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Barriers of foreign investment attractiveness in the podkarpackie region in the opinion of joint venture companies

INTRODUCTION

Nowadays, the economic development of a country does not exist without the inflow of joint venture. W. Rostow, the author of a popular economic convergence (popular some years ago), indicated that countries without sufficient resources of native capital may dynamise the economic development thanks to the inflow of foreign direct investments (FDI) [Rostow, 1971]. The inflow of DFI to the market of a given country increases not only the investment value but contributes also to the increase in the capacity of other production factors. Hence, what are the decisive factors making foreign investments flow to individual countries and/or regions (meaning here that they are perceived by foreign investors as more attractive than others) and are there any barriers limiting the inflow of such capital to a given region?

This elaboration is an attempt to indicate factors which in the opinion of investors themselves (joint venture companies) have been acknowledged as barriers of attractiveness in the area of Podkarpackie Region.

The variety and specificity of business activity provides that depending on its type, sector, and even operational manner of individual enterprises, variable location factors are preferred. Therefore, an absolute attractiveness of investment areas is not the case here. It depends on the demand for location factors, where this demand depends on the size and structure of an investment. The actual investment attractiveness of an individual area may, hence, be specified only in respect of a specific investment at a specific moment in time. However, in respect of some types of economic activity it is possible to identify universal location factors. They do not exhaust the entire spectrum of benefits searched for by investors, but they do allow to specify in proximity the investment attractiveness of areas studied from the point of view of individual types of activity. Such attractiveness does not specify ultimately the size of an investment stream, yet indicates

rather on the likelihood of making the investor to locate the activity on a given area. It should be remembered that apart from objective factors, the location decision is influenced also by subjective factors, depending on the decision makers' system of value, their knowledge, and the view improved by media [*Atrakcyjność...*, 2006, p. 14].

PODKARPACKIE REGION: A REGION OF WEAK INTERNATIONALISATION

Based on the analysis of economic indicators for the Podkarpackie Region, the general conclusion drawn can be that this is a region presenting a lower level of development in relation to the state's average. Therefore, this region is qualified as the so called Eastern Poland, composing of voivodeships located on the eastern wall of Poland, characterising with lower level of economic development than the rest of the country. An example of this level of economic development of the Podkarpackie region – in relation to the rest of the country – is e.g. the volume of unemployment or level of remunerations [(http://nytko...)]. The employment index in the Podkarpackie Voivodeship in quarter 2 of 2010 was the same as in the Małopolska Region, and approximated to the state's average. Unfortunately, the volume of unemployment in quarter 2 of 2010 in the Podkarpackie Region amounted to 12.3% and was by 2.8% higher than the state's index (table 1).

Table 1. Employment and unemployment index in individual voivodeships across Poland (in %) in years 2008–2010

voivodeships	quarter 2			quarter 2		
	2008	2009	2010	2008	2009	2010
	employment index			unemployment index		
<i>1</i>	<i>2</i>			<i>3</i>		
total	50.1	50.4	50.4	7.1	7.9	9.5
Dolnośląskie	48.6	48.6	48.2	8.3	9.6	11.6
Kujawsko-pomorskie	46.1	49	49.6	9.8	10.6	9.9
Lubelskie	50.1	49.5	50.1	8.8	8.4	9.6
Lubuskie	49.3	47	49.2	6.9	10.6	11.2
Łódzkie	51.5	50.2	51	6.6	6.9	9.4
Małopolskie	50.9	50.5	50.6	6.1	8.8	8.9
Mazowieckie	54.2	55.6	54.1	6.1	5.2	7.6
Opolskie	48.6	47	48.5	6.4	11.2	8.5
Podkarpackie	48.4	51	50.6	9.7	10.2	12.3
Podlaskie	50.2	51.2	49	6.2	7.1	10.8
Pomorskie	48.8	48.1	49.8	6.3	5.8	9.2
Śląskie	48.7	49.4	48.7	5.8	6.3	8.4

<i>1</i>	<i>2</i>			<i>3</i>		
Świętokrzyskie	52.1	48.9	49.7	7.5	11	12.3
Warmińsko-mazurskie	47	48.2	48.5	7.1	8.8	9.4
Wielkopolskie	51.5	52	54.2	5.9	7.5	8
Zachodniopomorskie	45.9	47.6	45.6	10.2	10.3	12.7

Source: *Roczniki Statystyczne GUS* [Central Statistical Office's Statistical Yearbooks].

