# PROSPECTS FOR THE DEVELOPMENT OF ECONOMIC COOPERATION BETWEEN RUSSIA AND THE BALTIC SEA STATES: THE CASE OF POLAND

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# Introduction

The Russian Federation is one of the most important and promising markets for the exports of member countries to The Baltic Sea States. Location Kaliningrad Region favours the creation of excellent conditions for promotions and trade. There are now lower demand and new opportunities for economic cooperation in The Baltic Sea States.

The aim of the researches is to examine the dynamics of trade turnover between Russia and The Baltic Sea States. It also contains information on economic cooperation between Poland and Russia, prospective directions of cooperation and barriers to economic cooperation with the Russian Federation.

The leading method of the research is to analyze surveys, study documents and statistical analysis of collected data.

# Trying to improve Russia's position in the ranking Doing Business

In Russia in 2011, introduced seven "road map" which aim to improve business in Russia and increase its position in Doing Business ranking. These maps include: connection to power grids, construction, duty, property registration, registration of companies, the development of competition, export support, access to public procurement and the quality of public regulations. The roadmap access to foreign markets and export support is to ensure the promotion of Russian export beyond raw materials in foreign markets, which will contribute to export diversification and modernization of the Russian economy.

According to the map twice to increase the number of exporters, significantly raise the value of exports of raw materials, including innovative products will increase the share of highly processed goods. With the implementation of the map has created a broad group of competitive, active exporters, including those coming from the small and medium-sized enterprises.

It has also created a system supporting exports, assuming:

- infrastructure support exports (financial services, organizational, marketing and information for exporters),
- elimination of customs barriers, administrative and fiscal,
- strengthening of promotion and trade policy abroad,
- strengthen the coordination of all export support structures at all levels.

# Trying to improve Russia's position in the ranking Doing Business

Evaluation of the effectiveness of the system of export support will be made annually as part of an update of the national export strategy, taking into account the targets set for 2018 which include:

- increase in the number of exporters, especially in the small and medium-sized enterprises
- increase in exports of raw materials is not primarily innovative products
- diversification of exports.

**Table 1. Control indicators**

| Control indicators | 2013 year | 2015 year | 2018 year |
|---|---|---|---|
| The growth rate of the number of exporters (2011 = 100%) | 105 | 130 | 200 |
| The growth rate of exports beyond raw materials (2011 = 100%) | 106 | 135 | 210 |
| Diversification of exports (from 1 to 96) | >2,5 | >3,5 | >6 |

*Source: author's calculations based on Ociepka, Madej 2013.*

# The results of research

## Table 2. The rankings for economies of The Baltic Sea States

| Economy | Baltic Sea States | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Ease of Doing business Rank | 5 | 9 | 12 | 13 | 14 | 17 | 21 | 22 | 24 | 45 | 92 |
| Starting | 40 | 53 | 55 | 52 | 61 | 11 | 111 | 61 | 57 | 116 | 88 |
| Dealing with Construction Permits | 8 | 28 | 36 | 41 | 24 | 39 | 12 | 38 | 79 | 88 | 178 |
| Getting Electricity | 18 | 17 | 22 | 1 | 9 | 75 | 3 | 56 | 83 | 137 | 117 |
| Registering Property | 7 | 10 | 26 | 12 | 38 | 6 | 81 | 15 | 33 | 54 | 17 |
| Getting Credit | 28 | 73 | 42 | 42 | 42 | 28 | 28 | 42 | 3 | 3 | 109 |
| Protecting Investors | 34 | 22 | 68 | 52 | 34 | 68 | 98 | 68 | 68 | 52 | 115 |
| Paying Taxes | 12 | 17 | 21 | 37 | 41 | 56 | 89 | 32 | 49 | 113 | 56 |
| Trading Across Borders | 8 | 26 | 9 | 50 | 6 | 15 | 14 | 7 | 17 | 49 | 157 |
| Enforcing Contracts | 32 | 4 | 8 | 3 | 25 | 17 | 5 | 26 | 21 | 55 | 10 |
| Resolving Insolvency | 109 | 2 | 3 | 11 | 20 | 44 | 13 | 66 | 43 | 37 | 55 |

Notes: 1-Denmark, 2-Norway, 3-Finland, 4-Iceland, 5-Sweden, 6-Lithuania, 7- Germany, 8- Estonia, 9- Latvia, 10- Poland, 11- Russia
*Source: author’s calculations based on Doing Business, 2013.*

# The results of research

## Table 3. Dynamics of trade between Russia and The Baltic Sea States (million USD)

| | January – April 2013 | | | % in trade | January – April 2014 | | | %in trade | Dynamics % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | trade | export | import | | trade | export | import | | trade | export | import |
| Denmark | 1206,7 | 550,8 | 656,0 | 0,4 | 1651,7 | 1128,7 | 523,1 | 0,6 | 136,9 | 204,9 | 79,7 |
| Estonia | 1613,8 | 1427,0 | 186,8 | 0,6 | 1505,0 | 1210,3 | 294,6 | 0,6 | 93,3 | 84,8 | 157,7 |
| Finland | 5956,9 | 4328,9 | 1574,0 | 2,2 | 5272,3 | 3842,7 | 1429,7 | 2,0 | 88,5 | 87,7 | 90,8 |
| Germany | 22239,7 | 11106,4 | 11133,3 | 8,2 | 23717,8 | 12880,0 | 10837,8 | 9,0 | 106,6 | 116,0 | 97,3 |
| Latvia | 3935,9 | 3688,9 | 247,0 | 1,5 | 5090,6 | 4881,6 | 209,0 | 1,9 | 129,3 | 132,3 | 84,6 |
| Lithuania | 2547,3 | 2187,5 | 359,8 | 0,9 | 1651,3 | 1338,6 | 312,7 | 0,6 | 64,8 | 61,2 | 86,9 |
| Norway | 710,8 | 232,5 | 478,3 | 0,3 | 695,9 | 260,9 | 435,0 | 0,3 | 97,9 | 112,2 | 90,9 |
| Poland | 8695,6 | 6204,0 | 2491,6 | 3,2 | 8456,1 | 6101,0 | 2355,1 | 3,2 | 97,2 | 98,3 | 94,5 |
| Sweden | 2978,0 | 1830,6 | 1147,4 | 1,1 | 2810,8 | 1692,5 | 1118,3 | 1,1 | 94,4 | 92,5 | 97,5 |

