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FOREIGN DIRECT INVESTMENT IN POLAND AND VIETNAM: A COMPARE ANALYSES

Abstract

Foreign direct investment is the key driver for both Poland and Vietnam's economic development in recent years. By the end of 2015, FDI sector in Vietnam comprised for 25% total investment, 14.46% of state budget revenue, with total FDI inward stock of nearly 103.8 billion USD. In Poland, FDI sector according to the UNCTAD 2016 World Investment Report, saw a 40% decrease in the FDI influx (USD 7.5 billion in 2015), after having entered the top 20 host economies in terms of FDI inflows in 2014. FDI inflows to Poland reflect the international economic situation as well as the economic slowdown in the EU following the Eurozone crisis of 2012–2013. This paper analyzes some main features of FDI in Poland and Vietnam during the period 2003–2015, finds out some similarities and differences between FDI flows in the two countries.

Keywords: FDI, Poland, Vietnam

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Introduction

In the process context of integration, foreign direct investment has played an important role for economic development, especially for emerging or transitional economies. Regarding to global investment trends, in 2015, global FDI flows jumped by 38 per cent to 1.76 trillion USD, the highest level since the global economic and financial crisis of 2008–2009. Inward FDI flows to developed economies almost doubled to 962 billion USD, with a strong growth in Europe. Developing economies saw their FDI inflows reach a new high of 765 billion USD, 9% higher than in 2014. Developing Asia, with FDI inflows increasing by 16% to 541 billion USD, remained the largest FDI recipient in the world. The significant growth was driven by the strong performance of East and South Asian economies (UNCTAD, 2016). In this context, Poland and Vietnam are the two favorable destinations for attracting FDI in Europe and Asia. In terms of FDI inflows, Poland entered the Top 20 host economies in 2014 and Vietnam also ranked 6th in Asia and ranked 26th worldwide in 2015 (UNCTAD, 2016). However, FDI in the two countries were not stable, both experienced high fluctuations during the period 2003–2015. This paper main aims are to analyze the main characteristics of FDI in the two countries during the period 2003–2015 and make some comparative analyses. The main goal is to show that despite the differences in size and GDP in both countries we can observe that the same changes and trends in FDI over time can be noted. The analyses will be based on data from the National Bank of Poland, Vietnam's Statistical Office and UNCTAD.

1. Overview of FDI in Poland

For many developing economies, Foreign Direct Investment (FDI) is a way to promote economic growth and industrial development. Poland is an example of a country that has been very successful in attracting FDI, and this appears to have propelled a lot of the country's recent economic growth.

Companies with foreign capital and investment made by them in the last decades fostered qualitative changes in Polish economy. They resulted in increased technological advancement which led to increased effectiveness, diffusion of technology as well as production and export of more processed capital-intensive goods. Foreign companies have contributed to the modernization of industry and production processes, as well as shaped the development of the service sector. They often initiated innovative undertakings, stimulated and facilitated the implementation of new technological solutions allowing to achieve numerous synergetic effects. Currently, services sector, including modern business services, plays increasingly important role in Polish economy. Each year, there are more new investment in BPO centers (outsourcing of business processes), SSC (shared services centers), IT and R&D. In recent years, the following companies have invested in Poland: Citi, HP, Cisco, BBH, WNS Global Services, Oracle, Capgemini, and the number of service centers in our countries increased to 532 in April 2015. These centers are owned by 356 investors (Poland 2015, 2016, p. 261).

According to the World Investment Report 2015 (UNCTAD, 2015), Poland entered the Top 20 host economies in terms of FDI inflows in 2014. FDI inflows to Poland reflects the international economic situations. They slowed down following the Eurozone crisis of 2012–2013 and then performed somewhat more dynamically since 2014. Poland figures among the most attractive countries in Europe in terms of FDI. Its main assets are its strategic position, a large population, its membership in the European Union, economic stability, cheap skilled labor costs and a fiscal system attractive to businesses. Also, Poland has a number of dynamic Special Economic Zones, and the Government founded the Polish Information and Foreign Investment Agency (PAIilZ) to improve conditions for FDI (Santandertrade.com).

