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DETERMINANTS OF THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMIES OF REGIONS

Introduction

The role of foreign direct investment (FDI) in the development of regions requires the identification of factors that affect regional growth. Against this background, the effects of FDI activity can be assessed. However, not all elements of regional development are dependent on FDI, and not all the results of foreign investment activity have a decisive impact on regional development. The literature provides many examples of positive and negative effects of foreign investment on economic and social processes in the host country.

Impact of FDI on regional economies

Foreign direct investment is seen as one of the engines of development, especially in developing countries. The conditions created for foreign investors have both an economic and political dimension. They also have a psychosocial effect, shaping attitudes towards foreign capital and influencing public awareness (Puchalska 2015).

According to location theory, foreign direct investment is primarily determined by location factors in the host country after comparing them with location factors in the investor's country (Gomółka 2020). It means that the host country must have a significant advantage over the country of origin in terms of location factors for the decision to operate abroad. Crucial from this point of view are location factors of economic nature, i.e., infrastructure and communication accessibility, investment climate, resource prices, technologies, supply and sales markets, socio-cultural factors concerning psychological and sociological distance and language barrier as well as factors of legal, political, geographical and economic policy significance (Zakrzewska-Półtorak 2006).

A positive assessment of the impact of FDI on the host country's economy may be accompanied by an adverse increase in the differentiation of individual regions in terms of economic development. This phenomenon results from regional disparities shaped historically and consolidated in the years of the command economy. Other reasons for this situation include the relatively low mobility of capital, resulting from the supply and propensity to invest in individual regions. It is noted that foreign capital usually flows to the economically strongest regions, which only intensifies the spatial disproportions in the economic development of particular Polish regions (Heller, Warżała 2005). As Warżała (2006) notes, under Keynes's theory, foreign direct investment is one of the most important factors in the development of the economy, causing specific economic effects. It also applies to the economies of individual regions in which there are companies with foreign capital.

According to Cieślik (2007), the effects of FDI activity are positive for the host country at the national level, but the impact of their activity may differ between different regions of the country. The map of FDI location in Poland is characterised by high irregularity. The distribution of companies with foreign capital and their inflow to Poland has occurred mainly in the most industrialised parts. As a result of this situation, positive effects associated with the diffusion of knowledge, technology transfer, and capital inflow are limited only to the regions where they were implemented. It results in the perpetuation or widening of inequalities in economic and social levels between different areas of Poland (Sokołowicz 2006). Both local and central governments should take measures to attract foreign capital to promote stable and sustainable economic development in Poland. These activities may include establishing special economic zones, direct subsidies to enterprises, reduction of local taxes. SEZs, which aim to accelerate the economic development of selected regions of the country, make it possible to grant tax breaks to investors (Cieślik 2005). Special economic zones are a powerful regional policy instrument to attract foreign direct investment (Witkowska 2010).

The importance of FDI for the region's development is not always revealed with equal force, especially in the short term. The degree of impact on the area depends on the type of effect of specific investments. Dziemianowicz (1997) states that the impact of FDI on the region where it is located can be positive or negative, significant or insignificant.

The main benefit for the host country is the inflow of foreign capital itself, both in cash and in the form of loans. A significant investment attracts competitors to the location, as well as smaller companies that are cooperating (Cudowska-Sojko, Grzybowska 2015). The beneficial effect of investment location is technology transfer, which positively affects several elements of the host region's economy. Due to limited production sources and the need to import technology, technology transfer contributes to economic growth. Foreign investors enable domestic partners to benefit from the effects of research in their laboratories. A very positive phenomenon is transferring part of the R&D activity from the parent company to its subsidiary abroad. Technology transfer brings benefits to the host country and region of FDI (Drabik 2011).

These benefits result from the introduction of modern models of management and work organization. The foreign investor transfers work patterns, company organization, or patterns of conduct (Dziemianowicz 1997). The impact of FDI on employment manifests quantitatively and qualitatively. The quantitative impact depends on the nature of the investment. The new investment must create more jobs. It most often concerns labour-intensive investments where access to cheap labour plays an important role. For capital-intensive investments, there is a relatively more significant need for skilled workers. It means that FDI can increase employment and/or create new jobs (Hybel 2018).

