THE COURSE AND EFFECTS OF THE TRANSFORMATION PROCESS IN POLAND
IN DIFFERENT FIELDS OF SOCIAL AND ECONOMIC LIFE

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FOREIGN DIRECT INVESTMENT IN POLAND

Introduction

The 1990s are marked by an intensification of the process of internationalisation of economic activity, so-called globalisation. This became a direct impulse for increasing mobility of services and capital. Foreign capital flows in the form of foreign direct investments (FDI) is an objective, and thus an "inevitable" phenomenon – one of the main "megatrends" of the world economy.[1] This tendency also appears in the Polish economy, which is experiencing a system transformation in two dimensions: first, it is adapting itself to the conditions of the mechanisms of the market, second, it is being continuously prepared to the standards of the European Union.

It is known that in the Western-European model of the market economy, to which we want to adapt our economic system, a strategy of conscious shaping of the economic environment is in force, creating the factors required for a clear and foreseeable increase in business activity. Economic policy influences the direction of desirable resource allocation, counteracting the occurrence of social unrest and the eventual negative effects connected with it.

The free market mechanism in the economic policy of an economically weak but developing country being in collision with the reality of the strong, controlled market mechanism of highly developed partner countries does not augur well for Poland in obtaining (and exploiting) comparative advantages within the international division of labour.[2] The au-

[1] Naisbit, J., *Megatrendy*, Poznań, 1997, pp. 97-99.

[2] And it even can lead "...in a direct line to the economic destruction of the weaker partner". See: Ciamaga, L. "Polityka i proces dostosowań strukturalnych w Polsce", [in:] *Biała Księga. Polska–Unia Europejska*, Warszawa, 1993, pp. 8-9.

tomatic activities of the market mechanism creating the illusion of freedom can strengthen our position in the peripheral links of Europe's economic and social structures.[3]

A policy standard in the European Union is the promotion of foreign capital flowing into the economy. The diverse aims of the economic policies of individual member countries are the consequence of the fact that the EU has not worked out uniform conditions for investment. The individual member countries still apply individual measurements for stimulating FDI (in accordance with their national priorities of economic policy) like tax relief and tax preferences, subsidies, and so on.[4] Particular achievements of these types of policies have been observed in countries like Great Britain, Ireland, and Spain. For this reason those countries have been pointed out more than once as examples of proper use of foreign capital within the aims of national economic policy as well as within the process of European integration.[5]

The working hypothesis of this article is the statement that foreign direct investments in Poland do not have an appropriate position in economic policy. In order to verify this thesis, the effects of those investments are analysed from the point of view of the desired direction of involvement of foreign capital in the structural transformation of the economy. This issue is important to such an extent that in Poland in 1998 (for the fourth year in a row) the increase in general outlays on gross investment was three times higher than the increase in GDP. The creditworthiness of our country has improved. To a large degree this is a consequence of foreign direct investments. Their share in the general investment outlays during the last few years exceeded 1/5 and in 1998

[3] The countries of the EU (especially Germany) adjust to the opening of our economy and " start to treat Poland as an area with a professional and cheap food processing industry as an alternative for an increase in the economic relations with for example Thailand". See: Płowiec, U., " agraniczna polityka gospodarcza Polski w procesie integracji z Unią Europejską", [in:] *Polska na drodze do zjednoczonej Europy. Rola pa stwa w procesac dostosowawczyc do Unii Europejskiej*, Warszawa, 1996, p. 250.

[4] They apply methods of the kind "do everything in order to be better than the neighbour and to attract the most foreign investors whose presence "fits" better the premises of the growth model of the specific country". See: Stępniak, A., *Integracja regionalna i transfer kapitału. Inwestycje bezpośrednie w aspekcie klimatu inwestycyjnego w Unii Europejskiej*, Gdańsk, 1996, p.164.

[5] Until the end of 1996 Spain received almost 100 thousand billion USD FDI (i.e. more than 8 times the amount received by Poland at that point of time). See: Miętek, G., "Bezpośrednie inwestycje zagraniczne w procesie integracji ze Wspólnotą Europejską. Doświadczenia hiszpańskie", [in:] *Wspólnoty Europejskie* 1998, no. 3, pp. 26-40 [also:] "Brać przykład z Hiszpanii i Irlandii (Sejm; dyskusja o inwestycjach zagranicznych)", *Rzeczpospolita* 1998, 5 VI.