The value of FDI stock in to Poland at the end of 2015 amounted to 213 billion USD dollars, or 44.9 per cent of GDP. As a result, Poland is in the middle rank of the OECD countries in terms of the share of FDI in the economy – close to such countries as Norway, New Zealand and Spain.

In the years 2003–2015, both in Poland and in the world there were several phenomena which disrupted the previously observed trends in FDI flows. The value of FDI inflow to Poland decreased from over USD 19 billion recorded in 2007 to almost USD 3.6 billion in 2013. The causes of lower values of FDI in Poland in 2013 should be sought in several concurrent factors. On one hand, the activity of foreign investors was limited by weaker rate of economic growth in Poland and, on the other hand, by slowdown in the majority of European countries and in the United States which were a significant source of the foreign capital in Poland.

Table 1. FDI in Poland in the period 2003–2015

Year	FDI inflows (USD million)	FDI inward stock (USD million)	FDI inflows as a percentage of gross fixed capital formation (%)	FDI inward stock as a percentage of gross domestic product (%)	Value of announced greenfield FDI projects, by destination (USD million)
2003	3,982.3	56,109.8	10.1	25.8	9,816
2004	12,140.3	84,102.1	26.5	33.1	14,247
2005	8,203.2	86,345.5	14.5	28.4	13,886
2006	14,577.5	115,791.8	21.5	33.7	15,601
2007	19,836.2	164,370.1	21.1	38.3	18,336
2008	12,283.0	148,417.3	10.3	28.0	28,710
2009	10,039.3	167,399.0	10.9	38.3	13,659
2010	12,796.3	187,602.2	13.2	39.2	11,107
2011	15,925.1	164,424.4	14.6	31.1	10,819
2012	12,423.5	198,953.3	12.5	39.7	10,837
2013	3,625.5	229,166.8	3.7	43.7	9,637
2014	12,531.0	205,581.2	11.7	37.7	7,549
2015	7,489.4	213,070.6	7.8	44.9	6,136

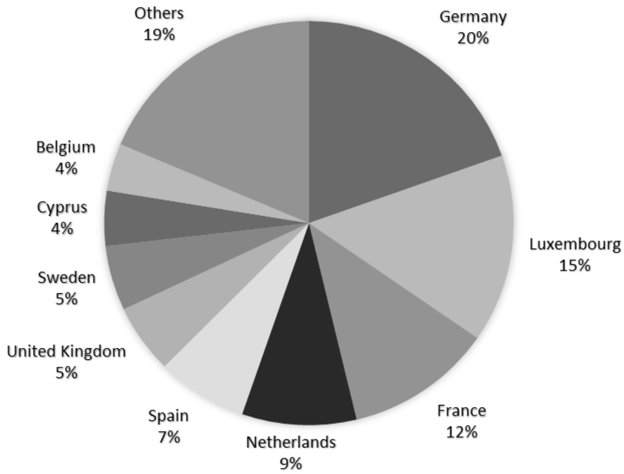
Source: own calculations based on UNCTAD data.

For a number of years, Poland has been promoting FDI in the new technologies sector, especially using EU funds. Germany, the Luxemburg and France are the three main foreign investors in Poland in period 2003–2015 (see Figure 1). In 2015, investment of the highest value originated from the European countries: the Netherlands (USD 3.2 billion), United Kingdom (USD 2.8 billion), Germany (USD 2.6 billion), Spain (USD 1 billion) and Austria (USD 839 million).

Investors from other parts of the world were less active, for example in 2015. Entities from Asia invested in Poland funds of total value of USD 287.0 million, USD 159.3 million of which came from the Hong Kong, USD 126.2 million came from the Israel and USD 101.9 million came from the Republic of Korea (South Korea) (based on the NBP data).[1]

