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## **POSITION OF THE POLISH ECONOMY IN THE INTERNATIONAL RANKING OF COMPETITIVENESS**

### **Abstract:**

The aim of the herein paper is to present the level of competitiveness of the Polish economy against the background of the chosen countries in accordance with the standards of the world economic organizations. Such a defined aim determines the scope of the issues of the said paper, which consists of three sections. In the first section, the fundamental notion associated with the essence of competitiveness is explained, whereas in the second section a description has been provided of the economic situation of Poland, while in the third section the position and competitive capacity of Poland has been illustrated against the background of the chosen countries. Furthermore, in this section the rating of Poland in the particular rankings prepared by international economic institutions is presented, which classify countries from the viewpoint of their level of competitiveness, as well as attractiveness in terms of investment.

### **Keywords:**

competitiveness, competitiveness of the Polish economy, position of Poland in international rankings,

**JEL Classification:** A10, F00, P00

## Introduction

In the contemporary world, the intensification of changes is being observed in the sphere of the environment and conditions of managing enterprises, as well as the functioning of institutions and development of entire economies. These changes may be particularly observed in the last two decades in the context of the processes of globalization. During this time in Poland a dynamic transformation of the system and the economy was taking place that was associated with the processes of restructuring and privatization of the economic units with the gradual opening up of the domestic market for foreign products and goods. The broad opening up of this market and economic units took place as a result of Poland's accession into the European Union in 2004. The process of adjusting to the requirements of the EU caused a significant change in the conditioning of the business activities of Polish enterprises. The effect of the existing profound changes in the business activities of the Polish economic units was the emergence of the need to pay particular attention to competitiveness and innovativeness, both in terms of the enterprises themselves and the whole national economy of Poland (Siuta-Tokarska, 2010, p. 21). In the desire to deliberate over the further development of the Polish economy, it would seem to be essential to carry out an evaluation of the level of competitiveness of this economy against the background of foreign economies.

## Essence of competitiveness

In subject-related literature, there is no singular or universal definition of the notion of competitiveness. This notion emerged at the beginning of the 20<sup>th</sup> century in the USA and was described as the process of overcoming competitors by means of selling products and services at the most favourable conditions (Kołodziejczyk, Pawłowska, 2006, p. 10).

In research undertaken by the World Bank Group, competitiveness is identified with productivity. This relates to the amount of value added in terms of the unit of resources engaged that enterprises achieve. In this notion, competitiveness is a constant process of innovation, strengthening and improving these factors and activities that are decisive in terms of the amount of value added. Possessing a competitive advantage is not unequivocal to possessing comparative advantage.

OECD defines competitiveness as the ability of enterprises, industries, regions, states or supranational areas to generate relatively high revenues from the factors of production and high levels of employment on the basis of constant bases as a result of operating in international competition (www1).

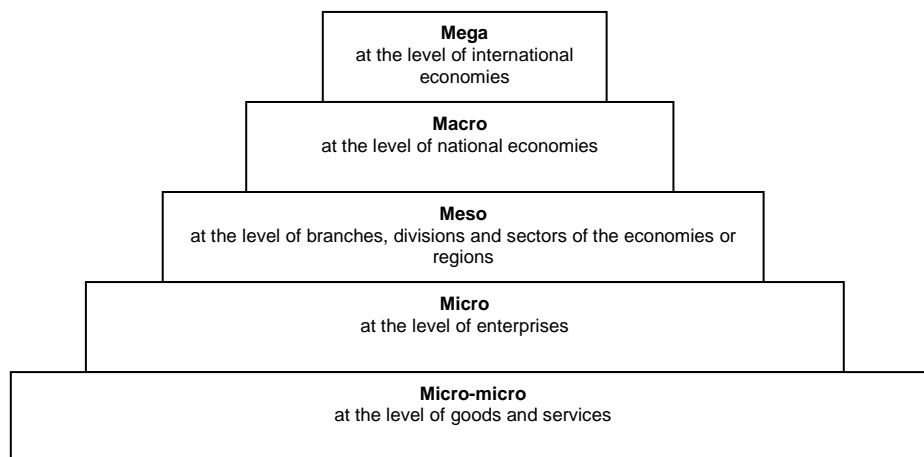
The authors of the *World Competitiveness Yearbook 2011* define the competitiveness of countries as the area of economic knowledge which analyses facts and policies, while also shaping the ability of the country to create and preserve the environment, favouring the creation of greater values on the part of enterprises and greater prosperity of the inhabitants (www2).

