

THE POTENTIAL OF POLISH - TURKISH TRADE DEVELOPMENT

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Abstract

The Turkish – Polish economic relations are based on a partly common history and on a similar strategy of economy development. Both countries have a comparable Gross Domestic Product and foreign trade turnover. The transformation of Polish economy and membership in European Union, create new possibilities for prosperous future economic co-operation between two countries.

Keywords: *International Trade, Poland, Turkey*

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THE CONDITIONS OF TRADE DEVELOPMENT

Poland was not a country of sentimental feelings and respect for tradition in the early years after World War II. Poland was forced to become a member of the socialist countries group that were politically dominated by the Soviet Union. As a consequence, in 1949, Poland became a member of the 'integrating' association of the socialist countries: Council for Common Economic Support /CCES/. Accordingly, as from 14 May 1955, Poland became a member of the Warsaw Pact – the military organization of the above mentioned countries.

As for Turkey, it was a neutral country during the World War II. After the end of the war, it turned into a country related to US political interests, and in 1952, from geo-strategic point of view, Turkey became an important member of NATO. Since 1964, Turkey has been an 'associated' country with the European Economic Community. Hence, in the conditions of rivalry of two adversary political-economic systems after the World War II, Poland and Turkey were put on opposite sides of the 'Iron Curtain'. The political environment did not encourage the development of common trade exchange, and, moreover, the political-social conflicts in Poland in 1968-1989 were making it more difficult. The establishment of the "Solidarity" movement in Poland, and its growing political significance inclined radical changes of the political and economic system in Poland. In 1989, Poland became a free and democratic country

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and started to create a market economy. Similar changes started in other countries of Central and Eastern Europe. The Berlin Wall fell down on November 9th, 1989, the CCES stopped to function on June 21st, 1991. The Warsaw Pact came to an end on July 1st, 1991, and the Soviet Union fell apart on December 8th, 1991.

A free and democratic economic-political system has been initiated in Poland, and it has spread in whole Central and Eastern Europe, creating favorable and of new quality basis for the development of international trade (Rosati, 1998). This is also the case for the Polish-Turkish trade exchange that had no more political barriers. The possibility of its development is due to natural conditions of both parties to maintain common economic cooperation (see Table 1).

Table 1: Turkey's and Poland's Economies in 2006

Details	Poland	Turkey
Area	322,6 ths. km ²	780,6 ths. km ²
Population	38,5 mln	70,4 mln
GDP per capita	8.750 USD	5.088 USD
Export	109,1 mld USD	85,2 mld USD
Import	124,6 mld /USD	120,9 mld USD
Foreign debt	121,5 mld USD	196,3 mld USD
Unemployment rate	14,9%	14,2%
Inflation rate	1,0%	9,8%

Source: Mały Rocznik Statystyczny Polski 2006. GUS. Warszawa 2007

Turkey's area and population are twice as big as Poland's. Both countries have a comparable Gross Domestic Product, which in Turkish case reached 358,2 billion USD, and in Polish case reached 337,0 billion USD. Therefore, the GDP per capita in Poland arrived at 8750 USD per capita and 5088 USD in Turkey. Taking into consideration that the GDP per capita is the best effectiveness measurement method of functioning of economy, in Polish case it is 70% higher than in Turkish case. In 2006 both the countries reached a similar import level of 120,0 billion USD, with a significant difference in 2006 export. Poland reached 120,0 billion USD and Turkey 85,2 billion USD. The advantage of import over export is representative for both countries. However, the advantage is bigger in Turkey. As a result, the foreign debt at the end of 2006 reached the level of 121,5 billion USD in Poland and 196,3 billion USD in Turkey. In 2006, sizes of Polish export and debt were similar, while Turkey's foreign debt was 62,3% higher than its export.

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Therefore, Turkey's financial situation relating to the foreign debt is more difficult than Poland's. Broadly speaking the situation of both countries in terms of foreign trade is similar. Both countries far from fully utilize the opportunities arising from participation in the international division of labor. The shares of both the countries in foreign trade cannot exceed 1%.

