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Will Poland Benefit?

Economic recovery in Poland is a fact. After almost two years of stagnation, the rate of gross domestic product growth reached 3.5 percent in the second quarter of 2003, and the Central Statistical Office (GUS) signals that the results of the third quarter were even better. Undoubtedly, exports are the key driving force behind economic growth in Poland. Meanwhile, the United States reported record-high GDP growth for the third quarter, and the business mood in Germany is also improving. In fact, the cautious projections for economic growth in the world's leading economies in 2004 should be markedly increased.

The question is whether the Polish economy will benefit from the marked recovery in the countries that are Poland's key economic partners. In other words, one needs to answer the question of whether there are conditions to take advantage of the opportunity offered by rapid economic growth in the West.

The answer is not easy. First, the acceleration in export growth in Poland in 2003 occurred as a result of favourable coincident: the zloty has depreciated against the euro, and economic stagnation has led to a shrinking of domestic demand. Consequently, exporters have been given two thrusts at the same time: they received a boost from the weaker currency, and low domestic demand forced them to sell [their goods and services] abroad. Exports calculated in dollar terms rose by 27.1 percent from January to September; in euro terms - they grew by 6 percent, and the volume of exports increased by about 11 percent.

A country with a relatively large domestic market, Poland displays a weak tendency toward exports. In per capita terms, exports from Poland have been low at \$1,300 in 2003; a lower figure has only been reported in Latvia. Therefore, it is obvious that there is a large reserve capacity for export growth, because according to international standards, a country with Poland's economic potential should export much more.

Since the second half of the 1990s, there have been some major changes in the structure of Poland's exports. The importance of low-value-added products is decreasing, accompanied by an increased share of high-value-added products. The share of labor-intensive goods is decreasing, while the share of capital-intensive goods exports is growing. Foreign investors, who previously preferred the domestic market, have now becoming more active in exports. One can even speak of a Polish specialization in exporting automobile parts and other products in the machine industry, in addition to furniture, chiefly thanks to companies with foreign capital involvement.

A big unknown is the Polish economy's capacity for further export growth under the favorable conditions that promise to develop in 2004. In addition to good economic trends, Polish accession to the European Union will create favorable conditions in many industrial activities.

In the 90s, the most favorable development for Polish exports was that the West was overcoming recession, leading to increased demand for lower-value-added products, or producer goods. At the moment, with the more favorable structure of Polish exports - based

on the fact that exports of high-value-added goods are generally more profitable - such an effect is unlikely, and the gap created by Polish exports will be filled by other Central and Eastern European countries. Instead, Poland will have to make the investment efforts needed to increase production capacity in sectors in which export expansion has been particularly successful in 2003.

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