

**FOREIGN DIRECT INVESTMENT IN POLAND AND IN
POLISH – TURKISH ECONOMIC RELATIONS**

Krystyna Żołądkiewicz*

ABSTRACT

Due to economic growth Poland has been perceived as a country with good development prospects. It is an important factor to attract and to maintain substantial inflow of foreign direct investment (FDI) into Polish economy. Turkey belongs to major foreign investors in Poland. However, there is still a lot of potential in Turkish investment.

Keywords: *FDI, Market Attractiveness, Foreign Investors, Polish-Turkish Relations*

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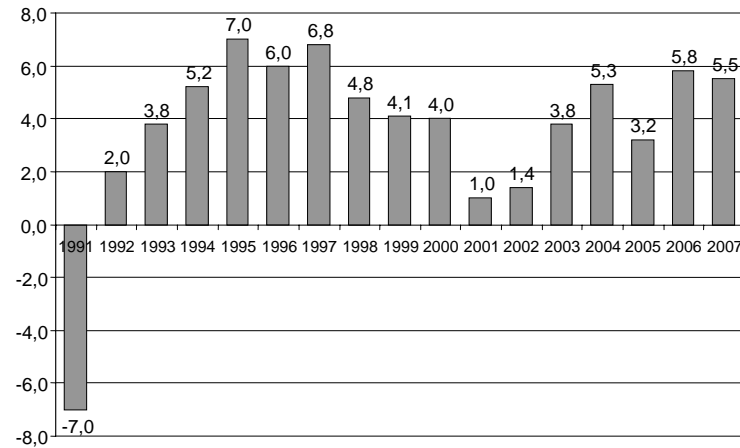
ENHANCEMENT AND DYNAMICS OF FDI IN POLAND

Recent years have been a period of considerable success for the Polish economy. Accelerated economic growth is characterised by a high rate of growth of GDP. The figure for Poland is higher than the average for the new EU Member States from the Central and Eastern Europe. It is an important factor of improving our position in the European Union. Data compiled by the European Union show that the GDP per capita in Poland rose from 40,1% of the EU-15 average in 1997 to 46% in 2005, that is by almost 6 percentage points.

Given the good performance of Polish economy in 2006, the GDP volume increased by around 6 per cent and is estimated to increase by over 5 per cent in 2007. GDP growth in Poland is twice that of Western Europe. It is also observed an increase in investment activity and improvement on the labour market. Moreover, inflation level remains low (see Figure 1). In 2006, the industrial output increased by 11,8% comparing with the previous year. At the same time the retail and wholesale sales increased by 11% and 14% respectively. In 2006, and particularly in 2005, a strong impetus for Poland's economic growth has come from exports. However, domestic demand, both consumption and investment one, were important factors contributing to the high rate of growth as well (GUS, 2007).

* University of Gdańsk, Institute of International Business, Sopot, Poland, E-mail: k.zoladkiewicz@chello.pl

(a) GDP growth in Poland (1991-2007, in %)



(b) Inflation rate in Poland (in 1990-2006, in %)

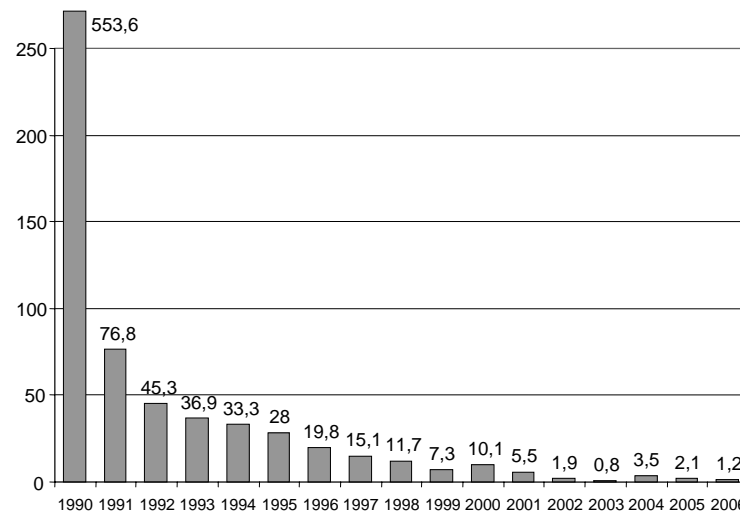


Figure 1: Investment Potential of Poland – Macroeconomic Development

Source: Główny Urząd Statystyczny GUS 2007 (Central Statistical Office). GUS. Warszawa 2007.

