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FDI and Trade : Exemplification of Poland and other Post-communist States

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FDI and Trade. Exemplification of Poland and other Post-communist States

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FDI and Trade.

Exemplification of Poland and other Post-communist States

1. Introduction

Study is focused on mutual relations between FDI and foreign trade in economies going through systemic transformation after 1989. Its aim is to indicate: (1) how big were the streams of FDI inflows and outflows; (2) what were the institutional arrangements for liberalization of FDI and trade; (3) what type of impact had FDI flows on foreign trade: was it stimulated and if so, in what direction (imports or exports); (4) who were the main investors (states engaged in capital exports) and branches most attractive for investors.

The study is illustrating a new approach to international economic relations in which assumption that production factors are not transferable internationally on large scale and thus stimulating foreign trade is replaced by an assumption that production factors are transferable and thus stimulating trade and in consequence wealth. They also increase interdependence within the process of integration on regional scale and globalization on worldwide scale.

Study is aimed at showing scale of flows and their role in restructuring and deregulating the economies in transformation, bringing them at the same time closer to newly formulated division of labor in which globalization is a process seen as integration on a wider scale than during previous years within the divided world.

2. Theory on FDI and trade

Transferred capital are financial means which used abroad create obligation between exporter and importer. Savings in households, companies, national budgets, banks, etc forms such capital. Transferred savings can be used for financing consumptions or investments. Their meaning in transformation is rather crucial as course of transformation, namely starting conditions, decide that the process is conducted in specific setting, characterized by lack of savings and in consequence lack of capital. Lack of savings in one group of countries can be recompensed by their availability in another group. This can not be done automatically but requires at least two conditions: (1) economy, desiring to import capital needs to be open up for capital transfers in both ways (imports and exports), what should be done in a reliable manner, assuring guarantees for investors, that their capital will not be captured (nationalized, or trapped in another way in the economy); (2) economy should be attractive for investors guaranteeing that their capital engagement will bring profits.

Capital transfers are subordinated to concept of bringing profits to its owners. This does not mean that transfers are profitable only for exporters as they are profitable for importers as well by creating jobs, stimulating foreign trade and finally by taxes financing state budget.

Practice shows that importers of capital turn into exporters with advancement of development of their economies. This was the case with Asian tigers; this is evidenced also by the experiences of East-Central European economies.

International capital transfers consist of two main streams: (1) credit moves; (2) production capital moves. Credit transfers or borrowing capital transfers are financial inputs transferred internationally embracing different types of securities (often obligations) but excluding shares. Production capital is present in international transfers in form of portfolio investments or direct investments. Transfers of capital are more complicated than transfers of labor, especially when we compare immediate results of both transfers. Labor transfers have immediate effect on the two economies engaged, while in case of capital transfers the effect is usually postponed in both cases either it is engaged in consumption or investment. In case of capital transfers investors are more threatened by risk, moreover transfers engage a number of middle-traders (making their profit on their own account). Both labor and capital transfers have impact on balance of payments. In case of labor transfers positive effects for exporter occur when workers transfer their incomes back home, supporting their families. Such transfers do not occur when the whole family emigrates. Often money transferred is utilized as accumulation of capital and a starting point for future investments. In case of capital transfers the impact on balance of payments is different. Such transfers occurred mainly in transforming economies in effect of privatization counterbalancing outflows of capital used for imports of investment goods¹.

Generally there are two following sources of profits linked to capital transfers:

- Interest paid to the lenders of different types of capital suppliers, which depends on type of capital engaged, length of period for which the credit was drawn; size of risk evaluated for the economy by specialized in this field of assessments companies; type of engagement – how long the capital is frozen before it starts to return profits; environment for business in the economy; etc.
- dividends paid for foreign portfolio investments.

Same as in case of labor transfers – capital transfers bring qualitative and quantitative effects for the economies engaged in the process. They can be studied for exporter and importer. In both cases they bring additional incomes to: capital owners and country hosting capital, achieved by the size of marginal value of production of the invested capital, which traditionally is smaller in developed economies and higher in economies

¹ E. Kawecka-Wyrzykowska, E. Synowiec (red.) Unia Europejska. Przygotowania Polski do członkostwa, IKiC, Warsaw 2001, p. 654.

representing lower level of development. This is so at the starting point when those differences decide about the rentability of engaged capital: usually with perspective of lower increases in exporting capital economy and higher in importing (Cobb-Douglas).

Transfers of capital bring different results in both economies engaged as exporters of capital and importers. In country exporting capital following effects can be observed:

- the size of capital engaged in production is getting smaller, what results in the decrease of size of production;
- the average and marginal production of capital is increasing;
- the interest rate is increasing.

In country importing capital one can observe:

- increase of capital engaged in production, causing increase of production;
- lowering of marginal and average production of capital;
- decrease of interest rate.

The listed effects should be supplemented by following additional effects:

- increase of incomes in both cooperating economies;
- direct income from capital exports and imports;
- positive effect of capital transfers on capital market.

The division profits (loses) of foreign capital engagement between two parties occupied by the transaction should be defined in a study dealing with capital transfers. Generally most economists represented view that the exporter of capital gains more from capital transfers (McDougall², Kemp³) but according to other theories (Ruffin⁴) the capital moves to economies well supplied in labor what in result gives more profits to those economies better supplied in labor than in capital.

The profitability of capital transfers is changing when goods transfers supplement transaction as well as changes of technologies applied in production. Economists argued that trade of goods indirectly causes leveling of factors of production, while production factors transfers cause leveling in direct form (Mundell⁵). Technical knowledge is one of the factors that influences productivity and thus profits of parties engaged. Capital and labor transfers are both channels through which technical knowledge is transferred. Traditional theories assumed that technology and knowledge are fixed and thus do not have specific impact on

² MacDougall, R.H. Snape (ed.), Studies in international economics, McGraw Hill, New York 1980.

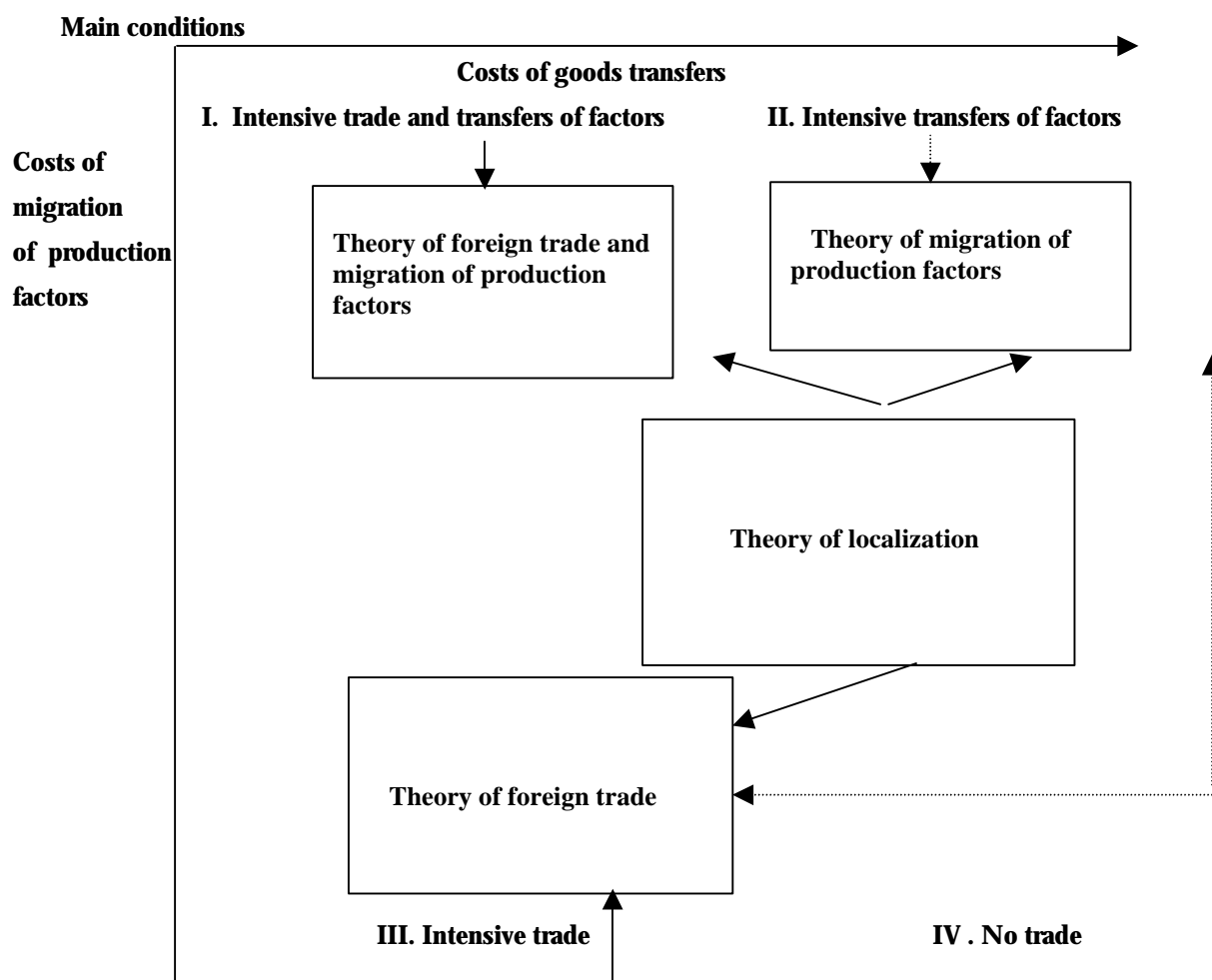
³ M.C. Kemp, The Pure theory of international trade and investment, Homewood, Englewood Cliffs 1996.

⁴ R. J. Ruffin, International Factor Movements, in: R. W. Jones, P. B. Kenen (ed.) Handbook of International Economics, North Holland, Amsterdam-Washington, Oxford 1984.

