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LOCAL AND REGIONAL EMBEDDEDNESS OF FOREIGN INDUSTRIAL INVESTORS IN POLAND

Abstract: The author addresses the question of local and regional embeddedness of foreign industrial investors in Poland. It is analysed from the perspective of economic and social linkages developed by foreign-owned companies. Special emphasis is put on their supplier relationships as well as quantitative and qualitative impact on labour market. It is shown that the growing number of foreign investors becomes embedded in Polish regions and communities, at the same time making them integrated into global economy. The investors tend to enhance the capacity for sustained local and regional economic development, though the balance of positive and negative effects as well as the embeddedness of their activity differs markedly depending on industry, company strategy, type of investment and various place-specific characteristics

Key words: foreign investment, embeddedness, manufacturing, local communities, regional development.

The increasing number of urban and rural communities in Poland is being affected by large foreign investors. Foreign companies take over local enterprises, create joint ventures or undertake greenfield investments. Their impact on the performance of the national economy and various general effects have attracted considerable interest (e.g. Bąk, Kulawczuk 1996; Olesiński 1998; Durka 2002); there are also case studies of individual foreign investments. At the same time, there is rather limited comprehensive discussion on their role in the local and regional environment. Broader research in this field has been carried out by Błuszkowski and Garlicki (1996), Dziemianowicz (1997) and Olesiński (1999), there is a larger number of case studies (e.g. Meissner, Borówka 1997; Gaczek, Manikowska 1998; Sobala-Gwosdz 2000).

One of the most intriguing and complex issues concerning foreign direct investment is its embeddedness in the host country (see Dicken 1998; Pavlinek, Smith 1998; Phelps 2000; Dicken, Malmberg 2001). This can be approached at different spatial scales: national, regional, and local. There is contradictory argument about the embeddedness of foreign investors in postsocialist Central and Eastern Europe. On the one hand, Grabher (1994) portrays the industrial investment in east Germany as “cathedrals in the desert”,

that is, enclaves with few linkages backwards or forwards; similar conclusions are drawn by Hardy (1998) about foreign companies in the Wrocław region. The notion of “Kuwaitization” is put forward by Burbach *et al.* (1997) – process through which transnational capital establishes colonial-style “strong points” separate from other territories. On the other hand, many case studies show foreign producers relatively integrated into their local/regional environment.

The paper addresses the problem of embeddedness of foreign industrial investment in Poland on the sub-national level, i.e. how far large investors that operate at the global scale are embedded in the narrowly understood local and regional economies. The salient component of this embeddedness are supplier relationships, which are analysed first. Another crucial element is the quantitative and qualitative influence of foreign-owned enterprises on the local labour market. There are also other significant economic and social linkages, including those with the local government. Principal company- and place-related factors that underlie differences in the local and regional relationships are considered. The embeddedness of transnational corporations (TNCs) can be seen as a prerequisite of their impact on the capacity for sustained local/regional economic development – brief discussion of these effects and how they compare with the situation under socialism concludes the paper. The article is based upon author’s research, which included interviews with TNC, local government and trade union officials (Domański 2001a, 2001b) as well as the findings of other studies.

1. Economic linkages and multiplier effects in the regional and local economy

1.1. Suppliers of components, intermediate products and raw materials

Direct and indirect multiplier effects are generated by foreign producers in the local/regional economy through their use of local/regional suppliers. Corporations, which operate in many countries, are generally believed to rely more heavily on imports than domestic companies due to both intra-firm linkages (they may own specialist producers of various components) and external supplier relations established at the supra-national scale. However, there are fundamental differences between various industries in this domain.

Strong local/regional linkages are found in sectors relying on agricultural produce, wood, mineral resources (limestone, clay, sand), and recycling of waste products, e.g. manufacturers of food products, furniture, paper, and construction materials. Entirely local supply is typical of plants of non-alcoholic beverages, bricks and roofing, plaster board, cement, oxygen as well as dead rock and slag recycling. Predominantly regional supply characterizes producers of concrete products and scrap recycling. The important point is that most of these factories have single suppliers, or even their own resource base, and hence their impact on other companies in the region tends to be limited. A large number of regional suppliers is observed in wood and furniture industries. Still, supply chains are very short here too.

Extensive regional purchase of raw materials may be significant in food industry, which has attracted nearly L of the total foreign industrial capital in Poland. Large food

-processing factories often need suppliers from a vast region. For example, Hochland in Kaźmierz Wlkp. buys milk from about 20,000 farms and intermediate products from other dairies (Gaczek, Manikowska 1998), milk deliveries for Nestle in Kobylnica exceed 200 km (Rydz, Barańska 2000). Numerous suppliers are also characteristic of manufacture of fruit and vegetable products, animal fodder, malt and glucose. Nevertheless, state-owned firms used to have more suppliers than privatised ones, e.g. Alima Gerber in Rzeszów has reduced the number of fruit suppliers from 5,000 to 200. New factories may sign contracts with few large farms, e.g. Chio Lilly Snack Foods chose 8 cooperatives and 12 individual farmers, when it opened a potato chips plant in Nysa, McCain began its production near Strzelin with just 4 main suppliers.

