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**FOREIGN DIRECT INVESTMENTS AS STIMULANTS AND
DETERMINANTS OF SUSTAINABLE DEVELOPMENT OF MALOPOLSKA
PROVINCE**

Słowa kluczowe: bezpośrednie inwestycje zagraniczne, rozwój regionalny

Key words: foreign direct investments, regional development

Synopsis: *This article is an attempt to provide stimulating factors and factors determining the sustainable development of the Malopolska province, related to the inflow into its territory of foreign direct investment (FDI) in the years 1989-2008. The article attempts to characterize the impact of FDI on economic aspects such as levels of employment, diversification the regional economy and diversification its economic development level.*

Introduction

The processes of globalization and international integration have played a crucial role in shaping the nature and specificity of the global economy of the late twentieth century [8, 19-20]. Boosting global processes of capital flows become apparent in the second half of the twentieth century, especially in the last decade [7, 88-89]. Intensifying international circulation of capital, with particular emphasis on foreign direct investment, has its origin in the economic development disparities between countries and regions. Impact of FDI on the Polish economy passing phase of modernization is of great importance for its development [9, 93]. Especially important is the capital supporting the structural transformation, which exceeds the scale of its national resources. Enterprises based on foreign capital resulting from direct investments are usually characterized by a stronger competitive strength rather than local companies. Direct investment actually bring the influx of modern technology, the transfer takes place usually in the form of material support [10, 92]. An interesting aspect arising from foreign direct investment in Poland is the implementation of modern models of governance and organization of work. Foreign direct investment is also affected by the Polish labour market, although the jobs are created by investors in a very cost effective manner.

The most common theory that explains the issue of foreign direct investment is an eclectic theorem of foreign direct investment [6, 105]. According to this concept, the functioning of international business is inextricably linked to the transfer of production factors. Multinational companies are characterized by several features conducive to their foreign operations: exclusive right for, for example, modern technology use within the corporation, or internalisation, that is selling assets overseas as subsidiaries for own business, without a market mechanism [11, 19-27]. According to the theory of Dunning, who analysed the relationship between the level of GDP per capita in the country, and foreign investments on the basis of the figures relating to dozens of countries around the world, it shows that in the medium-developed countries, foreign investments are key factor of economic growth [1, 223-224]. These countries have in many cases the appropriate measures required for intensified international expansion in the form of both direct investment and portfolio inflows.

Inflow of FDI to the host country affects the local development of its regions by influencing the level of wages in the region, the diffusion of knowledge and skills and the size of regional exports of local firms.

Aim, methodology and area of study

In this study, the main aim was to present the most important determinants of stimulant and sustainable development of the Małopolska province resulting from the inflow to the area of foreign direct investment. They are understood as projects related to the activities of foreign investors aimed at achieving sustainable income through effective impact on the business enterprise located in the host country investment.

In discussing the impact on sustainable development of voivodship, the impact of foreign direct investment uses a report from the analytical studies conducted in the Province in 2009. The report indicated the volume of foreign direct investment delivered in the province of Malopolska, and in particular, their dynamics and structure. Range of analytical tests covered the years 1989-2008 with a thorough analysis of investor's activity in 2008.

The empirical part is compilations of foreign direct investment, taking into account their size and structure in the Malopolska province, and its investment attractiveness. The study indicated that the geographical locations of foreign investments by districts,

as well as the problems of employment in enterprises with foreign capital were also important. The study ends with an attempt to indicate the effects of foreign direct investment in the Malopolska province. Discussed aspects such as diversification of the regional economy and the impact of the diversity level of economic development in different parts of the province were also presented.

Investment attractiveness of the Malopolska province

The survey of investment attractiveness of Polish voivodships and subregions takes place annually in Institute for Market Economics (MERI) [5, 107]. The following three criteria are taken into account: attractiveness for industrial activity, the attractiveness of the service activities and the attractiveness of high-tech industry. In 2008 Malopolska took fifth place in the ranking of investment attractiveness of regions. Malopolska stands out in the following aspects: resources and labour costs (2 position), the level of social infrastructure (2 position), the size of a market (4 position). As the weaknesses of the region's ranking indicates: the region's attractiveness to investors (11 position), crime (9 position), availability of communication (8 position).

The size and structure of foreign direct investment in Malopolska province

In the period 1989-2008 on the territory of Malopolska province in the form of foreign direct investments totalling over U.S.D 12 billion were sent, which represents 8% of capital invested during this time across Poland [5, 9]. Number of companies with foreign capital in Malopolska at the end of 2008 was 3 394, or 5.3% of the total number of entities operating in Poland. In Malopolska a number of branches of multinational companies are also located, whose central headquarters are located in other parts of the country, mostly in Warsaw. Multinational companies are considered to be the main source of capital for Malopolska, which has a significant influence on its position in the network of international economic cooperation. In the territory, as much as 41% of current foreign capital comes from the 10 largest investors. Number of international corporations that have made expenditures for investments in Malopolska for the sum of not less than \$ 10 million is 150 subjects, i.e. about 89% of the total budget of foreign direct investment in Malopolska province.

