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Foreign trade in Poland and Małopolska 2009-2010

Summary of research results

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Information about research

This draft is a summary of the report entitled „Foreign trade in Poland and Małopolska 2009-2010", which is a continuation of the research on the foreign trade carried out by the Małopolska Economic Observatory, functioning within the Marshal Office of Małopolskie Province since 2004. The report presents selected aspects of foreign trade of the Małopolskie Province in comparison to other provinces in Poland and contains also an in-depth analysis of the trade in Małopolska.

In order to present the situation in the region's foreign trade and predictions concerning development of exports a number of research methods were used. As part of desk-research analysis a selection of data for exports and imports on the national and regional level was analysed and a special emphasis was put on data concerning Małopolska province (the data came from, among others, customs chambers, Central Statistical Office, database of the UN Comtrade). Quantity research was carried out at the same time among export enterprises (on the national level on the sample of 756 enterprises and on the Małopolska's level on the sample of 150 enterprises) as well as 12 individual in-depth interviews with the representatives of the institutions dealing with support and incitement of export development.

Quantity research aimed at obtaining knowledge concerning situation of Polish exporters, in particular: predictions of export development and measures taken in order to increase competitiveness of companies' export offer, barriers for the development of export activities, expected forms of support of export activities, as well as opinions of exporters concerning programmes of the Polish economy's promotion in the international context. Survey was carried out through phone calls (CATI) in the first half of November 2011. Research sample consisted of enterprises declaring export activities and drawn from the commercial database of HBI.

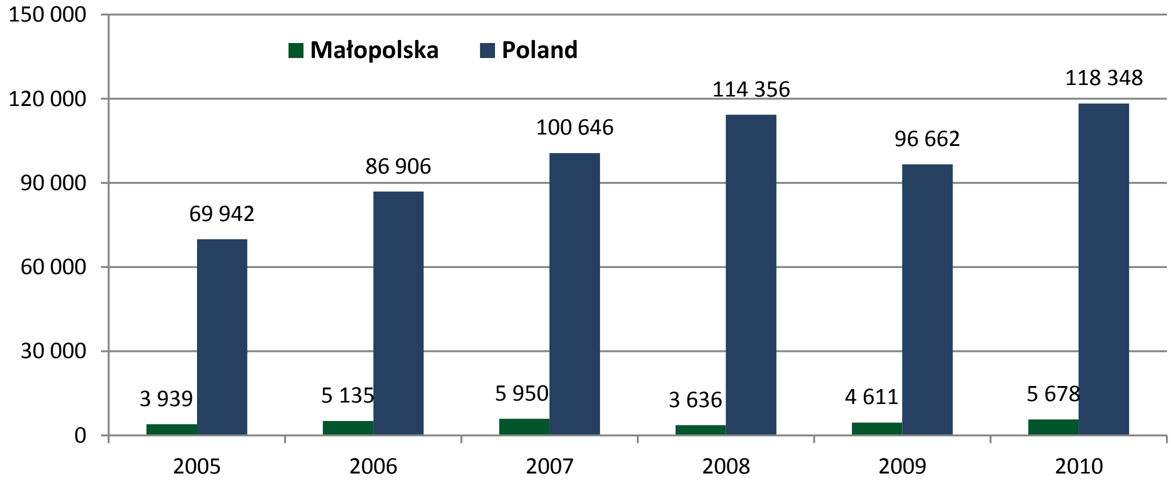
On the other hand, quality research carried out among representatives of the institutions dealing with support and incitement of export development laid foundations for assessment of Polish and, in particular, Małopolska's exporters' condition, predictions of export development, factors influencing export development and barriers in its development, both on the national level and particularly in case of Małopolska province; it also enabled assessment of the activities concerning support of exports carried out in Małopolska and allowed formulating recommendations on the future directions of export support both in Poland and, in particular, in Małopolska province. The interviews were carried out between 9th and 21st of November 2011 in following institutions: Marshal Office of Małopolskie Province, Małopolska Regional Development Agency/Business in Małopolska Centre, Cracow Technology Park, Cracow Chamber of Commerce and Industry, BCC Małopolska Lounge, Ministry of Economy, Polish Agency for Enterprise Development (PARP), KUKE S.A., Polish Information and Foreign Investment Agency (PAIiIZ), Institute for Market, Consumption and Business Cycles Research, Business Center Club.

