The Role of Foreign Capital Invested in the Form of Foreign Direct Investment in the Economy of the Opolskie Voivodship in the Years 1990–2015

Maria Bernat
Opole University of Technology, Poland

Abstract
The article provides an assessment of the role of FDI in the regional economy based on the levels of economic efficiency: structural changes of the economy, economic stimulating activity, employment, modernization of the production apparatus and exchange with foreign countries. The following considerations seek to answer the questions to what extent has FDI become a catalyst for economic growth in the region and has it been a tool for benefiting the investors. The author drew attention to the effects generated by foreign companies in the domestic environment and their response to the global economic crisis.

Keywords: foreign direct investment, privatization, modernization, competitiveness

Introduction
The inflow of foreign capital in the form of direct investments (FDI) has been the most stable of the processes accompanying the economic transformation of the Opolskie Voivodship.¹ In the past two decades, the role of FDI steadily grew, which resulted in a change from its marginal position at the beginning of the 1990s into the pillar of the regional economy two decades later and at the same time becoming a major factor in restructuring and building a competitive economy. Statistically, the role of foreign capital reflects its share in the basic parameters which characterize the regional economy (in 2013): revenues (39.3%),² investment of companies (41.2%), employment (8.9%).³ The presence of foreign entities triggered a wide range of qualitative effects, impacting the competitiveness of the region at both the national and international levels. FDI is a long-term phenomenon; therefore, the perspective of a quarter-century is long enough to comprehensively assess the role of FDI in the economy of the host region. The steadily increasing importance of foreign ownership in the economy of the region is reflected the contribution of foreign companies in corporate revenues, which rose from 4.1% in 1993, to 29.4% in 2005 and to 39.3% in 2013.⁴ The scope of the impact that FDI has had on the host economy depends on the level of the capital involved, the intensity of capital inflow, the structural characteristics and the direction of its inflow due to the possibility of transfer of competitive advantages that are typical of the home economies.

---

1. One of the 16 of Polish administrative regions, NUTS 2 level.
2. [In the journal European practice of number notation is followed — for example, 36 333,33 (European style) = 36,333.33 (US and British style).—Ed.]
3. Own study based on: (Działalność gospodarcza... 2014) and (Rocznik Statystyczny... 2014). The role of foreign enterprises in the regional economy strengthens the position in the prestigious ranking of the “golden hundred” (złota setka) covering most dynamic companies in the region with the highest rates of profitability. In a recently published ranking of “golden hundred” companies in the region, in 2014 the top ten positions included 8 companies with foreign capital. This undoubtedly emphasizes the significance of foreign ownership in the regional economy.
4. Own study based on: (Działalność gospodarcza... 2014) and (Rocznik Statystyczny... 2014).
1 FDI inflows in excess of 1 million US dollars in the years 1990–2015

