

Poland's experience in trade and solutions of export promotion

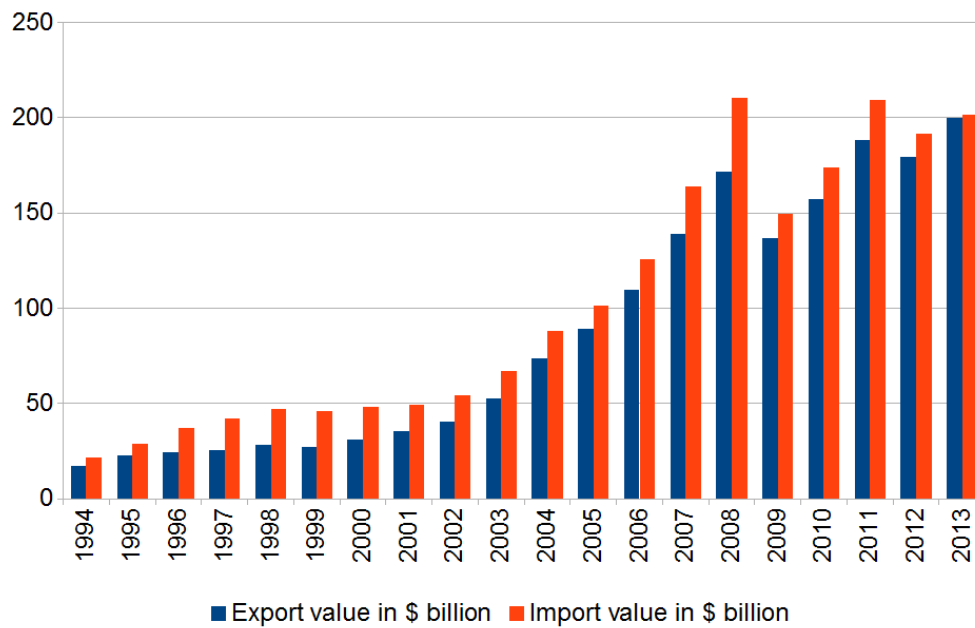
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Poland since the accession to the EU noted and acceleration in the economic growth, but still it was lower than of the other Visegrad countries' growth rates until the beginning of the crisis. It appears that one of important growth factors – exports – did not contributed to growth in full scale. I appears that the export promotion of Polish goods and services is not 'mission accomplished', nevertheless for a few years there is a huge progress in introducing exports as an important source of economic growth. This short paper elaborates on the features of Poland's exports, the ongoing mechanisms enhancing exports and organizational solutions that facilitate Polish export promotion.

1. Poland's trade in the recent 20 years

The development of trade in Poland is clearly linked with the process of integration with the European Union. When comparing the following phases of the Poland's involvement into the EU project and the value of trade of it is clear that the linkages undoubtedly exist. In the nineties of the previous century the imports and exports values were relatively stable. Since the beginning of the of the 21st century (that is a few years after the beginning of the EU accession negotiations in 1998) the trade – both exports and imports – started gradually growing up to 2004 (Graph 1). The acceleration is visible after 2002, when the negotiations have ended. Since join-up to the EU, the pace of trade growth become even higher up to the first year of crisis – 2008 (with values of import amounted to around \$210 billion and export values amounted to around \$170 billion). After a considerable drop in trade in the beginning of crisis the exports and imports started to regain and in 2011, the exports exceeded the value from the 2008, and this almost refer to the import values. In 2013 the export value exceeded \$200 billion, which was the highest value in history.