Summary of research results

Foreign trade in Poland and in Małopolska in 2009-2010

The period included in the scope of research, namely years 2005-2010, is characterized by very important changes in commercial contacts between Poland and abroad. The years 2005-2008 were characterised by significant increase in trade value, however in 2009 exports and imports decreased significantly. Weakening exports resulted from the decrease in demand on the internal markets of the main recipients of Polish exports, especially in the "old" EU countries. Additionally the appreciation of zloty to other world currencies took place, which further influenced diminishing attractiveness of Polish exports. As a consequence, Poland experienced a decrease in exports from 114 to 97 billion euros, nevertheless in 2010 the exports grew back reaching the level of 118 billion euros.

Figure 1. Export value of Małopolska and Poland in 2005–2010 (mln euro)

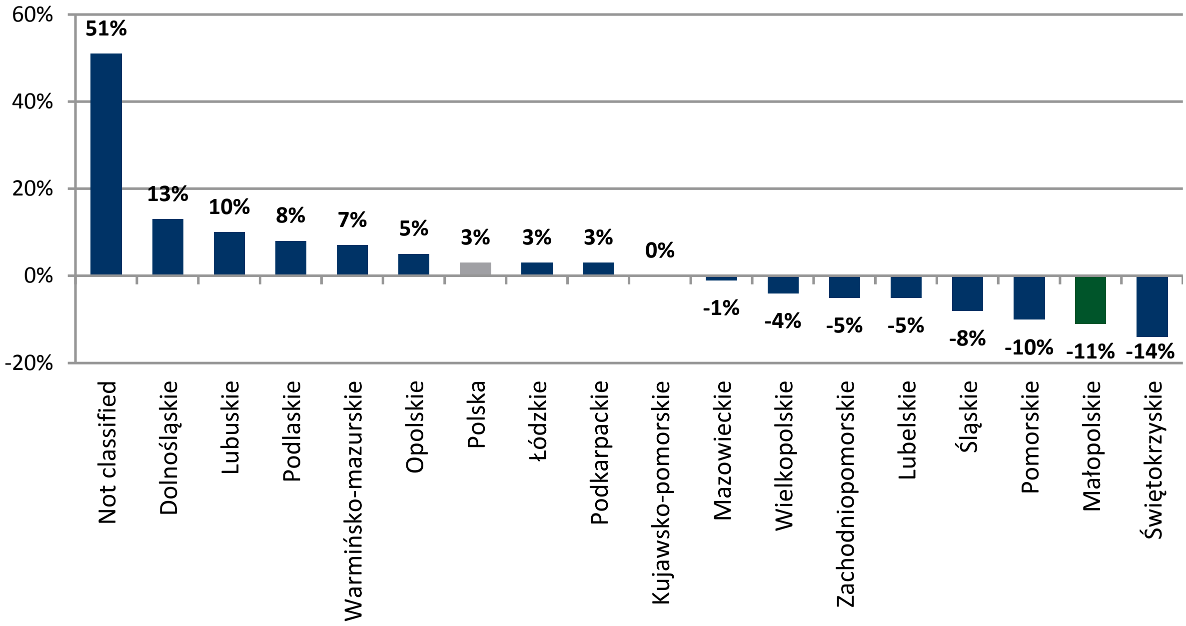


Source: own elaboration with data from customs chambers.

Polish exports are based mainly on four provinces: Śląskie, Mazowieckie, Dolnośląskie and Wielkopolskie – together they are responsible for over a half of its value. Next to them there is a group of provinces characterised by medium export power – including Małopolskie province – and regions under-developed in this aspect (above all Podlaskie, Świętokrzyskie, Lubelskie).