The reduction in the number of suppliers of agricultural produce is related to growing quality requirements. Foreign manufacturers tend to support and monitor the quality of agricultural production. Chio acquired specialist machines for the co-operating farms and financed purchase of seed-potatoes in the Netherlands and Germany. Nestle achieved an increase in the share of purchased milk that meets the EU standards from 0,3% to 70% in 4 years thanks to 2 million euro aid programme for the farmers (Olesiński 1999), many other companies run special training programmes, which promote modern agricultural methods and encourage creation of producers' groups (e.g. Cargill). There are a few cases when foreign industrial investment has been followed by the involvement of foreign capital in agricultural production, e.g. a Dutch company has taken 2,800 ha. on lease to grow potatoes for Farm Frites in Lebork and raise cattle in order to produce milk for Nestle in Kobylnica¹. All things considered, it is believed that the concentration of food-processing in large companies leads to growing differentiation in Polish agriculture – higher quality of produce and the improved economic performance of some farms, but lower profitability and collapse of others.

In most industries, other than the discussed above, factories use intermediate products and components manufactured by specialist producers, which work for the national or international markets. Consequently, the regional, and even more local, supplies can inevitably be limited – a 10 or 20% share of local or regional suppliers can be considered relatively high. This is particularly true of chemical, rubber and plastic, machinery, motor vehicles, electrical and electronic production. However, there are other factors that make the extent of local/regional supplies differ among producers within the same sector.

We can consider the role of company strategy and investment features first. The strategy finds expression in the position of Polish factories in the production chain and within the entire corporation. Simple assembly activities usually lack any regional linkages. Specialised plants that become integrated within the international company production network and take over manufacturing activity relocated from Western Europe can also generate substantial imports. Dicken (1998) suggests that export-oriented FDI

¹ Some foreign producers of furniture and construction materials also decided to invest in earlier stages of production, e.g. Ikea in northwestern Poland, Heidleberger Zement-CBR in gravel extraction in the southwest. Still, a general impact of foreign investors on the quality of raw materials and intermediate goods is limited in these sectors, in contrast to food and tobacco industries.

is less likely to have significant linkages with local/regional firms, which finds some support in the Czech Republic (Pavlinek 1998) and Poland. The mode of entry of the foreign investor also matters here. It is argued that greenfield plants show generally weaker linkages with the host economy than privatised factories acquired by foreign firms together with their networks of suppliers. Half of the studied large greenfield plants revealed supplies from a broadly understood region (a few voivodships) below 20%, less than one-third factories above 50%. Companies that appear as spin-offs of larger firms (both subsidiaries and joint ventures) and are part of the same production chain may be closely connected. The difference between greenfield and old plants is in part related to the length of firm's activity in the area – stronger regional ties are developed by enterprises that have functioned longer. Time clearly makes difference in the case of greenfield investments – 67% of managers of the factories that have been built within the preceding 3 years contend that it is difficult to find reliable suppliers in Poland, whereas such difficulties are reported in only 39% of new plants built earlier (Domański 2001a).

Local supplies may result from the location and development of subcontractors in the vicinity of a large factory. This is illustrated by Philips in Kwidzyn (tuners, TV sets), which attracted its traditional suppliers of electronic components (Plati, Sofrel), plastic (Plastiques Du Val de Loire, BM) and packaging (Knauf, SCA). The clusters of suppliers are also found around car plants in Tychy (Fiat) and Gliwice (GM) as well as the engine factory in Bielsko-Biała. There are also clusters of large individual plants situated near the chief supplier, e.g. factories of paper products next to paper mills (e.g. in Kostrzyn), plaster board factories near power plants with sulphur scrubbers and windshield producers adjacent to float glass plants.

A marked regional concentration of car component producers is found in southwestern Poland, including many new foreign plants. Their location in Upper and Lower Silesia can be attributed, among other things, to just-in-time deliveries to assembly plants in southern Poland, the Czech Republic and Western Europe. Many greenfield investments take place in special economic zones here (Tychy, Gliwice, Wałbrzych, Polkowice), though there are also locations outside the zones (Oleśnica, Oława). One can also note a regional cluster of Daewoo-FSO branch plants and suppliers in the Warsaw area.

There is a striking contrast between the extensive network of suppliers of car components in Poland in general and in other Central and East European countries, except for the Czech Republic. The “local” (national) content in cars manufactured by foreign companies in Poland exceeds two-thirds. This can be accounted for by the large size of the market and long tradition of passenger car production, e.g. in contrast to Hungary, (i.e. place-specific factors), vast TNC investment in component manufacturing and the entry of major car makers through acquisition (i.e. company strategies). The regional multiplier effects generated by car industry can be particularly strong because of the large volume of purchases, vast number of suppliers and long supply chains. Companies that become suppliers of major car and component manufacturers can receive technical assistance, which helps to achieve better product quality.

Finally, the impact of state regulations on regional/local linkages of foreign investors cannot be neglected. Such linkages may be an indirect effect of special

economic zones. In some privatisation contracts, e.g. Daewoo's, the government included local (i.e. national) content requirements. Tobacco giants that took over Polish cigarette factories (Philip Morris, Seita, Reemtsma) agreed to buy at least 40% of tobacco in Poland (Seita 47%) for 5 years. They provided special training programmes and funding to support modernization efforts of tobacco growers and improve tobacco quality, especially in southern Poland.