The overall trend of Polish economy growth contributes to Poland being perceived as an economically successful and stable country with good development prospects. Poland appears to be attractive place for FDI. There is also a number of other reasons taken into consideration

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while investing in Polish economy. Investment is further stimulated by: human capital of young talented people and relatively low cost of highly skilled labour; benefits of strategic location in the centre of Europe; large and growing size of domestic market of nearly 40 million consumers; incentives with regard to Special Economic Zones and Technology Parks. This investment environment creates a potential for increasing capital inflow related to offshoring. Poland is becoming more competitive in business process offshoring market (BPO). An important condition determining engagement of foreign investment in BPO includes a large number of graduates from higher educational institutions as well as more academic centres and advantage of size as compared with other countries from the region (PIFIA, 2007). All above makes Poland an attractive place for investment.

A gradual reduction of corporate income tax rates (CIT) accompanied by more flexible rules for calculating depreciation allowances has been among one of most important arguments for investment into Polish economy since 2000. In 2004, the corporate income tax rate was set at 19 per cent of the tax base. Since then it has been one of the lowest in the EU and in other developed countries (see Table 1).

Table 1: European Union and Other Countries Corporate Income Tax (CIT)

EU countries	CIT	Other Countries	CIT
Germany	38,34%	Japan	40,7%
Spain	35%	India	33,66%
France	33,33%	China	33%
UK	30%	Canada	36,1%
Greece	29%	USA	40,0%
Czech Republic	24%	Australia	30%
Slovakia	19%	New Zealand	33%
Poland	19%		

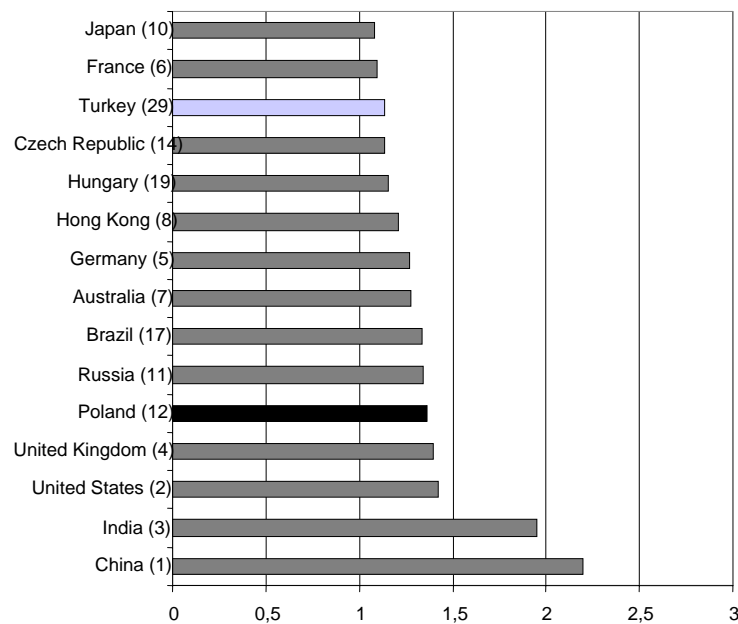
Source: PIFIA 2007 (unpublished data) and CER. DFAT. Canberra 2007.

Polish legal system has also been well adopted to European standards and is foreign investors friendly. However, some barriers still exist but these impediments are universal both for Polish and foreign entrepreneurs. Problems - that the law sometimes lacks compatibility, is not transparent enough, there are some gaps etc. - need more regulation and clarification. Some further steps have already been taken to create positive investment climate and to support foreign capital investment, such as the Act on Financial Supporting of Investment from 2002, the Economic Freedom Act from 2004 (Oziewicz, 2006).

