CHAPTER 7

Conclusion

The collapse of communism in Poland, as well as in other Eastern European countries, meant a systemic and structural changes in all areas, which requires a total restructuring of the institutions and practices for which Poland has never experienced before. Poland has undergone several various short-comings in its early years after 1989, due to its inexperience in managing an open market economy and the inefficiency of its bureaucracy. Its bureaucratic inefficiency results from government officials performing their duties only according to the directives from their superiors rather than taking their own initiatives.

Since 1989, Poland has dropped their communist ideology and began to embrace a liberal idealist perspective and believe that liberalism will ultimately prevail. They have adopted western liberal economic practices to attract foreign investors and have initiated implementation of open market economies which to many countries have been proven successful. As Poland is highly interested in becoming a member to the EU, they have started the attempt to harmomise its domestic economy with the rules and regulations of the European Union.

Poland is highly attractive to foreign investors because it has a large markets comprising of more than 40 million people. Poland is rich with natural resources with low labor cost and it is strategically located to be the bridge between eastern and western Europe. It has direct access to the Baltic Sea and its potential to be a new member of the

European Union provides Poland with privileges and access to the European market.

However, with the integration into the European Union, Poland has to be concerned about their sovereignty ie. to what extent the EU will control Poland ; and the benefits that Poland hopes to achieve in gaining membership to the EU, which needs to be optimally balanced.

Currently, Poland possesses little potential bargaining power, however, they are willing to make sacrifices in gaining membership to the EU, eg. agricultural and industrial reforms (coal and steel), also tax and tariff will be reduced gradually according to the EU standards.

Poland's political and economic development programs to transform the country into the free market economy has been successfully implemented. Every democratic government elected after the year 1989, though they were coalitions government, have continuously and strictly implemented the plans of the previous government to achieve the goal of an open market economy, which includes short-term, medium term and long term plans. Each new government would attempt to lay down future plans for the new governments to follow which creates continuity to the benefit of the country. None of them has turned the plans otherwise. Privatization, being the major program to transform the authoritarian economy into the free competition economy, have been accelerated continuously without any interruption.

What are the factors that had led this to happen?

- This first commenced with the establishment of a democratic form of government in Poland. The democratization process and economic restructuring programs to transform the country into democracy and free market economy has been fully supported by the people at large. Coincidentally, the collapse of communism took place almost at the same time. These factors created the opportunity for the government to adopt a free market economy plan as the solution to further develop the country.

- Simultaneously, the EU has paved the way and opened an opportunity for Poland to join as a member. This encouraged every Polish government to specifically implement open market economy plans for the purpose to gaining membership to the EU. Poland has not had any influence from other (communist) sources to change its plans otherwise.

- As Poland recently opened its country and economy in 1989, this has encouraged every succeeding governments to radically transform its current political and economic structures to conform to democratic principles, norms and a free market economy within a short period of time. All restructuring programs have been designed to adapt to such changes by the turn of the century, which would enable Poland to sustain an equal level of economic development to other developed countries.

Poland has adopted a parliamentary system of government. It allows the establishment of political movements and political parties. This would enable the Polish citizens to have choices to compare and elect their representatives who will administer the country on their behalf. The President is the Head of State and is considered as the supreme representative of the people who exercises the executive powers through the Prime Minister and the Council of Ministers. The Legislative consists of members of parliament (Sejm) who are directly elected by the people, and the members of the Senate who are appointed in proportion to the members of parliament.

Furthermore, the government has implemented a privatization program to improve the economy. Under the communism ruled regime, all commercial activity was monopolized by the State, where there was no competition nor economic development. Privatization is the only means that will create market efficiencies and to provide mutual benefits for all. Privatization will attract the in-flow of foreign investments from private sectors to be circulated within the economy, which will correspondingly, create fair market competition and jobs for people.

The government has enacted new laws and revised existing legislation to be compatible with international rules, norms and regulations on trade, investments to enhance its privatization program. Various forms of business enterprises are allowed for business engagement. Foreign investors are allowed to establish joint ventures in the form of joint stock company or limited liability company. They can also set up branches or representative offices in doing certain limited business

Moreover, the governments have boosted its economy through the grant of investment incentives to foreign investors in various forms, especially tax incentives. Import duty has been granted exemption to those investors who bring in capital goods which increases the transfer of technology into the country. Direct and indirect taxes has also been introduced. Direct taxation is calculated on a progressive basis. Corporate income tax, personal income tax, value added tax, customs duty and excise tax are now being used throughout the country.

Local and regional development has also been promoted through designation of industrial promotion zones which offers tax incentives to those investors who make their investments within the zone. The governments has also implemented the regional expansion of development throughout the country. Industries are being encouraged to be located throughout the country in order to decrease local unemployment and hence improve the standard of living.

