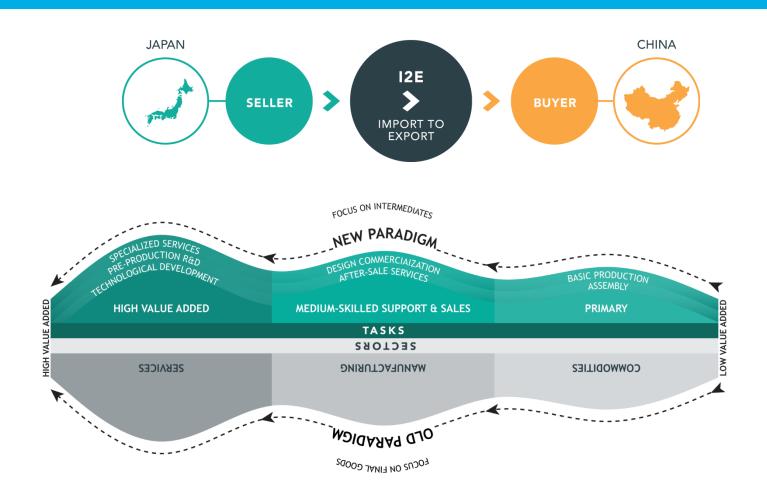
POLAND'S INTEGRATION AND ECONOMIC UPGRADING IN GLOBAL VALUE CHAINS

World Bank Group



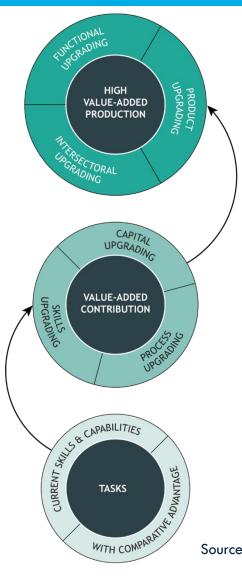
WHY UPGRADING IN GVCS MATTERS?

What is new in GVCs?





Why upgrading in GVCs is important?



Economic upgrading in GVCs via better

- skills and know-how
- capital and technology, and
- processes

allows to achieve **higher value-added production** in the form of

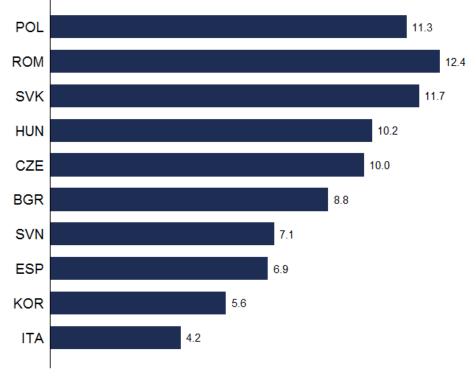
- product upgrading
- functional upgrading, and
- intersectoral upgrading.



POLAND'S POSITION AND ECONOMIC UPGRADING IN GVCS

Poland's increased participation as a buyer of foreign value added has been stronger than as a seller of value added, nevertheless considerable upgrading has taken place

Upgrading measured as growth of domestic value added embodied in gross exports, 1995-2009 (CAGR) Total economy



Source: World Bank (2015).

At the **sectoral level**, annualized growth rates were...

...highest in:

- Electronics (20.3%)
- Automotives (18.1%)
- Machinery (17%)

...less pronounced in:

- Chemicals (13.8%)
- Agribusiness (13.1%)

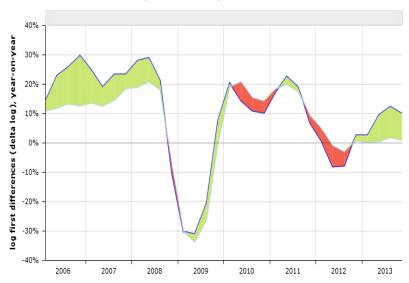
...lowest in:

- Basic metals (9.8%)
- Other industries
- Financial sector (-1.7%)

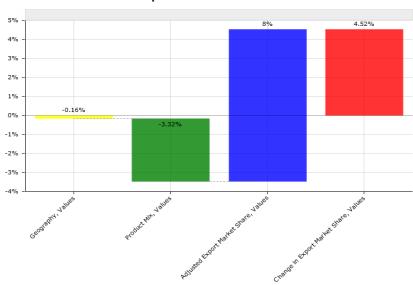


Poland experienced significant gains in global market shares, driven by supply side improvements in export performance.

