

Foreign investors in Małopolska region in 2013

Summary

The main aim of the analysis was to delimit the size and structure of foreign investments undertaken in Małopolska region in 2013. The value of investments and employment for this year were compared to tendencies observed in the flow of FDI to Małopolska in the period of 1989-2013. The volume of investments in 2014 was also estimated. In addition, the innovativeness of firms with foreign capital was analysed. Taking into account the specificity of particular branches and great growth dynamics in recent years, special attention was paid to centres of knowledge intensive services (BPO, SSC and R&D) with foreign capital operating in Małopolska.

In 2013 the cumulative amount of capital invested in the region after 1989 surpassed USD 18 billion: an equivalent of USD 5374.6 per resident of the region. Looking at the activity of foreign investors from the point of view of other indices (based on data collected by the Polish Central Statistical Office – GUS) the importance of Małopolska in this respect in the context of Poland ranges from its 5.6% share in the total number of registered firms to 6.5% in terms employment and 6.8% in terms of share capital. Małopolska is among Polish regions with the greatest dynamics of increase in the number of firms with foreign capital. In 1995-2013 the number of this type of companies in the region increased by nearly four times. In the analyzed period a greater dynamics of increase in the number of firms with foreign capital was observed in only two other Polish regions.

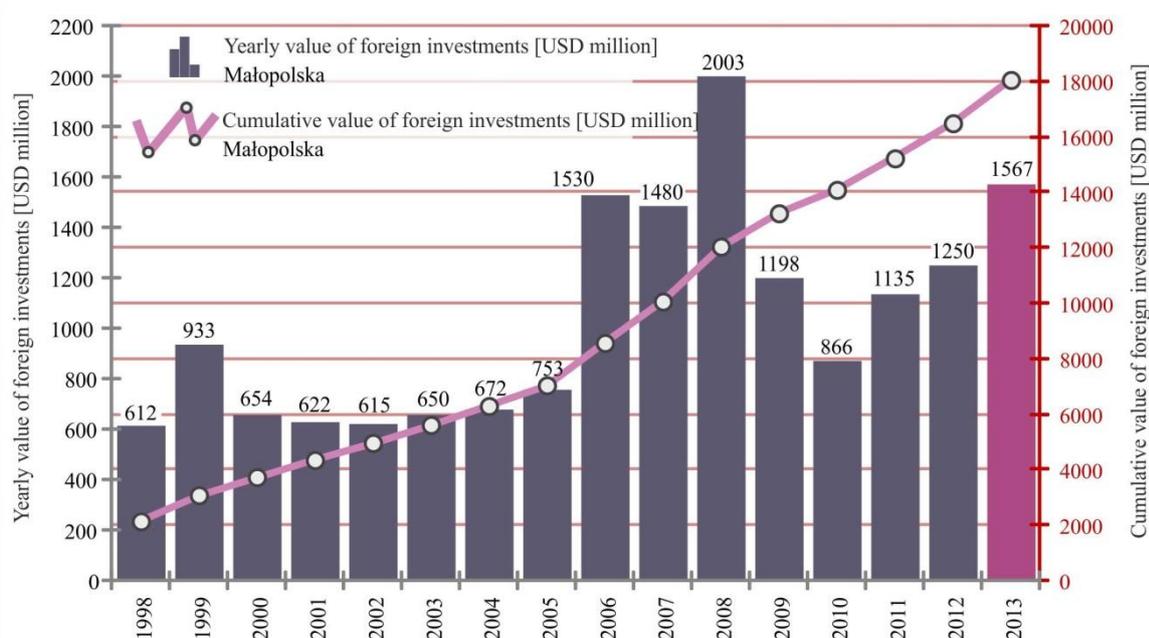


Fig. 1. Value of FDI in Małopolska region in 1998-2013 (yearly and cumulative)

Source: authors' survey

The volume of FDI in 2013 within the area of the region amounted to USD 1 567 million (fig. 1). At the same time, the involvement of investors returned to the highest level of investment observed in 2006-2008, i.e. the period immediately before the global financial crisis. More active involvement of foreign investors in the region in 2013 is also reflected by other data such as the high number of newly registered firms and the high value of the so-called net entrance ratio (i.e. the difference between newly registered firms and firms which have been closed down). High value of investments in Małopolska region in 2013 reflected the general improvement of economic situation in Poland and countries serving as sources of capital, accompanied by greater investment activities.