Wide inflow of foreign capital invested into the regional economy in the form of FDI corresponded to the phenomenon observed in the country as a whole and was followed by the transformation and stabilization of the macro-economy. The situation in the world markets, mainly in the home countries of investors—the most active in the region—also influenced the intensity of this inflow. Poland is clearly a heterogeneous area in terms of investment attractiveness. Since the 1990s we observe the spatial allocation preferences of foreign capital. The five most attractive voivodships being: Dolnośląskie, Śląskie, Wielkopolskie, Mazowieckie and Małpolskie, consistently gather more than 80% of foreign capital invested. Opolskie Voivodeship throughout the analyzed period absorbed just over 1% of foreign capital allocated in the Polish economy. Opolskie is forced to compete in raising capital with other voivodeships, especially its very attractive neighbors: Śląskie and Dolnośląskie. However, such a location is not a total disadvantage because its neighborhood also enhances the attractiveness of Opolskie region in terms of access to the receptive markets and the extension of their Special Economic Zones into Opole Silesia. A significant increase in the inflow of foreign capital, as part of the strategy of sustained presence in the Opolskie economy, took place subsequent to 1992. As a consequence of the participation of foreign investors in the privatization of the cement factories in Opolskie: “Odra,” “Góraźdże” and “Strzelce Opolskie.” In the case of “Odra,” an 80% stake in the amount of USD 3,6 million was acquired by the German company Miebach Projekt GmbH, which pledged to invest another USD 18 million. However, in the case of “Góraźdże” and “Strzelce Opolskie” the role of the strategic investor was performed by the Dutch company CBR Baltic B.V. forming part of Belgian capital group Cimenteries CBR (34% of the shares in “Góraźdże” and 51% of shares in „Strzelce Opolskie”). The advantage of the Belgian capital, however, did not last long. In December of the same year the ownership structure of the group Cimenteries CBR changed, when 42,4% of its shares were acquired by the German company Heidelberger Zement, which simultaneously assumed the role of the largest investor in the region. In 1993, 65% of the shares of the modern enterprise NZPT which produces vegetable fats in Brzeg were sold to US capital group Schooner Capital and 51% of the shares of the company Ovita were sold to the Dutch concern Nutricia. In the years 1996–1998, three large greenfield investments were made: the tile factory Braas, and a company producing chimney systems Schiedel (both companies belong to German investors) and sanitary fittings factory of the Austrian investor Khudi. At the end of the 1990’s two German companies specializing in the production of plastic packaging Nordenia Verpackungswerke GmbH and Bischof & Klein began to build production facilities near Zdzieszowice and in Walce near Krapkowice. The year 1999 ended with two brownfield investments in the food industry based on the buyout of shares in the domestic entities. German investor Zott GmbH—leader in the production of dairy desserts in the German market acquired the manufacturing facility of the District Dairy Cooperative “Prima” in Opole, while the French producer of cheese, Bongrain, took over the shares of a private company engaged in the processing of milk in Głubczyce. The region’s first large scale foreign capital investment (more than USD 1 million) with production capacity in the second decade of transformation were made by the German companies Rütgers AG and Berger Holding International GmbH near Kędzierzyn-Koźle. Rütgers AG which specialized in the processing of coal tar established another company called VFP and Berger Holding International GmbH engaged in production of metal constructions in 2003 built a production plant worth PLN 5,9 million. Another large direct investment in the region was made by Finnish corporation Metsa Tissue, which acquired shares in the Paper Factory in Krapkowice. In 2005 the strategic investor in the Coke Factory in Zdzieszowice was changed into Mittal Steel Poland, the company owned by a British investor of Indian origin. Also in 2005 the German company VH Muhlen from Hamburg launched another greenfield investment—the construction of a grain elevator worth PLN 50 million in Stradunia in Walce district, while the Italian company Mercegagalia began construction of a production hall in the Olesko district. In the same year the British investor Cadbury Schweppes launched one of the largest investments in the Polish food

5. Own study based on (Działalność gospodarcza… 2014) and (Kania 2009, 136).
industry—construction of the chewing gum factory in Skarbimierz worth EUR 100 million. The factory was opened in 2008 (Kania 2007, 81–84). In 2010 the German company Neapco Holdings LLC acquired a company producing brake systems in Praszka. In 2014 another three greenfield investment were made in the region:

- The company MM Systems which is a daughter company of the German company Muhr Metalltechnik opened a factory producing automobile parts in Kąty Opolskie.
- The American investor Polaris began production of off-road vehicles.
- A joint venture of the French company Stefano Toselli and the Belgian company Ter Bek called Pasta Food started the production of frozen lasagna in the new production facility. The cost of this greenfield investment amounted to PLN 80 million.

At the beginning of 2015 two companies Tru-Flex and Global Steering Systems made two large greenfield investments in the automotive industry. Generally, the second decade of transformation clearly marked an increase in greenfield investments, which were a completely new source of economic activity, generating a network of cooperative relationships.

The decrease in brownfield investments was due to the exhaustion of the entities destined for privatization in the region and also due to the offer of the potential private entities that might be subject to acquisition or joint venture. The progress of the direct foreign investments in the Opolskie Voivodship presented here applies to a selected group of investors, representing the highest level of capital outlay of reportedly in the approximate range of three to seven hundred million US dollars. This undoubtedly makes them the region’s capital investment leader.

Fig. 1. Location of FDI over USD 1 million in the Opolskie Voivodship in 2015
economic landscape fraction of foreign capital includes 69 companies (2013) that is less than 1.5% of foreign companies operating in the voivodship, which collectively represents over 80% of foreign capital invested in the region. Investors place their businesses primarily in the central-eastern part of the voivodship (fig. 1) due to developed industrial infrastructure and business environment offered there.

It should be noted that not all investors who have made foreign investments in the region have succeeded. Some did not reach their intended goals, or experienced losses which prompted the decision to withdraw capital from Poland, and their subsidiaries were either acquired by other, mostly foreign, investors, or closed. This group includes German company Gaz-Kom, which after nine years of operations filed for bankruptcy, American NZPT in Brzeg, as well as the Korean Daewoo6. The frequency of this type of investor behavior clearly indicates its incidental nature. Steadily increasing engagement of foreign capital in the region resulted in an increase in the potential of companies. Average capital per one company with foreign capital in the years 1995–2013 increased over six hundred percent (fig. 2).

