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## **DIRECT FOREIGN INVESTMENT AS A DEVELOPMENT FACTOR OF THE ECONOMY AND ITS ECONOMIC SECURITY**

The purpose of the article is to indicate the role of foreign direct investment in ensuring the economic security of the economy receiving this capital. The concept of economic security is related to the economy as well as international and global perspectives.

In this article, it also comes from the assumption that the definitions of economic security today must relate to opportunities and threats to development processes. It is indicated that in the context of the guarantee of unhampered development, which is the effect of proper shaping of economic interdependencies of a given economy with foreign countries. In addition, the role of trade and international connections in this process is highlighted. Economic security in this approach is identified not only with the uninterrupted functioning of economies as a result of the inflow of FDI, but also with the assurance of a comparative balance with the economies of other countries.

The article mainly focuses on measurable aspects of FDI impact on the Polish economy. The data used for the analyzes came from the Central Statistical Office, National Polish Bank and OECD databases. While developing the subject, the method of analyzing literature positions, descriptive method and analysis of existing data were used.

Taking into account the perspective of economic security, it can be concluded that this means a relatively low degree of dependence of the Polish economy on foreign capital in the form of direct foreign investments. It causes that in periods of deteriorating economic situation on the global market or in the period of international economic crises, when the size of global flows of foreign direct investments are significantly reduced, these phenomena do not cause significant implications for the economic growth dynamics in Poland.

**Keywords:** economic security, external factors of economic security, globalization, foreign capital.

### **1. INTRODUCTION**

The purpose of the article is to indicate the role of foreign direct investment (FDI) in ensuring the economic security of the economy receiving this capital. In the article, the concept of economic security is related to the economy as well as international and global

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perspectives (Mierzejewski, 2011; Gryz, 2013; Wolf, 2014). As to the extent of the impact of economic security in the exogenous dimension, it is worth emphasizing that the determinant analyzed in the article, in the form of direct foreign investments, can be referred to domestic enterprises as well as processes taking place in the national, regional and global dimensions. It also starts from the assumption that the definitions of economic security should be referred today to the possibilities and threats to development processes, pointing to the role of international exchange and connections in its assurance (Żukrowska, 2011). The importance of these conditions is also indicated in the context of the guarantee of an unthreatened growth, which is the effect of proper shaping of economic interdependencies of a given economy with foreign countries. In addition, the role of trade and international links in this process is indicated. Economic security in this approach is identified not only with the uninterrupted functioning of economies due to the inflow of FDI, but also with ensuring a comparative balance with the economies of other countries (Kłosiński, 2006). In this sense, the economic and political element is combined here (Księżopolski, 2011). In addition, it was assumed that the use of external development factors in the form of FDI inflows can contribute to creating the basis for socio-economic development and building the economic security of the state. It is worth emphasizing that in literature there is the term: international economic security and it is connected with the need to ensure the evolution of economic and social cooperation towards the improvement of rationality and justice. It is also about creating a better world order, enabling the individual well-being of citizens of countries (Nowakowski, Protasowicki, 2008).

On the other hand, FDI inflow is of particular importance in the face of the contemporary dynamics of global development and globalization trends. It means not only the need to create a favorable climate for investment and innovation, as well as the development of production techniques, but also an improvement of the qualifications and education of the society.

The indication of the role of foreign direct investment (FDI) in ensuring the economic security of the economy receiving these investments is an important and topical issue (Stachowiak, Z., Stachowiak, B., 2014). The analyzes in this regard fill the gap in current research on economic security and its links with foreign direct investments in the host country. Until now, in the literature on the subject, the notion of economic security has been referred to the economy, but with particular emphasis on internal factors. The global perspective, however, forces the attention to the external conditions of economic security (Kostecki, 2016). In relation to the international perspective, however, research in this respect concerns the links between economic security and foreign trade.

## **2. THE ROLE OF DIRECT FOREIGN INVESTMENTS IN THE ECONOMIC SECURITY ECONOMY**

An important role in the above considerations is the position indicating the role of external factors in ensuring the economic security of the economy, which indicates that it is shaped by the general state of economic interdependence of the state, which determines the degree of external economic integration in defense capabilities, stability of the country's economic system and internal socio-economic development, another element (Pach, 2001). Economic security largely determines the uninterrupted functioning of the economy. In this sense, its efficient and effective shaping depends on the rational identification and use of many variables of an external nature, variable both in time and space. These are processes

occurring in the global economy and related to functioning in international economic and financial organizations. They also include: active participation in globalization, economic integration or regionalization, the consequences of excessive inequalities in the world, the strength and nature of international competition, the scope of international trade freedom and principles shaping international capital and cash flow, including flows of foreign capital; direct investments related to the operation of international enterprises (Kalata, Nowakowski, Protasowicki, 2014; Kostecki, 2016).