The average gross monthly remuneration in the Podkarpackie voivodeship was the lowest in Poland – in quarter 2 of 2010 amounted to PLN 3056.33, whereas the state's average in that period amounted to PLN 3316.38 (graph 1). A lower level of the Podkarpackie Region's economic development is determined through a whole range of factors of internal and external nature. Among the internal factors it is possible to separate an insufficient rate of capital accumulation and qualified labour force, shortage in the modern and capital-absorbent industrial sector. The GDP analysis confirms a low development level of the Podkarpackie Region (chart 2).

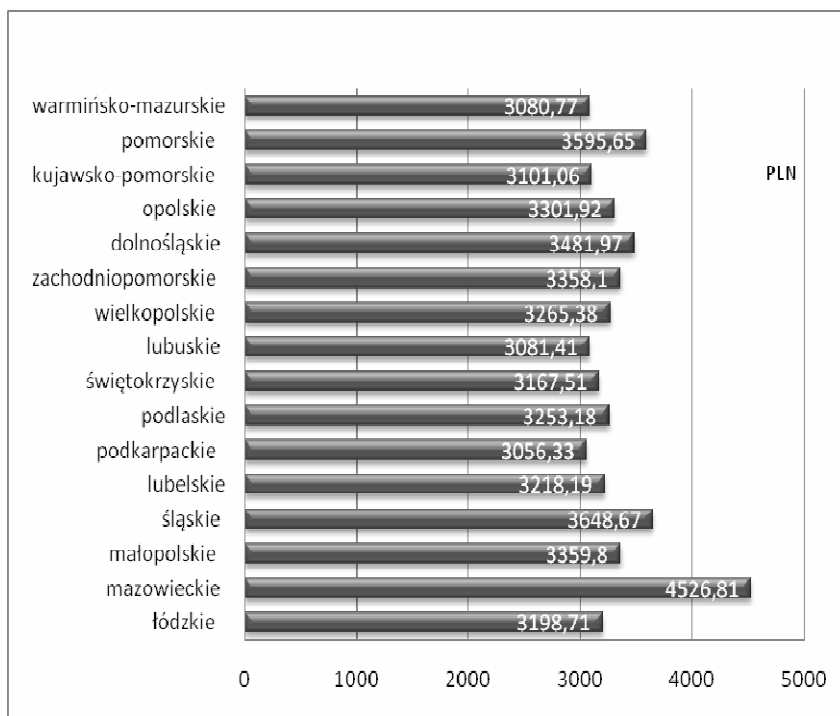


Chart 1. Average monthly remuneration in the national economy according to regions and voivodeships in quarter 1 of 2010

Source: [Zatrudnienie..., 2010].

Among the external factors it is possible to include here the shaped non-beneficial relationships regarding the division of labour in the country which has already been commenced in the period of partitions and has continued in the inter-war period and post-war period. In the said partition, the Podkarpackie Region obtained the role of an agricultural storehouse: having its pros and cons for the region's economy. Due to the mentioned non-beneficial partition of labour inside the country, inflow of investment capital to the Podkarpackie voivodeship – hence, internationalism of region's economy – remains at a low level. The result here is a low share of joint venture companies in relation to the general number of trade companies operating in the region [(http://nytko...)]. In case of the Podkarpackie Region, this index in 2009 amounted to 13.05%, when the state's average in this period amounted to 23.75% (table 2).

