

## ECONOMIC CHANGES IN POLAND AND CHINA – CULTURE AS A LEADING INDICATOR

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**Purpose:** The article analyses two transformation variants: the Polish variant and the variant used in the People's Republic of China. This analysis was carried out in the context of the cultural background of both nations. The authors also tried to answer the question to what extent the reform programs of both economies, known as the Balcerowicz Plan and the Beijing Consensus, were culturally compatible and whether they impacted their effectiveness this. The article draws attention to the level of social acceptance of the transformation scenario adopted in the country and the role of both decision-making centralism and economic democracy in the conditions of a market economy.

**Methodology:** The review of literature.

**Findings:** As a result of the literature analysis, it was established that the reforms carried out as a result of the Balcerowicz plan took into account the cultural conditions of the Polish economy to a limited extent, which resulted in incomplete and delayed use of the potential of Polish social and intellectual capital. Chinese reforms, on the other hand, were carried out in a way that was more suited to Chinese realities, which, among other factors, enabled China to develop more dynamically without leading its economy to a periodic collapse caused by the transformation processes.

**Value of the paper:** The article is analytical and synthetic in nature and is addressed to a wide audience, primarily to decision-makers managing the economy at various levels and to students of economics and management. The article is not only retrospective in nature, but also encourages deeper reflection on the future and may be helpful to managers in making economic decisions, in which they should take into account the cultural aspect to a greater extent than before.

**Keywords:** Economic transformation, plan of Balcerowicz, Beijing Consensus, cultural adjustment.

**Category of the paper:** viewpoint, conceptual paper.

## 1. Introduction

The influence of the economy on contemporary culture is obvious and leaves no doubt, especially in the light of research (Mahbubani, 2008; Ribera-Fumaz, 2009; Bernat et al., 2017; Castells, 2017) and regional development policy (Syssner, 2009; Jasińska-Biliczak et al., 2016; Tambovtsev, 2018; Moscovitz, 2020), although the impact of culture on the economy is a rather unjustly neglected (Siewierski, 2010).

The economic system can be defined as the totality of products and legal, political and economic activities of individuals and communities as well as resources. It should be pointed out that economic system is secondary to the cultural system, because the economy as such can only develop in a certain existing cultural environment that gives meaning to economic activities. However, transformation of the economy is possible while maintaining cultural identity. Thus, an appropriately developed economic policy may be successful in a mature cultural environment that is ready for changes. The reform plan cannot be the same in every country, but must take into account historical factors and its final influence on culture and social values (Murrell, 1997).

Among certain oppositions, Confucianism (which according to M. Weber is the dominant “carrier of Chinese culture”) has been based on humility, harmony, hierarchy and community, and has firmly rejected domination over the Western world, equality and individualism. In Confucianism, there has been no tensions and oppositions that would lead to changes, question the existing tradition and convention, and there have been no conflicts between sectarian or heretical beliefs that could give rise to diversity (Weber, 2006). Moreover, since interpersonal relationships have been based on etiquette and rituals, interacting with others could cause potential anxiety. A very high power distance enhanced harmonious social relationships. Nothing can be found in the Confucian tradition that would be a source of anxiety for an individuals and that would, therefore, make them to explore and change.

The culture of Western Europe often breaks with its own tradition as irrational and contrary to the rational maximization of benefits. This approach resulting from rational actions of independent units has been manifested in the modern economy.

## 2. Poland – economic changes after 1989

The economic transformation initiated in the 1990s in Central and Eastern Europe marked a transition from a centrally managed to a market economy. It involved a comprehensive and radical change in the management goals and conditions of all economic entities. Therefore, reduction of the development gap along with the development of economic potential has

become essential. It was not yet another attempt to reform the previously existing system, but a radical, qualitative change in the previous management style (Jarmolowicz et al., 2008). Economic changes, reflected in the elimination of key institutions of the socialist economy which were then replaced with market institutions along with restructuring and privatization, seemed revolutionary (Hryniewicz, 2004). Introducing the controversial shock therapy was possible in a unique, non-repetitive moment in time. According to Balcerowicz (Balcerowicz, 1997) this was the time of extraordinary politics followed by social consent to radical reforms inflicting high social costs.

The willingness to quickly implement reforms resulted from a relatively low tendency to think long-term (LTO-WVS index 38) (Hofstede et al., 2011), since the effects of the applied economic policy tools were expected relatively quickly. The economic transformation of Poland and other Central and Eastern European countries was inextricably linked with the political transformation. Political freedom and democracy were considered as a *sine qua non* conditions for the efficiency of the market mechanism.

Prior the social and economic changes of 1989, Polish economy was a closed economy. As such, it was characterized by technological backwardness, inconvertible money, rigid prices and a shortage of goods along with rising wages. At that time the debt level was at 42 million US dollars. As a result of the undertaken restructuring measures, the International Monetary Fund and the World Bank cancelled part of the country's debt, but required the implementation of certain reforms, also known as the Washington Consensus. In fact, the initial version of this list contained 10 universal rules (recommendations) on how to establish lasting foundations for a healthy economy that will develop dynamically (Soszyńska, 2013). Implementing these reforms required adopting a foreign pattern of economic culture. It was not a European but American model which if based on social democracy and ordoliberalism, with its ethical dimension, would be culturally closer to the Polish economy and Polish society. The difficulties in selecting the right and socially accepted economic model were caused on the one hand by the past experiences of World War II and even earlier partitions of Poland and on the other hand by the success of American economy and the willingness to follow it.

