

**International Regimes and Credibility Problems:
An assessment of the role played by the EU in locking
in Polish trade policy reform**

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Abstract

The developments in trade and political relations between Poland and the European Union during the period of association is used to conduct an analysis of policy-making in transition and an investigation into the relationship between economic reform and social/ political factors, on both national and international levels. Internal and external impediments to policy reform are discussed, with emphasis on issues of credibility and reciprocity in inter- state cooperation, as well as domestic path- dependencies, legacies, political cultures and social pre-dispositions.

The focus is on the role of international leverage in affecting domestic change and stabilising reform. Drawing on the complexity of multiple disciplines, the author challenges the main *neoliberal institutionalist* assumptions about ‘anchoring’ policies in international regimes to increase their credibility.

By assessing the effectiveness of the Europe Agreement as an ‘anchor’ for Polish trade policy and a supportive instrument for the transition, the author argues that, in contrast to neoliberal expectations, an international regime, can, if it does not fulfill certain conditions, impede reform, reducing its viability and long-term sustainability. Because the EU has failed to carry through its declared promises of assistance for the transition or consistently pursue the liberal policies advocated to Poland as a condition for association, it has, collectively, fallen short of fulfilling these conditions.

In addition, the technocratic, elitist style of decision-making necessary for the fulfilment of the EU’s compulsory targets, combined with rigid conditionality and an institutional framework for association not adapted to national particularities, have, in the Polish case, multiplied domestic policy dilemmas, undermining the credibility of the liberal reforms initially pursued, and ultimately weakening the capacity of the ‘state’ to provide the public goods necessary for the consolidation and institutionalisation of the systemic changes.

Finally, the author asserts that the fundamental *legitimisation* dimension has been neglected in the policy debate over the Polish transformation. Accordingly, the thesis investigates the evolution of the state/societal relationship in Poland, as it emerges in response to external and internal developments, and analyses the Polish specificities that have made the consolidation of a market-democracy problematic.

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Introduction

How to intentionally guide ‘the market economy’ and design domestic institutions to best serve the needs of the Market has been a fundamental question underlying economic policy making throughout the industrialised world. In transition economies¹, this debate has revolved around another crucial dimension, that of the role of international organisations in steering such domestic policy objectives by serving as guiding ‘anchors’ for regime change and exerting leverage on policy reform, outcomes and performance.

The deliberate construction of a market democracy in CEE has relied heavily on a two-level strategy; simultaneously liberalising domestic activity and integrating the emerging systems into the world economy through the imitation and transplantation of economic, political and institutional patterns prevalent in advanced capitalist countries. To successfully consolidate the systemic changes, the states in transition would have to meet two concurring conditions: growing legitimisation in domestic politics complemented by favourable conditions of internationalisation.

Thus, to improve their creditworthiness and guarantee the irreversibility of the transition process, in the early 1990’s, the first post-socialist governments in the region locked in their reform efforts by linking domestic institutions to the international anchor of European integration. As the primary instrument of internationalisation and basis for association with the European Union, the Europe Agreements signed by all ten future EU candidates², were designed to increase the viability of the reform measures undertaken, stabilise the domestic political process, serve as institutional guidelines and secure crucial external support for the transformation, in the form of direct aid, market access and increased investment.

Painful economic reforms such as the systemic changes required of transformation are sustainable if within a foreseeable amount of time they can bring benefits to the majority of the population. If people’s material conditions improve or they can see a light at the end of the tunnel, they will accept the temporary hardships in exchange for a better future. However, at the crucial point where public support for the reforms begins

¹ In this thesis, the author uses ‘transition’ and ‘transformation’ concurrently to signify the process of regime change from state-led socialism to market-led democracy. The division between the concepts remains vague and the exact moment where transition becomes transformation is unclear, although most experts agree that the transition was more or less over when most of the market infrastructure was in place, giving way to a more encompassing phase of systemic transformation. See Staniszkis, J. (1995). ‘In search of a paradigm of transformation’, in W Wnuk-Lipinski, E. (1995). *After Communism: a multidisciplinary approach to radical social change*. Warszawa: Instytutu Studiów Politycznych PAN.

² Czech Rep., Slovakia, Hungary, Poland, Latvia, Lithuania, Estonia, Slovenia, Rumania and Bulgaria

to weaken along with rising transaction costs, the role of external support is pivotal in buttressing the reformers and providing opportunities to increase national growth and welfare, as well as encourage competitiveness. If, on the other hand, external conditions are not favourable to stimulate domestic growth, the transition, at its most vulnerable point, can easily be derailed off course and the reform efforts threatened. To be effective in encouraging and supporting regime change, international organisations and institutions, such as the European Union, thus have to be aware of the dangers posed by self-interested, protectionist policies vis à vis the 'state' in reform.

On the eve of Eastern Enlargement of the EU, this book aims to assess the extent to which the Association Strategy pursued by the Union, based on the Europe Agreements signed with all ten aspirants, has provided the CEE nations with the conditions that would support their process of economic modernisation and integration, enabling them successfully complete the transformation.

While the thesis focuses exclusively on the Polish case, it is the author's belief that the nine other CEE candidates for EU membership have at various points and intervals faced very similar problems, followed comparable patterns and dealt with the same kinds of issues throughout the 'leap to market'. During the initial stages of reform, all the CEE reformers faced comparable dilemmas, related to the inherited backward economic structures, dependent on the CMEA, socialist legacies and egalitarian expectations of the populations, weak civil societies and party systems, budget deficits, and various other external constraints, such as a recession in the West. All underwent marketisation, democratisation, internationalisation and European integration.

Throughout the mid-90's, their reform strategies based on economic stabilisation, price liberalisation, privatisation and restructuring proceeded at various paces, with different emphasis and with somewhat divergent strategies, but by 2000, the leading regional European Union aspirants had put the first stages of transition behind them, switching their attention to less dramatic, albeit not less important microeconomic and institutional reforms. However, according to the EBRD, "the first phase of transition has left the countries of the region with serious imbalances across different dimensions of market-oriented reforms".³ Consequently, as the CEE began to move into the second phase, they faced the same challenges: institution building, combating crime and corruption, labour market and fiscal reform, social security and welfare targeting reform, administrative reform, further structural changes and other associated microeconomic,

³ EBRD (1998). *Transition report 1998*. London: European Bank for Reconstruction and Development, p.2.

regulatory and social policy issues. In fact, the author argues that while the speed and scope of the reforms has varied throughout the region, with certain countries like Poland and the Czech Republic initially choosing more radical blueprints for the transition and others like Hungary or Meciar's Slovak Republic, Rumania or Bulgaria attempting a more gradual approach, by 2003 the 'front-runners' and their prospective progress rankings had changed too many times to make serious attempts at drawing conclusions from these reports very complicated.

While some, like the Czech Republic or Latvia, have faced tumultuous currency and banking sector crises, and others, like Bulgaria, extreme macroeconomic crises, all have witnessed assorted stumbling blocs on the paths to economic recovery after the initially, deep transition depressions. Following these primary GDP and output falls, all, with the exception of the Czech Republic, experienced sky-rocketing unemployment, and by 2000, all except Slovakia, held trade deficits with the European Union. Moreover, all the states have been exposed to large- scale policy reversals and reform backtracking, in one dimension or another, and all their political systems have witnesses, at various intervals, the return of the former Communists to power, as their societies weary of the enormous costs of the transitions have rejected the liberalisers.

Overall, the Visegrad group has performed best in the region with shortest recessions, lowest inflations, deeper progress in privatisation, liberalisation and institutional reform and fastest economic growth. By the 2000 Commission Progress Reports, Poland, Hungary and Estonia were considered the best performers, followed by the Czech Republic and Slovenia. By 2003, however, Slovenia, a late developer, seems to have come closest to gaining the "gold", leading the future EU members in per capita income, standard of living and generally national competitiveness. Slovenia's top position was by no means achieved without painstaking costs, as the Slovene nation, just as the three Baltic states and the other Balkans, was faced with not only having to reconstruct the entire socio-economic system after the collapse of communism, but also to rebuild a sense of nationhood, as they struggled to regain their independence after the fall of the USSR and Yugoslavia.

Furthermore, the Baltics along with Slovakia, representing the EU's Helsinki group⁴, have more or less managed to make up lost time and delayed reforms by 2003,

⁴ The first group of EU candidates invited to negotiate membership in 1998 during the Luxembourg EU Council summit was later referred to as the Luxembourg group, made up of Poland, Czech Republic, Hungary, Slovenia and Cyprus. At the Helsinki European Council, in 2000, the Union decided to open negotiations with the Helsinki group; namely Latvia, Lithuania, Estonia, Slovakia, Bulgaria, Rumania and Malta.

narrowing the distance in terms of transition progress between themselves and the front-running Luxembourg Group.

A former leader according the 1998 transition indicator scores⁵, Hungary now struggles with the same fiscal imbalances, monetary policy, institutional and employment problems as the other leading CEE. Having effectively dealt with the currency crisis in 1997, the Czech Republic is again gaining ground, quickly followed by the Slovaks who in the radical change of policy after the fall of Meciar have gained lost time and are radicalising their delayed reform measures by introducing such schemes as a linear tax rate to consolidate public finances and improve fiscal policy management. Both the Czech Republic and Hungary continue to receive the highest levels of per capita Foreign Direct Investment, and their per capita income is only lower than that of Slovenia. The Baltics have made considerable progress in strengthening macroeconomic stability and implementing structural reforms, catching up with the top contenders for EU membership, following the preliminary delays in reforms and difficulties associated with disentangling links from the Russian economy. According to the Commission's Regular Report in 2000, the Baltics along with the Czech Republic, Hungary, Poland, Slovakia and Slovenia can be regarded as functioning market economies able to cope with competitive pressure and market forces within the Union in the medium term.⁶ Bulgaria, itself having survived a currency crisis and dramatic falls in output in 1997 is beginning to witness returns on its new reform efforts, as growth increases and EU membership draws closer. Rumania, after a legacy of reform failures under the previous Iliescu regime, is showing strong signs of recovery, following the implementation of macroeconomic austerity package in 1997, aiming along with Bulgaria for the 2007 EU accession date.

Poland, in turn, while arguably the most radical reformer, the first country in the region to recover output falls in 1996 from the recession brought about by the systemic collapse of socialism, and considered in 1996-7 the leading CEE 'Tiger', by 1999, was again struggling with macroeconomic difficulties, including slower growth, higher current account and trade deficits, increasing unemployment rates and decreasing levels of investments and savings, accompanied by numerous economic policy reversals. It has even been claimed that to attribute Poland's initially rapid progress in transition and quick economic recovery to Shock Therapy after 1989 is an oversimplification. In fact,

⁵ EBRD Transition Report 1998. *ibid.*

See also White, S., Batt, J. and Lewis, P.G. (Ed.) (1993). *Developments in East European Politics*. Basingstoke: Macmillan.

- (Ed.) (1998). *Developments in Central and East European Politics 2*. Basingstoke: Macmillan.

Former Finance Minister G. Kolodko has argued that Poland's impressive high growth rates between 1994-1997, exceeding 6% of GDP annually, could not have taken place without the economic reforms initiated in Poland throughout the 1980's under the previous system.⁷ In addition, while Poland can be considered a solid transformation success story in many ways, its reforms have by no means proceeded linearly or in a smooth fashion. Because, the political economy of the reform process was largely oversimplified in the early 1990's, and the conditions that would support or hinder the transformation, such as domestic legacies of the past or negative externalities, were under-discussed, the transformation process has proven to take longer than anyone primarily expected.

Accordingly, this book will argue that the experiences of the Eastern Enlargement process in the 1990's suggest that policy makers need to be wary of many of the policy strategies pursued by the leading CEE. The 'anchoring' thesis around which the Polish liberalisers centred their economic programme, for example, was based on the assumption that the EU would not renege on the principle of free trade and true reciprocity, in supporting the transition through trade. The overly- optimistic belief that the external anchor would provide sufficient conditions to sustain the difficult reform measures led to many assumptions about the future policy making environment which have not held. This, in turn, increased the political and economic tensions accompanying the transition process.

Because the scale of the dilemmas faced by the Polish state has been larger than in the other states in the region, owing to Poland's size and population, the Polish example can be effective in illustrating the magnitude and seriousness of some of the problems to be faced in process of marketisation and democratisation. The discussion of the political economy of policy reform in the Polish transformation hinges upon an analysis of the intricate relationship between the economic and political factors, indispensable for successful reform, on both international and domestic levels. Examining the experience of one country in detail provides an opportunity to weigh the relative contribution of these political and economic considerations in the international and domestic realms to the changes in the stance of policy reform in general, as well as a chance to assess the adequacy of specific strategies and institutional arrangements, in enhancing the credibility of economic change. A case study can also assist in the identification of the conditions necessary for the benefits of a reforming nation in making commitments to

⁶ EU Commission, *Conclusions of the Regular Reports*, 2000.

particular rules and organisations, to outweigh the costs. The Polish experiences allow us to consider transformation politics in general and generate policy prescriptions for the next wave of reformers, especially the Balkans who are now pursuing parallel paths in their bid for EU membership. Other states in the region including Ukraine, Belarus, and the former CIS as well as even nations like Iraq or Afghanistan facing multiple layered regime change can also benefit from the Polish lessons.

While the author would encourage the kinds of radical reform instigated by the initial Polish liberalisers to other countries undergoing macroeconomic crisis, an analysis of the political legacies of the early reforms in Poland suggest that some aspects of the transformation could have been done better and with more caution. The Poles paid a heavy price for learning that international trade bargaining comes down to tit for tat negotiations and zero-sum game calculations.

The current paralysis of the Polish transformation in both the political and economic realms cannot only be attributed to domestic factors. The international environment and especially association with the European Union has had a powerful impact on internal developments. This book will argue that a more cautious approach should be taken by future applicants to 'anchoring' their reforms on European integration. Future candidates to the Union as well as other aspiring reformers should be more wary of basing their domestic economic strategies on calculations of the expected benefits to be gained from regional integration. Overestimating the advantages to be acquired through anchoring strategies, and underestimating the repercussions of the failure of the international environment to live up to its declared rhetoric, threatens to damage the credibility of the reforms and of the reformers themselves; ultimately undermining the entire attempt at a liberal transformation.

In sum, while shock therapy in Poland was a necessary condition to overcome the economic crisis prevalent in 1989, it was in itself insufficient to guarantee long-term and sustainable growth while consistently increasing national competitiveness. In fact, this author maintains that while the speed and breadth of the Polish reforms might have been initially more dramatic than in the other CEE states, the benefits of this early reform phase have been offset to a large extent by later policy backtracking and evident slow down in both macro and microeconomic reform. The declining pace of progress and rising tendency towards policy reversals has been particularly evident in enterprise restructuring, privatization, institutional reform, as well as the coordination of fiscal and

⁷ Kolodko, G. and Nuti M. (1997). *Polska Alternatywa: stare mity, twarde fakty, nowe strategie*. Warszawa: Poltext.

monetary policies. With low growth rates (1.0-1.3% GDP 2001-02), a soaring budget deficit around 5% GDP, accompanied by other fiscal policy imbalances, unemployment figures reaching 19%, a continuing long-term trend of falling investment and savings levels, a highly inelastic labour market and delays in structural reform, Poland's status as the 'Tiger' of transformation reform has been acutely undermined. Thus the hard-won gains of the first phase of the transition have been placed increasingly at risk at a time when further reforms are crucial to prepare Poland for EU accession. These developments are the result of factors on both domestic and international levels, and the focus of this book is to determine the relative impact of each on policy outcomes and performance in Poland.

1. International Regimes and Credibility Problems: theoretical background

I. Introduction

The US Presidential Commission on Industrial Competitiveness has defined competitiveness, as

*the degree to which (a nation) can under free and fair market conditions produce goods and services that meet the test of international standards while simultaneously maintaining and expanding the real income of its citizens. Competitiveness is the basis for a nation's standard of living. It is also fundamental to the expansion of employment opportunities and the nation's ability to meet its international obligations.*⁸

Domestic economic policies are considered the most important factors stimulating competitive development of the nation, creating the conditions for the markets to function, and ultimately sustaining national growth. Competitiveness however is substantially encouraged by conditions of open and fair international trade. This is particularly true with respect to the countries undergoing systemic transitions, whose vulnerability to external shocks is exacerbated due to the necessity to radically reorient their economies to decrease the development gap, and proceed with the liberalisation reforms at a much faster pace and on a more encompassing scale than the experiences of industrial countries.

In light of this, regional integration through the creation of Preferential Trade Agreements and Free Trade Areas can be considered an important element of a nation's economic policy. Integration, as a strategy designed to speed up the opening up the economy, can do so by playing a dual role; quickening the process of economic change and adjustment through increased competition and simultaneously easing the transition tensions by providing market access and buttressing investment.

Never the less, while on the theoretical level free trade does increase prosperity, on the level of trade negotiations, the opening up of economies to external competition intensifies both national and international conflict. The fundamental cause for this conflict is to be found in the increasing salience of internationalisation of the world economy for domestic politics and the strain placed on domestic actors in adjusting to

⁸ 1985 Report of the US Presidential Commission on Industrial Competitiveness, vol II, p. 7.

the growing interdependence. In transition again, the pressures emanating from internationalisation are further strained by massive cuts in public expenditure required by macroeconomic strategies and fiscal austerity measures as crucial components of stabilisation programmes. Because of the economic dislocation associated with restructuring and privatisation, regional integration, while providing opportunities for growth, can simultaneously increase tensions and intensify internal conflicts as domestic actors are faced with profound shocks of adjustment.

Thus for FTA's and regional integration to be successful in stabilising the domestic transitions in post- socialist states and bring about the expected benefits, true reciprocity and free trade are essential international environment conditions. Because of the asymmetric dependence of CEE on the EU for both markets and capital, it is thus crucial that the Union put the interests of the candidates before its own interests to buttress the transition process at its most vulnerable stage.

In Poland, for the initial post- socialist liberalisers, the creation of a Free Trade Area between Poland and the European Union was considered a critical component of the Shock Therapy package, encouraging the restructuring and reorientation of the Polish economy and securing external support for the transition. Open European markets, technical assistance and investment were regarded as an integral part of the transition, spurring economic growth and complementing the liberalisation, deregulation and privatisation market domains of the plan. In sum, the Polish liberals took a conscious risk in the early reform years, presuming that the European Union would be willing to grant them generous concessions and uphold the declared rhetoric that association with the EU was considered a reward for the radical domestic reforms undertaken. However, during the first negotiation sessions of border- protection reductions between the EU side and Poland already, it became clear that the opening up of the European economy would not be easily or readily achieved. Following a year and half of difficult negotiations, in December 1991, the EU finally granted Poland the status of association, within the framework of what would be later referred to as the Europe Agreement, and trade became the corner stone of both the transition and the integration processes.

By examining the developments in Polish- EU relations during the period of association and the actual implementation of the EA, this thesis will show that an international regime, can paradoxically, if it does not fulfil certain conditions, impede rather than stabilise the fragile decision-making apparatus in countries attempting transition, leading to policy backtracking and derailing the reforms themselves. The EU's open, liberal policies prescribed to the Polish partner as a condition for integration have not

been consistently implemented by the Union itself, and have, as a result, negatively influenced the credibility of the economic measures pursued by the reformist Polish elites, undermining their political authority. The domestic backlash against internationalisation and radicalism, in turn, contributed to a rise in populism, and free trade began to be portrayed as a luxury of economic fundamentalists; a luxury that politicians could not afford. The term 'liberal' itself became synonymous with negative political connotations and in particular with radical technocratism and semi-authoritarian policy-making, 'dictated by forces hostile to the Polish nation'.⁹

Because the transition has taken longer than anyone could have predicted, and as a result of the negative impact of association on both the Polish economy and the political process, this book will argue that the Union has contributed to shaping Polish domestic policy responses in favour of protectionism. Its incoherent approach to association and lack of credibility as to the policies prescribed have damaged the viability of the liberal reforms and contributed to policy backsliding.

Moreover, the emerging state-societal relationship in Poland suggests that the main danger of economic strategies based on 'locking in' domestic policies stems from their far-reaching implications for the development of internal social dialogue, crucial for the consolidation of democracy, and ultimately the sustainability of economic reform measures through participatory means. The author's analysis indicates that the most difficult problem facing successive Polish elites has been how to pursue effective reforms required for international credibility, and integration with the EU, while at the same time maintaining public confidence and remaining democratically accountable. Thus, it could be argued that the 'anchoring' strategy, initially and consciously chosen by the first post-socialist governments in Poland and prescribed by the EU, has actually complicated the policy making process. The conflicting demands placed upon the 'state' to simultaneously respond to the binding obligations of the EA, while building domestic legitimacy necessary for internal democratisation, have often undermined each other, inhibiting the development of effective institutions and weakening the ability of the authorities to govern or provide the public goods indispensable for the consolidation of a market democracy.

A. Background

In the immediate years following the collapse of the Soviet bloc in 1989, the first successor government in Poland, was faced with the immense task of reforming the

⁹ *Gazeta Wyborcza*, 'Interview with J. Olszewski', Former Solidarity PM, later founder of ROP (Movement for the Restoration of Poland), nationalistic party. 02/03/00.

entire social, political and economic system, in line with the current prevalent rationale of neoliberal economics underlying the conditionality of institutions such as the IMF, the World Bank or the OECD.¹⁰ The liberalism of the initial reforms stemmed not only from the market-oriented and liberal internationalist sentiment of the new Polish elites, and their rejection of anything resembling command economics, but also from the requirements of international credibility, necessary to secure external aid.

Due to a severe economic and political crisis following the first partially-free elections in 1989, more pronounced than in the other leading CEE countries¹¹, the introduction of marketisation in Poland was marked by an unusual social consensus on dismantling the former system and getting rid of the centralised bureaucracy. Economic theory was used to rationalise the necessary changes and persuade society to accept the viability of neoliberal assumptions. Using this window of opportunity, in January 1990, the new government led by Prime Minister T. Mazowiecki, together with a team of economic technocrats under Finance Minister L. Balcerowicz, was able to successfully push through a radical reform package of stabilisation and liberalisation, under the so-called Shock Therapy programme.

While the West did encourage Balcerowicz to follow through on his plan of radical reform¹², and there was clear foreign influence in the programme, the package itself was not imposed by foreign institutions, but rather deliberately chosen by the Polish liberalisers. This unusual coalition of domestic and international elitist-technocrats based their economic projections on the assumption that international free trade was to buttress the domestic transformation, decreasing the scope and strength of the primary output shocks. The rationale behind the dramatic economic opening stemmed from the radical nature of the changes required of Poland. Shock Therapy and speedy adjustment

The author's own research.

¹⁰ In this context, the author refers to the neoliberal rhetoric of the early 1990's so called 'Washington Consensus', which was based on a radical laissez faire, minimalist state and anti-regulation policy position. Today the consensus is much less evident, with figures such as J Williamson himself (the person most frequently associated with the Washington Consensus), J Stiglitz or J Sachs (amongst others) criticizing the initial neo-liberalism of the shock therapy pursued in Poland, and institutions such as the EBRD shifting focus from strategies based on radical macroeconomic packages, to a policy- mix approach that incorporates institution building, regulation and social considerations within the reform measures.

¹¹ Poland had the lowest standard of living of the three Visegrad countries (Czechoslovakia, Poland, Hungary), East Germany, and Yugoslavia prior to 1989. Consequently, when Shock Therapy was introduced and macroeconomic austerity measures combined with already low productivity, the situation deteriorated rapidly, leading to an economic crisis more pronounced than in the other leading reforming countries.

¹² See Sachs, J. (1993). *Poland's Jump to the Market Economy*. Cambridge, MA.: MIT Press.
Sachs, J. (1994). 'Life in the Economic Emergency Room', in Williamson (Ed.) (1994). *The Political Economy of Policy Reform*. Washington DC: Institute for International Economics.

to the rules of the international economic order were to quicken the pace of transition and buffer some of the adjustment costs. Basing their conclusions on the failure of gradual reform to reinvigorate the Polish economy in the 1980's, the Balcerowicz team had a sound, powerful and well thought-out programme, and strong reasons to abandon a more cautious approach.¹³

The fundamental core of the Polish Big Bang revolved around the duality of the 'state's' political and economic aspirations, as exemplified by Moravcsik's two-level game.¹⁴

The external transformation of Poland's geopolitical position was dependent on its internal metamorphosis, and the internal metamorphosis, in turn, conditional upon its re-integration into the international system. Each political bargain struck in the international arena would shape and constrain domestic policy choices, while the success of the transition itself would directly correspond to Poland's credibility on the international scene and to its position as a global and regional player.

To strengthen this international credibility as well as assure the irreversibility of the transition process, Polish elites 'locked' in their reform efforts by linking domestic policies to the binding rules of various international regimes; the Europe Agreement being the most important one. This strategy of 'anchoring' was to increase the viability of the measures undertaken, stabilise the domestic political process and secure external support for the internal changes.

In ruling circles, it was assumed that the window of opportunity for radical economic change would be too small to risk gradual reform, and that in order to avoid future temptation to give into interest group pressure, the government would unilaterally limit its policy making discretion, by tying its hands with binding international obligations and credibility considerations. Thus as domestic actors returned to the political arena and the initial social consensus over the reforms faded with rising transaction costs of adjustment, the authorities would be able to resist growing public dissatisfaction with liberal policies and increasing pressure to reverse or slow down the reforms. In addition, the benefits of opening up the economy through international agreements were to provide other incentives and visible rewards for the continuation of difficult changes. The economic radicalism of the early 90's chanced a highly technocratic and top-down approach to policy formulation, and the Balcerowicz team was aware of the political

¹³ See Balcerowicz, L. 'Poland', in Williamson (Ed.) (1994). *The Political Economy of Policy Reform*.
ibid.

Balcerowicz, L. (1995). *Socialism, Capitalism, Transformation*. Budapest: Central European University Press.

risks. However, a more gradual approach would have meant that either the economy was not going to recover from the dramatic macroeconomic crisis evident at the time or that the political power would be given back to the Communists. Wanting to avoid either of these traps, and knowing that the window of opportunity provided by extraordinary politics was very small, they took a gamble.¹⁵ Moreover, aware that there was no realistic alternative other than elitism as a strategy for modernisation, they were prepared to risk the dangers of this social experiment in order to deliver in the shortest amount of time and while social consensus still existed, visible benefits of the transition to ensure its irreversibility. These benefits were clearly conditional on a favourable international environment and on domestic economic performance that would have to impress in just a few years time.

B. The Europe Agreement

Trade with the world economy was one of the central features distinguishing former command systems from market models. A crucial issue in the transformation of Poland from a planned to a market economy has thus been foreign trade re-orientation, and the goal of trade policy reform was to bring the domestic economic regime in line with market mechanisms of the international structure; to increase openness, strengthen national competitiveness and ultimately contribute to growing internal prosperity. As such, trade policy became a reflection of the dramatic changes going on both within the country and in the international context. In 1990, the newly democratised Polish government unilaterally liberalised its trade relations with the outside world through a series of measures, including radical cuts in tariff levels¹⁶, currency convertibility, and other forms of liberalisation aimed at freeing economic activity from state control. To enhance the credibility of their commitment to openness, the new elites entered into a series of regional and global international trade agreements, signalling their resolution to liberalise economic transactions and reorient the pattern of trade from East to West. The most significant of these agreements, the EA, was designed to create a Free Trade

¹⁴ Moravcsik, A. (1993). 'Introduction', in Evans, P., Jacobson, H. and Putnam, R. (Ed.) (1993). *Double-edged Diplomacy: international bargaining and domestic politics*. Berkeley: University of California Press.

¹⁵ Interviews with L Balcerowicz,

R Anczak,

J Saryusz-Wolski

J K Bielecki

J Frasyński

P Nowina-Konopka

¹⁶ Poland reduced its average unweighed rate of custom duties to 5% at the end of 1990 through a suspension of tariffs on 60% of duty items.

Area and subsequently a Customs Union between the Polish 'state' and the European Communities.

Official political rhetoric, from both the EC and the Polish side, made it clear that the EA was perceived as a reward for the changes taking place in the former socialist state and as a tool of support for the internal process of political and economic transformation. As a foundation for the creation of a FTA, the EA was seen as a prerequisite to the pursuit of sound macroeconomic policies in the reforming associate, facilitating exports to the Union and intensifying domestic competition, thus stimulating economic growth through both static and dynamic benefits of trade creation. The trade liberalisation schedule within the framework of the EA was to be mutually beneficial, providing a growing new market to the current member states of the Union as well as crucial transition assistance, in the form of market access and direct financial aid, to the candidate. In combination, the standstill clause and the principle of asymmetric opening¹⁷ were to pave the way for smooth integration of the Polish economy with the Community's markets. In addition, the EA was to enhance Poland's credit-worthiness in the eyes of foreign financial institutions and multinational corporations, contributing to higher rates of inward foreign investment, invigorating development and hence accelerating recovery from transition recession. As a result of increased economic growth and visible gains of liberalisation, the EA was to serve as a foundation for the development of pluralism and liberalism in Poland, contributing to the emergence of a group of beneficiaries of the reforms able to provide a solid base of support to the reforming elites. Economic growth was thus to open up the political game to new players and ensure that the balance of interests lacking under command structures would emerge, contributing to healthy political competition. Accordingly, the EA was not only to serve as an 'anchor' for domestic reform; guiding the emerging Polish economic regime in the direction of openness by using conditionality as external leverage and providing incentives for difficult domestic decisions, but also to support the process of internal democratisation.

The final goal of the EA was to create, on the cornerstones of economic integration, the conditions necessary for political convergence. In fact, heralded within official declarations¹⁸, the long term objective of the entire association process was to the

¹⁷ This 'anchoring' stemmed from the application of the *standstill clause* provided for in the EA, which makes the re-introduction of protectionist measures after the Agreement has gone into force illegal. The principle of *asymmetric* liberalisation of trade is based on the notion that the EU, as a stronger partner, opens up more quickly than the associated state in transition. See chapter two.

¹⁸ See Kohl, Chirac etc... Enlargement speeches
<http://europe.eu.int/comm/dg1a/enlarge/docs/speeches/index.htm>

reunify Europe through the successful transformation of the CEE states into functioning market democracies; their integration with the Union, in turn, increasing Europe's economic dynamism, political weight and internal and external stability.

The role of the European Community was critical. In the interest of the candidate as well as in its own long- term interest, the EC was to let Poland reap the benefits of association and reward the Polish elites for the risky radical reforms and dramatic liberalisation. To make the necessary evil of elitism worth the costs for the Polish political system, it was essential that the EU fulfil its side of the bargain.

The aim of this thesis is to assess the effectiveness of the Union in fulfilling these objectives and to examine the consistency/ coherence of the EU's policy prescriptions to the Polish partner. Has the economic conditionality used by the Union collectively, based on strict targets and rigorous criteria, combined with the concurrent democratic requirement of social inclusion in the decision making process worked in achieving the goal of buttressing the internal transformation, or have the two goals been in conflict with each other?¹⁹

How have the Polish elites themselves reacted to their self-imposed anchoring restrictions in attempted to deal with often irreconcilable dilemmas, and how much flexibility has the EU side, in turn, shown in supporting them in their ongoing struggle for balance between the needs of the market, on the one hand, and the postulates of social legitimacy, on the other.

As such, this book aims to challenge the main assumptions behind neoliberal institutionalist²⁰ arguments for policy 'anchoring', and demonstrate that, while in theory correct to propagate the economic case for free trade, neoliberal institutionalism in and of itself is insufficient both to prescribe how to guide policy reform and to predict how in fact policies will be formulated. Upholding the normative economic case made for free trade, and not necessarily complete *laissez faire*,²¹ the author never the less believes

¹⁹ Paradoxically the social *acquis* requires dialogue and consultations between the social partners and the state and is not only a fundamental pillar of the EU, but also a requirement for accession. See Tsoukalis (1997).

²⁰ Neoliberal institutionalism is an International Relations/ International Political Economy theoretical term is not to be confused with and distinct from the ideology of 'neoliberalism' in economics. (Which espouses to a position based on radical *laissez faire*, a minimalist state and anti- regulation.) Neoliberal institutionalism as used in this book can also be labeled institutional liberalism or new institutionalism. See below.

²¹ While the author considers herself a liberal, she does not necessarily espouse to the radical economic liberalism referred to popularly as neoliberal economics, favouring instead a more active engagement of the state in guiding capitalism, particularly in transition, and a more conscious and careful, strategic approach to liberalisation based on a strong policy-mix. These views are more in line with the evolutionary- institutionalist literature of Gerard Roland, which places emphasis on the role of the state in institution building and microeconomic reform, as necessary components to complement macroeconomic stabilisation.

that in order for openness to be accepted and bring about the expected benefits, market forces and market-led guidelines must be embedded in society, and the crucial *legitimacy* dimension must be included in all economic strategies.

C. Trust

The author hopes to disqualify the neo-liberal economic notion, which underpinned Poland's radical restructuring, that economic reform must proceed political change in order for national authorities to avoid the potential trap of having to reconcile social conflict and political feasibility with economic efficiency considerations. Conflict is a natural by-product of democratic policy making: it is argued here that economic reform, to be sustainable in the long run, should be based on conflict resolution, rather than avoidance. Public consensus-seeking and mobilisation, grounded in the sociological concepts of legitimacy and trust, are to serve as the cornerstones of reform consolidation.

On the domestic level, the mechanism of building political 'trust' in this thesis will be understood as the institutionalisation of conflict and the representation of interest within domestic political structures. This requires that the ruling authorities seek a solid social base for their reform efforts and remain accountable to various public interests, both the supporters and the opponents of the measures. Moreover, to be legitimate and endowed with trust, the political institutions of the state themselves must be built on a minimum level of consensus present in a given political culture of a nation, implemented in a predictable, transparent and non-discrimination way. Transplanted international procedures will not pass the legitimacy test unless they are socially internalised and embedded in particular local interests and ideas, and unless they are accompanied by an effective regulatory/ legal framework. The concept of domestic legitimation, crucial for the consolidation of a market-based democracy, is consequently built upon popular confidence in and trust given to the authorities, and a policy-making environment governed by consistent, transparent and credible rules.

In Poland of the early 90's, however, the initial Mazowiecki/ Balcerowicz liberalisers neglected the social and institutional dimensions of the transition reforms.

Consequently, the Polish version of political elitism and technocratic paternalism that emerged, this book will argue, endangered the development of social trust, precisely at a time when the Polish population was expecting an elastic and representative form of politics. By undermining public confidence, the early liberalisers, followed by each successive government, damaged their own authority and depleted their capacity to consistently implement the transition reforms.

On the international level, the consolidation of economic reform also has its foundations in 'trust'; bestowed by national elites on an international institution in seeking guidance and support for domestic change. In this thesis, the international legitimating dimension will be accordingly built on the notion of credibility of the international institution; as demonstrated by its own actions, fulfilment of declared objectives, and, finally, coherency of policy prescriptions. It will be argued that externally prescribed, technocratic economic strategies cannot be domestically consolidated, if they are not in and of themselves pursued consistently by the international organisation. The failure to bridge the gap between the policy rhetoric of the international institution and the reality of its behaviour can breed mistrust in the associated partner, discrediting not only the international institution, but also the pursued reforms and the reformers themselves. Throughout the period of association and during the actual implementation of the EA, the European Union's protectionist trade policies and failure to make good on the promises of asymmetrical market opening not only had a negative impact on the transition process itself, but also placed the Polish liberals in an uncomfortable position of arguing that Polish economic policy should be more 'free' than the Union's. This left them wide open to criticism both from the social democrats and from various populist parties. In sum, the Union's protectionism undermined the credibility of the liberal economic reforms in Poland and reinforced the image of the liberalisers as gullible utopians.

While it is not the purpose of this paper to argue that external regimes cannot fulfil their goal of strengthening the viability of domestic change, or to question the benefits of economic openness or free trade, the aim is rather to point out what lessons can be learned from the Polish- EU case and the implications for future policy reform in countries undergoing similar transformations; such as the Balkans, Ukraine, Belarus, Russia and the former CIS.

It will be argued that certain conditions have to be fulfilled in order for an external anchor to work in consolidating the economic goals pursued. As A Moravcsik has observed, "to enhance credibility, arrangements {like the EA} tend to be insulated from direct democratic control and are strictly limited by government oversight, resulting in the 'democratic deficit'."²² However, because market-led policies should primarily stem from domestic interests, institutions and ideas, the development of this democratic deficit can in fact increase public resistance to the reforms, contributing to the

resurgence of pressures for economic protection and unilateral breaches of international agreements. The author none the less upholds the view that an international 'anchor' can be used as a valuable supportive tool in the pursuit of reform, assuming that the 'politics' of the reform process are gotten right.²³

'Anchoring' strategies, implemented through technocratic means and steered by externally imposed targets, not adapted to national conditions, not balanced between macroeconomic targets and microeconomic institutional reform, and not accompanied by generous financial and technical support can be threatening to reform sustainability. Outside actors attempting to exert positive leverage on domestic change should pay active attention to domestic responses and adapt anchoring strategies to national specificities. To be sustainable, international regimes should be defined by clear rules of the game, combining conditionality parameters with guidelines for the construction of culturally appropriate institutions and complementary policy- mixes to respond to the social costs of the reforms.

In this thesis, the author will demonstrate that the European Union has not fulfilled these conditions necessary for an external anchor to work, and that the 'anchoring strategy' supported by the Union was not based on adequate calculations as to its implications for the transition process or implemented in a flexible enough way to account for evolving complications. In sum, the Union has depleted its own credibility as an open liberal trader, and contributed to a deepening legitimacy crisis of the Polish 'state'.

The socially painful radicalism of shock therapy in Poland, combined with the surprisingly disappointing behaviour of the EU has led, in practice, to a growing tension between the Polish reformers who continue to argue the neoliberal case for marketisation²⁴, and whose political position has been undermined because of the length of the transition (longer than would have been the case under more fair conditions of international trade), and the many constituencies who oppose this 'no alternative', radical approach. This has bred political paralysis and crippled the current government's

²² Moravcsik, A. (1998). 'Theorising European Integration', in Moravcsik (Ed.) (1998). *The Choice for Europe: Social purpose and State Power From Messina to Maastricht*. Ithaca, NY: Cornell University Press, p 78.

²³ As opposed to *substitutes*. The author here refers to JMC Rollo's comments on thesis.

²⁴ For example, currently, Balcerowicz, as President of the Polish National Bank, is determined to discipline the Social Democratic government's fiscal policy through tight monetary control and high interest rates.

attempts to pursue consistent economic policy reform, at a time when serious effort is still needed to prepare Poland for accession into the European Union.²⁵

In fact, the author will show that by multiplying the policy dilemmas, the ‘anchoring’ strategy, as it evolved during association, contributed to depleting ‘state’ capacity in Poland, delaying the institutionalisation of the reforms and undermining the consolidation of a participatory democracy.

D. The emerging trade regime

The emerging structure of the Polish trade regime reveals that it has evolved in unexpected ways. Despite initial intentions of policy irreversibility, the overall level of protection has been on the rise during the 12 years of systemic transformation, and the temptation of Polish authorities to micromanage the economy has been little reduced.²⁶

In addition, protection has become an economic tool advocated not only by populist parties, but also by mainstream policy makers and experts.²⁷

A closer analysis of the crystallising trade regime reflects ‘the state’s’ feeble attempts to concurrently respond to the external requirements of liberalisation and to the demands emanating from the domestic political situation. Endeavours to reconcile these incompatible pressures, in turn, have weakened its ability to make credible policy decisions and contributed to its declining legitimacy in the eyes of both domestic and international actors. As a result, trade policy has evolved as a set of incoherent, inconsistent and even mutually blocking elements, with progressive liberalisation based on incremental tariff level reductions, on the one hand, combined with significant policy backsliding, through the introduction of various Non Tariff Barriers, on the other.

Initially, the systemic crises of the command system in Poland enabled the government to reject single-handedly the principles of central planning and radically and unilaterally liberalise trade, without public opposition. However, as the adjustment costs began to be felt under conditions of an evolving parliamentary democracy, public dissatisfaction with the reforms began to be expressed through protests. ‘Extraordinary politics’ gave way to normal politics of parties and interests groups²⁸, and the pressures of external opening up coupled with internal recession placed the ‘state’ in a critical dilemma. With social consensus for radical neo-liberal reforms rapidly diminishing, policy makers had to choose either to respond to the growing public unrest and give into protectionist

²⁵ Such as fiscal (tax) and public finance reform, welfare and social security policies, labour market policies, privatisation and restructuring, improvements in physical infrastructure.

²⁶ Including subsidies to agriculture, Non Tariff Barriers of various kinds, monetary policy etc... Poland’s protectionist policy stance in the new Doha WTO Round is particularly regrettable...

²⁷ See *Gazeta Wyborcza, Rzeczpospolita* (various issues and years). Chapter seven.

pressures, thereby demonstrating democratic accountability, or to remain credible in the international arena, fulfilling their obligations with whatever political means available. Simultaneously, due to an incomplete and unbalanced initial reform programme, the institutionalisation of the trade regime failed to evolve in a transparent way, opening the door for the capture of the 'state' by various powerful interest groups (particularly the winners of those early reforms) and paving the way for corruption.

To sustain themselves in power, the authorities began to function on the basis of ad hoc reactions to political crises and rent-seeking activities, giving into the loudest voices of domestic protests and most powerful interests. The more successive governments gave into social pressures, the more critical the EU side became of the Polish partner. On the other hand, continuing liberalisation in face of domestic resistance, as was subsequently required by the EU, was contributing to the alienation of society and strengthening the symptom of distrust already characteristic of Polish political culture. As society adapted to voicing its discontent as a result of democratisation, the 'state', due to its international requirements, simultaneously learned not to respond to this voice or alternatively to respond to it inadequately. These developments undermined the credibility of the initial liberal reform efforts, strengthening populism and radicalising policy preferences.

The crisis-management, reactionary behaviour and unpredictable decision-making of the public administration have provided a fertile ground for the growth of corruption, as vested interests learned that the only way to get their demands heard was through protest, combined with not necessarily legal lobbying activities. As a result, political cronyism has grown, and the rule of law has been weakened. Ultimately, due to the opposing pressures placed upon it, the weakened 'state' and its institutions was not only unable to stabilise the economic regime, but, on the contrary, actually increased the ineffectiveness of the reforms, while at the same time contributing to the degeneration of the democratic impulse.

II. The Evolution of Polish Trade Policy

The underlining thesis throughout this paper will be that the EA has failed to increase the credibility of Polish trade policy reform. Moreover, the Agreement has not provided a coherent framework adapted to local conditions and to the needs of the applicant, to build and consolidate a socially-responsive, market democracy. In implementing the EA, the European Union has not paid enough attention to Polish domestic responses, to

²⁸ Balcerowicz, L. (1994). 'Poland', in Williamson, J. (Ed.) (1994). *The Political Economy of Policy Reform*. Washington DC: Institute for International Economics, p 177.

institution building during regime change or to the social dimension of the reforms. The EA has paradoxically complicated the transition process, trapping 'the state' in irreconcilable policy dilemmas, decreasing its capacity to govern, and strengthening the tendency towards haphazardous policy-making. The incoherent trade regime that has actually evolved in Poland depicts the weakness of the 'state' in transition, the ineffectiveness of its institutions and the deficiency of its authority. By examining a range of literature, I argue that the reasons for this weakness are several-fold.