In general, the internal economic situation of both countries is comparable. For a couple of years now a similar level of unemployment rate (approx. 15%), as well as level of inflation rate have been a problem in both countries. In Poland, the situation is under control, and in Turkey the inflation has stabilized at the level of 10%.

POLAND'S EXPORT POTENTIAL

In 1989, Poland has undergone crucial economic and social changes. Radical changes had been initiated in Poland's economy: a transformation from centrally planned economy to market economy. In terms of foreign trade, this situation meant definitive ending of state monopoly and launch of the rule of free trade of enterprises, within a system open to foreign trade.

The transformation of Polish economy is an ongoing process. It can be divided into four clear periods that is shown in chart 1 (Kołodko, 2005).

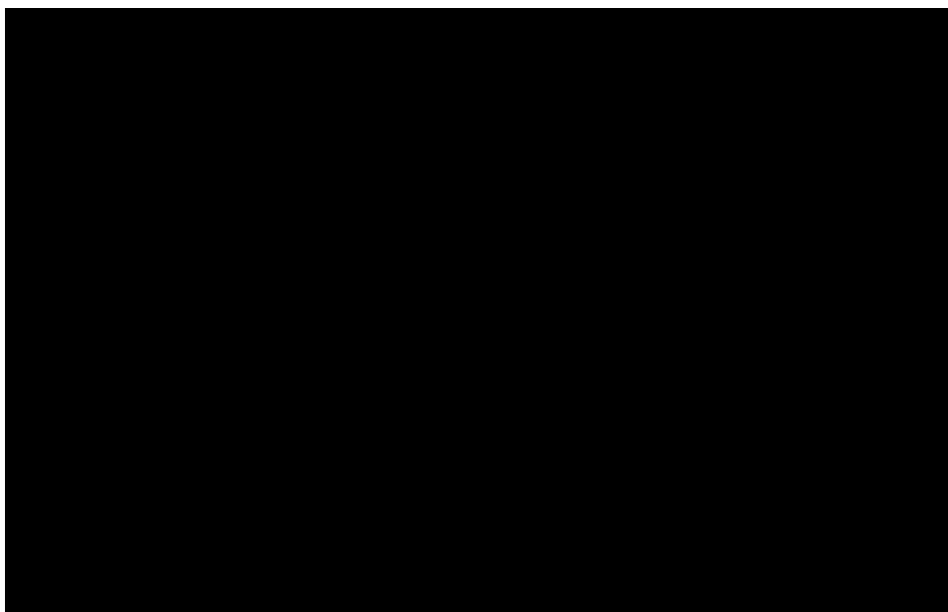


Figure 1: Polish Economic Development 1990-2006

Source: As in Table 2

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The initial period of "shock without therapy" lasted from 1989 to 1993, when the economic reforms were extremely radical. Those reforms included foreign trade. The social and economic costs of transformation were far from the estimations and the effects smaller than expected. In fact, the transformation decline took place in parallel to extremely liberal government policy.

The years 1994 – 1997 represented the implementation of the "Strategy for Poland" government program. An appropriate structural reform policy set Poland on a dynamic growth path. GDP grew at an average pace of 6,4% annually. Inflation fell markedly, together with unemployment and government debt. In 1997 exports reached 25,8 bln USD and imports 42,3 bln USD. The table below shows in detail the dynamic growth of the Polish economy in the whole period 1990 – 2006.

The years 1998 – 2001 were the "cooling down" period in order to decrease inflation and reduce government debt. Achievement of these two goals came at a price, the economic growth rate slowed down markedly to 1% in 2001 and unemployment increased again to 17,4% that year. The pace of export and import growth also slowed down, partly as a result of the Asian and Russian crises. In 2001 exports reached 36,1 bln USD and imports 50,3 bln USD.

Return to a quick growth path and integration with the EU started in 2002. The real prospect of EU membership and access to pre-accession funds gave Poland new and sustainable growth impetus. GDP rose systematically, inflation and government debt started falling. Polish exports grew dynamically to 109,1 bln USD in 2006. Imports that year were at 124,6 bln USD. As a result, the openness of the economy for export coefficient reached 31,2%, while for imports it was 36,3%. These are ratios similar to other EU countries.

