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DIRECTIONS OF THE CHANGES OF FOREIGN DIRECT INVESTMENTS IN POLAND IN THE CONTEXT OF ACCESSION TO THE EUROPEAN UNION. THE ANALYSIS OF SELECTED ASPECTS

Abstract: Foreign direct investments (FDI) are an essential part of the modern international movement of production factors. Relatively large scale of this phenomenon is the evidence of this fact. Although FDI flow to all continents, their volume is very varied. Generally speaking, the biggest amount of FDI was located in highly developed European (Great Britain, Germany, France) and North American countries. A significant part of the investment also went to Asian countries (especially to Japan and China). FDI spared areas were generally weak; that particularly concerned Africa.

An important issue connected with FDI is the consequences which appear in reference to their flow. They may be positive and negative both for the countries investing capital abroad, as well as for the countries to which it flows. To the main benefits, but also to the threats, we can include, in general, the influence of FDI on: balance of payments, employment, markets, factors of production resources, gross national product,

infrastructure, technology, competitiveness, state budget and development of the regions.

It should be emphasized, that Polish accession to the EU took place in the period of dynamic influx of private capital in the form of portfolio and direct investments, which was connected with, inter alia, the increase of the level of credibility of this country on the international stage. An important role in the location of FDI was played by transparent and predictable investment conditions which are the result of integration with European Single Market.

In the post-accession period, the inflow of foreign direct investments to Poland had its source in the reinvested profits of the enterprises of direct investing, contracted foreign loans, real estate acquisitions and re-export capital.

The importance of foreign direct investment for the growth of competitiveness of the Polish economy on the national and regional level is particularly important. Foreign capital largely complements the deficiency of capital of Polish economy and promotes the growth of its efficiency and competitiveness. Polish membership in the EU and its integration into the global economy play an important role in attracting foreign direct investment, but also make Poland heavily dependent on the situation on global markets and decisions taken outside the country.

The aim of the following article is the attempt to define the directions of the changes of foreign direct investments in the context of the accession of Poland to the EU and its consequences.

Particular attention was paid to the period between 2004 and 2015 analysing the level and structure of capital, country of its origin and Polish Classification of Activities (PKD) in which this capital was located.

Keywords: Foreign direct investments, capital, region, development, economy.

JEL Classification: F41

1. The criteria of the assessment of foreign direct investments

According to the eclectic theory of foreign direct investments (FDI), investing outside the country is determined by the occurrence of three advantages: the ownership advantage, the location advantage and the internalization advantage.

The benefits of an enterprise connected with the ownership advantage (such as possession of proprietary technology) may - if they are used optimally - compensate additional cost of building manufacturing equipment in a foreign environment, and they also may balance less favourable position of the company in relation to local businesses (Ślusarczyk, Halicki, 2013, p. 287-290).

The location advantage is a consequence of the use of specific conditions outside the country by an enterprise; for example, this may be a large market or low costs of resources.

Finally, an enterprise may obtain bigger benefits from the use of the first and the second advantage through internalization. This can occur for various reasons. First of all - markets of asset and factors necessary for production (technology, knowledge or management) may be imperfect and working on them can entail significant costs or delay. As a result of internalization, companies may obtain better use of assets they dispose of. Secondly - the maintenance of exclusive rights to assets (e.g. knowledge), which increases significantly company's competitive advantages (e.g. monopoly rents), may be in the interest of the company. In such situation, instead of selling the license abroad, companies prefer making direct investments.

It should be emphasized that the first and the third advantage is connected with an enterprise, its strategy, resources and potential. These advantages decide on making foreign direct investments at all. Location advantage directs these investments to a particular country. If only the first condition was fulfilled, the enterprises would use export, license or sale of patents in order to handle foreign market. Among the three advantages which determine the implementation of FDI, governments of countries which receive them can affect directly only the determinants of location.

In order to explain the differences in the influx of FDI to individual countries and in the ability to formulate policy which aims at attracting such investments, it is necessary to understand how TNS[1] select the location of an investment. Such need became more obvious over the course of the intensification of the debate and the negotiations on an international framework governing the placement of investment in the bilateral, regional or multilateral terms. Over the course of the creation of this kind of international framework for investment, questions have been asked: whether, why and how the international agreements in terms of investments affect the location of FDI and operations of TNS. Especially basic seems to be the question (which reminds the one which had to be answered by the creators of the post-war multilateral trading system), what effect the multilateral frameworks of investment regulation may have on the growth and structure of FDI (if such effect even exists).