The European Commission in one of its latest reports accepted that competitiveness is the ability of the economy to ensure its inhabitants of a high and growing standard of living, as well as a wide access to employment (for those who want to work), on the basis of the three approaches. This relates to such institutional and political conditioning by means of which efficiency and production may develop in a constant manner that is also sustainable (www3).

## Levels of competitiveness

The fact that there is no singular and universal definition of the term competitiveness in the theory of economics is caused by, among other things, the fact that the recognition of this phenomenon may take its course over several levels of economic processes. Competitiveness may be perceived on the basis of the following economic levels: mega-, macro-, meso-, micro- and micro-micro. The levels of competitiveness have been presented in Fig.1.

**Fig. 1: Levels of competitiveness – “5xM” rule**



Source: (Siuta-Tokarska, p.22)

The highest level has been distinguished as mega-competitiveness<sup>1</sup>, which may relate to for example the ties between states or regions within the confines of countries, by applying gauges that are similar for both the national economies or regions.

The macro level refers to the national economies and may be analysed by the following distinction:

- competitive position, which takes account of the results achieved by the economy of a given country, including the national income, participation in world trade in qualitative and quantitative dimensions,
- competitive ability of the country that focuses on the evaluation of the sources of competitiveness of the economy, including among others, the following: the size and structure of the resources of production, while also the effectiveness of their utilization.

In accordance with the theory of M.E. Porter, it is possible to observe that the national economies by facing up to the challenges of international competitiveness, undergo four fundamental stages of development as follows:

- The first stage – characteristic of the most poorly developed countries, is based on the factors of production. The only industries of these countries that are capable of effective competition on the world market are industries that base their advantage

<sup>1</sup> In the classical notion three levels are adopted as follows: macro-, meso- and micro-competitiveness. In the herein paper, with the aim of underlining the significance of processes and supranational ties in the contemporary world, there is an additional indication of the level in terms of the notion of mega.

on the basic resources encompassing raw materials or labour force of low or medium-level qualifications.

- The second stage is that of competitiveness based on investments – which is specific for countries trying to catch up. This is based on the need to reinforce the economy of the country that is relatively weak by means of creating its industrial power. The enterprises of this country invest in modern and efficient technologies, as well as equipment by availing of the most modern technological solutions. They invest in the expansion of the abilities to produce modern and advanced goods by means of purchasing a licence, establishing joint venture companies and other ways that facilitate the better competition in more complicated segments of industry. The acquired technologies are however usually less advanced than the technologies applied by the enterprises of the world leading economies. This is associated with the fact that they are reluctant to grant them access to the resources that are decisive for maintaining competitive advantage.
- The third stage is based on innovations and this usually refers to the developed countries. This constitutes the highest growth level of the competitive abilities of economies. At this stage, the greater the number of market segments in which enterprises may compete with success, the more they continue to expand. National demand is becoming more and more sophisticated, by stimulating growth in increasingly complicated and advanced goods. This also relates to both individual consumers, as well as industry, which in becoming a producer of increasingly sophisticated goods, is also starting to declare demand for more advanced goods. Strong competition on the domestic market stimulates constant innovations. Likewise, new competitive enterprises in related industries and affiliated industries are also emerging.
- The fourth and final stage which is based on wealth, relates to the developed countries where the basis of the competitive advantage is the economic position already attained and its feature is the concentration of attention on maintaining the advantage and not its strengthening, which may lead to the inability to maintain this position in the future (Radło, 2008, p. 22).