Małopolska does not fully use its export potential. Its position has been weakening over last couple of years and currently the region's exports constitute 4.8% of the national exports. In 2005-2008 the exports from Małopolska were developing at the pace of 17% annually. Similarly to what happened in the whole country, in 2009 the exports collapsed - in case of Małopolska, though, the collapse was significantly deeper. In spite of the growth observed in 2010 the export power of the region has not been restored. In 2010 Małopolska's export value reached 5.7 billion euros – and it was still lower than the value from 2008 by 10%. Only Świętokrzyskie province achieved worse result in restoring export stream after the collapse in 2009.

Figure 2. Dynamics of export value of Poland and provinces in 2008–2010



Source: own elaboration with data from customs chambers and Central Statistical Office (GUS).

Some of the Małopolska's entrepreneurs seem to be turning away from pro-export profile of their activity: export value in 2010 constituted slightly more than 1/5 of the province's GDP, while only three years ago this indicator exceeded ¼ (average in the country is 1/3 of GDP!). This gap between Małopolska and the national average may also mean different kind of products being exported – less technologically advanced, of relatively low added value, the demand for which is a subject to strong fluctuations, especially in the situation of rapid changes on the markets. It is also possible that entrepreneurs lowered intensity of foreign trade contacts and decided to depend to a bigger extent on internal demand.

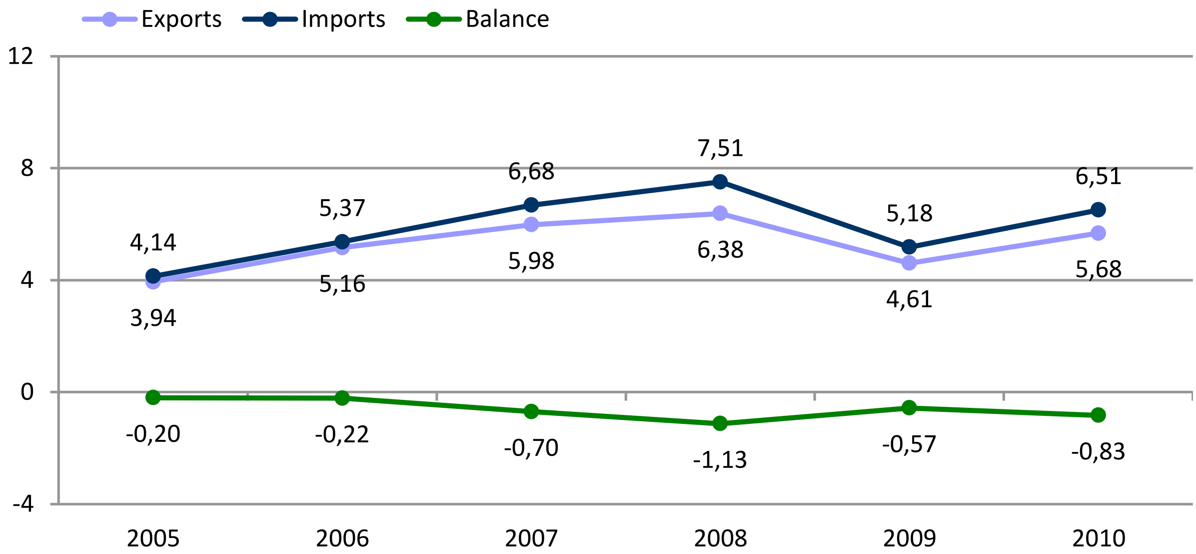
A majority of Małopolska's exports (97%) comes from sales of manufacturing sector products and from retail and wholesale trade activities. In case of manufacturing sector Małopolska can seek advantages in production and industrial treatment of products of stone, ceramics, glass, leather, base metals – in these sectors the strong position is clearly visible already – as well as in the production based on plastics. Directions of specialisation can be also sought in niche areas: information and communication sector, activities related to the sector of public goods and services (providing water, managing sludge and waste) and in the professional, scientific and technical activities. It is worth underlining that these possibilities of developing exports are in line with some of the sectors defined as those of a key importance to the region's development, namely: education, higher education and science, R&D sector and non-productive services for the companies.

