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## **Patterns of trade in a time of crisis – integration of Polish services market within the European Union**

### **Introductory remarks**

When compared to the goods, the services have always seemed to be less tradable, thus not so prone to international integration. This potential dramatically “changes” when applying a broad sense of international trade in services, i.e. services trade in its various forms. According to recent reports and studies, the conventional trade in services (in its cross-border form) has been more resilient to the recent financial crisis than trade in goods, although services sectors have been affected unevenly [e.g. WTO 2010; Borchert, Mattoo, 2009]. This study analyses changes in the Polish services trade over the last years to show if the economic downturn influenced the integration of the Polish services market within the EU from the perspectives of different forms of services trade.

The empirical analysis of this assessment is mainly based on Eurostat statistics derived from the balance of payments<sup>1</sup>. WTO data was generally used when providing some comparisons within the world economy. As more complete and reliable information is available on exports rather than on imports, due especially to the smaller number of exporters and existing reporting thresholds, the study focused on exports of services<sup>2</sup>. The conventional trade in services is analysed, with a breakdown of the main service categories<sup>3</sup>. The study covers the period between 2004 and 2009. The data for 2006 provide information on trade in the last year preceding the financial crisis. In order to include various modes of services supply, trade data related to the movement of people and foreign direct investment were also taken into account.

### **Trade in goods versus trade in services during crisis – general view**

International trade was severely affected by the recent economic crisis. The 2010 edition of the WTO International Trade Statistics indicates that the volume of world merchandise exports of manufactures plummeted by more than 15 percent in 2009<sup>4</sup>. The decline in exports of agricultural products and of fuel and mining products was less considerable 3 percent and 4.5 percent respectively. A downturn in total world merchandise exports

reached 12 percent. The volume of world merchandise imports came down by 13 percent. The world merchandise production also fell off but less significantly by 5 percent. The most substantial downward trend in merchandise production concerned manufacturing which production decreased by 7 percent.

In nominal terms, the fall in merchandise trade was even more dramatic. The world merchandise trade slumped by 23 percent in 2009 after an increase of more than 15 percent in the previous year. The decline in services trade was more moderate. Both world exports and imports of commercial services decreased by 12 percent in 2009 (Table 1)<sup>5</sup>.

**TABLE 1. World exports in goods and services in 2007–2009 (value, 2000=100)**

Specification	2007	2008	2009
Merchandise trading	218	251	194
Trade of commercial services	228	256	226

Source: [WTO 2010] and author's own calculations based on WTO statistical data.

The slump in global trade resulted from a global character of the recent crisis. A sharply reduced availability of credit to consumers and business, weak consumption and investments caused the fall in the traded volume. In addition, a fall in prices led to a much steeper drop in value. What aggravated the downward trend in statistics of merchandise trade was the production fragmentation as well as re-export trade. The reduction in international movements of goods and services can be also partially explained by introduction of protectionist measures as the response to the economic downturn<sup>6</sup>.

The services trade showed resilience during recent economic downturn, with an obvious exception of transport (strongly related to trade in goods) and financial services. Transport services, which constituted about 24 percent of the total world services trade in 2009, were hit hardest by the crisis, by contrast to insurance and computer and information services as well as royalties and licence fees (Table 2).

**TABLE 2. Growth of world exports of commercial services by sectors, in percent, 2009**

Total Services	Transportation	Travel	Communication	Construction	Insurance	Financial	Computer and information	Royalties and license fees	Other business	Personal, cultural and recreational
-12	-23	9	-9	-13	-6	-15	-6	-3	-9	11

Source: WTO 2010.