⁵ R.A. Mundell, International trade and factor mobility, American Economic Review“ 1957, vol. 47.

productivity, trade, capital transfers and profits. Capital transfers, namely imports are enabling quick (accelerated) catch up effects in liberalized economies well supplied in labor. Such strategy is more sufficient than autonomous attempts to obtain technologies available on world market. Import of technologies is more effective in financial, technical, organizational and time terms than attempts to introduce own inventions. Nevertheless, a state that applies a catch up strategy has to improve its research and development potential in order to be able to upgrade the imported licenses used in production. The formerly mentioned problems (capital, technology and labor transfers) are especially important in context of development of transnational corporations.

Chart 1. Simplified model of linkages between localization theory and international trade theory



Source: J. Misala, Współczesne teorie wymiany międzynarodowej, Warsaw 2001, p. 230.

Theories of capital flows can be divided into macroeconomic theories and microeconomic theories. The first group embraces theories linked with volume of production, absorption, currency areas, differences in costs of production factors, position of investor, effectiveness of the production factors, differences in the interest rates, expectation concerning productivity gains, while micro theories embrace portfolio investment theories, companies behavior, ownership, financial liquidity, competition, theory of internal transactions and finally mixed theories which can be represented by complex theory of eclectic international production theory (Dunning⁶).

3. Conditions for FDI flows in ECE economies

Conditions for FDI flows embrace internal and external issues. External problems are linked with ways of entering the market enabled to capital flows by institutionalization and autonomous decisions. Capital flows are enabled and guaranteed by regional agreements (Europe Agreement, membership in EU, OECD) or global arrangements (GATT/WTO, IMF – art. 8 on convertibility). Internal conditions that are taken into account by investor while studying different opportunities of engagement embrace: level of interest rate, supply in labor and its quality, assessment of risk, assessment of profitability, expected increases in productivity, institutional and legal arrangements, level of taxes, quality of infrastructure, size of market and its absorption, political and economic stability, etc.

4. Definition of FDI and Available Sources of Estimations

Generally sources giving information on statistical data on FDI can be divided into national and foreign ones⁷. National sources of information on FDI in Poland embrace: (1) Polish Agency of Foreign Investments (PAIZ); (2) Central Statistical Institution (GUS); (3) Polish National Bank (NBP); (4) specialized institutes. Foreign sources embrace: (1) data given by international organizations (OECD, UN, WB, IMF); (2) specialized institutes. There is no need to say that data given by foreign sources also differs.

Definition of PAIZ - covers concluded investments and short time commitments of the investors as well as credits granted by international organizations. Data does not include investments under 1 million US\$. The main critic addressed to this source of information about

⁶ J.H. Dunning, *Globalization, Trade and Foreign Direct Investments*, Elsevier, Amsterdam 1998.

⁷ Statistical data on the inflow of FDI (foreign direct investments) in Poland can be found in different sources. Each data is different, what is resulted by different definitions that are used by individual institutions conducting the estimates.

FDI is that they show value of the whole investment in the year when it is started, what should not be interpreted as inclusion of long-term commitments. Usually investments are carried in stages and PAIZ is showing future transfers as transfers already made. This is caused by method of collecting data which is based on inquiries send to the companies, the given answers result in outcome which are higher than those indicated by PNB and GUS. The main merit of this source is that it is updated twice a year and it shows the branch structure of investments as well as lists the names of investors and field of their activities.

Definition of PNB - is considered to be the most reliable by experts as they indicate transfers that have taken place and are shown in the balance of payments. Estimates conducted by PNB cover all transfers, even those of relatively small value. Additionally transfers registered by PNB include reinvestments of profits, which in reality are not new transfers of capital from abroad. This is a source which gives information on the structure of transfers in division to credits of the investors, reinvestment of profits, short time investments and investments in fixed capital assets. The procedure of calculations and processing of data conducted by PNB is time consuming, what causes rather big delays in availability of the information.

Definition of GUS - is based on data processed by PNB, what means that all remarks given above in comments for PNB definition are also applicable here.

Data from the three mentioned sources can be used for research on national level. For international comparisons it is necessary to use data based on similar definitions, ie. data, which is given by international organizations. All data indicates the trends in the inflows and illustrates the proportions between FDI inflows in different countries.

Coming to foreign sources giving data on FDI it necessary to distinguish two types of sources: (1) international organizations; (2) specialized institutions. First group embrace such institutions as UN, OECD, World Bank or IMF, the second one specialized institutes, which use the data available in officially accessible sources, ie. national data as well as statistics from international organizations. Information coming from the first group is based on specific questionnaires which are send out to statistical offices of countries covered by the research what is part of international cooperation on exchange of statistical data and transparency of the economy, considered commonly as part of the confidence building measure. Data available here shows different values than national data, despite the fact that official national resources are engaged in preparing it. This is caused by the structure of the questionnaire, which imposes common denominator in defining the FDI in different countries, making them more transparent and enabling international comparisons. All those sources use their own definitions,

which introduce additional difference in the levels of FDI in each country in comparison with remaining sources giving this type of information.

Conclusion: it is necessary to use one source in all dynamic analyses as all sources give different statistical data. Using the data it is essential to remember that it illustrates the scale of occurrence and main tendencies in this specific field.

5. FDI flows

All economies in the region can be evaluated according to above mentioned criteria, showing advantages in one set areas and disadvantages in other. Different sources give different evaluations of the inflows as the definition of capital flows in each case differs. Bellow two estimates are presented: one from UN World Investment Report, second from Transition report of the EBRD.

Table 1

Flows of capital to Czech R. Estonia, Hungary, Poland, Slovakia in 1989-2000

| State | 1989-1994 (annual average) | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------|----------------------------------|------|------|------|------|------|-------|
| Czech R. | 563 | 2562 | 1462 | 1300 | 3718 | 6324 | 4595 |
| Estonia | 153 | 202 | 151 | 267 | 581 | 305 | 398 |
| Hungary | 1152 | 4453 | 2275 | 2173 | 2036 | 1944 | 1957 |
| Poland | 788 | 3659 | 4498 | 4908 | 6365 | 7270 | 10000 |
| Slovakia | 137 | 195 | 251 | 206 | 631 | 356 | 2075 |

Source: World Investment Report 2001. Promoting Linkages. UN , New York Geneva 2001, p. 294-295.

In table gray color is used to mark those states, which experienced highest as well as lowest flow of FDI. Presented data is not fully comparable as all selected economies differ in size and size of population. According to latest UN Investment Report “FDI inflows into ECE increased in 2000 to new record level. Continuing the pattern of previous years. Western European countries are dominated those inflows, with member countries of EU accounting for a bulk of the flows. But inflows continued to be uneven, with three countries (Poland, Czech Republic and Russian federation, in that order) absorbing two-thirds of this region’s total inflows. “ In some states the flow rose, while in others it felt down. In Eastern Europe and Baltic Republics capital inflows were dominated by FDI, the share of which increased to 70-80% of the total net inflow. Croatia, Poland and Romania received net portfolio investments of some 2

billion (which also include around some \$5 billion in new (gross) eurobond issues). Those figures conceal the departure of funds from several domestic securities markets (e.g. in Czech Republic) in search of higher yields abroad. The narrowing of yields differentials – observed in most transforming economies – also seem to explain part of the outflow of short term funds, a widespread phenomenon in the ECE region in the past two years. Croatia was particularly hard hit in this regard⁸.

Table 2

FDI in Czech R. Estonia, Hungary, Poland, Slovakia in 1989-2001¹

| State | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|----------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Czech R. | - | - | - | 983 | 563 | 749 | 2526 | 1276 | 1275 | 1275 | 3591 | 4477 | 6000 |
| Estonia | - | - | - | 80 | 156 | 212 | 199 | 111 | 130 | 574 | 222 | 241 | 300 |
| Hungary | 187 | 311 | 1459 | 1471 | 2328 | 1097 | 4410 | 1987 | 1653 | 1453 | 1414 | 1650 | 1650 |
| Poland | - | 0 | 117 | 284 | 580 | 542 | 1134 | 2741 | 3041 | 4966 | 6348 | 9299 | 8000 |
| Slovakia | 10 | 24 | 82 | 100 | 107 | 236 | 194 | 199 | 84 | 374 | 701 | 1500 | 2000 |

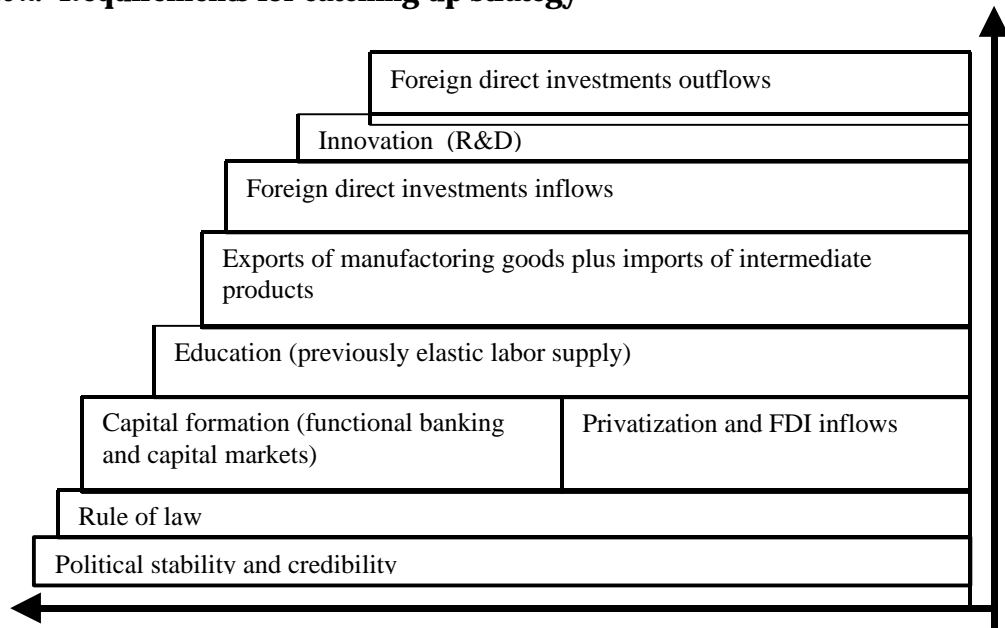
¹ Projection

Source: Transition Report update 2001. London 2001. p. 22.

