

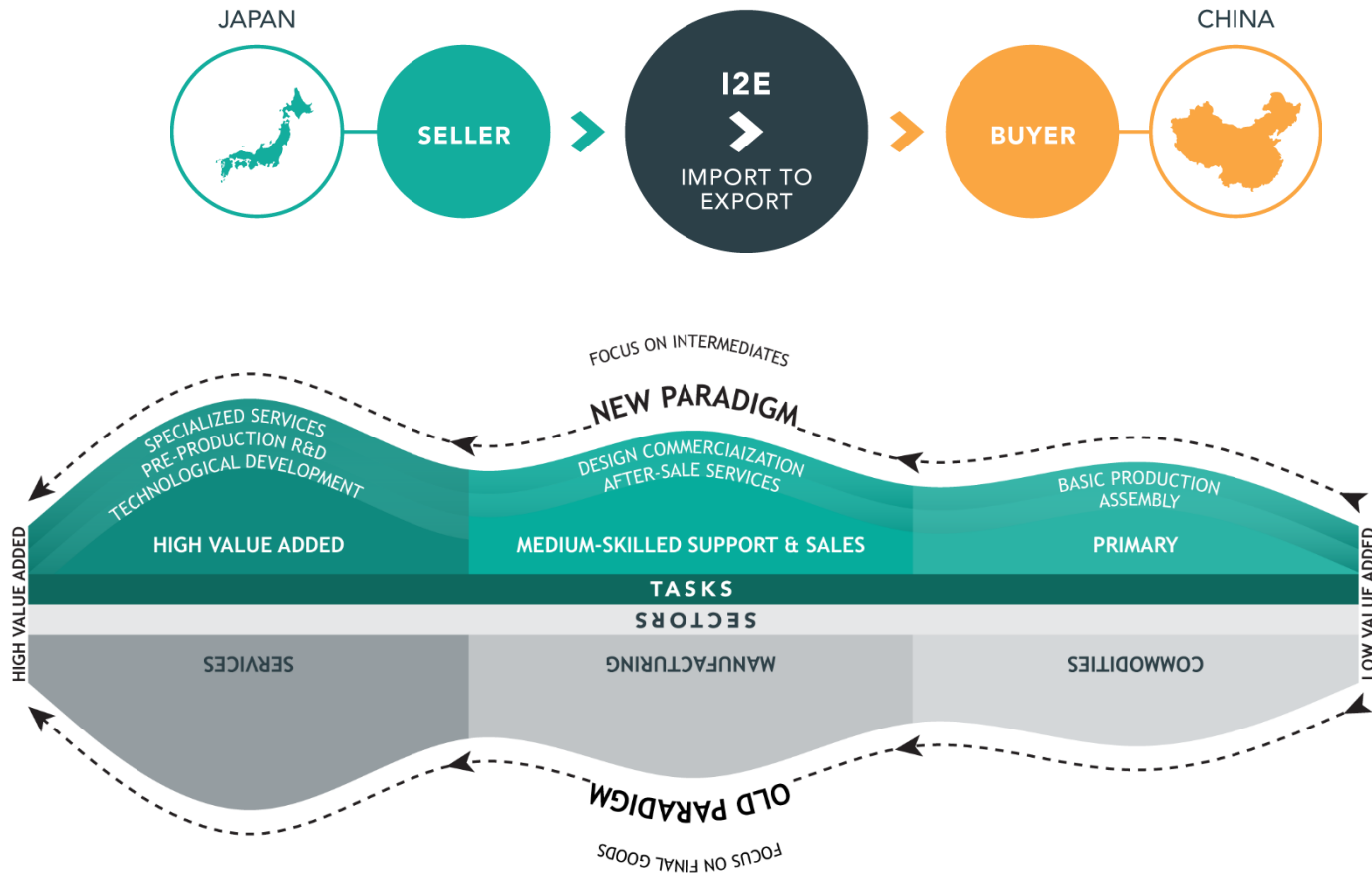
POLAND'S INTEGRATION AND ECONOMIC UPGRADING IN GLOBAL VALUE CHAINS

World Bank Group

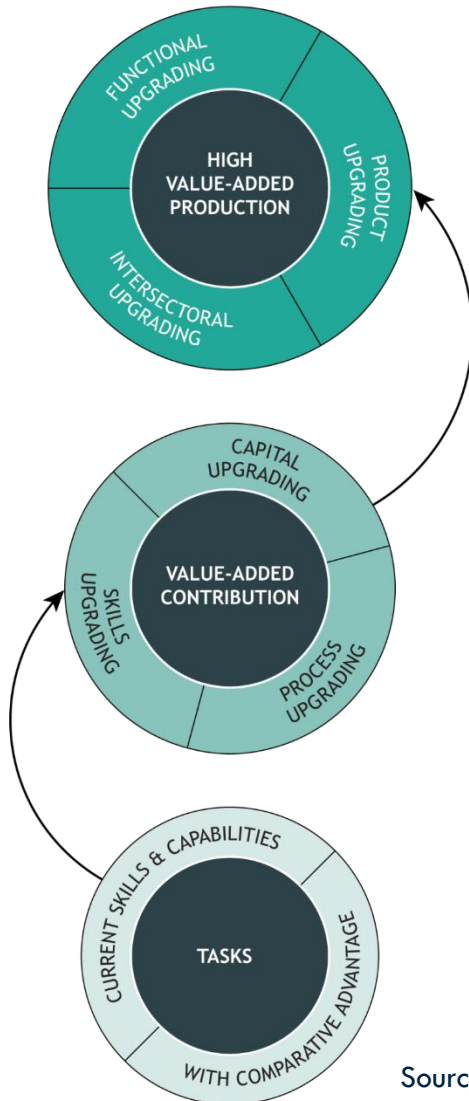
July 21, 2015

**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

