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A Comprehensive View of Poland and Foreign Direct Investment: Pathway to Development or Flashpoint to Conflict within the European Union?

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Abstract

This paper will consider the implications, benefits, and unique aspects of foreign direct investment (FDI) in Poland over the period of the past twenty-five years in the context of Poland's membership in the European Union and in light of recent political developments that have taken place which may threaten to upset the progress that has been made over this same period.

The paper is based upon current and prior research conducted by the author and several co-authors, researchers, and specialists in such areas as taxation, economic development, transition economies, foreign trade, and foreign investment initiated and adapted from both retrospective and prospective viewpoints and data.

Key Words: Foreign Direct Investment; Economic Transition; Balcerowicz Plan; Morawiecki Plan

JEL Classifications: F02, F15

1. Introduction

Consider this brief overview of the Polish economy in 2018-2019 offered by the OECD (2018a):

"Economic growth is projected to remain solid, but ease gradually as labour resources become scarcer and production costs rise. Domestic demand will continue to drive growth: consumption will be supported by a tight labour market and investment by the disbursements of EU structural funds and low real interest rates. Intensifying labour shortages will boost wage growth and inflation."

"The budget deficit will remain broadly stable, although a tighter fiscal stance would help confront demographic challenges and strengthen the fiscal position to deal with a potential future downturn. The central bank is projected to raise interest rates gradually to counter rising inflationary pressures. Removing impediments to employment of seniors and females, and making more effective use of workforce skills, would raise medium-term growth and living standards, while investing further in early childhood education would promote more inclusive growth" (OECD, 2018a).

Perhaps no factor has been as important in determining the success or failure of the Polish experiment in establishing a free market economy since 1989 as the development and nurturing of foreign direct investment.

Foreign Direct Investment, more commonly known as FDI, occurs with the purchase of "the physical assets or a significant amount of the ownership (stock) of a company in a host country to gain a measure of management control" (generally Li, Liao, & Sun, 2018). Ordinarily, FDI inflows are counted from a *10 percent stock ownership* in a company abroad. FDI may be distinguished from straight *portfolio investment (*also called *passive investment)* that does not involve obtaining a *degree of control* in a company.

Examples of portfolio investment involve the purchase of corporate debt securities, stocks, bonds, interest-bearing bank accounts, treasury bills, debentures, and notes (see e.g., Hasuike & Mehlawat, 2018). Portfolio investment has held a clearly secondary position in Poland in terms of both economic development and transition, although the Warsaw Stock Market has been an important vehicle in the creation and development of a capital market in Poland (de la Rosa, Crawford, & Franz, 2004; Louis, 2016).

As de la Rosa, Crawford, and Franz (2004, p. 121) commented: "As the number of listed firms increased and as the public grew more comfortable with private ownership, the volume of trading increased. Initial trading resulted in relatively low returns followed by a speculative bubble in 1994. After the speculative bubble burst, firms which had their financial statements audited by an international audit firm experienced growth in value while firms with local auditors declined in value." Louis (2015, p. 47) notes that the "Warsaw Stock Exchange serves as a successful model for newly created stock exchanges in transition economies. The Polish government implemented strong securities laws to attract foreign investors. Poland's strong securities laws and the Warsaw Stock Exchange listed companies' requisite compliance with government mandated corporate governance protocols provide a sense of legal, political, and economic stability to foreign investors that are seeking to invest in developing markets."

FDI has been seen as a necessary component in financing investment projects that are critical to the continued technological advancement and modernization of the Polish economy. Like most nations around the world that are actively courting foreign investment, the interrelation of four "industry globalization drivers" in Poland—*market, cost, government, and competition*—represents the necessary pre-conditions that would determine the potential success of efforts to attract FDI into the domestic market (Porter, 1986; Yip & Hult, 2012).

1.1 Literature Review

This study builds upon the seminal research of Porter (1986) and Yip and Hult (2012) regarding preconditions for the attraction of FDI. It relates conclusions reached by Behrman (1970, 1974) regarding both positive and negative aspects of foreign investment. In addition, the paper refers to the core discussion of economic transformation in Poland presented by Balcerowicz (1995), Hunter and Ryan and several of their co-authors (1995-2018), Sachs (1993) and statistics supplied by the Polish Foreign Investment Office, the OECD, the CIA Factbook, Nordea Trade, and fDi Markets in their discreet country reports. Current economic and political issues raised by Zygulski (2016/2017), Strybel (2017), and Foy (2016) are referenced in the discussion of economic and political prospects. The paper considers in detail the elements of the Morawiecki Plan as descried by Borowski and Jaworski (2016).

1.2 Key Characteristics of the Polish Market

Several important characteristics or positive markers may be readily identifiable in the Polish economy which makes Poland an attractive destination for FDI:

- **Through Poland into the "Heart of Europe": An Extended Market**

As the sixth most populated country in the European Union, Poland provides investors with a 38 million consumer market. Located in the center of Europe, Poland's location, although quite problematic at various points of the 19th and 20th centuries, facilitates import and export activities and also lowers transportation costs of goods. Investors who choose to engage in the Polish market can easily reach over 500 million European consumers. Among Poland's major trading partners are Germany, France, the United Kingdom, Italy, Hungary, the Netherlands, Ukraine, Spain, Russia, Sweden, and China (Hunter, 2018).

