

UDC 330.322:339.9 (4-6 ЄС +438)

FOREIGN DIRECT INVESTMENT OF THE EUROPEAN UNION IN POLAND

DOI 10.30838/ P.ES.2224.290818.62.177

**Prushkivska E., Dr. in Econ. Sc.,
Meleschenko A., PhD in Philology,
Lobach N.,**

Zaporizhzhia National Technical University

The development of the European Union is the issue of the greatest interest for different countries. The article examines the positive and negative effects of EU foreign direct investment in Poland, the historical aspects of this issue and future perspectives. The article reflects with the complex results of the integration on the example of the accession of Poland to the EU. Poland's potential successes after accession are explored, such as economic growth, social development and political improvements. The environmental concerns, ethnic issues and other specific features of Polish domestic products are also discussed. The aspects of migration and unemployment, FDI investments in Poland before and after EU accession, social, economic, political and other concerns are in focus of this research. The article underlines that as a result of Poland joining EU, there is a need to advance Polish political and social concerns to have an option of choice for the country either to join or not to join EU. The problems of Poland development in the context of cooperation with EU and potential advancements of their mutual benefits are discussed.

Keywords: foreign direct investment, the European Union, industry, agriculture, entrepreneurship.

УДК 330.322:339.9 (4-6 ЄС +438)

ПРЯМІ ІНОЗЕМНІ ІНВЕСТИЦІЇ ЄВРОПЕЙСЬКОГО СОЮЗУ В ПОЛЬЩУ

DOI 10.30838/ P.ES.2224.290818.62.177

**Прушківська Е. В. д.е.н.,
Мелещенко А. І. к.філ.н.,
Лобач Н. В.**

Запорізький національний технічний університет

Розвиток Європейського Союзу - це питання, яке найбільше цікавить різні країни. У статті розглядаються позитивні та негативні наслідки прямих іноземних інвестицій ЄС у Польщу, історичні питання цієї проблеми та подальші перспективи. На прикладі вступу Польщі до ЄС, у статті відображаються комплексні результати цього процесу. Також, досліджуються потенційні успіхи

© Прушківська Е. В. д.е.н., Мелещенко А. І. к.філ.н., Лобач Н. В., 2018

Польщі після вступу до ЄС, такі як економічне зростання, соціальний розвиток та політичні покращення. Питання охорони навколишнього середовища, етнічні аспекти та інші дотичні моменти щодо розвитку національного продукту Польщі також досліджено в цій статті. Явища міграції та безробіття, прямі іноземні інвестиції в Польщу до і після вступу в ЄС, соціальні, політичні та економічні проблеми знаходяться у фокусі цього наукового дослідження. Стаття окреслює потенційні переваги приєднання Польщі до Євросоюзу та майбутні соціально-політичні зміни, які впливатимуть на вибір країни у питанні співпраці з Європейським союзом. Виокремлено проблеми розвитку Польщі в контексті співпраці із ЄС та окреслено майбутні перспективи.

Ключові слова: прямі іноземні інвестиції, Європейський Союз, промисловість, сільське господарство, підприємництво.

Significance of the problem. The EU policy of FDI inflow is focused on the entrepreneurship development in Poland, support of innovations in the country, development, and advancement of firms' promotion and cooperation within them etc. The EU puts a high stake at Polish development and it is evident that this country needs monetary inflow from foreign countries

Analysis of the previous researches. The recipient countries are much focused on FDI because it is the way to contribute to the development of their economies. Such researchers as K. Arts, K. Dickson, A. Brudervoll, K. Cordell, D. Floyd, J. Morrison, R. Hunter, L. Ryan, K. Jackowicz, O. Kowalewski etc. consider the problem of the countries integration in the European Union and focus on Poland as one of the most perspective members of EU. There is a need to analyze Poland development under conditions of EU integration in the following directions: price and trade strategies, privatization of smaller firms, regulation of legal, financial systems and unemployment levels, environmental issues, social and cultural concerns etc.