A decrease in participation of the high technology sectors in Małopolska's exports and practically constant participation of technologically non-developed or low developed sectors since 2007 might be worrying. Such profile of the region exposes exporters to significant vulnerability to prices of the products (especially in the situation of economic turbulences) and significant inconstancy in demand (as there are numerous similar suppliers of products with a low degree of processing).

Over 4/5 of exports of Małopolska concerns the intra-EU trade. Germany is the most important economic partner of the province – similarly as in the national context. Relatively big part of Małopolska's exports reaches the markets of new member states, mainly our southern neighbours. There are less intensive contacts between Małopolska and Russia, Ukraine and Belarus.

Entities from the Mazowieckie province are the biggest importer in Poland (30% of national imports). Małopolska has an average power in this aspect. Until 2008 imports were increasing at a faster pace than exports, meaning the deficit of the foreign trade kept deepening. In 2009 there was a sharp decline in its value, only partially made up for in 2010. Currently the import value reaches 6.5 billion euros – it means the deficit of 830 million euros. Share of negative balance of the foreign trade of Małopolska in national deficit has been systematically increasing: over 5 years it has grown from 2% to 6%.

Figure 3. Dynamics of foreign trade of Małopolska in 2005–2010 (bn euros)



Source: Own elaboration with data from customs chambers and from the report: K. Gawlikowska-Hueckel, S. Umiński, Handel zagraniczny Małopolski. 2008 rok, Kraków 2009, p. 11.

The imports of Małopolska concern above all products of processing industry and products offered by retail and wholesale trade – together their value makes 95% of the whole imports. In comparison to national average the hotel and gastronomy sector as well as education activities distinguish themselves in the structure of imports of Małopolska province. Above average demand for imports has also been observed in case of professional, scientific and technical activities. The structure of technological advancement of sectors, which the imported goods come from, is similar to exports – there is relatively low share of products from the high technology sector. More than 4/5 of imports concern the intra-EU trade. Germany is the main source of imports. Definitely more often than the country's average Małopolska imports goods from the new EU member states, on the other hand there are less contacts with the countries from across the Eastern border.

Małopolska has negative balance in foreign trade in majority of the sectors. Exceptions include processing industry and smaller sectors, such as water provision and waste management, mining, agriculture as well as administration activities. Negative balance is growing in retail and wholesale trade.

In case of Małopolska in 2010 intra-industry trade constituted almost 2/3 of foreign trade of goods, which is an average result in comparison to other provinces. Widening the scope of observation by non-material sectors of economy results in lowering value of this indicator to the level slightly exceeding 50%.

A detailed analysis of foreign trade in Małopolska, considering goods and geographical scope, is presented in the full version of the research report.

Condition of exporters in Małopolska and recommendations concerning carrying out activities supporting exports in Małopolska

