Trade and Procurement Reform in Poland and China: Responding to the Next Globalization Wave of Interdependent Economies

Mark M. Michalski

Introduction

During the recent decades, China has achieved phenomenal economic growth - truly an unprecedented "development miracle", as it is at times called. Since the initiation of its reforms and an open door policy in 1978, China's gross domestic product (GDP) has been consistently growing at an average annual rate ranging from 7-11 percent. In 2010, it has surpassed Japan and has become the world's second-largest economy[1]. China's impressive sustainable economic growth coupled with pragmatic development policies and increasing integration into a global market make her a key player in the international trade arena.

China has an overall trade surplus not only with Poland and the US but also with many advanced and emerging economies of the world[2]. Over the period of the last decade, China's exports and imports have been growing at a faster rate than the rate of world trade. While China's trade with the rest of the world has deepened, the structural and geographical patterns of its trade have also dramatically changed. Most importantly, the share of imports by industrial countries accounted for by China has not only diversified but also has become more sophisticated. Analysts and policy observers contend that the process of globalization will continue to accelerate and will in fact benefit China more than many other economies that are less export-oriented and less competitive. Poland is still in the process of building a mature competitive and entrepreneurial market system, which China is in the process of perfecting. Poland's huge and growing trade imbalance with China is now posing an enormous challenge to the economic performance of the country buying more goods than it is capable to sell. Sovereign debt of Poland, which also grows rapidly, poses a threat to its economy, while limited innovative solutions, such as creation of Special Economic Zones, (SEZ) are occurring at a rather slow pace in Poland in recent years.

Throughout the world, new technological and economic forces are breaking down the walls of national borders. As the decade of the new millennium unfolds, new prospects - most notably in trade - in key facets of international politics are tightly interwoven, bringing the global world closer. With Poland and China having relatively close economic ties and being both

---

Mark M Michalski, is an Associate Professor at the University of Maryland, University College, and World Bank Consultant in Washington DC

[1] As early as Aug.15 2010 The New York Times has reported: "*China* passed Japan in the second quarter to become the *world's second-largest* economy"; www.nytimes.com/2010/08/16/business/.../16yuan.html

[2] Until the recent decade, or so, China was still steeped in the concepts, ideals and ideology of a planned economy, while more than three decades ago a serious push for reforms began - in 1978. The country is advancing economically, becoming a global exporter of goods and a global consumer of scarce resources. Thus, China poses a challenge not only to the world's leading economies such as the US and Japan but also the EU as a whole. Moreover, many emerging African and Latin American economies, find both soft credit and "free" aid highly attractive. China's trading system though somewhat shackled by its ideologically-controlled centrally planned praxis is becoming a tool to access new markets and explore new lucrative sources of increasingly scarce resources.

members of the World Trade Organization (WTO) -- basic measures are in place towards managing more prudently multilateral responsibilities. Thus, the WTO provides the most comprehensive guarantee for consistent and uniform international trade policies, which are best to be found within the rules of its modern multilateral system. This article addresses the issues of trade relations and presents the growing importance of trade relations that can potentially benefit both countries.

Trade: Opportunities Riding on Dangerous Wind

The rapid economic integration of China and Poland in the world economy is changing trade and investment flows in important ways, thus presenting both challenges and opportunities. Though the recent global recession had a substantial adverse impact on both Poland's and China's economies as external demand fell sharply from the late 2008 and 2009, recent trends show a clear and healthy rebound. The Chinese Government's response to expansionary fiscal and monetary policies, including Y4 trillion (13% of 2008 GDP) stimulus package, helped China's economic growth to rebound and made an important contribution to global recovery elsewhere, particularly in the Asia region[3]. The global economic crisis has reinforced China's determination to transform its pattern of economic development, including structural diversification, improving the functioning of the domestic capital market and strengthening social safety nets for the population. As the Government pursues forward-looking policies to increase the role of domestic demand in underwriting China's growth and to encourage the expansion of the services sector, further liberalization of the trade and investment regimes is called for to foster competition and achieve more efficient allocation of resources in the economy.

