



## **Poland - leading Central European growth**

As a dynamic and innovative market, Poland must be on the list of any U.S. company considering international expansion. Its already vibrant manufacturing and real estate sectors are further benefiting from the trade war and pandemic-inspired shift of supply chains to locations able to securely service EU economic powerhouses like Germany. Its young, educated workforce advantages Poland not only in traditional areas but also in the tech-based businesses of the future. Poland's increasingly affluent near 40 million population constitutes a large, attractive, and growing domestic market that is supplemented by the ability to easily access the entirety of the EU's 450 million consumers from Poland's central location.

Beyond just the exciting market possibilities, as noted in Erin Meyer's seminal "The Culture Map" and other cross-cultural studies, Polish business and communication habits are much closer to the ways of Americans than in almost any other region and even closer in some cases than traditional markets like France, Italy and Spain. As such, less time and effort is required dealing with cultural differences, leaving more bandwidth for just doing business.

Is Poland the perfect location for your business expansion? Decisions to expand internationally are as complex as they are critical, particularly as regards a business' initial decision to expand abroad, and warrant objective and thorough analysis.

### **A Story of Remarkable Progress**

Poland has been a phenomenal success story over the quarter-century since communism fell, growing annual GDP by impressive amounts in every year except pandemic-influenced 2020. Polish GDP grew 4.5% in 2019, one of the highest rates in the EU, and 2020's negative 2.7% stands up well against





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the 6.6% fall experienced by the EU as a whole. The European Commission expects: the Polish economy to expand by 4% in 2021 (making Poland the only EU member to reach its pre-crisis level by year end) and 5.4% in 2022, preserving Poland's position as the 6<sup>th</sup> largest economy in the EU; and that Poland's unemployment will be the lowest in the EU at 3.5% (although it is worth noting that the low unemployment figure may signal potential future labor shortages and rising wages). Poland is among the very top of EU member states in average GDP growth over the last decade and is keeping pace with other hot markets such as Ireland.

Poland's track record is one of true resiliency. Helped by the size of the domestic market, its mixed economy was the only one in the EU to avoid recession through the 2007–08 downturn. The leading global index provider FTSE Russell, in agreement with the OECD, has classified Poland's status as a "Developed Market", making it one of the 25 most advanced global economies alongside the U.S., UK, Germany, France, Japan, and Australia. Transparency International gives Poland a respectable ranking of 45<sup>th</sup> out of the 180 countries evaluated in its corruption index, although it should be noted this is below the score earned by some of its neighbors and other investment alternatives.

What has fueled these impressive results? Without a doubt, membership in the EU has made a significant difference. In addition to the benefits of easier access to the EU market, since 2004 Poland has received more than \$150 billion of EU development funds, more than any other member country, paying for roads, bridges, schools, sewage plants and other infrastructure necessary for growth. In the same period more than 2 million Poles have taken advantage of the freedom of movement to work abroad. Supplementing EU funds, companies from around the world have invested some \$200 billion in Poland, integrating Polish operations into their global value chains. Although impacted by the pandemic in 2020, foreign direct investment is expected to continue to grow in 2021 and beyond.

In contrast to previous periods in its history, the proximity and good transportation links to Germany, the world's fourth largest economy, has allowed Poland to ride on the success of its larger neighbor in many ways. There can also be no doubt that less-expensive labor has played a role. Workers in Poland cost companies roughly a third of the EU average, and even less compared to Germany. While pay has been steadily rising in Poland, the difference in labor costs continues to be attractive. Nevertheless, the labor market is highly skilled, with Polish students coming in at the top of the latest PISA test averages in Europe, ahead of Germany, the UK and the Netherlands.

Another attractive element is certainly Poland's very competitive system of financial incentives for foreign direct investment, including tax relief, special economic zones and financial support for R&D and job creation. The Polish Investment and Trade Agency (PAIH) has several offices in the U.S. and



aggressively courts inbound investment. In general, U.S. investors should expect to be impressed with the professionalism of their business and governmental contacts in Poland. Legal, accounting and other services are on par with those found in the U.S.

