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Role of Foreign Capital in Transformation of the Polish Economy

1. Macroeconomic expectations with regard to foreign capital

At the starting point to privatisation of the Polish economy, the inflow of capital was treated as one of important factors allowing to reduce the economic and social costs of transformation. It was assumed that foreign investment would result in the modernisation of management, attract new technologies and give access to new outlets, which should speed up the restructuring of economy. Moreover, it was expected that foreign investors would contribute to diminishing the scale of unemployment through hiring a large part of employees dismissed by declining domestic firms. The inflow of foreign investment is also perceived as one of conditions paving the way for a bigger competitiveness of the economy and an improved provision of the domestic market. Without the flow of capital into the economy, the rate of both transformation and privatisation would be much slower. Owing to the presence of foreign capital, Poland is developing its economic contacts with abroad, improves its image abroad, and enhances its chances for membership in the European Union.

2. Expectations of Polish enterprises

The basis for assessment of expectations of Polish enterprises are surveys made for the World Bank in 77 large state-owned enterprises (Belka, Krajewska, Krajewski, Pinto, 1992). Over 60% of the analysed enterprises admitted that they maintained stable contacts (sometimes for many years) and co-operation with foreign partners. It was pointed out that those contacts had been established primarily in connection with export of products, import of raw materials, machines and spare parts, the using of licences and co-operation in production. Faced with transformation processes, enterprises started seeking more and more intensively reliable partners (almost always Western ones) for a more multi-sided co-operation than in the past. The gathered materials indicate that Polish firms expected from their foreign partners financial resources for modernisation of their assets and purchases of raw materials (the last postulate would most often appear in those enterprises which due to their deteriorating financial standing had a restricted access to credits), provision of modern technical solutions, and facilitated promotion and sales of their products abroad. Directors of many enterprises believed that the best guarantee of serious involvement of foreign partners would be for them to take over the functions of an owner or co-owner of Polish enterprises.

Although most enterprises declared the necessity of expanding considerably co-operation with foreign partners, in practice those were more frequently declarations of willingness and passive awaiting of proposals from outside than an active involvement. It is quite characteristic, on the other hand, that the Western capital was interested in almost all enterprises under study. In most cases, it appeared, however, that it was only initial probing after which Western partners would withdraw or assume a "wait and see" position.

The managers of Polish firms would point out that contacts with representatives of Western firms often did not yield expected effects, because foreign partners:

1) were not really interested in co-operation - they were rather interested in obtaining information about Polish enterprises (their economic standing, growth prospects, technical level) in order to use that information in a competitive fight on the international market or when attempting to enter the Polish market,

2) awaited a further deterioration of the economic standing of enterprises hoping to acquire them next or subordinate to themselves, which would involve smaller capital outlays and could be done on more advantageous terms,

3) awaited privatisation (or, at least, commercialisation) of enterprises, as it is, in their opinion, only the regulation of ownership relations which creates a basis for

serious and beneficial co-operation. A change in ownership form is often connected with appointing new people to management positions and elaborating a company's own strategy,

4) were most often interested only in the "healthy" (with regard to market attractiveness and level of costs) part of the enterprise and not the whole enterprise with its heavy burden of no longer needed productive and non-productive assets.

These opinions were formulated in the first years of transformation of the Polish economy, i.e. at the time when the flow of foreign investment into Poland was indeed modest. At that time there were many factors unfavourable for foreign investors, including mainly the deep recession, a high inflation rate, instability of legal regulations, distrust shown by workers of state-owned enterprises towards foreign capital and lack of any propensity on the workers part to undertake the effort connected with restructuring of the enterprise (the need to restrict the productive and non-productive assets, reduce employment, retrain the work force, etc.).

As the macroeconomic conditions were changing (a high growth rate, the curbing of inflation, improvement in the balance of payment) and advance was made in privatisation as well as the stability of legal regulations was growing, foreign investors began showing an ever-increasing interest. The acceptance of foreign capital was growing, too. In a large majority of enterprises undergoing privatisation with the participation of foreign capital there existed an atmosphere favourable for foreign investors. On the whole, the managing cadre showed much activity and involvement. Manifestations of unwillingness and impediments to privatisation on the part of workers and workers' self-managements were very rare (Krajewski, 1996, pp. 102-103).