1.2. Providers of services

Foreign manufacturers create demand not only for goods, but also for various services. Local and regional enterprises meet the demand for services to a far greater extent than they can provide components and raw materials. This is especially true of basic services such as transportation, security, cleaning, laundry, catering, industrial maintenance, repair and construction. Thus, the expansion of local and regional tertiary activities constitutes a vital multiplier effect of foreign industrial investment. Employment in local companies providing services to the foreign producer may be greater than the number of jobs in the factory itself, e.g. in Coca Cola bottling plants. The economic zone has contributed to lower unemployment in Mielec both directly through new jobs in greenfield plants located there as well as indirectly by means of the dynamic growth of construction, transportation, and a range of services in the town (Karkosza 1999, Bazydło 2000). The research carried out in the Cracow metropolitan area in 1996 shows that 75 to 90% of foreign industrial and tertiary firms contract out the discussed basic services within the region (Domański 1996). The share of transportation services provided within the region (voivodship) exceeds 85%, including 55% bought locally (*powiat*), among 54 large new foreign plants built in Poland studied in 1999.

More sophisticated, specialised producer services may "leak out" to faraway cities, Warsaw or abroad. It is interesting that the leakage of information technology services tends to be limited – 83% of the new studied factories purchase them within the region and 35% beyond its boundaries (some use both). The share of non-regional firms is greater (at least 50%) in the case of legal, finance, advertising, training and marketing services. Still, above two-thirds of producers also use the providers of these services from the region, this proportion is the lowest for marketing (54%). In addition, at least one-third of these services is purchased locally (*powiat*), except for marketing (13%).

In contrast to goods supply, the geographical range of service provision does not depend on industry and is largely influenced by the place where the factory is located. High share of locally/regionally provided services is typical of main cities and their surroundings, where quality services are available. Industrial plants situated elsewhere has to search for some services in major cities. As a result, these cities benefit from providing specialised producer services to foreign manufacturers situated in broader regions. On the whole, they capture as much as 80% of all marketing, and about 70% of advertising and financial services. The role of Warsaw is conspicuous in marketing (every second studied producer uses providers from the capital city only) as well as advertising, finance and legal services (above 1/3).

1.3. Income multiplier effects

Any new or expanded economic activity brings about yet another sort of multiplier effects in the provision of consumer goods and services. The more people have jobs in the foreign factory and the more they earn, the stronger its impact on the development of local consumer services. This influence is by and large local as it is confined to the area where employees and their families spend their incomes.

Income multiplier effects of foreign investment may be profound as TNCs usually offer a higher pay than their domestic counterparts; moreover, this may push up wages and salaries of other local employers. Strong, single effect can be produced by the company buy-out of shares of privatised enterprises, received by the employees free or at reduced prices². This extra revenue, equal to a few months' or a few years' pay, is mostly spend on consumer durables and housing. For example, 4,300 eligible people received roughly 40 million zloty at the pulp and paper mill in Kwidzyn in 1992, about 400 people got 27 million zloty when Nowa Huta cement mill in Cracow was sold in 1997. Privatisation bonus, e.g. in Glaxo Wellcome in Poznań (Strykiewicz 1999), or generous severance pay in places where redundant workers could find new jobs, e.g. in Warsaw and Wrocław, would produce similar effects. One may note trade union complaints in some foreign-owned factories that the employees have not been allotted shares by the state at the time of privatisation (e.g. Fiat Auto Poland), the investor does not want to purchase the shares or offers prices lower than expected. This brings us to the discussion of labour issues.

2. Transnational corporations and the local labour market

Foreign investors affect the size of employment, skills, pay, working conditions and industrial relations (see discussion in Domański 2001b). All of these intra-firm changes are discussed here from the perspective of their broader effects on the local labour market.

2.1. The durability of production of foreign-owned factories

The question of durability of activity is a critical one in the case of each investor. The size of investment, sunk costs, type of production and position of Polish factories within the corporation determine plants' future prospects. On the whole, enterprises with foreign participation show better performance than domestic firms. The survival of the enterprise, its development and prospects for the future are put forward as essential benefits of having a foreign investor by the interviewed trade union representatives. The involvement of the majority of TNCs in Poland appears to be part of their long-term strategy. A more temporary character may be an attribute of assembly activities (both domestic and export-oriented) and the production of simple, labour-intensive goods for exports.

Plant closures by TNCs have been rare in Poland so far and can be put in three different categories from the point of view of their reasons.

² There are also employee-owned companies where shareholders decided to sell the entire firm to a strategic investor, e.g. Nobiles (Akzo Nobel) and Delecta (Rieber) in Wrocław.

First, there are relocations of production from old to newly-built factories. Most of them take place within the same town or between nearby localities, which allows to retain the workforce. Long-distance relocations entail an inevitable loss of jobs, e.g. Chio from Sękocin near Warsaw to Nysa, United Technologies from Płońsk to Mielec³.

The same effects are produced by the concentration of production in fewer places by multi-plant enterprises seeking cost reduction. This is common in food industry (breweries, sugar mills, fruit-processing and meat plants). From the point of view of the local labour market, it is better if the plant is sold⁴ rather than closed. This is not possible if the company decides to transfer the technological lines to another factory in Poland in order to continue the same production. This was the case when the Warsaw-based ABB Zwar shut down its branch plant in Łęborg and relocated production to Przasnysz and Łódź. The move was explained by the need to reduce personnel costs and number of locations – the Łęborg plant was the smallest (156 employees)⁵ and the most distant from the others. This shows that good economic performance may not guarantee the long-term existence of a branch plant. The closure is caused by non-local reasons, but negative effects are local and affect the town of 37,000 inhabitants with more than 20% unemployment.

