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## Benefits of Foreign Capital Inflow in the Form of Direct Investments and Activities of Local Authorities in Attracting it

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**BENEFITS OF FOREIGN CAPITAL INFLOW  
IN THE FORM OF DIRECT INVESTMENTS  
AND ACTIVITIES OF LOCAL AUTHORITIES  
IN ATTRACTING IT**

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Key words: foreign capital, local authorities.

Abstract

The paper aims at determining the benefits from operation of enterprises with foreign capital involvement for individual municipalities and assessing the activities of local authorities in attracting foreign investors. The questionnaire-based studies were conducted in 2008 among representatives of local authorities from three voivodships (37 municipalities of Warmińsko-Mazurskie voivodship, 43 municipalities of Kujawsko-Pomorskie voivodship and 30 municipalities of Pomorskie voivodship). Among the benefits resulting from the foreign capital inflow the municipalities covered drew attention to increase of employment (Kujawsko-Pomorskie voivodship – 0.88, Pomorskie voivodship – 0.52) and economic enlivening of the municipality (Warmińsko-Mazurskie voivodship – 0.65). The activities of authorities aiming at attracting investors focus on investment land improvement (Kujawsko-Pomorskie voivodship – 0.94), assistance in finding investment land available (Pomorskie voivodship – 0.35), and in Warmińsko-Mazurskie on application of tax relief (0.48). Among the municipalities covered by the study, those from Kujawsko-Pomorskie voivodship are outstanding as in both assessment of the benefits from foreign capital inflow and the activities supporting the investors dominate over the other voivodships covered.

**KORZYŚCI WYNIKAJĄCE Z NAPŁYWU KAPITAŁU ZAGRANICZNEGO W POSTACI  
INWESTYCJI BEZPOŚREDNICH I AKTYWNOŚĆ WŁADZ LOKALNYCH  
W JEGO POZYSKIWANIU**

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Słowa kluczowe: kapitał zagraniczny, władze lokalne.

## Abstrakt

Celem artykułu była próba określenia korzyści z działalności przedsiębiorstw z udziałem kapitału zagranicznego dla poszczególnych gmin oraz oceny zaangażowania władz lokalnych w pozyskanie inwestorów zagranicznych. Badania ankietowe przeprowadzono w 2008 r. wśród przedstawicieli władz lokalnych trzech województw (37 gminach woj. warmińsko-mazurskiego, 43 gminach woj. kujawsko-pomorskiego oraz 30 gminach woj. pomorskiego). Wśród korzyści wynikających z napływu kapitału zagranicznego badane gminy zwracały uwagę na wzrost zatrudnienia (woj. kujawsko-pomorskie – 0,88, woj. pomorskie – 0,52) oraz ożywienie gospodarcze gminy (woj. warmińsko-mazurskie – 0,65). Działania władz zmierzające do pozyskania inwestorów koncentrują się na: uzbrajaniu terenów pod inwestycje (woj. kujawsko-pomorskie – 0,94), pomocy w znalezieniu wolnych gruntów pod inwestycje (woj. pomorskie – 0,35), na stosowaniu ulg podatkowych (woj. warmińsko-mazurski 0,48). Wśród badanych gmin wyróżniają się gminy z woj. kujawsko-pomorskiego, które zarówno w ocenie korzyści z napływu kapitału zagranicznego, jak i w aktywności wspierającej inwestorów zdecydowanie dominują w stosunku do pozostałych województw.

## Introduction

Attracting investors is of major importance for the socioeconomic development of the local system. As a consequence of economic processes globalization and the resulting facilities to the flow of capital and inclusion of Poland in the international division of work, foreign direct investments (FDI) are one of the sources for obtaining the capital for investments (BOJAR 2001).

The influence of activities of the international enterprises on the economy of the receiving country is the subject of extensive theoretical and empirical studies in the international economies as it may be accompanied by both positive and negative effects. The foreign direct investments may be the source of new technologies, capital or knowledge but at the same time their increased competition may have negative influences on the domestic enterprises (CIEŚLIK 2005, KARASZEWSKI 2004, OZIEWICZ 1998).