The movements of capital internationally are an inseparable part of shaping modern world economy. They stimulate the economic growth and prevent short-term economic difficulties of many countries. The forms of international connections are much diversified - apart from the

[1] Companies operating in several countries are called transnational corporations.

trade exchange among the operators of world economy, the investment and production cooperation is developing dynamically. The movement of production factors, especially capital, increases quickly. These trends intensified after the World War II, reaching a record-high dynamics in the last two decades.

International movement of capital is possible in a situation when there are countries which produce more than they consume, which means that they have a surplus of capital in relation to the current needs of the national economy. These are mainly developed countries. Much more numerous, however, is a group of countries that do not have sufficient capital. In order to grow, they must therefore carry out its policy of attraction.

International capital flows are understood as all movements of capital, whose statistical reflection is found in the balance of economic activity abroad and recognized in the balance of payments of the country. The literature distinguishes many forms of international capital flows and various methods of classification. Taking into account the period of time, during which the import or export of capital takes place, the movements of capital are divided into short-term (when the repayment period of exported or imported capital does not exceed one year) and long-term (accordingly, over a year). Because of the origin of exported capital, capital from private and public sources may be distinguished. Whereas, while making the classification of international capital flows according to their form, we can distinguish deposits in the currency market, trade credits, financial credits, portfolio investments and direct investments (Mirecka, 2012, p.105-110).

FDI are an effect of the movement of economic activity outside the home country. Attempts to clarify the sources of FDI have pointed out that this phenomenon has a complex ground and it has become the subject of not only strictly economic analyses (focused on the processes taking place in an enterprise, economic situation of the importer and exporter of FDI or phenomena of technology development), but also geographic and sociologic analyses. The wide range of processes connected with foreign investments forced the researchers to use both the theory of foreign trade and the theory of location, which resulted, in the end, in a separate group of theories regarding FDI (Rzepka, Ślusarczyk, 2016, p. 39-45).

Theories of FDI, formulated over the years, tried, most importantly, to answer the questions: Which conditions must occur for the FDI to happen? Why are foreign investors able to compete with local companies? Why do they choose a given country as a place of investment location? The attempts of theoretical research are reflected in the development of various hypotheses.

With regard to the reasons for FDI, one can point to four main groups of phenomena, which are recognized in the formulated hypotheses as fac-

tors causing their occurrence. These are: market imbalance, distortion imposed by the government, imperfect market structure and market failure[43].

To the most popular theories explaining the capital flows in the form of FDI, one can include:

a) the theory of monopolistic advantage,
b) the theory of international product life cycle,
c) the theory of location,
d) the theory of internalisation,
e) the eclectic theory of international production.

According to the UNCTAD classification, factors determining the potential of the economy of the host country of FDI can be divided into six categories: market size, economic stability and prospects for economic growth, trade openness, infrastructural facilities, labour costs and gross investments.

Market size is an indisputable factor which affects FDI attracting; the biggest world economies attract the most FDI each year. In 2010, a total of 47% of all FDI arrived to 10 biggest economies, American and Chinese economy in particular. However, in case of the economies of developing countries and countries which are going through the process of transformation, even more important factor than the size of the market for investors is the potential growth of the market.

Greater market growth indicates a potentially bigger market and better prospects. FDI usually flow to countries with larger markets and higher rates of economic growth, because in such countries one can count on bigger benefits of scale thanks to FDI. More FDI will move to a country which has a stable macro-economic position and high and balanced rate of economic growth than to a country of variable economic condition.

In the analysis of the position of the economies, the rates of GPD growth, industrial production index, interest and inflation rates are taken into account most often. Thus it is possible to propose a thesis that a stable macro-economic situation of a country and high and balanced rates of growth attract more FDI to the economy of a host country (Sowa, 2003, p. 414-421).

Expectations towards the economic growth based on the prospects of the increase of the number of population and income in emerging economies are a chance for the investors for gaining potentially high income from the investments. This thesis is confirmed by the boom in terms of FDI influx to the world's top emerging economies.

Another factor defining the potential of an economy of FDI host country is the degree of openness of the economy. Export and import are of complementary nature to the FDI. International corporations usually invest in trading partners' markets, because of their good acquaintance. The

majority of enterprises, where FDI was located, is orientated on export and often performs the import of complementary, indirect and capital goods. This affects the increase in foreign trade turnover (Rzepka 2015, p.121-132).