The purpose of this article is to consider economic, social, political and cultural issues of FDI in Poland, as well as development and promotion of environmentally friendly production, nationality and ethnicity of the country under the guidance of EU.

Statement of the main research. The modernization of the EU is directed on rural areas and different sectors of the economy, the Eastern sectors of the region [18]. Therefore, positive effects of FDI are evident for Poland. The process of privatization was encouraged by the FDI inflow at the beginning of the process of foreign investment incentives.

The service sector in Poland was targeted by the investors. If to compare with previous years, it should be noted that the foreign investors preferred inflows in the manufacturing sector in the 90s. The integration into the global market of Poland indicates that the economies of the Central and Eastern Europe have become more open for transformations and foreign capital is a determinant factor in the economies advancement.

Poland before and after EU

Poland has always been dreaming about participation in the EU. The negotiation about Poland membership in the EU was initiated in the 90s. It was clear that Poland required additional financing and the team of the Prime Minister Leszek Miller focused on developments of additional budgetary for their country. It was necessary to reduce budgetary deficits and improve the agricultural sector. The Polish government concerned high milk production quotas and they put a great stake on it.

There is a need to eliminate foreign debt in the country for sure [8]. Business School development and different business training implementation are necessary steps, which should be taken by the Polish government in the name of highly qualified integration in the European system.

The integration of Poland into other European countries, which was marked by the introduction in the NATO membership, is the significant step towards integration with other Eastern countries.

That time Poland experienced numerous hardships as well. For example, it was evident that there is an evident transition from the communist regime to democracy. Currently, the Polish political system consists of a dual executive branch system, which is open for new democracies [15].

The lower political house in the Polish parliament, Sejm, prevents favorable processes of transitions to democracy. Therefore, Poland had positive underpinnings for promotion and integration in the further European processes.

The German Chancellor Gerhard Schroeder supported Poland request and the country acquired 1.036 billion euros. There were many issues, which should be regulated if additional budgeting occurs.

The most dramatic concerns of the government in Poland were to improve the agricultural sector. There was a need to provide the farmers with direct investments. Currently, EU issuing of direct payments amounts up to 65.

The issue of VAT was another important aspect to be negotiated with the EU. In the result of this communication, Poland received a 3% VAT rate on completed apartments until 2007. Three percent VAT was assigned for products used in the agricultural sector. These were pesticides, for example, and other fertilizers. Zero percent VAT for eco-fuels was another advantage of EU accession [15].

In 1991-1995 FDI inflow in Poland resulted in a 39 % growth rate. Later on, the FDI inflow reached EUR 6.7 billion and it is 32 % lower than it was before 2010. The rates of FDI inflow in 2009 was EUR 9 863 million (Foreign Direct Investment). The major directions of investments concerned:

- EUR 4 344 million - reinvested profits
- EUR 2 251 million - equity capital
- EUR 101 million - a positive balance of a credit turnover [6].

Poland received EUR 5 702 million from the European Union and the rest of the investment inflow came from other countries. Germany invested greatly in Poland. 18.52% of foreign capital belonged to the investments in Germany. It can be explained by the fact that more than 5000 firms were owned by the Germans. Foreign direct investments from Germany to Poland amounted up to EUR 20 394 million in 2010 [7].

In accordance with future planning of FDI inflow in the Polish economy, more than 67 bln EUR is directed to the Polish economy between 2007 and 2015. EU is providing different firms and companies with the opportunities to obtain grants in order to raise the economic potential of the country. Talented entrepreneurs should take into account the modern requirements of the international market before starting up their developments and applications for EU grants [10].

Another important concern before entering the EU was Poland environmental issues, which occurred because of the processes of industrialization in this country. There was a need to adapt to the environmental requirements of the European Union. The case of Kraków-Nowa Huta is a good example because too much cost is required for Polish compliance with the needs of strict standards of EU environmental regulations. There were essential steps taken by Poland in this direction “a commitment to build sewage treatment plans by the end of 2008 or 2015; to modernize landfills and construct new ones before 2012; to prevent the further contamination of the environment by large factories with sixty-five "specified substances" before

2010; and to prevent water contamination with "dangerous substances" before 2007" [19]. Consequently, it was necessary to reduce levels of emissions in the petrochemical storage and to rework the levels of reworked packaging before 2005.