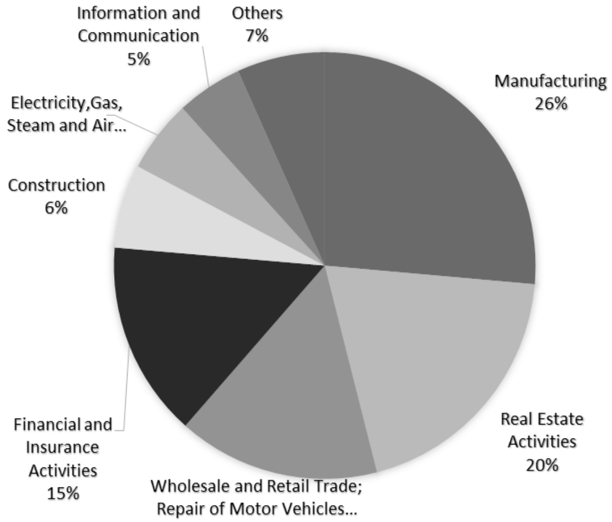
[1] The difference between general value of FDI inflow to Poland from and value of investment from Asian countries stems from the fact that some countries withdrew their funds from Poland.

Figure 1. Foreign direct investment (inflows) into Poland in 2003–2015 broken down by the biggest investors



Source: own calculations based on NBP (The National Bank of Poland) data.

Figure 2. Foreign direct investment (inflows) in Poland in 2003–2015 by economic activity of the direct investment enterprises



Source: own calculations based on NBP (The National Bank of Poland) data.

The manufacturing, real estate activities and wholesale and retail trade sectors receive most of the FDI in period 2003–2015 (Figure 2). But in period 2011–2015 the manufacturing, financial and insurance activities and wholesale and retail trade sectors receive most of the FDI (based on the NBP data). Despite some noticeable tendencies, investment areas are changing: in 2015 the main area of investment was manufacturing – 23% of all FDI inflow, in 2014 the main area of investment was information and communication – 26%, and in 2013 also information and communication – 29% of all FDI inflow in 2013 (based on the NBP data).

2. Overview of FDI in Vietnam

With the low labor costs, strong openness to trade and an advantageous geographical location, Vietnam has been one of the most favorable destinations of FDI, especially after Vietnam's accession to the World Trade Organization in 2007. After one year joining WTO, FDI inflows reached a record high of 9.58 billion USD, 5.17 times higher than average FDI inflows before WTO accession (2003–2006). The value of announced Greenfield FDI also reached a peak of 57.4 billion USD in 2008, almost fivefold the 2003–2006 annual average. The main reasons for this surge were the wider investment opportunities, predictability and high responsibility for policy reforms in Vietnam after WTO accession.

In the period 2009–2011, FDI inflows showed the downward trend, standing at 7.52 billion USD in 2011, 27% lower than 2008 peak. The value of announced Greenfield FDI dropped even more sharply, fell to 9.23 billion USD in 2011, nearly 6.2 times lower than in 2008. It was caused mainly by the global financial crisis and some domestic factors such as the macroeconomic instabilities, power shortage and lack of skilled workforce. In a positive sign, during this period, foreign investors gradually shifted away from speculative real estate sector to manufacturing, resulted in an increase in employment and output (World Bank, 2016).

In the period 2012–2015, FDI inflows recovered significantly, from 8.37 billion USD in 2012 to a new record of 11.8 billion USD in 2015. Greenfield FDI also experienced an upward trend, stood at 21.45 billion USD in 2015, nearly 3.5 times higher than 2012. Up to the end of 2015, Vietnam attracted investment from 110 countries and territories, with FDI inward stock of nearly 103 billion USD (equal to 53.7% of GDP). Only in 2015, there were 2120 new registered projects, in which 1012 new projects in processing and manufacturing industry with total committed capital of 16.4 billion USD, accounting for 68% total registered capital, followed by electronic, fuel producing and real estate, which comprised 11.6% and 9.9% of total registered FDI respectively.

