

Poland: a Land of opportunities at the Heart of Europe



CENTRE
FOR INTERNATIONAL
RELATIONS

Analysis



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In the last decade, Poland has considerably strengthened its political position, while its economy has reached a high level of internationalisation. As an active member of the European Union, NATO and the Schengen zone, the country has not only been a leader of political change in East-Central Europe, but also the Old Continent's healthiest economy and a very close partner of the EU's largest economy – Germany. Entrepreneurs from outside the EU should see this country as a real land of opportunities: an important gateway to a potentially huge market of approximately 500 million consumers and as an excellent service hub or the whole of Europe.

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While Europe remains one of the wealthiest regions in the world and still has huge growth potential, its image abroad has been dominated by the recent series of crisis. The EU as a whole went through a recession in 2012, with a fall in GDP of 0.4 per cent. Poland was the exception with a GDP growth of 1.9 per cent, and it reached 3.6 per cent in 2015. From 2008 to 2015, Poland's cumulative GDP growth was above 23 per cent – one of the highest of the entire continent. Such high growth was due to a large domestic market of more than 38.5 million consumers, but also to rising exports. This in turn was the result of high labour productivity and the competitiveness of Polish products.

These are impressive achievements and they did not come about by chance. Poland's economic strength is due primarily to its consistent approach to introducing free-market reforms after 1989, thus creating solid foundations for an open and competitive economy; to the explosion of Polish entrepreneurship (which was not possible prior to 1989); to the high level of foreign investment; and to the effects of Poland's integration with the European Union, which Poland joined in 2004. This is an efficient model for growth in the European context when seen in conjunction with Poland's relatively low national debt, the innovative nature of Polish businesses and labour costs that are still lower than in other EU countries.

AN INVESTMENT DESTINATION IN THE CENTRE OF EUROPE

The value of foreign direct investment in Poland since the beginning of transformations has exceeded 235 billion USD. It has mostly come from other European countries. Foreign investors have appeared in almost all economic sectors. For a number of years Poland has been one of the world's most attractive markets for advanced business service centres, including research and development and shared service ones. Owing to its location in a time zone that allows for trade with the entire world and to its highly trained workers with knowledge of foreign languages, Poland has been competing successfully as an offshoring destination with Asian countries such as India, the Philippines and China. Today this sector is made up of more than 400 companies and employs more than 100,000 people.

Apart from investing in international services, R&D, financial services, programming, and logistics, foreign investors also invest in the automotive, machinery, aviation, electronic goods, pharmaceuticals and biotechnology sectors. According to the *UNCTAD World Investment Report 2013*, Poland is the 14th most attractive economy in the world for investment. Furthermore, according to the consultants Ernst&Young, while it is true that investors mention Germany first when asked to name the optimal location for investment in Europe, Poland comes second.

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Poland is currently one of the most attractive economies in the world for investment.

STRATEGIC COURSE – THE EUROPEAN UNION

Since the economic transformations began, the most important point of reference for Poland has been the European Union, and the most important goal has been to be part of a united continent. Poland became a member of the EU in 2004. This opened the European market to Polish business and, in time, to Polish workers. At the same time, Polish companies had to compete with more powerful ones in Western Europe. The EU funding for Polish infrastructure and innovative projects caused a tremendous surge in economic development: over 100 billion USD was infused into a range of development projects in the 12 years of EU-membership.

In recent years, Poland has continued to grow and strengthen its role in the EU and Euro-Atlantic structures (Poland joined NATO in 1999). Poland's per capita GDP rose to 68 per cent of the EU average (by comparison it was 49 per cent in the year of EU accession). Today, Poland is an important and increasingly valued

player in the now 28-member European Union. For the moment, Poland, like the United Kingdom, will remain outside the eurozone, in which there are currently 19 EU countries. On the political stage, Poland is a proponent of greater economic integration with the EU and of abolishing the remaining barriers to a truly free market. It is also working intensively to develop relations with the EU's eastern neighbours through the Eastern Partnership – an EU policy initiated by Poland and Sweden and directed at the ex-Soviet states of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

POLAND'S STRATEGY FOR FUTURE GROWTH

Poland has been developing not only rapidly but also innovatively. This success rests upon four solid pillars: a high level of productivity in relation to labour costs (this indicator is almost twice that in Western European countries); a young, educated and ambitious workforce; stable finances and a strong position in the European Union.