Export growth and export market shares, Poland, 2005-2014



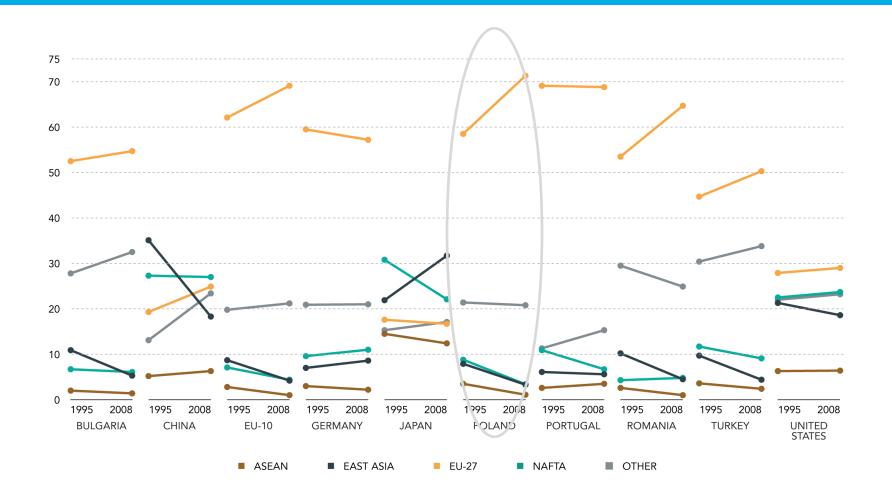
Decomposing export market shares, Poland 2005-2014



Source: "Measuring Export Competitiveness" database: www.mec.worldbank.org, based on methodology by Gaulier, Santoni, Taglioni and Zignago (2013)

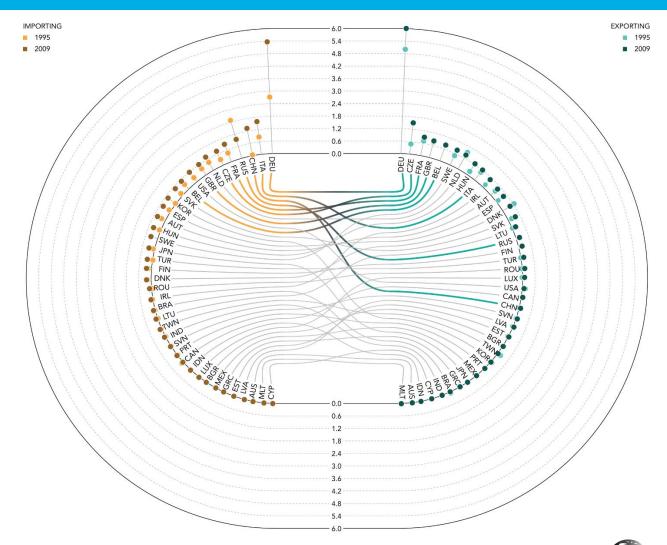


Integration with the EU27 has greatly increased.



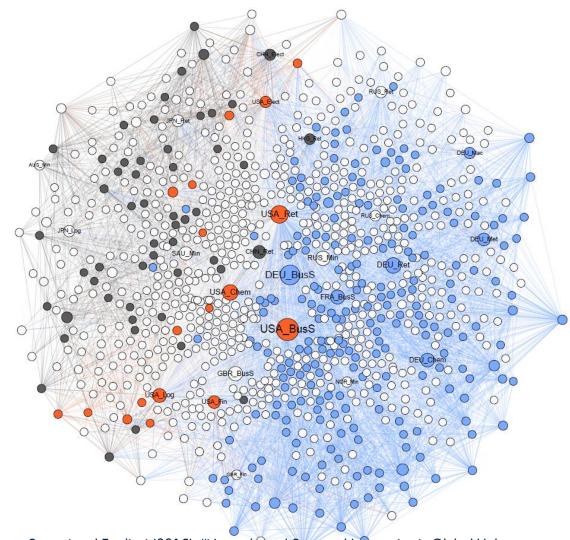


Poland's sourcing and selling patterns haven't changed much over the period 1995-2009.