A positive sign of Poland accession to the EU was marked by the growth of GDP (2004-2005 by 3,5% and in 2006 by 5,5%) [19]. Moreover, in accordance with Kundera: "The Polish economy has increased its commercial openness at a relatively fast rate from the beginning of transformation processes: in 1990 the export of goods and services was constituted only 14,9% of Polish GDP and import 16,5% but in 2007 it increased to 46,9% in export and 51,5% in import" [12]. 1.2 percentage points mark the annual growth of GDP. Certainly, accession to the EU does not mean as the only positive move towards the enlargement of GDP. It is only one of the major factors, influencing on economic growth of the country. There is an evident increase in exports in the country. Polish agricultural products are in great demand in the countries of the European Union and it can be claimed that these are positive shifts in the advancement of the agricultural sector. Agricultural products from Poland are cheaper than the same products in any of the European countries. The products of good quality are produced and exported to other European countries. On the other hand, the rates of inflation in Poland also increased and the levels of unemployment were larger as well. This tendency was evident at the beginning of 2004, but until 2007 this tendency decreased and the rates of unemployment were lower. This fact can be explained by the migration of Polish employees to EU countries [16, p.40].

EU programs for Poland after the accession

There are numerous attempts of the European Union, which were taken on the way to adoption of Poland to the EU Union. There are six basic programs for the development and advancement of Poland after accession to EU. For example, the most known is the Integrated Operational Program for Regional Development in Poland. More than EUR 11,200 million was invested in it. The first concern of it is to develop road network 4,000 km and to improve sewerage system by nearly 5,000 km; to establish 3,500 km of water pipelines and many other improvements were required. Moreover, the EU issued a large number of subsidies for Poland.

In the prospect, it is planned to increase the number of subsidies to 100 billion euros. Economic innovation programs are of central concern for the

EU planning of improvements in Poland. There is a need to make investments in projects of technological advancement and computerization of the country. Kundera claims that the main disadvantage and preventive factor for successful joining of Poland and the European Union is as follows: “The economic costs may occur in the long run which is related with the fact that economic structure of Polish economy is not perfectly similar to the EU so-called core countries and with low flexibility of wages” [12].

The investments in human capital are relevant in the modern globalized context. It is clear that EU financial aid is effective in terms of Human Capital Investment Operational Program. People and their skills are the most important concerns for the EU society. It is claimed that good education and well-developed professional skills are successful methods in fighting against unemployment.

The advancement of infrastructure and especially environment are focused on perfection and improvement of Polish competitiveness internationally [4, p. 45]. The security of transport and better connections within the country, as well as water treatment planning, is programs directed on the support for environmentally friendly policies in Poland. Moreover, different advancement in educational and social spheres is very important for the development of the country.

Prospects of Poland in EU

In 2005, the rates of FDI amounted up to € 7.5 billion. There is a growth of confidence in the Polish economy for sure. Moreover, Poland experienced a great inflow of structural funds, which amounted up to € 1.5 billion. Nevertheless, there is a positive tendency of FDI inflow growth and structural funds increase.

The main drawbacks of Polish accession to EU can be found in a growth of funds inflow in the Polish economy and the decrease of Polish zloty inflow. Goods that are more expensive emerged in Poland and there was access for more expensive services in Poland [5, p.10].

In accordance with Nowak (2007): “We did not observe the rise in unemployment because rarely to the appreciation of the Polish zloty (the value of Polish zloty rose approximately 15 % against euro and approximately 18 % against USD) the rise of productivity took place” [14].

The pressure of the country’s budget deficit is another drawback for Polish economy under the guidance of EU. There is a great pressure exerted on

budgetary funds and it is clear that financial sources and inflow of foreign monetary resources in the budget of the country means the fact that there are negative pressures of EU on Poland.

