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## The Cultural and Economic Framework of Polish Japanese Economic Cooperation

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Zofia Gródek-Szostak<sup>1</sup>, Karolina Kotulewicz-Wisińska<sup>2</sup>

**Abstract:**

**Purpose:** The article aims to identify the economic and legal framework of Polish-Japanese economic cooperation and to establish the cultural and business determinants of entrepreneurship in Japan.

**Approach/Methodology/Design:** Literature studies and analysis of primary sources (reports) were used as the research method.

**Findings:** More and more Japanese organizations notice the investment potential of Poland for its political stability and highly qualified workforce. Japan's FDI is innovative, as demonstrated by numerous examples. For example, in early 2019 in Warsaw, representatives of the Ministry of Energy and the Japanese Ministry of Industry and Trade signed a Memorandum of Cooperation in the area of Clean Coal Technologies (CTW). The agreement is to establish a framework for Polish-Japanese cooperation and support in the context of the development and promotion of clean coal technologies, including in particular coal gasification

**Practical Implications:** For Poland, the important task seems to be the presence of Japanese investors in all provinces of the country. Therefore, respective provinces must consider infrastructure development, strengthening research centers, especially technical universities, and the development of human capital. Such an approach would prevent the outflow of the workforce by reducing the intensity of work migration to other provinces in the country and abroad. If this tendency were to persist, it would contribute to reducing the imbalance in the level of development of the provinces.

**Keywords:** Economic cooperation, Poland, Japan, entrepreneurship.

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<sup>1</sup>Cracow University of Economics, Department of Economics and Organization of Enterprises, Cracow, Poland, ORCID ID: 0000-0001-6283-6952 [grodekz@uek.krakow.pl](mailto:grodekz@uek.krakow.pl)

<sup>2</sup>Cracow University of Economics, Department of Political Science, Cracow, Poland, ORCID ID 0000-0002-7416-4898 [kotulewk@uek.krakow.pl](mailto:kotulewk@uek.krakow.pl)

## 1. Introduction

Foreign investors often choose Poland as an ideal location for Business Process Outsourcing (BPO) investments. Over the past 20 years, Poland has become the undisputed leader in the modern business services sector in Central and Eastern Europe. In BPO, organizations are contracted to provide professional services supporting business processes of other organizations. This allows the contracting company to reduce business and operational costs, e.g., Infrastructure, equipment, recruitment, or onboarding costs, while maximizing the professionalization of the provided services (Adamczyk *et al.*, 2020).

Poland is one of the strategic economic partners of Japan in Central and Eastern Europe. Every third Japanese company located in the region is located in Poland. According to FDI Intelligence, in the years 2003-2015, Japanese companies invested EUR 4.8 billion in Poland (FDI, 2019), which ranks Japan eighth among the most important foreign investors in Poland. Poland is the main recipient of Japanese direct investments and a strategic production base for the Japanese automotive industry. It is to Japan that Poland largely owes its strategic position in the supply chains of the global automotive industry (Olejniczak, 2019). The economic relations between Poland and Japan include trade, services, technology, financial and investments. An important prerequisite for cooperation is the institutional framework, cooperation between organizations supporting bilateral relations, joint investment projects, and cooperation between enterprises.

The article aims to identify the economic and legal framework of Polish-Japanese economic cooperation and to establish the cultural and business determinants of entrepreneurship in Japan. Literature studies and analysis of primary sources (reports) were used as the research method.

## 2. Cultural and Business Determinants of Entrepreneurship in Japan

Japan is a country that is culturally very different from Europe. European culture is identified with a single religion, Christianity, while in contemporary Japan, professing several religions at the same time is still accepted and practiced (Pawłowska, 2013). Japan's traditional religion is *Shintoism* (lit. The Way of the Gods). It is based on the native mythology in which maintaining the balance and harmony between the spiritual world, nature and man is the most important (Kordzińska-Nawrocka and Kozyra, 2018). Until 1945, the Shinto religion was the official state religion, closely related to the cult of the emperor, who was treated as a descendant of the gods. In contemporary Japan, Shintoism mainly plays the role of a cultural tradition (Pawłowska, 2013).

Buddhism has had an equally strong influence on the culture of Japan. This religion ranks second among the religions professed in this country, both in the historical sense and in terms of the number of followers. It used to be the state religion supporting the

organizational structure of power. As a religion of the elite, it was the source of the principles of samurai ethics.