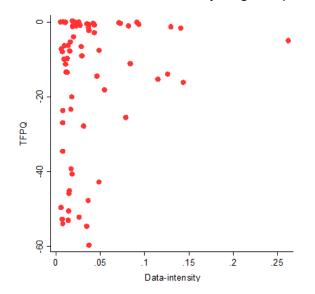
Being well integrated with the supplier network is what matters most. Being close to demand is also relevant but to a lesser extent





Scope for additional economic upgrading

- Poland's exports are closer to final demand than its imports, implying scope to grow its domestic value added along the chain or by moving exports closer to the final consumer.
- There is stronger potential in Poland for manufacturing export growth by enhancing the domestic contribution of upstream sectors. This is in line with previous slide
- Services exports stimulate domestic value added growth more strongly than manufacturing exports,
 - ICT is a strategic sector with strong upgrading potential
 - And data intensity correlates positively with TFP growth, at both the sectoral and firm level (Taglioni and Van der Marel – work in progress)





Aerospace and ICT are two strategic services sectors with potential to drive economic upgrading in GVCs.

Services that act as essential enablers in the geographic dispersion of GVCs include:

- ICTs reduce coordination costs, enable better supply chain management and logistics, counter the effects of geography (proximity, agglomeration, congestion);
- High-quality professional, technical, and financial services value addition through differentiation and customization.

Success stories in Poland:

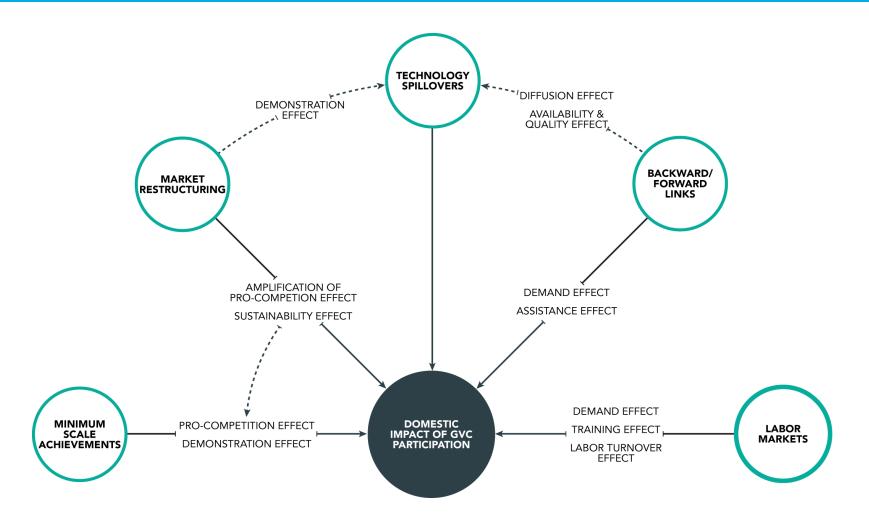
- The software and business process outsourcing of Poland's ICT sector: For example, a speech synthesizer called Iwana recently sold to Amazon, and Intel has been supporting the development of other ICT startups;
- The Poland plant of General Motor's is taking on more of GM's global services activities.

Poland's advantages include:

- High language skills;
- Attractive for higher-skilled services jobs.



