Mexico and Poland: a promising partnership

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Recent years have proven that Mexico has a strong, stable and growing economy and is becoming increasingly open to international trade and foreign direct investments from places other than NAFTA. A closer relation with Poland is both desired and viable but issues such as an ocean-wide distance, a genuine language barrier and the individual dynamics of both markets supplement the list of obstacles that complicate the great potential of a solid partnership. This comparative analysis shows the complementarity of both economies. The apparent complexities of this potential partnership can be simplified to the point that increased business cooperation can become a reality.

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Mexico and Poland play in two separate political and economic arenas. While Mexico's culture and language may relate to Latin America, NAFTA proves an indisputable economic link to Mexico's northern partners. On the other hand, Poland, now a solid member of the EU, has had a historic exchange with its eastern neighbors, which include Russia, Ukraine and Belarus. In order to comprehensively evaluate the possibilities of cooperation between Poland and Mexico, one must go beyond the economic sphere and acknowledge that there are a number of historical similarities that bring both countries closer than one might initially expect.

Complex transformations

Histories of both Poland and Mexico include deep and complex transformations. Poland's biggest change came with the fall of communism in 1989, and the subsequent years saw radical political and economic changes. This full-fledged transition from a closed, centralized economy to an open market meant that - with relative urgency - a number of reforms had to be implemented, with a hard start for many Poles. The then 42-year-old Minister of Finance Leszek Balcerowicz[1] introduced the main pillars of capitalism in a country shattered by the communist system imposed after WWII to all the countries of the Soviet Bloc by the USSR. The reforms were followed by subsequent legal actions regulating the currency exchange and the operation of financial institutions. The tax system was implemented and privatization process initiated, stimulating entrepreneurship and creating a positive environment for development of private business[2].

According to the OECD, the increase in GDP *per capita* in Poland from 1992 to 2002 was the highest in the world, amounting to 216%[3]. In 1998, Poland started negotiations for accession to the EU and

[1] Dorn, James. *Leszek Balcerowicz Transformed Poland Through An Embrace Of Economic Freedom*. Forbes. May 19, 2014. Accessed January 10, 2016.
http://www.forbes.com/sites/jamesdorn/2014/05/19/leszek-balcerowicz-transformed-poland-through-an-embrace-of-economic-freedom/#40a290153b15.

[2] More about it: Bonikowska Małgorzata, Rabiej Paweł. *Poland's Transformation: From Suspense to Success*. Warsaw: THINKTANK Institute, 2014. Print.

[3] OECD (2016), *Real GDP forecast (indicator)*. doi: 10.1787/1f84150b-en. Accessed January 06, 2016.
https://data.oecd.org/gdp/real-gdp-forecast.htm.

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entered the new millennium with an average yearly growth of 4 percent and has not stopped growing despite the years of economic crisis.

Similarly, Mexico underwent a transition process from a closed to an open economy. After WWII a policy of "import substitution" or setting tariffs to locally sourced products was suddenly changed in 1985, and, by the next year, Mexico was already the 92nd member of the General Agreement of Trade and Tariffs (GATT). Of course the high note would come with the signature, in 1993, of the North America Free Trade Agreement[4], that has propelled exports and imports for Mexico with its North American partners.

Nowadays Poland is one of the fastest growing European economies, diversified by sectors, with particular strengths in agriculture, manufacturing and construction. Also to note are developments in the Information Technologies and other knowledge-based sectors like biotechnology. Factors to watch include a huge domestic market (38.5 million people, or the 6th place in terms of population within the EU), political stability, good business climate, modern infrastructure and a highly educated workforce. Foreign companies appreciate relatively low labor costs, and the professionalism of entrepreneurs make the day-to-day cooperation an easy task.

In contrast, the Mexican economy continues to expand at a moderate rate of 2.4 percent, but the series of major transformations implemented by the current government guarantee Mexico's position as one of the world's business friendly economies[5], and one of the best amongst developing countries in the world. While economic performance will not come in the short term, the reforms in the areas of energy, education and telecommunications ensure an increase in the annual GDP *per capita*, investment, and job growth in the long run. On top of that, the fiscal reform will widen the tax base, potentially lowering the government's deficit in times of economic hardship.

This fiscal reform supports one the most prospective sectors of the Mexican economy (automotive, aerospace and IT), and stimulates trade through a simplification of

[4] NAFTA is a comprehensive Free Trade Agreement between Mexico, the US and Canada, that entered into force on Jan. 1, 1994.