FDI made up more than $\frac{1}{4}$ of the value of total investment as well as over 6 percent of GDP (in comparison with 4.6% in 1997).[6] The high dynamical economic growth in Poland increases the profitability of such investments and the absorption of foreign capital. As a result the Polish economy has already become to an important degree dependent on capital flows from abroad. This has inevitable consequences for economic policy, which should be sensitive to the direction of investments allocated in our country (taking the interests of foreign investors into consideration at the same time).[7]

The inflow of foreign capital does not automatically guarantee benefits at all, as is shown by the experience of developing countries (for example the Mexican crisis). It may emphasise the weaknesses of the economic basis of the country in question, as well as the lack of a cohesive economic policy. On the other hand, however, the benefits may be greater as a consequence of the realisation of well prepared programmes of economic reform. For the second aspect to dominate, i.e. for the country in question to attract better foreign capital than other countries, FDI must be an important element of the economic policy, which must be cohesive both by sector and by region.

As Poland finds itself in the next stage of transformation in which, after having created the basics for a market economy, the further development of the newly arisen economic system is indispensable. At the moment the private sector creates 60% of GDP and provides 65% of total employment. FDI plays a special role in this stage, also due to the increasing deficit in the balance of payments, which is the main source of macroeconomic risk. For that reason FDI should be instrumental in the structural transformation of the Polish economy.

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[6] See: Durka, B., "Synteza raportu", [in:] *Inwestycje zagraniczne w Polsce*, Warszawa, 1999, p. 10.

[7] International corporations execute their global strategies in newly created (or taken over) companies abroad and they are guided by two main motives: location and internalisation. Their interests do not have to be in accordance with our needs and expectations. The task of economic policy is to reconcile these, sometimes conflicting, interests. Foreign companies, for example, use the possibilities to apply the policy of lowering profits in Poland by "appropriate" calculation of the price of components when exchanging with the parent company abroad. Also technology transfer does not enrich the country of location of FDI all the time "in such a way that would improve the level of technology of the rest of the economy", which can be a result of "the deformed incentive system" (under the conditions of another incentive system, the potential foreign investor would behave differently). P.R. Krugman and M.R. Obstfeld, among others, point out those aspects of unfavourable consequences of FDI (as a result of the lack of a proper economic policy in the country receiving FDI) in their book *Międzynarodowe stosunki gospodarcze. Teoria i polityka*, PWN, Warszawa, 1997, vol. 1, pp. 183-186.

Paradoxically, a superb opportunity is offered by outside factors that disclose the start of a financial crisis on a global scale. On the world market there is excess money supply, as indicated by the low price of money. On the one hand this leads, among other things, to the phenomenon of a lot of mergers in highly developed countries, while on the other hand it leads to the allocation of free financial resources in lucrative business in 'hungry' markets like Central and Eastern Europe. In this situation Poland must conduct such an economic policy that would make it possible to take maximum advantage of this undoubtedly historic chance. One important thing in this respect is the creation of a 'safe haven' for FDI in Poland, in other words a credible market for capital deposits.

What is the structure of FDI in Poland? Are the preferences of foreign capital undertaking production and service activities in our countries changing? What are the trends in these changes? The answers to these questions could be the conclusions drawn from the analysis of the reality of the economy of our country in the light of the inflow of FDI.

FDI during the period of system transformation; extent and dynamics of inflow

When making an attempt to assess foreign direct investments in Poland it should not be forgotten that until the start of the system transformation (due to ideological limitations) it only appeared in "vestigial" amounts. Formally the economy was opened for foreign capital on the 5th of June 1991 when parliament (Sejm) passed the act governing companies with foreign capital.[8] Assessing the role and place of FDI in Poland during the system transformation is difficult because of the limited period of observation and the lack of complete, up-to-date, and reliable sources of information.