The Trade Policy Review (TPR)[4] - an official publication of WTO – in its 2009 issue covered a range of aspects of China's trade policies and practices. It was based on reports by the WTO Secretariat and the Chinese Government as well as an extensive and detailed exchange of views between China and other WTO members. There is a widespread recognition of China's constructive role in resisting protectionist pressures and boosting global demand during the recent economic downturn. There is appreciation for China's stepped-up involvement in South-South trade and its duty-free scheme for imports from less developed countries. Acknowledgement that China has continued the gradual liberalization of its trade and investment regimes, and property rights commitments "although several members felt that this had slowed down compared to its pace in earlier years" - stated a recent official press release.[5] Among the numerous and detailed issues the TPR noted the following salient examples:

- the importance of China continuing to improve the transparency of its trade and investment policies and practices, building on current efforts to review, revise and amend its trade and trade-related laws;

[3] PRESS/TPRB/330, http://www.wto.org/english/tratop_e/tpr_e/tp330_e.htm,

[4] Trade policy Review, China: Restructuring and further trade liberalization are keys to sustaining growth, June, 2010, http://www.wto.org/english/tratop_e/tpr_e/tp330_e.htm

[5] www.ustr.gov/about-us/press-office/press-release/2010/december/

- the need for the Government to continue reducing regulatory and other barriers to trade, especially customs procedures, technical regulations and standards and certification practices, import licensing, and export restrictions;
- the benefit to China and to foreign suppliers of faster liberalization of China's services industries, such as banking, insurance, telecommunications and postal services, including the lifting of foreign investment restrictions and the adoption of more international standards in these industries;
- the importance of China respecting Agreements on Procurement, given the increasingly important role that government procurement plays in China's economy.[6]

Transparency and Trade Facilitation Prospects

For any country with a serious implementation of economic policy, transparency of trade policy is a critical aspect of a successful trade reform agenda. This is especially true with regard to global trade integration. As a principle, transparency can be applied to a range of policies. The relative impact of transparency in trade has not however been assessed in a comprehensive way neither in Poland nor in China.

Defining Transparency

Many economies across the world have enjoyed considerable success in liberalizing "traditional" trade policy measures such as tariffs and quotas, especially in the WTO context. Even though there is still much to be done in this area, trade liberalization efforts focus on key policy measures that reduce transaction costs[7].

Transparency is an important aspect of trade facilitation, as it is not only the restrictiveness of policies that matter for bilateral trade but also the way in which those policies are designed and administered. However, transparency is a broad concept that is difficult to measure in its entirety. In order to benchmark recent progress and identify priorities for future reforms, two crucial aspects of trade policy transparency - predictability and simplification – play particularly important roles. Making trade policy more *predictable* reduces uncertainty, and therefore transactions costs, for doing business. Possible policy reforms along this line cover both the design and administration of trade policy in all its various aspects, including:

- Binding tariff rates through the WTO;
- Making import and export delays less variable;
- Lowering uncertainty surrounding unofficial payments; and

[6] http://www.wto.org/english/tratop_e/tpr_e/tp330_e.htm,

[7] The concept of transaction cost has been at times attributed to Ronald Coase, who was awarded a Nobel economic prize in 1991. The idea was first introduced by the institutional economist John R.Commons (1931). He stated that "These individual actions are really transactions instead of either individual behavior or the "exchange" of commodities." Actually, transaction cost concept became most widely known through Oliver E. Williamson's *Transaction Cost Economics*. Transaction cost economics is used to explain different behaviors. Often this involves considering as "transactions" not only the obvious cases of buying and selling, but also interactions, informal gift exchanges, etc. Oliver E. Williamson was awarded the 2009 Nobel Prize in Economics.

- Reducing favoritism in administrative decision-making.

