

Chinese investment in Poland has grown significantly over the past decade, rising to more than US\$338 million by 2020, a level nearly eight times the level in 2013.<sup>1</sup> According to the Polish government, Chinese investments in Poland aggregated to US\$2.2 billion by the end of 2020. The effects of COVID-19 in both countries and the increase in international tensions during 2021 and 2022 resulted in a decline from the peak investment levels, yet Chinese interest in Poland continues. Major PRC manufacturing companies, such as Guangxi Liugong, Hubei Sanhuan, TCL, Nuctech, TPV, Dalian Darent, CIMC Vehicles, Hongbo Clean Energy, BWI, Bioton Biopharmaceuticals, SDIC Zhonglu, Cathay Pacific Huarong, Xinzhoubang and others, and China's information and communication leaders, such as Huawei and ZTE, have also made significant investments in Poland. Financial institutions, such as China Construction Bank, China-Central and Eastern Europe Investment Cooperation Fund, and Haitong Bank, have all established operations there in recent years.<sup>2</sup> What explains this attraction for a country whose population is smaller than an average-size province of China?

**History of Cooperation** – Polish-Chinese trade relations date back to 1951, and Poland has seen investment from China since then. In 1988, a bilateral investment agreement was signed. In the early years, PRC investors typically were exploring opportunities to work as contractors or subcontractors on Polish public tenders, particularly in the construction sector. More recently, China and Poland have explored a framework for participation in China's Belt and Road Initiative. In 2015, the two countries signed a memorandum of understanding to cooperate on this initiative. Since this moment, the volume of trade between Poland and China has risen steadily – from US\$17 billion in 2017 to US\$42 billion in 2021.

**Economic Position** – Despite Covid slowdown in 2020 and the conflict in Ukraine in 2021, Poland's GDP continued to grow – +6.8% in 2021 with a still-positive forecast of +4.1% in 2022. Nevertheless, maintenance of the positive growth rate of the Polish economy will require more foreign investments in almost any sector of the economy. Given its size relative to neighbouring countries in Central and Eastern Europe, this makes it particularly attractive as a destination for foreign investment.

**EU Access** – As an EU member state, Poland offers Chinese investors a gateway for further expansion into the EU market. Due to its size, population, and economic growth rates, Poland has long served as a foothold for foreign investors considering expansion into the CEE region. Poland may serve as a lower-cost and more dynamic entry point than many member states further to the west.

**Stable Legal and Political Systems** – Poland is widely seen as a well-grounded and stable legal environment as far as business is concerned. The country enjoys a large pool of skilled workers, who work at competitive employment costs compared to western European economies, and are less likely to be unionised. The Polish Labour Code also has fewer formalities than many civil law jurisdictions, offering greater flexibility for employers.

**Receptivity to Chinese Investment** – The Polish government has demonstrated a general willingness to welcome foreign direct investment in any form – whether in the form of a greenfield investment or the takeover of an existing business. Foreign direct investment in Poland has traditionally been subject only to limitations in those certain sectors that are considered essential for national security, such as electricity production; oil and gas distribution and storage; production of explosives, weapons and ammunition; and few others. Like other EU member states, in 2020, Poland extended its foreign investment control laws to provide for greater oversight over takeovers of strategic Polish firms by non-OECD investors, but that process to date has not been applied to disadvantage investors from China. The ex-ante review process has been initiated on several occasions since its implementation, but, each time, the Polish authorities have approved the contemplated takeover (including, for example, the acquisition of the automotive logistics service company Adamed by Changjiu Logistics in 2021).

Most notably, there are no restrictions on foreign investment in key sectors of common interest, such as e-commerce and gaming. Poland is a hotbed for computer games developers, with the famous CD Projekt RED, Techland and Huggle Games spearheading the industry, and many others following suit. Poland has also become a hub for numerous innovative startups in other sectors, including healthcare, e-commerce, fintech and IT (gaming, development of applications and software).

1 2021 Statistical Bulletin of China's Outward Foreign Direct Investment issued by the PRC Ministry of Commerce (MOFCOM), National Bureau of Statistics and State Administration of Foreign Exchange.

2 Country (Region) Guidelines for Foreign Investment and Cooperation, issued by MOFCOM, the International Trade and Economic Cooperation Research Institute, Economic and Commercial Office of the Chinese Embassy in Poland and Department of Foreign Investment and Economic Cooperation.

**M&A Opportunities** – We have witnessed the Polish M&A market grow active, with 328 M&A deals aggregating €2.5 billion in value in 2020, 99 more transactions than in the prior year,<sup>3</sup> and, despite the absence of official statistics, it appears this trend has continued in 2021 and 2022. Chinese investors have participated in this activity, as demonstrated by Changjiu’s acquisition of Adamed, and XCC Group’s acquisition of FŁT Polska in 2021. Following these transactions, in February 2022, Polish President Andrzej Duda met President Xi Jinping in Beijing, with talks focusing on strengthening bilateral practical cooperation between the two countries. This is expected to further boost Chinese investments in Poland, sending a signal that the Polish government welcomes further inflow of the Chinese investment that has been slowed in part by the challenges China has faced during 2022 in maintaining its “dynamic Zero COVID-19” policies.

In particular, Poland is currently seeing numerous M&A transactions wherein founders of businesses dating back the 1990s or early 2000s are now ready either to cash-out of their businesses or to expand their operations through the introduction of a strong, foreign partner willing to contribute funds and know-how to facilitate the expansion. This is true for rather traditional industries, which were well-developed in Poland, such as logistics and transportation, but also TMT and IT, which were amongst the top acquisition targets in 2022.<sup>4</sup> All of these sectors offer opportunities for successful acquisition.

**Forecasts** – Recent surveys show that inflation is decreasing faster than initially anticipated, and the talks between the Polish government and the European Commission regarding releasing additional EU funds into the Polish economy appear well-advanced.

The conflict in Ukraine and increasing energy costs have soured the investment climate as winter advances, but those conditions are temporary, not permanent, and the Polish market still offers plenty of opportunities for Chinese investors.

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<sup>3</sup> Data according to [Navigator Capital Group/Fordat report](#).

<sup>4</sup> Navigator Capital Group/Fordata reports on M&A market in Poland in Q1 and Q2 of 2022.