The intensification of the inflow of foreign capital into Poland and other Central and Eastern European countries is a completely new phenomenon. In Poland this process started in 1993, and in 1997 it was already the leading beneficiary of FDI surpassing Hungary, which had been the leader in the region since 1989. FDI in 1998 amounted to 10 bln USD, bringing cumulative FDI at the beginning of 1999 to 30.6 bln USD. In other words, the process of investment of Western savings in the Polish economy has speeded up particularly during the last few years, mak-

[8]This act (with many changes) is until today the legal basis for foreign investment in Poland. See: DzU 1991, nr 60, poz. 253.

ing Poland the largest recipient of foreign investment in Central and Eastern Europe.

From the legal point of view foreign investment stimulates the opening of the economy within the framework of liberalisation of economic exchange, resulting from membership of the WTO, the OECD, the CEFTA, and especially the European Agreement of December 16, 1991. This means that measures of economic policy with the aim to liberalise current account and capital account transactions (including exchange rate factors) will gather more and more importance for the intensity of the inflow of foreign capital. The chronology and extent of FDI in Poland is presented in Figure 1.

FDI exceeded "the first billion USD" in 1992. However, the point of reference applied most often in assessment is 1993, the year in which the National Agency for Foreign Investment (Państwowa Agencja Inwestycji Zagranicznych – PAIZ) started to monitor FDI inflow exceeding 1 mln USD per investment transaction. These data are shown in Table 1.

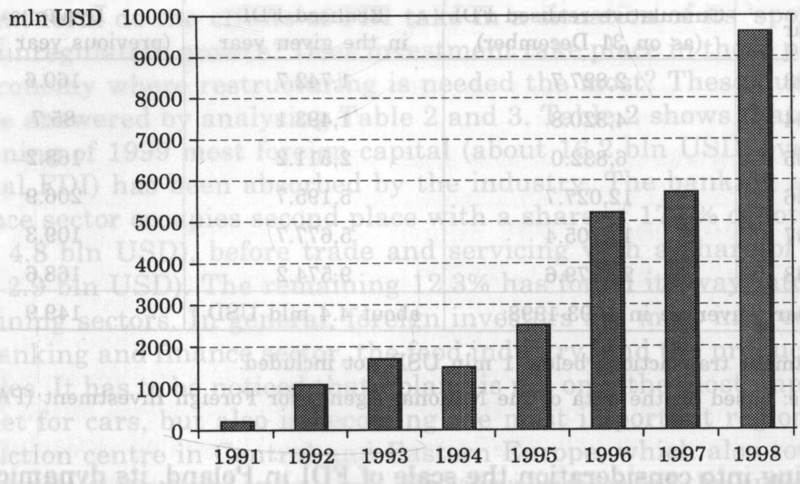

Fig. 1. Foreign direct investment[9] in Poland in the years 1991-1998 (in mln USD)*

Source: Based on data of the National Agency for Foreign Investment (PAIZ).

* Investment transactions below 1 mln USD not included.

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[9] Foreign direct investment (FDI) is the investment carried out by a company (or individual) from one country (direct investor) in a company in another country (the company in which direct investment takes place) with the aim to obtain long term benefits from the invested capital. This is (one of the many) definitions which is adopted by the Polish National Bank (NBP), based on the methodology of the IMF, OECD, as well as EUROSTAT. See: *Zagraniczne inwestycje w Polsce. Aneks. Metodologia opracowania danych*, Warszawa, 1998, pp. 15–16.

From the data in Table 1 it follows that over 96% of the cumulative FDI in Poland up to the beginning of 1999 took place in the years 1993-1998, showing an average yearly growth of about 50%. During this time the Polish economy has been supplied from abroad with a yearly average of about 4.4 bln USD in the form of direct investment. Undoubtedly without this help many undertakings and goals of economic policy in the period of system transformation could have been without a chance of success. There exists strong feedback in the form of increasing attractiveness of investing in the Polish economy, which experiences high dynamic economic growth. At the current stage of transformation the most important factors for attracting foreign investment are: a high and dynamic economic growth and internal demand, an increase in labour and capital productivity, still low labour costs, and the privatisation processes.

Table 1. Foreign direct investment in Poland in the years 1993-1998 (in mln USD)*

Year	Cumulative realised FDI (as on 31 December)	Realised FDI in the given year	Dynamics (previous year = 100)
1993	2,827.7	1,742.7	160.6
1994	4,320.8	1,493.1	85.7
1995	6,832.0	2,511.2	168.2
1996	12,027.7	5,195.7	206.9
1997	17,705.4	5,677.7	109.3
1998	27,279.6	9,574.2	168.6
Yearly average in 1993-1998:		about 4.4 mld USD	149.9

* Investment transactions below 1 mln USD not included.