Simplifying trade policy makes it easier, and therefore less costly, for importers and exporters to identify, assess, and comply with regulations. It also helps civil society groups and government agencies conduct detailed assessments of the benefits and costs of particular policy measures, thereby reinforcing a cycle of evidence-based policymaking and efficient regulation. Possible reforms to simplify trade policy include:

- Streamlining documentary requirements for import/export transactions;
- Reducing the number of border agencies with which firms must interact.

In general terms, China and Poland perform relatively well in the context of trade policy transparency as compared with some other countries. Moreover, performance in terms of trade policy transparency is quite heterogeneous and transparency not only brings direct economic benefits, it also reinforces trade facilitation within the multilateral context. Empirical analysis suggests that reform in areas of trade barriers and unofficial payments has considerable potential to raise intra-regional trade. [8]

Public procurement in Poland and China

Allen & Overy was one of the first international legal practices to open an office in Poland in 1991. Since then, they have developed into a leading practice in all core groups for a number of large-scale transactions. According to the Allen & Overy, reforming public procurement rules is of paramount importance for streamlining them with the EU requirements. In recent years Poland and China have made significant efforts to comply with the EU regulations. After becoming an EU member in 2004, Poland has adopted all statutes, and China has closely followed the regulations to penetrate the market it vies. Allen and Overy considers that "public procurement has played a key role in the creation of the European single market. It is designed to ensure healthy competition between suppliers and value-for-money for purchasers, as well as to prevent discrimination or the favoring of "national champions". Non compliance with the rules can have very serious commercial consequences." [9] To address public procurement issues under EU law from the perspective of all those involved in the procurement process it is necessary to prepare suitable strategies for dealing with the rules, and deliver structured advice from the initial commercial assessment to the final award and performance of the contract in a clear, non-biased, transparent fashion. The European Union directive known as "Directive 2007/66", amended the rules on remedies in public procurement[10]. The goal was to

[8] For an excellent treatment of this topic please see: "Transparency & Trade Facilitation in the Asia Pacific: Estimating the Gains from Reform", by M Helble, B Shepherd and J. S. Wilson, mimeo.

[9] http://www.allenovery.com/AOWEB/AreasOfExpertise

[10] Public Procurement Remedies Directive was required to be implemented by Member States by December 2009 for improving the effectiveness of review procedures concerning the award of public contracts. The aim is to restore competition and to create new business opportunities for those economic operators which have been deprived illegally of their opportunity to compete. Direct awards within the meaning of this Directive should include all contract awards made without prior

publication of a contract notice in the *Official Journal of the European Union* create an effective set of remedies in relation to public sector contracts and thereby improving the options for unsuccessful bidders and ultimately ensuring that contracting authorities obtain better value for the money. The Directive 2007/66 introduced a new remedy of "ineffectiveness". National review bodies can render signed contracts awarded in breach of the procurement rules (i.e. without prior transparency and offering the contract out to competitive tender) "ineffective" after their conclusion. Generally a contracting authority found to be in breach would be required to re-tender the contract, in compliance with the procurement rules.

Good procurement practices

According to Allen and Overy legal assessment and the study completed in 2009 on behalf of the EU, contracting authorities and successful bidders are advised to:

- be transparent about the tender process and the reasons for selection, disqualification and award decisions;
- take great care to ensure that contracts are not illegally awarded directly, documenting the reasons why the procurement rules are thought not to apply and a summary of the procurement process;
- watch out for changes during the procurement process and after contract award since "material" changes may trigger the need to re-advertise;
- wait out the 30-day period before commencing work;
- take advantage of a new "safe harbor". Where a contracting authority considers that the procurement rules do not apply, it can issue an ex ante notice expressing its intention to conclude a contract without following the procedures in those rules, without risk of it being rendered ineffective; and
- contractually provide for mutual rights and obligations if the contract is subsequently found to be ineffective.[11]