2 Features of FDI in the region

In the last two decades foreign capital invested in the region in the form of FDI has shown some clear, long-lasting trends:

• the advantage of German capital
• the branch and spatial concentration
• the tendency towards consolidation of foreign ownership

The most abundant flow of foreign direct investment in Opolskie Voivodship came from such countries as Germany, the Netherlands, Italy and the United States. Over 85% of FDI in the region came from these countries (fig. 3).

From the beginning the most active investors in terms of the number of newly created companies and the amount of invested capital in the region were the Germans. In 1992 their share

---

6. The bankruptcy of the branch of the Korean company in Opole was a consequence of the problems in the global market.
of foreign capital invested in the region amounted to 84.4% (Kania 2007, 75). Later the German share was reduced to 60% in 2005, and 37.4% in 2013 in favor of other investors, however German companies remain the largest group of foreign stakeholders in the region. In the initial phase, the information superiority of Germans reduced the risk of investment. Investors from the USA, Switzerland and France encouraged by the success of German competitors also decided to allocate some of their capital in the region.

The structure of the inflow of foreign capital in the region, whose main burden falls on Germany, corresponds to a natural predisposition for economic cooperation of the region, resulting from the neighborhood factor, spatial proximity, the intensity of private and institutional contacts and ethnic situation in the region. These elements create a solid foundation for the internationalization of German companies within Opolskie region. It should also be noted that the social and national characteristics of the region became an inhibiting factor in the allocation of large amounts of capital from Germany during the initial period of transformation (Kania 2006). The author’s study suggests a certain uniqueness of the region, because in the case of subsidiaries of the German corporations a specific group of authorities—corporate managers delegated to work in the branches of which some of them declared that they came from Opolskie. This phenomenon refers to companies such as Ruetgers, MM System Bischof and Klein. This unique phenomenon encourages the involvement of German corporations in the region (Kania 2007).

The structure of capital inflows to the region presented in figure 4 does not fully reflect the actual conditions due to the presence of so-called capital in transit. This characterization applies to investments made through entities of special purpose located outside the home country in countries such as: the Netherlands, Cyprus and Luxembourg. As a result the country of the main shareholder appears in the records of the host country and, therefore, the location of the subsidiary company. This situation applies to a group of foreign companies operating in Opolskie, including the largest company in the region—Góraźdże Cement Company SA, owned by the German company HeidelbergCement. The main shareholder of the company Góraźdże Cement SA is a Dutch subsidiary company CBR Baltic BV. That is why the investment of the German company according to the records is classified as Dutch and not German. A similar registration problem applies to the Lesaffre Bio-Corporation, whose main shareholder is the Dutch subsidiary of the French group Lesaffre.

Another important phenomenon imposed on the structure of capital inflows is the very dynamic global process of international mergers and acquisitions M & As. During the period being analyzed, the years 1990–2015, foreign companies present in the region changed their ownership as a result of international mergers and acquisitions.

Changes in the global arena of international corporations are reflected in the capital structures of foreign companies present in the region. German corporation Schöller, which owns a subsidiary production company in the region, was taken over in 2002 by the Swiss company Nestle. Similarly, in 2000 German companies Braas and Schiedel were included into the structure of the French group Lafarge, later Monier. The German company Dr. Melegy owned by German investors was taken over by American corporation Tower Automotive. The British corporation Cadbury, which in 2006–2008 built from scratch a factory located near Brzeg, in 2010 was acquired by Kraft Foods. On 1st October 2012 Kraft Foods Poland became part of Mondelēz International, Inc. And in 2010 the branch of the Dutch Nutricia was absorbed into the structure of the French group Danone.

In terms of productive investment of foreign capital in the region the four main directions of investment activity may be indicated as follows:

- production of construction materials
- production of food products
- production of chemical and plastic products
- production of automotive parts and components

---

8. Entities of special purpose are established in order to optimize the tax burden in international capital groups.
The largest amount of foreign capital in the voivodship is invested in the construction materials industry, mainly due to the privatization of the cement factories in Opolskie, but also due to the establishment of new production facilities in Western companies, such as: Monier, Khudi, or Norgips. It is worth noting that the investors present in the region are among the leading producers of construction materials nationwide.

Another very clear target of foreign capital allocation in the region is food production. The strong lobby of the food industry in the region is formed by the German companies Zott and Internsnack, French-Italian Pasta Food Company, Swiss Schöller/Nestle, Dutch Nutricia (Danone), the French Bongrain, American O2D Continental and American Brewery Rayan Namysłów.