Using FDI Confidence Index analysis by A.T. Kearney Inc. (2006) reveals the world's most attractive places to invest in, having particularly favourable development prospects. Index was constructed using primary

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data from a survey administered to senior executives of the world's 1000 largest corporations. They represent 47 countries and 24 different industries. Participating companies are responsible for about 70% of global FDI flows and generate USD 27 trillion in annual sales (PIFIA, 2007). In the latest evaluation of December 2005 Poland ranks 5th in top 10 global investment destinations. It is a change from position 12th in autumn 2004 whereas in the previous year it had dropped as many as 8 places (4th position in 2003). Poland exceeds a number of the EU countries, such as Germany, Hungary, Czech Republic and France. Turkey was ranked in December 2005 as 13th in top 25 global investment destinations as compared to 29th position in a previous year (see Figure 2).



Confidence level on a 0-3 scale.
Numbers in parenthesis signify last years' position.

Figure 2: FDI Confidence Index

Source: FDI Confidence Index Report. A.T. Kearney, 2006, 2005.

However, European investors ranked Poland as their 3rd most attractive FDI location in 2005 (up from 6th a year before) while US investors ranked Poland 7th, up from 12th in 2004. According to data by The Polish Information and Foreign Investment Agency (PIFIA), Poland is 3rd globally in terms of attractiveness for R&D investments (after China and India). Investors connected with fabricated metals, industrial

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machines and computer equipment rank Poland as their 5th most attractive location as well as food, tobacco textiles and apparel investors. Expected return on investment is estimated at 2 times that of Spain and 4 times that of Germany.

In 2006, Poland was also ranked 41st among 173 countries in the creditworthiness ranking compiled by the US monthly "Institutional Investor". It was based on data supplied by chief economists of the world's leading banks and insurance companies.

These ranks shown above demonstrate that favourable conditions and good development prospects create Poland as a particularly good location for investment. It has resulted with the growing role of enterprises with foreign capital participation in the Polish economy. In some sectors such entities with foreign capital participation are more involved in, with special interest as regards manufacturing, trade and repair as well as transport, storage, communication. In the years 1995-2004 these enterprises were substantial stimulus of changes in the technology, production and exports of technologically advanced industrial goods. To this end inflow of FDI is an important determinant of performance in the Polish economy as a whole and in the Polish exports in particular.

On the other hand these excellent economic indicators resulted in significant inflow of foreign direct investment (FDI) to Poland. The large volume of FDI inflow is a direct evidence of Poland's attractiveness for foreign investors. As already mentioned it results from macroeconomic stabilization and rapid economic development as well as from the fact that Poland became an active member of the international community. In 1995 it joined WTO, in 1996 – OECD, in 1999 Poland became a member of NATO, and the most important on 1st May 2004 Poland joined the European Union. As a member of the EU Poland became a trustworthy and reliable partner for international business.

Since 1989 till the end of 2004 Poland has attracted USD 84.477 billion of foreign direct investment. The inflow of FDI to Poland has grown very fast, especially in the second half of the 1990s. It peaked in 2000 achieving approximately USD 10,6 billion. In 2004, FDI reached about USD 12,9 billion. PIFIA estimates that Polish inward FDI reached about USD 15 billion in 2006 and was by approximately 78 per cent higher than in the respective period in the previous year, as compared with 28 per cent growth a year ago in relation to 2004. It was the largest inflow of foreign capital to Poland since the year 2000 (see Figure 3 and PIFIA).¹

¹ PIFIA data relate only to investment valued at above USD 1 million.

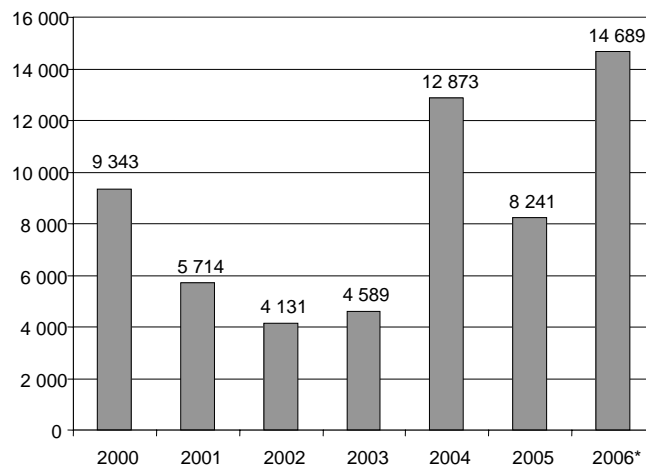


Figure 3: The Inflow of Foreign Capital to Poland over 2000-2006 (in USD millions)