Most enterprises share the opinion that during the difficult transformation process the most reliable way of ensuring an effective support and receiving assistance may be the strengthening of co-operation with foreign partners.

3. Inflow of foreign capital to Poland

The investors locating their capital in Poland can be divided into three groups:

1) capital investors - investment and pension funds seeking attractive investment opportunities,
2) large multinational corporations,

3) small investors interested in setting up small and medium-sized firms in Poland and in participating in privatisation of Polish industry. They constitute the predominant majority (approx. 75% of foreign partnerships have own capital not exceeding US $ 50,000).

In 1990-1992, most foreign investment resulted from sales of privatised Polish companies. This often provoked the charge that foreign investors were simply picking up the best Polish companies at token prices. Since 1993 other market entry strategies have become increasingly popular. Notably:

- greenfield projects,
- brownfield projects under which a foreign investor takes over a site (typically land and buildings, instead of a going concern),
- acquisition of stakes in private Polish businesses.

Since 1989, foreign direct investment in Poland has been growing fast (Table no. 1). This favourable trend will most certainly continue in 1997. It is estimated that foreign investment will increase in that time by USD 3.5 billion. It is a considerable amount but it is still small both in terms of the per capita index and the needs of the Polish economy. In 1994, the value of invested foreign capital per capita amounted to USD 691 in Hungary, to USD 300 in the Czech Republic and to a mere USD 114 in Poland[1]. In 1995, the index for Poland rose to USD 120 and for Hungary to USD 800 (Liberska, 1996, p. 64). In turn, the needs of the economy are shown by the size of the necessary financial outlays on large investment projects. It is estimated that the building of a network of paid highways in Poland measuring 2600 km in length will require USD 10 billion within the next 15 years that is to say as much as flew into Poland during the seven years of transformation for all foreign investment projects.

According to the data presented by the National Bank of Poland on the FDI stock value as at the end of 1995, American investors having invested over USD 1,882 billion occupied the first place among foreign investors acting in Poland with a share amounting to 24% of the total value of foreign capital. The second largest investors were German companies with a share of 19.4% (USD 1.521 billion). Investors originating in the Netherlands took the third biggest share amounting to USD 1.341 billion and making up 17.1% of the stock capital invested in Poland.

[1] Data provided by the State Agency for Foreign Investment

Table 1. Stock capital of FDI in Poland and annual flows of FDI in 1989-1996 (USD million)

Year[a]	FDI stock capital according to UN statistics	FDI stock capital according to the PAFI[b]	FDI annual flows according to UN statistics	FDI annual flows according to the PAFI[c]
1989	231[c]	*	11	*
1990	320	*	89	*
1991	61	*	291	*
1992	1,289	1,702.4	678	*
1993	3,004	3,041.0	1,717	1,338.6
1994	4,879	4,321.0	1,875	1,280.0
1995	7,389	6,832.0	2,510	2,511.0
1996	*	12,027.7	*	5,195.7

Source: World Investment Report 1995. Transnational Corporations and Competitiveness, UN, New York and Geneva, 1995, p. 99; World Investment Report 1996. Investment, Trade and International Policy Arrangements, UN, New York and Geneva, 1996, p. 64 and Lists of Major Foreign Investors, Polish Agency for Foreign Investment (PAFI), Warsaw, 1992-1995.

Notes: [a] Data for the end of the year.
[b] PAFI data cover investment of at least USD 1 million; the data cover about 75- 80% of total investment.
[c] Stock capital of FDI in Poland was estimated at USD 220 million

Investors from the three countries mentioned above, i.e. USA, Germany and Netherlands dominated on the Polish market with a share exceeding 60% of the FDI stock in Poland by the end of 1995. Altogether, investors from 103 countries had shares and stock in companies domiciled in Poland (Poland International ..... , 1997, pp. 129-130).

4. Characteristics of firms with foreign capital participation acting in Poland

4.1. Role of foreign firms in the Polish economy

Companies with foreign capital participation play an ever increasing role in the Polish economy. According to the data of the Central Statistical Office, their gross income accounted for 16.6% of total incomes derived by all enterprises in the national economy which submitted their financial reports. Their share in income from exports was even greater - it amounted to 24.4%. Enterprises with foreign capital participation employed about 10% of the entire work force[2].

[2] Data of the Central Statistical Office.