The government of T. Mazowiecki, established in 1989, introduced thorough economic reforms. They were an important element of the systemic transformation, designed and implemented under the direction of Deputy Prime Minister L. Balcerowicz and western advisers. At the same time L. Balcerowicz also worked on developing comprehensive stabilization reforms and systemic changes. In October, 1989 they were officially adopted under the name of "The Economic Program of the Government – Main Assumptions and Directions", also known as the Balcerowicz plan. The economic priorities of this scheme included regaining a permanent macroeconomic balance, full liberalization of prices and foreign trade, restoring the development capacity of the economy and narrowing a serious civilization gap in the future (Gomulka, 2014). The main assumption of this plan indicated that under political freedom it was possible to freely choose the economic system of the country. For this reason, the selected

system, which was designed for the Anglo-Saxon economic culture, was culturally and socially based on private property, competition, strong and exchangeable currency and extensive foreign exchange. The system adopted for Poland was supposed to be free of state bureaucracy and trade unions' pressure.

Implementing the American economic model in Poland resulted in anti-statism, returning to economic liberalism and a conservative approach towards the economy and economic policy. In this concept, applied in the USA in the 1980s as an experiment, attention was re-focused on the supply aspect of the economy (Miłaszewicz, 2004). However, studies have not conclusively evaluated it (Wojtyna, 1988; Belka, 1991; Bieńkowski, 1995).

The political events of mid-1993 (the fall of H. Suchocka's government) had a negative impact on the effectiveness of economic policy. Firstly, the processes of implementing institutional reforms and privatization of state-owned enterprises, essential for the newly developed economy, were halted. The initial economic changes in Poland were characterized by a change in macro indicators, sensitive to political and economic changes. In 1990, GDP fell by 8%, in 1991 by another 7%. These changes were caused by a decline in production. However, in the years 1992-1994, the average annual GDP grew by 3.8%.

The boom was particularly evident in the years 1995-1997, when the average GDP growth was at 6.6%. The transformational depression and, consequently, the variable economic growth resulted in difficult social circumstances (Kaliński, 2003). They manifested particularly in an increase of unemployment, which in the years 1990-1993 affected over 2.6 million people (Rajkiewicz, 1997). Collective redundancies were a new and unknown phenomenon. Another distinctive feature of the transformation was reflected in converting hidden unemployment into overt unemployment. Even more so, the implemented changes were not socially accepted. The significant decline in employment, followed by its low growth dynamics, made unemployment a particular social problem. In 1993, 2.9 million people were unemployed with the unemployment rate at 16.4% (Kaliński, 2017). This was linked with the increasing poverty, the intensification of economic emigration, pathologies and existential difficulties (Smoleń, 2006). At the beginning of the transformation a sharp decline in the income of the population also occurred. About 12% of the population had an income qualifying for social assistance and 7% had an income below the subsistence level (Gomułka, 2014). It was not until the years 1996-2000 that a small but noticeable increase in generated income became evident. Since the end of the 1990s the economic situation of Polish society has been improving. The improvement has been caused by strong social differentiation reflected in the Gini coefficient which increased from 26.7 in 1992 to 35.4 in 2004 (World Bank, 2004).

Some changes carried out in a young democracy, which is the necessary condition for a successful structural and socio-economic transformation, were also positive. They included the agreement on the Enterprise Pact which introduced laws related to working conditions, social affairs and the privatization of state-owned enterprises. It defined legal conditions necessary to improve the economic condition of state-managed companies and their

privatization, guaranteeing employment benefits. This approach changed the mentality of employees and their responsibility for the enterprise, not only from the point of view of capital ownership, but joint ownership and joint responsibility for assets. At the same time, Polish economy suffered from a lack of domestic capital necessary for investment and development. One of the major barriers to the transformation of Polish economy was the shortage of investment capital. The pillars of this process: privatization, restructuring and modernization were challenged by the capital deficit, which exceeded the internal capacity of the economy. At the beginning of the 1990s, internal accumulation drastically weakened due to the low ability to generate profits as enterprises were only adapting to the new circumstances. The deficit also increased due to the significant decline in private savings. The level of gross domestic savings defined as the difference between GDP and total consumption amounted to 19% of GDP after the first five years of transformation and was 4 percentage points lower than in 1980. According to the analysis provided by the World Bank, in 1995, the ratio of gross domestic savings in Poland was among the lowest worldwide. It was estimated that the gap between the desired level of investment in the economy and the volume of domestic savings reached 10% of GDP in the 1990s. Only in 1998, the inflow of capital in the form of FDI covered 2/3 of this gap (Olifrowicz et al., 2002). Under these conditions, foreign capital allocated in the form of FDI became the only non-budgetary source of financing growth. The remaining forms of external capital transfer, which could stimulate the economy, were blocked due to the country's foreign debt, reaching almost USD 42 billion, and the lack of creditworthiness on international financial markets. The developing capital market did not attract significant capital located in portfolio investments. FDI has largely filled the accumulation gap and absorbed the shock caused by the decline in domestic investment. The external investment impulse triggered the multiplier effects in the economy affecting the income of enterprises and households and the increase in market demand. In terms of cultural adaptation of the investor's home country in the capital's hosting country G. Hofstede emphasized the role of the power distance. The capital flow from countries culturally characterized by a low power distance to countries with a high power distance creates certain conditions for the success of investment projects based on cultural adaptation. Researchers of the phenomenon (Bildhauer, 2005; Gesteland, 2000; Hofstede et al., 2011) identify Polish culture as a culture of relatively high distance, strongly hierarchical with a preference towards authoritarianism. Therefore, it is characterized by a relatively high power distance, which is a consequence of the centralised decision-making process typical for the economy of the past system.

