

# Chapter 8

## Outward Foreign Direct Investment in Post- Transition Economy: Poland's Experience

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### ABSTRACT

*Recent two decades witnessed unprecedented changes in the economies of Central and Eastern Europe. Accelerated economic growth following systemic transformations, globalisation and liberalisation and EU integration visibly intensified international capital flows, including foreign direct investment (FDI). Intense internationalisation of an economy is usually perceived as a positive process, which – in general – gives an opportunity to accelerate growth and strengthen competitiveness. Therefore the authorities of an economy try to support FDI flows by implementing different incentives. The main goal of the chapter is to show the scale and scope of outward foreign direct investments (OFDI) of Polish companies in the light of economic transformation experience and authorities support. The chapter is organized as follows: first it presents Poland's path from centrally planned state to developed, competitive economy. Secondly, the focus is laid on support offered to companies undertaking OFDI ventures and finally on the scale and scope of Poland's outward investments.*

### INTRODUCTION

Foreign direct investment, its definitions, forms, motives and consequences have already been broadly discussed in scientific literature. However the problem itself is still very urgent and hot-debated issue because dynamic changes in global economy triggers few directions and forms of flows. Central and

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Eastern European countries (CEECs), which have successfully overcome transition period, play growing role in this process. For many years they have been mostly recipients of foreign capital (in the form of FDI) while recently also companies originating from CEE economies start to internationalize actively.

It should also be stressed that the net benefits for the economy which come from inclusion into international capital flows are unquestionable. Therefore, legal authorities often implement numerous incentives and support solutions not only for inward FDI but for outward FDI as well. Poland seems to be a perfect example of that process, that is why the main goal of the chapter is to present and discuss the scale and scope of outward foreign direct investments (OFDI) of Polish companies in the light of economic transformation experience and authorities support.

The chapter is organized as follows: first it presents Poland's path from centrally planned state to developed, competitive economy. Secondly, the focus is laid on support offered to companies undertaking OFDI ventures and finally on the scale and scope of Poland's outward investments.

## **BACKGROUND**

Nowadays, transition economies, with Central and Eastern European countries and Poland in particular, are becoming increasingly important players at international FDI markets. So far these countries were mainly FDI recipients but since their EU accession their OFDI significantly increased. It was made possible as a result of intense economic and systemic transformations launched after 1989. The main objective was to do away with centrally planned economy model and adopt a strategy to build up liberal, free market economy. Reconstruction of the market system in CEECs after several decades of central planning was difficult, exhausting, and time consuming. These countries, including Poland, underwent macroeconomic reforms, which at the beginning consisted in implementing a tight monetary policy and market-economy rules, necessary in view of the total macroeconomic imbalance at the outset of the transformation.

Comparing the experience of Poland and other countries in the region, e.g., the remaining Visegrad Group Countries (the Czech Republic, Slovakia, and Hungary), we may conclude that Poland was confronted with the most difficult conditions at the start of economic transformations. According to the EBRD study the initial conditions index<sup>1</sup> for Poland was 1.9 while for the Czech Republic it amounted to 3.5, for Slovakia 2.9, and for Hungary 3.3 (the higher the index the better initial conditions to implement market reforms) (Transition Report 2000, 2000, p. 21). In spite of this, economic transformation in Poland produced a more general model for other CEECs. Major assumptions were based on five pillars of economic transformation: (1) rapid transformation into a functioning private market economy; (2) liberalization of economic functions, especially in relation to foreign trade and foreign direct investment; (3) privatization of state-owned-enterprises; (4) construction of an effective social safety net by reforming the pension, education, health care, and social security systems; and (5) mobilization of international financial assistance to support the process (Hunter and Ryan 2005). These pillars of transformation were closely interrelated (Mickiewicz 2005, p. 26 and further). The program identified all steps necessary to ensure macroeconomic stabilization. These included, inter alia, the limiting of budget deficits, reducing inflation and establishing fully convertible currency with real exchange rate.

In order to accomplish the above assumptions, numerous concrete actions had to be undertaken, and the so called "shock therapy" started. It meant quick implementation of a radical and comprehensive economic program, which included macroeconomic stabilization, market liberalization, and fundamental

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