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Emerging Latin America: A Case for Increasing Poland's Interest in the Region

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With the advancing "multipolarisation" of the world order, accelerated by the recent global financial crisis, Latin America[1] is becoming one of the centres of international economic relations. High growth rates, relative resilience to the crisis and broadening business opportunities in the region have meant an improvement in the attractiveness of countries there, particularly Brazil, the sixth largest economy in the world. The changes in Latin America have found resonance in the policies of the largest countries of the European Union. The Polish government, too, should follow these moves to advance the internationalisation of domestic companies, strengthen Poland's international position and take steps to become Latin America's partner of choice amongst the countries that have joined the EU since 2004.

Poland's Main Latin American Partners

Poland has diplomatic relations with all Latin American countries; however, the region has never been an important area of interest and had been seen principally as another group of simply interesting markets. It remains virtually absent in the political discourse and broader public debate.

Hardly any public declarations with detailed policy goals towards the region have been made. The most recent was a document, "Strategy of the Republic of Poland towards Non-European Developing Countries," published in 2004. It referred to "priority partners" (Brazil, Mexico, Argentina, and Chile) and "important partners" (Venezuela and Colombia). Because the text was published in the year Poland gained EU membership, its new status was considered to be a potentially valuable platform for developing Polish–Latin American relations, with new tools and opportunities to shape common EU policy towards the region.[2] Most recently, in a brief paragraph in *Polish Foreign Policy Priorities 2012–2016*, published by the Polish Ministry of Foreign Affairs (MFA) in March 2012, Brazil, Argentina, Mexico, Chile and Peru are listed as the main partners in the region for Poland, indicating their potential for cooperation in climate change and energy policy as well as in developing trade and investment relations.[3]

The region's position, in Polish trade remains marginal, though, with almost no direct investments on either side. The five countries mentioned in *Priorities 2012–2016* account for just 0.8% of Poland's commercial trade (1% of imports and 0.5% of exports, hence a trade deficit for Poland). The top individual partner is Brazil, with a 0.35% share of Poland's total trade in 2011. However, the absolute values have gradually risen, although with some fluctuation. For example, between 2000 and 2011, Polish trade with Brazil increased from €405 million to €690 million. A much higher increase is

[1] Latin America as used in the text is the group of 20 countries that have Romance languages as their dominant language. See CEPAL, *Anuario estadístico de América Latina y el Caribe*, Santiago de Chile, 2011, p. 144.

[2] Ministry of Foreign Affairs (MFA), *Strategia RP w odniesieniu do pozaeuropejskich krajów rozwijających się*, Warsaw, November 2004, www.msz.gov.pl; For a broader analysis see B. Wojna, "Polska polityka wobec Ameryki Łacińskiej i Karaibów," *Polski Przegląd Dyplomatyczny*, PISM, no. 4 (32), July–August 2006, pp. 49–65.

[3] English version: *Foreign Policy Priorities 2012–2016*, 29 March 2012, www.msz.gov.pl/files/docs/komunikaty/20120329/pr_ang_final.pdf.

attributed to subsequent trading partners Argentina and Mexico (from €103 million to €491 million, and from €155 to €404 million, respectively).[4]

Political dialogue between Poland and the countries in the region has been characterised by low intensity high-level bilateral contact, with the main contact platform being mechanisms of political–economic consultations at the ministerial level. Arguably, it was chiefly through the framework of EU–Latin American relations and large multilateral summits (e.g., the UN General Assembly) that have given Polish leaders opportunities to meet their counterparts from Latin America. Also worth noting is that in recent years defence has become another important area of cooperation with Colombia, Peru and Brazil.

This year will conclude with a handful of business internationalisation activities, such as commercial missions to Brazil, Chile, Colombia, Mexico and Peru headed by MFA representatives within the framework of government plans for commercial engagement in Latin America, and market promotion events (e.g., the "Doing Business in Brazil and Chile" conference in March 2012). Importantly, in November, the Polish minister of foreign affairs is planning to pay his first visit to Brazil.