In terms of FDI flows, they are mainly from Western countries to Poland, that is from countries with a relatively low power distance (power distance index below 53) (63%) to Poland – a country with a higher power distance. According to Hofstede's research this was the premise for good assimilation of managerial solutions from these countries (cultures) and was clearly reflected in the economic effects of foreign capital in the Polish economy. The possibility of implementing modern technologies and applying technical and organizational knowledge

through the inflow of FDI was one of the main reasons for opening Polish economy to foreign capital at the beginning of the 1990s, since the main endogenous barrier to the competitiveness of production was the low technological level and the decapitalisation of the production apparatus.

The deficits inherited from the centrally controlled economy led to the absorption of almost all foreign investments, also in order to meet the requirements and conditions of the IMF adopted during the Balcerowicz plan. Successive legal regulations governing foreign investments gradually made them equal to those made by domestic investors, although this was often questioned due to an earlier regime's propaganda emphasizing the exploitation of capital owners and the imperialist goals of the countries who owned the capital. On the other hand, the investment attractiveness of direct competitors from Central and Eastern Europe in the absorption of foreign capital forced to effectively improve the conditions for allocating foreign capital, and above all, not to discriminate this group of investors in the economy.

In June, 1994 further changes to the economic policy were introduced by G. Kołodko. The suggested solutions initiated a new phase of transformation which prioritised: fast economic growth, systemic and macroeconomic stabilization, and improvement of living conditions. Based on this strategy the so-called 'popiwiek'<sup>1</sup> that is, a tax on the payment of excess wages was discontinued. The aim of stopping excessive wage growth was taken over by the Tripartite Commission for Socio-Economic Affairs comprised of representatives of the government, trade unions and employers established the maximum rate of increase in wages charged as costs for business entities employing more than 50 people.

In the years 1990-2000 economic changes were determined by closer relationships established with international organizations of developed world economies. This facilitated the exchange of goods and reduced the debt. Based on the Association Agreement between Poland and the European Communities signed in December 1991 and implemented in March 1992, the transitional agreement regulating trade issues was established. In February 1994, a full so called European Agreement, entered into force on such issues as movement of labour and capital, services, legislative alignment and competition policy. In the same year, Poland applied for membership in the European Union and started negotiations and adjustment procedures (Kaliński et al., 2003).

The systemic transformation in Poland was of an unprecedented nature and significantly differed from the previous so-called institutional transformations, or from various attempts at economic reforms in the times of a centrally managed economy (Dabrowki, 2018). It was characterized by a wide range of shocking changes which were faster in politics than in the economy. As a result, economic changes were carried out under democratic conditions. Moreover, the peaceful nature of these changes should be also be emphasized (Kornai, 2006).

The typical features of the transformation in Poland include the high pace of economic changes despite rapid governmental changes. The instability and fragmentation of the political scene in Poland has been emphasized, however, it has also contributed to stronger political

competition which along with the supervision of free media, allowed to limit the scope of irresponsible and harmful activities (Ekiert, 2001). The shock therapy applied to the economy resulted in a significant decline in economic activity also known as the post-transformation recession. Despite the application of the most radical variant of the reforms, the decline in Polish GDP at the level of 18.3% in the first shock stage of the transformation was lower than in other neighbouring transition countries (Hungary – 21.5%, Czech Republic – 19.3%). This was due to the internal adaptability of domestic entities to the new circumstances and efficient launch of market mechanisms in the main segments of the economy. A cultural attribute of a higher propensity for individualism, which is the cornerstone of the market mechanism (Hofstede et al., 2011) played an important role in the activation of the market mechanisms. However, the recession itself generated negative signals for both domestic and foreign investors. Although the decline in economic activity under the conditions of structural changes was inevitable, the intensity of it has been widely discussed.

Unemployment was one of the greatest challenges of the transformation period. A particularly negative perception of this phenomenon was also induced by the centrally managed economy in which – due to the demand imbalance – unemployment did not exist.

Currently, Polish economy may be defined by high economic growth, internationalization, and the private entrepreneur sector (highlighting the small and medium-sized enterprise sector). The goal has been to develop a competitive Polish economy in the European Union. However, it is also worth noting that the economy at the current stage of development may face the same challenges it encountered during the transformation. They include the middle income trap and low innovation economy which is still based mostly on foreign capital.

### **3. Culture in change - conclusion**

The interest in culture as the primary source of changes taking place in the world and the basis for explaining and interpreting social reality was subject to periodic changes described by Harrison: “In the 1940s and 1950s, cultural studies became popular, and interest in cultural aspects of social sciences reached its climax. Later the euphoria faded, but in the last fifteen years of the 20th century the growing interest in research on culture became evident. This resulted in an attempt to investigate the progress of civilization and the development of societies from the point of view of a new paradigm focused precisely on culture” (Harrison, 2003, pp. 23-24). Thus, culture plays the essential role in changes related to the socio-economic system in contemporary Poland.

