

**INVESTMENT CLIMATE IN A POTENTIAL NEW EU MEMBER STATE
: A CASE STUDY OF POLAND**



MRS. SOMJIN KITIAMONGKOL

**A Thesis Submitted in Partial Fulfillment of the Requirements
for the Degree of Master of Arts in European Studies**

European Studies Program

Graduate School

Chulalongkorn University

Academic Year 1997

ISBN 974-638-451-1

Copyright of Graduate School, Chulalongkorn University

Thesis Title : Investment Climate in a Potential New EU Member State :
A Case Study of Poland

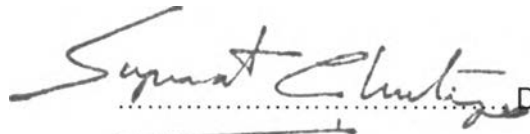
By : Somjin Kitiyamongkol

Department : European Studies Program


Thesis Advisor : Associate Professor Prathoomporn Vajrasthira


Thesis Co-advisor : Siripong Supakijjanusorn

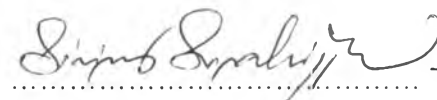
Accepted by the Graduate School, Chulalongkorn University in Partial fulfillment of the Requirements for the Master's Degree

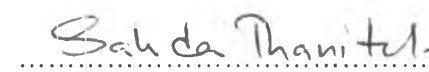

..... Dean of the Graduate School
(Professor Supawat Chutivongse, M.D.)

THESIS COMMITTEE :


..... Chairman
(Associate Professor Apirat Petchsiri, J.S.D.)


..... Thesis Advisor
(Associate Professor Prathoomporn Vajrasthira)


..... Thesis Co-advisor
(Siripong Supakijjanusorn)


..... Member
(Sakda Thanitcul, Ph.D.)

408 99254 20 : MAJOR EUROPEAN STUDIES
 KEY WORD: DEMOCRATIZATION / INVESTMENT INCENTIVES / TAXATION / PRIVATIZATION / ECONOMIC REFORMS / EU INTEGRATION
 SOMJIN KITIAMONGKOL : INVESTMENT CLIMATE IN A POTENTIAL NEW EUROPEAN UNION (EU) MEMBER STATE. A CASE STUDY OF POLAND.
 THESIS ADVISOR : ASSOC. PROF. PRATHOOMPORN VAJRASTHIRA,
 THESIS CO-ADVISOR : SIRIPONG SUPAKIJJANUSORN 82 pp. ISBN 974-638-451-1

With the collapse of communism and the fall of the Berlin Wall, former communist countries were forced to transform their economies into a free market economy. As countries in western democracies having developed their economies to a high level of development, former communist countries had to implement economic reforms to rapidly modernize their economies to the same level within a short period of time.

Poland, one of the former communist countries, had successfully implemented economic reforms and development programs to integrate itself into the world economy. Poland's strategic location as a bridge between Western and Eastern Europe, coupled with its abundant natural resources and a potentially large market had made Poland a favourable candidate to gain membership into the first European Union's enlargement to Eastern Europe. However, Poland still has to adapt itself to comply with various economic conditions to meet European Union's requirements for new membership.

The author aims to study and analyze the changes which took place during various stages of political and economic reforms from the period after the collapse of communism in 1989 until present and its potentials and problems on becoming a new member in the European Union.

The study also focused on the investment environment which included legislations relating to investments, the taxation system, investment incentives and whether Poland could attract foreign investments.

From the study, it was concluded that democratization in Poland had been successfully implemented alongwith a free market economy. Poland's integration into the European Union by the year 2000, hence into the world economy, together with the current legislative provisions on investment would transform Poland into a favourable and attractive investment area.

ภาควิชา.....

สาขาวิชา European Studies.....

ปีการศึกษา 1997.....

ลายมือชื่อนิสิต *S. Kitiamongkol*.....

ลายมือชื่ออาจารย์ที่ปรึกษา *P. Vajrasthira*.....

ลายมือชื่ออาจารย์ที่ปรึกษาร่วม *Siripong Supakijjanusorn*.....

ACKNOWLEDGMENTS

This thesis began with the enthusiasm of the author to learn about Eastern Europe after the end of socialism. With the encouragement of my advisor, **Associate Professor, Prathoomporn Vajrasthira**, who, I believe, is an authority in this area, the author selected Poland as the country under study. Although full information about Poland in Thailand is not easily accessible, however, with the great help of Professor. Prathoomporn , various sources of information and several resource persons from the Polish Embassy were introduced to me.

The author cannot fail to mention **Associate Professor Dr. Apirat Petchsiri** for his forthright criticism which helped complete the thesis on schedule.