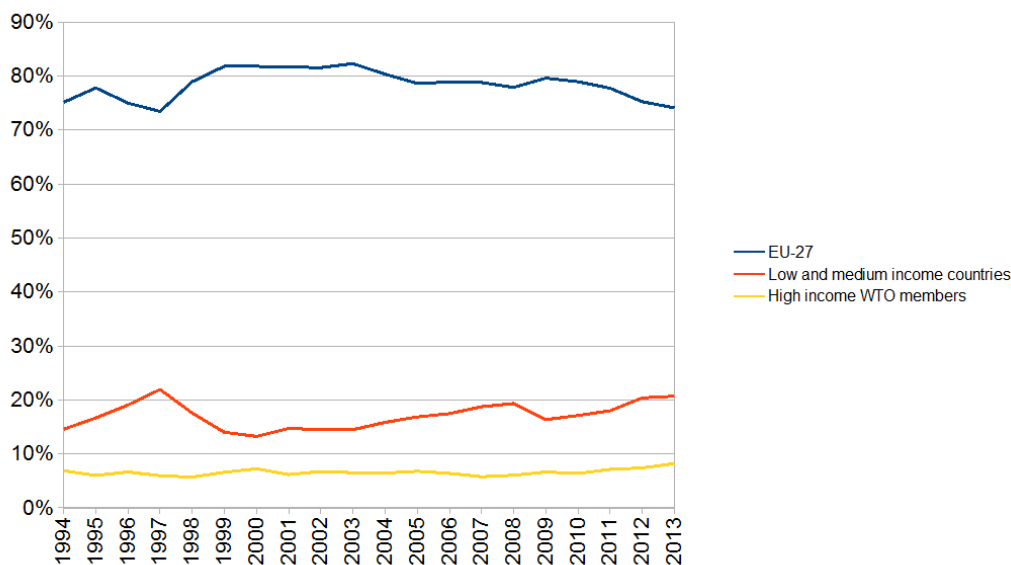
Graph 1. The value of Polish exports and imports in 1994-2013.



Source: UN COMTRADE, 20 September 2014

One can read also two important points from the Graph 1. A first one is that the export growth prospects are unclear, as in the recent years the export's growth rate was not as big as during the first years after the accession. The second point is that during the last years Poland noted negative trade balance (this also refers to the current account). Even if during the 2013 the trade was close to be equal, still Poland could not achieve a positive balance. This means that Poland did not use its capacities to expand in full scale on the foreign markets. Indeed, the trade openness measured as exports of goods and services to GDP was at the level of 46% - around half of the value achieved by the other Visegrad countries. The exports contributed thus in a moderate way in 2013, but this also refers to the last 20 years.

Graph 2. The composition of exports destinations in 1994-2013.



Source: UN COMTRADE, 20 September 2014

A important observation can be delivered from the Graph 2, which shows the share of the main destinations in Poland's exports. One can observe that the countries that are EU members stand for a majority of the exports – even above 80% in pre-accession period. Since 2003 the EU's share in Poland's export is declining, and since the beginning of the crisis there appears a second wave of the decrease in meaning of the EU in the Polish exports (by around 5 pp). This high share of one direction can be compared to the "putting all the eggs in one basket" strategy – a very risky one. Especially it was visible during the crisis, when the EU suffered more than the rest of world, thus limiting more than the rest of world the demand for Polish products.

Basing on these two graphs, one may observe an important challenge that Poland faces regarding the trade: there is a need to design a comprehensive, coherent and far-reaching export promotion system including the priorities.

2. Poland's current export promotion system and challenges

Currently, a state's support to the exporting firms is channelled in five areas:

- A) promotion of 'POLSKA' brand,
- B) economic mission accompanied to the political visits of the Polish high officials,
- C) support from the Economic Units of Polish Embassies (Polish Ministry of Foreign Affairs (MFA) controlled) and Trade and Investment Promotion Sections (Polish Ministry of Economy (MoE) controlled),
- D) a system that enables information on the foreign markets,
- E) financial instruments for enhancing exports.

Ad. A)

The idea of introducing one brand is important, as on many foreign markets Poland and Polish products are little known. By promoting the POLSKA brand, the officials assume that not only Poland, but also the Polish firms would become more recognizable, as the accountable partners. It covers many areas of promotion including cultural events and festivals, business conferences, exhibitions, appearance on the trade fairs, appearance in foreign media.

In 2014 the main focus of the promotion is based on several Poland's anniversaries:

- 10 years in the EU,
- 15 years in the NATO,
- 25 years of political and economic transformation.

The promotion of the brand is coordinated by several ministries and other agencies (including MFA, MoE, Ministry of Sport and Tourism, Ministry of Culture and National Heritage, Ministry of Finance) and a leading role in the process is given to the inter-institutional body, named Poland's Promotion Council. Still, the problem is that the brand is relatively new (created at the end of 2013) and thus it is still barely recognizable around the world. Thus, Poland still faces a challenge to make a brand awareness high and sustainable.

