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PAWEŁ BAGIŃSKI

POLAND'S ECONOMIC RELATIONS WITH ITS MAIN DEVELOPMENT CO-OPERATION PARTNERS: IN SEARCH OF SYNERGY BETWEEN DEVELOPMENT AND ECONOMIC POLICIES

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Project coordinator: Łukasz Wenerski
Proofreader: Hayden Berry

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00–031 Warszawa, ul. Szpitalna 5 lok. 22 tel. (22)
55 64 260, faks (22) 55 64 262
e-mail: isp@isp.org.pl www.isp.irg.pl

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Main acronyms

CSOs – Civil Society Organisations
DAC – Development Assistance Committee
DCFTA – Deep and Comprehensive Free Trade Area
DTC – Developing and Transition Countries
EaP – Eastern Partnership
EDF – European Development Fund
EU – European Union
FDI – Foreign Direct Investments
GNI – Gross National Income
GSP – Generalised Scheme of Preferences
MDGs – Millennium Development Goals
MFA – Ministry of Foreign Affairs
OECD – Organisation for Economic Co-operation and Development
PCD – Policy Coherence for Development
SMEs – Small and medium-sized enterprises
UN – United Nations
UNDP – United Nations Development Programme
WTO – World Trade Organisation

Executive Summary

For many years, a number of advanced donors have assisted developing and transition countries (DTC) to benefit from globalisation and open trade. In doing so, they have contributed to the realisation of the final, eighth Millennium Development Goal (MDG8) that focuses on developing a global partnership for development, and in particular "an open, rule-based, predictable, non-discriminatory trading and financial system".

Poland is a relatively new and small provider of development aid, channeling most of its Official Development Assistance (ODA) through international organisations, in particular the European Union. Its bilateral aid programme focuses rather on political and social, than economic areas. Trade and "aid for trade" are not priorities for Polish aid in the upcoming years. Nevertheless, Poland's accession to the European Union and its integration with the EU's common market has indirectly contributed to the implementation of the MDG8. Since 2004, the Polish market has become more open to industrial products originating from non-EU countries as a result of Poland's adoption of the EU common tariffs on these goods. In addition, trade turnover between Poland and key development co-operation partners (the six Eastern Partnership countries) have trebled since Poland joined the EU. However, this increase resulted from the quick development of Poland's economy and the GNI, as well as a purchasing power increase by the country's Eastern partners, rather than from changes in the trade regime adopted by Poland after its accession to the European Union. Despite this rapid increase, trade with EaP countries constitutes less than 3% of the total Polish trade turnover. Additionally, the Eastern Partnership countries are not among the main recipients of Polish Foreign Direct Investments. Apart from Ukraine and Belarus, the volume of capital involved in EaP countries is very limited.

Since Poland's trade policy is managed at the European Union's level and a bulk of its development assistance is channelled through the EU, the country's direct impact on the social and economic situation and development prospects of its key ODA priority recipients (the Eastern Partnership countries) through trade and/or aid is very limited. Poland's contribution to developing an open, rule-based, predictable, non-discriminatory trading and financial system, even in relation to the country's key aid partners, is therefore ensured through Poland's membership of the European Union, including its development policy and trading system with developing and transition countries. Poland may therefore try to further influence the EU to make trade work for the development of its priority aid countries, to ensure coherence between the EU's trade and development objectives and to make EU aid (including aid for trade) more sizeable and effective.

At the same time, Poland could continue modernising its bilateral aid system, concentrate more funds on economic issues and provide more aid qualifying as "aid for trade". It could also create more incentives for the private sector to engage in the implementation of the Polish Aid programme and to invest responsibly in developing and transition countries.

Introduction

In September 2000, world leaders gathered at the United Nations headquarters in New York to adopt the Millennium Declaration and set out a series of time-bound goals which have become known as the Millennium Development Goals (MDGs). The final, eighth Millennium Development Goal (MDG8) focuses on developing a global partnership for development. In particular, it contains several more detailed targets, namely:

- Developing further an open, rule-based, predictable, non-discriminatory trading and financial system;
- Addressing the special needs of the least developed countries, landlocked countries and small island developing states;
- Dealing comprehensively with developing countries' debt; Providing access to affordable, essential drugs in developing countries, in cooperation with pharmaceutical companies; Making available the benefits of new technologies, especially ICTs, in cooperation with the private sector.[1]

Target number one ("Developing further an open, rule-based, predictable, non-discriminatory trading and financial system") is particularly relevant for worldwide efforts to meet MDG8. In a globalised economy, trade policy is assumed to serve as a fundamental development tool and an instrument to lift millions of people out of poverty. Recognising this fact, a number of advanced donors have started helping developing and transition countries (DTC) to benefit from globalisation and open trade, working on synergies between their trade and development policies. This is why the so-called "aid for trade" has become an important part of Official Development Assistance (ODA) granted by donors to developing countries. On entering the European Union, new member states (such as Poland) recognised the importance of trade as a tool for achieving development results and committed themselves to granting aid for trade to various recipient countries.

In this context, the Center for Economic Development (Bulgaria) as project leader, the Center for Policy Studies at the Central European University (Hungary), the Centre for Public Policy PROVIDUS (Latvia), the Institute of Public Affairs (Poland), the Institute for Public Policy (Romania), SLOGA Slovenian NGDO Platform (Slovenia), the Slovak Foreign Policy Association (Slovakia), PRAXIS Center for Policy Studies (Estonia) and PASOS (Czech Republic), have decided to jointly implement the project *"Update of the current status of implementation of international/bilateral trade regimes with ODA recipients and the current role of civil society and private sectors as development actors in the new EU member states".* The project is supported under the European Commission thematic programme entitled Non-state actors and Local Authorities in Development. The present paper was commissioned by the Institute of Public Affairs and written within this project.

[1] http://www.un.org/millenniumgoals/global.shtml.

The objective of this paper is to analyse the development of bilateral economic relations between Poland and its key development co-operation partners, and in particular to:

- Analyse the bilateral trade relations with Poland's priority recipient countries for the period of the country's EU membership;
- Analyse the applied trade regimes, and the effect of changes of trade regimes on trade turnover;
- Formulate problems based on trade regimes in order to find out whether there are common problems for all project partner countries;
- Propose measures for overcoming difficulties in bilateral trade and economic relations;
- Present Poland's policy regarding aid for trade;
- Define opportunities for coordinated actions of project partner donor countries referring to Aid for Trade and reducing the weight of trade regulations and procedures.

This research was focused on trade and investment relations between Poland and six Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine) officially declared by the Government of Poland as priority development partners for 2012-2015. These countries are not only important from the point of view of development assistance, but they also belong to Poland's main trade and investment partners among all developing countries which figure on the OECD DAC List of ODA Recipients.[2] In addition, most of these countries have already been assisted by Poland for a varying number of years (Georgia and Moldova since 2003, Belarus and Ukraine since 2005).

The analysis was carried out on the basis of:

- National documents on Poland's development policy;
- Documents referring to trade relations with selected recipient countries;
- Statistical information on trade turnover with the aforementioned countries,
- Results from the focus groups discussions with representatives of the government administration (responsible ministries and agencies).

The analysis was carried out for the period after Poland's accession to the European Union (2004).

[2] See the DAC List of ODA Recipients: http://www.oecd.org/dac/stats/daclistofodarecipients.htm

Chapter I

Poland's Development Co-operation

1. Overview of Poland's development co-operation

Poland, like other new EU member states, is a relatively new and small provider of development assistance. Although it had already been involved in delivering aid before the change of political and economic system in 1989 (as part of the former Soviet Bloc's engagement with the Third World countries[3]), in practice it only embarked on its first aid projects in the second half of 1990s. Since then, Poland has progressively increased the scope and volume of its Official Development Assistance (ODA) and built up institutions, systems and procedures for its effective delivery. In 2011 Poland's total net ODA (as reported to the OECD Development Assistance Committee) reached 417,16 million US dollars, representing 0.08% of the country's GNI.[4]

Poland's bilateral ODA is focused on middle income countries and sectors (governance, democracy and transition), where the country has a comparative advantage but which do not necessarily address poverty or the Millennium Development Goals directly.[5] Its development co-operation is provided mostly in the form of technical assistance projects, scholarships, concessional loans and humanitarian aid. Bilateral aid activities are undertaken by Civil Society Organisations (CSOs) and public agencies, as well as by local governments and research institutes, and – although to a limited extend – private sector entities. The main bilateral aid modality are (rather small scale) projects identified through annual calls for proposals and "small grants" administered by embassies.[6] The multilateral ODA is channelled mostly through the European Union (EU general budget and European Development Fund – EDF), as well as United Nations funds, programmes and agencies and those of the World Bank Group.

2. Strategic and legal framework for Poland's development co-operation

a. Strategy for Poland's Development Co-operation of 2003

In October 2003, the Government of Poland adopted the first strategic document concerning the country's engagement in global development ("*Strategy for Poland's development co-operation*"). The strategy set out aims, principles and priorities of the development policy, the main aid instruments, as well as the roles and

[3] Under the communist regime Poland provided assistance mainly to the countries that had embarked on the "socialist path of development" and pursued a policy aligned with Soviet global interests. At that time its development policy mainly consisted of the supply of investment equipment and technical know-how, commercial credits and educational opportunities. See: P. Bagiński, *Poland* (in): Michael Dauderstädt (ed.): *EU Eastern enlargement and development cooperation,* Friedrich-Ebert-Stfitung, International Policy Unit, Bonn 2002.

[4] *Statistics on resource flows to developing countries*, http://www.oecd.org/development/aidstatistics/statisticsonresourceflowstodevelopingcountries.htm.

[5] *DAC Special Review of Poland*, OECD, Paris 2010.

[6] Ibidem.

responsibilities of different institutions responsible for aid delivery. The document was assessed by the OECD (DAC) as broadly in line with prevailing international tendencies and commitments at the time of its approval (2003).[7] Unfortunately, the Strategy lost its relevance soon after its adoption as a result of Poland's accession to the EU in 2004, a modification of the list of ODA recipients by the OECD in 2005 (and the inclusion on this list of non-EU countries in transition such as Belarus and Ukraine), as well as the priorities of the new government which came to power in Warsaw in 2005. Nevertheless, the 2003 Polish aid strategy was replaced by the new strategic framework in 2012, when the Multiannual Development Co-operation Programme 2012-2015 was adopted.

b. The Act on Development Co-operation of 2011

The first Act on Development Co-operation was adopted by the lower chamber of the Polish Parliament (Sejm) on 16 September 2011 and came into force on 1 January 2012. The Act describes among others the forms of development co-operation, rules governing its implementation and tasks of the Minister of Foreign Affairs in the area of global development. It also contains the provisions concerning the newly created Development Co-operation Policy Council.