The author wish to thank to **Dr. Sakda Thanitcul** from Chulalongkorn University's Faculty of Law, and **Assistant Professor, Dr. Vimolvan Patharodom** from Chulalongkorn University's Faculty of Arts for their comments and inputs for information added in this thesis.

This thesis shall not be completed without the information obtained from **Mr. Marek Karp**, Commercial Counsellor and **Mr. Zbigniew Lis**, Commercial Attache, and **Ms. Phaphit Phollert**, Secretary, of the Polish embassy in Bangkok, and **Mr. Poul H. Lassen**, Fellow in Residence at the CUESP who, kindly in several occasion, discuss with me and provided updated information about Poland. Also, my thanks to **Ms. Yupin Chancharroensin**, librarian of Chulalongkorn University, who kindly edited the footnotes for this thesis.

Without the support from **Mr. Siripong Supakijjanusorn** my co-advisor , a partner of Price Waterhouse and lecturer at Ramkhamhaeng Graduate School, and his constructive criticism, writing would be intolerable. Also his great input for tax information which appeared in the thesis has been sourced and acquired through the operation of his Price Waterhouse worldwide networks. The author is greatly indebted to him and his secretary, **Ms. Boriboon Citeja**.

Finally, I want to thank my family and friends at the Graduate School of Chulalongkorn University, whose support has made this first English thesis possible.

CONTENTS

	Page
Abstract (English)	III
Acknowledgements	IV
Contents	V
Abbreviations	VI
Chapter	
1 Introduction to Poland.....	1
1.1 Geography, Climate, Population, Language and Currency.....	1
1.2 Political Environment.....	2
1.3 Economic Environment.....	3
1.4 Brief History during the Transitional Period and Political System.....	.6
1.5 Present Political Elections.....	10
1.6 Liberalization and Democratization.....	12
2 Balcerowicz Plan.....	14
2.1 Balcerowicz Plan - The "Shock Therapy"	14
2.1.1 Price Liberalization.....	15
2.1.2 Establishment of Free Trade.....	17
2.1.3 Restructuring of Banking and Financial Sector	18
2.1.4 Privatization.....	20
- Capital Privatization Method.....	21
- Direct Privatization Method.....	22
- Mass Privatization Program.....	24
3 Strategy for Poland and Package 2000.....	25
3.1 Introduction.....	25
3.2 Strategy for Poland.....	26

	Page
3.3 Package 2000.....	27
4 Poland - Accession to the EU.....	35
4.1 Introduction.....	36
4.2 Poland and the EU.....	37
4.3 Positive Factors.....	38
4.4 Difficult Factors.....	38
5 Investment Law, Business Organizations, and Foreign Exchange Availability.....	41
5.1 Investment Law.....	41
5.2 Investment and Tax Incentives.....	43
5.3 Business Organizations and Regulations.....	44
5.3.1 Joint Stock Company.....	44
5.3.2 Limited Liability Company.....	46
5.3.3 Representative Office.....	46
5.4 Foreign Exchange Availability.....	47
6 Taxation System, Development and its Implications..	49
6.1 Taxation System, Development and its Implications.	49
6.1.1 Corporate Income Tax.....	49
1. Resident Companies.....	49
2. Non-resident Companies.....	51
6.1.2 Personal Income Tax.....	52
1. Resident of Poland.....	52
2. Non-resident of Poland and Expatriate.....	52
6.2 Tax Rates.....	53
6.3 Value Added Tax.....	53
6.3.1 VAT exempt business	54
6.3.2 Zero rated VAT.....	54
6.4 Customs duties.....	55
6.5 Excise Tax.....	55

	Page
6.6 Stamp Duty.....	56
6.7 Agreement for Avoidance of Double Taxation.....	56
6.8 Changes in Tax System.....	56
6.8.1 Corporate income tax.....	57
6.8.2 Personal income tax.....	58
6.8.3 Import and tariff taxes.....	58
6.8.4 Value added tax (VAT).....	59
6.8.5 local tax.....	59
7 Conclusion and Suggestions.....	60
References.....	69
Biography.....	72

ABBREVIATIONS

CAP	Common Agricultural Policy
CEFTA	Central European Free Trade Area
CMEA	Council For Mutual Economic Assistance
EFTA	European Free Trade Association
EU	European Union
GATT	General Agreement on Trade and Tariffs
IMF	International Monetary Fund
MPP	Mass Privatization Program
NBP	National Bank of Poland
NIF	National Investment Funds
OECD	Organization for Economic Cooperation and Development
PHARE	Poland and Hungary : Aid for Economic Reconstruction
WSE	The Warsaw Stock Exchange
WTO	World Trade Organization
UNIDO	United Nations Industrial Development Organization