Each of the states chosen for the conducted studies also started to export capital. Nevertheless, the proportion between imports of capital and exports are asymmetric. Value of outflows in the selected group of states is indicated bellow. According to development theory the consecutive stages of opening of the economy and transformation of the system lead from imports of capital to their exports, stimulating thus flows of goods on the side of exports as well as imports. This can be illustrated by chart prepared by P. Welfens.

⁸ Economic Survey of Europe. 2001 No 1. UN 2001, p. 137.

Chart 2. Requirements for catching up strategy



Source: P. Welfens, quoted after Economic Survey of Europe UN, No.: 2/3, N.York, Geneve 2000, p. 66.

The information given by chart 2 clearly indicates that external and internal liberalization is a precondition for normalization of relations with the surrounding world. This has to be conducted in parallel with systemic change in legal and institutional fields. Advancement of the reforms in individual states going through transformation of their systems is different, moreover applied strategies also differ one from another. Dynamics of growth as well as lack of collapse of the stock exchange can be considered as proof that the applied strategy is effective. Most of the countries in transformation are considered by foreign investors as similar economies. One financial crisis (like the one of Russia in 1998) causes evacuation of capital and destabilizes economies in the region. Reaction here should be less nervous as not all economies react in the same way on financial difficulties of remaining partners in the region. This is caused by reorientation of trade and stability of the economy guaranteed by solutions incorporated by the new system, in which experiences of Asian Tigers and Latin American economies are taken into account. Poland is the only economy which did not experience any tensions on financial market nor went through a collapse of stock exchange market. Moreover, it is the only economy in the region of transforming states of East Central Europe which indicates higher rates of growth than EU member states. Taking decision to invest – investors should be aware more of what systemic transformation is and what are the differences of strategies applied in individual states located here.

Table 3**Outflows of capital from Czech R. Estonia, Hungary, Poland, Slovakia in 1989-2001¹**

| State | Average 1989-1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------|----------------------|------|------|------|------|------|------|
| Czech R. | 77 | 37 | 153 | 25 | 127 | 90 | 118 |
| Estonia | 3 | 2 | 40 | 137 | 6 | 83 | 157 |
| Hungary | 22 | 43 | -3 | 431 | 481 | 249 | 532 |
| Poland | 14 | 42 | 53 | 45 | 316 | 31 | 126 |
| Slovakia | 13 | 10 | -5 | 42 | -4 | 7 | 1 |

Source: World Investment Report 2001. Promoting Linkages. UN , New York Geneva 2001, p. 294-299.

In the group of analyzed economies it was Hungary that experienced highest level of outflows of capital. This indicates that the country has enough capital for accumulation at home market and tries to gain in productivity engaging own capital abroad. This pattern will be followed also by remaining economies but it seems that such decision is still remote and thus gives an impression of something outdistanced. Relatively high outflows were noted in Estonian economy what can be interpreted in different ways. Firstly, this fact can be considered as indication of wealth of the people as it is interpreted in case of Hungary. Secondly, this can be considered as evidence of capital withdrawal from that economy by foreign investors. Thirdly, this can be explained by intensive investments abroad motivated in different ways. Fourthly, some investors prefer to keep their money in foreign banks not investing them at home. Finally, this can be seen as creation of new linkages connecting this economy with the former center in Moscow: New Arbat. Each of the solutions shows that different motivations could have been taken into account to explain the flow outside: some are linked with internal situation of the economy of exporter, others with external. Finally some are rooted in psychology and do not have economic background.

FDI flows can be considered as indicators of health of the economy. Nevertheless, not only size of inflows should be taken into account in analysis concerning economies which go through systemic transformation. It is advisable to look into rates of growth as well as differences between rates of growth of the transforming economies in comparison with the EU member states. Such comparisons will show that the schedule given in Chart 2 does not put an economy going through transformation of its systemic automatically on a catching-up path. Nevertheless, it shows what is required as a general framework to catch-up in development.

Table 4**Dynamics of economic growth in transforming economies in years 1989-2001**

| Country | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|----------------|------------|--------------|---------------|--------------|--------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Czech Rep. | 1.4 | -1.2 | -11.6 | -0.5 | 0.1 | 2.2 | 5.9 | 4.8 | -1.0 | -2.2 | -0.8 | 3.1 | 3.5 |
| Bulgaria | 0.5 | -9.1 | -11.7 | -7.3 | -1.5 | 1.8 | 2.1 | -10.9 | -6.9 | 3.5 | 2.4 | 5.0 | 4.5 |
| Estonia | 8.1 | -6.5 | -13.6 | -14.2 | -9.0 | -2.0 | 4.3 | 3.9 | 10.6 | 4.7 | -1.1 | 6.4 | 4.5 |
| Lithuania | 1.5 | -5.0 | -5.7 | -21.3 | -16.2 | -9.8 | 3.3 | 4.7 | 7.3 | 5.1 | -4.2 | 2.9 | 3.4 |
| Latvia | 6.8 | 2.9 | -10.4 | -34.9 | -14.9 | 0.6 | -0.8 | 3.3 | 8.6 | 3.9 | 1.1 | 6.6 | 4.0 |
| Poland | 0.2 | -11.6 | -7.0 | 2.6 | 3.8 | 5.2 | 7.0 | 6.1 | 6.9 | 4.8 | 4.1 | 4.1 | 3.5 |
| Romania | -5.8 | -5.6 | -12.9 | -8.8 | 1.5 | 3.9 | 7.1 | 3.9 | -6.1 | -5.4 | -3.2 | 1.6 | 2.5 |
| Slovakia | 1.4 | -2.5 | -14.6 | -6.5 | -3.7 | 4.9 | 6.7 | 6.2 | 6.2 | 4.1 | 1.9 | 2.2 | 3.0 |
| Slovenia | -1.8 | -4.7 | -8.9 | -5.5 | 2.8 | 5.3 | 4.1 | 3.5 | 4.6 | 3.8 | 5.0 | 4.7 | 4.0 |
| Hungary | 0.7 | -3.5 | -11.9 | -3.1 | -0.6 | 2.9 | 1.5 | 1.3 | 4.6 | 4.9 | 4.5 | 5.2 | 4.5 |
| Average | 1.3 | -4.68 | -10.83 | -9.95 | -4.53 | 1.5 | 4.12 | 2.68 | 3.48 | 2.72 | 0.97 | 4.18 | 3.74 |

Source: Transition Update 2001. EBRD, London 2001. s. 15.

Indicators characterizing the transformation of Polish economy are marked with gray color. No additional comment are supplied except information on average rate of growth in the whole period of 13 years after 1989.

Table 5**Level of GNP in candidate states, average dynamics of growth in 1989-2001, difference in dynamics towards EU states and position in EU according to size of GNP.**

| States in transformation | Average dynamics of growth in 1989-2001 | General growth of GNP in comparison to 1989 | Place in EU after becoming a member according to GNP criteria (GNP in billion euro in brackets) | Dynamics of growth of GNP in EU in years 1989-2001 | Difference between dynamics of transforming country and EU average in 1989-2001 |
|--------------------------|---|---|---|--|---|
| Czech Rep. | 0,44 | 98 | 16 (62) | X | -1.19 |
| Bulgaria | -2,66 | 70 | 22 (14) | X | -4.29 |
| Estonia | 0,3 | 82 | 25 (6) | X | -1.33 |
| Lithuania | -2,6 | 64 | 23 (13) | X | -4.23 |
| Latvia | -7,7 | 64 | 24 (8) | X | -9.3 |
| Poland | 2.29 | 127 | 10 (202) | X | 0.66 |
| Romania | -2.01 | 77 | 18 (42) | X | -3.64 |
| Slovakia | 0,72 | 103 | 20 (22) | X | -0.91 |

| | | | | | |
|----------------|-------------|-------------|----------|-------------|--------------|
| Slovenia | 1.3 | 114 | 21 (21) | X | -0.33 |
| Hungary | 0,85 | 105 | 17 (57) | X | -0.78 |
| Average | 0.91 | 90.4 | X | 1.63 | -2.38 |

Source: Own calculations based on data from Transition Report Update 2001, EBRD, London 2001.

Indicated data do not require additional comments. It is not size of the economy that plays main role in attracting the flows of capital it is the prospect of better return of invested capital that matters. Poland since 1989 has applied very strict policy which has brought about speculative results. Now after temporary slow down of the economy, caused by second stage of reforms a new jump in rates of growth are expected. The first “growth miracle” can be considered as effect of utilization of simple reserves in the economy. The second, coming one will be stimulated by inflow of foreign capital.

4. FDI and trade

There were several factors that decided about the tendency observed in foreign trade of the group of countries in question. It is difficult to pick up direct linkages between foreign direct investments and participation of the particular economy in trade, although some signs of mutual relations between the two can be tracked. Nevertheless, several occurrences, independent from FDI had impact on foreign trade in those countries. Those were changes in raw material prices, changes of prices of oil, fall of manufactured commodities prices, changes in competitiveness caused by changes of exchange rate values of import and export markets. Finally, in some cases institutional competitiveness has changed: ie. this was experienced by Lithuania joining European Economic Area. In such circumstances it is necessary to commence the analysis with general information on some noted trends in foreign trade of the region in the last years, where a tendency of growth was observed.

