ENTERPRISES WITH INVOLVEMENT OF FOREIGN CAPITAL IN RURAL AREAS

Wiesława Lizińska

University of Warmia and Mazury in Olsztyn, Poland

Direct foreign investments are an important factor influencing economic development of a given area. They are also particularly important to the rural areas of Poland characterised by under investment and the major problem of unemployment. To obtain detailed information, which is not available in mass statistics, research has been carried out by means of direct interview with entrepreneurs. The study aims at providing an answer to the questions about FDI: what are the scale and locations in the region of Warmia and Mazury, particularly in rural areas, what is the type of activities (potential influence on the local system), what are the linkages among the enterprises with individual markets and whether they influence the intensification of such linkages, what are the main motives of foreign investors in this region. The companies with participation of foreign capital in the province of Warmia and Mazury are most frequently located in large cities while their share in the rural areas in the province does not exceed 2% (except for Olsztyn and Mrągowo counties). The studied companies (50%) mostly are involved in production. The majority of the companies carry out international (30%) and national-international activities. The respondents name contribution of capital (27.3% of responses), possibility of expanding the territorial coverage (20.5% of responses) and contribution of new technologies (18.4% of responses) as the major benefits resulting from the contribution of foreign capital to the enterprises.

Classification code: F-21 International Investment, R–11 Regional Economic Activity

Key words: foreign capital, rural areas, development.

Introduction

Foreign investments are the factor of major influence on the development of international trade and increased dynamics of global links. Countries take the effort to create conditions stimulating investments in their markets. The motivations for foreign investments include, first of all, the search for new sales markets, sources of natural resources and increase of production, know-how and technology effectiveness (Lizińska, 2004, pp. 225).

Foreign investments in Poland, including direct ones, are of particular importance as an external source of capitalisation. The needs of Polish economy going through the stage of modernisation and restructuring are much higher than the domestic potential for capitalisation. Direct foreign investments are also important for the local economy. Their influence depends on such factors as, e.g. the potential of the local economy, the object of investment and the form of capital involvement. The new investment influences not only the economies but also the social, cultural and environmental aspects of the local system (Śmietkowski, 2000, pp. 88).

Direct foreign investments are of particular importance to Polish rural areas characterised by under-investment and major unemployment problem. Considering the major aspects of influence of enterprises with participation of foreign capital, the opportunity to obtain the capital necessary for the desired structural changes in rural areas (including creation of new jobs, increase of labour productivity and increase of revenues to the local budgets) should be pointed at.

The direct research of 2003 covered the issue of direct foreign investments and participation of foreign capital in potential shaping of the structural changes in rural areas (the majority analysis was based on the statistical data or on the material provided by Polish Information and Foreign Investment Agency). The research involved a questionnaire-based study carried out in enterprises with participation of foreign capital and positioned in the rural areas of Warmia and Mazury region. It was realized by direct interview with entrepreneurs. This method permitted to obtain detailed information, which was not available in mass statistics. The study aimed at providing answers to the basic questions: what are the scale and locations of direct...
Foreign investments in the region of Warmia and Mazury (estimation of region’s attractiveness in territorial aspect), particularly in rural areas; what is the type of activities of those enterprises; what might be their potential influence on the local system (investments in productive area have the highest influence); what are the linkages between those enterprises and individual markets and whether they influence the intensification of such linkages, particularly with foreign markets; what are the main motives of foreign investors in this region.

**Conditions, concerning direct foreign investments in Poland**

Foreign investments in the region (the number of companies, the number of employees, revenues from sales, value of fixed assets, investment outlays) are mentioned among the factors that will have the major influence on the economy in the individual regions of Poland during the initial period following the accession, e.g. the share of agriculture in employment or the share of exports to the EU countries in the regional exports (Gawlikowska-Hueckel, 2003, pp. 16).

According to Polish terminology the direct investment companies include the companies with foreign capital and foreign companies of small production. Direct foreign investments may take one of the following formats: establishment of new or take-over of already existing companies abroad, over which the parent company has full control (subsidiary); establishment of branches, that are not independent business units and may not be registered outside the borders of the parent country as independent industrial or trade companies (they do not have the status of legal entities). Affiliates, where the share of the parent company does not have to amount 100%; the affiliates are separate legal entities and are registered in the country as separate business entities with own organisational and legal charters (Buckley, 2002, pp. 94).