Source: based on the data of the National Agency for Foreign Investment (PAIZ)

Taking into consideration the scale of FDI in Poland, its dynamics and importance for the economy in different respects, like the uninterrupted investment hunger, it is necessary to recognise that this phenomenon requires a determined reassessment of economic policy. The situation has come to the point that, considering the new role in the next stage of the transformation of the Polish economy, investment must get higher priority in the economic policy. The general need for modernising and restructuring the total production capacity due to the gradual exhaustion of non-investment resources of economic growth is not the only indication of it. Also the share of investment in high-level food-processing and high-tech industry is insufficient. The investment in these branches amounts to less than 20% of total investment outlays in industry.[10] This is the result of the fact that the expenditure on research and development is 4 times lower than in highly developed countries. This causes a so-called technology gap for Polish industry, because low expenditure on innovation constrains the absorption of technical advance. Thus, in this situation the importance of foreign capital in the form of FDI increases by being a factor counteracting macroeconomic imbalances and a potential source of economic policy supporting sectoral and regional structural reforms. Meanwhile, especially during the last few years, the industrial policy of the government has not taken important streams of FDI flowing into Poland under consideration. It seems to be necessary to use foreign capital, and especially FDI (with its potential of strengthening the economy with modern technology), for active restructuring of certain sectors in the economy as well as the neglected regions.

The sectorial structure of FDI at the beginning of 1999

What form do the effects of FDI take in a situation of its 'spontaneous' (unregulated) growth? Does investment take place in those parts of the economy where restructuring is needed the most? These questions can be answered by analysing Table 2 and 3. Table 2 shows that at the beginning of 1999 most foreign capital (about 16.2 bln USD, over 59% of total FDI) has been absorbed by the industry. The banking and insurance sector occupies second place with a share of 17.6% of total FDI (over 4.8 bln USD), before trade and servicing with a share of 10.6% (over 2.9 bln USD). The remaining 12.3% has found its way into the 6 remaining sectors. In general, foreign investors are most interested in the banking and finance sector, the food industry, and the production of vehicles. It has to be noticed that Poland is not only the most important market for cars, but also is becoming the most important regional car production centre in Central and Eastern Europe, which also could result in a bigger capital inflow into the 'surroundings' of the automotive industry.[11] Agriculture attracted a mere 24.1 mln USD FDI up to the

[10] The dominating branches, absorbing about half of the investment outlays are the capital intensive raw material and energy sector (mainly the power industry, coal mining, and oil processing), metal, cement, and ceramics production, as well as other branches producing raw materials and semimanufactured products. This means a strengthening of the disadvantageous traditional production structure. See: Chróścicki, T., "Inwestycje w gospodarce", *Prawo i Gospodarka* 1998, 16 I.

[11] On the ranking of the biggest foreign investors in Poland (at the beginning of 1999) the first two places were occupied by two automobile concerns: FIAT from Italy (1.36 bln USD invested) and DAEWOO from South Korea (1.35 bln USD invested). Only in 1997

Table 2. Size and structure of total FDI in Poland by economic sector (31.12.1998)

Economic sector	FDI (31.12.1998)	
	in mln USD	as % of total FDI
1. Industry:	16,165.7	59.3
a) production sector	15,912.1	58.3
b) utilities (i.e. electricity, gas, water)	241.8	0.9
c) mining	11.8	0.1
2. Financial services	4,802.9	17.6
3. Trade and servicing	2,942.7	10.8
4. Hotels and restaurants	429.8	1.6
5. Transport and communications	719.3	2.6
6. Construction	1,658.3	6.2
7. Communal services	397.8	1.4
8. Real estate	112.0	0.4
9. Agriculture	24.1	0.1
Total FDI with a value of over 1 mln USD per investment transaction	27,279.6	100.0
Estimated FDI with a value of up to 1 mln USD per investment transaction	3,371.6	×
Value of total FDI on 31.12.1998	30,651.2	×

Source: Author's calculations based on "Lista największych inwestorów zagranicznych w Polsce", PAIZ, Warszawa, 1999.

end of 1998 (less than 0.1% of total FDI), far below the investment required for modernisation of this strongly neglected sector of the Polish economy, with relatively the largest structural backlog in comparison with the high developed countries. This could make it difficult, if not impossible, to improve the structure of agriculture and to adapt this sector to the standards of the EU.[12] Maintaining one of the biggest barriers for inflow of FDI in agriculture – the severe constraints on selling land to foreigners – is another paradox in such a situation because it

Daewoo, Fiat, General Motors and Isuzu invested 1.3 bln USD in vehicle production. About 30% of total planned investment outlays for 1999 (over 2 bln USD) are intended for this sector of production.