The third level of competitiveness, the so-called meso-competitiveness relates to branches, divisions and sectors of the economy or regions. In this area of competitiveness there is a resultant ability to meet the competition of the economic units belonging to a given branch or division, or even the sector as a whole, while the level of competitiveness of a given branch, division or sector should be perceived by comparison with the same in another region/country where trading ties are made.

M.E. Porter (1990) states that of the conditions that have an impact on the growth of the productivity of the branch or sector, it is possible to distinguish the following: factor conditions – the position of a given country in the sphere of the factors of production, demand conditions, affiliated branches/sectors, strategies, structure of firms and rivalry between them, while also the factors of support (resources, knowledge, capital, infrastructure etc.).

In turn, by analysing the competitiveness of the regions, it is necessary to take account of the resultant conditions. This relates to the external circumstances (historical and geographical factors, business cycles, structural changes, political trends, as well as economic, socio-cultural and technological trends occurring in a given region), as well as internal (technological research and development, development of small and medium-sized enterprises, foreign direct investment,

infrastructure, human capital, institutional or social capital). Hence, competitive regions are those which indicate the ability to adjust to the varying conditions in the economy with the simultaneous maintenance of a high and long-lasting level of revenue that ensures the improvement of the socio-economic situation.

The level of micro-competition relates to the business operations of enterprises, in which the indicators of micro-economic effectiveness were taken into account, while also the source of building the potential of competitiveness. Competitive enterprises must be featured by internal ability and flexibility in the adaptation to the changing conditions of operations, as well as acquiring specific benefits from this process. The modern concept of creating the competitive advantage places particular emphasis on the necessity of skilful utilization of the knowledge and resources. Time, which is variable is attributed fundamental importance in the race with competitors. The certainty of acquiring a relatively long-lasting competitive advantage is provided by the possession of the rare resources that are only available for a narrow group of competitors that are difficult to imitate and are non-substitutional.

In Table 1, the chosen concepts of the strategies of competition for enterprises have been presented.

**Table 1: Chosen theoretical concepts of the sources of competitive advantage for enterprises**

Theoretical concept	Analytical and conceptual tools	Main level of analysis of strategy of competition	Sources of competitive advantage
Classical concept (M.E. Porter)	Value chain.	Fundamental strategies of enterprises: – cost leader, – being distinct, – concentration.	Low cost, being distinct, perception by purchaser of uniqueness of product.
Evolutionary approach to enterprise and strategies (J.A. Shumpeter)	Market, competition, innovations.	Market process and adaptation in the market process of “creative destruction”.	Innovation, adaptation to changing conditions.
Theory based on resources of enterprise (G. Hamel, C.K. Prahalad, J.B. Barney)	Outlays, assets, main skills.	Resources of an enterprise, strategy of competition based on shaping the resources with relation to the environment and competition.	Better than competitors in the utilization of the appropriate resources.

Source: (Kołodziejczyk, Pawłowska, 2006).

The level of the so-called micro-micro relates to the goods and services. At this level, the elements that have an impact on the level of competitiveness first and foremost include the price and quality of the goods and services on offer, as well as advertising, conditions of sales, guarantees, ensuring maintenance services, trademarks, forms of payment, costs of utilization, assortment, impact of a product on the environment etc.

## Economic situation of Poland

The economy of Poland emerged unscathed from the economic crisis following 2008. After a slight slowdown in the economy in 2009, a very strong revival was witnessed in the years 2010–2011, after which in the period 2012-2013 the growth of the economy dropped to a more moderate, yet still steady level. It is estimated that economic

activity accelerated in 2014, during which private consumption and investment were replaced by internal trade, thus becoming the main driving force of growth (www4).

In 2014, the rate of unemployment fell significantly, while the indicator of employment improved in terms of the strong growth of employment and the reduction in the number of people at a working age.