After a slowdown in 1998 and beginning of 1999 the foreign trade of East Central European states recovered in 2000 by ca 11-14% in current dollar value and 17-22 in volume. Some of this results are ascribed to strong appreciation of dollar vis-à-vis euro, in which most of the trade in the area is conducted – reduced exports and imports values expressed in dollars. In values evaluated in euro – East European and Baltic trade soared by about 30-45%. Export received strong stimulus from increasing import demand in the west market economies, and to smaller extent by recovery of the Russian, CIS and Balkan markets. The increases were quite remarkable, especially in first nine months of 2000, followed by mixed performance in summer months July-September. At the end of the year the trade growth indicator have fallen, what was especially seen in case of Croatia, Czech Republic, Hungary,

Slovakia and Slovenia. More or less similar tendencies were observed in Latvia, but remaining Baltic republics experienced continuation of high trade indicators. Imports in 2000 were also high. Nevertheless the performance here was strongly influenced by large increase of world energy prices, what caused lower indicators in comparison to exports. At the end of the year imports decelerated in line with exports in most of the countries of the region, what indicated the regions' dependence on fluctuation of euro exchange rate and world commodity prices rather than changes in domestic demand.

Despite general positive picture of the region - as far as trade is concerned - individual countries experienced diversified results in their trade performance. The exports growth indicator was 13% for the whole region, while 11% for imports, what resulted in aggregate trade deficit of US\$ 26,7 billion, ie. US\$ 0.85 billion higher than a year before. The dollar value of the Baltic Republics exports and imports grew faster than in other countries of the region: by 25% - exports and by 15% imports. Those results caused slight diminishment of the trade deficit in those countries. South-East Europe experienced highest trade rates of 16% for exports and 14% for imports, what was the largest increase since 1995. Aggregate deficit of the Baltic Republics shrank by 1.4 billion. Volume growth of east European Baltic trade was higher than increase in dollar value. Both export and import volumes grew faster than in 1999, but in year-to-year terms export growth rates indicated tendency to decelerate (except Estonia and Hungary), while import volumes continued to rise in most economies of the region.

Discrepancy between value and volume was partially caused by 5-7% in average dollar value of prices of manufactured goods. Moreover, world market prices for food, beverages, tobacco (accounting large share of region's exports, particularly to CIS markets and in their common trade) also fell significantly. At the same time the prices of manufactured goods exported by western Europe fell that year, imports in this area did not grow accordingly, what was explained as result of by rising prices of energy and remaining raw materials, considered as obligatory imports. All in all, this was worsening the terms of trade for those countries. Modest growth of exports (2-3%) was noted in Croatia and Slovenia. Latvia experienced deceleration of values of trade from 10-15% to 5-10% in beginning of 2000. This tendency was caused by deterioration of competitiveness resulted by rise of real effective exchange rate of lat. Also of some importance were low prices for timber on world markets - main single item exported by the country.

Table 6**Trade balances of Eastern Europe and Baltic states in 1995-2000 (in billion US\$)**

| Group of countries | 1995 | 1996 | 1997 | 1998 | 1999 | 1999 January- Septem | 2000 January- Septem |
|----------------------------|-------|-------|-------|-------|-------|----------------------------|----------------------------|
| Eastern Europe | | | | | | | |
| World | -19.9 | -31.9 | -34.6 | -36.1 | -33.4 | =23.2 | -24.7 |
| ECE transforming economies | -3.2 | -3.9 | -2.4 | -1.0 | -4.1 | -3.2 | -7.3 |
| Developed market economies | -15.1 | -24.1 | -26.5 | -28.6 | -22.9 | -14.0 | -11.5 |
| EU | -10.6 | -18.0 | -19.6 | -21.5 | -16.5 | -9.6 | -6.6 |
| Developing economies | -1.5 | -3.9 | -3.7 | -6.5 | -6.5 | -6.0 | -6.0 |
| Baltic states | | | | | | | |
| World | -2.2 | -3.2 | -4.3 | -5.0 | -4.1 | -2.9 | -2.8 |
| ECE transforming economies | -0.5 | -0.3 | -0.2 | -0.6 | -1.4 | -1.0 | -1.5 |
| Developed market economies | -1.6 | -2.6 | -3.7 | -3.9 | -2.3 | -1.6 | -1.1 |
| EU | -1.4 | -2.2 | -3.1 | -3.2 | -1.8 | -1.2 | -0.8 |
| Developing economies | -0.1 | -0.3 | -0.5 | -0.5 | -0.4 | -0.3 | 0.3 |
| Russian Federation | | | | | | | |
| World | 31.5 | 39.1 | 32.0 | 27.7 | 41.6 | 27.5 | 49.9 |
| Intra-CIS | 0.9 | 1.3 | 2.4 | 2.4 | 2.4 | 1.4 | 1.7 |
| Non-CIS economies | 30.8 | 37.7 | 29.6 | 25.3 | 39.3 | 26.1 | 48.2 |
| ECE transforming economies | 5.5 | 8.6 | 8.0 | 6.6 | 8.9 | 5.7 | 11.1 |
| Eastern Europe | 4.3 | 6.6 | 5.9 | 5.0 | 6.4 | 4.1 | 7.8 |
| Developed market economies | 15.6 | 18.8 | 123.6 | 12.6 | 20.3 | 13.5 | 25.3 |
| EU | 8.4 | 11.5 | 8.4 | 7.5 | 13.2 | 8.6 | 19.0 |
| Developing economies | 9.4 | 10.3 | 8.0 | 6.2 | 10.1 | 6.8 | 11.8 |
| Other CIS economies | | | | | | | |
| World | -2.1 | -4.5 | -4.5 | -5.4 | -0.6 | -0.5 | 2.8 |
| Intra-CIS | -4.0 | -5.1 | -4.8 | -5.3 | -4.8 | -3.4 | -4.0 |
| Non-CIS | 1.8 | 0.5 | 0.3 | -0.1 | 4.2 | 2.9 | 6.7 |
| ECE transforming economies | 0.1 | 0.1 | -0.7 | -0.1 | 0.3 | -0.2 | - |
| Eastern Europe | -0.2 | -0.1 | -0.5 | -0.1 | - | -0.2 | - |
| Developed market economies | -0.7 | -2.3 | -3.0 | -1.1 | -0.9 | -0.2 | - |
| EU | -0.6 | -1.8 | -2.3 | -1.0 | -0.7 | -0.2 | - |
| Developing economies | 3.0 | 2.5 | 4.0 | - | 0.4 | -0.2 | - |

Source: Economic Survey of Europe, 2001, p. 144.

According to UN analysis the European and Baltic countries seem to be less sensitive to currency fluctuations (ie. the movements in price competitiveness) than to demand in the

world commodity markets. Most of the transforming economies have rather traditional export structure, what decided that in case of economies specialized in raw materials exports as well as energy sources supplies – the growth of exports was one of the highest. This was the case with Bulgaria, Lithuania, Romania, in case of which the exports increased by 20-28% in 2000. This was so despite appreciation in real terms of their currencies. At the same time countries with increased share of manufactured goods in their exports did also quite well. This was the case with Czech Republic, Hungary, Slovakia, Estonia. In others like in Slovenia the growth was moderate. Still in other cases greenfield investments and high degree of vertical integration into the production networks of multinational companies had a crucial meaning for improvement of trade performance.

According to the UN's Survey of Europe - foreign subcontracting was the major factor in Estonia's rapid export growth, where more than 34% increase was generated by the Elcoteq Tallin enterprise, which since early 1999 has nearly tripled its share of the country's exports, accounting for 26% of total exports of that country in 2000⁹. Elcoteq Tallin is a subsidiary of a Finish company. It currently employs 3150 people and makes cell phone components from imported inputs (mainly from China) for Nokia and Ericson. Elcoteq's Estonian branch plans to start production in a new plant in Tallin by April 2001. It is expected that the plant will deliver electronic components for mobile communication substations. There was an information in Reuters News Service stating that Elcoteq will end the assembly of Ericson telephones in Estonia (and Hungary) what was resulted by decision to sell the telephone production operation¹⁰. Nevertheless, this was not followed by any additional announcement about changes in the planned expansion of production.

⁹ Economic Survey of Europe. 2001 No 1. New York, Geneva 2001, p. 144.

¹⁰ Reuters News Service, 7 and 29 January 2001.

Table 7**Current account balances in Central and Eastern Europe, Baltic states and Russia in 1989-2001 (in per cent of GDP)**

| Kraj | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Change 1989- 2000 |
|-----------|------|------|------|------|-------|------|-------|-------|-------|-------|-------|------|------|-------------------------|
| Czech R | - | - | - | - | 1.3 | -1.9 | -2.6 | -7.4 | -6.1 | -2.4 | -3.0 | -4.8 | -5.1 | -1.8 |
| Estonia | - | - | - | 3.3 | 1.3 | -7.3 | -4.4 | -9.1 | -12.2 | -9.2 | -5.7 | -6.8 | -7.7 | -1.0 |
| Hungary | -4.6 | 0.4 | 0.8 | 0.9 | -9.0 | -9.4 | -5.6 | -3.7 | -2.1 | -4.9 | -4.2 | -3.5 | -5.4 | 0.8 |
| Latvia | - | - | - | - | 19.1 | 5.5 | -0.4 | -5.4 | -6.1 | -10.7 | -9.7 | -6.8 | -7.1 | 2.9 |
| Lithuania | - | - | - | - | -3.2 | -2.2 | -10.2 | -9.2 | -10.2 | -12.1 | -11.2 | -6.0 | -6.4 | 5.2 |
| Poland | -2.2 | 1.0 | -2.6 | 1.1 | -0.7 | 0.7 | 4.5 | -1.0 | -3.2 | -4.4 | -7.5 | -6.2 | -6.0 | 1.3 |
| Slovak R | - | - | - | - | -4.7 | 4.6 | 2.1 | -10.6 | -9.6 | -9.7 | -5.5 | -3.4 | -3.8 | 2.1 |
| Slovenia | 9.0 | 3.0 | 1.0 | 7.4 | 1.5 | 4.0 | -0.5 | 0.2 | 0.1 | -0.8 | -3.9 | -2.9 | -3.0 | 1.0 |
| Bulgaria | -1.6 | -8.2 | -1.0 | -4.2 | -10.1 | -0.3 | -0.2 | 0.2 | 4.2 | -0.5 | -5.5 | -5.8 | -5.2 | -0.3 |
| Romania | - | -9.6 | -3.5 | -8.0 | -4.5 | -1.4 | -5.0 | -7.3 | -6.1 | -7.7 | -3.8 | -3.9 | -3.9 | -0.1 |
| Croatia | - | - | -3.4 | 3.2 | 5.7 | 5.9 | -7.7 | -5.5 | -11.6 | -7.1 | -7.6 | -4.7 | -4.9 | 2.9 |
| Russia | - | - | - | - | - | 2.9 | 2.3 | 3.0 | 0.5 | 0.4 | 13.5 | 18.3 | 10.2 | 4.8 |

Source: Transition Report update 2001, London EBRD, p. 18.

