Bank Pekao

Is Poland ready to develop global champions?

Internationalisation of Polish companies enters a new phase

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Introduction

The question included in the report's title is somewhat rhetorical. The modern economic world is dominated by global corporations from the largest developed countries in the world and among emerging economies only Chinese corporations are increasingly challenging the Western tycoons. **It is extremely difficult for companies from countries with a medium level of development and a medium size internal market, such as Poland, to break through to the global top.** This cannot be done in a short time and global success is usually a combined result of various factors – not only an effective strategy and its consistent implementation by companies themselves, but often also a favourable local environment.

Poland's recent export successes show that our country has considerable competitive advantages, which it turns into an increasing importance in the international arena. Within the last 15 years, the exports of goods and services have almost quadrupled, promoting Poland to the elite group of the 25 largest exporters in the world. The ratio of exports to GDP increased by over 20 percentage points to the level of 55%, which distinguishes Poland from other countries of similar population size. This spectacular growth has been very diversified in terms of products, which caused Poland to increase its share in global trade in most areas of the economy. In some specialisations (such as furniture, poultry meat, wood. products, metal products and consumer chemicals), our country has become one of the top exporters not only in Europe but also in global terms.

At the same time, however, Polish exports come to a large extent from foreign corporations that operate in Poland, actively incorporating our country into global supply chains. They dominate among the country's largest exporters, accounting for at least half of the total foreign sales of local companies. Global comparisons also show **there is still relatively low added value included in Polish exports;** it is highly import-intensive and often has a subcontracting character. The strong reliance on West-European corporations also affects the geographical structure of Polish exports – **only about 20% of its total value goes to non-European markets** characterised by a particularly high demand and growth potential. Moreover, **the foreign expansion of domestic companies still very rarely takes the form of capital engagement**, despite the fact that a physical presence on foreign markets – especially distant ones – significantly increases the chance of business success. **Polish companies still face serious internationalisation barriers** that in the coming years may be **additionally increased by both structural factors** (including unfavourable demographics, rising energy costs or the Industry 4.0 revolution) **and geopolitics** (Brexit, trade wars).

The relatively small activity scale of Polish companies is still a major obstacle in the context of building cross border corporations. To accelerate this process, Polish companies should increase their M&A activity in highly fragmented local and regional markets. **In order to achieve the status of global champions, Polish companies must still build a critical mass**, which would make it much easier to compete effectively with leading multinationals. This is a process that usually lasts for years (if not decades), so it is worth taking these steps at the earliest possible stage. **It can be catalysed by further integrated actions of companies, export support institutions as well as other entities supplementing the whole 'system', such as e.g. banks.** There are also other foundations for effective expansion including: unique product, strong recognisable brand, facilitated access

to financing and well-organised and wide-ranging systemic support. Strengthening these foundations may help Polish companies to consistently build their position on the global markets.

Proper addressing of the key expansion challenges may give a new, strong impulse to the internationalisation of domestic companies, which should already move from the strictly export phase to capital expansion. The stage in which Polish companies gradually move towards being the creators of global trends, active on the international M&A scene. Stronger expansion of Polish companies could be an important stimulus for the development of the Polish economy, enabling it to further strengthen its position in the EU and global trade.

Our goal should be to keep the foreign sales growth rate above 5% annually. Despite an unfavourable external environment, the combined efforts of companies, the state and the financial sector may enable Poland to remain on a dynamic GDP growth path (even 4% annually), as well as to further increase Poland's share in the EU exports (to even 5% in 2030).

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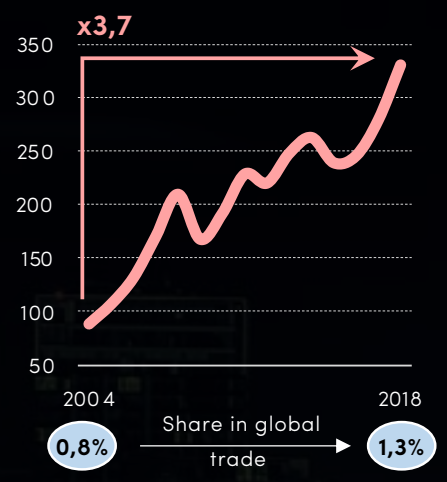
Key conclusions from the report

1 Poland is one of the fastest growing exporters in the world

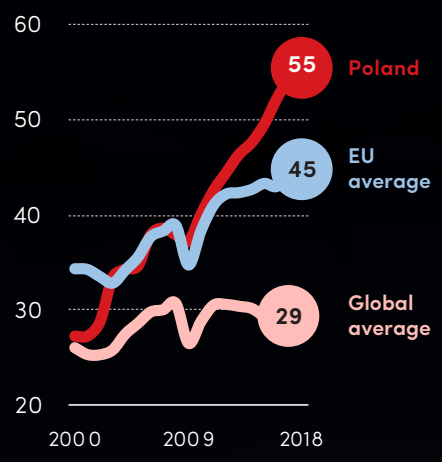
Since EU accession, Poland's exports have grown almost fourfold...

Value of Polish goods and services exports (USD bn), 2004-2018

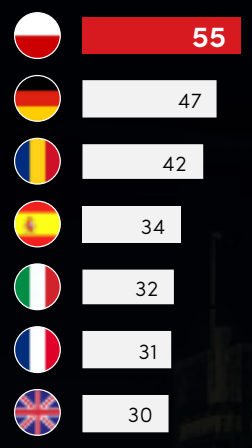


...which makes the Polish economy increasingly open to the world

Exports to GDP (%)

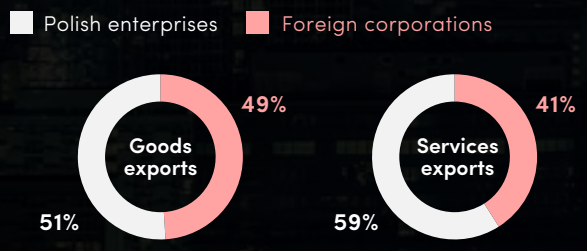


Exports to GDP in large EU countries* (%), 2018



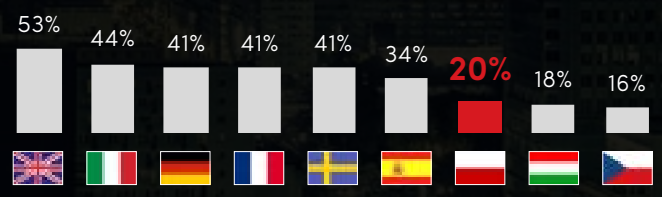
2 But foreign expansion of Polish companies also encounters some serious barriers

Exports are to large extent generated by foreign corporations operating in Poland...



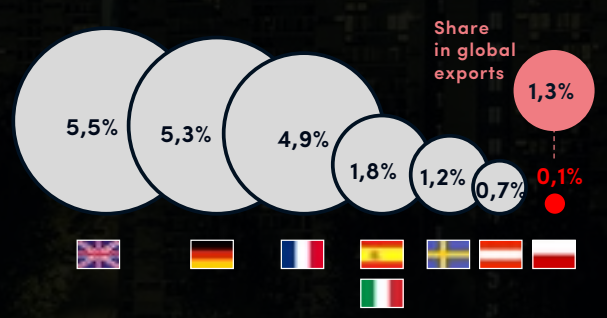
...and a relatively small part is sent outside of the EU market

Non-EU sales as % of total goods exports, 2018



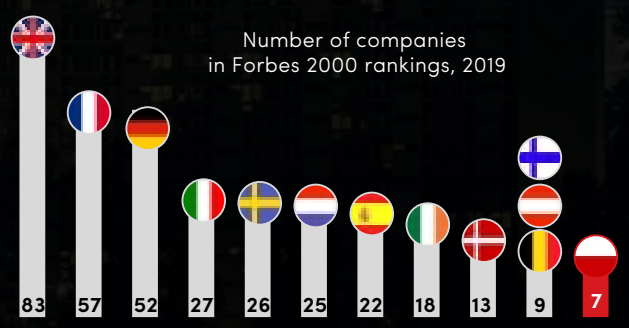
Polish companies are still not very active in the field of capital expansion

Share of investor country in global FDI, 2018



As a result we do not have many corporations of a comparable size with global leaders

Number of companies in Forbes 2000 rankings, 2019



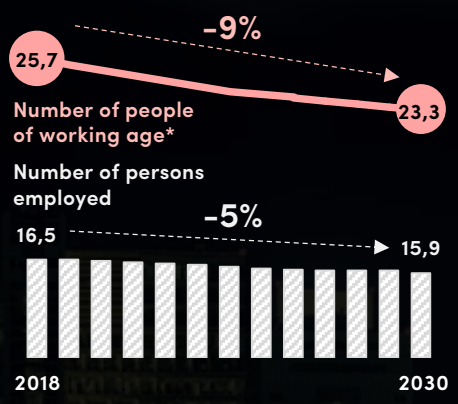
* 20 mln persons and more

Source: Intracen, StatOffice, UNCTAD, The World Bank, Forbes, IMF, Pekao Research

3 Poland's global competitiveness will face serious challenges in the near future

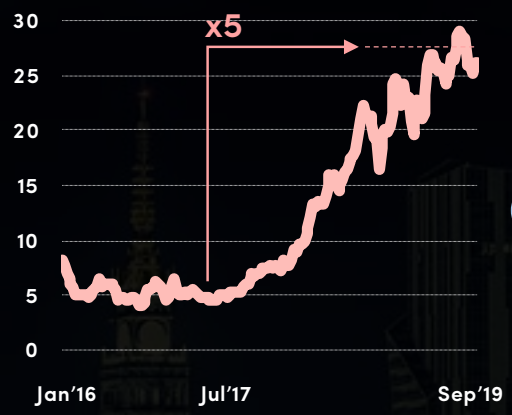
Shrinking labour resources will entail a decline in the number of employees...

Number of people of working age* and number of persons employed (mln) up to 2030 - forecast**



...while rising CO_2 prices will put pressure on energy costs

ICE EUA Futures (EUR / tonne)



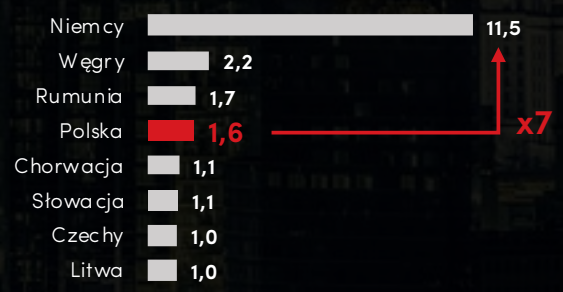
\+ Industry 4.0

\+ Geopolitical challenges
- Brexit
- Trade wars

4 Further foreign expansion and building of global champions depends on effective addressing of internationalisation barriers

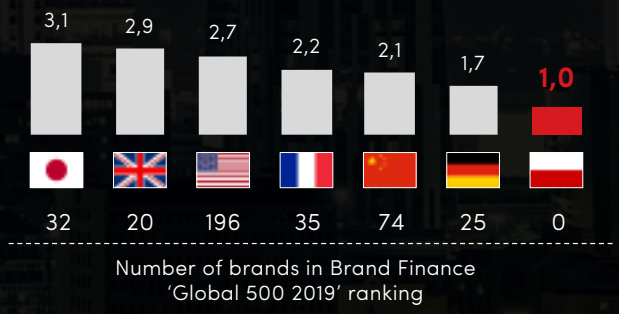
Polish companies need to 'build mass' faster, consolidating domestic and regional markets

Revenues per 1 company in manufacturing (EUR mln), 2017



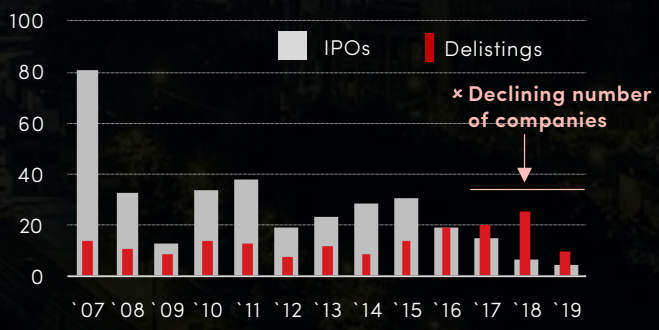
Competing in global markets requires innovative products and strong branding

R&D expenditures in relations to GDP (%), 2017



Successful expansion is also determined by facilitated access to capital...

IPOs and delistings on the WSE, 2007-2019



...and further gradual increasing of systemic support for exporters

Budget of domestic institutions supporting foreign expansion and promoting exporters (EUR mln)

* 15-64 years ** Pekao forecast based on Eurostat's demographic projection
Source: StatOffice, Eurostat, The World Bank, Bloomberg, WSE, PAIH, GTAI, KfW, ICEX, UKEF, Pekao Research

PLN 70–80 bn

Foreign trade surplus in the last 3 years

#3

Poland's rank in the global exports of furniture, poultry meat and tobacco products

x3,5

Total increase in Polish exports of goods in 2004–2018

x4,6

Total increase in Polish exports of services in 2004–2018

1,4%

Poland's share in global exports of goods (+0.6 percentage point vs. 2004)

1,2%

Poland's share in global exports of services (+0.5 percentage point vs. 2004)

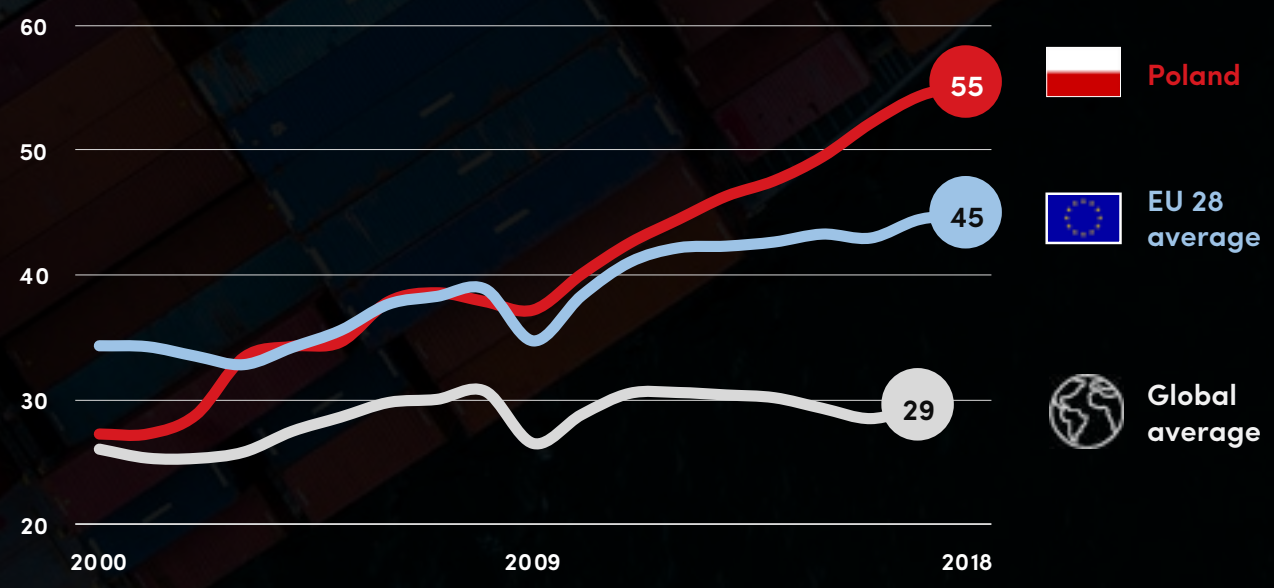
#23

Poland's rank among the largest global exporters of goods (up 8 rankings since 2004)

#24

Poland's rank among the largest global exporters of services (up 5 ranks since 2004)

Exports to GDP ratio (%), 2000–2018



Source: Intracen, StatOffice, The World Bank, Pekao Research

1 The spectacular success of Polish exports

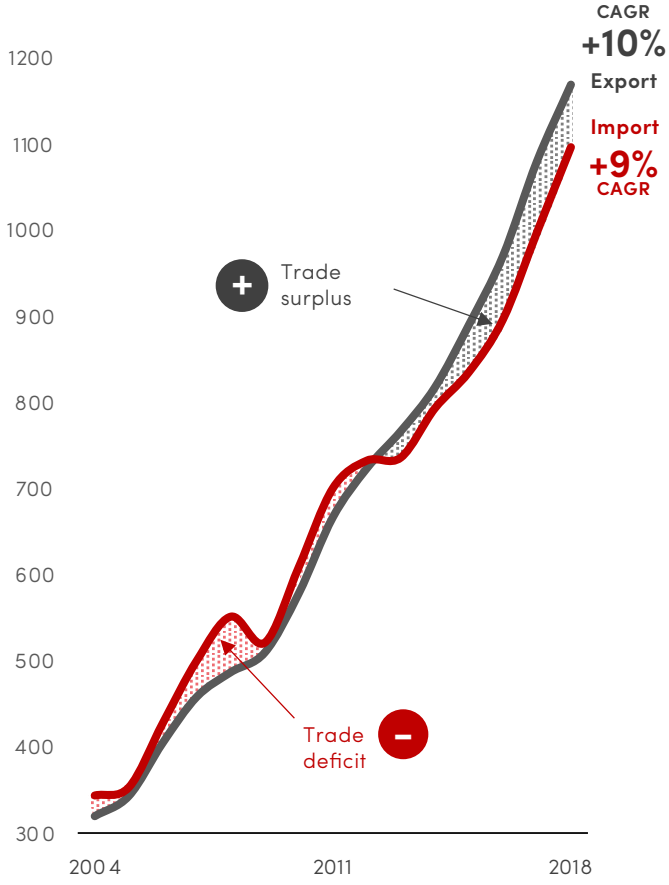
Poland belongs to economies that are opening to the world at the fastest pace. Polish export sales have increased almost four times since accession to the EU, and in terms of its relation to GDP we surpass other countries with similar population potential. We have joined the global export elite and are not yet resting on our laurels

Exports are a lever for the development of the Polish economy

Over the past fifteen years, Polish entities have been expanding their businesses internationally, mainly through dynamically surging export sales. At that time, exports were one of the engines of growth of the Polish economy. Despite the rapidly increasing, and largely dependent on imports, private consumption and relatively import-intensive industrial production, the value of goods sold outside the country has been growing faster (+10% on average per year) than those imported from abroad (CAGR + 9%). This allowed elimination of the external imbalance - Poland from being a long-term net importer of goods and services has evolved into a growing net exporter, and the foreign trade surplus has reached the record levels of PLN 70-80 billion in the last 3 years.

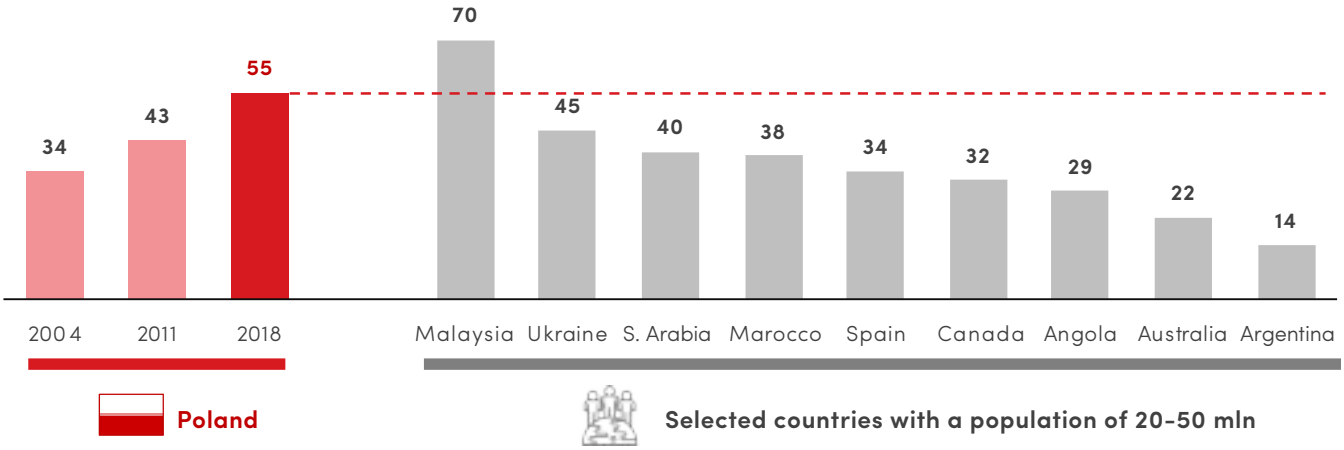
Increasing trade has contributed to the spectacular opening of the Polish economy to the world. Since accession to the European Union, the exports to GDP ratio increased by more than 20 percentage points, to 55% in 2018. Of nearly 90 countries with a population exceeding 10 million people, only Vietnam has seen a stronger increase worldwide. Also, the level of the exports to the GDP indicator is already relatively high - among nearly 30 countries with a population ranging between 20 and 50 million people, i.e. theoretically having similar internal market sizes, Poland ranks second only to Malaysia[1]. In recent years our country has surpassed in this aspect the German economy, which is considered to be the model of an exporter.

Fig. 1 Poland's foreign trade (PLN bn), 2004-18



Source: Eurostat, Pekao Research

Fig. 2 Exports to GDP ratio (%)



Source: the World Bank, Pekao Research

[1] Malaysia benefits from the proximity of a very absorbent Chinese market and its exports are based to large extent on raw materials

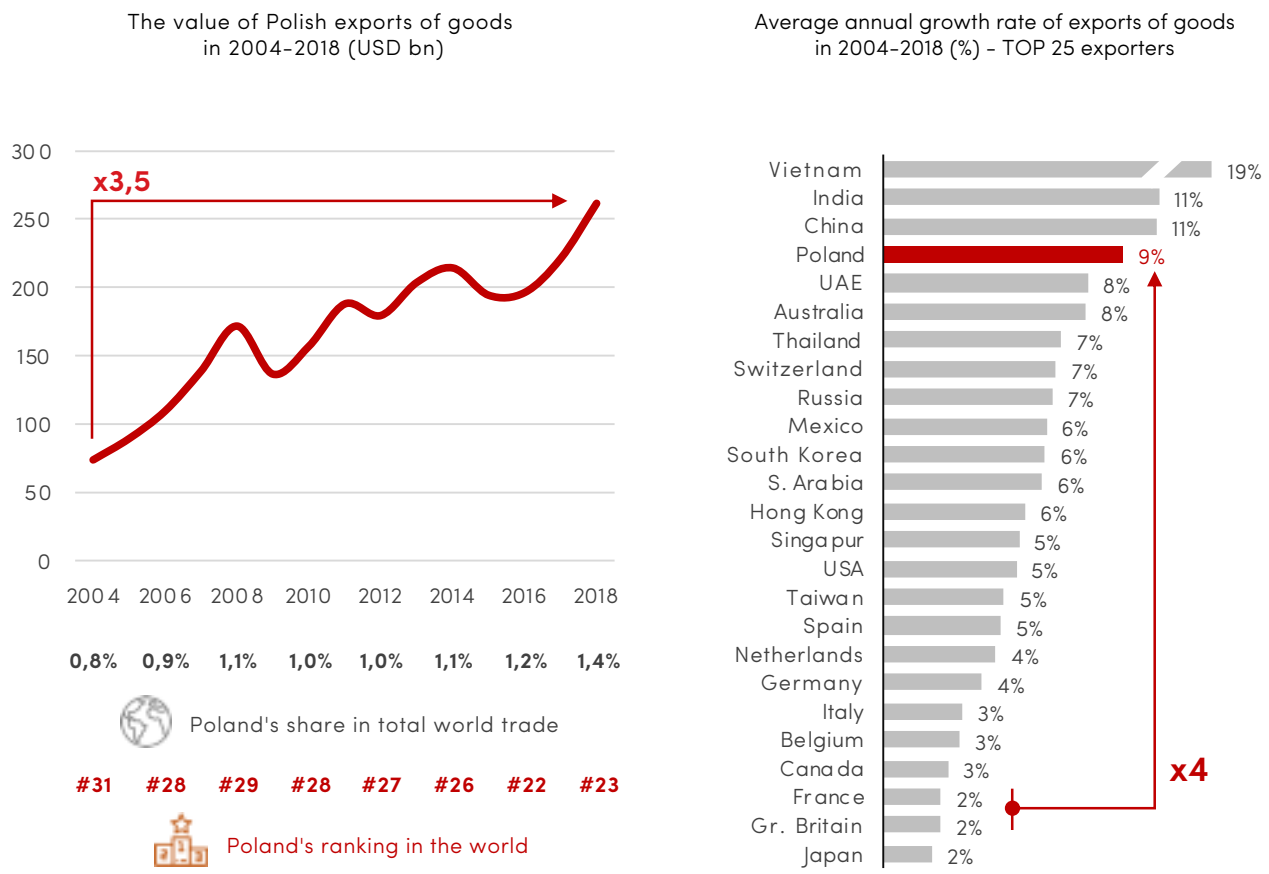
In export dynamics Poland exceeds the majority of both European and global leaders

After just 15 years of Poland's membership in the European Union, our country joined the top league of global exporters, with strong expansion of foreign sales of both goods and services. There are many statistics that illustrate the robust growth of Polish exports of goods:

- between 2004 and 2018 it increased about 3.5 times, and our country's share in global trade increased from 0.8% to 1.4%. In turn, Poland's share in the total exports of European Union countries increased more than twice (from 2.0% to 4.2%);
- in the same period, Poland advanced from 31st to 23rd in the ranking of the largest exporters in the world (among EU exporters this meant a shift from 11th to 8th place);
- Among TOP25 global exporters, only 3 Asian countries (Vietnam, China and India) reported stronger growth of exports of goods between 2004 and 2018. From 2010 onwards, Poland ranks second only to Vietnam, with 7% CAGR – almost twice as fast as the average of all the 25 largest exporters in the world.

These statistics are evidence of Poland's high international competitiveness. It was additionally strengthened by accession to the EU, which provided access to the over 400-million Western European market and allowed Poland to join the supply chains of EU-based global corporations. As a result, Poland has become a highly attractive place to locate production activities.

Fig. 3 **The expansion of Polish exports of goods since accession to the European Union**



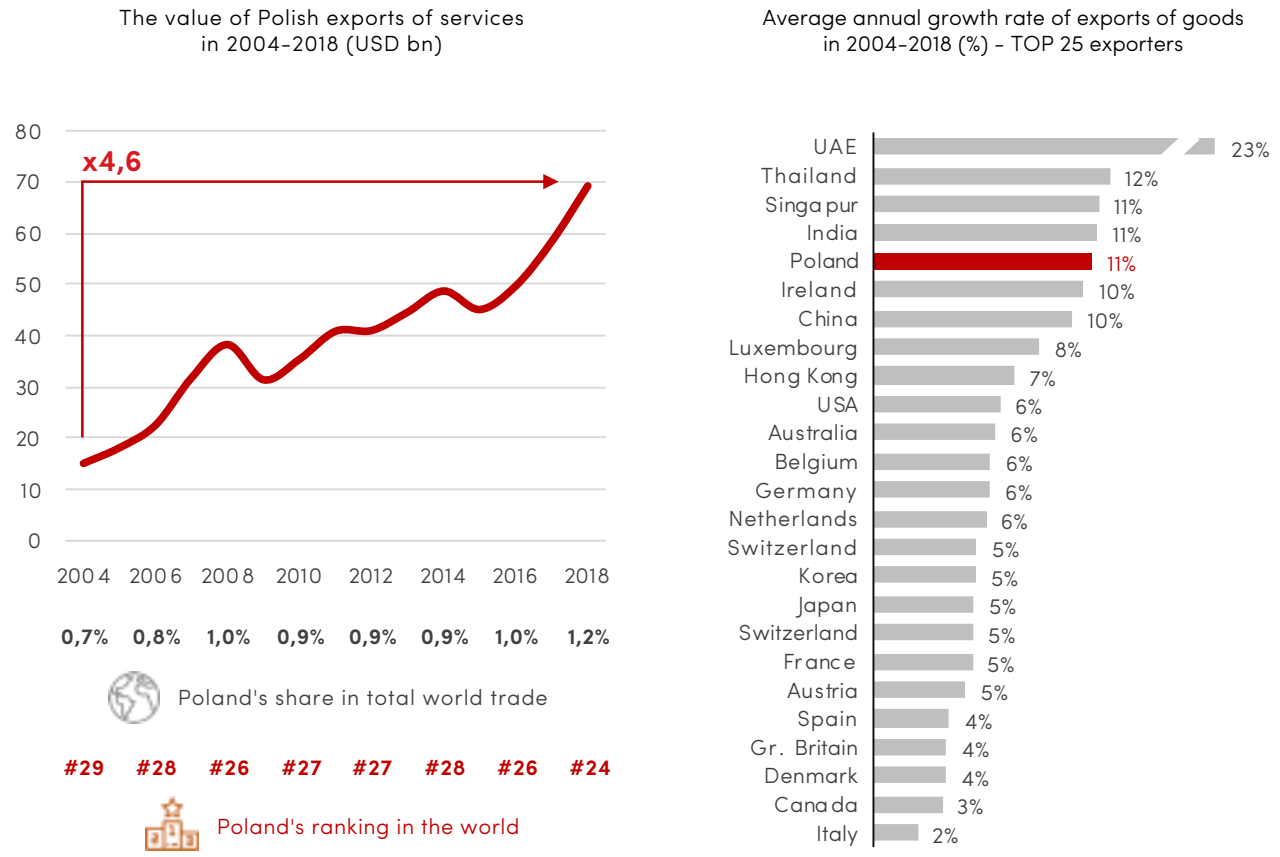
Source: Intracen

In the last several years, Poland has also gradually strengthened its position as a service exporter. Over the years 2004-2018, foreign sales of services increased over 4.5 times, and Poland's share in global trade in services increased from 0.7% to 1.2%. In the ranking of the largest exporters of services, our country has advanced by 5 positions (from 29 to 24). Among the EU countries Poland is currently the 13th largest exporter of services, accounting for nearly 3% of the total EU exports – about twice as much as in the middle of the previous decade.

As in the case of goods, Poland is one of the fastest growing large exporters of services. Among the global TOP 25, only a few Asian countries (United Arab Emirates, Thailand, Singapore and India) reported stronger dynamics. Moreover, Polish exports of services have gained particular acceleration in the last 3 years - between 2015 and 2018 it grew at an average annual rate of up to 15%. In that period only Ireland recorded a slightly faster pace of growth (+ 16% per year).

Poland strengthens its global position in exports of services much faster than other countries in our region – its share in total foreign sales of services of CEE-11 countries increased between 2004 and 2018 by as much as 9 percentage points (to 31% in 2018). This is a much stronger gain as compared to exports of goods (in this case Poland's share in total CEE-11's foreign sales increased from approximately 25% to 28%). The data reflects the fact that Poland is increasingly opening up to new areas of the economy, in which it has not built as strong specialization so far, as in some industrial sectors.