A sustained reorientation of the geographical structure of Polish foreign trade took place. The six main countries in Polish foreign trade in 2006 were:

Germany	- 27,2 % in exports	- 23,9% for imports,
Italy	- 6,2 % in exports	- 6,7% for imports,
France	- 6,3 % in exports	- 5,5% for imports,
Great Britain	- 5,7 % in exports	- 2,8% for imports,
Czech Republic	- 5,5 % in exports	- 3,5% for imports,
Russia	- 4,3 % in exports	- 9,7% for imports.

The rising importance of Chinese exports to Poland has to be noted, in 2006 they reached 6,1% with the marginal importance of Polish exports to China.

A stable product structure of Polish foreign trade also developed. This is shown in Table 3.

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**Table 2: Polish Economy Stabilization Factors
in 1990-2006 /in %/**

06	5,8	14,9	1,5	-3,3	-1,2
05	3,2	17,6	2,1	-2,8	-0,9
04	5,3	19,0	3,5	-4,5	-2,2
03	3,7	20,0	0,8	-4,5	-2,7
02	1,4	20,0	1,9	-4,6	-3,8
01	1,0	17,4	5,5	-5,1	-4,1
00	4,0	15,1	10,1	-4,3	-6,3
99	4,1	13,1	7,3	-2,2	-7,5
98	4,8	10,4	11,8	-2,0	-4,3
97	6,8	10,3	14,9	-2,4	-3,0
96	6,0	13,2	19,9	-2,7	-1,0
95	7,0	14,9	27,8	-2,3	4,2
94	5,2	16,0	32,2	-3,3	0,7
93	3,8	16,4	35,3	-3,0	-3,3
92	2,6	14,1	43,0	-6,1	-1,8
91	-0,7	12,2	70,3	-3,8	-3,4
90	-7,5	6,5	585,5	0,4	1,2
Factors	Gross national product	Unemployment	Inflation	National budget deficit	Foreign trade turnover^{x/} balance

x/ wg NBP

Source: As in Table 1

Table 3: Product Structure of Polish Foreign Trade in 2006 (in %)

Details	Export	Import
Food and live animals	8,7	5,3
Mineral resources	2,2	3,0
Fuels and their derivatives	5,4	11,5
Chemicals	6,8	14,3
Industrial goods	22,5	20,8
Machines and equipment	39,1	35,8
Other industrial goods	15,3	9,3

Source: Rocznik Statystyczny GUS. Warszawa (appropriate years)

The product mix of Polish foreign trade is typical for countries at an average level of development (Kotyński, 2006). However the importance of machines and equipment is increasing, while the share of "high-tech" products is almost 3% for exports and 10% for imports. An improvement in the share of "high-tech" products in Polish foreign trade is an important task for the economy. The globalization process of the economy is helping to achieve this task. It is unavoidable. It creates new opportunities and possibilities for the economy, but it also brings additional risks and threats. Polish EU membership has to be seen in a similar light (Kołodko, 2007).

THE DEVELOPMENT OF POLISH-TURKISH FOREIGN TRADE

After the Polish economy stabilized in the new political and economic reality, in 1995 Polish-Turkish foreign trade started growing quickly. This is shown by table 4.

Table 4: The Development of Polish-Turkish Foreign Trade 1995-2006 (in mln USD)

	1995	2000	2001	2002	2003	2004	2005	2006 ^{x/}
Export	74,70	133,07	138,01	255,34	357,76	901,35	1193,6	1400,0
Import	76,60	215,81	399,07	629,28	873,05	1111,08	1300,8	1550,0
Turnover	151,31	348,88	537,08	884,62	1230,81	2012,43	2274,57	2950,0
Balance	-1,92	-82,74	-261,06	-373,94	-515,29	-209,73	-107,3	-150,0

x/ estimation

Source: As in Table 3

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This growth can be divided into three subperiods:

- moderate growth in the years 1995-2000,
- abrupt growth in the years 2001-2004,
- stable growth in the years 2005-2006.

