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## PROSPECTS FOR TRADE GROWTH BETWEEN POLAND AND CHINA

### INTRODUCTION

It has been 65 years since the establishment of diplomatic relations between Poland and China. Poland was one of the first countries to have recognized the People's Republic of China (PRC), proclaimed October 7, 1949, and these six decades brought significant changes in foreign policies of both sides. There were moments of stagnation in mutual relations, for example, in certain periods of the history of People's Republic of Poland or after the events of the Tiananmen Square, which alternated with years of intensified cooperation at many levels, not just economic (Rowiński, 2009). China's model of growth based on exports, investments and low labor costs is no longer sustainable in the long term, and the Chinese government is trying to rebalance the economy to more of a consumption-based growth model. Moreover, China's economy globalizes and has become a powerful actor in the world economy (Pietrasiak et al., 2012). The hidden potential of more than 1.3 billion Chinese consumers will make China the world's largest consumer market and the top export destination for many economies. It should be an incentive for Polish exporters. They should take a chance and enter this prosperous market.

The main aim of this article is to present the current state of trade between Poland and China, with particular emphasis on the most prospective market areas for Polish exporters, including the most promising sectoral niches and consumer profiles. The paper analyzes recent surveys and research on Chinese consumers and their profiles. It also presents the trends in Chinese policy and development strategies that may impact trade strategies. The article applies descrip-

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tive statistics and qualitative analysis methods. The scope of the research covers the merchandise and services exports and imports between the two countries. The data used were compiled by international consulting firms and institutions.

The study consists of three sections, introduction and conclusions. The first section focuses on economic relations, especially trade relations between Poland and China. The second part presents the market niches that can be considered promising for exporters in the future. This section describes also the profile of the Chinese consumer. The last section indicates the market areas that can be profitable for the forward-looking Polish export strategies.

This article seems to be important in the light of the business practice as well as the recently neglected relationship between Poland and China<sup>1</sup>. Polish exporters entered the Chinese market later than their Western counterparts and largely lost this market. Hence, now Poland is a PRC's trade partner of moderate importance. At the same time, there are surveys that indicate the potential relevance of the Polish market to the Chinese contractors (KPMG, PAIIZ, 2011). The situation may change if Polish exporters identify the most profitable niches in China's market and direct their efforts to target properly selected customers and sectors.

## ECONOMIC RELATIONS BETWEEN CHINA AND POLAND

Poland was one of the first countries in the world to establish diplomatic relations with the People's Republic of China on 7<sup>th</sup> October 1949. Subsequently, the policy framework of the bilateral relations was established in the Joint Statement between the Republic of Poland and the PRC, which was issued in Warsaw on 8<sup>th</sup> June 2004. The joint statement defined Polish – Chinese bilateral relations as being based on a partnership of friendly cooperation. On 20<sup>th</sup> December 2011 Poland signed with China the next declaration on strategic partnership, which also included an agreement on cooperation in higher education. Until the beginning of 2012, Polish government has signed 32 bilateral agreements with China.

An important event in Polish-Chinese relations was the China-Central and Eastern Europe Business Forum in Warsaw in April 2012. Prime minister Wen Jiabao brought forward the 12-point initiative for deepening cooperation with CEE (2014). First, he declared to establish the Secretariat for Cooperation between China and the Central and Eastern Europe(CEE) at the Chinese Ministry of Foreign Affairs. The institution focuses on communication and coordination on issues related to cooperation, organization of meetings of leaders and entrepreneurs' forums, and implementation of recommendations from these meetings. Second, the opening of a special credit line of 10 billion dollars, part of which will take the form of subsidized loans. The line will be used primarily to finance cooperative projects in areas such as infrastructure, advanced and new

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<sup>1</sup> The most important market for Polish exporters is the European Union. It accounts for almost 75% of Polish imports and 76% of exports (Eurostat, 2014).

technologies and the green economy. Third, the Chinese government established the special fund for investment cooperation among China and CEE countries. In the first stage the fund should collect round 500 million dollars for investments in CEE countries. Fourth, China will promote trade and investment in the CEE countries and take concrete steps to expand bilateral economic cooperation and trade. According to forecasts, trade between CEE countries and China should reach the value of 100 billion dollars by 2015. Fifth, in the light of the actual conditions and demands of the CEE nations, China will encourage domestic companies to cooperate with these countries in order to establish in each of them at least one economic zone over the next five years. China will continue to encourage and support more Chinese enterprises to participate in the development of the existing economic and technology zones in these countries. Sixth, China pledged active participation in financial cooperation with the CEE countries, which means foreign exchange swaps, settlements in local currencies in cross-border trade and the establishment of domestic banks branches in order to strengthen the support and services for cooperation. Seventh, China declared the establishment of an advisory committee of experts on the construction of transport links between China and CEE nations. Eighth, China proposed the cultural cooperation with CEE countries, regular meetings of high-level experts on culture, cultural festivals and similar activities.

It was also decided to award 5000 scholarships for students from the CEE countries over the next five years. China authorities declared supporting the Confucius Institutes and the “classes of Confucius”, and invited 1,000 students from CEE countries to study Chinese language over the next five years. The student exchange will be also strengthened. It was declared that Chinese research institutions should cooperate closely with CEE’s scientists. About 1,000 students and researchers from China will be conducting their studies in CEE nations over the next five years.

Then the Chinese side proposed to establish cooperation for tourism promotion between China and CEE countries, which will be coordinated by the China Tourism Administration. The aim of establishing such an alliance was to strengthen the promotion of business contacts and the development of tourism in both directions, and to explore the possibility of launching a larger number of direct flights between China and CEE nations. Declaring the establishment of a research fund on relations between China and CEE countries, China is ready to allocate for this purpose CNY 2 million annually to support academic exchange between research institutes and scientists on both sides.