Fig. 4 The expansion of Polish exports of services since accession to the European Union



Source: Intracen

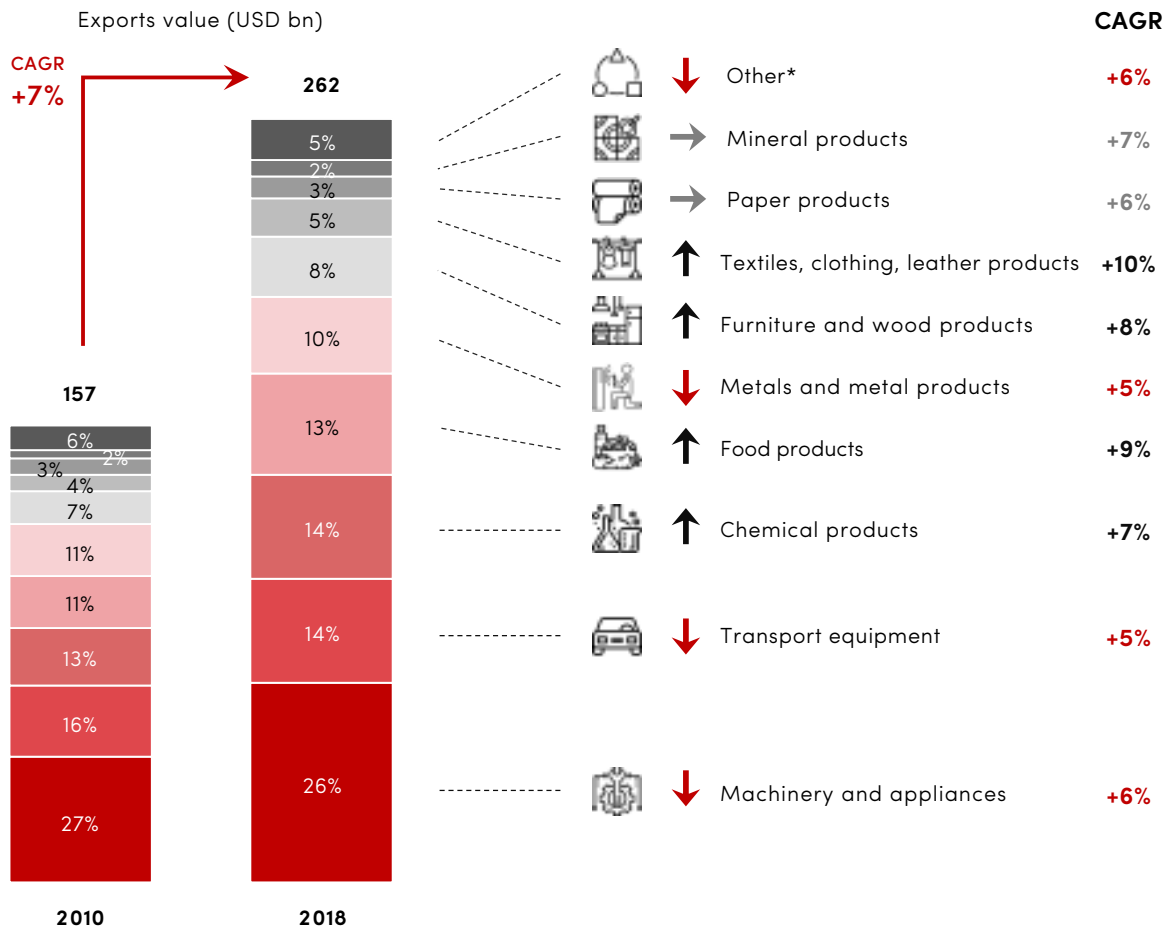
Polish exports of goods are still growing the fastest in labour-intensive sectors

In the current decade, foreign sales of Polish factories have been growing at an average annual rate of around 7%. Contribution of the various industries to Poland's international success was uneven. In 2018 products of high-tech industries, such as mechanical, electrical and electronic machinery and appliances or transport equipment (motor vehicles, ships and boats, aircraft and their parts) **accounted for nearly 40% of total exports. After 2010, the growth rate of exports of these products was weaker than the average for the entire industry** and their share in total foreign sales of goods slightly decreased (by approx. 3 percentage points).

The fastest dynamics were reported in foreign sales of relatively uncomplicated products of labour-intensive industries. Cost advantages in these areas were essential for strenghteinng their international position and made them engines of growth of Polish exports in the past decade:

- **foreign sales of light industry products** (textiles, clothing, leather products) have been growing at a rate **of 10% per year**;
- **exports of food, beverages and tobacco products** reported only slightly slower annual **dynamics of 9%**;
- **furniture and wooden products** exports recorded an average annual **growth rate of 8%**.

Fig. 5 **Polish exports of goods – by wide industry groupings, 2018 vs. 2010**



* Including raw materials and fuels, toys, clocks and watches, musical instruments
Source: Intracen, Pekao Research

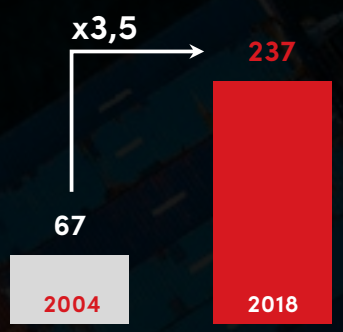
Poland's key strengths in global trade

In recent years, Poland has utilised its advantages to significantly strengthen its position in the international arena. The above average growth of Polish exports was driven by various factors which can be classified into three basic groups:

1 Growing investment attractiveness

- Since accession to the European Union, Poland has successfully attracted foreign corporations' investments – their cumulative value increased 3.5 times between 2004 and 2018;
- A significant part of foreign investment in our country was aimed at optimisation of Western corporations' activities. As a result, Poland joined their global supply chains, taking on the role of an important sub-supplier and production centre of finished goods for sale on the regional market;
- Such a large inflow of foreign direct investment was a consequence of the growing attractiveness of our country. In addition to low labour costs, Poland offers among others:
  - an increasingly favourable business climate (reflected, among others, in the surge of our country in the World Bank's Doing Business ranking);
  - a fast-improving transport infrastructure (increasingly better connected with the West);
  - preferential conditions in Special Economic Zones

Cumulated value of foreign investments in Poland (EUR bn)



Poland's position in the Doing Business ranking

3 Easy access to foreign markets for companies

- Joining the European Union lifted trade barriers for Polish companies, providing them with access to the absorbent West European market
- A positive phenomenon was also the progress in liberalisation of world trade, which was accompanied by the strengthening systemic support for exporters and the improving image of Poland (and Polish companies) abroad
- As a result, the percentage of exporting companies increased significantly. This trend has also been continued in the current decade, particularly among small and medium-sized enterprises (especially those which are service-exporting)

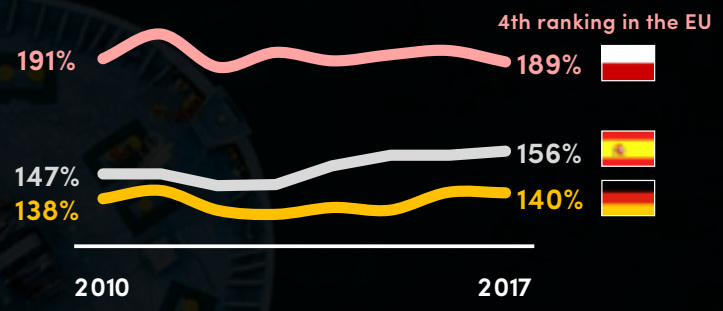
2 Cost competitiveness

In manufacturing, as well as in the exportable services, labour costs (or more precisely their relation to labour productivity) are an important (in some areas the key) factor of competitiveness.

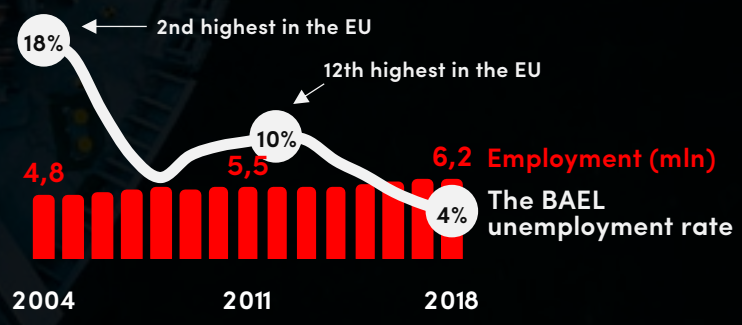
In Poland, despite the graduał increase in wages, labour costs still remain at a much lower level as compared to the richer countries of Western Europe (they represent only 29% of the labour costs incurred by German companies and 37% of the EU average). Moreover, the growth of wages is accompanied by labour productivity increasing at a similar pace.

Competitive electricity prices, which until recently were among the lowest in Europe, as well as a favourable and stable exchange rate (relatively weak zloty) were additional support for years.

A Wage adjusted labour productivity* of Polish manufacturing is among the highest in the EU

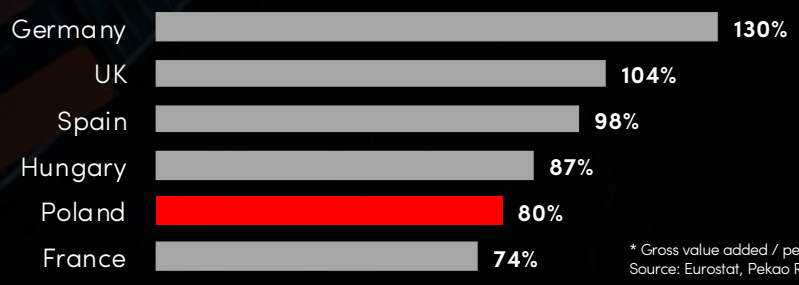


B A persisting high unemployment rate has secured low-cost labour resources for many years

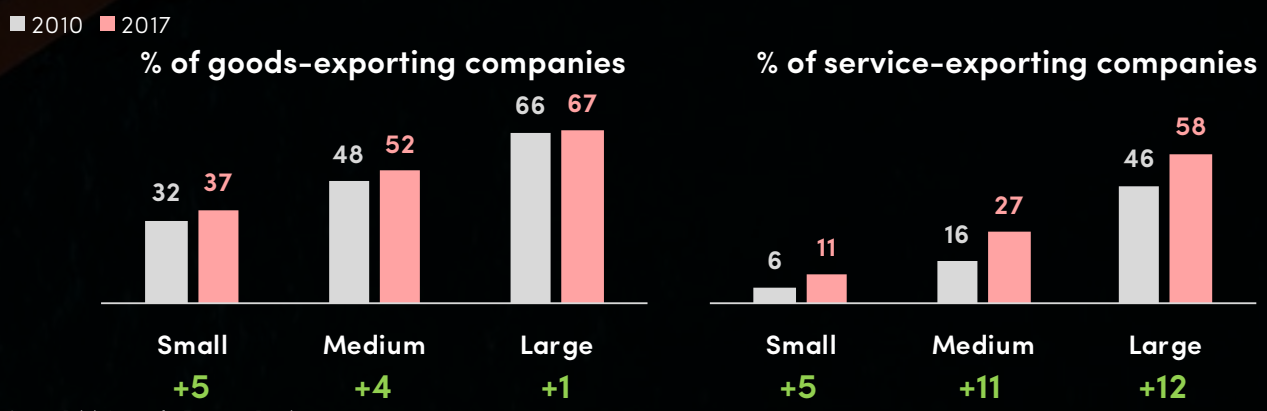


C The industry benefitted also from low energy costs

Energy prices for industrial customers (% of EU average), 2008-2018

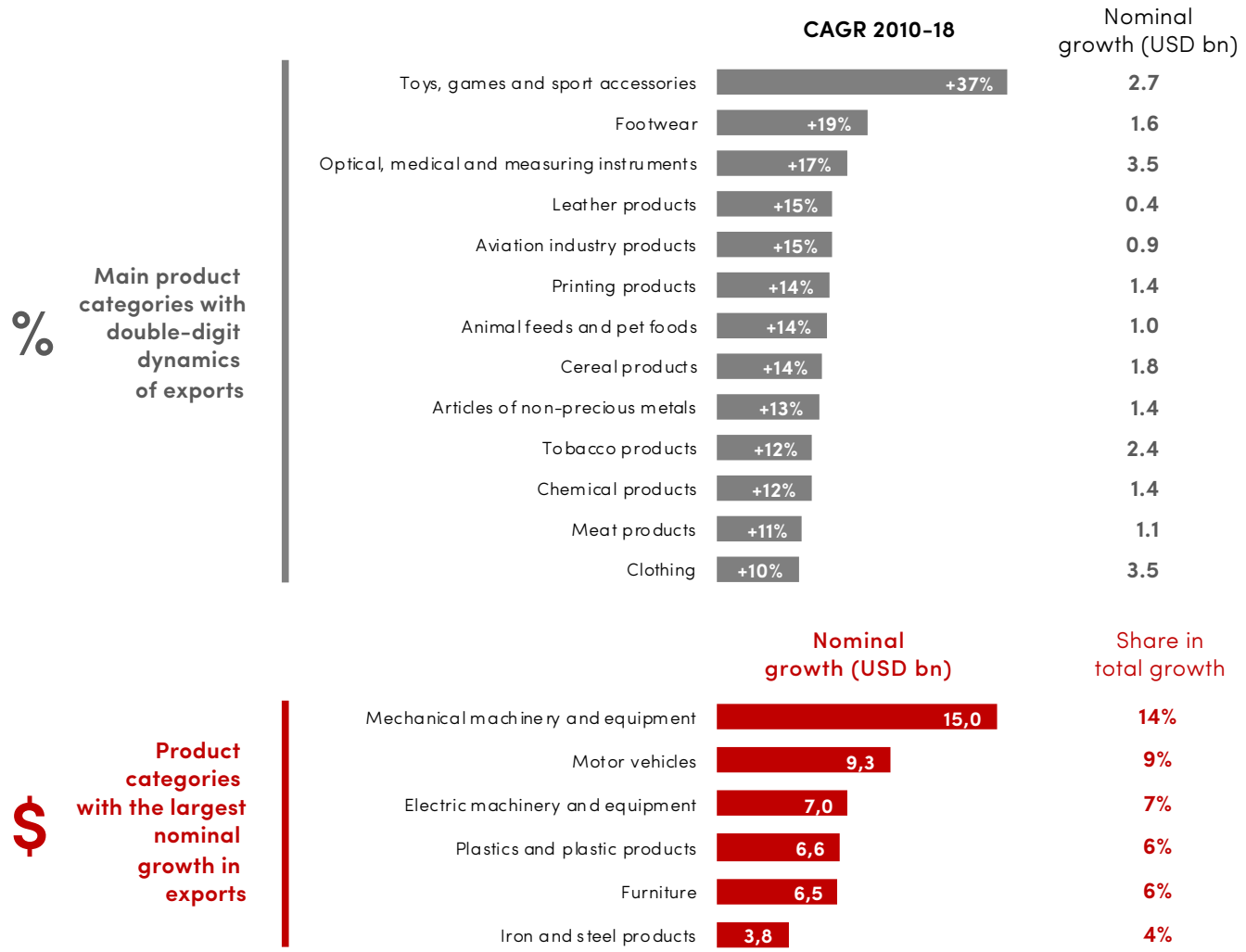


* Gross value added / personnel costs
Source: Eurostat, Pekao Research



Source: Polish Agency for Enterprise Development

Fig. 6 **Engines of growth of Polish exports**



Source: Intracen, Pekao Research

It is worth mentioning that **in some narrow product categories Polish companies recorded even stronger, double-digit exports dynamics**. For example, toys, games and sports accessories became a Polish exports hit in the current decade, with foreign sales surging from just USD 0.2 billion in 2010 to nearly USD 3 billion in 2018. It should be stated, however, that a significant part of the products sold abroad in this category might be the re-export of goods previously imported from other countries (mainly from China). Another example is foreign sales of footwear and leather goods (growth of nearly 20% and 15% per year, respectively). Exports of precision industry products (optical, medical, measuring instruments) have increased more than three times over the past 8 years. In turn, the development of so-called 'Aviation Valley' resulted in a dynamic increase in foreign sales of aircraft parts (+ 15% per annum). Exports of printing products are also growing rapidly (+ 14%) in spite of spreading digitisation. Foreign expansion is also a driving force for many branches of the food sector - double-digit export dynamics in the current decade has been recorded by products such as animal feed, processed cereals, meat preparations and poultry meat.

In terms of volumes, the expansion of Polish exports is based most of all on the largest product categories. Despite the weaker (single-digit) dynamics, they contribute the most to the increasing foreign sales. The machinery-making, automotive and electromechanical industries were responsible for about 30% of the total growth of Polish exports between 2010 and 2018.

A further 16% was added by furniture, plastic products and articles of iron and steel – product categories that have become a Polish area of specialisation.

Poland is strengthening its international position in many industries. In some of them our country has already achieved the status of a global tycoon

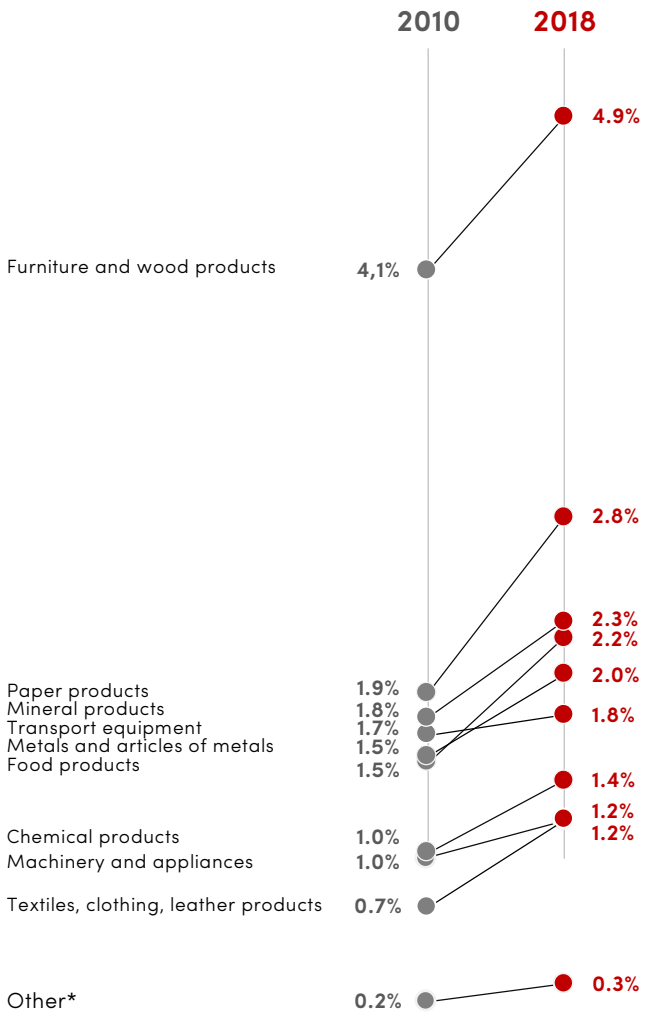
The dynamic growth of exports of many product groups resulted from increasing volumes of international trade around the world on the one hand, and Poland's strengthening position in global trade on the other. In some broad product categories, the increase in Poland's share in global exports has been particularly significant in recent years – a reflection of the competitive advantages of Polish producers in these areas:

- in **furniture and wood products**, it increased to nearly 5% (an 0.8 percentage point improvement vs. 2010);
- in **printing products**, it increased 0.9 of a percentage point (reaching almost 3% in 2018);
- the global share of exports of Polish **food products** increased 0.7 of a percentage point (to 2.2% in 2018);
- the share of exports of **light industry products, mineral products** as well as **metals and articlesof metals** went up nearly 0.5 of a percentage point.

On the other hand, Poland records much weaker progress in knowledge-intensive industries such as machinery and equipment (+0.2 pp) or transport equipment (+0.1 pp). With stable global shares, their strong contribution to the growth of Polish exports results most of all from the scale of global demand and dynamics of international trade in these goods around the world. Moreover, Poland's international position in some knowledge-intensive products is relatively weak. For example, the share in global exports of machinery and equipment is only 1.2% - below the average for the entire economy (which is approx. 1.4%).

It should be stated that **over recent years many narrow product categories have become Poland's specialisations**, which elevated our country to the very top of global exporters of these goods.

Fig. 7 **Poland's share in world trade – by broad product categories**



Source: Intracen, Pekao Research

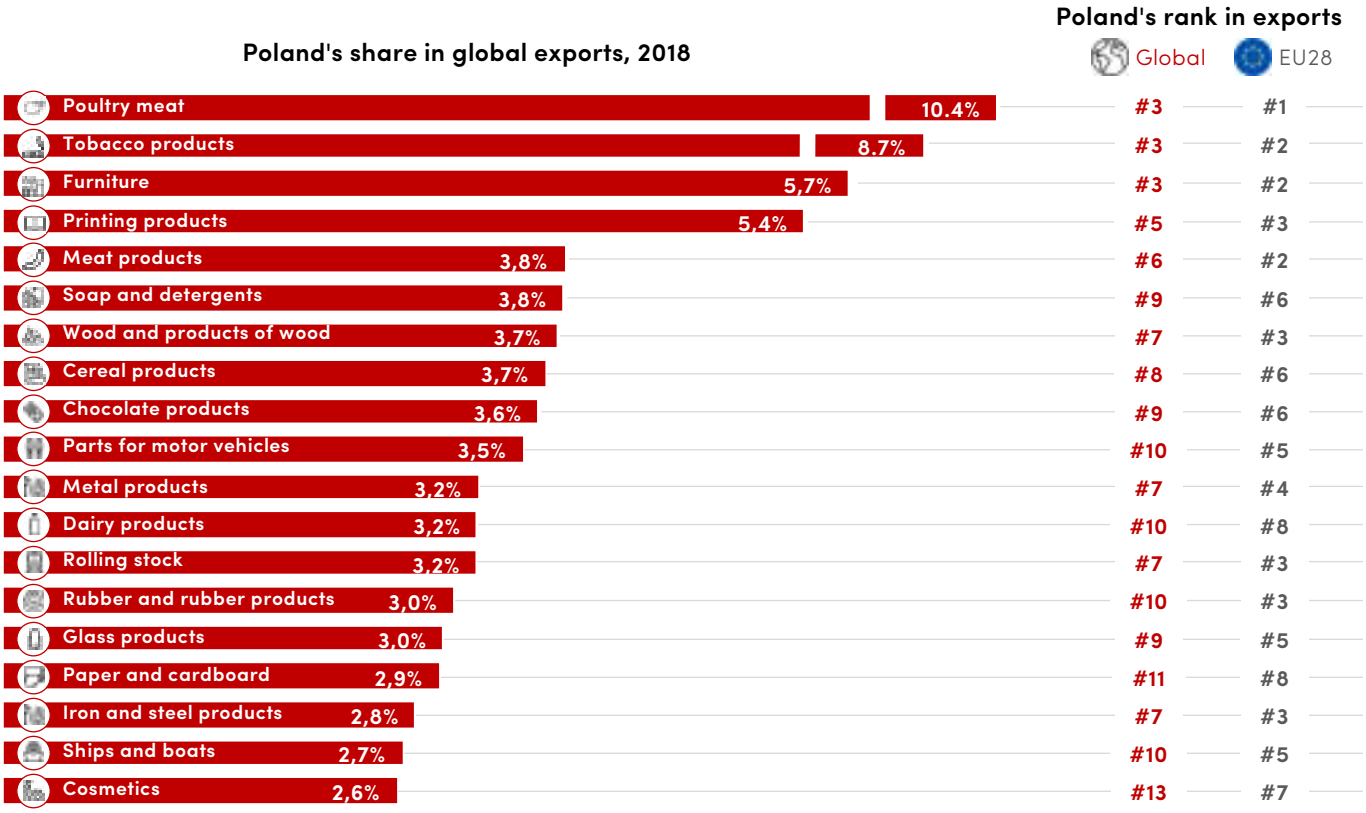
Our country has already achieved the status of global a tycoon among others in such product categories as:

- **poultry meat** (with more than a 10% share in global trade, Poland is the 3rd largest exporter of poultry meat in the world and the biggest in the EU);
- **tobacco products and furniture** – in both categories Poland ranks 3rd in global trade (with a share of 9% and 6%, respectively) and 2nd in the EU.

In several other product categories, Poland ranks among the TOP 10 exporters in the world and in some of them (including printing, wooden, rubber and steel products) – also among the TOP 3 in the EU.

Poland also has a strong position in global trade in some more advanced industries, including parts and accessories for motor vehicles (the 5th largest exporter in the EU, the 10th in the world), **railway rolling stock** (3rd and 7th ranking, respectively), **ships and boats** (5th and 10th ranking) and **cosmetics and detergents**. On the other hand, Poland's position in many highly innovative products is still very weak, including organic chemicals, aircraft, pharmaceuticals, optical, medical and measuring instruments and electrical machinery and equipment. In all these categories our country has less than 1% share in global trade.

Fig. 8 **Areas of Poland's export specialisation**



Source: Intracen, Pekao Research

Transport, TMT and manufacturing services are the main drivers of services exports

In the current decade, the growth rate of Polish exports of services was even faster than exports of goods – it was as much as 9% annually. This resulted in an increase in the share of services in total Polish exports from 18% in 2010 to 21% in 2018. The dynamic expansion of foreign sales has been driven most of all by a double-digit annual growth rate in several sectors, such as:

- transport, which in recent years has grown into the largest Polish service export category (10% CAGR, 28% share in the exports of services in 2018 vs. 25% in 2010) – mainly due to the spectacular expansion of Polish companies in international road transport of goods, but also the dynamic growth of air transport (export increase by 12% annually);

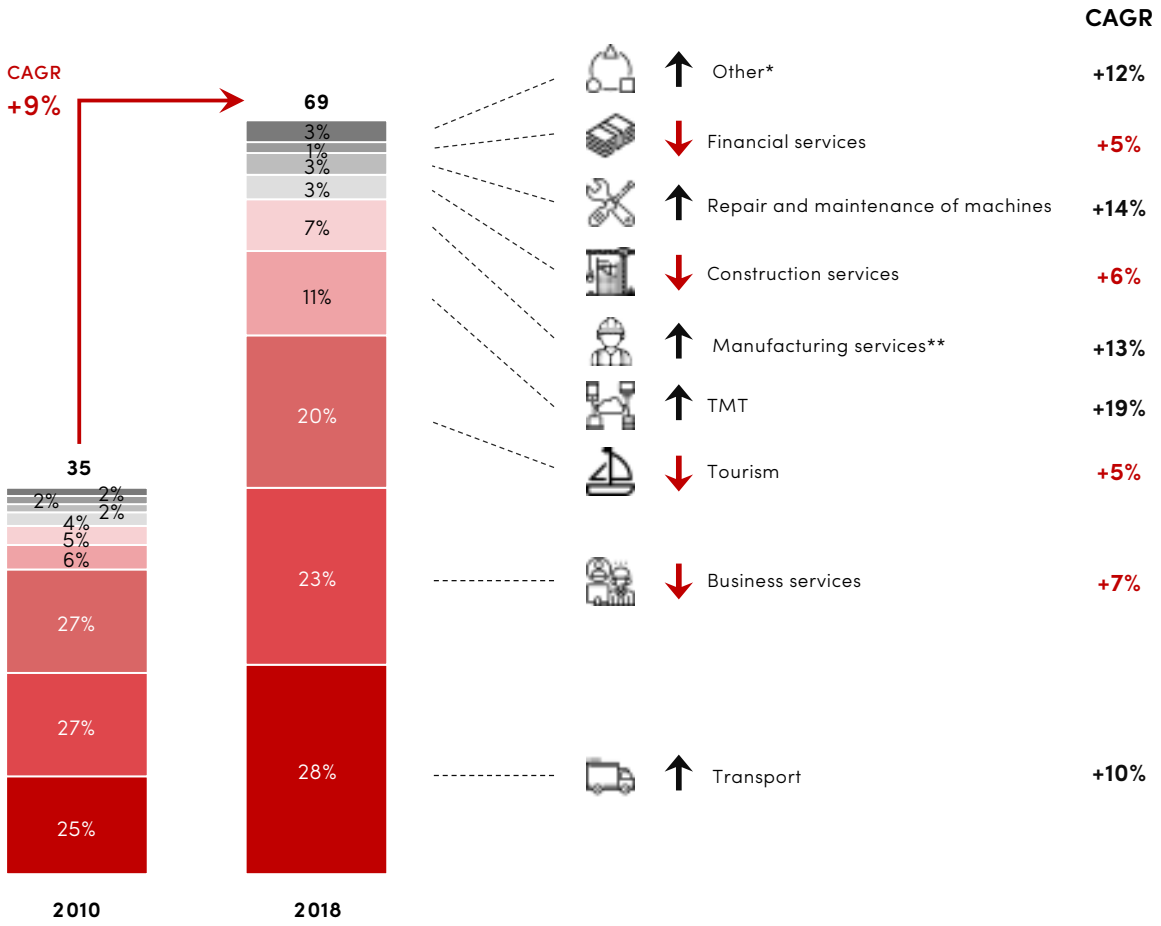
- TMT – Poland recorded a surge of 19% annually in exports in this category and its share in the total exports of services has almost doubled in the last 8 years (11% in 2018);

- **manufacturing services as well as repair and maintenance of machines** – high export CAGR in these categories (13% and 14% per year, respectively) confirms that the expansion in manufacturing helps to build competencies in manufacturing-related services, enabling service companies to increase their foreign sales.

In terms of volume, also business and tourism services have strongly contributed to the increase in Poland's total foreign sales of services between 2010 and 2018 (adding more than USD 10 bn over the period). Until recently, both these categories have had the largest share in service exports. They still record quite solid dynamics. Exports of business services are being driven by the growing number of foreign-based outsourcing and offshore centres, whose activities are largely export sales.

In turn, the increase in the exports of tourism-related services results from the rapidly growing number of foreign guests visiting our country (which more than doubled between 2010 and 2018). Nevertheless, exports in these areas have grown significantly slower in recent years than in the entire services sector, and their share in total foreign sales of services has decreased significantly (from 54% to 43%). **On the other hand, in the case of the business services sector, the positive information is the fact that the exports of research and development centres (R&D) were definitely above the average growth rate** (15% CAGR). This seems to suggest that in the current decade Poland has successfully obtained foreign investment in higher value-added business services (and, consequently, potentially offering more attractive jobs).