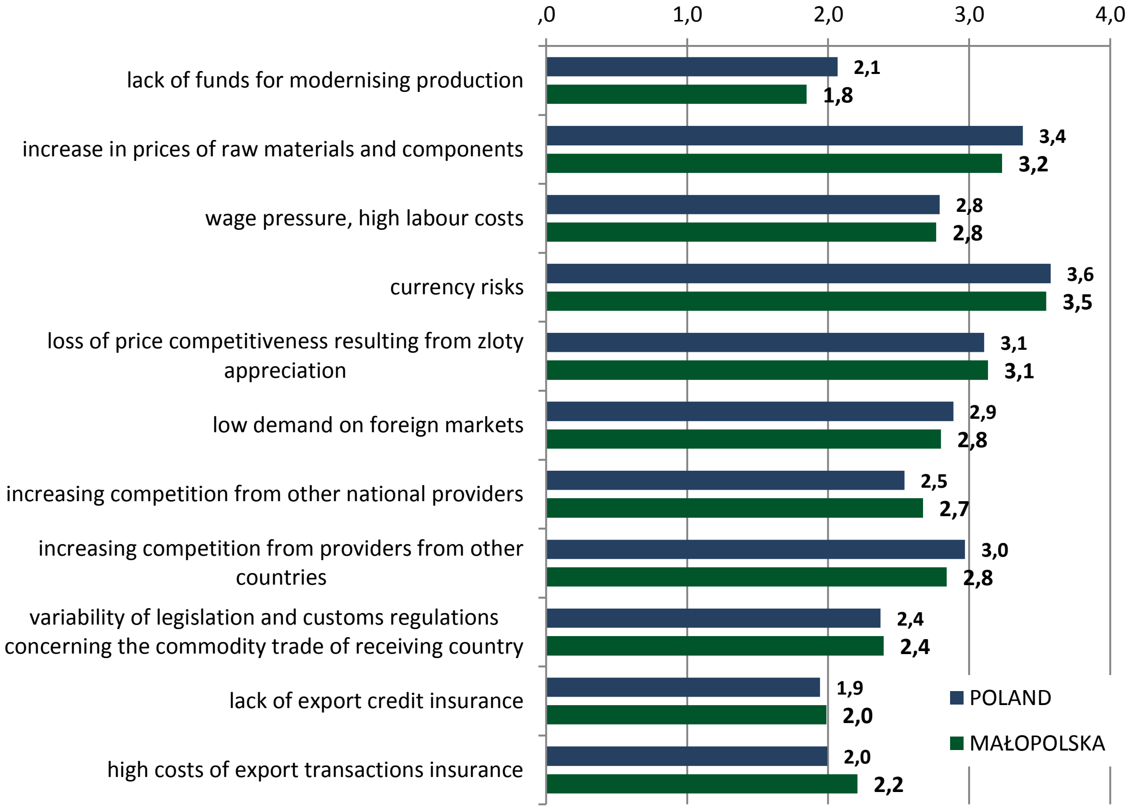
Research carried out among the export companies indicated that enterprises see the future of their activities with considerably big optimism. To some extent this may be a result of a currently high exchange rate of euro to zloty, however it can be expected that the value of Polish exports in 2011 will be at least at the same level as it was in 2010. Taking into consideration an uncertain situation on the global markets, especially in the euro zone, predictions concerning exports in next years are at this moment difficult to formulate. Nevertheless, undoubtedly positive attitude of entrepreneurs from Małopolska province indicates dominance of chances over threats in the trade of Małopolska.

For nearly half of enterprises from Małopolska exports constitute less than 20% of their sales value. It means that in comparison to Poland as a whole, there are less specialised exporters in Małopolska. Currency exchange rate influences significantly profitability of imports and exports. Recently depreciation of zloty to euro can be observed, which means improvement of price competitiveness of the export offer. The depreciation of zloty mitigated to a certain extent a decrease in exports related to the decrease of demand on the Western markets. At the same time the depreciation of the Polish currency means declining profitability of imports, including supply import, namely import of intermediate products and components for the production of goods next sold abroad. Enterprises which depend to a big extent on supply imports were also heavily affected by the prices of intermediate products and components, and consequently their higher income from export sales (in PLN) were leveled with the price increase in the imported goods. For the enterprises not dealing with the supply import growing costs of imports will not be of any importance, meanwhile the enterprises dealing with supply imports on a big scale will be especially exposed to fluctuations in exchange rate of zloty, because depreciation of Polish currency leads to increase in prices of the supply goods.