Direction of Trade between Poland and China

Among Central and East European countries, Poland is China's largest trading partner, both in terms of an overall trade volume as well as import of goods and services. Since 2006 the share of China's exports to Poland has remained at a relatively high - fifth position - after most important European partners such as Germany, Russia, Italy and France. In 2005 total value of Chinese imports to Poland amounted to US$ 5,496.5 million and this was 35.2% more than in the previous year. In the last five years, however, the number of Chinese investments in Poland has risen dramatically, according to Poland's Economy Ministry[12]. Exports of industrial goods have been also picking up. Chinese investors are increasingly interested in Poland because they consider her a gateway to Europe and the EU region.[13] The Chinese invest mainly in automotive

---

[11] Public procurement remedies made more effective, 16 December 2009 at: http://www.allenovery.com

[12]http://beijing.trade.gov.pl/pl/wspolpracadwustronna/article/detail,2985,Wymiana_handlowa miedzy_Polska_i_Chinami_po_I_pol_2009

[13]Ibid.

and electronic industry, aviation, biotechnology, information technology (IT) and telecommunication sectors. In 2010 Polish freight transport railways - PKP Cargo - has initiated talks with Chinese railways about extensive mutual cooperation. According to the Ministry of the Economy, in 2009 Polish exports to China was worth almost .9 billion euro (it increased by 21 percent in comparison with 2008), while import from China were almost **ten times higher** and amounted to over 9 billion euro. Poland exports to China mainly copper, nitrogen, machinery and car parts.[14] Representatives of more than 50 Chinese companies have entered into close negotiations with the leading Polish companies during Shanghai EXPO last year, and actively pursue an open and friendly market, available in Poland.

Poland's largest trade partners with China[15]

Name of Polish Company - Location	Type
ZAKŁADY AZOT SA - PUŁAWY	chemicals
STOCZNIA SA - GDAŃSK	ship
ZAKŁADY AZOTU SA - TARNÓW	chemicals
"CIECH" SA - WARSZAWA	machinery
PACKAGING PAPER SA - ŚWIECIE	paper
ZAKŁADY ZACHEM SA - BYDGOSZCZ	chemicals
ZAKŁADY AZOTOWE SA - KĘDZIERZYN	nitrogen
"CORTEX CHEMICALS" SPÓŁKA Z O.O.	chemicals
ALSTOM POWER SA – WROCŁAW	power

Recent Trade Between Poland and China[16]

Value in € (EURO)	2006	2007	2008	2009
Export from Poland to China	606.9	721.4	866.5	811.3
Import from China to Poland	6169.1	8599.4	11465.9	7998.8

China and Poland signed bilateral co-operation for the export of Polish copper to China and Polish imports of Chinese chemicals. KGHM - Poland's copper giant, which exports a tenth of its production to China, signed a cooperation agreement with the China Mine Metal Corporation, and Poland's Ciech chemical group signed an agreement with the Chinese Sinochem Plastics.

Overview of Chinese and Polish Relations[17]

At the beginning of the 1980s, the Solidarity Trade Union emerged in Poland and the political situation in the country became volatile. China maintained to the USSR that Poland should be able to solve its problems by themselves. After 1981 martial law, China provided Poland with three loans for purchasing meats, and the low-interest loan for buying general

[14] www.thenews.pl

[15] http://www.mg.gov.pl/ Ministry of Economy, Republic of Poland

[16] Ibid.

[17] http://www.polska-azja.pl/2010/02/08/debata-co-z-ta-polska-w-azji-aleksandra-bieniek/

commodities. Both countries showed positive signs of improving relations at the end of the millennium. The vice premiers of the two nations exchanged visits and the foreign ministers met to hold consultations on bilateral relations. The cooperation between the two countries in economy, science and technology, trade and culture and education also showed remarkable progress with a pragmatic approach.

The Sino-Polish relations entered a new historical period in 1989 when drastic changes took place in Poland as a result of the Solidarity Trade Union taking over power which drastically changed the country's domestic and foreign policies. China consistently supported Poland's sovereignty, transcending the differences in social system and continued to maintain and develop trade and cultural relations with Poland.