Fig. 9 **Polish exports of services – by category, 2018 vs. 2010**

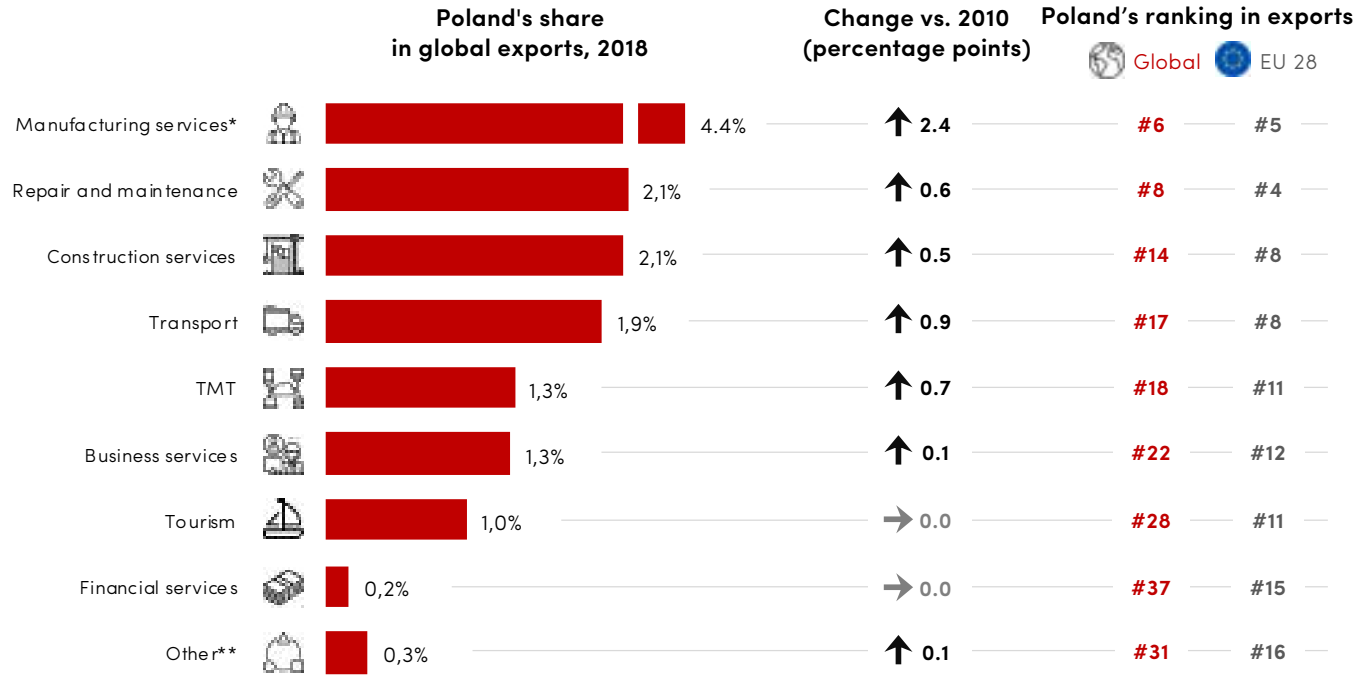


* including copyrighting, culture and entertainment ** including processing (enrichment), storage, packaging and labelling of products as a service
Source: Intracen, Pekao Research

The role of Poland in global exports of most categories of services is not as significant as in many areas of manufacturing. Manufacturing services (such as enriching, assembling, packaging and labelling products) are an exception, as growing competencies in this field allowed our country to strengthen its position as a global exporter in recent years (with its share in international trade more than doubling to over 4%, Poland ranked among the top global players). **Poland also has a relatively significant share (approx. 2%) in the global exports of services such as repair and maintenance of machines** (ranking among the TOP 10 in the world and 4th in the European Union) as well as **construction and transport services**. The role of our country in the global trade in these categories has been rapidly growing in recent years. Transport services are the most spectacular example of expansion, as Polish companies have utilised the EU membership to dominate the international road transport of goods market within the Union (taking the lead in exports of these services not only in the Union itself but probably also in the world). In total, land transport services exports ranks Poland 3rd in the world only to France and Netherlands. However, in other branches of transport Poland's role in global exports is less significant – it ranks 20th in the world in the air transport exports and 29th in the sea transport exports (0.6% and 0.2% of the global share, respectively).

Despite some positive trends, Poland still plays little role in the world trade of more advanced services such as TMT, business services for companies (global share around 1.3% in both cases), **or especially financial services** (only 0.2%). In the TMT industry, however, a strengthening of Poland's international position can be observed. This reflects the increase in the efficiency of utilisation of high-skilled human resources. On the other hand, the lack of Poland's advance in the world hierarchy of business services exporters may come as a surprise. It seems that the dynamic development of the Polish BPO / SSC[2] industry is rather the result of global outsourcing trends than of the growing specialisation of our country in this category of services. It is worth mentioning that in recent years some countries in our region (e.g. Romania, Hungary and Slovakia) recorded stronger dynamics of exports of business services.

Fig. 10 Poland's ranking in global exports of services – by category



* including processing (enrichment), storage, packaging and labelling of products as a service
** including copyrighting, culture and entertainment
Source: Intracen, Pekao Research

[2] Business Process Outsourcing / Shared Service centres

We represent our clients and Poland at the **World Economic Forum in Davos**

In 2019, the Bank together with the PZU Group decided to strengthen the Polish accent during the World Economic Forum in Davos and to open the Polish House at the main promenade.

The Polish House is a Polish and Polish business pavilion in which discussion panels, business meetings and other events promoting Poland and Polish companies were organised. Representatives of the Polish government, the Bank's clients, international investors and partners were invited to participate in these events.

We will also be present during the 50th World Economic Forum.

21-24 January
2020 POLISH HOUSE, Promenade 58, Davos

Join us there!

49%

Participation of foreign companies in Polish exports of goods

PLN 29 bn

Value of cumulated foreign investments of Polish companies

41%

Participation of foreign companies in Polish exports of services

5%

Relation of these investments to Polish GDP (4th lowest result in the EU)

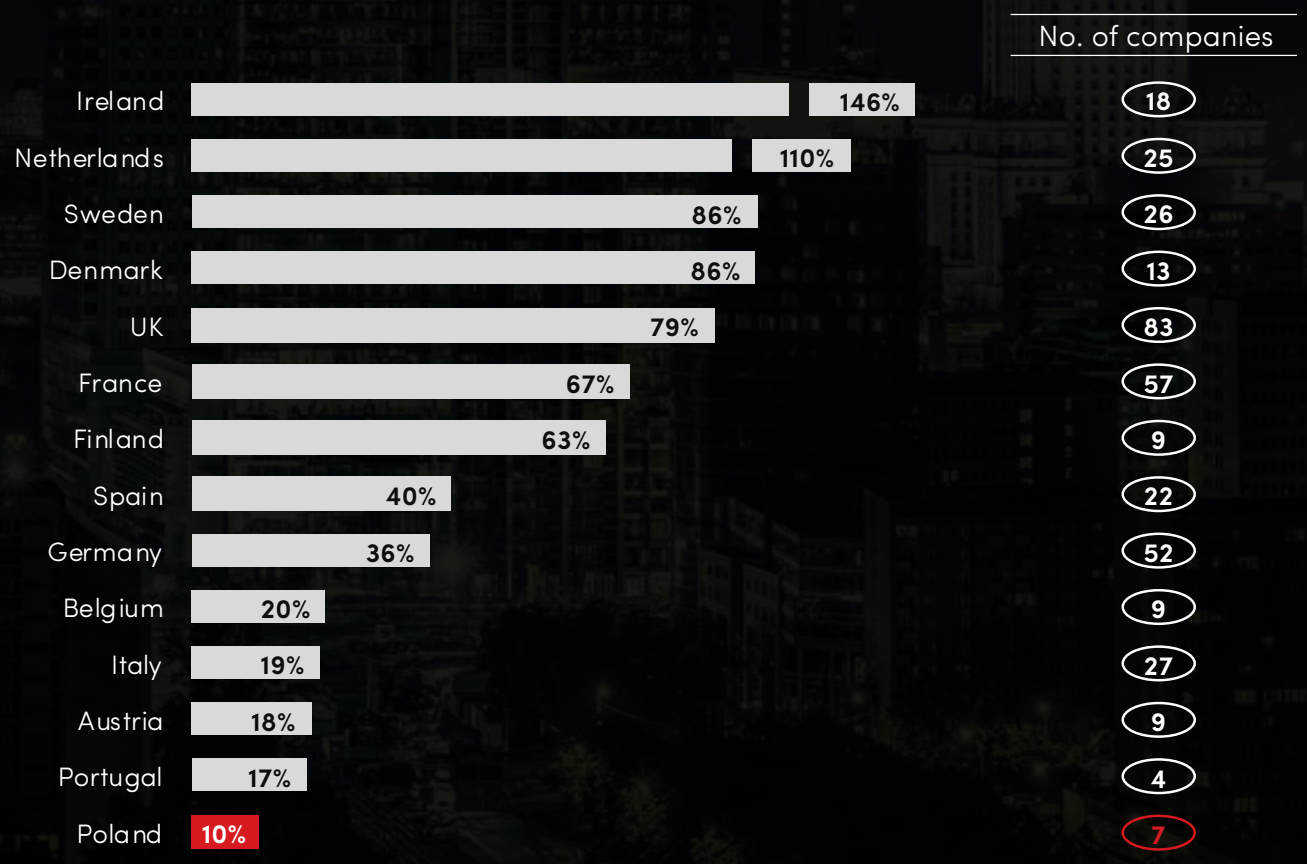
20%

Share of extra-EU markets in Polish exports of goods (one of the lowest in the European Union)

#7

Number of Polish companies among the world's 2,000 largest public companies (Forbes 2000 ranking)

Capitalisation of companies included in the Forbes 2000 ranking in relation to GDP of their countries of residence, 2018



Source: Forbes, IMF, Pekao Research

2 Internationalisation barriers for Polish firms

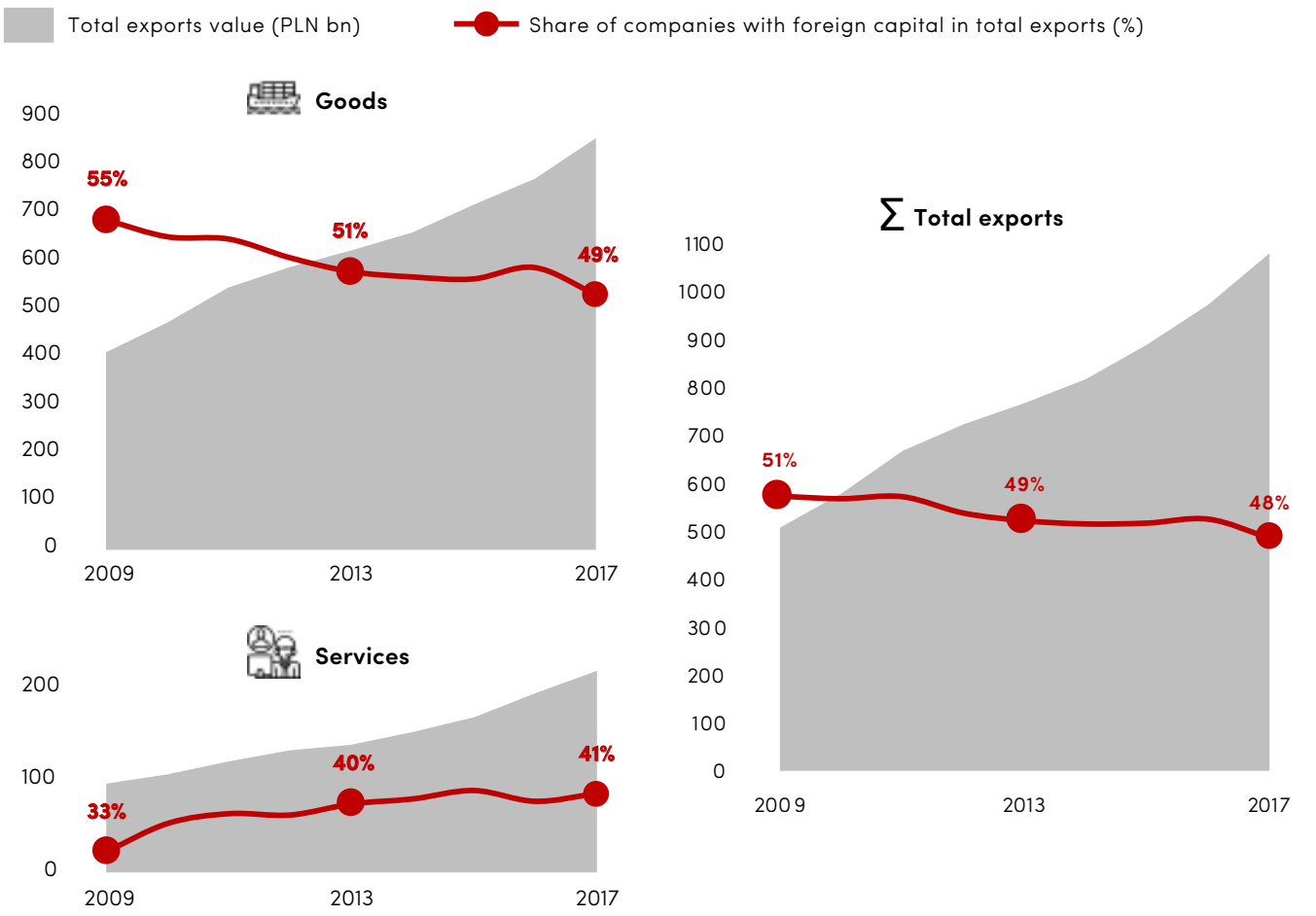
Despite numerous successes on international arena, we still haven't lived to see many true global champions, and Poland's growing position in global trade is largely owed to foreign companies present in our country. In their foreign expansion, Polish companies still face serious barriers.

How Polish really are the Polish exports?

Spectacular progress in the field of foreign expansion, measured by the dynamic growth in exports of both goods and services, also has a second side to it. Factors determining the international competitiveness of Poland, and thus supporting the growth of our country's role in global trade (especially large resources of a relatively cheap and qualified workforce) are skillfully used not only by domestic companies, but even more so by foreign firms. The latter optimise their activities by transferring part of their production to Poland and including it in their global supply chains. They are the ones that have largely determined the international success of the Polish economy in recent years. According to official statistics, nearly 11 thousand companies with foreign capital account for almost half of the total value of Polish exports, with as much as 90% of their foreign sales attributed to only 3.7 thousand of the largest entities (employing more than 49 workers). At the same time, foreign companies make up as much as 2/3 of firms that are among our country's top exporters.

The situation in this matter has not shown major changes for quite some time – since 2009 the share of foreign companies in Polish exports has decreased by only 3 percentage points (from 51% to 48% in 2017), mainly due to a diminishing role in the exports of goods. On the other hand, Polish exports of services are increasingly dependent on the activity of foreign firms - in this case their share has risen in the discussed period by 8 percentage points (from 33% to 41%).

Fig. 11 **Participation of firms with foreign capital in Polish exports of goods and services, 2009-2017**



Source: StatOffice, Pekao Research

Even though large participation of foreign companies in production and services activities in Poland is generally a positive phenomenon and a sign of the high investment attractiveness of our country, it also implies some further consequences. Strong inclusion of Poland in the Western conglomerates' global network of connections translates into:

- **significant import-intensity of exports** – OECD statistics show that an above-average portion of total value added of Polish exports is generated outside our country's borders (so called foreign value added – FVA). Its share in cumulative value added of Polish exports (nearly 27%) is higher not only than the developed countries' average, but also that for developing economies. This means that Poland imports a relatively large amount of intermediate goods, which – after often only slight processing – are re-exported abroad[3];

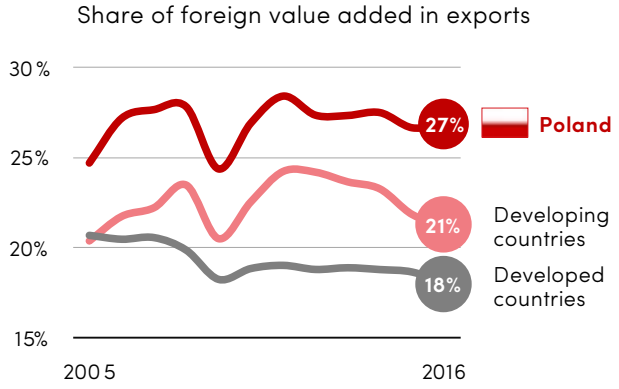
- **to a large extent the subcontracting nature of export production** – a comparatively high percentage of exports' value added (nearly 22%) does not go directly to the consumers' countries, but is used in further exports of other countries. In numerous cases the whole process is carried out within one corporation – this is confirmed by Central Statistical Office statistics, according to which as much as 1/3 of the exports value attributed to companies with foreign capital constitutes sales to parent companies and affiliates. However, this problem concerns also many domestic firms which, due to poor recognition of their brands on foreign markets, produce their export goods anonymously (i.e. under the logo of their foreign recipients).

These relationships indicate some weaknesses of the Polish export sector and potential threats to further expansion. First of all, the role of a subcontractor means that the recipients of Polish goods are often not aware of their country of origin, and Poland has failed to create a significant number of globally recognised brands. This limits the possibility of achieving attractive margins based on marketing effects. Secondly, the Polish export sector is potentially very sensitive to the expected growth in labour costs, which will be a consequence of demographic processes (limited labour supply). This may prove to be a factor inclining international corporations to change the geographical structure of production and adjust the global supply chains.

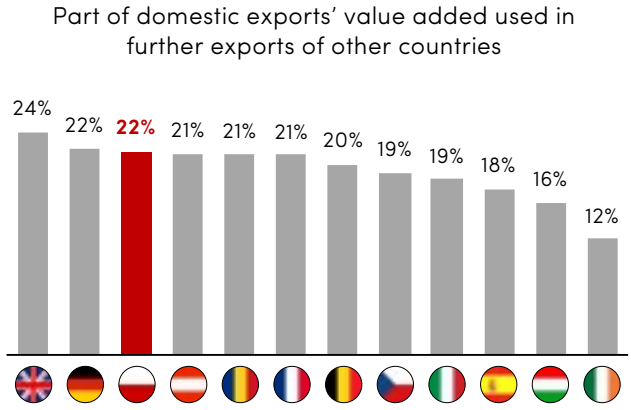
Moreover, **despite the major role of foreign investment, inflow of technology and modern production methods, Poland uses the imported know-how to develop its own competitive products and production methods to a limited extent**. In other words, the diffusion of imported technologies and production organisation is still limited.

Fig. 12 Decomposition of Polish exports' value added

Polish exports contain a large element of foreign value added (import-intensity)



...while its significant part does not go directly to the consumers' countries (subcontracting)



Source: OECD (Trade in Value Added 2018), Eurostat, Pekao Research

[3] It should be emphasised, however, that this phenomenon is characteristic of many countries in the region, and in the Visegrad Group countries the mentioned share of foreign value added is even higher than in Poland (e.g. in the Czech Republic it amounts to as much as 38%).

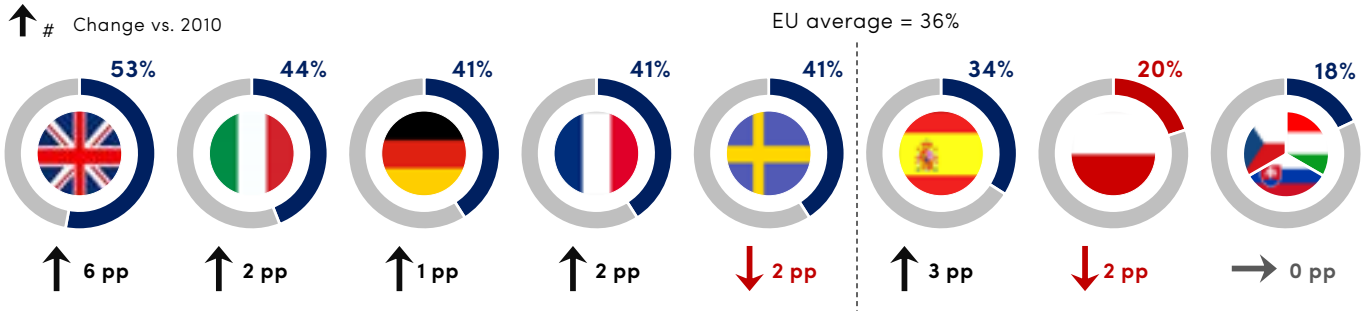
Foreign expansion limited mainly to the EU market

An analysis of the ownership structure of Polish exports indicates that the scale of international operations of domestic companies (with Polish capital) is still much smaller than the aggregate data on foreign trade would suggest. Strong capital links of 'Polish' exporters with Western European corporations translate also into a clear dominance of EU countries in its geographical structure. **Along with the other Visegrad Group countries, Poland is the exporter most strongly oriented towards the EU market among all Union countries. Only 1/5 of the value of Polish exports of goods goes to third countries**, and this percentage has even dropped significantly in recent years – mainly as a result of a strong deterioration of economic relations with the Russian Federation.

The relatively small importance of non-EU markets in Polish exports is not only due to the strong integration of Polish industry with the international structures of Western companies, but also **the limited presence of entities with dominant domestic capital on these markets**. They also focus primarily on the common market, targeting mainly the countries of our region. Their activity outside of the EU is often confined to, at most, near countries of the former USSR (Ukraine, Belarus, Russia, Moldavia).

In this respect, domestic producers encounter much stronger barriers to expansion than their Western European competitors. In many EU-15 countries active on the global economic scene, non-EU markets are responsible for at least 40% of exports, and in extreme cases (UK, Ireland) for up to half of its total value. A strong orientation on the EU market is, however, a characteristic feature of the countries of our region of Europe.

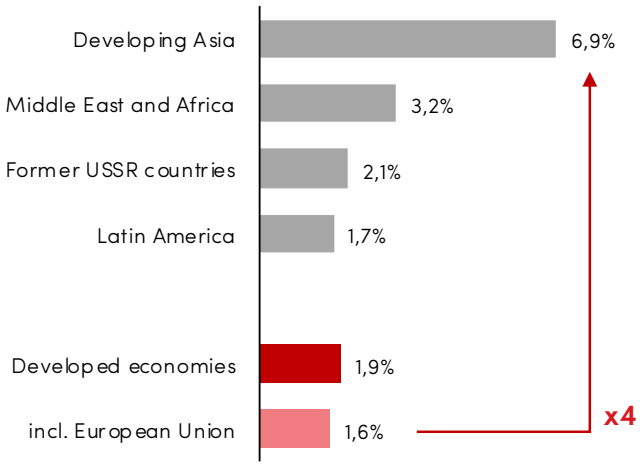
Fig. 13 **Share of third country markets in the total exports of goods from selected EU countries, 2018**



Source: Eurostat, Pekao Research

Given the fact that the European Union is currently among the slowest developing regions of the world, a strong export orientation in this direction can be a challenge – especially in the long term. In the face of stagnation of economic growth in the euro area, the main factor behind the development of Polish exports has been a consistent increase in our country's share in intra-EU trade (only between 2010 and 2018 it increased from 3.7% to around 5%), while the simplest growth reserves in this area have already been used. Although Polish exports outside the EU are growing faster than the average of other member countries, the growth as well as the level of our country's share in total extra-EU exports is not so significant (2.2% in 2018 vs. 1.8% at the beginning of the current decade).

Fig. 14 **Average annual economic growth by world regions, 2010-2018**



Source: IMF, Pekao Research

Polish companies still make very little use of the potential of the largest third country markets

The fact that to date a relatively low percentage of Polish companies has decided to expand outside the European Union means that either they did not feel such a need (because they successfully strengthened their position on the EU market), or came across barriers that were difficult to overcome (including capital, information, cultural, marketing or technological). Therefore, **they largely missed out on a huge business potential, which characterises especially the largest markets of third countries, and which has been effectively explored in recent years by Western European corporates** – often with the help of subcontracting carried out in Polish factories.

The 10 largest import markets outside Europe account for nearly half of global imports (USD 8.5 tn in total). Some of them (e.g. the American, Chinese, Indian and Mexican markets) are characterised by a rather dynamic growth rate (8-year CAGR of imports between 4-6%), attracting exporters from all over the world.

Yet, **while the largest EU exporters have as much as a 4- 5% share in sales to some of them, usually ranking among the top ten or second ten of largest foreign suppliers, our country's share in any of them does not exceed 0.5% of total imports**. The best example is Chinese market, where Poland with only 0.2% of cumulated imports is at the end of the sixth ten, while China is the second largest exporter of goods to our country (with nearly 12% of Polish imports). We send goods with a total value of about USD 2.5 bn to the most populous country in the world, which is mere 15% of what goes from Poland to the just 10-million Czech Republic.

Fig. 15 Position of selected EU countries on the 10 largest non-European import markets, 2018

Market	Total value of imports (USD bn), 2018 (Share in world imports)	Position and share in total import of goods (2018)						
		Germany	United Kingdom	Italy	France	Sweden	Poland	Czechia
USA	2,612 (13%)	4.9% #5	2.4% #7	2.2% #10	2.1% #11	0.5% #33	0.3% #38	0.6%
China*	2,326 (12%)	4.9% #5	1.5% #17	1.2% #23	1.7% #15	0.4% #38	0.2% #57	0.6%
Japan	748 (4%)	3.5% #8	1.1% #20	1.5% #16	1.5% #17	0.4% #34	0.1% #54	0.3%
Korea	535 (3%)	3.9% #5	1.3% #18	1.2% #19	1.1% #21	0.3% #36	0.1% #51	0.3%
India	508 (3%)	2.7% #13	1.4% #23	1,.% #26	0.7% #32	0.3% #45	0.2% #55	0.1%
Mexico	464 (2%)	3.8% #4	0.5% #18	1.4% #9	0.9% #15	0.2% #31	0.2% #30	0.7%
Canada	460 (2%)	3.2% #4	1.5% #7	1.5% #8	1.2% #9	0.4% #22	0.4% #24	0.4%
Singapore	370 (2%)	2.7% #11	2.1% #15	1.2% #20	3.1% #9	0.3% #31	0.1% #44	0.2%
Taiwan	286 (1%)	3.5% #5	0.7% #22	0.9% #20	1.3% #16	0.2% #38	0.1% #52	0.3%
UAE	262 (1%)	4.2% #5	2,9% #6	2,5% #9	2,5% #10	0.3% #46	0.4% #44	0.5%

* Together with Hong Kong (excluding trade between this enclave and Mainland China)
Source: IMF, Pekao Research

China is not the only large and remote market whose export potential is clearly not being utilised by Polish companies. Another example is the market of the biggest consumer in the world – the USA, with whom Poland remains in a close alliance, both strategically and militarily. Last year, exports to the United States accounted for only about 3% of total foreign sales of Polish companies (only the eighth most important destination of Polish exports). This places Poland at the end of the fourth ten of the main external suppliers exporting to the USA (with a marginal, only 0.3% share in the total imports of this country).

It is worth noting that the presence of Polish companies on key markets outside the EU is not only much weaker than that of companies from the largest EU countries, but they are also inferior in this respect to, for example, companies from 10-milion Sweden. **Poland's share in the imports of the analysed countries is usually quite significantly lower than the total share of other Visegrad countries** (Czech Republic, Hungary, Slovakia), which together present economic potential similar to our country (measured by the nominal GDP). Although companies from these countries are even less present outside the EU than those from Poland, they cover the analysed key markets with a significantly higher share of their exports (approx. 10% vs. only 7% in the case of Poland). This may indicate that their local export support systems, as well as the companies' strategies, focus primarily on the largest 'elements of the global jigsaw puzzle'.

Foreign expansion in the Polish sense means almost exclusively export. The capital engagement of domestic companies on foreign markets is still very low.

The strong expansion of Poland in the area of international trade has clearly contrasted in recent years with the persistently relatively low capital involvement of Polish enterprises on foreign markets. Even though a growing number of companies gradually develop their own networks of foreign agencies, in contrast to the successes achieved in export, in this second area there is still a lot to be done – all the more so because Poland clearly stands out in terms of foreign investment activity of domestic entities:

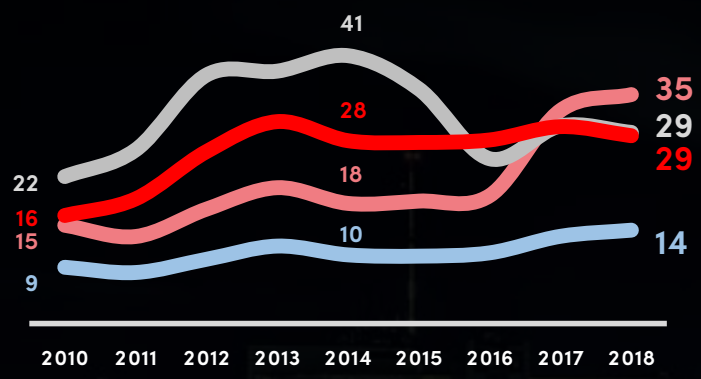
- **the cumulative value of Polish foreign investments at the end of 2018 amounted to approximately USD 29 billion (UNCTAD data), i.e. slightly less than Hungarian companies and 18% less than Czech companies.** At the same time, it was only twice as big as the entities from the Baltic States, which have only 6 million inhabitants;

- after a period of dynamic growth of foreign investments of Polish companies in the first years after accession to the European Union, **their cumulative value has not shown any upward trend in recent years** (since 2012 it has increased in total by only 9%, while in the case of the Czech Republic it has doubled, and in the Baltic countries it has increased by almost half);

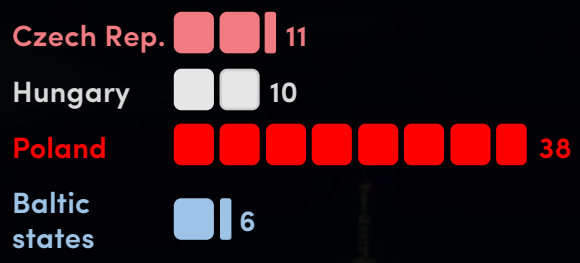
Investment activity of Polish companies abroad

1 Polish foreign investment are relatively low even compared to much smaller countries of our region

Outbound foreign direct investment (USD bn)

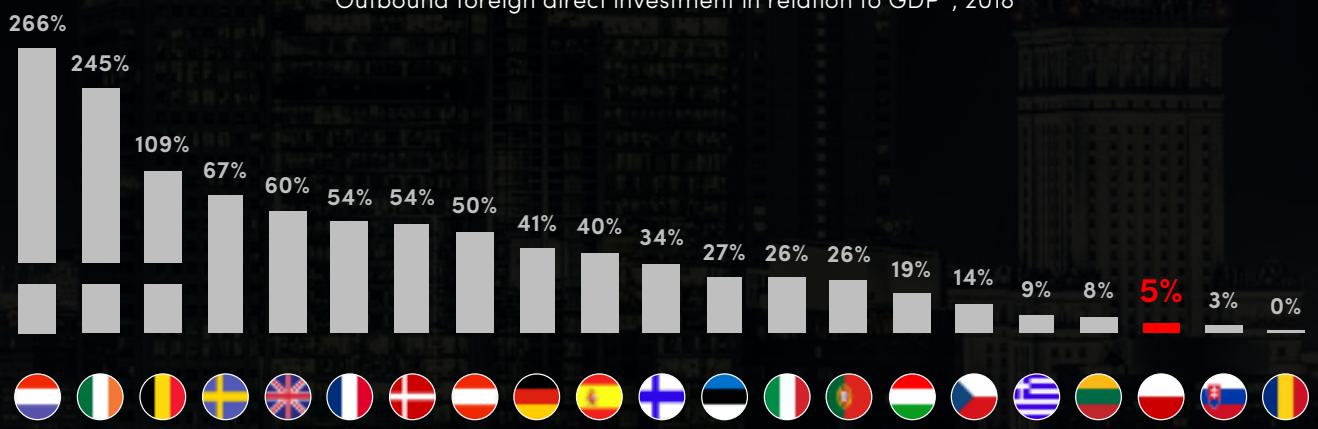


Population (mln people)



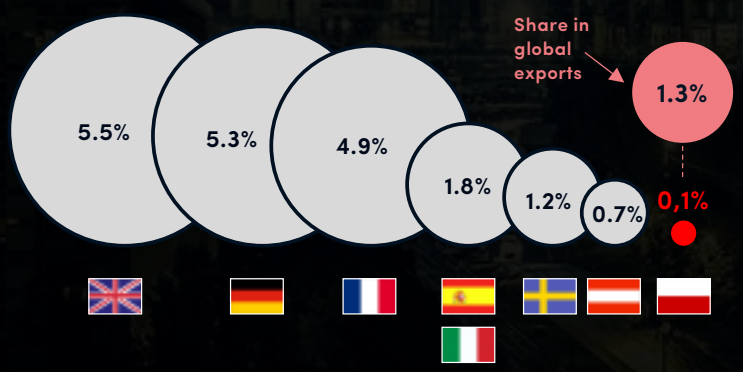
2 In terms of relation to GDP, foreign direct investment of Polish companies is among the lowest in the European Union

Outbound foreign direct investment in relation to GDP*, 2018



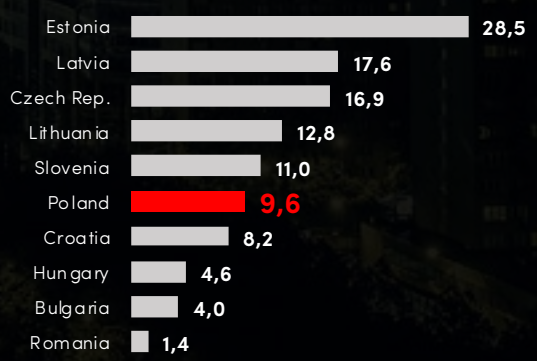
3 Our role in the global foreign investment is marginal

The role of the investor country in global FDI, 2018



4 Polish firms are still not utilising the potential of cross-border M&As

Number of cross-border M&A transactions per 10 thousand active companies, 2016-18



* The comparison excludes countries with particularly liberal regulations concerning business activity, where the relation is unnaturally high (Luxembourg, Cyprus, Malta). For the same reason, the Netherlands, Ireland and Belgium also have a very high level of this indicator.