National characteristics and absorptive capacity matter for upgrading





Infrastructure and innovation capacity are shown to present a challenge for Poland Infrastructure: rail investment has a positive mediating effect on the sellerside of GVCs in Poland and peers, while infrastructure investment, value of air cargo, and road investment have **FOCUS AREA OBJECTIVES** STRATEGIC QUESTIONS POLICY OPTIC a negative mediating impact, pointing to possible low quality of these WHICH TASKS? dimensions. CREATING WORLD-CLASS GVC - How can tasks be identified? - Attracting the "right" foreign investors - Which form of GVC participation? - Jump-starting GVC entry through creation of - Which risks? EPZs ATTRACTING - Helping domestic firms find the "right" trade **ENTERING** FDI & FACILITATING WHICH FORM OF GOVERNANCE? **GVCs** DOMESTIC FIRMS' partner abroad - Which form of governance between lead firm & **ENTRY INTO GVCS** - Improving connectivity to international markets suppliers? - Which power relations? ICT and business services sector: - Which foreign firm & country characteristics GVC participation as a buyer in the mediate spillovers? **CREATING A WORLD-CLASS CLIMATE FO FOREIGN TANGIBLE & INTANGIBLE ASS** ICT and business services sector has a lower impact for Poland and - Ensuring cost competitiveness peer countries' ability to increase - Improving drivers of investment WHICH TRANSMISSION CHANNELS? domestic value added compared to - Improving assets protection PROMOTING - Improving domestic value chains & qualit the rest of the country sample and WHICH TYPE OF ECONOMIC UPGRADING? **ECONOMIC** infrastructure & services also compared to other sectors; WHICH TYPE OF DENSIFICATION? **UPGRADING &** this points to a strong potential for DENSIFICATION WHICH FOREIGN FIRM & COUNTRY Polish economic upgrading in ICT **EXPANDING &** CHARACTERISTICS MEDIATE SPILLOVERS? STRENGTHENING GVC-LOCAL ECONOMY STRENGTHENING LINKS ON THE BUYER'S & SELLER'S SIDES GVC **PARTICIPATION STRENGTHENING** WHICH TRANSMISSION CHANNELS? Innovation: positive impact of R&D DOMESTIC FIRMS' STRENGTHENING ABSORPTIVE CAPACI WHICH DOMESTIC FIRM CHARACTERISTICS intensity for Poland and peers -**ABSORPTIVE** MEDIATE SPILLOVERS? - Maximizing the absorption potential of CAPACITY while the results of other types of actors to benefit from GVC spillovers innovation policies are less certain. - Fostering innovation & building capad It may be indicative of a lower - Complying with process & product sta overall innovation capacity in these - Bundling tasks WHICH RELATIONSHIP BETWEEN countries, and is consistent with ECONOMIC UPGRADING, SOCIAL PROMOTING evidence from the field. **UPGRADING, & SOCIAL COHESION?** SOCIAL **UPGRADING &** WHICH TYPE OF SOCIAL UPGRADING? CREATING A WORLD-CLASS WORKFORCE COHESION IS THERE A POSSIBILITY OF - Developing skills TURNING GVC DOWNGRADING? - Promoting social upgrading **PARTICIPATION** - Engineering equitable distributions of INTO SUSTAINABLE opportunities & outcomes DEVELOPMENT



TRIPLE BOTTOM LINE APPROACH TO

PLANNING & "DISRUPTIVE THINKING"

WHICH ENVIRONMENTAL MITIGATION POLICIES & INFRASTRUCTURE IS

WHAT BENEFITS FROM ENVIRONMENTAL

NECESSARY?

REGULATION?

ENVIRONMENTAL

SUSTAINABILITY

RECOMMENDED POLICY DIRECTIONS FOR POLAND

Recommended policy directions for Poland

- Strengthen GVC-local economy linkages:
 - Lever investment or other incentives to promote actions that support spillovers.
 - Ensure that support for local content focuses on value addition rather than in-country ownership.
 - Establish a clear and comprehensive framework for supporting the upgrading of domestic SMEs.
 - Supplier development programs should focus on GVC entry of local suppliers and innovation.
- Enhance Poland's absorptive potential and innovation capacity:
 - Establish strategic partnerships for innovation and other absorptive capacities.
 - Develop innovation policy through existing 'smart specializations'.
 - Incorporate firm-level absorptive capacity in foreign investment incentive system.
 - Help domestic firms comply with world-class process and product standards.
- Improve the connectivity and quality of enabling infrastructure and services:
 - Address barriers at the border and within domestic logistic markets.
 - Improve the quality of the domestic transport infrastructure and services.
- Strengthen the ability of services (especially ICT) to facilitate upgrading:
 - Encourage greater engagement with digital services and the EU Digital Single Market Strategy.
 - Enhance the ability of firms to participate in digital markets and ICT-enabled sectors.
- Focus support on sectors promising high value addition:
 - Services exports (e.g. ICT) contain more opportunities to stimulate domestic value added growth.



Thank you

For further information

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