There are fewer closures stemming from the total withdrawal of the foreign investor from certain production in Poland. For example, this happened with Ford assembly plant in Płońsk (280 jobs), TV assembly in several towns (e.g. in Kalisz) and some non-capital intensive activities, e.g. clothing. There are also a few plants that have lost their market. A spectacular failure, mainly attributed to mis-management, ended the 60-million-dollar Turkish Rumeli investment in the Nowa Huta cement mill in Cracow (350 people). The fall of ABB Dolmel Drives in Wrocław, a joint venture established with 1400 employees in 1990, and ABB's majority stake since 1996, was a gradual process⁶. The integration with the global economy through transnational corporations makes Polish factories and local economies open the influence of distant markets and dependent on decisions taken abroad. Problems faced the investor at home may cause adverse effects in Poland, as illustrated by the exigencies and uncertainties following the collapse of Daewoo in Korea.

2.2. Impact on the size of employment

Plant closure is the most radical and uncommon impact of the investor on the local labour market. Still, a typical effect of successful foreign investment is a shrinking number of jobs – a result of strategic plant restructuring. Increased productivity, technological change, new products and specialisation lead to reduction in employment in factories

³ The latter reveals an adverse effect of special economic zones, which may draw production from other places.

⁴ Quite often to the management and employees.

⁵ There were also 340 people in co-operating local firms, which used to be part of the company.

⁶ About 1/3 of jobs was transferred with parts of production to other domestic and foreign firms, the rest steadily ceased to exist by 1999 as there was no demand for factory's main product (motors for locos and trams).

that experience production growth. The number of jobs also declines due to outsourcing of activities that were traditionally performed in the firm. Foreign-owned firms usually transfer cleaning, security, catering, tool-making, etc., to other enterprises, including employee-owned ones. A more recent process is outsourcing of industrial processes on site, focusing on narrowly defined core activities. It is evident in automobile and electronic industries, e.g. several independent foreign companies are engaged in the production process in the car plants in Tychy (Fiat) and Gliwice (Opel). Outsourcing contributes to the uncertainty among the workers⁷. Generally, although the economic standing of restructured foreign firms makes their jobs more stable than those in other enterprises, the lack of individual employment certainty is common due to constant changes and growing requirements. There may be personnel rotation irrespective of changes in the number of jobs. However, labour shedding as a result of poor performance of large foreign firms is rare and has to be distinguished from the contraction of employment as an effect of “offensive restructuring”, leading to the growth of output and productivity.

The adverse effects of the downsizing of the workforce may be reduced by making it a gradual process. The delay in layoffs may result from a few-year employment guarantee, which is usually part of a social pact signed by the investor before privatisation. The Polish labour code makes workers eligible for a three-month severance pay in case of redundancy, trade unions often successfully bargain for more ample compensation. Employment guarantees are sometimes circumvented by offering generous severance pay to people who quit their jobs (up to record 30-month wage). Major reductions in labour force were applied in this way for example by Siemens in Warsaw (ZWUT) and Wrocław (Elwro), ABB in Warsaw (Zwar) and Rhodia in Gorzów (Stilon).⁸ A different, active road to cope with redundancies is taken by Pilkington in Sandomierz. It maintains a foundation that provides financing to firms set up by people made redundant or enterprises that employ them. About 800 people have found jobs in the first stage, i.e. more than lost them in the glassworks as a result of new technology, so access to the funds have been broadened to cover other local people and firms. Frantschach, in addition to 8-month severance pay, established Vistula Park Świecie to attract new investors to the town (together with *gmina*). Some employers try to avoid severance pay by dismissing people in groups smaller than a redundancy threshold.

The negative effects of job loss in a large measure depend on the role of the employer on the local labour market, the structure and overall performance of the local economy. The problem is most serious in small and medium-sized non-metropolitan towns dominated by a single company. For example, in Praszka (8,500 inhabitants) Visteon reduced employment in its factory from 1,500 to 1,000 between 1998 and 2000;

⁷ From the point of view of the outsourced jobs it is important whether the firms that take over the activity are viable domestic or foreign enterprises able to find new markets and become less dependent on a single large customer; this may be difficult in the case of employee-owned companies, which suffer from the lack of capital.

⁸ For example, ZWUT employed 2,600 people, when it was taken over by Siemens in 1993; it now has 800 employees, mostly newly recruited skilled staff and the value of production has tripled.

in Płońsk two foreign plants were closed (Ford, United Technologies) and layoffs took place in others (Hortex), but employment increased in Danone (former Wedel factory) and a new roofing plant of Braas was built.

There are also some companies that have considerably increased employment thanks to vast expansion of production capacity, e.g. Thomson in Piaseczno (5,520 employees in 2000 and 3,200 in 1991), Philips in Kwidzyn (2,100 and 700 in 1995)⁹, Volkswagen in Poznań (2,600 and 470 in 1995), and Mazurskie Meble (Schieder) furniture company (3,700 and 2,050 in 1989). On the whole, new jobs are primarily created in greenfield plants. The employment levels in modern, capital-intensive factories tend to be lower in comparison to old establishments and labour-intensive plants with limited sunk costs, however the jobs here are distinguished by long-term stability and better quality.