[5] The World Bank (2016). *Ease of Doing Business in Mexico*. Doing Business. Web. 28 Dec. 2015. http://www.doingbusiness.org/data/exploreeconomies/mexico/.

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customs regulations. Moreover, the benefits are already visible, Mexican tax authorities have reported an increase of 27.2% in 2015 compared to last year's data[6].

It is evident that Poland, like Mexico, is open to global partners, and although we both face internal and external challenges, both economies are looking beyond their traditional partners and increasingly more at each other (proof of this is the statement of the Ministry of Economy on 2014 announcing Mexico as a priority market for Polish exports). Mexico's government is, in turn, convinced that - even with external adversities - trade relations with markets of strategic interest, like Poland, can result in economic development and prosperity.

NAFTA and Mexico-EU Free Trade Agreement

In Poland and Mexico, increased growth came after adhering to international agreements and economic unions, accelerating the process of structural reforms.

In the last decades the Mexican economy has held an open door policy, closing various free trade agreements of which NAFTA and the EU-Mexico FTA are arguably the most significant ones. It goes without a doubt that NAFTA has increased Mexico's trade. So far, NAFTA has comprehensively lifted trade barriers, regulations and tariffs between its members. The opening up of the world's largest market to Mexican goods has proved to be a major booster, increasing Mexico's exports to the US from $39.9 billion in 1993 to $294.2 billion in 2014, a surge of 637%[7].

With NAFTA, Mexico becomes a prospective business partner for Polish companies whose aim is to supply the North American market with benefits like macroeconomic and political stability, low inflation, and relatively inexpensive labor costs. The country has multiple land border crossings with the US, and logistics corridors allow for an East-West connection between the United States and Canada.

[6] Palacios Castañeda, Óscar. *SAT: Registran Ingresos Tributarios El Mayor Incremento En 25 Años, 27.2%.* Noticias MVS. 17 Feb. 2016. Web. 17 Feb. http://www.noticiasmvs.com/#!/noticias/sat-registran-ingresos-tributarios-el-mayor-incremento-en-25-anos-272-80.

[7] Angeles Villarreal, M., and Ian F. Fergusson. *The North American Free Trade Agreement (NAFTA). Federation Of American Scientists*. 16 Apr. 2015. Web. 28 Dec. 2015. https://www.fas.org/sgp/crs/row/R42965.pdf.

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From the more direct perspective, the EU-Mexico FTA (once considered one of the most avant-garde free-trade agreements in the world) has allowed for an increase of more than 250% in total trade, with the usual partners like Spain, Germany and the UK being the top frontrunners amongst other EU countries. Regrettably, trade with Poland, although on the right direction and increasing exponentially over the past decade, has yet to come to its true potential as both economies steer towards each other, but for that to happen, entrepreneurs of both sides must know the strategic advantages that we represent for each other.

Leaders of both Mexico and the EU are well aware of the advantages of a closer relationship, and in June of 2015, they held the 7th EU-Mexico summit in Brussels. It is important to note that Mexico was represented by president Enrique Peña Nieto, and the EU was represented by the president of the Council of Europe and former Polish Prime Minister, Donald Tusk. Leaders discussed, among other things, an adapted framework for bilateral trade and investment, cooperation in the energy sector and economic growth[8].

Energy cooperation: going upstream with Mexico

Although the biggest sector of Polish trade is the automotive industry, new opportunities arise from the recent reforms, and as Europe - Poland included - faces the challenges of energy security, making Mexico an attractive alternative and promising partner to replace current suppliers. As the CIR's report stresses, the EU imports almost 90% of its oil, 66% of gas and 42% of solid fuels (e.g. coal)[9]. One third of imported oil, 39% of imported gas, and 26% of imported solid fuels came from Russia alone. In 2013, the EU energy bill amounted to more than EUR 400 billion.

With 5 EU members having Russia as a sole provider, and another 10 depending on Gazprom for at least 50% of their total

[8] *International Summit 2015*. European Council of the European Union. 07 Sept. 2015. Web. 15 Jan. 2016.
http://www.consilium.europa.eu/en/meetings/international-summit/2015/06/12/.