More or less similar experience was noted in Slovakia, where the exports went up as a result of expansion of Volkswagen (Germany) which now accounts for over 16% of total exports of this country¹¹. In 2000 Volkswagen raised its Slovak production of VW Golf and Bora family cars to 180 000 from 126 000 in 1999. VW also assembles gearboxes in Bratislava, the output of which increased to 363 700 units in 2000. At the same time the gearbox components output was 8 million units. In May 2000 the manufacture of gearbox components was started at Martin in Northern Slovakia. Big share of this volume output is distributed via the VW distribution network Slovakia. VW export revenue in 2000 reached Sk 84.8 billion, over 16% of total Slovak exports¹². Same situation was noted in other economies in the region: namely Czech Republic, Hungary and Poland. In those three economies mainly increase of machinery exports and transport equipment sectors heavily invested by EU and US multinationals¹³. The increase of exports after move of the production to one of the transforming economies is caused by increased competitiveness of that good resulting from lower wages, access to advanced technologies by skilled labor and use of developed and effective nets of distribution belonging to the multinational investor.

¹¹ Economic Survey of Europe 2001 No 1, New York, Geneva 2001, p. 145.

¹² Slovak Press Agency, quoted after Reuter News Service, 1 February 2000.

¹³ Ibidem. p. 145.

Table 8**Current accounts of Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia in million US\$ in 1993-2001**

| Kraj | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-----------------|-------|-------|-------|-------|-------|-------|--------|-------|--------|
| Czech R | 456 | -787 | -1369 | -4202 | -3211 | -1338 | -1567 | -2369 | -2700 |
| Estonia | 22 | -167 | -157 | -398 | -563 | -478 | -294 | -332 | -417 |
| Hungary | -3453 | -3912 | -2480 | -1678 | -982 | -2298 | -2076 | -1648 | -2600 |
| Poland | -600 | 677 | 5310 | -1371 | -4312 | -6858 | -11569 | -9892 | -10000 |
| Slovakia | -601 | 665 | 391 | -2098 | -1952 | -2059 | -1083 | -680 | -827 |
| Slovenia | 192 | 574 | -100 | 31 | 12 | -147 | -783 | -540 | -590 |

Source: Transition Report Update 2001. London 2001, EBRD. p. 59, 61, 69, 81, 87, 89.

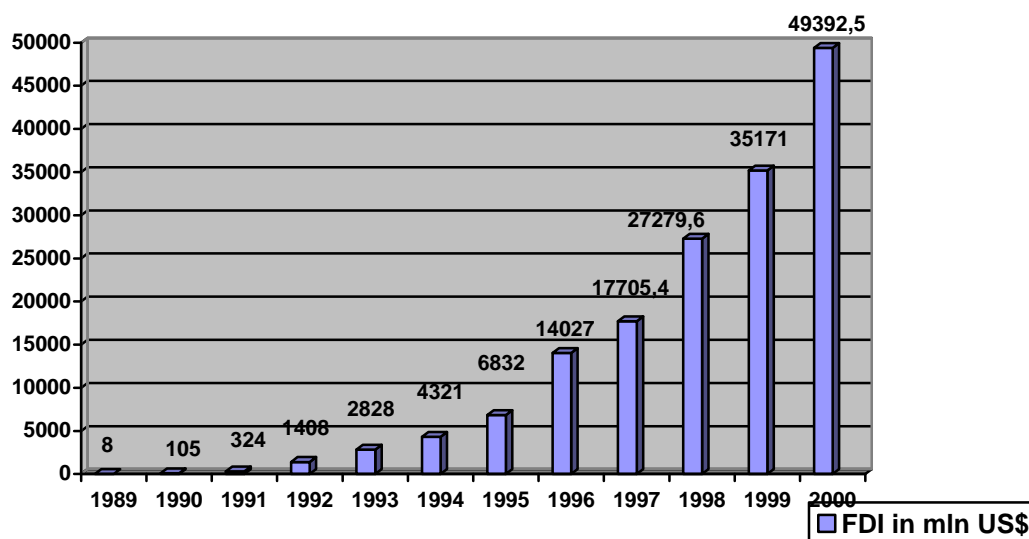
The above data indicates fluctuations of the size of current account deficit caused by different stages of exchange rate policy, opening of the economy and effects of FDI engagement in the economy. Traditionally at the beginning transnationals import technologies from abroad as well as most of the components, but with time passing imports are replaced by production of companies functioning on the domestic market of the country of engagement, what in turn is replaced by increased exports.

Generally opening of the economy, resulting in increase of current account deficit, often coming close to the security margin measured by share in GNP ca 12% is not resulting in financial crash but on the opposite accelerates the recovery of the economy by speeding up the process of restructuring (Table 7). This can be best exemplified by the case of Estonia or Poland.

5. FDI flows in Poland

Volume of foreign direct investments invested in Poland differ in diverse sources giving that data, what is caused by diversified definitions applied by individual centers dealing with this issue. In the recent years, Poland has become the leader among Central and East European countries with respect to the volume of foreign direct investment inflow. It is worth mentioning that this position is achieved partially by the size of the economy but most of all by macropolicies applied by the government, which guarantee safe returns and profits to investors. It was the process of Poland's political and economic transformation that constituted the key factor stimulating the inflow of direct investments to Poland, what has generated favourable legal, economic and infrastructure conditions for foreign investors.

Chart 3. Accumulated value of FDI in Poland in 1989-2000



There have been also other factors that might be worth mentioning. Poland's OECD membership (as of 1996) brought new quality in procedures and regulations applied to foreign investors, ensuring, among other things, equal treatment on par with their domestic counterparts. Poland's entry into NATO (1999) has also been an encouraging factor as it ensured the country's geopolitical stability. Poland's imminent EU membership and the implementation of *acquis communautaire* will surely help to create an ever more auspicious investment climate in Poland and in this way boost the inflow of foreign direct investment funds into this country.

5.1. The level of foreign direct investments in Poland in the first half of 2001

In the first half of 2001 foreign companies invested in Poland US\$ 3.26 billion. The information is given after the data compiled by the Polish Agency for Foreign Investment (taking into consideration only investments exceeding one million US\$ each). The cumulative value of foreign direct investment has reached the figure of US\$ 48.4 billion.

Investment inputs of below one million US\$ are estimated at US\$ 3.8 billion. Total foreign capital invested in Poland so far has reached the value of US\$ 52.2 billion¹⁴. Almost 92% of foreign direct investment came to Poland from the OECD countries. Investors from the European Union are responsible for 68.1% of inflow into this country. Investors from

¹⁴ According to former estimates the total amount was evaluated at 49,4 billion. Those estimates include investments below 1 million US\$.

North America invested 15.5%; while Asian countries participate in 4,7% of the total value of foreign investments.

According to PAIZ in 2000 inflows of FDI were estimated at US\$ 10,6 billion. This was the record year of inflows, higher by 0,5 billion in comparison with 1998, considered as pick year of inflows in the 1990's. According to data given by PAIZ the inflow in 2000 was twice as big as the inflow in 1999¹⁵.

Other sources publishing the data on FDI give different amounts of inflows, what is explained by used definition. Utilization of data given by PAIZ can be explained by the fact that this data is the most current from the available sources of national and international origin. Nevertheless, also other sources should be quoted in the study, what increases its informative character as well as objectiveness of collected, processed and presented data.

According to GUS the total value of inflows in 1999 amounted to US\$ 7269,6 million, while in 2000 they reached US\$ 9342,3 million¹⁶. According to data evidenced within the balance of payments FDI in official publication of Central National Bank the amount of FDI in 1999 was US\$ 7.3 billion, while in 2000 the evidenced flows amounted to US\$ 9,4 billion¹⁷. In the first half of 2001 the inflow of capital within foreign direct investments was similar as in first half of 2000 – amounting to US\$ 2,70 billion (US\$ 2,74 in first half of 2000)¹⁸. Data given by GUS and National Central Bank are alike.

5.2. The number of companies on the "List of Major Foreign Investors in Poland"

Direct investments in Poland topped US\$ 9 billion in 2000, what was boosted by the governments sale of 35% of the telecommunication operator, Telekomunikacja Polska SA. to French investor France Telecom for US\$ 4.3 billion, a 35% stake in Orbis hotels for 0.1 billion and stakes in two electric power generators for US\$ 0,1 billion.

In middle of 2001, the "List of Major Foreign Investors in Poland" consisted of 881 companies from 35 countries. Eight per cent of the companies were registered on the list for the first time. For the last seven years, the number of enterprises with the participation of foreign capital monitored by PAIZ has been growing rapidly. Enough to say that on the first published PAIZ list, there were 93 companies who invested more than one million dollars each. The number of such companies increased to 362 in 1995, and 585 in 1997.

¹⁵ Inwestycje zagraniczne w Polsce. Raport roczny. Warszawa 2001. p. 106.

¹⁶ Rocznik Statystyczny Rzeczypospolitej Polskiej. Statistical Yearbook of the Republic of Poland, GUS 2001, p. 478.

¹⁷ Bilans P³atniczy Rzeczypospolitej Polskiej za p³³rocze 2001 roku. NBP, Warszawa 2001.

¹⁸ Ibidem, p. 43.

The largest group of investors (203 in all) comes from Germany, the second largest (123) from the United States, the third (81) from France, followed by Netherlands (67) and Italy (62 companies).