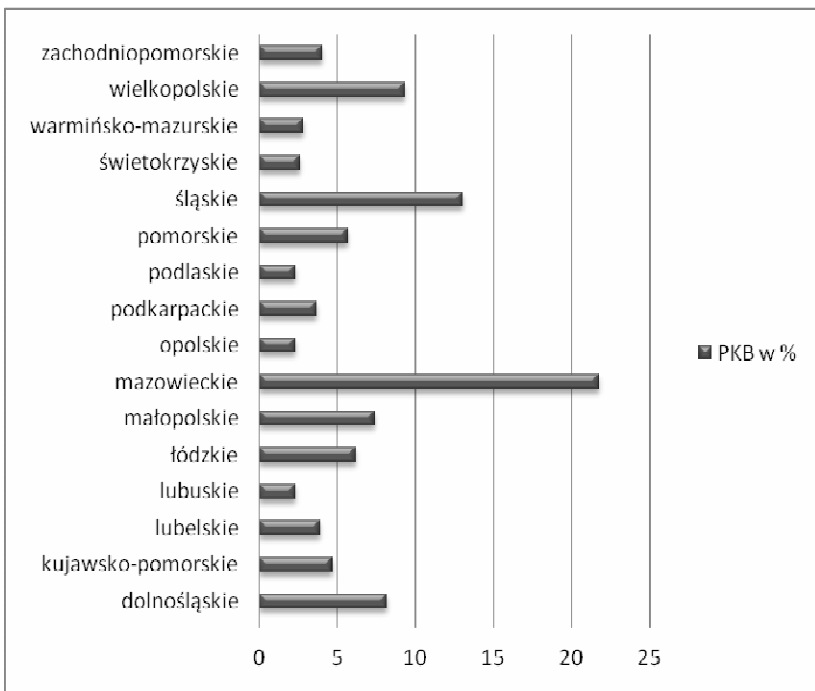


Chart 2. GDP in % for individual voivodships in Poland in 2007

Source: [Rocznik..., 2009].

Table 2 shows forthright the weak internationalism of the Podkarpackie Region. The largest number of joint venture companies, hence, is located in the following voivodeships: Mazowieckie, Dolnośląskie, Wielkopolskie, and the lowest number in Podlaskie, Świętokrzyskie, and Podkarpackie.

Unfortunately, based on all analyses, very often the very fact of holding attractive location factors may not be sufficient to attract an investment. Also the region's image, its popularisation, and good conditions for investments created by self-government authorities are also essential. The activity of voivodeships interpreted in this way, towards investors, was analysed in respect of two types of activities. The first was the level of investment offers preparation for investors. Also, here, the attention was brought to their number and quality. Assessments in this respect were carried out based on the Polish Information and Foreign Investment Agency (PIFIA) data base resources. The second are investment-attractive offers. According to the PIFIA information, they correspond to the previously applied classification for A+B type offers. To formulate the assessment, investment-attractive locations were used [*Atrakcyjność...*, 2006, p. 40–41]. Table 3 presents their number in voivodeships according to the status as of September 2006.

Table 2. Number and share of foreign investment capital in the Podkarpackie Region in 2009 in the background of individual regions of Poland

voidodeships	total	joint venture companies	share of joint venture companies as to the total number of trade companies
total	268,942	63,871	23.75%
Dolnośląskie	22,060	6,178	28.01%
Kujawsko-pomorskie	10,400	1,617	15.55%
Lubelskie	7,859	972	12.37%
Lubuskie	6,830	2,616	38.30%
Łódzkie	12,844	2,584	20.12%
Małopolskie	19,541	3,398	17.39%
Mazowieckie	77,655	23,541	30.31%
Opolskie	4,917	1,333	27.11%
Podkarpackie	6,629	865	13.05%
Podlaskie	4,100	469	11.44%
Pomorskie	20,016	3,928	19.62%
Śląskie	29,267	5,231	17.87%
Świętokrzyskie	4,439	537	12.10%
Warmińsko-mazurskie	5,514	924	16.76%
Wielkopolskie	24,239	5,588	23.05%
Zachodniopomorskie	12,632	4,090	32.38%

Source: [*Biuletyn...*, 2009].