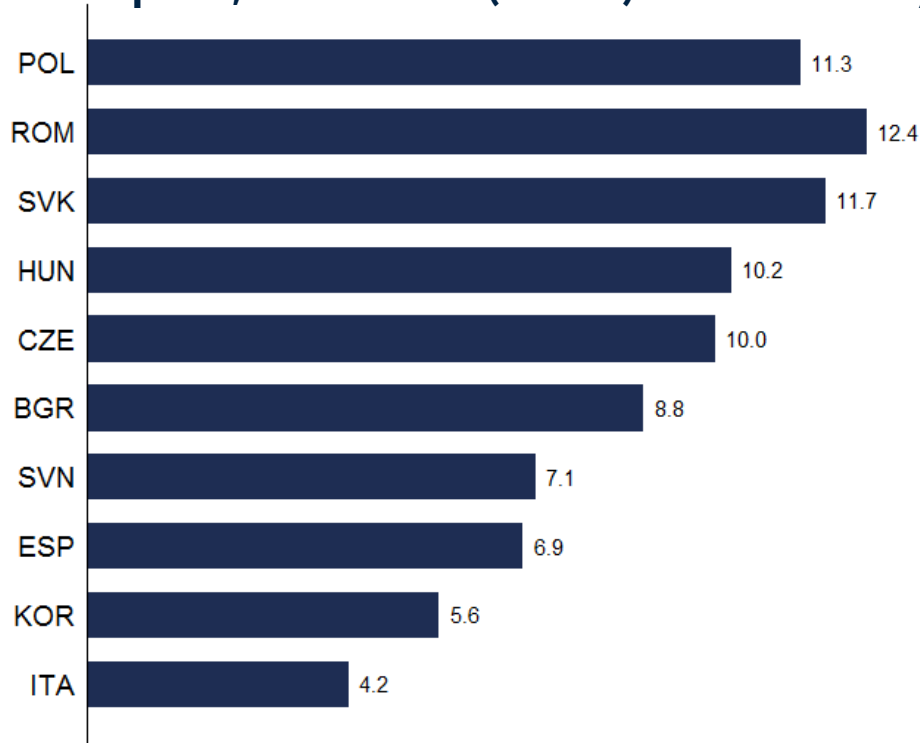
- product upgrading
- functional upgrading, and
- intersectoral upgrading.

Source: Taglioni and Winkler (forthcoming), "Making Global Value Chains Work for Development".