Trade openness is a positive and a significant factor which attracts FDI. It is measured by an index: (export + import) / GPD (Starzyk 2009, p. 99-102). The more liberal the trade policy of a country is and the more amenities are offered to the investors, the bigger the influx of FDI to the country is.

Moreover, a well-organized and modern infrastructure also indicates the potential and the condition of the economy of a given country. It is a basis which promotes investments and which stimulates bigger inflow of FDI. The labour costs, which are lower than in an investor's country, are a very important element which attracts FDI to the host country. Higher labour costs increase the cost of production, which promotes the influx of FDI to countries with lower labour costs - labour costs are measured using the ratio of wages.

The level of gross investment is also an evidence of the economy's strength. The higher the level of gross investment is, the bigger the economic growth which can be achieved. This is due to the fact that investments bring improvements to widely understood investment climate, which in turn helps to attract more FDI.

The potential of the FDI host country is largely influenced by the investment climate present there, which is understood as a set of business regulations and a support for government and non-government institutions, including a system of investment stimulants. The quality of investment climate affects the benefits from the spillover effects, which occur thanks to FDI. Research shows that in the countries with low level of legal regulations towards the foreign investors and insufficient processes supporting the activities of foreign enterprises, the number of new investment projects and the size of FDI inflow are relatively low (Sowa, 2003, p.118-127).

Significant, from the point of view of attracting FDI for the host economy, is the fact, that certain factors, e.g. the size of the market or the availability of natural resources cannot be easily changed by the appropriate state policy. On the other hand, the other factors such as human capital, quality of infrastructure, economic and political stabilization, can be affected by the state, but only in the medium or long period of time. Whereas, the elements of the investment climate (inter alia: transparency of the regulations and the quality of legal rules, bureaucracy) may be changed by the government in the short period of time, at relatively low workload and capital. Positive transformations in this range may consequently create a perfect opportunity to increase the potential of economy

of FDI host country and enable benefits both in the short and long-term perspective.

2. Changes in the volume of foreign direct investment

Since the beginning of economic transformation in Poland, it was actively sought to bring in foreign investment. To achieve this goal, a number of institutional and legal solutions were introduced.

In 1991 Polish Information Agency was founded, caring about the image of Poland as an attractive place for investments; a year later the State Agency for Foreign Investment was created, which was supposed to support the economic growth through the acquisition of investment projects. In 2003 these two institutions were connected into Polish Agency for Information and Foreign Investment Ltd.

Some legal solutions which facilitate cooperation with foreign countries were also introduced. Business activity act[2] with foreign operators' participation, which exempted a company with foreign capital from income tax for a period of three years from the start of business, was adopted on December 23rd, 1988. In addition, an exemption from import duties and other charges with similar consequences were introduced. The above tax benefits were maintained in the Law of June 14th, 1991 on companies with foreign capital participation[3].

Moreover, foreign investors were offered broad public support, inter alia, through the creation of special economic zones (SEZ). The first step to their implementation was the adoption of an Act on special economic zones[4] on October 20th, 1994, which defined the conditions of their establishment and the criteria of the access to the public support for the entrepreneurs. The first zone emerged a year later in Mielec on the area which belonged to Wytwórnia Sprzętu Komunikacyjnego PZL-Mielec.

Until 1998, the Council of Ministers established 17 economic zones, and as a result of successive transformations their number stabilized at 14 in 2001[1]. The entrepreneurs acting in the zones received a public support in the form of the exemptions from income taxes and property tax and other privileges, including free access to administrative assistance (Ministry of Economy, 2015, p. 29).

The total value of the exemptions from income taxes in the period of 1998-2015 amounted to over PLN17.9 billion (Polish National Bank, 2016, p. 3).

Although SEZ were open to the investments regardless to the country of origin of the investor's capital, they were dominated by foreign capital.

[2] Dz. U. z 1988 r., Nr 41, poz. 324. (Journal of Laws from 1988, No. 41, item 324).
[3] Dz. U. z 1991 r., Nr 60, poz. 253. (Journal of Laws from 1991, No. 60, item 253).
[4] Dz. U. z 1994 r., Nr 123, poz. 600. (Journal of Laws from 1994, No. 123, item 600).