The three sub periods above show that both countries utilized the fact that they both operate in a similar free market reality. Poland signed an association agreement with the European Communities on December 16th, 1991. After ratification by all Member States it came into force on February 1st, 1994. Before this took place, already in March 1992, a "transitional agreement" had been signed which allowed for immediate commencement of the trade chapter of the agreement. As a result, already from 1995 Polish industrial export to the European Communities was free from custom duties and other barriers, with the exception of textile and steel mill products. The liquidation of customs and other barriers proceeded from the Polish side on a reciprocal basis. From 1999 a free trade zone for industrial goods between Poland and European Union started operating. The last barriers on imports from the EU, relating to car imports, were abolished on January 1st, 2002. In the meantime on April 8th, 1994 Poland submitted an official application for EU membership. The negotiations officially started in March 1998. On March 12th, 1999 Poland became a member of NATO. On May 1st, 2004 Poland together with nine countries became an official EU member. As a result the evolving institutional framework for Polish actions in a unified Europe creates favorable conditions for the development of Polish-Turkish economic cooperation.

As a result, in the period 1995 – 2000, foreign trade doubled, Polish exports grew by 78,1% and in 2000 it was valued at 133,1 bln USD, with Polish imports from Turkey growing by 181,7% and reaching 215,8 bln USD.

From 2001 an abrupt increase in Polish imports from Turkey took place. In 2004 imports were valued at 1.111,1 mln USD and it was over five times larger than in 2000. Polish exports to Turkey also grew markedly, although not at a similar pace. In 2004 exports grew by 151,9% and reached 901,4 bln USD.

Since 2004 trade between Poland and Turkey have continued to increase, but at a decidedly slower but more stable pace. Polish exports to Turkey grew by 32,4% in 2005 and 17,1% in 2006. Polish imports from Turkey grew by 17,1% in 2005 and 19,2% in 2006. One can say that the average growth of Turkish exports to Poland decreases, while the pace of Polish exports to Turkey increases.

During the same period the negative tourist exchange balance for Poland remains. In the future this can turn out to be a barrier for further developing mutual economic cooperation.

It is worth noting that data from the Turkish Statistic Institute differs a lot from Polish data. According to Turkish data, turnover in 2005

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amounted to 2 067,2 mln USD, and Polish export to Turkey amounted to 1 238,5 mln USD, and import from Turkey to Poland amounted to 828,7 million USD. One of the reasons for this is that the products bought primarily to German market are being re-exported to Poland afterwards. Turkish community in Germany is a broker in trade with Poland.

Turkey is Poland's main partner from the region of Middle East and Asia. According to final data for 2005, export to Turkey placed this country on the 19th position (1, 32% share) among all beneficiaries of Polish products. As for import, Turkey is placed on the 20th position with 1,29% share. In turn, according to Turkish data, Poland is the 8th supplier among EU Member States, and Polish share in Turkey's import from the new Member States amounts to 33,1%.

The structure of Polish export to Turkey in 2001-2006 was steady. The products that dominated that export included: machines and appliances, base metals, mineral and chemical products, synthetic materials, paper and textiles.

In 2005 the main product groups in Poland's export to Turkey according to share size included:

- mechanic and electric appliances (36,8%), including mainly engines, kinescopes,
- vehicles, aircrafts, vessels (34,6%), and mainly cars,
- basic metals and base metals products (6,7%), including mainly scrap-iron,
- chemical industry products and similar industries products (5,9%), including octanol, and cosmetics,
- nutrition (4,0%), including mainly cigarettes, chocolate and chocolate products,
- basic chemical products and their derivatives (3,7%), including mainly polyvinyl chloride and tires.
- mineral products (2,5%), including mainly coal.

During the last years, the structure of four product group has been maintained; moreover, the first three product groups noted a stable growth of delivery value. Nutrition, mineral products, plant-made products, leather, and leather-made products, shoes and hats were the groups of products that noted growth.