According to the Act, Poland's development co-operation comprises actions undertaken by government agencies with a view to providing developing countries with development assistance (consisting, in particular, of supporting democracy and civil society, as well as long-term social and economic development) and humanitarian aid. Polish development co-operation also covers the implementation of educational activities aimed at raising awareness of global issues.[8]

The Act on Development Co-operation introduces multiannual planning of aid policy. According to the Act, Poland's development co-operation is to be conducted on the basis of a Multiannual Development Co-operation Programmes, adopted by the Council of Ministers and covering at least four-year periods. On the basis of the Programmes, the Minister of Foreign Affairs is obliged to draft yearly Development Co-operation Plans.

The Act on Development Co-operation strengthens the coordination of the functions of the Ministry of Foreign Affairs in the Polish aid system and sets the legal basis for ensuring Policy Coherence for Development (PCD). The Act stipulates that when disbursing the aid funds at its disposal, any government agency is obliged to consult the guidelines for the expenditure of these funds with the Ministry of Foreign Affairs. More importantly, the Ministry of Foreign Affairs is authorised to provide opinions on all government programmes and strategies with regard to their coherence with the guidelines of the government's aid policy.

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[7] Ibidem.
[8] *Development Co-operation Act of 16th September 2011.* http://www.polishaid.gov.pl/files/Aktualnosci2011/Polish_Development%20Cooperation%20Act_2011.pdf

Under the Act, the Development Co-operation Policy Council – an consultative and advisory body – was set up. The Council is made up of the representatives of the key line ministries involved in providing development co-operation (including the Ministry of Economy and the Ministry of Finance), as well as the representatives of parliament, non-governmental organisations, employer organisations and academia.

The activities in the field of development co-operation, "owing to the specific political circumstances present in the country where the activity is implemented", may be commissioned by the MFA to the Polish Foundation for International Development Co-operation "Know-How"[9] (operational since 2012). In practice, the Foundation focuses its activities on promoting democracy and sharing Polish transition experience with the country's Eastern neighbours, North Africa's new democracies, and a couple of other countries moving out of dictatorship.

c. Multiannual Development Co-operation Programme 2012-2015

The first Multiannual Development Co-operation Programme was adopted by the Council of Ministers on 20 March 2012 and will cover the period until 2015. The Programme lays down goals and principles as well as geographical and thematic priorities of Poland's development co-operation.

According to the Multiannual Development Co-operation Programme 2012-2015, the main goal of Poland's development cooperation is to create conditions for the sustainable development of developing countries. This goal is pursued in particular by promoting and consolidating democracy and respect for human rights, helping create modern and efficient state institutions, promoting sustainable social and economic development, undertaking actions which contribute to reducing poverty and improving the health conditions of the population, as well as raising the level of education and professional qualifications of the population.[10]

The Multiannual Programme mentions two thematic priorities for Polish bilateral aid for 2012-2015: "Democracy and human rights" and "Political and economic transformation". Bilateral projects implemented by the MFA and its external partners with a view to supporting political and economic transformation (the second thematic priority) are above all intended to improve the functioning of state institutions, promote good governance, protect democratic standards and human rights and enhance civil society.[11]

According to the Polish trade and development experts interviewed during the focus group discussion at the Institute of Public Affairs on 26 November 2012, the Multiannual Development Co-operation Programme focuses on political and social

[9] Ibidem.
[10] *Multiannual Development Co-operation Programme 2012-2015. Solidarity, democracy, development.:* http://www.polishaid.gov.pl/files/dokumenty_publikacje/PW_EN-po_reas.pdf
[11] Ibidem.

than on economic issues. There are opinions that the Polish Aid programme should contain more economic elements.

3. The Volume of Poland's Official Development Assistance

Since joining the EU in 2004, Poland has been progressively increasing its Official Development Assistance. In 2005, as a new member of the European Union, Poland committed itself to striving to reach an ODA/GNI ratio of 0.17% by 2010 and of 0.33% by 2015. Unfortunately, fulfilling the first commitment was not possible due to budgetary constraints. Reaching the level of ODA equal to 0.33% of GNI by 2015 also looks very problematic as it would involve a dramatic increase in Polish bilateral aid within the next two to three years.

In 2011, Poland's total net ODA (as reported to the OECD Development Assistance Committee) reached 417.2 million US dollars, representing 0.08% of the country's GNI. In this respect, Poland lags behind not only more advanced donors (members of the DAC), but also a number of the EU member states that joined the EU in or after 2004 (except for Latvia). As mentioned above, Polish aid is delivered primarily through international aid institutions. In 2011, multilateral ODA accounted for 78% (324 million US dollars), while bilateral assistance represented 22% (million US dollars) of total ODA flows.[12]

Since Poland's accession to the EU in 2004 until 2007, Poland's bilateral ODA rose quite rapidly (from 25 million US dollars in 2004 to 156 million US dollars in 2007), then stagnated at a level of around 90 million US dollars per year. As for multilateral aid, it also rose quickly from 2004 (when it amounted to 93 million US dollars), reaching the peak in 2008 (288 million US dollars), then it stabilised during 2009-2010, to increase again in 2011 to 372 million US dollars. This last increase was partly due to Poland's first ever contribution to the European Development Fund (EDF). (see detailed figures in table 1).

Table 1. Bilateral and multilateral ODA from Poland 2004-2011 (in million US dollars)

Net ODA in million US dollars in a given year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Bilateral ODA	25	48	119	156	84	92	96	90
Multilateral ODA	93	157	178	207	288	283	282	327
Total ODA	**118**	**205**	**297**	**363**	**372**	**374**	**378**	**417**

Source: Polish Aid and OECD.

Polish multilateral assistance is channelled through a limited number of international organisations, funds and programmes. The European Union occupies

[12] See OECD aid statistics: http://www.oecd.org/dac/stats/international-development-statistics.htm.

the leading position among them, being the country's main multilateral aid channel. In 2011 Poland's contribution to the EU which qualifies as ODA totalled 312 billion US dollars, which represents 97% of the entire multilateral ODA. Out of this, around 268 million US dollars was channelled through the general EU budget, while 44 million US dollars was earmarked for the European Development Fund (EDF). Among other multilateral institutions one should mention Poland's contributions to the World Health Organisation (WHO) and International Labour Organisation (ILO), as well as replenishments of the International Development Association (IDA) of the World Bank.[13]

4. The main institutions of the Polish Aid system

The Ministry of Foreign Affairs is the leading institution in the Polish Aid system. According to the Act on Development Co-operation, the Ministry coordinates aid activities of the National Coordinator for International Development Co-operation (at the rank of the Secretary or Under-Secretary of State) by proxy. Within the Ministry of Foreign Affairs, the Development Co-operation Department (DCD) is the main focal point responsible for the development co-operation strategy and policy leadership, numbering about 50 officials. It ensures the proper implementation of the tasks of the Ministry in the area of development co-operation and supervises the whole aid policy cycle from development policy formulation, through financing and implementation of projects and programmes to monitoring, evaluation and reporting.

Despite the formal leading position of the Ministry of Foreign Affairs in the Polish Aid system, it only manages about 10% of Poland's ODA. Thus is due – as mentioned above – to the overwhelming part of Polish ODA volume constituting the country's contribution to the EU development budget being managed and overseen by the Ministry of Finance. In fact, the delivery of Polish bilateral or multilateral aid involves a couple of state or para-state institutions, in particular:

- the Ministry of Finance which provides financial assistance (concessional loans, debt relief, payments to the international financial institutions);
- the Ministry of Interior which manages aid to refugees;
- the Bureau for Academic Recognition and International Exchange (controlled by the Ministry of Science and Higher Education) which is responsible for scholarships;
- the Ministry of Defence with certain tasks linked to the reconstruction of Afghanistan;
- the Polish Foundation for International Development Co-operation "Know-How" ("Solidarity Fund") that implements selected projects focused on democratisation and sharing transformation experience.

[13] Source: Polish Aid and OECD aid statistics.

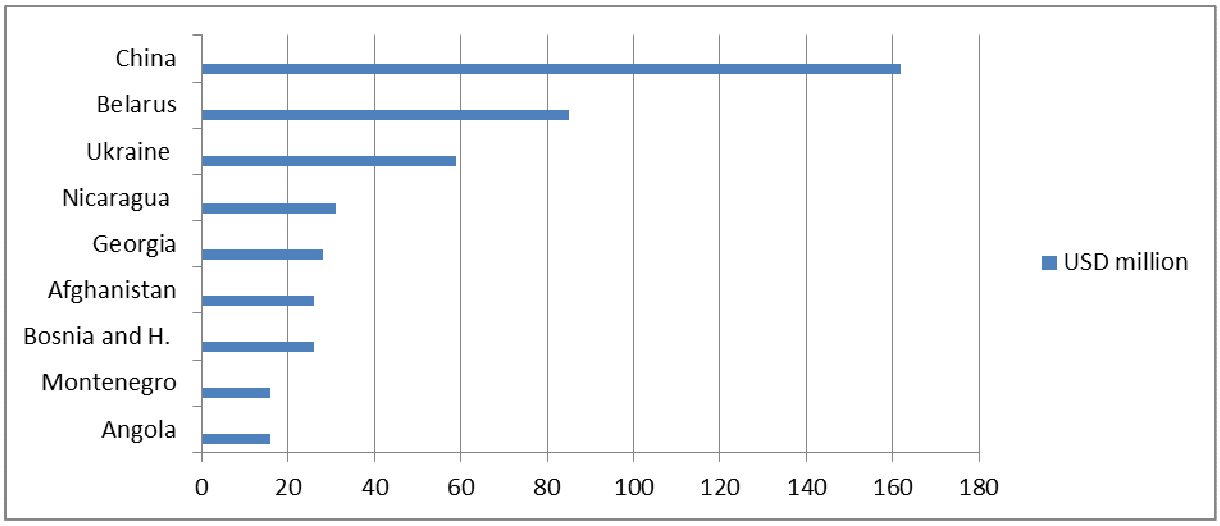
A couple of other ministries, government agencies and NGOs are also involved in Polish aid delivery.[14]

5. Priority countries of Poland's Official Development Assistance

Poland has selected priority countries for its Official Development Assistance using a mix of criteria, including Polish economic and cultural links, historical ties, geopolitical considerations, interests of constituencies within Poland, Poland's comparative advantage, as well as needs, poverty, MDGs and governance indicators.[15]

The list of the top recipients of Poland's bilateral assistance has fluctuated over recent years and has not always reflected the list of priority development co-operation partners as established by the MFA or the Polish government. This results among others from the weak co-ordination between key ministries involved in aid delivery thus far, and the still limited amount of financial resources at the disposal of the main aid institution (the MFA) for the officially declared partner countries. In this context, other substantial aid packages offered by other state agencies (e.g. preferential credits agreed by the Ministry of Finance for China or debt relief for Nicaragua) have significantly changed the list of Poland's top aid recipients. (see figure 1).