Foreign direct investment is one of the important external conditions for the economic security of the state economy. Their faster flow is related to the ongoing globalization processes in the global economy and the increased movement of goods, services and people. It should be emphasized that the flow of foreign direct investments is connected with the process of strengthening economic ties between states and their economic entities. Foreign direct investment is also defined as a type of investment linked to the international transfer of capital in order to establish and control a subsidiary in another country.

When allocating foreign direct investment, the criterion of maximizing economic and political benefits for the exporting and receiving countries is important, as well as the flow from countries with excess capital to those countries that show shortcomings. In evaluating the impact of foreign direct investment on national economies and their economic security, both positive and negative (undesirable) effects can be identified. In particular, the consequences of the flow of these investments for the economic security of recipient countries, but also for enterprises participating in this flow. It turns out that these effects can have a diverse impact on the economy and enterprises. The positive impact of such a transfer on capital exporters results in obtaining influence on the policy and economy of the host countries by strengthening their competitive advantage on the international arena. It is also important to gain access to new sources of raw materials or to overcome tariff and non-tariff barriers. In turn, the limitation of foreign direct investments or their outflow from the host country may cause difficulties on the labor market. It is also emphasized that countries that receive foreign direct investment can increase their ability to strengthen their economy and socio-economic development, as well as achieve political and economic goals on the international stage. As a result of the inflow of foreign direct investments, the potential of the economy may increase through increasing investment, production, export, employment or dissemination of innovations and modern methods of management and organization of work. Their beneficial effect is also the modernization of the whole economy or its selected departments to which FDI has arrived. Positive aspects in the economic sphere of the inflow of foreign direct investment to the host country also include the growing importance of the services sector in the economy, and thus its modernization and enrichment of the range of products available to consumers.

Particular attention should also be paid to these consequences of FDI inflow, which may destabilize economic security, namely: limiting the effectiveness of domestic macroeconomic policy, deterioration of the economy structure, its dependence on foreign capital, consolidation of the subcontractor's position, reduction of the national savings and investment rate, increase in imports, deterioration of the balance of payments, inflow of speculative capital, corruption, tax evasion, "push" from the market of domestic enterprises and weakening their competitive position, use of cheaper workforce and rising unemployment as a result of introducing capital-intensive technologies, inflow of obsolete technologies (often so-called "dirty") or increased pollution of the natural environment, as well as their

excessive concentration in the financial sector, mainly in banking and insurance. Controversy is also caused by the distribution of income earned by foreign investors, draining the national economy, and in particular the excessive transfer of profits abroad (Gorynia, Bartosik-Purgat, Jankowska, Owczarzak, 2006; Kostecki, 2016).

It is also worth emphasizing that the external factor in relation to the national economy in the form of inflow of foreign direct investments affecting its economic security is often characterized by limited possibilities of its shaping. In addition, this requires taking into account the many conditions and complex interdependencies that occur between them.

### **3. DIRECT FOREIGN INVESTMENTS AND THE DEVELOPMENT OF THE POLISH ECONOMY**

According to international standards, direct investment includes investments made by a resident of one country (called a direct investor) in order to obtain long-term benefit from the capital involved in the enterprise - a resident of another country (defined as a direct investment enterprise). The investment is recognized as FDI according to the OECD model definition, when the minimum threshold for the direct investment of a direct investor in a direct investment enterprise is 10% (Exemplary OECD definition of foreign direct investment, 1995). The purpose of FDI is to buy shares in existing companies or to build new production or service resources (greenfield investment), which lead to effective control in the project management, therefore, FDI is understood as investments that cause a long-lasting relationship, showing persistent interest in a specific area economic.

Foreign direct investment affects the growth of consumer and investment demand, the emergence of modern technologies, the development of enterprises, streamlining production processes and supply chains, improving the productivity of companies and their employees, wage increases and falling unemployment, and consequently, GDP growth. As emphasized by E. Czerwińska, the most important effect of the FDI inflow to the economy is the impact on economic growth and exports, which also affects the increase in the number of jobs and the revival of the economy on a local scale (Czerwińska, 2001).