4.2. Legal forms of firms with foreign capital participation

In 1996, the number of companies with foreign capital participation acting in Poland was 28,622 (Zmiany .... , 1997, p. 60), including 13,493 companies (or 47%) owned entirely by foreign investors. Among the foreign firms, limited liability companies prevailed: 344 companies were organised on a joint stock basis and 143 operated as the so-called „small-sized foreign-owned companies" acting according to the 1982 law which has not been valid for new entrances since 1992.

4.3. The sector and branch structure of foreign capital in Poland

Foreign investment in Poland is very unevenly located. There is relatively much investment in the manufacturing industry (63% of total foreign investment in 1995) and in financial institutions (19%). Foreign investment also played a certain role in construction (8.5%), trade (6.8%) and telecommunications (4.5%)[3]. Capital did not flow almost at all to agriculture, communal services and insurance.

There were also very big differences within industry itself. The most foreign capital flew to the food industry (31%) and the electrical machinery industry (25%), next came such industries as chemicals (12.3%), paper and wood (10.3%), minerals (9.4%) and the light industry (5%). The least foreign capital flew to the fuels and power generation industry, and metallurgy (3%).

The companies play an even more dominant role on the market of specific products, e.g. they have over a 90% market share of activities supporting insurance an pension funds, 81% in laundering services, over 80% on the photo processing services market, over 75% in advertising, almost 75% in business consulting and management services, over 72% on the soap and detergent market, over 72% on the newspaper market, 72% of technical gas sales, 71% on the financial loans market, 67% on marketing and public opinion polls market.

They play an important role on the furniture market (47%), pulp, paper and paper products market (44%), publishing and printing activities (38.5%), activities supporting financial intermediaries (38%), data processing and related services (38%), office equipment and computer production (38%), leather wear production (33%) (Poland. International .... , 1997, p. 13).

[3] Data from the State Agency for Foreign Investment.

From the point of view of development prospects and improvement in competitiveness of the Polish economy it is important to which areas foreign capital flows and what technical level these areas represent. Two opposing tendencies can be observed here. On the one hand, foreign capital flows to industries representing high technology and applying the most advanced production methods such as machinery and equipment, printing and publishing. On the other hand, the flow of foreign capital perpetuates the present labour- and resource-intensive structure of industry through much involvement in the food, mineral, cellulose, paper and furniture industries.

The fact that there was no consistent industrial policy in the early period of transformation which found its expression among others in a lack of both a long-range strategy towards foreign investment and a program supporting the most desirable areas for development of the Polish economy led to the location of investment projects in those areas where foreign capital saw the greatest profits.

At first foreign firms investing in Poland adopted the strategy of producing consumer goods aimed at satisfying the Polish market. This strategy required neither new technology nor changes in the structure of production. In time some of them began to expand production for exports, which caused growth of investment, a raise in the technological level and improvements in product quality. Many foreign investors taking part in privatisation of Polish enterprises undertook considerable investment commitment which also largely contributes to modernisation of Polish industry.

4.4. Territorial concentration of foreign investment

Foreign investment projects are located very unevenly in Poland. There is a tendency towards concentration of direct investment in the most developed regions of the country. Of the total number of enterprises with foreign capital participation, about 60% acted in 7 voivodships, namely in those of Warsaw (27.8%), Wrocław (7%), Katowice (6.8%), Gdańsk (6.3%), Poznań (5.4%), Szczecin (5.3%) and Bielsko-Biała (1.8%) (Wyniki ....., 1995, p. 9). The impact of foreign capital on activating local communities and development of backward regions with high unemployment is still very small. The remaining 40% of firms with foreign capital participation are located in 42 voivodships. The main barrier to the flow of foreign capital is the lack of adequate economic infrastructure and an active policy (both central and local) aimed at attracting foreign investors as well as an unwilling attitude of local communities towards foreign investment.

It becomes apparent that the economic frontier runs along the Vistula River. Its left bank becomes more and more supple - both Polish and foreign investors locate more and more capital on this side while the regions to the right of the Vistula (with the exception of Lublin) tend to become more and more backward.