Figure 1. Top ten recipients of Polish bilateral ODA 2007-2011 (cumulative volume in million US dollars)



Source: Polish Aid, Zagranica Group and OECD.

[14] *Poland – Policy Framework* (Poland's donor profile prepared by the European Commission). http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/poland-donor-profile.pdf.
[15] *DAC Special Review of Poland*, OECD, Paris 2010.

Recently, the Ministry of Foreign Affairs has attempted to streamline Polish aid on key priorities and make the list of aid recipients less liable to fluctuations. The adoption of the Multiannual Development Co-operation Programme 2012-2015 by the whole government should be seen as an important step in this direction. According to the Programme, in the years to come, Polish bilateral aid is to be delivered mostly to two groups of countries:

- The first group consists of six Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), in which Poland wants to foster democratisation, human rights and political transformation to bring these countries closer to the European Union. These countries should receive 60% of the MFA's bilateral aid funds.
- The second group comprises eight countries from Eastern Africa (Burundi, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Tanzania, Uganda), two from North Africa (Libya and Tunisia), as well as Afghanistan, Kyrgyzstan, Tajikistan and the West Bank and Gaza Strip. Poland intends to support these countries, in particular in the area of education, environment, development of small and medium-sized enterprises (SMEs) and professionalisation of public administration.[16]

6. Bilateral trade as a part of Poland's development co-operation policy

As a member of the international community, in particular the WTO, OECD and the UN, Poland has endorsed a number of documents that directly or indirectly relate to the MDG8 and to trade and development nexus. Among others, Poland subscribed to the UN Millennium Declaration, the Monterrey Consensus on Financing for Development, the European Consensus for Development, the Agenda for Change and EU statements concerning aid for trade. Poland has also participated in initiatives aimed at promoting Policy Coherence for Development (PCD), including coherence between economic (or trade) policy with priority aid recipient countries and development co-operation policy.

Responding to the OECD-WTO Donor Questionnaire on Aid for Trade in 2009, Poland declared that it paid attention to the question of integrating trade into development strategies and to assisting developing countries in carrying out domestic reforms. The Polish government stated that "*Poland fully shared the view that the EU policy should increasingly reflect the growing independence between internal and external action, which is driven by globalisation and the emergence of global threats and challenges. Developed partners can intensify their trade flows through bilateral or regional initiatives – on a much deeper scale than developing countries can do, not even mentioning LDCs. Multilateral approach is an element of crucial importance to countries that want to dynamise their economies by intensifying trade relations. That's why South-South trade is also important as a growth factor, especially in regions, where developing countries have not developed satisfactory trade-net*".

[16] *Multiannual Development Co-operation Programme 2012-2015. Solidarity, democracy, development.* http://www.polishaid.gov.pl/files/dokumenty_publikacje/PW_EN-po_reas.pdf

Poland also declared that it was going "*to streamline its efforts to increase the overall level of technical assistance to developing countries – with special attention to the countries in (WTO) accession – like Azerbaijan and Afghanistan*".[17]

Nevertheless, in the documents constituting the strategic framework of the Polish Aid programme, there is no direct reference to the MDG8, to developing an open, rule-based, predictable, non-discriminatory trading and financial system, nor to trade as an important part of national development aid policy. Trade policy and aid for trade do not appear as priority sectors of Polish aid for 2012-2015. These topics are not mentioned in the Multiannual Programme neither as horizontal (cross-cutting) themes, nor as priority sectors for priority countries mentioned in the document. It should be admitted that since "political and economic transformation" has been selected as one of two thematic priorities of the Polish aid programme for 2012-2015, such activities as reforming public administration or ensuring more consistency with EU standards of laws may be financed from ODA funds. This may allow the Polish authorities to finance projects or initiatives which indirectly help developing countries integrate into global markets. Nevertheless, the lack of direct reference to economic development, trade policy and aid for trade in the strategic documents of national aid policy limits the scope of the MFA to allocate any substantial financial resources to these areas in the annual aid plans and budgets.

Despite the absence of trade and aid for trade in the national aid programme, Poland has received quite high scores when it comes to the coherence between trade and development in the last Commitment to Development Index (CDI), prepared by the experts of the Centre for Global Development (CGD). In this Index, Poland was ranked 11th among 27 surveyed countries, most of them being advanced DAC donors. According to CGD experts, Poland has some strengths including low tariffs on textiles (6.4% of the value of imports – rank: 3), low tariffs on apparel (6.4% of the value of imports – rank: 3), as well as a high level of manufacturers imports from poorer countries (10.1% of GDP per capita – rank: 4).[18] As this position is laudable, it results not from Poland's deliberate development policy, but rather the common EU trade regime, which is much more friendly to exports from developing and transition markets (see chapter 2).

[17] *OECD/WTO Donor Questionnaire on Aid for Trade (Poland):* http://www.oecd.org/dac/aidfortrade/43150151.pdf.

[18] David Roodman, Julia Clark, *Poland Country Report,* Centre for Global Development 2012. http://www.cgdev.org/doc/CDI%202012/Country_12_Poland_EN.pdf.

Chapter 2

The current state of bilateral trade and applied trade regimes

1. General framework – the European Union's trade policy

The accession to the European Union on 1 May 2004 was instrumental in shaping the framework for trade relations between Poland and developing and transition countries (DTC), including priority development co-operation partners. On joining the EU, the *acquis communautaire* regarding trade policy was extended to Poland and repealed a number of bilateral agreements and other trade policy instruments in force before accession. Therefore, before 1 May 2004, Poland had to comply with all EU trade agreements with the EU's external partners and to transfer an important part of competences in conducting its economic policy towards non-EU countries to the European Commission.

Trade policy is an exclusive power of the EU, so only the EU, and not individual member states, can legislate on trade matters and conclude international trade agreements. The scope of the EU's exclusive powers covers not only trade in goods, but also services, commercial aspects of intellectual property and Foreign Direct Investment. The EU also has exclusive powers in some other areas which may be relevant for trade policy, such as transport or capital movements.[19] Therefore, since the EU accession, the legal and political framework for Poland's economic relations with its priority ODA countries contains both agreements concluded by the EU with these countries and bilateral agreements signed by the government of Poland covering areas or subjects that are not regulated by the EU (such as mutual promotion and protection of investments, avoidance of double taxation or prevention of fiscal evasion).

The EU considers trade policy an important tool for achieving development objectives. It committed itself to actively help developing countries find a way out of poverty including through trade measures. It has already opened its markets to imports from the world's poorest countries, and works actively to help developing countries build the capacity to take advantage of trade.[20] While doing this, it significantly contributes to the implementation of the MDG8 and in particular to further developing an open, rule-based, predictable, non-discriminatory trading and financial system.

2. Framework for the EU economic co-operation with Poland's main ODA partners

The overall relations between the European Union and Eastern Partnership countries (except for Belarus) have been based on the non-preferential Partnership and Co-operation Agreements signed in the 1990s. In general, these agreements did not

[19] See the European Commission trade policy website: http://ec.europa.eu/trade/index_en.htm.
[20] See the European Commission website: http://ec.europa.eu/trade/wider-agenda/development/.

included tariff preferences, but prohibited quantitative restrictions in bilateral trade and envisaged progressive regulatory approximation of the respective countries' legislation and procedures to the EU and international trade related laws and standards.[21] In relation to a certain number of countries these agreements may be replaced in the near future by new agreements creating a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and these countries.

Box 1. Deep and Comprehensive Free Trade Area

A Deep and Comprehensive Free Trade Area is about closer economic integration, including:

- **Complete elimination of customs duties** – so that products can enter duty free and result in lower prices of goods to the benefit of consumers;
- **Improvement of customs procedures** – bringing the partners' legislation closer to the EU to unify procedures for imports;
- **Increased protection of intellectual property** – to improve, in particular, the enforcement of legislation and bring the level of IP protection on a par with that in the EU;
- **Application of EU sanitary and phytosanitary rules** – to increase the level of food safety protection within the countries and so allow exports of products of animal origin to the EU;
- **Upgrade rules on public procurement and competition** – thereby creating a transparent and predictable regime for economic operators both in private and public commercial transactions;
- **Removal of technical obstacles to trade** – to facilitate trade in industrial products but also, by upgrading infrastructure and conformity assessment procedures, to gradually increase competitiveness of their industries.

Source: European Commission

In general terms, export to the EU (including Poland) from six Eastern Partnership countries is already significantly liberalised. Most of the EU's Eastern neighbours benefit from preferential trade regimes ("Generalised Scheme of Preferences" and "Generalised Scheme of Preferences Plus") which offer unlimited and duty free access to the EU market for all products originating in them, except for certain agricultural products (for which tariff rate quotas are defined).

[21] See more about Partnership and Co-operation Agreements: http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/eastern_europe_and_central_asia/r17002_en.htm

Box 2. Generalised Scheme of Preferences (GSP)

The EU's Generalised Scheme of Preferences (GSP), created following UNCTAD recommendations, helps developing countries by making it easier for them to export their products to the European Union. This is done in the form of reduced tariffs for their goods when entering the EU market. It is made of three components:
– Duty reductions for ca. 66% of all tariff lines for beneficiaries in general. Currently 111 countries and territories enjoy these reductions, and in 2011 exported products worth 72.5 billion euros thanks to these preferences. This is 83% of all imports benefiting from GSP preferences.
– Zero duties for essentially the same 66% tariff lines for countries which implement core human rights, labour rights and other sustainable development conventions ("GSP+"). There are 16 beneficiaries which exported 4 billion euros in 2011 thanks to these preferences. This is 5% of all GSP preferences.
– Full duty-free, quota-free access for all products except arms (Everything But Arms, or "EBA") for the Least Developed Countries (LDCs). There are 49 beneficiaries which exported products under GSP worth 10.5 billion euros in 2011 – 12% of all GSP preferences.

Source: European Commission

The table below summarises the key factors determining the framework of economic co-operation between the EU and six Eastern Partnership countries.

Table 2. EU-EaP co-operation framework

Country	Membership in the World Trade Organization (WTO)	Partnership and Co-operation Agreement	General System of Preferences	General System of Preferences Plus
Armenia	**X**	**X**		**X**
Azerbaijan		**X**		**X**
Belarus				
Georgia	**X**	**X**		**X**
Moldova	**X**	**X**		**X**
Ukraine	**X**	**X**	**X**	

Source: European Commission

3. Poland's trade turnover with its main development co-operation partners after the EU accession – general overview

Over the last decade, Poland's economic relations with the rest of the world (EU and non-EU countries) have significantly intensified. As an example, the total volume of Polish exports has increased from 34 billion euros in 2000 to 136 billion euros in

2011.[22] Such an increase was a direct consequence of the impressive growth of the Polish economy and the country's integration with the EU common market. Additionally, trade and investment co-operation with several developing and transition countries have significantly expanded in recent years.