2.3. Qualitative changes in the labour market

The majority of large foreign companies have full-time employees only. Some of them, similarly as their domestic counterparts, take part of the workforce on temporary contracts to meet seasonal demand or evaluate newly-recruited employees. The reserve workforce, people whose contracts have expired and await possible employment as a replacement or seasonal job, are characterized by uncertainty, lower incomes and no access to bank loans.

It is a universal view of the unions in big corporations that working conditions have improved remarkably since privatisation (Domański 2001b). This concerns, first of all safety, enhanced through new technology, better tools, protective clothing, training, and control; secondly abatement of noise or heavy physical effort; and thirdly social standards in the form of better showers, toilets, lockers and rest areas, for which there was never enough money under socialism. Finally, foreign employers pay better than domestic firms, at least 10% above the local level, sometimes much more. At the same time, there is a widespread belief among trade unions that the growth in productivity and worker responsibility is insufficiently remunerated. Better earnings and working conditions are chiefly economically motivated, they also build a positive image of the investor. Some companies showed special efforts in this direction, e.g. early Daewoo's concern about its image of a "good citizen" in Europe.

The contact with modern technology and organisation of production together with extensive training programmes bring enhanced skills and expertise, which may spread in the community and the region by means of staff mobility, spin-offs in the form of new enterprises established by former employees of foreign factories and demonstration effect. In this way, knowledge and experience gained in foreign firms become an element of the local economy, contributing to its comparative advantage. The special role is played here by managerial and professional staff, for whom the town or region is a place of residence.

⁹There are further 1,800 people in firms that develop as Philips suppliers in Kwidzyn, including foreign ones.

The appearance of a strong foreign employer means more intense competition on the local labour market. Indigenous firms may lose their best employees and face difficulties in their recruitment. This may be especially important in places with limited pool of skilled labour. Access to the “privileged” segment of the labour market represented by jobs in many TNCs with higher pay, better working conditions and brighter economic prospects for the workplace, is socially differentiated. Foreign employers prefer young people with special personality traits, often without “bad habits” of employment in large state-owned firms. This selectivity is manifest in complex, multi-stage recruitment procedures in greenfield plants.

3. Other local economic, social and environmental relations and effects

3.1. Competition with indigenous companies

Foreign corporations increase competition for domestic manufacturers and may push them out of their traditional markets. Although there are no fiscal incentives available to foreign investors alone, they may take advantage of greenfield locations in special economic zones vs. existing producers of similar goods. This primarily affects Polish producers that compete on the nation-wide market. At the regional scale, such competition can be seen in the production of animal fodder, construction materials, plastic windows and local press (e.g. the disappearance of *Kurier Podlaski* after losing the rivalry with Orkla-controlled newspapers in Białystok). Enterprises that operate on local markets are less affected. The economic conditions for local companies may deteriorate under the impact of a large foreign investor also due to a general rise in local earnings. This may especially affect firms the market position of which is contingent on low labour costs.

3.2. Local taxes, infrastructure and social provisions

Olesiński (1999) established that 29-36% of foreign firms were involved in investment in local infrastructure. The author’s study of 96 new factories revealed such activity of 29 investors (Domański 2001a). For the most part, it concerns the infrastructure that supports the investor’s activity. Some companies build their own road connections, though commonly such investment is expected from the local authorities or the state. Investors participate in the modernisation of water supply system and construction of new sewage treatment plants that serve the community. This happens not only in the case of greenfield investments, but also in privatised firms, e.g. International Paper in Kwidzyn and Góraźdże (Heidelberger-CBR). There is occasional participation in other investment such as gas mains, railway or bus service. In addition, foreign companies may finance construction or modernisation of schools (Schieder in Hława, Cargill in Kobierzyce), computer centres (International Paper) and sports facilities (Polarcup in Siemianowice Śl., Coca Cola in Niepołomice).

It is interesting that foreign investors more often and to a greater extent (i.e. contributing more resources) are engaged in local investment in small communities than in cities.

Infrastructural investment was observed in 46% of greenfield plants located in rural communes, in 40% of small towns (below 25,000 people) and only in 15% of large and medium-sized urban places (including almost none in cities above 250,000 inhabitants). The question is how far this reflects poor infrastructure and limited resources of small communes and hence greater need for investor's involvement, and to what degree different attitude of TNCs. If we take into consideration that local governments are found to exert greater impact on factory location outside major cities and there is better co-operation between investors and small communities, it may lead to the conclusion that the foreign company may find other, intangible benefits here, such as faster decision-making and less bureaucracy.

TNCs also become integrated in communities through their sponsorship of local events and institutions. From 50 to 70% of enterprises with foreign capital surveyed by Olesiński (1999) undertook such activities; the share was 55% among greenfield factories studied by the author. The sponsorship of cultural events is the most popular. The support for schools, kindergartens, orphanages and hospitals – i.e. children-related institutions, as well as of sports teams is more frequent than that of cultural institutions, though. They are financial or in-kind provisions, e.g. medical equipment, computers. There is also occasional funding of other institutions, e.g. fire brigade, police, and charity contributions on national and local levels.