Size and structure of investments in 2013

Similarly to recent years, greatest amounts were spent on mergers and acquisitions of private firms – 35.4% investments in 2013 (fig. 2). The importance of this type of investment spending confirms the growing maturity of the regional economy. Two significant privatization transactions also contributed to the high level of investments in 2013. The volume of this category of investments (USD 266 million) was particularly large in the analysed year in comparison to the past three years when it never surpassed USD 10 million. Greenfield investments in 2013 were likewise slightly higher than in 2012 amounting to USD 493 million (about 11% more than in 2012). The above sum includes spending linked with greenfield investments initiated in earlier years (USD 154 million). Conversely the reinvestment spending in firms taken over or privatized with foreign capital involvement in 1989-2012 was lower. In total it amounted to USD 265 million, i.e. it was significantly lower than in 2012.

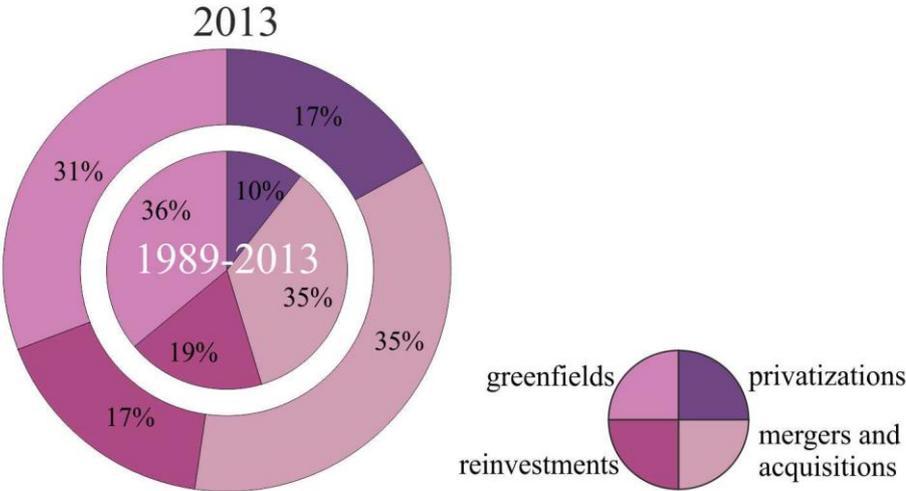


Fig. 2. FDI structure in 1989–2013 and in 2013 according to investment type (in %)

Source: authors’ survey

Foreign investments according to economic sectors and branches

In 2013 slightly over half (54%) of spending was attracted by the service sector, particularly services linked with real estate and retail. As the result of takeovers, taking into account the entire 1989-2013 period, the highest volume of investments was recorded in two service branches: transport and health care. In the industrial sector the majority of FDI pertained to the processing industry. Within it the chemical industry was a branch that was particularly attractive to foreign investors in 2013. Significant inflows of foreign capital were also observed in six other processing branches: food industry, automotive industry, tobacco industry, electric apparatus manufacturing, basic metals manufacturing and drink and beverage industry. If most investments linked with mergers and acquisitions were concentrated in the service sector, reinvestments pertained mainly to the industrial sector. Both sectors are a significant source of greenfield investments as well.

Largest investors

The study identified 108 investors who spent at least USD 1 million in 2013. In this group of investors 31 companies contributed at least USD 10 million, ten of them USD 50 million or more. Investment input was characterised by a high level of concentration. Half of investments pertained to thirteen investors, 23 largest firms were responsible for three fourths of investments.

Greatest sums were spent on taking over existing firms. *Invesco Real Estate* from the United States paid USD 122.4 million for *Galeria Kazimierz*, a shopping centre in Krakow. This transaction made it number one among largest investors in Małopolska region in 2013. *Zakłady Azotowe w Tarnowie* (presently *Grupa Azoty*), a large plant in the chemical sector, was in turn a firm which attracted highest amount of capital. A group of international institutional investors led by the European Bank for Reconstruction and Development (EBRD) spent USD 199.6 million to buy its shares from the State Treasury. The number of shares in *Zakłady Azotowe* owned by the Russian *Acron* also increased (the firm spent USD 100.5 million). Another significant transaction pertained to the *Zakopianka* shopping centre in Krakow bought by the British *Tristan Capital Partners*. *Blackstone* – an American investment firm – purchased another large shopping centre in the region's capital (*Krokus*) for about USD 75 million. The British *Mid Europa Partners* spent USD 82 million to acquire two companies in Małopolska: *Polskie Koleje Linowe* (*Polish Cable Railways*) and *Kolej Gondolowa Jaworzyna Krynicka* (*Jaworzyna Krynicka Cable Car*). Further greater takeovers also pertained to the service sector. The French *Algonquin* became the owner of Sheraton Hotel in Krakow, while the *British United Provident Association (BUPA)* bought *Lux Med* group, a health care firm with a great share of activities taking place in Małopolska. In addition, *Lone*

