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# FOREIGN DIRECT INVESTMENT IN POLAND: OPPORTUNITIES AND PITFALLS

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**Abstract**

This review article is a discussion of foreign direct investment (FDI) in Poland which has been a major component of the economic reforms undertaken since 1989. The article is a balanced discussion of the current positive and negative economic and political factors which have led to Poland being one of the most successful destinations and recipients of worldwide FDI in the past three decades. The article focuses on the existence of Special Economic Zones (SEZ) as a major "driver" of FDI in the Polish economy. The article concludes with an evaluation of certain "risk factors" and potential areas of conflict with the European Union that might impede future investmentThe article is the latest in a series relating to the process of economic transformation that occurred in Poland dealing with economics, trade, finance, politics, investment, and culture, supported by the Institute for International Business at Seton Hall University.

**Keywords**: Foreign direct investment, Special Economic Zones, transformation, European Union, regional development, greenfield, brownfield.

**JEL Classifications:** E5, E6, E7, G2, H1, H2, H3, H7, K4, and P2

## 1. INTRODUCTION

For nearly thirty-five years, I and my colleagues, most notably Brother Leo Ryan, C.S.V.+ of DePaul University, Professor Robert Shapiro + of Seton Hall University, and Professor Héctor R. Lozada, also of Seton Hall, often joined by our students, and supported by the Institute for International Business, have dedicated much of our research to investigating the process of economic transformation in Poland from a variety of perspectives and disciplines. We have witnessed through first-hand experiences of teaching, consulting, visiting Poland (often with our students), and inquiry through publications in academic journals the tremendous changes that Poland has undergonesince the summer of 1989 when Professor Leszek Balcerowicz became Deputy Prime Minister and Minister of Finance in the government of Tadeusz Mazowiecki and charted Poland on a "new path" to economic reform and political pluralism. These changes have been monumental- although some did not go as planned or aswell as had been expected. One thing *is* certain, however: Poland has achieved remarkable success in a relatively short period of time! During this entire period, one constant theme and policy priorityhas emerged in Poland: how to attract, nurture, and sustain foreign direct investment as a fundamental aspect of economic reform.

## 2. LITERATURE REVIEW

This study relies heavily for background, historical perspective, analysis, and core economic data on the research conducted by Hunter, et al. (2000-2021) conducted over more than twenty years, reflected in the bibliographic references. In addition, data and commentary has been cited from several professional consulting firms and sources such as KPMG (accounting and tax), Santander, Poland Consulting, Trading Economics, Nordea, Rodl and

Partner, and Global Edge (finance, investment,law, and economics), governmental sources such the Polish Investment and Trade Agency and the United States Department of State, and organizations such as the Heritage Foundation, for background information. Key economic data and analysis may be found from the International Monetary Fund, the World Bank, UNCTAD, and Statista. Scholarly commentary and analysis is supplied from sources within the sphere of research on Eastern and Central Europe, as well as otherscholars who have written extensively on the topic in order to provide a thorough and balanced treatment of the various aspects of foreign direct investment presented.

## 3. OVERVIEW: WHAT IS 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 another country to gain a measure of management control" (Hunter & Ryan, 2012a, p. 594). Ordinarily, FDI inflows are counted from a *10 percent stock ownership* in a company abroad. FDI may be distinguished from a more traditional type of investment termed *portfolio investment* (also called *passive investment*) because in a passive investment, the investor is not seeking effective *control* in a company, but only a return on investment. Examples of portfolio investment include the purchase of corporate debt securities, debentures, mutual funds, stocks, bonds, interest-bearing bank accounts, treasury bills, and promissory notes. Broszkiewicz (2018, p. 244) states that "It is important to compare the effects of the inflow of portfolio investments to the Polish market to foreign direct investment in order to specify what actions should be undertaken to increase the attractiveness of the Polish market for portfolio investment."

As an active form of investment, FDI may take the form of a merger-and-acquisition activity with an existing company or entity (often referred to as a "brownfield" activity) where the purchaser acquires an ongoing business operation. Or, FDI may take the form of creating an entirely new investment—literally from the "ground up" (often referred to as a "greenfield" activity) (adapted from Hunter & Ryan, 2012a).