According to the Ministry of Economy at the end of December 2015 the cumulative value of investments in SEZ amounted to nearly PLN111.7 billion, of which the Polish investment accounted to only approx. 19.8%. Among other countries, the investments of the highest value came from: Germany -18.9%, the United States of America - 12.1%, the Netherlands - 10.3%, Japan - 6.9% and Italy - 6.8% (Ministry of Economy, 2016, p. 30 and next).

Special Economic Zones were supposed to operate as a short-term instrument for attracting foreign investments directly after the transition. Despite the widespread criticism of these institutions, indicating the low impact of tax relief on equal development opportunities of individual regions of Poland and high costs of their operating and the lack of reliable evaluation of the profitability of SEZ, the Council of Ministers decided in 2013 to extend the activity of SEZ until 2026.

Institutional conditions and financial reliefs created by Poland translated into state rapid growth of the value of Foreign Direct Investments (FDI), defined by OECD as the investments of an essential level of capital commitment made with a view to a long-term control of the company. FDI took the form of enterprises created from the scratch ("greenfield") or emerged through the purchase of minimum 10% of the shares of an existing company (Kuzińska, 2013, p.147).

The value of FDI (net inflow) as the percent of gross domestic product was increasing from the beginning of the transformation up until 2000 when it exceeded 5% of GDP (Figure 1). Over the next three years the inflow was less intense; however, in 2004 with the Polish accession to the European Union, their value again exceeded 5% of GDP. The apogee was in the years 2006-2007, when the value of FDI amounted to over 6% of GDP. In 2013 net inflow dropped to zero.

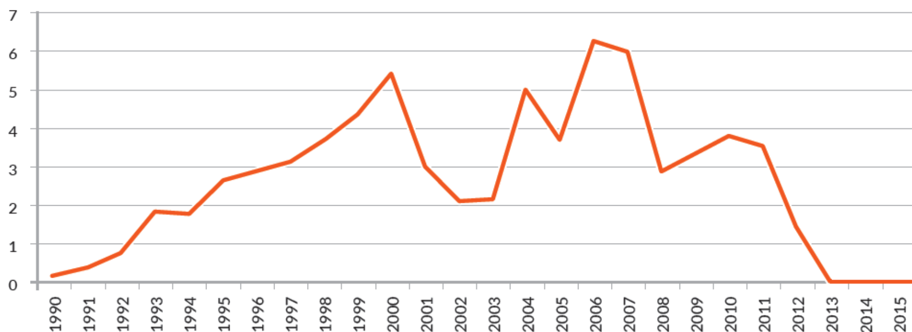

Figure 1. The inflow of FDI to Poland as% of GPD
Source: Ministry of Economy of Poland

The smaller value of the inflow of direct investments to Poland was also affected by capital in transit[5], the significant outflow of which - amounting to 27.6 billion - was recorded in 2013. This type of capital flows does not have significant impact on job creation and is often speculative in nature. The biggest outflow of capital from foreign direct investment in 2013 was recorded in the financial and insurance sector, and it amounted to €21.7 billion euro. In the same year net liabilities related of Poland connected with FDI amounted to €160 billion, most of which (€125 billion) were liabilities arising from the capital share and reinvested earnings.

3. The inflow of foreign direct investments to Poland in comparison to the world and the region

In 2015 the balance of transactions due to foreign direct investment in Poland amounted to PLN50.8 billion and was higher by PLN13.2 billion than in 2014. This was largely due to the fact that 2014 was characterized by extremely low level of capital inflows from foreign direct investment to Poland. See Figure 2.

It seems that after the reductions in 2012 and 2013, 2015 was a return to the structure of the inflow of foreign direct investments to Poland, observed before 2012.