To begin with, the increase in protection has primarily been an economic response to the dramatic growth of imports and subsequent deterioration in the balance of trade. It will be shown that the objectives of asymmetrical trade liberalisation and generous market access and financial aid, declared by the EU when granting Poland the EA, were overridden by short-term internal bickering within the Union and conflicting goals of the member states' multiple interests. In addition, the growing trade deficit with the EU, and the scarcely changing commodity structure of the Polish trade regime have signalled a lack of serious commitment from the EU to support the process of internal transition, increase Poland's national competitiveness, or buttress the credibility of the open, liberal economic reforms.

The author's analysis suggests that protectionism in Poland has reappeared largely as political backlash to the perceived failure of the Union itself to collectively act consistently in pursuit of open economic policies. The EU has furnished Polish authorities with an example of modern methods of managed trade through its own rising tendencies in protecting domestic markets. This behaviour has depleted the creditworthiness of the Union as a liberal trading partner, while simultaneously undermining liberal reform and the authority of the Polish reforming elites. Polish- EU relations under the EA have evolved around a number of highly contentious issues and various trade disputes that have damaged mutual trust and hurt political cooperation. In the end, the multiple breakdowns in constructive dialogue coupled with the mixed signals sent to the Polish side by the member states, have undermined the coherence of the EU's strategy and the consistency of its policy prescriptions, contributing to increasingly mercantilist behaviour of the associated partner.

Finally, the author will argue that Polish trade policy reversals can be attributed to political economy explanations and questions of domestic interests, institutions and ideas. It will be examined how the interplay between integration, marketisation and democratisation has affected the creation of Polish interests, and how, in turn, the struggle between these domestic groups, as constrained by national institutions and

dominant political culture, has determined the balance between protectionism and liberalisation in the trade regime.

This thesis will accordingly analyse the process of Polish trade policy making, taking into consideration the impact of both external and internal factors as they have affected economic policy preferences and outcomes, and suggesting that neither dimension can be treated in isolation from the other in explaining the political economy of policy reform.

A. Multi-disciplinary approach

H Milner has claimed “that the stylised whole we call a country's trade policy is really a collection of often conflicting policies, each designed to address different problems.”²⁹

According to this definition, the outcome of a particular trade policy mix is a result of complex political compromises involving various goals, pressures and expectations.

Moreover, the eventual balance between free trade, on the one hand, and protectionism, on the other, depends on internal politics, the external environment and the way in which the interaction between them shapes the ongoing domestic struggle.

In light of this, a survey of existing literature in the field must cover variety of subjects ranging from various schools of economic theory, to international relations and international political economy literature, regime change studies, sociology and finally transition/ transformation itself.

Transformation is complex a social, political and economic phenomenon that involves many tangibles and intangibles, as well as multiple layers of competing factors that determine the outcomes of the process. As such, it cannot be reduced to any single paradigm and must be conceptualised through a multi- disciplinary perspective that incorporates standard theories of structure and agency stemming from political science, with processual models of behaviour provided by sociology, notions of legitimisation coming from political theory, mixed with variants of economic analysis, and in particular policy-making literature. Systemic change such as the ‘leap to market’ has to be built on both domestic and international level explanations, using tools that explain macro incentives for states as units as well as micro motives of individuals that make up those states.

This paper thus begin with a general survey of factors that might determine policy outcomes in transformation, paying particular attention to the political economy of policy reform and the interplay between outside support and internal change.

²⁹ Milner, H. (1988). *Resisting Protectionism: global industries and the politics of international trade*. Princeton, NJ: Princeton University Press, p 17.

A. Neoliberal institutionalism

Before one begins to assess the role of international anchors, such as the Europe Agreement, in enhancing policy reform credibility, one must examine the arguments that provide the rationale as to why nations willingly seek international cooperation as a form of external leverage on domestic change. The body of work that corresponds most closely to this line of thinking stems from both political science and economics and centres around the notion of international regimes or institutions. In international relations, these theories are referred to as either institutional liberalism or neoliberal institutionalism and are closely related to the work of economists from the new institutionalist school discussed below. While the latter examines how national political institutions might affect policy outcomes, its IR counterpart analyses the role of international institutions as they influence domestic change within a particular nation as well as cooperation between nations states themselves.

According to Biersteker, “an institution or a regime is a form of governance, institutionalising elements of economic policy and constituting what is a state-driven change, often in the face of strong domestic opposition or in expectation that opposition will arise as a result of reform.”³⁰ Neoliberal institutionalists argue that states modify their behaviour in the presence of institutions, and that legal frameworks such as treaties or agencies facilitate cooperation. Thus in providing explanations as to why governments employ the ‘anchoring’ strategy in their economic reform programmes, liberal institutionalists correctly assume that politics matter in the process of policy formulation. However, the main premise of this body of work, whether in its domestic or international variant, is that in order to improve economic efficiency, the role of politics should be limited.

This literature explains policy co-ordination, by focusing on the two-level strategy designed by national elites. By binding domestic politics to international regimes, the government restructures future domestic incentives and raises the costs of non-decision or non-compliance. This assures, on the one hand, that the other government will accept the agreed legislation, and, on the other, locks in future decisions against domestic opposition. Accordingly, Moravcsik upholds that “states pool sovereignty and delegate powers to outside institutions in order to precommit themselves to a stream of future decisions by removing the possibility for unilateral decision making.”³¹ ‘Anchoring’

³⁰ Biersteker, ‘chapter four,’ in Rosenau, J.N. and Czempiel, E. (1992). *Governance Without Government: Order and Change in World Politics*. Cambridge Studies in International Relations, Cambridge: Cambridge University Press, p 110.

³¹ Moravcsik (1998). *Theorising*, *ibid.*, p 69.

thus precludes more explicit control over internal policies and helps to defuse potential resistance from disadvantaged groups.³²

Liberal institutionalists suggest that to ensure the credibility of economic reforms, clear and enforceable rules, administered impartially, are needed. A government can signal its commitment to reform by joining an international organisation such as the WTO or the OECD, and as such reduce the scope of its own ability to alter policy.³³ Hence, regional integration, such as that with the EU, serves as a tool to signal a government's determination to fulfil its own goals as well as the commitments arising from internationalisation. These external obligations, in turn, by reducing the possibility of arbitrary alteration of policies and changing the incentive structure for the ruling elites, lead institutionalists to conclude that binding national policies to various external regulations forces countries to follow sound policies. In sum, international anchors diminish the influence of domestic interests groups on the process of policy making and, as a result, increase the credibility of the reforms.³⁴

In addition, external institutionalisation of reform can provide a viable model for creating, through duplication, domestic institutions. This strategy is based on the adoption by the reforming state certain tried and tested rules as well as internationally acceptable norms and standards. Accordingly, in prescribing trade reform strategies to developing countries or countries in transition, the World Bank recommends that their governments "adopt a new institutional design of trade policy making that would contain protectionist pressure and induce contestability, reducing all discrimination by the adoption and imitation of tried and tested institutions of highly developed nations."³⁵ The main assumption of this 'anchoring thesis' is rooted in the notion of conditionality. It is assumed that conditionality is to provide a catalyst for change in economic policy, and that the rule-based framework of international treaties has the ability to influence domestic preferences, through pressures and practices already established at international levels.³⁶

³² Moravcsik (1998). *ibid.*

³³ Piazzolo, D. (1998). 'Poland and the European Union: Quantifying the Growth Effects of Enhanced Institutions', in Zielinska- Glebocka, A. and Stepniak, A. (Ed.) (1998). *EU Adjustment to Eastern Enlargement: Polish and European Perspective*. Gdansk: University of Gdansk, p147.

³⁴ See Kaminski, B., Wang, Z. and Winters, L.A. (1996). 'Foreign Trade in the Transition: the international environment and domestic policy', *World Bank Studies of Economies in Transformation*, No 20, Washington DC: World Bank

³⁵ World Bank (1997). *Poland: Country Economic Memorandum: Reform and growth on the road to the EU*. Washington DC: World Bank, 15 July.

³⁶ Milner, H. (1988). *Resisting Protectionism: global industries and the politics of international trade*. Princeton, NJ: Princeton University Press, p 13.

Moravcsik (1998). *ibid.*

For more on international regimes see S Krasner, J Ruggie.

Neoliberal institutionalists argue that once an institution is formed, the rules of the game take off and develop on their own. This conclusion is premised on the notion that international negotiations aim to secure commercial advantages for domestic producer groups that benefit from increased openness. As such, in the words of P Bofinger, “the hands tying dynamic effects of the EA (in Poland should) strengthen the relative power of lobbies whose interests are often neglected in political decisions on trade issues (namely exporters and consumers), changing the balance of power between different national interest groups and leading to decreased demand for protection. Thus from a political economy perspective, the main advantage of EU membership is the provision of an open economic constitution which guarantees an efficient allocation of resources as it greatly reduces the power of national producer lobbies and the potential for state intervention into the market mechanism.”³⁷

It is this author’s opinion that there are two problems with these theories. Primarily, by focusing on why states cooperate and why institutions increase the credibility of commitments, the international dimension is over-emphasised in policy reform and the role of individuals as they react to or comply with particular directives of international treaties is underestimated. Secondly, even if the distributive consequences of international bargaining are recognised by institutionalists, the assumption is that the winners of globalisation are numerous enough to overpower the losers, and thus have more political clout in influencing policy decisions, and that somehow reform can be sustained without the active inclusion and participation of these very losers.

These arguments imply that commitment to economic reform can only be guaranteed by limiting democratic accountability. Institutionalists maintain that for reform to be successfully consolidated, it must be carried out by technocratic national elites deprived of real policy autonomy and thus isolated from the risk of giving into domestic interest group pressure and social demands. Technocratic solutions empower experts and minimise legal or political oversight required for policy making, as the information available to make highly technical decisions is usually quite limited to the public or even to the parliament. Institutionalists contend that marketisation should accordingly precede democratisation, and be carried out as quickly as possible to achieve the desired goals of economic efficiency.

Employing this technique to achieve policy goals thus seems to be premised on the notion that economic reform can indeed proceed before social support has been

³⁷ Bofinger, P. (1995). ‘The Political Economy of the Eastern Enlargement of the EU’, *CEPR Discussion paper*, No 1234, London: CEPR, p 10.

generated. This author in turn argues that the assumption of an ‘institutionally frictionless environment’ does not hold under conditions of a transition to a parliamentary democracy.

Moreover, the pursuit of economic reform at the short-term expense of democracy is not sustainable in the long run.³⁸ To understand why this is so, it is necessary to delve into the intricacies of notions such as *legitimacy* and *trust* that form the basis of the relationship between capitalism and democracy and avoid over-simplified solutions and reductionist models in the search for economically desirable policy options.

To summarise, even if one accepts that external anchoring can enhance the credibility of policy reform in the short-run, the question never the less remains what happen to the sustainability and consolidation of the reforms. While the external creditworthiness of the government is indeed strengthened through international commitments, this does not solve the lingering problem of domestic credibility of either the government or of the international institution and the authority created by them. In addition, although it might be possible, to jump start an economic process during a period of economic crisis and political chaos without seeking public consensus, once the grace period granted to the government is over, social legitimacy is a necessary ingredient in sustaining the measures, and the key to successful policy reform lies in securing a broad enough base of support to enable the reformers to carry on with their program.

Ultimately, then while international institutions might strengthen the credibility of reforms by defining the boundaries of policy making and committing the government officials to respect international obligations³⁹, in doing so, they can undermine the democratic impulse and threaten the sustainability of the policies themselves.

By over-estimating the unitary character of the ‘state’ and neglecting to examine how individual citizens respond to both national and international institutions and how, in turn, this reaction drives policy outcomes, neoliberal institutionalists place too much hope on the primacy of the external leverage in domestic reform consolidation.

This author, in turn, argues that the leverage of international ‘anchors’ should not be over-stated and policy-makers, attempting to lock in reform efforts, should seek to prioritise domestic factors.

C. Economics

In reviewing the literature on economic policy reform, the first set of theories that seeks to explain policy outcomes comes from economics. Normative economics is based on

³⁸ In addition the author assumes that weakening democratic mechanisms is itself not desirable.

the assumption that the objective of economic policy is the promotion of the general good, the maximisation of the social welfare function. Mainstream economists take it for granted that government policy is made with this long-term horizon in mind, and that the 'state' should consequently act as an umpire rather than a favour granting mechanism. Pluralist theories (Viner) give priority to the neoclassical questions of efficiency and wealth and explain the exchanges in international trade as nothing more than a simple outcome of market forces. From the point of view of economists then, a nation, as a unitary whole, is primarily concerned with securing the most efficient allocation of resources. Raising protective barriers and closing markets is hence irrational behaviour that leads to substantial economic losses. As such, normative economists find no rationale as to why states should pursue mercantilist trade policies. They acknowledge the existence of rent-seeking behaviour of vested interests, which is the root cause of protectionism, but do not seek to address this issue, focusing their attention instead on quantifying the losses incurred.

By emphasising national macroeconomic goals and long-term objectives attributed to free trade and paying too little attention to short-term distributional questions and associated social and political tensions, normative economic analysis cannot explain the qualitative factors that determine the process and outcomes of policy making. While tables and figures can demonstrate the diversion of trade flows and variations in commodity patterns, they cannot account for the political influences that trigger these economic responses and thus cannot predict what developments will take place in the economy as a result of applying theoretical trade models.

S Strange has pointed out that

*customs union theory and other liberal theories of international trade make the false assumptions that firms in planning and states in deciding commercial policies can afford to disregard the questions of security and survival, in order to give priority to economic consequences. They treat trade in isolation from other power structures, and pay too much attention to the economic relationship between demand and supply, to trade creation and diversion, disregarding the role of politics and political bargains.*⁴⁰

C.2 International relations- mercantilism

In international relations, mercantilism, built on theories of realism, corresponds to the normative economic variant in explaining policy outcomes. This is the literature based on competing states, whereby each nation is focused on securing the best possible terms for itself in cooperating with the others. Security and economic calculations provide the

³⁹ Thomas, V. and Nash, J.D. (1991). *Best practices in Trade Policy Reform*. Oxford: Published for the World Bank by Oxford University Press.

arguments for protection, and national perceptions of fairness in trade relations justify retaliation as a political response to tit for tat international bargaining and zero-sum game negotiations.

Although theories of economic nationalism, as mercantilism is sometimes called, acknowledge the role of domestic politics as an intervening factor in influencing policy decisions, they insist that it is the structure of the global economy and international repercussions that in fact determine the outcomes.⁴¹ Under conditions of interdependence, credibility constraints, such as reliance on external foreign capital or trade, will restrict state responses in seeking to maximise its welfare function.

The weakness of these theories is exactly this sort of reductionism that relies heavily on an overly deterministic view of international relations, whereby structure completely limits the behaviour of the agents. Economic realists over-emphasise the diminishing role of the state and place undue importance on the international structure of the market, which, according to them, much more than national governments or other factors determines the eventual outcome of policy.

Consequently, this literature, by treating nations as unitary wholes, does not address the distributional questions that are so fundamental to understanding trade and trade policy reform. The impact of domestic politics on policy making and the influence of interests, institutions and ideas within individual nation states on outcomes and performance is undervalued. H Milner has pointed out that, “international agreements emerge from an inherently political process in which national actors are seeking to protect perceived national competitive interest, regardless of whether these may be reconciled with the state of goods of inciting efficiency and ensuring stability in the larger market.”⁴² The role of politics ultimately intervenes in the policy making process and the economic questions of efficiency, as Strange, in turn, has noted “move towards managing the issues of conflict that arise as a result of economic transactions.”⁴³

C.3 Classical liberalism and political thought

Criticising neoliberal economics, R Sally has pointed out “that from Adam Smith to John Stuart Mill and beyond, classical economists grasped the essential insight that the politics of international commerce has more to do with conflicts between interests in

⁴⁰ Strange, S. (1988). *States and Markets*. London: Pinter, p 165.

⁴¹ See Gilpin, R. and Gilpin, J.M. (1987). *The Political Economy of International Relations*. Princeton, NJ: Princeton University Press.

⁴² Milner, H. (1994). ‘Regional Integration and Multinational Production’, in Cable, V., Henderson, D. (Ed.) (1994). *Trade blocs?: the future of regional integration*. London: Royal Institute of International Affairs/International Economics Programme, p 158.

⁴³ Strange, S. (1988). *ibid.*, p 14.

one country than with conflicts between countries.”⁴⁴ As such, classical liberals reject the notion that the ‘rules of the game’ approach pursued by neoliberal institutionalists is the key to sustainable economic reform, focusing rather on the social contract within a single state. In sharp contrast to policy co-ordination through international organisations, classical liberalism places emphasis on national policies and national institutions, supported by domestic interests and ideas, in determining the success or failure of policy sustainability. At the core of this argument lies the notion that reciprocity and international binding rules on liberalisation do not compensate for a lack of domestic political support for free trade.

Classical liberals reject the argument that by relinquishing policy autonomy to external rules, policymakers can protect themselves from interest group capture and even gain an element of policy autonomy within the domestic sphere.⁴⁵ R Sally, for example, has disapproved of the neoliberal institutionalist suggestion that the locking-in or ‘anchoring’ effect of reciprocity is to support free trade which otherwise would not be achievable. “By conveying the impression that governments ‘concede’ import access to their own markets in exchange for access to others”, neoliberal institutionalism creates a political atmosphere in which trade negotiators extract as many concessions from other governments as feasible, while at the same time striving to give away as little as possible on access to their own market. Sally aptly concludes “that this reliance on reciprocity encourages countries to think in terms of power games rather than economic efficiency and is therefore ultimately mercantilist.”⁴⁶

Thus while classical liberals recognise that the main obstacles to economic reform have domestic origins, and cannot be ‘fixed’ by international institutions, they fail to advance the analysis one step further to discuss the underlying reasons for domestic resistance to policy change or how this resistance can in fact be channelled towards support. In addition, while classical liberal theorists identify social, ideological and cultural factors as the main barriers to regime change, they stop short of examining the fundamental notions of political conflict, legitimacy and trust that underlie these social phenomena. Instead, classical liberalism, like its neoliberal economic counterpart, seeks to advance economic efficiency and welfare maximisation effects, analysing the dangers of bureaucratically imposed from above and binding international rules of the game for the efficient allocation of resources. It does not address the implications of this sort of

⁴⁴ Sally, R. (1998). *Classical Liberalism and International Economic Order*, Studies in theory and intellectual history. London: Routledge, p 7.

⁴⁵ Sally (1998). *ibid.*, p 20.

⁴⁶ Sally (1998). *ibid.*, p 21.

‘anchoring’ for the development of a democratic culture or the emergence of an civil society, such as has not existed in transition economies.

C.4 New Trade Theories

Newer versions of trade theory, by making a clear distinction between normative and positive economics, fare much better in explaining and even providing justification for the selective pursuit of mercantilism. By adding both the political as well as the international dimension to the questions of the *pareto- optimality* of the market, New Trade Theory rationalises the introduction of tariffs and Non Tariff Barriers from the point of view of economic efficiency. The economists from this school claim to combine positive economic analysis and value judgements about the objectives of the policy, with theories of the operation of the political processes.⁴⁷ Aware of the major assumptions underlying their analysis, they take into account the role of transaction costs in determining policy outcomes.⁴⁸ As such, they consider the influence of trade policies on the distribution of welfare, on the generation of conflict and on social stability.

This shift in concentration away from questions of pure economic desirability and towards political feasibility makes New Trade Theory much more balanced than normative economics and allows economists to incorporate the role of interests, ideology and institutions in their analysis of policy reform.

The theoreticians concede that it is usually the initial impact of reform rather than its long-term benefits that is crucial for sustainability. Consequently, they recognise the role of temporary protection in softening the negative short-term consequences of trade liberalisation. Moreover, strategic trade policy versions of new trade theory provide justification for selective protection of specific industries basing their arguments on both political and economic considerations of policy outcomes.⁴⁹ By admitting that free trade is not always optimal, strategic trade policy economists rationalise state intervention and management of the trade regime under certain conditions, such as the existence of infant industries, the necessities of in-depth restructuring or a staggering trade deficit.

⁴⁷ Dillon, P., Lehman, J. and Willett, T. (1990). ‘Assessing the Usefulness of International Trade Theory for Policy Analysis’, in Odell, J.S. and Willett, T.D. (Ed.) (1990). *International trade policies: gains from exchange between economics and political science*. Ann Arbor: University of Michigan Press.

See also Krugman, P. (1987). ‘Is free trade passe?’, *Economic perspectives*, Vol 1, No 2, November, p 131-144.

⁴⁸ Dixit, A.K. (1996). *The Making of Economic Policy: a transaction-cost politics perspective*. Cambridge, Mass, London: MIT Press.

⁴⁹ See W Orlowski, P Krugman

Finally, the notions of 'reciprocity' and 'retaliation' are also identified by New Trade Theory as factors that influence policy decisions, significantly widening the scope of the analysis from models based on economic efficiency and domestic political questions to those that incorporate the international political dimension.

Although these newer variants of international trade theory significantly improve the ability of economists to apply their static models to real world politics and to predict policy outcomes and performance, never the less, the continued primacy of economics and economic considerations leaves them open to serious criticism as far as policy implementation and consolidation is concerned.

D. Political economy

J Spero claims that "trade policy is the stuff of domestic politics. Because trade policy often determines prosperity or adversity for various economic groups, it is also the subject of frequent and often highly charged domestic conflict." Furthermore, "most of the time, tariffs are not the result of any specific economic arguments, but are a response to pressures exerted by particular vested interest groups in an importing country which have succeeded in winning over the government of the day."⁵⁰

The school of political economy thus seeks to detect the political and economic mechanisms that allow certain interests and ideas to dominate the policy making process within the established boundaries of national institutions. Political economist examine the instances where actors change or modify their perception of a situation and ultimately their policy preferences during the process of interaction, emphasising the role of agency capture as it determines policy outcomes.⁵¹

These theories are divided into three sets of domestic-level explanations and a fourth version that seeks to combine domestic factors with international determinants of policy-making.

D.2 Interest-based explanations

The first set of political economy theories attempts to examine the outcome of economic reform by emphasising the role of interest group bargaining in the formulation of policy.

These interest-based explanations reject the arguments that the structure of the international system can explain why certain kinds of policies prevail over others, instead concentrating on the process of domestic balancing of interests. National interest is thus understood as the real material interest of society that reflects the particular combination and diversity of its individual and group interests. In explaining policy-

⁵⁰ Spero, J.E. (1990). *The Politics of International Economic Relations 4th ed.* London: Routledge, p 67.

making, E J Ray, for example, argues that “contemporary trade policy actually results from the interaction of self-promoting economic interest groups with national economic and political policies. These latter ‘national’ policies represent shared or consensus values which are slow to change and thus quite durable.”⁵²

Since policy reform will benefit some groups while disadvantaging others, the main assumption is that if a pattern of policy is to be sustained, it must advance the interests of the broadest or politically most powerful segment of society, usually producers and their group coalitions.

P Hall has characterised this public choice school of thought “as sets of models built on neoclassical economic theory that effectively endogenise vote-seeking politicians.”⁵³

Interest-prone theoreticians assume that the motive of the politician is limited to seeking re-election, and that the voter is voting only on what he perceives as his economic interest. By overemphasising political power as an overriding determinant in policy making, public choice theory ignores the role played by ideas, and the fact that sometimes other factors, such as cultural legacies or the concern for equity and adjustment costs, account for policy preferences. In addition to ideas, the part to be played by institutions in constraining policy options is undervalued.

Moreover, while these explanations recognise that changes in the international realm might influence domestic politics, their primary focus remains internal interests and their impact on policy making. As such, by ignoring the international foreign policy dimension, the special interest model paints an overly simplistic picture of how economic policy is made.

Finally, while these theories can be seen as attempts to explain policy making in industrialised countries, they are inapplicable to emerging markets, where the entire structure of domestic interests and their power balancing is not only different than public choice would expect but is constantly fluid and rapidly changing. While dynamic, export-oriented industries will have considerable political influence on, for example US trade policy⁵⁴, these interests have either yet to emerge or are underdeveloped and disorganised in emerging markets. Consequently, they cannot provide

⁵¹ For an overview see Bhagwati, J.N. (1988). *Protectionism: The Ohlin lectures*. Cambridge, Mass., London: MIT Press.

⁵² Ray, E.J. (1995). ‘Changing Patterns of Protection’, in Frieden, J. and Lake, D. (1995). *International Political Economy: perspectives on global power and wealth*. London: Routledge, p 355.

⁵³ Hall, P. (1997). ‘The role of interests institutions and ideas in the comparative political economy of the industrialised nations’, in Irving, M., Lichbach, S. and Zuckerman, A. (Ed.) *Comparative Politics: Rationality, Culture and Structure* Cambridge. Cambridge: Cambridge University Press, p 179.

⁵⁴ Baldwin, R. (1985). *The Political Economy of US Import Policy*. Cambridge, Mass.: MIT Press. (1988) *Trade Policy in a Changing World Economy*. London: Harvester- Wheatsheaf, p 221.

their governments with the economic power and support that makes international openness a desirable national policy objective, as public choice theorists would predict. It is not a certain fact that in developing countries, export oriented firms will gain in political power as the older industries witness drops in employment and thus political influence. On the contrary, this paper will show that in Polish trade policy making, it has continued to be import-competing interests that have dominated the decision-making apparatus.

D.3 Institutional explanations

Another set of analyses rejects the interest group explanations, arguing that national institutional frameworks have considerable resilience in the face of socio-economic pressures.⁵⁵ The focus shifts to the organisational structures of the national political economy such as trade unions, employers' associations, consumers, producers and other arrangements of social, political and economic life. According to this school of thought, the specific set of institutions within a nation will influence the behaviour of individuals, thus taking primacy over socio-economic interests as a factor in determining policy decisions. In addition, because institutions will differ across nations, policy outcomes will also be different.

The applied version of this PE variant is ultimately concerned with designing the 'right' institutions to guarantee policy performance. For example, the EBRD transition report has observed that that

*the rapid pace of liberalisation and privatisation (in CEE) has not been matched by concomitant progress in the development of institutions necessary to support a well functioning market economy. These imbalances have caused serious market distortions in the transition economies, which can generate substantial gains to particular interest groups (often with close ties to government) while imposing great costs on the rest of society.*⁵⁶

Much like the school of international liberal institutionalism discussed above, domestic institutionalists dismiss the role of legitimacy in affecting the performance and effectiveness of institutions, determining their eventual long-term sustainability. These theories also undervalue the part played by social actors and political coalitions in shaping and constraining the development of institutions and, as Hall has observed, "the degree that the core institutions of the political economy are subject to change."⁵⁷

⁵⁵ Garrett, G and Lange, P. 'Internationalization, Institutions, and Political Change', in Keohane, R. and Milner, H. (Ed.) (1996). *Internationalisation and Domestic Politics*. Cambridge: Cambridge University Press.

⁵⁶ EBRD (1998). *Transition Report*. London: European Bank for Reconstruction and Development, p 2.

⁵⁷ Hall (1997). *ibid.*, p 183.

D.4 Ideas- based explanations

The third strand of Political Economy seeks to explain policy by looking at the importance of ideas. This type of approach emphasises the role of individuals and cognitive beliefs over and above interest group bargaining or the constraints of institutions. Ideas-based explanations highlight cultural variables in economic policy making, such as the legacies of the past, the intellectual climate within the nation, personal or psychological characteristics of individual statesmen, social perceptions of justice or epistemic communities. While these theories capture the dimension of the human interaction lost in other political science and social science perspectives, they, as Hall has argued, “do not provide an effective mechanism for establishing causal links between ideas and other factors explaining policy outcomes.”⁵⁸

Never the less, there is no doubt that the power of ideology has played an important part in shaping economic policy making in transition economies. The whole notion of a ‘Return to Europe’ has been after all founded on idealised concepts of historical continuity, and a sense of belonging to a community. Moreover, the embrace of Shock Therapy could not have taken place without a very specific intellectual climate dominant in Poland at the particular time. Finally, it has been ideas such as sovereignty or fears such as land sales to foreigners that have in significant ways contributed to a rise in Polish protectionism and economic policy backsliding. This paper thus concludes that while on their own ideas- based explanations are insufficient in accounting for reform outcomes, ideology has played a very substantial part in influencing policy choices and performance in transition economies.

E. Integrated theories

In summary, while international- level explanations look at a state’s position in the international system and domestic-level explanations examine the interests, ideas and institutions of individual nation- states to predict policy outcomes, the fourth set of political economy theories is concerned with all four.⁵⁹ This literature attempts to address in depth the relationship between international, structural constraints of the interdependent economy and factors in domestic politics. As such, it proposes that the interaction between these two levels of analysis can be used to detect political conflict that results from the process of internationalisation. Underlying this conflict are distributional questions that determine the construction of interests and their

⁵⁸ Hall (1997). *ibid.*, p 185.

⁵⁹ Moravcsik, A. (1993). ‘Introduction’, in Evans, Jacobson & Putnam (Ed.) (1993). *ibid.*, p 4.

preferences, which then, in turn, shape policy decisions, as constrained by existing institutions on both the national and the international levels.

E.2 Liberal interdependence school

The liberal interdependence school argues that the differentiated impact of international trade agreements on the distribution of costs and benefits on specific domestic interests groups is the link between domestic politics on the one hand and international relations on the other.

To explain why internationalisation has clear social effects that translate into national policy responses, Evans, for example, has pointed out that, “in most cases distributional issues (resulting from free trade arrangements) divide domestic interests. Not everyone participates in the joint gains, and the losers have an interest in blocking perspective agreements.”⁶⁰ Because trade agreements, by their very nature lead to changes in the distribution of resources between different socio-economic groups, they affect the opportunities and constraints facing social actors, and therefore their policy preferences. Thus the liberal interdependence literature strives to incorporate not only domestic interests, institutions and ideas with international systemic constraints, but also to disentangle the intricate relationship between all these levels of analysis, and examine how this interaction shapes policy outcomes.

For international political economists the main division of interests that follows the opening up of the economy takes place between internationally competitive, and thus politically and economically more powerful, industries and those uncompetitive sectors whose costs of adjustment to globalisation are exceedingly high. They predict that as internationalisation proceeds, the ‘state’ is more likely to align itself with the competitive winners, seeking their political support to improve the country’s overall comparative advantage.⁶¹

Accordingly, in responding to the oversimplification that rising levels of trade and investment are eroding *de facto* sovereignty, Milner contends that “on the contrary, the effect demonstrated (in her work) was that interdependence actually reshapes societal actors’ preferences and they influence states’ policies.”⁶²

E.3 Interests versus institutions

Internal divisions between variants of IPE literature focus around the so-called comparative/ international divide. One set of theories tends to pay attention to

⁶⁰ Evans, P. (1993). ‘Building an integrative approach’, in Evans, Jacobson, Putnam (Ed.) (1993). *ibid.*, p 397.

⁶¹ See Keohane, R. and Milner, H. (Ed.) (1996). *ibid.*

⁶² Milner (1988). *ibid.*

international environment and impact on interests, with less emphasis on domestic institutions, while the other prioritises institutions, assigning less importance to the international environment and ultimately socio-economic groups in determining policy outcomes.

Interest-based theories combine analysis stemming from public choice theory and comparative politics with economic models of globalisation and its consequences for various national and international actors. Hall observes that, “these studies suggest that intensified international integration shifts the comparative advantage of various kinds of producers or intensifies cleavages between those in the traded and non-traded sectors in such a way as to erode old political coalitions and make new ones feasible.”⁶³

On the other hand, institutionalists like Frieden and Rogowski accentuate the role of institutions, and argue that “because gains from free trade exceed the sum costs, reliable mechanisms and political institutions that further sustain it become everywhere more important for domestic stability as exposure to international trade expands.”⁶⁴ As such, they expect that as the competitiveness of a country improves, pressure for openness will increase and as the terms of trade decline closure will become more attractive.

Garrett and Lane continue this line of thinking, claiming that “the course of policy change will differ markedly from that anticipated by economic pluralism, because existing institutions will generate pressure for the government to persist with policies that are favoured by those groups that brought them to power, even if their own power has declined in the process.”⁶⁵ Institutions matter more than interests as they outlive the constellations of interests that created them.⁶⁶

The work of these institutionalists in the comparative politics realm is particularly relevant for transition economies, as it brings in a dimension neglected by other international political economists. Applying modern democratic theory to their analysis of policy-making, Garrett and Lane are able to explaining the continuing importance of labour in spite of the shifts in the global economy. The authors conclude that the view that changes in the balance of power between sectors is reflected in policy changes is overly simplistic because “even if the private sectors gains economic power, existing ideas and institutions in the form of socio-economic arrangements that represent the

⁶³ Hall (1997). *ibid.*, p187.

⁶⁴ Frieden, J. and Rogowski, R. (1996). ‘The Impact of the International Economy on National Policies: An Analytic Overview’, in Keohane and Milner (Ed.) (1996). *ibid.*, p 45.

See also Rogowski, R. (1990). *Commerce and Coalitions: How trade affects domestic political alignments*. Princeton, NJ: Princeton University Press.

⁶⁵ Garrett, G. and Lane, P. (1996). ‘Internationalisation, Institutions and Political Change’, in Keohane and Milner (Ed.) (1996). *ibid.*, p 49.

⁶⁶ Goldstein (1993) quoted in Garrett and Lane (1996). *ibid.*, p 49.

public sector bloc changes and continue to exert more influence on policy than their politically more powerful counterparts.”⁶⁷ Moreover, they demonstrate that “democratic elections, based on the one- person, one- vote principle, will tend to bias policy outcomes in favour of less productive and nontradable sectors”, in contrast to what economic pluralism would expect.⁶⁸

To retort, Keohane and Milner, for example, concede that labour unions and losers from internationalisation will continue to hold considerable political leverage, but, they argue, the reason for this is that these actors intentionally create the kind of institutions that reflect their preferences.⁶⁹

It is this author’s opinion that the irresolvable chicken-egg dilemma of whether institutions or interests come first and which is more important for policy making becomes a secondary factor in assessing the usefulness of these theories. What is more important from the point of view of analysing policy reform in transition is the attempt to incorporate not only standard factors of public choice analysis, but also to pay attention to the impact of unquantifiable elements such as information or ideas on the policy making process.

E.4 Explaining international cooperation

While the above explanations lay the groundwork for clarifying national policy decisions, they still fall short of explaining why international leverage might be useful in exerting positive pressure on domestic change. In the realm of international economic relations, the most interesting and defensible of the IPE theories concentrate on this dimension of inter-state cooperation and its interaction with domestic politics.

While liberal trade theories, such as those of Kant’s Perpetual Peace, expect that free trade will result in economic gains that encourage cooperation, international political economists argue that, “on the contrary, under the distributive pressures of the international economy, reaching an economic agreement between states becomes more difficult.”⁷⁰ In criticising liberal institutionalists, thus, the interdependence school argues that static economic theory does not pay enough attention to the distributive effects of the easing of trade, and how in turn, these influence future trade negotiations.

⁶⁷ Garrett and Lane (1996). *ibid.*, p 66.

⁶⁸ Garrett and Lane (1996). *ibid.*, p 65.

⁶⁹ Milner, H. and Keohane, R. (1996). ‘Internationalisation and Domestic Politics, a conclusion’, in Keohane and Milner (Ed.) (1996). *ibid.*, p 250.

⁷⁰ For more see Milner, H. (1997). *Interests, Institutions, and Information: domestic politics and international relations*, p 254.

Milner, H. (1992). ‘International Theories of Cooperation Among Nations: strengths and weaknesses’, *World Politics*, April.

IPE scholars correctly observe that because realist and institutionalist theories of international trade explain economic outcomes for societies as a whole, they dismiss the implications for individual groups, their policy preferences and future political behaviour. According to Milner, the failure to examine domestic politics while treating states as black-box units “leads both realist and liberal institutionalists to an overly optimistic view of countries’ ability to make agreements.”⁷¹

Central to Milner’s argument is thus that cooperation among nations “is affected less by fears of other countries relative gains or cheating than it is by the domestic distributional consequences of cooperative endeavours.” Because cooperative agreements create winners and losers domestically and thus generate supporters and opponents, the internal struggle between these groups shape the possibility and nature of future international cooperation. Moreover, not only do international negotiations “often fail because of domestic politics, they are also often initiated because of domestic politics.” Thus, Milner concludes that “in polyarchic systems, the struggle for internal power and compromise can produce behaviour that appears less than rational from an international systemic standpoint. This behaviour is nonetheless rational but only when the perspective of the domestic political system is added.”⁷²

Because the sustainability of international regimes themselves is in question, IPE theorists reject both the realist and the neoliberal institutionalist predictions that these external institutions will increase domestic policy credibility and guarantee their viability.

In summary, the main contribution of international political economy theory from the perspective of assessing the impact of international regimes on domestic policy reform is the recognition that liberal institutionalists overestimate the unity of the ‘state’ and the efficacy of international institutions, while concurrently failing to examine the underpinning coalitions of socio-economic interests which shape and re-shape the emerging regime, according to their evolving preferences. International political economists also conclude that liberal economic strategies must have a positive effect on the domestic economy in the short run in order to be sustainable.⁷³

E.5 Applicability to transition

This author argues that a simplified version of either the interest group or institutional model of IPE theories even combined with the international dimension is insufficient in accounting for policy preferences and outcomes on transition economies. While the

⁷¹ Milner (1997). *ibid.*, p 83.

⁷² Milner (1997). *ibid.*, p 258.

recognition that domestic institutions and the organisation of social, political and economic life are different in each individual nation is clearly present in the liberal interdependence school, the literature falls short of analysing the repercussions of past cultural patterns as well as various legacies for policy reform. Keohane and Milner, for example, rightly assume that different interests, institutions and ideas of nations will leave some degree of latitude to political leaders as they react to common global trends and often lead to different responses to internationalisation, but they put too much hope in the notion that ideas and preferences will change according to the impact of the international economy on the domestic sphere. As such, they over-estimate the speed and depth of the process of internationalisation and its penetration into national systems and political cultures.

In contrast, the comparative-political institutional model, such as that espoused to by Rogowski, places more weight on the role of national history and past legacies on policy outcomes and is a better model for explaining policy decisions in developing countries. Rogowski argues “that all else being equal, we would expect easier liberalisation in countries where the rule of law is entrenched and respected.”⁷⁴ This attempt to delve into the complex interaction between culture, ideology and economic reform is a significant contribution of comparative politics to predicting the evolution of reforms in transition economies.

Moreover, the IPE model of interest-based analysis is built on the premise that the interests and their preferences in emerging markets will be the same as those in developed industrialised countries. Milner and Keohane, for example emphasise the role that the Market plays in creating special interest groups, and how, in turn, these interests shape policy. They argue that the logic of the Market is not necessarily inconsistent with the interests of domestic groups, and, on the contrary, that the Market can actually create the forces within domestic politics that have a stake in furthering its spread. According to these theories, increasing openness creates beneficiaries who see liberalisation as desirable and then pressure their leaders to alter national institutions in ways that favour liberal policies.

While the above conclusions might be based on substantial evidence, they are also based on several *ceteris paribus* assumptions; for one, the existence of a Market. By applying the models of market reform to *neodemocracies*⁷⁵, one presumes that the

⁷³ Milner and Keohane (1996). ‘A conclusion’, *ibid.*

⁷⁴ Frieden and Rogowski (1996). ‘The impact’ *ibid.*, p 44.

⁷⁵ P Schmitter has called the emerging systems in Poland a neodemocracy characterised by unconsolidated democratic rule or market institutions.

Market will act according to rational expectations, and that the actors within it will likewise behave rationally. Moreover, these theories are premised on the presence of established institutions, subject to minor evolutionary changes, and capable of representing interests and mediating between their conflicts. They also assume a strong and democratically accountable government, able to withstand crisis and credible in both the domestic and international arena. None of these conditions are present in transition. In order for the Market to change the preferences of interests and for market mechanisms to work, there must first be a Market, something clearly missing in a command economy or in the early stages of transition.

In addition, these IPE theories and models assume the emergence of a large group of winners from the process of internationalisation. In transition economies, for example, it is expected that the impact of the international environment on national policy will be most acute in its initiation of realignments within the domestic political sphere, and that trade liberalisation will break the power monopoly of the entrenched interests of the former socialist system, enabling the newly emerging interest groups to gain significant influence over national policy. Thus, by creating a new socio-economic group with pro-liberal policy preferences, the liberal interdependence school predicts that the process of internationalisation will become a significant element in allowing the government to carry through the majority its reforms and to persist on the track of liberalisation.

While Milner takes it for granted that once economic openness is initiated, interests will develop that will support it, B Slay, in contrast, points out that “it is difficult to predict how new trade patterns of interest articulation will develop during the process of transition from state to market and how, it turn, these forces will affect the balance between liberalisation and protectionism.”⁷⁶ In the Polish case, the staunch advocates of free trade and organised pro-liberal interests, with a stake in the reform process, are yet to emerge, and the winners and losers are quite different than those under a market system. The miners, shipbuilders and steelworkers who enjoyed high status and pay under socialism and ironically were in the forefront of those pushing for the liberal reforms are those for whom the Market now has least need.

Finally, another dimension demonstrating the insufficiency of IPE models to predict policy outcomes in transition economies is that of democratic legitimacy itself. Milner,

Schmitter, P. (1995). ‘Zagrozenia, dylematy, i perspektywy konsolidacji transformacji’, w Hausner, J. (Red.)(1995). *Studia nad Systemem Reprezentacji Interesow: Narodziny demokratycznych instytucji*. Krakow: AE, Fundacja “Polska Praca”, p 43.

⁷⁶ Slay, B. (1993). ‘The Political Economy of External Transformation’, in Brabant, J. van. (1993). *The New Eastern Europe and The World Economy: Eastern Europe after communism*. Boulder: Westview Press, p 23.

for instance, bases her conclusion that inter-state cooperation is less likely once domestic politics is factored into the international bargaining process on the notion that domestic politics is pivotal in determining foreign policy options. According to Milner, the type of international agreement that can be implemented by national authorities under the neoliberal institutionalist assumptions of a unitary state is different from the type that exists under conditions of parliamentary democracy, where “domestic legislative ratification is necessary.”⁷⁷ International cooperative agreements must win ratification at home, which then allows the agreement to take legitimate hold over its democratic signatories. Hence, Milner correctly assumes that in a democracy, domestic politics legitimises international agreements.

For Milner, international cooperation is determined by the changing preferences of domestic interests and reflects their balance of power in domestic politics. For the purposes of understanding the implications of international regimes for domestic policy reform, it is interesting to ask what happens, in fact, if the process of domestic legislative ratification does not fully function according to the democratic principle. What happens to this model if the negotiated international agreement is not entirely mandated by society in its initiation, or if its subsequent implementation is executed without active public involvement, social dialogue or national consensus seeking? Is it in fact sustainable in face of domestic resistance under conditions of a parliamentary democracy?

This thesis will argue that because the above conditions were not clearly present in the negotiations of the EA between the Polish government and the European Union, the Agreement’s implementation in Poland has had to rely on the abandonment of the democratic principle in order to allow the ‘state’ to fulfil its external commitments. While the window of opportunity made the signing of the Agreement possible in the first place, because public consensus or dialogue between the social partners and the state was not pursued, the development of democratic politics has complicated its implementation. To uphold its external obligations and meet the targets of the EA, the Polish government has had to resort to semi- authoritarian measures; a political strategy which is less than desirable.

In sum, the policy-making process and its outcomes in the former command economies cannot be explained without taking into account the breadth and complexity of the transition from state to market, including emphasis on cultural legacies. IPE theories

⁷⁷ Milner (1992). *ibid.*, p 493.

pay too little attention to this dimension, suggesting a need to reach towards other disciplines to successfully meet the challenge.