During the China-CEE leaders’ meeting in November 2013 Chinese Premier Li Keqiang made a six-point proposal on deepening cooperation with CEE countries. First, he said China and CEE countries should intensify economic and trade cooperation, doubling China-CEE trade volume in five years and discussing a framework agreement for industrial investment in the near future. Second, China and CEE countries should promote cooperation on transportation infrastructure to open up interconnected land and sea channels between China and Europe.

Third, China and CEE nations should enhance “green cooperation.” China backs its enterprises to participate in the CEE nuclear power projects and hopes that the host countries would improve investment environment. Fourth, China and CEE countries should expand financing channels. They need to make good use of the 10 billion dollars special credit line and enhance financial cooperation by setting up branches of financial institutions in each other’s markets, signing currency swap and settlement agreements. Fifth, China and CEE countries should further tap into potentials of cooperation at local levels to efficiently and effectively promote their cooperation. Sixth, China and CEE countries should enhance cultural exchanges by holding regular forums on culture and education, strengthening communication between young politicians, think-tanks and media as well as facilitating procedures for travel and work visa (Xinhuanet, 2013).

In case of Poland, the most intensively developing area of cooperation with China so far is foreign trade. Only since 2008 China has gradually begun to be perceived as an investor in the CEE region. Chinese capital has started to flow to Poland since 2011. Unfortunately, Chinese companies still perceive Poland as a less competitive partner than Western Europe countries, but it does not mean unattractive. Poland is interesting for China in economic terms for several reasons. Poland offers a large market with sophisticated customers. It may be an attractive location for manufacturing or investment under the EU regulations, a gateway to the EU markets, thanks to the good infrastructure and lower labor costs. Hence, Poland may become a European logistics center for Chinese goods. The development of Polish harbor infrastructure (DCT Gdansk) and the ambitious plans of its expansion also increase Poland’s attractiveness. Being at the railway route between China and Western Europe, Poland may be the transshipment centre.

According to the Polish Information and Foreign Investment Agency (PAIiIZ), China has invested in nine projects in Poland (Yuncheng and Dong Yun and Victory Technology in Lodz, TPV Displays in Kobierzyce and Biskupice Podgórne, GD Poland Investments in Wólka Kosowska and Min Hoong in Sopot) so far (table 1). By the end of 2010, the combined investment amounted to 140 million dollars. At the end of 2011, the Chinese investors opened an electronics plant in Wroclaw of and automobile production in Szczecin . The two largest Chinese banks – the Bank of China and the Industrial and Commercial Bank of China entered the Polish market<sup>2</sup>. The presence of Chinese companies in Poland is also supported by mergers and acquisitions (M&A), and such transactions are not reflected in PAIiIZ statistics. Via M&A, China’s Beijing West Industries purchased from American Delphi a factory in Krosno and a research center in Cracow . Delphi subsidiaries in Gliwice and Tychy were taken over by Pacific Century Motor Systems Co. After taking over the Warsaw factory “Waryński”, Chinese investors transformed it into the Liu Gong machine dealer in Poland. In January 2012, Liu Gong acquired the civil part of Huta Stalowa Wola for c.a. 300 million PLN (88.5 million dollars), making it the largest Chinese

<sup>2</sup> These two banks have more subsidiaries and offices in China than the whole Polish banking sector and their assets are eight times higher.

**Table 1. List of Chinese investors in Poland in 2013**

Investor name	Activities	Corporations
Haoneng Packaging	Manufacturing	Illochroma Haoneng Poland Sp. z o.o. – Skawina
LiuGong Machinery	Manufacturing	Dressta Sp. z o.o. – Stalowa Wola; LiuGong Machinery (Poland) Sp. z o.o. – Stalowa Wola
Shanxi Yuncheng Plate-making Group	Manufacturing	YUNCHENG (POLAND) Sp. z o.o. – Łódź
Sino Frontier Properties Ltd.	Construction	GD Poland Investment Sp. z o. o. – Wólka Kosowska
Suzhou Victory Precision Manufacture Co	Manufacturing	Victory Technology Polska sp. z o. o. – Gorzów Wielkopolski
TPV Technology Ltd	Manufacturing	TPV Displays Polska sp. z o.o. – Gorzów Wielkopolski

Source: PAIiZ (2014).

investment in Poland (Cieślak, 2012). Finally, the Warsaw Stock Exchange lists two Chinese companies: Pexin and JJAuto.

Contrary to the global trend, Polish companies invest in the PRC cautiously. Successful Polish companies in China include KGHM Shanghai Copper Trader, Selena Group and Chipolbrok. A large and quite well-known Polish company in China is Kopex, a producer of mining equipment. The firm has operated in Shandong since 2008. Other important Polish companies in China are: Glaspo (glazing), Deron (heating pumps), G-Art (packaging), Jiskra (auto parts trader), and Mlekovita (dairy). Quite spectacular ventures between Polish and Chinese capital include: Chinese-Polish Joint Stock Shipping Corporation “Chipolbrok”, Shandong Liangde Fasing Round Link Chain Co., Shandong Tagao Mining Equipment Manufacturing Co. Ltd, PZL Swidnik or PMP Group of Jelenia Gora (Starzyk, 2009). Moreover, non-governmental organizations such as the Sinopol Foundation or Polish-Chinese Friendship Association have supported the development of Polish-Chinese relations for many decades. More than twenty Chinese cities and regions cooperate with Polish ones in the sphere of business, culture, research, mutual dialogue etc. under the status of “twin towns and sister cities”<sup>3</sup>.