Foreign direct investments in Poland over the last quarter of a century (by 2015) totaled over PLN 712 billion, which corresponded to 39.6% of GDP. On average, Poland received PLN 26 billion of FDI annually. The inflow of foreign direct investments increased the economic potential by an average of 0.7% annually. It was estimated that due to the foreign capital invested in Poland and the activity of international corporations, the level of GDP in 2015 was higher by 15.6% than in the non-investment scenario (<https://www.obserwatorfinansowy.pl/tematyka/makroekonomia/inwestycje-zagraniczne-dodaly-polsce-ponad-15-proc-pkb/> [Access: 10.11.18]). In the years 2000–2016, the share of foreign investments in Poland's national income ranged between 2–6% (*Zagraniczne inwestycje bezpośrednie w Polsce i polskie...*, 2018). In 2016, the inflow of foreign direct investment to Poland increased again. The value of completed investment projects supported by PAIiZ increased from EUR 800 million in 2015 to 1.7 billion in 2016.

According to NBP data, in 2017 the inflow of net capital to foreign direct investment to Poland amounted to PLN 34.7 billion. Income reinvestments of PLN 38.1 billion and negative amounts of net capital inflows from shares and other forms of equity participation amounted to PLN (–1,6 billion), that from debt financial instruments (–1,9 billion PLN).

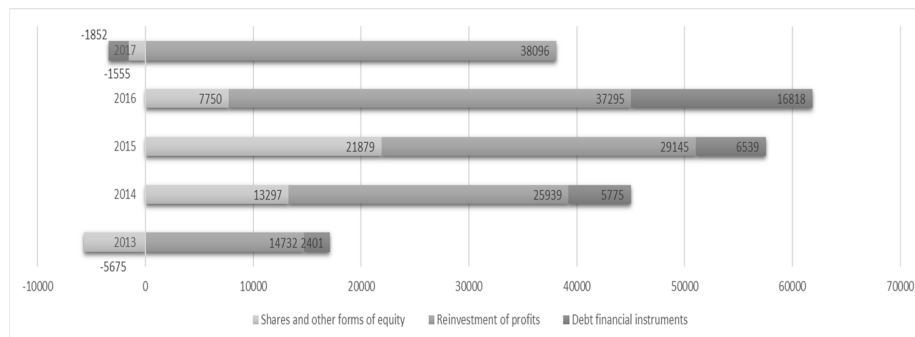


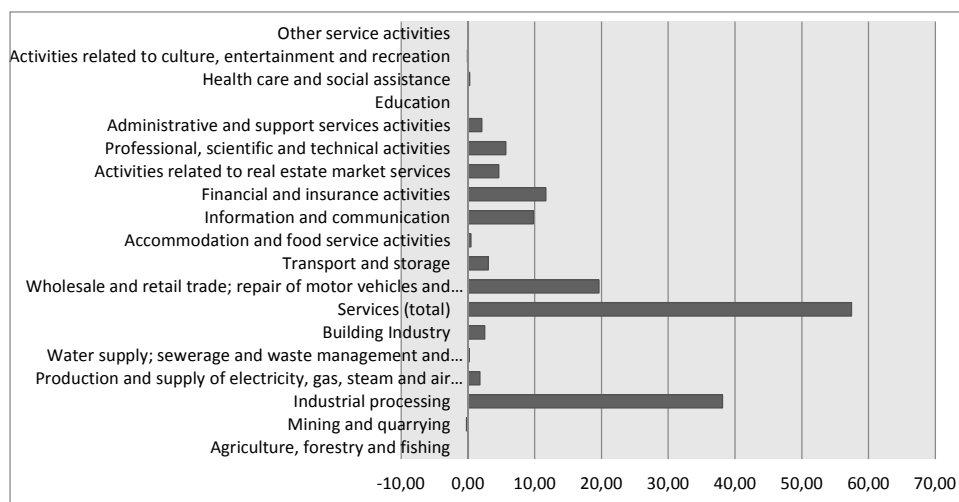
Figure 1. Transactions on foreign direct investment in Poland in 2013–2017

Source: based on data NBP.

The level and structure of foreign direct investment transactions in Poland in recent years were primarily influenced by internal conditions related to the increase in income of direct investment entities. Changes in the taxation of closed-end investment funds also had a significant impact. As a result, one transaction was recorded, which increased the inflow of capital in the form of equity instruments.

