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Swiss Investments in Poland

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Executive Summary

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Executive Summary

In 2010, the Swiss share of the foreign direct investment (FDI) stock in Poland rose to EUR 6.8 bn., whereby Switzerland ranked seventh among foreign direct investors in Poland. The objective of this study, which was conducted from May to October 2012, was to investigate Swiss investment activities in Poland and to better understand the motives and incentives that attracted Swiss companies to Poland. 58 Swiss companies were interviewed in the course of the study. These companies constitute a significant sample of Swiss businesses operating in the country and encompass the bulk of Swiss investments in Poland. In addition, data from the Swiss National Bank (SNB) and the Polish National Bank (NBP) were gathered, compared and analyzed.

In the past 20 years, Poland operated a successful transition from a centrally planned socialist system to a market economy. Since 2007, Poland has been the best economic performer within the OECD area in terms of real GDP growth. While the inflow of structural funds granted in the framework of the EU's cohesion policy (around EUR 67 bn. between 2007 and 2013) played a significant role in Poland's economic performance, the steady growth of FDI was equally important. Since 2006, Poland has been the leader among Central and Eastern European countries in attracting foreign capital, confirming its attractiveness as a promising business location, including for Swiss companies.

From 2005 to 2009, the share of Swiss foreign capital stock remained stable, amounting to approximately 2.4% of the overall foreign capital stock in Poland. During the global financial crisis, the Swiss capital stock did not recede as much as capital from other countries. Consequently, Switzerland ranked seventh in 2010 with a record capital stock of EUR 6.8 bn., before falling back to rank 12 in 2011 (table 1).

Table 1: Ranking Capital stock, 2010 and 2011, in million EUR

Rank	Country	Capital stock 2010	Rank	Country	Capital stock 2011
1	Netherlands	29'242	1	Netherlands	23'170
2	Germany	21'220	2	Germany	20'750
3	France	19'375	3	France	19'228
4	Luxembourg	13'436	4	Luxembourg	15'884
5	Italy	10'557	5	Sweden	9'163
6	USA	9'451	6	Spain	8'673
7	Switzerland	6'798	7	Italy	8'181
8	UK	6'220	8	USA	7'458
9	Sweden	6'193	9	UK	5'872
10	Spain	5'448	10	Austria	4'746
...	12	Switzerland	3'986
	Total	161'378		Total	153'350

Source: National Bank of Poland, Foreign direct investment in Poland 2010 - 2011, own calculations

However, these figures must be considered with caution. The fact that many holding companies are concentrated in some European countries blurs the real origin of the investments in Poland (in particular investments from the United States). In addition, the FDI figures might be overestimated due to the phenomenon of "capital in transit". Hence, an analysis based solely on macroeconomic

data is unlikely to provide a satisfactory overview of Swiss investments in Poland. For this reason, the present study aims at providing a better insight into the companies that underpin these figures.

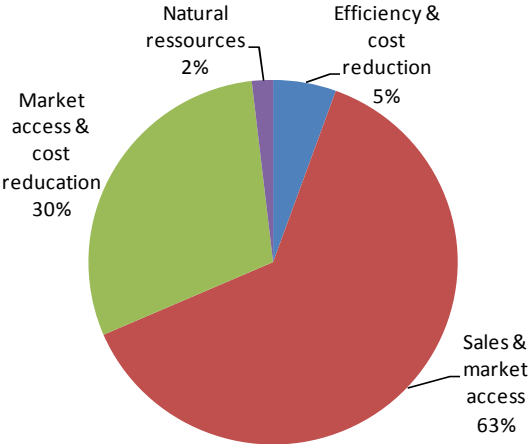
Three areas of the Polish economy are particularly attractive to foreign investors worldwide: (1) business services and R&D, (2) automotive, aviation and electronics industries, (3) the energy sector, due to the government’s policy aimed at developing shale gas and nuclear energy, as well as Poland’s commitments in the framework of the EU climate and energy targets for 2020 (renewable energies). Swiss investors are present in a wide variety of sectors including pharmaceuticals, logistics and transportation, machinery, engineering and construction, food processing as well as financial, trade and consulting services.

Both multinational companies and small and medium enterprises (SMEs) have realized the potential offered by Poland's relatively large domestic market (38 million inhabitants). While SMEs make up 70% of the Swiss companies examined in this study, the larger companies account for 80% of the investment volume. According to the Swiss National Bank, Swiss companies currently employ about 35,000 persons in Poland.

Poland is internationally recognized as a prime location for Business Process Outsourcing (BPO) and Shared Service Centers (SSC). For foreign investors, including Swiss companies, this business destination stands out from its competitors through its well qualified and multilingual workforce, which is able to execute complex tasks in the fields of finance, IT and other business processes. Since 2005, approximately 200 foreign companies have opened service centers in Poland and generated about 40'000 jobs.

When asked about their investment decisions, 63% of the interviewed companies indicated that their prime motivation for investing in Poland was to gain access to new markets and to increase sales (graph 1). Only 6% indicated that their decision was primarily based on the intention to reduce production costs by relocating parts of their production process. 30% of the companies’ investment choices reflect both market- and efficiency-oriented motivations.

Graph 2: Swiss companies’ motives for investing in Poland



Source: own survey data

These findings contrast with the widespread perception that foreign direct investments in Poland are by and large connected to industrial or manufacturing relocation. Although there are cases where a Swiss company decided to move its entire production to Poland, the large majority of businesses interviewed keep production capacity as well as R&D activities in Switzerland. For many of these companies, having access to new markets or outsourcing part of the production process to Poland increased the competitiveness of the Swiss production sites by providing them with intermediate products at advantageous conditions.