Source: UNCTAD, Intracen, Mergermarket, Pekao Research

- an indicator that reflects very well the low capital engagement of Polish companies abroad is the ratio of such investments to GDP (a mere 5%), which places Poland in the 4th place from the end among all European Union countries.

As a result, the role of Poland as in investor in global FDIs is quite marginal – the share of our country in the world stands at just 0.1%, compared to the already mentioned 1.4% and 1.2% share in global trade of goods and services, respectively.

The limited capital expansion of Polish firms has far reaching consequences. Basing foreign activity solely on exports with limited awareness of Polish brands abroad usually means that it is necessary to position oneself in the lower pricing segments, and thus achieve lower than potential margins on such activity. Although acquisitions of foreign companies – especially those present and recognised on developed countries' markets – may prove to be quite a challenge for most Polish firms, they can bring benefits that are difficult to overestimate, such as gaining a strong local brand, extremely valuable business contacts or a well-developed network of suppliers and customers, which should ultimately translate into higher profits.

In particular, Polish companies could play a more active role in consolidating the still highly fragmented Central European market. A number of local firms, growing up on a relatively large internal market, have already reached a critical mass allowing them to take over other companies in the region - even more so because the latter are often characterised by much smaller scale of operations, thanks to which they are within the financial reach of not only the largest, but also medium-sized Polish corporations. It is best illustrated by the fact that in the latest ranking of the 500 largest companies in Central and Eastern Europe by Coface, Polish entities make up by far the largest group (175), having incomparably greater business potential than regional competitors (as much as 39% of total revenues of companies included in the ranking and 35% of their accumulated profits).

Pekao najlepszym doradcą przy transgranicznych fuzjach i przejęciach

Maciej Jacenko
CEO,
Pekao Investment Banking S.A.

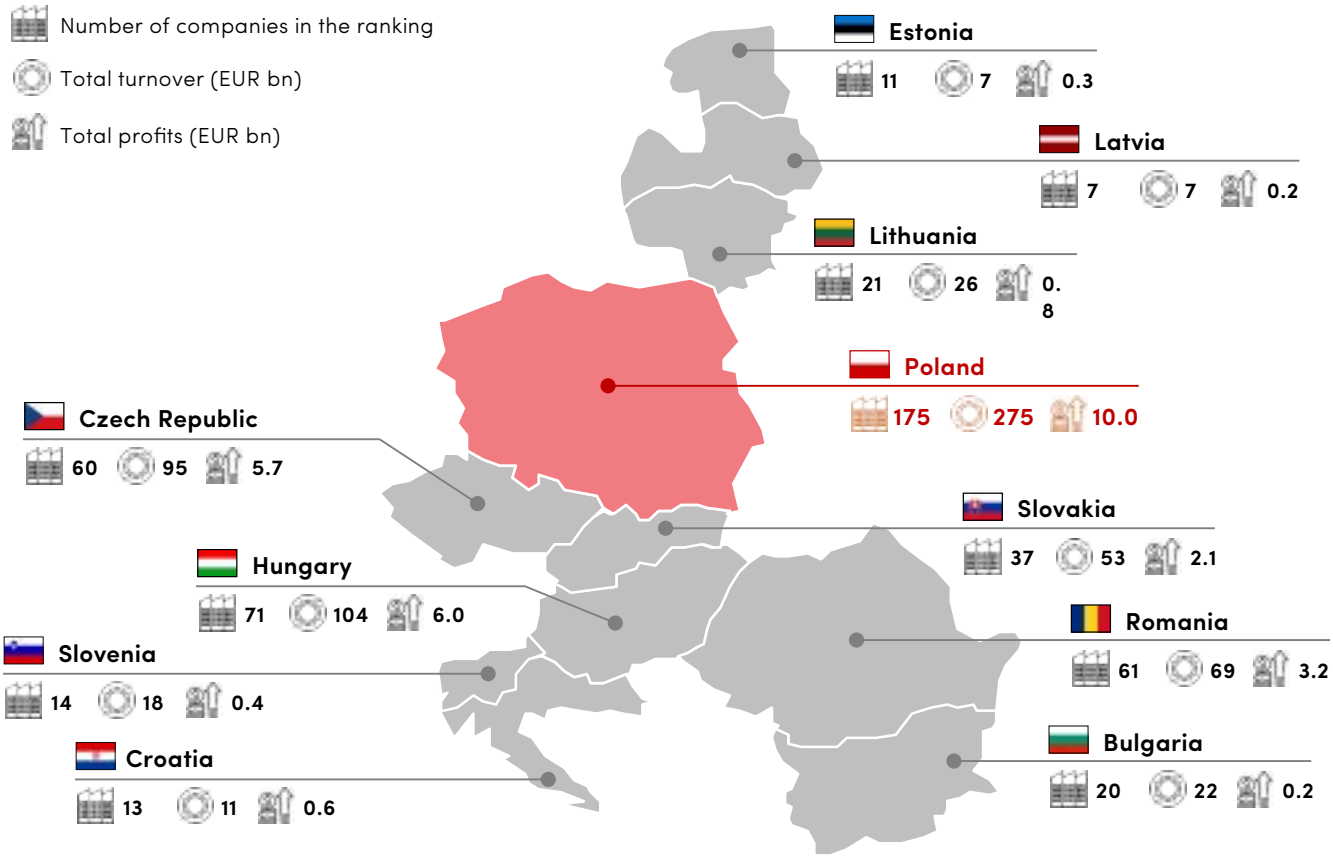
As part of Pekao Investment Banking, we see a growing interest in cross-border transactions and in order to respond to them, PIB is currently in the process of dynamic development of international transactional capabilities.

Firstly, today we have proven partners in Romania, Hungary, Slovenia, Serbia, Croatia, Bulgaria and the Baltic Republics, because we needed a network of consulting companies cooperating with us in other countries of the region. We see many investment opportunities on these markets and we can also respond to the needs of the largest investors from these countries in Poland.

We also acquire partners thanks to whom we can provide services to investors from Western Europe, as well as from other regions of the world. We regularly present our market and investment opportunities in major European financial capitals, and we are a strategic partner of one of the world's largest investment banks, Lazard Bank.

Today, Pekao Investment Banking as one of the few entities on the Polish market is able to handle even the most complex cross-border transactions, and we see a growing interest in them among Polish companies. Our ambition is to be the best investment bank for the entire region of Central and Eastern Europe.

Fig. 16 500 largest companies in Central and Eastern Europe – by country*, 2018

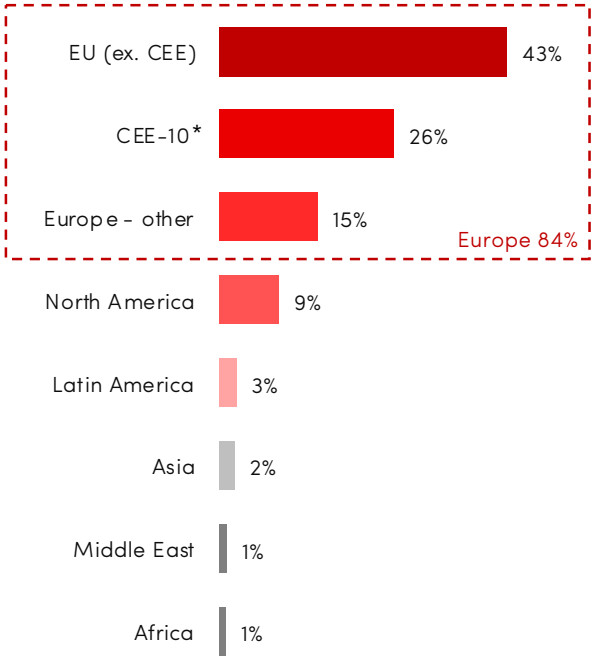


* The comparison omits Serbian firms included in the ranking
Source: Coface, Pekao Research

Meanwhile, comparisons of the number of cross border mergers and acquisitions involving Central European companies (as buyers) show that also in this area the potential for expansion of Polish firms has not been optimally utilised in recent years. Significantly higher activity in this area (measured by the number of cross-border M&A transactions per 10 thousand active entities) is characterised, among others, by Czech and Baltic companies[4].

Despite this, countries of the region are still responsible for over ¼ of the total investment of Polish companies abroad. Other EU countries account for a further >40% of their total capital exposure, with the vast majority of them concentrated in countries considered to be 'tax havens' (Luxembourg, the Netherlands, Cyprus and Malta). This, in turn, may suggest that a large part of Polish companies' FDIs is related more to financial optimisation of their operations than to actual foreign expansion.

Fig. 17 Polish foreign direct investment – by global region, 2017



Source: NBP, Pekao Research

[4] We cover this subject in more detail in our report „New opening. Challenges facedby Polish companies as a driving force of M&A market" from June 2019

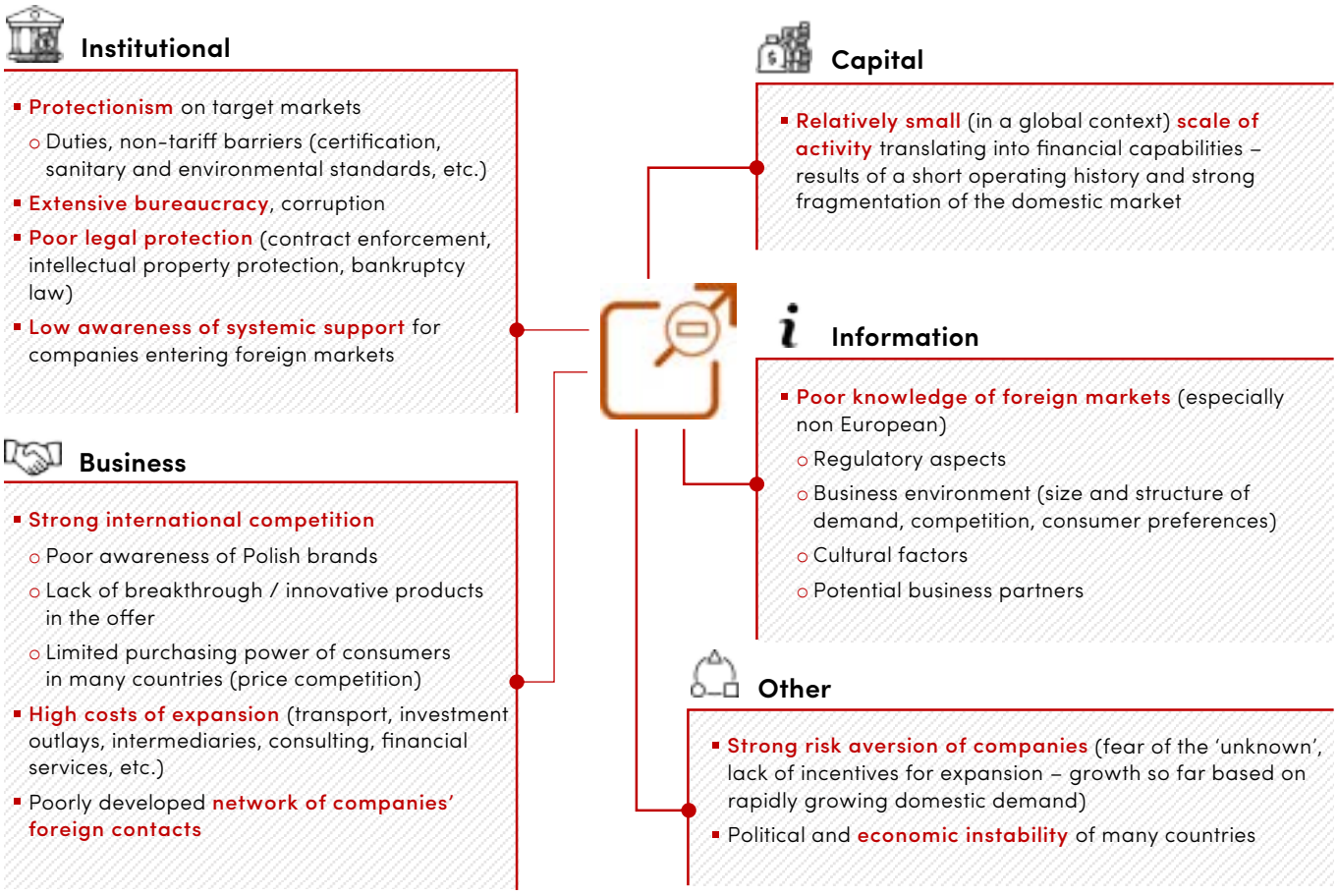
At the same time, data on Polish direct investments abroad confirm that domestic companies are almost absent outside Europe. Their capital involvement on other continents constitutes just 16% of the total and corresponds to only 1% of GDP.

Particularly noteworthy is the extremely low share of Asian countries (3% including the Middle East), which account for nearly 60% of the world's population, more than 1/3 of global GDP and even 2/3 of total global economic growth. In the years 2015-2017 alone, they received a total of over USD 1.5 trillion of foreign investment (about 1/3 of total FDI in the world in that period). Due to often restrictive trade regulations (protectionism) and numerous other barriers (including cultural ones), being a local producer/service provider in these markets is often a prerequisite for business success. In the case of many local markets (incl. China), capital expansion often takes place in the form of joint ventures with local companies.

What is the reason for the limited presence of domestic companies on foreign markets?

A strong contrast between the growing openness of the Polish economy and the relatively weak international activity of domestic entities is a result of many factors that limit or effectively discourage their expansion into foreign markets. Barriers of internationalisation are the bigger, the smaller are the entities. At the same time, the faster a company enters foreign markets, the more likely it is that it will become a global player in the future. This is because a presence on world markets facilitates the growth of its recognition, as well as allows for building business relationships that ensure not only faster sales increase, but also the flow of technological know-how, upon which success in international business is increasingly based.

Fig. 18 The key barriers of internationalisation for Polish companies



Source: Pekao Research

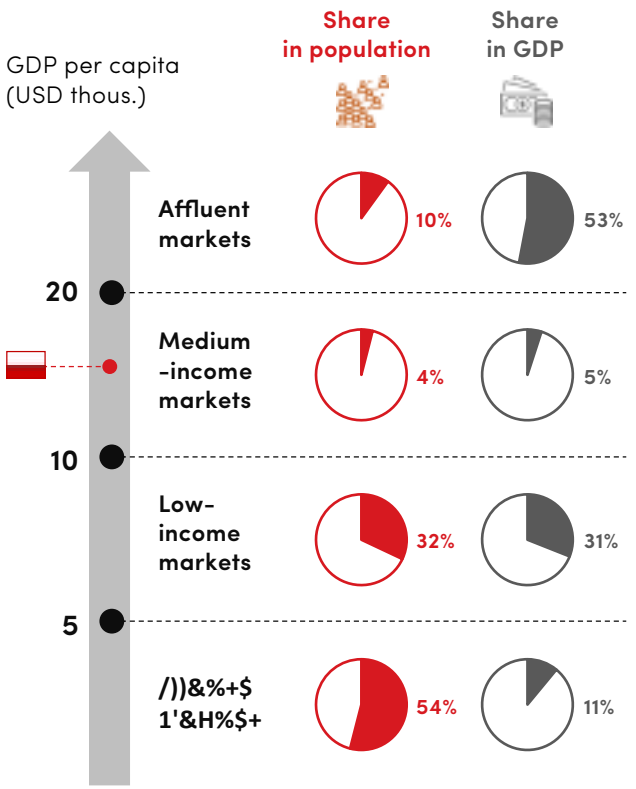
The range of barriers faced by Polish companies in their foreign expansion is wide and diverse. Many domestic companies do not expand their international structures, or at least not excessively, limiting themselves mainly to markets of the region or Western European countries. **Reaching beyond the continent is often considered an unknown, of which they are afraid** due to the unnecessary risks associated with it. This approach was strengthened for many years by a rapidly developing domestic business and more and more successes on European markets.

Expansion into distant foreign markets is often seen by Polish enterprises as quite difficult and relatively unattractive. Although they are usually characterised by a higher pace of growth, only a small part of them corresponds to the economic characteristics of the Polish or regional market:

- **over 80% of the population of the markets in question lives in countries with low or extremely low average incomes** (GDP per capita below USD 10 thous.). On one hand, such markets are potentially attractive thanks to large population and strong demand base. In many areas, they lack native technologies, so Polish companies can position their offer there as a **cheaper equivalent of expensive products** from the most developed countries. On the other hand, there are **a numer of barriers**. Competition on such markets is usually strictly price-related, which exerts influence on both the ability to stand out and on margins. At the same time, they are often **very different culturally**, which requires adjustments in product characteristics, and frequently also in applied business practices. One of expected elements granting access to the market is the direct engagement in the form of investment. Many of the underdeveloped countries are **politically unstable**, while conducting activity therein is associated with several non-economic risk factors;

- **a further 10% of the population are the wealthiest and most demanding markets**, with more than half of total GDP concentrated on them. Entry barriers here are particularly high and associated with the obligation to not only meet demanding quality standards, but also to raise awareness of the brand among local consumers;

Fig. 19 **Structure of non-European markets by average wealth level, 2018**

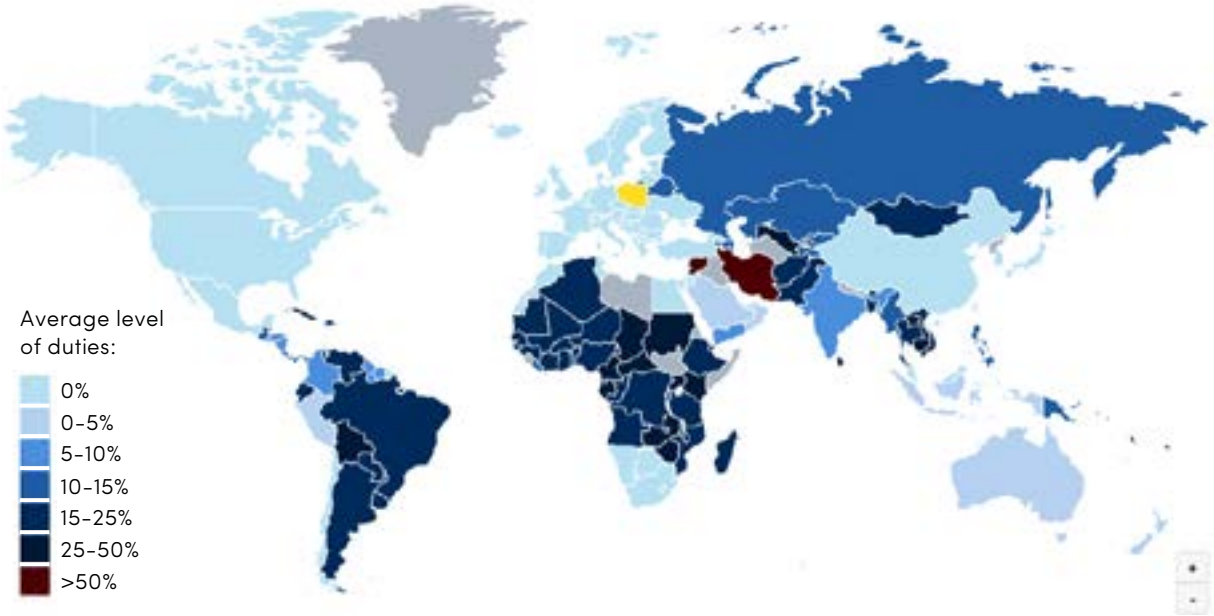


Source: IMF, Pekao Research

- **other markets, similar to Poland in terms of wealth level** (USD 10-20 thous.) and consumers' expectations, **account for only 4% of the population**. Access to the largest of them – Russia – has been greatly hampered for the last couple of years due to political factors.

In addition, there are often various types of trade barriers posed by the protectionist policies of many countries. These include high duties (lowering the price attractiveness of Polish products), as well as multiple non-tariff barriers, such as local quality certificates or sanitary and environmental requirements. The former, in particular, can vary greatly depending on the importer country, supplier or type of product, seriously distorting the competition rules on a given market. In a number of countries excessive red tape, often leading to corruption, is also a major challenge, discouraging trade activity. Companies considering expansion are also very doubtful about the protection of intellectual property and actions in the event of insolvency of their business partners.

Fig. 20 **Differentiation of duties on products imported from Poland (example of kitchen furniture)**



Source: Intracen

The limited presence of Polish companies on global markets, and consequently a small number of global conglomerates, is also an effect of serious capital barriers. Foreign expansion is associated with high costs related not only to ensuring proper logistics, but also necessary to incur investment outlays (establishment of foreign branches), costs of promotion, need for currency hedging or paying for intermediaries and other service providers (e.g. consulting companies advising on expansion or supporting in the finding of business partners). These are often costs that enterprises do not incur (or at least not on such scale) when operating on the local market.

The limited financial capabilities of Polish companies is largely determined by their relatively short history of operations. Polish capitalism is only 30 years old – local corporations that have developed in this time can still barely be compared with multi generational Western businesses. Even though they operate on a relatively large internal market, it is still characterised by strong fragmentation, due to which the scale of activity of even the largest Polish enterprises does not allow them to stand out on global markets. Capital barriers to the foreign expansion of Polish firms have been strengthened over the years by the limited access to financing, resulting both from low number of effective tools to support foreign activities and the underdevelopment of alternative sources of financing, such as the capital market – incomparably less developed than in most mature economies.

Insufficient knowledge about foreign markets and difficult access to such information (or unawareness of such access) – **especially distant and exotic markets – is also a factor preventing Polish companies from expanding abroad**. The success of expansions relies to a large extent on proper identification of the target market – its economic reality (size and structure of demand, level and nature of the competition, market trends), as well as the regulatory and socio-cultural environment (consumer habits and preferences, non legal rules of conducting business).

Given so many barriers encountered by companies in their foreign expansion, **appropriate systemic support of government agencies becomes particularly important**. In a number of Western European countries such systems played a key role in achieving a strong position on the interna-

Pekao modern Transactional Banking as a support for daily operations of Polish companies

Andrzej Furstenberg
Director
of Transactional Banking
Department

The growing operational activity of corporate clients poses a number of challenges for Bank Pekao in terms of support for customers in their daily business settlements. Analysing the changing legal environment (including EU regulations), the Bank provides its customers with tools that facilitate the settlement processes and the execution of cyclical domestic and foreign payments, at the same time ensuring the security of trade transactions.

An increasing number of companies are deciding to implement services that enable identification of receivables in order to reduce manual work associated with accounting of income. Bank Pekao SA, having the biggest share in mass payments settlements and utilising Pekao Collect service, settles several million transactions per month for key sectors of the Polish economy. The service ensures fully automated identification of all repeatable payments, not only in Polish zlotys, but also in many foreign currencies.

The growth of enterprises also forces the introduction of tools that guarantee the safety of settlements, as well as the automation of accounting processes. In response to the new forms of settlement introduced, such as the Split Payment Mechanism, we provide clients with tools from the Pekao Connect products portfolio, enabling direct system integration with ERP systems available on the market. In turn, the utilisation of web-services technologies and XML messages results in the introduction of modern standards of information exchange, at the same time increasing the security of communication with the bank thanks to the limited interference of operational employees.

Expectations of bank customers in terms of technology – corporates and, increasingly, small and medium enterprises – revolve also around traditional trade finance products. A vast majority of 'document' transactions, such as letters of credit and collection, are handled for our customers via Internet platforms, while electronic debt financing was taken to the next level with the introduction of Open Financing Platform – a portal for bank customers of all segments, available also on mobile devices.

tional arena by local companies. In Poland, this support was in the past quite scattered and insufficient from the economic point of view (inadequate budget), and despite the efforts made, it may still require some further improvements (more on this subject in Chapter 4). **However, even the best state aid will not guarantee market success if the producer does not offer products that match the needs of local consumers and whose brand does not enjoy the necessary recognition among them.**

Finally, it is worth noting that the barriers to the internationalisation of Polish enterprises vary at different stages of their development as evidenced, among others, by the Bank Pekao survey carried out last year among representatives of micro, small and medium-sized enterprises[5]. **Companies with less than 250 employees point to strong competition in foreign markets, FX risk and difficulties with finding new workers** (understandable considering higher competences required in an international environment) **as the main obstacles to foreign expansion**.

[5] 'Raport o sytuacji mikro, małych i średnich firm w roku 2018', Bank Pekao 2019

Barriers to foreign expansion according to Polish SMEs[6] (% of indications)

[6] Survey in the form of a telephone interview on a sample of 7448 micro, small and medium enterprises, conducted by PBS
Source: 'Raport o sytuacji mikro, małych i średnich firm w roku 2018', Pekao SA

In the perception of entrepreneurs, the intensity of many barriers rises when companies with smaller scale of activity are considered. In particular, small and micro enterprises more frequently than medium companies point to such obstacles of internationalisation as: difficulties with verifying the counterparty's credibility, costs of export that exceed their capabilities, inadequate promotion of Polish products from public funds or lack of business contacts abroad. In turn, among medium-sized companies areas such as extended payment terms from counterparties (often also payment delays) or costs associated with intermediaries are of more importance.

Barriers to internationalisation and a relatively short history of activity result in a lack of truly global Polish champions

There are numerous benefits of the internationalisation of companies, and domestic entities are increasingly aware of the fact. However, they face multiple barriers along the way, while the relatively short history of Polish capitalism means that an overwhelming majority of them have not yet developed into world leaders. Although the leading Polish companies that are at the forefront of regional rankings of the largest entities, they are still relatively insignificant on a global scale. **In recent years, Poland has advanced in the classification of the world's largest economies and exporters, yet no Polish company managed to reach the global top**, and even the largest ones limit their activity mainly to our region of Europe.

Fig. 21 **Companies from the Forbes 2000* ranking in the largest economies of the European Union, 2018**

Country	Population (mn)	Nominal GDP (USD bn)	No. of companies in ranking		Total market capitalisation	
			Total	TOP 500	USD bn	in relation to GDP
Germany	83	4 000	52	20	1 449	36%
UK	66	2 829	83	28	2 247	79%
France	67	2 775	57	25	1 849	67%
Italy	60	2 072	27	6	403	19%
Spain	47	1 426	22	8	564	40%
Netherlands	17	913	25	11	1 007	110%
Poland	38	586	7	-	60	10%
Sweden	10	551	26	5	473	86%
Belgium	11	533	9	1	109	20%
Austria	9	458	9	2	83	18%
Ireland	5	373	18	5	543	146%
Denmark	6	351	13	4	301	86%
Finland	6	275	9	1	173	63%
Czech Rep.	11	242	1	-	13	5%
Romania	20	240	-	-	-	-
Portugal	10	239	4	-	42	17%

* The ranking includes the 2,000 largest public companies in the world in 2018.
Source: Forbes, IMF, Pekao Research

It is best reflected in the number of companies from EU countries included in the Forbes 2000 ranking, which gathers the largest public firms in the world. Among the 15 largest economies of the Union, only our region's countries have less representatives in this prestigious ranking (Czech Republic, Romania). In this year's edition of the ranking, only 7 entities from Poland were included, while their presence in this elite group is owed to operating on a comparatively large internal market, and not particularly developed foreign activity. Among these, PKN Orlen is the only company that generates a significant part of foreign revenues, whose scope of expansion, however, is still limited chiefly to neighbouring countries' markets (Czech Republic, Lithuania, Germany). The number of Polish entities in the discussed ranking is modest considering the growing economic potential of our country. This is evidenced by the fact that many smaller countries of Western Europe often enjoy significantly more such champions. For example, the Forbes ranking includes 26 companies from Sweden, with a population of just over 10 million, and more than a dozen representatives from smaller countries such as Ireland or Denmark[7].

Is the lack of global champions a problem?

At this point, the key question arises as to whether having global champions is important at all. Even without them, our country has been one of the most dynamically developing economies in the world in recent decades, which has translated into growing wealth of Poles. In the context of described relationships that shape the global trade and the role that Poland plays in global supply chains (import dependent subcontracting that generate relatively little value added), it seems, however, that the **development of a few genuinely large and resilient conglomerates who operate on a global scale within a given economy may bring significant benefits for the country and its citizens**.

It is worth referring to the Forbes list once again. Many smaller Western European countries with a substantially higher GDP per capita and – despite their small population – still only slightly lagging Poland in terms of nominal GDP, would not have achieved their status based solely on a low-absorbent local market. At the same time, these are not countries which surpass Poland in terms of exports-to-GDP ratio (e.g. in Scandinavian countries, the ratio is currently lower than in our country). **They base their prosperity to a large extent on global corporations that developed in the past. These operate through a network of foreign subsidiaries that increase their total wealth and thus the national budget in the form of dividends.**

Key benefits of havingconglomerates with global scale

- Direct access to the fastest developingmarkets in the world
- Attractive jobs in the home country
- Facilitated access to modern technologies and innovative partners
- A good overview of global trends
- Creating favourable conditions (ecosystem) for local start-ups
- Supporting the internationalisation of other domestic companies
- Above-average margins
- Diversification of business risk

[7] In Ireland, however, they also include European subsidiaries of leading US corporations registered there.

Moreover, the multiplication of assets is all the easier for them as they often have direct access to the most developed markets in the world. Statistics prove to be the best evidence of the importance of such companies for the aforementioned countries. **The combined capitalisation of Swedish and Danish champions corresponds to the level of nearly 90% of the GDP of these countries, while in Finland the ratio is over 60%. In turn, the value of the 7 Polish champions who were included in the list is equivalent to only 10% of the Polish GDP.** A much higher ratio is also characteristic of the largest countries of the European Union. The capitalisation of the largest public companies from Great Britain and France (83 and 57 entities, respectively) accounted for 79% and 67% of GDP of these countries at the end of 2018. Even in the least developed of the large western countries, Spain, the relationship is at about 40%.

The development of global champions brings about a number of other benefits for the economy, more difficult to grasp with statistics. Although it is commonly believed that capital has no nationality, economic patriotism often plays an important role in strategic decisions taken at the highest level of such conglomerates. Business reality shows that **global companies tend to concentrate the most attractive jobs (e.g. in R&D) in their home countries**. From their perspective, the key is to leave there the most valuable part of their business (largely determining their global competences). In this case, a potential shortage of talents is solved by draining them from other countries (including Poland). This also applies to the most important managerial positions in these companies – from 80% to even 95% of CEOs in American, French, German or Italian companies are citizens of the parent company countries.