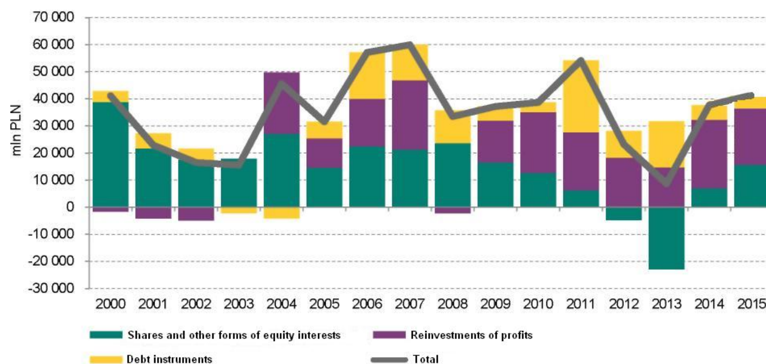

Figure 2. FDI transactions in Poland in 2000-2015

Source: Compiled by the authors based at data of Ministry of Economy of Poland

Comparative analysis of statistical data on direct investment for longer period than one year is difficult due to the introduction of the enlarged directional principle as a new method of presentation of these data since 2013. The difficulties arise from the fact that not all the countries publish

[5] Capital in transit refers to the foreign resources, whose inflow is recorded in the reference period and which are then invested further outside Poland's borders.

current data in accordance with the new standard, and obtaining adequate data from previous years is even more difficult. In order to compare the inflow of the capital in terms of direct investments to Poland with the inflow to other, new European Union member states, a category of net capital inflow due to direct investments was used, in other words foreign direct investments in Poland (or accordingly in other country), decreased by Polish (or other country's) direct investments abroad.

Using the data presented in the balance of payments, net capital inflows of direct investment can also be calculated as net liabilities of the direct investment reduced by their assets. The advantage of the presentation of net investments is the fact that there is no need to exclude transactions of special purpose entities from the data. Even if they occurred, they were taken into account both in assets and in liabilities, so as a result their net effect was nil.

In 2015 the inflow of net direct investments amounted to €8.2 billion, which is PLN34.3 billion. The share of Poland in the inflow of net direct investments to new member states came back to the level recorded in the previous periods of time (2014). It amounted 30.1% and it was higher than in the previous years (2012-2013).

Analysing data for the years 2010-2015 (Figure 3), it is worth paying attention to the fact that in case of Poland and some other countries (e.g. Romania), a positive inflow of net capital in all the analyzed periods of time was recorded. On the other hand, the values of inflow of this capital to Hungary, the Czech Republic and Slovakia presented a bigger variability in those years, even assuming negative values in times of global economic turmoil.

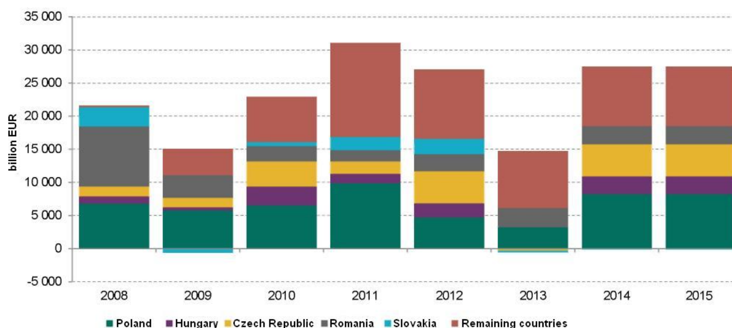

Figure 3. Net FDI in selected countries
Source: Compiled by the authors based at data of Ministry of Economy of Poland

A significant share of Poland in net direct investment inflow to new EU member states is a result - in large part - of the fact that Poland has the biggest economy among the newly admitted EU countries. Apart from

that, the reinvestments of the profits, which are a stable element of capital inflow, are the basic component of the net capital inflow from direct investments. In smaller countries, the key role is played by the transactions in shares and in other forms of equity interests and transactions in debt instruments, the value of which is more variable in time.

The value of the transaction in respect of foreign direct investment in Poland consisted of: positive inflow of capital from shares and other forms of equity interests (PLN6.9 billion), reinvestments of profits of PLN25.3 billion and slightly lower than in 2013 balance of transactions in debt instruments (PLN5.5 billion). As a result, the inflow of net capital from foreign direct investments to Poland in 2015 reached the level from the years 2008-2010, however, it was much lower than the record amounts of inflows observed in previous periods.

The relatively high volatility of the value of transactions in respect of FDI in Poland in certain years resulted from the separate transactions of relatively large values occurring during certain periods of time.

The level of the value of transactions in the respect of foreign direct investments in Poland in 2015 was affected by the conditions of economic environment, in which these investments were realized, in particular:

a) little stable condition of the world economy, which consisted of, inter alia: risks connected with economic situation in Greece, the slowdown of economic growth in China and economic sanctions on Russia; these reasons caused the fact that some foreign investors saw the new EU member states, including Poland, as a safe place to invest capital in the form of direct investment;

b) announced changes in the international regulations, renegotiations of agreements on avoidance of double taxation, planned sealing of tax systems, which also fit into the conducted internationally work in the framework of project BEPS[7], which will affect the taxation of international capital groups, and now it indirectly directs decisions on organizational changes within these groups.

