

ECONOMIC TRANSFORMATION IN POLAND AND UKRAINE: THE CASE OF FOREIGN TRADE

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Following the new institutionalist literature we argue that in order to understand the evolution of market transformation and trade development it is useful to analyze them in the framework of the path dependence concept.

The paper is organized as follows:

The first part presents the general framework of the stabilization and growth phases in Poland and Ukraine.

The second analyzes selected growth factors, including Foreign Direct Investment (FDI) flows and barriers for development.

The third focuses on development of trade in Poland and Ukraine.

Part fourth summarizes outcomes of transformation in Poland and Ukraine in terms of per capita GDP.

The papers is closed by conclusions.

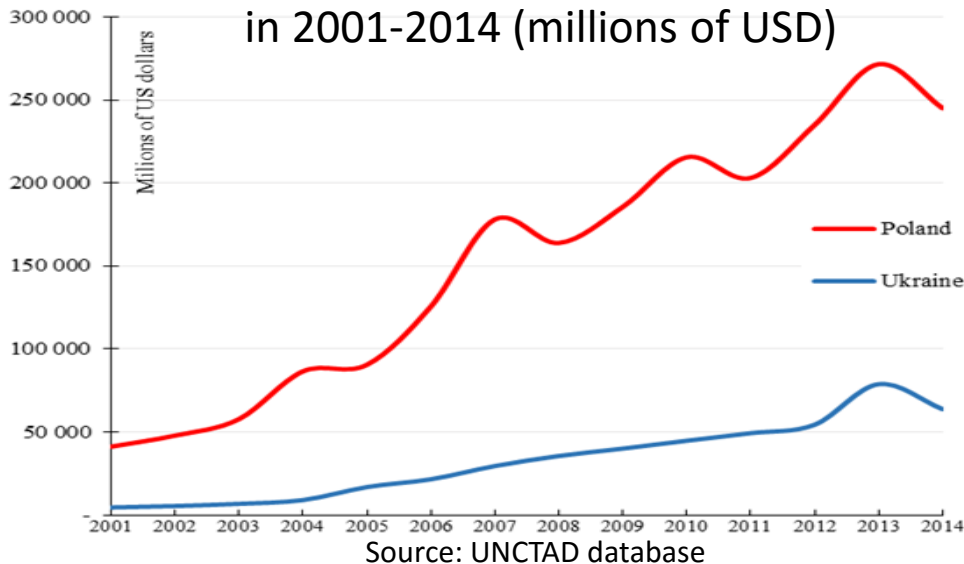
Stabilization programs and major initial conditions of the transformation in Ukraine and Poland

Specification	Ukraine	Poland
Launching the program	Nov. 1994	January 1990
Monetary policy	Restrictive	Restrictive
Fiscal policy	Restrictive	Restrictive
Incomes and wage rate policy	Mild	Restrictive
Exchange rate policy	Devaluation	Devaluation
Nominal anchor	Managed floating rate	Fixed exchange rate and wage control
Real anchor	Money supply and interest rate	Interest rate
Internal convertibility (for companies)	Yes	Yes
Internal convertibility (for households)	Restricted	Yes
External convertibility	Very restricted	Restricted
Main privatization method	Coupon	Direct
Date of starting privatization	1995	1990
Launching the stock exchange	1991	1991
Lowest level of GDP year	1998	1991
Scale of decrease (1989=100)	36.6	82.2
Population in 1990 (<u>mln</u>)	51.9	38.1

Source: Kowalski and Polowczyk [2012] based on national data and Gros and Steinherr [2004]; Hochreiter [1999] and Bennett et al. [2003].

During the first phase of the transition process, the real fixed investment growth and the share of total investment in GDP fluctuated significantly. The FDI, with different power affected both economies

FDI stock in Poland and Ukraine



as percent of GDP

Year	Poland	Ukraine
1990	0.17	-
1991	0.51	-
1992	1.48	0.35
1993	2.44	0.68
1994	3.49	0.86
1995	5.63	1.78
1996	7.30	3.12
1997	9.26	3.97
1998	12.96	6.46
1999	15.50	9.93
2000	19.50	11.97
2001	21.16	12.21
2002	23.80	13.48
2003	25.80	14.55
2004	33.32	14.29
2005	28.97	19.28
2006	35.45	20.67
2007	40.14	25.59
2008	29.65	24.98
2009	40.53	42.80
2010	40.99	41.06
2011	33.31	39.16
2012	40.98	41.09
2013	51.67	41.88

The liberalization of economic foreign relations played the key role in economic transformation.