<sup>3</sup> E.g.: Katowice’s partner city in China is Shenyang, Warsaw’s – Harbin, Kielce’s – Taizhou, Szczecin’s – Jinan, Torun’s – Guilin, Poznan’s – Shenzhen, Gdynia’s – Haikou, Lodz’s – Tianjin and Guangzhou.

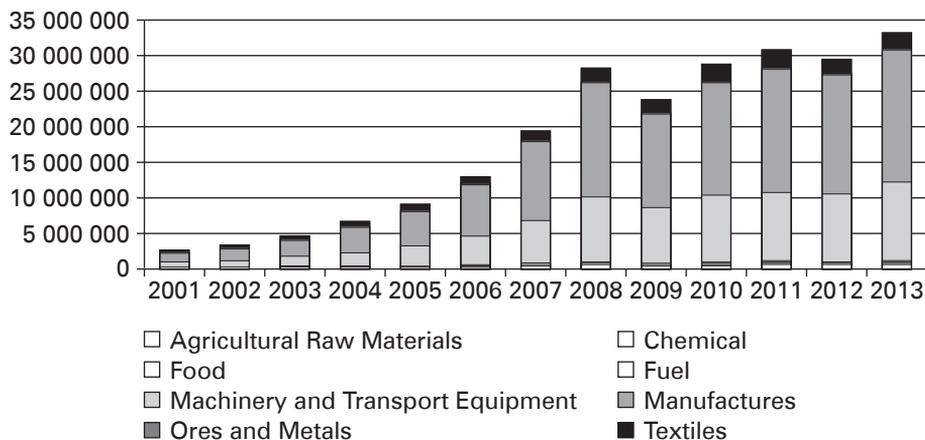
PAIiZ is also invaluable in promotion Poland abroad (PAIiZ, 2014). There is a website Go China whose mission is to advise investors and traders who plan to cooperate with Chinese firms (*Go China*, 2014).

Sino-Polish trade gained intensity until the end of the 1990s. Till 2001, Poland was not an important partner of China among the EU countries, but in 2011 it was ranked 8<sup>th</sup> among China's trade partners in the EU. According to the Polish statistics, the trade between the two countries in 2011, was 20.24 billion dollars. However, the volume of trade was generated mainly by Polish imports from the PRC, which reached nearly 18.38 billion dollars. This means that Poland imported almost 10 times more from China than exported to this Asian market. Compared to the data of 1989, Polish exports to China increased almost 30 times, while imports from China rose more than 9 times (Ministerstwo Gospodarki, 2012; GUS, 2014). According to the General Administration of Customs of the PRC statistics, trade between Poland and China amounted to considerably less than the current Polish statistics. Polish exports to China, according to Chinese statistics was 2.048 billion dollars, while imports from China were estimated at 10.94 billion dollars (General Administration of Customs of the PRC, 2014). The share of Polish imports in total EU imports from China amounted to 3.07%, while exports from Poland to China accounted for less than 1% of the EU exports in 2011. Poland became the most important business partner of China among the countries of Central Europe (Eurostat, 2014).

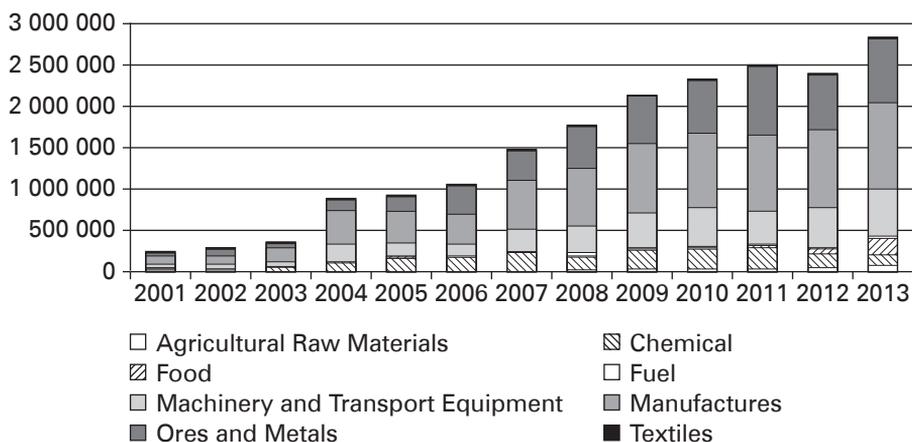
Regardless of the source of statistics, section "machinery and equipment" accounted more than half of Polish imports from China in 2012. Within this section, Poland imports machinery and electromechanical devices, electrical and electronic products. Other important groups of imported goods include: textiles and textile equipment, optical equipment, measuring and precision devices, medical equipment, furniture and lighting equipment. In China's import from Poland unquestionably dominate: copper, steel products and iron, machinery and equipment (electromechanical, electrical and electronic), chemical products, automobiles, aircraft and transport equipment. These groups of commodities accounted for 88% of Polish exports to China (General Administration of Customs of the PRC, 2014).

Poland maintains the most intense trade links with the Eastern provinces of China (65% of total trade value). Polish importers purchase the products mostly in Guangdong, Jiangsu and Zhejiang provinces. These provinces generate almost two thirds of the total value of Polish imports from China. In turn, most of Polish export is directed to Shanghai (more than 28%) and Jiangsu (almost 15%). Ningxia and Qinghai are the least active Chinese provinces in the total trade with Poland (Ministerstwo Gospodarki, 2012).