Poland has remained one of the most attractive destinations for foreign direct investment in Europe (Hunter & Ryan, 2001; Hunter, Shapiro, & Ryan, 2003; Hunter & Ryan 2013a). This is no accident! The Polish government has made it a policy priority to expand the domestic economy by "supporting high-tech investments, increasing productivity and foreign trade, and supporting entrepreneurship, scientific research, and innovation through the use of domestic and EU funding" (U.S. Department of State, 2019). According to a study conducted by the Polish Investment and Trade Agency (PAIH) in 2019, as many as 94 per cent of foreign investors would re-invest in Poland (reported by Rodl & Partner, 2020).

Gorynia, Nowak, and Wolniak (2007, p. 132) noted that "Foreign direct investment (FDI) has played a pivotal role in the transformation of post-communist economies of Central and Eastern Europe (CEE) for more than a decade now. This is especially true for Poland which experienced a phenomenal growth of inward FDI." Hunter and Ryan (2013a, p. 14) commented that "From the start of the process of economic transformation in Poland in the fall of 1989, attracting FDI has been considered as a main policy objective of nearly all political parties and parliamentary configurations that have governed Poland and of all the individuals who have held the critical position of Minister of Finance in the Polish government"—at least until now. Some of the main targets of FDI have been the individual properties or entire industries that were the subject of the program of Polish privatization.

The process of “mass privatization” undertaken by the Polish government provided numerous opportunities for the introduction of foreign capital into the Polish economy (Hunter & Ryan, 2004; Hunter & Ryan, 2007; Hunter & Ryan, 2008; Hunter & Ryan, 2013c) by “achieving widely-understood management effectiveness” (Lis, Mazurkiewicz, & Zwierzechlewski, 2013, p. 42). The Polish government invited foreign investors to participate actively in most of the major privatization programs. As Lis, Mazurkiewicz, and Zwierzchlewski (2013, p. 42) noted: “The process of privatization continued—apart from liberalization and stabilization—one of the major elements of the system transformation in Central and Eastern European countries.” FDI activities were the most pronounced in the banking sector, where foreign-controlled banks hold today over 70% of banking assets (see Miani & Sagan, 2006; Santander, 2021). Major privatizations have largely been completed, and the focus today is on “consolidation and improvement of efficiency in entities still under state control” (Santander, 2021).
After Brexit (Lozada, Hunter, & Shannon, 2021), Poland has become the sixth largest economy in the European Union (KPMG, 2021). Over the period 2009-2019, Poland’s GDP grew by 3.6% per year on average. Economic growth in Poland is driven principally by domestic demand, primarily private consumption, which in turn results from low unemployment and rising domestic wages. From a level of well over ten per cent around the year 2000, the unemployment rate fell below the EU average, to 2.9%, at the end of 2019. [Unemployment ticked up slightly to 3.04% in 2021, possibly because of the effects of COVID in the Polish economy (Statista, 2021).] In 2019, Poland recorded a slightly positive balance of trade in goods, exporting EUR 235.8 billion worth of products (Trading Economics, 2021). At that time, imports were lower by slightly less than EUR 2 billion, amounting to EUR 234 billion. More than a half of “gross added value” in Poland is produced in wholesale and retail trade, transport, the food and beverage industry, and in the industrial sector. These sectors also generate the largest share of all employment. Table I describes some of the main indicators of the Polish economy:

**Table I**

| Main Indicators | 2018 | 2019 | 2020 (e) | 2021 (e) | 2022 (e) |
|---|---|---|---|---|---|
| **GDP** *(billions USD)* | 587.15 | 595.77 | 594.18 | 642.12 | 697.43 |
| **GDP** *(Constant Prices, Annual % Change)* | 5.3 | 4.5 | -2.7 | 3.5 | 4.5 |
| **GDP per Capita** *(USD)* | 15 | 15 | 15 | 16 | 18 |
| **General Government Balance** *(in % of GDP)* | -1.3 | -1.4 | -7.2 | -4 | -2.8 |
| **General Government Gross Debt** *(in % of GDP)* | 48.8 | 45.7 | 57.7 | 57.4 | 56.1 |
| **Inflation Rate** *(%)* | 1.6 | 2.3 | 3.4 | 3.2 | 2.5 |
| **Unemployment Rate** (% of the Labour Force) | 3.8 | 3.3 | 3.2 | 4.9 | 4.5 |
| **Current Account** *(billions USD)* | -5.84 | 2.93 | 20.75 | 12.95 | 8.92 |
| **Current Account** *(in % of GDP)* | -1 | 0.5 | 3.5 | 2 | 1.3 |