The discussed activity is somewhat more common among large investors, the difference between small communes and large towns is less pronounced than in the case of infrastructure. Dicken *et al.* (1994) raise a question about the extent to which these social provisions are underlain by narrow TNC's self-interest, or rather reflect some sort of community spirit. One could expect stronger sense of local identity in a small community, where the investor is more "visible" as the major employer and personal connections with local elites are more likely to develop¹⁰. All provisions promote a positive company image, many of them do not require large resources and lasting commitment. The long-term sponsorship of sports clubs, educational, medical or cultural institutions is more costly and less common. Whatever the cost for the firm, the provisions are an important support for the recipients. Still, similar support is provided by successful indigenous enterprises.

The fundamental economic link between any firm and the community are local taxes. As reliable taxpayers foreign companies strengthen the local budget, which may also profit from selling communal land to the investor¹¹. The communes benefit from their share in income and corporate taxes (27.6% and 5% of these state taxes respectively), less money is raised through property tax. Factories that generate large profits, employ many people and cover large area bring more taxes. Tax holidays reduce these revenues. They were offered as an incentive in special economic zones; every fourth studied greenfield plant has also been granted an exemption or relief in property tax.

¹⁰ Managers' participation in social life and local organisations 'embeds' the firm in the community as well.

¹¹ The profits from selling the land can be very high, e.g. they made the revenues of Kobierzyce near Wrocław increase six-fold between 1992 and 1994 and twenty-fold by 1996.

The increased local budget helps to finance the development of technical and social infrastructure, which improves the standard of living and may attract further investors. This can be illustrated by the immense investment in schools, transport, gas supply, water and sewage systems in Tarnowo Podgórze and Kobierzyce due to the revenues from foreign investors. On the whole, the indirect impact of the investors on the improvement in local infrastructure through tax revenues is greater than by means of their direct participation in such investment.

There may also be other local benefits that result from lobbying by foreign companies, e.g. Wrocław gained new air connections and an international school thanks to Volvo. The presence of well-known corporations may promote a positive image of the town.

3.3. Foreign manufacturers and environment

One of the fears expressed in relation to foreign companies is transfer of environmentally noxious production to Poland. The full assessment is not possible without broad comparative research on technologies used by TNCs in Poland and Western Europe. What is easier is to compare the environmental behaviour of foreign manufacturers with that of the same enterprises before privatisation and with domestic firms. All things considered, the impact of foreign industrial investment on environment in Poland is positive (Starczewska 1996). This is confirmed by a growing number of firms with certificates for ISO 14001 norms. Foreign producers comply with Polish ecological norms, which do not generally diverge from the EU regulations. There are no examples of TNCs constructing noxious facilities.

A general environmental progress in foreign-owned plants stems from better technology, greater capital and concern about the company image. One cannot forget that the initial situation in numerous factories after socialism was very bad. Many of them have radically changed, e.g. Lucchini Warsaw steelworks, cement mills in Opole and Chełm. The amount of industrial waste decreases, ever more is recycled.¹² A separate problem is responsibility for the waste dumps from the socialist era, which foreign investors avoid. New communal sewage treatment plants may be an indirect effect of the appearance of large industrial investors.

The enforcement of regulations, which were ignored under socialism, may appear as a barrier to environmental abatement. Pilkington's investment in a new float glass plant, which was to replace an old factory in Sandomierz, was nearly blocked since the new facility was located in a small distance from the residential housing built next to the factory previously.

Some foreign investment encountered local protests. Elf abandoned its plans to open a polystyrene factory in Gdańsk as a result of environmental objections. A serious conflict was ignited by Goodyear's decision to open a logistic centre next to its factory in Dębica in 1998. The investor put a pressure on the local government, which eventually approved the location (so did the ministry), which required the clearance

¹² One may point to a national campaign of glass collection by Huta Jarosław (Owens Illinois). There are still differences in Polish and EU regulations concerning plastic recycling.

of 4 ha. of forest. The deal was to plant the same number of trees elsewhere and pay 1.2 mln USD. The company ultimately decided to build the centre in Tarnów to avoid the delay in its completion by potential protests and lawsuits. The abandonment of a sulphur mine in Basznia without proper protection, is an example of the lack of environmental concern on the part of a small foreign investor.

3.4. Transnational corporations and the local government

Finally, the relationships between large foreign investors and local governments have to be discussed. They are evaluated as good or very good by both parties in at least two-thirds of cases and very rarely considered unsatisfactory. The vast majority of local officials believe that foreign investment brings more advantages than negative effects to the community (Błuszkowski, Garlicki 1996). New or preserved jobs are the major perceived benefit and expectation, which also finds support in the author's research in localities where new factories were built. Further main advantages are taxes and a better image of the locality.

More than 60% of firms that undertook greenfield investment maintain that their location choice was influenced by the actions of the local government. Two types of conditions are put forward as most important here: the general attitude towards the investor and the quality of service by the local administration. Broadly defined openness and readiness for co-operation are fundamental to convincing the investor that the commune is a reliable partner, willing and capable of solving problems associated with a new plant. Moreover, companies expect prompt decision-making and a lack of bureaucratic delays in such areas as issuing building permits, and occasionally support in dealing with utility companies and other institutions. Local participation in the development of infrastructure is declared as relevant by about 30% of firms. All in all, conditions allowing for quick beginning of the investment, and to some extent reduction of its cost, turn out to be vital in attracting large investors. The ability to provide more efficacious service is one of the reasons behind the investor's preference for small towns and villages over large cities. It is mainly in the latter where some company managers complain about their relations with local authorities.