The original set of initial conditions in trade was determined by natural resources and was reflected by its commodity and geographical structure

Value of exports of Poland and Ukraine (current USD)

Year	Poland		Ukraine	
	Total exports	Per capita exports	Total exports	Per capita exports
1990	12 599 543 455	331	<u>n.a.</u>	<u>n.a.</u>
1992	13 164 571 000	343	<u>n.a.</u>	<u>n.a.</u>
1994	17 194 369 000	446	<u>n.a.</u>	<u>n.a.</u>
1996	24 393 116 000	632	14 400 242 688	283
1998	28 193 638 000	729	12 637 410 304	252
2000	30 955 677 000	809	14 572 535 808	296
2002	40 253 902 000	1 053	17 927 415 808	372
2004	73 778 927 524	1 932	32 666 131 940	688
2006	109 584 131 360	2 873	38 367 609 299	820
2008	171 859 897 632	4 508	66 952 306 463	1 446
2009	136 641 304 601	3 582	39 695 647 589	863
2010	157 064 948 463	4 113	51 430 285 576	1 120
2011	188 105 090 147	4 882	68 393 034 211	1 497
2012	179 603 599 442	4 661	68 694 495 448	1 506
2013	203 847 917 759	5 291	63 320 468 792	1 392

Source: UNCTAD Databased. Per capita exports: own calculations based on UNCTAD and World Development Indicators (WDI) Database.

n.a. – there are no UNCTAD data for Ukraine.

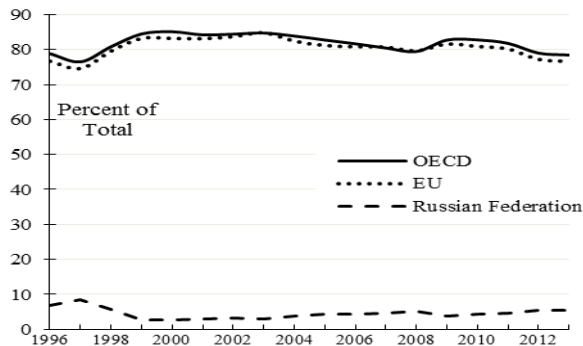
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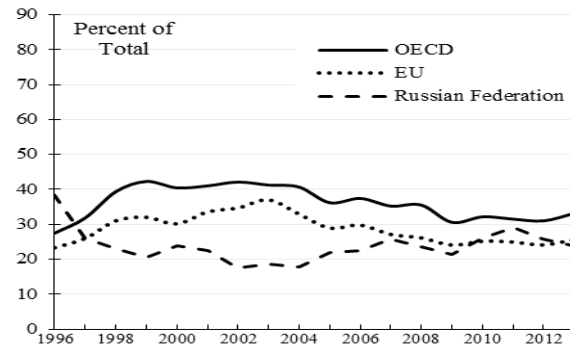
Geographical structure of trade reflected path-dependence and changes in the regional integration context.

Poland's western orientation was further strengthened by the European Union membership in 2004.

Poland

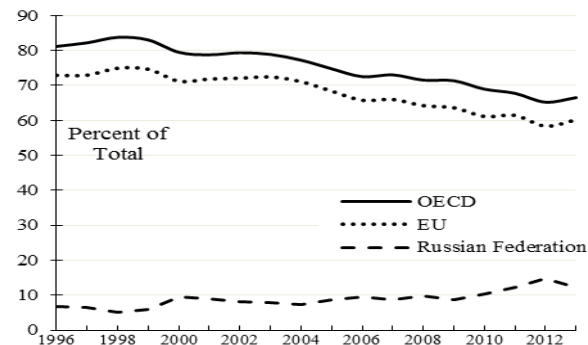


Ukraine

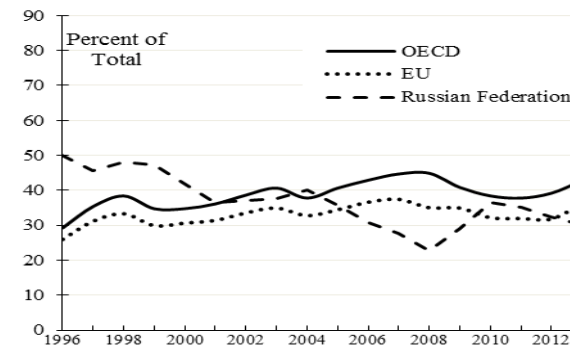


Exports to the OECD, EU and the RF as percent of total exports of Poland and Ukraine