The potential foreign investors, examining the investment attractiveness of countries or regions consider, among others, the economic, political and social situation, legal regulations and spatial organization system. The international investment attractiveness is, as a consequence, determined mainly by two groups of factors: the condition of the economy and prospects for its development as well as legal regulations concerning initiation and operation of business activities (LIZIŃSKA, KISIEL 2005). The positive aspect is that foreign experts and managers rank Poland high as concerns its attractiveness for capital investments. This, however, is not a guaranty of the inflow of such investments. Changes in the factors determining the inflow of foreign direct investments into the country occurs under the influence of structural transformations, development level and economic policy but also as a result of transformations taking place in the closer and more distant environment

(NOWARA, RYNARZEWSKI 2005). According to the analyses conducted by those authors, the importance of economic factors increases as compared to the legal-administrative and business factors.

According to the data by the National Bank of Poland, the inflow of the FDI into Poland in 2007 was EUR 16 582 mln. Compared to the other countries of Central and Eastern Europe Poland still attracts the largest numbers of investors although among the countries of that region Poland unfortunately has the second lowest value of such investments per capita (USD 460). The lowest values of that indicator are found in the countries that at the same time in 2007 were characterized by the highest values of the FDI inflow (LIZIŃSKA, KISIEL 2009). Although the regions compete with each other for location of investments because of their influence on the development of the region, the foreign investments concentrate first of all in regions rich with the factors attracting the investors (BOJAR 2001, CIEŚLIK 2005).

Areas offering the optimal combination of location factors are considered the most attractive for investment as thanks to that they allow reduction of investment outlays and current operational costs of the enterprise facilitating maximization of profits and decrease the risk of failure of the investment (DOMAŃSKI 2005, KALINOWSKI 2005). The local authorities have a large influence on the stimuli that foreign investors take into account in taking their decision on allocation of the capital in a given region. They include relief in local taxes and fees, quality of service at offices, attitudes of the local community to the foreign capital, communication and telecommunication as well as transport infrastructure. According to DZIEMIANOWICZ (2008), in case of relations between the local authorities and the foreign investors the best are those that are based on the active role of the local authorities and the active attitude of investors to a given municipality. That type of relations occurs in the majority of competitive municipalities. The active position of the local authorities in creating positive relations with the investors is necessary.

Territorial government authorities should stimulate positive development of all the elements of the investment climate as negligence of the activities in the areas of lesser importance from the perspective of the foreign investors cannot always be compensated fully by the development of other location factors. Jointly they condition the level of foreign capital involvement in the economy and its influence on the process of growth and economic development in the region. The list of individual factors depends on the size and character of the business entity as well as the type of its business activity (BUDNER 2004).

## Goal and methodology of studies

The empirical studies conducted in 2008 among representatives of local authorities from three voivodships (37 municipalities of Warmińsko-Mazurskie voivodship, 43 municipalities of Kujawsko-Pomorskie voivodship and 30 municipalities of Pomorskie voivodship) using a questionnaire aimed at determining the benefits of operation of companies with a share of foreign capital for individual municipalities and the assessment of activities by local authorities in undertaking actions aimed at attracting foreign investors. The characteristic importance index (assuming the values from 0 to 1 where the higher the value the more important the given factor is) was used for interpretation of the results obtained. The applied importance index corresponds to the solution proposed by Professors Włodzimierz Karaszewski and Stanisław Sudoł, and is referred to by KOLA et al (2005). The importance index was computed according to the formula:

$$W = \frac{\sum_{i=1}^k n_i w_i}{k \cdot N}$$

where:

$W$  – importance index,

$i$  – score index,

$n_i$  – number of indications of hat factor at position  $i$ ,

$k$  – maximum score in the scale of 1 to  $k$ ,

$N$  – number of respondents who answered the question,

$w_i$  – score corresponding to the rank of the factor  $i$

## Results of studies

The foreign capital inflow is linked to two groups of consequences: positive ones and negative ones. The range of positive and negative consequences resulting from the direct foreign investments is correlated to a significant extent with the economic development of the receiving country and the implemented policy concerning foreign investors. Analyses of works by numerous authors studying the results of the direct foreign investments do not allow a straightforward assessment of the character of their influence as positive or negative. The studies conducted indicate that territorial government

authorities from Kujawsko-Pomorskie voivodship consider the increase of employment (importance index 0.88), economic enlivenment – 0.74 and increase of competitiveness – 0.71 to be the three most important benefits of foreign direct investments inflow (Fig. 1). At the same time it is worth noticing that the other aspects of foreign capital based enterprises influences scored equally high and although closing the capital shortage gap scored the lowest among the consequences indicated in fact all the other benefits result from nothing else but the inflow of capital.