4. The embeddedness of TNCs and their impact on local and regional development

Many communities and regions in Poland become integrated into global economy through foreign investors. The development of local manufacturing plants is often dependent on faraway markets and decisions made abroad now, their activity may rely on imported technologies and production inputs. As subsidiaries of transnational corporations they become part of international production networks, in which creation and distribution of value is regulated. The essential question is how far TNCs are embedded in the local and regional environment and how this affects the capacity for sustained economic development.

The majority of foreign investors reveal extensive connections with local communities and regional economies. Some foreign producers have networks of suppliers

of components, intermediate goods and raw materials in the region, almost everyone uses a variety of local producer services. All these linkages bring about local and regional multiplier effects. There are also universal income multiplier effects generated through employment. The long-term prospects of the activity and hence jobs, impact on the quality of labour force are crucial. The local integration also takes the form of company support for various institutions and events, and the involvement in infrastructural investment. Even if these provisions are associated with company interest and are occasional rather than regular, they link the investor with its milieu. Together with tax payments, respect for the environmental regulations and good labour relations, they make the firm "a local citizen". Lastly, there are relations with the local government and other institutions and a broader influence on local firms and community by means of personnel mobility, social contacts and imitation behaviour.

The developed regions, metropolitan areas in the main, are places where global capital can become embedded most readily. They benefit from their growing, diversified economic base, so partners for co-operation, i.e. suppliers of specialised producer services, components and intermediate goods, can be found more easily here. Thus, they both capture large manufacturing and service investment, and take advantage of strong local and regional multiplier effects, all of which enhances their competitiveness. The activity of TNCs reinforces rather than undermines regional strengths and potentials for development here.

Their impact is less evident on peripheral regions, which generally attract limited foreign capital, investment in more sophisticated activities in particular. Some of the linkages can be missing or weaker here. However, the positive influence on the upgrading of skills and business standards can actually be more profound in less developed areas. Small towns and rural communities are likely to gain more in terms of infrastructural investment and company social provisions. Even foreign factories that lack regional supplies of components and materials, and are not engaged in the provisions for the community, can hardly be regarded "colonial strong points" or "cathedrals" isolated from their surroundings, if we take into account their service linkages, labour and income impact. All things considered, there is little support for the opinions about generally poor linkages between TNCs and regions in Poland.

Region- and locality-specific features, including geographical location, the strength and structure of the economy, social attributes and the activity of public authorities, may have significant effect on the degree of embeddedness. There are also company-related factors that affect the scope of local and regional relationships of the TNC. This concerns component and raw material supplies, which depend on industry above all, and to some extent on export-orientation and greenfield/acquisition type of investment. Companies that operate longer in the area may have more suppliers there. Moreover, the investors long established in the community are more likely to develop generous local social provisions, but less reasons to be engaged in infrastructural investment. Capital-intensive activities, new modern factories bring enhanced skills and expertise together with long-term stability of jobs. The termination of simple, labour-intensive production and assembly is more probable. Small branch plants of multi-plant enterprises may be in greater danger of closure in the case of rationalization. Large factories generate more income effects, taxes and possibly social provisions.

All in all, there is a multitude of linkages and effects of large foreign manufacturers' activity in Poland. They differ among individual investments depending on place and investor-specific factors, so does the overall embeddedness of foreign manufacturers in regions and localities. TNCs bear upon the comparative advantage of certain areas mostly through the enhanced competitiveness of local firms and enriched labour skills.

Finally, a comparison of the relationship between the large industrial company and the town under state socialism and contemporary capitalism can be made. There is much evidence that huge socialist industrial enterprises did not contribute to the development of the town but rather represented parasitical growth in the town (Domański 1997). The economic system allowed no local multiplier effects, and company paternalism benefited a limited group of eligibles, jeopardizing the life chances of other local residents. Costs of company practices were too often transferred to the local community at large, and the firm generally escaped responsibility for economic and environmental consequences of its actions. The town authorities, deprived of their own financial resources, property, and political power (they did not represent the community), were overwhelmed or ignored by state-owned industrial gatekeepers, which controlled the allocation of scarce public resources.

The basic similarity is a non-local origin of power of the firm. Main costs born by the community in the case of the capitalist firm are infrastructure and education of labour. Several socialist company provisions are missing. Most of them were available to some social groups only, a typical activity that ceased to exist and concerned broader community was sponsorship of local professional sports. The critical difference is a possibility of a complete closure of the plant or the collapse of the firm, which was very rare under socialism. The success of the company may now mean fewer jobs as a result of enhanced productivity. At the same time, tax revenues constitute a stable, non-discretionary link between the development of the producer and the community, and hence contribute to the financing of local infrastructure and education too. Paradoxical though it may appear, large capitalist firms are more economically embedded in Polish towns than their socialist predecessors, which neither paid local taxes nor generated income and supplier multiplier effects (still they boosted local needs). In contrast to the latter, transnational corporations cannot disregard formal regulations in the environment in which they function either.