Area of increased investment activity of foreign capital is the chemical industry. One of the first foreign companies representing this business profile was the company with German capital of Brenntag Stinnes Logistics (formerly I XO-Neuber) in Kędzierzyn. The direction of foreign capital allocation associated with the chemical industry typical for the east-central part of the region have strengthened investments of German companies: Jokey Plastik, Bischof & Klein, Nordenia Verpackungwerke GmbH, a producer of photographic film Cewecolor, Rütgers Group AG, which specializes in processing coal tar and the manufacturer and distributor of technical gases, Messer.

Relatively youngest segment of the inflow of foreign capital into the region’s economy is the automotive industry. Although after the bankruptcy of the automobile factory in Nysa owned by the Korean company Daewoo, automotive production in the Opolskie region stopped, however some companies which represent foreign capital—i.e., Tower Automoive Poland, Coroplast, Barthau Anhaengerbau GmbH. Automotive Systems, Naepco, MM Similar systems, Mubea Poland are suppliers of components and tools to leading car companies. The indicated directions of foreign capital inflows correspond to the capacity of the local economy, both in terms of its raw materials base, the recent development of industrial infrastructure and the availability of a qualified workforce.

Next very characteristic feature of foreign investment in the region is the trend towards the consolidation of foreign ownership of companies operating in Opolskie. The average share of foreign capital for this group of companies stands at 96.4% (2013) while in 1993, it was 51.4%. Following a process of progressive consolidation of foreign ownership in companies in which in the initial phase domestic shareholders participated, it had no signs of a hostile takeover of the company and thus elimination of competition. On the contrary, due to developmental reasons and the design of the investment strategy of the foreign partner, the domestic party is very often unable to participate in the costs of these projects. The lack of national entities capable of entering solid capital marriages with Western companies, protecting know-how, strategies for corporations seeking to own a subsidiary with 100% ownership after two decades resulted in achieving a high level of foreign ownership consolidation. The research conducted by the Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową) showed that companies with distributed ownership are less active in transferring technology. Thus, from the point of view of modernization and increased competitiveness of entities engaged in this process the increasing consolidation of shares was viewed as beneficial.

3 The effects of FDI in the regional economy

A key category for boosting economic growth is investments. Foreign participation in investment expenditures of enterprises in the region at the level of over 41% suggests that foreign participation is a catalyst of the growth of the regional economy. The sources of financing intensive investment activities are profits gained in Poland, bank loans and parent companies. One of the questions posed in the context of the activities of companies with foreign capital is the question of the amount of profits transferred abroad by these entities. The research conducted by the author proves that owners when distributing profits, prefer to use them for development purposes. What is important, generally, large companies representing well-known international corporations are more willing to reinvest the income earned in Poland. The value of the investments made by enterprises with foreign capital in 2011–2013 (fig. 3) exceeded the volume of gross profit worked out by them. This activity is associated with more intense competition at Polish market, to a large extent the consequence of the high activity of foreign corporations in our country.
Observation of the consequences of FDI inflows to particular branches of the economy shows that generally intense suction of foreign capital by a particular branch allows for its faster development than the others. This is due to the implementation of modern technological and organizational solutions from abroad. But this is not an automatic process because the ultimate effect of the presence of foreign investors in the economy depends on many factors, including the strategy of investors, the level of co-operative development of the domestic facilities, economic/industrial country (region) of the host.

The inflow of foreign capital did not cause the structural change in the regional economy but significantly strengthened the potential of its segments. There was a transmission of the competitive advantages of multinational corporations. According to the research of the author carried out in the 1990s and the following decade, entities used modern production methods and it is impossible to transfer obsolete solutions in order to prolong their usefulness, or to regress standard comparative advantages of the regional economy in the area of raw material and labor-intensive production.

The superior performance of the companies examined, confirm the process of modernization of the productive apparatus and the transmission of know-how. Performance of foreign companies in the region measured by the value of revenue per employee is twice the average in the private national sector and what is more important, is that it continues to grow (tab. 1). What is also important in terms of the effects of FDI on the host economy’s productivity growth in the sector of foreign ownership is accompanied by a positive development of its growth within the sector composed of domestic enterprises. In the eight year period, 2005–2013, the growth was doubled. This process may be a consequence of external effects of foreign penetration of organizational solutions and acquaintance of the national environment.