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Poland has successfully carried out political, economic and social transformations, and has created a stable foundation for further stable growth. Poland's foreign partners can make use of Poland's fresh experience in the building of an effective state and a free-market economy.

The size of the Polish market will certainly be a major growth factor. The World Bank has described the Polish economy as a high-income economy. With a population of 38.5 million people (7.6 per cent of the EU's population) and a per capita GDP of 24,882 USD (PPP), it is the EU's 6th largest economy and one of 25 largest in the world. Poland continues to be named in several rankings as one of the most attractive European markets for foreign direct investment. Investment incentives offered by the government, regions, special economic zones, industrial zones and technological parks are additional factors drawing investment.

The solid position of Polish businesses that are leaders in their respective market segments also create potential for mergers and acquisitions. After two decades of growth, many Polish businesses are seeking areas of expansion and capital ties. Exports, which have grown by an average of more than 10 per cent per year over the last 10 years, are one of the factors hastening this process. During this latter period, the value of Polish exports has more than tripled – from 72 billion USD to 219 billion USD. The type of exported products and services is also changing, from cheap goods and goods of commodity-driven businesses to high-quality

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CVA goods. In the coming years, the factors spurring Poland's growth will be continued European integration, public investments supporting development, comprehensive funding of innovation and creation of CVA goods, the public's yearning for prosperity, and digitisation and metropolisation.

It is understandable that Poland is focused economically and politically on Europe, but recently this horizon has been widening thanks to, among other things, the greater maturity of the Polish economy and businesses, the greater role of exports in the economy, and the competitiveness of Polish products. This is making Polish products popular on the European and other markets, and causing Polish businesses to seek opportunities in various world markets.

A TRIED AND TESTED PARTNER

One of these promising markets is Iran. A shared history stretching back to the 15th century forms a good framework for cooperative development. In 2014, both countries celebrated the 540th anniversary of bilateral relations. In Poland, Iran is particularly remembered for its help in sheltering over 120,000 Polish soldiers and their families fleeing the USSR during the Second World War. A renewed Polish-Iranian economic, cultural and academic cooperation underwent a weakening only in the 1990s. We

can observe a renewed strengthening of Polish-Iranian ties from 2012. A confirmation of further development in relations and their strengthening is the Polish *Go Iran* initiative, initiated in 2015 by the Ministry of Economy and also the Polish-Iranian agreement on economic cooperation, signed in September 2015.

The new opening in relation with Iran is not just supported by a long mutual history or changed external factors (the lifting of European sanctions). The Iranians, a Indo-European people are close to Europeans and at the same time maintain excellent trading links with Central Asia and the Middle East. This is the reason why Iran may be a jumping off point for Polish companies wishing to expand economically throughout the entire western and central part of Asia.

UNTAPPED POTENTIAL

The value of Polish-Iranian trade in 2014 stood at over EUR 57 mln. Polish exports reached EUR 34.9 mln (mainly fuel or oil injection pumps, transfusion equipment, medical instruments and graphite electrodes). Imports reached EUR 22.4 mln (mainly dried grapes and prunes, pistachio nut and animal offal). Over the last three years, both Poland and Iran have noted a systematic drop in mutual trading turnover. Both sides stress that the level of economic cooperation does not reflect their potential. It is

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difficult to disagree especially that in 2011, trading turnover reached a level of EUR 167 mln.

Before 2015, the most important factors influencing this low level of bilateral trade used to be the EU sanctions and the concomitant difficulties in monetary exchange between European and Iranian companies. An additional factor, on the Polish side, was the little knowledge among entrepreneurs about the possibilities of trade in areas unaffected by sanctions as well as the media-generated stereotypes of the Iranians themselves (in 2013 66% of Poles judged them with a degree of trepidation). In turn, in Iran itself Poland is still not well known and associated more from history. Her contemporary impression is associated more by allusions to culture (film and theatre) rather than with sanctions.