Offers of investment-attractive locations constitute the internal assessment of activity of voivodeships against investors. Their number – and most of all

their quality – may discourage foreign entities to allocate their capital in a given region or discourage investors with the same causing further consequences for region’s weak development.

Table 3. The number of investment offers for individual voivodeships in 2006

voivodeships	number of offers
Dolnośląskie	105
Mazowieckie	69
Warmińsko-mazurskie	62
Opolskie	58
Wielkopolskie	55
Lubuskie	48
Zachodniopomorskie	40
Śląskie	39
Łódzkie	39
Pomorskie	32
Kujawsko-pomorskie	27
Małopolskie	24
Podkarpackie	22
Lubelskie	22
Podlaskie	19
Świętokrzyskie	14
total	675

Source: PIFIA.

FACTORS OF INVESTMENT ATTRACTIVENESS

Investment attractiveness shall be interpreted in the categories of “capability to make the investors select the region as the place to locate their investment” [Gawlikowska-Hueckel, Umiński, 2000, p. 7]. Such a definition allows for a thorough assessment of investment attractiveness through the perspective of outlays incurred¹. This approach, however, does not permit to analyse individual factors deciding about a success or failure of an individual area. Therefore, it is also possible to say that the investment attractiveness of a given area is determined by the combination of location factors [*Atrakcyjność...*, 2006, p.13]. Areas offering an optimal combination of location factors are acknowledged as

¹ This criteria, even for its simplicity and seemingly obviousness, unfortunately has a flaw – does not recognise the type of investment. This criteria premiums capital-absorbent activities, whereas knowledge-absorbent activity may bring a larger added-value and non-financial benefits for development of a region where the investment is located.

attractive, and ones without such an optimum combination are acknowledged as of very low attractiveness.

The list of conditions or prerequisites deciding about the scale, directions, and outcomes of foreign investment expansion is very vast. In the traditional view, the following are the most important factors deciding about the location-related attractiveness of a given investment:

- large and absorbent internal market,
- transport availability (geographic location),
- condition of natural environment,
- cheap and well-qualified labour force,
- economic infrastructure,
- international position.

Significance of factors quoted was proved by studies conducted in many countries around the world [Wolaniak, 1999, p. 123].

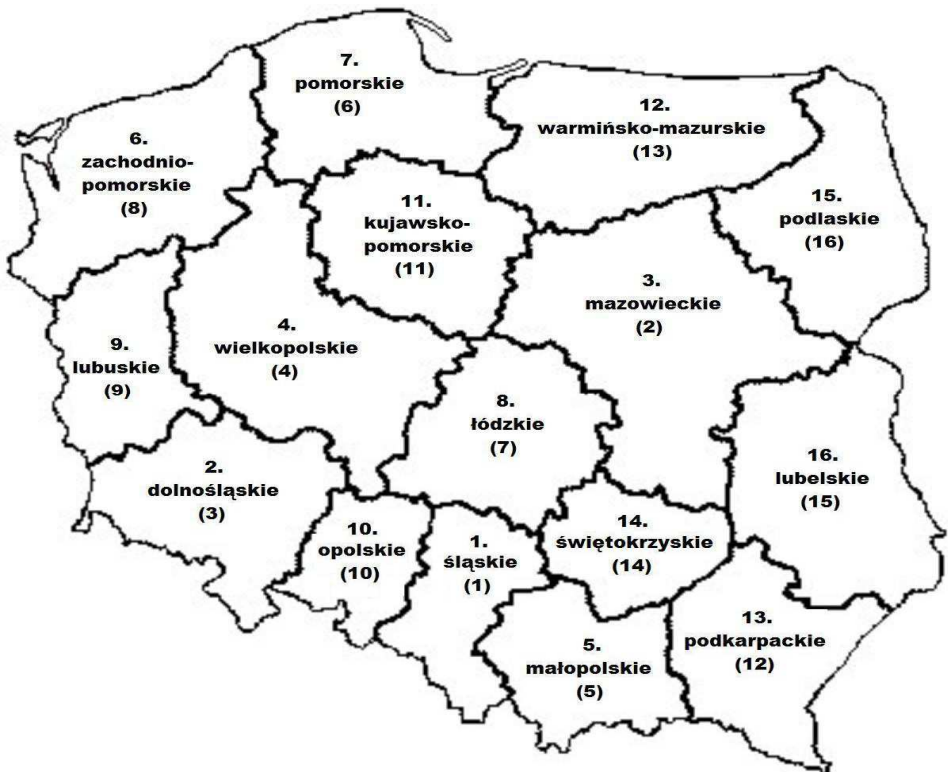
For a country without possibilities to increase the national, pecuniary, and/or material accumulation, foreign direct investments are the only way to cover development needs, on a larger level than in case of satisfying them with a forced national accumulation. Thanks to direct investments, it has the opportunity to obtain the inflow of capital from companies with opportunities to carry out allocation at a worldwide technical and organisational levels, which may introduce an economic progress straightforwardly on the level demanded; and, taking into account the cooperation with local companies, it may spread in a wave motion to numerous enterprises and lead to their development and development of their location's region.