- **Penetration and Investment Plus: Special Economic Zones**

Very early on, successive Polish governments recognized the importance of attracting foreign direct investment or FDI. FDI was seen as a response to the question: *How do you create capitalism in a nation where there are neither capitalists nor capital?* (Hunter & Ryan, 2013). New business would be the key to decrease unemployment and assure the competitiveness of Polish economy. The Polish government created the Polish Special Economic Zones (SEZs) (Gwosdz, Jarczewski, Huculak, & Wiederman, 2008; Nazarczuk, 2017). There are currently 14 special economic zones that provide investors with the opportunity to operate their business on the basis of preferential terms, often under special tax exemptions (Rodl & Partners, 2018). SEZs offered attractive tax exemptions, generous employment incentives, and well-prepared investment opportunities (e.g., Pastusiak, Bolek, Jasiniak, & Keller, 2018).

Ambroziak and Hartwell (2017) argue that "The analysis shows that SEZs have had a strongly positive impact upon the development of the least developed regions in Poland…," although their effect on "rich ones was weak or even negative."

- **Employment and Workforce Considerations**

The work force in Poland is estimated to be *17 million* people (see Lewandowski & Magda, 2018). More than half of Polish workers are employed today in the services sector (Kuznar, 2008). Poland provides investors with a well-educated and highly skilled employment market, most notably engineers, IT specialists, economists, and scientists. Poland has created almost 500 academic centers (e.g., Fintech Poland, 2018) and boasts some of the most renowned universities and technical colleges in the world. In addition, the corporate tax rate in Poland stands at 19% and is thus among the lowest in Europe (Wanless, 2018). In some cases, if companies are able to meet certain baseline requirements in terms of employment it is also possible for these companies to receive financial grants from the Polish Government and select local tax exemptions as well.

Boston Consulting Group (2018) notes that Poland might one day become a major manufacturing center in Europe based on the following factors:

- Labor cost are still less than other Western countries and this trend (Karlik, 2015), although subject to modification because of additional social insurance contributions, should continue into the near term;
- Manufacturing costs in Poland are cheaper by about 30% (G Suite, 2018);
- The quality of Polish goods is deemed to be superior to the ones produced in other countries, making these goods much more competitive (e.g., Stoma et al., 2017). This quality advantage mainly applies mainly to such sectors as electric home appliances, metal products, automotive products, and furniture.

All of these factors taken into consideration, Poland is considered the eighth European country in terms of attractiveness to investment and ranks 27 out of 190 countries in the World Bank "ease of doing business" rankings (The World Bank, 2018). [For a listing of major Polish companies, see Appendix I]

In keeping with worldwide investment patterns, FDI has manifested itself in Poland in many ways, including: *generating new streams of trade through extension of product ranges and markets* (Hunter & Ryan, 2002); e*ncouraging import substitution by local production* (Gnidchenko, 2017); *increasing local employment*; *influencing the growth rate of total exports and imports*; and *positively influencing the current account balance and the accumulation of foreign debt* (generally Kornecki, Raghavan, & Welsh, 2006).

Potential investors today rate Poland favorably in terms of the availability of land for investment, especially for "Greenfield" projects (Klimek, 2014), and for lower real estate costs. Nordea Trade (2018, p. 2) comments that "Greenfield investments are a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up." By 2006, roughly 15 years into its transformation process, Poland had advanced from third place in Europe to first place on the rankings list. The *Warsaw Voice* reported on companies that had made the largest "Greenfield" investments in 2005. These early examples included: LG Phillips (429 million euros), Michelin (253 million euros), MAN Trucks (92.7 million euros), LG Electronics ((90 million euros), and Electrolux (60 million euros) (Jeziorski, 2006).

This paper will consider the implications, benefits, and unique aspects of foreign direct investment in Poland over the period of the past twenty-five years in the context of Poland's membership in the European Union and in light of recent political changes that have taken place which threaten to upset the progress that has been made over this same period.

2. **The Impact of FDI**

Professor Jack Behrman has been a leading and long-time expert in the area of FDI and a consultant to the United Nations. Dr. Behrman has identified both positive and negative impacts of foreign direct investment *inflows* on host countries (Behrman, 1970; Behrman, 1984). In fact, many of these impacts are especially relevant to Poland. Among the *positive impacts* he lists:

- Increased domestic capital formation;
- Technology and management skill transfer;
- Regional and sectoral development;
- Fostering internal competition and entrepreneurship;

- Favorable effect on balance of payments; and
- Increased domestic employment, especially in lagging or "sunset" industries, potentially such as steel, coal, and shipbuilding.

Several potential *negative impacts* of foreign direct investment have also been identified. These include:

- Industrial sector dominance in the domestic market;
- Technological dependence on foreign technology sources;
- Disturbance of domestic economic plans in favour of FDI-directed projects;
- Cultural change created by the infusion of foreign culture and foreign business practices; and
- Potential interference in domestic economic and political decision-making by the home government of the multinational corporation.

The observation of both positive and negative impacts (e.g., Tancosova & Slany, 2004) can be most effectively viewed within the momentous changes that have occurred within the Polish economy in the past thirty years. The context for FDI has been its close connection to the process of economic transition that has been accomplished in Poland since the onset of reform, especially in the initial period 1989-1991.