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Lokalne i regionalne zakorzenienie zagranicznych inwestorów przemysłowych w Polsce

Streszczenie

Coraz więcej polskich gmin i regionów integruje się z gospodarką globalną za pośrednictwem zagranicznych inwestorów. Działalność wielu zakładów przemysłowych zależy od sytuacji na odległych rynkach i od decyzji podejmowanych za granicą oraz opiera się na technologiach i zaopatrzeniu z importu. Rodzi się w tej sytuacji pytanie w jakim stopniu przemysłowe korporacje ponadnarodowe zakorzenione są w środowisku lokalnym i regionalnym oraz jak wpływa to na zdolność do długotrwałego rozwoju gospodarczego.

W artykule pokazano różnorodność powiązań gospodarczych i społecznych wielkich koncernów, które składają się na owo zakorzenienie. Część zagranicznych producentów posiada rozbudowaną sieć dostawców części, materiałów i surowców, wszyscy korzystają z miejscowych usług – od transportu i ochrony do obsługi prawnej, komputerowej i marketingowej. Tworzą w ten sposób zaopatrzeniowe efekty mnożnikowe w gospodarce lokalnej i regionalnej, ponadto generują efekty dochodowe sprzyjające rozwojowi usług konsumpcyjnych. Istotne znaczenie ma trwałość działalności inwestorów, ich wpływ na liczbę i jakość miejsc pracy. Integracja inwestorów z otoczeniem następuje również przez sponsorowanie lokalnych instytucji i przedsięwzięć oraz partycypację w rozbudowie infrastruktury. Wraz z płaceniem podatków, respektowaniem przepisów ekologicznych i dobrymi stosunkami pracy działania takie czynią firmę obywatelem społeczności lokalnej.

Cechy miejscowości i regionów mogą wpływać na stopień zakorzenienia inwestorów. Znaczenie może mieć tu położenie geograficzne, poziom i zróżnicowanie miejscowej gospodarki, cechy społeczne oraz działalność samorządu. Najkorzystniejsze warunki dla rozwoju silnych więzi znajduje kapitał w regionach wyżej rozwiniętych, przede wszystkim w obszarach metropolitalnych. Łatwiej tu m.in. o dostawców specjalistycznych usług lub wyrobów. Jednak nawet tam gdzie zagraniczni producenci nie korzystają z miejscowego zaopatrzenia w materiały i części oraz nie angażują się

w świadczenia na rzecz społeczności, trudno mówić o „kolonialnych enklawach” lub „katedrach na pustyni”, jeśli weźmiemy pod uwagę lokalne powiązania usługowe, oddziaływania za pośrednictwem kadry i dochodów. Wpływ tych ostatnich może być nawet większy w obszarach o niższym poziomie rozwoju.

Czynnikami silnie różnicującymi zakres lokalnych i regionalnych powiązań są cechy samej firmy i inwestycji. Odnosi się to w szczególności do zaopatrzenia w materiały i części, które bardzo silnie zależy od branży. Skala owego zaopatrzenia bywa mniejsza w fabrykach zorientowanych na eksport i zakładach wybudowanych od podstaw. Firmy działające dłużej w regionie mają w nim zazwyczaj więcej dostawców, większe mogą być też ich świadczenia na rzecz społeczności. Nowoczesne, kapitałochłonne zakłady przyczyniają się do podnoszenia kwalifikacji kadry i odznaczają się większą trwałością. Bardziej krótkotrwała może być prosta, pracochłonna działalność produkcyjna i montażowa. Małe zakłady filialne są bardziej narażone na likwidację w przypadku koncentracji produkcji. Zakłady duże generują silniejsze dochodowe efekty mnożnikowe, wnoszą większe podatki i ewentualnie inne świadczenia.

Ogólnie rzecz biorąc, zakorzenienie większości dużych producentów z zagranicy jest w Polsce znaczne, co pozytywnie wpływa na konkurencyjność regionów i miejscowości, przede wszystkim poprzez poprawę perspektyw miejscowych przedsiębiorstw i wzrost kwalifikacji.

Porównując relacje między wielką firmą przemysłową a miastem w warunkach socjalizmu i współczesnego kapitalizmu zwrócić można uwagę, że w obu przypadkach mamy do czynienia z pozalokalnym źródłem władzy. Socjalistyczni potentaci mogli przerzucać na lokalne otoczenie koszty świadczeń pracowniczych, poszerzanych za cenę pogarszania ogólnych warunków życia w mieście. Nadawało to rozwojowi państwowych przedsiębiorstw w mieście, przejmujących kontrolę nad dystrybucją deficytowych dóbr publicznych, cechy pasożytnicze. Głównymi kosztami ponoszonymi przez społeczność lokalną w stosunku do zagranicznych producentów są koszty infrastruktury oraz edukacji. Zniknęły liczne świadczenia zakładowe, z których tylko nieliczne miały charakter otwarty. Zasadniczą różnicą jest dziś możliwość upadłości firmy lub zamknięcia fabryki. Równocześnie regularne dochody podatkowe stanowią stabilne, nie uznaniowe, powiązanie między rozwojem firmy i miasta, wspomagając finansowanie rozwoju lokalnego. Paradoksalnie, zakłady korporacji ponadnarodowych są silniej osadzone ekonomicznie w otoczeniu lokalnym niż ich państwowi poprzednicy, którzy nie płacili lokalnych podatków i nie generowali efektów mnożnikowych w miejscowej gospodarce (przyczyniali się natomiast do wzrostu lokalnych potrzeb). Wielkie firmy funkcjonują dziś w ramach obowiązujących regulacji prawnych, które socjalistyczni producenci mogli ignorować.

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