The two countries' annual trade volume reached nearly US$1 billion in 1986, for the first time, setting the highest record in its history. In 1990, the two sides replaced their clearing-agreements trade with trade by payments in convertible currency. The annual trade volume decreased by almost fifty percent, due partly to the then Polish Finance Minster Leszek Balcerowicz's "shock therapy" and the major economic transformation of the Polish economy. Through joint efforts, the Sino-Polish annual trade volume began to rise again in 1992. By the year 2000, China's trade surplus with Poland reached about US$0.76 billion. Until the end of 1999 China's total investment in Poland was only about US$45 million, ranking it at the 26th position among the countries which had investment in Poland. Poland had only 69 investment projects in China at that time[18].

China and Poland established the Sino-Polish Joint Committee of Scientific and Technological Cooperation. The Committee meets annually to review projects for bilateral cooperation, thus putting the scientific and technological cooperation between the two countries on a legal basis in the form of government agreements.[19] Stimulated by the Sino-Polish government agreement on scientific and technological cooperation, many research institutes and enterprises in each country established direct links for cooperation with their counterparts.

Major institutions monitoring and promoting Poland–China relations are the departments in the Polish Ministry of Foreign Affairs and the Ministry of Economy: Department of International Bilateral Cooperation, the Polish Agency of Information and Foreign Investments (PAIiIZ) and the National Chamber of Commerce (or Krajowa Izba Gospodarcza - KIG). Under the umbrella of KIG, there is a separate Polish–Chinese Chamber of Commerce, established in 2007. PAIiIZ helps investors enter the Polish market with the necessary administrative and legal procedures and is supported by a national network of regional Investor Service Centers (Centrum Obslugi Inwestycji - COI), which work in close cooperation with the voivodships (provincial municipalities) responsible for the regional promotion of geographic and municipal areas. In 2006, during the 12th session of the Polish–Chinese Common Committee for Economic Cooperation, a memorandum concerning mutual promotion of investments was signed between PAIiIZ and the China International Investment Promotion Agency.[20]

The Polish Agency – PAIiIZ - has been closely studying and assessing bilateral trade issues to come up with practical and strategic recommendations. How did China achieve its rapid

[18] www.warsawvoice.pl, Poland's leading weekly in English, covering economics, politics and culture.

[19] www.paiz.gov.pl, provides an up-to-date information on trade promotion and investments.

[20] Ibid.

growth? What have been its key drivers? And, most importantly, what can Poland learn from China's success?[21] Policy makers, business people, and scholars continue to debate these topics, but one recurring theme stands out: special economic zones. The numerous special economic zones (SEZs) that exist and keep multiplying (with industrial clusters) that emerged after China's reforms are without doubt the single two important engines of China's remarkable development. The forerunners of China's expansive trade and subsequent success were SEZs and industrial clusters, which have made crucial contributions to China's overall economic success. The SEZs successfully tested the market economy and established new institutions which became role models for the rest of the country to follow. Together with the numerous industrial clusters, the SEZs have contributed significantly to national GDP, employment, exports, and attraction of foreign investment. The SEZs have also played important roles in bringing new technologies to China and in adopting modern management practices. According to official estimates as of 2009, SEZs (including all types of industrial parks and zones) accounted for about 22% of national GDP, about 46% of FDI, and about 60% of exports and generated in excess of 30 million jobs. [22]

The key experiences of China's SEZs and industrial clusters can best be summarized as gradualism with an experimental approach; a strong commitment; and the active, pragmatic facilitation and concomitant control of the state. Some of the specific lessons include the importance of strong commitment and pragmatism from the top leadership; preferential policies and broad institutional autonomy; staunch support and proactive participation of governments, especially in the areas of public goods and externalities; public-private partnerships; foreign direct investment and investment from the Chinese diaspora; clear goals and vigorous benchmarking, monitoring, and competition; business value chains and social networks; as well as continuous technological learning and upgrading. In addition to the challenges common to special economic zones and industrial clusters, some are specific to one or the other. For SEZs, such challenges include: the diminishing of the preferential policies and privileged status; and the homogeneity problem. [23]