Moreover, Japan belongs to the realm of Confucian culture, because for the citizens of this country it is a moral code and does not contradict other faiths (exporter.pl). Confucianism is based on five duties: the duty of a subject to his master; a son's duty to his father; a wife's duty to her husband; the younger brother's duty to the older brother; the duty of friends to each other (<http://japoland.pl/>). These are relationships based on mutual obligations - not only the subordinate party owes the partner respect, but also the dominant party has obligations to the subordinate party. Only the relationship between friends, governed by the principle of loyalty, is that of equal partners (Klimek, 2009).

Religious conditions and traditions have a great impact on the cultural understanding of entrepreneurship in Japan. Contrary to the European standard, i.e. individualism, individual entrepreneurship, striving to maximize benefits, in Japan the most important determinant is collectivism. The basic actor of social life is not an individual, but a group. In turn, the relations that are the part of social activities concern groups, not individuals (Klimek, 2009). Therefore, in Japan, the standard is after-work meetings, during which it is not the day's events that are discussed, but solutions to problems. The consequence of frequent business meetings is a joint responsibility for the effects of work. This approach is the essence of the Japanese decision-making system - a multi-faceted problem analysis through meetings and discussions, followed by implementation and shared responsibility for the result (Socik, 2019).

The following important aspect is related to the above, i.e. in Japan, the way of reaching the result is as important as planning it. Even if an idea turns out a splendid one, the work is not complete as the idea can always be improved. The Japanese system of operation is based on continuous improvement of the production process, and the perfect effect is then a natural consequence (Dłuski, 2019). From the Polish perspective, another peculiarity of Japanese entrepreneurial culture is the prolonged decision-making process. Long discussions are aimed at reducing the risk of possible failure as much as possible, and the project is implemented only when the success is almost 100% certain. When someone makes a mistake, conversations follow, the situation is analyzed, and the source of the problem is searched for. It is important to be aware of the mistake and to ensure that it is not repeated in the future (Dłuski, 2019).

The Japanese mentality is characterized by duty, striving for perfection, and above-average diligence, which often results in chronic overwork, even leading to death. There are fewer and fewer such cases, as there is growing interest in trying to restore a certain balance between work and private life (Sikora and Kruszyna, 2014).

Another feature characteristic of the Japanese is the ability to adapt. Over the centuries of isolation, there have been several periods in which Japan opened up to embrace foreign influences, initially mostly Chinese, and then closed again to absorb foreign intellectual gains into its structures, but modifying, or "Japanning" them somewhat. The ability to adapt aroused admiration around the world when Japan opened up to foreign influence during the Meiji restoration. During the second half of the 19th century and the first half of the 20th century, the country caught up with the most developed countries in the world, absorbing their technological, scientific, and thought achievements (Socik, 2019).

The Japanese do not usually follow universal laws and rules, as is the case in Western countries. What is important for them is general harmony and interpersonal ties that create this harmony. Harmony is therefore the principle of social order in Japan. It is different from Western objectivism and universalism. The Japanese look for the perfect configuration of individual elements or units, rather than applying the same principle to each of them. It is also interesting that the disputes are not seen as a conflict, but as a problem that affects both sides. The parties to the dispute work together to find a solution, and they are not fighting as is usually the case in Western countries. This influences harmonious coexistence both in private life and in relations between companies and at official levels, e.g. between public offices such as ministries, and business. Closely related to harmony is the hierarchy.

The research of the Center for International Business Studies (Socik, 2019) shows that, according to the Japanese, the position of a manager is justified by the authority, while in the West it is the quality of their work. Moreover, the Japanese think rather inductively, i.e. they arrive at the general vision by starting at the details, while Western managers prefer deductive thinking - from the general plan to detailed solutions. This is often considered an advantage of the Japanese as they take into account every little aspect of the company's operation (Socik, 2019).

The Japanese also prefer a different kind of business connections. They look for partners they can trust because only such partners are considered worthwhile and willing to compromise when problems arise. This has led to a lot of confusion in dealings with Europeans and Americans who expect a literal fulfillment of the agreement, while the Japanese do not attach so much importance to it. This is probably because relationships, based on trust rather than strict contract formulation, reduce transaction costs. This issue requires further research to provide an unambiguous answer. The Japanese take every attempt to make contact in business very seriously and place great emphasis on preparation (Socik, 2019).

### **3. A Legal and Economic Framework for Polish-Japanese Cooperation**

March 2019 marked the 100th anniversary of establishing official relations between Poland and Japan. Over the years, several agreements and treaties have been signed to formalize and sanction cooperation between the countries (Table 1).