Building a global position is often a condition for keeping the company on the path of dynamic development. Activity on multiple markets provides a better overview of changing global trends, as well as facilitates access to modern technologies, also through strategic alliances with foreign innovative companies. It is much easier for large corporations with global scale to obtain such valuable partners for cooperation, while building proper 'mass' enables them to obtain unique competences also through numerous mergers and acquisitions.

Top players are also attracting many local start-ups and medium-sized companies, forming entire ecosystems. The latter have, therefore, a chance of much faster development and the necessary capital support, while champions are able to maintain the required level of innovation. Such ecosystems are a self-propelling development mechanism, which over time often goes beyond the basic competences of champions, giving them an opportunity to appear in other attractive business areas, increasing the spectrum of their possible further expansion. Global players also frequently act as ambassadors for a given country, often opening gates to different markets for other domestic players and thus actively supporting their internationalisation.

Developing a strong global identity also enables companies to position themselves in higher pricing segments, in which the achieved margins (and thus generated profits) are to a large extent determined by the brand. On the other hand, a presence on multiple markets often allows for diversification of business risk and avoidance of undesirable fluctuations related to the business cycle in a given region of the world.

DEMOGRAPHY

-9%

Projected decrease in the number of people of working age (15-64) by 2030

-4%

Expected decline in the number of people employed by 2030

BREXIT

6%

Share of Great Britain in Polish exports (3rd most important market)

>10%

Share of exports to Great Britain in revenues from sales of steam generators, consumer electronics, pumps & compressors and fibre optic cables

ENERGY COSTS

x5

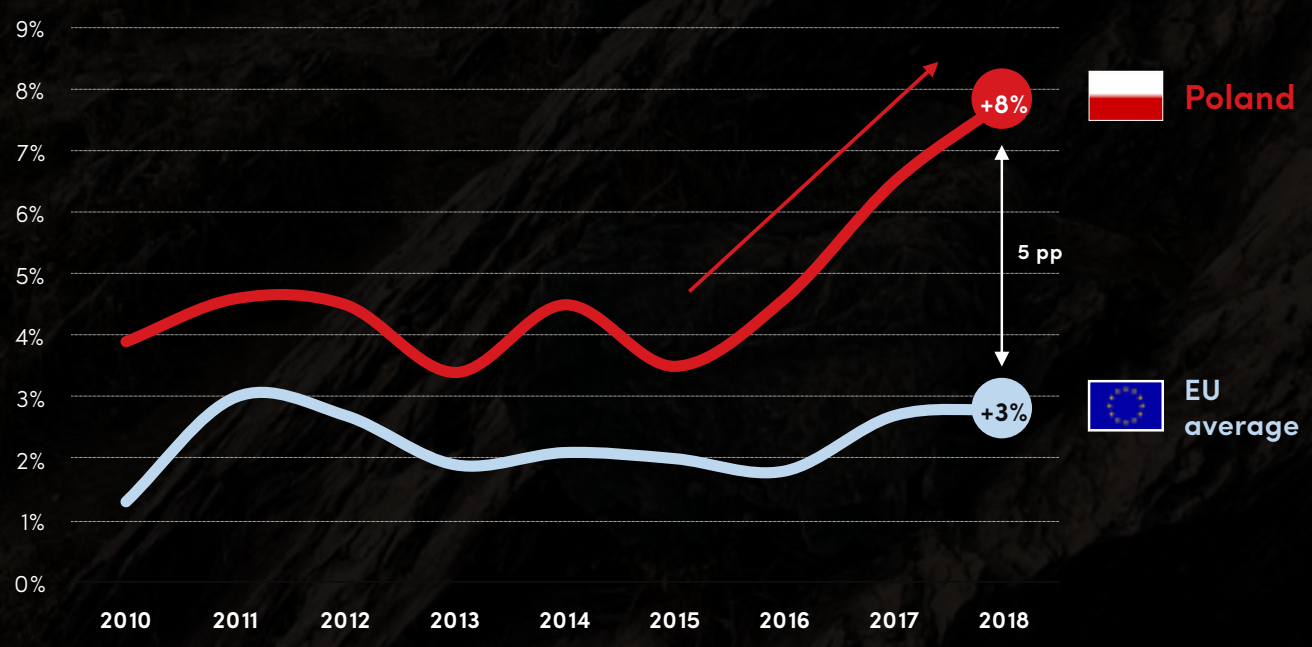
Increase in the price of CO_2 emission allowances since July 2017

TRADE WARS

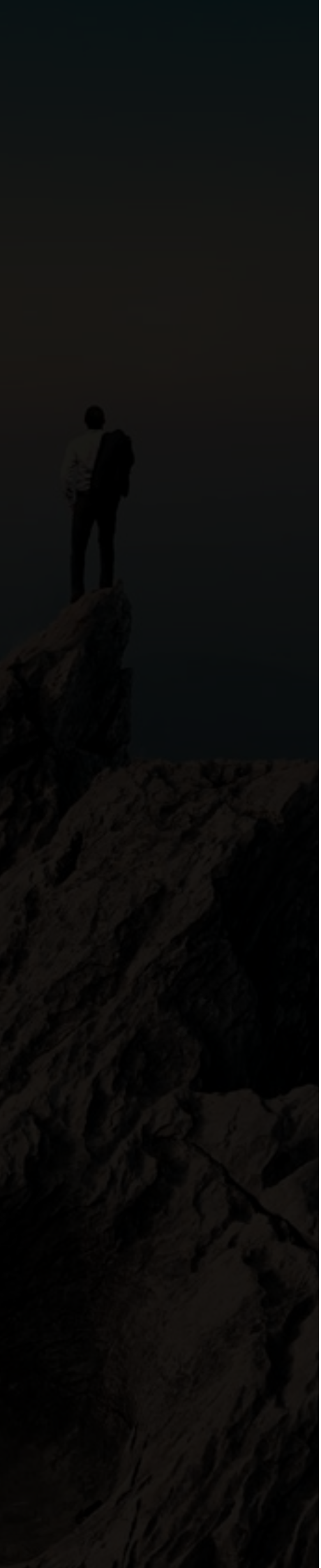
USD 735 bn

Total value of trade between the USA and China subject to customs duties until the end of 2019

Change in average wages in manufacturing (y/y), 2010-2018



Source: StatOffice, Eurostat, Pekao Research



3 A challenging time is coming

Growth factors of Polish exports are fading gradually. This process may accelerate significantly in subsequent years in the face of emerging structural challenges. Furthermore, there are other short-term threats such as trade wars or Brexit, in which Poland may both lose and gain.

In the next decade Poland's international competitiveness will be put to a serious test

Structural factors can weaken recent growth drivers of Polish exports in the coming years.

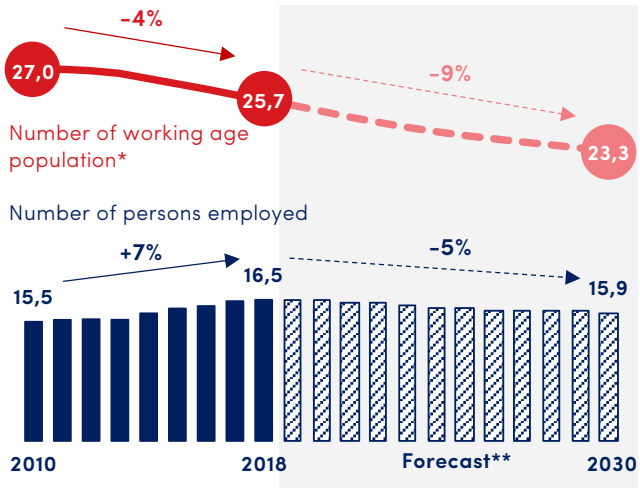
As a result, Poland's international competitiveness may gradually decrease, which will make it more difficult for domestic companies to gain market share abroad - at least at the current pace. The most important long-term challenges include:

1. **adverse demographic trends and related rising labour costs;**
2. **an increasingly restrictive EU climate policy, resulting in growing prices of CO_2 allowances**, which given the structure of national economy energy mix, will put pressure on the relatively low energy costs in Poland;
3. **rapid changes in the global technological environment** – developing digitisation and the industrial revolution 4.0 will redifine the rules of competition in many leading Polish industries;
4. **A possible decrease in EU funds** for Poland in the next European budget (loss of an important source of financing innovations).

The condition of the labour market is the most important challenge for maintaining international competitiveness, which is deteriorating due to adverse demographic trends. For about a decade Poland has been facing a gradual decline in the working age population (by 1.4 mln in 2011-2018) as a consequence of a shrinking and aging Polish society. Due to strong momentum of demographic trends, regardless of the fertility rate's impact in the next decades, Poland will face a further decline in the working age population (by 2.4 mln to 2030).

A decline in the workforce can be mitigated by a gradual increase of professional activity in Poland (especially people aged 45-64 years) which, combined with strong downward trend in unemployment rate over the past 5 years, has been conducive to a growing number of jobs in the Polish economy.

Fig. 22 Present and forecasted labour resources in Poland (mln), 2018-2030F



* 15-64 years ** Pekao forecast based on Eurostat demographic outlook
Source: Eurostat, Pekao Research

On the other hand, in recent years the upward trend has slowed down considerably and is about to change into a decline, which may strenghten in subsequent years amid a continuing shrinking workforce and lack of prospects for a further fall in the unemployment rate. **This will result in a long-term issue with a workforce shortage, which will be only slightly shaped by economic cycles.**

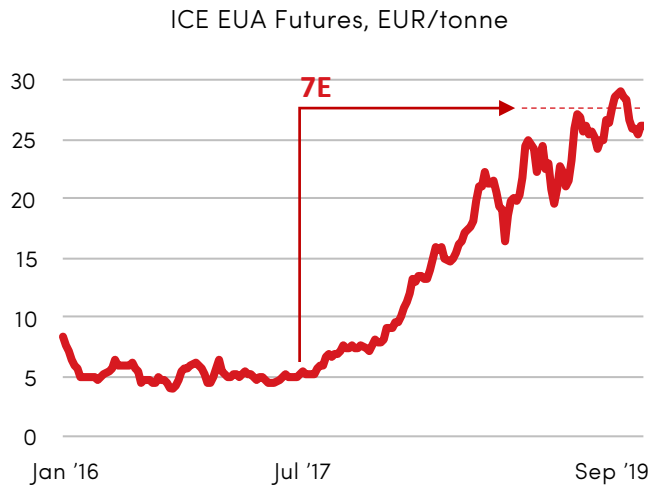
Such a scenario will also be conducive to a further increase in labour costs, which can be especially relevant in many labour-intensive and export-oriented sectors of Polish industry. **Rising energy prices can put additional pressure on operating costs of Polish companies in the coming years.** The European Union is tightening its climate policy, which is manifested by, for example, a gradual reduction of CO_2 emission allowances, causing a sharp increase of their prices on the European stock exchanges. This is especially relevant to Poland, having one of the strongest exposures to the adverse effects of this phenomenon.

Due to the specific energy mix (one of the highest shares of coal in the production of electricity in the world) **and the relatively high energy intensity of the Polish economy, our country is the 5th largest emitter of carbon dioxide in the European Union and the 'leader' among large EU countries in terms of the ratio of CO_2 emissions to GDP**.

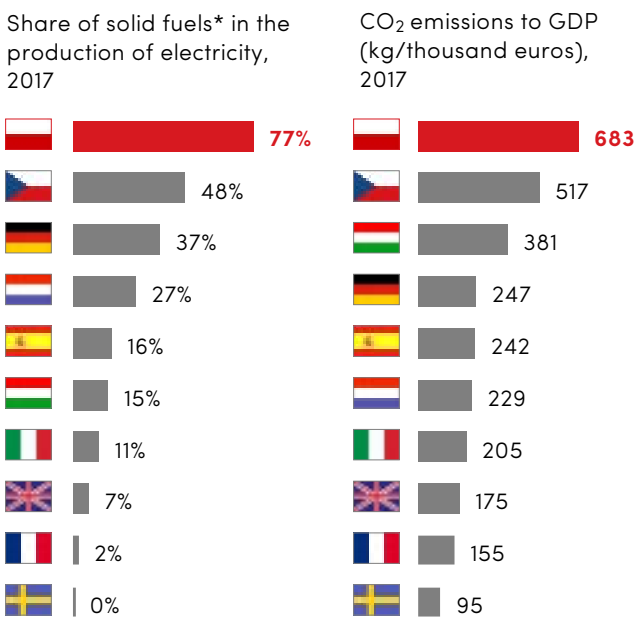
The potential impact of the EU climate policy on the future energy costs in our country may therefore be particularly acute for many internationally active Polish companies. Activities aimed at gradual diversification of the Polish 'energy mix' are, by their nature, prolonged in time and will not solve this problem in the short term.

Fig. 23 **EU climate policy and the risk of energy price increase in Poland**

Costs of CO_2 allowances have increased more than fivefold since July 2017



Poland is one of the countries with the largest exposure to the increase in emission costs



* Including mostly coal
Source: European Commission, Bloomberg, Pekao Research

Polish companies will be exposed to major competitive challenges in the coming years also in the face of dynamic technological changes taking place in the world. Ubiquitous digitisation, especially the breakthrough technologies of the industrial revolution 4.0 such as automation and robotisation, artificial intelligence and advanced data analytics, will completely change the existing business model at virtually every stage of the value chain. They will define the rules of competition, especially in the highly internationalised industrial processing industry. It should be stressed that many branches of industry considered to be Polish specialisations (e.g. the production of furniture, plastic products, wooden, metal or paper products) are at the same time the areas which, according to general consensus, are the most susceptible to automation. It is in these areas that Poland's competitive advantages may lose their importance the fastest (especially in conditions of sustained cost pressure). Meanwhile, many independent studies suggest that our country is one of the least prepared to compete in the conditions of the industrial revolution 4.0.

There are also many indications that the important development impulse of Polish enterprises in the form of EU funds will weaken in the coming years. In the two previous EU budget perspectives, Poland was the largest beneficiary of the EU funds. In the new 'deal' (budget for the years 2021-2027), the pool of funds allocated to Poland may, however, be significantly smaller, mainly due to the likelihood that Great Britain (the second largest net contributor) will leave the Community. Domestic companies used the funds from Brussels for investments that improved their productivity and innovativeness - aspects that will become increasingly important in the coming years as cost advantages are weakening.

Not only structural challenges – in the short and medium term, changes in the European global geopolitics will also have a significant impact on Polish companies

Recent years have brought a great acceleration of dynamics in global geopolitics and a change in some key trends. The scenario of strengthening global ties and international integration based on peaceful cooperation has been replaced by an increase in global tensions, the rebirth of protectionism, centrifugal tendencies and prolonged armed conflicts of high intensity and potentially wide range. Some of the existing alliances are being loosened and replaced by new international ties.

Dynamic changes in the global environment have an impact on the foreign expansion of Polish companies. They face serious threats, although at the same time creating some opportunities, forcing them to adapt to the new geopolitical situation.
The potentially most serious geopolitical challenges for Polish entrepreneurs are:

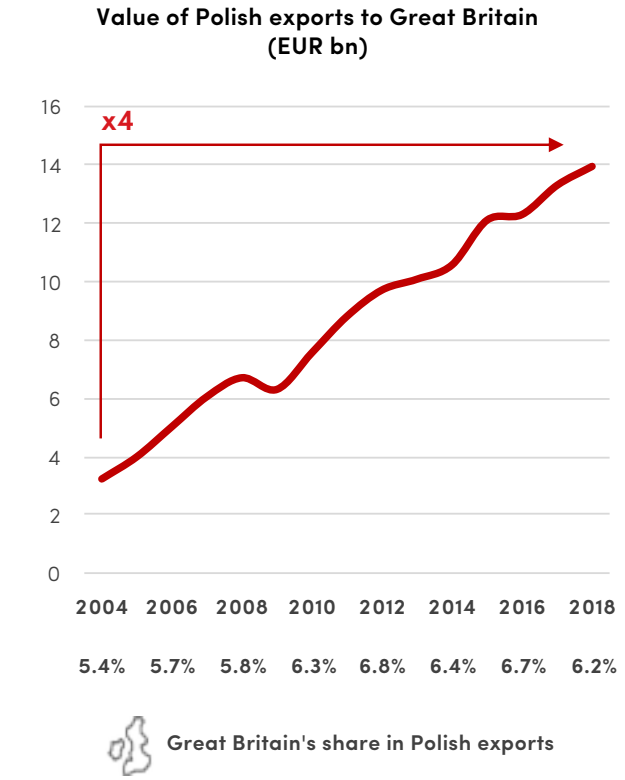
1. an uncontrolled, '**hard' Brexit**, and
2. the escalation **of global trade wars**.

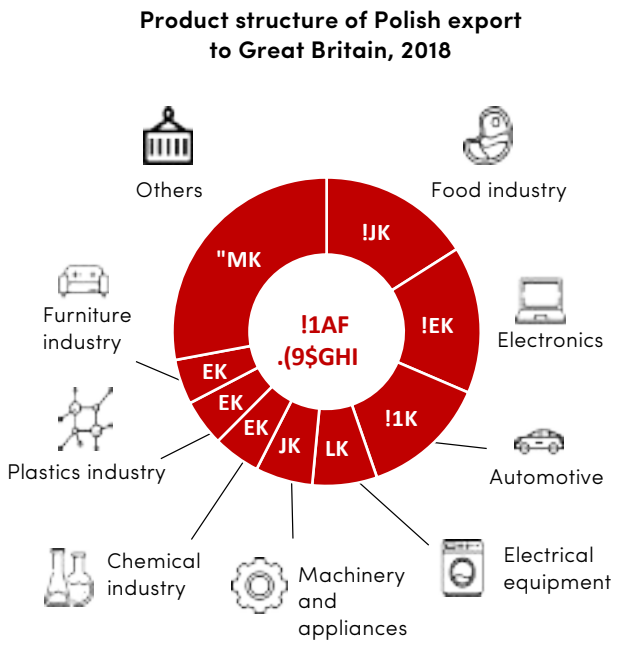
Brexit – a real threat to Polish exporters

The Brexit issue raises legitimate concerns of Polish companies active in the British Isles. Less than a month before its date (already postponed once), it is still unknown on what exact terms it will take place. This is a source of uncertainty, burdensome for business and financial markets. Worse still, there is a high probability that the United Kingdom and the European Union will not reach an agreement, which would result in an unregulated, 'hard' Brexit. In that case, free trade with that country would be broken overnight and replaced by WTO standard terms and conditions with all its barriers: customs, licensing, bureaucratic and border controls.

Great Britain is currently the third largest recipient of Polish exports with an over 6% share in the total value of foreign sales. In 2018, domestic enterprises exported goods worth EUR 13.9 billion to Great Britain, **and since Poland's accession to the EU in 2004, this value has increased more than fourfold**. In this period, Po-

Fig. 24 The role of Great Britain in Polish exports





Source: StatOffice, Eurostat

land recorded a stronger increase in exports in terms of value only to Germany and the Czech Republic.

The dynamic growth of Polish exports to the United Kingdom was first and foremost determined by a **large and absorbent market and the capital ties of Polish companies** (cross-border supply chains). In the following years this trend was further strengthened by the **rising number of Polish economic emigrants**. The compatriots living in the British Isles generated demand for Polish goods, and at the same time contributed to the popularisation of Polish brands among British consumers.

Polish exports to Great Britain are strongly diversified in terms of products. Therefore, a 'hard' Brexit would be noticeable for most sectors of Polish industry.

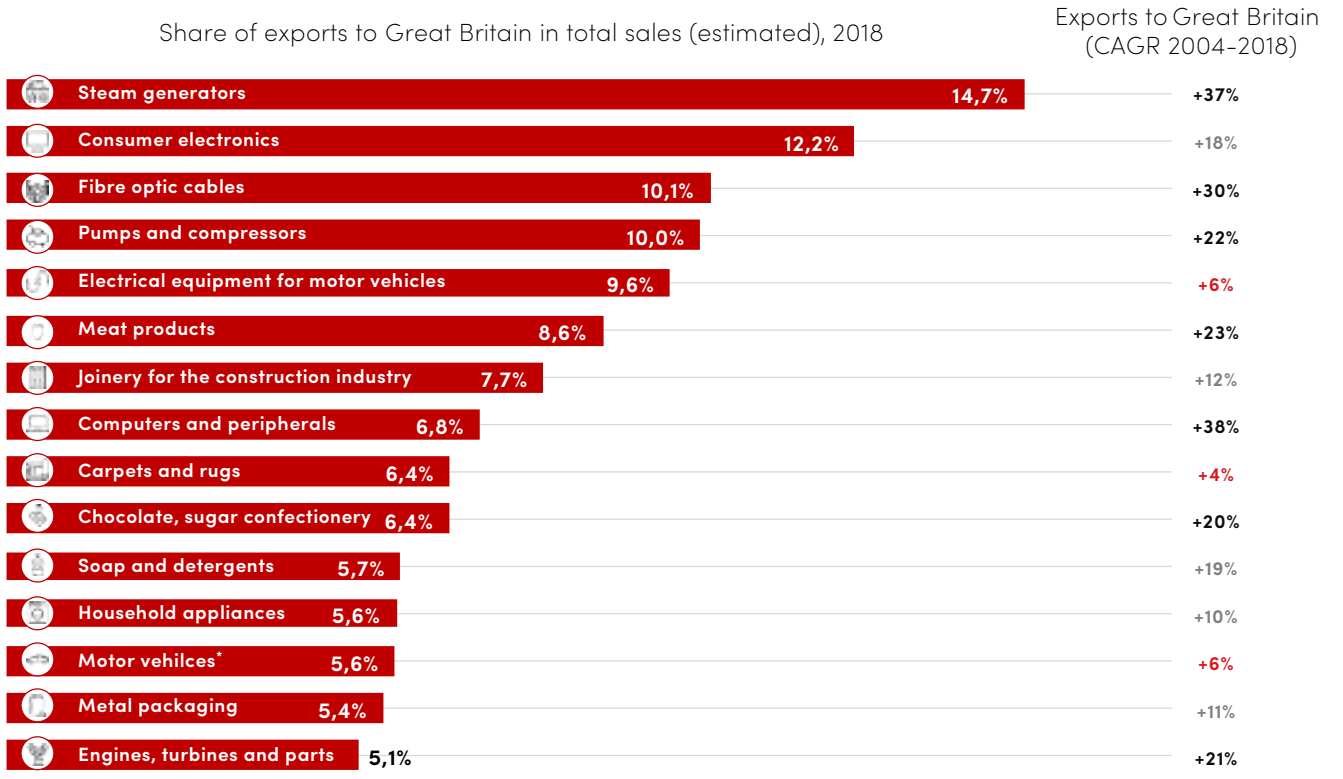
The food and automotive industries, as well as the production of electronic & electrical equipment, machinery & appliances and their parts are the most exposed to the risks. These manufacturing industries account for nearly 60% of the total value of Polish sales of goods to the British Isles.

The scale of the risks to which some industries are exposed is shown by the move towards more detailed product statistics. For some products, such as steam generators, consumer electronics and fibre optic cables, **exports to the UK account for as much as 10-15% of total (and not just export) sales revenue**.

For a number of other industries the share is in the range of 5-10%. It is clear that cutting off the UK market as a result of trade barriers would be **difficult to compensate for in these cases**.

It is worth mentioning that apart from the direct influence on Polish export, **Brexit may also indirectly influence Polish foreign sales**. In 2018, Great Britain imported goods worth over EUR 300 billion from across the European Union.

Fig. 26 **Sectors of the Polish manufacturing industry most exposed to the effects of Brexit**



* Including engines for motor vehicles
Source: StatOffice, Eurostat

For the Polish industry, which specialises in subcontracting and manufacturing parts, a reduction in trade between the EU and the UK could mean a decline in orders from other EU countries. Many Polish companies may not even be aware that the **parts and components they supply to their customers end up in the British Isles as a final product**. These indirect impacts of Brexit may further reinforce the already acute negative direct effects.

Brexit may also have other negative effects in addition to its impact on the trading volume. These include barriers to the capital expansion of Polish companies to the British Isles, a weakening of sentiment on financial markets and restrictions on access to financing from British investment funds, as well as a depleted EU budget and, as a consequence, a smaller pool of available funding that could be used to support the foreign expansion of Polish companies.

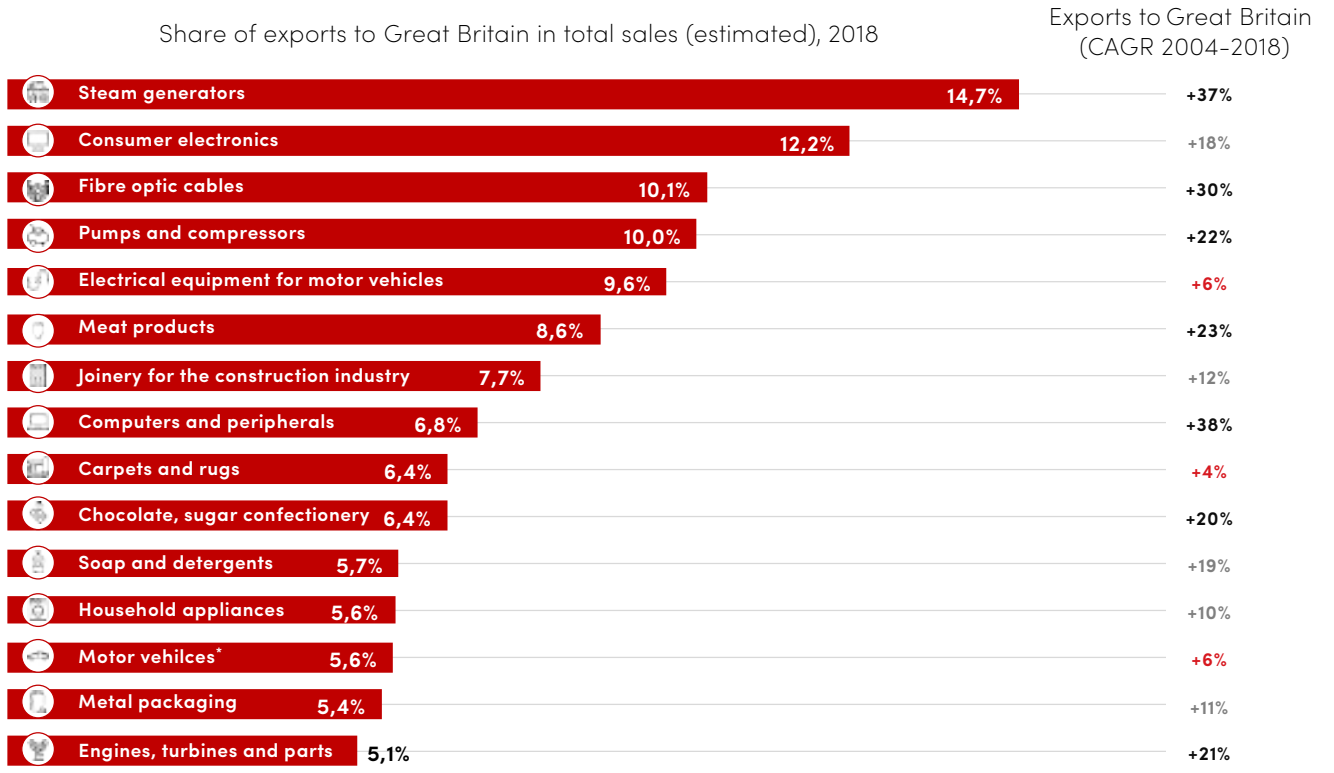
Or maybe an opportunity?

Foreign trade statistics suggest that Polish entrepreneurs have already **started to look for solutions to the risks associated with Brexit**.

In 2018, the value goods exported to the British Isles increased by less than 5% y/y - well below the long-term dynamics (11% annual average growth in 2004-2018) and slower than the whole Polish export. As a result, Britain's share of total Polish exports has fallen by more than 0.5 percentage points since 2016. It can be concluded from this that exporters, preparing for Brexit, are gradually diversifying geographical sales directions.

The search for alternatives to the UK market may prove to be the **most effective recipe for a 'hard' Brexit**. It is worth remembering that a 'hard' version of Brexit would also mean a significant **increase in barriers to exports from the British Isles to the European Union**. Meanwhile, the United Kingdom supplies the continent with goods worth nearly EUR 200 billion. Limiting trade will mean that EU member states **will have to find alternative sources of supply**. A number of Polish industries specialising in export or having a significant export potential (e.g. automotive, clothing, electronics or cosmetics industries) may try to take advantage of this situation.

Fig. 26 Sectors of the Polish manufacturing industry most exposed to the effects of Brexit



* Including engines for motor vehicles
Source: StatOffice, Eurostat

After decades of growing liberalism in global trade, the world has been confronted with a trade war between the two largest powers

The end of the decade in the world economy is marked by growing protectionism, the greatest manifestation of which is the escalation of tensions in trade between the United States and China.

The tightening of foreign trade policy is mainly stimulated by the administration of Donald Trump, but it is also reflected in the retaliatory measures taken by the Chinese government. The conflict has now entered its third, culminating phase, in which all US imports from China will be subject to customs duties. On the Chinese side, the barriers will cover a total of USD 185 billion of imports from the USA.

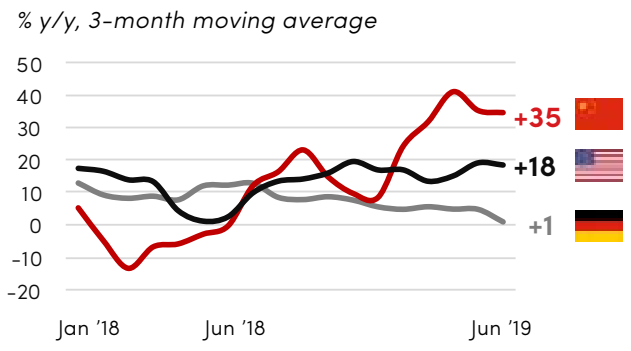
What does the conflict between the two largest economies mean for Polish companies? First of all, growing uncertainty about the development of the global situation - increasing tensions in international trade may lead to an economic slowdown all over the world. Trade wars are already having a negative impact on the level of foreign orders for German companies[8], which have particularly strong ties with Polish sub-suppliers. As a result, the dynamics of Polish exports across western borders is decreasing month on month. A further tightening of trade barriers between the USA and China, planned for the end of the year, may result in an intensification of these negative tendencies and, as a result, in reducing the dynamics of Polish exports to Germany even to negative levels. Although the problems of the German economy are a serious challenge for exporters (as much as 30% of their foreign sales transit western border), Poland may also be one of the beneficiaries of the current turmoil in global trade. The difficulties in mutual relations force both superpowers to seek alternative directions of supply. Data on Polish exports to the USA and China indicates that domestic companies clearly benefit from the conflict and dynamically increase their sales in both directions (at a double-digit rate, while in both cases the development impulse was an escalation of the conflict in the middle of the year). **Especially the decrease in the cost attractiveness of Chinese**

Fig. 27 How did the US-China trade war develop?