Poland's integration with the EU common market and elimination of trade barriers with other EU countries did not negatively affect the trade turnover with non-EU countries, being Poland's main development co-operation partners. In addition, the year 2004 did not bring about a revolution in economic co-operation between Poland and its non-EU economic partners, as the country's trade policy had already been adjusted, to a large extent, to the EU trade *acquis* before 1 May 2004. After the accession the conditions of market access for Polish products to DTC markets did not change much. They became even more advantageous in relation to countries that had been in the customs union or free-trade area with the EU and with whom Polish trade before 2004 was regulated by the Most Favourite Nation (MFN) clause. On the other hand, trade conditions deteriorated partly in relation to markets that imposed anti-dumping or correction duties on import from the whole of the EU as a reaction to the subsidies used by the EU within its Common Agriculture Policy (CAP). This does concern among others China and Ukraine. Since 2004, Poland has also been obliged to use the EU system of quotas for certain types of commodities imported from a certain number of countries (including steel from Ukraine and some industrial products from China). On the other hand, from the perspective of developing and transition countries, after the EU accession the Polish market of almost 40 million consumers became more open to industrial products originating from non-EU countries as a result of the adoption by Poland of the EU tariffs on these goods (the average level of protection fell from around 12% to 4%).[23]

Despite the geographical proximity, the Eastern Partnership countries' share in Poland's total trade turnovers remains very small, and in 2011 it constituted only around 2.8% (8.1 billion euros) of the total trade turnover (slightly more than the EU average). The volume of Polish export to the six EaP countries totalled 5.0 billion euros (3.7% of total Polish exports), while the country's imports amounted to nearly 3.1 billion euros (2% of the overall Polish imports). With all countries the balance has been positive (export has been bigger than import) (see figure 2).

Figure 2. Eastern Partnership's share in Poland's total trade turnovers in 2011

Ukraine and Belarus are the key trading partners among Eastern Partnership countries. In 2011 Ukraine occupied 10th position among Poland's export destinations (with a 2.5% share in all Polish exports), while Belarus was ranked 22nd with a 1.0% of share in the country's exports. On the other hand, Poland's trade with the remaining Eastern Partnership countries has been limited. This is a natural consequences of the relatively small size of their economies and bigger geographical distance. (see the table 3).

Table 3. Poland's trade turnover with the Eastern Partnership countries in 2011

	Export (from Poland) in million euros in 2011	**Import (to Poland) in million euros in 2011**	**Balance in million euros in 2011**
Ukraine	3.377	2.012	1.365
Belarus	1.340	973	367
Moldova	136	62	74
Azerbaijan	91	3	88
Georgia	46	8	39
Armenia	16	1	15
POLAND TOTAL	136.694	152.568	15.874

Source: Ministry of Economy of the Republic of Poland and Central Statistical Office

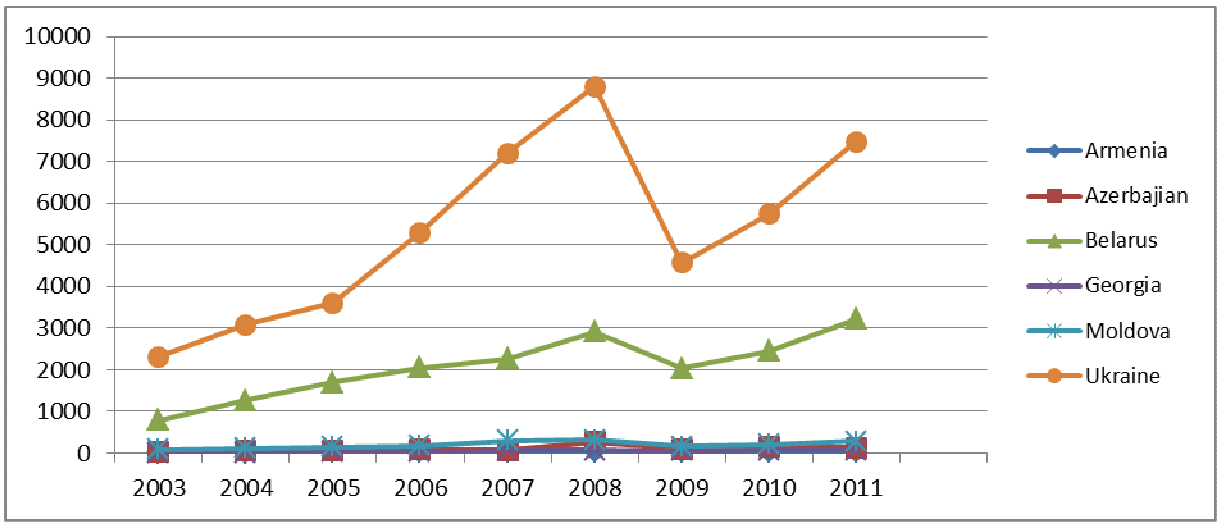
Since Poland joined the EU in 2004 its trade turnover with the six Eastern Partnership countries has trebled. According to the Polish trade and development experts,[24] the increase of trade turnover between Poland and EaP countries stems in particular from the quick development of Poland and expansion of its economy, as well as from the GNI and purchasing power increase in several Eastern Partnership countries.

Nevertheless, the increase of trade turnover between Poland and Eastern Partnership countries has not been linear but rather subject to fluctuations. In the case of most partner countries the commercial relations have progressively intensified until 2008, when they dropped rapidly (which may be a direct consequence of the global financial crisis), to rebound again in 2009. In 2011 the trade turnover have not yet returned to the levels from before the crisis in relation to most EaP countries. The global economic conditions may therefore be considered as another important determinant of the dynamic of trade relations between Poland and its Eastern European ODA partners, even more important than the changes in trade regime resulting from Poland's accession to the European Union.

The figures below show the dynamic of trade relations (export and import combined) between Poland and Eastern Partnership countries in 2003-2011.

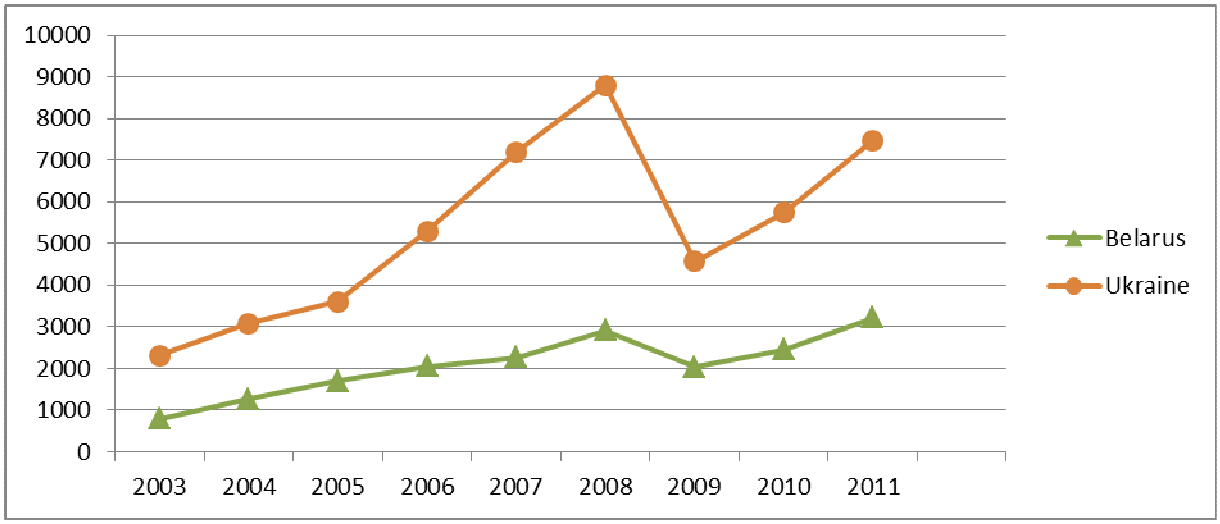
[24]Interviews during the focus group discussion at the Institute of Public Affairs, Warsaw, 26 November 2012.

Figure 3. Trade turnover between Poland and Eastern Partnership countries in 2003-2011 in million US dollars



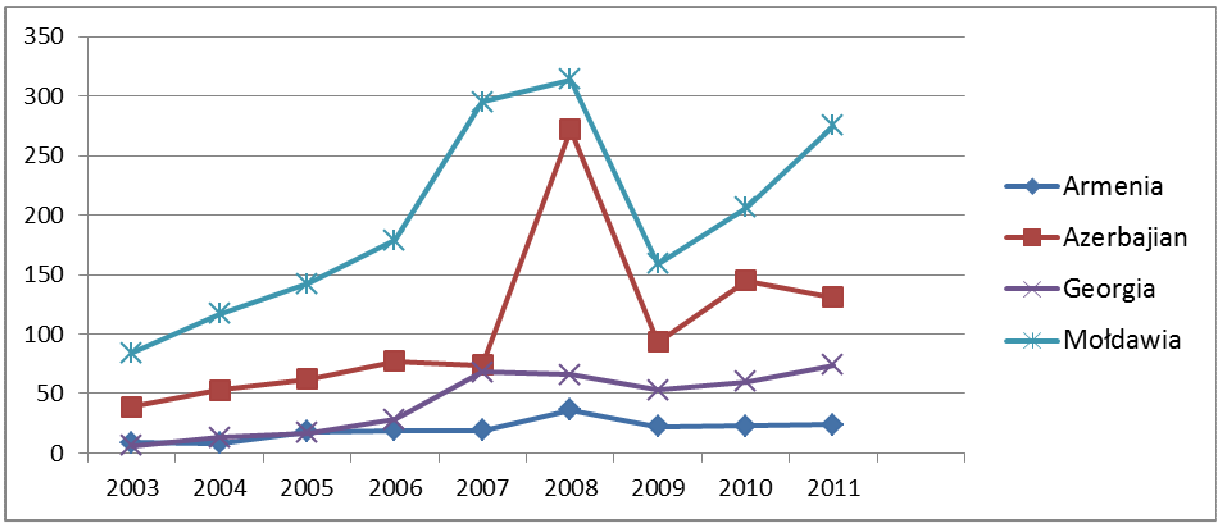
Source: Ministry of Economy of the Republic of Poland, Central Statistical Office

Figure 4. Trade turnover between Poland, Belarus and Ukraine in 2003-2011 in million US dollars



Source: Ministry of Economy of the Republic of Poland, Central Statistical Office

Figure 5. Trade turnover between Poland and other EaP countries in 2003-2011 in million US dollars