Source: IMF – World Economic Outlook Database, October 2020 Note 1: (e) Estimated Data Note 2: The GDP growth projections for 2021 and 2022 (Constant Prices, Annual % Change) were updated by the IMF in January 2021

## 4. INVESTMENT FACTS AND FIGURES

According to UNCTAD's *World Investment Report* (2020), FDI inflows to Poland remained stable in 2019, reaching USD 13.2 billion in 2021. In 2018, the figure was slightly higher and was recorded at USD 13.9 billion. The total stock of foreign investment in Poland canbe counted at USD 236.5 billion in 2019, an increase of 26% in comparison to the stock that existed at the beginning of the decade (see Olszewski 2016). In 2019, Poland attracted 448 “greenfield” investment projects where a parent company started a new venture by constructing new operational facilities “from the ground up” (see, e.g., Jaworek, Karaszewski, & Szalucka, 2018) Poland is the largest recipient of FDI inflows into Central Europe (see, e.g., Mahkavikova, 2018; Dorozynski, Dobrowolska, & Kuna-Marszałek, 2019). Major investments have been made by investors from Germany, the Netherlands, Luxembourg, and France. Investments have been directed mainly to the manufacturing sector (Olszewski, 2016), to financial and insurance activities, and to the wholesale and retail sectors. In addition, the past few years have seen increased activity from investors from China and South Korea.As Sarek (2018) stated: “Poland can be an attractive investment destination for some Chinese companies already equipped with advanced technology that want to develop their own products in Poland or take over local Polish brands to develop and promote,” although the amount of actual investment is still low (Kostecka-Tomaszewska & Czerewacz-Filipowicz, 2019).
For the first half of 2020, an OECD study indicated that total FDI inflows to Poland were USD 5.8 billion, significantly down from USD 8.9 billion recorded in the same period one year earlier. The decline can be attributed to the COVID-19-related crisis which caused a global investments drop of 50%— and not necessarily to particular conditions in the Polish market. Strachan (2020), however, authored a cautionary tale and wrote: “Poland has for years been the key FDI hub within Eastern Europe, with its tech sector performing particularly impressively, but the Covid-19 pandemic is threatening this progress.” Renewable energy investments continued to be a key factor in helping to drive FDI (Graczyk, Graczyk, & Zolyniak, 2020),along with real estate investment (Strachan, 2020). The following are the basic facts relating to FDI:

| Foreign Direct Investment | 2017 | 2018 | 2019 |
|---|---|---|---|
| **FDI Inward Flow** *(million USD)* | 9179 | 13947 | 13221 |
| **FDI Stock** *(million USD)* | 238483 | 228501 | 236506 |
| **Number of Greenfield Investments*** | 431 | 445 | 448 |
| **Value of Greenfield Investments** *(million USD)* | 16406 | 18220 | 24462 |

Source: UNCTAD, latest available data.
*Note: * 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.*
FDI Stocks by country and by industry sector:

| Main Investing Countries | 2018 (in %) | Main Invested Sectors | 2018, in % |
|---|---|---|---|
| Netherlands | 21.3 | Manufacturing | 31.3 |
| Germany | 17.4 | Financial and insurance activities | 18.5 |
| Luxembourg | 14.2 | Wholesale and retail trade; repair of motor vehicles and motorcycles | 14.6 |
| France | 9 | | |
| Spain | 4.7 | Real estate | 9.6 |
| Austria | 4 | Professional, scientific and technical services | 6.7 |
| United Kingdom | 3.9 | | |
| | | Information and communication | 5.3 |