4. The inflow of FDI by country of origin of capital

The geographical structure of the transaction in respect of foreign direct investment in Poland in 2015 was different from the structure in 2014. At that time the largest direct investor was the United Kingdom (€14.9 billion), followed by Germany (€8.5 billion) and Austria (€3.3 billion). Luxemburg, which occupied the top place in 2015 in the inflow of direct investments to Poland, in 2014 it was placed among the biggest operators withdrawing the capital, the amount of divestments (net capital withdrawal) of PLN - 8.4 billion (see Figure 4). Such variability in the structure of inflow of FDI capital to Poland is largely caused by the separate transactions mentioned before, not by permanent trends.

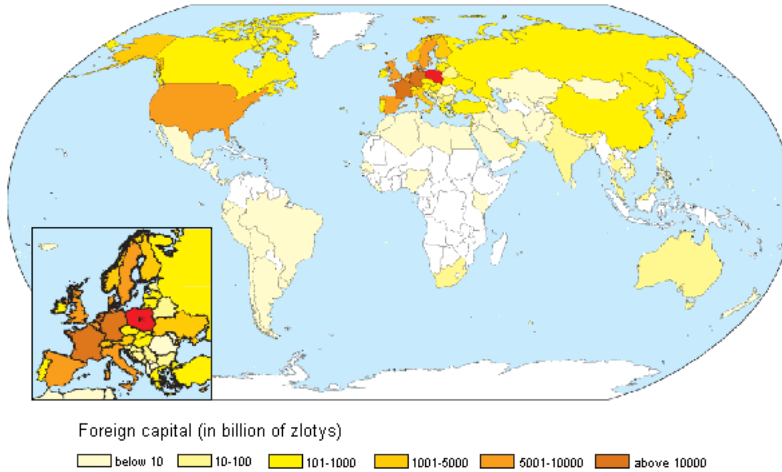

Figure 4. Foreign capital in Poland in 2015 by countries of origin
Source: Compiled by the authors based at data of Ministry of Economy of Poland

The example of Austria, which was a notable net direct investor in Poland in 2014, is a confirmation of this thesis. In 2015 the biggest disinvestments were reported exactly in this country (PLN-3.8 billion) and in Sweden (PLN-3.6 billion). The investors from Austria and Sweden were withdrawing most importantly the resources in the form of shares and other equity liabilities. In both cases we can indicate large, individual transactions responsible for this outflow (see Figure 5).

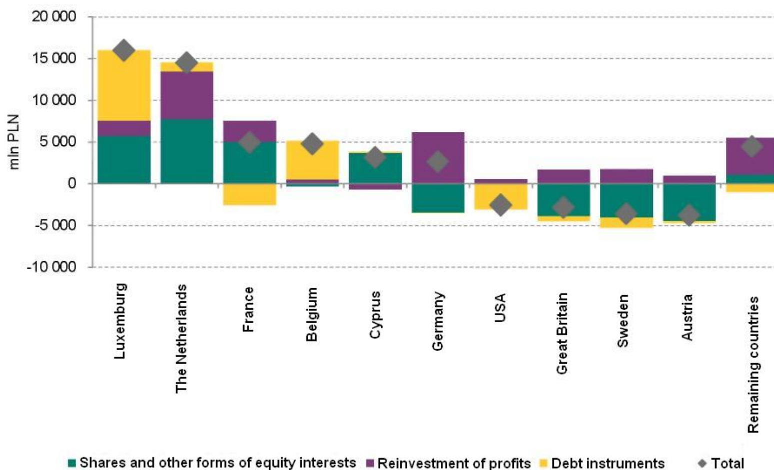

Figure 5. Transactions of foreign direct investments in Poland in 2015 by geography
Source: Compiled by the authors based at data of Ministry of Economy of Poland

Both the geographical directions and the structure of invested and withdrawn capital within direct investments in 2015 indicate the diminishing role of transactions of special purpose entities (former: capital in transit). However, as mentioned before, transactions of such entities, as in the case of Polish direct investments abroad, may still significantly affect the balance of transactions within foreign direct investments in Poland.