The last decades brought a significant improvement of interactions and the diminishing of barriers in flow of goods, capital, services, technology, and information between China and the world. These phenomena should have resulted in the increase of bilateral trade between Poland and China also. Unfortunately, Polish entrepreneurs as well as government had not noticed the fundamental

**Figure 1. Poland's import from China in 2001–2013**

Source: author's own study on the basis of the World Bank.

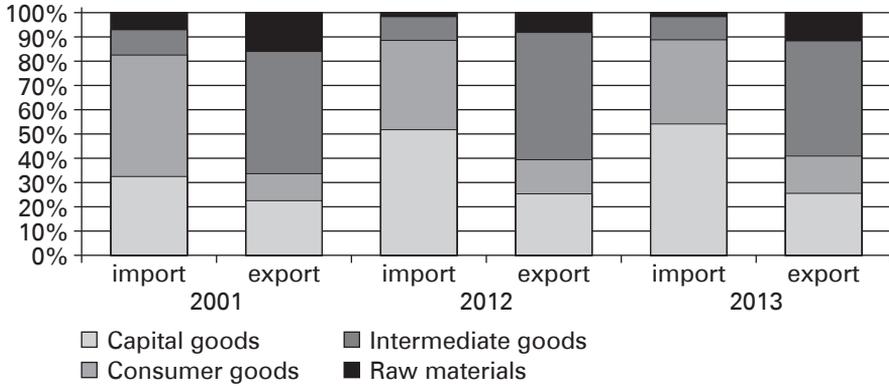
**Figure 2. Poland's export to China in 2001–2013**

Source: author's own study on the basis of the World Bank.

qualitative changes in the Chinese economy. Moreover, the next decades are expected to bring more sustainable development of China and transformation of its society into demanding mature customers. Therefore, the most important questions that should be answered are: why the relations between Poland and China do not develop as expected and how to improve them taking into account the great interdependence of markets?

Failure of Sino-Polish relations can be explained in many ways. One barrier is, paradoxically, a close integration of Poland with the EU markets in terms of

**Figure 3. Structure of Poland's trade with China in terms of the stage of processing of goods**



Source: author's own study on the basis of the World Bank.

trade and capital flows and, consequently, the growing interdependence among these markets. A large share of exports from Poland enters the EU production chains. However, this is some type of the hub-and-spoke model, where the 'hub' are the EU-15 states and the 'spokes' are post-communist countries, inter alia Poland. To decrease this dependence, Poland should not only concentrate on the euro area market, but also shift its interests to emerging markets, for example to China (Liberska, 2013; Skulska, 2013)<sup>4</sup>. Another limitation of Poland-China relations is the lack of proven long-term strategies of development of bilateral relations prepared at the governmental level. Few initiatives, e.g. governmental Go China, are not able to boost bilateral relations considerably. It is not sufficient to launch a few of measures supporting Polish entrepreneurs in China, especially those targeting the most promising industries of the PRC. Moreover, coordination of information and promotion of mutual economic cooperation at the local and central levels would reach a larger number of potential investors. Another obstacle to the development of bilateral relations is low awareness and knowledge of Chinese market among Polish entrepreneurs as well as among the institutions responsible for promoting Polish brand in the world. Moreover Polish media often distort the view of economic realities prevailing in China and thereby scare off potential investors, who consider conducting business with Chinese entrepreneurs<sup>5</sup>. Furthermore, cooperation between Poland and China is not con-

<sup>4</sup> Even during the global financial crisis, when the foreign trade of Poland declined as a result of the weakening domestic demand in the EU states, our country did not decide to re-direct trade completely towards the emerging economies such as the Asian or African developing countries (Cieřlik, 2014).

<sup>5</sup> The most well-known and unfortunate of Chinese projects in Poland was the construction of two segments of the A2 motorway. This event has created negative perception of Chinese investors.

ducive to the fact that Poland tries to shape its economic relations with China in harmony with the EU's strategies. Unfortunately, the EU's inconsistent policy towards China also makes it difficult for Poland to build its own relations with East Asian states<sup>6</sup>. Moreover, a number of incidents related to Polish policy makers (e.g. boycott of the opening ceremony of the Beijing Olympics, or the denial of participation of government representatives in meetings with the Chinese delegations during the Polish-Chinese Forum in Szczecin) exacerbated the already difficult relations between the two countries. Existing initiatives to improve Polish-Chinese relations have not aroused a lot of interest of the authorities and the media<sup>7</sup>. These institutions and forms of support are very helpful for Polish businessmen, because Chinese economy, regulations, tradition and first and foremost business culture are much different from Polish reality. The Chinese mentality may be difficult to understand to European contractors, however with the support of qualified advisors, Polish businessmen can understand the meaning and working of the Chinese market.

A change in the perception of the international situation by our political class as well as businessmen has brought the global economic crisis. The downturn in the EU's economies and decrease of international trade have brought Polish investors, authorities, contractors to look closer at the non-European and developing markets, including China. Warming up of relations between Poland and China has affected economic relations between the two countries. A good example is the success of last Polish pavilion at the World Expo in Shanghai in 2010 or the Chinese initiative of cooperation with CEE countries announced during China-Central and Eastern Europe Business Forum in Warsaw in 2012.

The shape of relations between the two countries indicates that Polish entrepreneurs have underappreciated China's enormous market and have not penetrated it yet. There are many reasons for it. The report prepared by KPMG and PISM is the first analysis of this kind, focusing on the decision-making processes in Polish enterprises regarding business cooperation with Chinese partners. It presents the perceived barriers, expectations, main sectors of cooperation, motivations and other factors that influence the final decision that companies make about whether to cooperate with China or not. The survey results reflect companies' attitudes towards the benefits and challenges linked to the Chinese market and towards institutional support provided by government agencies. The most visible impact is among ICT companies, clothing companies and those representing the timber and paper industry, that is, in the branches where competition from Chinese firms is rather strong. However, in

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<sup>6</sup> The EU relations with China were described inter alia by T. Sporek, Z. Puślecki, M. Korzec (Sporek, 2012; Korzec, 2007; Puślecki, 2012).