4.5. Economic results scored by firms with foreign capital participation

Foreign capital has been flowing into Poland more and more abundantly. Companies with foreign capital participation play an ever-increasing role in the Polish economy. At the same time, however, the basic economic indices recorded by these companies were less favourable than for the total of enterprises acting in the national economy. This fact is shown when the economic indicators recorded by these companies in 1994 and 1995 are compared with the statistics for the entire economy (Table no. 2). The data comparing profitability of firms representing different ownership forms (Table no. 3) show that the highest profitability rate was recorded by enterprises owned by the State Treasury, i.e. commercialised enterprises undergoing ownership transformations (a 4% gross profitability rate, while companies with foreign capital participation had a 3% profitability index). The decrease in this difference in the net profitability rate (1.5% and 1.3% respectively) resulted form greater tax burdens on public sector companies (in addition to the income tax they are burdened with interest on capital and from April 1994 also with tax on rises in wages).

Do these figures mean that the achievement of improvement in economic performance which constitutes one of the essential goals of transformation (as well as involvement of foreign investors in privatisation) does not find corroboration in the Polish reality? It seems that the official statistical data should be approached with caution. It is not only the natural inclination of private firms to go into the grey sphere in order to evade taxation. One can surmise that such informal actions occur more frequently in Polish firms than in foreign-owned companies which prefer to avoid conflicts with the authorities. It appears that one of the reasons for a relatively low profitability rate of firms with foreign capital participation may lie in the differences in profitability of sales in the domestic market and abroad. Export-aimed production calculated at the brink of profitability or even at a deficit may be one of the ways used by firms having capital links with foreign firms to avoid taxation in Poland. For what accounts for the fact that foreign-owned firms increase their exports despite their declarations that export-oriented production is less profitable than production for the home market, despite a generally higher level of management in foreign-owned companies and their easier access to high tech and to Western sales markets? (Krajewski, 1997, pp. 129-130). This fact signals the need to change the tax system (to reduce the fiscal character of that system or to create stimuli to invest profits in Poland).

Table 2. Economic indices recorded by companies with foreign capital participation against the background of the economy as a whole

Indices	Total economy		Companies with foreign capital participation	
	1994	1995	1994	1995
Index of level of costs of all activities	95.9	96.4	98.7	89.2
Gross profitability rate	3.7	3.8	0.6	3.1
Net profitability rate	1.5	1.8	-0.5	1.4
Own capital profitability	10.2	3.0	-2.3	5.2
Profitability of assets	1.9	1.9	-0.7	9.1
Profitability of fixed assets	3.1	2.7	-1.5	3.9
Profitability of working capital	4.7	6.7	-1.4	4.3
Current liquidity ratio	24.1	24.1	20.8	9.9
Quick liquidity ratio	86.8	69.6	75.5	75.6

Source: Wyniki finansowe podmiotów gospodarczych z udziałem kapitału zagranicznego w 1994 r. (Financial Results Scored by Economic Units with Foreign Capital Participation in 1994), CSO, Warsaw, 1995; Wyniki finansowe podmiotów gospodarczych z udziałem kapitału zagranicznego w 1995r. (Financial Results Scored by Economic Units with Foreign Capital Participation in 1995), CSO, Warsaw 1996, pp. 42-43.

Table 3. Financial results of economic units in 1995, by ownership form

Forms	Index of costs from all activities	Gross profitability rate	Net profitability rate
Total	97.1	3.4	1.6
Public sector	97.8	3.1	1.0
of which:			
Owned by the State Treasury	97.2	4.0	1.5
Owned by the state	98.3	2.4	0.6
Communally owned	97.1	2.8	1.0
Mixed ownership	99.0	1.5	0.0
Private sector	96.5	3.7	2.1
Domestic private property	96.5	3.6	2.2
Foreign property	97.0	3.0	1.3
Mixed ownership	95.7	4.8	2.8

Source: Wyniki finansowe podmiotów gospodarczych I-XII 1996 (Financial Results of Economic Units), January -December 1996, CSO, Warsaw 1997, p.13.

5. Attractiveness of Poland as a place of financial investment

For the promotion of foreign investments in Poland, the most important role is played by the determination and evaluation of factors inducing entrepreneurs from abroad to commence economic activity in this country. On the basis of surveys of opinions of owners and managers of partnerships with contribution of foreign capital made recently by the Polish research centres, it was possible to compile the following ranking of factors being incentives for investments in Poland. Despite some differences in assessment of advantages offered by Poland, all researchers shared the opinion that among the three most important advantages there should be included:

1. *Economic growth prospects.* 1996 was the fifth consecutive year of economic growth. GDP grew by 6% in real terms, and its rates were 7% in 1995 and 5,2% in 1994. It gives Poland the leading position among the European countries. It means that the process of reforms initiated in 1990 has been continued despite political changes. More and more often in the international business circles there is repeated the slogan "Poland is a European Tiger".