In December 2009, the Gdańsk Institute for Market Economics (GIME), for the fifth time, announced outcomes of the annual rank regarding investment attractiveness of voivodeships and subregions across Poland. This rank does not assess only individual regions, but indicates also features decisive in making an investment interesting in a given location. Voivodeships are assessed from the point of view of general investment attractiveness, whereas subregions are subject to assessment in 3 categories, taking into account the investment attractiveness for the following activities: industrial, service, and state-of-art technology.

Śląsk, Dolny Śląsk, Mazowsze, Wielkopolska, and Małopolska are enumerated as voivodeships most attractive for investors (map 1). Also Zachodniopomorskie, Pomorskie, and Łódzkie voivodeships (apart from the 5 enumerated above) are regions providing the entrepreneurs with extraordinary conditions.

Unfortunately, Podkarpackie voivodeship does not present itself in the best way in the investment attractiveness ranking. In 2005, it was on the 11th position, and on 13th position in the current ranking, which proves a low assessment of this region's investment attractiveness.

Authors from GIME enumerate also 9 factors of investment attractiveness (also called: location factors) being the grounds for entrepreneurs to perceive a given location (region, subregion). These are: transport availability, labour resources, market absorbency, economic and social infrastructure, level of economic development, conditions of natural environment, level of public safety, and activity of voivodeships towards investors. Every location factor impacts the investment attractiveness at some other level or other manner. Whereupon, different factors are acknowledged in the general classification of voivodeships, and different factors are acknowledged for individual types of economic activity.



Map 1. Investment attractiveness of voivodeships in the year 2009 (in brackets: region's rank in 2008)

Source: Gdańsk Institute for Market Economics.

Looking at the attractiveness index, it is possible to notice that in 2009 the Podkarpackie Region was assessed the most highly due to common safety (1st position in the rank) and labour resources and costs (7th position in the rank). In case of the first one, this is an effect of a low or mediocre level of crime and

high or average index of crime detection. In case of the second, the Podkarpackie Region holds large labour resources and relatively low labour costs – the remuneration is lower than the state's average. Unfortunately, due to the most important factor, hence voivodeship's activity towards investors, the Region was ranked on the 14th position which indicates on a small number of investment offers and small intensity of informative activity of the voivodeship.