Rationale for Increasing Poland's Engagement with Latin America

Since almost 80% of exports and 94% of FDI from Poland go to the EU, the economic crisis and persistent uncertainty on global markets have brought about a pressing need to advance the diversification of commercial ties and internationalisation of domestic companies. Because of their high growth prospects, dynamic emerging markets appeared to be the new direction in which to explore business opportunities, and China became the key "must have" business partner.

However, Poland's long-term economic interests require also building a stronger position in other less-explored markets, such as those in Latin America. Their economic potential and expanding commercial opportunities are the main reasons for raising Poland's interest in the region. Latin America is attractive given its unprecedented GDP growth in the last decade and general political stability. Although the region remains one of the poorest and most unequal in terms of income distribution in the world, it has advanced significantly in terms of a reduction in poverty and the expansion of the middle class.

Latin America's attractiveness has also been confirmed by the decision in recent years by the largest EU countries to engage more actively in the region. Hungary, which is more of a reference for Poland, has undertaken similar steps recently.[5] As well, the continuously developing EU–Latin America dialogue will have direct implications on Poland as an EU member.

In the long run, the broad group of Poland's target business partners in Latin America should include those in the "2004 Strategy" and the *Priorities 2012–2016* list—Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. All seven countries are predicted to have relatively high GDP growth, notwithstanding the current economic slowdown. They also belong to the various networks of preferred trade agreements, which potentially give easier access to more markets than a single country. Membership in regional blocs such as Mercosur (established in 1991 by Argentina, Brazil, Paraguay and Uruguay, and recently expanded to Venezuela), or individual free-trade agreements, such as those held by Mexico or Chile. Polish companies interested in these markets need to have a long-term perspective, and preferably should opt for starting with identifying export opportunities.

Export Opportunities[6]

With the largest economy and the second-highest trading nation in the region, **Brazil** should be perceived as the most attractive market for Polish exporters. So far, Brazilian imports from Poland have mainly included rails, TV and automotive parts, plastics and furniture. One of the most attractive possibilities for expanding exports might be fertilisers, as only 40% of Brazil's demand for that

[4] Own calculations based on: Eurostat-Statistic Database, http://epp.eurostat.ec.europa.eu and Polish Central Statistical Office (GUS), *Rocznik Statystyczny Handlu Zagranicznego 2011*, 03 November 2011, www.stat.gov.pl.

[5] See Hungarian Ministry of Foreign Affairs, "Hungary's relations with Latin America have gained new impetus," 21 May 2012, http://www.kormany.hu.

[6] The data on Polish export opportunities mainly is based on *Informator ekonomiczny o krajach świata* (Economic Digest on Countries of the World) available at MFA website: http://www.msz.gov.pl/Wybor,kraju,23217.html.

commodity is met by domestic production. There are further opportunities in providing machinery and construction materials, given government plans to improve transport and maritime infrastructure. With the highest military spending in the region and plans to modernise its army, Brazil should be seen as an important market for the Polish defence industry. The challenge for foreign companies in Brazil, however, is the relatively difficult access to the market because of tariff and non-tariff barriers as well as bureaucracy, trade regulations and tax complexities.

Mexico, which in 2011 had a 21% share of Latin America's GDP ($1.15 trillion), is greatly tied to the U.S. economy because of its geographical proximity and membership in NAFTA. Its imports from Poland were relatively diversified and included such goods as audio-video and automotive parts, furniture elements, plastics, and turbine components. The primary export opportunities are in construction materials, food, agricultural and food-processing equipment, furniture, and spirits. Others appear in the shipyard and airplane industry, textiles and projects such as complete electricity plants. An unquestionable asset for Mexico is its network of 11 FTAs with 43 partners. It was the first Latin American country to have an FTA with the EU (valid since 2000). Although the country consequently has been liberalising access to the market, administrative barriers remain the main concern.