Ad B)

According to the surveys made by i.e. PISM, it appears that the businesses highly value this kind of support, notably regarding non-european markets. Firms are aware of the fact that in many foreign cultures the it is easier to do business, when firms are perceived as the prestigious ones. This additional prestige could be added by the support of the high officials visiting the destination market. During such political visits, the local buyers (or more generally partners) are more eager to start cooperation. Such actions were taken in the past relatively rarely and since 2010 it is observed an intensification of this kind of activity, with a prospect to develop it further. This field of promotion of Polish export is coordinated by the MoE.

Ad C)

Across the world, around 90 Embassies operate and provide support for the Polish businesses. On top of that 48 Trade and Investment Promotion Sections help the businesses in 43 countries. The scope of support cover i.e. facilitating contacts with local businesses, enabling economic missions, helping in pomoting Polish firms during the trade fairs.

There are several deficiencies in the system of support via these units. In theory, the Embassies in general represent the economic interests of Poland abroad and analyse the general macroeconomic situation of the particular destination, while Trade and Investment Promotion Sections help the firms regarding the practical side of doing business. In practice, the firms do not distinguish between these two types of units. On top of that, the division of competencies is not clear and this makes, that the tasks of these units overlap. Moreover, there is too much concentration on the European markets at the cost of the other ones. Bearing in mind the overconcentration of Polish exports in the European markets this is not an optimal distribution of such units, and it poses Poland into the risk of being dependent of one export direction. The other problem is that these units are understaffed (in several cases there are only one or two workers) – the similar units of the foreign leading exporting countries are composed of many times bigger staff.

Ad D)

The government offers an comprehensive information about the foreign markets, including doing business and functioning the particular market. There are several agencies (MoE, Polish Information and Foreign Investment Agency (PAIIZ) or The Network of Investors and Exporters' Service Centres (COIE)) that provide such information, as well as several webpages (i.e. www.polska.trade.gov.pl, www.eksporter.gov.pl). Especially the practical information on the local business environment, the barriers etc. the firms may find in Trade and Investment Promotion Sections. The government also launched two programs – Go China and Go Africa – that are dedicated to encourage the firm to expand to these directions by providing a necessary information on these markets.

The biggest problem with this area of support is that, the information is dispersed and the firms need to browse several sources to obtain a complete information. This potentially discourages the firms to consider new markets.

Ad E)

The government offers some financial support to enhance the export. The MoE finances the Poland's stands in the trade fairs and coordinates the flow of the EU funds dedicated to improve the image of the country on the foreign. Also an increasingly popular among the businesses is the insurance given to the export credits given by Export Credit Insurance Corporation Joint Stock Company (KUKI). These are important for the transactions with the extended payment dates. The other source of support to exports is the State Development Bank of Poland (BGK), which offers buyer's credits (granted through importers bank) as well as post-financing documentary letters of credit or discounting receivables from documentary letters of credit.

Although the firms appreciate the financial support, they also often underline that this aid is too inflexible, which hinders the usage of these instruments.

Horizontally, the biggest problem for the system of supporting the export the issue of unclear division of competences between the MoE and MFA (notably in the context of Embassies and Trade and Investment Promotion Sections). The overlap of the competencies, which potentially generates tensions between these two Ministries makes the system inefficient, especially bearing in mind the limited resources given to promote exports.

3. Proposed solutions

There exist three organisational solutions which enable Poland to face better the challenges linked with export promotion. All them need to solve the problem of unclear division of competencies between the MoE and MFA.

A first one is to enhance the current inefficient system by:

- improving the communication between the Ministries or introducing more automation in the cooperation process among the involved bodies,
- redesign of the competencies, to make them more clear and exclusive to one of the units. On top of that the new division of competencies would be understandable to the Polish firms. For instance, the Embassies should facilitate contact with the domestic authorities as well as

they should diplomatically promote Polish goods and services and intervene on the case of black PR about Polish products, while the Trade and Investment Promotion Sections should concentrate on day-to-day activities: facilitating contact with local businesses, providing information on the market, organising fairs etc.,

- disseminating better the information about the competencies to the Polish businesses.