In the countries of central and eastern Europe the question of foreign direct investment has assumed vital importance. Prior to 1989 there was virtually no western investment in the region, with few exceptions, Under these new circumstances, FDI seems to offer a tremendous potential for cooperation and mutual gain. If it is carefully directed, private investments can bring Poland the capital, technology, and industrial infrastructure they need in order to modernize their economies and boost their standard of living. Likewise, if they can enter the market successfully, Poland offers western businesses substantial opportunities for wide-scale investment and long-term profits. Poland desperately need capital to improve their economies. In the area of foreign direct investment, therefore, the contours of the bargaining space are relatively clear. The investors wants security, Poland wants investment, and both demand clarity. On these ground, international institutions will have an increasingly larger role to play: providing a forum for negotiations, signaling intentions, and codifying the evolving system of rules.

At the same time, Poland is rushing to embrace both the western institutions and the norms and rules they represent. The Polish government are abiding by western laws and adopting western standards even before they are accepted into the organizations that formally embody these laws and standards. Some of this adaptation, of course, may be staged for the benefit of potential investors and some may be part of a broader phenomenon of Poland's desire for membership in all Western institutions.

The state strategies of Poland is to attract foreign investment. They want to regulate it and to set some guidelines for its role in their economies, but their first priority seems simply to attract wide-scale investment as quickly as possible.

The reasoning behind this desire is straightforward. After forty-five years of socialist control, Poland is rushing to embrace capitalism. They are determined to establish private enterprise, open their borders to foreign goods, and rid themselves of the state-owned enterprises that have long dominated their economies. However, Poland, is quickly discovering that the transition from communism to capitalism is exceedingly difficult. To be successful, it demands a fundamental restructuring of the entire economic and social basis of the state. All at once, Poland, is struggling to create a financial infrastructure, realign their currencies, learn the basic rules of market competition, distribute the productive assets of the state, and privatize a vast industrial infrastructure. All these tasks are extraordinarily complicated and intricately interlocked. They all require fundamental changes in the existing legal system and in the social structure that developed under communist control.

The Polish government have been actively involved in creating the legal and financial structures that would be most conducive to the entry of foreign investors. The essence of the legal structure was to open the country to virtually any investment. The was no minimum limit set on the amount of initial investment, and permits were required only for a handful of industries such as defense, air and sea ports, real estate, and wholesale trade in imported goods. Foreign companies were allowed to repatriate all of their capital, including capital gains, and to remit full profits and dividends. For companies with invested capital of more than ECU 2 million, or companies which exported more than 20 percent of their production, additional tax relief could also be obtained.

By any standard these laws created a liberal climate for investment. Not only were foreigners given full national treatment, but they were also given investment guarantees, tax holidays, and capital export allowances.

It is not at all surprising that Poland has adopted such a liberal strategy with regard to foreign direct investment. What is noteworthy is the extent to which Poland's evolving system appears to conform with prevailing international norms of foreign direct investment. Rather than merely removing its formal prohibitions against foreign investment, for example, the Polish government has been extremely careful to frame its new laws in the language of the west, and to adopt many of the same convictions. Most important, all of the recent regulation has attempted to increase the transparency and reduce the uncertainties of the business environment.

In removing as many bureaucratic layers as possible, the Polish government has clearly recognized that its western investors prefer laws over discretion, and that these laws need to be as transparent and stable as possible. The scale of inflow of foreign capital into Poland depends not only on attractive legislation and investment opportunities but also on the legal infrastructure which is one of the factors determining the so-called investment climate. Likewise, Poland has been quick to adopt the principle of national treatment, agreeing in virtually all cases with the western norm that "conditions of business activity created for investors of the other party cannot be less convenient than those created for home investors or investors form any other country. The government has been quick to offer full guarantees that the investments of foreigners will be treated the same as those of Polish nationals, and that the government will offer full compensation in the case of nationalization or expropriation. However, there are problems in some area such as delay of processing in applying business licenses, translation costs is quite high, not enough housing facilities and inefficient bureaucratic practices which impedes foreign investments.

Accordingly, Poland is very enthusiastic about joining western institutions such as the European Union (EU) and binding themselves to western rules. Where foreign investment was concerned, they made clear their intention to abide by all internationally recognized guidelines: the OECD codes, the Multi-lateral Investment Guarantee Agency codes, and the United Nations Center on Transnational Corporations guidelines.

On foreign affairs, Poland is a member to many free trade organizations such as CEEC, CEFTA, WTO and OECD and has entered into agreement for avoidance of double taxation with 56 different countries, including Thailand. This has created confidence in foreign investors to bring their investment into the country and at the same time to enhance Poland's standing in the world economy.

For multi-national investors, Poland can be seen as a highly attractive investment area in Europe with diversified resources together with a large market for goods and services. It is strategically located in Europe and its potential admission to the European Union should be considered by non-EU countries as a means of access into the European Union market.