*Source: author's calculations based on Ekiert, 2013.*

# The results of research

## Table 4. Polish - Russian trade in 2008-2012 (USD million)

| | 2008 | Dynamics 2007=100 | 2009 | Dynamics 2008=100 | 2010 | Dynamics 2009=100 | 2011 | Dynamics 2010=100 | 2012 | Dynamics 2011=100 |
|---|---|---|---|---|---|---|---|---|---|---|
| Trade turnover | 29.462 | 142 | 17.850 | 61 | 24.824 | 139 | 34.066 | 137 | 37.854,0 | 111 |
| Export | 8.917 | 139 | 5.015 | 56 | 6.618 | 132 | 8.532 | 129 | 9.889,5 | 116 |
| Import | 20.545 | 143 | 12.834 | 62 | 18.206 | 142 | 25.535 | 140 | 27.964,5 | 109 |
| Balance | -11.628 | | -7.819 | | -11.588 | | -17.033 | | -18.075,0 | |

*Source: author's calculations based on The Yearbook of Foreign Trade Statistics of Poland 2009, 2010, 2011, 2012, 2013.*

# The results of research

## Table 5. Imports and exports of Polish and Russia by sections according to CN in 2010 – 2012 (%)

| Sections according to CN | Exports | | | Imports | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Electromechanical industry products | 40,8 | 40,9 | 34,2 | 1,5 | 1,8 | 0,9 |
| Chemical industry products | 18,5 | 19,5 | 22,2 | 4,2 | 3,6 | 3,5 |
| Agri - food products | 13,7 | 13,1 | 15,0 | 0,3 | 0,3 | 0,3 |
| Metallurgical products | 8,6 | 8,6 | 9,5 | 2,5 | 2,8 | 2,8 |
| Products pulp and paper industry | 4,5 | 7,5 | 8,4 | 0,5 | 0,7 | 0,9 |
| Light industry products | 4,6 | 4,4 | 4,4 | 0 | 0,1 | 0,1 |
| Ceramic products | 1,9 | 2,0 | 2,0 | 0,1 | 0,1 | 0,1 |
| Mineral products | 1,8 | 0,7 | 1,1 | 74,1 | 73,5 | 73,0 |
| Leather | 0,1 | 0,1 | 0,1 | 0 | 0 | 0 |

*Source: author's calculations based on The Yearbook of Foreign Trade Statistics of Poland 2011, 2012, 2013.*

# Barriers to economic cooperation with the Russian Federation

1. Centralization of the economy - resulting a lack of opportunity or great difficulties to connection with direct business contacts with decision makers trade cooperation. It is associated with enormous corruption that exists in Russia and the specificity of the market. Big corruption in Russia and the unique features of the market and the requirements of Russian customers. At the World Economic Forum in 2012, presented a barrier to business development in Russia. Among the factors most hampering the business were: corruption (the degree of importance 20.5), inefficient government (11.9), access to finance (10), tax rates (9.3), low-skilled labor force (7, 1), resistance to innovation (6.5), the tax administration (6), crime and theft (5.9), political instability (4.5), underdevelopment of infrastructure (4.3), inflation (4.1) , low professional ethics (3.1), labor law (2.3), poor health (1.7), unstable government (1.6) and currency regulations (1,1) (Schwab, 2012).

2. No system of mutually recognized quality certificates causes great inconvenience and sometimes even impossible to export goods to Russia. This applies particularly to small and local businesses.

# Barriers to economic cooperation with the Russian Federation

3. Export is supported only by intermediaries Russian from Moscow and St. Petersburg, who alone, for a fee, make the customs clearance for the customs authorities of the Customs Union (Russia, Belarus, Kazakhstan). There are no the possibility of direct exports to smaller cities.

4. The complexity of Russian customs procedures and long waiting time for the formalities at the border. The introduction of simplified customs procedures and transport is one of the most urgent needs in trade with Russia.

5. Problems to give the permits for transport services to the Russian Federation. A corrupt and sluggish system of licensing implies that exporters are forced to go through a Russian logistics companies.

6. Seasonality of the functioning of the Russian importing companies, which are often assumed to make one or several transactions. In addition, a major problem is the lack of opportunities to test their history and the risk of sudden disappearance from the market.

# Conclusions

Regardless of introduction of Russia's strategy to increase access to foreign markets, support for exports, diversification and modernization of the Russian economy, the Russian market has a lot of needs in importing foreign goods and services. Despite the decreasing growth of trade turnover between Russia and the countries of the Baltic Sea, there are still many opportunities and niches of demand for foreign goods.

Although the situation with regard to access to the Russian market is gradually improving, but there are still quite significant difficulties arising mainly from a variety of procedures: visa, border control, administrative-righteous and long waiting times at border checks and the lack of stability of the law.

During the global crisis, the Russian Federation is recognized by economists as being of great economic potential and investment. In connection with the functioning of the local border traffic, there are new opportunities for Polish-Russian economic cooperation. Increased activity of Polish producers of goods and services should be a priority in the development of Polish-Russian economic cooperation. Regional markets have a greater potential for growth and are less dependent on the competition.

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# Thank you


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