3. FDI and Economic Transition in Poland

The process of economic transition in Poland involved the interplay of several factors (adapted from Hunter & Ryan, 1995). At its core, economic transition involved liberalizing economic activity, prices, and market operations; reallocating resources to produce their "best and highest use"; guaranteeing market stabilization; achieving effective enterprise management; imposing so-called "hard budget" constraints; and, perhaps most importantly, establishing an "institutional and legal framework to secure property rights, the rule of law, and transparent market-entry regulations" (generally, Kabir, 2010).

In Poland, the process was advanced through the creation and implementation of what has become known as the *Balcerowicz Plan* (Sachs, 1993; Balcerowicz, 1995; Sowada, 1995; adapted from Hunter & Ryan, 2000). The process of economic transformation in Poland has been quite instructive and has provided a more general model for other Central and Eastern European transition economies. Conceived by the then Minister of Finance and Deputy Prime Minister Leszek Balcerowicz and his team of national, "Polonia," and international advisers [see Appendix II], the program was based on five philosophical *pillars of economic transformation:* (1) *rapid transformation* of the monocentric system of state central planning into a private functioning market economy; (2) *liberalization* of economic functions, especially in relation to foreign trade and foreign direct investment; (3) *privatization* of state-owned-enterprises (SOEs); (4) construction of an effective *social safety net*; and (5) *mobilization of international financial assistance* to support the process (Hunter & Ryan, 2009; Fafara & Kleczkowska, 2015).

Fafara and Kleczkowska (2015, p. 60) point out that the Balcerowicz Plan was an "ambitious process that enabled a significant shift in the economic and social landscape through the introduction of fundamental changes in the Polish legal system." They describe the eleven legislative acts which brought "wide ranging and fundamental changes to the Polish legal system" and make a more general point that "successful transformation of the state's regime in post-soviet countries depended not only on political changes, but also on effective economic reforms."

Overcoming the negative aspects of the transformation process has stood as a critical part of creating a market economy in Poland and identifying Poland as a leading transition or emerging market. In this context, FDI has played an important role in the transformation of the Polish economy from a *monocentric*, centrally planned economy. into a functioning capitalist economy. As in other transition economies, the process of reform "… entered the stage when the government must engage in coordinated reform efforts in the economic, political, and social spheres" (Fulin, 2002). However, the persistent existence of negative aspects often led to a lack of social credibility and societal consensus and has increased scepticism about long-range economic progress—which may be a critical factor in the recent volatile economic and political climate.

Interestingly, FDI has also played a critical role in the creation of a new societal model in which important legal and social changes would be effected. Institutional arrangements and socio-economic changes included fundamental structural changes.

For example, in an atmosphere where FDI is attracted widely into a transition economy, the authoritarian nature of society, as exemplified by the tripartite rule of the state, the communist party, and the *nomenklatura* (Slomczynski & Lee, 1993; Korys & Tyminiski, 2016), would be required to change Poland into a society based on competence, so as to weaken the decisive role of central authorities in all aspects of economic and political decision-making and to strengthen the role of market mechanisms in resource allocations. By the time of the collapse of communism in Poland in the period 1989-1991, the *nomenklatura* system had developed into a highly centralized administrative structure—not only for national economic and political organs—but also for intermediary organizations, whereby smaller enterprises operated only as a part of a huge centrally organized bureaucracy. By the 1980s, the system had virtually elapsed into a "lunatic collage of incompetence, privilege, pandering and outright corruption," based on a principle of "under-qualification and a perverted practice" of negative selection" (Weschler, 1982; Hunter & Ryan, 2006)

In order to reach the paramount goal of economic and political transformation (Hunter & Ryan, 2000), the top-down "command-and-control" economy and administrative system in Poland would be required to change into a system based upon information sharing and verification, consultation, and cooperation. In addition, the state-dominated society in Poland had to continue its steady metamorphous to a full *civil society* (Arato, 1981), which would be marked by community self-governance, political pluralism, a devolution of central authority, trade and economic discipline, honest career building, and "independent individuals characterized by self-esteem, self-reliance, and self-empowerment." All of these objectives would be required to be supported by a fully functioning legal system, which would bear an enormous burden for continued development of FDI in Poland (Hunter, Shapiro, & Ryan, 2003/2004). Public dissatisfaction with both the nature and pace of change—reaching what had been termed "the barrier of social endurance" (quoted in Hunter & Ryan, 2008, p. 9)—has cause a reappraisal of foreign participation in the Polish economy and a shaking of the consensus that had developed on these issues over more than twenty-five years.

4. Attracting FDI: The Polish Success Model.

Poland was initially considered as an attractive destination for FDI because of the existence of three inter-related factors: low cost but qualified labour; long-term market potential or yields greater than could be achieved domestically by foreign investors; and ready access to natural resources. However, once the initial rush to investment had occurred, long-range success would be attributable to the inter-relation of several micro-factors: few restrictions on FDI would be imposed in terms of targeted investments such as the "golden share" (Moran, 1998); "national treatment" would be offered to FDI, regardless of the country of origin; a relatively sound "company law" or commercial code (Hunter, Ryan, & Nowak, 1995) would be created, as well as the introduction of transparent customs and tariff procedures; the Polish government would continue to foster and nurture FDI activities; and Poland would be required to adopt an understandable and "perceived as fair" tax code (Hunter, Ryan, & Shapiro, 2003, chapter four, pp. 89-123; e.g., Wanless, 2018 (publisher's note)), stressing the "importance of taxation and the state budget" and arguing that "these are tools of economic policy which complement central economic planning." Included in these preconditions would be the creation of a *joint-stock company*, wholly owned by the state, but managed as if it were a private company (Ireland, 2007). This was the first—and critical step—in creating a capitalist economy from one based on state-ownership of critical assets.