This situation is unique due to the fact that there is no precedent in which the transition from a command economy and a limited scope of civil liberties to a system based on free market. On the other hand, as the example of China shows, economic transformation and development

of a competitive market economy are possible without transition to a democratic system. Both analysed variants of reforms are to a different extent related to the cultural characteristics, which imply the level of acceptance, pace and scope of the introduced reforms. The reform plan implemented in the Central and Eastern European countries was criticized by the Chinese scientist Zhang Weiwei who rejected the transformational shock therapy introduced in Poland, Baltic countries, Romania and Hungary. According to Weiwei “Twenty years ago cities like Warsaw and Budapest were a decade ahead of Shanghai, but now they seem a decade behind, if not more”. This is a rather bitter review of the reforms that Weiwei juxtaposed with the Chinese development model (Zhang, 2016). He defines weakness in the adoption of shock therapy and the weaknesses of the ruling elite.

Implementing shock therapy corresponded to certain cultural dimensions defined by Hofstede such as a short-term, less unambiguous and more individualistic orientation and a tendency to take risks. However, the implementation of a ready-made reform pattern that is in fact culturally alien has resulted in a number of consequences destabilizing the course of reforms, and in many places the achievement of the intended goal has been questioned. In turn, the gradual strategy adopted in China was a natural consequence of the cultural paradigm of harmony and long-term orientation. Chinese reference to the Asian Tigers – countries that are culturally similar, did not systematically increase the probability of achieving the intended goals.

Currently, both China and Poland have been challenged by the middle income trap. Overcoming it requires the stimulation of the innovation mechanisms. The question arises to what extent will the cultural factors typical of these two countries be pro-innovative and to what extent will they inhibit this process? The comparison of competitive advantages in terms of cultural features (Hofstede et al., 2011) indicates that the relatively low propensity to avoid risk of Chinese culture is a premise of innovation. In the case of China, a high propensity to take risks quite effectively balances the lack of individualism, and the government’s enormous accumulation of R&D funds based on the high power distance dimension can trigger a powerful innovative impulse, which in a highly collective culture is subject to wide diffusion in the economy.

Economic institutions do not exist in a void, but are surrounded by existing social and political structures. They exist primarily among cultural patterns and structures of social awareness, such as values or ideas. For this reason, economic culture contains a number of elements that are interconnected into a specific empirical design. In terms of the cultural paradigm, the question about differences in the development of capitalism – which is a modern economic system – in some regions of the world remains open. The comparison of two different development patterns in different geographic and cultural areas indicates the actual influence of cultural heritage in shaping these models. Although due to the negative historical experiences, the social attitude towards foreign investors in both China and Poland was cautious and sometimes even negative, FDI has become an integral element of reforms in both



economies because of the initial capital deficit. FDI originating predominantly from culturally similar countries, both in Poland and in China, have adapted well in both host countries, fulfilling the role assigned to them in the economy.

#### **4. PRC-changes in the economy after 1978**

The economic collapse at the end of Mao Zedong's rule, whose reforms were counterproductive in terms of achieving the position of a world leader, resulted in a decline in the share of global GDP, reaching only 4.9% and marginalization of the role in trade to the level of 1% (Góralczyk, 2018; Gawlikowski, 2012). The market mechanism triggered by Deng unleashed enormous layers of suppressed Chinese entrepreneurship, which Góralczyk describes as Chinese DNA, which is intrinsic to low-risk avoidance cultures. Nowadays, an excellent example of this phenomenon is the city of Wenzhou, which is an exemplification of Chinese entrepreneurship and the pro-export attitude of Chinese enterprises (Bernat et al., 2012).

Chinese society very quickly found itself in the conditions of the free market, which achieved high efficiency despite, or perhaps precisely because of the lack of individualism, which, according to Smith, was to be the cornerstone of the development of the market economy. The sources of this phenomenon can be found in many different factors of Chinese national culture contained in the basic assumptions about man, his relationship with the environment, his role and place in society and space, the meaning of life and management. The features of culture that can support the economic development of the Middle Kingdom include, without giving them a place in the hierarchy of importance, a deeply rooted peasant mentality<sup>2</sup>, community mentality, community ethics and the related cult of work and family. A holistic social vision and the perception of an individual's moral development as a transition from "I" to "we", mental flexibility resulting from religious syncretism (Confucianism, Taoism, Buddhism)<sup>3</sup>, resulting from the ability to adapt to a changing environment are another of these features. Also, the economy or the awareness of the rulers that they must meet social expectations in the long run, combined with Confucian loyalty to their superiors and faith in authorities, create the ideal of an educated and hard-working man, and not a warrior who steals someone else's property. The openness and simultaneous reserve (on the principle of "take the pearl and throw away the shell") towards the countries, ideologies and economic concepts of the West allowed it to maintain its own cultural patterns. Consequently, it was possible for China, like Japan, to create its own culturally adapted economic concepts. This learned attitude, ability and willingness to appreciate other valuable ideas and incorporate them into one's beliefs is helpful in economic, scientific, technical and intellectual development, as well as in the development of creativity and innovation.

In today's China, there is also the phenomenon of the so-called vertical individualism, associated with an increasing Gini coefficient currently amounting to about 0.5 (50%), which may be an obstacle to further development. So far, there is social consent to this stratification.