Source: Ministry of Economy of the Republic of Poland, Central Statistical Office

4. Poland's trade turnovers with selected aid recipient countries after the EU accession – case studies

Armenia

EU trade framework

Armenia has been a member state of the World Trade Organization (WTO) since 2003. The current relationship between the European Union and Armenia is regulated by the Partnership and Cooperation Agreement, which entered into force in 1999. This did not include tariff preferences but prohibited quantitative restrictions in bilateral trade, and also envisaged progressive regulatory approximation of Armenia's legislation and procedures to the most important EU and international trade related laws and standards, which aims at facilitating access of Armenian products to the EU market.[25]

Armenia benefits from the EU's Generalised Scheme of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, it qualifies for the special incentive arrangement for sustainable development and good governance (GSP+), offering advantageous access to the EU market. This means that non-sensitive goods may be imported into the customs territory of the EU duty at 0% (with the exception of the agricultural component). Armenia also embarked on talks for a Deep and Comprehensive Free Trade Area with the EU in early 2012.[26]

[25] *Agreement on Partnership and Cooperation Agreement between the European Communities and their Member States, of the one part, and the Republic of Armenia, on the other hand*, signed in Luxembourg on 22 April 1996 (Journal of Laws of 2006, No. 39, item. 269).
[26] http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/

Bilateral agreements with Poland

Bilateral economic relations between Poland and Armenia are regulated by several acts including:

- Agreement on Economic Co-operation between the Government of the Republic of Poland and the Government of the Republic of Armenia on economic co-operation, signed on 12 March 2010;
- Convention between the Government of the Republic of Poland and the Government of the Republic of Armenia for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income and capital, signed on 14 July 1999;
- Agreement between the Government of the Republic of Poland and the Government of the Republic of Armenia on Civil Air Transport, signed on 27 January 1998;
- Agreement on co-operation between the National Chamber of Commerce and the Chamber of Industry and Commerce of the Republic of Armenia, signed on 28 July 2011.

Trade turnover in 2003-2011

Table 4. Trade turnover between Poland and Armenia in 2003-2011 (in million US dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	4.6	6.7	7.5	8.2	10.2	23.4	19.6	18.8	22.7
Import	0.6	1.0	10.0	10.3	8.3	12.2	2.9	3.9	1.1
Balance	4.0	5.7	- 2.5	-2.1	1.8	11.2	16.7	14.9	21.6
Total turnover	**8.6**	**7.7**	**17.5**	**18.5**	**18.5**	**35.6**	**22.4**	**22.7**	**23.8**

Source: Ministry of Economy of the Republic of Poland

Azerbaijan

EU Trade framework

Azerbaijan is not a member of the World Trade Organization, but applied for membership in 1997 and the process is ongoing. The current relationship between the EU and Azerbaijan is governed by the Partnership and Cooperation Agreement, which entered into force in 1999. Azerbaijan benefits from the EU's Generalised Scheme of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, it qualifies for the special incentive arrangement for sustainable development and good governance (GSP+), offering advantageous access to the EU market. This means that non-sensitive goods may be imported into the customs territory of the EU duty at 0% (with the exception of the agricultural component). In

May 2011, the European Parliament extended the validity of the GSP+ preferences for Azerbaijan to end of 2013[27].

Azerbaijan needs first to accomplish its WTO accession before a Deep and Comprehensive Free Trade Agreement with the EU can be negotiated and signed. With a view to supporting Azerbaijan's future WTO membership and subsequent eventual DCFTA, negotiations on upgrading the existing trade related provisions of the Partnership and Cooperation Agreement (non-preferential trade and investment agreement) were launched on 16 July 2010. Azerbaijan is also receiving technical assistance from the EU to help it prepare for WTO membership.[28]

Bilateral agreements with Poland

The economic co-operation between Poland and Azerbaijan is based on the following main agreements:

- Agreement on the avoidance of double taxation and prevention of tax evasion with respect to taxes on income and on capital, signed on 26 August 1997;
- Agreement on reciprocal promotion and protection of investments, signed on 26 August 1997;
- Economic cooperation agreement, signed on 30 March 2005.[29]

Trade turnover in 2003-2011

Table 5. Trade turnover between Poland and Azerbaijan in 2003-2011 (in million US dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	33.7	45.5	52.2	70.7	69.3	104.9	82.9	134.6	126.4
Import	4.8	7.1	10.2	6.5	4.4	167.1	10.3	10.3	4.3
Balance	28.9	38.4	42.0	64.2	57.6	-62.2	72.6	124.2	122.2
Total turnovers	**38.5**	**52.6**	**62.4**	**77.2**	**73.8**	**272.1**	**93.2**	**145.0**	**130.7**

Source: Ministry of Economy of the Republic of Poland.

[27] Source: European Commission and the Ministry of Economy of the Republic of Poland.
[28] *Trade. Countries and regions. South Caucasus*. http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/.
[29] *Information about Polish economic relations with Azerbaijan.* http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Azerbejdzan.htm.

Belarus

EU Trade framework

Belarus applied for membership of the WTO in 1993 and its accession process is ongoing. Poland supports Belarus' WTO application. The bilateral trade and economic relations with the European Union remain covered by the Trade and Cooperation Agreement concluded by the European Community with the Soviet Union in 1989, and subsequently endorsed by Belarus. In response to Belarus' lack of commitment to democracy and political and civil rights, the EU has not yet ratified the bilateral Partnership and Cooperation Agreement concluded with Belarus in 1995. In June 2007, the EU also withdrew its trade preferences to Belarus under the Generalised Scheme of Preferences, in response to Belarus' violations of the core principles of the International Labour Organisation. The removal of the trade preferences in 2007 did not halt Belarus' exports to the EU. It simply returned Belarus' import tariffs to the standard non-preferential rate.[30]

Since 2010 the EU has imposed unilateral import quotas on Belarus covering trade in textile and clothing products. The unilateral quotas replaced the EU-Belarus textile agreement that Belarus no longer wanted to renew after joining the Customs Union with Russia and Kazakhstan. The EU has also introduced an Outward Processing Trade regime for Belarus. This regime provides for additional import quota amounts for textiles and clothing manufacturers within the European Union, so they can produce garments in Belarus that will return to the EU after processing.[31]

Bilateral agreements with Poland

Since the Poland's accession to the EU, Polish economic co-operation with Belarus is regulated by trade agreements signed in 1989 between the EU (at that time the European Community) and the USSR. On 30 April 2004, Poland and Belarus signed an agreement on economic co-operation, which does not interfere with the powers of the EU. It was the legal basis for the establishment of a new Joint Polish-Belarusian Committee for Economic Cooperation. Polish-Belarusian economic relations are also regulated by other contracts and agreements, including intergovernmental agreements on the avoidance of double taxation in 1992 and on the reciprocal promotion and protection of investments, also in 1992.[32]

[30] *Trade. Countries and regions. Belarus,* http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/belarus/.
[31] Ibidem.
[32] *Information about Polish economic relations with Belarus.* http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Bialorus.htm

Trade turnover in 2004-2011

Table 6. Trade turnover between Poland and Belarus in 2004-2011 (in million US dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	396.5	568.2	720.5	977.4	1121.5	1602.4	1213.8	1605.2	1861.9
Import	387.0	701.9	972.3	1078.6	1140.0	1312.6	818.5	837.5	1355.4
Balance	9.5	-133.7	-251.8	-101.2	-18.5	290.8	395.3	767.7	506.5
Total turnovers	**783.5**	**1.270.1**	**1692.8**	**2056.0**	**2261.4**	**2915.0**	**2032.3**	**2442.7**	**3217.3**

Source: Ministry of Economy of the Republic of Poland.

Georgia

EU Trade framework

Georgia has been a member of the World Trade Organization since 2000. The current relationship between the EU and Georgia is regulated by the Partnership and Cooperation Agreement which entered into force in 1999. Georgia benefits from the EU's Generalised Scheme of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, it qualifies for the special incentive arrangement for sustainable development and good governance (GSP+), offering advantageous access to the EU market. This means that non-sensitive goods may be imported into the customs territory of the EU duty at 0% (with the exception of the agricultural component). In December 2011 the Commission concluded (following a lengthy preparatory process) that DCFTA negotiations could start with Georgia as an integral part of the currently negotiated Association Agreement. Georgia embarked on these negotiations in early 2012.[33]

Bilateral agreements with Poland

Bilateral economic relations between Poland and Georgia are regulated by a couple of agreements, in particular on avoiding double taxation and the prevention of tax evasion signed in 1999, and on economic co-operation signed in 2007.

[33] *Trade. Countries and regions. South Caucasus*. http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/.

Trade turnover in 2003-2011:

Table 7. Trade turnover between Poland and Georgia in 2004-2011 (in million US dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	4.1	10.6	12.8	24.2	61,3	51,8	46,2	51,2	64,3
Import	1.4	2.7	3.7	3.4	7,0	14,6	6,8	8,7	10,2
Balance	2.7	7.9	9.1	20.8	54,3	37,2	39,4	42,5	53,1
Total turnovers	**5.5**	**13.3**	**16.5**	**27.6**	**68,3**	**66,4**	**53,0**	**59,9**	**74,5**

Source: Ministry of Economy of the Republic of Poland.

Moldova

EU Trade framework

Moldova has been a member of the World Trade Organization since 2001. It has had a non-preferential Partnership and Co-operation Agreement with the EU since 1994. Moldova's export to the EU is already liberalised to a large extent under the EU Autonomous Trade Preferences. This preferential regime (together with Generalised Scheme of Preferences Plus regime) offers the most favourable access to the EU market for Moldova, granting the country unlimited and duty-free access to the EU market for all products originating in the country, except for certain agricultural products (for which tariff rate quotas are defined).

The EU is has been negotiating a new Association Agreement with Moldova since January 2010. The negotiations on the trade part of this agreement (Deep and Comprehensive Free Trade Area) started in February 2012. Moldova is also a party to the amended and enlarged Central European Free Trade Agreement (CEFTA), which entered into force in July 2007.

Bilateral agreements with Poland

On 7 September 2006, the Government of Poland and the Republic of Moldova signed an agreement on economic co-operation, which does not interfere with the powers of the EU. It entered into force on 24 May 2007. The agreement provides a legal basis for the new Polish-Moldovan Commission for Economic Cooperation. Polish-Moldovan economic relations are also regulated by other contracts and agreements, including intergovernmental agreements on the avoidance of double taxation in 1994, and reciprocal promotion and protection of investments also in 1994.[34]

[34] *Moldova. Information on economic cooperation with Poland.* http://www.mg.gov.pl/node/7294?theme=mg.