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:

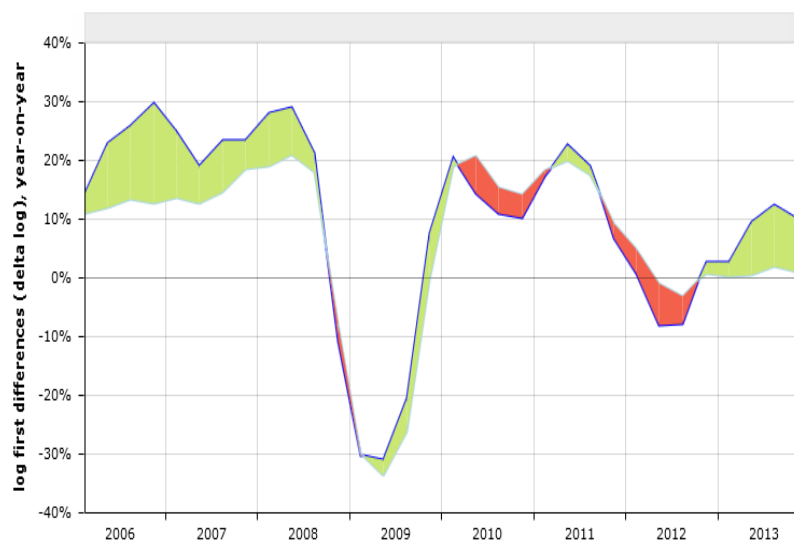
- Chemicals (13.8%)
- Agribusiness (13.1%)

...lowest in:

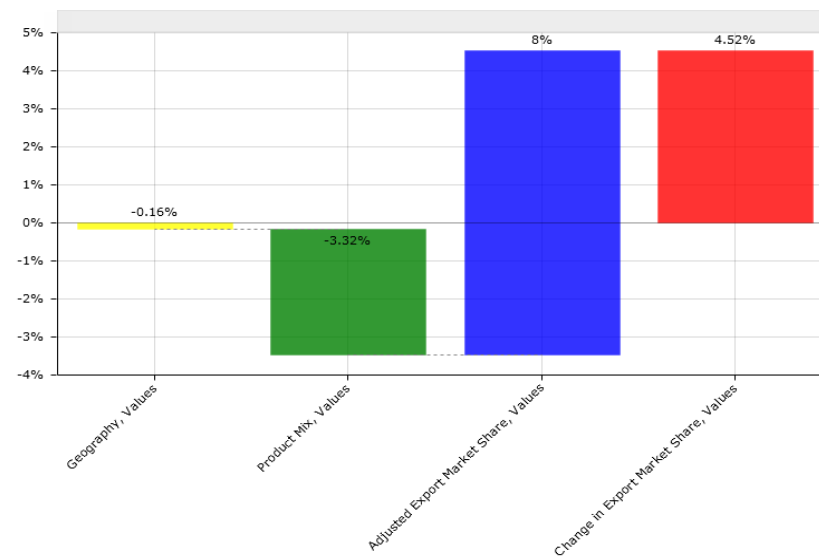
- Basic metals (9.8%)
- Other industries
- Financial sector (-1.7%)