Exchange rate of zloty undoubtedly influences the condition of Polish and also Małopolska's exporters, but the biggest risk for the companies comes not so much from the exchange rate itself as from its fluctuations. Fluctuations of the exchange rate were indeed at the first place among threats to development of export activities pointed out by entrepreneurs. At the second place entrepreneurs indicated increase in prices of raw materials and components and at the third place – losing the price competitiveness as a result of appreciation of zloty, which is also a factor related to the exchange rate risk. The threat power of all three aspects mentioned above was assessed over 3, on a scale from 1 to 5, where 5 meant "very high threat".

Figure 4. Assessment of threats of export development in companies

Average value of rating on the scale from 1-5, where 1 means that the threat „is very low", and 5 means that the threat „is very high"



Source: Survey among exporting companies, November 2011.

Definite majority of entrepreneurs are involved in foreign trade with the countries from the European Union. As the main problem in developing exports to the EU markets entrepreneurs indicated high level of competition on the EU markets as well as global economic crisis and resulting decrease in demand. Again exchange rate risk was indicated as an important factor. Threat from the competition from other countries is also gaining importance. Polish exporters feel the strongest competition from the companies within the European Union and also from the Polish and Chinese companies.

Another threat to developing exports is insolvency of foreign partners, which, as the experience from the last years demonstrates, may also concern partners from the countries defined as countries of low risk. As the research results indicate, nearly half of the companies in Małopolska and over half of the companies in the national sample experienced problems of foreign partner's insolvency. Yet only a small percentage of the enterprises use credit insurance or trade receivables insurance. The offer of KUKE S.A. is used to even smaller extent. Definite majority of the companies that do not use credit insurance or trade receivables insurance simply do not see any need for it. Furthermore, among reasons for not using insurance there are also issues related to high costs of insurance as well as underlined trust towards contractors. Also in case of companies, whose export share in the revenue is insignificant, there is no need to use credits and insurance. Taking into account above mentioned problems, during trainings and seminars particular emphasis should be put on **increasing export**

awareness of enterprises from Małopolska province, including informing about **the ways of safe entering foreign markets** (increasing insurance awareness of the enterprises is crucial).

Apart from factors which may influence limiting export development of the company, the research did also let identify factors which may increase attractiveness of export offer of the company. Among activities most often carried out by the companies, the following were mentioned: fulfilling quality requirements of the recipient country, improving quality, gaining new, credible contractors and concentrating on the up-to-now carried out activities. With relatively lowest intensity companies decided to delegate work to subcontractors and to intensify the research and development activities. These are activities concerning cooperation with other companies and in this sense the activity of companies both in Poland and in Małopolska is limited. This is why the efforts should be made to **increase awareness of entrepreneurs from Małopolska province concerning the benefits resulting from joining enterprise networks** (such as export consortia or clusters) and carrying out together activities concerning sales and promotion.

Over a half of surveyed Polish exporters had drawn a strategy for export development. Interestingly, among the companies which possess strategy for export development far more enterprises predict increase of export share in the next year's revenue, in comparison to enterprises which have not drawn such a strategy.

Definite majority of enterprises conduct exports directly to the final recipient. What is more, companies usually sell their products under their own brand – in case of Małopolska the percentage of the companies selling under their own brand is slightly lower than in case of the whole country. At the same time among companies in Małopolska there is slightly lower share of companies than on the national level selling exclusively under their own band and bigger share of the companies selling exclusively under private labels.

Countries of the "old" EU dominate among the directions of planned export development – half of companies surveyed plan to increase exports on these markets. In case of companies from Małopolska the second most popular direction is 11 new member states of the EU followed by Eastern European countries – Russia, Ukraine, Belarus. Declarations of enterprises concerning markets for possible export expansion should not come as a surprise – entering the EU markets is easier (as far as procedures are concerned) than for example markets of the Far East. On the other hand a bigger interest in the Eastern markets can be observed, as well as in remote Asian, Arabic and African countries. Lack of plans of entering new markets is declared by around 1/3 of the companies. As in a long term **diversification of the directions of exports** is crucial for guaranteeing competitiveness of the region, the efforts of the regional government focusing on **drawing the attention of the entrepreneurs to the new markets** should be assessed as adequate, concerning encouraging companies to take part in economic missions and fairs organized on the emerging markets, which gain more and more importance on the map of potential recipients of Polish exports, as well as organizing trainings and seminars informing about benefits resulting from the diversification of the markets.