Another issue is that China did not have to be "grateful" to the West, such as Poland, for ideological and political help in the transformation of the political system. For historical reasons, they were characterized by a lack of fascination with the West and a far-reaching reserve of its ideology and economic concepts of the West. So China created its economy, which Poznański calls "Confucian economy" (Poznański, 2018, pp. 16, 18, 19, 30, 37), assuming the fundamental role of morality as the main research category. The subject of this economy is not production, but the distribution of goods. It is therefore closely related to the ethics of the ancient economics of Aristotle, where the goal of human management is not to fulfil the need for immediate gratification of the individual and access to goods but to extend one's existence through posterity. The time horizon of Confucianism is not the horizon of an individual separated from the whole, the life of one person. This results in a tendency to save.

Another important assumption of the Confucian economy that distinguishes it from other economic concepts is the existence of an abundance of resources, provided, of course, their rational use. This assumption is against the ruthless struggle for resources and fosters innovation. The Western assumption about the scarcity of resources results in the emergence of the concept of a competitive struggle to the death and life, as well as the concept of population surplus and, consequently, justification of wars for the appropriation of other people's goods, as well as actions leading to depopulation. Another premise of the Confucian economy is the source of wealth: it comes from labour, not capital, which makes it a theory of labour, not of violence. In this perspective, work is not treated as a compulsion, but a kind of sanctity and its main motivation is the love for the family understood in a narrower and broader dimension. The role of the market regulator is to be played by morality rooted in a multigenerational family, not by the "invisible hand of the market". The motivation to act economically is, therefore, strictly speaking, rooted in morality, and the market is something secondary to the family, as it does not create moral principles. The Confucian approach is also to have an impact on production costs. The larger scale of operations reduces production costs. The family, the clans in which half the people in Chinese villages still live today, are therefore an institution that allows greater independence from the authorities and banks. In the Middle Kingdom, over 60% of young people live with their parents after creating their own family. Multigenerational families allow for fundraising and less dependence on banks, which is important especially for small and medium-sized family businesses, which were one of the essential mainstays of the Chinese economic miracle. In the Confucian economy, people are as important a factor of production as capital. It is therefore beneficial, and by all means justifiable, to have many children. The Chinese government, under social pressure, abandoned the one-child policy.

Confucian economics also assumed, like Adams' theory of justice (Griffin, 2002), that every human being has an innate instinct for justice and a sense of unfair treatment. The foundation of unfair treatment, too far-reaching inequalities, are monopolies that want to ensure themselves undeserved profits. Their domination is to reduce the efficiency of the economy. Too great a spread of incomes is expected to result in a loss of confidence in the authorities and, as a consequence, in social unrest and political instability, which are dangerous for the development of the economy. Thus, the role of the state in the Chinese economy is extremely important - it is the prevention of corruption, the neutralization of both state and private monopolies, and a tax policy that allows the prevention of undeserved profits and the creation of rents reaching, despite the increase in productivity, only a very limited part of the society.

The goal of the state, which has not been achieved in China so far (Gini Index at around 0.5), should be to create such equalizing mechanisms, including financial ones, that will counteract too far social stratification, create parity between the countryside and the city, and mechanisms by which the most the wealthy will finance important social investments, such as education, environmental protection or culture. The state is to be efficient thanks to the so-called meritocratic governments - very demanding Confucian ethics exams for important positions.

To sum up, it can be stated that the peasant, collective and syncretic nature of Chinese culture implies the ability, or even moral compulsion, to cooperate, based on trust, reduces transaction costs, and increases the efficiency and security of market allocation. Deng Xiaoping called the system created in the PRC "socialism with Chinese specificity". The very term imposes a unique cultural specificity as a condition for its effectiveness and the lack of pressure to disseminate it. The decisive factor was the Chinese pragmatism of Xiaoping's reforms, which provided the economy with a market mechanism with a strong role of the state.

The barrier to the success of the PRC's bold economic reforms was the deficit of internal capital. Undoubtedly, the Confucian high propensity to save fueled the supply of capital, but on a scale not adequate to the actual needs of the reforming economy. When deciding to open up to foreign capital, it was pragmatically assumed in advance that it would not come from systemically close (socialist) countries, because they did not have capital surpluses, as well as patterns of competitive economic behavior, know-how and technologies, the implementation of which together with FDI would stimulate economy. First of all, they were not culturally compatible with China. Not in They found him in the geographically and culturally close Asian Tigers, what's more, among the representatives of his nation scattered around the world. The economic success of Chinese emigrants outside the communist market economies, supported by an extremely important attribute of trust, Zwolińska defines as the first channel of capital inflow to the PRC economy (Zwoliński, 2007). Countries taking place in different system conditions Fukuyama attributes to cultural attributes, above all the role of personal and family ties based on trust in this culture, which guarantee the security of transactions (Siewierski, 2010). This unique cultural phenomenon, arising out of collectivism,

is a Chinese phenomenon that guaranteed the inflow of domestic capital with the experience gained in highly developed people. The choice of the form of capital absorption itself: FDI - not portfolio ones, also turned out to be pragmatic. The flow of capital in the form of FDI is holistic in nature, it includes a wide, clearly heterogeneous transfer of production factors. Contrary to portfolio flows, it is not limited to the transfer of money capital only. In general, it is accompanied by the migration of other factors in the form of labor, production equipment, technological and organizational know-how and elements of the entrepreneurial culture of the country from which these investments originate. In the case of FDI, we are dealing with the transfer of the entire package of values, which in theories of economic growth are treated as determinants of this process. Basing the Chinese reforms initiated in the 1970s on the models of the Asian Tigers, not Western economic leaders, was in a sense a consequence of the experience, primarily the failure of reforms undertaken in China at the beginning of the 20th century in the form of the "May 4 Movement", "Movement new culture" based on unsuccessful attempts to implement Western civilization standards in the form of democracy or condemnation of Confucianism. In the Republic of China, the transfer of Western instruments of development (Western legal order) was neglected, based on the indoctrination of the Chinese with Western ideas (Bolesta, 2006).