Source: Zagraniczne inwestycje bezpośrednie w Polsce w 2005 roku. National Bank of Poland (NBP). Warszawa 2005, 2006, 2007 and PIFIA 2007 (unpublished data).

Dominant position as a source of FDI in Poland is represented by investors from the EU countries. In 2005, over 85 per cent of capital invested in Poland came from the EU member states while less than 15 per cent from other countries (Figure 4).

Poland has simultaneously started to invest abroad. In contrast, the level of outflow of Polish capital abroad is rather small. According to data of the Ministry of Economy, Polish outward FDI has fallen from EUR 50 million annually in years 1994-2000 (it was a peak of EUR 318 million in 1998) to minus EUR 97 million in 2001. Then in 2002 Polish foreign investment has risen to EUR 228 million, EUR 265 million in 2003, EUR 624 million in 2004 and to EUR 2.465 million in 2005 (respectively an increase in years 2003-2005 by 16%, 135% and 295%) (Ministry of Economy, 2006 and NBP, 2007).

To sum up, Poland is a net importer of capital, and so far the outward direct investment is very low. General conditions for inward FDI are favourable and provide an opportunity for a substantial inflow of foreign investment. It coincides with positive and high opinions formulated by various foreign business circles on Poland as the potential location of investment projects.

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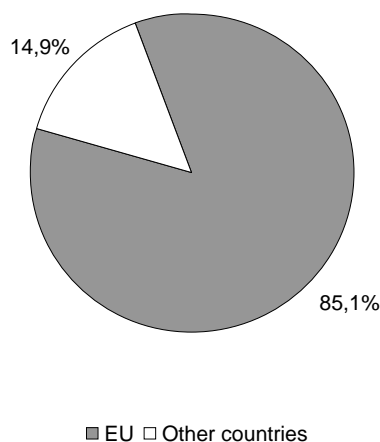


Figure 4: Foreign Direct Investment Stock at the End of 2005 (EUR bn)

Source: As in Figure 4

TURKISH FDI IN POLAND

Turkey belongs to group of the relatively large foreign investors in Poland but so far their share is much smaller as compared with other developed economies (see Figure 5). As to the sectors Turkish investors are particularly interested in real estate as well as construction industry. It results from the fact that Poland is perceived as extremely attractive location for investment in these branches because returns on investment is estimated to be much higher than in other member states of the EU.

According to the report of PIFIA in December 2004, total capital engaged by Turkish entities was valued at USD 100,1 million. The list of investors above USD 1 million contained enterprises such as: Reform Company, building the Reform Plaza in Warsaw – USD 50 million; Rumeli Group, manufacturing cement, lime and plaster in Nowa Huta – USD 45 million; Saspol, building shopping and office centre in Łódź – USD 3 million; Dallas International, manufacturing wearing apparel in Wałbrzych Special Economic Zone – USD 2,1 million. However, Turkish obligations as regards investment plans amounted to USD 58,0 million (exclusively related to Rumeli Group).

However, according to National Bank of Poland (NBP) data at the end of 2005 the value of Turkish companies' investment was USD 23,0 million. At the end of the previous year the value of Turkish investment

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in Poland was USD 62,5 million (and USD 31,6 million in 2003). The decrease in accumulated value of Turkish investment in 2005 comparing with the year 2004 was the result of sale of stocks and shares and payment of credits and loans. Direct investment income in years 2003-2005 amounted to USD 0,4 million in 2003; USD 17,2 million in 2004; minus USD 15,1 million in 2005.