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

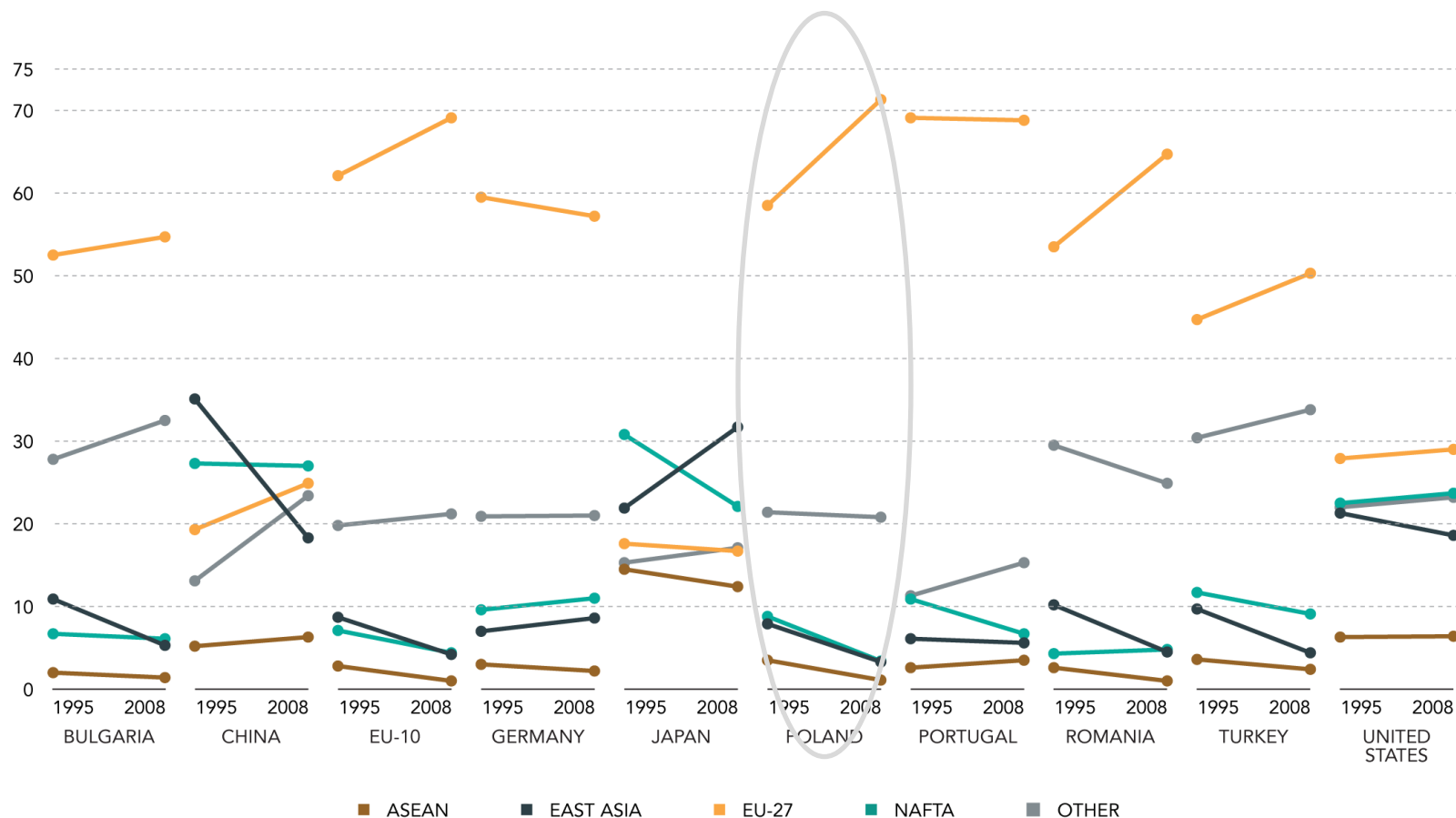


Decomposing export market shares, Poland 2005-2014