The spatial distribution of foreign direct investment in the Malopolska province by districts

In Malopolska, we can distinguish four types of areas in which the focus of foreign direct investment: 1 **Krakow Metropolitan Area (KMA)**, 2 **industrialized western part of the region** comprising the districts of Oświęcim, Chrzanów and Olkusz), 3 located near the national road number 4 **Brest district**, 4 **Nowy Sącz and Tarnów, together with the surrounding counties** [5, 45]. Over the years 1989-2008 in the Krakow Metropolitan Area, foreign investors invested U.S.D 9.7 billion of which up to U.S.D 7.8 billion in the heart of Krakow. The western part of the region was at that time a place of concentration of 880 million U.S.D of foreign capital, while in the Nowy Sącz and Tarnów, together with the surrounding counties - 667 million USD. The smallest value of the invested funds was recorded in the district of Brest, and it was U.S.D 526 million. It is worth noting that foreign direct investment in these regions represent 98.3% of the total FDI inflow to Malopolska province.

The role of foreign direct investment in the growth of employment in companies in 2008 in Malopolska province

According to statistics, at the end of 2008, in enterprises with foreign capital in the Malopolska region were employed 96.2 thousand workers, and so 10.6% of all employees in the province with the exception of agriculture [3, 181-182]. Number of people employed in different sectors varied, most of them were: industry and construction (42.4 thousand employees), trade (15.2 thousand), professional, scientific and technical (11.9 thousand), finance and insurance (8.5 thousand). The largest increase in employment (33.6%) occurred in the activities of professional, scientific and technical cooperation which was a consequence of the dynamic development of dedicated service centres in Krakow (business process outsourcing), as well as shared services of research and development. Among the largest foreign employers in the Malopolska province in 2008 were the following entities: Arcelor Mittal Poland SA with its seat in Dąbrowa (7 000 employees in Krakow) and Valeo Poland Ltd. with its seat in Warsaw (branches in Skawina Chrzanów and Zielonki), Capgemini Ltd. located in Krakow, Philip Morris SA, based in Krakow, Carrefour Ltd. with its seat in Warsaw (including shops in Krakow, Olkusz, Tarnow) and Tesco Ltd. located in Krakow (including shops in Krakow and Bielsko-Biala), Bank Pekao SA in Warsaw and IBM Poland Ltd. with its seat in Warsaw (a branch in Krakow) (each one employing over 1

500 employees). The biggest employer with minor foreign participation is Comarch SA in Krakow.

Impact of FDI on the degree of diversification of economic development in different parts of the region

Currently, the spread of investments from Krakow to the surrounding metropolitan area is observed [4, 77]. So-called edge centres as Niepołomice and Zabierzów develop. Economic core of Krakow has a positive effect on neighbouring territories. In the case of sub-regional centres in the Malopolska province, namely: Nowy Sącz and Tarnów, there is a concentration of *greenfield* investments in the territory of the city centres. In the adjacent districts and counties investments are negligible. When the sample forecasts for the next years were considered, we can say that it is rather a case of Tarnów that will spread due to foreign investments in the surrounding territories, which is an effect of the improved accessibility of the city.

Summary

Małopolskie, among Polish regions is characterized by a high level of FDI value coming into the area. Over the years 1989-2008, the territory of Małopolska province has attracted foreign investments amounting to U.S.D 12 billion. In 2008 alone, foreign investment closed in the amount of \$ 2 billion, which was the best result in history, seen through the prism of the incoming funds. Thanks to the activities of foreign investors in the Malopolska province at the end of 2008 it was 95.6 thousand of employed people, and so 5.1% more than last year. Beyond this, large disparities in the value of foreign direct investment in particular parts of the province are observed, where the dominant position is Krakow, positively affecting the neighbouring territories. Among the incentives determining foreign direct investment use in Malopolska province were identified: resources, labour costs, levels of social infrastructure, as well as the size of market. As factors that inhibit the inflow of investment to the province of Malopolska are considered: the low level of attractiveness of investment (in the assessment of investors), crime and poor transport access. Foreign Direct Investments in Malopolska province significantly affect the diversification of its economy, making it less vulnerable to periodic fluctuations of individual sectors and industries.

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Abstract

The presented paper shows the relationship between regional development Malopolska province, and the influx on its territory of foreign capital in the form of foreign direct investment. The studies undertaken focused on the most important implications arising from the location of foreign investment in the region. The study demonstrated a stimulating effect of FDI on employment growth in the Malopolska province, and also point to their pivotal role in diversifying the regional economy. The relationship between FDI and the diversification level of economic development in different parts of the region was pointed out.

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