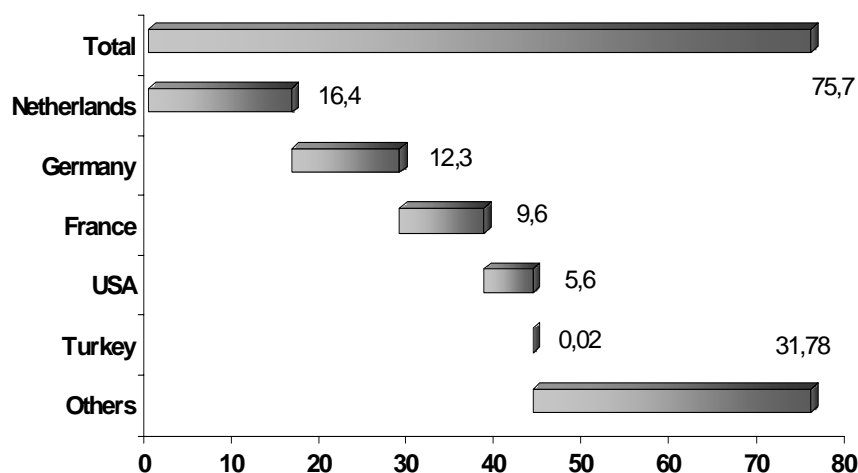


Figure 5: FDI in Poland: Position at the End of 2005 (EUR bn)

Source: National Bank of Poland (NBP), Warszawa 2007.

In 2005, a new Turkish investment was opened in Nadarzyn near Warsaw. It is Euro Power Centrum – wholesale center – Maximus. The total value of this investment is estimated at USD 300 million. At the moment a part of this investment project, which is worth approximately USD 70 million, was realized. Turkish share in this investment amounts to 37 per cent and belongs to Group Mesa Mesken Sanayi Anonim Sirketi from Ankara while remaining shares belong to a large Dutch company and a Polish firm.

The list of major investors from Turkey in Poland at the end of year 2005 is presented in Table 2 and Figure 7.

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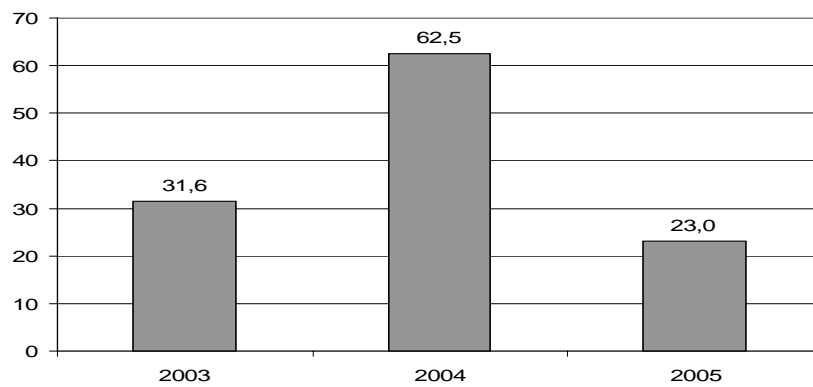


Figure 6: The Stock of Turkish Investment in Poland (at the end of each year, in USD millions)

Source: National Bank of Poland (NBP), Warszawa 2007

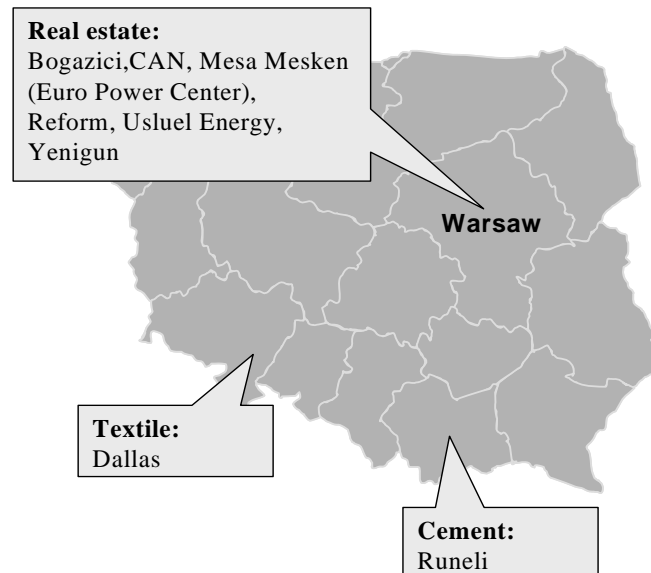


Figure 7: Turkish Companies in Poland

Source: PIFIA, Warszawa 2007 (data unpublished)

