% and employs 55.5% of the total number of employed, however, in relation to the share in investments the rate is lower – 34.5%. Predominance of foreign capital in privatization of the region can be seen in the relation of the total number of companies in the private sector which states 47%, but also has much bigger

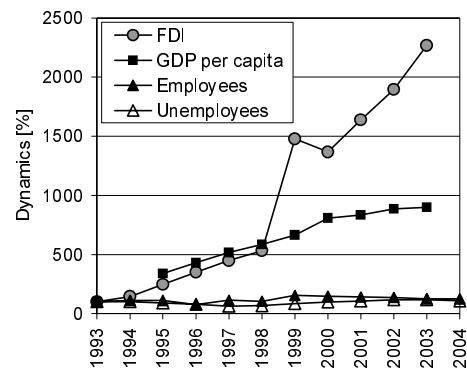
Table 1. The amount of FDI, GDP per capita, employment and unemployment in Lower Silesia 1993-2004 according to the administrative partition after 1998

Year	FDI		GDP per capita		Employees		Unemployees	
	millions PLN	dynamics (1993=100)	PLN	dynamics (1993=100)	number	dynamics (1993=100)	number	Dynamics (1993=100)
1993	228.7*	100	2445.0	100	702400	100	238300	100
1994	333.1*	145	-	-	775735	110	240500	101
1995	565.8	247	8300.0	339	774407	110	216400	91
1996	798.5	349	10507.0	430	525995	75	189600	79
1997	1026.6	449	12619.0	516	791962	113	150000	63
1998	1214.8	531	14290.0	584	730234	104	160510	67
1999	3380.8	1478	16273.0	665	1072639	153	203376	85
2000	3124.1	1366	19765.0	808	1025616	146	231653	97
2001	3744.1	1637	20380.0	833	974805	139	252450	106
2002	4333.6	1895	21193.0	887	961803	137	279309	117
2003	5189.5	2269	21986.0	899	876031	125	278271	117
2004	-	-	-	-	875865	125	257129	108
2005	9575.0	4187	-	-	-	-	-	-

* values in PLN

Source: own calculations based on Statistical...1993-200, GDP according to provinces in 1993-2005, GSO, Katowice 1994-2006

shares in incomes – 52%, and simultaneously employs fewer people which is 45.5% of the total rate of the employed. It results from the fact that foreign capital is much more effective from the national, realizing its own goals – profits, as at smaller shares in the total number of companies, lower rate of employment, it has a higher efficiency and invests more and has more than half of shares in incomes of all companies from the private sector. The specificity of foreign inflow on privatization in Lower Silesia on the background of the whole country is seen due to the rate of foreign capital shares income among private companies and equals 56.4% in Lower Silesia (in Poland 48%). In Lower Silesia foreign private capital employs 45.5% (national 45%), and in Poland 46.7% (national 55.5%). Among private companies the employment equals 55.6%, and foreign 44.5%. The income of foreign capital companies is higher and equals 52% (national 48%).



Graph 1. Dynamics of the FDI inflow, GDP per capita, employment and unemployment in Lower Silesia 1993-2004 (1998=100)

Source: own calculations based on Statistical... 1993-2006, GDP according to provinces in 1993-2005, GSO, Katowice 1994-2006.

Conclusion

Research on the impact of foreign capital on economic development of Lower Silesia could not have been conducted without a previous detailed analysis of its circulation in world-wide, European and nationwide economy as well. The analysis above let one to determine its circulation in a global scale as stated before. Foreign affairs politics has also got a considerable impact on its size and structure. It is symptomatic that system transformation has influenced the inflow to Poland.

Foreign capital impact on the level should be considered not only from effectiveness position, but also from the positioning process. Foreign enterprises put the pressure on the competition increase of enterprises gathered. *Glocalisation* is a neologism made up of two words: „global” and „local” – enterprises exist and function in worldwide scale, but still use the specification of local

sources [Pietrzyk 2002]. Foreign capital companies aim at making new contacts with local environment, its authorities, take part in satisfying needs of local environment and training employees and in charity actions. Those are not universal basics, but a considerable part of companies tends to tighten this type of cooperation with economic activity environment. Foreign capital companies, running in regions, are described as corporate citizenship (corporate citizenship) [Bąk, Kulawczuk 2006]. In this manner new patterns of highly developed activity countries, take adjustment attitude being in accordance with existing interests of companies in the local environment.

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Streszczenie

Artykuł prezentuje rolę i znaczenie bezpośrednich inwestycji zagranicznych w rozwoju Dolnego Śląska. Na podstawie danych statystycznych omówiono wpływ inwestycji zagranicznych na rynek pracy, rozwój produkcji, export i import regionu.

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