[12] See: Szot, E., „Żywność. Klub polskich producentów alarmuje. Państwo nie ma koncepcji", *Rzeczpospolita* 1998 z 26 V.

makes inflow of foreign capital and technology impossible in defiance of the need for modernisation in this sector.[13]

Foreign capital is insufficiently involved in structural transformations in other sectors of the Polish economy, like the construction industry. This sector is still experiencing a crisis in production and it seems that without foreign capital it will never develop to the desired level of construction of, for example, housing. The construction industry absorbed 727.3 mln USD up to the end of 1998 (excluding an investment 958 mln USD by the Russian "Gazprom" in a gas pipeline from Russia to Europe).

Therefore, the increase in the international competitiveness of the Polish construction industry can be contributed to the increase in the relative weight of FDI in this sector. Already in 1995 almost 90% of production in the construction industry took place in the private sector. It seems that the private sector in this industry, showing high dynamics in net profit (for example a 120% increase in 1996 compared with the year before) and the possibility to go beyond the main trends of modernisation and progress in this branch, can bring in foreign capital. A thesis that may be formulated is that in a certain sense this situation is similar to what is happening in the transport and communications sector, where the state monopoly is still protected by an administrative licence system and licences for Polish firms.[14] This is why the share of transport and communications in total FDI in Poland is still small (2.6%).

Certain re-valuations in sectorial (especially on the regional and local level) economic policy would also require FDI in municipal and social services including, among others, sewage collection and treatment, cleaning of streets, airports, and cities, waste disposal and recycling, etc. Up to now about 398 mln USD have been invested in these activities in the form of FDI (making up 1.4% of total FDI), which is far below the needs of the municipalities, cities, and regions in Poland.

In industry, the production sector turns out to be the most attractive for FDI, attracting almost 16 bln USD up to the beginning of 1999. Over 75% of these outlays has been absorbed by 4 sectors: almost 4.5 bln USD in the production of groceries, beverages, and tobacco; over 3.6 bln USD in vehicle production; about 2.6 bln USD in the production of non-metallic re-

[13] The latest report of the Institute of Agricultural Economics and Food Economy (Instytut Ekonomiki Rolnictwa i Gospodarki Żywnościowej PAN) points out the need for abolition of such constraints. See: "Eksperci za sprzedażą ziemi cudzoziemcom", *Rzeczpospolita* 1998, 6-7 VI.

[14] Polish Telecom (TPsa) occupied the last place in the ranking of 200 telecommunication companies in 80 countries drawn up in the prestigious magazine *Communications Week*. See: *Wprost* 1998, no. 17, 26 IV.

sources; and about 1.4 bln USD in paper and cellulose production (including publishing and printing activities). The details concerning the largest realised FDI in Poland per sector of production are shown in Table 3.

Table 3. Cumulated Foreign Direct Investment (FDI) in Poland per sector of production (31.12.1998)*

Main sectors FDI in production sector	FDI (on 31.12.1998)	
	in mln USD	% of total FDI
1. Groceries, beverages, tobacco	4,460.7	16.4
2. Vehicles	3,627.9	13.3
3. Other non-metal products	2,576.8	9.4
4. Paper and foil; publishing and printing	1,353.9	5.0
5. Chemicals	1,272.4	4.7
6. Electrical and optical equipment	1,016.3	3.7
7. Other machines and equipment	584.8	2.1
8. Rubber and man-made materials	422.7	1.5
9. Metals	354.2	1.3
10. Other production sectors	242.4	0.9
General total	15,912.1	58.3

* Remark: the data concern FDI over 1 mln USD per investment transaction.

Source: Author's calculation based on data from PAIZ, Warszawa 1999.