F. New political economy

Having covered the mainstream theories of economics and political economy as they relate to policy reform, this thesis now turns to a body of work that attempts to bridge all of the above theories. This school labelled, *organisation theory*, *new institutionalism* or *neoinstitutional analysis*⁷⁸, stems from work done by economists on economic policy reform. Organisation theories overlap with the regulation school of economists; they have also sometimes been referred to as *new institutionalism in organisation theory* or *new economics of organisation*.⁷⁹ As opposed to classical institutionalism, organisational literature expands the usual institutional model of policy making beyond the traditional socio-economic arrangements, such as labour unions and employers organisations, to include other institutions, like the central bank or regulatory agencies. The strength of these theories is that they recognise varieties of capitalism. As a result they are more applicable to transition economies than their IPE counterparts. P Hall observes that “organisational theories move towards a more political approach to policy making, which sees politics as a relatively open-ended process and emphasises the ways in which non-economic factors, associated with politics or culture, influence the course of events that others might attempt to explain in entirely economic or rationalist terms.”⁸⁰ Going beyond Olson’s models of interest group balancing as the explanation for policy outcomes⁸¹, the organisation school, for example, attempts to predict how the behaviour of an economic regime may be affected by the institutional structures that underpins the political economy of a given nation, and how that structure is determined by cultural and political legacy variables.

Hall applauds new institutionalists’ rejection of the assumption that interests are somehow given, arguing that, “on the contrary, those interest have to be derived via a process of interpretation. Politics is fundamental to this process of interpretation and is not only a contest for power, but also a struggle for the interpretation of interests.”⁸²

The scholars of new institutionalism thus recognise that most people have multiple interests, and that the interests of a group or an individual are not clearly defined simply by their socio-economic position. As such, they acknowledge that the search for

⁷⁸ Associated for ex. with Williamson, J, (1994). *ibid.*

⁷⁹ Hall (1997). *ibid.*

⁸⁰ Hall (1997). *ibid.*, p 190.

⁸¹ Olson, M. (1971). *The Logic of Collective Action: public goals and the theory of groups*. Cambridge, Ma.: Harvard University Press.

⁸² Hall (1997). *ibid.*, p 197.

legitimacy or culturally appropriate behaviour is sometimes more important in determining policy reform than questions of pure efficiency and hence, in their policy making prescriptions, they attempt to combine postulates of economic desirability with political feasibility considerations. Their aim is to establish the conditions necessary for the initiation and sustainability of sound economic policy. However, because, most of these reformed economists continue to believe that “interest groups are the enemy of a responsible political economy”⁸³, their ultimate goal is to find a way as to minimise the harmful impact of rent-seeking behaviour on policy decisions.

While each variant of organisational theories differs according to the emphasis placed on the factors responsible for policy outcomes, most overestimate the role of institutions and concurrently underestimate the impact of interests. As such, these theories are the domestic counterparts of neoliberal institutionalism, maintaining that responsible politicians respond to the dilemma of seeking re-election by creating institutions that possess the power to commit them to collectively rational strategies. These public institutions or ‘agencies of restraint’ tie the hands of politicians and ensure the continuation of reform.⁸⁴

As such they uphold the neoliberal institutionalist argument that international regimes can serve as powerful tools to positively influence domestic policy reform and help maintain an open, liberal economy. While these arguments for ‘anchoring’ domestic policies in external regimes are not in and of themselves original, the added value of new institutionalism is that of differentiating between the conditions for policy reform in developed and developing countries. Moreover, these analyses draw a distinction between policy initiation and consolidation, recognising as Nelson does that “the most difficult challenges come not initially, but somewhere later in a program, when the public is faced with the difficult costs of adjustment and begins to question the rationality of the reforms.”⁸⁵

In addition, new institutionalists argue that not only is the conditionality of the international institution to strengthen the credibility of the reform programme, but financial assistance is crucial to give the reform-minded policy makers within the reforming government extra leverage in winning internal policy disagreements and in

⁸³ Balcerowicz, L (1999). *Panstwo w Przebudowie*. Krakow: Znak.

See also Olson, M. (1971). *The Logic of Collective Action: public goals and the theory of groups*. Cambridge, Ma.: Harvard University Press.
Williamson (Ed.) (1994).

⁸⁴ See Williamson J. (1994). ‘In search of a manual for technopols’, in Williamson (Ed.) (1994). *ibid.*

⁸⁵ Nelson, J. (1994). ‘Panel discussion’, in Williamson (Ed.) (1994). *ibid.*, p 474.

securing social support.⁸⁶ People will usually accept short-term hardships if after some quantifiable amount of time they are convinced that the strategies employed to achieve economic breakthroughs will improve their everyday lives. Consequently, the main assumption is that external factors can strengthen state capacity and authority by providing an added impetus to the reformers through rewards and incentive for change. International assistance in the form of market access and financial aid allows the government in question to sustain the reform measures long enough to stimulate the process of economic recovery and the appearance of visible benefits for those bearing the costs of adjustment to enjoy. As a result, this kind of external aid can help to avoid the possibility of social chaos and large-scale resistance that can threaten the reform efforts themselves.

As the economist J Sachs has argued,

*the ability to reform has two critical components- the capacity of the country to reform itself and the role of the outside in helping the country overcome the crisis. Internal reformers need generous external assistance and support, and even though foreign aid is not the main factor in policy initiation, it is crucial to reform consolidation and to ensuring that the reforms themselves have enough of a life-time to take hold.*⁸⁷

In addition, the strength of organisational economists, in contrast to their neoliberal institutionalist counterparts, is their attempt to define the conditions necessary for anchoring strategies to work.⁸⁸ By focusing in on the effectiveness of the institution in compelling a government to do something it might otherwise not do, organisational institutionalists add the international credibility dimension, discussed above, to their analysis.

According to K Zukrowska, for example, the mechanism by which international leverage works on domestic change is based on two assumptions: trust and knowledge.⁸⁹ On the first level, what is needed is “trust of the elites towards the international organisation, based on the assumption that equipped in new powers they (the international partners) will not misuse them.” On the second, is the “trust of the voters towards their government in the sense of credit given to the ruling political elites in power.”

While adding the credibility dimension to institutional analysis is an achievement of organisational theories, the problem remains of an overly optimistic portrayal of the

⁸⁶ Williamson (1994). ‘In search’, *ibid.*, p 25.

⁸⁷ Sachs, J., (1994). ‘Life in the economic emergency room’, in Williamson (Ed.) (1994). *ibid.*, p 503.

⁸⁸ Stiglitz, J.E. (1999). ‘Whither reform? Ten years of transition’, *World Bank Annual Conference on Development Economics, Keynote Address*, Washington DC: World Bank.
www.worldbank.org/research/abcde/pdfs/stiglitz.pdf

effectiveness of international institutions in performing their intended functions. In doing so, the organisational scholars fail to propose what options are available to policy makers if the international institutions to which the state is bound falls short in fulfilling its obligations.

This literature is also premised on the notion that effective, rational, and responsible policies will benefit the nation as a whole and create enough winners as to support the reformers. Again, like neoliberal institutionalists, organisational economists suggest that market reforms should be initiated first and then that civil society and pluralist democracy will somehow spontaneously emerge. Consequently, they fail to account for a situation in which this does not happen. What is the technocrat to do if his reforms do not produce the intended benefits visible to the public and accessible to society at large? The implications of pursuing democratically not-accountable strategies to continue to implement the reforms are not desirable from either the political or the economic perspective.

Furthermore, not only do new institutionalists, like their traditional political science counterparts, over-estimate the durability and effectiveness of institutions, while undervaluing the influence of underpinning socio-economic interests, they also overlook the implications of transplanting institutions into national systems (as is the case in transition economies) for institutional performance.

Finally, both sets of institutional theories treat 'the state' as a rational actor, that even if divided will act externally as a unified whole for the purpose of preserving national interest, namely efficiency. As such, both the domestic and the international variants of institutional explanations for policy outcomes convey the impression that society is somehow immature and irresponsible, and create a special role for the elites as the enlightened guardians of public good.

This shift in focus, in turn, to the role of elites and their intentionally designed institutions leads the scholars to underestimate the importance of domestic legitimacy and political conflict in policy consolidation.

The assumption is that once society has bestowed trust upon the elites, by electing them, to implement wide-ranging reforms, the confirmation of this trust in later stages of reform is not necessary. Thus, the mechanisms of building trust and subsequently taking it away are not discussed in this literature. Trust seems to be a contract once signed by society, not to be broken or withdrawn.

⁸⁹ Zukrowska, K. (1998). 'The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience', in Zielinska- Glebocka and Stepniak (Ed) (1998). *ibid.*, p 303.

G. Regime change

The multidisciplinary approach to the study of economic and political development labelled regime change theories branches out from a diverse body of work including, among others, sociology, economics, political science, international relations, history, geography, and political theory. Much like economics, regime change analysis begins on the premise that national development and modernisation are conditioned on the existence of certain factors conducive to the pursuit of reform. As such, its focus is in on the relationship between economic policy and performance, on the one hand, and the stability of the political system, on the other; in another words the relationship between economic and politics.

The basis for this literature is that all democratic regimes rest on some explicit or implicit bargain between political leaders and key support groups, and that ultimately it is domestic politics embedded in specific socio-economic structures that determine the outcomes of policy.

In spite of the emphasis placed on domestic-level analysis, the study of regime change, as a reworked version of modernisation theory reaching back to the 1970's⁹⁰, is concerned with both domestic and international constraints on policy making, incorporating the interaction between diverse institutions, interests and ideas that underpin the process. The literature has its roots in social theories of transformation and development, in studies of social processes and in conceptualisations of the interplay between structures, norms and institutions that follow choices elites make at moments of radical change.⁹¹

Primarily, these modernisation and elite theories attempt to identify the relevant factors necessary for a sustainable political economy of policy reform. In analysing the effectiveness of external leverage on domestic reform, Rosenau, for example, acknowledges that the "state's geopolitical situation, history, culture, as well as the nature of the democratic transition will determine the penetration of the international system."⁹² More specifically, by examining domestic democratic consolidation in light of the international context, he recognises that international socio- economic

⁹⁰ See Sztompka, P. (1993). 'Lessons of Post-Communist Transition for Sociological Theories of Change', in Coenen-Huther, J. and Synak, B. (Ed.) (1993). *Post Communist Poland*. Commack, NY: Nova Publishers

⁹¹ See Skapska, G. (1994). 'Reforma Ekonomiczna i Kształtowanie sie Porzadku Instytucjonalnego w Polsce: Dziedzictwo przeszlosci, mity i wizje przyszlosci', *Przegląd Socjologiczny*, Vol.XLIII. Staniszkis, J. (1992). *The Ontology of Socialism*. Oxford: Oxford University Press.

⁹² Roseau, J. (1992). 'Citizenship in a changing global order', in Rosenau and Czempiel (Ed.) (1992). *ibid.*, p 283.

See also Rosenau, J.N. (1969). *Linkage Politics: essays on the convergence of national and international systems*. NY: Free Press and Princeton Center of International Studies.

modernisation pressure, as based on the notions like “conditionality, incorporation and contagion” of seeking membership in the international community, has a crucial role to play in the internal process of reform.

Consequently, Rosenau significantly broadens the work of neoliberal institutionalists from that of a simple examination of the economic efficiency and policy credibility consequences of international regimes, to include social and political implications of ‘anchoring’.

In addition, regime change theories distinguish between the conditions necessary for policy initiation and those for consolidation. They argue that successful politics of adjustment are grounded in legitimate socio-economic structures that underpin each individual nation and are determined by strategic choices of the supporters and opponents of the incumbent governments.

Hence, A Krueger observes that, “the leap from policy initiation to consolidation depends on numerous and multiple intertwined factors such as a sensible policy program, the credibility of the government, the occurrence of external shocks, and the credibility of external assistance and of the regime.”⁹³ The analysis of policy-making and performance cannot be reduced to reductionist models that emphasise one factor over others. Similarly, B Crawford suggests that, “policy outcomes will be determined by the specific conditions present at a given time, including the strength of social legacies, the capacity, role and structure of the state, the constraints and incentives of the international environment and alternative policy choices.” (gradualism vs. radicalism).⁹⁴

Moreover, for scholars of regime change, both political and economic consequences of policy reform are equally important for its sustainability. Krueger, for example, polemicises with liberal institutionalists noticing that, “the belief that further liberalisation will follow and new groups that generate support will emerge if the reforms are successful leads to the opposite conclusion, that if an external shock takes place following the implementation of the policy, policy reversal are quite likely to follow”. Thus, according to Kreuger, the primary condition for consolidating adjustment is economic success that can create a political basis of support for the reforming

⁹³ Krueger, A.O. (1993). *The Political Economy of Policy Reform in Developing Countries*, Cambridge, Mass.: MIT Press, p 75.

⁹⁴ Crawford, B. (1995). ‘Post Communist Political Economy’, in Crawford, B. (Ed.) (1995). *Markets, States and Democracy: The Political Economy of Post-Communist Transformation*. Boulder: Westview Press, p 36.

government. On the other hand, she argues, “economic failure can erode not only that basis for that support, but also threaten the power of the state itself.”⁹⁵

For regime change theorists, the importance of economic performance of a given institution or policy is only the first factor in determining outcomes. The second factor revolves around the actual implementation of the measures themselves. The literature builds upon the sociological concepts of trust and legitimacy⁹⁶, acknowledging that the failure to legitimise economic policies can have serious, even regime-threatening political effects. Hence, sustainable economic policies must not only yield material results in the form of a higher standard of living, but also must be implemented in such a way as to build trust and increase the credibility of the reformers.

The recognition that the distributive effects of initiating and consolidating economic reform make it necessary to generate support of not only the winners of the process but also of the losers thus emerges as the central theme in regime change theories. Pivotal to the entire process of modernisation and central to successful policy outcomes is the role of the ‘state’ and its capacity to respond to changing circumstances. The strength or the weakness of the ‘state’ and of its institutions comes, in turn, from their legitimacy.

According to Haggard and Kaufman, a weak ‘state’ can be captured by strong interest groups and cannot implement the reforms or provide other public goods, such as enforcement of the rule of law or protection of the citizens. On the other hand, a strong and efficient ‘state’, capable of responding to various modernisation dilemmas and paradoxes, and grounded in stable and transparent institutions, can serve as a reliable mechanism for a successful political economy of policy reform.⁹⁷

To regime study analysts, the kind of market failures that occur in developing and emerging economies, coupled with unstable domestic interests, institutions and ideas, create a special role for the ‘state’ and for its intervention into economic life.

Consequently, the main goal of both the external and the internal supporters of the reform efforts should be to strengthen the ‘state’ and to rely on it to steer the economy and society through the transformation.⁹⁸

⁹⁵ Krueger, AO (1993). *ibid.*, p 138.

⁹⁶ See for example Przeworski, A. (1995). *Sustainable Democracy*. Cambridge: Cambridge University Press, Group on East-South Systems Transformations.

Stompka, P. (1996). ‘Trust and Emerging Democracy: lessons from Poland’, *International Sociology*, Vol 11, No 1, March.

Wnuk-Lipinski, E. (1995). *After Communism: a multidisciplinary approach to radical social change*. Warszawa: Instytutu Studiów Politycznych PAN.

⁹⁷ Haggard, S. and Kaufman, R. (1995). *The Political Economy of Democratic Transition*. Princeton, NJ: Princeton University Press, p. 8.

⁹⁸ See Pridham, G. (Ed.) (1991). *Encouraging Democracy: The International Context of Regime Transition in Southern Europe*. London: Leister University Press, Pinter Publishers.

From economists to sociologists, political scientists and historians, the proponents of these theories of social processes recognise that it is “the lack of institutionally legitimated authority which renders the governing elites defenceless in simultaneously responding to the various dilemmas and paradoxes of development.”⁹⁹ As such, the role of social inclusion in policy reform should not be underestimated. This conclusion is rooted in the belief that institutionalising agency or building mechanisms of social acceptance of the rules of the game is key to policy consolidation. According to C. Offe, et al., the sustainability of reform and the institutionalisation of democracy depends on the construction of a broad base of support and on the building of ‘trust’ in the new economic sector and new institutions.¹⁰⁰ Trust, in turn, comes from routinising and managing distributive conflict, a central and indispensable element of democracy.

P. Schmitter, on the other hand, emphasises the need to create mechanisms for consultation between social partners, as well as between the state and society, such as an effective system of interest representation and mediation.¹⁰¹ J. Hausner, likewise, accentuates the necessity of civic participation for consolidating adjustment, and the need for negotiation between social partners within internalised institutions that incorporate both the winners and losers of the changes.¹⁰²

Another strength of regime change literature is the focus on the compatibility between capitalism and democracy. Criticising the school of new institutionalism in organisation theory discussed above, D. Stark argues that while economic crisis conditions in CEE have allowed the leaders to exploit the weakness of the opposition and initiate sweeping reform, the type of capitalism that is emerging, carried out through large-scale social experiments, and enforced from above, has little chance of being consolidated.¹⁰³ A. Przeworski is also critical of these neo-liberal efforts at economic stabilisation and structural adjustment, as they are premised on the imposition of the measures using semi-authoritarian means. These policy-making methods pose problems for the future

Pridham, G. (2000). *The Dynamics of Democratization: a comparative approach*. New York: Continuum

⁹⁹ Haggard and Kaufman (1995). *ibid.*, p 21.

¹⁰⁰ Elster, J., Offe, C. and Preuss, U. K. (Ed.) (1998). *Institutional Design in Post-communist Societies: rebuilding the ship at sea*. Cambridge: Cambridge University Press.

¹⁰¹ Schmitter, P. (1992). ‘Consolidation and Interest Systems’, in Marks, G.W. and Diamond, L. (Ed.) (1992). *Reexamining democracy: essays in honor of Seymour Martin Lipset*. Newbury Park, CA.: Sage Publications, p424.

¹⁰² Hausner, J. (Ed.) (1992). *Studia Nad Systemem Reprezentacji Interesow*. Krakow: Akademia Ekonomiczna.

Hausner, J. and Marciniak, P. (Ed.) (1994). *Studia nad Systemem Reprezentacji Interesow; Od Socjalistycznego Korporacjonizmu do ...?*. Warszawa: Efekt.

Hausner, J. (1995). *Studia nad Systemem Reprezentacji Interesow: Narodziny demokratycznych instytucji*. Krakow: AE, Fundacja “Polska Praca”.

¹⁰³ Stark, D. (1994). ‘Przetwasowanie własności w kapitalizmie wschodnioeuropejskim’, w Hausner, J. and Marciniak, P. (Ed.) (1994). *ibid.*, pp 29-52.

development of democracy. In attempting to sweep through as many radical reforms as is possible in the shortest amount of time, the governing elites abandon public consensus seeking “in their bid to centralise power and execute rapid decision-making.”¹⁰⁴

In addition, Linz and Stepan assert that this style of technocratic politics can lead to an increase in political cynicism and apathy, a decline in effective political participation, and a rise in crime, riots and civil violence. All of these phenomenon undermine the ability of the ‘state’ to perform its functions and are not only perilous to democracy but also to stable economic policy.¹⁰⁵

As argued above, technocratic imposition of economic reforms is premised on the notion that once the market is freed from state intervention and its mechanism activated, democracy will follow. Hence, the main goal for the technocrat is liberalisation of economic activity and recovery of growth. These theories suggest as B Crawford has noticed, “that liberal democracies will only consolidate political support after successful market reforms have spawned a middle class, civic culture and pluralistic societies.”¹⁰⁶

Regime change scholars, on the other hand, argue that while economic performance is indeed necessary for the sustainability of reforms, it is in and of itself insufficient. What is needed to consolidate democratic rule and guarantee the viability of the reforms is the development of legitimate political institutions that can effectively mediate political conflict. This requires active state engagement at all levels of development and not the kind of laissez-faire strategies propagated by neoliberals.

Finally, regime change literature seeks to analyse the role of the international in bolstering domestic change. Recognising that under conditions of fiscal austerity measures required for macroeconomic stabilisation packages combined with weak governments and undeveloped institutions¹⁰⁷, reforming elites in developing countries need external assistance for their domestic efforts. B Crawford points out that

*in short, it will be difficult for these countries to enact meaningful reforms and safeguard economic achievements purchased at high social costs if the international economic climate is unstable and if foreign economic relationships are highly asymmetrical and competitive. To the extent that these countries are further marginalised by the international environment, past legacies will produce technocratic, nationalist, or populist pressures.*¹⁰⁸

¹⁰⁴ Przeworski, A. (1991). *Democracy and the Market: political and economic reforms in Eastern Europe and Latin America. Studies in rationality and social change*. Cambridge: Cambridge University Press pp 182-184.

¹⁰⁵ Linz, J. and Stepan, A. (1996). *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-communist Europe*. Baltimore: Johns Hopkins University Press.

¹⁰⁶ Crawford, B. (1995). ‘Post Communist Political Economy’, *ibid.*, p 4.

¹⁰⁷ Przeworski, A. (1995). *Sustainable Democracy*. *ibid.*

¹⁰⁸ Crawford, B. (1995). ‘Post Communist Political Economy’, *ibid.*, p 24.

Such conditions obviously undermine political support for the liberalisers.

By attempting to address the issue of policy implementation and presentation, regime theories go one step further than other bodies of work in examining the effectiveness of external leverage on domestic change. While the strategy of economists might be in and of itself correct in prescribing external ‘anchoring’ to lock in domestic institutions and increase the credibility of the reforms, its weakness comes from overemphasising the role of the external.

In contrast, regime change scholars maintain that the primary focus of economic reform should be legitimate domestic institutions, grounded in cultural and historical legacies, and based on the mediation of conflicting interests. External leverage should be seen as an additional supportive tool in influencing policy outcomes.

In sum, in order for international institutions to play a positive role in domestic reform, regime change scholars assert that they should provide incentives for change, rewarding the reforming elites for continuing their efforts rather than punishing through sanctions to exert pressure.¹⁰⁹

Conclusion

Drawing on the complexity of the theories described above and, in particular regime change analysis, this thesis will show that the main danger of international ‘anchoring’ strategies, chosen by the Polish liberal reformers and encouraged by the European Union, has been their implications for the development of state capacity and authority, as well as in their consequences for democracy building. This thesis thus argues that both the initial Polish technocratic governments and the EU can partially be held responsible for the backsliding in Polish policy reform.

The fundamental flaw in the ‘anchoring’ strategies comes from unclear assumptions about the relationship between democracy and the market, as well as from an overestimation of the unity as well as rationality of the ‘state’ in transition. By implementing a neoliberal economic strategy required for international credibility, the first, post-socialist Polish governments initiated a decision-making process based on technocratic policy options. The EU, in turn, by requiring ‘anchoring’ as a condition for Polish association¹¹⁰, contributed to strengthening these technocratic tendencies.

In addition, while the ‘anchoring’ effect was desired by the liberal Polish elites, the strategy was based on certain expectations as to the responses from the EU. However, the EU’s policies towards the Polish associate have evolved inconsistently, plagued by

¹⁰⁹ See Lewis, P.G. and Pridham, G. (Ed.) (1996). *Stabilising Fragile Democracies*. *ibid*.

contradictions between the announced goal of rendering support for internal transition, on the one hand, and contrasting signals sent from the member states in their actual policy responses, on the other. By relying on sanctions rather than rewards for exerting pressure on the Polish governments to liberalise, while simultaneously failing to provide the kind of generous external support necessary to aid in the transformation process, the EU has not succeeded in implementing its intent to buttress democratic-market reform in Poland, and ultimately has not created the conditions necessary for an external anchor to work in stabilising domestic policy. Moreover, by falling short of fulfilling its declared objectives for association, the EU collectively has damaged political relations between itself and the Polish 'state', and undermined not only its own credibility as an open trading partner, but also the authority of the Polish, reformist, governing coalitions. Liberal, domestic economic policies have not become fully institutionalised in Poland, because they have not materialised into tangible benefits for most of Polish society to enjoy. The highly competitive and asymmetrical both in political and economic terms climate, which has emerged between Poland and the European Union during the course of association, has, instead of lessening, increased the social costs of the reforms, weakening the political support for liberalisation.

Thus, the underestimated costs of the transition, combined with incoherent signals from the EU and increasing alienation of society have weakened the credibility of the reformist governments in Poland and of the liberal economic policies pursued by them. This enabled successive coalitions and opposition parties to be highly critical of the initial reforms. Ultimately the developments have increased the vacillations and instability within the Polish economic regime and contributed to the re-emergence of protectionist behaviour.

Finally, by over-emphasising the economic and technical dimensions of association, while formally expecting democratic legitimation and social inclusion in the policy-making process¹¹¹, the EU collectively has failed to realise that the main obstacles to successful policy reform in the Polish candidate, and eventually accession, have in fact been social rather than economic. Ultimately, the integration of a country into the EU with a long tradition of very different political and social assumptions has made this human capital dimension crucial to the process of policy consolidation, harmonisation and convergence.

¹¹⁰ Systemic stability being a prerequisite for association with the European Union.

¹¹¹ However, this author observes that the formal political and social *acquis* has not always been entirely compatible with the economic conditionality required for association or accession.

This thesis will show that the unique infrastructure of the Polish nation, understood in a much broader sense than just the economic environment, has been one fraught with powerful legacies of the past, weak and illegitimate institutions, incapable governments, underdeveloped interests and very specific mixtures of national traits, fears and aspirations, all of which have complicated the dilemmas of both transition and association. Economic policy reform has had to proceed under these conditions, and, the already weak and irrational 'state' has been forced to resolve additional policy dilemmas, in its confrontation of the tension between international restraints on policy-making and domestic requirements of accountability.

2. External Openness and Internal Transformation

Because one of the strongest arguments against Polish accession is the underdevelopment of the region and the consequential costs of its membership for the EU, the stronger the Polish economy and the more adapted it is to western practices, the more convincing its application. The ability to cope with competitive pressure continues to be a fundamental condition for Poland's participation in the internal market and thus a basis for its full membership in the EU. Polish pre-accession strategy is thus aimed both at adjusting to EU requirements and simultaneously continuing the internal transformation based on sustainable growth and long term- development.¹

Trade with the outside world had been one of the central features distinguishing formerly planned economies from market models. In transition, trade is not just an economic policy. It is rather a strategic issue, determining a country's exposure to the outside world, as well as its global economic position. As Brabant has pointed out, “because the goals of establishing a functioning market system revolve around complete submersion into the global economy, the critical question following the transition is how open these economies will be and what kind of a trade regime that will crystallise in the process.”²

For subsequent Polish governments, seeking membership in the EU has thus been much more than a state of political negotiations and externally enforced adjustment, but has fundamentally revolved around domestic structural and systemic changes to prepare Poland for accession. Internal reforms and economic restructuring have been the *sine qua non* conditions of membership, as specifically set out in the Copenhagen Criteria in June 1993. The existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union were laid out as explicit conditions for accession.

As such, both the transformation and the pre-accession strategy have relied heavily on the scope of openness of the Polish economy, and the goal of trade policy, set out in the early days of the transition, has been to bring domestic economic policy in line with market mechanisms of the international structure; to increase openness and competitiveness of the nation in order to stimulate growth and consequently lead to prosperity. The implementation of the EA was to constitute the most significant element

¹ Buzek, J. Polish Prime Minister, Speech, ‘Towards Membership of the European Union’, 11/10/00.

² Brabant, J. (1993). ‘How the East can eventually merge into the world economy’, in Salvatore, D. (Ed.) (1993). *Protectionism and World Welfare*. Cambridge: Cambridge University Press, p 421.

of this strategy serving as supportive instrument as well as anchor for policy reform and sustainability.

This chapter thus takes a look at modern economic theory and what it has to say on the role openness in transformation. It also examines the objectives of the EA, the neoliberal institutionalist rationale for 'binding liberalisation' to international regimes and finally the provisions of the Agreement itself.

I. Openness

According to classical economic theory³, the most fundamental link between a nation's and the world economy is commercial openness. By initiating internationalisation, an open market is the best way to foster economic efficiency and accordingly increase national wealth and prosperity. Openness serves as the means to an end. It leads to higher growth, increasing per capita income and per capita exports. Moreover, openness as a concept has a particular significance for the former- socialist states, implying much more than commercial liberalisation and encompassing basic political tenants, which contest the fundamental nature of the closed, totalitarian system. Beginning with Gorbachev's *Glasnost*, one is tempted to say that the opening up of CEE economies, politics and societies to the outside world stimulated an unstoppable process of the collapse of socialism and reintegration of the members of the Warsaw Pact with western structures.

A. Definitions and measurements

One of the problems with analysing the relationship between openness and growth is that openness is neither directly observable nor has one accepted definition which is derived from theory.⁴ A vast economic literature exists on the topic, making the search for an exact definition arduous if not impossible. However, to understand the benefits that can be derived from commercial liberalisation, one must first be able to point to a series of variables that determine the boundaries and measurements of openness.

At the core of openness, stemming from classical liberalism, is the notion of individual liberty. Adam Smith's concept of *Laissez Faire* symbolises economic freedom as pursued by the individual and guided by the market. The natural liberty of *homo oeconomicus* is safeguarded as one of the fundamental rights of man. It is precisely this

³ The author will present the rationale for openness, espoused to by liberal economists. It is assumed that these arguments are purely theoretical and should be interpreted as such.

⁴ Proudman, J., Redding, S. and Bianchi, M. (1997). 'Is International Openness Associated with Faster Economic Growth?', *Bank Of England Papers*, London: Bank Of England.

freedom that was lacking in socialist economies, where the state, rather than the individual or the market, guided economic decisions and constrained initiative.⁵ The focus of the entire process of transformation, for both Polish and Western liberals, has been to free this individual initiative and introduce the basic building blocs of capitalism into the former command structures.

In classical economic theory, the opening up of the economy was confined to the macroeconomic process of trade liberalisation. However, globalisation and increasing interdependence of various elements of economic transactions have led to redefining openness in a wider sense. The linkages between trade, on the one hand, and investment and capital mobility, on the other, have resulted in a conceptualisation of liberalisation that encompasses more than the dismantling of the classical tools of protectionism, mainly tariffs and duties, to include diverse non-tariff barriers, exchange rate manipulations, as well as reforms in the areas of competition and industrial policy. The new interpretation of openness is synchronised with a more far-reaching understanding of economic integration between states and markets. According to K. Zukrowska, “the opening up of the economy suggests departing from protection of the internal market, which leads to the liberalisation of external relations. This notion incorporates numerous activities from reductions in tariffs, coverage of new fields by integration, to harmonisation of technical standards and legal regulations.”⁶

The simplest understanding of openness can thus be conceived of as integration of the national economic and institutional system within global networks. Integration is achieved by the liberalisation of trade and investment flows and an outward- looking orientation of domestic economic activity. The process of internationalising the economy can also be broadly defined as freeing a nation’s international trade and capital transfers from domestic control and arbitrary government intervention.

To understand more precisely the notion of commercial openness, economists have generated a series of openness indicators, which attempt to measure the extent to which an economy is open.⁷ Indicators, such as the World Bank Development indicators or the EBRD transition indicators, define openness through ratios, based on trade in goods on

⁵ Sally, R. (1998). *Classical Liberalism and International Economic Order, Studies in theory and intellectual history*. London: Routledge.

⁶ Zukrowska, K. (1998). ‘The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience’, in Zielinska- Glebocka and Stepniak (Ed) (1998). *EU Adjustment to Eastern Enlargement Polish and European Perspective*, p. 299.

the one hand and private capital flows on the other.⁸ Measuring the contribution of foreign investment and trade to an economy's gross domestic product, by deriving a simple ratio of exports plus imports/ GDP can paint a picture of a country's relative participation in and dependence on international trade and capital.

The World Trade Organisation, on the other hand, applies Trade Orientation Indexes which measure how trade is distorted away from its free trade level by real exchange rate and tariff distortions.⁹ Sachs and Warner, similarly, provide a simple but comprehensive model for measuring openness, which includes variables such as average tariff rates and NTB's. Their cross- country indicator measures a nation's orientation to the world economy. A country is classified as closed if any of the following criteria are satisfied: 1- average tariff level rate above 40%, 2- NTB's on more than 40% of imports, 3- socialist economic system¹⁰, 4- state monopoly on major exports, and 5- black market premium on the exchange rate exceeding 20%. An economy is deemed open if none of the 5 conditions apply. According to this model, all ten CEE states were considered closed until 1989, and following the initiation of reforms, they graduated to the "open" classification.¹¹

B. Openness and growth

Once openness is broadly defined and understood, it is important to consider its implications for growth and income convergence between nations at different levels of development. The relationship between openness to the international economy and a country's rate of economic growth is key to understanding the role that liberalisation can play in transformation economies. According to the WTO, the association between trade openness and growth demonstrates that more open economies tend to grow faster, are found to converge to higher levels of income, have higher investment ratios, better macroeconomic balances and a larger role of the private sector as the engine of growth.¹²

⁷ Hufbauer, G. and Kotschwar, B. (1998). 'The Future Course of Trade Liberalisation', *Paper for The World Bank, Institute for International Economics*, Washington DC: World Bank, October.

⁸ Both trade as % of gdp and private capital flows as % gdp (ppp gdp & goods gdp); Higher openness ratios suggests more trade with the world.

World Bank (2001). *World Development Indicators*. and EBRD (2000). *Transition Report*.

⁹ Ben- David, D., Winters, L.A. and Nordström, H. (2000). 'Trade, Income Disparity and Poverty', *World Trade Organisation Special Studies*, No 5, Geneva: WTO.

¹⁰ According to Kornai (1992) definition.

¹¹ Sachs, J. and Warner, A. (1995). 'Economic Reform and the Process of Global Integration', *Harvard Institute of Economic Research Discussion Paper*, No 1733, Cambridge, MA: Harvard Institute..

¹² WTO, (1998). *Annual Report, Special Topic: Globalisation and Trade*. Geneva: WTO.

Moreover, Sachs and Warner claim that, “the only variable on which one needs to condition to observe convergence in income is the economy’s trade regime.”¹³ Although trade liberalisation is only one aspect of a government’s reform programme designed to integrate a country into the world economy, it is the sine qua non of internationalisation. Trade reform has a major effect on all the factors of production and serves as a conduit for other spillovers. Moreover, liberalisation is believed to be the quickest way to achieve competition in a heavily cartelised domestic market, such as the former planned economies, thus reducing their monopolistic structure.

Liberal economic theory maintains that economic openness, based on trade and foreign investment, together with competitive domestic markets and observance of sound macroeconomic fundamentals explain to a large extent the variation in growth rates between countries.¹⁴ Moreover, traditional trade theory asserts that increased trade results in static as well as dynamic gains. On the static side, integration into the global trading system brings about the benefits of increased competition, specialisation and economies of scale, improving national competitiveness and changing a country’s commodity structure to further stimulate pro- growth economic integration.¹⁵ An open nation tends to witness gains in total factor productivity as the country is exposed to various trade induced spillovers, such as new management techniques, the spread of knowledge and ideas and modern technologies, and the import of capital and resources for domestic production, supply and consumption. Cheaper imports replace more costly domestic products and divert labour and capital to more productive uses resulting in efficiency gains due to comparative advantage. Additionally, by forcing importers and exporters to learn to better utilise their resources, external competition also increases national productivity. Trade is an important determinant of job creation, as exports support jobs and export- oriented firms tend to be more stable than those limited to the domestic market. Indirectly then, trade can bring about higher wages and more flexible labour-market policies. Openness can also contribute to the improvements in the efficiency of public systems of social protection and as well as environmental quality.¹⁶

For more see also World Bank (1998). *The Future Course of Trade Liberalisation*. Washington DC: World Bank, Institute for International Economics, October.

¹³ Sachs and Warner, *ibid*, p 2.

¹⁴ OECD (1998). ‘Open Markets Matter: The Benefits of Trade and Investment Liberalisation’, *OECD*, No 6, Paris: OECD.

¹⁵ Levine, R. and Renelt, D. (1992). ‘A sensitivity analysis of cross-country growth regressions’, *American Economic Review*, Vol 82, pp 924-63.

¹⁶ OECD (1998). *ibid*.

Furthermore, liberals contend that opening up the economy reduces risk and vulnerability to economic cycles as world markets tend to be more stable than domestic ones.¹⁷

Finally, various studies have attempted to demonstrate that there is a strong positive correlation between trade and investment, and that the indirect dynamic benefits of open trade are as impressive as the direct efficiency gains. Not only is additional investment generated as exports increase growth, but also low trade barriers can enhance the productiveness of foreign investments¹⁸, which, in turn, bring about additional market spillovers. Inward investment is the key to the creation of competitive market economies and the most effective way of transferring technology, know-how and managerial skills. Foreign investors provide a stable source of employment and long-term capital, stimulating domestic investment, and thus helping to cover deficits in savings and in the balance of payments. Investments can influence the development of financial, regulatory and other institutions and help establish financial discipline. Upstream and downstream linkages and demonstration effects lead to productivity gains that include quickening the pace of restructuring and privatisation, and increasing R & D intensity and ultimately stimulating innovation and competitiveness. By integrating domestic production capacities into global networks of production, marketing and distribution, FDI leads directly to increases in intra-industry trade, which, thanks to greater product specialisation and differentiation, further invigorates the realisation of economies of scale. Foreign investment thus stimulates export growth and improves the performance of the trade regime by influencing the structure of trade and the type of goods and services that are exported. Finally, like trade, FDI acts as a powerful spur to competition, encouraging domestic firms to reduce costs and enhance their productivity.

C. Transition/ transformation

The rationale behind radical trade opening, at the onset of transition, followed by the ‘anchoring’ of the process of liberalisation in external regimes to ensure its continuity stemmed from these liberal arguments as to the benefits of openness. Both the Polish economic team¹⁹, led by Finance Minister L Balcerowicz, as well as their western advisers, had powerful and well- thought out reasons for expecting that a decisive

¹⁷ Winters, LA. (2000). ‘Trade, Liberalisation and Poverty’, *Poverty Research Unit Discussion Paper*, No 7, Sussex: SEI.

¹⁸ OECD (1998). *ibid.*

¹⁹ Interview with Rafal Anczak, member of the Balcerowicz team. February 10, 2003.

opening of the Polish economy to world markets would be the most expedient and efficient way of initiating internal reforms. The heightened competition on domestic markets was to result in the demonopolisation of the economy and go along with price deregulation, privatisation and liberalisation to ensure that no new distortions such as monopolistic pricing arose. Competition was also to force changes in productivity and efficiency, especially in the traditionally closed sectors, resulting in improvements in the quality of goods and services provided and bringing benefits to consumers as prices fell and diversity increased.

Viewed as a primary instrument of reform, trade liberalisation was also to help promote government responsibility in other areas.²⁰ Increasing competition was believed to be a prerequisite for the market to function properly, transferring power from public to private and undercutting the ability of the entrenched bureaucracy to influence political decisions. Thus, for the economic liberals, competition was to shake vested interest groups out of their monopolistic positions and tilt the political balance back towards a more pluralistic equilibrium.²¹ As such, economic liberalisation was indirectly to lead to the emergence of a middle class, with a stake in the reforms that, in turn, would provide a base of support for the government in continuing its liberalisation agenda.

Finally, it was argued that trade and integration with the global economy would actually create a basis for political trust, and that foreign economic policy would serve as a tool to achieve difficult domestic goals. According to the liberals, and as postulated by neoliberal institutionalism, binding domestic policies to external obligations would limit the discretion of governments and make protectionistic policies too costly and complicated to re-introduce. Economic aid attached to conditionality, by entailing sanctions for governments that do not comply with the policy prescriptions of donors,²² would influence the pace and performance of domestic change. Thus, 'anchoring' domestic politics within multiple international regimes would add credibility to the reforms, and the preferential market access granted in return would provide an additional incentive, a "carrot" to further justify difficult domestic decisions.

²⁰ Sachs and Warner (1995). *ibid.*

Balcerowicz, L. (1995). *Socialism, Capitalism, Transformation*. Budapest: Central European University Press.

²¹ See chapters 3 & 4

²² Pridham, G. (1991). 'International influences and democratic transition: problems of theory and linkage in politics', in Pridham, G. (Ed.) (1991). *Encouraging Democracy: The International Context of Regime Transition in Southern Europe*. London: Leicester University Press, Pinter Publishers. See also Lewis, P.G. and Pridham, G. (1996). *Stabilising Fragile Democracies*. *ibid.*

These expectations were all none the less conditional upon a favourable international environment and a commitment from the west to the free trade and true reciprocity principles.

D. Reforming external economic relations

Faced with tremendous external and internal debt, hyper-inflation, and growing difficulties in exporting to traditional markets, in 1990, the Polish government, with the encouragement of various western consultants, launched a radical stabilisation package. This included complete price liberalisation, tough monetary and wage policy, reduction of domestic demand, internal convertibility, and import liberalisation. These short run measures were designed to stabilise the economy and initiate the process of reform. The main goal of the Balcerowicz Plan was to stimulate national economic growth through a radical re- integration of the Polish economy into the global system. The Polish economists rightly believed that the prerequisite for the implementation of the internal market reforms was the linking of the domestic sphere to the international, and the Polish 'Big Bang' sought to accomplish this through a sudden and unilateral liberalisation of external economic relations. Commenting on the initial structure of the trade regime, J Kulig noted that, "in Poland, trade policy reform must be considered in conjunction with export performance- which was accomplished under a strict stabilisation programme. It was a policy of exporting our way out of a recession."²³

D.2 Dismantling command structures

Trade in the classical planned economy operated through foreign trade organisations and the state retained monopoly power over trade activity.²⁴ Domestic producers were isolated from competition and prices in world markets through various price distortions and centralised control of foreign exchange transactions.²⁵ Following the collapse of the Soviet union and the CMEA in 1991, the leading CEE states re-oriented their geographical trade patterns from East to West and underwent profound trade and

²³ Kulig, J. (1993). 'discussion', in Foti, G. (Ed.) (1993). 'The Future of Eastern and Central Europe in the World Economy: Proceedings of the Jubilee Conference', *Papers for Hungarian Institute for World Economics*, Budapest, Institute for World Economics.

²⁴ Kaminski, B., Wang, Z. and Winters, L.A. (1996). 'Foreign Trade in the Transition: the international environment and domestic policy', *World Bank Studies of Economies in Transformation*, No 20, Washington DC: World Bank.

²⁵ On the import side- centralised allocation of the foreign exchange rate served as a NTB, on the export side- multiple exchange rates, distorted prices and foreign exchange surrender requirements undermined incentives of firms to engage in foreign trade.

investment policy changes, the Polish reforms representing the most radical of the liberalisation packages.

For the Mazowiecki government normalisation of relations with the West meant being granted market access through Most Favoured Nation status as well as the Generalised System of Preferences. Consequently, the primarily unilateral liberalisation programme was soon complemented by various bi-lateral, regional and multilateral trade agreements including the Europe Agreements and EFTA with the EC, CEFTA within the region itself, and the WTO globally.