For example, one of China's efforts in Africa that seems to hold great potential is the aggressive development of special economic zones (SEZ) in seven African nations. As stated earlier, SEZ's have been a key component of China's rapid rise, along with that of expanding economy, attracting foreign capital with business friendly policies. China is able to leverage this economic model to create similar investment opportunities not only in Africa but in many European countries, including Poland. China implements very consistently its own plans for SEZ's in

[21] Branstetter, L. and N.Lardy. 2006. "China's Embrace of Globalization." NBER Working Paper 12373, National Bureau of Economic Research, Cambridge, MA, and also: Amiti, M., and C. Freund. 2007. "An Anatomy of China's Export Growth." Paper presented at Global Implications of China's Trade, Investment, and Growth Conference, Research Department, International Monetary Fund, Washington, DC, April 6. http://www.imf.org/external/np/seminars/eng/ 2007/china/pdf/amfr.pdf.

[22] In the early 1980s in People's Republic of China, Special Economic Zones (SEZ) was founded by the central government under Deng Xiaoping. The most successful Special Economic Zone in China, Shenzhen, has developed from a small village into a city with a population over 10 million within 20 years. It has the largest outsourcing industry in Asia. Chinese government gives SEZs special economic policies and flexible governmental measures. This allows SEZs to utilize an economic management system that is especially conducive to doing business.

[23] Foreign Affairs, Jan. 5 2010, "What the West Can Learn From Chinese Investment in Africa" by Deborah Brautigam

Nigeria, Ethiopia, Mauritius, Zambia, along with North African sites[24]. Also in Poland, especially since 2006 there have been appearing more and more SEZs in Kielce, Katowice and south-eastern regions.

China's successfully tried and tested SEZs offer an efficient mechanism for providing employment and rapidly establishing countries as destinations for foreign capital. Citing a UNIDO Report[25] , Brautigam presents SEZ's as "a very promising strategy for industrialization and employment". In China's case, they were a key element of a path of liberalization and integration which has cumulated in 10% GDP growth over the past decade.

Given the major challenges, China has been able to adjust its current development strategy and to move toward a more competitive and sustainable development paradigm. The major directions of current China policy include:

- moving toward a more knowledge and technology-based development model;
- more emphasis on domestic markets and consumption as a source of growth;
- upgrading the SEZs and industrial clusters through innovation and learning;
- further institutional reforms;[26]

It is important to note that China's experience with special economic zones and industrial clusters has been very successful. Poland could learn quite a lot from their recent experience and benefit by mutual cooperation since there are just a handful of SEZs in Poland[27]. While the "China model" offers very useful experiences and lessons for many other countries, it's experience has to be put into context of culture, polity as one of the most fiercely competitive labor markets.

Though the GDP growth in China has declined in 2010 from 10.6% to a still strong 9.5% the composition of growth has shifted. Investment and urban consumption have decelerated, and so have imports. Meanwhile, with exports strong and a broadly unchanged growth pattern, China's overall positive net trade balance has contributed significantly to growth. Figure 1, below describes details[28]. Notwithstanding, China's highly competitive exports have grown rapidly through 2010, continuing to outpace global imports. The expansion of import volumes has slowed alongside investment. China's terms of trade (TOT) are unfavorable in 2009 because commodity prices were rising rapidly while export prices were still subdued. Thus, while in

---

[24] Deborah Brautigam: *The Dragon's Gift: The Real Story of China in Africa*.

[25] http://www.un.org.cn/cms/p/resources/80/1122/content.html; UNIDO Industrial Development Report 2009; "Breaking in and moving up: New industrial challenges for the bottom billion and the middle-income countries", 2009-02-23.