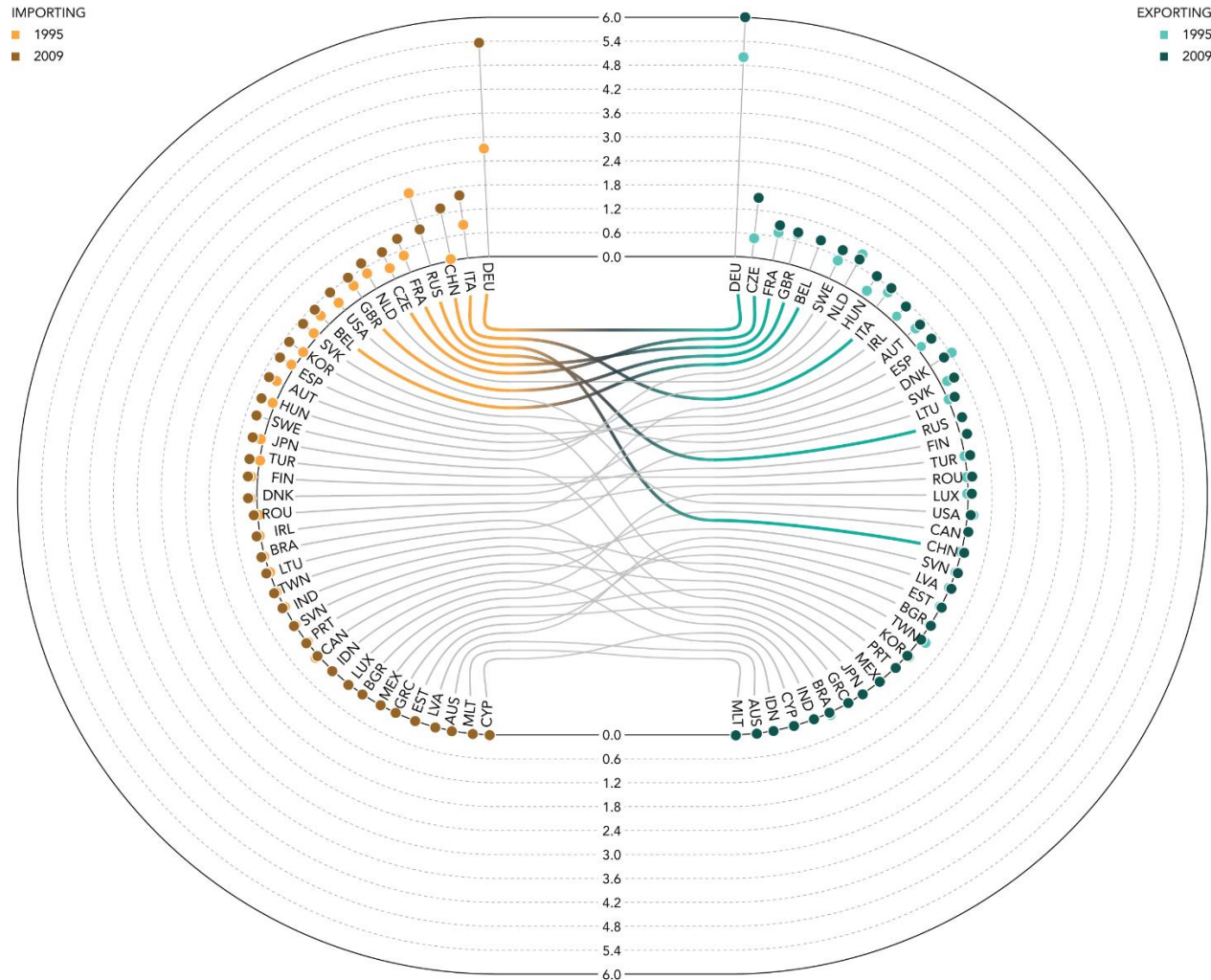


Source: "Measuring Export Competitiveness" database: www.mec.worldbank.org, based on methodology by Gaulier, Santoni, Taglioni and Zignago (2013)