All of these factors would be critical in assuring Poland's international competitiveness as a site for FDI. By 2005, the *Financial Times* was able to report that Poland's labor market was one of its greatest strengths. Relatively low pay rates in comparison with high-tax nations of Western Europe, with 86.3 percent of respondents in a poll sponsored by PAIiZ, the Polish Foreign Investment Office, describing this factor as "important," and 48.2 percent defining it as "very important"; highly efficient employees (84.4 percent described this factor as "important" and 49 percent described it as "very important'); and a high level of education are characteristics of the Polish labor market and were seen as highly desirable by investors. Poles also displayed what are termed as "exceptional skills"—fluency in foreign languages other than English (French and German) (Warsaw Voice, 2006).

In this context, it was important for Poland to establish a *specialized agency* to attract FDI. Accordingly, the *Państwowa Agencja Inwestycji Zagranicznych* (PAIZ), originally known as PAIiIZ, short-hand for the Polish Information and Foreign Investment Agency, was created in 1992 in order to promote Poland's investment opportunities and to encourage foreign companies to choose Poland as their preferred FDI location.

Some of the duties of PAIiIZ were to generate foreign investment interest by identifying suitable domestic partners; provide professional management assistance; point out specific investment opportunities for FDI; create and foster a favourable climate for FDI domestically; monitor and report on FDI activities; provide necessary "market entry" data; and provide necessary information on taxation, administrative regulations, and other legal and financial matters. PAIiIZ was constructed as a "one stop" shop (see Frejtag-Mika, Bojar, & Bojar, 2006).

In response to sustained interest in the Polish market and in an attempt to initiate the newest technologies and means of communications, the Polish Investment and Trade Agency (PAIH) was rebranded from the Polish Information and Foreign Investment Agency (PAIiIZ) in 2017. The predecessor had been established on 24th June 2003, after a merger of the State Foreign Investment Agency (PAIZ) and the Polish Information Agency (PAI).

5. The State of FDI in Poland—A Precise

The following precise is offered by Nordea Trade (2018):

Total FDI in Poland	176 billion euros (Euronews, 2018)		
Foreign Direct Investment	2015	2016	2017
FDI Inward Flow (million USD)	15,271	13,928	6,434
FDI Stock (million USD)	185,986	186,310	234,441
Number of Greenfield Investments	246	311	429
FDI Inwards (in % of GFCF*)	14.1	13.1	N/A
FDI Stock (in % of GDP)	38.3	39.8	N/A

(UNCTAD, 2018)

* GPCF measures the value of additions to fixed assets purchased by business, government, and households less disposal of fixed assets sold off or scrapped.

The list of investors in the Polish economy is quite instructive. Twenty five years ago, some of the first wave of major foreign investors in Poland included: Apollo Rida ($800 million, USA-real estate), France Telecom ($450 million, France- telecommunications), LNM Holding ($390 million, The Netherlands-metals manufacturing), BEG S.A. ($356 million, France-construction), Vattenfall ($305 million, Sweden-electricity, gas, and water supply), Toyota ($220 million, Japan-automotive), IVAX ($210 million, USA-pharmaceuticals manufacture), Volkswagen ($195 million, Germany-automotive), KBC Bank ($192 million, Belgium-financial intermediation), and LG Electronics ($178 million, Republic of Korea-electrical machinery manufacture); KBC Bank (Belgium), EBRD (International), ITI Group (The Netherlands), Credit Agricole (France), GlaxoSmithKline (Great Britain), GAX Rail (USA), Metro AG (Germany), Guardian Industries (Spain), Carrefour (Spain), Deutsche Bank Americas (USA), Vattenfall (Sweden), Toyota (Japan), United Technologies (USA), and Ferrovial (Spain); France Telecom ($4.470.4 billion), EBRD ($4 billion), Fiat ($1.800.9 billion), KBC Bank ($1.743.2 billion), Metro Group ($1.508 billion), HVB ($1.336 billion), Citigroup ($1.3 billion), Tesco ($1.3 billion), Apollo-Rida ($1.3 billion), and Vivendi ($1.234 billion).

In 2016, Netherlands and Germany were the two countries of origins for most of foreign direct investment in Poland, with shares of 37% and 24% respectively. Other investing countries included Luxembourg (15%, France, 7.3%, and Austria, 7.2% (Santander Trade, 2018). Foreign direct investment concentrated in the manufacturing industry (28.6%), professional, scientific and technical activities (18.8%), information and communication activities (17.7%) and real estate (11.4%).

According to *fDi Markets* (2018), "Poland took 3rd place in Europe in terms of the value of FDI announced in 2017, after only Great Britain (PLN 33.2 billion) and Russia (15.9 billion dollars). On a global scale, the most popular destination for FDI inflow in 2017 turned out to be the USA."

The report continued: "In 2018, Poland will be home to Europe's largest lithium-ion battery factory, poised to fill growing demand for electric vehicle (EV) components —a sector whose value is expected to top $240 billion USD in the next two decades. Korea's largest chemical company, Seoul-based LG Chem, is spending $1.63 billion USD on the EV battery plant in Kobierzyce – while creating 729 jobs."