As in the case of the remaining countries of Europe, inflationary pressure also weakened. In 2014, inflation fell to zero; whereas a return to a low inflation rate is foreseen for 2015. After several years, during which inflation maintained its level above that of target values, inflationary pressure ceased, which in turn led to deflation. The effects of the high prices of raw materials and depreciation of the Polish zloty, which was responsible for the high inflation in 2012 lapsed in 2013 when the inflation of consumer prices amounted to an average of 0.8 %. A slight growth in prices at the beginning of 2014 was witnessed in the second half of the year in terms of a real deflation: in an all-year round notion, the HICP indicator in 2014 remained at an unchanged level with relation to the previous year.

**Table 2: Chosen economic indicators of Poland**

Specification	2006-2010	2011	2012	2013	2014
Rate of growth of GDP	4,7	4,8	1,8	1,7	3,3
Rate of unemployment (% of labour force)	9,7	9,7	10,1	10,3	9,1
Gross outlays in terms of fixed assets (% GDP)	21,0	20,3	19,4	18,8	19,7
HICP (annual change in %)	2,9	3,9	3,7	0,8	0,1

Source: Self-analysis based on www4.

Following several years of moderate growth, a significant drop in the rate of unemployment took place, falling from 10.3 % in 2013 to 9.1 % in 2014. This improvement resulted from the strong growth in employment figures driven by the dynamic growth in private investment.

One of the main indicators serving the evaluation of innovativeness is that of the outlays incurred by innovative activity. The indicator of expenditure on innovative activity with relation to GDP, although still low and far from expectations, systematically rose from the moment of Poland's accession into the EU (0.56% in 2004, 0.74% in 2010, 0.76% in 2011, 0.90% in 2012). The average level for the whole EU (EU 28) amounted to 2.07% in 2012, whereas European leaders of innovation allocated significantly more for this purpose as follows: 3.41% of GDP in Sweden, 2.98% of GDP in Germany and 3.55% of GDP in Finland. It is assumed that by 2020 Poland shall achieve expenditure on R&D at the level of 1.7% GDP.

The growth of the indicator with the rising level of GDP also means the nominal growth of outlays on R&D. The long-lasting growth trend of outlays on R&D in Poland is particularly evident in the period of 2009-2012. In 2012, outlays on the innovative activity of Polish industrial enterprises amounted to 21.5 bn PLN, whereas in the services sector 15.1 bn PLN. These outlays were mainly incurred by enterprises with a level of employment of over 49 people. The concentration of outlays on innovative activity is even higher in large enterprises (over 499 employed); in industry 58.8%

outlays among 2.0% of entities, while in the services sector – 62.3% among 1.2% of entities.

The improvement of the indicators is principally the effect of utilizing the structural funds on research, development and innovations. The support granted stimulates enterprises towards the systematic increase of private outlays on research and implementation of the results of the research into economic practice, while simultaneously increasing the level of innovativeness of Polish enterprises.

At present, the most important challenges are to strengthen the level of cooperation between the SMEs, cooperative and cluster ties, as well as enticing entrepreneurs to acquire support for the protection of intellectual property. Likewise, it is also essential to realize common projects leading to the increase of the scale of cooperation in the spheres of science and business.

