

ICPS newsletter

Ukraine gains insight from Poland's experience in FDI attraction

The most important factors which encourage foreign investors to run business in Poland are successful economic transformation, stable economic policy and a high GDP growth. Poland's membership in OECD, as well as a consequent accession to the European Union are factors of a great importance. These issues were addressed at the presentation made by experts of the Panstwowa Agencja Inwestycji Zagranicznych (Polish Agency for Foreign Investments) and the Instytut Marki Polskiej (Poland Brand Institute) at ICPS's seminar

Foreign capital has been attracted into many sectors of Polish economy. This is a proof of capital diversification. Traditional sectors of economy, in particular the manufacturing sector, attracted the largest share of foreign direct investments. However, the ration of investments in manufacturing to total FDI in Poland have been gradually decreasing. This ratio totalled 62.4% in 1997, 58.3% in 1998, 49.2% in 1999, and only 46.7% in June 2000. Such

To what extent is Poland's membership in the EU important for foreign investors?

	1995	1997	2000
Very important	15.4%	23.1%	30.5%
Important	17.1%	32.6%	36.5%

trend should be considered as positive, as it means that the structure of investments attracted into Polish economy responded to changes in developed economies. Today, foreign companies carry out their investment projects mainly in the services.

According to the research completed in 2000, the most important factors which encourage foreign investors to run in business in Poland are good prospects for economic growth in Poland, low costs of labour, and the size of the Polish market (see figure on the next page). A comparison of the 2000 research results to those of 1995 leads to conclusion that importance of the factor related to the size of the Polish market decreased, while significance of perspectives for economic growth increased.

Survey of Polish companies with foreign capital, 2000

Initial capital

Over the last tree years, the structure of Polish companies with foreign capital improved in terms of initial capital value. The research shows that the number of companies with high initial capital (over 2 million PLN, the equivalent of 500,000 USD) increased by 6 times over the last seven years. In 1993, only 7% of companies had initial capital exceeding 2 million PLN, while now such companies make up 40.8% of all companies with foreign capital in Poland.

Cooperation with Polish subcontractors

About 41% of companies with foreign capital use commodities and services offered by Polish subcontractors. In respondents' opinion, Polish suppliers offer the least expensive and best products and services. The most important reasons which encourage the cooperation with domestic companies are good competitive products, competitive prices, tradition and positive experience, and convenient location.

In addition, 38.1% of managers who use services of Polish subcontractors think that the quality of components is good or very good; and in the opinion of 29.7% of respondents, the deliveries are executed on time. The share of Polish-made raw materials is 50% or higher in the majority of companies with foreign capital which cooperate with Polish subcontractors. This demonstrates that in commodities produced by foreign companies in Poland the share of domestic products is high.

Exports and imports

The share of exports in sales of companies with foreign capital is quite small. Over 44.3% of entities do not export; 29% of them

export less than 25% of their total sales. The research confirmed the assumption that the companies with foreign capital mostly export to the countries of their origin.

Similar pattern exists in import activities. Germany is the main supplier of commodities and services for foreign companies in Poland. The majority of companies with foreign capital import from the countries of their origin. The volume of their imports has increased recently.

Technologies

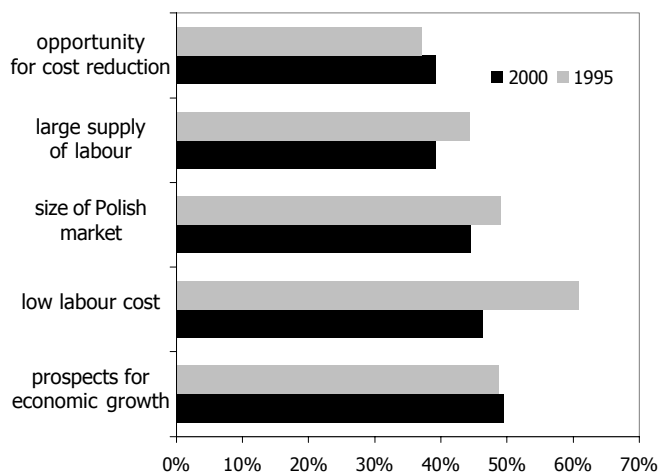
Currently, the majority of companies with foreign capital use the latest technologies (63.4%), in comparison with only 55.6% in 1997. At the same time, the number of entities which use outdated technologies (10 years old or so) decreased from 20.3% in 1997 to 11.2% in 2000.