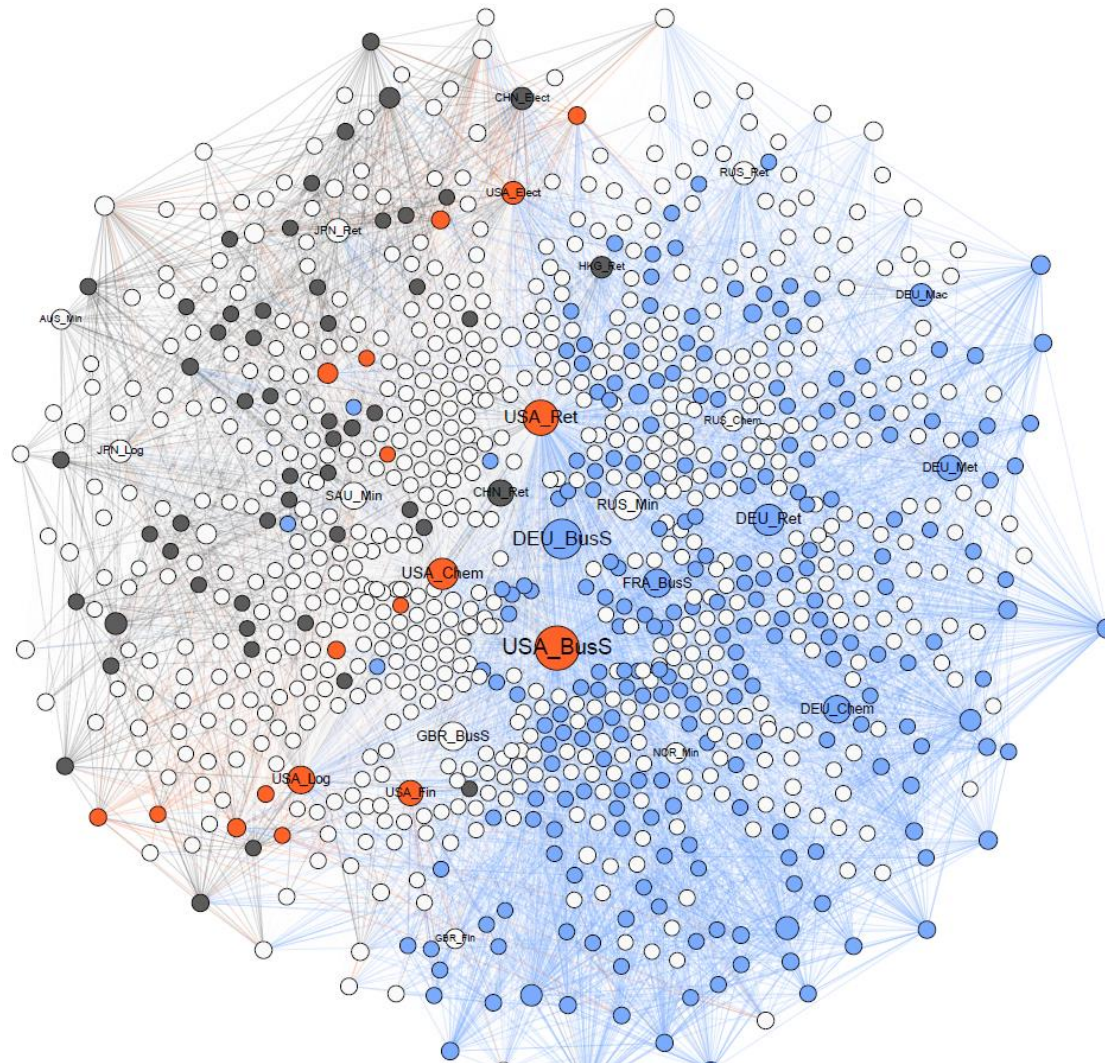
Integration with the EU27 has greatly increased.



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

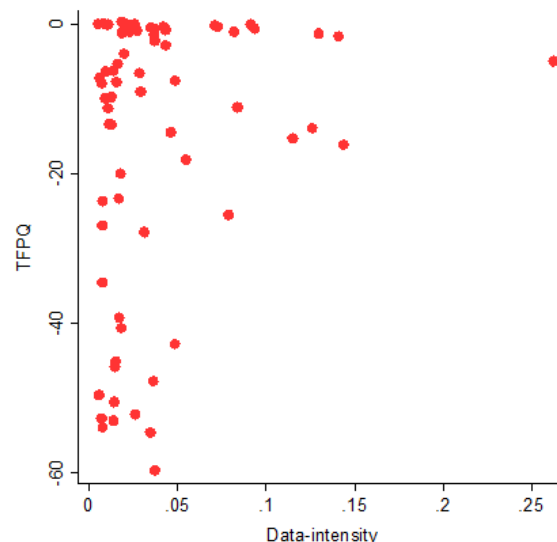


Being well integrated with the supplier network is what matters most. Being close to demand is also relevant but to a lesser extent