The reorientation of the trade regime from east to west was a political and economic priority. Politically, the move signified a dramatic break with the past and an embrace of the values of liberal democracies. Moreover, the diversion of trade flows from the former members of the CMEA to Western Europe was necessary to sustain export growth in the face of the collapse of traditional Eastern markets and dramatic falls in output. The Polish economic team under the auspices of western advisers²⁶ argued that the downward spiral could only be stopped through access to new markets and increased economic and political integration with Poland's most important partner- the EC. Accordingly, in 1992, trade became the most important driving force in the Polish economic recovery, when export growth to new markets provided one of the few bright spots in the transformation process.²⁷

The initial reforms of the majority of the trade regimes throughout the CEE region were built upon standard economic theory and concerned mainly with getting rid of the remnants of the administratively controlled CMEA system and moving towards market-oriented and open external economic relations. The export subsidy schemes were abolished, quantitative restrictions removed and tariff schedules introduced, based on low and uniform tariffs. Most reformers adopted a unified exchange rate, made their currencies convertible in the current account and gave firms autonomy to operate in international markets. Most also underwent devaluation of their domestic currency in order to boost their export growth.²⁸

²⁶ Especially Sachs and Lipton

²⁷ For more on this see EBRD (1994). *Transition Report*.

Kaminski, B. (1999). 'The Role of Foreign Direct Investment and Trade Policies in Poland's Accession to the European Union', *World Bank Technical Paper*, No 442, Washington DC: World Bank.

²⁸ International convertibility lends credibility to macroeconomic policies, links firms to world prices and is an intricate part of the package of reforms geared towards marketisation. Economic internationalisation was accompanied by domestic stabilisation, restructuring and privatisation.

In Poland, trade liberalisation became effective in January 1990, when the zloty became internally convertible and almost all domestic prices were released from administrative control. Trade reform included the unification of exchange rates, liberalisation of access to foreign trade activity on both the import and export side and application of uniform tariffs on all imports. Subsidies, especially to agricultural production, and other forms of non-tariff measures were eliminated in the new customs code introduced in January, compatible with international norms.

At the beginning of 1990, the average tariff was 8.9% ad valorem. In order to reduce import charges in the second half of the year, customs duties were suspended on two thirds of tariff items, lowering the trade weighted protection from 8.9% to 4% and making Poland one of the most open economies world wide. Moreover, in August, another modification to the new customs code came into force adopting the Polish nomenclature system to the measurements of Combined Nomenclature applied by the European Community.

None the less, by 1991 already foreign trade management was becoming increasingly politicised. Liberalisation of tariffs was diminished by government reliance on the foreign exchange system and on macroeconomic policy instruments as a way of providing extra protection to domestic producers. In October, the zloty fixed exchange regime was replaced by a crawling peg with a 1.8% monthly rate of devaluation. In order to increase government fiscal revenues and increase the degree of protection, devaluation was then combined with increased tariff protection, when the average weighted tariff was raised to 16.83%. Furthermore, in December 1992, a 6% across-the-border import tax was imposed, additionally moderating the scope of liberalisation.²⁹

II. Towards The European Union

The World Bank has observed that, “in its quest to improve allocative efficiency and boost growth performance, a typical developing country usually has two options: unilateral liberalisation of its investment and trade regimes or multilateral liberalisation based on reciprocity of concessions.”³⁰ However, the Polish government had a third option to achieve its domestic goals; that of a preferential trade arrangement with the

Flemming, J., and Rollo, J.M.C. (Ed.) (1992). *Trade, Payments and Adjustments in Central and Eastern Europe*. London: Royal Institute of International Affairs.

Ehrenhaft, P., Hindley, B., Michalopoulos, C. and Winters, L.A. (1997). ‘Policies on Imports from Economies in Transition’, *World Bank Discussion Paper*, No 22, Washington DC: World Bank.

²⁹ Michalek, J. (2000). ‘The Europe Agreement and the Evolution of Polish Trade Policy’, in *Yearbook of European Studies*, No 4, Warsaw: CEUW.

European Community. This path was potentially to be superior to either unilateral or multilateral liberalisation³¹ and became a crucial component of the Polish growth-oriented openness strategy.

According to K Zukrowska, “an invitation to join (an organisation such as the European Community) and negotiate the conditions of membership can be considered as an external leverage to change” and a commitment to accept the burden of changing.

“Invitation is seen as a reward for the effort to change and plays a mobilising role.”³²

The importance of this positive mobilisation through international cooperation is evident through the wide-ranging influence of the international community and institutions on domestic reform.

In addition, policy acts such as the signing of international treaties have long term and long-lasting effects and shape the future domestic environment by creating interests that either gain or lose from the policy. In an essay on linkage politics, international relations scholar J Rosenau has argued that, “constraints from the international environment may act as consistent pressure for continuity in the face of domestic change or upheaval, inducing various patterns of socialisation, creating new networks, and increasing interaction.”³³ Similarly, G Almond concluded that, “external agents or developments are likely to exert a powerful influence on regime transition by preparing the way for it, as well as through direct impact during the process itself.”³⁴

Taking all this into consideration, the Polish liberal government in 1990 consciously chose a development path focused on linking domestic reform to the international sphere, trading off political and economic benefits against the price of reduced sovereignty and limited policy autonomy.

³⁰ World Bank (1998). *The Future Course of Trade Liberalisation*. *ibid.*, p 26.

³¹ Assuming that trade liberalisation with the EU represents a form of bi-lateral state cooperation, due to a common external negotiations position of the member states through the CCP. For more see Milner, Keohane, Czempiel and Rosenau, Strange, Krasner, Ruggie.

³² Zukrowska, K. (1998). ‘The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience’, in Zielinska- Glebocka and Stepniak (Ed) (1998). *EU Adjustment to Eastern Enlargement Polish and European Perspective*, p 300.

³³ Rosenau, J.N. (1969). *Linkage Politics: essays on the convergence of national and international systems*. NY: Free Press and Princeton Center of International Studies, p 14.

³⁴ Almond, G. (1989). ‘The international- national connection’, *British Journal of Political Science*, April, pp 237-59.

A. Association

The Commission has called trade “the economic and political cornerstone of the transition process”³⁵, and, because facilitating market access for exports from CEE was argued to be the most effective assistance that the EU could render to the emerging regimes, in December 1989, the Community signed its first Trade Cooperation Agreement with Poland. Although the agreement was meant to last for five years, it was quickly overtaken by the events in Central Europe and replaced by more comprehensive relations in the form of the Association Agreement, signed between Poland and the Communities on 13th December 1991.³⁶ The interim parts of this ‘Europe’ Agreement, establishing trade relations between Poland and the EC, came into force in March of 1992, the rest awaiting national ratification and taking effect February of 1994.

The signing of the EA marked a new phase in Polish- EC cooperation and represented a political move to transform economic relations. In a speech assessing the progress of Central European integration with the Union, former Trade Commissioner Leon Brittan's noted that, “in the pre-accession period, we have intensified our relations across all sectors. Bilateral trade is probably the area where we have already the most intense and longest experience of co-operation, built up gradually since the Agreements, which form the basis for our trade relations, have come into force.”³⁷

Initially, from the EC's perspective, the EA was intended to serve as an instrument of association between Poland and the Communities, and not as a pre-accession tool, and Polish aspirations to become a member of the Union were only formally recognised two years after its signing.³⁸ It has been argued that many within the EU saw the Treaty as providing an alternative to membership.³⁹

Meanwhile, the EC took up the central role of coordinating international aid, and with the blessing of the OECD, the PHARE program began providing the main support for the process of transition in CEE. Along with the aid from the EBRD, the World Bank, and the IMF, the Community granted Poland ecu2 billion worth of loans, as well as

³⁵ European Commission (1994). ‘Trade liberalisation with Central and Eastern Europe’, *European Economy Supplement A*, No 7, Brussels: EC and Directorate- General for Economic and Financial Affairs, pp. 1-2.

³⁶ Formal negotiations between Poland and the Communities began in December 1990, lasting nine rounds with the final agreement signed a year later. See chapter six.

³⁷ Speech by Leon Brittan in October 1998, ‘Trade Enlargement and the International System’.

³⁸ Maresceau, M. (1997). ‘Association, Partnership, Pre-accession and Accession’, in Maresceau, M. (Ed.) (1997). *Enlarging the European Union: relations between the EU and Central and Eastern Europe*. London: Longman, p 9.

³⁹ Mayhew, A. (1998). *Recreating Europe: the European Union's policy towards Central and Eastern Europe*. Cambridge: Cambridge University Press.

additional help from the individual member governments. Then, the Edinburgh European Council of 11th-12th December 1992 announced that, “any country with a European identity, democratic status, respect for human rights, able to adopt and implement the *acquis*, was eligible for membership.”⁴⁰

While the Commission recognised that, trade would be the essence of what would later become the pre-accession strategy, and that, “trade was vital to the economic reform process and to the integration of the associated countries into the Community”⁴¹, it was only at the Copenhagen European Council on 21-22 June 1993 that the re-orientation of the Agreement took place. Here, on the initiative of the European Council, the Community finally acknowledged that the accession of the countries of CEE was a common objective, paving the way for Poland to formally submit its membership application, in April 1994, and transforming the EA into the basis for the Essen pre-accession strategy launched in December of that year. Subsequently, the White Paper was published on preparing the associated countries for their entry into the internal market, and on 13th Dec 1997, the decision was taken by the European Union to begin accession negotiations with the five CEE states plus Cyprus. The negotiations formally began on the 31st March 1998, primarily consisting of the so-called screening sessions, in which the *acquis communautaire* was explained to the candidate countries, followed by the opening of the more substantive negotiations on the 31 chapters in September. In the meantime, Agenda 2000 was published, which at the Berlin Summit in 1999, set out not only the budgetary framework for the European Union until 2006, but also a whole set of financial instruments for pre-accession, including the Accession Partnerships. Finally, in July 2001, at the Gothenburg Summit, the EU agreed that negotiations should be finished with the most prepared candidates by the end of 2002, enabling them to take part in the 2004 European parliamentary elections as full –fledged members. The agreement on the Treaty of Nice in December 2001 opened the way for enlargement, allowing the eight CEE plus Cyprus and Malta to finish the negotiations in Copenhagen, December 2002.

⁴⁰ Edinburgh European Council Dec 11-12 1992

⁴¹ Mayhew, A. (1995). ‘discussion’, in Franzmeyer, F. and Weise, C. (editors). *Polen und die Osterweiterung der Europäischen Union: Beiträge und Discussionsberichte zu einer Tagung des Deutschen Institut für Wirtschaftsforschung und der Warsaw School of Economics*, Berlin: Duncker & Humboldt, 8-10 June.

B. Expectations and goals

More than ten years have passed since the signing of the Europe Agreement establishing relations between the Community and Poland, making it now possible to draw some conclusions as to the actual outcomes of the various objectives sought and the realisation of the preliminary goals of association.

In 1990, J Pinder claimed that

*stable democracies and market economies in Central Europe could make a significant contribution to the security of the Community and to the dynamism of the European Economy. A primary aim of the Europe Agreement must therefore be to help the Central Europeans to succeed with their economic and political reforms. It will be the better part of the decade before the economies will be internationally competitive without special measures of protection, and some time before we can be sure that democracy has really taken root. Until both conditions have been securely established, the consolidation of reforms should take precedence over short-term commercial advantage for the existing member states.*⁴²

As such, the EA was initially considered a reward for the political and economic changes in East Central Europe and a symbolic gesture of external support. The officially declared fundamental objective of the Treaty was to help the associated states succeed in their internal economic reforms as well as encourage the consolidation of the nascent democracies, through the granting of far-reaching trade concessions, financial and technical aid as well as models for institution building.⁴³ This intent to support the emerging regimes was clearly spelled out in the preamble to the Agreements.

The Preamble of the Agreements states that:

TAKING ACCOUNT of the Community's willingness to provide decisive support for the implementation of reform and to help Poland cope with the economic and social consequences of structural readjustment;

TAKING ACCOUNT furthermore of the Community's willingness to set up instruments of cooperation and economic, technical and financial assistance on a global and multiannual basis;

CONSIDERING the commitment of the Community and Poland to free trade, and in particular to compliance with the rights and obligations arising out of the General Agreement on Tariffs and Trade (GATT);

BEARING IN MIND the economic and social disparities between the Community and Poland and thus recognising that the objectives of this association should be reached through appropriate provisions of this Agreement...

1. *An association is hereby established between the Community and its Member States on the one part and Poland on the other part. (And the aim of this Agreement is) to*

⁴² Pinder, J. (1991). *The European Community and Eastern Europe. Chatham House papers*. London: Pinter Publishers, p.60.

⁴³ Brabant, J. van (1996). 'Integrating Europe: the transition economies at stake', *International Studies in Economics and Econometrics*, Vol 37, Boston: Kluwer Academic Publishers, p 220.

*provide an appropriate framework for the political dialogue, allowing the development of close political relations between the parties; to promote the expansion of trade and the harmonious economic relations between the parties and so to foster the dynamic economic development and prosperity in Poland, to provide a basis for the Community's financial and technical assistance to Poland, and to provide an appropriate framework for Poland's gradual integration into the Community.*⁴⁴

The signing of the EA was to anchor the Polish reforms in an outside institution, increasing their credibility and enhancing domestic stability, rewarding change through the provision of visible benefits tied to trade openness. The EA went beyond simple border measures to consider other factors affecting trade such as standards and competition policy. Moreover, the inclusion of some financial transfers was intended to compensate the weaker partner for opening up its markets, as well as directly aid in the process of transformation.

However, to understand better the objectives of the Europe Agreements, it is important to consider the motives of each partner individually.

For the European Union (EC at the time), after the fall of the Berlin Wall, the EAs were officially declared to be the tools for spreading market democracy in CEE and ultimately securing peace eastwards across the entire European continent. "Europe" represented an anchor of stability in the face of the unpredictable future of the former Soviet Union, and it was considered dangerous to leave the CEE countries in a grey area between politically stable West and the still volatile situation in the East.⁴⁵ The *coup d'état* instigated by Yeltsin in the newly emerging Russian Federation served as a reminder that it was in the strategic interest of the Community to create a stable and secure area around its eastern borders, a region traditionally marked by volatility and conflict. Consequently, then, the signing of the EA was considered "an instrument of determination of Europe's borders by a combination of strategic, economic and political consideration rather than by criteria of European identity."⁴⁶

For the EU the economic gains of regional integration were secondary to political and security considerations, as the size of the CEE markets was a miniscule share of total

⁴⁴ Europe Agreement, EU Commission:

http://www.europa.eu.int/comm/enlargement/pas/europe_agr.htm.

⁴⁵ Kawecka- Wyrzykowska, E. (1996). 'On the Benefits of the Accession for Western and Eastern Europe, Coming to terms with accession', Forum Report on Economic Policy Initiative, No 2, p 88.

⁴⁶ Stavridis, S., Mossialos, E., Morgan, R. and Machin, H. (Ed.) (1997). *New Challenges to the European Union: policies and policy-making*. Aldershot: Dartmouth.

EU exports and imports, and the income of the region as a whole was too low to produce any significant profits from trade liberalisation. As A Winters pointed out,

*the markets in Central and Eastern Europe were not large enough to offer EU producers large increases in earnings; main exception being agricultural and sensitive products (clothing and steel)- the very areas where integration was least complete. The very sectors which could generate economic gains, albeit at the cost of temporary adjustment stresses in the EU, were excluded or attenuated in the integration.*⁴⁷

Association was to ensure that the uncertainty of the transition process in CEE would not spillover into violence and migration and consequently disrupt the EU's economic and political life. Since one of the main objectives was to discourage migration from the east to west, trade theory provided the appropriate arguments. It was maintained that by giving market access to the associated states and allowing their exports to flourish, the pressures for migration would be lessened as the returns earned on exports would contribute to their growth, spilling over onto political stabilisation, and aid in the consolidation of democracy.

Moreover, because at the time of signing of the Agreements there was no formal commitment to eventual accession, the EAs were seen as a sort of compensation mechanism, a half- way house between membership and complete exclusion of the former socialist states from the European structures.

The official rhetoric declared by the EC was that the substantial benefits to be gained from greater stability in the East outweighed any possible objections to an asymmetric opening of trade in favour of the candidates. This justification was based on the experience of the previous Mediterranean enlargement, where the three southern states sought entry into the EC as a sort of safe haven for their newly established democracies. Thus, the re-unification of the European continent was to be achieved at the price of marginal economic losses in the West, and in espousing to this line of thinking, in June 1994, at the IGC Corfu Summit, the Member States declared that, "the purpose of enhanced trade was located not in the welfare gains (for the EU) of trade, but in the political benefits of consolidated democracy and the market economy as well as support for the political and military security of the European region."⁴⁸

Ultimately, it was hoped that association would contribute to narrowing the gap between the Eastern and Western halves of Europe, by returning the levels of interstate trade

⁴⁷ Winters LA, (2000). 'EU's Preferential Trade Agreements: objectives and outcomes', in Djck, P. van and Faber, G (Ed.) (2000). The External Dimension of the European Union. The Hague: Kluwar Law International, p 202.

transactions back to their natural patterns, and, by decreasing regional disparities, encourage Europe's overall dynamism and increase prosperity.⁴⁹ Moreover, in the face of the growing hegemonic power of the United States, Eastern enlargement was to enhance the EU's own role in international relations, by buttressing not only its political weight, but also its economic dynamism and competitiveness.

Coupled with these strategic- political- economic interests was a certain sense of moral obligation felt by the Community towards the CEE nations for their role in bringing down Communism, as well as a for the 'Yalta betrayal'.⁵⁰ Association with the EC and eventual membership in the Union would symbolise the definite end to the division of Europe and the re-inclusion of the East European states into the European 'family'. Integration was to close the gap between the poor and the wealthy neighbours, thus providing some sort of reparation for being 'abandoned' on the other side of the iron curtain and excluded from the Marshall Plan following WWII.⁵¹

As such, it was argued that the granting of EAs to CEE would ultimately be in the Community's own interest, as trade along with investment, the two main pillars in the creation of an FTA, were seen as prerequisites to consolidating transition and as the rewards for CEE progress towards the market and democracy.

C. Polish objectives

If political goals dominated the Community's drive toward granting Poland association and creating a Free Trade Area, it could be argued that the objectives of the initial and subsequent Polish governments' were more evenly balanced between seeking economic benefits of integration and the political gains of greater policy stabilisation. Already in 1990, at the very beginning of the negotiations of the Europe Agreement, the Polish side made its intentions clear to seek membership in the European Union, perceiving association as a first step towards full membership and an immediate tool to support the internal transition.⁵²

⁴⁸ Conclusion of the Corfu Summit, 1994.

⁴⁹ Patterns prior to the Cold War divisions following WWII

See for ex, Kirshner, E. and Sterling, J. (1997). *Recasting the European Order, Security architectures and economic cooperation*. Manchester: Manchester University Press.

⁵⁰ This was not only a feeling amongst the Community, but an elaborated belief of the CEE candidates. The perception of 'betrayal' was particularly strong among the Polish public.

⁵¹ See, Lewis, P.G. and Pridham, G. (1996). *Stabilising Fragile Democracies*. *ibid*.

⁵² Interview with Jacek Saruysz-Wolski, Member of Polish negotiating team of the EA, First Government Plenipotentiary for European Integration, 1991-1996, later Secretary of State for European Integration; when the author worked as his adviser, and spoke with him on numerous occasions.

In spite of numerous changes of the ruling coalitions, the integration of Poland into the European Communities and subsequently the EU has remained the strategic aim of every Polish government since the first partially free elections in June 1989. Successive governments, from the liberal Freedom Union (UW) to the conservative Solidarity Election Action (AWS), the Peasants (PSL) or the re-emerging Social Democratic Alliance (SLD) ⁵³, have continued to emphasise that quick entry into the Union would not only stabilise the newly regained democracy, but also assure that Poland would not face the danger of derailment from the economic course it had adopted a decade ago.

Table 2.1 Polish Presidents and Prime Ministers 1989- 2002

President of The Polish Peoples Republic (PZPR)	
<i>Years in office</i>	<i>Name</i>
07/1989 – 12/1990	Wojciech Jaruzelski

Presidents of the Republic of Poland (RP)	
<i>Years in Office</i>	<i>Name*</i>
12/ 1990 – 12/ 1995	Lech Wałęsa
12/ 1995 -	Aleksander Kwaśniewski
Prime Ministers of the PR	
<i>Years in Office</i>	<i>Name and Party</i>
08/ 1989 – 12/ 1990	Tadeusz Mazowiecki (UD**)
01/ 1991 – 12/ 1991	Jan Krzysztof Bielecki (UD)
12/ 1991 – 06/ 1992	Jan Olszewski (Solidarity***)
06/ 1992 – 07/ 1992	Waldemar Pawlak (PSL)
07/ 1992 – 10/ 1993	Hanna Suchocka (UD)
10/ 1993 – 03/ 1994	Waldemar Pawlak (PSL)
03/ 1994 – 02/ 1996	Józef Oleksy (SLD)
02/ 1996 – 10/ 1997	Włodzimierz Cimoszewicz (SLD)
10/1997- 09/ 2001	Jerzy Buzek (AWS)
09/ 2001-	Leszek Miller (SLD)

*Presidents in Poland are elected on a non-partisan basis

** Democratic Union- later Freedom Union (party originally connected to Solidarity movement)

*** Coalition of groups connected to the Solidarity movement

Consequently, it is difficult to distinguish between primary Polish goals in seeking regional integration, on the one hand, and pursuing membership in the Union, on the other.

Generally, the trade parts of the EA were driven by domestic motives, both political and economic, while the Treaty as a whole was intended to lay down the foundation for eventual accession. Moreover, association was to increase Poland's political power and

⁵³ Former United Workers Party PZPR

strengthen its international position, as it was recognised that the Polish state was too small on its own to defend its interests in the global arena. Eventual EU membership was to expand Poland's influence on international relations, particularly important for the Polish side in the early 90's, when Russia was still perceived as a threat to its internal security and stability.

C.2 Static economic benefits

Most of the economic incentives to join the EU stemmed from the so-called "domino effect" as Baldwin has called it.⁵⁴ According to this theory, when a group like the EU enlarges, the costs of staying out of the club increase for non-members, and "the countries at the margin are eventually pulled in to join."⁵⁵

As a trade policy instrument, the Agreement was seen as a prerequisite to sound macroeconomic policy, enabling the sustainability of exports that was to lead to recovery and growth. The goal was to create a structure for political dialogue and cooperation between the associated partners within a framework of an extended Free Trade Area. Ultimate realisation of the free movement of goods, quoted explicitly in the Treaty, was to pave the way for various obligations regarding the free movement of workers, services and capital, as necessary components of an eventual FTA.

Consequently, the EA encompassed extensive rules on trade protection measures, some aspects of intellectual property rights, industrial and competition policy and special provisions on the movement of persons and establishment.

The Treaty was built around a comprehensive schedule for economic integration between the associated partners, and the clear commitment to trade liberalisation was to benefit both. For the Polish side, it was to help reorient trade flows from the former CMEA markets, following their collapse, to Western Europe and, as such, make new outlets available for their exports.⁵⁶ Market access was to mitigate the social and economic costs of the painful and wholesale restructuring process of the Polish economic system which was beginning to take place and aid in the process of economic

⁵⁴ Baldwin, R. (1992) 'Discussion', in Bhagwati, J.N. (1992). 'Regionalism and multilateralism : an overview', *Columbia University Discussion Paper Series*, No 603, New York: Columbia University, Dept of Economics, p 51.

⁵⁵ Bhagwati, J. (1992). 'Regionalism and Multilateralism, an overview' , in Bhagwati, J.N. (1992). (Ed.) *ibid.*, p 40.

See also Bhagwati, J. N. and Panagariya, A. (Ed.) (1996). *The Economics of Preferential Trade Agreements*. Washington DC: AEI Press.

Bhagwati, J.N. and Balasubramanyam, V.N. (1998). *Writings on International Economics*. Delhi: Oxford University Press.

⁵⁶ Peel, Q. (1995). 'EU Aspirants Need Markets not Subsidies', *Financial Times*, No 337, 13/11.

recovery following the initially deep transition recession. New markets were to prop up demand for Polish products abroad mitigating the domestic falls in demand, and as a result export-led growth was to soften the falls in output and employment, facilitating adjustment to the new environment for both individual enterprises as well as for the economy as a whole. While it was maintained that access to markets was the most lasting form of aid that the West could give to CEE to facilitate its reintegration into the world economy⁵⁷, withdrawal of concessions offered or undo restrictions, were expected to exacerbate the costs of the internal reforms by slowing down growth and inevitably lead to a loss of popular support for the liberal economic programme. European integration was conceived of as a crucial component of the internal growth-oriented strategy and trade was to provide relief for transition, generate growth and boost competitiveness and efficiency.⁵⁸

The EA was also to curtail the Union's use of contingent protection, especially anti-dumping duties⁵⁹, against Polish producers and, as such, serve as a reliable insurance policy against sudden changes in the trading behaviour of the stronger partner.⁶⁰

Moreover, it was argued that the Agreement would indirectly contribute to increased inflows of investment into the region. The political gesture of signing the binding EA symbolised not only the possibility of future accession to the EU, but also greater policy credibility, and was thus a confidence booster to investors. Since the Agreement included chapters guaranteeing EU investors in the partner countries certain freedoms and rights⁶¹, it was hoped that this increased business predictability would stimulate interest in the Polish market. In turn, the increased flows of capital were to encourage further economic integration between the Union and the associated state and provide the other benefits of openness discussed above.

Finally, the EA was to provide a compensatory mechanism to the weaker partner for the adjustment costs to be incurred as a result of liberalisation. Financial transfers along with technical assistance for the reforms were to be used as compensation for the

⁵⁷ Nello, S. S. (1991). *The New Europe: Changing Economic Relations Between East and West*. London: Harvester Wheatsheaf Press, p 184.

⁵⁸ Kaminski, B. (1999). 'The Role of Foreign Direct Investment and Trade Policies in Poland's Accession to the European Union', *World Bank Technical Paper*, No 442, Washington DC: World Bank.

⁵⁹ Countries classified as 'state-trading' are treated more rigorously by the EU in its application of AD investigations and duties, and being recognised as a market economy, at least in theory, should reduce the application of this form of CP.

⁶⁰ For more see Jovanovic, M.N. (1992). *International Economic Integration: Limits and prospects*. London, New York: Routledge.

⁶¹ Including freedom of establishment, freedom of capital flows and investment, repatriation of earnings, free movement for skilled personnel.

opening up of the Polish economy, as well as for the internal transition. Due to a severe shortage of domestic capital and the backwardness of every aspect of the Polish economic, political and social infrastructure, domestic modernisation required substantial net resource transfers. Considerable amounts of both official and private investment as well as grants and other types of financial aid were needed for economic development, recovery from the recession and progress in transition. Comparisons were made by many West European and American commentators to the post- WWII Marshall Plan.

C.3 Dynamic political benefits

In addition to the static effects of creating a FTA, as a political instrument, the EA was to “add guidance and credibility to Poland’s quest to establish a better economic regime”, furnish the Polish ‘state’ with a model for institution building and provide support for democratic consolidation.⁶²

In the economic realm, thus, one of the primary goals of the Agreement was to try to maintain as liberal a trading environment in Poland as possible at a time when changes in the system were forcing many economic interests to begin searching for active government protection. Because at the very onset of the transition, these pressure groups resisting reforms were either non-existent or virtually ineffective⁶³, a situation quite unique in CEE, the main problem of policy change was not initial liberalisation, but subsequent sustainability of the measures. Locking Poland into an ever-deepening network of political, economic and social interdependence with a stronger partner was accordingly to strengthen the process of transformation and consolidate the changes taking place.⁶⁴

The policy framework imposed by the EA would accordingly compel successive Polish governments to fulfil their obligations *vis a vis* the Union by committing them to a legal contract⁶⁵, and, at the price of reduced policy autonomy and restricted decision-making options, enhance the credibility of the reforms.⁶⁶

The first period of transition in Poland, following the implementation of Shock Therapy, was characterised by economic recession, and, according to K Zukrowska, “under such

⁶² Kaminski (1999) *ibid.*, p 26.

⁶³ Balcerowicz, L. (1999). *Panstwo w Przebudowie*. Krakow: Znak.

⁶⁴ Smith, A. (1994). ‘Principles and Practice of Regional Economic Integration’, in Cable, V., Henderson, D. (Ed.) (1994). *Trade blocs?: the future of regional integration*. London: Royal Institute of International Affairs/International Economics Programme, p 29.

⁶⁵ This was to take place as a result of the standstill clause forbidding the re-introduction of tariffs, para-tariffs, and other quantitative restrictions once the agreement came into force.

conditions, when it was becoming increasingly difficult to maintain economic liberalisation, international leverage was considered as a supportive tool in the systemic change.”⁶⁷ The main argument behind the Polish side’s rationale for seeking external assistance and expecting generous rewards for its reform efforts was that, unlike the other states in the region pursuing more gradual courses of reform, it had pushed through such radical changes so quickly.

As an international agreement, grounded in international law, the EA was binding, and its subsequent provisos were to be “performed in good faith.”⁶⁸ As a legal rule, negotiated between sovereign states, the EA was devised to steer to conduct the addresses along a certain path and provide a guarantee for the reasonableness of their behaviour.⁶⁹ Accordingly the Treaty was to serve as external leverage, pressuring the Polish policymakers to resisting protectionist demands and continue the difficult domestic reforms. Perspective economic policy decisions were to be screened according to their legality by the Association Council, the body responsible for the implementation of the Agreement, and then scrutinised by the Commission.

Thus, “while it was clear that the Association Agreements were not decisive in liberalising trade, indeed they led to tariff hikes on the associated country side”, as Mayhew has pointed out, “never-the-less they have had an impact in dampening the rise of protectionism since 1991, by making the introduction of new measures more difficult.”⁷⁰

Moreover, in addition to affecting economic integration, the policy framework (of the EA) was to influence the transition by having a significant impact on policy formulation and institutional development.⁷¹ One of the objectives of the EA was to provide a viable model for duplicating domestic institutions, based on the adoption of certain tried and tested rules as well as grounded in internationally acceptable norms and standards. Consequently, by creating Polish institutions in the image of those in the European

⁶⁶ An assumption clearly made by both the Poles and their Western advisers.

⁶⁷ Zukrowska (1998) *ibid.*, p 303.

⁶⁸ Article 26 of the 1969 Vienna Convention on the Law of Treaties between States and International Organisations.

⁶⁹ Muller-Graff, PC. (1997). ‘Legal Framework for EU- CEEC Relations’, in Maresceau (Ed) (1997). *ibid*, p 29.

⁷⁰ Mayhew, A. *Recreating Europe*, *ibid.*, p 103.

⁷¹ Kaminski, B., Wang, Z. and Winters, L.A. (1996). ‘Foreign Trade in the Transition: the international environment and domestic policy’, *World Bank Studies of Economies in Transformation*, No 20, Washington DC: World Bank.

Union, the Polish elites were aspiring to secure a domestic environment in which the continuation of 'sound' economic policies was possible.

Finally, it was hoped that increasing economic integration and the opening of the Polish economy would result in the creation of domestic interest groups, with pro- trade liberal preferences⁷², capable of supporting the government in its quest for liberalisation.

According to Brabant, "larger and freer international markets were to lessen the power of the domestic monopolistic elements, thereby strengthening reform of domestic markets, by undercutting the power of the entrenched bureaucracy" and shifting the institutional policy-making framework in favour of openness.⁷³ P Bofinger similarly argued that, "the hand- tying dynamic effects of the EA was to strengthen the relative power of lobbies whose interests are often neglected in political decisions on trade issues {namely exporters and consumers}, changing the balance of power between different national interest groups and leading to decreased demand for protection."⁷⁴ As such, association was to contribute to the emergence of healthy political competition in Poland, thereby strengthening the consolidation of democracy.

D. Neoliberal institutionalism

Recognising that by delegating powers to an outside institution the government could bolster its credibility well as send a signal to the domestic interests of its commitment to liberalisation, the Polish technocratic elites decided to use the 'anchoring strategy' prescribed by neoliberal institutionalists, as discussed in chapter one. The regime provided by the EA was to constrain and shape domestic rules and behaviour, and, thus, as an intervening variable, "influence domestic preferences, pressures and practices already established at international levels."⁷⁵

In the 'credible commitment' variant of neoliberal theories, policy co-ordination between states is explained by focusing on the two level strategy designed by national elites. By binding domestic politics in international regimes, the government restructures future domestic incentives and raises the costs of non-decision or non-compliance. This assures, on the one hand, that the other government will accept the

⁷² For more on this see Keohane and Milner (1996). *Internationalisation and Domestic Politics*. ibid.

⁷³ Brabant, J. van. (1990). 'Remaking Eastern Europe: on the political economy of transition', *International Studies in Economics and Econometrics*, Vol 23, Dordrecht, Boston: Kluwer Academic Publishers, p 164.

⁷⁴ Bofinger, P. (1995). 'The Political Economy of the Eastern Enlargement of the EU', *CEPR Discussion paper*, No 1234, London: CEPR, p10.

⁷⁵ Milner, H. (1988). *Resisting Protectionism: global industries and the politics of international trade*. Princeton, NJ: Princeton University Press, p 13.

For more on international regimes see S Krasner, J Ruggie

agreed legislation, and, on the other, locks in future decisions against domestic opposition. Anchoring thus precludes more explicit control over internal policies and helps to defuse potential resistance from disadvantaged groups.⁷⁶

The main assumption of this ‘anchoring’ strategy is rooted in the notion of conditionality. It is expected that conditionality is to provide a catalyst for change in economic policy, while, as Moravcsik has pointed out, “international cooperation is to provide ‘two-level’ political legitimisation and institutional support for the government seeking to liberalise.” As such, national preferences (openness and market reform) lead to interstate bargaining (negotiations with the EU), reduced sovereignty, a more credible commitment to reforms and more centralised technocratic management.⁷⁷

Neoliberal strategies for policy reform are premised on the notion that international negotiations aim to secure commercial advantages for domestic producer groups, and that trade liberalisation is driven according to the benefits of openness, restrained by its distributive effects.⁷⁸ Indirectly, therefore, the EA was to strengthen the relationship between economic reform and popular support. From the political economy perspective, the main value of association was to be the provision of an open constitution tied to visible economic and political advantages which were not only to reduce the power of national producer lobbies and decrease the potential for state intervention into the market mechanism⁷⁹, but also contribute to the creation of a class of domestic beneficiaries committed to the principles of openness.

In sum, the EA was conceived by the Polish technocratic elites as a decisive instrument in solidifying the transition, constituting a concise way of defining the boundaries of policymaking, raising the costs of non-compliance with international obligations⁸⁰, strengthening political competition and ultimately guaranteeing that the systemic changes and reform measures would not be subverted by populist forces or interest group pressure. J Saryusz-Wolski, former Secretary of State for European Integration as well as member of the Polish team during the negotiation of the EA, pointed out that, “for newly democratised countries, time is crucial. The sooner we can find a firm

⁷⁶ Moravcsik, A. (1998). ‘Theorising European Integration’, in Moravcsik (Ed.) (1998). *The Choice for Europe: Social purpose and State Power From Messina to Maastricht*. Ithaca, NY: Cornell University Press.

⁷⁷ Moravcsik, A. (1998). *ibid.*, p 38.

⁷⁸ Sapir (1995).

⁷⁹ Bofinger, P. (1995). ‘The Political Economy of the Eastern Enlargement of the EU’, *CEPR Discussion paper*, No 1234, London: CEPR.

⁸⁰ Thomas, V. and Nash, J.D. (1991). *Best practices in Trade Policy Reform*. Oxford: Published for the World Bank by Oxford University Press.

anchor, the less volatile the political, and consequently economic situation in our countries will be.”⁸¹ Quick entry into the European Union, which Minister Saryusz-Wolski believed was possible even in the early days of the association negotiations,

*would not only stabilise the democracy but would assure that the Candidate countries were not going to get blown off the market economy oriented course they have adopted. It would also ascertain the effective reform of the administration and the whole public sector, which would be forced to adapt to the demands of competition. A precious mobilising effect- rewarding the bold and punishing the detractors.*⁸²

III. Main Provisions of the Europe Agreement

Based on Article 238 EC Treaty, the character of association is mixed, that is to say that it is signed between the Community and the member states on the one hand, and the associated country on the other. Those parts of the Agreement which are in the competence of the Community, namely the trade areas, did not need member state ratification before being implemented and were therefore put into force on March 1, 1992 as the so- called Interim Agreement.

Each of the EAs signed between the Community and the associated countries aims at creating, within a period of ten years and on an asymmetric basis, a free trade area for industrial goods, providing for the abolition of custom duties on imports and charges having equivalent effect as well as the abolition of quantitative restrictions.⁸³ The

Agreements also strive at relaxing some of the protection on agricultural products.

Association was to establish a framework for political dialogue, provisions for the free movement of goods, provisions on the other freedoms of movements, approximation of legislation, dimensions of cooperation as well as institutions set up to deal specifically with CEE.

The bodies responsible for the implementation of the Agreement are the Association Council, the Association Committee and the Association Parliamentary Committee. The dispute resolution procedure allows the Association Council to take decisions as to the implementation of the Agreement, setting up a mechanism for resolving issues if the Council cannot reach a decision by the agreement of both sides. In this case, each party

⁸¹ Saryusz-Wolski, J. (1997). ‘On the Threshold of Eastern Enlargement’, *European Foreign Affairs Review*, Vol 2, Issue 2.

⁸² Saryusz-Wolski, J. (2001). ‘The Enlargement of the European Union- The Current State of affairs: The view from Poland’, *speech given at ESCA Forum*, Brussels, December.

⁸³ Norberg, S. (1997). ‘The Movement of Goods in EU- CEEC’s Relations’, in Maresceau (Ed.) *ibid.*, p 81.

nominates one arbitrator and the Association Council nominates a third. The significance of this arbitration procedure is obvious as the decisions reached have precedence over national law of both contracting parties.

Table 2.2 The Europe Agreement

The Preamble
Objectives of the Agreement
Title 1: general principles of the Agreement
Title 2: political dialogue
Title 3: free movement of goods
Chapter 1: industrial products
Chapter 2: agriculture
Chapter 3: fisheries
Chapter 4: common provisions (trade protection instruments)
Title 4: movement of workers, establishment, supply of services
Chapter 1: movement of workers
Chapter 2: establishment
Chapter 3: supply of services
Chapter 4: general provisions
Title 5: payments, capital, competition and other economic provisions, approximation of laws
Chapter 1: current payments and movement of capital
Chapter 2: competition and other economic provisions
Chapter 3: approximation of laws
Title 6: economic cooperation
Title 7: cooperation in the prevention of illegal activities
Title 8: cultural cooperation
Title 9: financial cooperation
Title 10: institutional, general and final provisions
There follow 12 or 13 Annexes relating mainly to the trade chapters and listing individual products and rates of duty.
These are followed by important protocols, which are fully part of the agreements and which cover specific areas such as trade in textiles, ECSC products, processed agricultural groups, rules of origin, specific transitional arrangements for trade with Spain and Portugal, mutual assistance in customs matters. Finally there are the joint declarations which are made during the negotiations and which help to interpret the articles of the agreement.

Source: A. Mayhew, *Recreating Europe*, p 45.

A. Timetable for the elimination of trade barriers

Upon entry into force of the Interim Agreement, on March 1 1992, both parties abolished almost all quantitative restrictions. The basic customs rates, subject to liberalisation, were the rates binding on 29 February 1992, the day preceding the date of

implementation. Regarding trade in industrial goods, both parties committed themselves to observing the standstill principle, i.e. not introducing any new restrictions or increasing already existing tariffs or equivalent charges.

With the implementation of the Interim Agreement, EC customs duties applicable to about 47% of Polish industrial exports were abolished. The remaining industrial goods were subject to gradual tariff liberalisation specified in three annexes and several Protocols, according to different timetables on the abolition of custom duties. The Communities were to do away with all tariff and non- tariff barriers by 1 January 1996 at the latest, with the exception of textiles and cars. The liberalisation of textiles was subject to the Multi- Fibre Agreement within the WTO negotiations and motor vehicle liberalisation was to be completed by 2002.

Sensitive products fell under special regulations. Exports up to certain limits were subject to duty- free quotas and ceilings, and those preferential limits were further divided into three groups. The first group, covered by Annex III, provided for tariff quotas or tariff ceilings at a zero duty rate. Quotas and ceilings were to rise annually by 20%, while duties levied on the quantities exceeding those amounts were to be annually reduced by 15 %. All exports above the preferential, tariff-free limits were to face tariff rates on the EC market as specified in the timetables of liberalisation.

The second group included textiles and clothing, regulated by Protocol 1 to the Europe Agreement. Because this sector has been highly protected in the EC, the liberalisation period was longer when compared with other industrial products. The EA contained a separate Textile Protocol with respect to QRs, and the removal of quotas was negotiated independently under the renewal of MFAs as a part of the Uruguay Round. Duties on imports into the EC of outward processed goods were abolished on entry into force of the agreement, and all other tariffs on textiles were to be abolished by January 1998.

The third group of sensitive goods included steel and coal products covered by the treaty establishing the European Coal and Steel Community⁸⁴, regulated by Protocol 2 of the EA. Upon entry into force of the IA, QRs on steel products from Poland were lifted. The customs duties on these were to be abolished by the EC over five years (reduced to four at Copenhagen 1993); trade was to be tariff free by 1 January 1996. Customs duties and QRs on Polish coal exports, in turn, were suspended at the beginning of 1993, with the exception of Germany and Spain, countries which were importing about 50% of Polish

⁸⁴ Treaty of Paris

coal exports to the EC and where free market access was to be introduced at the beginning of 1996.

Table 2.3 Timetable of liberalisation of trade barriers in the EC (EU) for Polish industrial products as introduced in the EA (in % of basic customs duties, applied at the beginning of each calendar year 1992-1998).

Group of Commodities	1992	1993	1994	1995	1996	1997	1998
Textile prods. (Prot. 1)	71	71	57	43	29	14	0
Steel products (Prot. 2)	80	80	40	20	10	0	0
Minerals and chem.(attchmt Iia)	50	0	0	0	0	0	0
Non-ferrous metals	80	60	40	0	0	0	0
Other so called sensitive goods attchmt III	85	70	55	20	0	0	0
Remaining industrial goods	0	0	0	0	0	0	0

Source: Journal of Laws, no. 11/1994, position 38, Attachment.

Table 2.4 Timetable of liberalisation in Poland for industrial imports from the EU, as introduced in the EA

Commodity Group	Share in polish industrial products in 1992(%)	Duration of liberalisation
Appendix IVa- 1365 products, mostly investment equipment and raw materials	25	Liberalised completely in 1992
Appendix IVb- cars and vehicles	5.3	1992-2002 Since 1992 duty-free quota for passenger cars, increased annually by 5%, and for trucks and cars equipped with catalytic converters, increased annually by 10%. In 2002, ban on cars older than 10 years and cars powered by two stroke engines will be lifted
Appendix VI- some oils and gasses, coal and coke as well as petroleum oils	2.0	Import licenses were lifted at the end of 1996
ECSC steel products- 8 eight-digit CN items- other products	2.1	Tariffs lifted 1992, 1995-1999
ECSC coal products- 7 eight- digit CN items- other products	11.6	Tariffs lifted 1992, 1995-1999
Textile and clothes- 43 eight-digit CN items- other textiles and clothes products	10.9	Tariffs lifted 1992, 1995-1999
Other industrial products	43.1	Tariffs lifted 1992, 1995-1999

Source: Poland's Foreign trade Policy 1993-1994, Foreign Trade Research Institute, Warsaw 1994.