**Table 1.** A legal and contractual framework of economic cooperation between Poland and Japan

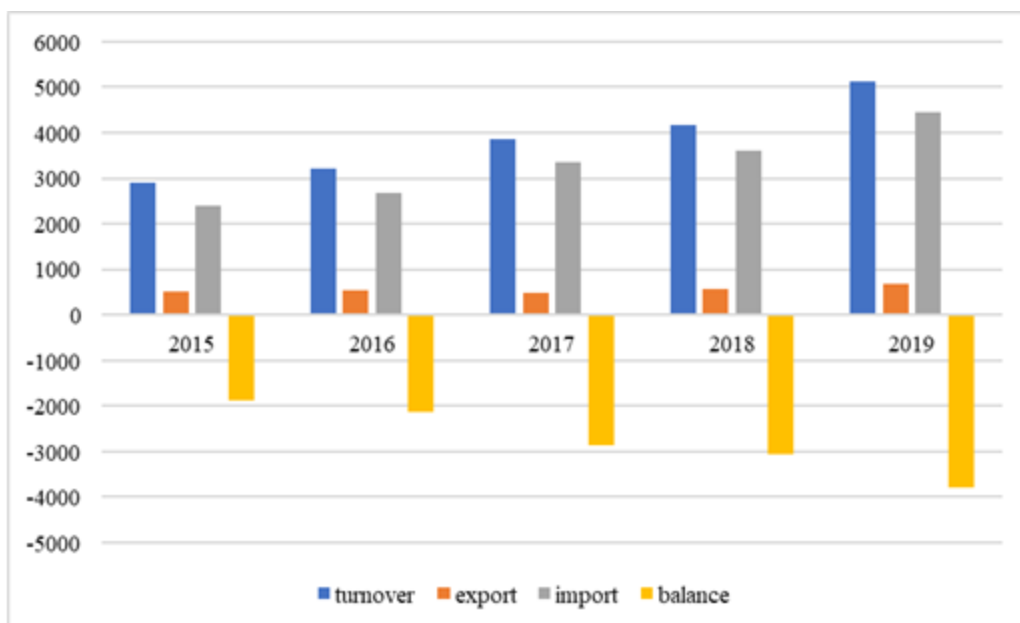
No.	Year	Legal basis
1.	November 1978	Trade and Shipping Agreement, signed in Tokyo
2.	February 1980	Double taxation treaty concerning tax and income, signed in Tokyo
3.	January 1990	Agreement concerning a Japanese loan for Poland's stabilization fund (USD 150 million)
4.	December 1994	Air Transport Agreement
5.	March 2010	Memorandum of cooperation for the peaceful use of nuclear energy
6.	September 2010	Agreement on cooperation for clean coal technology development
7.	May 2014	Letter of intent between the Polish Ministry of Economy and the Japanese organization New Energy and Industrial Technology Development Organization (NEDO).

*Source:* Own study.

Traditionally, trade with Japan is the most prone to deficit, next to the trade with China, Russia, and the Republic of Korea. This is a consequence of a clear disproportion between the volume of import from the Japanese market and export therein (in 2019, the import was over 6.5 times higher than export). According to the data for 2019, Polish export to Japan amounted to EUR 668.8 million (an increase of over 18%), and import to over EUR 4.4 billion. The clear disproportion between the volume of imports from the Japanese market and exports to this market results in a deep trade deficit, which in 2019 amounted to almost EUR 3.8 billion and, compared to the previous year's level, grew by almost EUR 735 million.

This is related to the structural advantages of the Japanese economy over the Polish economy both in terms of labor productivity and the level of product innovation (Gródek-Szostak et al. 2018). Imports from Japan include mainly new technologies as well as machines and devices for various sectors of the economy, which significantly contribute to the economic development of Poland. It should also be noted that such high imports are also generated by Japanese investors who run manufacturing in our country and then export the goods to European markets. Japan ranks 39th on the list of Polish export markets with a share of 0.28%, while in imports this market ranks 13th, with a 1.9% share (DHM, 2020).

In Polish exports to Japan, more than half are products of the electromechanical industry, with a total value of nearly EUR 350 million. Among these goods, the following were of the greatest importance: passenger cars (EUR 69 million), passenger and cargo ships, ferries (EUR 50 million) and turbojet engines, turbo-propellers, and other gas turbines (EUR 48.8 million). Next in Polish sales to the Japanese market are chemical industry products (EUR 99.3 million, i.e., 14.8% of total exports) and agri-food products (EUR 65.5 million, i.e., 9.8%) (Figure 1).

**Figure 1.** Poland's trade in goods with Japan in 2015-2019 (million EUR)

*Source:* Own study based on Insigos MR.