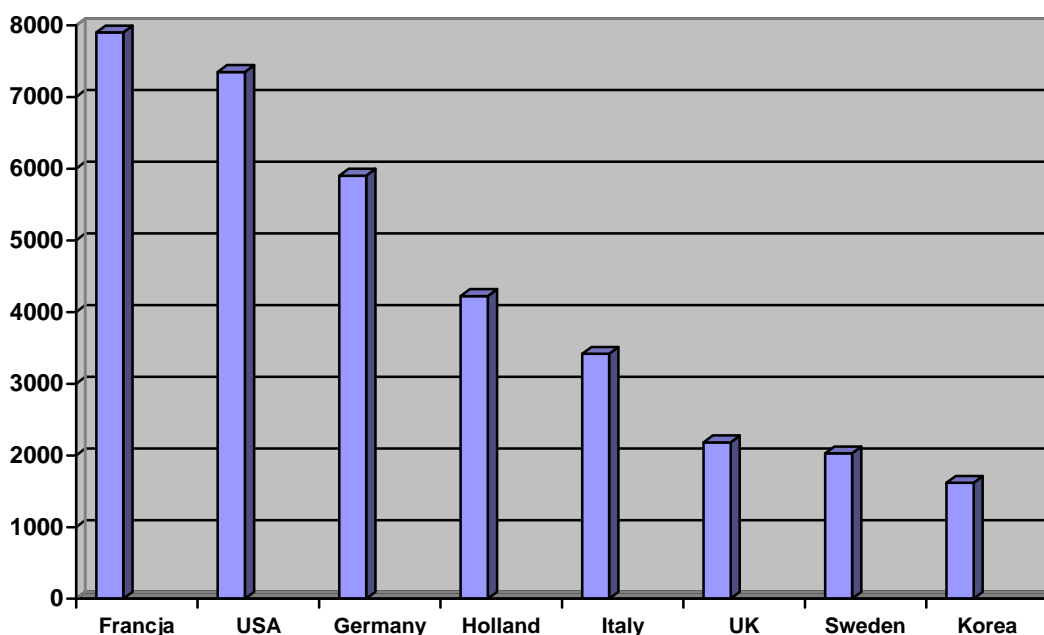
The volume of direct foreign investments by country of origin has changed since 1989. Some of the countries are present all the time, others lost their leading positions, while remaining gained or shifted on the list upward or downward.

As far as the list of investors is concerned the highest ranking on PAIZ list belongs to French Telecom (3199,4 mln US\$), Fiat (1637,7 US\$), Daewoo (1552,3 US\$), Citibank (13000,0 US\$), and finally RAO Gazprom (1283,8 US\$). It is worth nothing that investments of French Telecom – mainly into privatised Telekomunikacja Polska S.A. amounted to 40% of the capital engagement of the French companies.

In 2000 highest growth of investments was noted in case of French, Swedish, Belgian companies. The indicators in case of companies representing those countries have increased by over 50%. High dynamics of FDI was also noted in case of investors originating from USA, Austria, Holland, Denmark, Luxemburg and Japan. In case of the last country the investments concerned increase of capital in formerly established companies, what means that no new investors occurred on the market neither new investments were carried out, moreover number of companies engaged from Japan decreased.

Chart 4

Inflow of FDI in 1989-2000 according to exporting country



As far as the origin of invested capital is concerned, the first half of the 2001 saw no significant fluctuations in the position of investors as compared to the previous year. The French investors with US\$ 8.5 billion were ranked the first. Americans have invested US\$ 7.4 billion in Poland, and Germans - 6.3 billion. The fourth position belongs to Dutch investors with US\$ 4.4 billion. Italian companies invested over US\$ 3.4 billion. British corporations, occupying the sixth place on the list, have invested US\$ 2.6 billion in Poland so far. Capital invested by international investors has reached the value of US\$ 2.6 billion. The eighth place on the list belongs to Swedish investors (US\$ 2.1 billion), the ninth to Korean investors (US\$ 1.6 billion). The last among the top ten is Russia (US\$ 1.2 billion). The position of other countries in the ranking is shown in the table below. Foreign direct investments in Poland can be presented also by national economy sectors. The analysis of the by-branch pattern of foreign direct investment in recent years reflects a continuing tendency towards diversification. Most of the direct investment in Poland has been made in the traditional sectors of the national economy, and primarily in the manufacturing sector. The sector has attracted the greatest interest of foreign investors and absorbed the highest investment outlays.

The development dynamics of the manufacturing sector has been stable, but it is significant that its share in the accumulated value of direct investment compared to previous years has been gradually declining. In 1997 the percentage share of that sector in overall investments amounted to 62.4%, in 1998 - to 58.3 %, in 1999 - to 49.2%, and in June 2001- to just 41.7%. This is a positive trend as it indicates a gradual shift in investment outlays in Poland, in line with the tendencies observed in highly developed countries. New investment projects carried out by foreign companies have increased the amount of capital involved in the services sector.

The largest investment outlays in the manufacturing sector have been registered in the production of food, beverages and tobacco: the volume of investment has reached US\$ 5.4 billion, that is 11.1% of all the investments in the sector. The second largest outlays – US\$ 5.3 billion (11%) - have gone to the transport equipment production. Products made of other non-metal raw materials have absorbed US\$ 2.7 billion (5.7%) of investment. More than US\$ 1.5 billion (3.2%) has been invested in pulp, paper, printing and publishing. The electrical and optical equipment manufacturing sector with investment outlays of US\$ 1.5 billion (3.3%) has been ranked fifth. An inflow of more than US\$ 1.2 billion (2.6%) was registered in the chemical sector. The share of each of the other subsections in the branch structure amounts to about and less than 1%.

The second largest sector of the economy in terms the inflow of direct foreign investment is financial services. The accumulated value of investments recorded in that sector by PAIZ at the end of June of 2001 amounted to more than US\$ 11.1 billion , that is 23% of the overall inflow of direct investment into Poland.

Table 9

FDI in Poland - breakdown by country

| No . | Country of origin | Capital invested (in US\$ mn) | Planned investment (in US\$ mn) | Average value of investment | Number of investors |
|-------------|--------------------------|--------------------------------------|--|------------------------------------|----------------------------|
| 1 | France | 8,535.00 | 1,268.9 | 105.37 | 81 |
| 2 | USA | 7,458.70 | 2,024.9 | 60.63 | 123 |
| 3 | Germany | 6,339.60 | 1,117.1 | 31.23 | 203 |
| 4 | Netherlands | 4,404.30 | 554.8 | 65.74 | 67 |
| 5 | International | 2,323.00 | 815.1 | 122.26 | 19 |
| 6 | Italy | 3,491.50 | 1,170.4 | 183.76 | 62 |
| 7 | Great Britain | 2,630.80 | 281.4 | 69.23 | 38 |
| 8 | Sweden | 2,196.10 | 332.1 | 39.92 | 55 |
| 9 | Korea | 1,616.30 | 25.2 | 404.07 | 4 |
| 10 | Russia | 1,255.40 | 301.0 | 627.7 | 2 |
| 11 | Austria | 1,202.10 | 154.4 | 30.82 | 39 |
| 12 | Ireland | 1,046.70 | 0.0 | 348.9 | 3 |
| 13 | Switzerland | 897.30 | 321.6 | 448.65 | 20 |
| 14 | Denmark | 783.20 | 74.7 | 819.2 | 36 |
| 15 | Belgium | 576.00 | 75.8 | 26.18 | 22 |
| 16 | Norway | 542.60 | 178.0 | 36.17 | 15 |
| 17 | Japan | 505.20 | 90.0 | 45.92 | 11 |
| 18 | Greece | 501.50 | 4.0 | 250.75 | 2 |
| 19 | Finland | 416.60 | 69.6 | 434.6 | 18 |
| 20 | Portugal | 413.70 | 74.8 | 82.74 | 5 |
| 21 | Spain | 385.80 | 0.0 | 55.11 | 7 |
| 22 | Canada | 250.00 | 41.3 | 17.86 | 14 |
| 23 | Croatia | 173.00 | 16.0 | 86.5 | 2 |
| 24 | Turkey | 100.10 | 58.0 | 25.25 | 4 |
| 25 | Luxemburg | 77.80 | 4.0 | 12.96 | 6 |
| 26 | Australia | 67.00 | 4.0 | 33.5 | 2 |

| | | | | | |
|-----------|----------------|-------|-------|-------|---|
| 27 | Israel | 55.40 | 20.0 | 13.85 | 4 |
| 28 | China | 45.00 | 45.0 | 27.50 | 2 |
| 29 | Czech Republic | 39.50 | 0.0 | 9.87 | 4 |
| 30 | RSA | 35.00 | 95.5 | 17.50 | 2 |
| 31 | Lichtenstein | 31.90 | 27.0 | 7.97 | 4 |
| 32 | Cyprus | 17.00 | 0.0 | 8.50 | 2 |
| 33 | Slovenia | 10.00 | 50.0 | 10.0 | 1 |
| 34 | Taiwan | 5.70 | 200.0 | 5.70 | 1 |
| 35 | Malta | 1.00 | na | 1.0 | 1 |

Source: PAIZ

The list of investors indicates four post-communist states, which invested in the Polish economy. Those are Russia (10), Croatia (23), Czech Republic (29), Slovenia (33). The biggest investments come from Korea, Russia and Switzerland. As far as scope of investments are concerned biggest investors come from: France, USA, Germany and Holland. Next position on the list is held by international organizations, which participate in the process of recovering the enterprises in all post-communist states.