Taking advantage economically, of the chances offered by the lifting of sanctions should act as a spur for both governments. Polish Deputy Ministers of Economy have already visited Iran several times and in 2014 the Polish Minister of Foreign Affairs visited Tehran. At the end of that

year, Warsaw welcomed Mohammed Reza Nematzadeh, the Iranian Minister for Industry, Mining and Trade. The joint Polish-Iranian economic forum organised in September 2015 in Tehran, served to intensify the cooperation between companies.

PROMISING AREAS OF BUSINESS

Poland should be seen by Iranian entrepreneurs as a gateway to a potentially huge market of approximately 500 mln European consumers and as an excellent service hub for the whole of Europe. Of particular note especially to Iranian exporters is the food and grocery sector. The Iranian shipyard and mining industry (amongst others) needs new European technology.

Polish-Iranian cultural and educational/academic institutions and centres also have the potential to develop. The Gardzienice Theatre is performing in Tehran and Iranian female teachers are already working in Wrocław. Polish universities and colleges can count on Iranian students studying engineering and medicine. •

1989

beginning of political and market reforms in Poland

235.1 billion USD

value of direct investment by foreign companies since 1990

Source: NBP 2014

57.4 billion USD

value of direct investment by Polish companies abroad

Source: NBP 2014

2004

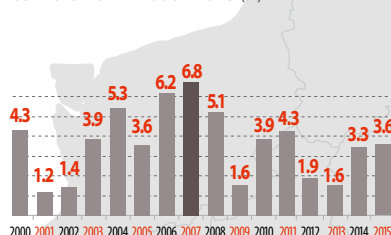
Poland joins the European Union

508 million

people live in the EU
7.6 per cent of whom are Poles

Source: Eurostat 2015

GDP Growth in 2000–2015 (%)



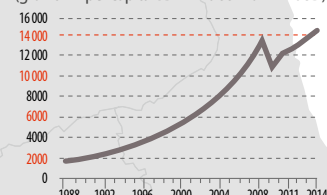
Source: GUS

6.8%

Poland's highest GDP growth rate (in 2007)

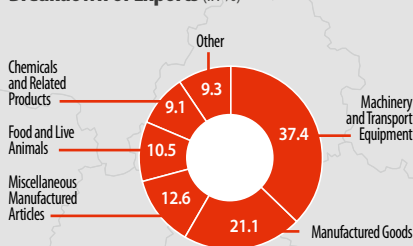
Unprecedented Growth of Income in the Post-WWII Period

(growth in per capita GDP in 1988–2014 in USD)



Source: World Bank

Breakdown of Exports (in %)



Source: GUS 2013

76.1%

of Polish exports go to the European Union

Source: GUS 2013

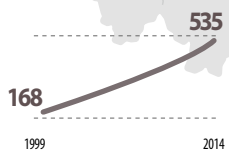
971

new companies registered in Poland every day in 2013 (one every 29 seconds)

Source: Centralny Ośrodek Informacji Gospodarczej 2014



Gross Domestic Product (in billion USD)



Source: IMF 2014

Over 300%

Poland's GDP increase in 1999–2013

Per Capita GDP of Chosen EU Countries in 2008–2014

	in thousand USD														
	2008	2009	2010	2011	2012	2013	2014		2008	2009	2010	2011	2012	2013	2014
EU	36.6	32.6	32.4	34.9	32.8	34.5	35.9		100	100	100	100	100	100	100
Eurozone	41.2	37.5	36.8	37.3	37.0	36.8	36.9		110	109	109	109	108	107	107
Czech Republic	21.7	18.9	19.0	20.6	18.5	19.9	19.6		81	83	81	81	81	82	85
Germany	43.9	40.0	40.2	43.9	41.4	46.3	47.6		116	115	120	123	123	122	124
Hungary	15.4	12.7	12.8	13.9	12.7	13.5	13.9		64	65	66	67	67	66	68
Poland	13.9	11.3	12.3	13.4	12.7	13.8	14.4		56	61	63	65	67	67	68