From Table 3 it follows that the distribution of FDI contributes to the petrification of defective industrial production structures. Particularly disturbing is the decreasing relative weight of FDI in the chemical industry and in the production of electrical and optical equipment. This can pose a significant obstacle for the growth of export and increasing of the international competitiveness of the Polish economy.

Trends and causes of the change in the sectorial structure of FDI in Poland and the needs of adjusting to the integration with the EU

Table 4 confirms the continuing unfavourable tendencies of allocation of FDI in the Polish economy, especially in industry. The table shows that 4 industrial sectors (food, vehicles, chemicals and timber and paper) attracted about 45-47% of total FDI between 1993 and 1997, making up about 73% of total investment of foreign capital in industry. Together the 8 service and industrial sectors (shown in Table 4 A and B) absorb

Table 4. The structure of FDI in the years 1993, 1996, and 1997 (% of the total amount of capital invested in Poland by 31 December)

A. FDI in the main industrial sectors.

Year	Food	Vehicles	Chemicals	Timber and paper	Total for the main sectors of industry
1993	20.1	10.4	5.8	10.6	46.9
1996	21.1	—	5.3	5.1	—
1997	18.5	14.2	6.1	6.5*	45.3

B. FDI in the main service sectors.

Year	Finance and insurance	Trade	Transport and communications	Construction	Total for the main service sectors
1993	2.3	20.0	2.5	4.3	29.1
1996	21.2	5.9	5.3	5.0	37.4
1997	17.7	8.0	4.2	3.1	33.0

* Including publishing and printing. Because of the non-uniformity of the records and the incompleteness of the statistical data, they are rather an estimate and cannot be directly compared using this sectoral division.

Source: Author's calculations based: Sadowska-Cieślak, E., Burzyński, W., Biskup, J., *Inwestycje zagraniczne w Polsce*, IKiCHZ, Warszawa, 1994; *Foreign Direct Investments Branches of Investment*, (December 1996), PAIZ, Warszawa, 1997; *Branch Structure of Foreign Investment in Poland* (December 1997), PAIZ, Warszawa, 1998.

a nearly unchanged 76-78% of FDI in Poland (when comparing 1997 with 1993). The most significant shift during these years took place in the vehicle production, where a clear increase in the relative weight of FDI can be observed, while the timber and paper industry shows an opposite trend. Both the food industry and the chemical industry remained on a comparable, insignificantly changed structural level of FDI (respectively about 1/5 and 6% of total FDI). This also shows that positive changes in the proprietary and developmental structure of investments do not accompany the desired changes in the sectorial structure of the economy.

The ranking of firms with foreign capital on the list of the 500 biggest Polish firms in 1997 may make the assessment of current involvement of foreign capital in the Polish economy more complete.[15] These firms already make up ¼ of the list, and many of them is owned by multinational

[15] The "lista 500" has been drawn up for 15 years by the Institute of Economic Sciences of the Polish Academy of Sciences (Instytut Nauk Ekonomicznych PAN) and published by the weekly *Nowe Życie Gospodarcze* (for 1997 see: *Nowe Życie Gospodarcze* 1998, no. 22, 31 V).

enterprises operating on a global scale. Most widely represented are trade, the banking and insurance sector, and the food industry, which is an indication that the biggest foreign investors are oriented towards the domestic market taking advantage of the consumption boom in Poland. This is confirmed by the strong (57%) concentration of earnings of companies with foreign capital participation in three sectors: trade (22%), automobile production (20%), and financial services (15%) as well as a concentration of 41% of the profits of these companies in the financial sector.

Looking at the data in the Table 5, it can be asserted that foreign direct investments petrify the imperfections in the tri-sectorial structure of the economy.

Table 5. The sectorial structure of FDI in the national economy as on 31 December 1991, 1996, 1997, and 1998 (% of total capital invested in Poland)

Year	Agriculture (I)	Industry (II)	Services (III)
1991	1.0	60.6	38.4
1996	0.1	62.2	37.7
1997	0.1	63.0	36.9
1998	0.1	59.3	40.6

Source: Own calculations based on: *Podmioty gospodarcze z udziałem kapitału zagranicznego w latach 1990 i 1991, Informacje Statystyczne GUS*, Warszawa, 1992; *The List of Major Foreign Investments in Poland January 1997* (Tab. 2), PAIZ, Warszawa, 1997; *Branch Structure of Foreign Investment in Poland* (December 1997), PAIZ, Warszawa, 1998; *Lista największych inwestorów zagranicznych w Polsce*, PAIZ, Warszawa, 1999.