In addition to the explanation given above on specific causes of the plunge in trade in goods, some additional features should be considered when discussing the ability of certain services to resist financial crisis<sup>7</sup>. One of them is the fact that these services are generally less vulnerable to limited access to trade finance. The second reason is that some of them, such as outsourced services or non-life insurance, depend less on discretionary spending than, e.g. travel. In addition, being non-storable services recover quickly. In 2009, commercial services reached the bottom in the second quarter declining on average by almost 20 percent over a year, then recovered quickly over the next two quarters. Finally, some services sectors remained more stable in 2009 because of the crisis-related developments. For example, in life insurance there was an upward trend in guaranteed-return products<sup>8</sup>. A striking example of how the crisis may create new opportunities is franchising seen as a safer and demanding less capital form of business<sup>9</sup>.

Although trade of all regions was adversely affected by the crisis, there were some differences between countries. In 2009, the value of the EU exports of goods and services fell off respectively by 23 percent and 15 percent, whilst in the United States the value of exports shrank respectively by 18 percent and 9 percent. This is due to several factors, including different pattern of trade in these countries, especially different geographical trade structure. The share of regions where imports strongly contracted in 2009 (Europe, Commonwealth of Independent States) is higher in the EU exports than in the United States. At the same time, regions less affected (Asia, Middle East) represent more in the total US exports than in the EU exports<sup>10</sup>. Another reason that could explain this different scale of reaction of trade flows of these two exporters is a different commodity structure of their exports. The share of sectors where the biggest drops were recorded was higher in the EU than in the US<sup>11</sup>.

Table 3 shows the changes in international trade in the EU and Poland in 2009. The import merchandise flows of the EU and Poland fell more considerably than exports. That was most pronounced in extra-EU trade. Interestingly, in that year, intra-EU merchandise exports dropped more significantly than extra-EU exports whereas intra-EU imports, by contrast, came down less sharply than extra-EU imports.

The contraction in EU trade in commercial services followed the “merchandise exports pattern”: intra-EU services exports and imports decreased at a higher rate than extra-EU services flows (Table 3). In contrast, in Poland the decline in exports of commercial services was lower than in services imports.

Naturally, as the result of negative trends in trade, the European Union and Poland have become less integrated within the international economy (Table 3). The index of market integration decreased over the period 2008-2009 both in merchandise trade and trade of commercial services but not to the same extent. A dramatic fall in merchandise trade resulted in the slip in market integration more pronounced in goods. At the same time, the importance of the integration of markets of services and goods within the EU decreased when compared to the integration of the EU with the rest of the world.

**TABLE 3. Annual change of international trade in the EU and Poland in 2009**

Specification	European Union		Poland
	total	Extra-EU	
Merchandise trade			
Exports	-22.5	-20.7	-21.1
Imports	-24.8	-27.3	-29.8
Trade of commercial services			
Exports	-14.5	-13.6	-18.7
Imports	-13.2	-12.7	-21.1
Market trade integration*			
Goods	28.4 (33.2)	9.8 (11.5)	32.6 (35.8)
Services	8.7 (9.0)	3.6 (3.7)	6.1 (6.2)

\* Average of imports and exports in 2009 as a percentage of GDP; numbers given in brackets are for the year of 2008.

Source: Author's own calculations based on WTO and IMF statistical data.

## Polish services trade on the EU trade scene

The analysis on the trends in services flows in the EU reveals that the growth of exports less favourable for intra-EU changes was not a specific feature of the crisis period (Table 4). On the contrary, the importance of intra-EU exports has steadily going down for the last several years. In case of Poland a downward trend in shares of exports to the UE partners has been present since 2007 after three years of a gradual upturn in services exports to the EU countries. The movement in shares at the debit side in both cases were characterised by continuous fluctuations<sup>12</sup>.