The international attractiveness of a country for investments is determined mainly by two groups of factors: the status of economy and the prospects for its development as the first one and the legal solutions for start-up and operation of business activity as the second. Both the central authorities and regional or local authorities (municipality, county) have a large influence on establishment and development of those factors. The central authorities are involved in creating the legal bases for foreign investments while the local ones are responsible for practical implementation of those bases.

Factors bringing in investors that are within the scope of influence of local authorities include, e.g. promotion of the region, that is all kinds of publishing activities, establishment of regional development foundations, etc., based on the positive values of the independent (natural) and dependent (economic) factors, creating the climate for investment, i.e. the climate supportive to regional enterprise in legal and social issues. As a consequence, local authorities have much influence on development of the investments level in the region (Bluszkowski, Garlicki 1995, pp. 20).

Among five types of areas receiving direct foreign investments defined according to conditions of location, modern and stagnation suffering rural areas may be identified. Such regions are characterised by low population and relatively high transaction costs as compared to urban centres. In stagnation suffering regions direct investments do not occur. Companies in modern rural regions achieve their advantage as a consequence of access to cheap labour, technical potential of local small and medium enterprises and the managers of local branches of multinational corporations and access to the international transport network (closeness to major roads, railway junctions and airports) (Latocha 2003, pp.320).

**Prospects for the inflow of direct foreign investments into Poland**

A short analysis of factors influencing the investors’ decisions on investing (or not investing) in Poland shows that the majority of rankings concerning economic development of Poland go downwards but not upwards. In all rankings countries such as the Czech Republic, Hungary, Estonia and Slovakia are ahead of Poland.

In globalization ranking prepared by A.T. Kearney, during two years Poland dropped from place 25 to 32. In 2001 it had the 25th place, in 2002 the 27th place and in the last year it took the 32nd position. In constructing this ranking the political, economic and technological factors were considered (Measuring Globalization..., 2003, pp. 60-72).

In another ranking - FDI Confidence Index prepared by the same agency, in 2002 Poland retained its position of 2001 but compared with 2000, it dropped 6 places (from 5 to 11). This ranking was constructed on the basis of the answers provided by a selected group of respondents (high ranking management personnel of 1000 largest world corporations) to the questions concerning the probability of their company investing in a given country during the coming 3 years (FDI Confidence Index..., 2002, pp.36).

In the ranking of economic competitiveness published by the World Economic Forum the position of Poland also deteriorates. In 2000, Poland occupied the 34th place, a year later the 41st and in 2002 it dropped to the 51st place among 75 ranked countries. In constructing this ranking technological factors (related to innovation and transfer of technology), legal factors (stability of the law) and public institutions factors (among others the corruption) were considered jointly with macroeconomic conditions (The Global Competitiveness Report..., 2002, pp. 12).
Only the ratings of Polish economy have not changed recently indicating that despite the fact that competitiveness of Polish economy decreases, its standing is stable and the risk of investing in Poland is low. The fact that the rating analysis goes far beyond the traditional financial analysis shows that the rating is an important element taken into consideration by investors while taking the investment decisions.

The “National Development Plan 2004-2006” approved by the Council of Ministers in January 2002 presents the major goals of Polish economic policy for the nearest future. Development of competitive economy based on knowledge and enterprise, capable of long-term, harmonious development securing increase of employment and improvement of social, economic and spatial cohesion with the European Union at the regional and national level is the strategic goal of the National Development Plan. During his first conference after appointment to the position of the minister of economy, labor and social policy, Jerzy Hausner announced that achievement of lasting and high economic growth would be the priority for activities of the ministry he would manage. According to the government programs that growth should reach 5% at the end of 2004.

To achieve this set goal it is necessary to increase the inflow of direct foreign investments that has weakened during the recent years. That goal is even more important as direct foreign investments represent the most effective method for transfer of technologies between countries and new technologies are necessary for development of Polish economy.

Integration of Poland with the European Union offers a major opportunity to increase attractiveness of Polish economy. During the consecutive years, an increasing inflow of capital, both long- and short-term, to Poland due to an increasing interest of foreign investors in the country should be expected. Greenfield investments that will help adjust Polish economy to the EU requirements and create new jobs will be of particular importance. It is assumed that during the years 2003 – 2006 the value of direct foreign investments may average over USD 8 billion per year. Additionally, within the aid funds, additional funds are expected that during some years could equal 3% of GDP. However, involvement of national funds, which should be the priority during drafting of the budgets for the nearest years, is the condition for obtaining those funds (Iwankiewicz et al. 2003, pp. 141).