Comparing the production structure of the Polish economy with the EU, it can be concluded that there exists a considerable structural gap between these economies, constituting an important barrier in the integration process of our country with the EU. The structural distance with respect to agriculture, industry, and the service sector mentioned above concerns Polish agriculture in particular, while secondly the service sector creates about 60-70% of GDP in the EU countries against 40% in Poland. At the same time the essence of adapting the Polish economy to the EU economy is industry, with intra-industry trade constituting more than half of the Community's trade.[16]

Meanwhile during the transformation period ambiguous and negative structural tendencies have become visible. These tendencies, among oth-

[16] Zukrowska, K., "Dostosowania w sferze realnej polskiej gospodarki do integracji z Unią Europejską", *Gospodarka Narodowa* 1998, no. 4, p. 89.

ers, rest on squeezing out final products produced with an advanced level of technology by the production of semi-manufactured products, services, natural resources, and materials that do not involve, to a significant degree, the scientific and technical potential as well as innovative and modern technology. So a situation has come into being which threatens the food-processing industry, in particular the high-tech branch. This is confirmed by the so-called import penetration index,[17] from which it can be concluded that in the group of high-tech products foreign capital in most cases wins conflicting business and effectively eliminates domestic producers from the Polish market (on the principle of 'free competition'). Foreign companies constantly increasing deliveries to Poland in the high-tech field have contributed to the fact that in this production group the import penetration index increased the most, from 35.6% in 1989 to 66% in 1996.[18] On this basis it may be concluded that in the aftermath of the lack of active industrial policy in Poland this gap was consistently 'developed' by foreign companies and domestic production was consciously squeezed out. In this way certain 'reversing' trends were disclosed in the industrial production structure, moderately expressed, not without foreign capital taking part in this process. From analysing the structure of FDI one can see results that foreign companies show a lack of important initiatives (and more clearly a lack of activities) in starting or developing production in those branches of industry (except the automobile industry) which are of crucial importance for the modernisation of these industries. At the same time this means the export of unemployment to Poland in the high-tech sector. These tendencies appear to counteract some of the political projects of the government in the years 1996-1998. An example is the requirement for foreign suppliers of equipment and appliances for Polish Telecom to show their direct outlays in the Polish production sector. This example may portend a larger role of FDI in economic policy. It is difficult to imagine the possibility of technologically modernising our economy without the involve-

[17] These indices are commonly applied in the EU to show the relationship between imports and total sales on the domestic market or the production in the country in question. In this case sales are calculated by the so-called apparent consumption method, simplified: production minus import plus export. See: *Panorama of EC Industry – 1990*, European Commission, Brussels-Luksembourg, 1990, p. 5.

[18] This is a record-breaking degree of penetration of the Polish domestic market (in the high-tech branch) taking into consideration that the index of average import penetration for the Polish market (the average sales-import ratio in the domestic market in fixed prices) in 1995 amounted to 40.4% (for comparison: a similar index for the EU amounted to 17%). See: *Kapitał zagraniczny w Polsce (próba oceny i wnioski na przyszłość)*. Collective work, S. Długosz et. al., Warszawa, 1997, pp. 28 and 37.

ment of foreign capital in increasing the almost non-existing production of different high-tech goods. It seems to be possible to attract more foreign capital to those sectors and regions which require considerable investment in restructuring, research and development, and education with help of adequate instruments of economic policy, like setting priorities within the framework of privatisation agreements or special economic zones. A confirmation of this may be the results within this field in, for example, Ireland and Great Britain, which excel due to adequate moves in economic policy at obtaining knowledge-absorbing and development-financing FDI.

Summary and conclusions

The spontaneous growth of FDI from the beginning of the transformation as a "sui generis" by-product of the realisation of the main aim, supplying the economy with investment resources according to the preferences of foreign investors, almost without any indication from the Polish side for sectorial or regional direction of the investment. This situation is favourable for the realisation of the strategy of Multinational Enterprises in concordance with their priorities.