Xiaoping's reform program since 1978, not shocking but gradual, spread over a very long period of time, was in line with the Chinese paradigm of harmony. The application of the shock variant of marketization of the economy implemented in the 1990s by the IMF in the CEE countries in the form of a program known as the Washington Consensus would be contrary to the need for harmony inherent in Chinese society. It should be remembered that the direct effect of their implementation in the countries of Central and Eastern Europe was a recession, which China has consistently avoided for four decades (since 1979). The variant of gradual reforms is inscribed in the paradigm of harmony and long-term nature, unlike shock therapy, implemented by the Washington Consensus reform scenario.

The Chinese transformation package was limited to economic reforms and only marginally concerned with political issues. The PRC remained a communist country with an authoritarian form of governance. The tangible success of the reforms in the form of an increase in the living standards of the inhabitants was to ensure social support for the continuation of the communist form of power. Earlier, such support for reforms was also obtained by Mao Zedong, but then the motive of public approval was to ensure the country's sovereignty after a hundred years of humiliating addiction. The political system of the PRC during the economic transformation has evolved from the authoritarian one at the turn of the 1970s and 1980s (Gawlikowski, 2012) to the present form known as welfare authoritarianism. Chinese decision-making centralism, which is characteristic of the high-distance culture of power, allowed for the efficient implementation of reforms without opposition from the opposition inherent in democratic systems. Extensive state intervention in East Asia has an ancient tradition, it was also present in Japan, Singapore and South Korea (Gawlikowski, 2012). The very issue of privatization,

which is the essence of the reforms of the neoliberal Washington consensus, found no fertile ground in China. In the Confucian tradition, private property was treated distrustfully as "morally reprehensible" appropriation, which corresponded to the belief that individualism is reprehensible. The behaviour of the authoritarian system in the PRC is treated by Bolesta as a consequence of culturally conditioned patterns of social preferences (Bolesta, 2006).

Authoritarianism, devoid of opposition reviews, allowed for wide-ranging government spending to build infrastructure that created China's high investment attractiveness (World Investment Report, 2000-2018) and was able to effectively cushion the market defects in the 2008 crisis. the economy \$ 586 billion (Morrison, 2013). It is state spending that has evolved into another driving force for Chinese economic growth at the turn of the 20th and 21st centuries.

Xiaoping, when constructing the reform program, used the achievements of the Western economy in his pragmatic way, implementing a complex of economic solutions for the Western man that was completely mutually exclusive: the strength of the state being the essence of Keynesianism and the efficiency of the market mechanism on which neoliberal thought was based, a historically unique doctrine of growth was constructed. He did not directly benefit from ordoliberalism - a concept from which the Western European model of development in the form of a social market economy grew, because it was based on the values of the Christian Church, culturally alien to the inhabitants of this part of Asia. Nevertheless, the ethical value gap needed, inter alia, Confucianism has filled the Xiaopinga program with the security of its transactions. The reference to tradition was important for the social acceptance of this solution, and Confucius personified it by all means.

Combining Keynesian reforms with neoliberalism in the program, being a synthesis of contradictions, is the essence of Taoist in and yang, it allowed for the synergy effect. The socially desirable process of gradual but consistent enrichment of the society, based on the effectiveness of the market, ensured social support for the government's moves, although it was not a sine qua non-condition such as in the conditions of a democratic state. A pragmatic assumption was made of the lack of social evenness of this process, characteristic of marketization, which is reflected in Deng's words "some get rich first". The reforms based on the efficiency of the market mechanism generated extreme inequalities, the scale of which is reflected in the Gini index value at the official level of 0.474, unofficially even 0.61.

Attention should be paid to the cultural element in the process of accepting inequality. Chinese culture is a high-distance culture, in which the element of social inequality has a relatively high social acceptance, however, extreme income differences are a threat to social peace, which the authorities in Beijing take into account. The state is slowly introducing mechanisms to counterbalance growth at the expense of its pace. Officially, in the 12th five-year economic plan of the KPCH for 2011-2015, the azimuth of lower growth was adopted in exchange for its greater sustainability. On the other hand, a decline in growth could become a much stronger threat to the social peace of a country whose citizens have become accustomed

to systematically increasing incomes. Xiaoping's reforms allowed for the elimination of poverty, the removal of 200 million inhabitants from extreme poverty, and then the construction of the middle class, which in 2018 already amounted to 300 million. Paradoxically, in a socialist society, by definition classless, it is a mainstay for power. The growing prosperity of the middle class has a stabilizing dimension, and the prosperity of this group encourages them to maintain the status quo towards the ruling party (Hefele et al., 2011).