While entering new markets, especially those more distant ones, assistance from the authorities, both on regional and central level, is crucial from the point of view of the entrepreneurs. Entrepreneurs expect from the authorities mainly information about foreign markets, **presentation of the offer of exporters** at fairs and exhibitions abroad and promotion of the companies and their products abroad. All three aspects were mentioned by more than 65% entrepreneurs in the national survey, presentation of the offer of exporters at fairs and exhibitions abroad was also the most often mentioned answer among exporters from Małopolska.

Entrepreneurs seek mainly information concerning prices of specific products on given country's market, information concerning demand and supply of exported products as well as information concerning changes of important legislation. Małopolskie province presents already region's export offer within the **Małopolska Export Offer** – the initiative of the Business in Małopolska Center (CeBiM), which is responsible for promotion of the economic offer of Małopolska within joint initiative of the Marshal Office of Małopolskie Province, Małopolska Regional Development Agency and Cracow Technology Park.

Figure 5. Expectations of enterprises towards central and local authorities considering support of trade

Assessment YES/NO. The share of companies which expect support from authorities in the following aspects is presented on the diagram.

Source: Survey among exporting companies, November 2011.

Newly created regional Investors and Exporters' Service Centres (COIE), a system project of the Ministry of Economy, are supposed to be places where exporters can obtain information necessary for business cooperation with other countries. In Małopolska COIE works within the Business in Małopolska Center (CeBiM). The problem, however, is the lack of knowledge among enterprises on the potential sources of obtaining crucial information, which is confirmed by a low percentage of companies that have heard about the COIE project. The basic factor limiting the usage of available support instruments is, as already mentioned, **insufficient circulation of information**, both between central and regional institutions and between regional institutions and institutions of business environment. The results obtained clearly indicate the necessity to **strengthen circulation of information and cooperation between private and public entities.**

Apart from the need for authorities' assistance within providing the information concerning foreign markets, entrepreneurs expect also presentation of their offer at fairs and exhibitions abroad as well as promotion of the companies and their products abroad. Export trainings and organisation of trade missions are relatively least popular, although it should be indicated that half of the entrepreneurs expect this kind of support from the authorities. Economic missions constitute an effective tool for developing exports, especially on the new markets, which has been proved by trade contacts set up within such missions. Therefore, while formulating pro-export policy on the regional level, efforts should be made **to directly provide the enterprises with possibilities of co-financing participation in fairs, exhibitions and missions abroad**, especially on the emerging markets.

Significant eagerness among the companies to take part in joint activities promoting economy could be observed. ¾ of the companies underline in its export strategy the fact that a product was manufactured in Poland, which proves that Polish enterprises are willing to strengthen the image of the Polish brand abroad. What is more, nearly half of the companies, after familiarizing themselves with the project of the Polish Economy Brand, created by the Ministry of Economy with the aim of promotion on the foreign markets, declare being interested in using the logo in their promotional materials, while every one in three companies did not express such interest. This result can be assessed as satisfactory assuming that majority of the companies do not know the project yet (inauguration of the Polish Economy Brand took place on September 30, 2011). In order to **increase coordination of promotional activities in the country and achieving bigger image coherence on the foreign markets**, taking into consideration the promotion programme of the Polish economy created by the Ministry of Economy, entitled “Promotion of the Polish economy on international markets”, within which the Polish Economy Brand was created, we recommend that the regions try to stay in line with the Ministry’s concept concerning their promotional and marketing activities.

A full list of recommendations concerning future directions of supporting exports in Małopolska together with the assessment of the activities conducted until now were presented in the full version of research report.