In 2015 the biggest inflow of capital from foreign direct investments was concerned with Polish direct investment entities engaged in the processing industry (PLN11.8 billion). Another, important areas of direct investments in Poland include: information and communication (PLN7.1 billion) and professional, scientific and technical businesses (PLN6.9 billion). Significant net disinvestments of PLN1.7 billion were recorded in the mining and extraction industries. These were mainly divestments due to debt instruments and reinvestment of profits, resulting from the repayment of debt and incurred losses - negative reinvestments of profits (PLN -0.3 billion).

At the end of 2015 the Netherlands were the biggest creditor of Poland due to direct investments. Liabilities to direct investors from this country amounted to PLN129.3 billion and accounted for 18.1% of total liabilities. The following places were occupied by Germany (PLN116.6 billion, that is 16.3%), Luxemburg (PLN82.2 billion, that is 11.5%) and France (PLN76.3 billion, that is 10.7%). This geographical structure is almost identical to the year before. See figure 6.

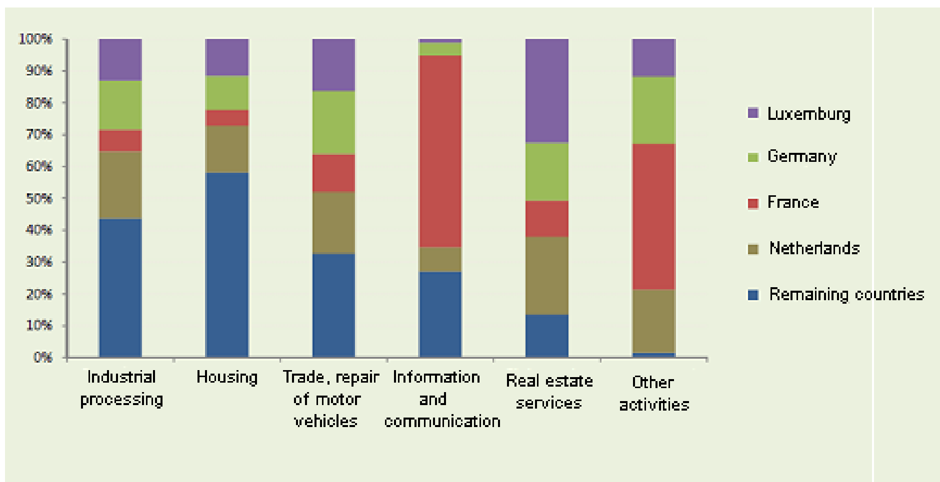

Figure 6. Structure of capital by the country of origin and PKD (standard industrial classification) in 2015
Source: Compiled by the authors based at data of Ministry of Economy of Poland

Just as in previous years, most of the net liabilities arising from direct investments in Poland are commitments to the European Union countries, which at the end of 2015 amounted to PLN712.1 billion and accounted for 92% of all the liabilities. This is mainly the result of the free movement of capital, which is one of the pillars of the European Union. It should be kept in mind that because of the agreement on the avoidance of double taxation, the operators with the headquarters in the Netherlands or Luxemburg are often used in case of the investments from outside the European Union.

The value of the liabilities at the end of 2015 towards the countries bordering Poland (Germany, the Czech Republic, Slovakia, Ukraine, Belarus, the Russian Federation) amounted in total PLN120.4 billion and these were mainly the liabilities towards Germany (PLN116.6 billion).

The liabilities towards the remaining countries bordering Poland, apart from Germany, accounted for about 0.5% of all the liabilities of the residents established in Poland. The biggest part of the liabilities towards the countries bordering Poland (apart from Germany) fell on the Russian Federation (PLN1.4 billion), the Czech Republic (PLN2.6 billion) and Slovakia (PLN0.6 billion).

The liabilities towards Ukraine and Belarus were negative (accordingly: PLN-0.6 billion and PLN-0.2 billion), which means that the direct investment entities with the share of Ukrainian and Belarusian capital, established in Poland, were net creditors of the Ukrainian and Belarusian direct investors. Such situation is usually the effect of accumulated losses in Poland borne by direct investors from these countries or the result of specific forms of capital movement among the direct investors from these countries and the direct investment entities located in Poland, in which they have their shares. See Figure 7 where liabilities arising from foreign direct investment in Poland at the end of 2015 according to the country of origin of the foreign investor are presented.