Trade turnover in 2003-2011

Table 8. Trade turnover between Poland and Moldova in 2004 – 2011 (in million US dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	79.8	93.3	111.0	139.2	173.6	184.2	122.0	154.8	189.6
Import	4.1	23.3	31.5	39.7	121.4	130.1	37.5	50.7	86.1
Balance	75.7	70.0	79.5	99.5	52.2	54.5	84.5	104.1	103.5
Total turnovers	**83.9**	**116.6**	**142.5**	**178.9**	**295.0**	**314.3**	**159.5**	**205.5**	**275.7**

Source: Ministry of Economy of the Republic of Poland.

Ukraine

EU Trade framework

In May 2008, Ukraine became a member of the World Trade Organization, assuming a number of obligations, including the liberalisation of market access. Ukrainian export to the European Union is to a large extent liberalised due to the Generalised Scheme of Preferences granted by the EU to Ukraine since 1993. Preferential imports to the EU from Ukraine include machinery and mechanical appliances, plants, oils, base metals, chemicals and textiles. Following Ukraine's WTO membership, the EU and Ukraine immediately launched negotiations of an agreement on a Deep and Comprehensive Free Trade Area. The negotiations were launched in 2008 and have now been concluded. The DCFTA will be part of a future Association Agreement, which will replace the present Partnership and Cooperation Agreement between the EU and Ukraine (which entered into force in 1998). The initialling of the EU-Ukraine Association Agreement took place in Brussels in March 2012, except for the DCFTA which was initialled on 19 July 2012. Since the entire Agreement has now been initialled, the next step will be the signature of the Agreement by the Council when the political conditions are met. The future free trade agreement between the EU and Ukraine will cover all trade-related areas (including services, intellectual property rights, customs, public procurement, energy-related issues, competition, etc.), as well as tackling the so-called "beyond the border" obstacles through deep regulatory approximation with the trade-related EU acquis.[35]

Bilateral agreements with Poland

The bilateral economic relations between Poland and Ukraine are based among others on the following documents:

- Agreement between the Government of the Republic of Poland and the Government of Ukraine on mutual promotion and protection of investments, signed in 1993;

[35] More information about EU trade relations with Ukraine: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/ukraine/.

- Convention between the Government of the Republic of Poland and the Government of Ukraine for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income and on capital, signed in 1993:
- Agreement between the Government of the Republic of Poland and the Cabinet of Ministers of Ukraine on economic cooperation, signed in 2005.[36]

Trade turnover in 2003-2011

Table 9. Trade turnover between Poland and Ukraine in 2004-2011 (in million US dollars)

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Export	1564.5	2039.9	2593.2	3974.7	5511.2	6436.7	3429.9	3917.4	4694.2
Import	746.2	1045.1	1012.2	1 321.3	1693.5	2354.7	1143.6	1818.5	2781.5
Balance	818.3	994.8	1581.0	2 653.4	3818.7	4095.5	2286.3	2098,8	1912.8
Total turnovers	**2310.7**	**3085.0**	**3605.4**	**5296.0**	**7204.7**	**8791.4**	**4573.5**	**5735.9**	**7475.7**

Source: Ministry of Economy of the Republic of Poland.

[36] *Information about Polish economic relations with Ukraine.* http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Ukraina.htm#

Chapter 3

Other trade related activities in recipient countries

1. Foreign Direct Investments (FDI)

In 2010 the net outflow of capital from Poland as a result of Foreign Direct Investments (FDI) amounted to 4.1 billion euros. In the same year the total cumulated value of Polish FDI reached 29.4 billion euros. In 2010 the bulk of Polish FDI were located in OECD countries (76.5%) and EU member states (71.7%). Besides, 93.6% of Polish Foreign Direct Investments were located on the European continent. The main recipients of Polish FDI were Luxembourg, Switzerland, the Netherlands, the United Kingdom, the Czech Republic, Germany and Belgium.[37] The key recipients of Poland's Official Development Assistance (ODA) – including the Eastern Partnership countries – are not among the main recipients of Polish foreign investments. The only EaP countries in which Polish companies have invested recently on a more substantial basis are Ukraine and Belarus.

Over the last decade, Polish investments in Ukraine have been systematically growing with a cumulative volume of FDI increased from 45.1 million euros in 2000, through 109.7 million euros in 2003, 283.4 million euros in 2006 and 497.5 million euros in 2008, to 628.6 million euros in 2011.[38] These figures place Poland at 13th position among the main foreign investors in Ukraine (1.8% of total FDI in this country). More than 50% of Polish FDI have been located in the financial sector.[39] At the end of 2010 Polish enterprises held 24 affiliates in Ukraine.[40]

In Belarus, the size of Polish capital employed calculated cumulatively since 1991 is estimated at approximately 400 million US dollars. In 2011, the level of total investment amounted to 61.5 million euros, which places Poland at 12th position among foreign investors in Belarus. Polish capital is primarily engaged in the production of food, wood and wood manufacturing, furniture, packaging and products made of plastic and rubber, as well as agriculture.[41]

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[37] Wsparcie polskich firm za granicą. http://www.paiz.gov.pl/wsparcie_polskich_firm.

[38] Data of the State Statistics Services of Ukraine available at the website of the Polish Embassy in Kiev: http://www.msz.gov.pl/resource/d7263770-072d-4489-9132-1337b58865a5. (to show the dynamic original data in US dollars were transferred into euros on the same 2011 EBC exchange rate).

[39] See information on Polish FDI in Ukraine: http://www.paiz.gov.pl/wsparcie_polskich_firm/ukraina. For instance the PZU Group started offering its insurance products (property insurance, life insurance, and related services) in Ukraine in 2002. Another financial group, the PKO BP acquired a majority stake in Ukrainian KREDOBANK SA in 2004, and currently has about 130 branches. The same region for outward investment was chosen by Getin Holding, which established its foreign affiliates in Ukraine and Belarus among others. See also: *Polish multinationals go beyond Europe.* Report by the Institute for Market, Consumption and Business Cycles Research and Vale Columbia Center for Sustainable International Investment, Warsaw and New York 2012.

[40] *Polish multinationals go beyond Europe.* Report by the Institute for Market, Consumption and Business Cycles Research and Vale Columbia Center for Sustainable International Investment, Warsaw and New York 2012.

[41] *Information about Polish economic relations with Belarus.* http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Bialorus.htm.

Apart from Ukraine and Belarus, the level of Polish FDI in other Eastern Partnership countries is very limited. The total volume of capital invested in Moldova amounts to around 0.4 million euros. Polish companies' interest in Georgia as a potential investment partner is only just beginning. Despite the agreement on reciprocal promotion and protection of investments signed in 1997, there are practically no Polish investors in Azerbaijan. There is also a lack of Polish FDI in Armenia.

The experts of the Centre for Global Development (CGD), compiling data for the Commitment to Development Index (CDI) last year (see also Chapter 1), highlighted that the Polish government has done little so far to promote responsible Foreign Direct Investment in developing countries. Despite a certain number of strengths (employing foreign tax credits to prevent double taxation of corporate profits earned abroad and no restrictions on pension fund investment in emerging markets), Poland still has its homework to do. In particular, it has not yet completed Phase 3 of the OECD Convention on Bribery, and loopholes exist in domestic legislation permitting bribe payers to circumvent the OECD Convention. In addition there is weak leadership in extractive industry transparency initiatives.[42]

2. Infrastructure development and transfer of technology

Due to the profile of its development aid programme, which is highly focused on democracy promotion and soft projects, Poland is not very active in helping other countries upgrade their infrastructure or in transferring technology on concessional terms. Only a few projects consisting of building or rebuilding roads (in particular in Afghanistan) have recently been implemented from Polish Aid funds (see section on Aid for Trade below). One of the exceptions could be the project called "GreenEvo – Green Technology Accelerator" that is to be executed by the Ministry of Environment of Poland. Its general aim is to support domestic companies involved in the development of green technologies and promotion of their unique products in international markets. One of the components of the project is to be the implementation of environmentally sound technological knowledge and expertise in Armenia and Azerbaijan for integrated interventions in the area of poverty reduction, environmental protection and counteracting climate change. The project is to be implemented by United Nations Development Programme (UNDP) offices in the field involving primarily Polish green businesses and professionals. The project is expected to last 3 years (from late 2012 onwards).[43]

3. Technical assistance for trade policy development – aid for trade agenda

a) Aid for trade – concept and evolution

Opening the economy to international trade is not enough to reap the benefits of globalisation. This is the main reason why many developing and transition countries ask for assistance in building their trade-related capacity in terms of information,

[42] David Roodman, Julia Clark, *Poland Country Report,* Centre for Global Development, Washington 2012.
[43] Information received from the UNDP Project Office in Poland.

policies, procedures, institutions and infrastructure so as to integrate and compete effectively in global markets. To address this issue, the World Trade Organization (WTO) has led the call for "aid for trade".[44]

Aid for trade is not a new global fund, nor a new aid category but an integral part of regular Official Development Assistance (ODA). It aims to help developing countries overcome the supply-side and trade-related infrastructure constraints that inhibit their ability to benefit from market access opportunities.[45]

Aid for trade entered the WTO agenda with the Doha Development Round. In 2005 several donors, including the EU and its member states, made commitments to increase their trade-related support. Additionally in 2005, the WTO Ministerial Conference in Hong Kong set up a Task Force to operationalise aid for trade. In its 2006 recommendations, this Task Force stated that "projects and programmes should be considered as aid for trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies". It also specified six groups of activities that it considered to constitute aid for trade, while dividing them into typical aid for trade projects (Trade Related Assistance) and those more indirectly linked to the promotion of trade policy (Wider Trade Agenda) (see box below).

Box 3. Aid for trade categories

TRADE RELATED ASSISTANCE:

Category 1 — Trade policy and regulations: trade policy and planning, trade facilitation, regional trade agreements, multilateral trade negotiations, multi-sector wholesale/retail trade and trade promotion. Includes training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interests and identify trade-offs, dispute issues, and institutional and technical support to
facilitate implementation of trade agreements and to adapt to and comply with rules and standards.
Category 2 — Trade development: investment promotion, analysis and institutional support for trade in services, business support services and institutions, public/private-sector networking, e-commerce, trade finance, trade promotion, market analysis and development. This is largely a subset of Category 4 (building productive capacity, see below), specifically the most trade-related components.

WIDER AID FOR TRADE AGENDA:

Category 3 — Trade-related infrastructure: physical infrastructure including transport and storage, communications, and energy generation and supply.

[44] *Aid for Trade. Showing Results,* OECD-WTO factsheet: http://www.oecd.org/aidfortrade/49015161.pdf.
[45] Ibidem.