*Source: OECD Statistics, latest available data.*

## 5. WHY INVEST IN POLAND?

Foreign companies can be established in Poland as joint-stock companies, limited liability companies, and partnerships (Hunter, Nowak, & Ryan, 1995; Hunter & Ryan, 1997; Hunter, 2012).The Polish Investment and Trade Agency (PAIH),whose mission "is to support both the foreign expansion of Polish business and the inflow of Foreign Direct Investment into Poland" and to "boost … Polish exports" (PAIH, 2021a), supports both the foreign expansion of Polish business and the inflow of FDI into Poland. Overall, the World Bank (2020) ranks Poland 40th out of 190 countries in its 2020 *Doing Business* ranking; however, Poland lost 7 positions compared to the previous year. In terms of the *Index of Economic Freedom* compiled by the Heritage Foundation, Poland ranks 46 out of 178 countries, with a score of 67.8 out of 100, indicating that Poland is "moderately free" (Heritage Foundation, 2021). Experts also site especially slow administrative procedures, as Poland ranks as the 120th country for the speed of starting a business, according to the World Bank (cited in Santander, 2021).While the full effects of COVID-19 are yet to be fully determined, Poland announced in early April of 2021 that among other European nations (France, Italy, Spain, and Austria), it would be in a lock downonce again (The Week, 2021).

Poland's main assets are its strategic position "in the heart of Europe"(see Davies, 1981); a large population of nearly 38 million people; its membership in the European Union since May 1 of 2004, which provides ready market access to 500 million citizens of the EU (Hunter & Ryan, 2003; Hunter & Ryan, 2012b; Hunter & Ryan, 2014b); economic stability and a growing economy; relatively cheap but skilled labor performed by a multilingual workforce whose productivity is growing rapidly; a fiscal system attractive to businesses with a stable banking sector (Hunter & Ryan, 2005; see also Korzeb& Samaniego-Medina, 2019);and a stable currency—even though Poland has chosen not to adopt the European common currency (Hunter & Ryan, 2009a; Hunter & Ryan, 2009b; Hunter & Ryan, 2013b; Czerniak & Smolenska, 2019), although, as Tokarski and Visvizi (2015, p. 65) had noted: "Poland belongs to the group of EU Member states that, unlike Denmark and the United Kingdom, cannot opt out of participation in the third stage of the EMU [European Monetary Union]. This means that Poland is legally boundto join the euro area as soon as it fulfills the nominal and legal convergence criteria."

The key sectors of the national economy include mechanical engineering, the iron and steel industry, coal mining, chemical products, food processing, the poultry industry, and automobile production. Future targets include information technology, business processing centers, environment and green building, cyber security, and more recently, software for mobile applications.

**TABLE II- ECONOMIC ACTIVITY BY SECTOR**

| Breakdown of Economic Activity By Sector | Agriculture | Industry | Services |
|---|---|---|---|
| **Employment By Sector** *(in % of Total Employment)* | 8.9 | 32 | 59.1 |
| **Value Added** *(in % of GDP)* | 2.2 | 28.8 | 56.9 |
| **Value Added** *(Annual % Change)* | -0.4 | 3.9 | 4.3 |

*Source: World Bank, Latest Available Data. Because of rounding, the sum of the percentages may be smaller/greater than 100%.*

## 6. AID FOR INVESTMENT

Poland provides substantial regional aid for companies involved in investment projects. Such aid is mainly granted for “initial” or “new” investments, which are generally defined as investments related to setting-up a new establishment; extension of the capacity of an existing establishment; and diversification of the output and production of an establishment into products not previously produced. The amount of aid can depend on the size of the company and the location of the project in Poland (Santander, 2021).
Regional aid is available in the form of an exemption from the corporate income tax in special economic zones, targeted government grants, and cash grants or loans made available from EU funds. Government grants are available through the *Multi-Annual Support Programme* or the MASP (see Poland Consulting, 2021), which is a regional aid program financed by the Polish government dedicated to supporting large investments in “priority sectors” of the Polish economy: automotive, electronics, aviation, biotechnology, and IT and other telecommunications services. Research and Development (R&D) grants are available for innovative new investments, new technologies, energy efficiency projects, and production of energy from renewable sources. Braun (2020, p. 69) reports that “During the period 2014-2017, as part of horizontal aid in Poland [through the European Union], the majority of aid was granted for environmental protection and energy objectives. In 2014 it accounted for 45% of the total share … of assistance in the total state aid….” However, in light of Poland’s commitment to the principle of sustainability, Korzeb and Samaniego-Medina (2019) that “the government-owned banks and national banks showed a great commitment to this issue [sustainability] than did the banks with foreign capital. This finding suggests that banks with foreign capital were not fully interested in sponsoring activities aimed at sustainable development.” State aid can also be granted for R&D projects that carry out basic research, industrial research, or experimental development. Polish entrepreneurs who conduct R&D activities may be eligible for selective individual income tax relief.