### **International ranking of competitiveness – position of Poland**

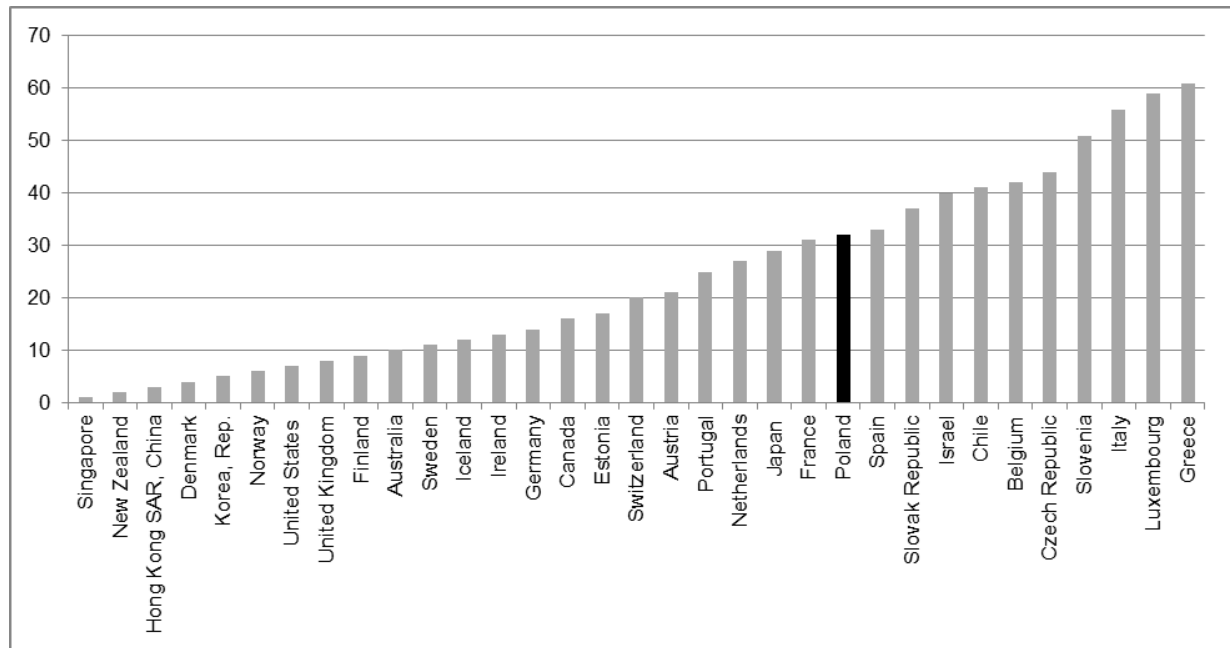
In analysing the past few years, the position of Poland in some international comparisons and rankings in terms of competitiveness has been systematically rising. This indicates the progress made and the correctly chosen direction of change.

An evaluation of the position of the Polish economy against the background of other countries has been presented below in light of the chosen publications on this issue.

One of the most known and most frequently quoted works relating to competitiveness is that of the report by the World Bank entitled “*Doing business*”. In the annual reports, the experts of the World Bank assess the micro-economic aspects of running business activities. They are associated with regulations in 10 areas, which are acknowledged to be key in terms of running a business such as e.g. paying taxes, executing contractual obligations, establishing a firm or acquiring credit loans.

As indicated by the report entitled “*Doing business*” for the year 2015, Poland holds 32<sup>nd</sup> place among 189 countries in the general ranking in terms of the ease of running business activities. In 2011, Poland occupied 70<sup>th</sup> position (out of 183 countries). Poland was ranked among the countries that displayed a clear improvement in terms of the business environment.

Fig. 1. Position of Poland among the chosen countries according to report entitled "Doing Business 2015"



Source: Self-analysis based on report entitled "Doing business 2015".

The progress of Poland is worthy of mention with relation to the conditions of running business activities. In the report, these conditions are assessed with the aid of the DTF indicator. This is an indicator that defines the ease of running business operations with reference to the hypothetical state that would achieve the best results in all areas.

In 2014, this indicator in terms of Poland amounted to 73.56% and was better than the previous year by 0.2%. This is also the best result of Poland in the history of this ranking. This fact certifies to the fact of the constant improvement of the environment for entrepreneurship in Poland. In the case of the best state – Singapore, the DTF indicator amounted to 88.27%.

In accordance with the ranking in terms of the countries belonging to the EU, Denmark turned out to be the best (4<sup>th</sup> position in the ranking). Against the background of the region, only Estonia, Lithuania and Latvia are ahead of this country.