**TABLE 4. Share of intra-EU flows in services trade in the EU and Poland, 2004–2009, percent**

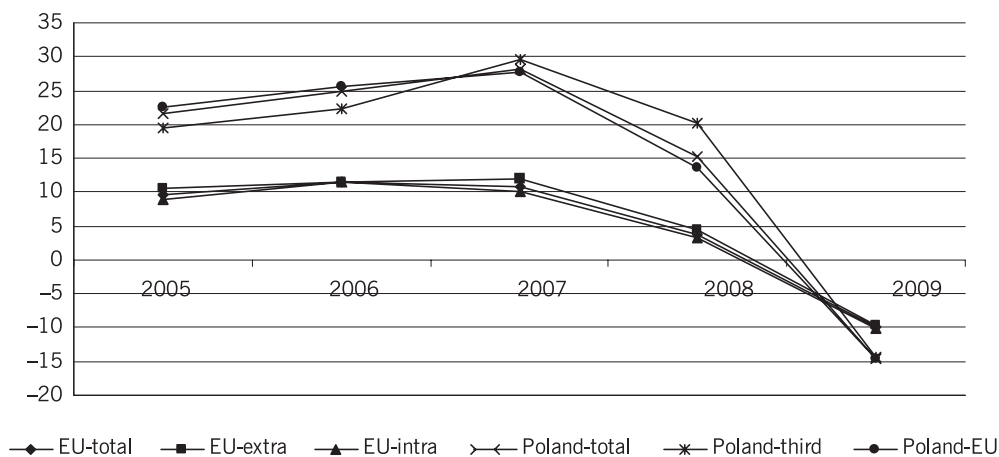
Specification	2004	2005	2006	2007	2008	2009
European Union						
Intra-UE						
Credit	58.4	58.1	58.0	57.6	57.3	57.2
Debit	60.2	60.0	60.1	60.1	58.8	59.0
Poland						
Partner UE						
Credit	73.7	74.2	74.7	74.4	73.4	73.3
Debit	75.5	76.0	74.6	75.8	76.4	76.6

Note: 100=intra-UE credit + extra-EU credit; for debit similarly.

Source: Author's own calculations based on Eurostat data.

In the period before the downturn, the growing shares of the third countries in the EU services trade were due to a faster rise in services exports to those countries than the increase of exports to the internal market (Chart 1). The annual growth rates in services exports in Poland exceeded significantly the growth rates of the total services exports of all Member States. In 2007, when the services exports reached the peak, Polish services exports outpaced the EU total services exports almost three times in terms of growth. The drop in 2009 was steeper in Poland by around 5 pp: the decrease in Poland amounted to 14.5 percent, while in the EU to 10 percent<sup>13</sup>. It should be noted that the changes in value of services exports in the last year of reporting period were significantly similar for intra and extra-trade, that contrasted particularly with the previous development in Polish services trade. It may be caused by the size of the Polish current account services that is relatively small.

**CHART 1. Growth rates of trade in services in the EU and Poland, annual growth rates (percent), debits for services, current prices, 2005–2009**



Source: the Eurostat database and author's own calculations

The vast majority of the Polish services trade is conducted with the EU countries. The situation is similar for many EU countries even if it is not reflected in the EU average. The leading EU traders, such as Germany but particularly the United Kingdom and France, which keep close trading ties with former colonies and overseas territories, are actively engaged in exchanging services with the countries outside the EU.

**Conventional trade in services<sup>14</sup>.** Considering the size of the Polish conventional services trade within the European Union, Poland is not a major player on the internal services market (Table 5). Its presence is slightly more noticeable on credit side. In 2009, the Polish services exports represented 2.4 percent of total EU exports.

TABLE 5. Polish presence on EU internal services market, 2009, percent

Specification	Credits		Debits	
	Share in intra-EU trade	Share of trade to the EU	Share in intra-EU trade	Share of trade to the EU
Poland	2.4	73.3	2.2	76.6
European Union	100	57.2	100	59.0

Source: author's own calculations on Eurostat database.

In 2009, transportation services, travel and business services were the most integrated services sectors both in Poland and the European Union; however, the share of traditional services was significantly more important in Poland (Table 6). The importance of business services has been increasing in Poland. Between 2006 and 2009 its share increased by more than 7 pp, which constituted the most significant change in the Polish services product pattern over the last years together with the changes of the importance of transport and travel, but in opposite direction. The same tendencies but to a lower degree were also present in the EU.