FDI influences the maintenance or creation of new jobs in a given company and the creation of employment in the environment of this company. FDI positively influences the quality of the workforce. Companies using modern technologies need a highly-skilled workforce. Foreign investors strive to improve the qualifications of host country employees and transfer patterns and principles from the parent company (Dziemianowicz 2002). In addition to the benefits mentioned above, FDI also has a positive effect on workers' wages. Relatively higher earnings in a company with foreign capital than regional payments contribute positively to regional development (Ozga 2009).

Each investment has a stronger or weaker connection with the natural environment. Financial outlays for equipment limiting or eliminating pollution caused by production and modern technologies mean that foreign investment can positively affect the state of the natural environment (Przychodzeń 2012).

While pointing out the threats arising from the presence of foreign direct investment, it should be borne in mind that foreign companies have capital, modern technology, modern management techniques, high mobility, and the ease of using their advantages in different parts of the world. There is a fight between countries, regions, and cities for new investors. The regions usually care more about attracting an investor than the investor about locating in a given location (Czaplewski 2003).

The negative influence of foreign direct investment on the host country or region may concern, e.g., the limitation of state sovereignty, imposing a model of economic development, controlling the economy, as well as the increase in unemployment, social discontent, or a negative impact on the state of the natural environment (Janowicz 2018). The negative impact of FDI is noted when there are divergent objectives between the foreign investor and the host government or its domestic partner. FDI can exert pressure on the economic policies of host countries. Foreign investment through the use of modern technology and pressure on productivity can increase unemployment. It results from the reduction of excessive employment, dismissal of workers due to a change in the profile of activities, or reduction in production. Another possible threat caused by foreign investment may be the drain of workers from other companies.

Foreign investment can cause environmental damage. Governments may impose restrictions on access to the domestic market of non-environmental technologies and require investors to use technological solutions with the most negligible negative impact on the environment. The balance of profits and losses of FDI-receiving countries is positive, as confirmed by the efforts of national governments, regional and local authorities in attracting foreign investment. The possibilities of FDI impact on the host region are divided into favourable and unfavourable. They can also be divided into direct and indirect. The stronger the ties of the company with the region (e.g., the company has cooperating partners located in the area, cooperates with local research centres, supplies the region with the goods produced by the company), the greater may be the benefits, both direct and multiplier benefits of a given investment (Karaszewski 2005) .

Firmly embedded investment in a region reduces the likelihood of its rapid transfer to another region or country. The impact of foreign direct investment on the region indicates that a favourable investment from the regional point of view can stimulate a significant part of regional development factors. In the group of economic factors, the effect of investment is the most visible. Other regional development factors depend on the company's nature, its innovativeness, the extent to which it is connected with a given region by long-term plans (Zajdel 2011).

Foreign investments will be located in those regions that are rich in factors conducive to their activities. State or regional authorities do not have to make special efforts to convince investors. More significant efforts are faced by the authorities of backward regions, which are not sufficiently equipped with factors needed by investors. Regional policy instruments are used to attract investors interested in such underdeveloped regions. Central and regional authorities can use tools to encourage potential foreign investors can be divided into four groups (Markowski, Kot 1992): investment instruments, financial instruments, legislative instruments, and information instruments.

Investment instruments include activities of the government or local authorities that improve the infrastructure of a given area. These include the construction of roads, warehouses, the creation of office space, and activities in the field of environmental protection. Also important are the possibilities of telecommunication connections and their quality and the quality of banking services. Investors, not only foreign ones, are supported by business incubators and technology parks (Dahlke 2017).

Financial instruments include tax allowances, subsidies, grants, fees, loans, and guarantees. The group of financial instruments also includes programmes aimed at supporting investors through the creation and co-financing of organisations facilitating business activity, programmes promoting exports, modern technologies, or programmes improving and changing the qualifications of the workforce (Markowski, Kot 1992).

Legislative instruments concern the issuance of regulations on business activity and the distribution and registration of permits for business activity. This group of instruments is significant because creating legal conditions for business entities opens their activity. If the legal requirements are unclear and inconsistent, they have perceived barriers to foreign capital inflow (Dziemianowicz 1997). A negatively acting legislative instrument is the bureaucracy of doing business (e.g., the long time it takes to make decisions and issue documents), inhibiting investments in a given area.

The group of information instruments includes activities of the authorities aimed at advertising and marketing the state, region, or municipality. This group also provides consultancy and promotional activities. Despite using regional policy instruments and seeking to improve the differences between the regions, there are still stronger and weaker regions (Jałowiecki 1993).