A further significant report is that of the Ranking of the global competitiveness prepared by the World Economic Forum entitled: *The Global Competitiveness Report*. This is formed on the basis of evaluation of the so-called *Global Competitiveness Index (GCI)*, which measures the general competitiveness of an economy. The index was calculated on the basis of over 100 fragmentary indicators perceived in 12 categories (pillars of competitiveness) and attributed to the three main areas (fundamental requirements; stimulants forcing effectiveness; innovations and the degree of the development of business). A proportion of the fragmentary indicators on the basis of which the analysis was carried out, was established on the basis of the results of survey research run by entrepreneurs/managers.

The report indicates that 2014 is the second year (following 2006), in which strong reshuffling took place in terms of the ranking. Over 88% of the registered economies altered their positions. In accordance with the results of research, the most



competitive market is that of Switzerland, whereas Singapore lies in second place and the USA in third place. The further positions are held by Finland and then Germany.

In turn, Poland noted a drop by one position, thus being ranked in 43<sup>th</sup> place among 144 states. Simultaneously, in the ranking it overtook 10 countries of the EU-28, namely: Malta, Italy, Bulgaria, Cyprus, Romania, Hungary, Slovenia, Slovakia, Croatia and Greece. The position of Poland is assessed as being stable, however it is possible to note the slight downward trend, as in 2010 Poland was ranked in 39<sup>th</sup> position – the highest in history.

The strong attributes of our economy are those of the size of the market, the level of the education and the high level of development in terms of the financial markets. In the opinions of the authors of this report, Poland is placed at the intermediate stage, being transformed from an economy driven by the growth of effectiveness into an economy in which the principal factor of growth is becoming that of innovation.

Polish entrepreneurs indicated tax law in first place as the greatest problem in terms of the level of competitiveness, which is criticized for its changeability and unpredictability. Tax regulations and those relating to employment were acknowledged to be excessively elaborate and too restrictive, thus significantly hindering in terms of running business activity. In the survey research run among the managing staff, the greatest barriers towards running business were deemed to be as follows: tax regulations (23.2% of responses), restrictive regulations on the labour market (15.5%), bureaucracy (14.6%), tax rates (11.2%) and access to financing (9.6%).

The index of economic freedom prepared by the Heritage Foundation and Wall Street Journal is another ranking of competitiveness that takes account of the 10 indicators describing the freedom of economic life from the level of government expenditure, constituting the reflection of the scale of the government presence in the economy, by means of the degree of regulation of the particular markets (finance, investment, trade, labour etc.), to issues of ownership rights, as well as the scale of the occurrence of corruption. The effect of this analysis is a ranking encompassing 186 states.

First place was taken by Hong Kong, followed by Singapore, Australia, Switzerland and New Zealand.

Economic freedom in Poland was assessed at 67 points (out of a possible 100 points), which means 50<sup>th</sup> position in the ranking. This signifies a growth of 1 point and the highest position of Poland in the history of this ranking. Since last year's edition of this report, an improvement in six of the ten categories has been witnessed as follows: relating to investment, monetary policy, management of public expenditure, entrepreneurship and trade. Poland is now ranked in 23<sup>rd</sup> place among 45 countries of the region of Europe, while its general result is higher than the world average. The position of Poland in the ranking has improved for the sixth year in a row. Improvements are still required in terms of the issue of the deficit of the public finances, labour law or public debt. Likewise, streamlining of the functioning of the courts of law would be essential.

Among the countries of the region, Poland is behind the Czech Republic, while it is ahead of the remaining countries of the Visegrad Group, as well as Romania and Bulgaria.

## Summary

The competitiveness of the Polish economy against the background of the European countries is systematically improving. This is certified by the progress made and the correctly chosen direction of change, particularly of a deregulatory nature. The assessment included in the ranking may be helpful in the case of making investment decisions, however it is necessary to bear in mind that they have methodological limitations, thus they should be interpreted only in specific contexts.

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