OPINIONS ABOUT PODKARPACIE'S JOINT VENTURE COMPANIES REGARDING FACTORS DECIDING ABOUT BARRIERS OF INVESTMENT LOCATION ATTRACTIVENESS

Outcomes of a post questionnaire conducted in 2009 and addressed to joint venture companies located across Podkarpackie region were used in this elaboration. 53 joint venture companies were included in the study, where 41 enterprises were subject to a detailed analysis. Among the entities analysed: 22 were large companies, 8 medium companies, 9 small companies, and only 2 micro enterprises. Over 85% of them declared an international range of enterprise influence. 29 entities analysed were limited liability companies, 10 were joint stock companies, and 2 general partnerships.

Surveys regarding barrier of attractiveness of the Podkarpackie Region show that a substantial part of joint venture companies operating at the said area considered the majority of factors as of medium or low importance. Main barriers connected with investments were as follows: legal provisions regarding setting up and operating of a company, high unemployment, absence of new technologies. Average significance among investment attractiveness barriers, according to respondents, was linked to a threat of appearing of new competitors and substitutes, absence of possibility to cooperate with universities across the country, low level of economic development, and high unemployment (chart 3).

Similar opinions of investors were presented in the elaboration of the Polish Minister of Economy named „Inflow of direct foreign investment to Poland – barriers and opportunities for an increase”. This study includes the following as the main investment barriers:

- absence of efficient institutional support for foreign investors,
- absence of efficient system of investment incentives,
- absence of respectively prepared investment areas,
- problems of investors with acquisition and maintenance of employees (high level of employees rotation (especially in *call-centre* type investments); problems with finding employees with specific qualifications and a simultaneous additional knowledge of foreign languages; increase of labour costs),

- complex administrative procedures connected with the investment process (long and nuisance procedures connected with obtaining administrative decisions required in the investment process – bureaucracy, prolonging terms),
- weakly developed infrastructure,
- low quality of adopted law,
- issues of fiscal law.

The majority of barriers abovementioned are indicated also by investors who have already made an investment in the Podkarpackie area.