In this context, Poland has built a strong reputation as a regional hub for the production of automotive parts and accessories, attracting GM/Opel, Volvo, Fiat, and Volkswagen among its "veteran investors."

In keeping with a larger strategy to attract FDI, “Free access to the 500 million-strong European market and an educated local workforce, are just two benefits that have drawn businesses across many sectors to the Central European country” (fDi Markets, 2018). One example may be instructive:

“German automotive corporation Daimler has started building its first Mercedes-Benz factory in Poland, a €500 million new engine production plant in Jawor. Factors weighing in Poland’s favour included: location, size, shape, and logistics advantages of the site, along with top local human resources. “Last but not least,” added Ewa Łabno-Falęcka, Ph.D., Head of Corporate Communication and External Affairs, Mercedes-Benz Polska, “the professionalism of our reliable Polish partners: the government and its agencies such as PAIH, as well as local government bodies and Wałbrzych Special Economic Zone” (fDi Markets, 2018).

These and other examples of foreign direct investment have been steadily streaming into Poland, with the economy growing on average four percent a year since the early 1990s “when Poland introduced market-skewed structural reforms to help it develop an open, free market economy” (fDi Markets, 2018).

6. Charting a Different Course? Enter The PiS (adapted from Hunter, 2018)

Despite the success that can certainly be readily identified, the political and economic calculus and underlying assumptions may have recently changed. With the elevation to power of the populist Law and Justice Party (PiS), led by Jaroslaw Kaczynski, concerns about Poland's future have resurfaced. The *Polish American Journal* (2018) described the current political situation as follows: “Poland’s ruling conservative Law and Justice (PiS)… appeals to those in poor and rural communities where its generous social policies, anti-immigrant sentiment, scepticism of the European Union, and message of national pride steeped in conservative values…”

Their main opponents, the Civic Platform (PO), is described as appealing to “the more liberal, pro-European electorate” popular in “Warsaw, Krakow, Wroclaw, Gdansk, Lodz, and other urban areas.” Ost (2018, p. 113) describes the situation in slightly different terms: “Labor support breaks down along three lines, with industrial labor mostly aligned with PiS, white collar labor (in education and health) mostly opposed, and the marginalized small-city precariat [people whose employment and income are insecure] being mobilized by PiS, but also finding a place in explicitly fascist parties further to the right. Left alternatives, weakened due to the collapse of class discourse, are slowly reemerging, but the Right will likely command more labor support for the near future.” PiS was successful in winning both the presidential and parliamentary elections in 2015 (Ost, 2018), giving PiS full control of the government.

Reflecting a change in governing philosophy, PiS launched a program specifically designed to "regain control and revitalize the country's economy which has long been plagued by foreign domination..." (Strybel, 2017, p. 2). PiS ran on a platform calling for higher taxes on foreign-owned businesses and for curtailing the country's reliance on foreign capital, which PiS leadership asserted had made Poland into no more than a “vassal state.” PiS maintained that the changes that had occurred in Poland since 1989, and most especially those carried out under the Balcerowicz Plan, had done little to return economic sovereignty to Poland following 123 years of foreign Partition, a difficult interwar period, and nearly 45 years of "communist misrule and mismanagement" (Strybel, 2017).

The isolationist sentiments voiced by PiS, returning to a theme often heard in the early days of the transition—*"Polska Dla Polakow”* (Assimakopoulos, Baider, & Millar, 20917)—were viewed by supporters of PiS as an attempt to reintroduce Poland's national sovereignty over its economic future (Golebiowska, 2014). For others, the tone was more ominous.

The criticism voiced by PiS was direct and pointed: Instead of concentrating on rebuilding Poland's economic base *from within* by restructuring and revitalizing Poland's industrial base, PiS argued that successive Polish governments in the twenty five years after 1989 had engaged in a program of selling-off important Polish assets—often for a quick infusion of cash which was used politically to bolster Poland's budget.

PiS, along with other critics (many from veterans of the Solidarity Movement), argued that the initial push towards removing state control of the economy (generally, Trupiano, 1993), now known derisively as “spontaneous privatization” (Polishchuk, 1995), was often no more than the theft of public assets, or simply kleptocracy (Moorman, 2018), accomplished through “crony capitalism” and insider trading, which favored members of the discredited former *nomenklatura* (Dubrow, 1997; Tyminiski, 2017), Poland’s discredited communist bureaucratic class.

The *Sarmatian Review* (2016) encapsulated many of these criticisms and reported the following negative aspects of foreign investment in Poland:

- The percentage of factories engaged in manufacturing in Poland owned by foreign entities in 2016 had reached more than 50%;
- More than 60% of Poland's banks were at one time foreign owned—although the ratio is now nearer to 50/50;
- 90 billion zlotys (or about 25 billion dollars) were transferred from Poland "abroad" each year because of the structure of ownership of Polish enterprises.

Critics also pointed out that in the past quarter century, some of Poland's former "banner" state-owned-industries (or SOEs) such as mines, Baltic ship building facilities and other examples from Lodz and Katowice (Rytelewska-Chilczuk, 2016) (the most prominent example being the former Lenin Ship Yard in Gdansk), steel making facilities (for example, Nowa Huta) were closed or employment significantly scaled back when the government failed to directly intervene in their deteriorating finances or was unable to procure a foreign buyer willing to invest the sums necessary to modernize operations in order to assure that the businesses would remain open. Rytelewska-Chilczuk (2016, p. 231) noted that this "postindustrial identity is often perceived as shameful marks of degraded landscape, abandoned factories and industrial plants." As a result, tens of thousands of Polish workers became permanently unemployed. At the same time, the economy became dominated by foreign-owned banks (see Allen, Jackowicz, Kowalewski, & Kozlowski, 2017), retail giants, and assembly plants controlled by foreigners, which in turn funnelled most of their profits abroad to the benefit of foreign investors.