Recapitulation: SWOT analysis

Strengths	Weaknesses
❖ Increase in the value of exports after 2009, although the restoration of the position from before 2009 was not achieved; ❖ Constant, 6th position on the list of provinces – the most important exporters; ❖ Varied geographical structure of exports in Małopolska, similar to differentiation on the national level; ❖ Growing trade connections with new EU member states, in particular with Czech Republic and Slovakia; ❖ Proximity of big markets (Śląskie and Dolnośląskie provinces), big internal market, thanks to which enterprises from Małopolska do not depend solely on exports; ❖ Availability of organized export consulting for export companies (Business in Małopolska Center); ❖ Possibility to use EU funds to co-finance promotional export support; ❖ Examples of the companies that come from Małopolska and are leaders in their sectors, and achieved success on the export markets; ❖ Big scientific and research potential of Cracow universities and research centers; ❖ Significant resources of well educated workforce; ❖ Convenient communication location of the region.	❖ Low volume of foreign trade in relation to economic potential of the region. Since 2008 (before the collapse in exports) Małopolska turned away from export towards the internal market. Reliance on the internal demand can help to wait through the crisis but on the other hand it closes the perspectives for development; ❖ Very low, in comparison to other provinces, share of exports in GDP; ❖ Weakening, in comparison to other provinces, position of Małopolska among leading Polish exporters; ❖ Degree of concentration of exports and imports in Małopolska significantly exceeds national average. It is one of the factors that leads to the situation when regional trade is so vulnerable to fluctuations connected with trade partners' decline in import demand for selected groups of goods; ❖ Lower than national average export volume per capita; ❖ Growing negative balance of the foreign trade; ❖ Strong, similarly as in the whole country, dependence of exports on the German market; ❖ Low share of exports in sales value of the companies with majority of the national capital; ❖ Limited transfer of information and knowledge between entities responsible for supporting exports in Małopolska and entrepreneurs; ❖ Low insurance awareness among exporters, concerning insurance from exchange rate fluctuations and from insolvency of the contractors; ❖ Low level of sector integration of the enterprises (in a form of export consortia, connection networks); ❖ Lack of direct subsidies for export enterprises within MRPO (Małopolska Regional Operational Programme); ❖ Extended bureaucracy – unfavorable conditions for business; ❖ Relatively weak image of Poland – low level of knowledge about Poland and its economy, especially on non-European markets.

Opportunities	Threats
❖ Activities of the Business in Małopolska Center concerning supporting export enterprises (Małopolska Export Offer); wider involvement of regional authorities into promotion of Małopolska export offer; ❖ Aiming at building an image of Małopolska as a modern region, based on knowledge; ❖ Activities of Cracow Technology Park – development of innovative companies, which can start export activities in the long term; ❖ Optimism among exporters in Małopolska concerning perspectives of company's activities in the following 3 years; ❖ Strengthening structures of business environment institutions and their connections with other entities of the economic system in Małopolska; ❖ Financial support for export enterprises available through central institutions; ❖ Export potential of the markets in Eastern Europe and emerging markets in South America, Asia and Northern Africa; ❖ Increasing interest of companies in entering new markets and big interest among the companies in entering Russian, Ukrainian and Belarusian markets -> diversification of export markets; ❖ Russia entering WTO, chances for simplification of trade with Russia; ❖ Increasing competitiveness of export offer as a result of companies' presence on the global markets; ❖ Gradual improvement of the image of Polish products, especially consumer products; ❖ Growing interest among consumers in Western Europe in cheaper but at the same time good quality products; ❖ Development of niche sectors, which in long term may generate increased streams of external demand.	❖ Decline in demand on the Western European markets as a result of economic growth slowing down on the global markets; ❖ In a long term – threat of decline in internal demand to companies with low share of exports in the revenue; ❖ Frequent fluctuations in the exchange rates; ❖ Increase in price of raw materials and components; ❖ Intensification of the promotional activities of the competitive regions; ❖ Emigration of qualified workers; ❖ Limited possibilities to obtain capital for companies planning export development; ❖ Growing competition from the non-European markets.