[9] Forum for New Ideas (EFNI). *The Future of Europe: A (No) Discrepancy Report*. Centrum Stosunków Międzynarodowych (CIR). 02 Oct. 2014. Web. 02 Feb. 2016. csm.org.pl.

demand, supply disruptions, whether caused by political or commercial disputes, or infrastructure failure call for a strategic approach on the matter Poland's case is not far behind. The country imports 70% of gas and 93% of petroleum from Russia.

That is why in 2014 the European Commission released its Energy Security Strategy, aimed, among other things, at increasing energy production in the EU, but also at diversifying supplier countries and routes.

Mexico is both a strategic non-OPEC source of crude and the tenth biggest oil producer in the world. Energy reform can be called the most important restructuring in Mexico of the last 50 years. It establishes a new legal framework for the oil and gas sector, opening it up to competition from international companies, which will be able to participate in the exploration and extraction of its reserves (6th largest reserves of shale gas and 17th of oil).

This new reform forecasts a decline in costs of energy for the industry and the creation of thousands of employment opportunities. The most ambitious projections say that by from 2.35 million barrels in 2014 Mexico will produce 2.9 million barrels in 2020. Also, the areas of opportunity that are most promising for European companies might include exploration and production; supply chain and supply chain management and infrastructure development.

Open & prosperous economies

Numerous reports and analysis endorse Poland's strong position as a receiver of FDI. Poland was acclaimed as Global Top Improver in the World Bank report *Doing Business 2014* that compares regulations affecting companies and ranks the economies in 11 different areas. In that report Poland improved its ranking by as much as 10 positions, compared to the previous year [10]. In addition, a recent report by UNCTAD positions Poland as the 14th most attractive economy in the world [11]. E&Y confirms as much in its European Attractiveness Survey, and adds that Poland is the "most attractive country for investments in Central and Eastern Europe". The country was also ranked as the second country in Europe (and 14th globally) in the *2013 Global Manufacturing Competitive-*

[10] The World Bank. *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Doing Business. 2013. Web. 24 Jan. 2016.

[11] Polish Information and Foreign Investment Agency. *World Investment Report 2013. FDI Inflow to Poland - Trends and Prospects*. PAIiIZ. 26 June 2013. Web. 24 Jan. 2016.

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ness Index prepared by Deloitte, which is based on the responses of more than 550 senior manufacturing executives worldwide.

At the time that Poland seems to be quite inviting for foreign capitals, it also does not spare efforts to support the internationalization of Polish companies, from state-owned giants like KGHM to private SME's that needed assistance approaching a diversity of global environments. Between 1999 and 2014 Polish exports rose by an average of 9%. Only in 2014 exports grew by 5.3% and imports grew by 5.6%[12].

However wonderful, Poland's extraordinary positions in rankings come as no surprise; they are the consequence of persevering institutional and regulatory reforms (mainly in the areas of property registration, taxes, contract enforcing, etc.) introduced in a period of over 20 years of market economy. In times of global economic recession, Poland has managed to continue growing at a steady pace: the "Green Island" in the heart of a Europe in crisis.

For its part, Mexico is on a sustained growth path, with GDP estimates that exceed 3% for the years 2016 and 2017[13]. The country also maintains its strong position amongst the most attractive destinations for FDI, with the Secretary of Economy of Mexico reporting the inflow of capitals amounting US $22.5 billion in 2014. Add to that the possibilities that will open with the signature of the Trans Pacific Partnership in a couple of weeks and the Mexican market itself will become much more attractive.

We can establish that Mexico has traditionally been - and still is - an attractive destination for foreign capitals; its geographical location, that serves as a bridge between North and Latin America, its wide variety of natural resources, its openness to FDI unquestionable, due mainly to its stable economy and geographical location. On top of that, the economic reforms previously covered reassure investors on the stability.

In recent years some sectors of the Mexican economy have become global players, like the aerospace industry, that has become the fifth largest supplier of aerospace products

[12] Miszczyk Kazimierz, Mendyk-Zelma Małgorzata, Rutkowski Jerzy, and Monika Walczak. *Poland 2014 Report on Foreign Trade*. Uniwersytet Wrocławski. 2014. Web. 2 Jan. 2016. https://prawo.uni.wroc.pl/sites/default/files/students-resources/Poland%202014%20-%20Report%20On%20Foreign%20Trade.pdf.

[13] *Mexico - Economic Forecast Summary (November 2015).* OECD. Nov. 2015. Web. 2 Jan. 2016. http://www.oecd.org/eco/outlook/mexico-economic-forecast-summary.htm.

to the European Union and the eighth largest supplier for the U.S. market. Another example is the automotive sector, in which GM alone will invest over US $5.4 billion in the coming years[14].