US actions	China actions
Mar/Apr '18: 25% / 10% duty on steel and aluminium products (USD 3 bn), 25% on more than 1,300 products - including electronics, machinery, chemicals and cars (USD 50 bn)	Apr '18: Retaliation duties 25% / 15% i.a. on fruits, pork (USD 3 bn), 25% on soya, cars, chemicals, airplanes (USD 50 bn)
Aug '18: 10% duty on a further USD 200 bn on imports >6 thousand products (including electronics, machinery, furniture, cars, etc.)	Aug '18: Retaliation duties 5-10% on imports of >5,000 products worth USD 60 bn (including machinery, electronics, optical and medical equipment, LNG)
Dec '18: Arrest of Huawei's CFO for violation of US sanctions against Iran	
May '19: Increase in customs duties on USD 200 bn of imports from China from 10 to 25%	May '19: Increase in custom duties on USD 60 bn imports from the USA from 5-10% to 5-25%
Aug '19: Announcement of an additional 15% duties on the remaining USD 300 bn of imports from China	Aug '19: Announcement of additional duties on USD 75 bn of exports from the US
Sep '19: Introduction of the first tranche of customs duties. The second tranche will be effective from Dec '19. Announcement of an increase in the existing 25% duty rate (concerning USD 250 bn of imports) to 30% (from mid-October)	Sep '19: Introduction of the first tranche of customs duties; the second tranche will apply from Dec '19
∑ USD 550 bn	∑ USD 185 bn

Source: Pekao Research

Fig. 28 Dynamics of Polish exports to Germany, China and the USA, 2018-19



Source: Eurostat, Pekao Research

[8] Germany is one of the world's leading exporters of intermediate goods (used to a large extent by Chinese manufacturers to produce goods exported to the USA) and capital goods (the demand for which currently suffers greatly from a general worsening of the investment sentiment of companies)

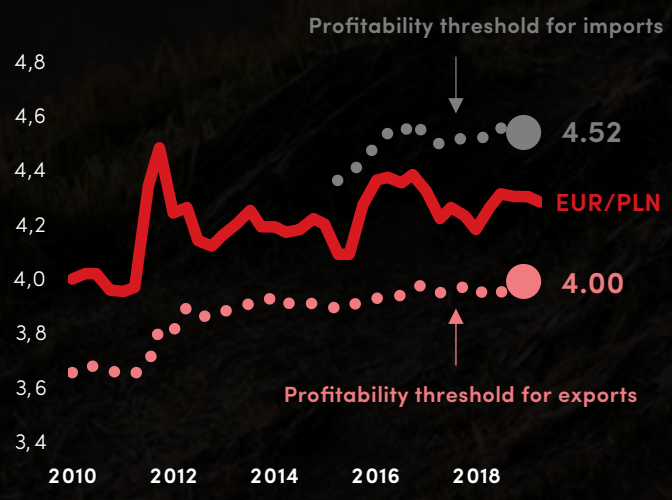
The low volatility of the exchange rate supports the international expansion of Polish enterprises

Piotr Piękoś
Senior EconomistMacroeconomic Research Bureau

The risk related to exchange rate fluctuations is an important aspect of export activity. It is particularly evident in the case of the floating exchange rate regime in Poland, in which the currency's valuation is fully the outcome of market forces.

Only a few years ago Polish companies perceived exchange rate volatility as one of the key barriers to development and therefore it was an important factor discouraging foreign expansion. Such fears were particularly frequent in the case of small and medium enterprises, which are characterised on the one hand by smaller resistance to exchange rate shocks (due to lower productivity) and greater financial limitations than large enterprises, while on the other hand by a lesser knowledge of the available mechanisms of hedging against exchange rate risk.

Fig. 29 **EUR/PLN exchange rate vs. exports and imports profitability thresholds**



Source: NBP, Bloomberg

Nevertheless, the recent stability of the PLN exchange rate (since mid-2018 the fluctuations have been limited to a narrow range of 4.20-4.40/EUR) caused that the problem of exchange rate risk as a barrier to the development of domestic companies has become a secondary issue. **Moreover, the recent exchange rate levels do not cause any major tensions from the point of view of both exporters (fearing excessive strengthening of the PLN) and importers (fearing a too weak PLN).**

The long-term evolution of the PLN exchange rate suggests that the global risk appetite of investors is the key source of its volatility. The Polish zloty is invariably perceived as the emerging markets currency and, asa result, a global increase in risk aversion translates into its weakening, while an increase in risk appetite contributes to its strengthening. Most of the cases ofa significant depreciation of the zloty in the last decade were caused by strong external shocks, such as the outbreak of the global financial crisis in 2008-2009, the subsequent debt crisis in the eurozone, or the beginning of a cycle of interest rate hikes by the Fed in 2015.

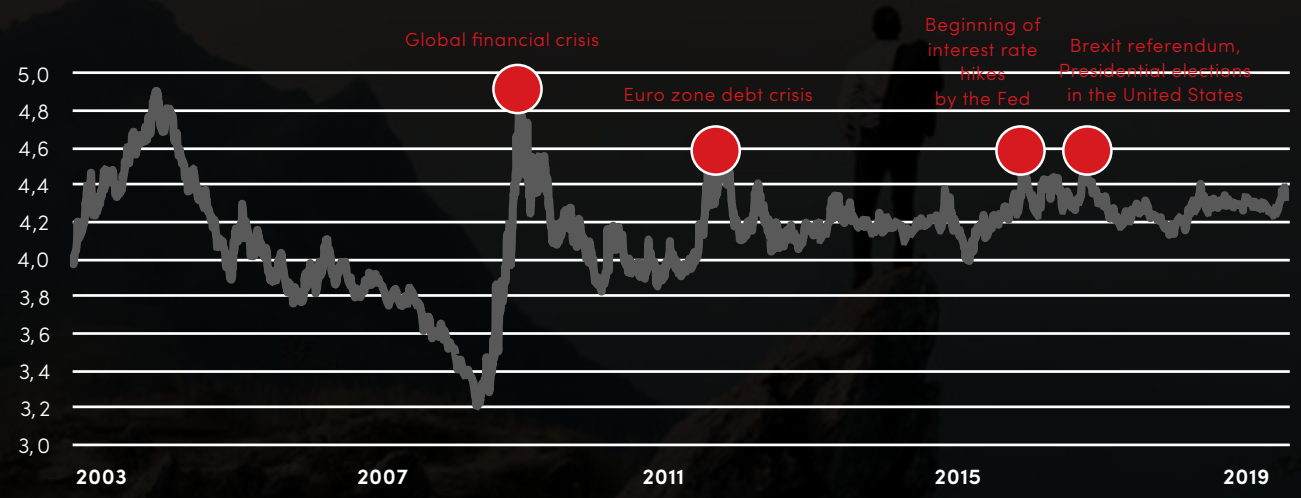
In turn, the fundamental situation of the domestic economy (mainly because of its stability) seems to be of lesser importance for the volatility of the Polish currency. This has been particularly evident in recent years, when strong economic growth has been accompanied by low inflation, which allowed for stable interest rates. What is important, the situation of the Polish economy seems relatively stable also in the long run, as evidenced by the fact that as one of the few global economies, it has not experienced recession for almost three decades. The factor that stabilises the economic situation is primarily a large share of internal demand in the creation of added value (private consumption accounts for about 58% of GDP).

As for the PLN exchange rate outlook, our behavioural equilibrium exchange rate model (BEER) indicates, based on the key parameters of the Polish economy, that the Polish currency is **undervalued with equilibrium rates of 4.18/EUR and 3.52/USD. Therefore, there is some fundamental potential for appreciation of the Polish currency**.

At the same time, however, one should pay attention to a number of important global risk factors, such as the probability of the no-deal Brexit or a possible escalation of trade conflicts, which may significantly worsen global investment sentiment and thus lead to a weakening of the Polish currency. The other channel of impact of these risk factors is their direct negative influence on the domestic economy, but it would be rather limited.

Despite the sustained stability of the PLN exchange rate, it still faces a number of significant risk factors, the materialisation of which may significantly increase the volatility of the Polish currency's valuation.

Fig. 30 **EUR/PLN vs. external shocks**



Source: Bloomberg, Pekao Research

Treasury products of Bank Pekao for the most demanding customers

Michał Hojowski
Director of Financial Markets Department

Operating on foreign markets means a lot of opportunities for entrepreneurs, but also many challenges. When entering new markets, we often encounter legal, cultural, linguistic and financial barriers that generate risk in everyday life. The Department of Financial Markets of Pekao S.A. perceives its role asa partner for entrepreneurs who supports their development on foreign markets by offering solutions enabling to hedge against many of the encountered risks.

Bank Pekao is a leader on the foreign exchange and foreign payments market. We offer various ways to access our services. Transactions can be made by phone, but also through our dealing module. We have extensive experience in hedging the risk of currency exchange, interest rate levels and raw material prices. Thanks to the cooperation within our capital group, we also have a full investment offer for entrepreneurs who want to invest their surplus cash. Term deposits, treasury bonds, commercial bonds, as well as dual currency deposits or investment funds allow us to tailor our product offering to individual client needs. An optimal set of products, selected for each customer, is possible thanks to close cooperation between a dedicated Customer Care Specialist, Currency Dealer and Product Specialist.

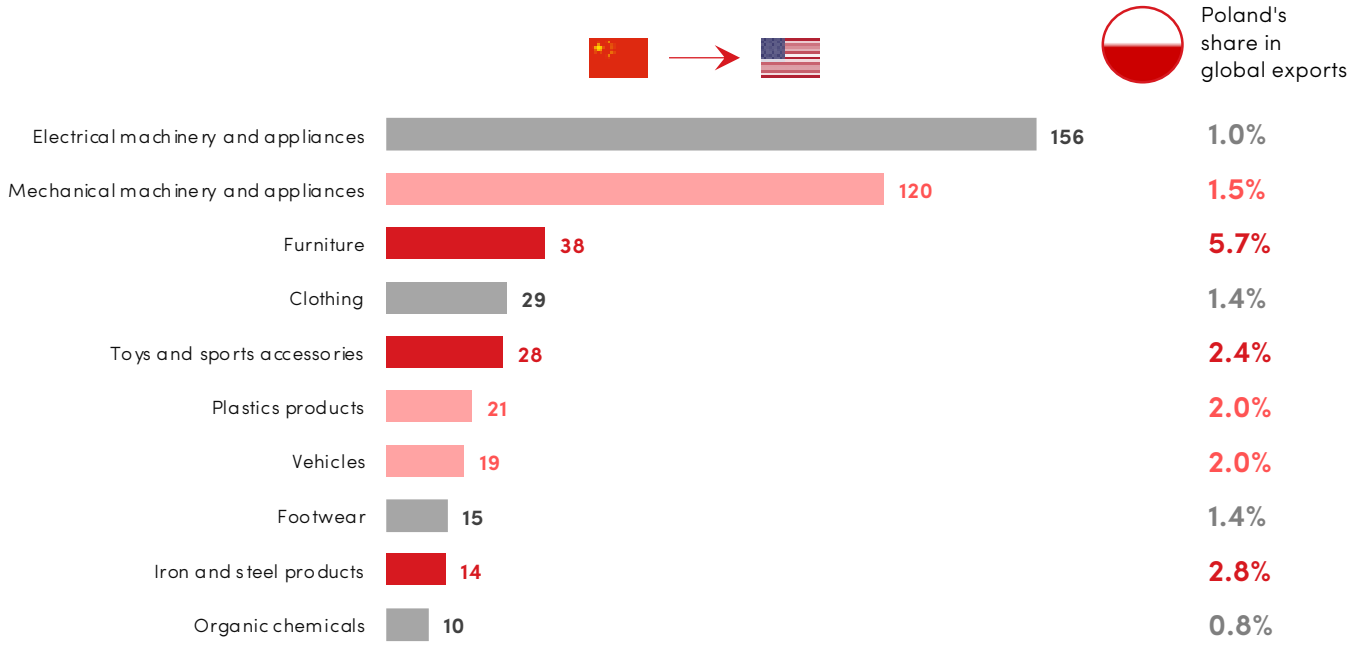
We invite you to contact us and try our services.

products may be a good opportunity for Polish companies to strengthen their position on the so far weakly penetrated American market. This applies especially to those product categories in which Chinese exporters enjoy a particularly strong position on the American market, and which at the same time constitute an area of strong specialisation of Polish companies. Such product groups include, among others, furniture, metal products, certain types of machinery, plastic products and car parts. This is already confirmed by the high export growth rates to the USA in 2018 and the first half of 2019 (with the exception of furniture, where the trends are negative to date).

Moreover, very high sales growth of Polish companies on the American market is also recorded in other areas penetrated by Chinese suppliers, such as electronics and textiles.

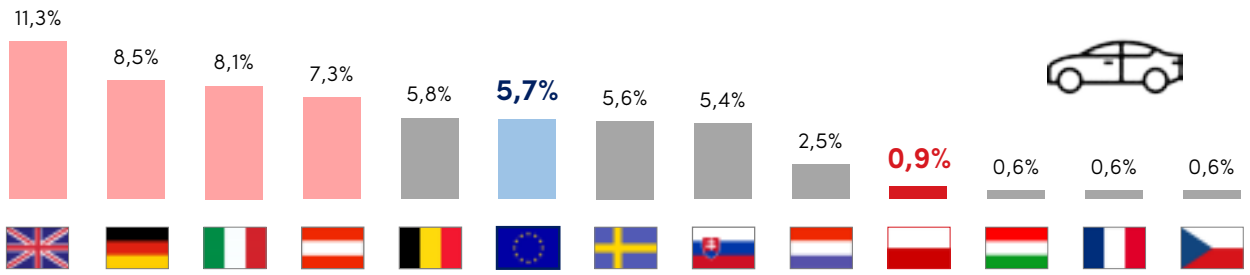
Finally, another risk should be mentioned, which is the potential transfer of a trade war to EU, which in the short term may take place in the automotive industry. Although the direct exposure of Polish automotive production to the US market is relatively small (only 1% of domestic production), the introduction of customs barriers could adversely affect the industry indirectly by reducing orders from key EU customers with a strong presence in the US (Germany, Great Britain and Italy).

Fig. 31 **TOP 10 product groups imported from China to the USA (USD bn), 2018**



Source: Intracen, Pekao Research

Fig. 32 **Export to the USA in relation to the production value of the automotive industry – selected EU countries, 2017**



Source: Eurostat, Pekao Research

4 Seeking a path to the global top

The next decade may be the era of big international successes of Polish companies. For this to happen, we must follow the global leaders, build strategic alliances and strengthen the foundations of effective foreign expansion such as innovative products, strong international brand awareness and convenient access to capital. In order to achieve another breakthrough, an effective support system is necessary already at the early stages of the domestic entities' life cycle.

Can Poland 'nurture' real global champions?

Having international champions is beneficial most of all in three dimensions: creating attractive workplaces (and thus preventing talent outflow), stimulating technology and know-how transfers, as well as faster growth through mergers and acqusitions of smaller players on local and regional markets (strong capital power).

Global corporations support the strengthening of the home country's position in the global supply chain and building awareness of domestic brands on the international stage. They also much better utilise the potential of distant markets (with particular emphasis on prospective Asian countries) as well as diversify operating risk due to their presence in various regions of the world, often characterised by different growth dynamics or the phase of the economic cycle.

The strongly globalised economy is, however, dominated by companies from highly developed countries, with only Chinese companies competing with them really effectively. Nearly ¾ of the companies making up the prestigious Fortune Global 500 ranking are entities from only 6 countries (the USA, China, Japan, France, Germany and the United Kingdom), followed by countries leading in the global innovation rankings (Switzerland, the Netherlands), that also have quite a strong representation in this elite group. In such conditions, building large, cross-border entities, effectively competing for the position of a global leader, is an extremely difficult task - especially for companies from countries whose size and level of development give way to global powers.

Poland belongs to the countries with a medium levelof economic development and size of the internal market, creating favourable conditions for local companies' growth, but not guaranteeing thema global scale. To jump to the global top one needs something more - unique features, competitive advantages that allow to successfully conquer foreign markets, including the most demanding ones.

Examples of some emerging country multinationals show it is possible

The global successes of some companies reinforce the belief that achieving the status of an international champion is also possible for entities from economically less developed countries. In our short analysis, Chinese companies were intentionally omitted due to certain specific conditions, conducive to the development of corporations on a scale comparable to the largest global giants (an extremely absorbent internal market, combined with strong interventionism and protectionism of the state). On the other hand, it includes examples of companies from developed countries that have recently managed to overcome the so-called medium development trap (Korea, Taiwan).

These cases suggest there is no single source of global success and most often it is due to a mix of some favourable local conditions (e.g. access to cheap raw materials, a large and fast-growing internal market), **active state support as well as effective strategies** of the companies themselves. The most important factors include:

1. **strong systemic support** – financial (preferential loans), regulatory (tax breaks, lower customs rates) and demand (public procurement);

2. **effective M&A strategy** - increased activity in acquisitions aiming at: increasing the scale of operations (entering new markets, obtaining cost advantages), innovation (taking over foreign technologies) and increasing recognition (acquiring well-known brands);

3. **operational efficiency** - constant verificationof business models in terms of possible improvements and their effective implementation in the acquired companies;

4. **utilising the potential of market niches** with maximum use of possessed local competitive advantages.

Examples of global champions from emerging economies

Company	Country	Characteristics	Key factors of success
Samsung The strongest of the chaebols		• **Revenues (2018): USD 219 bn** • Leader of the consumer electronics market with ~30% market share, world's 2nd largest technology company • Conglomerate (so called chaebol) active also in traditional sectors (construction, chemical industry, etc.) • Holder of the highest number of patents in the US Patent & Trademark Office • Responsible for as much as 17% of Korean GDP	✓ Strong state support (public procurement, preferential loans, tax and tariff reductions ✓ The ability to improve competitive products, quickly adapting to changing trends and effectively using market niches ✓ Cultural factors (strong work ethos) ✓ Wide portfolio diversification ✓ Using the effects of scale to gain cost advantages
Acer Expansion through M&A and alliances		• **Revenues (2018): USD 7.9 bn** • One of the largest consumer electronics producers • Operating activity in 70 countries • 95 retail locations spread throughout 160 countries	✓ Growth through M&As and JVs ✓ Increasing operational efficiency through dispersion of the business model into strategic (R&D, product management and production) and regional units (distribution, service and marketing) ✓ Successful transition from the role of a subcontractor to the creator of own technology
Embraer State support and favourable local conditions		• **Revenues (2018): USD 5.1 bn** • Manufacturer of passenger aircraft, 3rd largest exporter in the country • About 800 patented technologies • Cooperation with over 60 companies (mainly manufacturers of parts and subcontractors)	✓ Fast growth thanks to state subsidies ✓ Favourable local conditions: cost advantage, high availability of raw materials and strong internal demand (fast developing domestic flights) ✓ Use of market niche (medium-sized jet airplanes) ✓ Training future staff through partnerships with universities
Cemex Growth through M&A and risk diversification		• **Revenues (2018): USD 14.4 bn** • The first global player on the cement market in history • 3rd largest (in terms of volume) cement and concrete producer in the world • More than 2,000 factories and 260 distribution centres worldwide	✓ Growth through M&As (achieving economies of scale) and implementation of best corporate practices in the acquired entities ✓ Vertical integration (investments in mining plants) ✓ Geographical diversification of the Group's assets
SAB Miller Implementing "think globally act locally" strategy		• **Revenues (2016): USD 24.2 bn** • Brewing industry global giant • Operations on 6 continents in 60 countries • More than 200 brands worldwide • In 2016 taken over by the largest beer concern Anheuser-Busch InBev (transaction value - USD 107 bn)	✓ Acquiring foreign capital on the London Stock Exchange to expand into new markets (numerous M&As in Eastern Europe and Asia) ✓ Effective implementation of the decentralised model (transfer of operational competences to subsidiaries) ✓ In-depth analysis of consumer behaviour in local markets
Arcelik Combining cost advantages withthe powerof Western brands		• **Revenues (2018): USD ~5.7 bn** • One of the leading manufacturers of household appliances (3rd largest in Europe) • 15 factories in 6 countries, 10 own brands • More than 2,000 patents (~30% of all patent applications in Turkey) • Subsidiary of Koc Holding (Fortune 500 and the largest industrial group in Turkey)	✓ Smooth transition from subcontractor of foreign manufacturers to a global leader in the white goods market ✓ Strong domestic demand ✓ Growth through acquisitions of well-established western brands (e.g. Grundig) ✓ Implementation of effective quality management system and flexible production management model ('just-in-time' concept)

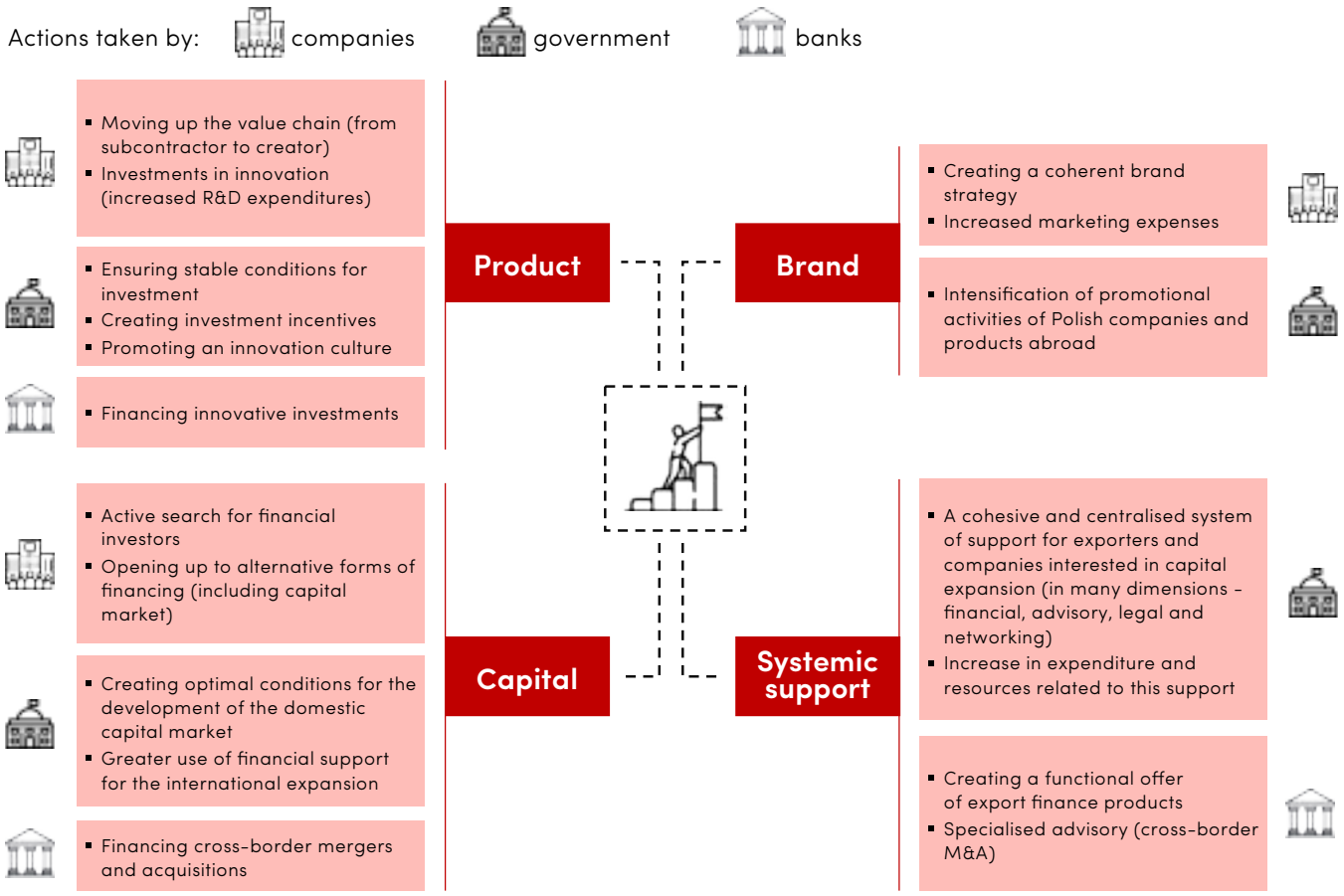
Source: Companies' information, Pekao Research

What is crucial for achieving international success?

The analysis of internationalisation barriers, as well as a look at the history of global giants - both from developed and emerging countries - allows for the identification of four key elements that make up the possible success of Polish companies on the global markets:

1. **product** – it is difficult for companies to break through to very competitive foreign markets with an offer that does not stand out from the competition. Innovation is increasingly becoming the basis for success on the international markets, and the winners are those who are at least one step ahead of the competition. The greatest export value is brought by companies that create products (develop their concepts) and not those that imitate leaders or act as their suppliers;
2. **brand** – enjoying global recognition is often crucial to effectively compete on foreign markets, especially with western corporations. Otherwise, Polish companies are condemning themselves to the role of their subcontractors. In many non-EU markets (especially the less wealthy ones), the local middle and upper class is the only group of customers to which it is profitable for Polish companies to sell their products, but it is usually strongly penetrated by companies from developed countries;
3. **access to capital** – necessary particularly to develop a physical presence on foreign markets (representative offices), but also to incur other high expansion costs (e.g. logistical or marketing costs), usually in conditions of increased risk;
4. **systemic support** – essential especially in the case of small and medium-sized enterprises, for which foreign expansion may be a real springboard for growth and which face particularly high barriers in their foreign expansion.

Fig. 33 What contributes to the international success of companies?



Source: Pekao Research

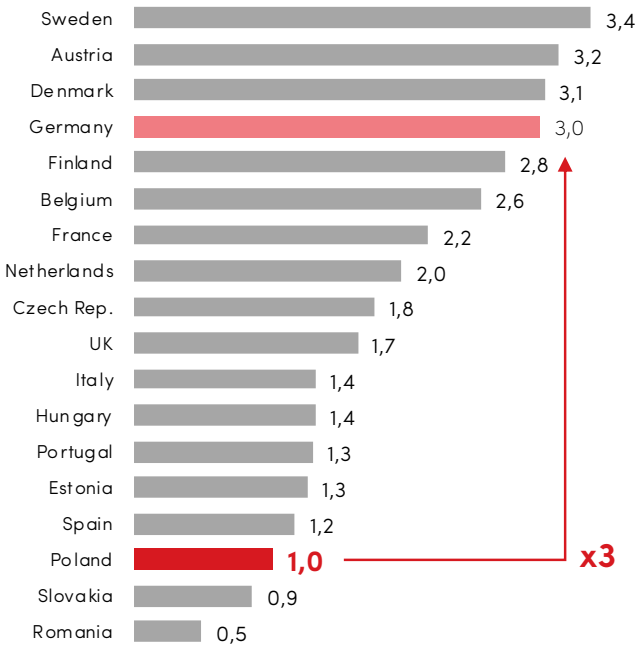
Proper addressing of each of these issues is the key to effective expansion of Polish companies on foreign markets - including more distant or even exotic ones, which are characterised by above-average demand and growth potential. **And not only the companies themselves but also state authorities (e.g. export support agencies) or even banks (as entities offering convenient solutions in terms of financing and consulting services) may contribute to the creation of strong foundations for future international success.**

Building competitive advantages based on innovative products

To emerge from the role of a subcontractor within the global (or European) supply system, many Polish companies should make use of their specialist skills to gradually move up the value chain. This means moving from a supplier of components and follower of global trends to a creator role - companies developing new product concepts and their innovative applications. Such an upgrade, which can be a lever for the development of foreign operations, may also include various types of process innovations (mainly in the production sphere, but also in e.g. marketing or distribution). Increasing innovativeness is also necessary to compete on the market not so much with low prices (which in conditions of increasing wage pressure may result in margin compression) as with quality, unique features or original design.

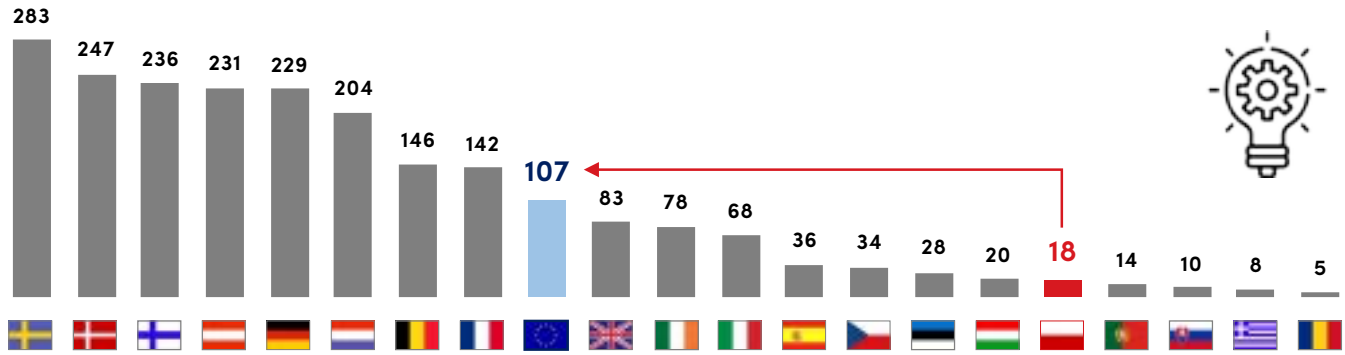
Speeding up in a global innovation race requires redirecting more funds to the R&D sphere, which has been a weak point of Polish companies to date. Currently, R&D expenditures to GDP ratio remains in Poland at only 1%, while in neighbouring Germany it is about three times higher, and in countries considered to be EU innovation leaders it even exceeds 3%. This translates into a relatively small number of breakthrough products, which is reflected in a small number of patents per population (on average in the EU it is 6 times higher than in Poland, and in Scandinavian countries even 15 times higher).

Fig. 34 R&D expenditures as % of GDP, 2017



Source: Eurostat, Pekao Research

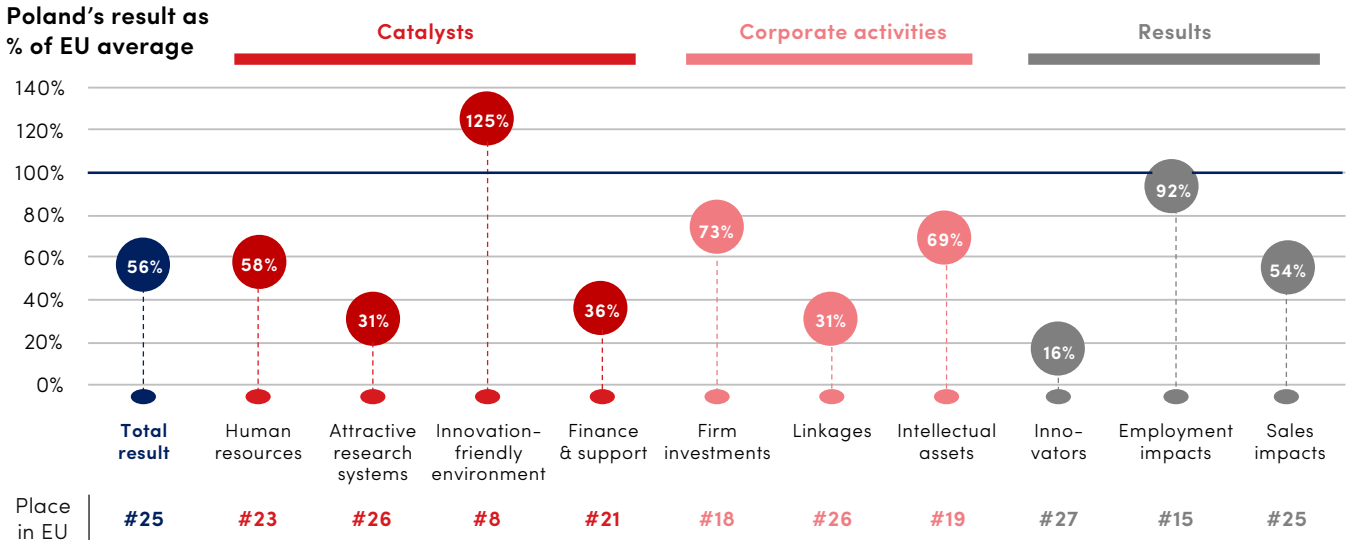
Fig. 35 Number of patents per 1 mln population in particular EU countries, 2017



Source: Eurostat, Pekao Research

The low innovativeness of the Polish economy (and thus its companies) is also confirmed by the analyses of the European Commission, which in its 'European Innovation Scoreboard' places our country in a distant, 25th place among all EU member states (classifying Poland among "moderate innovators"). Despite a positive assessment of innovation-friendly environment (including high broadband penetration and opportunity-driven entrepreneurship), underdeveloped research systems, weak financial support for R&D activities as well as linkages with the public sector and between companies themselves are indicated as major challenges. This all translates into a low percentage of innovators and thus the number of innovations, which often do not translate into business success (i.e. an increase in sales).