Poland



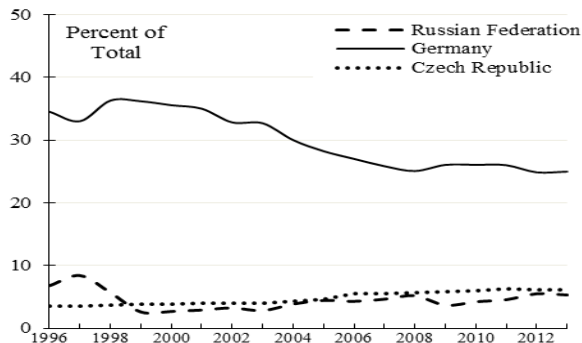
Ukraine



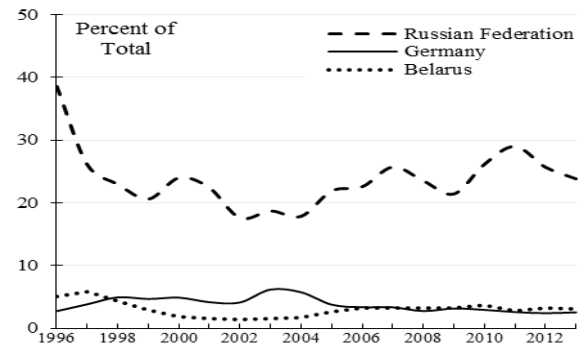
Imports from the OECD, EU and the RF as percent of total imports of Poland and Ukraine

As predicted by the gravity model neighboring countries matter the most. In the case of Ukraine this natural trend was influenced by the political climate.

Poland

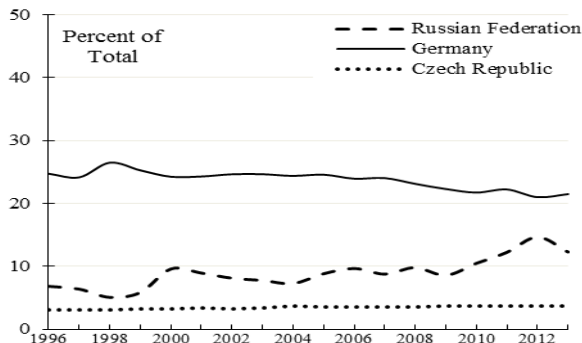


Ukraine

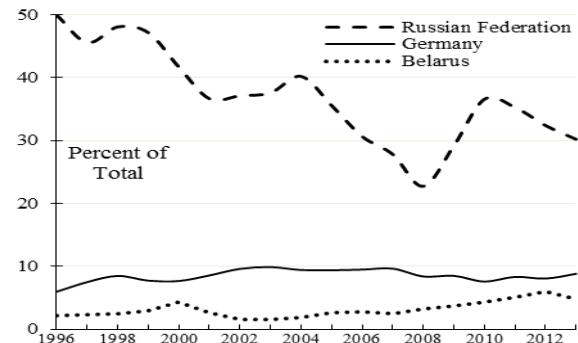


The share of neighboring countries in Poland's and Ukrainian's exports

Poland



Ukraine



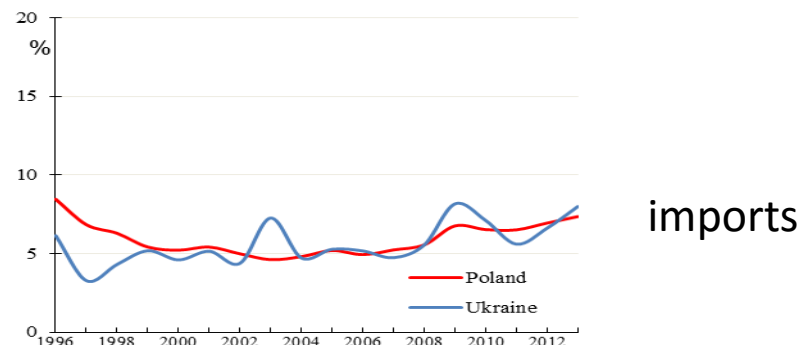
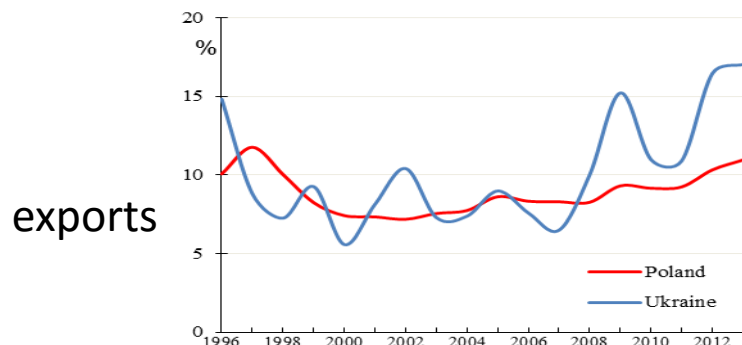
The share of neighboring countries in Poland's and Ukrainian's imports