Currently, in the second decade of the twenty-first century, it has become another flywheel of growth, making it independent of foreign consumers - the primary engine driving this process. The integration of neoclassical concepts based on the effectiveness of the market mechanism and the Keynesian effectiveness of a strong state intervention, which is unacceptable for a man of Western culture, which grew out of the logic of the process of reaching the truth based on mathematics, universal rationalism, are not mutually exclusive by Chinese logic. Taoist reconciliation of the opposites in and yang is at odds with Western linearity, logical empiricism and rationalism. The paradox and contradictions in Chinese philosophy are mindful of the normal elements of the functioning of the world (Bolesta, 2006), which makes it possible to call contemporary China "a fantastic kingdom of opposites" (Strittmatter, 2018, p. 38).

The long-term approach and the lack of pressure for quick success imposed by the pressure of four-year elections in Western countries allowed for the adoption of a gradual variant of reforms and the systematic implementation of the adopted strategy. Slow, consistent reforms, almost unnoticeable for the Western world, allowed China to return to the international arena, and the consistent building of the economy's potential already resulted in the potential of the world's second economy at the end of the 20th century. The cultural attribute in the Hampden-Turner and Trompenaars catalogue in the form of external controllability, meaning high Chinese adaptability, favoured the absorption of foreign management solutions transferred with capital in the form of FDI. Chinese controllability, meaning high adaptability, has clear limits in the form of core values. Quoting the leading Chinese ideologist Zhang Zhidong, "Chinese science is the foundation and Western knowledge serves practical purposes," Fairbanks explains the instrumental and utilitarian treatment of Western knowledge (Fairbank, 2004).

Bold state investments, including in infrastructure, they created attractive conditions for private capital investments, and large projects (the Olympic Games in Beijing in 2008, the World Exhibition EXPO 2010) generated an attractive image of the country for investments, creating an image of consumption by an affluent society. Another growth driver seems to be the Chinese FDI and accompanying projects (One Belt One Road) creating an intercontinental communication and transport artery. While in the past the high savings rate based on the Confucian mentality generated the desired high capital accumulation necessary for investment, now it appears to be constraining domestic demand, which the authors of the reform intend to replace the rest of the world demand for Chinese goods from the initial phase of reforms. China is currently experiencing a "consumer miracle" with deep cultural roots.

Although Confucianism formulates the moral imperative of modesty in consumption, it points to a macroeconomic phenomenon in which household welfare builds a harmonious society (Hefele et al., 2011). The size and dynamics of Chinese consumption imply intense changes in the global market. The element of social relations, which is immanent for Chinese culture, is *guanxi*, which is often a pretext for the purchase of luxury goods, and often the object of corrupt behaviors (Bernat, 2015) China has enormous consumption reserves, considering the relatively low share of private consumption in the distribution of GDP. At the present stage, cultural heritage also turns out to be important, though not autonomous, factor influencing the effectiveness of incorporating consumption into the development mechanism.

The launch of the market mechanism, which liberated huge amounts of Chinese entrepreneurship, together with a huge wave of foreign capital initiated the economic growth of the most populous country in the world after 1978. Foreign capital has been widely implemented in the economy, taking into account and maintaining the cultural context of the host country, as well as the entire reform process, i.e. the Chinese variant of economic transformation. The role of China in capital flows at the turn of the 20th and 21st centuries Góralczyk very aptly compared to the stratagem of Chinese strategist Zhuge Liang from the Three Kingdoms era. The deficit of Zhuge's shots was prevented by sending ships with straw puppets on the water, which were indistinguishable from ships and real crew in the thick fog. When the imitation armada left the port, it was inundated with a barrage of enemy arrows. Thus, the Shu state acquired a huge supply of arrows (Góralczyk, 2018). The aforementioned metaphor clearly illustrates the Chinese strategy of changing the role of China not only in terms of capital flows but in the entire world economy. In the late 1990s, foreign capital, encouraged by extremely low labour costs and a huge reservoir of unqualified labour in China, decided to "fire its arrows" - allocate capital in the Chinese economy respecting the specific conditions imposed on it.

From the beginning of its opening, the PRC conducted a strict and, due to its high investment attractiveness, very effective policy of controlling the inflow of direct investments (Cholaj, 2008). He took care of the inflow of capital to modern fields, under the strict condition of earmarking for export at least 50% of the product resulting from this investment and the rigour of establishing a joint venture with a Chinese partner. The authoritarian form of exercising power, arousing criticism of public opinion in the West, turned out to be a desirable partner for foreigners, including Western corporations, guaranteeing the fulfillment of agreements (Siewierski, 2010). The pragmatic approach to the economy, characteristic of Chinese culture, is proved by the fact that the experiment initiated by Deng Xiaoping in 1978 in the event of a possible failure of the foreign capital absorption program created five investment enclaves in the form of Special Economic Zones with conditions privileged for foreign capital, located in sufficiently large conditions. distance from the center of the country over (2000 km). In this way, it was possible to react in time in the event of possible failures. At the same time, they are located close to Hong Kong and Taiwan - potential sources of

investment capital with a clear predominance of ethnically Chinese. The essence of this experiment is reflected in Xiaoping's phrase "to go across the river feeling the stones under my feet" (Pieczonka, 2012). Although the Chinese economy was opened to foreign capital in 1978, its actual intensive inflow took place only after 1992.