In the group of chemical products, the largest share of exports was recorded for artificial graphite, colloidal and semi-colloidal graphite, preparations based on graphite (approx. EUR 30 million), new pneumatic rubber tires (approx. EUR 18 million), and articles for transport and packaging and plastic closures (10.6 million euro). On the other hand, the largest share of exported agri-food products included frozen beef (EUR 10 million), down, feathers and waste (EUR 8.4 million), and concentrated or sweetened milk and cream (EUR 6.9 million).

Japanese imports to Poland are also dominated by electromechanical products, which accounted for 61.4% of total imports from Japan (over EUR 2.7 billion). In this group, the largest part were passenger cars (approx. EUR 842 million), instruments for physical and chemical analysis (EUR 154 million) as well as car parts and accessories (approx. EUR 132 million). The remaining part of imports from the Japanese market consists mainly of chemical industry products (approx. EUR 796 million, i.e. 17.9%).

From the structural point of view of Polish exports, the most burdensome barriers for Polish companies can be those in the access to the Japanese agri-food market (Gródek-Szostak et al., 2020). Apart from administrative and regulatory barriers, market-related limitations related to different tastes and preferences of Japanese consumers are also important. The following market conditions remain the greatest barrier in the development of Polish exports to Japan:

- Fierce global competition and geographical proximity to cheap Asian producers;
- Japanese distrust of newly emerging goods - both consumer and industrial. Entering the local market requires a long period of convincing local clients, promotions, negotiations, tests, etc., which often discourages Polish exporters;
- In the area of food products: the daily diet of the Japanese is significantly different;
- The tendency of Japanese consumers, especially women, to buy goods from well-known global brands.

The existing barriers have not had a major impact on the development of Polish exports to the Japanese market so far. The main obstacle in increasing trade on the Polish side is the poor preparation of Polish companies for expansion on the Japanese market and the lack of a well-established brand. Another problem that hinders the access of Polish products to the Japanese market is the poorly developed distribution channels in Japan and the low knowledge of consumers and Japanese business representatives about Poland and its products. Due to the uncompetitive structures of Polish product distribution in Japan, it is extremely difficult for new and small, and medium-sized producers who cannot afford to build a proprietary distribution network, to enter the Japanese market.

#### **4. The Course of Investment Cooperation between Poland and Japan**

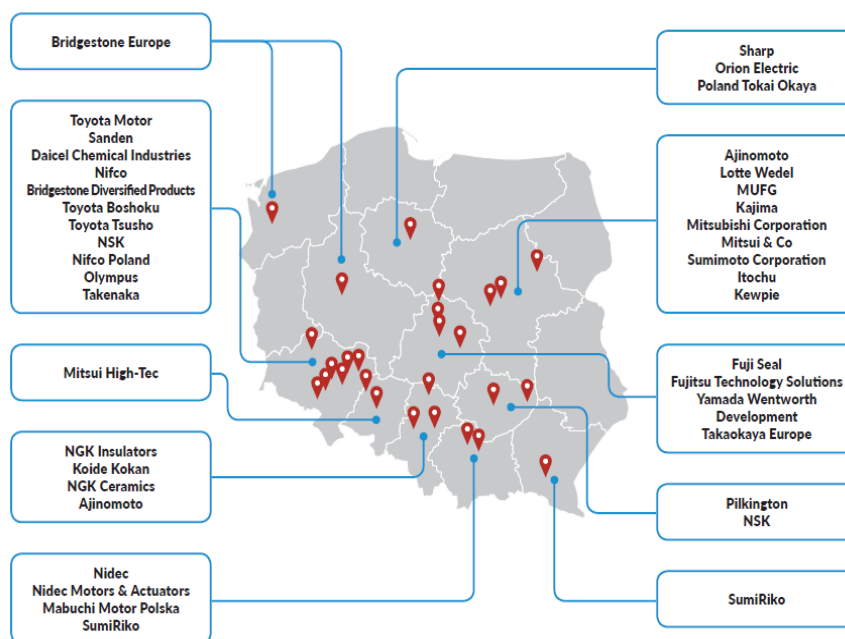
Since 1975, a representative office of the Japanese Foreign Trade Organization (JETRO) has been operating in Warsaw. It is a semi-governmental organization established by the Japanese government in 1958 to promote Japanese exports abroad. Today, JETRO's activities focus on attracting foreign investments to Japan and supporting Japanese companies from the SME sector in their global export activities. The task of the Polish JETRO agency is to support Japanese trade with Poland, Polish investments in Japan, and Japanese investments in Poland.