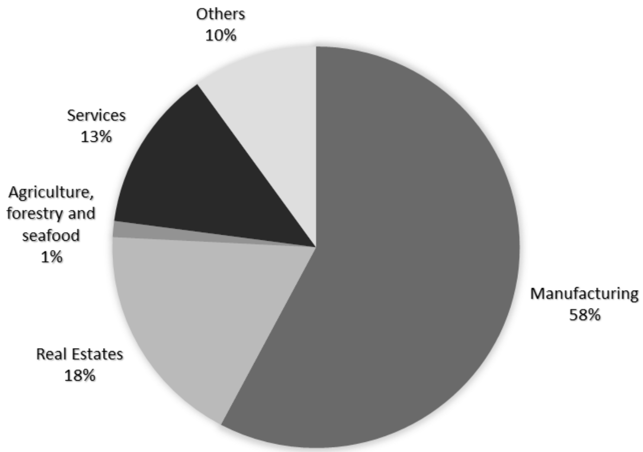
Table 2. FDI in Vietnam in the period 2003–2015

Year	FDI inflows (USD million)	FDI inward stock (USD million)	FDI inflows as a percentage of gross fixed capital formation (%)	FDI inward stock as a percentage of gross domestic product (%)	Value of announced greenfield FDI projects, by destination (USD million)
2003	1,450.0	18,880.3	11.0	47.7	10,329
2004	1,610.0	20,490.3	10.4	41.4	8,588
2005	1,954.0	22,444.3	10.8	38.9	12,086
2006	2,400.0	24,844.3	11.5	37.4	14,581
2007	6,981.0	31,825.3	25.7	41.1	38,678
2008	9,579.0	41,404.3	30.6	42.1	57,416
2009	7,600.0	49,004.3	22.1	48.2	34,537
2010	8,000.0	57,004.3	21.7	50.5	20,461
2011	7,519.0	64,523.3	20.8	47.9	9,231
2012	8,368.0	72,891.3	22.2	46.9	6,192
2013	8,900.0	81,791.3	22.1	48.0	21,195
2014	9,200.0	90,991.3	21.0	48.9	23,399
2015	11,800.0	102,791.3	25.5	53.7	21,455

Source: own calculations based on UNCTAD data.

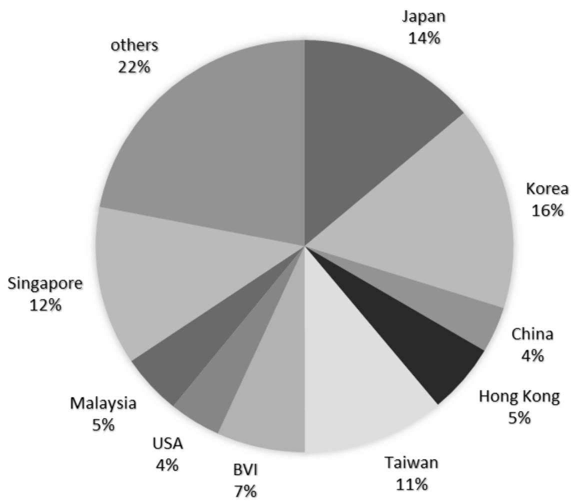
Regarding to FDI by sectors, most FDI in Vietnam has gone to labor intensive manufacturing, accounting for 58% of all FDI inflows in the period 2003–2015. As a result, Vietnam has emerged as global manufacturing and assembly hub, integrated in global supply chains. Most investment are focused on light industries such as computers, mobile phones and electronics. Especially, an increasing number of high technology through nations companies (TNCs) such as Samsung, Intel, Microsoft, Rockwell Automation, LG etc. has invested and decided to expand operation in Vietnam (only Samsung has pledged more than 12 billion USD of up to the end of 2015, with 3 projects in Bac Ninh, Thai Nguyen and Ho Chi Minh city).

Figure 3. Foreign direct investment (inflows) in Vietnam in 2003–2015
by economic activity of the direct investment enterprises



Source: General Statistic Office of Vietnam.

Figure 4. Foreign direct investment (inflows) into Vietnam in 2003–2015
by the biggest investors



Source: General Statistic Office of Vietnam.