Robert Strybel (2017), writing in the *Polish American Journal,* provided several examples which include: *Wyborowa* (vodka/owned by Pernod/France), *Zywiec* (beer/owned by Heineken/Netherlands), *Okocim* (beer/owned by Carlsberg/Denmark), *Wedel* (confectionary and chocolates/owned by Lotte Group/Korea), *Pudliszki* (food stuffs, tomato ketchup/owned by Kraft-Heinz, US/multinational), *Amino* (food products/soups/owned by Unilever/British/Dutch) and *Winiary* (food processing/owned by Nestle/Switzerland). The last Polish car make, the *Polonez* hatchback, disappeared in 2002. Most surprisingly (and perhaps disappointingly to many Americans of Polish decent), *Krakus* brand canned hams (exports of which were a major source of cash into the Polish economy in the 1960s through the 1980s) is now owned by China's WH group, the world's largest producer of pork.

Since 2015, under the direction of Deputy Prime Minister Mateusz Morawiecki, who now serves as Prime Minister, Poland turned inwardly and implemented a series of business restrictions and taxes on foreign-dominated economic sectors, including banking and insurance, energy, and healthcare. These restrictions and taxes have dampened some investor enthusiasm and have increased the government's ownership of some firms—reversing prior privatization efforts in certain economic sectors (Jasiecki, 2017). The government also reversed the actions of the previous administration and reduced the retirement age for women to 60 years of age in 2016 (Goettig, 2017), placing additional burdens on the state budget, which had a projected deficit of 2.9% of GDP, only slightly below the EU's *Maastricht Treaty* 3.0% limit.

6.1. The Morawiecki Plan

The new strategy adopted by PiS is embodied in the *Morawiecki Plan*, named for then Deputy Prime Minister Mateusz Morawiecki (Mroczkowski & Miller, 2017). The Plan represented a sharp departure from the approach of the Balcerowicz Plan. Morawiecki, whose father was a prominent Solidarity activist and founder of "Fighting Solidarity," noted: "We have been in this [economic] model for 27 years. We have reached the trap of dependent development. To a huge extent we are dependent on foreigners" (Foy, 2016).

The new program would address deficiencies in the Polish economy through activities described as Minister Morawiecki's "*five pillars of economic development of Poland*":

- *Reindustrialization*—i.e., focusing on industries in which Poland can gain a competitive advantage and attract foreign investment;
- *Development of innovative companies*, which involves, among others, drawing up a *Business Constitution* designed to simplify regulations, help develop and launch innovative products, and raise spending on research and development;

- *Capital for development*—aiming for a significant increase in capital expenditure, and improved efficiency of institutions supporting investment; the establishment of the *Polish Development Fund;*
- *Foreign expansion*—support for Polish exports aimed at reaching new markets, conducting foreign trade missions, and developing a network of "economic diplomacy posts" throughout current and potential markets;
- *Social and regional development*—a proposal to create a comprehensive demographic program, the reform of the education system, and support for the development of Polish regions that had not reaped the benefit of prior development efforts (adapted from Borowski & Jaworski, 2016).

In addition, Minister Morawiecki supported the creation of a "new spirit of Polish entrepreneurship," with an emphasis on fostering opportunities in economic sectors that would be export sensitive, and the creation of new Polish brands ("Polish Champions") which could compete worldwide with high-quality recognizable products, and which would assure the return of many of Poland's "best and brightest" who had emigrated in the search of economic opportunity in Western Europe, the United Kingdom, and the United States (Strybel, 2017).

The Morawiecki Plan has been termed *Polonization* (or re-Polonization) which would include buying back businesses previously privatized. However, where the funds would come from to accomplish this objective remains to be seen. Poland is still a country that "lacks significant internal capital," although no longer "capitalists." A policy announced by the government under which a tax on large, mainly foreign-owned retail chains and banks has been challenged by the European Union (Martewicz & Krasuski, 2016; Foy, 2016). The tax on banks did not meet its expected target of 5.5 billion zl. and instead was projected to raise only 3 billion zl. in revenue. The tax on large retailers was questioned on grounds that it amounted to "unacceptable state aid for small Polish enterprises" and had to be shelved until 2018 (Zygulski, 2016/2017). These policies have led to frequent clashes with Brussels and the European Union.

7. Opportunities and Challenges for the Future

What are some of the macro-challenges facing Poland today? Challenges persist in the Polish economy which include addressing deficiencies in its road and rail infrastructure and in its general business environment, a still rigid labor code, a slow moving commercial court system involved with enforcing commercial contracts, the existence of government red tape, and a burdensome tax system, although Ernst & Young (EY) (2017) reported that Poland passed a package of corporate income tax reforms that might "have a significant impact on the majority of companies operating in Poland."