Star Funds from the United States took over the shares of *Globe Trade Centre*. In total, the above mentioned ten companies were responsible for over half of FDI in Małopolska in 2013.

Largest greenfield investments were made in 2013 by firms owned by foreign retail chains: the French *Auchan* and the Portuguese *Jerónimo Martins*. *Auchan's* investments were linked with one new site – Galeria Bronowice shopping centre in Krakow. *Jerónimo Martins* continued intensive expansion of the *Biedronka* discount grocery chain in the region. In total it was estimated that the two companies spent over USD 130 million in Małopolska in the analyzed year. Another foreign company, the German *T-Mobile* was strongly engaged in spending on the development of telecommunication infrastructure in the region. In the industrial sector the construction of the factory for the French corporation *Somfy* was the largest new undertaking. Another major industrial investment pertained to the liquid gas plant of *Air Products* in Tarnów. Visibly larger sums were also spent by the French *Valeo* corporation on modernisation and development of its branches in Skawina and Chrzanów (ca. USD 40 million). Significant financial means were likewise engaged in the development of the *Royal Canin* production plant in Niepołomice by its French owner. Apart from retail and industry, the largest new FDI in Małopolska pertained to the *Kapelanka 42* office complex in Krakow built by *Skanska* from Sweden.

In terms of financial means devoted to the development or modernization of companies taken over in previous years, largest spending was linked with the activities of investors in the industrial sector. In 2013 the French *EdF* was a leader in this respect, followed by *Philip Morris* from the United States and *Dan Cake* from Denmark (development of a factory in Chrzanów). Despite the fact that the British-Luxembourgian concern *Arcelor Mittal* spent less in 2013 than in previous years, it remained the largest foreign investor in the region in terms of its cumulative spending in the entire 1989-2013 period.

Sources of foreign capital

Looking at the countries of origin of foreign investors who spent at least USD 1 million in Małopolska in 2013, they represented twenty three countries and one international organisation. Four of them (the United States, Great Britain, France and international organizations) were responsible for as much as 67.5% of all FDI in the region. The analysed year however differed significantly from previous years in terms of directions of capital inflow. This was reflected in a much greater engagement of foreign investors from Great Britain, France, international organizations and Russia and a less significant role of German investors. French capital invested greatest amounts in *greenfields*. Apart from more active engagement of Russian capital, in the past two years the flow of capital to Małopolska from the emerging economies belonging to the BRICS group has for now been rather insignificant.

The majority of investments continue to flow from ‘traditional’ directions such as the United States and the ‘old’ EU countries (fig. 3).