Category 4 — Building productive capacity: Includes business development and activities aimed at improving the business climate, privatisation, assistance to banking and financial services, agriculture, forestry, fishing, industry, mineral resources and mining, tourism. Includes trade- and non-trade-related capacity building.
Category 5 — Trade-related adjustment: This code was created by OECD/DAC at the end of 2007. It covers contributions to the government budget to assist with the implementation of recipients' own trade reforms and adjustments to trade policy measures taken by other countries; and assistance to manage balance of payments shortfalls due to changes in the world trading environment.
Category 6 — Other trade-related needs: Refers to programmes supporting trade in sectors not comprised in the other five categories, such as vocational training or public sector policy programmes. Is also used to report on larger cross-sectoral programmes with important subcomponents in the other AfT categories. This is useful, as the CRS methodology requires the use of one single CRS code per reported programme, an approximation which limits in some cases the ability of the CRS to capture TRA.

Source: WTO and the European Commission

The European Union has made an important commitment related to aid for trade. In 2005 the EU made specific financial commitments, pledging to strive to increase its collective expenditures on it to 2 billion euros per year from 2010 (1 billion euros in Community aid and 1 billion euros in bilateral aid from member states).[46] In October 2007 the EU also adopted an Aid for Trade Strategy that aims at supporting all developing countries to better integrate into the rules-based world trading system and to use trade more effectively in the fight against poverty.[47]

b) Poland's approach to aid for trade

Aid for Trade is not mentioned in the strategic documents constituting the political framework for the Polish Aid programme. Responding to the OECD-WTO Donor Questionnaire on Aid for Trade in 2009, Poland mentioned that although it does not have an aid for trade strategy, it pays attention to the issue of integrating trade into development strategies and the aspect of assisting developing countries in carrying out domestic reforms. Poland also declared that it was going "to streamline its efforts to increase the overall level of technical assistance to developing countries – with special attention to the countries in [WTO] accession – like Azerbaijan and Afghanistan".[48] At the same time, Poland highlighted the challenges in implementing the aid for trade agenda, namely:

- Lack of (or weak) articulated demands for regional aid for trade;
- Lack of coherence between national and regional priorities;
- Lack of credible lending authorities at regional level;

[46] See the EU Aid for Trade website: http://ec.europa.eu/trade/wider-agenda/development/aid-for-trade.
[47] *EU Strategy on Aid for Trade: Enhancing EU support for trade related needs in developing countries.* European Commission, Brussels 2007.
[48] *OECD/WTO Donor Questionnaire on Aid for Trade (Poland):* http://www.oecd.org/dac/aidfortrade/43150151.pdf.

- Lack of effective coordination at regional level;
- Difficulties of monitoring and evaluating results at regional level;
- Lack of credible mutual accountability mechanisms at regional level.[49]

c) Volume of Polish aid for trade

It is quite difficult to assess the volume of Poland's aid for trade activities. The Polish government has faced some difficulties in providing the WTO and the OECD with data indicating how much ODA qualifying as aid for trade Poland allocated in 2006 and 2007, in total figures and as a percentage share of the total country's ODA.[50] Poland explained that at that stage of building its development assistance system it was not able "to indicate how many of ODA activities could be qualified as a pure aid for trade".[51] Nonetheless, responding to the European Commission questionnaire for the EU monitoring report on aid for trade, Poland indicated that between 2000 and 2008 it spent 8,000 euros for this purpose (in 2008).[52]

The Polish Ministry of Foreign Affairs declares that between 2007 and 2012 it spent 45,520 zloties (10,840 euros) on aid for trade, plus a separate 4,862 US dollars for development projects that directly or indirectly affect the trade of developing countries. These projects mostly focused on building-up or modernising infrastructure (in particular road construction) and developing production capacity (supporting producers' groups, microenterprises and agricultural co-operatives). They were implemented in Afghanistan, Armenia, Belarus, Georgia, Kazakhstan, Kosovo, Moldova, Palestine, Ukraine, Sudan, Tanzania and Vietnam.[53]

A careful analysis of information on aid projects implemented by Poland between 2006 and 2011, and included in the official reports published by the Ministry of Foreign Affairs, enables the identification of a couple of bilateral projects which really help partner countries integrate with the world trade system and fall within the first two categories of aid for trade classification (trade related assistance). They are summarised in a table 10 below. What is interesting, no "pure" aid for trade projects were implemented in 2010, nor in 2011.

[49] Ibidem.
[50] Both organisations have asked to use the WTO Task Force definition.
[51] Ibidem.
[52] *Aid for Trade. Report 2012.* European Commission, Brussels 2012, p. 65. http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150104.pdf.

[53] Information transmitted by the Ministry of Foreign Affairs of Poland.

Table 10. Trade Related Assistance bilateral projects implemented within the Polish Aid programme in 2006-2009.

Year	Beneficiary Country	Name of the project	Implementing institution
2006	Ukraine	Overcoming non-trade barriers in the development of the Ukrainian export to the EU	CASE – Centre for Social and Economic Research
2006	Ukraine	Co-operation among authority, business and social initiatives towards the WTO	Ukrainian Centre for International Integration – International Social Organisation
2006	Ukraine	Ukrainian accession to the WTO – perspectives and challenges for SMEs	Ukrainian Centre for International Integration – International Social Organisation
2006	Moldova	Support for the Ministry of Agriculture and Food Industry of the Republic of Moldova in the realm of intervention mechanisms in agricultural markets and the approximation to the EU law	Agricultural Market Agency
2006	Moldova	Study visit to the Ministry of the Treasury of the Republic of Poland for civil servants from the Ministry of Commerce and Privatisation Agency of Moldova	Ministry of the Treasury
2007	Ukraine	Developing new standards of functioning for business associations and adaptation to the WTO membership requirements	Polish Embassy in Kiev
2007	Moldova	Strengthening Moldovan small and medium enterprises' activity in the field of export to the Single European Market	Association of Economic Consultants "Pro-Academia"
2007	Azerbajian	Introduction of goods into the EU market. Training for Azeri consultants from government and non-governmental organizations in the field of introducing national products into the EUmarket	Polish Agency for Enterprise Development
2008	Ukraine	Support for the implementation of the provisions of bilateral agreements between Ukraine and the World Trade Organization (WTO) at the level of small and medium-sized	Association of Economic Consultants Pro-Academia

		enterprises	
2008	Ukraine	Training for representatives of the Ukrainian administration and business environment in the field of introduction of goods into the European Union market	Polish Agency for Enterprise Development
2008	Moldova	Support for Moldavian Veterinary Services in modernization of veterinary surveillance in order to prepare it for European Union membership	General Veterinary Inspectorate
2008	Azerbaijan	Implementation of WTO rules in the national law of the Republic of Azerbaijan in the field of agriculture	Department of Bilateral Economic Co-operation, Ministry of Economy
2009	Ukraine	Support for Ukrainian veterinary services in strengthening animal disease control, fodder and animal by-product supervision based on EU's veterinary regulations	General Veterinary Inspectorate
2009	Bangladesh	Create your own future – volunteering for self-employment through co-operation with fair trade organisations in Dhaka	"One World" Association
2009	Azerbajian	Implementation of WTO regulations in Azerbaijan's legal provisions concerning the agricultural sector	International Bilateral Co-operation Department, Ministry of Economy

Source: Poland's Development Co-operation (Annual Reports 2007-2011)

The box below contains information on three aid for trade projects recently implemented by Poland from its Official Development Assistance funds.

Box 4. Examples of Polish aid for trade projects

In 2006 the Polish MFA made a voluntary contribution of 150,00 US dollars to the budget of the United Nations Industrial Development Organization (UNIDO) earmarked for the implementation of a technical assistance project "*Upgrading Ukraine's Food Safety Standards*". The main goal of this project was to enhance the export potential of Ukraine through improving the quality and safety of food produced in Ukraine, in particular by small and medium-sized enterprises (SMEs).

In April 2012 the Polish Government took a decision to earmark part of its unspent contribution to UNIDO (*Unutilised balances of appropriations – Ubs*) to the amount of 108,000 US dollars for the implementation of the project "*Eastern Partnership: Trade Capacity Building in Central Asia, Caucasus and Western CIS*". Within the project, two training sessions for representatives of ministries of trade and economy and for NGOs from Central Asia and the Western part of Community of Independent States will be held in 2013.[54]

In November 2008, within the project "*Implementation of WTO regulations into the Azerbaijani legislation in the agricultural filed*", Polish experts from the Ministry of Economy and the Ministry of Agriculture conducted a workshop for representatives of the Azerbaijani administration, scientific institutions and NGOs. The workshop was organised in cooperation with the Ministry of Economic Development of the Republic of Azerbaijan. In the case of Afghanistan the efforts were concentrated on the substantial increase of the ability of Azerbaijan to participate in global trade in a more substantial manner.[55]

Source: Ministry of Economy of the Republic of Poland

[54] Information transmitted by the Ministry of Economy of the Republic of Poland.
[55] *OECD/WTO Donor Questionnaire on Aid for Trade (Poland):* http://www.oecd.org/dac/aidfortrade/43150151.pdf.

Chapter 4
Bottlenecks and solutions

Despite the recent expansion of trade turnover between Poland and its ODA priority countries in Eastern Europe and the increase of Polish FDI in the region, several problems and challenges still exist. The Ministry of Economy of Poland has identified a certain number of challenges that the Polish private sector needs to face while trading with or doing business in Eastern European countries. Importantly, they do not stem from the EU trade regime, but mostly from the internal situation in the countries in question. Obviously, the situation varies from one country to another. For instance, economic relations with Georgia and Moldova are considered as very good, but the potential of these countries is limited. Ukraine and Belarus are much more important but – at the same time – more difficult partners.

The case of Ukraine is particularly relevant, as this country is the most important of Poland's commercial partners among all European ODA recipient countries. The systemic barriers that hinder economic cooperation with Ukraine include among others:

- Lack of transparency and high volatility of Ukrainian legislation;
- Complex and opaque procedures;
- High levels of corruption in different spheres of economic life;
- Insufficient level of the judiciary, lack of efficient and objective economic disputes, failure to comply with court judgments.[56]

The political situation in Belarus is not particularly considered a big problem in economic relations with Poland. For several Polish business people, it is easier to trade with and invest in Belarus than with/in Ukraine. On the other hand, certain steps against non-democratic regimes (in particular, the EU economic sanctions against Belarus, often initiated or supported by Poland) might be detrimental for the Polish economy, in particular for the bordering regions for which trade relations with neighbouring Belarus is key.[57] This highlights the potential tensions in the Polish approach to one of its neighbours and a necessity to carefully balance the country's political and economic interests, as well as the needs of the partner country's society.