Polish-Mexican economic ties

The first recorded Mexican investment in Poland, worth US $1 million, took place when the Mexican giant Cemex bought two Polish cement plants. Another major investment came in 2006, when manufacturer Nemak acquired TK Aluminum for US $71 million. In 2009, Bienes Turgon, a Mexican holding company operating in the automotive industry acquired - through its subsidiary Katcon - a Polish plant producing exhaust systems[15]. The opportunities for Mexico with Poland are unbounded: *green field* and *brown field* projects can attract foreign investors interested in obtaining government incentives. Poland has been so far the single largest beneficiary of the EU's cohesion funds, which are aimed at supporting the development of in R&D industries.

In contrast, Polish entrepreneurs have found Mexico to be an attractive place to grow their businesses and establish operations. Polish investments in the country are estimated at US $16.7 million, the 15th place among EU members. As of 2012, 21 companies with Polish capital were operating in Mexico. However, recent years have seen an increase of these figures and - although no official data has been released - companies in the automotive, aerospace, and IT sectors have invested over USD $9 million, and pledged to invest an equal amount over the next 5 years. Again, Polish companies tend to favor Mexico as an ideal starting point for an expansion to the Americas, and a firm business partner for joint projects and initiatives.

While Mexico's foreign trade is mainly absorbed by the dimension of the exchange of goods and services between NAFTA countries, recent data shows that trade between Poland and Mexico has continuously grown since 2002; however, the positive

[14] Althaus, Dudley. *GM to Invest $5 Billion to Expand Facilities in Mexico*. The Wall Street Journal. 11 Dec. 2014. Web. 18 Jan. 2016. http://www.wsj.com/articles/gm-to-invest-5-billion-to-expand-facilities-in-mexico-1418323909.

[15] Turner, Carlos, and Jose De Nigris. *Bienes Turgon and Katcon Announce the Closing of the First Stage of the Acquisition of Delphi's Global Exhaust System Business*. PR Newswire. 05 May 2009. Web. 17 Jan. 2016. http://www.prnewswire.com/ news-releases/bienes-turgon-and-katcon-announce-the-closing-of-the-first-stage-of-the-acquisition-of-delphis-global-exhaust-system-business-61764102.html.

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trend does not suffice to put Mexico above the current 44th position as recipient of Polish exports. As of 2014, total trade value stood at $919 million, making Mexico the third largest economic partner of Poland in Latin America. Moreover, with a growing interest of Polish entrepreneurs in Latin America, and with a struggling Brazil, Mexico is likely to be the winner[16].

Nonetheless, to have an accurate assessment of how vast the potential between Mexico and Poland really is, one must go beyond the traditional paradigms of supply and demand and explore the massive potential of joint ventures, investments, and R&D projects.

Competition or cooperation?

Centered around the northern and central states of the country, Mexico's automotive and auto parts industry gained attention from investors as it became the world's seventh largest producer of automobiles in the world. Many major car manufacturers have set up their operations in Mexico's states to reduce production costs, including American giants like General Motors, Ford and Chrysler, but also a number of European and Asian players such as BMW, Toyota, Honda, Volkswagen and Mercedes-Benz. The Mexican automotive industry has also gradually become more technologically advanced - moving from its assembly-only past as to become a center for research, development and innovation. In 2014, Mexico outperformed its regional rival Brazil in the total output of the automotive industry. Famed for its prolific car output, Mexico "walks the walk" with impressive growth - the country's export-driven production of cars and light trucks rose to 3.4 million units in 2015[17].

Poland, also a giant in automotive industry, boasting a cost-effective labor force, high-end quality in manufacturing, and proximity to major OEMs attract automotive industry companies by the numbers. Every ninth EURO out of the Polish export in 2013 was generated by the automotive industry.

[16] Gillespie, Patrick. *Mexico Is Latin America's Success Story as Brazil Stumbles*. CNN Money. 23 Sept. 2015. Web. 17 Jan. 2016. http://money.cnn.com/ 2015/09/23/ investing/mexico-brazil-latin-america-economies/.

[17] *Industria Automotriz En México Cierra 2015 En Niveles Récord*. Cnn Expansión. 11 Jan. 2016. Web. 13 Jan. 2016. http://www.cnnexpansion.com/economia/2016/01/11/mexico-tiene-produccion-record-de-autos-en-2015-amia.