<sup>7</sup> For example, Polish-Chinese Friendship Association and Polish-Chinese Chamber of Industry and Commerce can be very interesting initiatives, which also provide reliable services, practical advice on establishing economic relations with China and support mutual relations (Polish-Chinese Chamber of Industry and Commerce, 2014, Polish-Chinese Friendship Association, 2014).

environmental protection, energy and mining, and other service sectors, the prevailing opinion is that China has a less of an impact on Polish companies. 76% of the surveyed companies declared that they have entered into cooperation with foreign countries, but mostly in the European market. The majority (76%) of the 27% of companies engaged in cooperation with China are importing goods or services, which is also reflected in the statistics of Polish trade. Nearly half of the existing Polish enterprises in China plan to develop collaboration with Chinese businesses, while only 11% of those that are not present in this market are going to start such cooperation within three years. The main reasons for cooperation are: the low cost of goods and services and reduced costs of production. For the majority of Polish companies that do not cooperate with China, the main reason behind their lack of interest in that country is their current business strategy which does not take into account this direction of development. However, 27% of the surveyed companies mentioned a variety of other barriers preventing their expansion to the Chinese market (KPMG, PISM, 2013).

## THE MOST PROSPECTIVE SECTORS AND CONSUMERS IN THE CHINESE MARKET

Searching for prospective industries for Polish exporters, one should, in particular, trace the government (central and local) plans and economic strategies, the profile of the Chinese consumer behavior and general socio-economic trends.

An important development strategy for the coming years remains the 12<sup>th</sup> Five Year Plan (2011–2015) that indicates the priority sectors in the Chinese economy. These niches should become significant for exporters. The 12<sup>th</sup> Five Year Plan lists seven strategic programs that will offer to the involved entrepreneurs' tax reliefs, grants, subsidies and a lot of privileges for their activities in these sectors. The priority industries are new energy, energy conservation and environmental protection, biotechnology, new materials, high-end equipment manufacturing, and clean energy vehicles (Government of the PRC, 2011). A particularly important aspect of this plan is to protect the environment and develop the renewable energy sector. China has gone through a process of accelerated industrialization and urbanization, which largely has a negative impact on the natural environment. The Middle Kingdom tops the world rankings of air, water and soil pollution, or diseases caused by environmental pollution. In 2011, investments in environmental protection increased by 5% to 6.3 billion dollars. Throughout the 12<sup>th</sup> Five Year Plan, the Chinese government is going to spend about 581 billion dollars on environmental protection (*China's Twelfth Five Year Plan (2011–2015)*). The construction of environmental infrastructure, new technologies (for example air monitoring systems), modern equipment environmentally friendly and green buildings are the most welcome types of solutions. Prospective niches for exporters may lie in modern low-emission and energy-

-efficient building materials, HVAC systems, and eco-design techniques. China accounts for around one fifth of world energy consumption, of which 7.3% is consumption based on renewable energy (hydropower, wind, solar, biofuels)<sup>8</sup>. According to the implemented Five Year Plan, by 2015 the share of renewable energy consumption is expected to reach 15%, of which the greatest part will be hydropower. Hence, all kinds of technologies related to renewable energy will also be really attractive and significant for the customers in the Middle Kingdom.

Food market has been growing at an annual rate of almost 30% in recent years. China is a net importer of food products, because local producers are unable to meet the high demand. In addition, there were a number of scandals related to the domestic food industry in China, making consumers increasingly interested in food originating from abroad. The development of military, infrastructure, finance, and education increase the demand for security systems. Although this sector is strictly regulated, it seems to be very promising for exporters. Especially desirable are control systems, communications, or warning systems. In turn, rapidly growing automotive market in China implies the growth of demand for auto equipment and parts. Although Japan remains the main exporter of auto parts to China, there is room for other automotive manufacturers, especially related to the environmental solutions.

In addition to the Chinese plans defining directions for the development of the economy, it is worthwhile to analyze the long-term trends in the Chinese society. The most important trends may include demographic changes – especially the growth of the middle and upper classes, and the aging society.

China's new middle class comprises different generations, the most striking of which is called wealthy second generation (table 2). It numbered nearly 200 million consumers in 2012 and accounted for 15% of urban consumption. Affluent and ultra-wealthy consumers, upper-middle-class are stimulating rapid growth in luxury-goods consumption, which has surged at rates of 16% to 20% per annum for the past five years (McKinsey, 2013). These consumers are prospective for manufacturers of luxury goods and high quality products. In 2010, China became the world's second largest luxury goods market. Geographically, the market is focused on Beijing and Shanghai and the provinces of Guangdong, Jiangsu, and Zhejiang. These regions account for around 65% of the sales of luxury goods in China. The most important luxury brands are, among others, Louis Vuitton, Cartier, Chanel, Rolex, Ferrari and Bentley (U. S. Commercial Service, 2013).