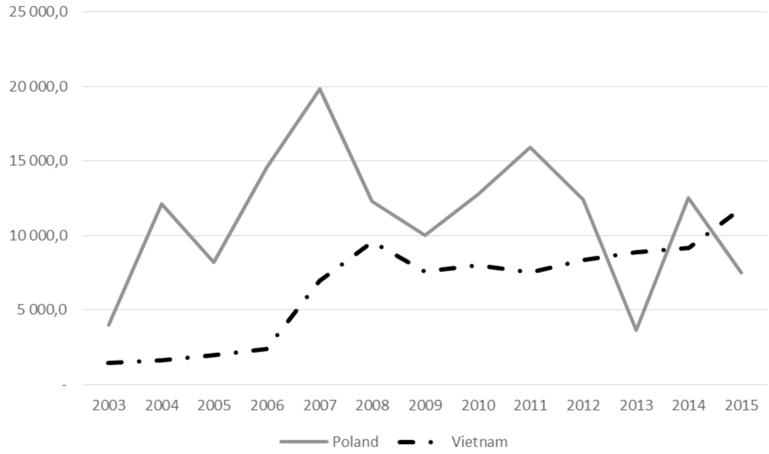
Regarding to FDI by sources, it is clear that regional investors are most active in Vietnam. Despite Vietnam is the host country for more than 110 countries and territories worldwide, the majority of FDI in Vietnam come from East Asia, in which Korea, Japan, China, Hong Kong and Taiwan accounting for half of total FDI inflows. ASEAN countries constituted around 20% of the FDI inflows, in which Singapore (12%) and Malaysia (5%) are the two most active investors. However, FDI from the United States and Europe only comprised less than 10% of the total FDI inflows. Notably, in the last three years (2013–2015), Korean investors was the most active one in Vietnam with 7.7 billion USD registered in 2014 and 6.98 billion USD registered in 2015, accounting for 35.1% and 28.9% of the total committed FDI respectively. The gradually movement from investors from China, Taiwan, Malaysia in the "bubble period" 2008–2011 to investors from Korea, Japan, Hong Kong and Singapore in the period 2012–2015 was an encouraging sign, which puts Vietnam to a higher level of the global value chains.

3. FDI in Poland and Vietnam: comparisons analysis

For many developing economies, FDI is seen as a way to promote economic growth and industrial development. Poland and Vietnam are examples of a country's that has been very successful in attracting FDI, and this appears to have propelled a lot of the country's recent economic growth. The positive impact of foreign direct Investment (FDI) on transition economies has been widely acknowledged (Lankes, Venables, 1996; Bevan, Estrin, 2000; Resmini, 2000; Kinoshita, Campos, 2001). First, FDI is an important source of financing for transition economies as it helps to cover the current account deficit, fiscal deficit (in case of privatisation-related FDI), and supplements inadequate domestic resources to finance both ownership change and capital formation. Second, compared with other financing options FDI also facilitates transfer of technology, know-how and skills, and helps local enterprises to expand into foreign markets.

Starting from a difficult position in the early 1990's, Poland's economy grew strongly during the second half of the decade. Similar FDI inflows into Vietnam since 1988 have been regarded as a very impressive phenomenon of the economic transition from a centrally planned economy to a market oriented economy (Kokko et al., 2003). The biggest changes in FDI inflow in both countries we can observe after access to member-driven organizations composed of governments and customs territories, its mean Poland's accession to the European Union (2004) and Vietnam's accession to the WTO (2007).

Figure 5. FDI inflows for Poland and Vietnam in period 2003–2015 (in USD millions)

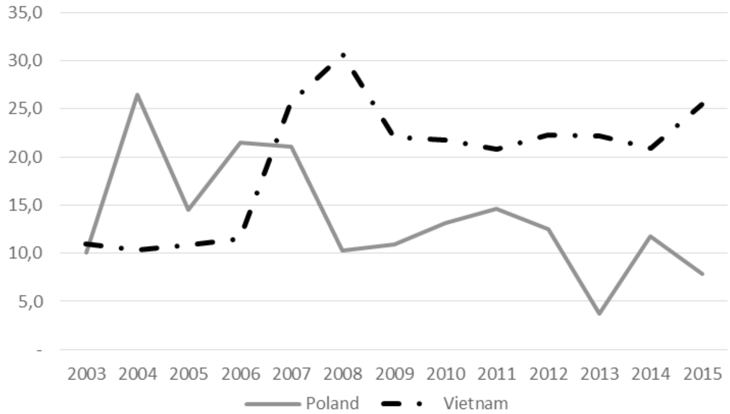


Source: own calculations based on UNCTAD data.