Factors such as the size of the Polish domestic market, its impressive growth performance, the availability of a well qualified workforce and its favorable geographic position are often mentioned as major criteria for choosing Poland as an investment destination. The strategic situation of Poland allows investors to access both the Western and Eastern European markets and offers a good starting point for future expansion towards the East. Many companies consider the business potential of the Polish market as far from being exhausted and are mulling further investment plans, despite growing concerns that Poland may be affected by the gloomy economic situation in most European countries.

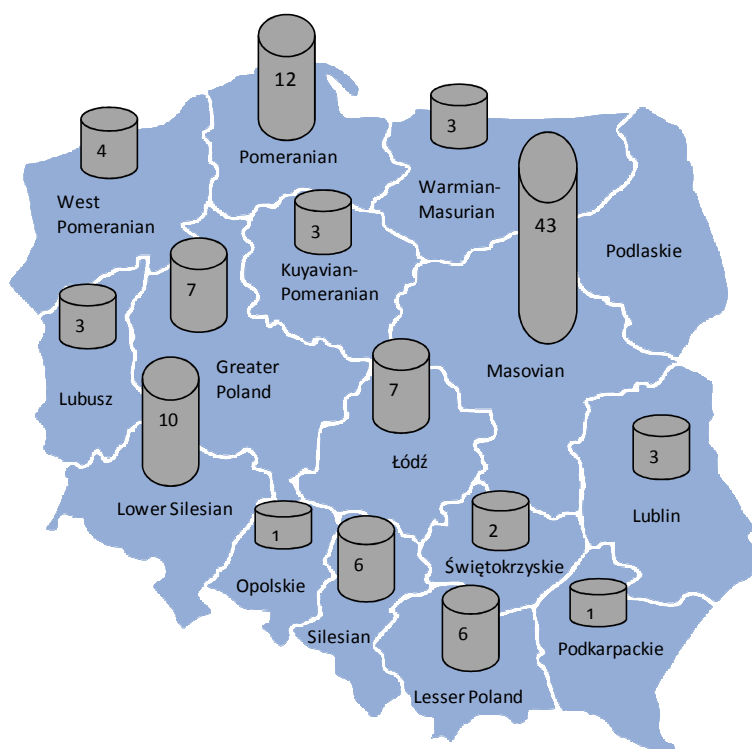
Although Poland is still associated with poor infrastructure, many companies indicated that the Polish transport infrastructure has substantially improved. The 2012 European Football Championship was an incentive to correct deficiencies in both rail and road systems. In Silesia, for example, the intersection of the north-south and east-west transport links renders the area very attractive to investors. The recently completed highway between Warsaw and Berlin facilitates transit between Poland and Germany.

According to some of the interviewed companies, there are also cultural reasons explaining their choice to invest in Poland. Poland is seen as culturally close to Switzerland, open to new ideas and accessible, which facilitates the cooperation between the subsidiary and the parent company. In addition, the regulatory framework is considered comparable to Western European standards, which reduces adjustment costs and difficulties.

For financial services companies, the convenient time zone, which allows communication with Asian clients in the morning and customers from North America in the evening, is a significant advantage. This argument adds to the comparative advantages of Poland as a destination for "service outsourcing", especially when compared with India and other Asian countries.

The regional distribution of Swiss investments varies greatly throughout Poland. The study finds that a majority of Swiss companies have settled down in Masovia, in order to be close to Warsaw, the economic, financial and political centre of Poland (map 1). In addition, many companies chose their location to be close to major academic centers like Wroclaw, Krakow or Poznan or due to favorable road connections, for example to Germany. These cities provide a readily-available, highly skilled and well educated workforce. Moreover, regions such as Lower Silesia and Silesia are attractive for Swiss industrial companies due to their long-standing industrial tradition. Entrepreneurs favor regions where they can build a good relationship with local authorities to avoid bureaucratic hurdles. Due to their underdeveloped infrastructure and lesser economic perspectives, regions of eastern Poland have attracted much less investment. Therefore, Swiss investments are concentrated mostly in central, northwestern and southwestern Poland.

Map 1: Distribution of Swiss companies (headquarters, production or large investment sites only) in Polish Voivodeships



Source: own survey data, wikicommons

Swiss investments in Poland reflect three types of FDI: mergers and acquisitions, capacity expansion and greenfield investments. With respect to the latter, some companies benefited from the incentives of Poland's special economic zones. The main advantage of investing in a special economic zone is the possibility of obtaining a tax allowance consisting of a corporate income tax exemption.

According to current regulations, the terms of the special economic zones are limited until 2020. It remains to be seen if this instrument will be extended beyond 2020, considering its potential competition distortion effects at EU level. Even for Swiss companies benefiting from these incentives, it is unclear to what extent the presence of special economic zones was a decisive factor for choosing Poland as an investment destination. Investors put much more emphasis on other factors, in particular the large supply of skilled and relatively inexpensive labor.

Poland will most likely remain an attractive destination for FDI from all over the world for the years to come. However, given that Poland is currently the largest recipient of European structural and cohesion funds, a possible reduction of financial support through such funds could have adverse effects on the development of the Polish economy. For the future, it is thus of utmost importance for Poland to develop its own innovation capacities and performance. This prospect offers great opportunities to further strengthen Swiss - Polish economic cooperation.