Quality standards

One third (32.3%) of companies with foreign capital use international quality standards and procedures, mainly ISO 9001 (22.1%) and ISO 9002 (17.1%).

Location factors

The location of companies with foreign capital is determined by the following factors: convenient location and transportation system (46.8% of respondents considered this factor as very important), large consumer market (30.8%), large supply and low cost of labor (30.2%), and the availability of industrial buildings (25.4%). The weakness of market infrastructure, small local market, and low purchasing power of residents were most frequently mentioned among factors which impede the inflow of foreign direct investments.



The majority of respondents think that *political situation and social climate* in Poland are favourable for investment. Over 56% of representatives from companies with foreign capital think that the climate for investment in Poland is good. In 1995, only 10.9% of respondents perceived the political situation and social climate in Poland as favourable for investment.

Last year, only 17.3% of respondents thought that *the regulations* referring to foreign capital are fair. The following issues were criticised the most: legal loopholes and lack of consistency (44%), inconsistent application of regulations by authorities (39.6%) and frequently changed regulations (30.5 percent).

When asked about *the barriers*, the investors usually mentioned procedures for obtaining permissions for construction (36.7%) and real estate acquisition (34.5%). Among other difficulties,

respondents mentioned difficulties with receiving work permission (28.9%) and residence permission (34.7%).

The report presents a very positive assessment of Polish *managers and white-collar workers* (over 55% of "good" ratings). Foreign investors also have a very good opinion about qualifications of Polish workers (40.5% of "good" rating). Only 2% of respondents think that skills of Polish managers are not good, and 11.1% of investors have a negative opinion about Polish workers.

Foreign investors proposed the government different ways to stimulate the development of foreign company business activities. The list of postulates concerning the public support for entities with foreign capital includes: development of technical infrastructure (63.6%), tax incentives (50.4%), elaboration of regional and local development plans (47.9%), development of social infrastructure (44.2%), environmental protection (36.7%), support in searching business partners (27.9%). The investors complain about the lack of information on local environment (41.5%), Polish economy (36.1%), companies specialising on providing information about potential business partners (34.0%). ■

The seminar "Investment Climate in Poland in the Context of European Integration: The Example for Ukraine" was held on 13 February 2000. The seminar was organised by the International Centre for Policy Studies and the Institut Spraw Publicznych (Polish public affairs research centre) under the project "European Choice of Ukraine: Using Polish Experience for Administrative, Budget, Regional, and Educational Reforms in the Context of European Integration". The project was made possible by support from the Freedom House Partnership for Reform Program.

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How the "Ukraine" brand can be created?

Resume of presentation made by Miroslaw Boruc (Instytut Marki Polskiej) at the seminar titled "Investment Climate in Poland in the Context of European Integration: The Example for Ukraine"

Any country should be considered as a large company, which is able to meet competition on the global market. It is necessary to know the nation's potential and expectations and to use this knowledge in order to design country's economic model which will be of interest to its ordinary citizens.

Today, the main objective of the market strategy for the country in transition is the accession to the European Union. It is important to develop the policy which would take into account dualistic structure of the economy (i.e., simultaneous existence of domestic and foreign ownership).

The reputation of firms in particular, and of countries in general plays an important role. Every company functions in the market bearing the reputation of the whole country. On the other side, the country enjoys a share of world-known national brands.

The country should develop and invest in its market reputation in the manner of companies which create their brands. Country's name and reputation is a specific prism through which its economic system, certain companies, and certain goods are perceived. For this reason, the reputation, which is a keystone to success of the country, regions, companies, and goods, is considered as long-term investment.

The management of country's strategic marketing calls for applying business marketing tools, particularly promotion a kind of information which has a greater effect than ordinary advertising. The state alone is not able to carry out this task, so the government and businesses should cooperate closely in order to reach final goal of creating the "Ukraine" mega-brand.

The "Made in German" labelling in any household appliances presents a good signal for buyers. Electronics marked by "Made in Japan", as well as medicine or watches from Switzerland, do not need any additional recommendations. American origin has the same importance for youth culture as British roots for rock-n-roll and French origin for perfumes. Currently, Ukraine is facing the question: What should be done in order the "Made in Ukraine" could help companies to sell their goods?

The country must create its own brand. The development of positive country reputation is time-consuming process which includes the marketing activities: the improvement of bad image of the country and its economy by creating reputation, winning respect, taking positive image and status of well-known brand. Thanks to these values, the country strengthens its economy, becomes more competitive, develops domestic companies, and consolidates the society.

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