Scope for additional economic upgrading

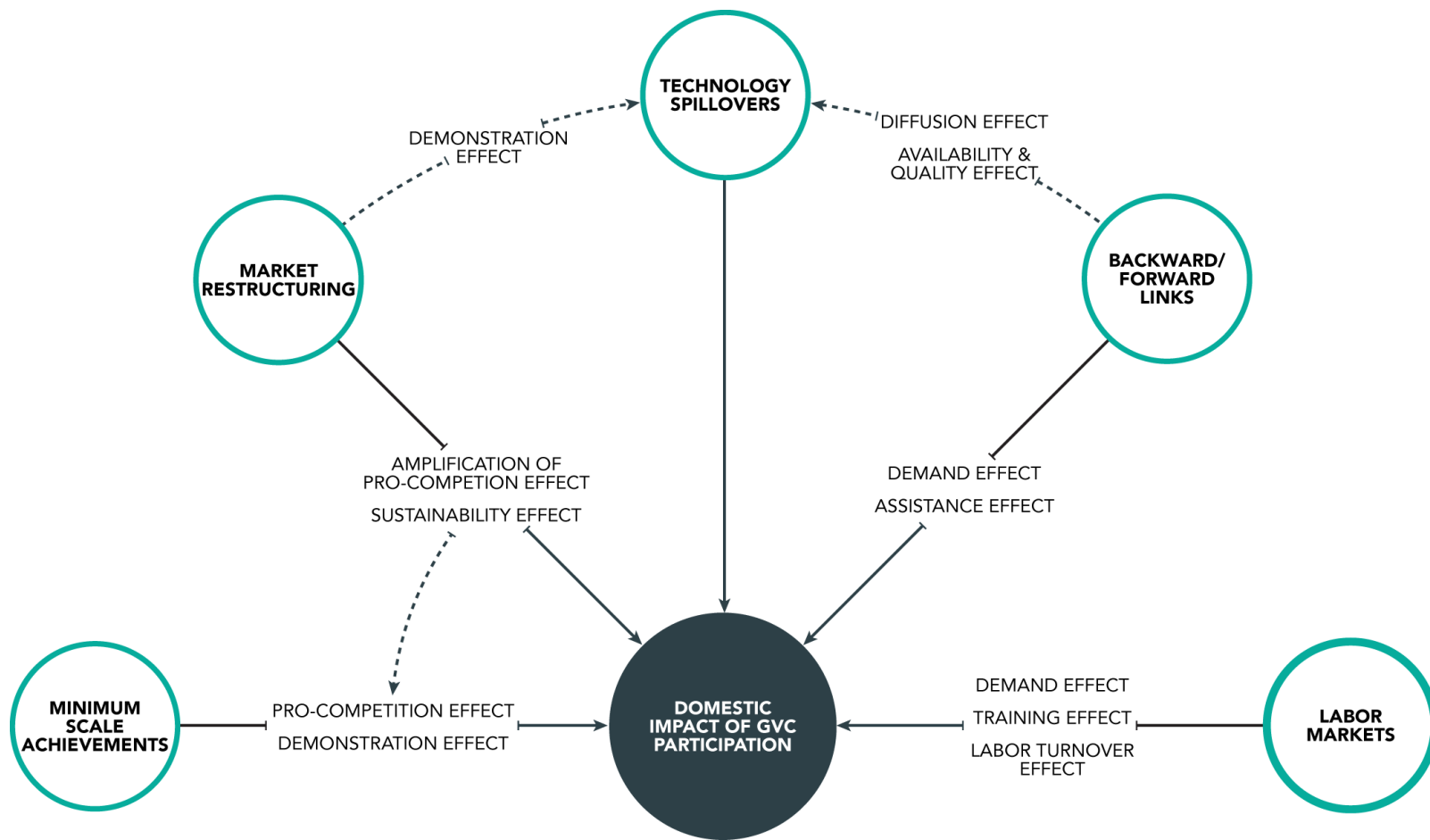
- Poland's exports are closer to final demand than its imports, implying scope to grow its domestic value added along the chain or by moving exports closer to the final consumer.
- There is stronger potential in Poland for manufacturing export growth by enhancing the domestic contribution of upstream 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.