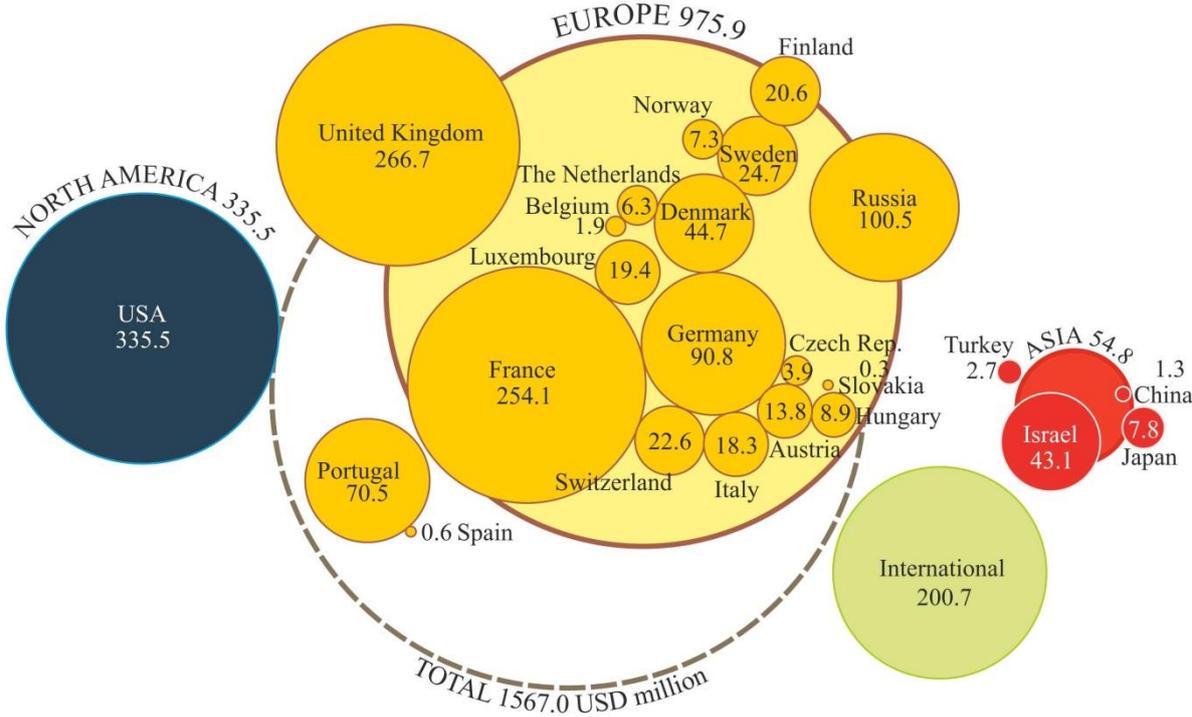


Fig. 3. Value of FDI according to capital source countries in 2013 (in USD million)
 Source: authors’ survey

Spatial dimension of FDI within the region

Małopolska region is characterised by a visible differentiation in terms of FDI location (fig. 4). Over 92% of all investments were located in just 9 counties (*powiats*). The region’s capital (Krakow) dominates in terms of the value of investments followed by Krakow county, Tarnow and the counties of Brzesko and Wieliczka. Among counties with the highest value of FDI Nowy Sącz and three counties located in the western part of the region (Oświęcim, Chrzanów and Olkusz) may also be mentioned.

In 2013 Krakow remained the area of greatest concentration of FDI within the region. Its share in the total amount of investments was however slightly lower than in the entire analyzed period (1989-2013), mainly due to the significant amount of investments flowing to Tarnów.

New foreign investments in the region tend to concentrate mainly in the metropolitan area of Krakow: the so-called *Krakowski Obszar Metropolitalny* (KOM – Krakow Metropolitan Area). In 1989–2013 KOM attracted 75% of all greenfield investments in the region (82% in 2013). *Specjalne Strefy Ekonomiczne* (SSE – Special Economic Zones/SEZ) and *Strefy Aktywności Gospodarczej* (SAG – Economic Activity Zones/EAZ) located in the region started to grow in importance in recent years, although up to date a still rather small share of greenfields has been located in them. At the same time, the majority of new foreign

investments in SEZ and EAZ were undertaken in such zones located in the central part of the region (in Krakow and the neighbouring counties such as Krakow county, Wieliczka and Myślenice). Subzones of SEZ and EAZ located away from the metropolitan area have so far been rather inefficient in attracting foreign capital and did not contribute to any larger scale spreading effects of FDI beyond the borders of KOM.