2. *Size of Polish market* - 38.6 million consumers, whose purchasing power is growing as a result of economic recovery. This market is almost twice bigger than the combined markets of the Czech Republic, Slovakia, and Hungary. The US Department of State has included Poland among the ten largest emerging markets in the world.

3. *Location* - central location of Poland in Europe causes that it is an important transport junction between the West and the East, and between the North and the South (there exist good transport services between Paris and Moscow, and between the Scandinavian countries and the Middle East). An advantage of Poland's central location is also a possibility of entering large and absorptive markets of the former Soviet Union, which also offer cheap and abundant raw materials.

4. *Labour costs* - mean wage of US $ 350-400 is one of important motives in making direct investments by a foreign investor, especially in labour-intensive industries. The costs of labour in Hungary are by about 30% higher, and in Portugal - by as much as 3 times higher, with Portugal being one of countries of the European Union with the lowest labour costs.

5. *Labour supply* - qualifications, work quality, discipline and labour productivity of Polish workers are highly evaluated by foreign investors. High unemployment (particularly in some regions of Poland) affords a possibility of lowering wages and weakens wage claims of trade unions. (Generally, however,

high unemployment is perceived as an unfavourable phenomenon, because it restricts market absorptiveness, generates dissatisfaction and social pathologies).

6. *Natural and agricultural resources* - there is a possibility of tapping many natural resources and develop large-scale agricultural production. It is worth underlining that Poland has rich deposits of hard coal, sulphur, and copper, as well as zinc and lead, natural gas, and other minerals. It is a major exporter of many agricultural products including mainly apple concentrate, black currants, raspberries, cherries, potatoes and beetroots.

7. *Progress made in reforms aimed at a market orientation of the economy* finding expression in the reform of prices and taxes, gradual liberalisation of banking system, operation of the Stock Exchange.

8. *Unutilised productive capacities,* a heritage of investment expansion of state-owned enterprises, create convenient conditions for portfolio investments, and relatively cheap purchases of shares or stakes in privatised enterprises.

6. Disincentives for investment in Poland

Apart from the above listed advantages, owners and managers of partnerships with foreign capital contribution point at numerous barriers, which discourage or prevent potential investors from investments in Poland. They include, first of all:

1. *Lack of stable foundations for activity of foreign investors*, especially in the sphere of legal financial, and ownership conditions. Thus, for example: (i) not regulated ownership rights and absence of the reprivatisation law, which would regulate e.g. principles of granting compensations to former owners, cause that some investors are not interested in acquiring already existing plants; (ii) there are made frequent changes in the policy concerning tax reliefs and exemptions; (iii) a system of economic activity insurance including possibilities of insuring credits is absent.

2. *Poor telecommunications and transport infrastructure* - international telephone connections and railway transport are assessed especially negatively.

3. *Underdeveloped banking infrastructure*, and primarily inefficient operation of the banking system, insufficient access to credits, lack of a possibility of keeping foreign exchange accounts in Polish banks.

4. *Bureaucracy and unfavourable attitude of the local governments.* Many foreign investors evaluate negatively contacts with the Polish administration. They

complain mainly of a too formalistic treatment, evasion of decision making by officials, and difficulties with receiving title deeds.

5. *Social determinants.* Investors fear social conflicts and tensions. They are discouraged, among others, by: (i) wage claims advanced not only in state-owned but also in privatised firms; (ii) ambiguous and unstable system of powers in state-owned enterprises, a strong position of trade unions, frequent changes of top management. Western investors fear that many strategic decisions for companies would have to be agreed laboriously with personnel; (iii) excessive requirements towards foreign partners (for example, during acquisition of plants there is made a condition that group redundancies of workers will not start within the next three to four years).

6. *Insufficiently developed market of business services* . Foreign investors face a shortage of information about the Polish economy and market situation in different industries. The market of consultancy services, personnel and marketing counselling is poorly developed.