The structure of capital flowing into the economy of the Middle Kingdom proves a good adaptation of investments from the economies of culturally close countries, where over 75% of FDI inflow consistently comes from Asian, not Western countries. The decisive leaders in the allocation of foreign capital in the Chinese economy are Asian corporations, and it is they who, taking advantage of the rent of cultural similarities and spatial proximity, participate most strongly in the benefits of this market. Much of the foreign capital came and still comes from *Huaqialo* - a foreign diaspora of Chinese emigrants who have achieved economic success abroad, which is a rent of trust in the representatives of the nation who have achieved success in other system conditions and at the same time the implementation of the *guanxi* formula. The high share of capital inflow from Hong Kong and Taiwan - culturally identical - eliminated cultural barriers which are very important in the allocation of capital in the form of FDI. Western capital (from the USA and the EU) began an intensive investment expansion in China in the second half of the 1990s, and its share in annual flows never exceeded 16% of capital invested in the form of FDI (according to MOCAM). The influx of Western capital to the economy of the Middle Kingdom encountered favourable cultural conditions in several aspects. Taking into account Hofstede's observations, the flow of capital from home economies of countries representing a low power distance to the host countries of high distance is a prerequisite for the success of internationalization (Hofstede, 2000). The high distance of power implying authoritarianism of the authorities was a guarantee of contracts, while controllability turned out to be a prerequisite for a collision-free implementation of management and technological solutions in the host country's environment, which generates potentially high efficiency of foreign enterprises in China. Additionally, for foreign investors, especially from the Western cultural circle, the authoritarian power characteristic of a nation of high power distance increased the predictability of its decisions. Contrary to the opinion of the West, it was convenient for international corporations and constituted a component of the PRC's investment attractiveness (Siewierski, 2010).

The foreign capital intensively absorbed by the Chinese economy allowed for the reversal of its role, the evolution of comparative advantages and the advancement of its competitive position. The very process of absorption of this capital in China, as well as its external investment activity, are a component of the Chinese transformation strongly integrated into the cultural environment. Opening the Chinese economy to Kaifeng Deng capital resulting from the real needs of the economy turned out to be a very important engine of growth, perfectly inscribed in the powerful process of globalization. The question arises: to what extent has China benefited from this process, and how much did it generate itself, given the country's size, the deficit of capital and know-how, and cultural specificity.



## 5. Conclusions

The economic success of the PRC, measured at the rate of the longest economic growth in modern history, accompanied by an increase in the wealth of the society, is the result of unique endemic reforms adopted in this country, perfectly inscribed in the culture of society, which made their effectiveness possible. The main dimensions of Chinese culture inherent in the changes seen through the prism of Western researchers are long-term nature, collectivism, high power distance, and relatively low-risk avoidance. The avant-garde of Chinese reforms is an equally important combination of opposites in the Taoist spirit, subordinated to the paradigm of harmony, which made phenomena unacceptable in Western culture effective in South Asian culture. The nature of the reforms, well inscribed in the cultural context, ensuring their high efficiency, resulting in economic success on a global scale. The high distance of power gave social legitimacy to the decision-making centralism, which made it relatively easy to implement often difficult economic reforms and to accept their social consequences. The uniqueness of the Chinese reform program resulted from the adoption of a variant compatible with the cultural environment, the role of which in economic processes, although contemporary economic thought sees it, does not fully appreciate it. Ignoring cultural characteristics in the neoliberal reform program of the International Monetary Fund called the Washington Consensus meant that its application not in all conditions did not bring the desired effect in the form of effective economic development. The harmonious inclusion of successive growth engines in the Chinese transformation process was accompanied by progress in competitiveness in the global economy. China, although cautious towards foreigners, had a cultural predisposition to absorb foreign capital in the form of FDI, which was a very important exogenous engine of growth, a source of capital and a carrier of know-how, especially in the first phase of reforms. At the present stage of changes, the use of Chinese FDI in the world, as well as internal consumption in the growth process as the engines of economic growth, carries certain risks resulting from the cultural specificity of the Middle Kingdom society and requires a wise socio-economic policy.

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### Footnotes

1. An acronym for PPWW, short for Polish: Super-normative wages tax.
2. The peasant mentality, according to Góralczyk ([www.youtube.com/watch?v=pEZmwyi2ZZo](http://www.youtube.com/watch?v=pEZmwyi2ZZo)), is of decisive importance for understanding Chinese reforms. It is closely connected with Confucianism, with collectivist (group) ethics, with the ethics of relations, with rational submission to older and more experienced people, who wish us well. It is first and foremost the priority of the community over the individual. In this ethics, there is no such emphasis on the individual, his claims of rights against the community, as in individualist ethics. The individual feels part of something greater than himself - the family, the state as a family of families, and finally, the entire cosmos, enjoying it. Its self-realization is the self-realization of the group, and not the group itself - an artificially mentally isolated individual, separated from the totality of being. The peasant mentality is one with nature and life. Farmers who come into contact with nature daily find it easier to unite with it, merge, identify and "dissolve into being", in a mystical experience of unity with the world, with its order and harmony. It is different with people locked in concrete jungles. Until today in China, even in multi-million cities, you can see people living there walking in their housekeeping corridors or streets near their homes in multi-storey high-rise buildings. Thus, the individual is valued in the peasant mentality for the ability to adapt to the whole, and not for individualism ("a protruding nail must be hammered in").
3. The same Chinese attend Confucian, Taoist and Buddhist temples. In the West, this would be considered a betrayal of beliefs. The Western mentality (especially in countries with a high uncertainty avoidance index, but not only) means "you are with us or against us". Inhabitants of the Far East countries have a different mind. They can worship wise people with the same zeal, so their mind is not exclusive, but inclusive. There is no such struggle and competition in the religious market as in the Western world.