Another feature to consider is the sectoral composition of services trade (Table 6). The share of the listed three key categories of services in the Polish services trade amounted to 86.7 percent of the total Polish service exports in 2009, which was 17.3 pp above the EU level. There are also some other differences with regard to the sectoral composition between Polish and EU services exports. In Poland, the next on the list of important sectors in terms of value of exports are construction (5,2 percent), computer and information (3,1 percent) and communication services (2,2 percent); in the EU- financial (8,3 percent), computer and information services (6,6 percent) and royalties and license fees (5,0).

As it was mentioned above, the integration of services sectors within the internal market is considerably more relevant in Poland than in the UE. This is most relevant in those services sectors like construction and royalties and license fees (Table 6). As shown below, the share of intra-EU trade are most changed in Poland for communication services and in the EU for royalties and license fees. In 2009, only these both sectors recorded an upward trend, i.e. communication services in Poland, royalties and license fees in the EU. In addition to different sectoral patterns described above between Polish and UE services trade, differences are also evident regarding individual sectors that became less integrated within the EU economy. In Poland, those were first off all other business and government services not included elsewhere, and in the EU- communication, insurance and construction services.

**Services trade related to foreign direct investments<sup>15</sup>.** Comparing the share of Poland in the EU outward and inward FDI flows, the significance of Polish market is sub-

TABLE 6. Structure of services trade in the EU and Poland, (percent), debits for services, 2009

Specification	Poland				European Union			
	Share in total exports		Share of EU countries		Share in total exports		Share of intra-UE trade	
	2006	2009	2006	2009	2006	2009	2006	2009
Services (200)	100	100	74.7	73.3	100	100	58.0	57.2
Transportation (205)	34.0	30.1	74.1	76.3	21.7	20.2	51.5	52.2
Travel (236)	35.2	31.1	73.3	74.2	23.7	21.7	71.7	71.8
Communication (245)	1.9	2.2	77.3	82.8	2.7	2.9	70.4	61.1
Construction (249)	6.0	5.2	80.0	81.9	2.5	2.6	47.5	42.7
Insurance services (253)	0.5	0.1	80.8	-52.0*	2.3	2.8	55.6	50.2
Financial services (260)	1.1	1.5	74.4	78.1	8.8	8.3	55.2	56.1
Computer and information (262)	2.0	3.1	73.2	70.6	5.4	6.6	61.9	59.7
Royalties and license fees (266)	0.2	0.4	86.6	87.7	3.8	5.0	40.5	51.7
Other business (268)	18.3	25.5	76.8	67.2	26.4	27.4	54.0	52.0
Personal, cultural and recreational (287)	0.7	0.5	79.7	77.8	1.1	1.0	58.2	57.4
Government services not included elsewhere (291)	0.3	0.4	29.8	18.7	1.6	1.3	52.3	50.7

\* Insurance services in Poland shows a negative share in 2009 because of the negative value of insurance exports which were estimated by service charges included in total premiums earned.

Source: author's own calculations on Eurostat database.

stantially more important in inward flows (Table 7). In 2008, Poland's share in the outward and inward FDI flows of the EU amounted to respectively 0,4 percent and 1,6 percent. Based on available data for 2009, i.e. relating to total FDI (not only services), the share of Poland in inward FDI was higher by 1 pp. Because of the lack of information about FDI flows in the EU in services in 2009, available comparisons for 2009 are limited. FDI in services constituted the majority of total FDI flows in each year of the period 2004-2008. By contrast, the share of services in FDI in Poland was lower in 2009 and amounted to 48,6 percent. The market integration in the EU in the field of total FDI slowed down considerably in 2008 and 2009 after 3 years of a quickly growing upward trend. In Poland the changes in this index were less evident, however after the decline in total FDI intensity in 2008 there was an improvement in 2009. By contrast, the FDI intensity ratio in services in Poland showed a declining trend also in 2009.