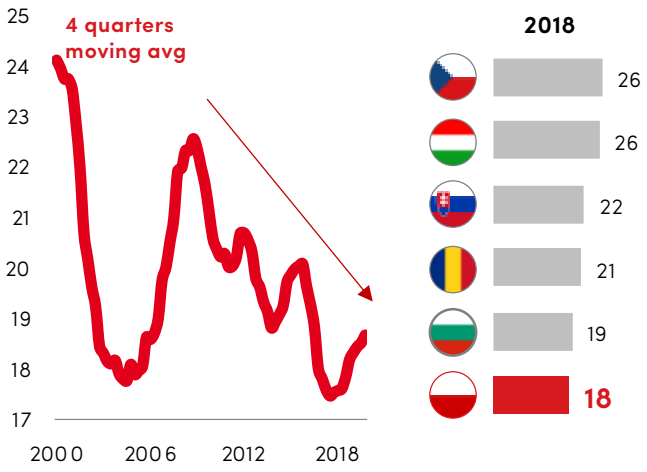
Fig. 36 **Result and position of Poland in the European Innovation Scoreboard (by main categories), 2019**



Source: European Commission, Pekao Research

In order to compete more effectively on foreign markets, Polish companies must significantly increase their investment activity. The ratio of investment outlays to GDP (the so-called investment rate) is in Poland one of the lowest among the new member states and remains significantly below the EU average. Its current, unsatisfactory level is mainly due to low investments in machinery - necessary both for increasing productivity and improving the innovativeness of manufactured products. The desired change in this field depends not only on the attitude of companies themselves, but also on creation of a favourable investment climate. With a large, still unexploited potential of human capital, the institutional and legal framework for business activity is becoming increasingly important.

Fig. 37 **Investment in relation to GDP (%)**



Source: Eurostat, Pekao Research

In this context, the legal and tax system, infrastructure and general perception of the country play a crucial role. It is equally important to build awareness of the low investment problem in Polish enterprises, as well as to promote the 'innovation culture' among them (e.g. through the system of various types of investment incentives). Facilitated access to such incentives should be provided especially for those companies that are genuinely interested in innovative activities. Banks should also play an essential role in this process, through financing and advising on investments aimed at efficiency improvement or development of attractive products.

We support our clients in their development and innovation growth

Beata Frankiewicz-Boniecka
Director,
Strategic Clients Department

Polish entrepreneurs keep looking for new customers and, as the domestic market turns out to be too small for fast-growing organisations, they often search for business opportunities abroad.

Foreign expansion, however, is not only an opportunity, but also an area of numerous risks and challenges - starting from the specific business culture in a given country, through finding and verification of reliable foreign partners, to securing the payment risk and obtaining financing. Financial institutions such as Pekao meet the needs of business and offer many financial instruments that enable trade and secure transactions against contractors' financial problems, at the same time helping in financing the expansion itself (e.g. through M&A financing or project finance loans for complex investments such as construction of the new production plant).

As a top corporate bank in Poland, we serve as a unique competence centre, as we see how important for our clients is trust and cooperationin the proper selection of a market strategy and financing model from the very beginning of foreign expansion. Expansion financing is often a serious barrier of internationalisation, and Polish banks often do not follow the needs of domestic companies interested in entering new markets.

Today – in the era of digitalisation and big data culture – also access to strategic consulting has become even more crucial. Companies often forget that expansion can also be financed through loans granted to the buyer/buyer's bank or through debt purchase. At the same time, investment financing can be based on the balance sheet of the Polish investor (which also brings opportunities to transfer risk to foreign project assets that may serve asa collateral).

We often discuss with our clients the optimal forms of foreign expansion in their case - from direct investments (including joint ventures) to acquisitions and omnichannel strategies. We would like the foreign expansion of Polish companies to be even stronger, especially in the areas of high-tech exports, expansion of service companies, as well as capital investment.

We want to be even closer to our clients and closer to innovation.

Building strong international brands is essential for the global expansion of Polish companies

Enjoying a strong, internationally recognised brand is also necessary for successful foreign expansion. It can be understood in two ways:

- **Brands of individual companies.** They are of key importance not only for the possibility of achieving high export volumes, but also for the development of foreign sales aimed at higher price segments and premium products, guaranteeing more satisfactory margins.

- **Nation brands.** The 'country of origin' effect can be very supportive for companies' ability to enter foreign markets. Companies from countries perceived as high quality producersor specialised in specific products often enjoyan easier path of expansion.

In both these aspects Poland still shows large room for improvement. So far, only a few Polish companies have created brands with global recognition. The situation looks slightly better with awareness of Polish brands in the CEE region, where domestic companies consistently build their leaders' position. Nevertheless, **in the latest ranking of 500 most valuable brands in the world** (Brand Finance 'Global 500 2019'), **Poland has no single representative**, similarly to other CEE countries.

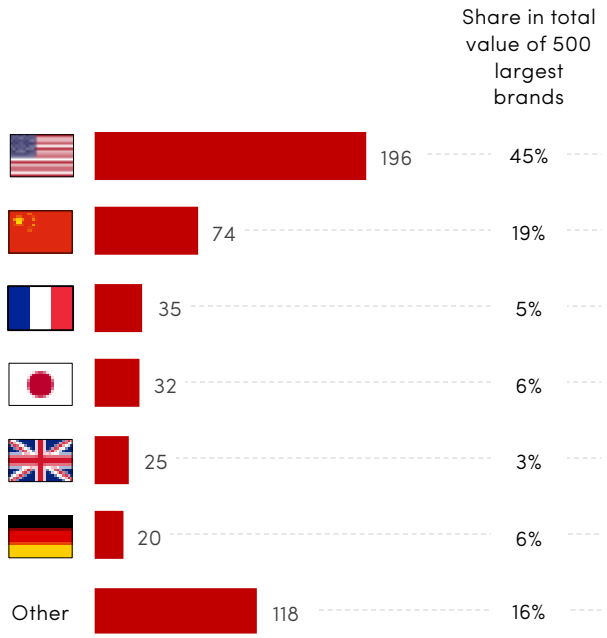
Poland's 'nation brand' has recently gained in value thanks to very good economic results, improving positions in global competitiveness and attractiveness rankings, as well as recognition of our country as a highly developed market by FTSE Russell. **But, on the other hand, Poland is still not perceived as one of the leading manufacturers or service providers:**

1. Its recognition is limited geographically to European countries, strategic allies (e.g. USA) and a relatively low number of other foreign markets, while for most potential trade partners outside Europe it still remains anonymous;

2. The stereotypical perception of Poland as a producer of cheap products, resulting from the long-standing specialisation in low-cost competition, may be an additional burden. These stereotypes are especially strong in Western European countries, and fighting against them remains a serious challenge.

The weakness of the Polish nation brand is confirmed by only 51st place out of 100 countries included in the 'Nation Brands 2018' ranking of Brand Finance.

Fig. 38 **Number of brands in Brand Finance 'Global 500 2019' ranking – by country**



Source: Brand Finance, Pekao Research

Eliminating the mentioned image weaknesses would require a combined effort of the Polish state administration and companies. The role of the state should be to develop an effective 'national marketing' strategy and to support companies in promoting their products abroad. On the other hand, companies have to spend more money on marketing and foreign promotion as many of them still do not pay much attention to this aspect. Alternatively, Polish companies may buy out foreign companies, the brands of which are widely recognised at least on the local markets. However, this may also require a considerable investment.

Ensuring access to capital

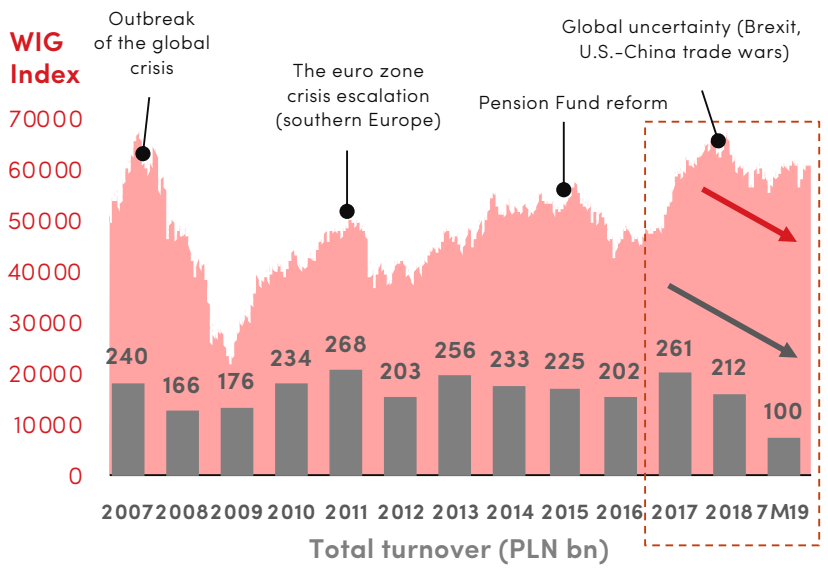
Successful foreign expansion requires companies incurring significant expenditures. Organic growth is associated with the costs of researching the target market, establishing business contacts, building a brand, investing in sales (and often manufacturing) infrastructure or hiring staff. Large outlays are also required in the case of expansion through mergers and acquisitions. In both cases **obtaining external financing is the key condition for successful entry into foreign markets. Meanwhile, in Poland, the lack of capital is indicated as one of the most serious barriers to foreign expansion**, especially in the segment of small and medium enterprises.

In Poland financing for the enterprises development is provided – apart from their own resources – **primarily by the banking sector**. However, due to the conservative approach to risk enforced by regulations, banks are not always an effective source of financing for foreign expansion. In this context, the capital market may be especially important, as it is generally better suited to financing of more risky undertakings. Meanwhile, **in Poland the share of the capital market in financing the economy is only 10-15%**, i.e. half as much as the European average, while in the U.S. this share reaches as much as 70%.

The limited capability of the Polish capital market is reflected in the comparison of European stock exchanges total capitalisation. **In the case of the Warsaw Stock Exchange (WSE) it accounts for approximately EUR 250 billion, but only half of this amount comes from domestic companies**. Taking the relation of their market capitalization to GDP as a measure of domestic companies financing through the stock exchange, **Poland** (with the result of 28% in 2018) **would be almost half as weak as Germany or Spain** (range 45-55%), **not to mention Great Britain** (with the significant advantage of capital instruments over bank credit in the financing structure). What is more, **the Warsaw Stock Exchange has recently recorded a clear decline in turnover**, while the number of delisting companies exceeded significantly the number of IPOs. The weakness of the Polish stock exchange results, among others, from a specific structure of household assets, 80% of which are located in short-term assets (deposits and cash in circulation).

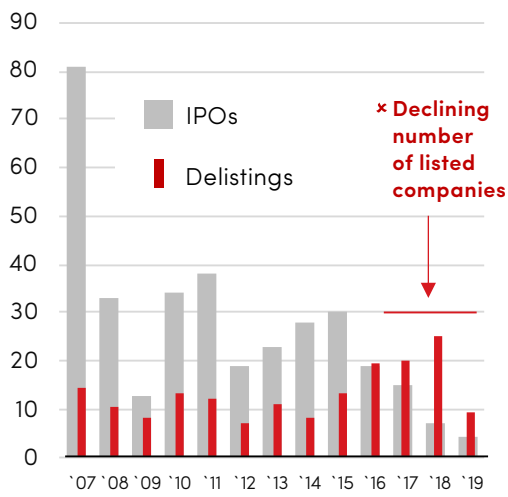
The Polish government is aware of the need for increasing the role of capital in financing economic development, which is reflected in the Capital Market Development Strategy. It is to be additionally supported by Employee Capital Plans (Pracownicze Plany Kapitałowe, PPK), that may ensure the inflow of new funds to the WSE in the amount of even PLN 30 billion annually. The resulting increase

Fig. 39 WIG quotations and total turnover on the WSE, 2007-2019



Source: WSE, Pekao Research

Fig. 40 IPOs and delistings on the WSE, 2007-2019



in turnover and liquidity could attract more interest from domestic and foreign investors, which would further enhance the positive effect.

The 'stimulation' of the Warsaw Stock Exchange through Employee Capital Plans should facilitate companies' access to financing, supporting, among others, their potential for foreign expansion. However, one should be aware that the scale of financing available through the WSE will remain limited. Therefore, it is important to increase financing through other capital market instruments, with **corporate bonds being one of the most important sources of financing in this context. However, the domestic Debt Capital Markets (DCM) market has also been stagnating in recent years** – its cumulative value remained in 2016-2018 at a relatively stable level of ca. PLN 70 billion.

Relatively high issuance costs combined with low awareness of its advantages among Polish companies are the key development barriers for the corporate bond market. It is followed by the growing number of regulations aimed at improving the transparency and safety of these instruments. Although they may improve their image and have a positive impact on demand, there is also a risk of overregulation which may adversely affect the possibility and profitability of using these instruments. **An important role in stimulating the development of the corporate bond market will be played by the banking sector**, which will provide companies with support in the process of planning, organising and placing issues.

The undisputed leader of the Polish DCM market

Piotr Wochniak
Director
Debt Capital Markets and
Financial Institutions Sales Office

For a long time we have been one of the leaders of the Polish market of non-treasury debt securities (DCM). This market includes debt instruments issued by enterprises, municipalities and banks. Debt instruments issued on the domestic debt market (based on Polish legislation) include: bonds, bank securities and mortgage bonds.

Bank Pekao has been one of the most active participants of this market for many years. Currently, we support over 400 debt securities issue programmes. We maintained our position as the undisputed leader on the market of medium-term corporate bond issues placed on the Polish market, in the first half of 2019 increasing our share to as much as 40%.

The total nominal value of issued and unredeemed non-Treasury bonds placed by Bank Pekao is currently about PLN 33.5 billion. Bank Pekao S.A. participated in all of the largest benchmark corporate bond issues for companies from various areas of the Polish economy, including the energy, mining, real estate, telecommunications and financial sectors.

In recognition of its achievements on the non-treasury bond market in Poland, the Bank was awarded several times by the WSE, including the highest value of issues of non-Treasury debt instruments introduced to the Catalyst market in 2018.

Our successes are the combined effect of an experienced team, built up over a long time, continuous improvement of employees' competences, as well as a comprehensive offer in the field of debt capital markets. Bank Pekao S.A. strongly supports the development of the market through very active trading in non-Treasury bonds on the secondary market, building credibility and serving as a strong partner for financial institutions.

In the face of the limited potential of the domestic capital market, **looking for foreign investors willing to co-finance the foreign expansion may be an interesting alternative**. It concerns e.g. Private Equity funds, and in the case of small companies and start-ups – also Venture Capital. However, the risk of losing control over the company is – apart from the need to convince investors about profitability of the planned project – a major weakness of such a solution. It discourages a significant part of Polish entrepreneurs from searching for such external business partners. Developing a mutually satisfactory formula for cooperation seems to be a challenge in this context. Perhaps this is a task for the state. On the one hand, it may create incentives for foreign funds, attracting them to Poland. On the other hand, projects that are in line with key directions of the export strategy may be supported through taking over part of the risk or co-financing.

SAB Miller: A successful financing strategy supporting international expansion

The history of the SAB Miller brewing group is an interesting example of a strategy for financing foreign expansion. SAB, originally listed on the Johannesburg Stock Exchange, debuted on the London Stock Exchange (LSE) at the end of the 1990s. This provided SABwith significantly increased access to capital compared to the home market, which in turn enabled it to finance a number of global acquisitions on highly developed markets (including American Miller Brewing Company).

Fig. 41 **Countries of SAB Miller's operational activity prior to its acquisition by Anheuser Busch InBev**

Source: Financial Times

Entering one of the large exchanges can provide access to significant resources, but it is not easy. Apart from the need to meet often high formal requirements, it is also necessary to have an appropriate scale and recognition of the business. When entering the London Stock Exchange, SAB was not only a monopolist on the South African market, but also had a strong position in a number of developing countries in Africa, Europe (Hungary, the Czech Republic)and Asia (India, China).

The list of similarly spectacular successes is not long - many other foreign companies listed on the LSE have not achieved the expected acceleration of their businesses. **However, the case of the African brewing giant may serve as an inspiration for Polish companies already active on foreign markets and considering intensification of their activities in this area.**

Policy of supporting foreign expansion

State support may be an important element facilitating the foreign expansion of companies. In a favourable external environment, it stimulates the dynamics of expansion and helps to optimally utilise the business potential of exporters. However, it becomes even more important when economic and geopolitical conditions become unfavourable.

As a reminder, Poland is currently facing a whole set of such unfavourable factors, including most of all:

1. **structural challenges** (labour costs growth – difficult to neutralise with a limited value addedof manufactured goods and a weak position in the global value chains as well as rising energy costs);
2. **changes in the geopolitical environment** (rising global protectionism and escalating trade wars)
3. **cyclical factors** (expected economic slowdown in Western European countries, especially in Germany, combined with their dominant role in Polish exports)

In this situation, a well-designed and effective policy of supporting Polish companies by state institutions may be the key to maintaining the high dynamics of foreign expansion. The assessment of this policy can be based on the previous experiences and compared with examples of best practices applied in other countries. For this purpose, the tools supporting foreign expansion can be grouped into two main blocks: operational support (promotion, assistance in establishing foreign assistance in making foreign contacts, consultancy, legal and technical services, analytical, training, etc.) and financial support.

Development of operational support

Although in Poland the system of support for exporters and international promotion of the economy has long traditions, it still shows some room for potential improvement. In the past, among its key weaknesses one could be indicated, in particular:

A **Lack of a single, separate strategy** and a coherent promotion system;

B **Strong dispersion of support activities** and lackof effective coordination between particular institutions;

C **Insufficient cooperation between the Ministries of Economy and Foreign Affairs** regarding promotional tasks performed by foreign institutions;

D **Ineffective geographical structure** of foreign promotional and representative branches, most of which are located in European countries (characterised by the relatively smallest expansion barriers).

The aformentioned features of the Polish expansion support system resulted in its **limited effectiveness**. The lack of coordination resulted in insufficient knowledge of Polish institutions concerning the needs and potential of Polish companies. In such conditions, **the preparation of an attractive service package as well as an effective implementation of related tasks were fora long time severely hampered**.

In 2017, an attempt was made to address these deficiencies by centralising the system. The Polish Investment and Trade Agency (Polska Agencja Inwestycji i Handlu, PAIH) was established (on the basis of the former Polish Agency for Foreign Investment – PAIIZ) and made responsible for supporting export and promotion of the Polish economy. PAIH tasks include the creation of foreign rep offices (Foreign Trade Offices - Zagraniczne Biura Handlowe, ZBH), created in place of the former Trade and Investment Promotion Sections (WPHI) operating at Polish embassies. PAIH, as a central institution, is responsible for the coordination of ZBH activities with national institutions and Poland's general economic policy, as well as with entrepreneurs associations. The locations of the ZBH were also reviewed and modified, **with greater emphasis on the most promising markets outside the EU**, while criteria for the assessment of their employees were changed to more pro-effective. More attention was also paid to **improving the transparency of the entire system**, by accumulating information on one platform - the Export Promotion Portal (www.trade.gov.pl).

Financial support

Financial support for the foreign expansion of Polish companies is based on both state and commercial institutions.

The range of instruments available to Polish companies is quite wide, including direct financing of exporters, subsidies for interest on loans, financing for foreign buyers of Polish products, financing of Polish investments abroad, insurance of receivables, as well as foreign investments or insurance guarantees. In recent years, parallel to changes in the operational support system, **efforts have been made to increase the effectiveness of financial support tools**. They included, among others, growth in the volumes of export credits insured, improvement of the customer service process, as well as an increased activity in the area of export contract financing.

How to the best do it?

Examples of the most effective systems of supporting foreign expansion in Western European countries allow us to point out **some of their key foundations**, such as:

A Clear division of responsibilities

B Close cooperation of institutions supporting expansion among themselves, as well as with other institutions and organisations responsible for the economic development of the country

C Centralisation

Germany

The system of supporting foreign expansion in Germany can be seen as a model. It is based on **cooperation between government and private institutions**, and its main pillars are:

1. **on the government side** – Ministry of Economy and Energy (BMWi) and the federal agency for economic development – Germany Trade & Invest (GTAI);

2. **within the private sector** – the bilateral Foreign Chambers of Commerce (AHKs) of the Association of Chambers of Commerce and Industry (DIHK). These enable knowledge exchange and coordination with the DIHK regional and local Chambers of Industry (IHKs);

3. **as a supplement to the system** - foreign missions (mainly to embassies and consulates), particularly important in the case of those countries, where the AHK does not operate yet.

The German model ensures very high efficiency. The Chambers of Commerce (AHKs), based directly in business, acting on its behalf and cooperating with the Chambers of Industry (IHKs), have an excellent understanding of the needs and potential of German companies. At the same time, despite the fact that the system is based on three pillars, **its cen-**

tralisation is relatively strong. The Chambers of Commerce operate within an association (DIHK), which ensures effective coordination.

In addition, the system assumes close cooperation between AHKs and state institutions (GTAI in particular), ensuring consistency of their activities with the state's export policy. At the same time, the state co-finances AHKs, supports foreign expansion in areas not covered by the chambers (e.g. by supporting SME expansion abroad or as a knowledge hub) and provides financing and guarantees for export transactions. The institutions responsible for export finance are KfW Group, AKA Bank and in the field of insurance - Euler Hermes.

United Kingdom

A different expansion support model was adopted in the UK. The case of the United Kingdom is particularly interesting due to the fact that also in this country - as in Poland – the whole system has been recently reformed (in 2016). The reform was aimed to adapt the UK's export strategy to challenges arising in international relations, including potentially the most important disruptive factor – Brexit. The British government centralised the system by creating the Department for International Trade (DIT). It covers most of the responsibilities and tools for supporting the foreign expansion, both at the operational and financial level (the latter via the UK Export Finance – UKEF). The new British export strategy defines **4 main barriers to foreign expansion**. These are:

A Access to finance

B Market access issues

C Lack of knowledge

D Attitudinal barriers

Government institutions along with the scope of their tasks were precisely assigned in order to cope with each of these barriers.

Other EU countries adopted various models of export support systems. Some of them are based on the dominant role of the state (e.g. Denmark, through operational bodies of the Ministry of Foreign Affairs or Spain, through the government agency ICEX). Other focus on cooperation between government institutions and business (e.g. Swedish agency Business Sweden). The common feature of these models is the tendency to centralize the export support system through consolidation of participating institutions.

The UK export strategy

Expansion barriers	The role of government	Implementation
x Acess to finance	Finance Providing export finance in areas not covered by the private financial sector	UKEF as part of DIT: • Export credit facilities • Trade finance solutions • Export insurance • International Export Finance Executives
x Limited networks and contacts x Market access issues and trade barriers	Connect Connect UK businesses to foreign markets and contractors	• Ministerial visits and missions • Government's international network: Ambassadors, High and Trade Commissioners, Trade Envoys • UKEF supplier fairs
x Lack of knowledge and capacity	Inform Provide access to information, advice and practical assistance	• great.gov.uk • DIT Trade Advisers • UKEF Export Finance Managers • Intellectual Property Office • UK-based sector teams
x Attitudinal barriers x Limited global awareness of the UK's strengths and capabilities	Encourage Support for companies starting or planning export activities	• GREAT Campaign • UK Export Champions • great.gov.uk

Source: HM Government

Can the Polish foreign expansion support system be effective?

The Polish system of supporting **foreign expansion has the potential to become an effective tool, useful for Polish companies**. First of all, **its reform was a step in the right direction**. The creation of Polish Investment and Trade Agency (PAIH) as the central institution responsible for managing the network of Foreign Trade Offices supporting expansion of Polish companies, specifying the scope of their tasks and establishing pro-effective criteria for the assessment of work performed **corresponds to the best international standards**. Attempts to **reorganise the information policy regarding the foreign expansion support system should be positively assessed as well**. Finally, the increase in funds available for export finance **reflects the high priority that the Polish government attaches to supporting foreign expansion**. Nevertheless, there are some areas where the Polish system can be strengthened further.

Potential activities include:

1. **Further centralisation of responsibilities and management, better system transparency and improvement of information policy.** As of today, the Export Promotion Portal lists – apart from PAIH and its Foreign Trade Offices – as many as 7 different institutions (including chambers of commerce and associations of private sector companies) offering support to exporters. Such a dispersion of competences can make it difficult for companies to obtain the support they need in a specific area. It also complicates the coordination of activities and exchange of knowledge, in particular between public and private institutions.

2. **Building competences, gathering knowledge and establishing foreign contacts** that could be used by Polish companies. PAIH is a young institution and it has only recently completed setting up its Foreign Trade Offices. This means that the system has not yet reached full operational efficiency, which may reduce its effectiveness.

3. **Scaling up.** The Polish system of foreign expansion support is significantly behind its western counterparts in terms of scale and available funds. This is reflected, among others, in the budget for foreign promotion, available human resources and the value of financial support provided.

4. **Flexible adaptation of the support system to dynamically changing global business models.** In many European countries, such systems are constantly evolving. It is necessary to take into account the growing role of globalisation, internationalisation of supply chains and cross-border connections in business operations. This generates the need to adjust support criteria to ensure its allocation to the right recipients. Such a dynamic approach is inevitable in the environment of growing competition between increasingly more effective foreign expansion support systems of different countries.

Fig. 41 Selected systems of foreign expansion support in numbers

	Finances	Human resources
	PAIH budget (2018) • PLN 90 mn (EUR ~20 mn)	**Number of PAIH's Foreign Trade Offices** • 70 **Number of PAIH's employees** • Less than 200 at the beginning of 2019
	Government spending on export promotion (2017) • Approx. EUR 200 mn **AHK budget (2017)** • Approx. EUR 200 million (state funding + own commercial revenues)	**Number of AHKs** • 140 **Number of AHKs' employees** • Approx. 2 thous.
	Expenses for export promotion • Approx. EUR 400 mn annually	**Number of diplomatic missions** • 270 in 168 countries
	ICEX budget (2017) • EUR 80 mn	**Number of ICEX offices** • Approx. 100 **Number of ICEX employees** • Approx. 600
	Expenses for operational support for foreign expansion (2017) • Approx. EUR 70 mn	**Number of employees engaged in supporting foreign expansion** • Approx. 600

Source: PAIH, GTAI, KfW, ICEX, UKEF, The European Economic and Social Committee, Ramboll Management Consulting

Correspondent banking supports our clients' international business

Robert Smuga
Director
Financial Institutions and Custody Department

Bank Pekao has an extensive network of correspondent banks. We co-operate with over 1,500 foreign banks from over 100 countries, which enables us to offer our clients products supporting their international expansion. We are constantly expanding our foreign settlement infrastructure, enabling effective transfer of funds in many currencies from or to virtually every country in the world. At the same time we are a leading correspondent bank in Poland for foreign financial institutions, which makes the settlement of contracts in PLN much more effective.

Our international partnerships also provide our clients with access to such products and solutions as trade finance allow to mitigate settlement and counterparty risk. Using our worldwide network of correspondents, we help corporate clients to establish new business relationships and access banking services in a given market.

We increasingly observe an interest in portfolio investments on foreign markets from our clients - both in equity and debt securities. The network of our agents enables us to settle transactions on foreign securities efficiently and provide the best custody services.

What are the expectations of Polish companies?

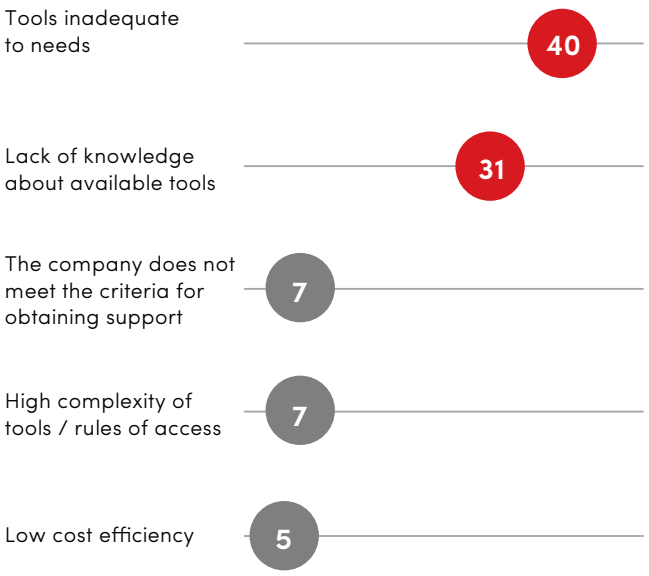
According to the research of the Polish Economic Institute, the percentage of innovative, technologically advanced Polish exporters using the state foreign expansion support system in 2017 **amounted to nearly 44% and increased by 10 percentage points since 2013**. However, only 1% of these companies assessed the provided tools as crucial for the development of their foreign operations. The same research has shown that **the main barriers for companies were**:

1. **inadequacy of the available tools for the needs** of individual companies;
2. **lack of knowledge of available tools** due to ineffective or imprecise information policy of the state.

Other surveys conducted among Polish companies (e.g. the survey of agri-food exporters carried out by KPMG) show that **entrepreneurs perceive the following support tools as being the most effective**:

Fig. 42 **Barriers to the use of export support tools by innovative and technologically advanced companies***

Percentage of companies indicating the main barriers to using foreign expansion support tools (%)



* The results of research conducted on a sample of 211 companies at the turn of 2017 and 2018
Source: Polish Economic Institute

A Organising/assistance in organising foreign events (fairs, exhibitions, trade missions, meetings with foreign companies);

B Information on foreign regulations;

C Market data, information and analysis.

On the other hand, instruments such as staff training, advice and workshops, as well as tax incentives were assessed as being the least effective.