In 2005 the main product groups in Poland's import from Turkey according to share size included:

- textiles (27,3%), including cotton, chenille, t-shirts,
- mechanic and electric appliances (24,9%) including mainly: engines parts, and TV-sets appliances,
- vehicles, aircrafts, vessels (20,9%), including mainly trucks and car spare parts.

The product structure in Poland's import from Turkey is very stable and rather not diversified.

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In 2006, the main Poland's exporters to Turkey included the following enterprises:

- | | |
|--|---------------|
| • Volkswagen Poznań Spółka z o.o. | Poznań |
| • "Fiat Auto Poland" Spółka Akcyjna | Bielsko-Biała |
| • Thompsom Multimedia Polska Spółka z o.o. | Piaseczno |
| • General Motor Manufacturing Poland Spółka z o.o. | Gliwice |
| • Thompson Disprays Polska Spółka z o.o. | Piaseczna |
| • "Sews-Polska" Spółka z o.o. | Garwolin |
| • "Altadis Polska" Spółka akcyjna | Radom |
| • "Węglokoks" Pólka Akcyjna | Katowice |
| • "CNH Polska" Spółka z o.o. | Płock |
| • Mittal Steel Poland Spółka Akcyjna | Katowice |

Polish investors active in the Turkish market some time ago, have started to revive their interest in the energy sector, gas and petroleum sector and mines. The RAFAKO company has started the renovation and is a supplier of the equipment for the Tunchilek power station. Another company - "Poltegor Projekt" has been qualified to take part in the competition for a project of the Afsin-Elbistan B coal mine.

Regarding rail supplies for the Turkish railways, the "Centrozap" company is interested in Turkish market. As for interest in the renovation of the Sayitomer and Soma power station, a consortium of Polish ELWO and Turkish Nurola are the potential candidates. The PKN Orlen company together with the Zorlu Group was one of the five syndicates taking part in the auction for the purchase of 51% of the Turkish refinery TUPRAS. PGNiG together with five other firms is taking part in the negotiations concerning completion of the Nabucco project that aims at constructing gas main (transporting gas from Iran and Turkmenistan through Turkey to the EU).

THE PERSPECTIVES OF FURTHER COOPERATION

As a result of Poland's membership to the EU, and formal Turkey's deepening of the integration process (candidate status), a dynamic increase in trade exchange has been noted. According to the analysis of the Turkish economy, the Polish companies should focus on the export of machinery, appliances, and spare parts for the electric machines and automotive industries. Moreover, Turkey's chemical industry, plastic and packages production are based in majority on imported equipment. Therefore, Polish companies should attempt to sell technical products and technologies such as medical equipment or other market niche products. As Turkey is recognized as one of ten major rising building markets, the sales of constructional products should be developing in the Turkish market. The food retail sector is emerging, despite the domination of the local food products.

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A common economic cooperation could be set in motion through:

- vitalization of small and medium enterprises, cooperating in different sectors in both countries what would lead to enlargement of volume and diversification of the trade exchange structure;
- undertaking common economic activities based on joint-venture in Poland, as well as in Turkey, and on the third countries markets, especially in Iraq and Commonwealth of Independent States;
- cooperation in maintaining the activity, modernization and eventual expansion of already existing power stations in Turkey, as well as participation in new investments in other sectors such as: automotive industry, food processing, shipbuilding industry, military, metallurgic, chemical industries, environment protection, tourism, etc;
- participation in modernization and construction of the transport infrastructure in both countries, meaning: constructing the gas and oil pipelines, highways, tunnels, bridges and harbors, and modernization of railways.

An unfavorable factor influencing the competitiveness of Polish export proposal in the Turkish market is big supply of products from the Far East (China, Taiwan, South Korea, Japan). Moreover, the price competitiveness of Polish export is worsening due to the strengthening of Polish zloty /PLN/ in comparison to Euro and US Dollar, what is shown on Table 5.