The scheme of Poland's concessions was much simpler. With the entry into force of the Interim Agreement, the Polish side abolished tariffs on about 28% of the value of industrial imports from the EC, mainly raw materials and capital goods not produced

domestically (especially technologically advanced equipment to stimulate the restructuring of the Polish economy). Liberalisation of access to the Polish market for the remaining EC industrial goods was to start on 1/1/95, with the exception of motor vehicles and energy sources, imports of which were to be liberalised in ten years time. Liberalisation was to continue in five equal instalment's (20 % of the basic rate each year), the last reduction taking place at the beginning of 1999.

Table 2.5 Reduction of customs duties on Polish industrial goods, as introduced in the EA. (in % of basic customs duties, applied at the beginning of the year)

Group of Commodities	1992	1993	1994	1995	1996	1997
Textiles (Pro. 1)	100	80	60	20	20	0
Steel Prods (Prot. 2)	100	80	60	20	20	0
Raw materials and investment equipment Attchmt Iva	0	0	0	0	0	0
Remaining industrial articles	100	80	40	20	20	0

Source: Journal of Laws, no. 11/1994, pos. 38, Attachment.

In contrast to industrial goods, **agricultural products** were subject to selective and limited liberalisation. In agriculture, Mayhew pointed out that, “the EAs did not improve the situation of the associated countries much beyond that of any third country”, with only a reduction and not total abolition of trade barriers.⁸⁵ In spite of the agreement to reduce certain duties and increase quotas and to introduce a provisional standstill on duties and QRs, each side was allowed to take decisions, which deviated from the Agreement, as part of pursuing their respective individual agricultural policies. Concessions consisted of levy reductions on very limited quantities of various products, some reductions in duties and other minor concessions which did not add up to make any significant impact on trade liberalisation. The respective regulations covered six groups of products, classified according to the timetable and scope of import barrier reduction in the EC. The main commodity groups covered by liberalisation were vegetables and fruit, live animals, meat and meat products and poultry. The EC agricultural concessions, in the form of reduced tariffs and/or levies, were granted within a system of preferential quotas. This rising quota, which shared by some associated countries, called for gradual reductions of import levies and tariffs on the specified products and was calculated on the basis of average agricultural exports from CEE to the Communities. The controversial period between 1988 and 1990 was taken as a reference point for determining the average, despite the fact that this timeframe was

⁸⁵ Mayhew (1998). *Recreating Europe*, ibid, p 65.

characterised by unusually low volumes of exports from CEE due to transition depression and falls in output.

Tariffs and/or levies were to be reduced within one to three years, and preferential quotas were to increase 20% annually, from March 1 1992 for 5 years. The total increase of quotas amounted to roughly 50% of the basic volume of Polish exports to the EC before the IA came into force.⁸⁶

Table 2.6 Liberalisation approved in the EA for imports from Poland to the EU of agricultural articles

Group of commodities	Guidelines of liberalisation
I group- attachmt VIIa – concerning: Ducks, pork meat, sausages, potato starch	Reduction of compensatory payments by 50%, within limits increased by 10%, in yearly terms during 10 years
II group attachmt VIIb- live horses, pork, poultry, wild meat, honey, flowers, soft fruits, some vegetables, apple juice	Reduction of customs duties from 30 to 100% in one step, abolition of quantitative limits and introduction of minimal prices for fruit
III group, attachmt Xa- young slaughter meat	Reduction of compensatory payments to 25% of basic custom duties, within the limits for 5 years
IV group- attachmt X- beef, pork, sheep and goats, powdered milk, dairy buckwheat	Reduction of compensatory payments and custom duties by 20% in first year, 40% in second and 60% in consecutive years, with quantitative limits increased by 10% in yearly terms
V group attachmt Xc- potatoes and part vegetables, fruits (exception group II), dried fruits, jams, mushrooms	Reduction of custom duties by 20% in first three years for contingents increasing by 10% annually
VI group- protocol 3- agricultural products processed	Consecutive reduction of custom duties for part of the goods, also decreasing the burden of changing component (MOB) in three consecutive years in stages by 20%, within the tariff contingents

Source: Dziennik Ustaw- Journal of Laws, no. 11/1994, position 38, Attachment.

For its part, Poland introduced a one-off tariff reduction of 10% (usually from 35% to 25%) covering about 250 agricultural products, on the day the IA came into force.

Poland also undertook the obligation to lift, at the beginning of 1997, the ban on imports and licensing requirements on some alcoholic beverages.⁸⁷

⁸⁶ Kawecka- Wyrzykowska, E. (1997). *Stosunki Polski ze Wspólnotami Europejskimi od 1989 Roku*. Warszawa: SGH.

⁸⁷ Following the implementation of the Uruguay Round on Agriculture, Poland converted the ban and licenses on imported alcoholic beverages into tariffs, effective of July 1 1995. In the EU, NTBs, primarily levies, were substituted by their tariff equivalents.

Table 2.7 Liberalisation approved in the EA for imports from the EU to Poland of agricultural products

Attchmt IX- majority of alcohol beverages, beer	Abolishment of quantitative limits no later than in 5 years of introduction of the Agreement
Attchmt XII- live animals, milk products, some cheeses, plants, potatoes, maize, nuts, Mediterranean fruits, rice, seeds of vegetables and grains, coffee, oil, oils, wine, herbs	Reduction of custom duties by 10% at the moment of entrance of the Agreement into life
Protocol 3- agricultural products and processed agricultural products	Decision about the agricultural component until 1/07/94, between 1995 and 1/1/99 abolishment of nonagricultural burden

Source: Dziennik Ustaw- Journal of Laws, no. 11/1994, position 38, Attachment.

B. Safeguard rules

The EA also contained safeguard clauses, which under specific conditions allow a contracting party temporarily to withdraw market access concessions. These are based on existing GATT/WTO rules envisaging the possibility of introducing trade- limiting measures in justified cases.

Clauses that can be applied by both parties:

- The general clause (article 30 of the Agreement)- a general ‘escape clause’ that can be invoked to suspend or delay concessions due to ‘serious injury’ to domestic producers
- A clause (article 21) on protection against disruptions of the domestic agricultural market
- A protective measures clause that provides for the possibility to retaliate when the other contracting party is behaving unfairly or when it is in breach of the rules laid down in the agreement, including Anti- Dumping (art. 29)
- A clause permitting the re-introduction of export restrictions in case of ‘serious shortage’ of an essential product on the domestic market by excessive exports (art. 31)
- A balance of payments clause (art. 64) concerning import restrictions in order to counter balance of payments difficulties and disturbances

- A clause allowing bans and restrictions under WTO rules (art. 35) designed to protect national interest; including various threats to public security, health, life of humans, animals or plants, intellectual property etc., and permitting the parties to resort to extraordinary measures for fundamental security interests (art. 112)

Plus two, which may be used only by Poland as the weaker partner:

- Infant industry and restructuring clauses providing the associated country with the tools to protect its industries undergoing restructuring or in their early stages of development (art. 112)
- A clause on exchange restrictions (art. 62)⁸⁸

C. Other provisions

At a more specific level, the Agreement incorporated a protocol on the rules of origin⁸⁹, which initially caused widespread controversy as it did not permit the cumulation of local content between the Visegrad countries and others and thus had the potential to discourage intra- CEE trade (lower tariffs existed on imports from the EC than from other CEEs).⁹⁰

While the Agreement was relatively liberal in terms of eliminating duties and QR's, it included more stringent provisions on competition policy and state subsidies, in order to prevent non tariff barriers from distorting the levels of trade.⁹¹ The rules were included as a part of Title V on payments, capital, competition and other economic provisions. In addition, the approximation of laws specifically dealing with rules on 'restriction or distortion of competition' and 'abuse of dominant position or public aid which distorts competition'⁹² were to restrain the parties from engaging in anti-competitive or monopolistic behaviour. The disputes and controversies surrounding competition policies were to be judged by the Association Council, on the basis of practice in the Community. As such, the Polish side was to adopt the EC's competition policy within three years of entrance into force of the Interim Agreement. However, during the first

⁸⁸ Kawecka- Wyrzykowska (1997). *Stosunki Polski*, ibid.

⁸⁹ Rules of origin define the minimum content of a product to be qualified as "originating" and thus enjoying preferences and trade benefits restricted to the two partners involved and not to third countries.

⁹⁰ EBRD (1994). Ibid.

Baldwin, R. (1994). *Towards an Integrated Europe*. London: CEPR.

⁹¹ Van den Bossche, AM. (1997). 'The Competition Provisions in the Europe Agreements. A Comparative and Critical Analysis', in Maresceau (Ed.) (1997). ibid., p 85.

⁹² Poland, Art 63 of the Europe Agreement.

five years of the going into effect of the EA, the Polish government was allowed to continue to grant public aid for restructuring purposes.

In the realm of legal harmonisation, the Polish side committed itself to ‘use its best endeavours to ensure that future legislation was compatible with Community legislation as far as possible’⁹³, agreeing that intellectual property right laws would be adopted within 5 years, while all the other trade related issues harmonised with the *acquis communautaire* before accession.

In addition, the EA set out some rather imprecise provisions on the free movement of persons, establishment and services. In fact, the Treaty was criticised as not providing any improvement in the possibilities for the movement of labour over the situation existing before the agreement, only aiming to achieve proximity to national treatment clauses for workers already legally employed in the other contracting country.⁹⁴ As far as establishment was concerned, while the articles of the EA established immediate national treatment for companies and nationals of the associated country, the realisation of this goal was constrained by bureaucratic restrictions and other confinements on the free movement of workers.

The supply of services was treated even more vaguely within the policy framework of the EA, only rendering a general intention to ‘progressively allow for the liberalisation of trade in services’, and paying just a bit more heed to liberalisation in construction and transport.

Finally, the EA did not specify what trade policies Poland should conduct with third countries as long as these did not directly affect trade between the EU and Poland or the EU’s status as laid out in the Agreement. However, as a part of the pre-accession strategy⁹⁵, the Polish side agreed to harmonise all foreign trade related agreements existing with third countries from the point of view of EU trade policy and existing EU agreements, as well as to introduce the whole system of NTBs applied by the EU (subsidies, tariff quotas, phyto-sanitary requirements, technical standards etc.).

Conclusion

Since January 1998, Polish exports have been enjoying tariff free access to the EU market, and most tariff barriers to the Polish market were also eliminated, with the last

⁹³ Poland, Art. 68. of the Europe Agreement.

⁹⁴ Mayew (1998). *Recreating Europe*, ibid., p 122.

⁹⁵ Made up of four main elements, including the EA, Single Market White Paper, PHARE & structured dialogue, and formally launched in Essen, Dec 1994.

ones on automobiles disappearing in 2002.⁹⁶ Simultaneously, progress in the gradual liberalisation of agricultural products has taken place within various trade rounds, cumulating in the signature of the Double- Zero Agreement between the Polish side and the EU in 2001.⁹⁷

In Poland, the EA was to play a multifunctional role, defining the depth and speed of the opening of the Polish economy, playing the role of external leverage in policy making, providing a major incentive for difficult domestic decisions, and, finally, accelerating the systemic transformation by speeding up restructuring, increasing competition and ultimately strengthening Poland's international competitiveness. The declared objectives of the Europe Agreement were to lead the Polish economic regime in the direction of openness, by using conditionality as an anchor for policy reform, as well as providing rewards for change in the form of trade concessions and grants to offset the adjustment costs. Association was likewise to strengthen the democratic transition by contributing to the development of pluralism. On the basis of the creation of a Free Trade Area and subsequently a Customs Union, economic integration was to be used as the foundation for cooperation and ultimately political integration between the associated parties. Thus, the long term objective of the entire association and pre-accession strategy has been to support the transformation of the Polish 'state' into a functioning market democracy able to effectively compete on the Internal Market and, ultimately, accede to the European Union, increasing Europe's overall economic dynamism, political effectiveness and internal as well as external stability.

Because the intrinsic uncertainty of the domestic transition in Poland has made the entire process particularly vulnerable to the impact of the international environment, the success of the transformation has depended only in part on the domestic reforms underway, but has also been a function of international openness to Polish exports as well as of levels of financial and technical assistance. The benefits of association with the EU, expected by the Polish liberals, were consequently conditional upon the opening up of European markets to Polish products, and the granting of asymmetric trade concessions to allow the reforming country to develop its trade potential and re-orient its trade patterns.

⁹⁶ For more detailed analysis see Zukrowska, K. (2000). 'Opening of the Polish Economy in Context of Integration with the EU'. *ibid.*

Michalek, J. (2000). 'The Europe Agreement and the Evolution of Polish Trade Policy', in *Yearbook of European Studies*, No 4, Warsaw: CEUW.

However, even though the European Commission claimed that, the “Europe Agreements constitute a very substantial trade liberalisation package, the scale and pace of which is without precedent in the EC”⁹⁸, the fundamental question posed by this thesis will be whether, during the course of the implementation of the EA, the dynamic gains envisaged by the trade arrangements actually followed. The failure of the potential benefits to be secured could mean one of three things. Either the rules of the EA were not designed properly, or they were circumvented, or both.

In the following chapters, the author will examine the actual impact of the EA on the Polish economy and whether the EU’s declarations of willingness to provide support for the transition materialised in the form of concrete market access and financial aid. Then, the author will analyse the developments in political relations during the course of association and how, in turn, these have affected economic policy-making in Poland. Finally, the thesis will attempt to discuss the implications of ‘anchoring’ strategies for policy reform and performance, keeping in mind, as A Moravcsik has pointed out that, “to enhance credibility, arrangements (like the EA) tend to be insulated from direct democratic control and are strictly limited by government oversight, resulting in the ‘democratic deficit’.”⁹⁹

Before proceeding, it is important to underline that any given economic strategy is much more than a programme for achieving specific policy goals. Its implementation has political consequences that reach beyond the static assumptions of economic theory. This thesis will argue that the mistake of the original drafters of the Europe Agreement was to underestimate the tremendous transaction costs resulting from its implementation, the resistance of domestic interest groups on both associated sides to liberalisation and finally the link between reform sustainability and social legitimacy. Moreover, the initial liberals in Poland left to their successive governments an incomplete and unbalanced reform. Failing to prioritise the crucial institutional, regulatory and social dimensions of the transition, alongside the macroeconomic package, would have serious implications for the policy-making environment in the future.

This thesis will show that it has been domestic interest groups, of both the present and future member states of the Union, as well as social obstacles that have proven to be the

⁹⁷ The agreement calls for the elimination of both tariffs and subsidies in trade in unprocessed agricultural products between Poland and the EU.

⁹⁸ European Commission (1994). *ibid.*, p 1-2.

most significant barriers to integration between Poland and the EU. To understand better the political economy of policy making in transition, the author will now turn to the conditions prevalent in Poland at the onset of the reforms.

⁹⁹ Moravcsik (1998). *Theorising*, *ibid.*, p 78.

3. Capitalism by Design

The accelerated development of capitalism in the post- communist countries started from an ideological blueprint. It was not an economic process in which major social forces conscious of their interests and capable of defending them on a nationwide scale were involved here and now. The entities whose real economic interest would be linked with the reform were supposed to appear only after these changes were advanced.¹

Normative economic analysis, as is the basis of the previous chapter, is based on the assumption that the objective of economic policy should be the promotion of the general good, the maximisation of the social welfare function. The goal of advocating national interest at the expense of short-term particular interest lies at the heart of neo-liberal policy prescription. Economists argue that the 'state' should be a "middleman rather than a favour-granting mechanism", and that policy options should be designed with long-term horizon in mind. Decisions to embrace what mainstream economists assume should be the objective of government policies never-the-less have social and political consequences. The role of the 'state' thus becomes a crucial variable in policy reform, and the choices that elites make in initiating systemic changes determine to a large extent their outcomes.²

In the short run, economic reforms such as the opening up of the economy are bound to not only harm particular interests, but even to disrupt the entire socio-political fabric as far ranging macroeconomic measures are rapidly introduced. Commenting on the course of the Chilean reforms Pinera noted that, "the theoretical merit and internal consistency in a reform program are not enough to generate political support- the program also needs an upwelling of popular enthusiasm if it is to overcome resistance."³ Efforts need to be made to mobilise public support for the reform package, through dialogue and an information policy and to create a solid and transparent institutional framework that will regulate, in a non-discriminating fashion, the implementation of the measures. The performance of the economic regime in turn needs to ensure that enough benefits are visible in the short-run to enable the reformers to continue their course of stabilisation and liberalisation. Whether the 'state' can in fact meet these challenges depends on the

¹ Szacki, J. and Kisiel, C.A. (1995) *Liberalism after Communism*. Budapest: Central European University Press, p 160.

² Zukorwska, K. 'Poland: Changes for the Better', in Goralczyk, B., Kostecki, W. and Zukrowska, K. (Ed.) (1995). *In Pursuit of Europe: transformations of post-communist states, 1989-1994*. Warsaw: Institute of Political Studies, Polish Academy of Sciences, IPRA Research Team on Changes in Eastern Europe.

For more on public choice theory, see for example, M Olson (1982).

³ As quoted in Williamson, J. (1994). 'In Search for a Manual for Technopols' in Williamson (Ed.) (1994). *ibid.*, p 23.

ability of both domestic and international elites to exert leadership and develop the conditions to consolidate the transition. Successful policy reform and economic development are consequently premised on the existence of certain factors conducive to the pursuit of objective economic goals.

This chapter begins by looking at the theoretical foundations for regime change and modernisation. In examining the political economy of policy reform in Poland, it places stress on the crucial interplay between national elites and external factors as they influence policy outcomes and performance.

I. Transitology and elite theory

The study of regime change and policy reform in post-communist states hinges on the analysis of economic development and modernisation within the so-called field of transitology.⁴ This body of literature relies heavily on the belief that modernisation will take place in a nation once the right institutions, policies and mechanisms are in place. This task, in turn, is to be accomplished by national elites.

*The bureaucratic economy will be replaced with a thriving market, and the emergence of liberal democratic practices will lead to the creation of new social groups capable of cementing the reforms as well as the general re-emergence of civil society.*⁵

Drawing heavily the reworked modernisation theories of the 1960's, transitology continues to focus on the role of national elites as the drivers of economic development, combined with a new emphasis on the importance of external factors in influencing policy outcomes.⁶ Moreover, the literature stresses the centrality of the "purposeful transplantation of western institutional patterns, policies of conscious emulation, reference societies and pace setters in the west, as they determine economic reform."⁷ The previous chapter has presented the reader with the rationale as to why the role of external pressure is crucial to the entire project of policy consolidation and sustainability.⁸ The conditionality of the international anchors, combined with financial

⁴ Defined as attempt to apply modernisation theories to transition economies.

Pickles, J. and Smith, A. (1998). *Theorising Transition: The Political Economy of Post-Communist Transformations*. NY: Routledge, p 3.

⁵ Pickles and Smith (1998). *ibid.*, p 4.

⁶ For older versions of modernisation theory see T Parsons, N Smelser, B Hoselitz, S Eisenstadt.

⁷ Sztompka, P. (1993). 'Lessons of Post-Communist Transition for Sociological Theories of Change', in Coenen-Huth, J. and Synak, B. (Ed.) (1993). *Post Communist Poland*. Commack, NY: Nova Publishers, p 15.

⁸ See for ex. Pridham, G. (1991). 'International influences and democratic transition: the problems of theory and linkage politics', Pridham, G. (Ed.) (1991). *Encouraging Democracy: The International Context of Regime Transition in Southern Europe*. London: Leicester University Press, Pinter Publishers. Haggard, S., Kaufman, R. (Ed.) (1992). *The Politics of Economic Adjustment: international constraints, distributive conflicts, and the state*. Princeton, NJ: Princeton University Press.

Sachs, J. (1994). 'Life in the Economic Emergency Room', in Bates (Ed.) (1994). *ibid.*

Crawford, B. (Ed.) (1995). *Markets, States and Democracy: The Political Economy of Post-Communist Transformation*. Boulder: Westview Press.

assistance is to give domestic reformers the extra leverage necessary to secure support and win internal debates as to which policy options to follow; in another words to strengthen state capacity and authority and provide an additional impetus to resist the pressure for backsliding.

Going one step further and basing their theories on the belief that domestic elites are central to the initiation of reform, modern versions of neoliberal institutionalism maintain that it is indeed the role of the elites to anchor domestic institutions in international regimes, thereby ensuring their continuity and creating the conditions for policy consolidation. In addition, the quicker the process of transformation, the more relevant the role of the authorities. Their central position and ideology shapes the underlying structures of the emerging market economy, and the interplay between these elites, on the one hand, and external institutions, on the other, is the decisive factor in determining policy performance.

A. The Polish liberals

Contemporary elite theory, or the “analysis of choices that elites make at the historical junction of transition, the interaction of structures, norms and institutions which flow from these choices, and how these three constrain possibilities for regime change”⁹, is, consequently, pivotal to the understanding of transition. Elite theory focuses in on the purpose of institutions in policy reform and treats elites as the architects as well as future users of these institutions. Sociologist, J Wasilewski, in his analysis of Polish political actors, has labelled elites “institutional nomads”, creating institutions to their own use and benefit.¹⁰ Moreover, as I Pankow has claimed, “decision makers act in accordance with their perceptions of reality, not in response to reality itself”, thus, in effect, shaping present and future reality according to their own beliefs.¹¹

Modernists and elite theorists have continued to uphold that in all successful late-comer countries, it was the ‘state’ that had to create the externalities necessary for the invisible hand to function; such as guaranteeing a friendly business environment, establishing a legal framework for the market or acting as an agent for the accumulation of capital.

Waller, M., Coppieters, B. and Deschouwer, K. (1993). *Social democracy in a Post-Communist Europe*. London, Portland, Ore: Frank Cass.

⁹ Skapska, G. (1995). ‘Prisoners of Paradox: The Polish economic transformation’, in Perdue, W.D. (Ed.) (1995). *Modernization Crisis: the transformation of Poland*. Westport, CT: Praeger.

See also Offe, C. (1991). ‘Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe’, *Social Research*, Vol 58, No 4, winter.

¹⁰ Wasilewski, J. (1997). ‘Orientacje wartosciujace elity’, w Wasilewski, J. (Red.) (1997). *Zbiorowi Aktorzy polskiej Polityki*. Warszawa: PAN, Instytut Studiow Politycznych, p 197.

¹¹ Pankow, I. (1997). ‘Narodziny posierpniowego pluralizmu: spory elity/ pluralisci’, w Wasilewski (Red.) (1997). *ibid.*, p 249.

Consequently, successful capitalism should be carefully designed and monitored by the ruling elites within the structures of the state.

While the notion that a strong state is crucial to the creation of a market society is nothing new, stemming as far back as Karl Polanyi's *The Great Transformation*¹², the paradox in the case of the Polish transition is that these attempts at building capitalism were instigated by economic liberals. For the Polish liberals, just as is advocated by the classical version of liberalism¹³, the fundamental aim of 'political economy' should be to create a market society, by sweeping away barriers to the free play of market forces. The role of 'the state' should be limited to providing public goods that the market might fail to supply, and its politics are to be determined and controlled by a free and independent civil society. Gill has called these attempts in Poland at the creation of a self-regulating, market society "political utopianism", or experimental reforms that have strong parallels with 19th century British attempts at creating a market utopia from above.¹⁴ Thus, according to the main assumptions of this reworked version of liberalism, shock therapy, by freeing market transactions, should enable the pursuit of self-interest, while rational economic agents should adjust accordingly to the rules of the new game.

In 1992 at a Oxford University lecture, J Flemming, chief economist at the newly established EBRD, argued that that, "all countries are the same for the purpose of policy and that the problem of economic reform was premised on two historical 'facts', namely 'the uniformity of human nature' and the 'universality of technology'."

Flemming went on to insist that reform in turn was "premised on the creation of a strong government with 'credible' economic policies. (However, the governments in CEE were) insufficiently strong, fragmented and thus 'subversive to credibility'." ¹⁵ Recognising these credibility obstacles to policy reform, the Polish intellectuals were forced to reconcile their beliefs in the spontaneous rise of a market society with the necessity of having a strong government present in the process of transition. While the alleged theories of a minimalist state glorified the invisible hand of the market, the Polish reformers realised to their dismay that liberalism in transition required an active

¹² Polanyi, K. and MacIver, R.M. (1957). *The Great Transformation*. Boston: Gower Beacon Press. A detailed description of the attempt in nineteenth century Britain to create a market society from above and to sweep away the social protection and regulated structure of mercantilism. Crucial was a strong state that could institute the measures necessary to construct commodities. It took at least 70 years to transform GB to something theoretically resembling a laissez-faire capitalist market society!

¹³ For an overview see Sally, R. (1998). *Classical Liberalism and International Economic Order*. *ibid*.

¹⁴ Gill, S. (1994). *ibid.*, p 82.

¹⁵ Flemming, J, 'Economic Reform in Eastern and Central Europe', lecture given at Oxford University, Brasenose College, 26/10/92.

government, needed to guard property rights and enforce the rules of a capitalist society. As a result, in the early days of the reforms, it became fashionable to argue that the new ruling elite should take the major and active role in the transformation, turning, what began as the classical liberal doctrine, into a revised version of the elitist model of modernisation.

In transition, this kind of elitism, espoused to by liberal constructivists is arguably unavoidable as realistically there is no alternative. Moreover, the elitism was a necessary evil to introduce internationalisation and ensure that the economic performance of the regime would spillover into the political arena, creating pluralism by contributing to the emergence of the beneficiaries of the reforms, and ultimately producing enough growth for healthy political competition to develop.

Thus, as sociologist G Skapska concluded “of all the paradoxes of transformation, the most glaring one was that the so called spontaneous market order could only come about through introduction from above.”¹⁶

B. Capitalism by design

Although the intentions of the early Polish liberals were positive and the elitist project was carried out in good faith, the Shock Therapy package was never the less unbalanced. J Goldfarb labeled the situation in Poland in the early 90's as “the new totalitarian temptation of the *laissez faire* kind”, characterised by an atmosphere of impatience in liberal circles.¹⁷ The political and economic system was being rapidly constructed by means of legislative decisions implementing western strategies, without taking local conditions into account. In addition, this designing of institutions was shallow as it was not accompanied by the creation of a predictable and enforceable regulatory system. While a complex regulatory environment would not have been simple to introduce in a situation where a market did not yet exist, it would have been wise to pay more attention to this issue of microeconomic institution- building and prioritise it at the onset, along with macroeconomic reform. This element could have lessened the future rise of corruption. In addition, the Polish liberals conducted the entire policy formulation process without an information campaign to explain to the public the nuances of the reforms, thereby alienating a large segment of the population which potentially could have provided them with crucial support.

¹⁶ Skapska, G. (1995). ‘Prisoners of Paradox’, *ibid.*, p 38.

¹⁷ Goldfarb, J. Goldfarb, J.C. (1992). *After the Fall: the pursuit of democracy in Central Europe*. New York: Basic Books, p 48.

Offe claimed that, “new institutions were being put into place by the lawyers as the legal skeleton for democracy”¹⁸, and virtually no attention was paid to the possibility of negative reverberations of this copying of institutions for the development of governance. What’s more, a certain tendency appeared to question whether in certain conditions it would not be desirable to limit democracy in order to avoid its detrimental effects on the ‘objective’ needs of society, and whether reform was possible to be carried out with the use of fully democratic procedures. Characteristically, the liberal circles tended to regard the established trade union movement in Poland as an inherent threat to capitalism¹⁹, and in the words of one Polish writer and philosopher S Kisielewski “they displayed a temptation to grab people by the throat and impose liberalism.”²⁰

II. Initiating the reforms

In 1990, the first free Prime Minister Tadeusz Mazowiecki called together a group of Polish economists led by finance minister, Leszek Balcerowicz²¹, to initiate a program of radical policy reform grounded in the neo-classical economic model. It seemed at the time to the Polish elites that the precondition of good economic policy was that it had to be made by independent economic experts, technocrats as is the fashionable term. The main assumption of this project was that elites, governing through a technocracy, would in fact be ruling in the interests of the public. Convinced that society was immature and underdeveloped²², these “enlightened rulers” as J Wasliewski has called them argued that, there was no time for social dialogue or negotiations, and that the window of opportunity offered to the new government was small enough to justify their determination to push radical through reforms as quickly as possible. They were convinced of the correctness of their project, arguing that somehow the other non-economic freedoms, as espoused to by classical liberalism, would follow in the wake of economic freedom, and, consequently, for the time being it was not worth making the effort to secure them.²³ Poignantly, Waslilewski concluded that most likely, “the Polish elites underestimated society and overestimated themselves.”²⁴

¹⁸ Offe, C. (1993). *Designing Institutions for East European Transitions*. Krakow: Academy of Economics. (mimeo), p 34.

¹⁹ Balcerowicz (1999). *Panstwo w Przebudowie*. ibid.

²⁰ Interview with Kisielewski, *Nowy Dziennik*, 1.12.92.

²¹ Balcerowicz team- Ministry of Finance plus group of western advisers. Interview with R Antczak, ibid.

²² Interview with Piotr Nowina-Konopka (MP in first post-socialist government, member of EA negotiating team, Secretary of UKIE, currently Dean of Natolin, College of Europe). Warsaw, 24/03/00.

²³ For more see, Beyme, K. von (1996). *Transition to Democracy in Eastern Europe*. London: Macmillan Press.

Przeworski, A. (1991). *Democracy and the Market: political and economic reforms in Eastern Europe and Latin America. Studies in rationality and social change*. Cambridge: Cambridge University Press.

Believing that the timing was right to instil life into the stagnating command economy structures by exposing them to external forces, namely world prices and competition, the Balcerowicz team²⁵ was given a mandate by the Mazowiecki government to experiment with the application of theoretical market models to a closed, protectionist command economy. Their political stock, defined as “the aggregation of support and credibility that a government might have at a given moment in time”²⁶ was unusually high, characterising what Balcerowicz has called a moment of “extra-ordinary politics”, when “the new political structure, including political parties and interest groups are fluid, and in a sense, there are usually no professional politicians during this period. The older political elite is discredited and the politicians representing the new order have not yet merged.” Soon after, extra-ordinary politics give way to “‘politics of the ordinary’: politics of political parties and of interest groups, a sharply reduced willingness to think and act for the common good and stronger institutional constraints with respect to the individual political actors.”²⁷

In his memoirs, Balcerowicz recalls that there two basic options:

*trying to change the system first and subsequently stabilise the economy, or rapidly launching the stabilisation and transformation programs at about the same time, knowing that, because of the inherent differences on the speed with which parts of the plan could be put n place, stabilisation and liberalisation would have to be accomplished before the fundamental institutional structures of the economy could be transformed.*²⁸

Because it was doubtful whether meaningful institutional change was possible amidst the macroeconomic chaos, the first option was never seriously considered, and in November 1989, the technocrats’ ideas were approved by a special all- party parliamentary committee which speeded up the legislative process, enabling the entire package of measures to be signed by President Jaruzelski and become law by the end of the year. Balcerowicz defended his radical Shock Therapy, by arguing that that it was easier for the supporters of a liberal economic system and macroeconomic stability to

Kolodko, G. and Nuti M. (1997). *Polska Alternatywa: stare mity, twarde fakty, nowe strategie*. Warszawa: Poltext.

Winiecki, J. (1996). ‘Five Years After June: the Polish transformation, 1989-1994’, *New Series, Centre for Research into Communist Economies*, No. 13, London: Centre for Research into Post -Communist Economies.

²⁴ Wasilewski, J. (1995). ‘Crystallisation of Post-Communist Political Elite’, Wnuk-Lipinski, E. (1995). *After Communism: a multidisciplinary approach to radical social change*. Warszawa: Instytutu Studiów Politycznych PAN, p 119.

²⁵ A technocrat and by extension a *technopol*, is defined as a policymaker who is motivated to pursue the objectives postulated by traditional normative economic analysis. A *technopol* is a breed of the economic technocrat who assumes a position of political responsibility; such as L Balcerowicz Williamson, (1994). ‘In search of a manual’ *ibid.*, p 12.

²⁶ Ardito-Barletta, N. (1994). ‘Panel Discussion’, in Williamson (Ed.).(1994). *ibid.*, p 460.

²⁷ Balcerowicz (1994). ‘Poland’, *ibid.*, p 177.

²⁸ Balcerowicz (1994). *ibid.*, p 162.

defend them as a *fait accompli* than it would have been to build reform gradually in the face of strong populist opposition in Parliament after the elections of October 1991.²⁹

The extraordinary nature of the whole undertaking meant that there was an initial social calm between January and April of 1990. However, in April, Solidarity Trade Union delegates criticised the programme, while the farmers went on strike demanding higher milk prices. The difficult political situation in Poland was further complicated by an economic recession, and the situation deteriorated rapidly in 1991 following the collapse of trade with the former CMEA in the East. In 1991, the political climate reached top temperatures as trade unions staged massive attacks on the liberal government and the short-lived honeymoon period granted to the ruling elites to pursue the reforms came to an abrupt end. Although Balcerowicz was trying to keep the economic programme outside of political conflicts, this was becoming more and more difficult, as governments and prime ministers changed, and the relationship of political leadership to economic reform remained unclear.³⁰

In this moment of economic crisis, policy reform in Poland was initiated behind closed doors and shut off from the public. The new liberal government was sheltered under the parasol of the Solidarity worker movement, which had vigorously fought for the democratic revolution along the side of the intelligentsia. Uniquely to Poland, as J Sachs and D Lipton observed, “in those first months, not only did the government command popular trust and support, but it also was not hampered by the ideological baggage and vested interests that weighed down the reform attempts of earlier years.”³¹ Bargaining was consequentially not necessary to achieve consensus, enabling the government to instigate a radical reform package, unthinkable in established democracies constrained by social dialogue and compromise-seeking. However, when ‘extra-ordinary politics’ gave way to ‘politics of the ordinary’, the splits within society between the losers and winners of transition spilt onto the political arena complicating the policy-making process.

In addition the initial elites did not embark on any real communication strategy, and no serious attempts were made to explain or predict the possible consequences of economic change to society. Balcerowicz justified this lack of public involvement and political transparency by claiming that the amount of time available to accomplish the needed

²⁹ Balcerowicz (1994). *ibid.*, p 173.

³⁰ See chapter two.

³¹ Sachs, J. and Lipton, D. (1995). ‘Poland’s Economic Reform’, in Frieden, J. and Lake, D. (Ed.) (1995). *International Political Economy*. *ibid.*, p 461.

tasks was severely limited.³² However, given the ‘third-way’ elements in the tradition of the Solidarity trade union movement throughout the 70’s and the 80’s, as well as the speed with which the economic reform program was launched, there seemed little possibility that the Polish public could have been psychologically well- prepared for the radical changes taking place.

Although under the governments of PM JK Bielecki and PM J Olszewski, public opposition to the Shock Therapy reforms grew, the measures continued to be put into place, because, the right amount of consensus remained within the ruling circles necessary to pursue the radical stabilisation package. It also seems that while, the Polish economist were looking for over-simplified answers, western consultants, came readily with solutions that did not take into account the specificities of transition economies. Many of the economically liberal theories tested in Poland stemmed from applied assumptions from the third world. For example, commenting on Sachs’ role as chief advisor to the Polish government, Viceminister of Finance, S Kawalec, claimed that, “there were and still are many question marks about how the economy will respond. In this, Sachs had no knowledge at all because he was not familiar with communist economies. He tried to treat this economy the same as the Latin American ones.”³³

A. Transition Depression and growing opposition

At the beginning of transition, the economic situation in Poland was characterised by excessive domestic demand, unusually tight labour markets, guaranteed jobs, material shortages and foreign exchange over-valuation. The implementation of market reforms consisted of four pillars: privatisation, price reform, introduction of free entry and monetary control. This included stabilisation and liberalisation, tight monetary and fiscal policies, a restraining income policy on wages, institutional reform and a hard budget constraint on enterprises. Each policy was introduced quickly and from above through what Przeworski infamously has called the “authoritarian style of post-communist leaders”³⁴

The primary goal was to get rid as quickly as possible of all the remnants of the former system, through the embrace of the neo-liberal western paradigm of economics, and as PM JK Bielecki recalls, “in all discussions virtually no alternative to the western capitalist models of reform was seriously entertained on either side. No one in the

³² Balcerowicz (1999). *Panstwo w Przebudowie*. ibid.

³³ quoted in Wedel, J. (1990). ‘The Economist Heard Around the World’, *World Monitor*, October, p 40.

³⁴ A Przeworski (1995). *Sustainable Democracy*. Cambridge: Cambridge University Press, Group on East-South Systems Transformations.

relevant policy circles from foreign advisers sent by international institutions to local officials considered alternatives.”³⁵

Instead of searching for ways to provide a social safety net as a means to soften the adjustment costs, the disappearance of queues and the wider range of goods available for consumption constituted the only form of popular compensation. Theoretical benefits of economic theory were used to rationalise the necessary changes and to persuade society to accept the viability of neo-liberal assumptions. M Bruno was “struck by the apparent universal acceptance of the drastic changes that have taken place so far” concluding that “the impending social problems in all the countries will no doubt put all the reform efforts to a serious test, as political democratisation proceeds and the possibility of bliss reduces.”³⁶

In retrospect, what the linear models of economics applied to the Polish transition were not able to figure into the equations was the enormous transaction costs associated with the implementation of the reforms and the scale of public opposition to the ongoing experiments.

Following the introduction of the Balcerowicz plan, GDP fell by 12% in 1990, and industrial production plummeted another 26%. A 60% devaluation of the Zloty made exports more competitive, but this was accompanied by a dramatic removal of input subsidies. As a consequence of industrial restructuring, unemployment began to rise reaching 6.1% by the end of 1990 and increasing to 15% in 1994. The staggering rate of inflation, reaching 2000% in the last quarter of 1989, made production costs rise substantially. In the mean time, real income fell dramatically and inflation continued to soar, remaining at 586% at the end of 1990. The unexpected crash in output, mostly in state enterprises, contributed to the collapse of 100's of firms and was only partially offset by the growth of the nascent private sector. It was only in 1996 that output recovered.³⁷

³⁵ Quoted in Wedel, J. (1998). ‘Western Assistance: Changing Mindsets and Relations’, in Staar, R.F. (1998). *Transition to Democracy in Poland*. NY: St. Martin's Press, p 122.
Interview with JK Bielecki, 12/09/02.

³⁶ Bruno, M. (1994). ‘Stabilisation and Reform in EE: a preliminary evaluation’, in Blanchard, O.J., Froot, K. and Sachs, J. (1994). *The Transition in Eastern Europe. National Bureau of Economic Research Project Report*. Chicago: University of Chicago Press, p 28.

³⁷ For more see, Balzyc, G. (1998). ‘The Politics of Economic Transformation’, in White, S., Batt, J. and Lewis, P.G. (Ed.) (1998). *Developments in Central and East European Politics 2*. Basingstoke: Macmillan.

Levigne, M. (1995). *The Economics of Transition: From socialist economy to market economy*. NY: St Martin's Press.

Balcerowicz, L. (1995). *Socialism, Capitalism, Transformation*. Budapest: Central European University Press.

Furthermore, the entire pre-existing system of social services completely disintegrated under fiscal austerity measures. Social expenditure was drastically cut and labour market policy was limited to minimal unemployment compensation. Even though a debate was launched on the role of 'the state' in guaranteeing a minimum income, PM Bielecki recalls that, "no EE aid recipient asked the donors to insist on a social safety net. We forgot, donors forgot. Nobody took it into consideration as a necessary political factor. Ultimately this strengthened opposition forces."³⁸

As these dramatic effects of restructuring the economy began to be felt and adjustment fatigue set in, the politicisation of economic issues became inevitable. In Jan 1990, public support for the Balcerowicz plan was at 35%, but by April it had dramatically fallen to 9%, accompanied by open social unrest. The near-unemployed and those whose real income was falling lost faith in the reformers, and, in May, the Solidarity trade unions began striking against their own government. Later that summer, the farmers, who had been hardest hit by the reforms, joined their worker counterparts in protest, their actions cumulating in a series of road blockades and increasingly violent demonstrations.

Although the political timing couldn't be worse, the government decided, never the less, to hold the first free presidential elections, providing even more opportunities for populists to criticise the neo-liberal reforms. The election campaign proved to be something of a farce, based on highly politicised debates between the supporters and opponents of the Mazowiecki government, and leading Mazowiecki to concede the Presidency to famous Solidarity leader, Lech Walesa. A stunning second place was taken by émigré Stan Tyminski. Tyminski, whose campaign reverberated the slogans of the real socialist era, was a self-described millionaire accompanied by a young 'trophy' wife, whose only qualification was a supposed fortune made in the Peruvian jungle. Although Walesa had heavily criticised the Mazowiecki government during the election campaign, he continued to support the reformers upon taking office, re-appointing Balcerowicz as Finance Minister in the newly forming liberal government led by PM Jan Krzysztof Bielecki. The election promises to slow down or even reverse some of the radical reforms that had won him the campaign were consequently never fulfilled, increasing the gap between rhetoric and reality, and further damaging the already fragile trust the public had initially given to the elites.

³⁸ Quoted in Wedel, J. (1998). 'Western Assistance: Changing Mindsets and Relations', in Staar, R.F. (1998). *Transition to Democracy in Poland*. NY: St. Martin's Press, p 123.

In that first and second year of the economic reforms, both the Presidential as well as the Parliamentary election campaigns were heavily influenced by the economic views of society. Relaxation of monetary and fiscal policy, protectionism and state intervention formed the three main pillars of economic programmes propagated by the populists, and although each time the reformist forces eventually secured political victory, public opinion grew more and more polarised, supportive of extremist views and critical of the liberal reformers.

In 1991, the deep internal transition recession was exacerbated by the loss of export markets in the east following the collapse of the CMEA, as well as decreased exports to the new markets in the west as Europe faced its own economic downturn. All of this severely undermined the transformation process, weakening the legitimacy of the government and further hurting the credibility of the liberal reformers. Sachs recalls that, “the confusion, anxiety and sense of bewilderment about market forces was inevitable when bread winners had to worry whether their income would be, next week, enough to feed the family.”³⁹

In order to avoid a deeper crisis, external assistance was needed and, while it was in the strategic interest of the West to stabilise the transition process, the capacity of western governments to provide assistance was severely curtailed by their own economic recession, as well as by the concurring Gulf Crisis in the Middle East. These events took precious economic and political attention as well as resources away from the CEE region. Thus, while the goal to anchor Poland in western institutions and to seek outside support and leverage for the internal reforms became ever more pressing.⁴⁰, the means with which to achieve it were becoming more and more limited.

III. The Strategy of the Balcerowicz team

In his memoirs, Finance Minister Balcerowicz has argued that it is the goals, conditions, and means constitute the three factors that determine “which strategy will be used to achieve a desired outcome.”⁴¹ Confronted with a political leadership dilemma, he had to adopt a policy style and persevere in his conviction about the right way to proceed. The choice lay between ruling by executive decree, technocratic mandatism, parliamentarism or corporatism. The latter option meant extending consultation and negotiation beyond the parliamentary actors to unions, employers and other interests,

³⁹ Sachs, J. (1994). ‘Life in the Economic Emergency Room’, *ibid.*, p 507.

⁴⁰ However, in 1990 the Polish elite camp was still divided on foreign policy issues. Fears and apprehensions as to European integration were present in the post-Solidarity camp, while the post-communist, Social Democratic Alliance remained ambivalent as to EU membership, while adamantly declaring opposition to aspirations towards NATO.