### 6.1. The Polish SEZ

In addition to providing substantial regional aid, Poland has established a number of Special Economic Zones (SEZs), and boasts the existence of a highly specialized government agency dedicated to attracting, nurturing, and maintaining FDI in the form of the Polish Investment and Trade Agency.
Dorozynski, Swierkocki, and Urbaniak (2016) noted that “the SEZ Act [as amended in August 2008] defines a special economic zone as a ‘distinguished, uninhabited area of the territory of the Republic of Poland,’” within which economic activities can be pursued in

accordance with the established rules. Article 3 of the Act reads: "a zone may be established to accelerate economic development of a partial territory of the country, particularly by means of:

1) developing certain areas of economic activity,
2) developing new technical and process solutions and implementing them in the national economy,
3) developing exports,
4) increasing competitiveness of goods produced and services rendered,
5) developing the existing industrial assets and economic infrastructure,
6) creating new jobs, or
7) developing unused natural resources respecting environmentally balanced rules."

Special economic zones were initially created in the mid-1990s under the *Act on Special Economic Zones of 20 October 1994*(Kislowska, 2006) to operate in select underdeveloped areas of Poland—especially in Poland's border regions (Dolata, 2008). SEZs permit companies to operate on preferential terms and conditions. The support given to SEZs under provisions of the amended law of August 2008 will be available *at least*through December 31, 2026 (see Pastusiak, Bolek, Jasiniak, & Keller, 2018). In the case of regions with high levels of unemployment, companies can benefit from significant reductions in tax (Hunter & Shapiro, 2000; Hunter, Shapiro, & Ryan, 2005; Hunter & Ryan, 2014a), including possible exemptions from profits and real estate taxes. Dziedziec (2017) notes "The exemption equals from 15% to 50% of investment costs (depending on the location of the SEZ – higher level is in more rural areas), or from 15% to 50% of two-year labour costs of newly employed workers. For small and medium-sized enterprises the investment aid may be increased by 20% and 10%, respectively."

The current SEZs include:

- Kamienna Góra Special Economic Zone
- Katowice Special Economic Zone
- Kostrzyn-Słubice Special Economic Zone
- Kraków Special Economic Zone
- Legnica Special Economic Zone
- Łódź Special Economic Zone
- Special Economic Zone Euro-ParkMielec
- Pomeranian Special Economic Zone
- Słupsk Special Economic Zone
- Starachowice Special Economic Zone
- Suwałki Special Economic Zone
- Tarnobrzeg Special Economic Zone
- Wałbrzych Special Economic Zone
- Warmia-Mazury Special EconomicZone

## 7. FDI NEGATIVES AND INVESTMENT IMPEDIMENTS

Polish law limits foreign ownership of companies in selected strategic sectors, and restricts acquisition by foreigners of certain forms of real estate, especially agricultural and forest land.However, as the United States Department of State (2019) noted, certain land usages such as technology and industrial parks, business and logistics centers, transport, housing plots, farmland in special economic zones, household gardens and plots up to two hectares (nearly 4 acres) are exempt from agricultural land purchase restrictions. Article 21 of the Polish Constitution states: "expropriation is admissible only for public purposes and upon equitable compensation." The government must pay full compensation at market value for property expropriated by the state (see Bosek & Krolikowska, 2018).