In the long range, Poland must diversify its Poland's energy mix, strengthen investments in the "innovation economy," and bolster investment in research and development. In addition, Poland must continue to address a systemic "brain drain" of educated young Poles (more than 1.4 million, with 679,000 alone living in the UK), especially young health care professionals (Krajewski-Siuda et al., 2008), to other EU member states (Sobczyk, 2010; Davies, 2011). Whitehead (2015) reports: "The Warsaw government's Powroty, or Returns, programme is aimed at persuading back the army of well educated and skilled workers who flocked to the UK when Poland joined the EU more than a decade ago." Demographically, "Poland faces contraction due to emigration, persistently low fertility rates, and the aging of the Solidarity-era baby boom generation" (CIA Factbook, 2017/2018).

However, at the same time there are several positives in the economy—but all carry significant challenges as well (adapted from OECD, 2018b).

- **Growth is strong, and the labor market is booming** (adapted from OECD, 2018b)

Economic growth remains strong. Rising social transfers and a booming labor market are underpinning rapid growth in consumption (Lewandowski & Magda, 2018). More than 4,200 workplaces were created since January 2018, thanks to foreign investments in the country. According to data from PAIH, the first four months of 2018 saw 19 investment projects with a total value of EUR 139 million being finalized. New jobs were created primarily in the field of modern business services, the research and development sector, as well as aerospace.

Foreign investments in business services (Kuznar, 2018), with a total value of EUR 149.09 million, accounted for nearly 36 percent of the total projects supported by PAIH. In total, PAIH is working on 189 projects with a value of EUR 3.76 billion, which are set to create almost 40,500 jobs.

The unemployment rate is at a record low level, standing at 5.7% as of October 2018, labor shortages are spreading, and there are some positive signs of increasing wages (G Suite, 2018).

The labor market is expected to tighten further (Emerging Europe, 2018), leading to somewhat faster wage and price inflation. In fact, "Every eighth business has been forced to retreat from planned investment because of a shortage of candidates" (Emerging Europe, 2018). After a severe contraction once again in 2016, the OECD (2018b) projects that investment will recover, "driven by faster disbursements of EU structural funds, capacity constraints, and low real interest rates." It is critical that Poland continues its strong partnerships within the European Union despite some differences which center on social policies, immigration issues, and disagreements relating to contrasting perspectives on controversial issues relating to morality (abortion, church-state relations) and other social norms.

- **New public benefits have helped to bring down poverty**

Poverty and income inequality have fallen in Poland, and large "family benefits" introduced in 2016 have helped to bring down child poverty even further. In order to reverse the trend towards a negative birth rate, plans have been announced to promote fertility in the context of very rapid aging population (Leszko, Zajac & Lamparska, 2015). On the other hand, the OECD (2018b) reports there is a risk that the "family-friendly benefits" introduced into Poland might induce less-skilled women to leave the labor market (Plomien, 2006) for longer periods after childbirth, shortening their contribution periods to an already strained pension system that itself is badly in need of reform (see Morgandi & Bargu, 2018). Rutecka (2014) notes generally that "Another problem is the deepening deficit in the Social Insurance Fund (Kompa & Witkowska, 2015). The changes that have been introduced will not remedy it. Its main causes are demographic factors such as low birth rate, emigration, and increased life expectancy. Consequently, in the long run, without the support from the state budget, [there] may not be enough funds to pay pension benefits."

Taken together with the lowering of the retirement age to 60 for women, there is a heightened risk of old-age poverty. The government has also announced that it intends to improve limited access to affordable childcare services (Heinen & Wator, 2006). There is also a lack of organized out-of-the-home institutional care for the elderly which may be seen as another barrier to female employment and an improved quality of life for Polish seniors, although this change would require a major reordering of patterns in Polish society relating to the care of the elderly outside of the traditional home environment.

- **Raising Poland's capacity to innovate would ensure continued convergence to higher living standards**

The OECD (2018b) notes: "Poland's income convergence has mainly resulted from efficiency gains thanks to sectoral restructuring carried out with the active assistance of the Polish government and foreign technology absorption as a result of foreign direct investment." Because Poland's labor productivity is still 40% below the OECD average (OECD, 2018b), Poland will need to strengthen its technology sector and its capacity for innovation. Investment in research and development (R&D) is still weak which may hamper innovation in the Polish economy, especially in small and medium-sized enterprises (SMEs) (Dec & Masiukiewicz, 2014; European Commission, 2018).

In its *Strategy for Responsible Development* (see Oleksiuk, 2017), developed by the Ministry of Economic Development in April 2016, the government announced plans to boost targeted R&D tax incentives along with increasing public support for innovation in SMEs, further development of the venture capital market, and accelerated infrastructure development. However, many of these programs will remain largely dependent on EU structural funds financing in both the long and short runs. Thus, cooperation with the European Union remains a critical component of future success.

8. Some Concluding Remarks

Not all Polish citizens are in tune with the policies of the PiS (e.g., Markowski, 2018). At the height of the constitutional crisis in January 2016, Standard & Poor downgraded Poland's rating on the S&P 500 from an A- with a positive outlook to a BBB+ with a negative outlook (Business Recorder, 2016). Though the adjustment isn't immense, it may speak volumes as to the direction in which the leadership of the country is driving the country. The Polish zloty dropped by 2.4%, the biggest decline among emerging-market currencies, and in April 2016 the zloty hit its lowest mark in two months falling to 4.4275 per euro (Krasuski, 2016). Despite the negative reactions from some of its neighbors (with the notable exception of Hungary), outcry from many of its citizens, and even public rebuke from three past Polish Presidents (Cienski, 2016), PiS refused to back down. Anti-government demonstrations have increased so much that a 2016 protest was the largest since 1989 when Poland broke from its communist past (Reuters, 2016).