From the prospect of social and political reforms, it should be noted that EU influence can be witnessed in different aspects of lives of Polish citizens. The European scene obtained a new active participant in the face of Poland. On the other hand, Poland was inspired by its important role in cooperation with other European countries. The destiny of Europe is in hands of the countries-members of this organization and it is on their behalf to decide future prospects and directions of development of Europe.

The Polish society is aware of advantages and disadvantages of EU membership of Poland. It is rather hard for people to realize fully the role they can play in the destiny of their country. The first years of Polish membership in the EU are positive. The other possibilities of Polish participation, such as inflation rates growth, an increase of unemployment levels, huge rates of emigration from Poland, the lands and property sale to foreigners are only some of the most intimidating aspects for the society.

We can see that the Polish economy is one of the strongest among countries of new members. It is expected that the growth of GDP in 2009 is positive in the country. The country's domestic market is positioned as the strongest aspect of the country's economy. Therefore, future prospects of Poland should be focused on developments in this sector. There are many other successfully developing industries, such as pharmaceuticals, energy, aerospace etc. and a strong workforce, which consists of young and well-educated professionals.

Therefore, there are direct triggers for potential FDI inflow to the Polish economy. Poland trade with the countries of the European Union is developed around the reduction of tariffs on different products and goods. There is a way for the free movement of trade and labor force in the country. The unification of fiscal and monetary policies with other countries-members of EU leads to the political union and integration.

We may suppose that one of the future prospects is the creation and development of trade and decrease in prices. There are also many essential drawbacks in Poland accession to the EU. For example, the farmers are afraid of losing their jobs. There is an essential hazard to Catholic family unity and a lack of national identity.

The cons of integration for Poland are as follows, “the loss of sovereignty in economic policymaking as well as in the political decision-making process, as well as reduce environmental standards in the most environmentally friendly states” [14]. Moreover, Poland comes across severe competitors in the arena of trade, which may be too diverse for the country. It is hard to make any judgments concerning the further full-scale integration of Poland with Europe. Nevertheless, there are deep considerations about the loss of national identity in Poland.

In accordance with the newest researches and studies in this field: “EU lacks the redistributive effect required to address socioeconomic concerns in new member states, the success of such programs might also prove vital in maintaining popular support for further European integration” [3]. The decrease of levels of unemployment can occur in 2011. Together with wages increase and improvement of consuming ability of Polish citizens, these are the perfect options for the development and improvement of the Polish society.

There is a need to advance economic growth of the country, contribute much to wages development, and increase within the country. Otherwise, there is a good option for Polish citizens to become a competitive workforce of other European countries. The loss of highly educated and professional human capital means a severe intimidating factor for the development of Polish society. Migration of a strong workforce is a wasteful use of creative and working potential of the country. On the one hand, there is an essential inflow of FDI, which. In case this inflow was essential, the Polish citizens would hardly be fighting for migration to other European countries in the search of high-paid jobs. There is an option to counterbalance financial concerns of the country with the internal growth and development of the citizens.

In accordance with the Mundell-theory of optimal currency area: “welfare gains from adhesion to monetary union are likely to increase with the degree of openness of an economy” [3]. There is a need to reduce risks and provide more opportunities for small businesses in the country, to improve investment rates from other European countries in order to maximize benefits from euro currency implementation in Poland. The Polish joining EU and costs spent on it are lower than possible benefits [11, p.1-14].

In accordance with the 2010 report of developments in Poland after accession to EU, there is a need for Poland to improve its political concerns and businesses. The country should open more doors for foreign investors.

There are still essential disadvantages of Polish developments, such as challenges of the Polish labor market, high levels of public expenditures etc.

Conclusions. This research focuses on different issues, such as FDI inflow, levels of unemployment and migration, economic, social and political concerns of Poland. There are different claims concerning the potential future of Poland in EU (from growth GDP by 7% until 2020 to negative predictions of Polish losing their ethnicity).