⁴¹ Balcerowicz (1999). *Panstwo w Przebudowie*. *ibid.*, p 9.

and, although this might have softened social resistance to the reforms, he chose instead technocratic mandatism, aware that while this was not a democratically desirable political route, it was necessary in this time of crisis. Convinced that “the two worst enemies of sustainable and responsible political economy are interest groups and extremist parties”, Balcerowicz, while in good faith, none the less chose to diminish the influence of societal actors on policy reform⁴², endangering the development of an active civil society.

A. Trade reform

Bearing in mind the importance of trade in setting in motion market mechanisms, discussed in the previous chapter, in 1990, the Balcerowicz team set out to implement shock therapy by opening up the Polish economy. The high level of political uncertainty, coupled with an unstable macroeconomic environment diminished the credibility of the reforms being undertaken. Furthermore, due to fiscal constraints, the ability of the government to provide the losers with compensation remained perversely low, meaning that the threat of economic failure could disrupt or even stall the entire process.

Although the beginnings were thus mixed with economic and political instability, a mixture of market and non-market incentives, missing legal infrastructures, as well as a shortage of domestic capital for investment accompanied by fear of foreign capital, the determination of elites to avoid the gradualist course of policy reform led to a decision for radical liberalisation.

Reform of the trade regime and increasing openness involved two dimensions. On the domestic level, strategic choices were to be concerned with appropriate policies towards the losers of liberalisation, while, on the external level, with securing new markets and improving access to the old ones through economic diplomacy. Openness for Balcerowicz would increase the speed of replacing the old system plus present an opportunity to depart from transition recession to that of resumed growth and production.⁴³

The initiation of the trade policy reform was possible due to the macroeconomic crisis and the unique social consensus that followed the collapse of socialism, as well as the existence of only a few well-organised interest groups capable of resisting the reforms. However, by late 1990 already, this unusual unity between ‘the state’ and society was vanishing as the political costs of transition set in. Thus, while the government could

⁴² Balcerowicz (1999). *ibid.*, p 81.

initiate the reforms without going through the long-winded process of generating public consensus, it could not sustain or consolidate them without some sort of additional leverage.⁴⁴ Hence, the goal became to strengthen the commitment to the reforms, diminishing the influence of domestic interests on policy-making and limiting future temptation towards political manoeuvring.

To do this the government attempted to reduce the scope of its policy autonomy by binding its national policies to external regulations. To avoid the possibility of future policy reversals, the Balcerowicz technocrats knew they could rely on one of three measures. First, they could signal their commitment to reform by joining an international organisation such as the WTO or the OECD. Second, they could attempt to alter its own incentives to pursue openness by, for example, integrating the national economy with global structures and consequently increasing its reliance on conditioned external trade or capital. The constraints from the international environment would act as consistent pressure for the continuity of change in the face of domestic upheaval and resistance. Finally, by pursuing regional integration with the European Union, the technocrats could combine these strategies simultaneously to enhance Polish reform credibility.⁴⁵ Accordingly, the Balcerowicz team chose to turn to the EU for external support to secure its own political and economic goals.⁴⁶

B. The role of the west

The key to successful policy reform lies in securing a broad enough base of support to enable the reformers to carry on with their program. As Nelson has pointed out, “especially after the initial stages, the need to generate support and consensus for reform is great in democracies, particularly in countries that have recently turned or returned to democratic politics.”⁴⁷ Reforms can be interrupted by various disturbances, both economic, such as negative adjustment effects on the economy, as well as political, in the form of high transaction costs, coupled with unstable and changing governments. Under any of these conditions, the reform measures might not last long enough to yield the expected results, and attempts to maintain them might break down all together before any tangible benefits are achieved.

⁴³ Zukrowska, K. (1998). ‘The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience’, in A. Zielinska- Gkebocka & A. Stepniak (Ed) (1998). *ibid.*, p 299.

⁴⁴ For more see, Whalley, J., (1996). ‘Why do Countries Seek Regional Trade Agreements?’, *NEBR Working Papers*, No 5552.

Cable, V., Henderson, D. (Ed.) (1994). *Trade blocs?: the future of regional integration*. London: Royal Institute of International Affairs/International Economics Programme.

⁴⁵ Piazzolo, D. (1998). ‘Quantifying’, in A. Zielinska- Gkebocka & A. Stepniak (Ed) (1998). *ibid.*, p 147.

⁴⁶ See Rosenau, J.N. (1969). *Linkage Politics: essays on the convergence of national and international systems*. NY: Free Press and Princeton Center of International Studies.

⁴⁷ Nelson, J. (1994). ‘Panel Discussion’, in Williamson (Ed.) (1994). *ibid.*, p 474.

As such a government embarking on reforms has to be in a sufficiently strong position to make policy changes and then to sustain them long enough to make it evident to most groups in society that the new policy framework works better for them.⁴⁸ At this point, external leverage becomes pivotal for consolidating and sustaining the economic programme.

Baldwin has observed,

*In moving to a democracy from an authoritarian form of government, it is generally necessary for the new leaders to bribe key economic groups into accepting the new order by significant economic rents to them. Consequently, integrating a newly formed democratic country into a major trading bloc eliminates this means of undermining democratic institutions and, instead, creates rents that strengthen both democracy and free market institutions.*⁴⁹

Aware of this, the Balcerowicz technocrats expected that once the reforms were under way, international agreements and binding external obligations could be used to fend off pressures to back track. Recognising that economic opening would be the most effective means to overcome the transition dilemmas, the Polish economic team began its diplomatic attempts to secure preferential trade agreements employing political means to achieve economic goals. The need for western assistance and markets created a superficial harmony between the Polish government and western advisers in their shared acceptance of neoliberal institutionalist assumptions and in their joint desire to stabilise the reforms. This domestic/ international coalition of technocratic elites consciously chose a democratically risky strategy in expectation that, in a short amount of time, benefits would materialise through the secured external support.

Zbigniew Brzezinski, former US National Security Adviser and Polish émigré thus called for generous western assistance to CEE. Dividing the process of transition into three phases, Brzezinski argued that, “the first phase is key to the entire process, determining the success or failure of the subsequent stages.”⁵⁰ During this phase the help from the West was to be critical in developing the basis for movement into the consolidation phases, where the economic system would be more stable and the political institutions in place. Market access along with investment and direct grants were to provide the main sources of recovery and stimulate export-led growth. Without this assistance, he maintained, the transformation might not be able to reach its subsequent

⁴⁸ Ardito-Barletta, N. (1994). ‘Panel Discussion’, in Williamson (Ed.) (1994). *ibid.*, p 472.

⁴⁹ Baldwin, R. (1988) *Trade Policy in a Changing World Economy*. London: Harvester- Wheatsheaf, p 47.

⁵⁰ Brzezinski, Z. (1995). ‘Rola Zachodu’, w Balcerowicz, L. and Targowski, A. (Red.) (1995). *Wizja Polski*. Warszawa: P.W. "Com-Tour" S.A., p 23.

finalite phase, where a middle-class, capitalist lobby develops domestically, encompassing newly emerging interests that support the market reforms from below. Accordingly, central to the entire process of economic reform and crucial to the outcome of the transition was the notion of western openness to Polish imports. Again and again it was maintained that “the liberalised domestic trade regimes would not become institutionalised unless they began to yield some material accomplishments. For this reason liberal internationalists should endeavor to provide generous trade access to countries undertaking significant reforms.”⁵¹ A highly asymmetrical and competitive international climate would only increase the social costs of internal reform, further undermining political support for liberalisation.

Conclusion

J Sachs has argued that the ability to reform has two critical components: both the capacity and the willingness of the country itself to reform as well as generous external assistance and support. Admitting that

*even though foreign aid is not the main factor in policy initiation, it is crucial to reform consolidation, ensuring that the reforms themselves have enough of a life time to take hold by bolstering the social and political situation and helping the government to manage its strained finances in a non-inflationary way. The political situation in Eastern Europe remains fragile, and if the reform programs of the new democratic governments fail, the meagre living conditions will fall farther, which could, in turn, provoke serious social conflict and even a breakdown of new democratic institutions.*⁵²

Thus the liberal project of economic development espoused to and carried out by the Polish domestic elites was dependent to an overwhelming extent on the relationship of the domestic reforms to international support, particularly that of the EU, Poland’s most proximate neighbouring region and natural trade partner. Liberalisation and integration through the EA were to secure market access for Polish products, stimulate investment, both foreign and domestic, provide abundant financial and technical assistance to the Polish reformers, and ‘anchor’ the policy-making process in an international regime. Significantly the economic successes resulting from association were to spillover into the political arena, by creating winners of the transition, strengthening competition in the emerging political system and increasing support for the reforms. However, the institutional ‘anchoring’ arrangement would only work to the extent that the liberalisation schedule was indeed beneficent to the weaker partner, asymmetric in the opening and well-defined by objective rules and regulations.

⁵¹ Biersteker, ‘chapter four,’ in Rosenau, J.N. and Czempiel, E. (1992). *Governance Without Government: Order and Change in World Politics*. Cambridge Studies in International Relations, Cambridge: Cambridge University Press, p 126.

⁵² Sachs, J (1994). ‘Life’. *ibid.*, p 504.

The European Union accordingly had a powerful role to play in the process of Polish domestic policy reform. In order to avert the rise of populism and nationalism in the region, and hence to secure its own interests, the EU collectively could have afforded to provide significant resource transfers and trade-related concessions.

None the less, a system of rules such as the EA is only as good as its implementation, and, in the absence of strong political commitment, the danger exists that the design of the new institutions will be captured by protectionist forces.⁵³ This thesis will show that this is indeed what took place during the course of association, and that the declared objectives of the association were consistently subverted by increasing pressure for protection from domestic interests on both partners' sides.

Moreover, as the architects of the Polish transformation began to adopt European models, so the Poles expected 'Europe' to open its doors and embrace new responsibilities. Few considered the possibility that the EU collectively would not accept the burden of adjustment required of it to ease the process of transition, or that, pre-occupied with its own internal problems, the Union would lack the political will to make good on its promises *vis a vis* the Polish side. The idealised views of Europe as well as the Poles' naive belief that the Europeans actually cared enough to put their immediate interests second, contributed to an increasing threat of disappointment with the entire project of integration.⁵⁴ As Whitehead concluded, "expectations were raised so high that there was some risk of the European option turning sour and recoiling on the prospects for successful democratic transition."⁵⁵

⁵³ Bilal, S. (1998). 'Political Economy Considerations on the Supply of Trade Protection in Regional Integration Agreements', *JCMS*, Vol 36, No 1, March, Maastricht: European Institute of Public Administration, p 10.

⁵⁴ Wedel, J. (1998). 'Western Assistance: Changing Mindsets', in Staar, R.F. (Ed.) (1998). *ibid.*

⁵⁵ 225.

Whitehead, L. (1991). 'Democracy by Convergence and Southern Europe', in Pridham, G. (Ed.) (1991). *Encouraging Democracy: The International Context of Regime Transition in Southern Europe*. London: Leister University Press, p 49.

4. Polish Interests, Institutions and Ideas

*There is nothing that is pre-determined in history, because history is only what people make of it. The only thing we know for certain is that nothing is certain.*¹

If trade reform is understood as a technique aimed at improving economic performance, an attempt must be made to discern which factors primarily influence the progress of the reform itself. Capitalism, systemic transformation or even the specific design of various policies and institutions should not be instigated on purely instrumental or technical grounds, as these processes are inseparable from the underlying structure of values, ideas and beliefs present in a given setting. It is the existing social, cultural and political milieu, the nation's unique infrastructure that determines the emergence of new actors, laying down the foundation for the continuation of policy reform. Embedding the market in society is reciprocally linked with legitimising the new political and economic structures, ultimately, affecting their sustainability and consolidation. Hence, the chapter examines Polish domestic interests, institutions and ideas, examining in detail the local conditions in Poland in the early days of transition, and how they were to influence the initiation, continuation and consolidation of policy reform.

The foundations of this chapter stem from political theory and sociology, following through on chapter three, with an emphasis placed on the social barriers to economic transition and a focus on the legacies of the past as they determine the aftermath of policy initiation. As sociologist G Skapska has accurately observed, "first and foremost, transformation requires the changes of values, behavioural patterns and normative orders, which underlie economic action."² The Polish transformation has largely been dependent on the various tensions and contradictions between the existing behavioural patterns and social ideals, on the one hand, and the applied models and actual reform policies of 'the state' and international organisations, on the other.

Understanding inter-linkages between international processes such as EU integration and domestic politics is only one component of a comprehensive economic strategy. The other is grasping the pitfalls of domestic path dependency. All countries are not the same for the purpose of policy, as J Flemming has claimed in the preceding pages. Legacies of the past, combined with present-day configurations of domestic interests, institutions and ideas shape and determine how specific nations will respond to static policy models. Consequently, reform strategies are only as good as their applicability to

¹ Kolakowski, L. (1992). 'Amidst Moving Ruins', in *Daedalus*, Spring, p 43.

² Skapska, G. 'Prisoners of Paradox: The Polish economic transformation', in Perdue, W. (Ed) (1995) *Modernization Crisis: the transformation of Poland*. Westport, CT: Praeger, p 37.

specific conditions, and if the policy path is not adequately chosen to fit the environment of the particular country, reform once initiated can quickly be reversed.

I. Capitalism and Modernisation

To achieve the goal of economic openness, certain conditions conducive to the emergence of contestable markets and to the development of a capitalist society have to be met. Because reforms must be backed by citizens and complemented by civic culture to be effective, an understanding of past legacies and of the socio-political milieu of transition is thus a priority in prescribing policy reform. Market incentives alone will not change the behaviour and expectations of society.

A strategy for regime change based on the duplication and imitation of models applied to other societies undervalues the importance of local conditions and neglects the impact of social consciousness on policy performance. As Pickles and Smith have argued, in all the advice given to CEE, “there is a theme of under-theorisation of neo-liberal policy prescriptions which neglect complexity.” These models fail to take into account the “legacies of institutional frameworks and existing social relations in the context of transition. (As a result), best practice solutions of western advice are consequently not always implemented in the most effective way.”³

In Poland, ‘extra-ordinary politics’⁴ based on a technical government elite with fragile links to its social base, a discredited socialist opposition, lack of nation-wide interest mediators and a hasty decision-making process made the radical jump into capitalism possible. None the less, these conditions did not guarantee policy sustainability. The liberals, while correctly hastening the stabilisation process of the economy, neglected to appreciate that the ‘state’ would have to play an important role in gaining public consent for and enforcing compliance with the rules and reforms it was attempting to design.

This chapter maintains that the paradox of introducing marketisation from above goes against the very essence of spontaneous capitalism, and, as such, has unpredictable consequences for the development of pro-market interests, institutions and ideas.

Capitalist relationships artificially constructed, duplicated from the outside and imposed from above have little chance of being internalised and hence consolidated in the long run. The author’s analysis suggests that the path chosen to capitalist formation in Poland based on elitism and external ‘anchoring’ strategies has been insufficient in guiding the politics of reform and transformation.

³ Pickles and Smith (1998). *Theorising Transition*. *ibid.*, p 3.

⁴ Balcerowicz (1994). ‘Poland’. *ibid.*

A. The local context

Sweeping away static economic models and neoliberal assumptions, political economists have identified domestic factors as the most decisive determinants of economic policy reform and performance. In the tradition of public choice theory, J Bhagwati has argued that “profound commitments to policies are generally due to a mix of ideological factors (in the form of ideas and example), interests (as defined by politics and economics) and institutions (as they shape constraints and opportunities).”⁵ Because capitalism requires a change of normative social patterns and an active participation of civil society in building the new order, an in depth study of the interaction of the various microelements of the process, is essential to contemplate its origins or analyse its formation.

Moreover, as sociologist M Marody has argued,

*the idea of democratic competition presupposes the existence of social groups whose different interests influence the choice between alternative goals and ways of social development. Successfully functioning society requires the existence of social groups able to define their interests independently of the state and compliance on the part of all significant interest groups to both the institutional arrangements regulating the negotiation of conflicting interests and the outcomes produced within this regulated competition.*⁶

Because both of these conditions have been in opposition to the social habits shaped in Polish society during the 45 years of the socialist regime, a hybrid socio-political system has emerged during transformation not entirely conducive to the creation of liberalism or predictable according to public choice models.

The diverse variants of public choice theory discussed in chapter one all acknowledge the importance of interests, institutions and ideas as primary factors in influencing policy change. However this literature also has inherent limitations, as it neglects to take into account the distinct and individual make up of different nations and underplays the importance of international relations and external influences in determining policy outcomes. By not fully grasping the specificities of local and geopolitical conditions in different countries attempting radical systemic changes, traditional political economists have been unable adequately to predict the politics of policy reform in transition.⁷

⁵ Bhagwati, J.N. (1988). *Protectionism: The Ohlin lectures*. Cambridge, Mass., London: MIT Press, p 2.

⁶ Marody, M. (1994). ‘State and Society in Poland’, in Rootes & Davies (Ed.). *A New Europe? Social Change and Political Transformation*. University of Kent at Canterbury: UCL Press, p 181- 183.

⁷ See Szacki, J. and Kisiel, C.A. (1995) *Liberalism after Communism*. Budapest: Central European University Press.

Staniszki, J. (1992). *The Ontology of Socialism*. Oxford: Oxford University Press.

Hausner, J., Jessop, B. and Nielsen, K. (Ed) (1995). *Strategic Choice and Path-Dependency in Post-Socialism*. Aldershot: Edward Elgar.

While, in the early 90, western experts in Poland relied heavily on theories of social science transplanted from industrialised countries and incompatible with the realities of post-socialist states, the economic and political ramifications of this advice have proven highly different than initially expected. The entrenched public behaviour patterns and expectations have not proven easy to alter.

In economic terms, the existence of imperfect market structures in transition economies, highly monopolistic and centralised, has tilted the predictability of trade opening away from the classical model based on Anglo-Saxon studies. In the political realm, policy-making has similarly not conformed to public choice theories of interest group balancing within institutionalised political structures.

For example, while the importance of corporate trade preferences might be central in accounting for protectionism in developed countries⁸, the explanation is deficient in transition economies where the basic foundation for capitalism has yet to be laid. It is only in the latter stages of capitalist development that clear and organised corporate interests emerge, while the beginnings of transition are marked by incoherent and blurred lines of interest representation. An advanced analysis of business trade preferences is hence incompatible with the early stages of transformation, where clearly those preferences are yet to be established.

Conditions where interests and their relative political influence over the process of policy making are in a constant flux, compounded by unstable and intransparent institutions and ideology combining legacies of the socialist past with newly emerging anomalies of early capitalism has made it difficult to predict the outcome of policy reform and have created a unique situation whereby a single shift in any of the three interwoven factors has directly impacted policymaking. The domestic developments have been additionally shaped and influenced by evolving external relations, demonstrating the need to move away from simplified domestic political economy models as explanations for policy outcomes and towards more complex diagrams that incorporate the international dimension.

B. Historical background

Prior to 1989, Poland was largely a traditional society. The modernisation achieved by the command system was a deception, “where modern regimes of political power along with active industrialisation coexisted with pre- modern elements, such as agriculture

Krueger, A.O. (1993). *The Political Economy of Policy Reform in Developing Countries*, Cambridge, Mass.: MIT Press.

⁸ See Milner (1988) *ibid*.

Bhagwati, J.N. (1988). *ibid*.

and an under-active and incoherent civil society.” While the education did improve literacy rates for example, in the late 70’s and early 80’s, the reforms of the school system⁹ attempted by the Communists failed, and access to as well as quality of teaching started deteriorating. Education thus itself began witnessing stagnation at best, if not regression, as higher developed countries moved into a knowledge- based society, based on technology and communications, while the Poles learned skills no longer useful in a modern capitalist economy (metallurgy for example). Additionally, despite some progress achieved during socialism, especially in the field of sciences, the university system continued to be weak in comparison to western nations, with only 8% of the population reaching higher-education levels.

Professions such as lawyers, doctors, craftsmen or construction engineers were subjected to the existence of the feudal guild system, which made it impossible to work within these fields without membership and prevented fair competition to improve availability and quality to the public. Moreover, socialism, the Church and even the Solidarity trade union movement discouraged individualism and liberalism in favour of collective action and communitarian values. Falsely created job security bred etatist thinking and passivity, while discouraging initiative. The population was consequently not forced to improve individual skills and the development of Polish human capital stagnated as compared to the West.¹⁰ These conditions were, according to P Sztompka, “unlikely to produce the desired outcome of rapid marketisation.”¹¹

The Polish nation could be described as backward, with a huge civilisational gap dividing it from Western Europe in all spheres of social, political and economic life. In fact, it could be argued that Polish backwardness reached as far back as the Golden Age in the XVII century, increasing progressively through a series of local wars, followed by partitions, the disappearance of the Polish State in 1795, the beginnings of the 20th century, during which the only respite from war took place during the short lived era of the Second Republic, and finally five decades of totalitarianism.¹²

The economy in 1989 was dominated by traditional heavy industry, especially defence, characterised by a manufacturing sector based on low processed goods and an over-

Baldwin R. (1985). *ibid.*

⁹ Especially trade/ craft schools.

¹⁰ See J Marianski, *Kondycja Moralna Społeczeństwa Polskiego*, 2003.

Interview with Prof. J Szacki, *GW*, 12/06/03.

¹¹ Sztompka, P. (1993). ‘Lessons of Post-Communist Transition for Sociological Theories of Change’, in Coenen-Huther, J. and Synak, B. (Ed.) (1993). *ibid.*, p 15.

¹² For more see Davies, N. (1982). *God’s playground: A History of Poland*. New York: Columbia University Press.

Halecki, O. with Polansky, A. and Grommada, T. (1992). *A History of Poland, new edition*. New York: Dorset Press.

reliance on the extraction of raw materials. The dilemmas of the old, industrial regions such as Slask, where more people in 1989 were employed in coal mining than in all of the coal industry in Western Europe, could only be matched by the dramatic state of the Polish agricultural sector. Agriculture remained a disproportionate 30% of employment, and the remainder of the economy was based on out-dated production techniques and technologies.

Producing a 6% of the GDP, the state of Polish agriculture reflected the contradictory nature of socialist modernisation. The agrarian structure remained divided between small scale land plots scattered throughout the country, coupled with huge and unproductive state owned collective farms, which produced unsanitary and unmarketable food goods, meant mostly for export to the former Soviet Union. With intense emphasis placed on traditional heavy industry, the socialist economy was unable effectively to close the gap between urban centres and the village, widening regional disparities. Rural Poland continued to display the characteristics of pre-modern agrarian life, with most of the peasants producing for their own consumption, rather than for the market.¹³

The economy was highly dependent on an export structure within the closed system of the CMEA, based on low-processed goods and dominated by raw materials, agriculture, furniture, low-tech machinery and textiles. The third sector of trade in services could hardly be considered the engine of growth, as was becoming the case in industrialised countries, while, traditional sectors continued to produce technologically backward and ecologically unsound products. While western societies were modernising and switching their economies from steel to chemicals, electronics and finally high tech goods, Poland continued to 'catch up', repeating XIX century modernisation patterns and utilising archaic techniques.

Decades of policies detrimental to the private sector had left society with only a small number of experienced entrepreneurs. The absence of an urban bourgeoisie and the miniscule role of the private sector in the economy perpetuated the backwardness of the command structures, where enterprises were driven by top down orders rather than by

¹³ See Instytut Spraw Publicznych (2000). *Chlop, rolnik, farmer*. Warsaw: ISP.
Mroczek, W. (1995). 'Agriculture' in Kawecka-Wyrzykowska (Ed.) (1995). *Prospects for Trade in Sensitive Products between Poland and the EU*. Warsaw: Foreign Trade Research Institute.
Miklaszewski, S. (Ed.) (1998). 'Polskie Rolnictwo a Unia Europejska', *MCRD zeszyt*, Nr 34, Krakow: Miedzynarodowe Centrum Rozwoju Demokracji.

the incentive of profit. This, of course, led to low labour productivity, and, in turn, low GDP per capita.¹⁴

Corruption existed at all levels of governance infiltrating everything from individual enterprises to local government, to the highly bureaucratised and centralised administration in Warsaw.

The state of the macroeconomy was tragic, marked by recession and hyper-inflation, combined with a huge foreign debt, a lack of domestic capital for investment, shortages of basic goods required for manufacturing, shortages of consumption goods and an overall crisis in state and local finances, progressively deteriorating, as output fell and growth slummented.¹⁵ The Polish economy in 1989 faced a deeper crisis than any other leading CEE reformer, including the former Yugoslavia, Czechoslovakia, Hungary or GDR.

This brief description of the state of the Polish economy in the early 90's does not do justice to the complexity of the situation, but is rather intended to portray the scale of some of the problems to be faced in transition and is intended to just set the background for the rest of the thesis.

II. Path Dependency

While economic theories tend to focus on abstract conditions for policy change,¹⁶ institutional reform, economic liberalisation and political democratisation occur in a specific setting. According to Pickles and Smith, "transformation is an attempt at reworking social relations of communism and reconstructing the economic and political institutions." The authors go on to argue that economic systems are "discursively and socially constituted and governed by socio-political institutions as well as the existence of pre-existing rationalities."¹⁷ The word transformation itself implies an evolutionary process, based on stages and phases that spill into each other. It is not, nor should it be interpreted as a one-off act that once performed sets the course onto a predictable path.

¹⁴ See Kornai, J. (1992). *The Socialist System: the political economy of communism*. Princeton, NJ: Princeton University Press.

Roeder, P.G. (1993). *Red Sunset: The failure of Soviet Politics*. Princeton, NJ: Princeton University Press.

Balcerowicz, L. (1995). *ibid.*

¹⁵ For more see Levigne (1995). *ibid.*

¹⁶ See Williamson (Ed.) (1994). *Ibid.*

¹⁷ Pickles and Smith (1998). *Theorising Transition*. *ibid.*, p 206.

See also Sztompka, P. (1991). 'The Intangibles and Imponderables of the Transition to Democracy', *Studies in Comparative Communism*, Vol 24, No 3, October.

The uniqueness of transformation in fact implies that elements of the old system will remain in conjunction with the new.¹⁸

Prior to the initiation of complex systemic changes required of the transformation, a dense social network existed in Poland, based on the interaction of individuals and grounded in established identities and political culture. Even though socialism had managed to destroy significant aspects of institutionalised civil society, by making formal networks dependent on 'the State', informal networks, such as friends, family or even dissident opposition groups, formed the basis of social organisation.¹⁹ Poland was consequently not a *tabula rasa* for the importation of western models.

The emergence of new structures combined with rudiments of the old created a hybrid system formed on the basis of heterogeneous interests, institutions and ideas. Alongside the social groups from the former system new ones appeared with an unclear sense of what was to be in their interest and what not. In short the Polish political economy model was underdeveloped and immature, making it difficult to foresee how new patterns of interest articulation would evolve.

P Bofinger pointed out in fact that the liberal models applied to transition economies were based on naive assumptions: "that the complete upheaval of all existing structures has above all reduced or even destroyed the power of those groups that had been dominating under the previous regime. This led to fallacious expectations that it would be easy to create new pro- market interests as the basis for reform."²⁰

The initial impetus for radical reform suggested that a temporary neutralisation of interest groups had taken place, however what became obvious in the course of the transformation, was that these groups were indeed only silenced temporarily. As market reforms proceeded and democratisation took place, interest group pressure was revived, and the restructuring difficulties were compounded by greater and greater opposition.²¹

The most powerful of the vested interests from the previous system retained close ties with various governing options²² and, due to the absence of an effective regulatory framework, compounded by inconsistent enforcement of the law, they were able to quickly 'capture' the state, paving the way for the growth of corruption.

¹⁸ Nowotny, T. (1997). 'Economic Transition, Democratic Consolidation and the Integration of Central-Eastern European Countries into European Structures', in *Economic Developments and Reforms in Cooperation Partner Countries, NATO Colloquium*, Brussels: NATO, June.

¹⁹ Crawford (Ed.) (1995). *ibid.*

²⁰ Bofinger (1995). 'The Political Economy'. *ibid.*, p 21.

²¹ Gadomski, W. (1996). 'Journey into the Unknown', in Winiecki, J. (1996). 'Five Years After June: the Polish transformation, 1989-1994', *New Series, Centre for Research into Communist Economies*, No. 13, London: Centre for Research into Post -Communist Economies.

²² This compromises not only the Peasants and SLD as would be expected, but surprisingly the Solidarity, post-communists as well.

A. Political culture

Democracy is rooted in political culture, or as sociologist G Skapska has defined it, “the psychological predispositions of individuals, attitudes towards the political system and its various parts and attitudes towards the role of the self in this system.”²³

To begin with, Polish political culture was shaped by a long and complicated pre- 20th century history, evolving from a diversity of encounters with different systems of governance and clashes of identities. This included various experiences with sovereignty, ranging from the enforced Christianisation of Poland in 966, to the Union with Lithuania, from the Eastward orientation of the Jagiellonian Dynasty, to partition among three separate empires, stretching from Prussia, in the West, Russia in the East and Austro-Hungary, in the South. A brief flirt with (semi) democratic politics²⁴, based on the notion of the infamous *liberum veto* and written into the formal Constitution of the Third of May in 1791, exposed the upper classes to the dangers of unanimity rule . Instead of weakening national identity, these manifold experiences of foreign domination paradoxically strengthened the Polish sense of nationhood, enabling it to withstand the external occupations accompanied by domestic turmoil, united in opposition to the enemy. In addition, as Szacki argues, “the situation of countries subjected to foreign rule imposes a certain hierarchy of priorities, pushing into the background the freedom of the individual as an individual and not a member of the community; class divisions are blurred, reducing the attractiveness of individualistic liberalism.”²⁵

For two centuries Poland was a nation without a ‘state’ and thus paid special heed to moral unity. Divisions of values and strife within society that threatened the interest of this nationhood could not be accepted, and as a result, conflict between its members was not treated as something natural, to be embraced as a normal part of democracy and to be resolved through negotiations and compromise between individuals and groups. However, the political culture was based on uniquely high incidence of collective protest against the ruling authorities, and an exceptional inclination towards political conflict against the ‘state’, rooted in the country’s violent legacy of struggle against either foreign or domestic oppression.²⁶ The length of the entire pre and post- war history stemmed from a series of confrontations between the ruling elite and various

²³ Skapska, G. (1997). ‘Civic and Legal Cultures in Spain and Poland’, *Polish Sociological Review*, No 1231-1413, Krakow, p 229.

²⁴ Voting rights to the *Sejm* were given to Polish noblemen, written into the social contract, based on Constitution of the 3rd of May.

²⁵ Szacki and Kisiel (1995). *ibid.*, p 55,

²⁶ Ekiert, G. (1998). ‘Legacies of Struggle and Defeat’, in Staar (Ed.) (1998). *ibid.*, p 39.

actors within society, evolving to what could be called a specific tradition of protest and crisis driven political dynamics. As a result, formal decisions unfavourable to a certain strategic Polish group have inevitably led to protests, confirming the permanent inclusion of this form of political activism in the civic culture. While these forms of public opposition also take place in western democracies, what makes them particularly unique in the Polish case is that they are perceived there as the only feasible form of popular participation in policy-making and the final argument in situations of social conflict.²⁷ This behaviour is deeply rooted in socialism and experiences with foreign oppression, when resistance was seen as the only way of regulating relations between the 'good', oppressed society and the 'evil' oppressor- 'state', leading to the moral legitimisation of protests and enabling their acceptance as the basic form of popular participation in politics

Moreover, Polish uniqueness has had at its source a peculiar conglomeration of cultural intricacies such as the *intelligentsia*, or a very strong and proud peasant movement, combined with a devout embrace of Catholicism. Similarly, the country's size, fervent patriotism and geopolitical situation have all contributed to the development of profound contradictions in Polish group mentality. On the one side have been the traits associated with self-important arrogance, a sense of mission to be carried out by the Poles. On the other, have been deep complexes and paranoia that 'nothing should be about us without us!'²⁸ While the Poles have thus believed that they deserve a place in Europe due to their contribution to Europe's history, culture, and political thought, they have simultaneously felt somehow inferior to their Western neighbours, lacking the sheer confidence to believe in their own national attributes. The combination of awe and fear of the West has reflected a complex past relationship of embrace and perceived betrayal.

B. Socialism

In order to understand the clash between classical liberalism and Polish society in transition, it is important to look at the state of ideology and values inherited from socialism at the onset of the reforms. Polish social consciousness in 1989 reflected the legacies of 5 decades of the command economy combined with a difficult and complicated history of international relations. J Golebowski characterised the emerging situation as "a paradox of introducing market rules from above without the necessary

²⁷ Marody (1994). 'State and Society'. *ibid.*, p 184.

²⁸ During the partitions of Poland this was a paraphrasing of the American 'No taxation without representation' slogan.

changes of people's values and aspirations.”²⁹ The market was thus introduced as an abundance of goods, and the possibilities of unemployment or the need to take responsibility for one's welfare proved surprising to most of society as elements of an ideology which they felt to be alien.

One of the most important elements of the planned economy was its creation of artificially full employment. Under command structures, jobs were created based on demand rather than on any meritocratic criteria, and everyone was guaranteed some sort of work within the centralised economy. Unemployment was thus virtually unknown. Furthermore, as an employer and guardian of national welfare, ‘the State’ ensured everyone certain basic social security rights, including universal education, healthcare, paid holidays, and other related benefits. Although the quality of these services rendered is questionable by western standards, everyone could never the less rely on some sort of care provided for by the paternalistic state.

As the socialist system was artificially built on the premise of equality and on the principle of redistribution, class divisions typical of competitive capitalism superficially disappeared, replaced by a system of pseudo- equality as corresponding to similar levels of minimum income. The main fragmentation was the division between party *nomenclatura* and the masses, between the ‘ins’ of the socialist apparatus and the ‘outs’ of the opposition.

When socialist distributional society and income equality were replaced with capitalist competition, the effect was dramatic, disorienting the public and reeking havoc on the entire system of values based on a particular understanding of justice as something built on equity, consensus and interpersonal harmony within society, but as against the authorities.³⁰ The split of the post-communist society into winners and losers had an immediate impact on the reactions of the population, and as Weidenfeld has claimed,

²⁹ Golebiowski, J (1992). ‘Discussion’ in Foti, G. (Ed.) (1993). ‘The Future of Eastern and Central Europe in the World Economy: Proceedings of the Jubilee Conference’, *Papers for Hungarian Institute for World Economics*, Budapest, Institute for World Economics, p 156.

³⁰ Privatisation shows just how complicated the Polish attitude was towards creating capitalism- insider privatisation (vouchers given to workers) was chosen as the method to create capitalism without capital even though it was economically less effective than capital privatisation, but represented a more gentle and a more socially acceptable method of privatisation.

See Landesmann and Szekely. (1995). *Industrial Restructuring and Trade Reorientation in Eastern Europe*. Cambridge: Cambridge University Press.

Tiusanen, T. (1996). *Post-Communism and Capital Foreign Investors in Transition Economies*. NY: Commack, Nova Science Publishers.

Stark, D. (1994). ‘Przetwasowanie wlasnosci w kapitalizmie wschodnoeuropejskim’, in Hausner and Marciniak (Ed.) (1994). *ibid*.

“the gaining of national and personal freedom could not compensate for the loss of social security and the destabilisation of future perspectives.”³¹

In addition, Polish liberalism originated largely from the confrontation with socialism. When the enemy became the ‘state’, the opposition became liberal. Civil society was an emancipatory agent, containing no explicit program of political economy and rejecting everything having to do with the ‘state’ and its apparatus. According to Szacki, “the State was seen as an agent of all injustice and evil. Because communism abolished all classes, it just made one division obvious, the suspension of internal conflicts in the face of a common enemy. Liberalism became thus an anti- communist doctrine.”³²

Moreover socialist totalitarianism, based on the omnipresent state, in contrast to traditional dictatorship, changed the entire Polish social fabric and thus had more far-reaching and lasting effects. As Szacki observed, “communism made barren the soil on which the liberal ideology could grow, by a wholesale destruction of non-state sectors of the economy, circumscribing the initiatives of individuals and liquidating all associations and organisations that were independent of the state; everything referred to as civil society.”³³

The enduring legacies of the real socialist system were evident in all aspects of public life and in particular in the technocratic and rationalist attitudes and tendencies to search for complete, ready recipes and abstract systemic models. Corresponding to these psychological predispositions, was the predominance of distrust in group-mentality, contributing to a political culture where compromise and bargaining, all pivotal to ‘normal’ democratic politics were clearly absent.³⁴

Under the socialist system, the individual expected the understanding and support from society in confronting the omnipotent state apparatus, and social conformity and group rallying were not only acquiesced to, but even anticipated, defying the basic tenants of liberalism and disfiguring the cultural conditions necessary for the expansion of the spirit of capitalism.

Finally, socialism had left behind a profound disillusion with politics as morally corrupt and to be avoided by ‘respectable people’, contributing to a social pattern, typical of past behaviour, of disowning the government when it introduced difficult reform

³¹ Weidenfeld, W. (1995). ‘Introduction’, in Weidenfeld, W. and Altmann, F. (Ed.) (1995). *Central and Eastern Europe on the Way into the European Union: problems and prospects of integration*. Gütersloh: Bertelsmann Foundation Publishers, p 18.

³² Szacki and Kisiel (1995). *ibid.* p 73.

³³ Szacki and Kisiel (1995). *ibid.* p 65.

³⁴ Batt, J. (1991). *East Central Europe from Reform to Transformation. Chatham House Papers*. London: Pinter Publishers, p 45.

measures.³⁵ Society continued to reject any responsibility for government actions, instead isolating itself behind the protective shield of opposition and demanding immediate respite from the hardships encountered.

Past experiences with the symbiotic relationship between a paternalistic 'state' and rebellious population could not help but to reinforce the conviction that everything in the public sphere was negotiable if pushed far and extremely enough, and the social expectation that the new democratic governments would be responsive to its various postulates intensified in turn the pattern of making of direct demands on the 'state'. This pattern has remained a much more dominant form of Polish behaviour than that of actively searching for ways of adapting to the changing situation by either individuals or groups ultimately contributing to rent-seeking activities and delays in economic reform.³⁶

In sum, the emerging Polish society in 1989 was not a bourgeois civil society in the Lockean sense. The social habits learned under 45 years of socialist rule represented serious obstacles to the acceptance and internalisation of liberal, western democratic values, increasing the likelihood that disappointment and disillusion with capitalism would inevitably lead to social protest and policy reversals.

C. Ideas under transformation

Although Polish political culture has been undergoing profound changes since the beginning of the transformation, the legacies of socialism combined with elements of pre-capitalist traditionalism, fervent nationalism and devout religiousness, have remained evident in the dominant political culture³⁷. The relationships between citizens, the authorities and the system has displayed anti-liberal, anti-capitalist motifs, reflecting what Dahrendorf has called the "clock of the citizen."³⁸ On the whole, the elites accommodated more quickly to the ideological requirements of the market than the masses, and most ordinary Poles continued to espouse to the 'state'-based, etatist ideology, rejecting important elements of the Anglo Saxon tradition.³⁹ Entrepreneurship

³⁵ For more see Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Ed.) (1997). *The Polish Transformation from the Perspectives of European Integration, EU Monitoring*. Warsaw: Friedrich Ebert Stiftung, pp 150- 183.

³⁶ See Wilczynski, W. (1999). *Wrocie Panstwo Opiekuncze: czyli trudna droga Polski do gospodarki rynkowej*. Warszawa: Wydawnictwo Naukowe PWN.

Winiecki, J. (1996). *ibid*.

³⁷ S Wagstyl, 'Vices of economic nationalism raised louder in Poland', FT, 1999.

JK Bielecki, 'Liberalism bez liberalow', *Polityka* no 50 (2171), 12/12/98.

J Osiatynski, 'Nowy Jezyk', *GW* 26/10/01;

'Kto bedzie polskim Haiderem?', *Wprost*, 30/04/00.

³⁸ Dahrendorf, R. (1990). *Reflections on the Revolution in Europe: in a letter intended to have been sent to a gentleman in Warsaw*. London: Chatto & Windus.

³⁹ See Beksiak, J. (1996). 'On the Restoration of Capitalism in Poland', in Winiecki (Ed.) (1996). *Ibid*.

continues to be looked upon with suspicion, and the concept of privatisation has been smudged with negative connotations, as the ordinary Pole is still more concerned with protecting his jobs and the status quo, than with the profit and advancement incentives. For example, in privatised companies, like Steel Mill Ostrowiec or Tractor and Cable Factories Ursus and Ozarow, the workers have not even attempted to negotiate with their managers, instead going directly to the state apparatus to demand that their rights and privileges be respected.⁴⁰ (See below). Moreover, the most popular form of searching for employment remains striking in Warsaw in front of government ministries. Throughout the 90's and into the next decade, the public protests to stop the restructuring of SOEs, steel mills, coal mines, agriculture and state owned farms (PGRs) have reflected growing social frustration with the reforms and waning trust towards democratic institutions. Populist leaders have gained support along with distrust towards the established elites, with 2.78% of the voters in 1993 supporting the radical A Lepper of the Self- defence movement, rising to 40% of popular support in 99!⁴¹

According to sociologist Prof. Szacki, the Polish characteristics most detrimental to the development of capitalism have included, "passivity, indifference, inactivity and tendency to wait for or demand from the authorities to do this or that. Instead of actively solving problems, at the most, people in Poland get together to complain about the government or organise a blockade."

He continues arguing that the difference between the Poles and the Americans, for example, is that while it is not considered appropriate to complain in the USA, rather "the person who failed will be aware of the mistakes he made, in Poland the opposite is true. Someone who suffered a setback will be considered a martyr, proud of himself; because of - the Soviets, the special forces, the government, Balcerowicz...".⁴²

The population believes that it is the state's duty to provide them with job security, as well as access to public services such as health care and education.⁴³ Out of one hundred working Poles, 89% continue to receive welfare benefits and, in particular, disability

Polityka No 13, (2186), 27/03/99.

GW, 1-2/06/02.

GW 25-26/08/01.

See also *Gazeta Wyborcza*, *Wprost*, *Polityka*, various numbers and issues, June- July, 2003.

Wilczynski (1999). *ibid*.

The author conducted field work and carried out interviews with a representative sample of the population, in the urban center of Krakow as well as village, Jaworki 18-28 July, 2003.

The author also substantiates this claim by her own experiences of living and working in Poland.

⁴⁰ See *Wprost* 3/10/99.

⁴¹ *Wprost*, 26/09/99;

See L interviews with L Kolarska- Bobinska below and throughout this book on distrust and protest.

⁴² Interview with J Szacki, *GW*, 12/06/03.

⁴³ Public Opinion Poll, 'Social Diagnosis 2003', July, 2003.

pensions (which require a simple bribe to gain access to), maintaining that they 'deserve' these forms of government assistance, in spite of the costs imposed on the budget and regardless whether in fact they are truly eligible. According to the World Bank, in 2003, disability pensions account for 4% of Polish GDP, an indicator twice as high as in the developed nations; comparable to the second place Norway with 2.8% GDP.⁴⁴

The legacies of socialism combined with experiences of the 'state' giving into protest and buying social peace have reinforced the 'claim-staking' nature of public demands. In fact Polish society still dreams of a mixed economy, such as the Scandinavian model, believing mistakenly that it was something of a half- socialist system, combining the security of socialism with the wealth of free market capitalism. Von Beyme characterized this embrace of the market as " 'phony', because the majority of the people continue to long for a 'third way' ".⁴⁵ Moreover, social perceptions of capitalism are largely stripped down to the core concept of consumerism and based on aspirations towards instant gratification.