7. Ranking of investment risk for Poland and other countries of Central and Eastern Europe

The countries of Central and Eastern Europe are at different stages of transition to a market economy. Conditions created for foreign investments and investment risk are evaluated differently as well. While making a ranking of investment risk for chosen countries of Central and Eastern Europe we shall refer to the findings of analyses carried out by the Institute of Market Economy Studies in Gdansk. The studies of attractiveness and risk level for different 8 post-communist countries were performed twice (Map ..... 1994 and 1995).

Taking into consideration such formal-legal conditions as: entry requirements, available organisational forms, access to particular industries, taxes, customs tariffs, banking system, access to information, access to land, progress made in privatisation processes, and exit conditions, Poland ranked fourth after the former GDR, Hungary, and the Czech Republic. In the accepted five-point scale of marks (from 1 - high attractiveness to 5 - low attractiveness), Poland scored 3.0 points as compared with attractiveness coefficients for the former GDR - 1.4; Hungary - 2.2; and the Czech Republic - 2.8.

Apart from the assessment of attractiveness of the countries under analysis, an important information for potential investors is the level of investment risk. It can be defined as a potential level of threat to obtaining expected economic effects by an investor felt objectively and subjectively. The higher the risk the lower the probability of achieving the planned effect. When evaluating the level of investment risk in different post-communist countries, the following factors were taken into consideration:

(1) political risk; (2) social risk (assessed from the viewpoint of attitude of citizens in a given country to foreign investments, sense of threat experienced by foreign investors, existing social tensions, and cultural differences); (3) economic risk (assessed on the basis of present and predicted demand, competition, influence exerted by the State on the economy, production costs, and co-operation ties; (4) legal and infrastructural risk (existence of legal and bureaucratic barriers, inertia of banking-financial system, telecommunications). Poland takes the fourth place in this ranking - after the former GDR, and with a slight supremacy of Hungary and the Czech Republic. Also here, just as it was with the assessment of attractiveness of different countries, it should be remembered that the ranking was performed at the beginning of 1994. Due to the fact that last two years have been favourable for Poland and forecasts for 1997 are promising, the position of Poland is increasingly stronger and the investment risk diminishes. Poland becomes more and more attractive for foreign investors.

8. Conclusions and postulates regarding policy towards foreign investors

More and more foreign investment has been flowing into Poland. The positive effects of the companies with foreign capital participation acting here for several years did away with many of the myths connected with the flow of foreign capital into Poland. The fears that the flow of foreign capital will lead to "loss of control over our own economy", that investment from a single country will prevail, that enterprises bought out by foreign capital will be closed down so as not to compete against foreign products, that foreign capital will liquidate workplaces and will lead to growth of unemployment proved precocious. At the same time, however, less capital flew into Poland than it was expected and less than the demand for foreign capital existing in the Polish economy. The experts estimate that the Polish economy needs USD 5-10 billion per year[4]. This follows among others from the fact that external means would have to be used to finance the budget deficit (burdened with repayment of foreign indebtedness) and to carry out important investment projects in the development of infrastructure. The big investment projects planned for the coming years include among others construction of highways (USD 7 billion) and investment in petrochemicals (USD

[4]According to the estimations made by M. Raczkiewicz, chairman of Espstein Development, presented in Gazeta Wyborcza (Polish daily) on 11 January 1996.

2.3 billion) (Świderski, 1996). Also industry needs considerable investment to carry out the necessary restructuring. Only a small fraction of investment can be financed from domestic savings and aid funds. A further flow of foreign direct investment is thus very desirable. It is also important that this capital should flow to areas desirable from the economic and social viewpoints. So far foreign investment was located both in high tech and in traditional branches and it tended to concentrate in several most developed centres.

It is hard to make a balance sheet of benefits and losses connected with flow of foreign capital. After the initially critical attitude to flows of foreign capital into Central and East European countries, a change in the views on the role of foreign capital can be observed both in Poland and in the other post-communists countries. The liberalisation of these economies and their opening up to influences of international competition revealed their weaknesses. It is more and more obvious that without assistance of external sources of finance it will be difficult to effect the restructuring of the Polish economy. Also the other post-communist countries are ripening to similar conclusions.

The experience gained in Poland prompts the following reflections on and postulates for policy towards foreign investors:

1. Economic growth and political stabilisation are the necessary conditions for increasing the flow of foreign capital into Poland. The Polish experience confirms the dependence known from literature between the growth rate of flows of foreign investment and the processes of economic growth (D.A. Julius, 1990, pp 28-29).