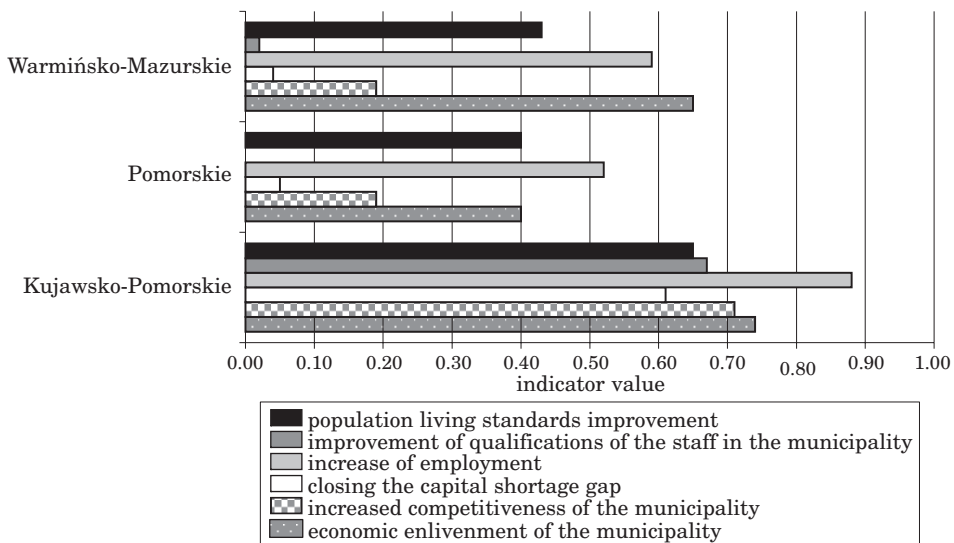


Fig. 1. Benefits of foreign direct investments inflow according to the local authorities  
Source: Own work based on the studies.

Territorial government units from Pomorskie voivodship also notice the benefits resulting from the appearance of new foreign enterprises in the municipality. According to their opinions the major benefit of the activities of such enterprises is the increase of employment (0.52). Slightly lower score, although still a high one, is given by the municipalities to benefits correlated with the increased employment level, i.e. population living standards improvement and economic enlivenment (importance index exceeding 0.40). New foreign enterprises situated in the municipality and employing its residents contribute to increasing the vocational activity in the local system, obtaining higher work productivity and as a consequence offer higher levels of remuneration. This results in both improving the living standards of the population and increased economic enlivenment in the municipality. It is worth

noticing that none of the representatives of the local municipal authorities from that region indicated a significant importance of benefits such as improved qualifications of staff in the municipality as an effect of appearance of the new foreign investor in the municipality.

According to the local authorities from Warmińsko-Mazurskie voivodship, there are many benefits of operation of enterprises with a foreign capital involvement. In this study three closely related aspects: economic enlivenment of the municipality (0.65), increase of employment (0.59) and improvement of living standards of the population (0.43) were those indicated the most frequently. The new investment project situated in the municipality usually attracts other enterprises that are its cooperating partners to establish nearby. For Warmińsko-Mazurskie voivodship the most important benefits of foreign investments are the increase of employment and population living standards improvement, which might result from the perception of the high unemployment level as the major problem of that region.

The most appropriate method to secure the development of the region is to provide the environment favoring establishment of new enterprises and their mutual interrelations, which results in creating synergies that bring benefits to those enterprises and residents in the region. In relating the location factors to the capacities of territorial governments it should be noticed that their influence on the decisions taken by foreign investors is limited mainly to those factors that are not the most important factors determining the location of the foreign direct investments. They include the quality of service in the office, tax incentives, attitude of territorial and local authorities to the foreign capital. The exception here is the level of infrastructure necessary for operation of current and future business entities as the development of that infrastructure is within the competence of the regional authorities to a large extent.

Territorial authorities in Kujawsko-Pomorskie voivodship that possess foreign investments in their area focus mainly in providing assistance through improvement of land for investments (importance index 0.94), quality of service at the office and favorable attitudes of the local population (0.92), technical infrastructure improvement (0.89) and award of tax relief (0.81).

All the authorities of municipalities in Pomorskie voivodship help entrepreneurs in undertaking and implementation of investment projects. The authorities of municipalities participating in the study, provided support to the entrepreneurs in the form of investment instruments the most frequently, which means that they assisted in finding available land or premises (0.35), improved the technical infrastructure (0.34) and improved the land for investments (0.33) the most frequently. Legislative instruments were the tools that were applied infrequently in the respondent municipalities – the most frequently applied tool was the tax relief (0.33) while the local regulations was the

least frequently applied support tool. Improvement of social infrastructure (0.09), advisory services (0.07) and help in employees training and recruitment (0.02) were the tools applied the least frequently by the local authorities.