Finally, because, the basic source of social empowerment under the command system was one's position within the network of informal ties, little room was left for the development of meritocracy, making the adjustment to the new rules and expectations of the capitalism very difficult for individuals not feeling any responsibility for their actions. Thus while the *Homo Sovieticus* was expected somehow to automatically become the *Homo Economicus*, the psychological reactions of the population, shaped by past experiences, to the rise of a new system based on individual initiative were disturbing and profound.⁴⁶

⁴⁴ www.wprost.pl/ankieta

Wprost 17/08/03.

⁴⁵ Beyme, K. von (1996). *ibid.*, p 152.

⁴⁶ Winiecki, J. (1996). 'The Reasons for Electoral Defeat Lie in Non-Economic Factors', in Winiecki (Ed.) (1996). *ibid.*, p 85.

Thus, a key factor in shaping the mood of Polish society after 1989 was confrontation of expectations with reality.⁴⁷ The shock of moving from a relatively egalitarian system and a well-endowed social welfare network to a market based one with large income and wealth disparities, unemployment risks and other adverse side effects of capitalism led to profound public frustration with the entire course of the reforms.

Significantly, the policymaking style based on technocratic elitism, initiated by the early Polish elites and requires of successive governments to fulfil international obligations especially arising from EU integration, has increased social alienation and developed little capacity to mobilise the citizens. Tolerance and trust have thus been the most difficult concepts to learn in the new political culture (See chapter eight). In 1993, for example only 40% of the Poles trusted that the government would be able to create economic wealth under market conditions⁴⁸. The figure fell further to an astonishing 6% by 2003.⁴⁹ Ironically, the isolation of the political class from society became more and more pronounced as the reforms proceeded and none of the parties, with perhaps the exception of the Peasants, managed to secure the lasting support of a clearly defined group. In the words of Gadomski, “none succeeded in mobilising the ‘winners’ from the changes occurring in Poland.”⁵⁰

III. Institutions and Interests

In Poland, shock therapy and radical trade opening resulted in a highly negative popular response to the reforms, resulting in popular feelings of marginalisation and deprivation.⁵¹ Among the candidates for EU membership, Poland had the lowest standard of living prior to 1989, and subsequently when incomes fell even further at the beginning of the transition there was vast disappointment with the liberal reforms, as the promised successes failed to materialise.⁵² Moreover because of the large size of the country and the scale of problem sectors requiring restructuring the transition dilemmas were more exacerbated than in the other CEE countries. Soaring unemployment levels

⁴⁷ See Brabant, J. van. (1990). ‘Remaking Eastern Europe: on the political economy of transition’, *International Studies in Economics and Econometrics*, Vol 23, Dordrecht, Boston: Kluwer Academic Publishers.
(1993). *The New Eastern Europe and The World Economy: Eastern Europe after communism*. Boulder: Westview Press.

⁴⁸ Times Mirror Surveys (1991). in Beyme, K. von (1996). *ibid.*, pp 147-163.

⁴⁹ CBOS Opinion Poll 4-7 April, 2003.

⁵⁰ Gadomski (1996). ‘Journey’. *ibid.*, p 77.

⁵¹ See Frustration Has Many Faces, Warsaw Voice, 19/03/00.

⁵² Lower standard of living than the GDR, Czechoslovakia, Hungary or Yugoslavia, but higher than Rumania and Bulgaria. (statistic on the Baltics were not available).
See Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *Accession or Integration? Poland's Road to the European Union, EU Monitoring II*. Warsaw: Friedrich Ebert Stiftung.
Hausner, J. and Marody M. (Ed.) (1999). *Three Polands: The Potential for and Barriers to Integration with the EU, EU Monitoring III*. Warsaw: Friedrich Ebert Stiftung.

as well as polarisation of society between a minority of winners and the masses of losers, combined with increasing poverty and social deprivation led cognitive cultural shocks. Substantial output reductions accompanying restructuring process made unemployment levels soar in the early 90's, reaching 16.4% in 1993, falling in middle of the decade and increasing to 20% by 2002. Two generations of Poles had not know unemployment or the new insecurities that was associated with it. Coupled with falls in real living conditions, the traumas could not be more dramatic for the entire population as well as for those specifically affected, leading to disorientation on the macro- level of society as well as on the micro social level of groups and individuals.

Table 4.1 Poland's GDP growth and unemployment levels 1990-2000 in %

Years	GDP growth	Unemployment levels
1990	-11.6	6.5
1991	-7.0	12.2
1992	2.6	14.3
1993	3.8	16.4
1994	5.2	16.0
1995	7.0	14.9
1996	6.0	13.2
1997	6.8	10.3
1998	4.8	10.4
1999	4.1	13.1
2000	4.0	15.0
2001	1.0	18.0

Source: Yearly Statistics GUS, various years; Ministry of Labour and Social Policy

A. Institutions

J Beksiak defines institutions “as more or less formalised rules defining economic activity and its forms of organisation.”⁵³ In Poland, and other post- socialist states, the creation of institutions has required the parallel synchronisation of transition to a market economy and a democratic political system. As a result of this duality, it could be argued that no former system's change was burdened with the same problems of institution building. For instance, there was no need in post-authoritarian regimes to create offices to administer unemployment insurance or institutions for social security. The market has existed prior to the change of the regime and segments of civil society likewise survived the dictatorships.

In transition, the economic sphere alone required a far ranging set of diverse institutions, beyond the scope of this paper, to be created from scratch. This included various new agencies and administrative bodies such as an independent central bank,

OECD, EBRD, IMF, World Bank

⁵³ Beksiak (1996). 'On the Restoration'. *ibid.*, p 5.

privatisation institutions, consumer protection offices and other state bureaucracies responsible for the implementation of liberal market reforms.

In the political sphere, this entailed an end to the one-party monopoly characteristic of totalitarianism, giving way to competitive electoral law, independent parties and interests groups. Where interests had blended together under the socialist system, new divisions began to appear, and, as a result of democratisation and the newly established right of mass-organisation, a proliferation of political parties surfaced to compete with each other within the electoral system. The political vacuum left behind by the collapse of communism accompanied by new civic freedoms led to the emergence of previously marginalised interests onto the political arena, when 'politics as usual' began displaying the dichotomies of the emerging social order.⁵⁴

A.2 Political parties

A quasi-party system emerged paralleling the fragmentations within society itself.⁵⁵ The main boundary in this bi-polar system stemmed from the division between the former communist factions and the new Solidarity camp (the post- communists). Within this ideological axis, parliament was structured around a spectrum of parties, dispersed in orientations and programs ranging anywhere from nationalist Catholicism (ZchN, "S") to liberalism (UW, KLD), Social- democracy (SLD); nationalism (LPR, KPN), ethnic parties, peasant movements (PSL, Samoobrona) and other more functional groups (Friends of Beer Drinkers, for ex). The cleavages between these parties were characterised by centre- periphery conflicts, divisions between secularised society and clericalism, the urban centres and countryside and finally the cosmopolitans and the nationalists. Most parties represented nothing more than a mosaic of different ideologies and did not stand for any particular interests, with the exception of the Peasant Party. In fact, the western party model that classifies parties according to their left- right political orientations could not be applied to explain Polish party formation. In spite of their rhetorical proclamations, the differences in party programmes did not reflect any real articulation of social voice, founded on the conservative/ liberal demarcation, but were rather based on the ideological divide between the 'them' and the 'us'.⁵⁶ As a result, the

⁵⁴ See Wasilewski, J. (Red.) (1997). *Zbiorowi Aktorzy polskiej Polityki*. Warszawa: PAN, Instytut Studiów Politycznych.

⁵⁵ For more see Wasilewski (1995). 'Crystallization of Post-Communist Political Elite', in Wnuk-Lipinski, E. (1995). *After Communism: a multidisciplinary approach to radical social change*. Warszawa: Instytutu Studiów Politycznych PAN.

Staar, R.F. (1998). *ibid.*

⁵⁶ Słodkowska, I. (1997). 'Partie i Ugrupowania Polityczne polskiej Transformacji', w Wasilewski (Red.) (1997). *Ibid.*,

election campaigns were purely based on the distinction between the post-communist and post-solidarity factions on the one hand, and between personalities, on the other. If the political expression of the western middle class was liberalism, in the post communist order, the political expression of the transition process was what sociologist J Staniszkis has called “authoritarianism of the oligarchy controlling hybrid financial and communist structures, accompanied by the populism of petty producers and pauperised wage labour.”⁵⁷ Moreover, in Poland, where socialism eroded and a new system developed by corporatist negotiation between Communists and the opposition during the famous Round Table, participation in the political system remained weak.⁵⁸ NSZZ Solidarnosc (Labour Union) and R I Solidarnosc (Farmers Union Wing), the only legal opposition organisations allowed under the Communist party monopoly and both delegatised from December 1981, following the introduction of martial law, until April 1989, constituted the basis for the post- Solidarity camp. The double function of Solidarity strained its role, when the independent trade union movement was forced to reconcile its functions as defender of labour with performing the duties of government required of it after the first free elections. The initial unity of the Solidarity camp was thus quickly destroyed by what was accurately called the ‘War at the Top’. Between the spring and November of 1990, Solidarity disintegrated, further fragmenting the so-called, right- wing political scene and strengthening the reformed, post-communist camp, centred around the Social Democratic Alliance.

The deep divisions between the more liberally oriented wings of Solidarity and those more socially sensitive, brought to life by the 1990 Presidential election run-off between dissident Walesa and PM Mazowiecki, would never again be healed leading to the final splintering under the government of PM Suchocka. Suchocka had come to power with the help of Solidarity, but when her government did not act according to Labour’s wishes, the trade union went on strike and held repeated mass rallies.⁵⁹ Although in the spirit of the Polish Round-Table, corporatist tradition, a temporary agreement on wage controls had been reached between the government and the Solidarity trade union in the first months of reform. When this agreement began to fray and the reformist coalition under PM Suchocka refused to give into the Union’s demands for wage increases⁶⁰, a vote of no-confidence by the Union toppled the government.

⁵⁷ Staniszkis, J. (1995). ‘In Search of a Paradigm of Transformation’, in Wnuk-Lipinski (Ed.) (1995). *ibid.*, p 40.

⁵⁸ Beyme, K. von (1996). *ibid.*, p 131.

⁵⁹ See Balcerowicz, ‘Przeżyjemy to jeszcze raz’, in *Wprost* 24/10/99. *Planeta Demokracji*, GW, 27/06/00.

⁶⁰ Due to already highly strained state finances.

In the first seven years of transformation, 3 Presidents, 7 cabinets and 3 parliaments held power, demonstrating the instability of the political system. The splintering of Solidarity, combined with the proliferation of small, fragmented and weak political parties led to a situation characterised by J Wasilewski as “paralised pluralism”.⁶¹

B. Interests

Privatisation in transition created interests and gave them independence from the state, while democratisation provided them with an ability to channel their concerns. The winners and losers that suddenly emerged from the process joined the social groups of the former system in searching for power on the political arena.

Prior to 1989, Polish interest groups included the Church, the few legalised unions and other bodies representing established interests, including national academies of sciences, the peasants and the *intelligentsia*. As Kornai has written, this situation was somewhat different than a classic totalitarian system, because there were visible signs of an emerging civil society, but its dependence on ‘the state’ contradicted the nature of traditional democratic civic movements.⁶²

The private sector, a necessary foundation for capitalism, was made up of scattered small scale family agricultural holdings, small family undertakings in other branches, sparse private and joint-ownership firms; a highly fragmentary group hardly to be considered as an existent middle class.

The emerging Polish society in transition was less distributional and consequently more prone to social conflict than the former command system. The winners were made up of parts of skilled workers in the surviving industries, the new entrepreneurs and top civil servants who managed to keep their middle positions. The beneficiaries of the changes, including the moderately wealthy managers and professionals, the new ‘political class’ of politicians and policymakers plus many of the recently turned business people, had usually made their fortunes by taking advantage of the loopholes in the legal system. However while, according to Jasiecki, the market economy had brought out the emergence of these groups, “this new middle class was too small to be counted on for support of the reforms, because it lacked local capital, strong traditions, or coherence and unity, and because it was born in an atmosphere of growing social resistance to

⁶¹ Wasilewski, J. (1997). ‘Wstep’, w Wasilewski (Red.) (1997). *ibid.*, p 9.

⁶² Kornai (1992). *ibid.*

Szacki, J. and Kisiel, C.A. (1995). *ibid.*

liberal reforms.”⁶³ Paradoxically then only the ‘state’ could strengthen the Polish *bourgeoisie*.

On the other side of the social spectrum were unusually large segments of the losers of transition including lower rank employers, small entrepreneurs who had underrated the risks of capitalism, less-qualified and under-educated workers, village inhabitants with lower income brackets and farmers, pensioners, social income recipients, parts of the *nomenclatura* of the old regime, most women and some members of the intelligentsia and workers of the public sector.⁶⁴ The majority of those hurt by transition came from the villages, and without access to proper education and limited mobility in terms of both relocation as well as labour market opportunities, these groups have had little capacity to raise their living standards or significantly improve their base existence. Because unemployment and poverty had not hit all Polish regions and sectors equally, in addition to agricultural regions, according to the Commission, “the most important problems existed in the sectors of coal mining, iron and steel industry, defence, petrochemical industry and shipyards. Because of the regional importance of heavy industry, its transformation has entailed painful consequences for the eastern and southern regions of Poland”, which depend on them to a large extent.⁶⁵ Consequently, while some areas flourished with the new opportunities of capitalism, such as the Warsaw *voyvoidship*, others fell further and further behind contributing to the huge gaps in regional disparities.

All the literature on Polish society in the 90’s points to the gap growing between the highest paid and the lowest.⁶⁶ This contributed to the creation of a social vacuum between the wealthy upper classes and political elites on one side, the impoverished

⁶³ Jasiecki, K. (1997). ‘Organizacje Pracodawców i Przedsiębiorców w Polsce’, w Wasilewski (Red). (1997)., *ibid.*, p 174.

⁶⁴ Many women lost their jobs as a result of the transformation as the socialist system did superficially create gender equality (at least in the work place) and allowed women to secure work traditionally left to the male in conservative societies. The intelligentsia lost as a result of the state’s under-financing of the public sphere and dramatic income level decreases in relation to purchasing power for employees of sectors such as health care, education and other government bodies and agencies.

⁶⁵ European Commission (1997). *Agenda 2000: for a stronger and wider Union*. Brussels: EC.

⁶⁶ See for example Milic-Czerniak, R. (1998). *Gospodarstwa Domowe w Krajach Europy Środkowej: skutki przemian 1990-1995*. Warszawa: Wydawnictwo IFiS PAN.

Amsden, A.H., Kochanowicz, J., and Taylor, L. (1994). *The Market Meets Its Match: restructuring the economies of Eastern Europe*. London, Cambridge, Mass.: Harvard University Press.

Waller, M., Coppieters, B. and Deschouwer, K. (1993). *Social democracy in a Post-Communist Europe*. London, Portland, Ore: Frank Cass.

White, S., Batt, J. and Lewis, P.G. (Ed.) (1993). *Developments in East European Politics*. *ibid.*

White, S., Batt, J. and Lewis, P.G. (Ed.) (1998). *Developments in Central and East European Politics 2*. *ibid.*

World Bank (1994). *Poverty in Poland: an assessment in 2 volumes*. Washington DC: World Bank, 14 September.

underclass on the other, and, a missing independent, strong and organised middle class to fill the void.

While the beneficiaries had higher educational and income levels, more flexible occupations, urban dwelling and generally a more optimistic assessment of their personal financial prospects as well as the nation's situation, the opposite socio-economic factors characterised the losers. These factors were also reflected in the strong correlation between support and opposition to EU membership, with the most polarised groups in the early 90's, represented by the managers supporting the accession process and opening up of the economy, on the one hand, and the farmers, opposed to the reforms and further integration on the other.⁶⁷

In fact, an important aspect of the social changes going on in Poland has been how people have tended to perceive their material situation. In all the studies undertaken between 90-95'⁶⁸, the majority of the Poles claimed that their standard of living had fallen in connection with transformation. Even more surprisingly, the public began to romanticise the decade of the 80's, perceived as a time of social advance, when Party Chairman Gierek generously increased per capita income, while getting rid of some of the worst shortages of goods for consumption. (this 'miraculous' abundance in a shortage economy had been accomplished through massive foreign loans that the new governments after 89' would have to reckon with.)

Finally, one could not discuss the distinctiveness of Polish interests without at least mentioning the role that the Church has played as both a social organisation, gathering diverse segments of society, as well as a political group, often resorting to publicised pressure on the government in order to achieve its goals. From the formal hierarchy of the Polish Catholic Church to informal fractions represented by extremist groups such as Radio Maryja⁶⁹, the Church has been a formidable force to be reckoned with, actively engaging in politics on various levels. For example, thanks to a successful campaign led by Catholic organisations, abortion was made illegal in Poland from the onset of transition.

⁶⁷ See interview with W Serafin, leader of Farmers Unions, Wprost, 20/08/00.

Interview with sociologist M Marody, GW 4/4/01.

Szerbiak, A. (1998). 'Prospects for the Emergence of a Polish Eurosceptic Lobby', *paper prepared for Poland and EU Enlargement conference*, London: SSEES, 12 March, p 13.

⁶⁸ See Hausner, J. and Marody M. (Ed.) (1999). *ibid*.

⁶⁹ This Catholic radio station led by Father Rydzyk represents the extreme and marginalised segments of Catholic Poles, espousing to nationalist and populist rhetoric and using highly demagogic propaganda to criticize liberal governments' policies, ranging anywhere from EU integration, abortion, or the selling out of Polish 'treasures' to foreign capital.

B.2 Interest Representation

As far as interest representation and articulation are concerned, it was only in 1991 that institutionalisation began to emerge. In May of 1991, employers' organisations were made legal after being prohibited under the previous regime between 1945 and 1980 and again after 1983. These groups represented new players on the Polish scene, either non-existent in the planned economy or weak and disorganised due to their illicit nature, limited political power and social status. The Confederation of Polish Employers (KPP) became the most prominent forum for employers, gathering around it most managers of state-owned or newly privatised enterprises. In turn, the freshly created class of private entrepreneurs was represented by the Polish Confederation of Private Employers (PKPP), whose main goal became securing a basis for its existence next to the giant, and monopolistic, state-led KPP. On the labour side, three main unions remained active after the Round Table Agreements in 1989, with OPZZ (industry) and PSL (agriculture) representing the former communist party organisations and Solidarity Trade Union on the post-communist side.⁷⁰

None the less, according to von Beyme, the necessary division of labour between interest articulation (pressure groups) and interest aggregation (parties) was delayed because labour relations were underdeveloped. Trade unions did not bargain with independent enterprises of employers' organisations.⁷¹ Instead they both turned to the 'state'. Consequently, in the absence of precise legislation in the early days of reform, the process of interest articulation began to take place largely outside of the party system, limited to the ramified structures of administration. For example, because the notion of lobbying did not exist legally in the Polish political constitutional system until (2001), those groups espousing to use this form of influence, especially interests tied to the former system, did so outside of any legal framework, and, as a result, in an increasingly corrupt manner.

In 1994, following increasingly violent strikes and civic unrest, alongside the new *Pact for Entrepreneurship*, the *Tripartite Commission* was created as the basis for a corporatist system of interest representation and articulation. While some authors have claimed that the tripartite arrangements meant to serve as a pre-emptive strike to demobilise unions⁷², this is a statement is difficult to defend, and is an assertion based on the current environment within the Tri-partite Commission. The concept behind this

⁷⁰ See Jasiecki, K. (1997). 'Organizacje'. *ibid.*

Gardawski, J., Gaciarz, B., Mokrzyzewski, A. and Pankow, W. (1999). *Rozpad Bastionu: związki zawodowe w gospodarce prywatyzowanej*. Warszawa: ISP.

⁷¹ Beyme, K. von (1996). *ibid.*, p 144.

corporatist arrangement and dialogue between partners originated with J Kuron, at the time the Minister of Labour responsible for social policy, representing the more socially sensitive fraction of the Solidarity government. Till this day, Kuron remains one of the few trustworthy authorities with noble intentions, and while his original objective was indeed to strengthen social dialogue, in his opinion mistakenly neglected by the Balcerowicz liberals⁷³, the evolution of the Tripartite Commission regrettably led to its paralysis and increasing politicisation.⁷⁴

In 1993, hence, in accordance with Kuron's endeavour to give liberalism a human face, the 'state' became the mediator in complicated triangular negotiations between itself, the powerful unions on the one side and the fragmented and weak employers' organisations, on the other. However, while the idea of corporatist negotiations is highly desirable in a situation where labour unions and public support for them are strong⁷⁵, due to the corporatist tradition of Solidarity and the Round Table Negotiations as well as deeply rooted 'real socialist legacies and experiences of workers councils in the 1950's, the late legalisation of this system of interest mediation in the Polish transition meant that it was created in an atmosphere of political chaos⁷⁶, making the entire environment highly susceptible to corruption.⁷⁷ Corruption has been particularly evident in the privatisation process or the staffing of various government agencies and institutions.⁷⁸ For example the privatisation of health care, postal services, banks, energy sector, insurance, pension funds or the pharmaceutical industry all were subjected to various buy- offs, insider dealing and appointments based on nepotism.

⁷² D Ost

⁷³ Various press interviews with Kuron;

Interview with J Lassota, former Solidarity activist, UW founding member and later MP and close colleague of Kuron at time of the reforms. 12/06/02

Interview with T Syryjczyk, another former Solidarity/ UW activist and MP, former Minister for Transport, worked closely with Kuron. 13/02/01.

'Zimne piece, ciepłe piwo', in GW 1-2/06/02.

⁷⁴ See J Osiatynski, 'Siła przyciągania', in GW 4-5/03/00.

⁷⁵ The above description of labour union strength in Poland in the early 90's, at the beginning of the reforms, is not meant to imply that the unions have not lost their many of their privileges or faced decline in their position of power as the reforms proceeded (as has been validly pointed out by most experts).

⁷⁶ 1993 was the year when internal divisions within the Solidarity camp finally made the coalition of the diverse post-communist grouping fall apart. The Solidarity unions voted their own government out of power, bringing in the former Communists as the next electoral winners.

⁷⁷ This is not to say that the Unions themselves were corrupt, but rather that the initial lack of legislation as well as later radicalisation of the Unions made the work of the Tri-partite Commission highly ineffective, and so made other, less transparent forms of 'rent-seeking' more attractive.

See Interview with Minister of Labour L Komolowski, Wprost, 31/10/99;

'Dialog Monologow', in GW 13/08/99.

'Halo Baza', in Polityka no 22 (2195), 29/05/99.

⁷⁸ See Rywin-gate, Starachowice or the privatization of Elektrim for particularly good examples. , W Wilczynski, 'Centralizm ma sie dobrze', in Wprost 24/10/99.

The paradox of Solidarity's political and symbolical strength contributed to the development of this corporatist element. On the one hand, the mass Solidarity movement prior to 89' opened the road to peaceful systemic transformation and created an umbrella for the initiation of radical reforms. On the other, this meant that strong Labour aspirations, at first ignored and later radicalised as a result of the early neglect, subsequently became a convoluted barrier to market reforms. State policies on privatisation and liberalisation of economic activity have, turn, become overwhelmingly contested by the Polish public, in support of the unions. Delays in reform began to appear in restructuring of the steel, gas and oil sectors, sugar industry, public transport and especially the train services (PKP), agriculture, coal sector, health care and defence sectors. According to the Pentor Public Opinion Survey, the majority of the Polish public in 1999, for example, supported the coal sector strikes, even if violent, and backed their demands; with 54% of the Poles feeling that coal miners should receive higher compensation than workers in other industries.⁷⁹

Consequently, evident policy reversals and delays appeared in response to strikes in the health care, agricultural and particularly the sugar industry, defence, railway, energy and chemical sectors. Excellent and illustrative examples of these policy shifts in reaction to protest include Ursus, Stocznia Gdynia, Stocznia Gdanska, Szczecinska, Huta Jednosc, Fabryka Ozarow, Tormies, farmers at Mlawka and Rafineria Gdanska.⁸⁰ In the summer of 2003 alone, union strikes at Szczecin Shipyard, Cable Factory Ozarow, Huta Ostrowiec and Wagon SA all led to changes in government policy. The ability of the Unions to affect government policy has come from their radicalisation and increasing frequency of protest as more institutionalised forms of social dialogue failed and social agreements were not implemented consistently. (See below). This situation reinforced the uninstitutionalised nature of interest representation and domestic negotiations, contributing to the dysfunctional characteristics of the Polish social- state partnership and of the emerging corporate system.⁸¹ Thus while corporatism resulted from a model of collective labour relations, a Polish industrial relations and political

⁷⁹ Gwozdz w koronie, in Wprost Pentor- Instytut Badania Opinii I Rynku SA, 22/10/99.

⁸⁰ See 'Zimne Piecie Ciepłe Piwo', GW 1-2/06/03;

'Stan Chroniczny', in GW, 12/04/00.

'W slaskim kotle', in Polityka nr 23 (2196), 5/06/99;

'Smak cukru', in Wprost 2/04/00;

'Odprowa gornikow', in Polityka, nr 4 (2177), 23/01/99;

'W ramionach Leppera', in Polityka nr 15 (2188), 10/04/99;

'Sojusz Przeciwko postepowi', in Wprost 28/02/99;

Koalicja przeciw rynkowi', in Wprost 26/09/99.

⁸¹ Gardawski, J (1999). 'Czlonkowie i zakladowi liderzy zwiazkow zawodowych', in ISP. (1999). *Rozpad Bastionu*, ibid

negotiations tradition⁸², and was in itself a positive development for democracy, the style of this institutional arrangement's implementation reinforced its clientalistic characteristics, leading to, in the words of current Economy, Labour and Social Policy Minister and academic J Hausner "the pathological politicisation of the public administration."⁸³

Policy-formulation has not been made according to institutionalised negotiations and transparent agreements reached between social partners. In addition, agreements made were not kept due to international constraints, such as obligations arising from the implementation of the Europe Agreement. As a result, successive government policy formulation has revolved around crisis management and ad hoc responsiveness to the loudest domestic pressures and most threatening strikes; which grew in strength proportionally to the broken promises of 'the state'. Labour has been at the forefront of these domestic protests, able to effectively mobilise frustrated workers to mass rallies and uninstitutionalised forms of rent- seeking.

In Poland, the late development of market capitalism can also explain why the employers/ business organisations have remained weak and unable to effectively balance Labour. Even though Balcerowicz originally backed employers' organisations over unions, the structural weakness of the private sector in the transition economy, dominated by large public enterprises, has remained an ineffective institutional balance. Business has possessed inadequate political power, and while the strength of the unions did relatively decline throughout the 1990's, with the privatisation process causing membership to decrease, they did manage to secure for themselves certain legislative rights, such as opinion- making; a privilege not extended to employers' organisations.⁸⁴ Moreover, Unions have remained particularly strong within the Parliament. For example, during the 1997-2001 AWS/UW government, Marian Krzaklewski, leader of Union 'NSZZ' Solidarnosc, was, with the support of the Solidarity faction of AWS, able to significantly affect legislation and policy making.

GW, *Wprost*, *Polityka*, *Rzeczpospolita*; various issues and numbers.

⁸² See 'Blokady, szance, stoly', in *Polityka*, nr 13 (2186), 27/03/99.

⁸³ Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *ibid.*, p 137.

⁸⁴ See Institute of Public Affairs, (1999). *Rozpad Bastionu*, *ibid.*

Morawski, W. (1995). 'Stosunki przemyslowe w postsocjalistycznej polsce', in Hausner (1995). (Ed.) *ibid.*

'Zwiazkokracja', in *Polityka* nr 50 (2171), 12/12/98;

'Blokady szance, stoly' in *Polityka*, nr 13 (2186), 27/03/99;

'Sila Przyciagania', GW, 4-5/03/00;

Wrazliwosc Liberala, *Wprost*, 31/10/99;

'Dojrzewanie do dialogu', GW 5/06/01.

According to the legislation passed on labour unions beginning in 1993 and later, employers in Poland are required to pay union activists and leaders salaries proportionally to the numbers of union members in the organisation and give them access to appropriate facilities and technical equipment to carry out their activities. An employer cannot make workers, who are union board and organisation commission members, redundant without agreement from the union and cannot change their status and pay during the entire time of their mandate as well as a full year afterwards. Various legislative acts limit employers rights and allow labour to delay or stop reforms, especially with regards to restructuring, liquidation and labour market policies. The *Teachers' Card*, *Fund for Worker's Social Guarantees* or *popiwek* statues represent good examples of this.

In addition, employers and business lobbies have internally remained highly fragmented and not organised, thus having little ability to mobilise public support.⁸⁵ Because they have not conducted their lobbying activities through huge public events of collective protest, their campaigns have been less politically visible than Labour's, and therefore less effective in affecting public opinion and gaining popular support. In addition, the rivalry between KPP and PKPP has made speaking out with a unified voice and one clear position strenuous, further adding to the ineffectiveness of their lobbying activities. Finally, because there was so little understanding or knowledge within society of the purpose of these employer organisations, membership amounted to a low 22% of Polish businesses.⁸⁶ This was partly due to a suspicion amongst entrepreneurs as to any centralised administration, compounded by the anti-capitalist political culture dominated by sympathy towards the unions and an unclear legal framework protecting employers' rights.⁸⁷ Former Minister of Privatisation J Lewandowski observed that, "without a doubt, the uniqueness of Poland has been well-organised labour, both in unions and in local workers' councils. This has been accompanied by weak representation of other interests, particularly of employers' organisations, of export-oriented producers and business lobbies and consumers."⁸⁸

Because of the late development of social dialogue and increasing strains placed upon various governments to carry out international obligations, the framework for interest

⁸⁵ Sobczyk, A. (1995). 'Organizacje pracodawców i przedsiębiorców w okresie transformacji ekonomicznej', in Hausner (1995) (ed.). *ibid.*

Dzwonczyk, J. (1995). 'Funkcjonowanie i rozwój organizacji pracodawców', in Hausner (1995) (ed.). *ibid.*

⁸⁶ Jasiecki (1997). 'Organizacje'. *ibid.*, p 177.

⁸⁷ See 'Musi dialog, a nie dyktat', in Trybuna, 14/02/01.

⁸⁸ Lewandowski, J. 'Prywatyzacja polskiej Gospodarki', w Gawlikowska- Hueckel, K. (Red.)(1999). *Polska- Unia Europejska: Problemy prawne i ekonomiczne*. Gdansk: Uniwersytet Gdanski, p 155.

representation that has been evolving in Poland has been inadequate to balance the various factions. Slodkowska labelled the new system of articulation as “early developmental”, marked by an “underdevelopment of different typologies, a division of roles not typical of western institutional systems, incorporated into weak and rudimentary institutions and accompanied by a political class not functioning normally with interests representation.”⁸⁹ The radicalisation of unions has been reinforced by early technocratic policy making in combination with external constraints on social dialogue, leading to a paralysis in the work of the Tripartite Commission. Promises made to workers by successive governing coalitions have not been kept, leading to the polarisation of their demands and making the ‘voice’ option of strikes and blockades more attractive than institutionalised dialogue.

Ironically, the losers of transition that have not belonged to the unions have had little if any ability to voice their interests. This situation further undermined the ability of the poorest segments of the population to make their voice heard or articulate their interests, contributing to the emergence of diverse populist pressure group representing the frustrated lower class and calling for collective protest against ‘the establishment’.

Finally, the institution of the ‘state’ itself has been subject to redefinition as the transition has progressed. (See chapter eight). The social problems associated with the reforms have created serious dilemmas for subsequent Polish governments, faced with the need to balance market policies with social sensitivity, as increasing inequalities, unemployment and poverty led to popular discontent. The various strategies employed to ameliorate the social situation paradoxically provoked further problems⁹⁰, increasing the transaction costs of the reforms. By 93’ already, public belief in the benefits of the market was on a drastic decline, and the ‘state’s’ role was becoming increasingly hazy. Caught between controlling elites, both national and international, and growing social pressure and increasing domestic demands, the Polish ‘state’s’ capacity to govern was ultimately depleted, and the weakness its institutions strengthened the emergence of protest and corruption as the most popular forms of interest articulation, destabilising the entire systemic transition.⁹¹

C. Civil Society

According to Wasilewski,

in the most abstract sense, civil society can be conceived as an aggregation of institutions whose members are engaged primarily in a complex of non-state activities,

⁸⁹ Slodkowska, I. (1997). ‘Partie’. *ibid*, p 10.

⁹⁰ Such as growing indebtedness of State Owned Enterprises and rising public/budget deficit.

⁹¹ Ekiert, G. (1998). ‘Legacies’. *ibid*.

*economic and cultural, and who in this way preserve and transform their identity by exercising all sorts of pressures or controls upon the state institution.*⁹²

Central thus to the concept of civil society is the distinction between the 'state' and society. Civil society is a domain of mediation; an attempt by the public to control the 'state' and ensure its accountability to the people. Furthermore, under normal democratic conditions, civic disobedience is acceptable when the actions of the authorities deny the interests of the public at large.

In the classical western paradigm, civil society becomes gradually identified with commerce and industry, resulting in a diversification of interests. Nongovernmental organisations and other civic groups add to this growing pool of interests, resulting in the creation of a social foundation for democracy. Thus, gap between the 'state' and the market, between politics and economics is filled by interests.⁹³

This chapter has shown that in the early 90's, civil society in this traditional western sense did not yet exist in Poland.⁹⁴ Attempts at its creation became what the author would label 'forced pluralism'. The elitist notion that one could design civil society proved to be something of an over-simplification. The Polish liberals, as discussed in the previous chapter, felt that their mission was not only to construct a new political and economic system through legal and other administrative actions, but also to transform the entire social fabric, from one grounded in socialist realities to one flourishing within the market. The goal was consequently not only to initiate policy reform, but to contribute to the creation of a whole category of people, benefiting from the market, who would then consolidate the changes.

The liberals, led by Finance Minister Balcerowicz, believed that the market would somehow automatically generate civil society, and was as such the basis for democratisation. Balcerowicz's priorities were clear. First 'build' a market, through liberalisation and deregulation of economic life, and then let the invisible hand give birth to civil society, thus consolidating democracy. The economy was to generate new social structures and related interests, and the role of elites was to safeguard the market.⁹⁵ As such, pluralism was paradoxically to develop on the basis of elitism. The absurdity of the constructivist social experiment wasn't however lost on all the reformers. According to I Pankow, certain wings of the Solidarity governments

⁹² Wasilewski (1995). 'Crystallisation'. *ibid.* p 182.

⁹³ Wasilewski, (1995). *ibid*

⁹⁴ Morawski, W. (1992). 'Economic Change and Civil Society in Poland', in Lewis P.G. (Ed.) (1992). *Democracy and Civil Society in Eastern Europe*. London: Macmillan.

⁹⁵ Balcerowicz (1999). *ibid.*

questioned Balcerowicz's assumptions from the very beginning. The crucial and decisive moment, when a different social philosophy could have been adopted, occurred during the 'War at the Top', between the various elite factions of Solidarity, in 1990. Pankow observed that this was one of the most important times in transition when pluralism could have taken root.⁹⁶ Although there was supportive intellectual climate for the creation of a role for conflict in policy making, a divisive line formed between the liberals, who supported the notion of politics based on conflict, negotiations and compromise, gathered around former dissident T Syryjczyk, and those, under Balcerowicz's wing, who felt it was sufficient to only 'provide the people with strong leadership' and the market would take care of the rest.⁹⁷

The elitists felt that the tempo and direction of the reforms had been appropriate, and that society would be patient, while the pluralists questioned the successes of shock therapy, pointing to the growing frustration of the public, and arguing for change in the reforms. Moreover, as Pankow pointed out, "the elitists interpreted pluralists as giving into particular interests at the cost of the overall good, while the pluralists wanted conflict to generate social involvement and accused the elitists of alienating society."⁹⁸

The rhetoric of this 'War at the Top' cumulated in the presidential elections in the fall. President Walesa, supporting the pluralist ideology, criticised PM Mazowiecki and his camp for their betrayal of society, maintaining that reforms should take into consideration the social costs of transformation. Mazowiecki, on the other hand, aligned himself with the Balcerowicz faction, endorsing the elitist blueprints for civil society. Ironically, although Walesa defeated Mazowiecki, the new President soon reneged on his election promises, continuing reforms in the spirit of elitism.⁹⁹ This development set the groundwork for future evolution of the state-social relationship in Poland (see chapter eight).

Although, Solidarity had evolved from a movement of people demanding justice, once it turned into a political party with trade union interests to defend, the civic and libertarian aspects of its programme vanished. Thus the civil society, as represented by the Solidarity movement, that had brought down the socialist system was consequently little more than an initial impulse for transformation.¹⁰⁰

⁹⁶ Pankow (1995). 'Narodziny'. *ibid.*, p 249.

⁹⁷ Interview with J. Lasota, Former *Solidarity* activist, MP of Freedom Union, President of Krakow. 12/07/2002.

⁹⁸ Pankow (1995). *ibid.* p 250.

⁹⁹ See chapter three

¹⁰⁰ Beyme, K. von (1996). *ibid.*, p 141.

In the first days of reforms, the Solidarity elite broke with the illusions of market socialism, still espoused to by the majority of the public, embracing instead a radical package of free market capitalism. This decision was taken without public discussion (for more see chapter three), and while society continued to expect the trusted elites to ensure the basis of its existence, the economic and political reforms instigated contradicted these hopes. J Federowicz argued that, “the first Solidarity governments committed the cardinal error of not explaining how capitalism works, its reasoning, to society.” Instead the government resorted to emotional pleas for individuals to accept short- term sacrifices for the long term good of the nation. Polemicalising, Federowicz concluded:

*When normal times would return, not only would there be no need to appeal for dedication and solidarity, but this would be even wrong, since life in a democratic society is a continual game of opposing interests, and all attempts to create a system based on the principle that man will sacrifice himself for others have invariably ended in the greatest crimes in the history of humanity!*¹⁰¹

C.2 Pluralism or elitism?

The intensification of social conflicts that took place after the initial protests in 1990-91 suggested that the pluralist model propagated by the liberal elitists was not gaining wide acceptance in the Polish public, and national civic culture was not fulfilling the conditions characterising competitive capitalism and liberalism. There were no well-organised social partners, nor was there a strong ‘state’. Instead, society perceived this elite endeavour at creating the pluralist model as “an attempt to forge wild capitalism, in the name of creating a middle class and free market.”¹⁰²

What the liberals failed to appreciate none the less is that market incentives alone do not change the behaviour and expectations of society. What was in fact needed was a much more active role for the ‘state’, in combination with a transparent regulatory and institutional environment.

Social disillusionment with the liberal model of transformation led to mass protests in the summer of 92’. In 1993, 7436 strikes took place, amounting to what could be called a semi counter-revolution.¹⁰³ The elites, unable to stop the flooding of civil unrest, were forced to reconcile their beliefs in the spontaneous rise of civil society with Polish realities. Consequently, in 1994, a new phase of policy making was launched, aimed at institutionalising interest groups in a corporate model based on negotiations. *A Pact for*

¹⁰¹ J Federowicz, (1996). ‘Capitalism- The Ugly Duckling’, in Winiecki (Ed.) (1996). *ibid.*, p 128-130.

¹⁰² Jasiecki (1997). *ibid.*, p 182.

¹⁰³ *Wprost* 3/3/02.

Entrepreneurship was signed with business, and the *Tripartite Commission* began functioning. The pluralist model had failed to take root in Poland and labour, initially ignored, as a result of its growing radicalisation, would now be over-privileged.¹⁰⁴ To their dismay, the Polish elites realised that there was no automatic way to create a middle class or a civil society based on deregulation of the economy and political decrees. As a result, contradicting the notions of economic liberalism, the intelligentsia rather than the new middle class remained the backbone of the reforms in Poland. Moreover, because the partners in the *Tripartite Commission*, as discussed above, did not possess equal powers, it became increasingly difficult for the 'state' to act as an arbitrator between them, and the corporatist model that was being created, emerged already dysfunctional. Thus, in spite of corporatist rhetoric, the elites continued to govern by technocracy, convinced that society was immature and interests underdeveloped. As L Mazewski concluded, "the Polish reforms continued to have the character of a programme imposed by the ruling elites and carried out by the state bureaucracy, a programme which the citizen does not understand and in which for this reason he did not participate as an individual- a Polish version of Thatcherism."¹⁰⁵ Hence, while the economic and political systems were being rapidly altered and transformed from above, social consciousness lagged far behind, constituting the main obstacle to the systemic reforms and the main danger to the transformation.

Conclusion

In 1991, at the time of the negotiation of the EA, the Polish economic situation was marked by a continuation of old tendencies from the planned economic system, violent fluctuations caused by shock of 89-90, as well as trends produced by internationalisation and liberalisation of external economic and political relations. R Dahrendorf correctly observed that the heart of the problem lied in the "incongruent time scales of the political, the economic and the social reform."¹⁰⁶ The political legacies of the early reforms led to contradictory tensions and pressures within the Polish transition, contributing to policy fluctuations, modifications and even reversals. Thus even though the radical changes of 1990 moved Poland rapidly away from command structures and towards the transition to market, and hence were necessary,

¹⁰⁴ The Unions are over-privileged in the Tripartite Commission not only by having greater financial backing from the state than the employer groups, but also being co-financed by the employers. They are better organised, and, while, not formally given any real legislative-making authority, they are capable of stopping the government from taking numerous legal decisions, by using their opinion-making rights in combination with threats as to new laws and regulations.

¹⁰⁵ Interview with L. Mazewski, *Przegląd Polityczny* 1992, No 3 Vol 16, p 11.

¹⁰⁶ Dahrendorf, R. (1990). *Reflections on the Revolution in Europe: in a letter intended to have been sent to a gentleman in Warsaw*. London: Chatto & Windus.

they were in and of themselves not enough to ensure the sustainability and consolidation of democratic capitalism.

While this chapter has focused on Polish domestic politics, discussing the environment in Poland in which the transition reforms were initiated, the remainder of this thesis examines how an international regime such as the Europe Agreement can enhance reform credibility under these types of conditions. The author argues that the attempts to reconcile a neoliberal doctrine, such as was the basis for the EA, with political realities in Poland, have led to the reinforcement of habits and social inclinations that had developed under a completely different systemic rationality.¹⁰⁷

In fact, 'anchoring' strategies for transformation, with their over-reliance on the role of external conditionality and internal technocracy, have paradoxically contributed to strengthening these tendencies, at once weakening the 'state' and the democratic impulse, and making the government increasingly dependent on external factors for policy sustainability.

Policy reform in Poland, based on the simplified version of the neo-classical model and premised on the notion that somehow economic agents in Poland would simply adjust to the rules of the market did not resolve the lingering problem of social exclusion from and consequently outright hostility towards the reforms.

In the words of sociologist G Skapska,

*the technocratic reforms and elitism have posited another passive adjustment, this time to the conditions imposed by a new and still external systemic order, reinforcing the old normative pattern of passivity with most economic actors waiting for directives from above. 'They', the elite, have respond by means of laws linked with this model of development, and again society is passive.*¹⁰⁸

Moreover, if the basis and *sine qua non* of liberalism are civil rights, and to limit these rights is to limit the participation of citizens in political life for the price of achieving the desired economic goal. The author thus concludes that the technocratic attempts to enhance reform sustainability through external anchoring strategies and top- down policy making, while not ill- intentioned, did endanger the development of participatory democracy, paradoxically going against the very essence of liberalism and contradicting the main premises of the transformation to market capitalism. These strategies for policy reform have encountered something of a conceptual crisis in Poland, as the

¹⁰⁷ See Marody, M. and Gucwa-Lesny E. (Ed.) (1996). *Podstawy Zycia Spolecznego w Polsce*. Warszawa: Uniwersytet Warszawski. Instytut Studiów Społecznych.