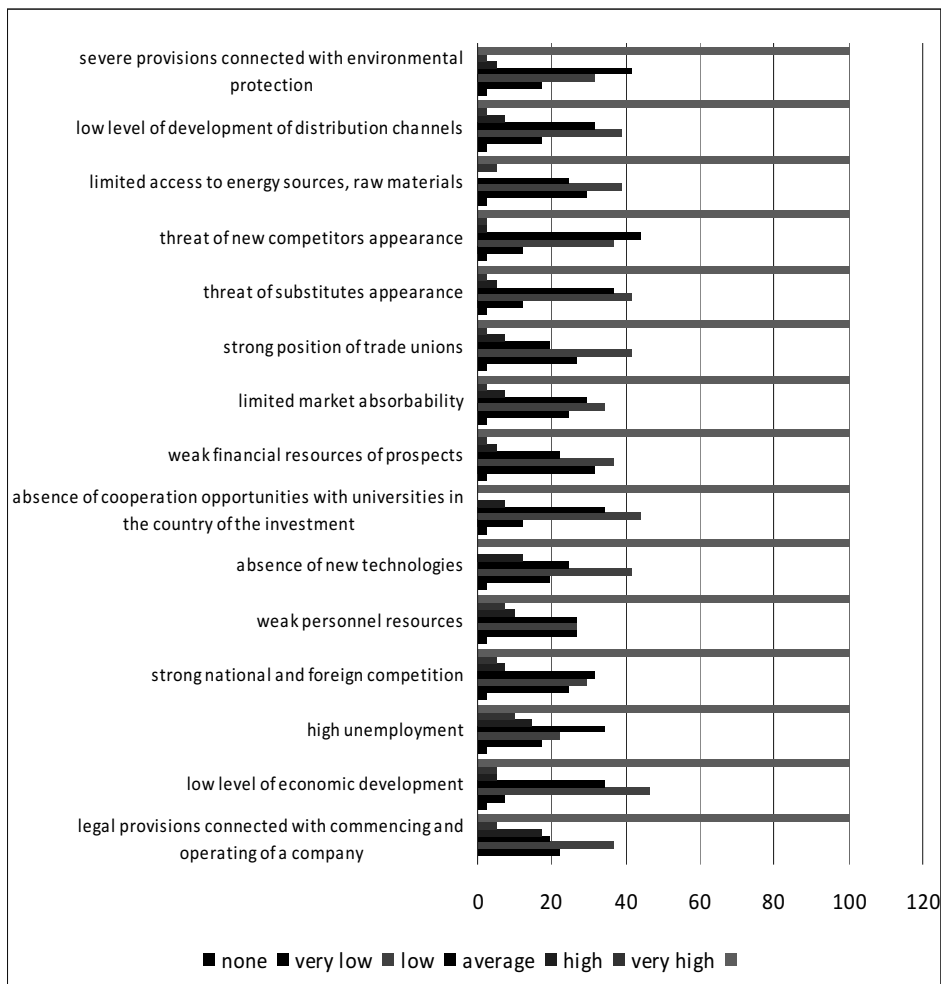


Chart 3. Investment barriers in the Podkarpackie Region – opinion of respondents

Source: own elaboration based on questionnaires.

On the other hand, M. Stawicka in the book „Atrakcyjność inwestycyjna Polski” [*Poland's investment attractiveness*] shows the largest barriers that investors are afraid of. These are: insufficient guarantees for foreign investors and limited purchasing power of people, and general risk of investing in Poland. The significance of such factors as e.g. inflation, underwent a clear modification surely due to the fact that in the past years it decreased. Whereas, fears of foreign investors increased significantly as to trade unions and employee councils, which they consider as one of the most important investment barriers.

CONCLUSION

Inflow of foreign capital to a region seems to be a priority. Joint ventures, especially in the form of direct investment stimulates the development of the area, dynamises the economic development, causes the creation of new workplaces, modernises economic structures through inflow and utilisation of new technologies. Therefore, we should focus on the creation of relevant investment climate encouraging foreign entities to locate their investments in the Podkarpackie Region. Therefore, on-going identification of barriers of investment attractiveness of the region, and undertaking required actions directed on their minimisation or even liquidation of any investment barriers is essential. Undertaking such tasks is surely legitimate if a region wants to be attractive for joint ventures.

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Summary

Nowadays, it is impossible to discuss a country's economic development without mentioning about the capital inflow. The inflow of Foreign Direct Investment to a specified country's market not only increases the value of investments, but also contributes to increasing the efficiency of all other production factors. It later decides that some countries or regions receive foreign investments, i.e. why are they perceived by foreign investors as more attractive than the others, and are there any barriers limiting the inflow of such capital to a given region.

This study aims at presenting the factors, which in the opinions of investors (joint venture companies) have been regarded as attractiveness barriers in the Podkarpackie Region.

Bariery atrakcyjności inwestycji zagranicznych na Podkarpaciu w opinii firm z kapitałem zagranicznym*Streszczenie*

Napływ kapitału zagranicznego do danego regionu wydaje się być sprawą priorytetową. Kapitał zagraniczny zwłaszcza w postaci inwestycji bezpośrednich stymuluje rozwój danego obszaru, dynamizuje rozwój gospodarczy, powoduje powstanie nowych miejsc pracy, modernizuje struktury gospodarcze poprzez napływ i wykorzystanie nowych technologii. Zatem należałoby skupić się na tworzeniu właściwego klimatu inwestycyjnego zachęcającego podmioty zagraniczne do lokowania swoich inwestycji właśnie na Podkarpaciu. Ważne jest zatem bieżące identyfikowanie barier atrakcyjności inwestycyjnej regionu, a także podjęcie niezbędnych działań ukierunkowanych na ich minimalizację, czy nawet likwidację wszelkich barier inwestycyjnych. Podjęcie tego typu zadań jest z pewnością słuszne jeśli chce się być regionem atrakcyjnym dla kapitału zagranicznego.