Table 5: Changes in the Polish Zloty Exchange Rate in Comparison to Euro and USD in 1995-2006 ^{x/}

Lear	1995	2000	2001	2002	2003	2004	2005	2006
PLN/1	-	-	-	3,591	4,398	4,534	4,025	3,870
Euro								
PLN/1	2,42	4,35	4,09	4,08	4,02	3,65	3,26	3,05
USD								

x/ yearly avarage rate

Source: Personal study based on the Polish Central Bank's Annual Report. Warsaw. (respective year-books).

The process of strengthening of Polish zloty in comparison to both currencies is directly linked to good results of Polish economy, especially after Poland's accession to the EU. This fact has stabilized the Polish economy and influenced the increase of its stability and credibility (Jeliński, 2003).

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Poland's accession to the European Union enabled Polish citizens to profit from the mobility right within the EU. Due to high unemployment rate and relatively low wages, a significant migration of young and well educated employees occurred. This caused the first signs of deficit of employees in some professions. Moreover, this situation inclined a general pressure on the growth of average gross wage in industry, and subsequently in other sectors of economy. This is confirmed in data placed in table 6. This data reaffirms the growth of average monthly gross wage in Polish industry sector by 37,2% in 2006 in comparison to 2003.

Table 6: The Growth of Average Monthly Gross Wage in Polish Industry Sector in Years 1995-2006

Year	Average monthly gross wage in industry sector /in PLN/
1995	758,70
2000	1942,37
2001	2074,69
2002	2141,84
2003	2206,47
2004	2363,67
2005	2515,85
2006	3027,51

Source: Personal study based on the Polish National Bank's Annual Report. Warsaw. (respective year-books).

Rather highly charged wages at the level of 50% of their gross value are an important element of worsening of the cost-price competitiveness of Polish export. That means as well a bigger opening of Polish economy to different forms of international cooperation that allow to minimize the pressure on the growth of costs and prices in Poland. As a consequence this situation leads to worsening of international competitiveness (Weresa, 2006).

Poland's membership in the EU influences positively further development of Polish-Turkish economic cooperation. As a consequence common liberalization of trade exchange between both the countries might be an indicator of its prospective growth.

During the next years a big influence on the access to the Turkish market will have Turkey's negotiations with the EU that were started on 3 October 2005. The adoption by Turkey of the EU *acquis communautaire*

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signifies for Turkey the resignation of several barriers, what improves the access of EU, including Polish products to the Turkish market.

The access of imported industrial goods to the Turkish market is regulated by the Customs Union agreement between Turkey and the EU. Poland is a member of the customs union since May 1st, 2004. Its general rule is the abolishment of customs duties in bilateral trade. Separate rules apply in the area of agriculture products and processed food products. Quotas are set for certain product groups.

In 2005 52,4% of Turkish exports and 42,2% of Turkish imports were attributed to the EU, however only 3,4% of exports and 3,2% of imports went to the 10 new member states. This means that there are further opportunities for developing trade between Poland and Turkey. This can clearly be seen from the Additional Protocol to the Ankara Agreement between EU and Turkey regarding the customs union and the Council Conclusions from December 11th, 2006. The Council concluded that new negotiation field will not be open until the European Commission verifies the fulfillment by Turkey of the Additional Protocol. These obligations included enlarging the customs union by Turkey to include the New Member States.

The biggest opportunities for developing Polish-Turkish economic cooperation should be associated with EU membership. The exact timing of Turkish EU membership is hard to define, but it is a real possibility. The internal EU discussion on the future of enlargement that took place at the end of 2006 defined that the enlargement strategy is set on three pillars: cohesion, conditionality and social communication. These pillars combined with the readiness of the EU to accept new members are the basis for agreement on this issue in the EU (Nowak & Stępnik, 2003).

The EU as well as Poland itself point to the positive influence of the enlargement policy on strengthening economic growth, democracy, human rights on the international arena. Strengthening the integration capacity of the EU must be ensured through fulfillment of the accession criteria by any potential new members and guaranteeing the efficient functioning and development of the European Union.

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