At the outset of market reforms the commodity structure of trade reflected natural resource endowments.

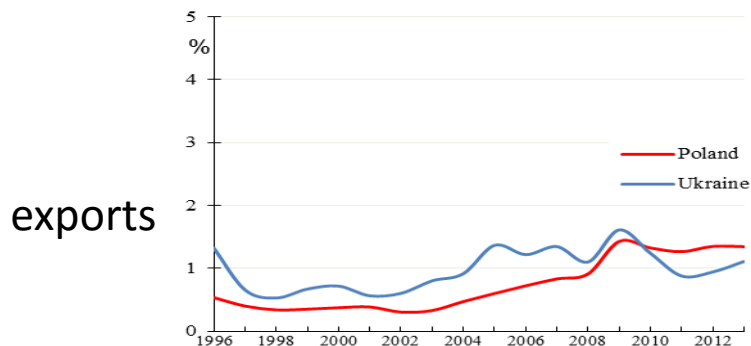
Then the different pattern of economic integration and FDI inflows have triggered intra-industry trade development in Poland and have impact on its volume and commodity structure of trade.

Ukraine continue to have commodity structure of trade significantly determined by the original set of its comparative advantages relying on natural resource endowments.

Standard International Trade Classification (SITC 0, SITC 1)



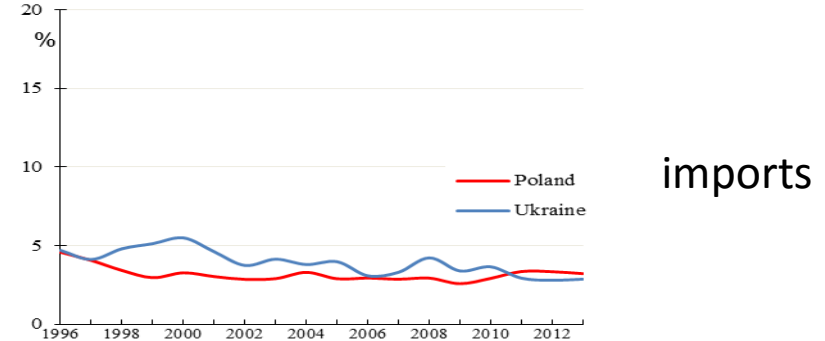
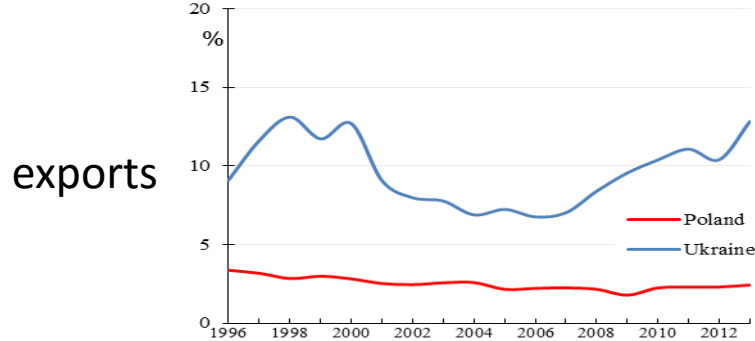
The share of **SITC 0** (Food and live animals chiefly for food) in total exports and imports for Poland and Ukraine