Low involvement of neighbouring countries in direct investments in Poland could be due to, inter alia, small capital potential of direct investors who have their head offices in these countries. In some cases, an important role is played by the barriers in the movement of capital among the European Union, which Poland is the member of, and the countries which are not the members of this organization.

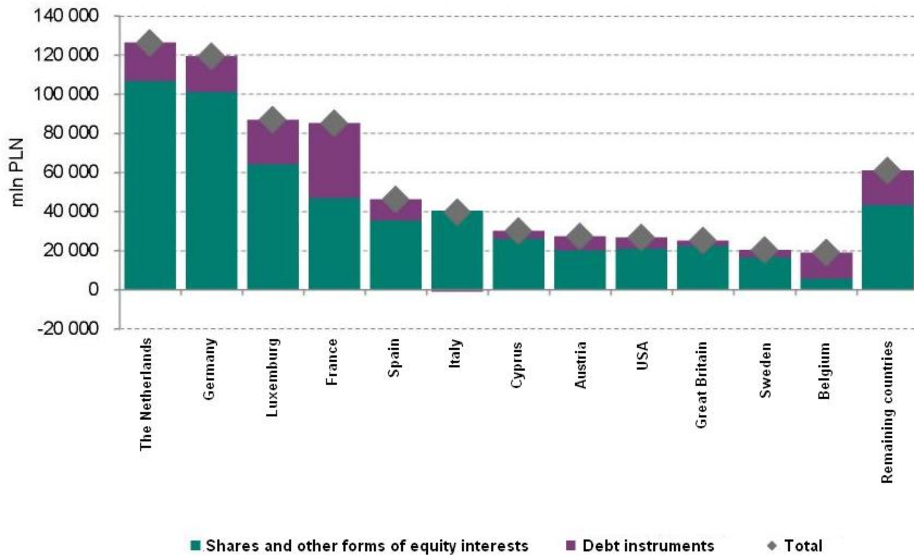

Figure 7. Liabilities arising from foreign direct investment in Poland at the end of 2015 according to the country of origin of the foreign investor
Source: Compiled by the authors based at data of Ministry of Economy of Poland

Conclusion

The expansion of FDI and the emergence of international integrated system of production would not be possible without the liberalization of FDI policy. Changes to the framework of this policy affected the operation of the factors attracting investment by reducing, and even eliminating, the barriers of the access to individual markets for the foreign private capital; in this respect, significant changes occurred in developing countries.

The reasons of attracting foreign capital are associated with the problem of external balances, substitution of import and the influence on the market balance (both in case of capital goods, and consumer and supplying goods).

An important reason for attracting FDI to the economy in the process of market transformation is the intention of development and broadening production and export specialization. Thanks to that, a given country may become more competitive on the international markets. The use of modern technology enables some branches of economy to become innovative. Whereas, the branches of high level of innovation may provide competitive products on the foreign markets. Therefore, the inflow of capital and modern technology to selected businesses may, as a result, lead to the

creation of export specialization in the economy of a given country, which is the source of comparative advantages.

Determinant of the benefits associated with the influx of FDI is the balance of payments. The impact of these investments on the balance of payments in highly developed countries is overwhelmingly positive; inflow of foreign capital on the market of a particular country has a significant impact on overcoming trade barriers. Foreign investors entering the market of the host country retain their existing markets and distribution channels. It is especially important for small economies, which may take advantage of the distribution network and develop export performance. On the other hand, the activity of companies with foreign shares reduces the efficiency of customs and protective policy. Some international enterprises approach the production on the market of a foreign country in order to avoid customs duties during the introduction of the products on the market.

The scale of the economic benefits associated with the influx of FDI, in the long run, is determined by the size and structure of the investments undertaken by operators. The companies with foreign capital shares allocate partially economized income into investments which increase their production and service potential. The growth of the level of foreign investments forces, in turn, the improvement of the national infrastructure, but also the investors themselves contribute to the rise of its level.

Hosts of municipalities also improve the existing infrastructure in order to attract the location to one's ground. Subject investments cause the increase of the capital expenditure which results in increased investment demand, entailing also an increase in consumer demand. Direct investments, which create investment and consumer demand and the rise of economic level, contribute to the growth of budget revenues from taxes of both central (e.g. income tax, VAT) and local (e.g. property tax) origin.

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