In 2017, the most direct investments came to Poland from Germany (PLN 12.8 billion), Luxembourg (PLN 12.4 billion) and Cyprus (PLN 5.5 billion). As in previous years, these were mainly investments in the form of reinvested profits. Divestments in 2017 concerned Italy (PLN –8.4 billion), the Netherlands (PLN –7.2 billion) and France (PLN –3.9 billion).

In 2017, an important area of direct investments in Poland were industrial processing enterprises of PLN 15.6 billion as well as financial and service activities PLN 12.4 billion.



\* (-) signifies that losses occurred or declared dividends exceeded

Figure 2. Share of FDI revenues in individual operations in Poland in 2017

Source: based on data NBP.

The NBP indicates that investments in manufacturing were responsible for 17% of GDP growth. On the second place, financial services with 19% of inflow's value of funds, which responsible for 13% of GDP growth. On the third – trade with 16% of the inflow of these investments, and this sector had the largest, i.e. 19% share in GDP growth.

Income of foreign direct investors due to direct investments in Poland reached PLN 79.2 billion. Dividends amounted to PLN 31.8 billion, reinvested profits were PLN 38.1 billion, and income from debt financial instruments (interest) reached PLN 9.4 billion. Thanks to foreign investments, the tax revenues of the state budget increased on average by 2.7% annually, and the tax base in the last twenty-five years by 10–12%. International corporations are responsible for over 30% of corporate tax revenues (<https://www.obserwatorfinansowy.pl/tematyka/makroekonomia/inwestycje-zagraniczne-dodaly-polsce-ponad-15-proc-pkb/> [Access: 10.11.18]). It is also worth emphasizing that foreign direct investment is a significant support for investments in the Polish economy.

Apart from measurable socio-economic effects, it is worth paying attention to investing in human capital as well as research and development. The transfer of foreign corporate culture is accompanied by the standardization of processes and products (<https://www.terenynwestycyjne.info/index.php/raporty/item/11074-bezposrednie-inwestycje-zagraniczne-w-polsce> [Access: 30.10.18]).

Most macroeconomic analyzes suggest the existence of a significant and positive impact of foreign direct investment on the dynamics of the economy of the countries receiving capital (Żukrowska, 2012; Żukrowska, 2016;). This is confirmed especially in relation to some rapidly developing countries from the so-called catching. A significant relationship is found between the share of foreign direct investment in national income and pace of GDP growth (Research indicates this, among others: Bengoa, Sanchez-Robles, 2003; Chowdhury, Mavrotas, 2006).

The inflow of these investments is an important source of capital, as it supplements private domestic investment and is usually associated with new employment opportunities and technology imports in the host country, which leads to the country's economic growth (Ancyparowicz, 2009).

Also when analyzing the amounts of inflow of foreign direct investments to Poland with changes in GDP in recent years (Figure 3), the convergence of these investments with GDP dynamics is clearly noticeable.

The inflow of FDI is one of the most important factors stimulating demand in the economy. According to our estimates, the direct and indirect effects of FDI on demand in Poland amounted on average to 2 per cent of GDP per year over the past quarter-century, or three-quarters of the value of all FDI. The remaining 25 per cent was spent on imported goods, affecting the increased value added in other countries, especially the countries where the capital invested in Poland came from ([https://www.flandersinvestmentandtrade.com/export/sites/trade/files/attachments/FDI%20Report\\_EN.pdf](https://www.flandersinvestmentandtrade.com/export/sites/trade/files/attachments/FDI%20Report_EN.pdf) [Access: 10.11.18]).

According to one study on the Polish economy and the role of foreign direct investment in stimulating its development, it can be concluded that there is a relatively important linear relationship between the dynamics of the inflow of foreign direct investment and the dynamics of GDP growth. In addition, based on the use of econometric models and estimates of the VECM model, it was found that one of the factors that significantly determines the GDP growth rate in Poland are foreign direct investments. On the other hand, it turns out that by far the largest impact on GDP growth, among the main factors of economic growth, in Poland had changes in the size of employment (Misztal, 2011).