2. Clear-cut and stable legal regulations concerning the functioning of foreign capital are the necessary condition for its inflow and efficient operation. It is very important to adjust the economic law to the requirements of the European Union, to stabilise the tax system and to resolve the property rights. The accelerated law adjustment and modernisation process in 1995 was no doubt a factor favouring the flow of foreign capital. This process should be continued. It is necessary to enact the reprivatisation bill which will contribute to sorting out the property rights and to amend to the act on purchases of real estate by foreigners. The lack of such regulations discourages potential investors[5].

3. The strength of influence exerted by foreign capital on processes of economic restructuring is largely dependent on its branch structure and regional location. So

[5] The amendment to the Act of 1996 on purchases of real estate opens new possibilities to buy real property without the need to get a special permit, e.g. by people residing in Poland for at least 5 years, by a foreigner being a spouse to a Polish national, in virtue of inheritance. However, the possibility to buy land by firms is still limited (above 0.4 hectare within urban boundaries and 1 hectare in the country). The new act despite many facilitations is still very restrictive. This impedes the participation of foreign capital in privatisation of the Polish economy.

far foreign capital has been flowing into Poland both to modern and traditional branches, bypassing however regions which should undergo the deepest restructuring. For lack of an active policy and strategy towards foreign capital, the choices were made by the investors themselves who took pursued their own preferences. Foreign capital was not used to speed up the structural changes in the Polish economy. Such a strategy is however indispensable. Its starting point should be to specify the leading goal of foreign investment absorption that is to say what Poland as the host country expects and to adjust concrete economic incentives to this goal.

4. The adoption of an active attitude towards foreign investors is connected with application of certain incentives. Most countries use different kinds of incentives to attract foreign investors. Poland also uses such incentives. The Act of 1988 granted a three-year tax holiday to all investors. This, however, led to many irregularities and ultimately the privilege was annulled for firms which despite their registration failed to submit their first invoice by 31 March 1994. The Act of 1991 introduced breaks for those investors who met certain conditions (investment reliefs connected with location of investment projects in regions threatened with unemployment). The prevailing conviction met in the Polish literature (Liberska, 1996, pp. 75-76; Belka, Krajewska, Krajewski, Pinto, 1992) is that the system of economic stimuli should be aimed at both foreign and domestic investors, and the granting of reliefs should be dependent on involvement in specific economic goals such as e.g. activity aimed at improved competitiveness, export growth, R&D activity, activity in backward regions. If in a given period of time certain goals can be effected better by foreign investors, e.g. transfer of modern technology to selected industries, cadre training, investment projects in infrastructure then it is necessary to use special incentives. Generally, however, the system of incentives and the related bureaucracy should be restricted and efforts should rather be aimed at improving certain general financial conditions of activity. A stable tax system and a proper tax rate as well as reductions in other financial burdens e.g. social security contributions have a greater influence on a positive evaluation of investment conditions than incentives.

5. An important disincentive for flows of foreign capital is the lack of an appropriate infrastructure of the economy (border crossings, roads, transport), the service sphere (telecommunications, consulting and marketing services, efficiency of the courts) and inefficiency of the banking system (complex and time-consuming crediting procedures) and other financial institutions. In spite of an improvement in the functioning of the infrastructure system as a whole, the level of services rendered in Poland still lag behind the level of such services in the West.

6. An important factor discouraging foreign investors is the bureaucratic inefficiency at the central and local levels as well as directly in the enterprises undergoing privatisation. It is necessary to define the powers of officials and create clear administrative procedures to be used while applying for permits and resolving the related matters following from the legal, environmental and other regulations.

7. It is necessary to have a wide programme of promotion of Poland abroad to create the image of Poland as a country in which it is worth investing. Such promotion should be oriented at seeking out investors to carry out specific long-term development strategy, e.g. to support high tech branches, to attract them to regions requiring restructuring, etc.

8. It is advisable to monitor foreign investment projects to get fuller information about the capital flowing into Poland and its functioning. Without such information it difficult to conduct a rational policy and use adequate incentives. Such monitoring is also necessary to control the flow of capital and its use so that threats and new needs might be noticed in time and economic policy might be adjusted to them

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