Figure 5 shows inflows (received) of FDI as a percentage of gross fixed capital formation for Poland and Vietnam. Throughout the transition region, foreign capital has been an important supplement to domestic savings, and thus has greatly contributed to financial accumulation during the past twenty years. In the transition region, the ratio of FDI to gross fixed capital formation has tended to be higher than the world average and has increased over time (Kalotay, 2010, pp. 61–62).

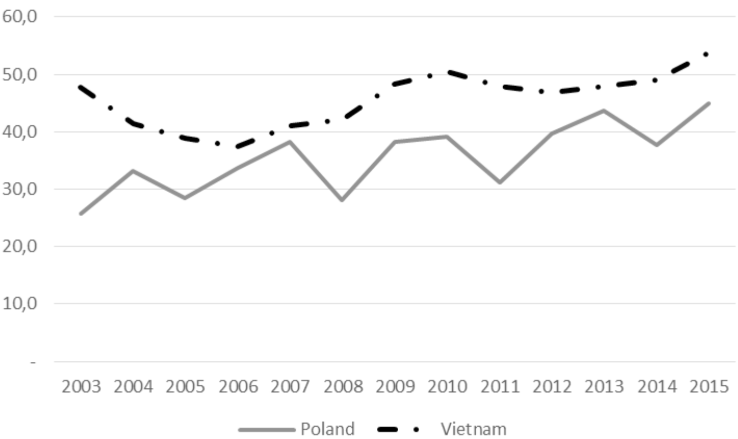
Recent data suggest that FDI has contributed quite substantially to gross fixed capital formation in Poland and Vietnam from 2003 onwards. During the 2003–2015 period, the ratio of FDI to gross fixed capital formation has been, on average, 13% for Poland and 19% for Vietnam. It is obvious that FDI has played a more important role in Vietnam than in Poland. It is caused not only by the lower national savings and investment in Vietnam but also by the higher pace of integration in the South East Asia.

Figure 6. FDI inflows as a percentage of gross fixed capital formation for Poland and Vietnam in the period 2003–2015 (%)



Source: own calculations based on UNCTAD data.

Figure 7. FDI inward stock as a percentage of gross domestic product for Poland and Vietnam in the period 2003–2015 (%)



Source: own calculations based on UNCTAD data.

The stock of inward FDI as a percentage of GDP is considered an indicator of foreign capital penetration in an economy. Similarly to the previous indicator, in period 2003–2015 foreign capital as a share of GDP played a more important relative role, on average, in Vietnam than in Poland (see Figure 7). The inward FDI stock represented, on average, 45% of GDP for Vietnam, in comparison to the average of 35% of GDP for Poland.

Based on the analysis we can show similarities and differences for FDI in Poland and Vietnam.

3.1. Similarities

Poland and Vietnam are the two success stories in Europe and Asia in terms of attracting FDI flows. Up to the end of 2015, Poland and Vietnam ranked 23rd and 45th worldwide respectively in terms of FDI stock (UNCTAD, 2016). Before 2000, FDI flows in the two countries were negligible. However, since early 2000s, with the accession of Poland to the EU (2004) and Vietnam to the World Trade Organization (2007), the FDI flows in the two countries experienced great improvements. Both Poland and Vietnam has a number of governmental programs to stimulate investment to targeted sectors. In Poland: The Energy Policy of Poland until 2030, the Electrical Power Sector Program, the Policy of the Government of the Republic of Poland with respect to the Oil Industry in Poland, and Coal Mining Activities in Poland 2007–2015. Large investment in priority sectors may qualify for the government's "Program for the support of investment of considerable importance for the Polish economy for 2011–2020" offers grant support to large investment that create jobs in priority sectors, including automotive, electronics, aviation, biotechnology, and modern services (finance, information and communication, professional business services). The program also supports research and development (R&D). In Vietnam, the government has had many efforts regarding to key legal reforms to promote business climate. Particularly, in December 2014, Vietnam imposed a new investment Law with breakthrough changes aimed at improving the investment environment. Previously, Vietnam used a "positive list" approach, meaning that foreign businesses were only allowed to operate in a list of specific sectors outlined by law. Fully in forced in July 2015, Vietnam implemented a "negative list" approach, meaning that foreign businesses can operate in all areas except for six prohibited sectors. Besides the new Investment Law, Vietnam government has offered many incentives to foreign investors, especially in sectors that bring advanced technology, increase the labor market skillset, and improve Vietnam's labor productivity.