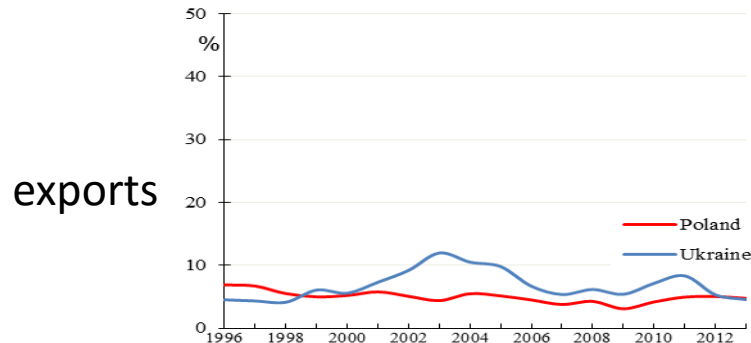
The share of **SITC 1** (Beverages and tobacco) in total exports and imports of Poland and Ukraine

Source: UNCTAD database

SITC 2, SITC 3



The share of **SITC 2** (Crude materials, inedible, except fuels) in total exports and imports of Poland and Ukraine



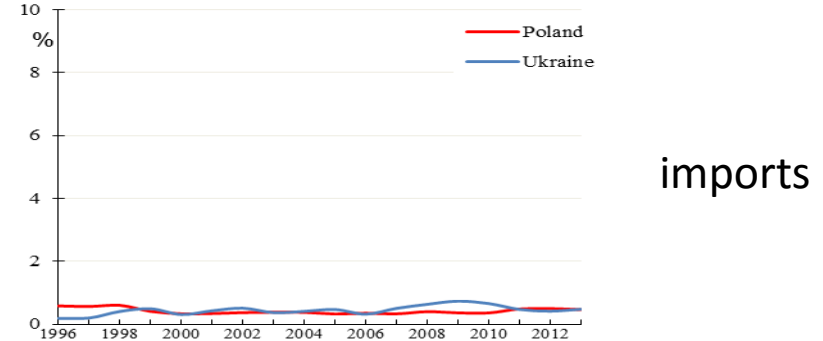
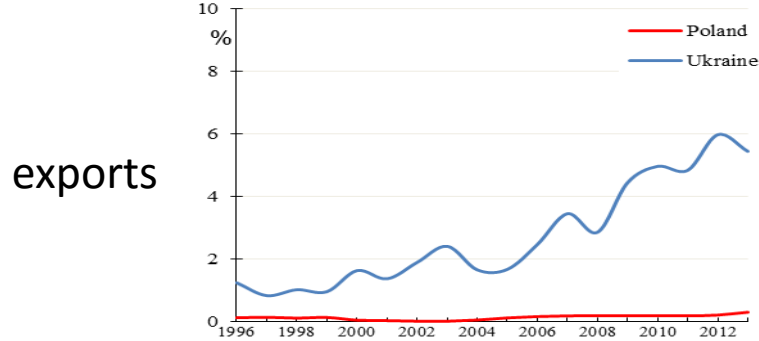
The share of **SITC 3** (Mineral fuels, lubricants and related materials) in total exports and imports of Poland and Ukraine

Source: UNCTAD database

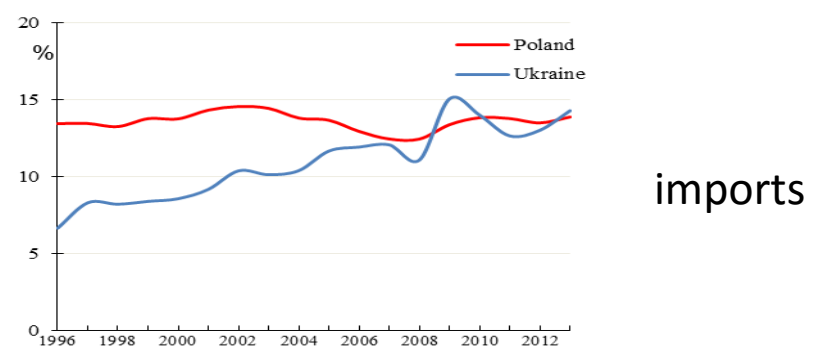
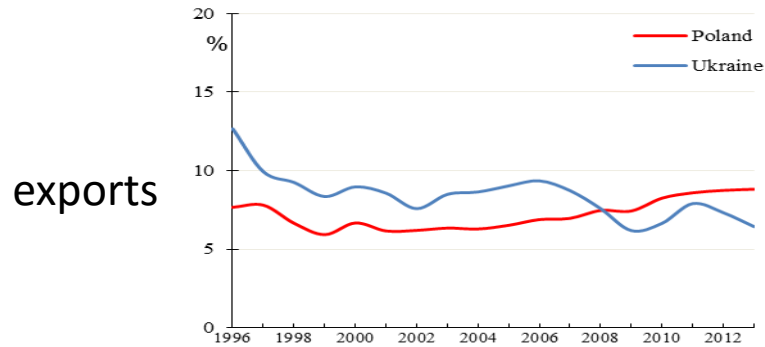
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SITC 4, SITC 5