Argentina, which is Poland's second trading partner in the region, is buying such Polish goods as steel profiles, mining machinery, engines, domestic appliances, wires and TV screens. Given the significant role of agriculture in Argentina's economy, there is a demand for relevant machinery and equipment as well as chemical products, mainly fertilisers. Further export opportunities can be found in the extraction industry, where modern mining machinery is needed, and in infrastructure development, where construction materials and relevant machinery could be obtained from Polish companies. Nonetheless, Argentina's market has been one of the most difficult to explore because of increasingly restrictive government policies in trade and currency control that have been constantly the subject of complaints by foreign partners, including the EU.

Chile was the second Latin American country after Mexico to agree an FTA with the EU (in force since 2003). In sum it has 22 commercial preferential arrangements with 59 countries. The country provides, arguably, the most liberal market and business-friendly framework in the region. Its main economic sectors are the mining industry (copper makes up half of export revenues), and agriculture. From Poland, it imported such products as machinery and electric equipment, cable and wires, construction machinery, cosmetics and spirits. Polish copper company KGHM's recent entry into Chile to develop a large mining project in Sierra Gorda may further facilitate and generate the interest of Polish firms in the Chilean market. Mining and agricultural equipment, construction materials, telecommunication cables and chemical products are among the main opportunities for Polish suppliers.

Elsewhere in the region, the successful entry into force of an FTA with the EU should also bring easier market access to **Colombia** and **Peru** and make them more attractive to European firms. Polish exports to **Colombia** have mainly been machinery and electrical equipment, chemical products, steel profiles, plastics and rubber products. Infrastructure development programmes in the country also present opportunities for suppliers of construction elements and materials as well as relevant equipment. Colombia is the second-highest military spender in Latin America and may be an important market for the Polish defence sector. As a resource-rich economy, **Peru** is a market for mining and agricultural/fishery machinery and equipment. This group, along with food and medical products, formed the bulk of Polish exports to the country. Infrastructure needs imply the potential for selling construction materials and machines. Other opportunities may be seen in chemical products, rubber products and automotive parts. While both countries have consequently been liberalising their markets, the main limitations are bureaucracy and non-tariff barriers.

Venezuela is a specific case among this region's group of potential partners. It is highly dependent on revenues from the petroleum sector and relies substantially on imports. The nationalisation of certain economic sectors by the government of Hugo Chávez resulted in a decrease in private business. Polish exports to Venezuela have included fertilisers, mechanical machinery and equipment, electrical equipment, chemicals and wood products. The main opportunities could be machinery and equipment, transport vehicles, construction materials, chemical products and pharmaceuticals. A key difficulty in trade with Venezuela is its foreign exchange control system, which allows only the import of goods licensed by the government. Trade with the country will require a proper institutional framework, for which the prompt finalisation of a commercial cooperation agreement (negotiated since 2008) will be crucial.

Investment Opportunities[7]

Brazil was the first country in the region and fourth in the world in terms of FDI inflow in 2011. Between 2006 and 2011, FDI rose from $18.8 billion to $66.7 billion (comprising half of South America's total).[8] The main investment opportunities in the country involve exploratory work on offshore petroleum resources called "Pre-Salt" reserves, the preparation of large sports events (the World Football Championship in 2014 and the Rio de Janeiro Olympics in 2016) as well as infrastructure development.

Mexico and **Chile**, are the next highest FDI recipients, with $19.5 billion and $17.3 billion, respectively, and appear to be attractive investment hubs. The former offers opportunities in such fields as food processing, automotive industry, manufacturing of medical devices, and renewable energy sources, while the latter has potential related to its extraction industry. It is interested in mining supply services (preferably from countries with significant mining experience), food industry, biotechnology, and component production.

Colombia offers investment opportunities in three main sectors: agriculture (food, forestry, bio-fuels), manufacturing (cars, cosmetics, construction materials), and services (off-shoring, IT, private equity). **Peru's** FDI potential includes agribusiness and fisheries, mining, energy, and telecommunication and transport infrastructure.