FDI plays an important role in both the two economies. In Vietnam, by the end of 2015, foreign invested enterprises' contribution to GDP increased to 18% from 13% in 2000. FDI sectors created 3.9 million jobs, or 7% of the labor force. FDI enterprises are the main engine for trade performance, contributing 70.5% and 58.7% of Vietnam's total export and import respectively. In Poland, FDI sectors also contributed two-fifths of the output and two-thirds of Poland's total export (end of 2015). Furthermore, FDI flows has had a positive effect on labor market: created 1.75 million jobs (end of 2014), contributed 8.5% to increase in employment, 8.9% to increase in wages, reduced income inequality by about 5% (end of 2015) (own calculations based on UNCTAD data).

3.2. Differences

Poland and Vietnam have some similarities such as high economic growth during the last decade, cheap labor cost and strategic location. These are favorable conditions for attracting FDI. However, there have been some differences between FDI flows in the two countries. Related to FDI by sectors, Vietnam is far more concentrate in attracting FDI in manufacturing, with 57% of total FDI inflows, compared with 26% in Poland in period of time 2003–2015. Most of FDI flows to Poland are in services sector, constituting around 70% of total FDI flows in the period 2003–2015. Whereas, thanks to an increasing share in Vietnamese's total FDI, manufacturing has become the main engine for economic development, especially in trade performance and creating new jobs.

Related to FDI by sources, Vietnam is slightly more diversify than Poland. In the period 2003–2015, TOP 5 investors in Poland comprised for 69 percent of total FDI inflows. Where, the appropriate number for Vietnam was 57 percent. The majority of FDI in Poland comes from the EU, accounting for 80 percent. For Vietnam, FDI from Asian countries comprised for nearly 68% of total FDI inflows. By the end of 2014, Vietnam is the destination for investors from 110 economies and territories, compared with 125 in Poland (own calculations based on NBP and General Statistic Office of Vietnam data).

Conclusions

FDI in Poland and Vietnam have gone through various phases. In term of investment attractiveness, by the end of 2015, Poland and Vietnam are ranked 23rd and 45th worldwide respectively. Poland is stood at 14th of FDI stock recipient in Europe compared with 11th position of Vietnam in Asia. With the active integration of Poland and Vietnam in the world's economy, FDI sector has played an increasing important role for economic development in the two countries. In Vietnam, labor-intensive manufacturing has been the leading sector; whereas in Poland, though manufacturing is still an important engine, FDI has shifted to a higher level, mostly focused on hi-tech services such as information and communication, financial and insurance activities.

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BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE W POLSCE I WIETNAMIE: PODOBIEŃSTWA I RÓŻNICE

Streszczenie

Bezpośrednie inwestycje zagraniczne, biorąc pod uwagę ostatnie lata, są kluczowym czynnikiem rozwoju gospodarczego zarówno w Polsce, jak i w Wietnamie. Pod koniec 2015 roku BIZ w Wietnamie stanowiły 25% wszystkich inwestycji, oraz 14,46% dochodów państwa, przy łącznych BIZ wynoszących prawie 103,8 mld USD. W Polsce, według World Investment Report 2016, nastąpił spadek BIZ o 40% (7,5 mld USD w roku 2015) po wejściu do 20 najważniejszych, pod względem napływu BIZ w 2014 roku, państw. Napływ BIZ do Polski odzwierciedla sytuację międzynarodową na rynku BIZ, a także spowolnienia gospodarczego w UE po kryzysie w strefie euro w latach 2012–2013. Celem niniejszego artykułu jest analiza głównych cech BIZ w Polsce i Wietnamie w okresie 2003–2015, a także charakterystyka podobieństw i różnic przepływu BIZ w obu krajach.

Translated by Małgorzata Guzowska

Słowa kluczowe: BIZ, Polska, Wietnam

JEL codes: F02, F15, F21