This analysis has shown that the key recipients of Poland's Official Development Assistance (ODA) were not the main recipients of the Polish Foreign Direct Investments (FDI). Apart from Ukraine and Belarus, the level of Polish FDI in other EaP countries is very limited. The problem is not restrictions on Polish investments in the EaP region, but rather the limited eagerness of Polish firms to do business there. According to the Polish trade and development experts interviewed during the focus

[56] Source: Ministry of Economy of the Republic of Poland and opinions of experts gathered during the focus group discussion on 26 November 2012.
[57] Views of the Polish trade and development experts interviewed during the focus group discussion on 26 November 2012.

group discussion on 26 November 2012, the main problems encountered by Polish investors in EaP countries are bureaucracy, permanent changes in regulations and standards, corruption, as well as problems with VAT recovery. In the case of South Caucasus countries, the political instability and risk of military conflicts are also discouraging factors.

Obviously, Poland's direct impact on the conditions of doing business in and trading with EU external partners (even its closest neighbours such as the EaP countries) is limited, as they mostly depend on the development of the political and economical situation in these countries, their willingness to reform and to improve the quality of institutions. It is the European Union as a whole that has enough instruments and assets to influence the developments in these countries in order to – on the one hand – promote its own interests and – on the other – support further economic and social progress in the region. In this context, the synergy and coherence between the EU trade and development policies has a paramount importance, and as such should be accorded high priority by EU member states, including Poland.

Looking ahead, the trade and development initiatives of the EU as a whole are instrumental in promoting an open, rule-based, predictable, non-discriminatory trading and financial system. In relation to the EaP countries, the key instrument is the Deep and Comprehensive Free Trade Area (DCFTA). The DCFTA agreements are expected to resolve a certain number of problems in trade relations with the EU's Eastern partners (pertaining in particular to the sanitary and technical norms, intellectual property rights, etc.). As mentioned above, there are still political problems blocking the finalisation of the DCFTA agreement with Ukraine, but DCFTA talks with Armenia, Georgia and Moldova are progressing without any particular problems, and the agreements should be initialled at the Eastern Partnership Summit in November 2013. It is expected that the DCFTA will bring EaP countries closer to the EU. Therefore, this may also be considered as a tangible result of the Eastern Partnership initiative.[58]

[58] Source: Ministry of Economy of the Republic of Poland

Concluding remarks and recommendations

It is difficult to analyse simultaneously and on a comparative basis both trade and development policies, due to the huge differences between them in all aspects, in particular with respect to new donors, such as Poland. Since Poland mostly maintains its trade relations with other EU member states and through the engagement of the private sector, development co-operation is oriented towards partners outside the EU (mostly the EU's Eastern neighbours) and primarily carried out by civil society organisations. The opposition self-interest (altruism) may also be visible here. But more importantly, development policy (in opposition to trade policy) is still in the early stages in Poland and finds itself at the margin of the government's interest. In this context, while considering synergies and coherence between these two policies, it is extremely important to withstand the tendency to subordinate aid to trade and to force development staff to realise a donor's commercial objectives.

The analysis outlined in this paper has shown that Poland's main ODA partner countries were not the key priority trade partners, and as such are less "vital" than EU member states for the country's well-being and its development prospects. Therefore, in relation to development co-operation partners (in particular the Eastern Partnership countries), the developmental (if not to say "altruistic") aspects could prevail over the national economic interests, or at least be equally important.

Nevertheless, keeping the appropriate balance between these two policies is difficult due to the political framework stemming from EU membership. Since trade policy is managed at the EU level and more than a half of Poland's development assistance is channelled through the EU's institutions, Poland's direct influence on the social and economic situation and development prospects of its key ODA priority partners (the Eastern Partnership countries) through trade and/or aid is very limited. Other factors that limit the impact of the country's trade and development policies are the following:

- Relatively small budget for development co-operation in general, and for bilateral aid in particular;
- A strong focus of the Polish Aid programme on "democratisation" and only indirect reference to the Millennium Development Goals;
- Lack of direct reference to economic development, trade policy and aid for trade in the strategic documents guiding national aid policy;
- Implementation of "soft" projects involving experience sharing rather than the transfer of financial resources or realisation of infrastructure projects.

In this context, Poland's contribution to developing an open, rule-based, predictable, non-discriminatory trading and financial system, even regarding the country's key aid partners (such as the six Eastern Partnership countries) may be ensured mostly due to its active membership in the European Union, participation in its development policy and in the EU trading system with developing and transition countries. It is also due to EU membership that Poland has already received quite

high scores in the Commitment to Development Index with respect to to the coherence between trade and development.

Taking into account all of the aforementioned remarks and considerations, including the EU competences in trade policy, it should be admitted that for new EU member states such as Poland (being relatively new and small aid donors), the key direction towards further developing an open, rule-based, predictable, non-discriminatory trading and financial system is to work actively at the EU level and try to influence the EU external relations policy in a spirit resulting from the Lisbon Treaty. At the same time, Poland could also attempt to improve those policies that are set at a national level (in particular bilateral development aid policy) to make them more conducive to the eventual realisation of the MDG8.

The recommendations below apply therefore to both the EU and national level of decision making process.

1. Poland could consider shifting the vectors of its aid programme towards economic development of its partner countries. Such a shift would be conducive to the implementation of the Millennium Development Goals (in particular MDG8), coherence between trade and development policies, co-operation between the Ministry of Foreign Affairs, Ministry of Economy and the Ministry of Finance, as well as implementation of the aid for trade agenda. The forthcoming mid-term review of the Multiannual Development Co-operation Programme 2012-2015 could provide a good opportunity for such a change.

2. In this context, Poland's "transition agenda" could be even more focused than it is now on "economic governance". Poland could therefore find its aid "niche" and "comparative advantage" in helping its partners create the best conditions for economic growth and development. More emphasis could be put on reforms of the financial and banking sector, decentralisation of public finance, privatisation, development of small and medium-sized enterprises, attracting foreign direct investment, as well as regional development policy and efficient absorption of aid funds. Such a technical assistance would be beneficial not only for Poland's development partners but also for Poland itself, as it would help create attractive markets for Polish products and safe harbours for Polish foreign investments.

3. Helping partner countries benefit from globalisation through participation in world trade as well as aid for trade could be explicitly mentioned in the key documents constituting the basis of the Polish Aid programme (Multiannual Development Co-operation Programme and annual aid plans). Following such a modification of the strategic documents, the consultation between the MFA, Ministry of Finance and the Ministry of Economy, as well as with the governments of selected partner countries, could be embarked-on in view of working out a comprehensive Polish aid for trade programme for the coming years. The Polish aid for trade programme could be implemented by the Ministry of the Economy, but controlled and co-ordinated by the Ministry of

Foreign Affairs and financed from the ODA budget line. The creation of such a programme could lead to the increase of the share of aid for trade in the whole of Poland's Official Development Assistance.

4. Poland could consider using its increasing Official Development Assistance as a diplomacy tool and as an instrument to pursue its national (including economic) interests in key partner countries. In this context, a sort of EU's "more for more" principle could be applied by the government of Poland, through offering more development aid to those partner countries which demonstrate progress in fighting corruption, ensure a more stable policy towards foreign investors, eliminate bureaucratic barriers hampering doing business, etc.

5. If Poland wants to contribute more substantially to the economic progress of its ODA partner countries, it should consider complementing the transfer of experiences from successful transformation by more substantial financial assistance destined to improve the physical and economic infrastructure of partner countries (building roads, schools, hospitals), even if it would be on a small scale at the beginning. The Polish Aid experiences from some partner countries (even as remote as Afghanistan) show that it is possible. It should be admitted that the Eastern European countries are still in need of more financial and infrastructural support (upgrading road and railway networks, modernising ports, improving energy connections) and would welcome their closest EU partners' engagement in this respect.

6. The Polish private sector could be increasingly involved in the implementation of the Polish Aid programme, in particular in the realisation of infrastructural, production and trade projects in Eastern Partnership countries. A comprehensive, systemic approach (involving changes in the current legislation) could be worked-out that would prohibit using ODA funds for commercial purposes and business promotion, but would enable the business community to realise initiatives that aim at achieving MDGs (including MDG8) in partner countries. In addition, a special business forum for development co-operation could be created to represent the needs and interests of firms engaged in realising aid projects. In this respect, Poland could benefit from the experiences of some more advanced donors (such as Sweden and Denmark) and look at the achievements of the Czech Republic.

7. The Ministry of Foreign Affairs could fully exploit the already existing legal basis (the Act on Development Co-operation) to advance the implementation of the Policy Coherence for Development (PCD) principle and – in particular to ensure that Poland's foreign economic policy takes into account development policy objectives. The Act authorises the Minister of Foreign Affairs to provide opinions on all government programmes and strategies with regard to their coherence with the guiding lines of the Polish aid policy. This also applies to Poland's economic policy, which should take into account the goals and objectives of the country's development co-operation. Advancing PCD requires a permanent, inter-ministerial dialogue, mutual recognition of the

ministries' respective competences and willingness to work together to ensure positive synergies between both policies and all actors involved. A first step in this direction could be the setting-up of a sub-committee for PCD working as a subsidiary body to the Development Co-operation Policy Council (as is the case in the Czech Republic).

8. Poland could also promote Policy Coherence for Development at the international level, in particular while contributing to shaping the EU trade policy. While participating in the decision making process on trade policy in Brussels, Poland could continue to promote the development aspects of trade policy, in particular in relation to its key ODA partner countries. In particular, it could further work towards the final entry into force of the Deep and Comprehensive Free Trade Area (DCFTA) agreements with Armenia, Georgia, Moldova and Ukraine and analyse to what extent the new EU framework for economic relations with these countries takes into account their development objectives.

9. In relation to difficult development co-operation partners (in particular Belarus), Poland could carefully balance the political and economic interests of both countries and societies. The close co-operation between the Ministry of Foreign Affairs and the Ministry of Economy is key in this respect. The MFA's "democratisation" agenda, promoted both bilaterally and at the EU level, could be complemented by more intensive dialogue on economic co-operation with the Belarusian administration at the low level, followed by projects fostering the economic development of Belarus. On the other hand, the defence of human rights and promotion of democracy in Belarus should not be detrimental to the economic interests of Poland, in particular its North-East regions.

10. Poland (the MFA, NGOs, think tanks) could enhance dialogue and co-operation with other new EU member states that focus their aid programmes mostly on transition countries in Eastern Europe and the Balkans in order to share experience on how to promote synergies between development and trade policy, and how to make them both work for progress in the region. The common agenda could comprise, among others, the following items:

    a. Economic governance as a "niche" and "comparative advantage" of aid programmes of the new EU member states;
    b. Private sector involvement in implementing national aid programmes (maybe creation of a common business platform for development co-operation);
    c. Promotion and implementation of Policy Coherence for Development principle;
    d. Effective and common implementation of aid for trade projects in partner countries;
    e. Influencing multilateral institutions, in particular the EU, to make trade work for development and promote positive changes in countries in transition;

f. Efficient promotion of responsible Foreign Direct Investments in countries in transition.