The average Chinese consumer that belongs to the middle class is much different from the typical European buyer. This customer group represents 400 million people. The Chinese consumer is characterized by pragmatism combined with modern approach to shopping. Asian pragmatism manifests primarily in attaching importance to the search for goods whose prices correspond to their value (value for money). According to the McKinsey study, the Chinese consu-

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<sup>8</sup> The most important energy sources in China are: coal (70%), oil (18%), natural gas (4%) and nuclear energy (0.7%). (NBS, 2014)

Table 2. Archetypes of Chinese luxury consumers

Archetype	Era leader	Wealth second generation	Ambitious elites	Savvy investors	Stylish white-collars	Gift buyers
Share	25%	30%	10%	5%	10%	20%
Special profile	private business owners, corporate executives (foreign, state owned, private) 25 to 40 years old	young people from the second generation of the wealthy and officials, including "rich men's wives" 20 to 35 years old	middle managers of multinational or state-owned companies, professionals, entrepreneurs 25 to 35 years old	real estate speculators, stock traders, freelancers, the unemployed 25 to 40 years old	fresh to the workforce, have stable income higher than their peers 20 to 30 years old	lack of distinctive features
Psychological traits	pursue: worship wisdom self-cultivation	pursue: innovation self-confidence passion	pursue: enterprise passion challenge	pursue: trendiness individuality luxury	pursue: beauty luxury fashion	pursue: worship respect
Behavioral traits	follow others recognize top brands	are independent have strong self-awareness	have strong self-awareness have a good understanding of luxury goods	have fluctuating consumption capacity focus on popularity	have strong self-awareness have a good understanding of luxury goods	have a low purchasing frequency focus on popularity

Source: Roland Berger Strategy Consultants (2011).

mer will spend more time trying to find products that fulfill his requirements than an average European customer. The Chinese are looking first for value for money and then brand loyalty. They save time by reducing the frequency of purchases and increasing the value and volume of products. Hence the popularity of relatively new retail channels like hypermarkets (Atsmon et al., 2012).

The modernity of the Chinese consumer is manifested not only in an enormous interest in hi-tech products, but also in a growing share of the online channels that support purchasing decisions. The modern Chinese consumer is not satisfied in low quality products. Companies, which came 30 years ago to the Chinese market with low-cost and low-quality products, nowadays have lost their competitive advantage and could not face competition with rivals focusing on the quality, pragmatism and modernity. For the Chinese consumer, the Internet, is an important source of information about products and brands. About a half of China's population has access to the Internet and about 80% use smartphones and tablets every day (Yuan, 2013). A significant part of Chinese consumers shop online. So called e-commerce has grown at an annual rate of 71% since 2009. This is a significant growth ratio, compared to 13% growth dynamics of e-commerce in the United States. Chinese consumers spent online about 212.4 billion dollars in 2012. This put China second only to the U. S., where this channel generated revenues of 228.7 billion dollars. E-commerce is particularly popular for the purchasing electronic equipment. On a smaller scale, Chinese use Internet to buy cosmetics, perfumes, household appliances and home furnishings (Bain & Company, 2012).

With increasing income, the Chinese pay more attention to the brand. Although the middle class is characterized by a rather low level of brand loyalty, it does not mean that they are satisfied with the low-quality products. Epsilon carried quite interesting study on this problem recently. Until recently, the Chinese avoided the attachment to the brand, but nowadays they start to pay more attention to the logo of the product they buy. The loyalty to the brand or company is understood here in two ways: first, as buying products of chosen company for more than three years; second, as the purchase of a particular brand of products for a higher price than their substitutes because of higher quality. Consumers are loyal to the brand primarily for best value for money, consistent good quality of services, good after-sales services and support, services and products tailored for their lifestyle and requirements. In 2012, 58% of the Chinese declared loyalty to their chosen brands or companies. Compared to 2011, this proportion increased by 17 percentage points (Epsilon, 2013).

According to a study conducted recently by Deloitte on a sample of 1,600 respondents, men attach more attention to product brand than women. 31% of male respondents indicated the brand as a crucial determinant of the purchase, while 30% pointed to the product quality. Chinese women pay greater attention to the quality (38% of respondents) and value for money (30%) (figure 4). The higher the consumer income, the greater the role of the brand. Consumers earning 17,900–35,800 dollars and at age of 35–44 pay the highest attention to

**Figure 4. What are the main factors that drive a purchase last year?**



N = 1,600.

Source: Deloitte (2013).

brands. The most noticeable change in the attitude of the Chinese consumers is visible in the case of food and clothing – these sectors show increase in number of loyal clients (Deloitte, 2013).

The wealthy Chinese demonstrate a fairly low level of orientation in luxury brands. For them, branded product should be characterized by the following features: quality, material or design. Chinese indulge in impulse shopping less than wealthy customers in Europe and America. Such attitudes of Chinese customers require specific approaches to advertising. Roland Berger Strategy Consultants identified six types of rich Chinese: era leader, wealthy second generation, ambitious elites, savvy investors, stylish white-collars, gift buyers (table 2) (Roland Berger Strategy Consultants, 2012).

In turn, the second demographic trend - aging Chinese society points to another very promising niche for exporters of medical equipment. Currently, China is the third largest market for medical equipment and is expected to show even greater growth of this market in the coming years. Nowadays American, Japanese, and German exporters are the major suppliers of medical equipment to Chinese hospitals. It is estimated that the medical equipment market has increased 13–14% annually. Also, pharmaceutical manufacturers should perceive a huge potential in China. Total production of the Chinese pharmaceutical industry reached 232 billion dollars in 2011. It means the country is the second (following the U. S.) largest pharmaceutical market in the world (China Daily, 2012). Introducing health care reform in 2009, the Chinese authorities have undertaken to build an efficiently functioning system till 2020, covering almost the whole society.

## POTENTIAL DIRECTIONS FOR POLISH EXPORTS

In order to identify areas of the Chinese economy most promising for Polish exporters, two criteria have been taken into account: the production capacity of Polish exports and their advancement; and the Chinese consumer characteristics and trends of the Chinese economy. The level of competition and barriers to entry to the Chinese market are factors that should be taken into account in this analysis. However, due to the limited volume of the article of these factors are omitted.