The technological level, automation of manufacturing processes and the efficient management of the workforce limit quantitative effects on the labor market in the region. Companies with foreign capital generate 26 thousand jobs in the region (in the year 2013) but are not capable of neutralizing the employment gap created as a result of the restructuring of the regional economy. Foreign companies such as Neapco, Góraźdże, Nutricia, Metsa Tissue, Brenntag are the largest employers in the region. Although these companies were created due to domestic takeovers of privatized entities this did not cause an avalanche of redundancies. The most desirable companies in terms of the effects on the labor market are companies that emerged in the form of greenfield investment.
They represent a new demand for labor resources both in the enterprises which receive direct investment as well as the environment surrounding this investment (suppliers, subcontractors, etc). Nevertheless, the role of foreign enterprises in employment is much wider than it would be as a result of the simple arithmetic of their share in the number of employees. These companies create a stable segment of the labor market with a clearly upward trend. Despite the lower labor costs in Poland, which are continually attractive to foreign investors, they are not limited to only creating jobs which require manual skills. Even though, the foreign sector offers higher salaries compared to national averages, it take advantage over the host country in the form of lower labor costs.

In terms of changes in employment brought about by foreign entities in the region, limited participation in the management of the workers is worth noting. While in companies that were taken over, trade union organizations continue to operate; while in those companies created from scratch, such organizations of workers are not available. In terms of knowledge transfer into the local environment it is important to acknowledge that among 57 surveyed companies representing FDI in excess of USD 1 million, in 47 of them, the positions of president and of memberships on the general board of directors were held by Poles. This argument documents the extent of knowledge transfer into the national environment.

4 The activity of foreign companies during the crisis which began in 2008

However, subsidiaries of multinational corporations are part of large, often global, economic entities, which through spatial diversification absorb the harmful effects on individual markets were not immune to the global economic crisis, which spread in 2008. Similar to domestic enterprises, in 2009, foreign companies operating in the region recorded a decrease in revenues and employment. However, in contrast to domestic entities, foreign companies cushioned this negative phenomenon with very dynamic growth in exports, whose volume in 2008–2013 almost doubled (fig. 5) due to corporate distribution channels and their brand advantage within the global markets. As pointed out by the Central Statistical Office (in the year 2013). 82.8% of exports of foreign entities engaged in the processing industry go to the parent company (Dzialalnoś gospodarcza... 2014, 22.) In the case of companies operating in the Opolskie region, their parent companies are located in Germany, the Netherlands or the United States.

The propensity of foreign companies to export is clearly dependent on the manufacturing segment they represent. Among the four industries in which foreign capital invested in the region is concentrated, the food and automotive industries have the highest export propensity, chemical—average and construction materials—relatively low. Remarkably, in 2013 foreign companies in the region generated a positive trade balance in the amount of PLN 508,1 million. This is an important phenomenon due to the overall negative trade balance of the region and the country.

![Fig. 5. Exports of the companies with foreign capital in Opolskie Voivodship in 2008–2013](image-url)

Source: Own study based on GUS reports „Działalność gospodarcza podmiotów z kapitałem zagranicznym” for the years 2008–2014
Conclusion

Analysis of foreign capital allocation in the region in the past quarter-century reveals that capital plays an important and growing role in the economy of the region, contributing to the growth of resources and the effectiveness of their use. Although the companies with the foreign capital are a small group of business entities operating in the Opolskie region, they are an important segment, which cushioned the decline in economic activities caused by the transition to a market oriented economy. Regardless of the methods of involving capital, both brownfield and greenfield foreign investments contribute positively to the economy of the region and bring much-needed activity, which is the source of new value, income and employment. The role of capital contributes considerably in creating qualitative factors such as skill, know-how and experience, things upon which long-term economic growth depend. In addition to financial capital, the flow of best practices in management and organizational behavior perfectly adapted to the requirements of a market economy can be seen. Opolskie due to the previously mentioned predisposition remains an attractive area for German investors; however, companies originating in Germany, representing the most desired, saturated modern technology, i.e., in production segment such as Siemens, Bosch or Hexal placed their production facilities outside the region.

Despite the increasing volume and favorable qualitative characteristics of FDI their size significantly differ from the needs of the regional economy. The main threat arising in the context of FDI in the region is not an excess of capital, but the risk of weakening its inflow. This threat becomes even more real when taking into account the domestic and global market trends in foreign direct investment, mainly the determination with which individual countries and regions seek to generate more capital. It is advisable to formulate a long-term strategy to promote the inflow of foreign capital in the form of direct investment which would be oriented toward shaping the desired form of regional branch and spatial structure.

References


Działalność gospodarcza podmiotów z kapitałem zagranicznym w 2013 roku. 2014. Informacje i opracowania statystyczne. Warszawa: GUS.