Source: UNCTAD, World Bank, Eurostat 2015

954.5 billion USD

Poland's GDP (PPP) in 2014

Source: IMF 2015

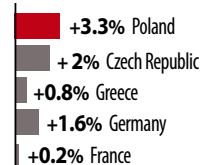
64.2%

of Poles are of working age

Source: GUS 2013

3.3%

Poland's GDP growth in 2014; it rose in the EU as a whole by 1.3 per cent



Source: Eurostat 2014

Poland has
38.5
million

inhabitants. Germany has 80.5 million, France – 65.6 million, UK – 63.9 million and Italy – 59.7 million inhabitants

Source: Eurostat 2014

68%

Poland's per capita GDP as a percentage of the EU average

Source: Eurostat 2015

2014 per Capita GDP (% of EU average)

Poland	68
Hungary	68
Greece	73
Czech Republic	86
Spain	91
France	107

Luxembourg	266
United States	148
Netherlands	131
Austria	130
Germany	124
United Kingdom	109

Poland's Competitiveness

Country	Place
Switzerland	1
Singapore	2
Germany	4
USA	5
Poland	42
Turkey	44
Czech Republic	46
Italy	49
South Africa	53
Hungary	63

Source: Global Competitiveness Report 2013-2014, WEF

Poland ranked
14th

on the list of most attractive investment destinations in 2013–2015

Source: World Investment Report, UNCTAD 2013

Poland's Main Trade Partners

Germany	27.8%	EXPORT	23%	Germany
United Kingdom	6.7%		12.5%	China
Czech Republic	6.5%		7.1%	Russia
France	5.8%		4.9%	Italy
Italy	4.6%		4.0%	France

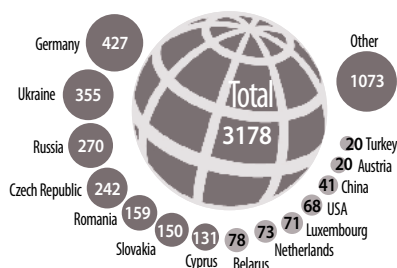
Source: GUS 2015

Kraków
no 1

location in Europe for FDIs in service sector

Source: Tholons 2013

Foreign Subsidiaries and Branches of Polish Companies in 2011



Source: GUS 2013

1st **Investment**

Poland's place in the ranking of the most attractive investment locations in Central and Eastern Europe. Managers of global companies rated Poland as high as Germany

Source: 2013 European Attractiveness Survey, Ernst and Young

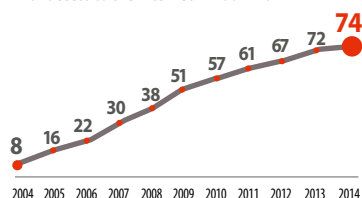
Internet
95%

of Poland's companies have access to the Internet

Source: GUS 2014

Networking

percentage of the Polish population with access to the Internet in 2004–2014



Source: Eurostat

Which region is the most attractive investment destination? (in %)

China	43
Western Europe	37
North America	29
Central and Eastern Europe	28
Brazil	26
Russia	20
India	19

Source: 2013 European Attractiveness Survey, Ernst and Young

Analysis



Centre for International Relations (CIR) is an independent, non-government analytical centre established in 1996 which deals with Polish foreign policy and the most important issues of international politics. CIR is active in research, education and publishing, organises conferences and meetings, and participates in international projects in collaboration with similar institutions in many countries. CIR creates a forum for debate and exchange of ideas in matters of international politics, relations between states and challenges in the global world. CIR's activities are addressed above all to local-government officials and to entrepreneurs, as well as to officials of the central administration, politicians, diplomats, political scientists and the media. Since 2009, CIR has been recognised as one of the best think-tanks in East-Central Europe in the study "The Leading Public Policy Research Organisations in the World" conducted by the University of Pennsylvania.