In addition to investors from America and Germany, the Japanese are among the key foreign investors in Poland. They have created nearly 40,000 jobs in over 300 organizations. So far, Japanese organizations have invested mainly in the automotive, food, and electronic sectors. In recent years, they have joined organizations investing in the development of the Polish and global e-mobility industry<sup>3</sup>. As the acting president of the Polish Investment and Trade Agency Grażyna Ciużyńska (2021) points out: *"The interactive nature of the Polish market is mainly fostered by the dynamic business environment, including the growing level of innovativeness of the Polish economy or above-European average returns on investment. Japanese capital also appreciates the offer of*

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*investment incentives well-suited to investors' expectations". 72 investors from Japan operate in Poland, the largest of which are presented in the graph below (Figure 2). As can be seen from the above, Japanese investors are present in all provinces except Lubelskie, Podlaskie, Pomorskie, Warmińsko-Mazurskie, and Lubuskie.*

**Figure 2.** Map of the largest Japanese investments in Poland in 2019



**Source:** *Poland Land of rising opportunities, Polish Investment & Trade Agency PFR Group, Warsaw 2029, p. 15.*

The latest Japanese investments in Poland include the investment of Toshiba Carrier Corporation - a joint venture of the American Carrier Corporation and Japanese Toshiba. Toshiba Carrier Corporation produces air conditioners for various purposes (e.g. offices, shops, buildings, industry), cooling systems, fans, compressors. The company is to open the first European production and distribution plant in Gniezno (in the Kostrzyn-Słubice Special Economic Zone) by the end of 2020.

As shown by the data in Table 2, Japanese investors are strongly engaged in the Polish economy. And so, according to the data of the National Bank of Poland, a total of EUR 218.8 million of investment capital was transferred to Poland in the years 2015-2019. In this respect, Japanese investors in the same period generated a total income of EUR 348.8 million. This means that each euro invested in Poland generated an income of EUR 1.59.



**Table 2.** Inflow of foreign direct investment, in million EUR

	2015	2016	2017	2018	2019
<b>Japan's FDI in Poland</b>					
<b>Influx</b>	-98.8	88.1	162.5	103.5	26.5
<b>Income</b>	27.2	33.7	171.8	53.7	63.4
<b>Polish FDI in Japan</b>					
<b>Influx</b>	-6.8	0.4	-3.9	4.5	2.1
<b>Income</b>	0.0	0.0	0.0	0.9	0.0

**Source:** National Bank of Poland.

[https://www.nbp.pl/home.aspx?f=/statystyka/bilans\\_platniczy.html](https://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy.html), access on 02/02/2021.

Polish investments in Japan in 2015-2019 amounted to a total of EUR (-3.7) million and were negligible in individual years. Japan was not an important country for the direct investments of Polish investors. Undoubtedly, the discrepancy in the levels of investment between the two countries results from the difference in the size of economic potentials and the internal situation. Polish enterprises have not been able to develop industrial and capital investments in Japan.

## 5. Summary and Conclusions

More and more Japanese organizations notice the investment potential of Poland for its political stability and highly qualified workforce (Skrzek-Lubasińska, Gródek-Szostak, 2019). Japan's FDI is innovative, as demonstrated by numerous examples. For example, in early 2019 in Warsaw, representatives of the Ministry of Energy and the Japanese Ministry of Industry and Trade signed a Memorandum of Cooperation in the area of Clean Coal Technologies (CTW). The agreement is to establish a framework for Polish-Japanese cooperation and support in the context of the development and promotion of clean coal technologies, including in particular coal gasification.

It is noteworthy that the current Japanese investments in Poland will increasingly contribute to the growth of the so-called areas of new opportunities in which Poland has a competitive advantage, including modern services for business, smart-cities, and e-mobility. Soon, the expansion of Polish-Japanese cooperation by new industries will not only increase the innovativeness of the Polish economy but also contribute to the improvement of the trade balance between Poland and Japan. This will be facilitated by the improved product offer on the part of Polish exports for the benefit of Japanese importers. As a result, this will improve the commodity structure of Polish export and increase the share of goods not only with high added value but also technologically advanced.

For Poland, the important task seems to be the presence of Japanese investors in all provinces of the country. Therefore, respective provinces must consider infrastructure development, strengthening research centers, especially technical universities, and the development of human capital. Such an approach would prevent the outflow of the workforce by reducing the intensity of work migration to other provinces in the country and abroad. If this tendency were to persist, it would contribute to reducing the imbalance in the level of development of the provinces.

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