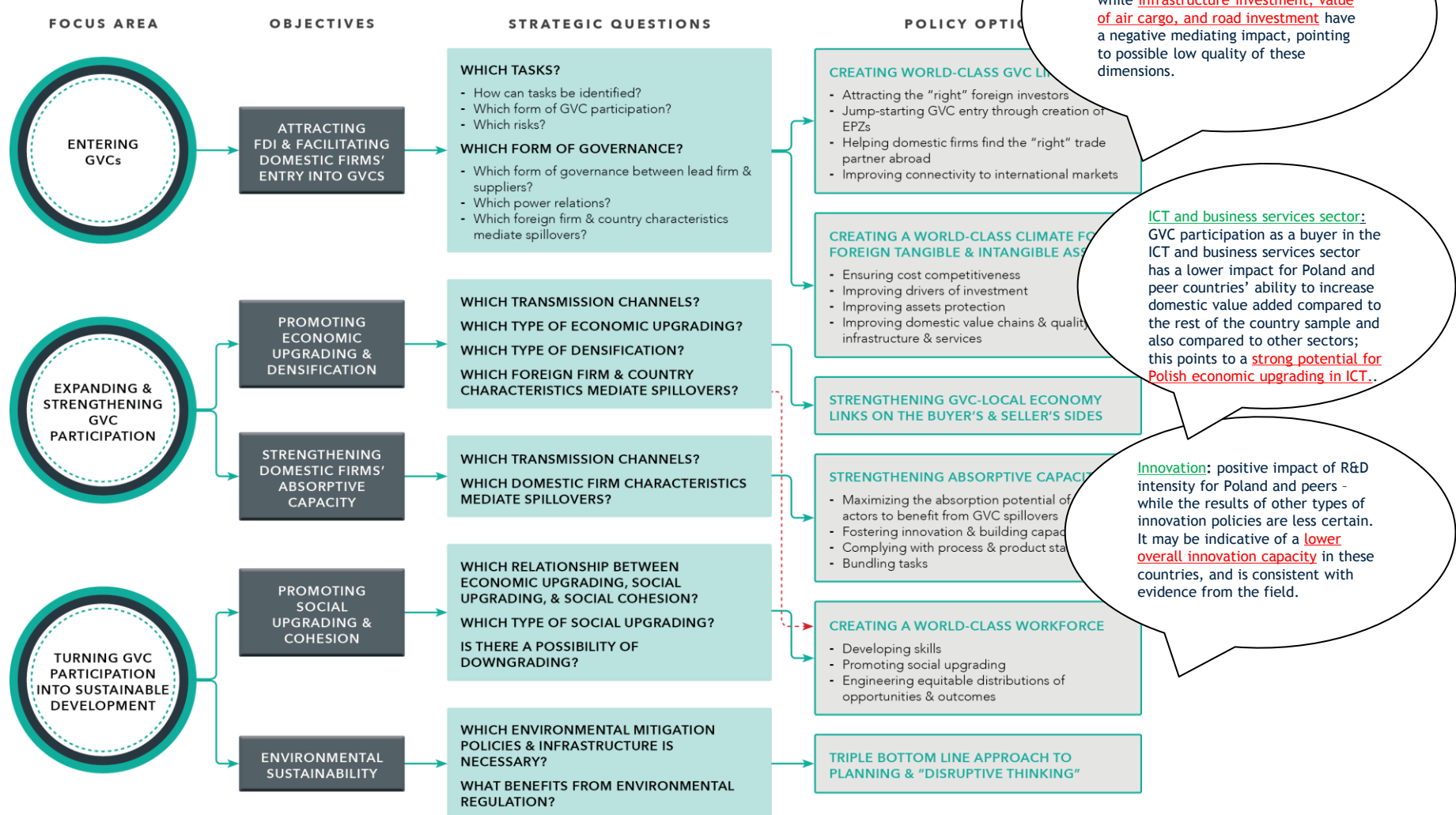
- **Services that act as essential enablers in the geographic dispersion of GVCs include:**
 - ICTs – reduce coordination costs, enable better supply chain management and logistics, counter the effects of geography (proximity, agglomeration, congestion);
 - High-quality professional, technical, and financial 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



Source: Taglioni and Winkler (forthcoming), "Making Global Value Chains Work for Development"

Infrastructure and innovation capacity are shown to present a challenge for Poland



Infrastructure: rail investment has a positive mediating effect on the seller-side of GVCs in Poland and peers, while **infrastructure investment, value of air cargo, and road investment** have a negative mediating impact, pointing to possible low quality of these dimensions.

ICT and business services sector: GVC participation as a buyer in the ICT and business services sector has a lower impact for Poland and peer countries' ability to increase domestic value added compared to the rest of the country sample and also compared to other sectors; this points to a **strong potential for Polish economic upgrading in ICT..**

Innovation: positive impact of R&D intensity for Poland and peers - while the results of other types of innovation policies are less certain. It may be indicative of a **lower overall innovation capacity** in these countries, and is consistent with evidence from the field.

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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