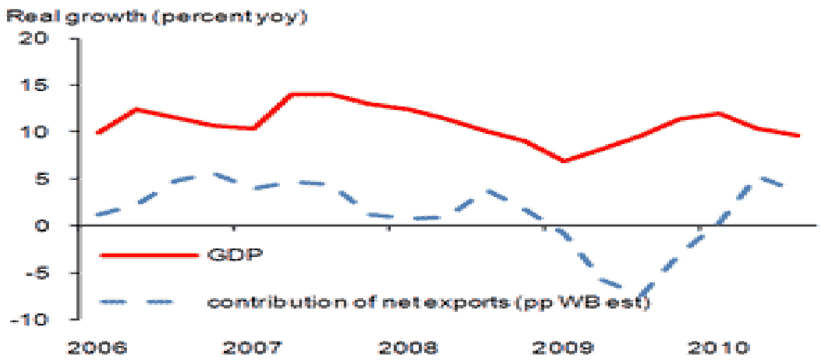
[26] Rebalancing Economic Growth in China, IMF, Jan 24, 2008, lecture by N. R Lardy, Peterson Institute for International Economics, mimeo, SDC, IMF Library.

[27] According to government official data there are little over dozen (14 in all as of 2010) of SEZs.

[28] CEIC Data deliver the most accurate and timely economic, sector and financial data from around the globe, the World Bank utilizes these source widely in its publications and these are also presented in the form of tables.

2009 the trade surplus was US$47.7 billion lower than a year before - in the third quarter of 2010 it was US$ 26.5 billion higher.[29]

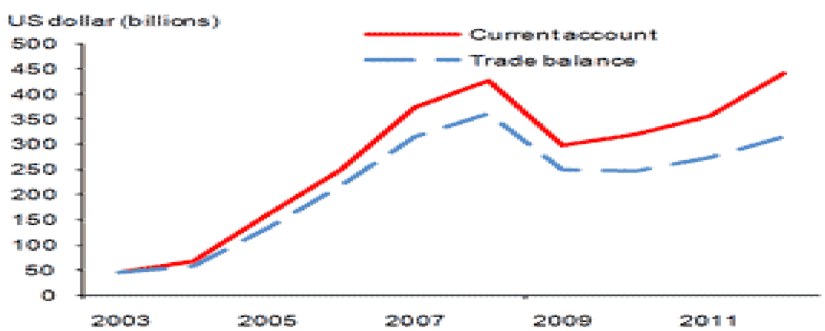
Figure 1. Solid growth with shifting composition



Source: CEIC, World Bank staff estimates

On current trends and policies, the external surplus is to rise in 2011. Export projections conservatively stated will tend to more modest growth in the medium term, or the next 2-3 years. As a result, import growth is somewhat faster than export growth. It also assumes a combination of real exchange rate appreciation, adjustment of prices, and rebalancing towards domestic demand and services. Even so, with exports substantially larger than imports, this still produces a substantial rise in the external surplus in the years ahead (Figure 2).

Figure 2. The external surplus is likely to rise again



Source: CEIC, World Bank staff estimates

The Chinese government authorities are on track to normalize the overall monetary policy and quantitative targets. They have also started to raise interest rates. However, given China's capital controls and the modest role of financial capital inflows in China, these should be more manageable in China than in Poland. The preparations for the 12th 5YP (2011-2015) call for focus on structural issues and reforms. Changing the growth pattern seems rightly as one of

[29] http://beijing.trade.gov.pl/pl/wspolpracadwustronna/article/detail,2985,Wymiana_handlowa_miedzy_Polska_i_Chinami_2009_r.html

the most critical targets. It is reasonable to think that higher wage increases in China in coming years might affect substantially the household income and consumption pattern.

Conclusion

Poland can boast its successful economic transformation, but much less its recent trade performance and procurement reforms. As a nation, China has the good fortune to maintain a surplus of trade (and high savings rate) and thus continues to dominate in the consumer-goods sector. The challenges however remain due to lack of a sufficient range of suitable outlets for their savings. The distortions of the imperfect market may be partly to blame for this and are due to state-dictated, dirigist and authoritarian control of trade policies, foreign exchange regime and centrally administered interest rates. Paradoxically, these dirigist policies help the rise of China as a global supplier of goods, often at the expense of domestic social priorities, and major trade partners. All these have brought about a number of externalities. Most notably, such as high global demand and rise in prices for primary commodities (inputs and through-puts) such as oil, gas, minerals and thereby presenting higher opportunities for the nations able to supply these resources cheaply. Also, it caused certain threats for resource-scarce exporting countries in both domestic and third world markets. Natural resource booms increase national income in resource-rich countries but hurt the competitiveness of their industrial sectors.