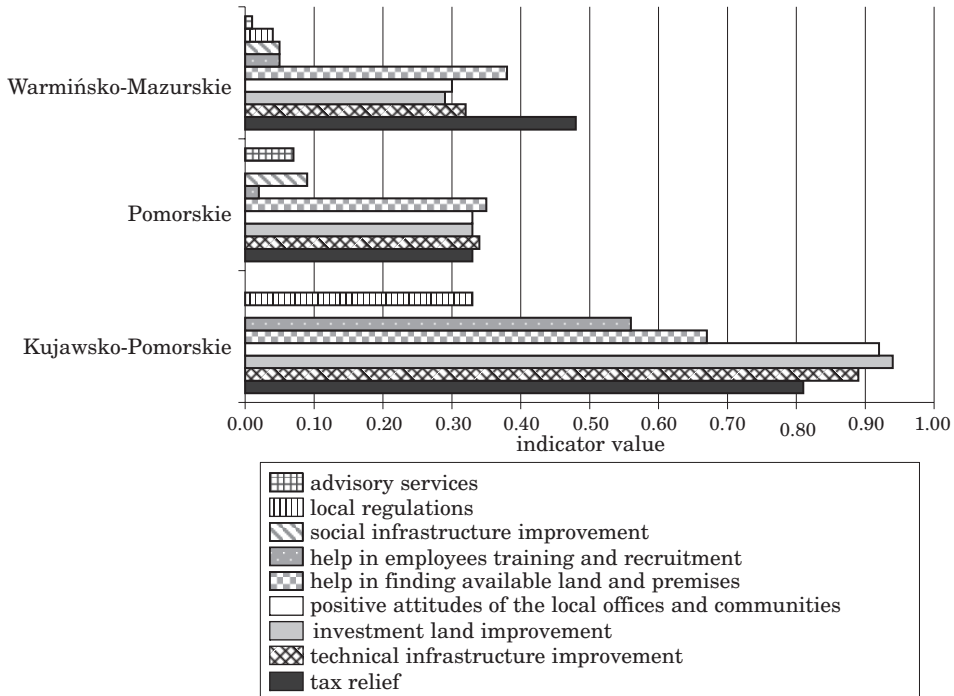


Fig. 2. Activities of local authorities supporting the investors

Source: Own work based on the studies.

In the covered municipalities of Warmińsko-Mazurskie voivodship the most frequently applied forms of assistance were the tax relief (0.48), help in finding available land and premises, technical infrastructure improvement (0.32), positive attitudes of local officers and local communities towards the inflow of foreign investments (0.30) and improvement of land for investments (0.29). The lowest importance index was attributed to advisory services offered by municipalities (0.01), local regulations (0.04), help in employees recruitment and training and social infrastructure improvement. These are the instruments, similar to the case of Pomorskie voivodship, not sufficiently appreciated by the local authorities the use of which would be supportive to attracting the investors.



## Conclusion

Significant diversification in the investment attractiveness of individual voivodships of Poland has a negative influence of the competitiveness of Poland as compared to other countries in the aspect of attracting the foreign capital. Local authorities play an important role in increasing the investment attractiveness of the regions. Through their activities they create conditions favorable for conducting business in a given area although knowledge of the benefits from the inflow of foreign investments, the local factors and appropriate assessment of the resources available are necessary for that. This is necessary for determining the level of mismatch of the existing conditions and the expectations of the investors.

Representatives of local authorities from all the voivodships covered see the benefits resulting from the inflow of foreign capital into the municipality and although they assigned different weights to various benefits they still, in most cases, pointed at the increase of employment (Kujawsko-Pomorskie voivodship – 0.88, Pomorskie voivodship – 0.52), or economic enlivenment of the municipality (Warmińsko-Mazurskie voivodship – 0.65). The activities of local authorities aiming at attracting investors focus mainly on elements such as improvement of land for investments (Kujawsko-Pomorskie voivodship – 0.94), help in finding land available for investment projects (Pomorskie voivodship – 0.35), while in Warmińsko-Mazurskie voivodship the focus was on the tax relief application (0.48). Among the voivodships covered the Kujawsko-Pomorskie voivodship is outstanding which in both assessment of the benefits from the inflow of foreign capital and in the activities supporting investors dominates definitely over the municipalities from the other voivodships.

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