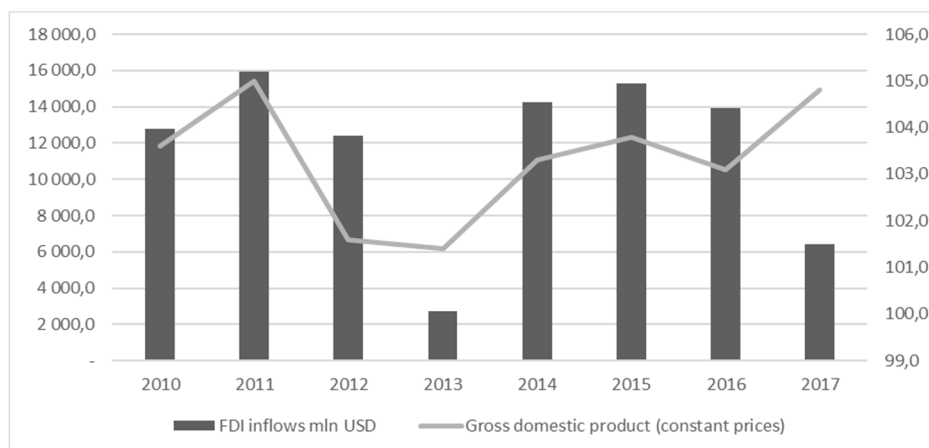


Figure 3. Tendencje zmian GDP i napływu BIZ do Polski w latach 2010–2017

Data for 2017. they are estimated data

Source: based on GUS and OECD data.

Other studies also show that the relationship between GDP growth and FDI in Poland as measured by the Pearson correlation coefficient and the determinate ratio is statistically significant. A correlation coefficient of 0.87 indicates a strong, positive relationship between these variables, and R<sup>2</sup>'s coefficient of determination indicated that 76% of GDP volatility is explained by changes in the volume of foreign direct investment (Stawska, 2014).

These results indicate that foreign direct investment has a significant impact on the growth rate of the Polish economy.

#### 4. CONCLUSION

Economic security is combined with maintaining control over the national economy while ensuring equal treatment of domestic and foreign entities. In order to increase the dynamics of economic development, economic efficiency and quality of life, the economic system should allow the creation and use of international economic interdependencies. For the sake of economic security, it is also important to neutralize the threats resulting from the existence of the global economy and the globalization process and to take advantage of the synergy effect of FDI benefits for the development of the state economy.

Challenges faced by less developed countries or catching-up economies, which include Poland, as a country with an existing civilizational distance, taken to realize their socio-economic development, which will translate into an increase in their competitiveness, should primarily concern the increase in their openness economies. In the strategic aspect, development can only be guaranteed by an open and competitive national economy. The basic problem of economic security turns out to be competitiveness, understood not only as the internal possibilities of economies to generate development, but also the ability of these economies to protect it from unfavorable socio-economic processes and threats from other countries (Kłosiński, 2013).

In the light of the presented premises and statistical data, it can be concluded that the inflow of foreign investments to Poland is associated with a positive impact on the development of the Polish economy and its competitiveness. In turn, any restrictions on their inflow negatively affect the rate of growth of the country's economy. The decline in the pace of economic growth together with the declining level of foreign direct investment is noticeable in Poland, especially during the financial crisis.

The inflow of foreign direct investment, however, turns out to be a less significant determinant of economic growth than employment. Taking into account the perspective of economic security, it can be concluded that this means a relatively low degree of dependence of the Polish economy on foreign capital in the form of direct foreign investments. This means that in periods of worsening global market conditions or in the period of international economic crises, when the size of global flows of foreign direct investments are significantly reduced, these phenomena do not cause significant implications for the economic growth dynamics in Poland. It also seems that the relatively low level of impact of foreign direct investment on the dynamics of economic growth in the country results from the growing importance of domestic capital in promoting economic growth in Poland and a significant inflow of aid funds from the European Union budget.

However, it seems that apart from any threats, foreign capital is an opportunity for the development of the Polish economy. Therefore, Poland, wanting to reduce development disparities in relation to highly developed countries, should continue to strive to improve the investment climate and the inflow of foreign capital in the form of FDI.

Given the limited scope of the article, the authors have limited the review of theoretical studies on links between foreign direct investment (FDI) and economic security, although an attempt to identify these links has been made in the research part. Research will continue with their significance for the national economy, which in the globalization era is increasingly dependent on exogenous factors related to the flow of capital on the international scale in the form of direct investments. One important argument is also the fact that the influx of FDI can be used to create a safe and solid basis for the socio-economic development of the state.

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