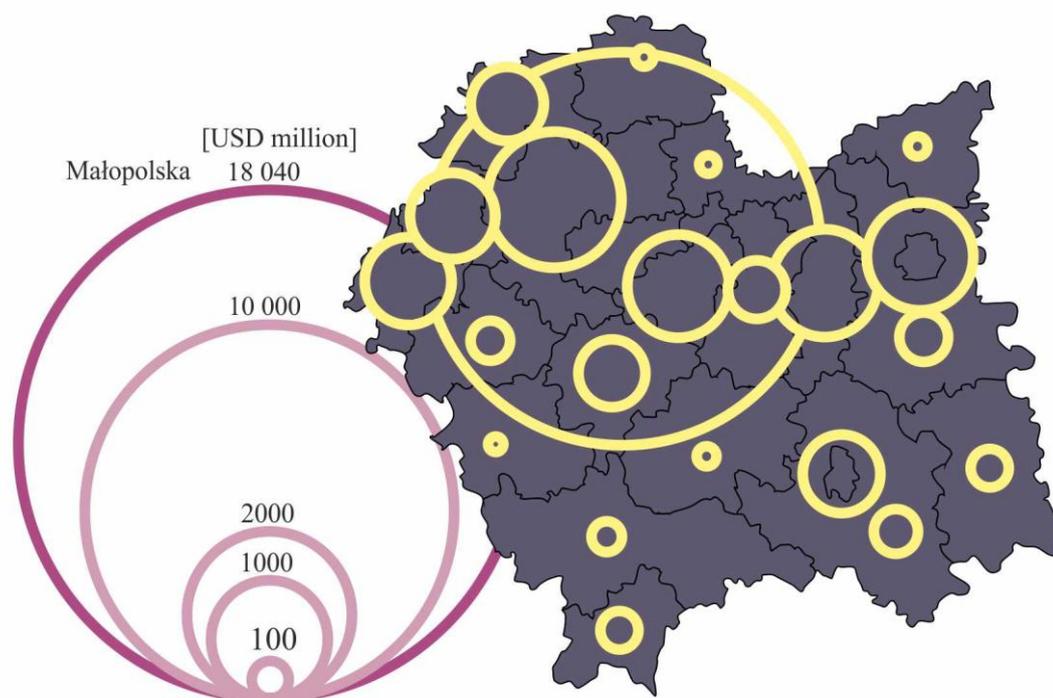


Fig. 4 Total FDI inflows to Małopolska region in 1989-2013 according to counties

Source: authors' survey

The importance of foreign investors in the regional labour market increases. The number of persons employed in firms with foreign capital in Małopolska reached 111.9 thousand in 2013, i.e. 15.5% of all employed in non-agricultural jobs. In two service branches (the financial sector and the information and telecommunications sector), foreign firms are responsible for over half of all employment (in industrial processing about one fourth). Close to three fourths of all employees in foreign firms work in three counties (Krakow, Krakow county and Wieliczka county). In 2013 foreign investors created over 6 thousand new workplaces in the region, while group layoffs were experienced by only 300 persons (three times less than in 2012). The largest number of new workplaces was generated by advanced services centres located in Krakow and its suburban zone. At the same time the number of persons employed by foreign retail chains and temporary work agencies also increased significantly.

Foreign investors are chiefly responsible for the significant growth dynamics visible in the advanced services sector (BPO, SSC, R&D) in the region in recent years. According to

data for the end of 2013, service centres with foreign capital involvement located in the metropolitan area of KOM employed in total 29 thousand persons, which means an over 50% increase in comparison to the end of 2011. Małopolska region is characterised by the best developed sector of modern business services in comparison to other regions in Poland. All of them concentrate in Krakow or a few individual locations in the suburban zone of the region's capital. Moreover, the structure of processes serviced by centres based in Krakow is very diversified in comparison to other service centres in Poland. Due to the fact that KOM is characterised by a unique mix of competitive advantages as a centre of modern business services, in the perspective of the next few years this sector should continue to develop dynamically both in terms of employment and the level of complexity and advancement of business processes serviced by particular centres.

Companies in which foreign investors invested in Małopolska region (similarly to such firms all over Poland) are characterised by a higher level of innovation than firms from other ownership sectors. They are more likely to introduce new products (including new products in the market) and processes. In 2013 a significant increase in spending on process innovations by foreign firms based in the region was recorded, while the spending on product innovations remained at the level similar to previous years. In the past few years a continued and significant increase in spending of foreign investors on innovation related activities was also reported. They are presently responsible for over half of all innovation related spending in Małopolska. This trend confirms the general increase of spending of foreign firms representing the high and medium technology industry and the increase of employment in knowledge intensive service firms.

Investment activities and investment plans declared in 2014 allow to forecast that in the current year the engagement of foreign firms in the region will remain – according to cautious estimations – at the level of at least USD 1.2 billion. Half of foreign firms who took part in the questionnaire survey conducted for the purpose of the report declare increasing their engagement in the region in the perspective of the next 2-3 years. Of special importance in this context is a visible growth of interest of foreign firms in the development of cooperation with Krakow universities with respect to R&D (14% of firms in comparison to none in 2012). This very promising growth trend may be among others linked with the change of rules with respect to the allocation of Structural Funds in the new EU financing perspective.