TABLE 7. FDI in services in Poland and in the EU, flows, 2004-2009, percent

Specification	2004	2005	2006	2007	2008	2009
<b>Poland</b>						
FDI intensity	1.5	1.4	2.7	2.1	1.2	1.1
Share of services in:						
outward FDI	76.4	66.1	63.5	65.3	76.3	50.2
inward FDI	55.6	63.8	66.7	59.8	65.9	48.6
<b>European Union</b>						
FDI intensity	1.7	3.4	5.3	7.1	4.1	
Share of services in:						na
outward FDI	60.4	61.7	74.7	68.6	67.7	
inward FDI	57.6	57.1	81.0	83.2	76.8	

Note: FDI intensity for services is calculated as average value of inward and outward FDI flows in services divided by GDP.

Source: author's calculations based on Eurostat data.

For services, international sales affected through direct investment are particularly important because this method permits a close contact between customers and service providers. For Germany, for example, the services transactions with Poland recorded in 2008 in the BOP (Balance of Payment) current account were more than nine times smaller than market sales of services supplied by German affiliates established in Poland (Table 8).

TABLE 8. German international trade in services to Poland through different modes of supply, 2008, millions of euro

Conventional trade (current account, services, credit)	Trade related to FDI (turnover, total services)
2945	27432

Source: Eurostat data.

**Services trade related to movement of persons**<sup>16</sup>. In 2009, Poland was a net receiver of labour-related payment flows in the EU by contrast to the EU as a whole, which was a net sender of compensation of employees and workers' remittances (Table 9). The majority of inward flows to Poland were from the EU countries. The value of compensation of employees' inflows, which also refers to cross-border and seasonal workers, was bigger in 2009 than the value of workers' remittances, but relatively smaller, if it is compared to the total EU flows.

**TABLE 9. Structure of compensation of employees and workers' remittances in Poland and in the EU, 2009, billions of euro**

Specification	Compensation of employees		Workers' remittances	
	credit	debit	credit	debit
Poland	3.2	0.9	2.6	0.0
partner EU	2.6	0.7	2.4	0.0
European Union	44.4	46.2	18.0	30.3
intra-EU	29.8	36.6	11.7	8.3

Source: Eurostat data.

The main remittance corridor for inflows to Poland is from the United Kingdom. Poland is also involved in one of major compensation of employees' corridors that is from Germany. Table 10 presents the value of compensation of employees' outflows from Germany to Poland during the period of 2004–2009. There was no steady trend in growth over time but in 2009 compensation of employees from Germany to Poland considerably increased.

**TABLE 10. Compensation of employees' outflows from Germany to Poland, 2004–2009, millions of euro**

2004	2005	2006	2007	2008	2009
2429.0	3062.0	2860.0	2926.0	2622.0	3297.0

Source: Eurostat data 2010.

**TABLE 11. Polish sales of services to Germany through conventional trade, 2004–2009, millions of euro**

2004	2005	2006	2007	2008	2009
4298	4812.3	5501.7	7036.5	7354.9	5819.9

Source: Eurostat data 2010.

## Conclusions

In 2009, the gap between EU market integration in goods and in services became smaller not as the result of an upturn in services trade but as a consequence of a tumble in merchandise trade. The services trade was more resilient during recent economic downturn. That was a common characteristic of global, EU, as well as Polish international trade.

In contrast, the downward trend in Polish services trade was more sharp than in the EU and that was determined by Polish sector structure of services trade. The results of the analysis also suggest that the size of negative growth of Polish international services flows would be slighter in future considering growing share of more resilient services sectors.

And, finally, when analysing the impact of the economic downturn on the Polish services trade, it is important to consider non-conventional forms of services trade. Trade in services related to movement of persons is substantial with regard to credit side and sales through foreign affiliates at debit side.

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## Notes

<sup>1</sup> Statistical information was extracted from Eurostat database in February 2011. For access to these data, see [http://epp.eurostat.ec.europa.eu/portal/page/portal/balance\\_of\\_payments/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database).