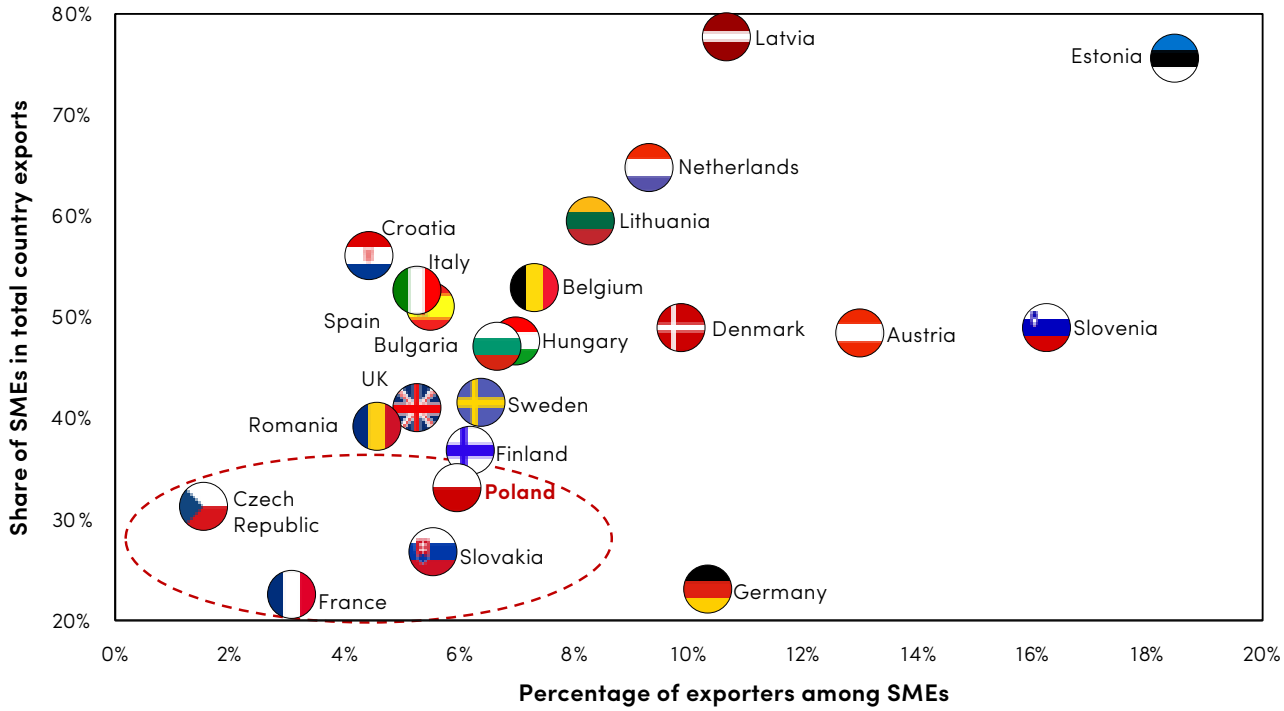
These observations should be taken into consideration in order to maximise the effectiveness of further adjustments to the foreign expansion support system. Research indicates that **companies are most of all seeking assistance in the areas of networking and establishing contacts, placing and promoting products on foreign markets, and gaining practical knowledge facilitating operationalisation of foreign activities**. These are areas that require the relatively highest competences of the employees engaged as well as sufficient funds available - and thus they generate the highest costs for the state.

It takes time to build global champions – Polish companies should be incentivised to internationalise from the early stage of their activity

Building foundations for global success usually takes not years but decades. However, the faster companies enter foreign markets, the greater their potential for dynamic and intelligent growth is. Foreign expansion at an early stage of development significantly broadens the spectrum of potential customers, and above all enables the acquisition of valuable experience and know-how, as well as the gradual building of knowledge about foreign markets (including business partners).

The problem, however, is that the smaller the entities are, the more serious barriers to internationalisation they usually face. This is confirmed by European statistics which show that **Poland is among the European Union countries with the lowest percentage of exporters in the SME sector**. Moreover, these companies are responsible for a relatively small part of total Polish exports (about 1/3).

Fig. 43 **Export activity of SMEs in selected EU countries, 2017**



Source: Eurostat, StatOffice, Pekao Research

The weak export activity of the Polish SME sector results mainly from the very low percentage of companies selling to foreign markets among the smallest entities (up to 9 employees). The studies confirm that the system of support of foreign expansion should be aimed especially at ambitious, developing companies whose capital, knowledge and resources deficit curbs their international potential.

Commercial banks can also be an important element of the support system for international expansion of Polish companies

The export support system in Poland involves the participation of commercial banks in financing exporters' activities. The export finance instruments they offer can provide an invaluable support for companies starting their activities on foreign markets, contributing, among others to:

- **improved financial liquidity** – the exporter receives the funds necessary to secure liquidity on a regular basis immediately after delivering the necessary documentation confirming export sales;
- **increased competitiveness of trade credit granted** – the structured export finance products enable exporters to offer their international customers not only products but also a source of financing for the purchase, with repayment extended by up to 10 years
- **Risk transfer from the exporter to the importer** – transferring the risk of financing from an exporter to a foreign consignee (importer), which charges the balance sheet of the latter
- **hedging against political risk** – transfer of risk from the exporter to the financial institution in foreign trade with exotic destinations.

However, in recent years Polish banks have been involved to a limited extent in specialised export financing, without developing the necessary expertise in this area. Bank Pekao is a positive exception to this pattern, offering a wide range of products in this area through a dedicated department.

Pekao is a provider of optimal trade finance solutions

Piotr Stolarczyk
Head of International Banking
and Export Financing Department

We are seeing an increasing interest among our clients to enter distant foreign markets.

Our experience is that these markets are very dynamic, which allows our Clients to realise significant revenue growth at wider profit margins.

Clients entering foreign markets should actively cooperate with the bank, as thanks to wide array of export financing products we ensure safety in settlement of transactions, and we also make the client's offer more attractive thanks to financing, which helps companies to compete in international markets.

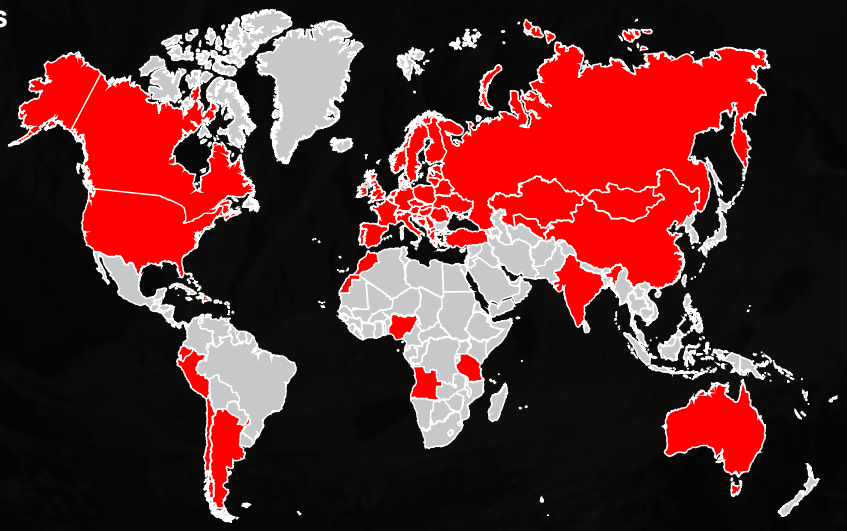
In summary, it is worth taking advantage of our expertise - already a few dozens of companies have entrusted us. We are preparing tailor-made solutions for them, taking into account their business model, the sector they are in, as well as the target markets where they plan expansion.

Bank Pekao

Together with our clients we take care about their development in global markets

✓ **We are working on more than 100 transactions in more than 40 countries**

- **Energy sector**
- **Construction**
- **Manufacturing**
- **Shipbuilding**
- **Transportation**
- **Mining**
- **Agriculture machinery**
- **FMCG**



Why is it worth taking advantage of Structured Export Finance products at Bank Pekao?

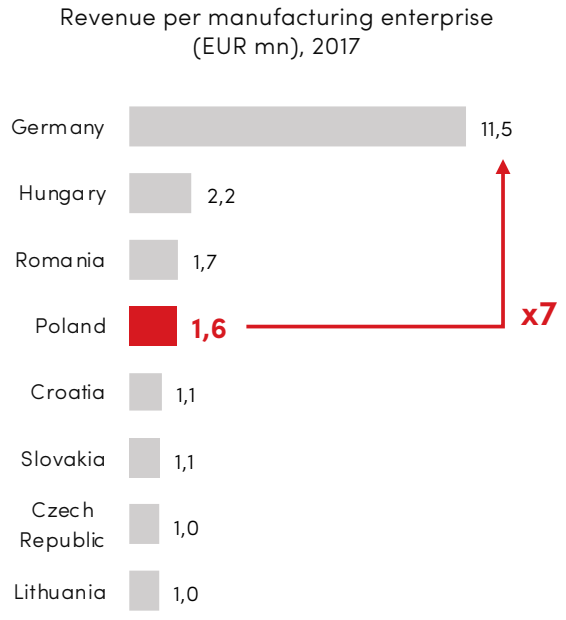
We are with our clients at every stage: from the decision process on expansion in foreign markets to settlement of transactions:

- Our vast experience allows us to offer complex advisory service, supporting you already at the stage of formulating key concepts and strategies;
- We propose financing structures optimal for the type of business activity, working in close cooperation with Insurers of export loans already at a very early stage of structuring of the transaction;
- We propose competitive terms of financing of exports activity, characterised with taking the risk of payment and the credit risk away from the exporter from Poland, and not impacting its balance sheet;
- We support exports to countries around the world – even to exotic destination with heightened risk.

The path of Polish companies towards the status of global champions will lead through achieving a dominant position in Central and Eastern Europe

Currently, the number of Polish firms that are able to achieve the status of an international champion is not very large. The 'Polityka Insight' ranking lists **only two companies that have already achieved such a position**: PKN Orlen and KGHM. There is a scale problem here. Although there are a lot of leading Polish companies among the largest enterprises in Central and Eastern Europe, **they are still separated by a very large distance from companies from the developed western countries**. The clear leader in terms of turnover in our country – the Orlen Group (revenue over 2 times higher than the 2nd firm in the ranking – Jeronimo Martins) would be placed only at the end of the top 30 German companies. **The average German company generates 7 times higher turnover and employs almost 3 times more employees than the average Polish company.** With such a large disproportion compared to the leading global companies, achieving a critical mass that would allow Polish firms to become international champions is a big challenge.

Fig. 44 **The scale of operation of Polish manufacturing enterprises**



Source: Eurostat, Pekao Research

The barrier of the relatively small scale of operation cannot be overcome overnight. The best model of foreign expansion assumes consecutive stages of organic development. The company begins export sales to selected foreign markets. Supporting investments may follow, and the final stage is launching production directly in the foreign market. The experience gained can then be used to transfer business to another country. Foreign mergers and acquisitions provide the potential to accelerate the entire process. They enable acquisition of the already organised processes, ready sales channels, a recognisable brand in a given market, and often also know-how and technology enabling acceleration of development of the acquiring company. However, the question of possibilities arises here again and those are determined by the company's scale.

In recent years, Polish companies have been conducting acquisition activities in foreign markets. In the years 2013-2018 they carried out abroad from a dozen to over 20 mergers with a total value of EUR 0.5-1.5 bn per year. It should be emphasised, however, that in the last 3 years the number of foreign acquisitions carried out by Polish companies was similar to the corresponding figure for the Czech Republic, which is a much smaller country; therefore, this result is hardly impressive. However, there seems to be considerable space to develop this type of activity.

A number of Polish companies have already reached the scale of operation which makes the domestic market too tight for them. Foreign expansion becomes a necessary condition for their further development. Although they are much smaller than the leading Western European companies, they stand out in our region, possessing significant resources and acquisition potential. An appropriate solution for them seems to be the two-track foreign expansion strategy based on:

1. **acquisitions of the leading companies in other markets of Central and Eastern Europe, which are smaller than the Polish one.** They are often within the financial reach of Polish enterprises. At the same time, the similarity of the markets in our region of Europe translates into similarities between companies operating in those

Bank Pekao – an unmatched leader in structured finance solutions

Dieter Lobnig
Director of Investment Banking and Real Estate Financing Department

We observe rising ambitions of Polish firms with respect to foreign expansion. The role of banks in supporting clients on that front is rising along with internationalisation of domestic enterprises.

Bank Pekao provides solutions enabling expansion and opens branches that accompany customers in setting up, expanding global presence and supporting development. In this context we follow customer needs and deliver support abroad, as proved by our recent transaction financing acquisition in Croatia.

We also provide structural financing and aid on infrastructural projects such as investments in commercial real estate conducted by both domestic and foreign clients.

Polish managers are used to counting on the local financial market for their investment projects financing. Enterpreneurs finance cross-border acquisitions or greenfield investments via loans or debt emission through the Polish banking sector that is liquid and hence provides a low cost of corporate debt as compared with the cost of credit on the exotic markets.

Clients expectations regarding foreign trade financing is evolving along with the changing geographic structure of foreign expansion. Investments in more exotic countries requires banks to adjust financing to conditions differing from those prevailing in the European Union. This is where the system of guaranteed export insurance becomes helpful.

Customers expect broad-based solutions. Therefore, the bank is serving its customer as a guide, finance provider and valuable advisor in finding attractive acquisition targets or finding investors for further expansion.

Examples of transactions with Pekao

Stokrotka Sp. z o.o.

PLN 131,000,000
Term Loan
Revolving Loan
Guarantee Line

Exclusive Lender
2019

Thunder Holdco BE NV
Polflam Sp. z o.o.

EUR 42,000,000
Acquisition
and renewable loan

Exclusive Lender
2019

Warsaw Varso

EUR 300 000 000
Investment Loan

Agent
2018

Studenac

EUR 60 mln
Senior Facilities

Enterprise Investors
MLA
Croatia, 2018

Inter Cars S.A.

PLN 1,375,000,000
Syndicated loan

Original Lender
Loan Agent Security Agent
2018

DCT Gdańsk

EUR 382 500 thous.
Senior Facilities
PSA, IFM, PFR

MLA

Poland, 2019

Synthos S.A.

EUR 850,000,000
Syndicated loan

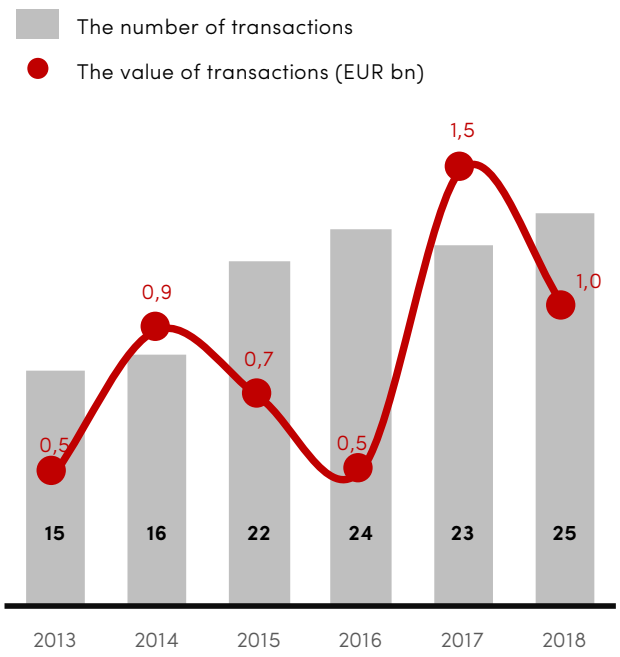
Main Organiser
Original Lender
Security Agent
2018

markets. This facilitates consolidation of the acquired businesses and allows for relatively quick synergies. Taking the position of 'regional stars' would allow to achieve a scale of activity noticeable at least in Europe. That, in turn ,would markedly change the potential for further expansion;

2. **a gradual increase in the presence on developed Western European markets via organic growth based on exports.** Such a growth should be supported by acquisitions of smaller local businesses that facilitate access to channels of distribution and brands recognised at least locally on the target market. Such a base could be expanded on the basis of critical mass built on the back of consolidation of businesses in Central and Eastern Europe.

There are several examples of Polish enterprises that have achieved impressive results using such a strategy. It seems to ensure the highest probability of success. Support for Polish firms in the process of cross-border mergers and acquisitions is an important element of the strategy. In particular, the role of the domestic banking sector and co-operating with it international financial institutions specialised in M&A is vital.

Fig. 45 **The number and value of cross-border M&As with the participation of Polish companies**



Source: Mergermarket, Eurostat

Domestic specialisations and export markets – where to seek opportunities for Poland?

Although Poland has only a few corporations of a truly global reach, **in some areas domestic players already courageously compete with global leaders. It is especially the case in selected sectors of the economy that could be described as domestic specialisations**, where local enterprises have managed to **best exploit our international competitive advantages**.

Domestic specialisations are often relatively small areas of the economy, so even domestic leaders do not achieve the status of champion. Nevertheless, already created value and recognition is a solid base for further expansion – in particular via further movement up the value added chain. As a result, the scale of activity and investment potential of the firms increases, which in turn enables developing new business activities. **Over time such entities my turn into quasi-conglomerates that create a network of business partners and suppliers and have the potential for global expansion.** Leveraging areas where Polish businesses have already been successful may turn out to be the most effective way of identifying potential future champions.

A dynamically changing world creates numerous **completely new business opportunities. Poland already has advantages that allow it to actively participate in the development of new business areas in the initial and later stages.** Examples of sectors with the highest development potential, where Poland could seek opportunities, could be among others found in the Strategy for Responsible Development. It mentions sectors such as electromobility, aviation and space exploration (e.g. drones) and eco-buildings (e.g. passive houses).

Selected areas of industrial specialisations in Poland

Industry	Share and rank in the EU	Main competitive advantages	Internationally successful enterprises
Wood and furniture	~8% (#3 in EU)	✓ Favourable price-to-quality ratio (high standard of craftsmanship at relatively low cost of labour) ✓ Domestic resource base ✓ High flexibility of domestic producers (ability to meet customer needs) ✓ Central geographic position in the EU (high cost of transport in this industry, proximity of large markets)	Nowy Styl Szynaka Kler Stelmet Barlinek
Cosmetics	~5-6% (#6 in EU)	✓ High quality and innovations ✓ Well developed research facilities and qualified staff (cosmetologists educated at academic level) ✓ Low cost of labour	Ziaja Dr Irena Eris Inglot Eveline Comsetics
Windows and doors	~10% (#5 in EU)	✓ Favourable price-to-quality ratio (low costs thanks to low cost labour and technologically advanced plants) ✓ Advanced production and relatively high level of innovations	Fakro Drutex Oknoplast Eko-okna Porta
IT services, software, games	~2% (#10 in EU)	✓ Quality of human capital – programmers, IT specialists, winners of many international contests ✓ Low cost advantage vs. highly developed countries	Asseco Comarch CD Projekt
Przemysł spożywczy	~5-6% (#7 in EU)	✓ Resource base (long agricultural traditions) ✓ High quality of produced food, among others thanks to cultivation in unpolluted areas (distant from main industrial centres) ✓ Low cost of production (resources, labour cost) amid rising technological advancement of plants (automation)	Maspex Cedrob Indykpol Mlekovita Mlekpol

In order to achieve their international expansion ambitions, Polish companies should make better use of the potential of the most attractive markets

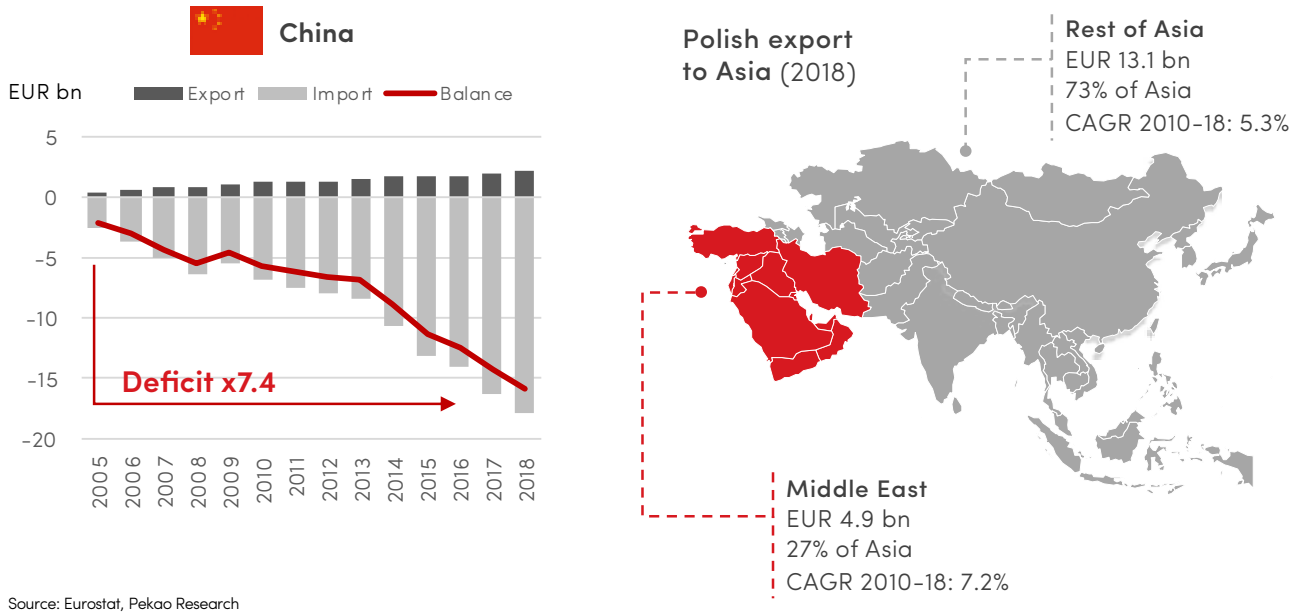
As already mentioned, **Poland, in comparison to Western European countries, has a relatively poorly developed export to third (non-EU) countries**. As a result, domestic companies do not exploit the great potential of these markets. The most promising areas for further expansion include, in particular:

1. **USA**. It is not only one of the largest countries in the world (population 327 million) but also a well-developed market with highly diversified needs (GDP per capita approx. USD 63 thous.). The combination of these factors, together with low cultural or linguistic barriers, makes the export potential much greater than the current trade statistics suggest. Moreover, the United States is an important political and military ally for us, which opens up other opportunities to find many areas of cooperation.

2. **China**. Over the last two decades, the country has grown into a global economic powerhouse. The population of China – 1.4 billion people – is almost 1/5 of the world population, and the economy accounts for a similar share of global GDP. What is important, the middle class is growing rapidly; according to estimates it may already exceed the entire population of the European Union. Poland does not exploit the full potential of this huge market, which shows for example in our trade deficit – in 2018 it amounted to about EUR 16 bn, and since 2005 it has grown more than 7 times, with a very small increase in exports. It is possible that new opportunities will emerge with the further development of the Belt and Road Initiative (BRI).

3. **Middle Eastern countries.** These markets, despite significant cultural differences and less political stability, are a very attractive direction of expansion. Compared to the Far East or North America, they are located relatively close to Poland. Due to their natural resources, most of them are characterised by a high level of prosperity of the society, which is increasingly opening up to new products from all over the world. It is also a region of large long-term infrastructure projects and investments aimed at diversifying the economy. Polish companies are beginning to appreciate these possibilities – in 2018 our exports amounted to almost EUR 5 bn (27% of all exports to Asia), growing much faster than other Asian countries (CAGR in 2010-18: 7.2% vs. 5.3%).

Fig. 46 **Poland's foreign trade with Asia and selected Asian countries**



Source: Eurostat, Pekao Research

Regional cooperation is one of the cornerstones of global development

Today's challenging competitive environment makes it difficult for individual CEE companies to achieve a global position, but transnational co-operation in the region may increase the 'clout' of particalar countries in global markets. A special role in this process may be played, among others, by the concept of the so-called Three Seas Initative[9].

The countries of our region share many similarities and common interests, which can form the basis for numerous potential areas of cooperation. These similarities include, in particular:

- **similar economic objectives and development challenges.** All CEE countries are European developing countries whose economic ambition is to catch up on a wealth level with Western European countries. They are also at a similar stage of development and face similar challenges - such as unfavourable demographic trends, a brain drain, or the need to move up the value chains (including the transformation from low-cost to knowledge-based economies, which is needed to avoid the so-called 'middle income trap');

- **openness of economies** which are largely export oriented and attract major foreign investments;

- **geographical characteristics**, numerous common borders and relatively short distances due to the small size of the countries;

- **relatively small cultural differences**, which reduce some of the cooperation barriers. The common post-war history plays also its role in many aspects.

In order to realise the potential of joined forces of 11 countries of the Three Seas Initiative, it is worth carrying out several comparisons. In total, they create a population of over 100 million people - which would currently give it 14th place in the world - and an economy with a GDP worth EUR 1,630 billion (12th place).

Interesting insights are provided by the comparison of the Three Seas with South Korea, which is a flagship example of international success. In terms of population, our region is twice as large, while the size of economies is similar. As a result, the GDP per capita in Korea is twice as high. It also has 16 representatives of the 500 largest companies in the world (compared to only one in the whole CEE) and over four times higher R&D expenses. Although the export of the Three Seas countries is 20% higher, it is largely due to ownership connections with developed countries, such as Germany. If the basis for comparison were, for example, exports to the United States – a developed, similarly remote and 'independent' market from both regions – the amount would turn out to be three times larger in the case of South Korea.

In a relatively short period of time, South Korea has made an economic leap forward and promoted many global champions through a specific system of state support that is difficult to replicate. Nevertheless, in a way it represents the enormous economic potential of Central and Eastern Europe. **However, the key fact is that the environment in which CEE countries operate today, their size and current status make it very difficult for them to reach the global level when considered as 11 independent economies.**

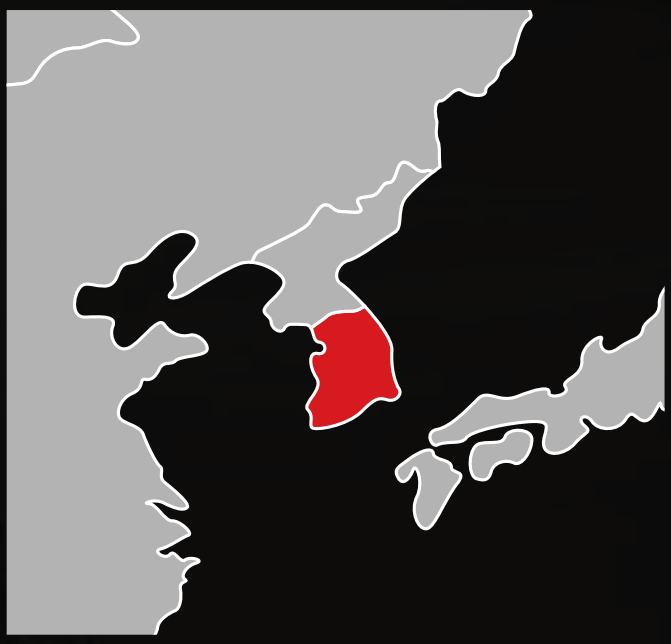
This is why **cross-border cooperation in our region can be one of the crucial elements in order to achieve the desired position on the international level more quickly**. Potential activities and areas that can generate the greatest positive effects include:

- **the development of a common transport infrastructure**, which connects both Northern and Southern Europe and the European Union with the Far East. The consistency and quality of the infrastructure has a great advantageous impact on international business.

- **the construction of a common digital infrastructure**, including e.g. fibre-optic or 5G mobile networks, which additionally meet the same standards. Nowadays, the countries that implement digital economy standards the fastest are in the best position for long-term development. Combining investment opportunities in this area, CEE countries could use this potential much faster;

[9] The report included Bulgaria, Croatia, the Czech Republic, Estonia, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia and Hungary in the Three Seas group. However, due to the significantly higher level of economic development, Austria was not included in the Three Seas.

Comparison of the economic potential of the Three Seas and Korea (2018)



THREE SEAS COUNTRIES				SOUTH KOREA
		POPULATION		
102.5 MN	x2			**51.6 MN**
		GDP		
USD 1,630 BN (3,0% CAGR 10-18)	=		=	**USD 1,619 BN** (3,0% CAGR 10-18)
		PKB PER CAPITA		
USD 15,902			x2	**USD 31,363**
		EXPORT		
USD 725.7 BN* (incl. to USA: USD 20.3 BN)	+20%		x3	**USD 604.7 BN** (incl. to USA: USD 61.9 BN)
		GLOBAL CHAMPIONS**		
1			+15	**16**
		R&D EXPENSES***		
USD 13.5 BN (1.0% GDP)			> x4	**USD 59.8 BN** (4.2% GDP)

* Excluding trade between the Three Seas countries.
** Companies from the Fortune Global 500.
*** Data for 2016.
Source: World Bank, Eurostat, Intracen, Fortune Global 500, Pekao Research.

- **coordination of activities supporting regional exports**, in particular joint activities of individual national agencies, exchange of knowledge and experience from expansion into particular foreign markets (e.g. in the field of local regulatory systems, cultural differences) or joining forces when searching for local contacts and distribution networks;

- **joint innovative activities.** Development through innovation and technological advancement is one of the main challenges facing CEE economies. At the same time, it requires huge investments in research and development, which even the top companies in our region cannot always afford. Creating trans-regional clusters of companies from similar areas or joint research of national universities, supported by a common pool of development funds, would allow to achieve the scale needed to compete in global markets. An adequate diffusion of innovation is essential throughout the whole process;

- **cooperation in strategic sectors.** Areas such as energy, gas and national defence are of fundamental importance for the security of the region, and at the same time they bring together many national champions from individual countries. Joint investment projects – including foreign investments (even international acquisitions) – could transfer them from the regional level to global players;

- **common platforms for financing development**, e.g. in the form of cross-border banking consortia or joint stock exchange forces in the region.

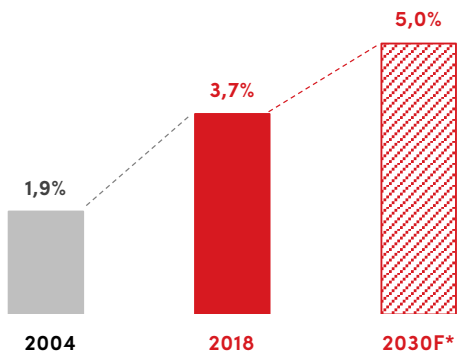
International cooperation at this level and with so many countries is a subject to numerous barriers, especially in a political context. However, this is a classic example of a situation in which the **entire region would have a much greater 'clout' than each of the countries separately, and the potential benefits far exceed the costs to be borne**.

We will not build global champions immediately. However, it is worthwile to react actively to the growing challenges of internationalisation right now

The development of world champions is – as the report shows – **a complex long-term process requiring the integrated actions** of both companies and institutions creating a local support system for internationalisation. **It is worth taking care to ensure that the key issues conducive to the faster expansion of Polish companies abroad** ('scaling up' by M&A, improvement of innovativeness, bolder promotion, easier access to capital, further strengthening of systemic support) **are properly addressed as soon as possible** – all the more so as the challenges of internationalisation will gradually increase in the coming years. This will be influenced by various structural factors (such as unfavourable demographic trends, rising energy costs and the ongoing digital revolution) and geopolitical (Brexit, trade wars).

In our opinion, such a systemic, integrated approach to the subject of foreign expansion may give it a new development impulse in the next decade, allowing for a further increase in Poland's share in EU exports, which may grow to as much as 5% in 2030 (compared to 3.7% in 2018). In such a scenario, exports would remain one of the driving forces behind the development of the Polish economy, which has the potential to maintain a dynamic growth path (about 4% annually) also in the next decade.

Fig. 47 **Historical and potential share of Poland in EU exports, 2004-2030**



* Estimated share of Poland in EU exports assuming that the average real growth rate of exports in 2010-2018 will be maintained.
Source: Eurostat, Pekao Research

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