If an exporter wants to enter the Chinese market, it should consider to the following rules. First, he should track changes in governmental (central and local) strategies that indicate the priority areas of the economy. In these sectors Polish exporters can expect significant advantages and facilities to conduct business. They can also count on the local authorities' support in finding a reliable partner in China. Second, it is necessary to define the group of Chinese consumers to which the product is directed. Third, it is important to select the right product distribution and servicing channels. The Chinese are increasingly turning to Internet, so a good strategy is to set up the electronic distribution channel. Fourth, the exporter should explore market to recognize the taste of the Chinese, particularly those of the wealthy or upper market class. Wealthy Chinese show different shopping patterns from wealthy Americans or Europeans. Thus, strategies for luxury brands should be developed specifically for the Chinese market, taking into account the type of customer, which the product is directed to (table 2). Fifth, it should build brand loyalty step by step. In fact, Polish brands are not well-known yet and they cannot be compared to the best known brands in the world. However, by accurate information about a product, comprehensive distribution channels, quick service and being particular about the main features of the product (both the utility and the highest quality) they may build identification with the brand.

Polish exporters should particularly target the fastest growing sectors of Chinese imports. Recently, China's authorities have been seeking regular suppliers of grain, in order to ensure food security in the country in the future. High demand for milk, dairy products, meat, and also sweets, confectionery and healthy, eco food creates opportunities for the Polish exports to China. Recently, Poland's policy makers and governmental institutions have tried to promote Polish food and agricultural products in China.

Medical and pharmaceutical products are another prospective sector for Polish exporters. The growing demand for these types of products is connected to demographic processes in China. China became the global second market for medical devices and pharmaceuticals in 2010. This market is very fragmented and many suppliers sell these product to Chinese using all possible distributing channels, especially electronic. However, in the light of ageing society and continual demand growth, this sector seems to be promising for Polish exporters.

Chinese cosmetic industry seems to be divided between many foreign firms. However, the segment of mid-to-low prestige, SPA cosmetics, specialist, innovative, and eco cosmetics may be pose an opportunity for Polish exporters. Also cosmetics that combine the innovative solutions with traditional Asian medicine seem to be interesting option for entering the Chinese market.

Poland is perceived as a leading manufacturer of high quality furniture, adhering to the EU standards. Moreover, Polish producers offer creative design of furniture and competitive prices by comparison with the Western Europe competitors. With the growth of the middle and upper class of the Chinese market, the demand for home equipment, especially furniture will increase. They are inclined to buy foreign furniture with unique European (also Polish) design.

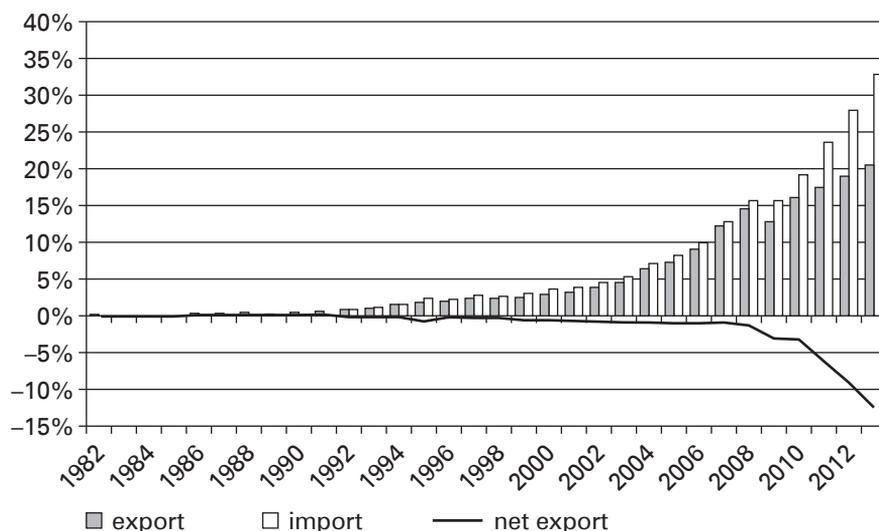
Construction equipment and materials (also eco) are two more promising sectors for Polish exporters Market opportunities can be found for Polish traditional products (e.g. amber, arts and crafts), biotechnological sector, products connected to environmental protection and renewable energy solutions, and machinery and equipment, especially for mining industry and transport equipment<sup>9</sup>. All luxury products purchased by the wealthy class have recorded significant growth recently (especially collectibles, art, antiques as well as cosmetics or clothes of the highest quality).

Identifying niches in the Chinese market, we usually do not include commercial services. However, their role have increased as a result of maturing Chinese society and economy. China has become more open and relaxed many barriers concerning the tertiary sector. Moreover, the services sector makes an important contribution to employment growth, productivity and innovation in the Chinese economy. According to the National Bureau of Statistics of China, the share of services in China's economy increased considerably in the past decades. In 1978, China's services sector only accounted for 23.9% of GDP. In 2012, the its contribution to GDP grew to 44.6%. The employment in services sector accounted for 12.2% of the total in 1978 and 36.1% in 2012. Share of the contributions of the tertiary industry in China rose from 17.3% in 1978 to 45.6% in 2012 (National Bureau of Statistics of China, 2013). Despite the impressive growth, the Chinese tertiary sector, lags behind that of advanced economies, where services are their largest sector (The World Bank, 2014).