<sup>2</sup> In 2009, the difference between credits and debits for intra-EU transactions in services amounted to 41981,9 million euros and in the previous year, it was even 66 percent higher.

<sup>3</sup> The product breakdown of services transactions are compiled following the Eurostat compilation defined in the fifth edition of the International Monetary Fund Balance of Payments Manual. For a more detailed description, see [http://epp.eurostat.ec.europa.eu/cache/ITY\\_SDDS/EN/bop\\_its\\_esms.htm](http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/EN/bop_its_esms.htm).

<sup>4</sup> Analysis of statistic data done in this part is based upon [WTO 2010].

<sup>5</sup> For details, see tables I.1, I.2, I.3 in [WTO 2010]. The 'commercial services' covers all services minus government services, not included elsewhere (n.i.e.).

<sup>6</sup> The importance of new barriers to trade is mentioned in [Szypulewska-Porczyńska A.D., 2010]. A detailed overview of trade restrictive measures employed during the global crisis is contained in a joint study of UNCTAD and Japan External Trade Organization [UNCTAD, JETRO 2010].

<sup>7</sup> See I. Borchert, A. Mattoo, 2009. The third part of Borchert's and Mattoo's study provides a large explanation for crisis-resilience of services trade on the basis of experience of two largest exporters from India (the second-leading supplier of computer and information services in the world).

<sup>8</sup> For details, see CEA Annual Report 2009–2010, <http://www.cea.eu>.

<sup>9</sup> In the EU, exports of royalties and license fees in services even increased in 2009. Franchises and similar rights contributed to it. Poland was one of the countries with a positive rate of growth in franchises, which amounted to nearly 48 percent in 2009.

<sup>10</sup> For details, see tables I.3, I.4 in [WTO 2010].

<sup>11</sup> The sectors most affected by crisis are iron and steel, and automotive products. For details see table II.2 in [WTO 2010].

<sup>12</sup> The data quality for imports may influence upon this result and should be taken into consideration. For details, see: Introductory remarks.

<sup>13</sup> When comparing the rates of growth obtained on the base of information from different sources, i.e. WTO and Eurostat, one should notice a discrepancy between the results. For example, the value of commercial services delivered to the internal market was smaller by 10,2 percent when basing on Eurostat data and 13,6 percent when using WTO statistics. (To obtain comparable data, the value of government services, n.i.e was extracted when computing the rate of growth from Eurostat data). The main reason is that the UE services trade estimated by WTO was based on Eurostat statistics extracted in July 2009.

<sup>14</sup> BOP statistics do not distinguish between different modes of supply of services. Moreover, BOP data do not cover all modes and are considered as proxies for cross-border supply (mode 1) and consumption abroad (mode 2). BOP statistics also partly cover presence of natural persons if the supplier travels to the territory of the consumer (mode 4). For details concerning measurement of trade in services, particularly transactions summarised in BOP, see Manual on statistics of international trade in services, UN, Statistical Papers, 2002.

<sup>15</sup> Being precondition for the establishment of a commercial presence, foreign direct investment (FDI) are simplified interim information on the commercial presence mode of supply (mode 3). The concept of direct investment in FDI statistics is relatively broad, a direct investment enterprise is defined as an enterprise in which an foreign investor owns 10 per cent or more of the ordinary shares or voting power or the equivalent. The key problem with FDI statistics is that it does not capture domestic sales by foreign affiliates. In addition, FDI statistics on services do not cover construction. To capture domestic sales by foreign affiliates, it is better to use FATS (Foreign affiliates trade statistics). However, there is no still FATS data for 2009 available.

<sup>16</sup> Information about services trade related to movement of persons is included in different components of BOP. Some information on mode 4 may be provided by *compensation of employees'* component when persons working abroad for a short period (one-year benchmark) are concerned and by *workers' remittances'* component in case of working migrants who tend to stay for a long time. The major problem is that BOP labour-related flows of funds provide information about persons working in all activities, not only in services.

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