The necessity to place FDI within the field of economic policy has not been and still is not fully recognised by the leading political powers in the country, in spite of the fact that the expanding liberalisation of the inflow of FDI gives rise to a situation qualitatively different from the situation at the beginning of the transformation process.

The unchanged trends in the direction of FDI from the start of the transformation period point out a considerable stability in the preservation of economic structures by FDI. Between 1989 and 1998 minor changes took place in the structure of FDI. These changes are mainly expressed by the shift of the relative weight of FDI from trade (decline) to financial mediation (increase). It is difficult to regard these changes as being significant, since, for example, agriculture, construction, transport as well as services in the broadest sense still show a relatively low level in the structure of inflow of foreign capital and in industry only in automobile production a clear increase can be observed.

Thanks to FDI the property rights structure in many sectors of the economy has changed significantly, including individual branches of the production sector like banking, the furniture industry (dominated by German capital), cement industry, timber and paper industry, and the food industry.

As much as the integration of the Polish economy with the structures of the EU may be advantageous for the improvement of competitiveness and speeding up of modernisation, there is a lack of domestic and regional policy towards FDI, which reinforces the continuation of the almost ineffective economic structure, and even hampers the speed of those advantageous processes making questionable the durability of the trend of Poland's increasing share in trade with the EU and the rest of the world.

In the perspective of the enormous need for restructuring the Polish economy it seems justifiable to resolve the problem of FDI as a new quality in economic policy, i.e. the problem of shaping economic policy towards FDI, in particular in industry which constitutes the basis of the Polish economy.

An essential task is to give FDI a place in the new regional policy as a result of the process of devolution, the regionalisation of economic activity in Poland, and the creation of regional bases for these activities in our country. The established solution within the reality of the new territorial division of the country is that each of the new regions will decide for a large part by itself how to shape its economic policy. Each region determines the tasks and priorities for FDI in their policy after the stage of stagnation connected with "self-organisation".

The macroeconomic conditions in which such a re-orientation in regional economic policy is taking place and the macroeconomic consequences may support regional and local development programmes by more effective linking of FDI to the realisation of this. And the more so, because the EU is not willing to support sectorial transformation of the economy but wants to allocate almost all of its support in restructuring the infrastructure of individual regions.[19] In this situation FDI in Poland has in the current stage of economic transformation the character of assistance in the form of trade. Since FDI is an expression of making available foreign savings for the development of the Polish economy, the task of economic policy is to direct FDI in such a way that important aims like technical and organisational progress, restructuring industry and the service sector, increasing the pro-export orientation of the economy, modernisation of the agricultural structures in the countryside, decreasing unemployment, and improvement of the natural environment can be fulfilled. The ownership transformation connected with foreign capital participation in the privatisation process makes the realisation of such a strategy and the achievement of the priorities possible.

[19] The structural funds of the EU are aimed at developing the 'absorption potential' of 'backward' regions and are to be used to prepare the 'soil' (infrastructure) for future FDI. See: Szlachta, J., *Programowanie rozwoju regionalnego w Unii Europejskiej*, PAN, Komitet Przestrzennego Zagospodarowania Kraju, vol. CV, Warszawa, 1997, pp. 150-157.

Economic policy has to take FDI into consideration as an important link functioning in the Polish economic system. Developing a specific strategy towards foreign capital amounts to minimisation of the identified negative aspects of the “spontaneous” functioning of FDI, as well as increasing its benefits for the Polish economy and society.

Assessing the total effect of inflow of FDI in Poland up to now leads to the general conclusion that the benefits definitely outstrip the dangers. Despite the lack of a framework to direct the expansion of foreign capital according to the preferences of Polish politics, this developmental capital takes part in the fulfilment of those preferences in, for example, the automobile industry and partly in telecommunication. In the areas recognised to deserve priority it is necessary to determine special incentives and conditions for FDI. The high-tech branch of industry (integrally connected with information technology, especially telecommunication), the computer industry, and electronics belong here. This particular industrial strategy demands an increase in the involvement of foreign capital for the expansion of the production of final products in the country, the modernisation of the energy and mining sector, and the modernisation of agriculture. The most convenient way of connecting foreign capital to the realisation of the priorities of structural transformation of the economy is a policy of privatisation.