Table 10

Foreign direct investments in 2000 by countries indicating fastest increase of investments in the Polish economy (in million US\$)

| Country | Invested capital | | 1999=100 | Number of investors | | 1999=100 |
|------------|------------------|--------|----------|---------------------|------|----------|
| | 1999 | 2000 | | 1999 | 2000 | |
| France | 3854,7 | 7901,0 | 205,0 | 67 | 70 | 104,5 |
| USA | 5152,9 | 7350,3 | 142,6 | 125 | 130 | 104,0 |
| Holland | 3233,2 | 4224,9 | 130,7 | 49 | 66 | 134,7 |
| Ireland | 813,7 | 1025,0 | 126,0 | 3 | 3 | 100,0 |
| Austria | 799,4 | 1172,2 | 146,6 | 32 | 38 | 118,8 |
| Sweden | 789,2 | 2027,9 | 256,9 | 43 | 53 | 123,3 |
| Denmark | 541,4 | 741,2 | 136,9 | 30 | 34 | 113,3 |
| Japan | 374,4 | 476,0 | 127,1 | 12 | 11 | 91,7 |
| Belgium | 289,8 | 587,5 | 203,0 | 21 | 23 | 109,5 |
| Spain | 259,3 | 377,9 | 145,7 | 6 | 7 | 116,7 |
| Luksemburg | 11,6 | 17,2 | 148,3 | 2 | 3 | 150,0 |
| Israel | 5,4 | 83,4 | 1544,4 | 3 | 5 | 166,7 |

| | | | | | | |
|---|----------------|----------------|--------------|------------|------------|--------------|
| Total value of investments exceeding 1 million US\$ | 35171,0 | 45772,0 | 130,1 | 799 | 885 | 110,8 |
| Total | 38912,6 | 49392,5 | 126,6 | x | x | x |

Source: PAIZ

Comparisons of dynamics of increase of value of investments with dynamics of number of investors representing individual countries shows that the dynamics of number of investors is not so high. This leads to a conclusion that Polish economy has attracted big individual investors, what can be proved by case of France's Telecom as well as investments from Israel. The latter was not present on Polish market before (5,4 mln US\$). Investments of two big investors from Israel have increased significantly the value of investments of this country in Polish economy (which reached 78 million US\$).

Table 11

Foreign Direct Investments in Poland Breakdown by sector in 2000

| ECA | Capital invested (in USD mn) | Planned Investment (in USD mn) |
|---|-------------------------------|--------------------------------|
| Manufacturing: | 20,237.9 | 4,308.06 |
| Food processing | 5,379.8 | 518.1 |
| transport equipment | 5,306.6 | 304.8 |
| other non-metal goods | 2,755.7 | 805.9 |
| Pulp and paper, publishing and printing | 1,559.3 | 376 |
| electrical machinery and apparatus | 1,581.8 | 380.46 |
| chemicals and chemical products | 1,267.4 | 436.9 |
| rubber and plastics | 591.2 | 198.9 |
| furniture and consumer goods | 458.8 | 287.9 |
| metals and metal products | 408.9 | 776.2 |
| wood and wooden products | 379 | 38.2 |
| machinery and equipment | 281.1 | 128.8 |
| fabrics and textiles | 252.8 | 55 |
| leather and leather products | 15.5 | 0.9 |
| Financial intermediation | 11,116.9 | 200.3 |
| Transport, storage and communications | 5604.7 | 529.3 |
| Trade and repair | 4628.7 | 722.8 |

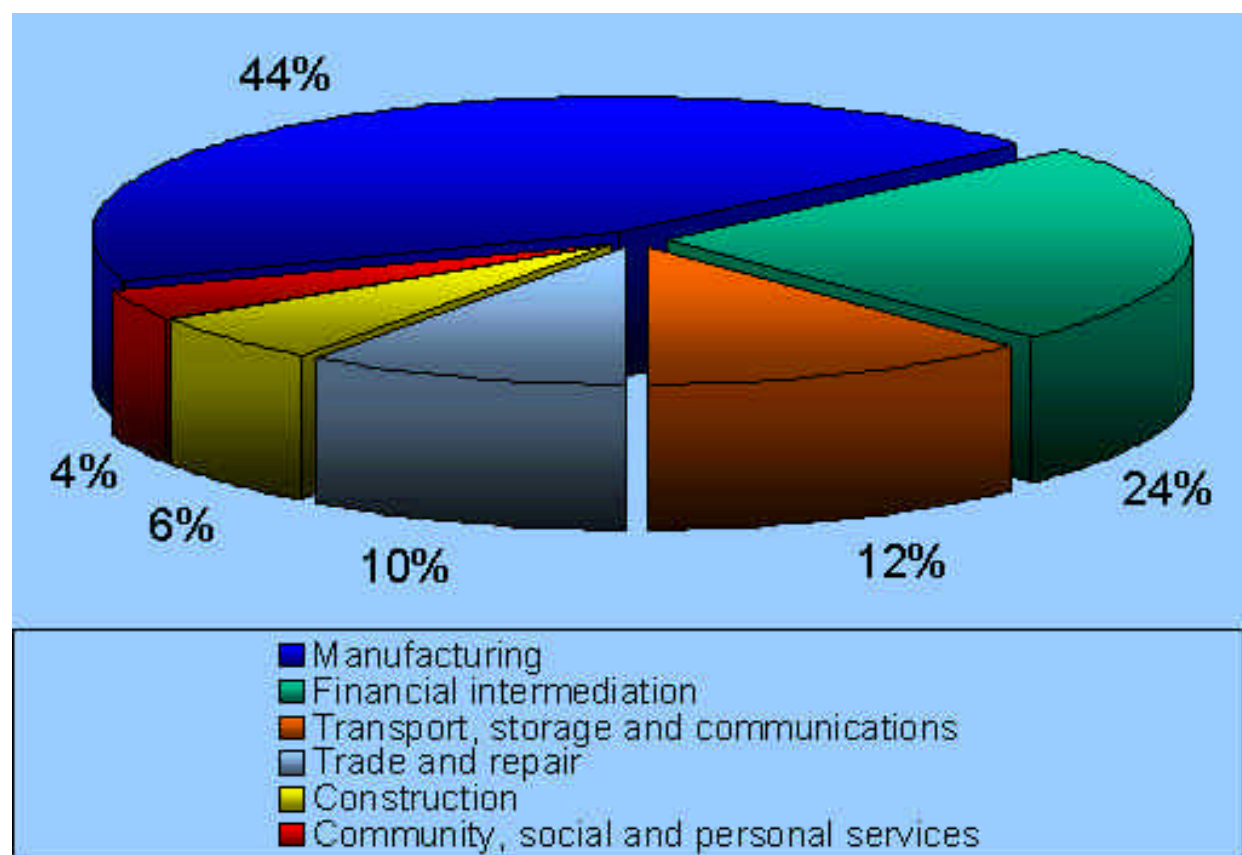
| | | |
|---|---------|---------|
| Construction | 2678.1 | 958.6 |
| Community, social and personal services | 1,622.1 | 594 |
| Power, gas and water supply | 1,225.2 | 384.8 |
| Hotels and restaurants | 697.6 | 262.2 |
| Real estate and business activities | 491.7 | 1,521.4 |
| Mining and quarrying | 87 | 0 |
| Agriculture | 39.9 | 13.1 |

Source: PAIZ

Traditionally one can observe clear pattern of engagement of FDI in all ECE economies. First interest in primary phases of transformation are concentrated on food processing sector, with time passing FDI are moving to other sectors mainly services but also to some extent also to industrial type of production.

Chart 5

Foreign direct investment stock (in %)



Source: PAIZ

Structure of engagement of FDI by sectors was following in Poland in 2000: manufacturing – 44%, financial intermediation – 24%, transport, storage and communication – 12%, trade and repair – 10%, construction – 6%, community, social and personal services – 4%.

Table 12

Foreign Direct investments in Poland – Breakdown by region

| Voivodship | Number of foreign investors, July 2001 |
|---------------------|---|
| Mazowieckie | 582 |
| Śląskie | 266 |
| Wielkopolskie | 237 |
| Dolnośląskie | 175 |
| Pomorskie | 144 |
| Małopolskie | 125 |
| Łódzkie | 119 |
| Kujawsko-Pomorskie | 86 |
| Zachodniopomorskie | 83 |
| Lubelskie | 59 |
| Podkarpackie | 57 |
| Lubuskie | 51 |
| Świętokrzyskie | 47 |
| Warmińsko-Mazurskie | 47 |
| Opolskie | 39 |
| Podlaskie | 32 |

Source: PAIZ

Foreign capital seeks engagement in regions which are characterized by well-developed infrastructure, ie: urban areas with cultural and communication infrastructure. In other words most of the investments are conducted close to following urban centres: Warsaw, Poznan, Cracow. To some extent engagement is noticed in regions with high availability of skilled labor released from manufacture type of production. This is the case with Silesia. Now the capital engagement slowly is also moving to regions that were not formerly attraction for investors. This is eastern part of Poland. The location decisions in this case are subordinated to the fact of close distance to eastern borders of Poland, with potential markets of the CIS.

6. FDI and trade in Poland

Trade has increased in quantity thanks to FDI. This reflects the improvement of competitiveness of the Polish exports caused by utilization of advanced technologies imported within the framework of Transnational Corporations that are present in Poland. FDI have also an important impact on quality of exported goods. This can be evidenced both on side of increased imports as exports. Companies with presence of foreign direct investments indicate bigger engagement in foreign trade than those companies with national capital. The number of foreign companies was increasing rapidly after 1989. The evolution of this type of companies is shown in Table below.

Table 13

Number of companies with foreign investment in 1991-98 (31 December)

| Year | Number of companies | Share in general number of companies |
|-------------|----------------------------|---|
| 1991 | 5583 | 4,1 |
| 1992 | 10817 | 6,9 |
| 1993 | 15814 | 8,6 |
| 1994 | 20324 | 10,4 |
| 1995 | 24635 | 11,7 |
| 1996 | 29157 | 12,2 |
| 1997 | 33459 | 12,8 |
| 1998 | 37355 | 12,6 |
| 1999 | 42322 | 12,9 |

Source: Mały Rocznik Statystyczny 1996, Biuletyn Statystyczny 1/1999 GUS, February 1999. Biuletyn Statystyczny GUS 1/2000.

Data shows that despite the increasing value of inflow the number of companies with foreign capital is increasing in comparatively smaller rates. This indicates that the size of companies is increasing.