Poland should not discard other opportunities for promotion and development internationally. The most relevant concerns of the country and its most important interests should prevail over opportunities of European integration. The process of transformation and integration is too complex and it is necessary to focus on social, cultural, economic and political factors in order to advance different directions of Polish economy in cooperation with other global partners. It is relevant to introduce financial improvements, structural, economic, social and political reforms in order to find benefits for the European Union. European integration of different countries is in the developing process. In some years, we will see the real consequences the European integration.

REFERENCES:

1. Arts, Karin and Anna K. Dickson, eds., *EU Development Cooperation: From Model to Symbol*. Manchester, England: Manchester University Press. 2004.
2. Belcsák, Hans. "Hot Spots: Poland." *Business Credit*, April, 2007. p. 66.
3. Brudervoll, A.K., 2011. Is EU accession confirming Poland's return to Europe? [online]. Available from <<http://www.e-ir.info/2011/10/01/is-eu-accession-confirming-poland%E2%80%99s-return-to-europe/>> [Accessed September 22, 2018].
4. Cordell, Karl, ed., *Poland and the European Union*. London: Routledge. 2000. 45 p.
5. Floyd, David, and Janet Morrison., "Polish Membership of the EU: a Straightforward Prospect?" *Teaching Business & Economics*, Spring, 2000. p. 10.
6. Foreign Direct Investment. Available from: <http://www.paiz.gov.pl/poland_in_figures/foreign_direct_investment> [Accessed September 22, 2018].
7. Foreign Investments in Poland. Available from: <<http://en.poland.gov.pl/Foreign,investment,468.html>> [Accessed September 22, 2018].

8. Hunter, Richard J. Jr. and Ryan, Leo V. C.S.V. Poland and the EU. The final chapter before accession. Available from: <http://www.ruf.rice.edu/~sarmatia/403/232_hunter.html> April 2003. [Accessed September 22, 2018].
9. Jackowicz, Krzysztof, and Oskar Kowalewski. 2006. "Why Do Companies Go Private in Emerging Markets? Evidence from Poland." *Journal for East European Management Studies* 11:326+. <<http://www.questia.com/PM.qst?a=o&d=5037755118>>. [Accessed September 22, 2018].
10. Korneck, L. The importance of Foreign Direct Investment (FDI) in the Polish Economy. Available from: <<http://usasbe.org/knowledge/proceedings/proceedingsDocs/USASBE2006proceedings-Kornecki%20-%20Internat.pdf>> [Accessed September 22, 2018].
11. Kornecki, L. Macroeconomic aspects of Small Business Development in Poland. *Journal of the International Society of the Business Discipline (ISOBD)* 1 (1), 2005. P. 1-14.
12. Kundera, J. Adhesion of Poland into Eurp Zone. Available from: <http://oliver.efri.hr/~euconf/2009/docs/plennary/3%20Kundera.pdf> [Accessed September 22, 2018].
13. Michalak, Wieslaw Z. "Retail in Poland: An Assessment of Changing Market and Foreign Investment Conditions." *Canadian Journal of Regional Science* 24: 2001. p. 485.
14. Nowak, A., 2007. WP - 17 Poland in the European Union. Initial Balance of Two Years: Selected Aspects. Available from <http://www.ispionline.it/it/documents/wp_17_2007.pdf> [Accessed September 22, 2018].
15. Poland after EU accession. Available from: <<http://www.wieninternational.at/en/content/Poland-after-eu-accession-en>> [Accessed September 22, 2018]
16. Spiro, Nicholas. "EU Divergence." *Global Finance*, March, 2004. p. 40.
17. Vassiliou, George. *The Accession Story: The EU from Fifteen to Twenty-Five Countries*. New York: Oxford University Press. 2007.
18. Witkowska, J. Direct Investment in the Changing Business Environment of the European Union's New Member States. *Global Economy Journal*, 2007. p. 11. Available from: <<http://www.bepress.com/gej/vol7/iss4/2>> [Accessed September 22, 2018]
19. Zimmermann, Klaus F. "Five years of an enlarged EU – a positive-sum game". Brussels. Available from: <http://ec.europa.eu/economy_finance/publications/publication14287_en.pdf> [Accessed September 22, 2018], 13-14 November 2008.