This however would be a suboptimal solution as the possible tensions between the units still would appear.

A second possible solution is to take the entire responsibility by the MFA. One body with full capacities to enhance exports and with full responsibility would be an incentive to act efficiently and develop a comprehensive, coherent and business-friendly strategy on the Polish export promotion. The leading role of the MFA in this scenario would mean a takeover of the Trade and Investment Promotion Sections by the Embassies. Also the Embassies in such scenario would need to engage more people with economic education or professional experience in order to find common language with the firms seeking aid (i.e. information or local partners). The Embassies should also specialise in expanding the databases on the local firms – potential partners for Polish businesses. This solution is better to the first one, but still suboptimal, due to immanent little flexibility of the MFA and thus a probably long adjustment process as well as the inability to react to the changing circumstances.

A third solution is to create an independent agency that would be under command of one Ministry, but the optimal solution would be if such agency would be directly dependent to the Prime Minister. This would be a clear sign, that the export promotion is recognised as a crucial growth factor which would motivate the authorities to facilitate the boost of exports. Currently, the public opinion is aware that the exports might contribute to the growth, so the introduction of such agency will be easily explained. Some problems would come from the possible resistance from the MoE and MFA, which both would like to maintain their competencies. The advantage of such new agency would be a flexibility of activities which would react better to the changing environment. It is important, that such new agency would cover all the instruments linked with export promotion and would offer „one window” solution to the firms. It should as well possess the diplomatic status abroad as well as it should communicate well with the MFA.

Apart the organisational solutions, the government should consider several other detailed solutions, such as:

- the geographic re-orientation of the promotion activity, in order to minimise the risk of dependency to one direction. This requires a scan of the possible candidates for the promising markets in particular groups of goods and services.
- a recruitment of the local experts, that would support Polish firms in the particular market. Such employees generally know perfectly the local market and have better local contacts and considering that Poland focuses on the developing world, they would generate less costs than the Polish workers and thus more workers could do their jobs.
- a part of services offered by the units would be free, while the other part would be paid (i.e. translation services of i.e. particular law). This would increase the budget of such units and would enable them to hire more workers.

- maintaining good and sustainable relations of the units with the Polish businesses operating on the particular markets. It would take a form of regular meetings with the representatives of these firms on the current needs of the firms regarding the assistance of such units.
- using Polonia (Polish migrants) but as well the foreign graduates of the Polish universities to facilitate exports in the particular market. In several cases such graduates obtain positions which might effect positively Poland's export. It is a long-term solution, as these graduates need time to become a decisive person. Still, such programme of maintaining good contacts with such people should be developed.
- using development aid to promote Poland's technology (and Polish firms specialising in new technologies) abroad.
- streamlining of the programmes offered by the agency with the POLSKA brand.
- facilitation of creating human capital able to operate abroad. This would include i.e. internship programmes (fully or partly paid by the government) in the foreign branches of the Polish firms.
- the inclusion of the opinions of the businesses on the form of the financial support.
- a better information on the planned economic missions (at least 6 months earlier, and a comprehensive schedule list of such missions).
- a better information system that would intense the two-way communication between the businesses and government.
- more elasticity in the financial support.
- Incentives to the banks to finance the Polish exports.

Since the organisational solution is introduced the detailed ones seems to be a natural consequence of the possibly new design of export promotion system.

Indirectly, in order to enhance exports an extremely important thing is to allow the exporter to focus on his business. If so, the exports would be generated by the Polish firms, which by lower costs would generate more its output and thus export more. It would be also generated by the multinationals which would more eagerly locate the production sites in Poland. Poland's assets is that there are many skilled engineers with good working experience as well as modern assembly lined and factories, thanks to which the products are of high quality, while still being inexpensive. Making the framework more business-friendly through i.e. bigger labour market flexibility (lower tax wedge, better prospects to end contracts) as well as simplifying the tax system, strengthening the property rights, facilitating the construction law, shortening the time to settle the disputes, developing the e-government would even decrease the relatively low costs of production. This would even bolster the exports on the foreign consumers who often appreciate high quality of products, while cautiously spending the money.