Argentina's FDI potential is rather ambiguous**.** On one hand, its FDI opportunities include a relatively vast group of sectors: food and beverages, bio-fuels, pharmaceuticals, biotechnology, renewable energy sources and IT services. Additionally, large estimates of shale gas deposits make the country a potentially attractive partner for Poland. On the other hand, conditions for investment have been aggravated in recent years. In particular, the government this year decided to expropriate the Spanish firm Repsol, which brought concerns over investment security in the country. The economic model and structure in **Venezuela** limits possibilities for foreign investment engagement. Where there are opportunities, they are concentrated in the extraction industry as well as in chemical and petrochemical production.

Ideas for Poland's Policy Towards Latin America

An improved approach to the region requires several steps aimed at confirming and generating long-term interest in the region. The very first would be an **elaboration of an up-to-date and public government strategy** that would address opportunities and define measurable policy goals towards the main Latin American countries, in both the short term and medium term. The document could serve in the first place as a basic guideline for the various ministries and government bodies and as an explicit confirmation (and incentive for reciprocity) for representatives of Latin American countries of the Polish government's real interest in cooperation.

Poland's objectives towards Latin America should better reflect the region's changing international status and, in particular, respond to the economic and political rise of Brazil, which has one of the largest communities of Polish descendants in the world. Consequently, **Brazil should formally be recognised as Poland's priority Latin American partner**, and bilateral dialogue sought at the highest levels, similar to the primary EU countries. The visit of Polish Foreign Minister Radosław Sikorski to Brazil might be a first step in that direction.

Economic interests ought to be the key driver of Poland's engagement with its Latin American partners and efforts made to benefit from the region's growth and business opportunities. Importantly, the anxiety associated with the competitiveness of Latin America's agricultural sector should not lead to a defensive posture or overshadow efforts to cooperate in other spheres. However, the success of the government's business promotion campaign, which is being carried out this year, requires that it be well-coordinated with efforts to build a framework for regular political dialogue. Such dialogue ideally would strengthen cooperation in the economic sphere, and vice versa. Also important, **broadening economic cooperation will serve as the main catalyst for mutual interest in other fields**, such as: defence, energy, science and innovation, and social development.

[7] The investment opportunities data are based on national sources from the countries referenced in the text.
[8] UNCTAD, The World Investment Report 2012, July 2012, *passim,* http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf.

The government should seek as well some **improvements in the institutional framework**. There is a need for proper coordination on Latin American policy in state administration, hence the necessity for the establishment of an **Inter-Ministerial Task Force**, that could encourage the engagement of individual ministries and assess more effectively the possibilities for deepening relations with key Latin American partners. The body could play an important role in assessing documents and proposals for the EU–Latin America bi-regional agenda. Another task is the further development of a treaty-level basis for cooperation: new double-taxation avoidance arrangements and framework economic cooperation agreements. Furthermore, more frequent official visits ought to be sought, though **reciprocity of interest should not necessarily be equalled with symmetry in the number and type of visits** if economic interests are priority.

An improved institutional framework also requires **stronger government-business cooperation.** Polish companies are visibly interested in new emerging economies and in direct information on prospective markets. Consequently, there should be more frequent meetings in such formats as the "Doing Business in..." conferences and success story seminars, government-business discussions on internationalisation challenges, and opportunities provided by the EU–Latin American relations framework. Importantly, information on government-led business promotion activities should be distributed enough in advance so firms may prepare their offers properly. A prospective platform for fostering mutual business interests should embrace the further development of cooperation between official trade and investment agencies as well as of contacts on a regional level as governors and other local authorities can be more effective in facilitating business deals.

In the long term, the competence and ability to develop long-term closer relations with key Latin American countries will be indispensable if Poland is to consolidate its position and build influence in the EU. Latin American countries can be important allies for Poland when it might seek an influential international post, such as a non-permanent seat on the UN Security Council. Poland should **aspire to be Latin America's partner of choice amongst the new EU Member States**. It will have that chance during the upcoming 7th EU–Latin America and Caribbean (LAC) summit in Santiago, Chile, scheduled for 27–28 January 2013, through active engagement in the debates about the future of bi-regional relations. It also might consider taking the initiative at a sub-regional level and strive for closer dialogue between the Visegrad Group countries and their counterparts in Latin America. Such a format could be more attractive to the largest Latin American actors.