Pusterla and Remini list three groups of characteristics of a region that affect the level of profitability of an investment project. These include: the benefits of agglomeration, labour market conditions, and other factors (Zielińska-Głębocka 2008). Agglomeration benefits refer to the interdependencies between domestic and foreign companies and the relationship only between transnational companies. Foreign companies without information on potential locations consider the presence of other multinationals in a given location, which may mean a higher probability of profitability from investment. Labour market determinants include regional labour costs, labour productivity measured by the level of education of the workforce, and the availability of labour defined by the ratio of workers in the industrial sector to the total population (Firlej 2012).

The impact of FDI on the region depends on the degree of development of the network of foreign companies in the region - if it is strongly developed, the more positive impact of FDI on the development of the host region is observed. This situation occurs due to the action of multiplier effects, i.e., an increase or decrease in the activity of local enterprises caused by an increase or decrease in demand for their products, services by companies with foreign capital. Regions with a higher level of development gain greater benefits resulting from the multiplier effects of FDI (Domański 2010).

According to Poniatowska-Jaksch (2006), entities with foreign capital, regardless of the nature of their business, achieve better labour productivity in regions with a high level of socio-economic development. These regions are characterised by a higher quality of human capital, a large market area, adequate infrastructure, and a developed business environment, consequently leading to higher sales revenues for FDI in the future. These regions are considered to be more attractive locations, which translates into attracting FDI of more advanced technology. This implies that the higher the region's economic development level, the greater the differences in labour productivity between FDI and non-FDI firms.

The most visible disproportions between labour productivity in companies with and without foreign capital are observed in capital-intensive, highly technological sectors and the smallest disproportions in labour-intensive, low-productivity sectors (Poniatowska-Jaksch 2006). The positive impact of FDI on the region's socio-economic development through increased employment and high labour productivity in manufacturing in regions with high economic potential can be explained in two ways. Firstly, it is considered that the authorities' policy in the region to attract FDI, whose inflow would trigger beneficial synergistic effects, is not very effective. However, it is not uncommon that the attractiveness of a given region is determined by macroeconomic factors and the authorities' policy at the national rather than regional level. The development strategies of foreign investors primarily influence the socio-economic effects of FDI inflows to regions. FDI is more likely to invest in those sectors of the economy and in those regions that will increase the global efficiency of their operations (Janasz 2011).

FDI positively influences high labour productivity and job creation in regions with a high level of socio-economic development and capital-intensive industries, especially those belonging to the so-called traditional sector. Measurable factors and real decision-making factors are responsible for this state. Measurable factors include the level of infrastructure development or the quality of human capital. They are more achievable in regions with high economic potential. On the other hand, public authorities in the region often do not have much influence on them (Kania 2017). Macroeconomic factors and the state policy itself in attracting foreign investors to the area are important for foreign investors. The authorities, through the use of territorial marketing, can increase the effects of FDI inflows. Their competencies include coordinating and initiating various types of activities to gain a competitive advantage of the region (Stawicka 2015).

Through their regional preferences in location, foreign investors, especially from capital-intensive industries, may become the basis for creating clusters. Signs indicating the formation of these structures can be observed in the provinces where foreign investment plays a significant role, and the so-called spill-over effects have occurred, which include an increase in the number of enterprises, an increase in sales revenue, an increase in the number of jobs and above-average total labor productivity. This phenomenon may result from the degree of concentration of this capital and its greater impact force, but may also be the effect of strategies implemented by FDI operating in the Polish market and aimed at cooperation with domestic enterprises (Poniatowska-Jaksch 2006).

Conclusions

The choice of a particular region in which to locate the economic activity of a company with foreign capital should be determined by an analysis of FDI sources and an assessment of the benefits that can be achieved by locating in a particular region. The decision to locate an investment by a multinational company in a specific region is determined by the advantages of the features of that region that determine the profitability of the investment and compare it with other locations considered.

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Abstract

This paper aims to indicate the determinants of the impact of foreign direct investment on the region's economy. The benefits and negative effects of FDI influence on the region are presented. FDI distribution in geographical space is usually uneven and correlated with the regions' economic development level. FDI is generally concentrated in already well-developed regions, metropolitan areas and large cities. This situation further strengthens vital regions and leads to increased disparities between areas. It is essential to bear in mind the benefits resulting from foreign direct investment in the region and be aware of the threats it may cause.

Keywords: foreign direct investment, the impact of FDI on the economy.
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