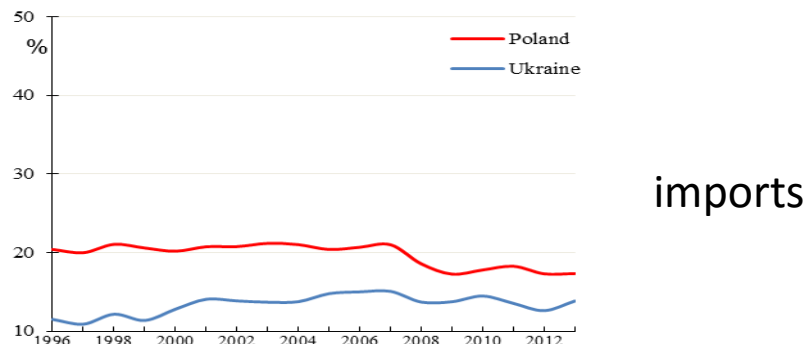
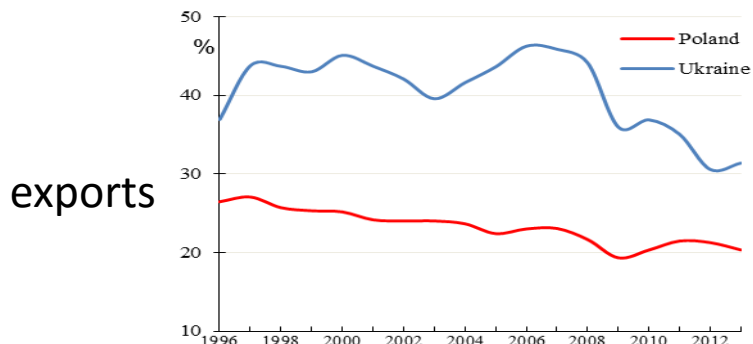
The share of **SITC 4** (Animal and vegetable oils, fats and waxes) in total exports and imports of Poland and Ukraine



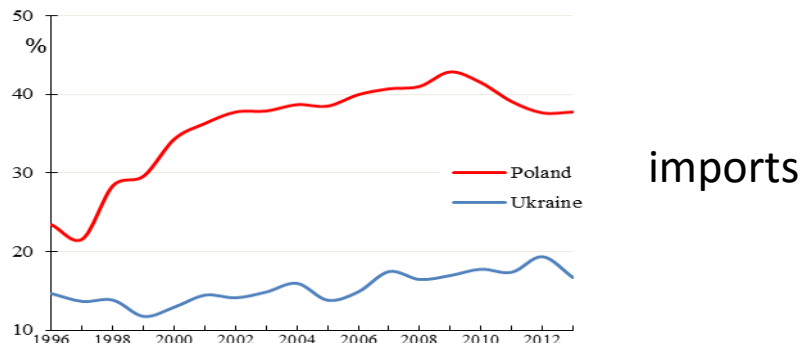
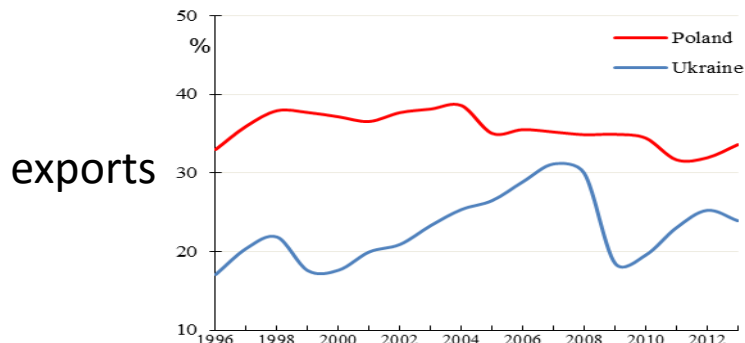
The share of **SITC 5** (Chemicals and related products) in total exports and imports of Poland and Ukraine