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In Mexico, with industry's production costs 21% lower than in the United States, 11% lower than in China, and 3% lower than in India, aerospace is the industry to pay attention to now[18]. Exports have tripled since 2006, reaching $4.5 billion in 2012 and it is expected that by 2020 the country will be host to about 450 companies making the sector worth well over USD $12 billion. Today many of the international aerospace companies are established in Mexico, including GE's largest research and development center, Canada's Bombardier has already invested more than USD $300 million relocating production from Ireland and Japan, and the French-German-Spanish manufacturer Eurocopter just inaugurated a $100 million manufacturing plant in the Mexican state of Querétaro[19].

At the same time, the aerospace industry is booming in Poland, big companies like Safran and Pratt-Whitney make for a dynamic the market, but a number of SME's constitute a wide supply-chain of suppliers for companies such as Boeing, Airbus and Embraer. Over 90% of production is exported and Polish companies closely cooperate with multinational aerospace corporations.

At first glance it might seem that Mexico and Poland are competitors in both manufactures and the attraction of foreign investment; but this conclusion could not be more superficial, for in many cases cooperation is not only possible, but desirable and highly lucrative. Polish producers of high-end technology can find themselves as suitable subcontractors or suppliers to Mexican companies and in turn Mexican companies are able to produce high-quality components for use in the Polish industry. Al of this, without evaluating the potential of companies participating as consortiums in large, international tenders.

Outlook for the future

The analysis of data and facts concerning the development of the two economies and the evidence of their increasing openness to trade and direct investment intake suggest that the future will bring an augmentation of economic ties between Mexico and Poland. Beyond a shadow of a doubt, we are expe-

[18] Salinas Garcia, Rolando Javier. *Labor Relations and the Development of the Aerospace Industry in Mexico*. EScholarship. Sept. 2014. Web. 17 Jan. 2016. https://escholarship.org/uc/ item/ 0rb594s5#page-1.

[19] *Eurocopter Invierte 100 Mdd En Querétaro*. Cnn Expansión. 11 Feb. 2013. Web. 05 Feb. 2016. http://www.cnnexpansion.com/negocios/2013/02/11/eurocopter-invierte-100-mdd-en-queretaro.

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riencing Mexico's moment. The country has seized a key historic opportunity based on the recently adopted structural reforms. These changes and political agreements will trigger unprecedented progress to boost the integrated development of the country in the short and medium term. The structural reforms will allow a more promising future in terms of attracting FDI, strengthening the country's image and boosting Mexico's recognition as one of the best business destinations in the world.

Poland has kept the "Green Island", and with its strong internal market and smart economic policies, the country will surely continue to be an increasingly important destination for investors from Mexico. However effective use of favorable circumstances requires considering further stimulation.

First, it seems essential that there be a change in perception from both sides, stimulated via a continuous process of outreach to business communities in both countries. An active information campaign that communicates the latest changes and events in the partnering country should foster mutual interest. The role of economic diplomacy and government agencies is still vital in the relationship and may lead to the advancement of international trade and investments between Poland and Mexico.

Additionally, and mindful that joint projects will yield the maximum results, placement of products can - in a short period of time - bring micro and macroeconomic paybacks, reducing risk in times of crisis, crating economies of scale, minimizing the effects of seasonal sales (especially in the case of Poland), and overall increasing profits.

Finally, both Poland and Mexico must acknowledge that the internationalization of the supply-chain requires a diversified portfolio of customers; and it is in this process of transformation that Mexico and Poland play a fundamental role, as the point of entry to two of the biggest markets in the world: NAFTA and the EU.

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Centre for International Relations (CIR) is an independent, non-government analytical centre established in 1996 which deals with Polish foreign policy and the most important issues of international politics. CIR is active in research, education and publishing, organises conferences and meetings, and participates in international projects in collaboration with similar institutions in many countries. CIR creates a forum for debate and exchange of ideas in matters of international politics, relations between states and challenges in the global world. CIR's activities are addressed above all to local-government officials and to entrepreneurs, as well as to officials of the central administration, politicians, diplomats, political scientists and the media. In 2014, CIR was again recognised as one of the best think-tanks in East-Central Europe in the study "The Leading Public Policy Research Organisations in the World" conducted by the University of Pennsylvania.

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