In July 2020, the Sejm enacted a law giving the President of the Office for Competition and Consumer Protection authority to review FDI by non-EEA and non-OECD investors where public security, public order, and health are important considerations (Nordea, 2021). As a result, Polish law limits non-EU citizens to *49 percent ownership* of a company's capital shares in the air transport, radio and television broadcasting, and airport and seaport operations sectors. PAIH (2021b) reports that while "The number of business sectors in which entrepreneurs need government concessions has been reduced to only six categories of exceptional public interest," the *Law on Freedom of Economic Activity* (LFEA) still requires companies to obtain government concessions, licenses, or permits to conduct business in certain sectors, such as broadcasting, aviation, energy, weapons/military equipment, mining, and private security services. However, licenses and concessions in the areas of defense production and the management of seaports are granted on the basis of non-discriminatory "national treatment" for investors from OECD countries.

In addition, in May of 2020, Santander (2021) reported that the Polish government approved a series of regulations aimed at making it difficult for an investor from outside of the European Union to take over a company that Poland considers strategic to its economy on terms that do not reflect true market value. These regulations are part of a rescue package advanced by the government worth more than PLN 300 billion ($75 billion) to help Poland survive the coronavirus pandemic and a possible resulting worldwide economic crisis without selling off assets at "bargain basement" prices.

## 8. SOME OBSERVATIONS AND CONCLUSIONS

Global Edge (2021) provides this apt summary of Polish politics: "The ruling right-wing party Law and Justice (PiS) had narrowly won a second term in office in the latest parliamentary elections held in October 2019. However, its grip on power weakened after it lost control of the upper house (Senate) and failed to increase its absolute majority in the more powerful lower chamber (Sejm). Moreover, tensions in the coalition erupted in 2020 when the junior parties, United Poland (SP) and Agreement, refused to back legislation proposed by the PiS. This resulted in a cabinet reshuffle. In late 2020, the government faced mass protests after it had asked for the Constitutional Tribunal's decision that declared most abortions illegal, while abortion laws in Poland have already been among the strictest in Europe. The support for the party has dropped even though it could gain more Catholic and right-wing voters. Before this, the incumbent president Andrzej Duda, who originated from PiS, secured a second term after the second round of the presidential election that was heldin July 2020." As a result, a "potential" negative for Poland today is an unstable political landscape (Hunter & Domanska, 2016) caused by certain government policies relating to the judiciary (Hunter; 2020; Zoll & Wortham, 2018); restrictions on the Polish press (Chapman, 2017);issues relating to the "rule of law" (Rech, 2018; Bogdanowicz, 2020);and other controversial social issues such as the European refugee crisis (Klaus, 2017), LGBT rights (Roache, 2019), and abortion (see Hussein, Cottingham, Nowicka, & Kismodi, 2018; Picheta, Osinski, & Mahmood, 2020; Lock, 2020). Many of these actions have pitted Poland against the policies and norms of the European Union (Hunter, 2017; Hunter, 2019). For some, the situation has reached a critical "tipping point." Ciobanu (2021) recently wrote: "The hollowness of the Polish state has been exposed by the coronavirus pandemic: almost half a million people died in the country last year, the highest figure since World War II, and 20 per cent above the annual average in recent years, according to data compiled by *Gazeta Wyborcza*. Throughout the year, Poles have been reminded again and again of the decrepit state of the national healthcare system, which has been severely underfunded for decades in a similar fashion to other post-communist countries. The pandemic follows years of protests (including hunger strikes) by Polish doctors and nurses demanding better pay and working conditions."

As a result, the "Poland of 2021"may be seen to be at a crossroads. Because of certain impulses gripping the nation today that reflect skepticism or even hostility to further integration with the European Union on issues relating to culture, politics, and religion, the economic progress that Poland has experienced may be in jeopardy, muddled in mass of social paradoxes brought on by internal political machinations and interference by certain internal forces, including the PolishRoman Catholic Church (Wanat, 2019; Burdeau, 2020). The next five years will determine whether Poland continues on her "glide path to success" or whether these paradoxes bury Poland in ancient grudges, political feuds, and ultimately into a series of unwise economic decisions. Only time will tell.

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