Source: UNCTAD database

SITC 6, SITC 7

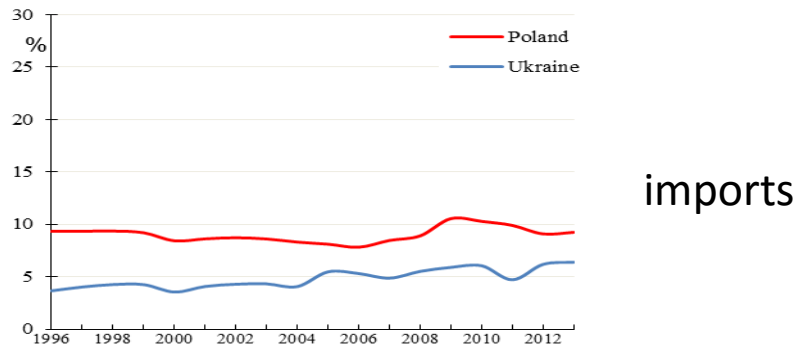
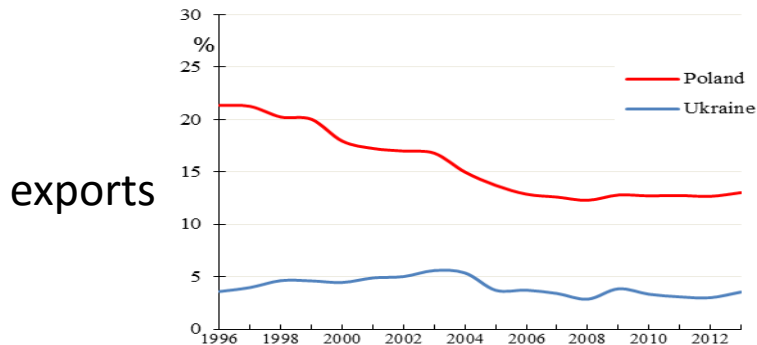


The share of **SITC 6** (Manufactured goods classified chiefly by materials) in total exports and imports of Poland and Ukraine

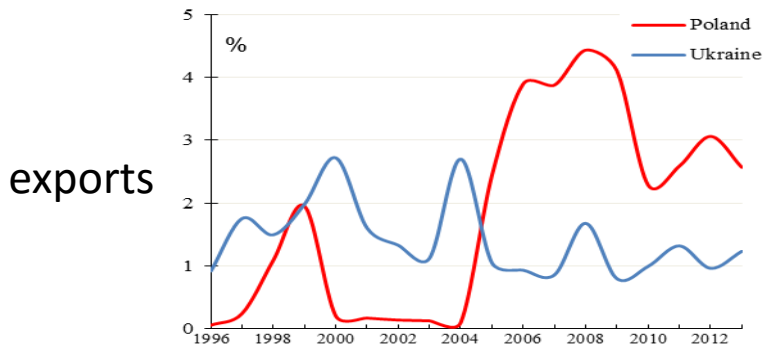


The share of **SITC 7** (Machinery and transport equipment) in total exports and imports of Poland and Ukraine

SITC 8, SITC 9



The share of **SITC 8** (Miscellaneous manufactured articles) in total exports and imports of Poland and Ukraine



The share of **SITC 9** (Commodities and transactions not classified elsewhere in the SITC) in total exports and

Source: UNCTAD database

imports of Poland and Ukraine

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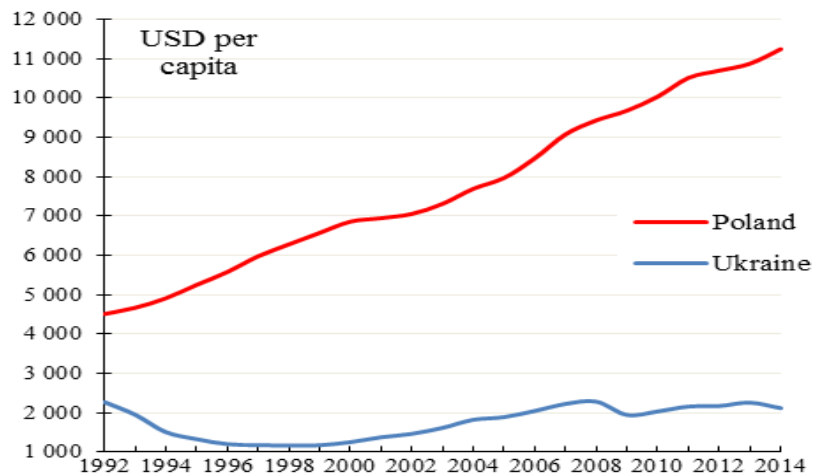
Summary comparative data on commodity structure of Polish and Ukrainian trade (by SITC)