### **Polish Domestic Politics – an Area of Concern**

The ruling party of Poland's government, Law & Justice (PiS), won the 2015 Polish parliamentary election with an outright majority, something no Polish party had done since the fall of communism, did very well in an intervening European Parliament election, and then won a second four-year term at home in 2019 on a narrower basis. The party is right-wing, nationalistic, and reflective of the global wave of populism that has been becoming ever more evident in recent years. Complaints about the lack of German war reparations and anti-German sentiment generally have been a popular and continuing refrain. Almost immediately upon taking power, PiS proposed a retail tax that would have negatively impacted large, mostly foreign-owned retail establishments in favor of smaller establishments that tend to be owned locally, an effort that was ultimately pushed back. Certain of its initiatives, such as large-scale direct payments to promote families and other social spending, are generally popular and will continue to drive immediate growth despite questions about their effect on Poland's long-term financial health and tax structure. Although it has recently changed its tune in response to the EU's carbon concerns, PiS had also been very sympathetic to the coal industry which generates around 70 percent of Poland's electricity, more than any other European country. Although the political fortunes of PiS are open to almost daily question, it has shown an uncanny ability to pivot when necessary and any viable opposition has yet to materialize – it will almost surely be in power until 2023 and perhaps even beyond.

PiS has certainly shown itself capable of making international headlines. Its efforts at judicial reform and the consequences for the rule of law in Poland have probably (and rightly so) garnered the most attention abroad. A point that can easily be lost to the sound and fury of the intense battles that have arisen around this initiative is that judicial reform is very much needed in Poland. The fact of the matter is that people have always invested in Poland despite the court system, not because of it. The World Bank's Doing Business survey bears this out: Poland ranks 51<sup>st</sup> for protecting minority investors, and 55<sup>th</sup> for enforcing contracts – behind (in one or both categories) countries like Uzbekistan, Bhutan and Cabo Verde, none of which are FDI powerhouses. Despite those ratings, the World Bank ranked Poland 40<sup>th</sup> overall for its FDI desirability (a third consecutive annual drop, by the way), making it 14<sup>th</sup> out of the EU's 27 members.

PiS's initial judicial effort was to try to effectively repopulate 40% of the 100 plus members of an important appellate body by the introduction of mandatory retirements. The government said the



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changes were needed to improve the court’s functioning and get rid of ineffective judges, many of whom served the previous totalitarian system. The opposition saw it as a way to pack the court with PiS allies and to undermine judicial impartiality and independence. The matter soon drew the attention of the EU and the highest EU court ruled that the Polish legislation violated EU rules. Other PiS efforts at judicial reform continue to be challenged on the grounds that they give the legislature and the government too much influence over the judicial system.

It’s not necessary to become entangled in the “inside baseball” and continuing “tit for tat” aspects of Polish judicial reform efforts, but this is a serious issue in the long term. A politicized judiciary will inevitably lead to politicized decisions that could favor national over international interests, which represents a political risk to foreign investors. It is difficult to say that the Polish judiciary has improved under PiS, and there is a strong argument to support the proposition that it has further deteriorated if for no other reason than the perception that it has become more politicized. U.S. investors continue to have the benefit of a bilateral investment protection treaty, and the use of arbitration provisions in contractual arrangements can help avoid some interactions with the judiciary.

Its judicial reform efforts have also strained Poland’s relations and stature within the EU, which became very visible when Poland (and Hungary) threatened to veto the EU budget over a rule change requiring rule of law matters to be taken into account in the way money is allocated among member states. In a last-minute compromise, the new measure remained unchanged but will not be used until Poland and Hungary have the chance to challenge its legality. A tremendous amount of money is at stake – more than \$160 billion in funds and roughly \$40 billion in loans on which Poland is counting.

### **Lack of Press Freedom and Struggles with EU a Concern for Foreign Investors**

Poland is not the only country with EU issues, of course, and the rule of law is not the only issue Poland has with the EU. Poland has been taken to task by many outside observers for its apparent attempts to stifle free press, which is always of great concern to foreign investors who rely on a professional press to investigate and minimize internal corruption. PiS’ effort to fully limit foreign ownership of the media failed, but they



*Recent protests in Poland over press freedom*



have succeeded in transforming state-owned outlets into what are widely considered to be mere mouthpieces for the government. The latest World Press Freedom report [ranks Poland at 62<sup>nd</sup>](#) out of 180 nations, a staggering drop from the 18<sup>th</sup> place it held as recently as 2015 - only Hungary ranked lower among EU nations at 92<sup>nd</sup>.

Additionally, Poland has already indicated that it will resist other members regarding aspects of the EU's emissions trading scheme and will push back against EU support for the minimum 15% corporate tax rate proposed by the OECD. The essential point, though, is that the EU relationship, which has done so much to get Poland where it is and where it wants to go, is for the first time really being tested on a sustained basis. These tensions have given rise to talk of a "Polexit" along the lines of "Brexit". Such talk is likely more of a bargaining tactic from PiS to side-step overt criticism from Brussels than a real threat, as the overwhelming majority of Poles continue to support EU membership - more than 80% in recent polling.