The recent controversy relating to alleged Polish participation in events of the holocaust (John, 2018), with a bill proposed by PiS calling for "three years in prison or a fine for accusing the Polish state or people of involvement or responsibility for Nazi occupation during World War II" has strained Polish relations throughout the world community. Some Poles are concerned the PiS government has been undermining democratic institutions, curbing democratic checks and balances, violating EU principles, and creating tension between the EU and its allies. Protests continued into 2018 relating to actions taken by the PiS concerning the Polish Supreme Court (Santora, 2018), which critics charged would result in "eroding the judiciary's independence, escalating a confrontation with the European Union over the rule of law and further dividing this nation."

In fact, Fomina and Kucharczyk (2016) have noted that the 2015 victory of the PiS marked the victory of a kind of "authoritarian populism" drawing on its power to "dismantle democratic checks and balances." They wrote: "The PiS's policies have led to intensifying xenophobia, aggressive nationalism, and unprecedented polarization that have given rise to social protest movements not seen in Poland since 1989."

Whether these policies will continue to have a "spill over" into economics and foreign investment is another matter. Until recently, there seemed to be a consensus about the path that Poland had chosen. Recent events have brought this consensus into doubt.

APPENDIX I

Major Polish companies: Selection from the list of 500 largest companies in Poland compiled by ***Polityka*****.**
Available: https://www.thefullwiki.org/List_of_Polish_companies

- PKO Bank Polski – banking
- PKN Orlen – petrochemicals
- Bank Pekao – banking
- PZU – insurance
- Bank Zachodni WBK – banking
- Autosan – bus manufacturer
- Solaris Bus & Coach – bus and tram manufacturing
- Newag – train and tram manufacturing
- PESA – train and tram manufacturing
- QLOC – software developer/video game port developer
- Allegro – retail and online auctions
- Techland – computer games
- E.Wedel – chocolate goods
- People Can Fly – computer games
- 4F (pl) – sports equipment
- LPP – clothing
- Vistula Group (pl) – clothing
- CD Projekt – video game distribution and development
- PLAY – telecommunications
- Ursus – agricultural tractors
- Platige Image - computer graphics and special effects
- Orange Polska – telecommunications
- Netia – telecommunications
- Black Red White – furniture
- Piotr i Paweł – retail
- PSE-Operator – national power grid operator
- PGNiG – oil and gas
- Polsat – media
- Agora SA – media
- Nowy Styl Group – office furniture manufacturer
- Maspex – food manufacturing
- Delphia Yachts – yacht manufacturer
- Inglot Cosmetics – beauty, cosmetics
- Eris – beauty, cosmetics
- Apart – jewelry
- Grycan – ice cream company
- Orbis – hotels
- Asseco – IT
- KGHM Polska Miedź – copper mining
- Kompania Węglowa – coal mining
- Echo Investment – real estate development
- Pekaes – logistics
- Tymbark – food manufacturing
- Polferries – transport
- Grupa Lotos – petrochemicals
- FB "Łucznik" Radom – defence industry
- Polish State Railways (PKP) – national railway
- Poczta Polska – national post
- Cersanit – ceramic goods
- TVN – media
- Globe Trade Centre – real estate development
- Elektrim – diversified utilities, mobile phone service
- Arrinera – automotive
- Ericpol – IT
- Volkswagen Poznań – automotive
- Fiat Poland – Polish branch of Fiat Group (former FSM), builds Panda, Fiat Nuova 500 and Fiat 600
- General Motors Poland – automotive
- Warsaw Stock Exchange
- Comarch – IT
- Tauron Group – electricity distribution
- Boryszew – automotive industry
- ZMT SA – defence industry
- Amica – engineering industry
- CIECH – chemical industry
- Polar – home appliances
- Mastercook – home appliances
- PMR Ltd – B2B market research, business consultancy
- Metro Group Poland – retail
- Zortrax – 3D printing
- Grupa Azoty – chemical manufacturing

APPENDIX II

The "Balcerowicz Team" consisted, among others, of Marek Dabrowski, later deputy in the Ministry of Finance; Stefan Kawalec, first chief adviser, responsible for financial institutions; Janusz Sawicki, responsible for foreign debt negotiations with the IMF and the World Bank; Andrzej Podsiadlo, who oversaw state-owned- enterprises; and Grzegorz Wojtowicz, first deputy chairman of the Polish National Bank, and its chairman in 1991. All were graduates of the Faculty of Foreign Trade of the Central School of Planning and Statistics in Warsaw, Poland's premier school for state planning and for producing "policy experts." The school is now named the "Main School of Economics." Wojciech Misiag and Ryszard Pazura were also deputies in the Ministry of Finance. In addition, the team included numerous *foreign advisers*—Jeffrey Sachs, David Lipton, Wladyslaw Brzeski, Stanislaw Gomulka, Jacek Rostowski, and Stanislaw Welisz—and *Polish ones*—Karol Lutkowski, Andrzej Bratkowski, Antoni Kantecki, Adam Lipowski, Andrzej Parkola, and Andrzej Ochocki. Many of the foreign advisers were of Polish origin—so called *Polonia academics* (adapted from Hunter & Ryan, 1998, p. 232).

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