SITC	1996				2004				2013			
	Exports		Imports		Exports		Imports		Exports		Imports	
	PL	UKR	PL	UKR	PL	UKR	PL	UKR	PL	UKR	PL	UKR
0+1	10.6	16.1	9.1	7.4	8.2	8.3	5.2	5.9	12.3	18.1	8.0	9.4
2+3+4	10.4	14.8	14.4	52.7	8.1	19.0	13.0	37.9	7.5	22.8	15.4	31.0
0+1+2+3+4	21.0	30.9	23.5	60.1	16.3	27.3	18.2	43.8	19.8	40.9	23.4	40.4
5	7.7	12.7	13.5	6.7	6.3	8.7	13.8	10.4	8.8	6.4	13.9	14.3
7	23.4	14.6	33.0	17.1	38.7	16.0	38.6	25.3	37.8	16.9	33.6	23.9
6+8+9	47.9	41.8	30.0	16.1	38.7	48.0	29.4	20.5	33.6	35.8	29.1	21.4
5+6+7+8+9	79.0	69.1	76.5	39.9	83.7	72.7	81.8	56.2	80.2	59.1	76.6	59.6
Sum: 0-9	100.0	100	100	100	100	100	100	100	100	100	100	100

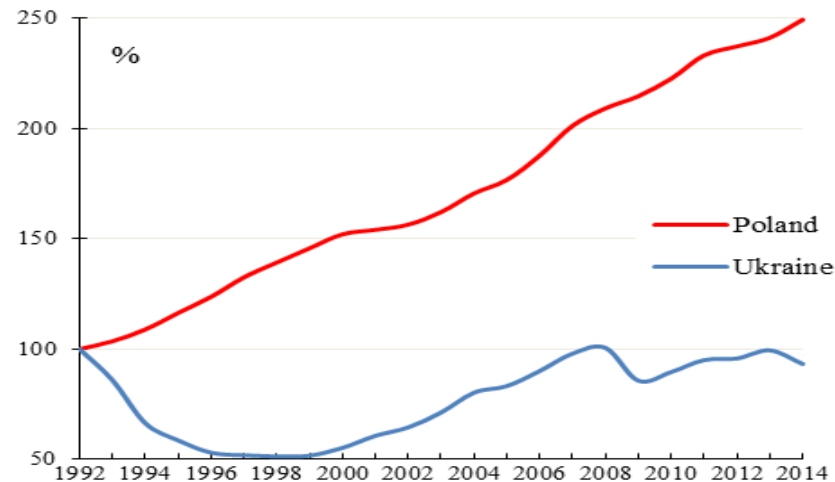
Source: own calculation based on the UNCTAD Database information.

Poland was rapidly developing during the first years of transition and was the first country to exceed the 1989 pre-transition level of GDP.

Already in the first years of transformation the GDP per capita gap became visible.



a/ USD per capita



b/ GDP per capita; 1992=100

GDP total per capita, USD at constant prices (2005) and at 2005 (exchange rates)

Source: own calculation based on the UNCTAD database

Conclusions

1. The objectives of macroeconomic stabilization, liberalization and institutional reforms in Central Europe were to improve its economic performance also by its increased participation in the global economy.
2. Ukraine, as a late comer, had an opportunity to begin its full market transformation as an independent country basing its actions on the experience of Hungary and Poland.
3. As time has shown, Ukraine, and more accurately its political sector, has not been able to handle the major Ukrainian structural and political problems adequately.
4. In light of the analysis, despite very unfavorable initial economic conditions, Poland was better prepared for the transition from a centralized system to a market-led economy in terms of social capital.
5. The durability of economic progress and the adaptability of Ukraine and Poland was tested during the global financial crisis.
6. For Ukraine the next blow came with the political turmoil and then the military conflict at Eastern Ukraine and with an annexation of the Crimea Peninsula by the Russian Federation.