Other occurrences related to PiS are more of a social nature and only indirectly connected to business:

1. For example, a 2018 law criminalizing attribution deemed false of Holocaust crimes to Poland as well as other government actions and statements brought with them a rise in anti-Jewish rhetoric, although it has not been accompanied by the increase of actual anti-Semitic violence and acts that have been seen recently in neighboring Germany and Austria.
2. As in several other member states, Poland has firmly resisted helping the EU deal with the influx of refugees in recent years, consistent with the pronounced anti-migrant line taken by PiS that helped it secure power in the first place. At the same time, responding to its low unemployment rate and need for labor, Poland issues more work visas to foreigners than any other country in Europe. Most of those visas have gone to people from Ukraine. Although the number of work visas granted to non-whites has been increasing, the percentage is still very small and non-white workers in Poland will be very aware that they are in an overwhelmingly homogeneous society as regards race, religion and culture. That being said, expats from the U.S. should expect to find the work permit process to be quite manageable for them.
3. PiS, in strong collaboration with the powerful Polish Catholic Church, has also helped create an increasingly hostile environment in Poland for the LGBTQ community, particularly in more rural areas outside of Warsaw. Nearly 100 local governments have declared themselves "free from L.G.B.T. ideology," and the advocacy group ILGA-Europe, (the International Lesbian, Gay, Bisexual, Trans and Intersex Association), now ranks Poland as the most homophobic country in the EU. In contrast to the anti-Semitic situation, violence against gay people in Poland has



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surged, and includes recent cases of physical violence, insults and destruction of property. This is a matter that simply must be considered by companies sending expats to Poland (for example, there are no same sex work visas) and also may not align with a company's preferred public image or corporate values – and, more importantly, with the expectations of its employees and customers, constituencies that are becoming increasingly concerned about such matters.

4. The same alliance of PiS and the Polish Catholic Church has in years past led to the Sunday closing of many retail establishments (although many ingenious techniques have been developed to circumvent the law) and, this year, supported a controversial court decision resulting in a near-total ban on abortions, notwithstanding opposition by the majority of Poles as confirmed by the huge demonstrations organized against it.

These political concerns should give companies pause. However, observation of the populist movement in the U.S. suggests that any current investment into the U.S. may carry with it similar considerations. It remains to be seen whether there will be long-term negative consequences of Poland being more frequently in an outlier position with both Brussels and Washington. Traditionally strong relations with the U.S. and the checks and balances in the EU system do much to assuage concern over the future of the Polish market for American companies looking to do business in this crucial economy.

### **Geopolitical Risk and Bilateral Relations**

Russian military operations in Ukraine, as well as the social upheaval in neighboring Belarus, continue to trouble Poland and other member states that form the eastern edge of the EU. Concerns over Russian actions and the international response to their provocations also color Poland's bilateral relations with the United States. President Biden's leadership has disappointed many in Poland by being less aggressive against the Russian Nord Stream 2 gas pipeline into Germany than had been expected, including his administration's decision to [waive certain sanctions](#) over the project. The Polish government is similarly unhappy with the indications from the current administration that it will not increase U.S. troop levels in Poland or support the building of a permanent U.S. military base as had been [discussed](#) in 2019.

The interests of the U.S., including the threat from Belarussian and Ukrainian instability and Russian saber-rattling, should promote continued U.S./Poland alignment on matters of security. The substantial presence on both U.S. and NATO troops in Poland send a strong signal of multilateral cooperation and deterrence to Russia. Nevertheless, those political risk concerns should be weighed by investors but now in a context where Poland has felt free to go in directions that will be more difficult for the Biden administration to accept than was the case in the Trump administration.



## **A Great Location for Growth**

Poland is a fast-growing market that simply demands consideration thanks to its dynamic growth and the many positive factors that are spurring non-stop economic success in the country for many years, at a pace practically unmatched in the EU. Warsaw especially is a magnet for innovative international business and is the home of the tallest office building in the EU as well as a high quality of life and dozens of international schools to support expat families. Poland has the largest pool of IT experts in Central Europe, will have one of the largest lithium-ion batteries factories in the world, is planning a new airport/transportation hub next to Warsaw that could service 100 million passengers a year and has enacted legislation that will encourage the development of renewable energy – the list of extraordinary achievements seems endless and will certainly continue at a brisk pace.

Whether Poland is right for you is a decision that requires experienced and objective analysis, building the right in-country alliances and continued vigilance after the investment is made. It certainly should not be made without the careful consideration of alternative investment venues available in other parts of Central Europe and the Baltics which all represent a different mix of advantages and disadvantages. That's something that Samson Atlantic is ready and able to help you do. Reach out to us today!