The increasing trade cooperation between China and Poland may have displaced some exports in third world markets. China appears to be more able to respond to market signals than Poland and thus is a much bigger competitor than Poland. Export of goods and services from Poland to China grows but gradually. Though China is a vast market area, only 1,110 Polish firms are actively trading with China. In contrast, there are over 15 thousand Chinese firms that export products to Poland[30]. Perhaps it is so not only due to its sheer size, complexity, discipline, and political structure, but also its historically-successful drive to supply inexpensive consumer goods. Also, Chinese have a more consistent and comprehensive pro-export policy than Poland does. Over the years, a shift can be observed in specialization, with labor-abundant resources in China. Poland's trade relations with China therefore are increasingly benefiting Chinese positive balance of payments, as has been shown.

For this trend to bring benefits to Poland in terms of higher revenues through more exports, higher export volume must take place along with more concerted efforts to promote Poland's consumer products to a huge Chinese market. Also consumer export products can increase through lower prices, while greater competitiveness - through lower input prices in manufacturing must become a norm. Wider integration brings increasing competition for domestic producers, sometimes with job losses and bankruptcies if producers cannot withstand the competitive pressures. Competitive pressure increases, no doubt, especially for unskilled and resource-intensive manufacturing and food items. Both Poland and China may benefit from these trends, though the trade as an engine of growth needs to increase in its scope and size - and reach balance more in favor for Poland's volume and value in coming years.

---

[30] http://finanse.wnp.pl/handel-polski-z-chinami

References:

Amurgo-Pacheco, A., and M. D. Pierola. 2008. "Patterns of Export Diversification in Developing Countries: Intensive and Extensive Margins." Policy Research Working Paper 4473, World Bank, Washington, DC.

Amiti, M., and C. Freund. 2007. "An Anatomy of China's Export Growth." Paper presented at Global Implications of China's Trade, Investment, and Growth Conference, Research Department, International Monetary Fund, Washington, DC, April 6. http://www.imf.org/external/np/seminars/eng/2007/china/pdf/amfr.pdf.

Branstetter, L., and N. Lardy. 2006. "China's Embrace of Globalization." NBER Working Paper 12373, National Bureau of Economic Research, Cambridge, MA.

Brenton, P., and R. Newfarmer. 2007. "Watching More Than the Discovery Channel: Export Cycles and Diversification in Development." Policy Research Working Paper 4302, World Bank, Washington, DC.

Buckley, P. J., L. J. Clegg, A. R. Cross, X. Liu, H. Voss, and P. Zheng. 2007. "The Determinants of Chinese Outward Foreign Direct Investment." Journal of International Business Studies 38 (4): 499–518.

Chaney, T. 2008. "Distorted Gravity: The Intensive and Extensive Margins of International Trade." American Economic Review 98 (4): 1707–21

Cheng, L., and Z. Ma. 2007. "China's Outward FDI: Past and Future." SERUC Working Paper 200706001E, School of Economics, Renmin University of China, Beijing.

Rodrik, D. 2006. "What's So Special about China's Exports?" NBER Working Paper 11947, National Bureau of Economic Research, Cambridge, MA.

Smarzynska Javorcik, B. 2004. "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages." American Economic Review 94 (3): 605–27.

Schott, P. 2007. "The Relative Sophistication of Chinese Exports." Paper presented at the Global Implications of China's Trade, Investment, and Growth Conference, International Monetary Fund, Washington, DC.

World Bank. 2005. Global Development Finance 2005: Mobilizing Finance and Managing Vulnerability. Washington, DC: World Bank.