Trade in services have been the fastest growing segment of world trade between 1990 and 2012. Similar situation can be seen in China. Between 1982 and 2012, China's commercial services import grew 177 times and export grew 83 times. China's average annual growth rate of services exports was 19% and imports 14% in 2005–2012, exceeding global average growth in that period (8% both for exports and imports) (WTO, 2013). China's rank in global services trade increased from 12<sup>th</sup> in 2001 to 5<sup>th</sup> in 2013 in exports, and from 10<sup>th</sup> in 2001 to 2<sup>nd</sup> in 2013 in imports (WTO, 2014).

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<sup>9</sup> A very detailed analysis of Polish exports to China can be found on Go China website (Drelich-Skulska i in., 2012).

**Figure 5. Service trade of China in 1982–2013**

Source: author's own calculations based on WTO (2014).

The last global crisis has been moderately harmful for Chinese commercial services trade (figure 5). For imports, five service sectors: transportation, construction, insurance, consulting services, and other business services were severely affected while seven other sectors, including financial services, computer and information services, travel, construction, royalties and licenses, advertising and public opinion polling, film and audiovisual, were less affected by the global downturn. The share of China's traditional services sectors, such as transport and tourism, in the total services imports declined slightly during the crisis, and other emerging services sectors such as insurance, computer and information services, consulting are gradually rising. The global financial crisis did not affect China's services import composition significantly. Due to many restrictions and limitations for foreign capital in tertiary sector, the promising niche for Polish export lies in travel services. Entering the Chinese market in order to promote Poland as a tourist destination requires increased and coordinated efforts of the industry. Also transport and logistics services seem to be promising sectors, especially since Polish companies have been present (such as Chipolbrok) and operated in this field successfully.

## CONCLUSIONS

Trade relations between the Poland and China are becoming more and more intense, however Poland is still far behind the leading contractors of China. In

recent years, Polish exporters have been trying to make up for lost time at a fast pace. However, in an irreversible manner, they were excluded from many sectors of the Chinese economy. The study shows that the newly emerging market niches in China can constitute very promising markets for Polish exporters, provided they understand the standards and principle rules in the Chinese economy<sup>10</sup>.

Unfortunately, Polish exporters still complain during economic forums and meetings that governmental institutions' measures and activities are not efficient enough to support their efforts to enter the Chinese market. Especially, there is a lack of reliable surveys and professional publications related to doing business in China, including technical and cultural aspects. It creates difficulties in getting information about the Chinese market. We should also take into consideration the close links between business and politics in China. Hence, the assistance of the Polish authorities during signing the large contracts or attendance at business meetings are crucial. Often Polish exporters have to check all possible bureaucratic barriers, procedures, permits and technical standards on their own. Also there is a few institutions that evaluate the Chinese contractors professionally. That generates higher initial costs of cooperation and often discourages a potential exporter at the outset. Despite the many changes in Sino-Polish relations, there is still more that needs to be done.

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## ABSTRACT

China's export-led, investment-driven and low labor cost model of growth is no longer sustainable in the long term, and the authorities are trying to rebalance the economy to more of a consumption-based growth model. The hidden potential of more than 1.3 billion Chinese consumers will probably make China the world's largest consumer market and the top export destination for many economies. Polish exporters entered the Chinese market later than their Western competitors. Consequently the expansion of bilateral cooperation between Poland and China is in a very early stage of development and not so beneficial for the Polish exporter yet. The article presents the current state of foreign trade between analyzed countries. The main aim of this article is to present the prospects of the trade growth between Poland and China based on the profile of the Chinese consumer and People's Republic of China's market niches, which will be the most promising for the Polish exporters in the future. The article is an overview of recent research and surveys concerning Chinese customers and market trends. It also analyzes the trends of China's government policies and development strategies in the context of opportunities for Polish exporters.

**Keywords:** Polish-Chinese trade, Chinese consumer profile, Polish exporter.

**JEL Classification:** F17, D12

## PERSPEKTYWY WZROSTU HANDLU ZAGRANICZNEGO MIĘDZY POLSKĄ A CHINAMI

### STRESZCZENIE

Chiński model wzrostu gospodarczego oparty na eksporcie, inwestycjach oraz taniej sile roboczej przestał być zrównoważony w długim okresie, stąd władze kraju starają się zrównoważyć gospodarkę przez wprowadzenie modelu wzrostu opartego na konsumpcji wewnętrznej. Ukryty potencjał populacji ponad 1,3 mld Chińczyków ma szansę stworzyć z kraju największy na świecie rynek konsumentów oraz wiodący kierunek eksportu dla wielu państw. Polscy eksporterzy weszli na rynek chiński znacznie później niż ich zachodni konkurenci. W konsekwencji ekspansja polsko-chińskich stosunków handlowych znajduje się we wczesnej fazie

rozwoju i jeszcze nie przynosi wielkich zysków dla polskiego eksportera. Artykuł prezentuje obecne stadium, na którym znajduje się handel zagraniczny między omawianymi krajami. Celem artykułu jest prezentacja perspektyw wzrostu polsko-chińskiego handlu zagranicznego opartego na profilu chińskiego konsumenta i z uwzględnieniem nisz rynkowych Chińskiej Republiki Ludowej, które mają szansę stać się perspektywicznymi dla polskich eksporterów w przyszłości. W artykule zaprezentowano przegląd ostatnich badań i analiz dotyczących chińskich konsumentów oraz tamtejszych trendów rynkowych. Ponadto przedstawiono analizę tendencji w polityce władz Chin i strategię rozwojową w kontekście możliwości zbytu dla polskiego eksportera.

**Słowa kluczowe:** handel polsko-chiński, profil chińskiego konsumenta, polski eksporter.