Table 14**Exports as share of total activities of the enterprises with foreign capital**

| Year | Export sales | Export sales of companies with foreign capital | |
|------|--------------|--|---|
| | | As % of their incomes | Export inclination in comparison to remaining companies=100 |
| 1994 | 9,0 | 15,6 | 173 |
| 1995 | 9,5 | 15,3 | 161 |
| 1996 | 8,8 | 13,9 | 158 |
| 1997 | 8,0 | 13,8 | 172 |
| 1998 | 9,1 | 13,9 | 182 |
| 1999 | 9,3 | 14,2 | 179 |

Source: Inwestycje zagraniczne w Polsce, IKiC 1999, p. 37.

Export is a basic indicator for successful internationalization of an enterprise. Across the region rates of growth of exports were high but at the same time very unstable. Figures on trade as percentage of GDP in 1999 show that Poland despite unprecedented increase in exports during the 1990s, was still less integrated in the \world economy than Spain. However Czech Republic and Hungary have higher levels of trade in goods than Portugal or Greece, while Estonia and Slovenia are considered to be most open economies in the region. Relatively higher share of industry in the economic

The relatively higher share of industry in the economic activities of most ECE states is reflected in export structure dominated by manufacturing exports. Foreign trade statistics of all ECE states with Poland in that number show a significant improvement in terms of competitiveness through increased in unit prices. During the early 1990's the structure of exports initially moved to labor intensive industry products. However in the middle of 1990's this trend has been reversed and the share of skill, capital and technology intensive products is increasing¹⁹. By 1999 the shares of high tech exports in manufacturing range from 3% (Poland) to 9% (Estonia), compared to that of the Southern EU member states. Hungary is clear outlier with the share of high-tech exports amounting to 21% of manufactured exports, higher than German or Danish corresponding figure (15% and 18 respectively). This performance is almost whole driven by FDI companies.

Foreign direct investments were strong incentive driving up productivity in the enterprises with foreign input. Those linkages were not only capital but also often achieved without capital

¹⁹ Innovation policy issues in six candidate countries: the challenges. Directorate Generale on Enterprises. 2001, p. 59.

engagement through commissioned orders on services (ie. sewing cloths from send fabrics and according send patterns). The economies of Transforming states were renewed by strong influx of FDI. This was achieved through their participation in privatization and restructuring of the formerly planned economies²⁰. The main impact of FDI on innovation and thus on trade in case of East Central European economies is ascribed to the stimulation of evolution from cost-related motivations towards production of higher value added goods, which require interaction with local research and network of higher technology subcontractors²¹.

It is evidenced in studies related to FDI impact on transforming economies that foreign capital per se is important for the economy which went through strong sterilization of savings conducted within the process of liberalizing prices, leading to elimination of inflation overhang so characteristic for all post-communist states which were deficit economies (using the Kornai's wording)²². This is not the only role ascribed to FDI as they at the same time transfer assets from less to more efficient owners. This latter aspect is very important for a transforming economy, where foreign investors have advantages in terms of corporate governance as well as in terms of easier access to capital markets and technology. This results in large differences in terms of productivity between domestic and foreign own firms in all transforming economies²³. This in turn results in falling unit costs of production and finally enables increasing price competitiveness. According to conducted surveys the productivity in foreign investment enterprises varied from 150% (Estonia) to almost 300% (Hungary) of that of domestic enterprises in 1998. This evidences that FDI play a very positive direct role in the hosting economies. Productivity in some enterprises with foreign investments in transforming economies are often higher than in EU members-states.

From e 1995 the importance of exports of SMEs increased significantly. In 1995 those companies accounted only slightly more than 40% of totals exports of SMEs. Whereas in 1999 this indicator mounted to over 47%. The share of foreign trade in SMEs activities has also increased.

²⁰ M. Landesmann, Structural change in the Transition economies, 1989-1999, in United Nations Economic Commission for Europe 2000.

²¹ S. Radossevic, Patterns of innovative activities in countries of central and eastern Europe, an aqnalysis based on comparison of innovation surveys. SPRU Working Paper. www.suusex.ac.uk/spru

²² http://www.oecd.org/dsti/sti/prod/sti_wp.htm

²³ http://europa.eu.int/comm/enlargemnt/report_11_00/index.htm

Table 15**Structure of exports and imports of SMEs by size of enterprises**

| Structure of exports of SMEs by size of enterprises | | | | | | |
|--|---------------------------|----------|---------------------------|----------|---------------------------|----------|
| Specification | 1995 | | 1998 | | 1999 | |
| | US\$ thousands | % | US\$ thousands | % | US\$ thousands | % |
| Total | 8 815 420 | 100 | 13 359 823 | 100 | 13 072 118 | 100 |
| 0-9 employees | 277 4858 | 31.48 | 3 681 631 | 27.56 | 3 605 868 | 27.59 |
| 10-49 employees | 2 451 589 | 27.81 | 3 544 327 | 26.53 | 3 293 891 | 25.20 |
| 50-249 | 3 588 973 | 40.71 | 6 133 865 | 45.91 | 6 172 358 | 47.22 |
| 50-249 employees | | | | | | |
| Structure of imports SMEs by size of enterprise | | | | | | |
| Specification | 1995 | | 1998 | | 1999 | |
| | US\$ thousand | % | US\$ thousand | % | US\$ thousands | % |
| Total | 16 034 735 | 100 | 29 872 000 | 100 | 30 041 505 | 100 |
| 0-9 employees | 5 707 164 | 35.59 | 9 056 326 | 30.42 | 9 834 769 | 32.74 |
| 10-49 employees | 5 275 443 | 32.94 | 9 613 310 | 32.18 | 9 366 676 | 31.18 |
| 50-249 | 5 052 128 | 31.51 | 11 202 364 | 37.50 | 10 840 060 | 36.08 |

Source: Report on the Condition of SMEs p. 55.

Collected data indicates that share of exports in SMEs grows with number of engaged employees. This means that really small companies engaging to ten workers are engaged in trade to lower extent than those companies, where the indicator reaches 50-249 employees. Noted trade pattern concerning recovery in exports and slight reduction of imports can be observed in SMEs trade²⁴.

Regional differentiation has an impact on the engagement of individual regions in trade and attractiveness for FDI. As structure of the companies in Poland is similar to structure in member states it is clear that biggest engagement of FDI can be seen in small and medium enterprises. Capital engaged in the economy is not distributed evenly across the country, what means that engagement of different regions in trade is differentiated. In 1999 small and medium size enterprises from Slask voivodship had lowest share in exports of individual voivodships (26,8%)²⁵. The highest level of exports of individual voivodships was noted in podlaskie voivodship (over 75%). Understanding this indicator one has to take into account that it reflects

²⁴ Entrepreneurial training for growth of small and medium sized enterprises, European Training Foundation, 2000.

²⁵ Report on the condition of the small and medium-size enterprise sector in Poland for years 1999-2000. Polska Agenda Przedsiębiorczości, Warsaw 2001. p. 57-59.

the importance of SMEs in exports of particular voivodship, whereas the level of development of sector in the region is described by the ratio of exports of SMEs from the voivodship to total SMEs exports. As result, SMEs in four most developed voivodships (Mazowieckie, Wielkopolskie, Łaskie and Dolnoslaskie) accounted for an excess of 53% of total SMEs exports, while SMEs located in voivodships where the sector was least developed (Opolskie, podlaskie, Swietokrzyskie and Warminsko-Mazurskie) accounted for less than 3% of those exports. In remaining voivodships the ration falls between 3-7%²⁶.

Between 1995-1998 shares of SMEs in total exports remained high amounting to more than 65%. This indicator in comparison with the 1998 figure, increased by over 2%. In conditions of slight fall in the share of SMEs in total exports (47,6%) resulted in lack of balance in foreign trade in the SMEs sector.

In almost all voievodships SMEs were responsible for 50% of total imports. In 1999 – 3 most developed voievodships (Mazowieckie, Slaskie, Wielkopolskie) accounted for more than 65% of SMEs imports. Those regions were at the same time the biggest importers in the Polish economy.

The analysis of exports uses as a criterion of assessment of enterprise activities a ratio of value imports in individual voivodship per capita. Mazowieckie voievodship in this ranking found itself on first position, far ahead all other voivoships. In 1999 the indicator achieved US\$ 2750 in per capita terms. This indicator was 2,5 times higher than in Wielkopolskie (US\$ 1049) and 3,5 times higher than national average indicator, estimated at US\$ 777 (also in per capita terms).

In 1999 the highest trade deficit was noted in Mazowieckie voievodship, where the excess of imports over exports amounted to US\$ 11,1 billion, ie. 65,5% of the total deficit of all SMEs.

In 1999 only five voivodships (Podkarpackie, Lubelskie, Lubuskie, Warminsko-Mazurskie and Podlaskie) achieved surplus in the foreign trade of SMEs. However, the totals surplus of SME foreign trade from those five voievodships in 1999 amounted to 2% of entire value SMEs sector's deficit.

7. Conclusions

Study indicates important role of FDI in changes of ownership, productivity, functioning of the economy, quality of production, exports innovativeness, competitiveness and exports. Structure of trade has changed as result of FDI in most ECE economies. Studies noted a move from labor intensive type of production towards capital intensive. Enterprises with FDI component are more active in foreign trade than those without such component. They move

²⁶ Ibidem.

from imports to exports. Most of the trade is conducted by SMEs. The regional engagement of FDI is geographically unequal. This inequality results in differentiated impact of those regions on trade deficit or surplus. Companies employing bigger number of employees are more active in foreign trade. The share of exports of SMEs ranges between 25-47%.

Economies of East Central Europe indicate different results in rates of growth as well as attracting FDI flows. Those two indicators usually go in team together, what is a naturally resulted by risk evaluating companies. Moreover, economies well supplied in labor with high rates of growth are better guarantees of return of invested capital than those with feeble indicators. Difference in rates of growth and engagement of the FDI in different regions of Poland is also a potential source of growth, what is evidenced by data concerning voivodship analyses.

Studies dealing with foreign trade of transforming economies indicate that economies of such states are sensitive to fluctuation of exchange rate. Nevertheless, their exchange rate policy cannot be considered also as neutral; to trade, what is reflect by presented statistics. Most SMEs find advantages joining quickly eurozone.

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