Table 2: The Largest Investors from Turkey, as Country of Origin and Registration, in Poland on December 31, 2005

Rec. num.	Investor name	Activities (PKD)	Activities (class)	Comments
1.	BOGAZICI Investment Group	Real estate, renting and business activities	Architectural and engineering activities and related technical consultancy	25% stake in 8 Star Sp. z o. o. (Warsaw)
2.	CAN Group	Real estate, renting and business activities	Architectural and engineering activities and related technical consultancy	25% stake in 8 Star Sp. z o. o. (Warsaw)
3.	Dallas International	Manufacture of fabrics and textiles	Manufacture of other wearing apparel and accessories	Dallas International – Wałbrzych SEZ
4.	Mesa Mesken A.S.	Real estate, renting and business activities	Real estate activities with own property	37% stake in Euro Power Centrum Sp. z o. o.- Maximus Investment in Nadarzyn
5.	Reform Company	Real estate, renting and business activities	Real estate activities with own property	Reform Company Sp. z o. o. - Warsaw
6.	Rumeli Group	Manufacture of other non-metal goods	Manufacture of cement, lime and plaster	55% of shares in Cementownia Nowa Huta S.A.-Activity in Kraków
7.	Saspol	Real estate, renting and business activities	Real estate activities with own property	Centrum Handlowe SASPOL-Łódź
8.	USLUEL Energy Installation	Real estate, renting and business activities	Architectural and engineering activities and related technical consultancy	25% stake in 8 Star Sp. z o. o. (Warsaw)
9.	YENIGUN Group of Companies	Real estate, renting and business activities	Architectural and engineering activities and related technical consultancy	25% stake in 8 Star Sp. z o. o. (Warsaw)

Source: PIFIA, Warszawa 2007.

Construction and real estate are again the most important sectors of Turkish investments into Polish economy. It relates to both residential buildings and non-residential buildings. Turkish investors underline their interest in maintaining this structure of their capital investment as it

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generates the highest proportion of profits. However, entrepreneurs point out existing administrative obstacles, such as licences required as a principal condition for some types of business activity. Granting licenses needs acceleration because otherwise it may limit conducting the business activity. Fulfillment of investment projects' requirements is not an easy process and it takes 1-1,5 years. That is why it may delay completion of investment proposal as meantime conditions and economic situation on real estate market or in other sectors may change. Turkish investors also demonstrate difficulties which they experience when approaching credit market in Poland. It limits their ability in expanding the scope of investments.

However, it should be mentioned that there is a growing competition for Poland as location of Turkish foreign investment is concerned. Important businesses from Turkey seek for opportunities to invest capital in Bulgaria, Romania, Arabic countries and former soviet republics (Ministry of Economy, 2007). These countries are becoming strong competitors for Poland as a place of location for Turkish FDI. Anyway, situation may change with Turkey's accession to the EU.

Analyzing Polish-Turkish investment relations it should also be noticed Polish FDI participation in Turkey. At the end of 2006 there were 25 entities with Polish capital participation into Turkish economy, mostly located in Istanbul (19) and six remaining in Mugla, Ankara, Adana, Trabzon, Rize and Antalya (Ministry of Economy, 2007).

It is obvious that FDI play an important role in economy. It is especially crucial for Poland while foreign investment are significant source of modern technologies and products, enhancing exports sectors. It leads to conclusion that fluctuating investment situation in Polish-Turkish relations requires an acceleration in creating positive investment climate to attract new investment projects.

Observing overall trend it can be noticed that the potential for cooperation between Poland and Turkey, especially in the area of foreign direct investments is far from being exhausted. Given economic potential of Turkey and its long experience in international economic relations, this level of mutual investment cannot be treated as satisfactory. Poland is interested in even closer economic cooperation with Turkey and is open for the Turkish companies. Poland can be also seen as an important Turkish production base for their products and services in Europe.

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