Foreign capital in enterprises in Warmia and Mazury province

According to the data of the Statistics Office in Olsztyn, in 2002 there were 779 companies with foreign capital in the province of Warmia and Mazury, of which 770 were limited liability companies while the others (9) - joint stock companies. Because of the methodology applied for gathering data on those enterprises, it is not possible to show the level of foreign capital in them and, consequently, it is hard to say, which of them could be treated as direct foreign investments. Out of that number 211 enterprises operated in rural areas (rural municipa-lities and rural part of urban-rural municipalities) during the studied year. The present study covered 50 enterprises with foreign capital located in rural areas. The level of foreign capital involvement in them exceeded 10% and as a consequence and according to OECD definition all of them can be treated as direct foreign investments [Karaszewski 2004].

Enterprises with involvement of foreign capital are most frequently located in large cities, only in Olsztyn there were 222 such enterprises. As concerns rural areas, the largest number of such enterprises was located in Olsztyn county (38 – 4.88%) and Mrówko county (25 – 3.21%). In the other counties the share of such enterprises among enterprises located in rural areas did not exceed 2%.

Greenfield investment projects are of major importance for the local economy as such investments offer higher leverage effects. The scale of influence of a foreign investment upon the local system depends on its object. Investments in production activities that may lead to a relatively significant economic revival in the municipality of their locations are or major importance. In case of investments in trade activities, the local system is treated mainly as the sales market and the economic revival is marginal. For the directly treated local economic systems investments in financial services play an even smaller role although indirectly the importance of such investments may manifest in an increase of economic activities in those systems.

Among the studied companies, 50% were involved in production, 6% in trade and 8% in services while the remaining 36% carried out mixed activities, of which the majority were involved in some form of production while only 11% of those companies carried out trade and service activities only.

The increase in intensity of economic links, not only within the region but also nation-wide and internationally depends, among others, on the scope of the operations. Analysis of the territorial coverage of the operations carried out by the studied companies with involvement of foreign capital noticed that the highest share of that capital was characteristic for companies that carried international activities (30%) and domestic-international activities (30%). Non of the studied companies carried only local operations while only 6 companies carried only regional operations.

Former relations of the entrepreneur with the region or an involvement of the Polish partner in the region played a special role in selecting the particular location for the enterprise. Germany was the dominating source country (53%) of capital involved in the studied companies in Warmia and Mazury province (Fig. 1).
When describing the major benefits resulting from contribution of the foreign capital to the enterprise 40 companies (27.3% of responses) pointed at the fact of contribution of the capital itself, 30 companies (20.5% of responses) indicated the opportunity for territorial expansion, while for 27 companies (18.5% of responses) the benefits included transfer of new technologies (Fig. 2).

Figure 1. Country of foreign capital descent
Source: own studies.

Companies with participation of foreign capital, due to the links with the parent company located abroad, achieved benefits in the form of easier access to capital, technologies and developed international networks of purchasing and sales.

Summary

The major influences of direct foreign investments, particularly the greenfield ones and investments in production may solve, or at least limit, the most important development problems in rural areas. Consequences of this type of the international transfer of capital include creation of jobs outside agriculture in rural areas, particularly in labour intensive production, stimulation of economic infrastructure development, increasing intensity of economic links not only at regional but also national and international levels. As an effect of such changes, such rural areas will be better prepared for the progressing integration processes.

Many factors have influence on foreign investments decision, therefore, each factor, providing investing in
region with low state of development (Warmia and Mazury) is of significant importance. Further research to describe the factors, which depend on local authority should be carried out in future.

Conclusions

In the region of Warmia and Mazury a significant territorial differentiation of enterprises with participation of foreign capital in rural areas is observed (the majority of enterprises are located in Olsztyn and Mrągowo counties).

The majority of enterprises covered by the study carried production (50%) or mixed (36%) activities and in the studied group there were no companies that carried only local operations while 6 companies carried operations limited to the region only. The largest group of enterprises carried international (30%) or national-international (30%) operations (FDI provide to the increase in intensity of economic links).

The respondents listed contribution of capital (27.3% of responses), possibility of expanding the territorial coverage (20.5% of responses) and contribution of new technologies (18.4% of responses) as the major benefits resulting from the contribution of foreign capital into the enterprises.

References