Skapska, G. (1994). 'Reforma Ekonomiczna i Kształtowanie się Porządku Instytucjonalnego w Polsce: Dziedzictwo przeszłości, mity i wizje przyszłości', *Przegląd Socjologiczny*, Vol.XLIII.

Sztompka, P. (1999). *Impoderabilie Wielkiej Zmiany: mentalność, wartości i więzi społeczne czasów transformacji*. Krakow: Wydawnictwo Naukowe PWN.

assumptions on which they have been founded have given inadequate emphasis to local conditions and attitudes, far from the idealised free market.

¹⁰⁸ G Skapska (1995). 'Prisoner of the Paradox'. *ibid.*, p 42.

5. Economic Consequences of the Europe Agreement

The negotiation of the trade agreement between Poland and the EU in 1991 was an example of enlightened self-interest on the part of the Union. In spite of widely proclaimed praise of liberalism, EU negotiators secured considerable protection of EU markets and limited market access for so called sensitive goods; access critical for Polish exporters.¹

If the previous chapters set the domestic background for policy reform in Poland, this one takes a look at how external factors within the implementation of the EA have affected economic developments in Poland, influencing the economic, political and institutional environment of the transition. Negative externalities associated with greater economic openness such as a staggering trade deficit, deterioration of national industry, rising unemployment or an unfavourable commodity structure of exports can slow down the speed and the direction of reform. Openness of international markets on the other hand can provide incentives and 'rewards' to pursue difficult economic decisions, giving the elites in the reforming country additional time to secure internal political support and build social legitimisation. The pursuit of regional integration with the EU, within the framework of the Europe Agreement, was thus to provide Poland with access to markets, increased investment and financial aid, stimulating economic recovery and enhancing policy credibility through the so-called 'anchoring' effect of international institutions.

The author will argue that in the economic dimension, the Agreement fell short of fulfilling its goals. In fact, rather than benefiting the Polish side though the asymmetric schedule for trade liberalisation, based on the notion that the weaker associated partner would be allowed a longer time frame to open up its economy, the EA turned out to be more advantageous for the Union. The political objectives of aiding transition through the stimulation of export-led growth and promises of encouragement for the difficult internal reforms were quickly overtaken by narrow interest-based considerations within the Union itself, leading to wide discrepancies between the declared goals of the EA and its actual implementation.

I. The Europe Agreements and Transition

Because transformation has proved to be a complicated process, involving immense social, political and economic costs, the role of the European Union as an external actor was crucial in buttressing the process and pivotal in ensuring the success of the reforms

in Poland. The simultaneous reorientation of trade patterns towards the European Union while undergoing domestic economic restructuring created an acute dependence for the Polish reforms on relations with the EU, and made Poland particularly susceptible to changes in the terms of trade with the Community.

Initially it was recognised that association with the Union would encourage the development of some domestic sectors and the decline of others. However apprehensions remained within some policy circles in Poland that an overly rapid market opening could lead to unacceptable economic and social costs, possibly enticing trade policy reversals and backsliding on the reforms. Moreover, it was feared that this type of regional integration as opposed to multilateral agreements could create an artificial bias towards EU markets, making Poland overly dependent on business cycles in the Union and hampering the development of intra-CEE trade or the pursuit of third markets.

Thus to avoid contributing to this trade diverting effect of regional integration², it was important for the member states of the Union to offer various incentives to Poland including freeing market in agriculture and sensitive products, and as A Winters argued, “accepting large volumes of goods for two to three decades to ensure that the CEE were able to realise their trade potential.” If the aim of the EU was to help cement the political and economic reforms in Poland, and, in the words of Winters, “to support the Polish candidate in its progress to new market institutions and levels of affluence, then the most significant tool the EU could use was trade concessions in the form of generous and asymmetric market liberalisation.”³

A. Unfounded optimism

In the wake of the 1989 Polish round table revolution, confidence in the future and general enthusiasm for the changes taking place in the former socialist states led to an underestimation of the difficulties to be encountered during transition in the coming years. It was hoped that CEE would quickly get out of recession to hit growth rates of 5-

¹ Stewarska, R. (1998). ‘On Some Consequences of the Eastern Enlargement of the European Union’, in Zielinska- Glebocka, A. and Stepniak, A. (Ed.) (1998). *EU Adjustment to Eastern Enlargement*. *ibid.*, p 162.

² See Wysokinska, Z. (1994). ‘The Association Agreement Between Poland and the EC: the directions of trade liberalization’, *Osteuropa Wirtschaft*, Vol 39, No 1, March.

Baldwin (1994). *Towards an Integrated Europe*. *ibid.*

Kawecka-Wyrzykowska, Synowiec (Red.) (2001). *Unia Europejska. Przygotowania Polski do członkostwa*. Warszawa: IKiCHZ.

Viner, J. (1950). *The Customs Union Issue: Studies in the administration of international law and organization*. New York: Carnegie Endowment for International Peace.

³ Winters, L.A. and Wang, Z.K. (1994). *Eastern Europe's International Trade*. Manchester: Manchester University Press, p 29.

6% a year and that the openness of world markets to their exports would contribute to this recovery.⁴

However, because Western Europe itself was grappling with an economic recession, the already difficult political economy process of granting far-reaching trade privileges to third countries was further complicated. The unbound optimism as to recovery in the East combined with economic slowdown in the West could, according to T Palankai, explain the modest concessions offered to the candidates, first within the General System of Preferences and later in the negotiations of the EAs.⁵

During negotiations of the EA, the Polish team was concentrating on the political issues, namely stabilising the domestic policy making process and increasing security, initially not taking technical or economic interests into consideration, under the naïve assumption that political will in the Union would certainly win over any narrow economic interests. The negotiators presumed that the Communities would grant the Polish government unconditional market access for its exports as well as other concessions on the free movement of workers, capital and services. It was only during the subsequent rounds of the negotiations that the Polish side began to understand the complex process of arriving at Common Commercial Policy decisions within the Union itself and the enormous political and economic obstacles that stood in the way of the Commission giving into Polish arguments and consenting to grant bigger preferences in the interest of the candidate.⁶ Mayhew commented that, “the negotiations relatively rapidly became hard-nosed trade bargaining in which the Community side had relatively clear objectives of what it wanted to get out of the negotiations.”⁷

The Polish government was under tremendous pressure to conclude the negotiations as quickly as was possible, due to the ongoing needs of the transition process as well as to the expectations of the public. However, already during the early rounds of consultations, differences were obvious as to the free flow of labour, membership aspirations, and trade in textiles, steel and agricultural products. While the Polish

⁴ Collins, S. and Rodrik D. (1991). *Eastern Europe and the Soviet Union in the World Economy*. Washington DC: Institute for International Economics.

Brabant, J. van. (1999). *Remaking Europe: the European Union and the transition economies*. Lanham, Md.: Rowman & Littlefield Publishers.

Bruno, M. (1994). ‘Stabilisation and reform in Eastern Europe: A preliminary evaluation’, in Blanchard, O.J., Froot, K. and Sachs, J. (1994). *The Transition in Eastern Europe. National Bureau of Economic Research Project Report*. Chicago: University of Chicago Press.

⁵ Palankai, T. (2000). ‘The Europa Agreements from the perspective of CEE’, in Dijck, P. van and Faber, G (Ed.) (2000). *The External Dimension of the European Union*. The Hague: Kluwer Law International.

⁶ According to member of the Polish negotiations team, plenipotentiary and Secretary of State for European Integration, J. Saruysz-Wolski, in discussions with author. See chapter six

⁷ Mayhew, A. (1998). *Recreating Europe: the European Union's policy towards Central and Eastern Europe*. Cambridge: Cambridge University Press, p 22.

negotiators were aware that the concessions granted under the EA were not enough, especially in sensitive products, the need to conclude an agreement on a FTA with the Community in the window of opportunity available proved stronger than the desire to obtain optimal conditions for Polish goods, services and workers.⁸

Assessments of the Europe Agreement differ. According to one opinion,

*the insistence of the Community on treating the sensitive sectors much less liberally, even though these were the sectors where the three countries could most easily export in order to finance the reform, showed that the Agreements were not aimed at helping them over the difficult second stage of the reform, where public support was bound to weaken.*⁹

Deciphering the EC's motives for limiting the asymmetric nature of the trade liberalisation, Winters and Wang claimed that "the EC has sought to encourage and support the nascent democracies in the east, but too often its good intentions have been undermined by powerful interest groups at home. It has granted concessions to be sure, but not as generously nor as willingly as we could wish."¹⁰ Faini and Portes, in turn, argued that by reducing the scope of benefits available to CEE, the EC's risk averse policy was aimed at trying to open up its economies in selective ways so as to minimise the impact on EC employment.¹¹

None the less, the most crucial point remains that no real attempt was made on either side before or during the negotiations to seriously estimate the impact of the Agreement on the transition process or to look at what terms would have best served the transition¹², and while the liberalisation schedule for the removal of tariffs was indeed asymmetric on paper, this did not solve the issue of other trade restrictions, including Non Tariff Barriers and constraints from bureaucratic requirements.

For the Polish side, the biggest disappointments in the outcome of the negotiations were the limited concessions granted on labour mobility and the conditions of access to the Union's markets for agriculture, textiles, iron, steel, and coal.¹³ The impact of these drawn-out disputes as well as multiple breakdowns in the negotiations on Polish- EU political relations is discussed in the next chapter. It is however important to note here

⁸ Interviews conducted between September 2000 and June 2001 (when the author worked with the Polish Committee for European Integration) with J. Saruysz-Wolski, U. Synowiec, P. Nowina- Konopka, M. Tabor, all former members of the Polish EA negotiating team. Warsaw.

⁹ Mayhew (1998). *ibid.*, p 23.

¹⁰ Winters and Wang (1994). *Ibid.*, p 9.

¹¹ Faini, R. and Portes, R. (1995). 'Opportunities Outweigh Adjustments', in Faini, R., Portes, R. (Ed.) (1995). *European Union Trade with Eastern Europe: adjustment and opportunities*. London: CEPR.

¹² Mayhew (1998). *ibid.*, p 42.

¹³ Nello, S. S. (1991). *The New Europe: Changing Economic Relations Between East and West*. London: Harvester Wheatsheaf Press, p 209.

that there were numerous discrepancies between Polish and EU interests from the very beginning.

Never the less, following the signing of the Treaty in December 1991, the expectations of the Polish public regarding the EA were very high. CBOS research indicated huge support for the Agreement with a massive 80% of the Polish public believing it would be beneficial for Poland. About 50% of the Poles assumed that Poland would become a full-fledged member of the Community within 5 years. 65% believed that the EA would significantly ease the restrictions on labour mobility, enabling willing Poles to seek work within the FTA. Moreover, 73% expected that the dramatic state of Polish agriculture would improve as a result of the Treaty, with only 19% of the public displaying apprehensions as to the EAs possibly negative impact on this sector.¹⁴ The hopes associated with the EA were even higher within elite circles, as reflected in the positive assessment of the Agreement during the parliamentary hearings that preceded the ratification procedure. The governing liberal coalition continued to uphold that Poland would not only be granted better access to a 340mln people market for its goods, services and capital, but that the obligations associated with the schedule for liberalisation would provide an effective incentive for sustaining difficult domestic reforms as well as a road map for the Polish transformation.¹⁵ Because the EA was to serve as tool for increasing competition on the domestic market, it was consequently to speed up the process of restructuring by forcing enterprises to adjust and thus stimulate better allocation of resources, increasing levels of productivity and economies of scale.¹⁶

On the whole then, it was expected that the principle of asymmetric opening to the benefit of Poland would prove to be sufficient to create enough opportunities for the Polish producers to increase their export potential, while giving them additional time to prepare for the opening of the Polish market to increased international competition.

B. Transition depression

Based on the principle of asymmetry, on February 1st 1992, the day of the Interim Agreement related to trade measures went into effect, 51.1% of Polish products gained duty free access to the EU market while only 10.1% of EU's exports were allowed into

¹⁴ *Centrum Badan Opinii Społecznej* (1992). 'Opinia publiczna o stowarzyszeniu Polski z EWG', January.

¹⁵ Kawecka- Wyrzykowska, E. (1997). 'Effects of the Europe Agreement on Polish Economy and Pre-accession Challenges', in *Yearbook of Polish European Studies*, Vol 1, Warsaw: Warsaw University Centre for Europe.

¹⁶ See Zukrowska, K. (1998). 'The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience', in Zielinska- Glebocka and Stepniak (Ed) (1998). *ibid*. Wysokinska, Z. i Witkowska, J. (1999). *Integracja europejska: teoria i praktyka*. Warszawa: PWN.

Poland. However, the activation of the Interim Agreement coincided with a massive deterioration of economic life in Poland. Transition recession was deep, and the adjustment shocks following the dismantling of the former system proved much more dramatic than initially expected.

Moreover, there is little doubt that the radical changes in demand which took place as a result of the liberalisation process contributed to the overall symptoms of recession present during this early period. The opening of the economy in 1990 followed by the collapse of the CMEA in 1991 fuelled massive contractions of output and added to the sharp rise in unemployment.¹⁷

The transformation crisis reached its lowest ebb in 1991-93, with falls in production reaching 2 digit proportions. For the ordinary Pole, real incomes fell and disparities widened leading to increased levels of deprivation. Unemployment became the most visible social ill and a major cause of poverty.¹⁸ By 1994, real wages were still lower than in 1990, and 29% of the population was living on the verge of subsistence.¹⁹

C. Trade surplus to trade deficit

The trade surplus initially noted with the European Union turned into a deficit in 1992. According to T Palankai, "in large areas of the economy the new enterprises were facing difficulties, and the syndrome of being 'infant industries' proved to be more serious than expected at the time of the negotiations of the associations."²⁰ This raised the question pertaining to the adequacy of the Agreement for the needs of transition and the lack of possibilities to effectively protect domestic producers.

In June 1993, in a letter addressed to the Communities, the Polish Prime Minister complained to the EU Council of Ministers of the insufficiency of the EA in stopping the deterioration of Polish industry and agriculture. According to the Polish side, the growing trade deficit and increased protectionist behaviour of the Union were proof that

¹⁷See Kawecka- Wyrzykowska, E. (Red.) (1998). 'Ocena Stopnia Realizacji Układu Europejskiego Ustanawiajacego Stowarzyszenie Miedzy Polska a Wspolnotami Europejskimi i Panstwami Czlonkowskimi', UKIE, No 17, Warszawa: UKIE, IKiCHZ, pazdziernik.

Ministerstwo Gospodarki, (1999). Polska, Raport o Stanie Handlu Zagranicznego w Roku 1998. Warszawa: Ministerstwo Gospodarki.

Eatwell, J., Ellman, M., Karlsson, M., Nuti, D. M. and Shapiro, J. (1997). *Not 'just another accession': the political economy of EU enlargement to the East*. London: IPPR.

Czyzewski, A. i Orlowski, W. (Red.) (1993). *Raport Polska- Wspolnoty europejskie: perspektywa 2000*. Warszawa: UKIE, Urzad Rady Ministrow, Biuro ds. Integracji europejskiej.

Levigne, M. (1995). *The Economics of Transition: From socialist economy to market economy*. NY: St Martin's Press.

¹⁸ World Bank (1994). *Poverty in Poland: an assessment in 2 volumes*. Washington DC: World Bank, 14 September, p 30.

¹⁹ Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Ed.) (1997). *The Polish Transformation*. *ibid*.

²⁰ Palankai (2000). *ibid*. p 278.

the Agreement was more beneficial for the EU, and that the principle of asymmetric opening in the favour of Poland was being violated.²¹

This criticism, echoed in most other associated countries, was further supplemented by some rather unfavourable reports published in the West as to the restrictive nature of the EAs and the inadequate concessions offered to the candidates. The main part of the critique stemmed from the fact that while the EAs were geared towards opening up trade with CEE, on the one hand, they qualified the liberalisation by retaining protection in sensitive areas such as agriculture, food, clothing and textiles, on the other. The concessions and privileges granted were additionally decreased by the insistence of the Communities to preserve the right to deploy various forms of highly political contingent protection, most notably Anti-Dumping Duties and diverse safeguards actions against imports from the associated states.

For instance Winters claimed that,

*despite the parlous state of the CEECs economies, the EC has maintained agricultural protection, kept Quantitative Restrictions on textiles and clothing for 6 years, left EC chemicals and iron and steel producers free to harass CEEC suppliers through Anti-Dumping law, kept tariffs on sensitive labour-intensive products for 5 years, and discouraged the CEECs from processing inputs from other countries. In the meantime it has imposed its competition and intellectual property laws on CEECs and encouraged explicitly and implicitly the CEECs to adopt all the rest of the EC's commercial infrastructure. It has ensured its rights to establish firms and provide services in the CEECs. It has permitted highly CEEC skilled residents to move westwards, if only temporarily, but it has equally effectively ensured that the CEECs current abundant factor – less skilled labour- can neither be efficiently utilised in producing exports for the EC nor improve its productivity by moving directly to the EC.*²²

The EU's unwillingness to surrender its application of contingent protection against the CEEs was demonstrated in 1994, when in Essen, the European Council admitted that

*it should be ready to consider refraining from using commercial defence instruments for industrial products conditional on the satisfactory implementation of competition policy and control of state aids... together with the wider application of other parts of Community law linked to the internal market, providing for a guarantee against unfair competition comparable to that existing inside the internal market.*²³

Even more critical of the liberalisation under the EAs was R Baldwin, arguing that “the Agreements drive the marginalisation of CE economies and strengthen the market position of the EC at their expense.” His main criticism of the EAs was that they resulted in trade diversion away from more efficient suppliers (US and Japan) and

²¹ Letter of the President of the Council of Ministers on 2/6/93 to the Leaders of the Member States of the EU before the Copenhagen European Council (1995). *KIE Monitor Integracji Europejskiej*, No 3, p 29-30.

²² Winters and Wang (1994). *ibid.*, p 48.

²³ Essen European Council, 1994

towards that of the EC. Furthermore, Baldwin pointed out that the Agreements would have an investment-detering effect stemming from the restrictive rules of origin, that they left too large a scope open for the use of Non Tariff Barriers and, “by concentrating industry in the EU rather than in the candidates, that they had the potential to permanently retard the development of CE.”²⁴

Faini and Portes, Inotai, Hindley and Rodrik, in turn, all used the EU’s trade surplus to demonstrate that the Union could have afforded more generous provisions, and that the restrictions on CEE exports were unjustified.²⁵ In addition, Eatwell et al. claimed that,

*the declarations of the EAs were more on the rhetorical side than in any real arrangements to provide asymmetry for the benefit of the candidates, and they concluded that the flaws of the EAs, especially in agriculture and sensitive products, combined with the comparative advantage of European firms, have led to higher unemployment levels in the candidates.*²⁶

It was even maintained that the Agreements, by protecting the EU’s sensitive sectors, actually hindered the restructuring of trade in CEE in line with their Comparative Advantage. While Faini and Portes argued that, “the Treaties offered little in the short term to liberalise industrial policy in the EU and foster export growth from CE”²⁷, Messerlin asserted that, “because of the room allotted for continued exploitation of contingent protection and the exclusion of sensitive products, the EAs have failed. Moreover, the rule making aspect of the treaty is a constitutional failure as the dispute settlement mechanism is dominated by bureaucracy with no direct access to private sector.”²⁸

Finally, Winters et al. noted that the EAs appeared to be designed more to minimise the adjustment that the EC had to make in response to the changes following 1989 than to maximise the benefits available to the CEEs.²⁹

²⁴ Baldwin, R. (1994). *ibid.*, p139.

²⁵ Faini and Portes (1995). *ibid.*

Inotai, A. (1998) ‘Eastern Enlargement: Benefits for the European Union’, in *Studja Europejskie*, CEUW, No 3, Vol 7, Warsaw: CEUW.

Hindley, B.V. (1993). ‘Helping transition through trade?: EC and US policy towards exports from Eastern and Central Europe’, *EBRD Working paper*, No 4, London: EBRD.

Ehrenhaft, P., Hindley, B., Michalopoulos, C. and Winters, L.A. (1997). ‘Policies on Imports from Economies in Transition’, *World Bank Discussion Paper*, No 22, Washington DC: World Bank.

Rodrik, D. (1992). *Foreign Trade in EE’s Transition: early results*. London: Mimeo, NBER.

²⁶ Eatwell, J., Ellman, M., Karlsson, M., Nuti, D. M. and Shapiro, J. (1997). *Ibid.* (Polish version translated by E. Czarny. (1999). Warszawa: Wydawnictwo Sejmowe, p 72.

²⁷ Faini and Portes (1995). *ibid.*, p 5.

²⁸ Meaning, not an independent agency with transparent and direct access to the private sector, in the form of available information, consulting and/or expertise.

Messerlin, P. (1992). ‘Association Agreements between the EC and Central Europe’, in Flemming, J., and Rollo, J.M.C. (Ed.) (1992). *Trade, Payments and Adjustments in Central and Eastern Europe*. London: Royal Institute of International Affairs, p 111.

²⁹ Winters, L.A. (Ed.) (1994). *Foundations of an Open Economy: trade laws and institutions for Eastern Europe*. London: CEPR.

D. The Copenhagen package

At the beginning, the Commission seemed deaf to these diverse critiques, but by 1993 it was becoming impossible to ignore the negative assessments coming from both the candidate states and from independent experts within the Union itself.

The unanticipated effects of the transformation, with their severe impact on economic activity and on income distribution, were leading to rising social discontent in the CEEs, and their trade deficits with most of the member states were making restrictions harder and harder to justify. Moreover the liberalisation of trade was having a positive effect on EC employment levels with job creation outweighing job destruction and most west European regions coming out as a net winners.³⁰

By this time, economic relations between the Union and Poland, in specific, were becoming very difficult, as a result of a series of ongoing disputes and allegations of discriminatory treatment arising in the Association Council. The most infamous of these 'contentious issues' involved the EU's meat and live stock ban in 1993, justified by the supposed, unfounded, existence of foot and mouth disease, traced to CEE exports to Italy, as well as the imposition by the EU of minimum prices for sour cherries and blackberries.³¹

Under pressure from the candidates and other leading figures in the West³², prior to the Copenhagen European Council in 1993, the Commission issued a statement:

*The Commission is aware of the current shortcomings (of the EAs), but views trade relations as a permanent process and hopes that with continuing dialogue, a move toward a less distorted trade regime will take place.*³³

In a report entitled *Towards a Closer Association with the Countries of Central and Eastern Europe*, the Commission proposed "a move towards greater inter-European cooperation through the creation of a larger FTA." This led to the so-called *Additional Protocol to the Interim Agreement on Trade and Trade Related Matters* and amounted to what was later labelled the Copenhagen Package.

³⁰ Faini and Portes (Ed.) (1995). *ibid.*

³¹ See chapter 6 for more trade disputes.

³² Most notably western economists and policy makers aware of the possible danger to the transition reforms.

See Messerlin, P. (1993). 'The EC and Central Europe: The missed rendez-vous of 1992?', *Economics of Transition*, No 1.

Cadot, O. and Melo, J. de. (1994). 'The Europe Agreements and EC-LDC Relations', *CEPR Discussion paper*, No 1001, London, CEPR, August.

Rollo, J.M.C. with Batt, J. et al. (1990). *The New Eastern Europe: western responses*. London: RIIA, Pinter.

Rollo, J.M.C. and Smith, A. (1993). 'The Political Economy of Eastern European Trade with the European Community: why so sensitive?', *Economic Policy*, Vol 8, No 16, April.

³³ Copenhagen European Council declaration, 13-14 April 1994, p 49.

However, the minimal concessions that were actually granted to the CEE associated states within the Copenhagen Package signalled a rather wide discrepancy between the Commission's desire towards greater trade liberalisation, on the one hand, and resistance to it at the national and regional levels of the Union's member states, on the other. The Commission's hands were thus tied, and domestic pressure for protection within the individual member states' governments proved to be more decisive in determining the EU's Common Commercial Policy towards the associates, than the collective declarations of unabated support.

Copenhagen, while not proposing a timetable for accession, did at least recognise in principle the possibility of future enlargement of the Union to the CEE candidates, declaring the famous Copenhagen Criteria for membership. Minor concessions were made on certain farm products, and the summit advanced the EU's timetable for liberalisation of manufactured goods, which was to end in 1995 and not 1997 as originally planned. Moreover, the possibility of the cumulation of the rules of origin was discussed and some preferential agricultural quotas were enlarged. Never the less, these additional benefits were mostly symbolic and did not amount to any significant trade gains for the associated states. Nothing was done about the imprecision of the Safeguard clauses nor were the difficult issues of Anti-dumping or access to markets for sensitive products dealt with.³⁴

It was not until 1997 that another additional protocol was concluded, incorporating new concessions, clarifying the cumulation of the rules of origin and settling the margin of preferences lost by CEE as a result of the EFTA enlargement and the conclusions of the WTO Uruguay Round.

II. General Conclusions

The goal of the EA was to contribute to the restructuring and development of the CEE economies and while its positive impact has in some respects been substantial, in retrospect, it could have been larger if it hadn't been for several limiting aspects. Because the accusations against the Union and the various complaints about the flawed nature of the EA's are so wide-ranging and complex, it is important to discuss each in more detail.

³⁴ See Mayhew (1998). *ibid.*

Levigne, M. (1995). *The Economics of Transition*. *ibid.*
Brabant (1996).

Fontenay, P.de, Gomel, G. and Hochreiter, E. (Ed.) (1995). 'Western Europe in Transition : the impact of the opening up of Eastern Europe and the former Soviet Union', *Banca d'Italia, International Monetary Fund and Oesterreichische Nationalbank Main papers, panel discussion*, Rome: Banca d'Italia, International Monetary Fund, Oesterreichische Nationalbank.

In general, regional integration based on Free Trade Agreements such as the EA has the capacity to change many things on both micro and macro levels of the associated economies. RIA affects the size and structure of trade, its commodity pattern and orientation, changes in comparative advantage, specialisation and factor endowments³⁵. Free trade agreements can result either in trade creation or trade diversion. FTAs effect income distribution, as well as levels of employment. Moreover, by joining an FTA and thereby increasing its policy credibility a reforming country may reap many additional, indirect benefits of openness such as higher levels of investment and accompanying spillover effects.³⁶

Indeed, some authors have maintained that the main benefit of the EA has been to increase the attractiveness of CEE as a region for foreign direct investment.³⁷ According to this argument, the EAs made the candidates more attractive to FDI by reducing the risks associated with investing in emerging markets and providing credibility and soundness to the economic reforms taking place in transition. The EA and the prospect of future membership in the Union thus served as a guarantee to firms looking to locate their activities in CEE, and, as a result, indirectly contributed to economic development and modernisation of the region. However highly plausible this argument might be, according to other studies conducted on FDI incentives, the Agreements were not the most significant factor in attracting investment, and other consideration such as debt rescheduling or the domestic business climate proved to be more important.³⁸ Never the less, one could fairly easily assume that without the additional insurance provided by the EAs, the sums of investment would have been smaller, making business confidence one the chief benefits of the Agreements.

As far as the more direct impact of the EAs, especially on trade and trade relations, without a doubt, association contributed to a more rapid reorientation of trade from the former CMEA to Western Europe. It is important to note though that the most substantial reorientation took place between 1989 and 1992, well ahead of the going into effect of the Europe Agreement, and as S Nello has pointed out, “trade liberalisation as a direct result of the EA was only one factor in increasing CEECs

³⁵ Bilal, S. (1998). ‘Political Economy Considerations on the Supply of Trade Protection in Regional Integration Agreements’, *JCMS*, Vol 36, No 1, March, Maastricht: European Institute of Public Administration.

³⁶ See OECD (1998). ‘Open Markets Matter’. *ibid*.

³⁷ Kaminski, B. (1999). ‘The Role of Foreign Direct Investment and Trade Policies in Poland’s Accession to the European Union’, *World Bank Technical Paper*, No 442, Washington DC: World Bank.
Kawecka-Wyrzykowska, E. (1999). *Polska w drodze do Unii Europejskiej*. Warszawa: Polskie Wydawnictwo Ekonomiczne.

³⁸ Ambler, M., Jones, V., Gacek, P., Stringa, G. and Horvath, M. (2000). *The Strategic Impact of European Union Enlargement: The Business View*. London: Pricewaterhouse Coopers, Sceptre Litho.

growth of trade by 130% in \$ terms between 89-94. The other external factors, not less significant, included exchange rates, cyclical business cycles and a more normal return to a natural trade pattern following removal of artificial restrictions.”³⁹

Moreover, it was pointed out that the scope of market access granted under the EA was insignificant, because the most extensive access was offered under the Generalised System of Preferences granted in January 1990. These GSP rates, given to developing countries, are usually considerably lower than MFN rates, which, in the EU, were already low for industrialised products. Prior to liberalisation, the EU’s average tariff rate for CEE industrial products was only 3-5%, and thus lowering tariffs was not a serious concession. On the other hand, the average tariffs for CEE were much higher⁴⁰, and so in nominal terms, notwithstanding the longer time frame for liberalisation, it could be argued that CEE offered more in terms of trade concessions than they received in return from the EU. In addition, the Uruguay Round further eroded the respective preferences of the EA.

There was some overall positive impact on changes in the composition of CEE trade as the proportion of machinery and value-added manufactures in total exports increased along with the modernisation of the transition economies. Growth of exports to the EU has been strongest in machinery and miscellaneous manufacturing (footwear and apparel), as well as semi-finished products. It has remained modest in steel, chemicals, and agriculture again reflecting the restrictive nature of the EAs for sensitive products. In general though, because export performance has depended on structural change and economic development, the direct impact of the EA on domestic modernisation of the economies was quickly exhausted.⁴¹

Moreover, A Winters warned that,

the Europe Agreements could have perverse effects on CEE trade structures. Exports from the associates could end up being only intensive in labour and relatively skilled labour products, not in unskilled, which the EU fears most and in which the CEE have a competitive price advantage. This could result in leaving huge segments of the economy out of trade.

According to Winters, the fact that most exports have come from firms with FDI, rather than domestic industry or agriculture also represented a huge problem, because “while

³⁹ Nello, S. (1998). ‘Consequences of Enlargement in Stages’, in Nello, S.S. and Smith, K.E. (1998). *The European Union and Central and Eastern Europe: the implications of enlargement in stages*. Aldershot: Ashgate, p 40.

⁴⁰ Poland’s average tariff rate was raised to 16% prior to the going into force of the EA.

Instytut Koniunktur i Cen Handlu Zagranicznego -Foreign Trade Research Institute: *Annual Reports*. Warsaw: IKiCHZ.

⁴¹ Palankai (2000). *Ibid.*,

exports did increase in some fields, others never made it to the west, creating a hybrid, two segmented economy.”⁴²

Other apprehensions as to the Agreements centred on whether they would not result in trade diversion, or the switching of demand from imports that are most efficient (cheapest) to those of the associated partner, thereby substituting the least-cost source of trade for the one with preferential access.

In addition, the negative impact of business cycles in the Union on CEE export growth demonstrated that the transition economies were becoming overly dependent on the EU for trade. This led to the suggestion that the pro-EU bias in the EAs should be corrected by the diversification of the candidates’ exports and markets.⁴³ The asymmetry in trade dependence has been staggering. For example, while Poland has accounted for only about 13.3% of the EU’s exports and 8.9% of imports, the EU has registered on average 70% of both Polish imports and exports.⁴⁴

A. Sensitive products

In terms of the limiting nature of the EA itself, the main problems have stemmed from the limited access granted for sensitive industrial products and an even more restrictive stance in agriculture. These conditions were not improved in spite of the growing trade surplus of the Union with the candidates.

Under the EA, sensitive industrial products, characterised by over-production at world levels, were subject to a slower liberalisation schedule than other manufactures, complicating the sectoral dimension of integration by limiting the free movement of goods in textiles, clothing, coal, footwear, steel and chemicals. Furthermore, because CEECs export dynamics have been particularly dependent on products of such sensitive nature, any restrictions on these were bound to hinder the growth of trade and development in general. Between one half and one third of CEE manufactures in 1991 was made up of steel and iron, chemicals, food, textiles and apparel, restricting access to the Union’s market for these products severely limited the capacity of the associates to take advantage of their comparative advantage, increasing the growth of trade deficits and contributing to the appearance of chronic current account deficits and balance of payments problems.

⁴² Winters, LA. (2000). ‘EU’s Preferential Trade Agreements: objectives and outcomes’, in Dijck, P. van and Faber, G (Ed.) (2000). *The External Dimension of the European Union*. The Hague: Kluwer Law International, p 202.

⁴³ Although suggestions were made to increase regional trade integration through CEFTA, the scheme never really had a chance due to the scepticism of the CEE governments as to intra- CE trade, owing to past legacies of the CMEA.

⁴⁴ Główny Urząd Statystyczny (various years). *Rocznik statystyczny handlu zagranicznego- yearbook of foreign trade statistics*. Warsaw: GUS.

Concessions for agricultural goods were least generous of those for any sector and became the subject of much controversy when the Community's agricultural trade deficit transformed into a surplus with even traditional food exporters such as Lithuania or Bulgaria. Limited market access was only one of the complaints made against the Union in agricultural trade. The massive subsidies and price supports provided by the EU within the Common Agricultural Policy for agricultural products and foodstuffs proved to be an even bigger obstacle to a mutual opening up of agrarian markets. These subsidies led to serious disturbances in CEE by creating unfair competition and driving the CEE agricultural producers not only out of domestic markets but also third countries; the case of the traditional Russian market being the most far-reaching example.⁴⁵ Furthermore, the reference point taken for determining the size of the preferential quotas allotted for in the Agreement was based on the time frame between 1988-90 which coincided with dramatic falls in agricultural output in the CEE region.

B. Non- Tariff Barriers

Contingent protection latent in the EA additionally negated many of the already small preferences granted under the Agreement, and Non Tariff Barriers, mainly Anti-Dumping and Counter Veiling Duties, remained the most significant source of friction between the EU and the candidates and the main barrier to CEE exports. According to Jovanovic,

*(Under the EA), the safeguards that allow EU producers to protect themselves against CEE, as well as the Anti Dumping stance of the EU against eastern products that have a comparative advantage make for uncertainty about trade relations and might have a negative impact on the transition countries, even though that is not their goal.*⁴⁶

While the associated states were also granted the right to deploy these non tariff measures of protection, the stronger and more experienced EU was more capable of exploiting the loopholes within the law of the Treaty and take advantage of the available commercial policy tools. By resorting to various NTBs, the EU was thus able to effectively increase its levels of protection against CEE products, despite the asymmetric removal of tariffs.

C. Free movement of workers and services

For Poland and for other CEE, one of the biggest disappointments of the negotiations of the EAs was the limited nature of the concessions granted for the free movement of labour and services. Article 41 under Title IV of the EA states that community members

⁴⁵ Mroczek, W. (1995). 'Agriculture', in Kawecka- Wyrzykowska (Ed.) (1995). *Prospects for Trade in Sensitive Products*. ibid.

⁴⁶ Jovanovic, M.N. (1992). *International Economic Integration: Limits and prospects*. London, New York: Routledge, p 402.

should strive to allow CEE employees greater access to community labour markets and examine the possibility of concluding bilateral agreements with them in order to maintain or extend existing arrangements. As such no real progress was made as to the state of affairs prior to the creation of the FTA.

Free movement of workers is a crucial component of the internal market, and the economic and political benefits for the transition states would have been huge.

Liberalising labour migration makes investment easier and helps to overcome many of the negative effects of inflexible domestic labour markets. Liberalisation likewise contributes to the spread of knowledge, as Eastern workers return to their home countries with know-how acquired in the west.

Most of the restrictions in the EA on labour mobility arose due to high unemployment levels within the EU and consequently widespread fears of labour migration from CEE; fears that have proven to be unfounded.⁴⁷ While the Agreements did make room for self-employment as well as the hiring of key personnel, the growing difficulties with the actual implementation in the member states nullified most of the rights granted.⁴⁸ Moreover, the EAs addressed only the ability of the associates to provide services based on the right of establishment on EU territories, as opposed to trans-national services.⁴⁹ This right of establishment was further complicated by various national bureaucratic requirements that hampered both the ability to ascertain self-employment as well as to hire key personnel. In sum, without the complete opening of labour markets, no real rights of establishment could be created and the entire possibility of the free movement of services was severely limited.

The transport sector provides for a poignant example of this inconsistency.

Liberalisation of services under the EA progressed the furthest in this sector, but paradoxically it was excluded from the rights of establishment! Moreover, while the EAs strived to liberalise highly advanced sectors based on knowledge and professional services, labour-intensive industries were opened up to a much lesser extent. Because the candidates have specialised in exactly these services based on low-qualified on

⁴⁷ See European Commission (2001). *The Free Movement of Workers in the Context of Enlargement*, Brussels: EC, March.

European Commission (2000). *Report: Employment in Europe 2000*, Brussels: EC.

Boswell, C. (2000). 'Study on Unfounded Migration', *RIIA Paper*, London: RIIA.

Boeri, T. and Brucker, H. (2000). *The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States*. Commissioned by the Employment and Social Affairs DG of the European Commission, Berlin, Milano: European Integration Consortium.

⁴⁸ Kawecka-Wyrzykowska (1999). *ibid*.

Müller-Graff, P. and Stepniak, A. (1997). *Poland and the European Union: between association and membership, ECSA-series, Vol 4*. Baden-Baden: Nomos Verlagsgesellschaft.

⁴⁹ For example cabotage transport across the FTA

unqualified labour power, association again did not allow them to exploit their comparative advantage vis a vis the EU.

The limited ability of the candidates to take advantage of labour and services mobility within the framework of the EA demonstrated the ambiguity in the Union's declaration of far-reaching support for the process of transition.

D. Rules of origin

Rules of origin are defined as the minimum content of a product to be qualified as originating in a given area and thus enjoying preferential trade access.⁵⁰ Because CEEs have lacked the technological and managerial skills necessary to produce complex products in a fully integrated way, regional production has largely depended on international flows of parts and services. This has been especially true for intra-industry trade between multinational companies. According to Mayhew, "the cumulation of rules of origin is an important incentive for developing regional trade and opens wider location choices to businesses establishing in the region."⁵¹ On the other hand, a restrictive definition of local origin can be used as a non tariff barrier, reducing potential volumes of exports made up of components coming from outside the FTA.

Accordingly, the so- called rules of origin were established within the EAs to define the local origin of a product; whether it has been wholly obtained in a given area, sufficiently worked or processed. The controversial discussion over the EA rules of origin initially revolved around diagonal versus pan-European cumulation for the Visegrad four.⁵² The debate stemmed from Baldwin's conclusions that the cumulation allotted for in the Agreements would create a hub-and-spoke arrangement whereby the candidates, as hubs, would be restricted to trade with the Union, the spoke, thus not having any real incentive of trade amongst themselves.⁵³ Moreover, the requirements that raw components must come from within the FTA would drive out third countries as sources and ultimately be a deterrent to foreign direct investment. It was argued that the rules, calling for 60% local content requirement, were too strict and consequently a discouragement to non- European FDI.⁵⁴

This controversial prerequisite for determining preferential access to the EU market was only abolished in 1997 when pan-European cumulation was established, enabling all the associated countries within CEFTA, EFTA and the EU to trade amongst themselves without having the additional non tariff barrier of local content.

⁵⁰ Kawecka- Wyrzykowska, E. (1997). 'Effects'. *ibid.*, p 121.

⁵¹ Mayhew (1998). *ibid.*, p 69.

⁵² Czech Republic, Slovakia, Poland, Hungary

⁵³ Baldwin (1994). *ibid.*

E. Competition policy and legal harmonisation

As far as competition policy and legal harmonisation are concerned, Title V of the EAs obliged the candidates to adopt competition policy and intellectual property laws within three years of the going into effect of the Agreement.⁵⁵ Moreover, while the EU expected the candidates to fully adopt its competition law, it reserved for itself the right to continue to apply anti-dumping duties. Because in previous enlargements the Union had only expected legal harmonisation from future members once it itself lifted the threat of AD actions, this one-sided adjustment burden on the candidates once again contradicted the declared objective of asymmetrical support.

The granting of state aid to individual enterprises in the associated states, on the other hand, was subject to an exceptional 5 year delay in expected harmonisation with EU requirements, with a possibility of extension for another five, conditional upon agreement from the Association Council. Never the less, most experts agreed that the provisions regarding the approximation of legislation on state aids and competition policy in the EA were unduly strict and “appeared to be intended that approximation precede CE-EC free trade. This pattern reversed the normal order of integration” and, as Winters observed, “left a distinct impression that the EC was willing to trade freely only on its own terms.”⁵⁶

Apprehensions also appeared about the appropriateness of these competition and state aid policies, clearly developed with reference to industrialised countries such as France or Germany, for countries in transition. Regardless of whether the adoption of these policies could indeed have been detrimental to modernisation and economic growth in lesser-developed economies, the EA’s offered no alternative but to appropriate all EU regulations. While U Plowiec, for example, has worried that the provisions of the EA concerning public aid, income policies, and social and environmental protection were too rigid to take into account the growth potential of the associated countries⁵⁷, Mayhew concluded that,

*perhaps the most serious criticism of the position of the European Union is that it is forcing the associated countries into adopting its own competition and state-aid rules without any guarantee of trade access to Union markets and without any guarantee on accession. No other applicant was ever forced to take on the Union’s laws before accession.*⁵⁸

⁵⁴ Winters and Wang (1994). *ibid.*

⁵⁵ Müller-Graff, P. (1993). *East Central European States and the European Communities: legal adaptation to the market economy: ECSA series, Vol 2*. Baden-Baden: Nomos Verl.-Ges.

⁵⁶ Winters and Wang (1994). *ibid.*, p 45.

⁵⁷ Plowiec, U. (1998). ‘Poland’s preparation for membership: foreign trade problems’, in Zielinska-Glebocka and Stepniak (Ed.) (1998). *ibid.*, p 289.

⁵⁸ Mayhew (1998). *ibid.*, p100.

F. Not just another accession

In combination, the above factors have posed a significant threat not only to trade liberalisation between the EU and the associated states, but also to the reform efforts in the transition economies themselves. The Commission has justified its inability to grant bigger concessions to the CEE by existing widespread fears in the member states that eastern exports and migrants would threaten jobs in the EU. The slow pace at which trade has been liberalised has often been attributed to the presence of net EU losers from the processes that have had a big political influence of the evolving Common Commercial Policy.

While on paper this seemed a plausible explanation for limiting both Eastern imports and labour migration, especially at a time when Europe itself was in a recession, the fears proved to be overstated, and as Faini and Portes claimed there was no economic rationale for this. The authors found that the EC, as a whole, would invariably gain from the liberalisation, as consumer surplus increased and prices fell on the internal market, and suggested that intra-EC transfers be used, rather than protection, to address distributional issues and regional difficulties.⁵⁹

Hindley also maintained that, “the tariff lowering in the EA involved very small changes in EC welfare because of the small share of EE suppliers in total consumption”, while having dramatic, proportionate effects on CEE exports to the EC market.⁶⁰ Thus overall analytical arguments and empirical estimates clearly supported granting bigger market access to CEE and suggested that import competition from the eastern neighbours was not a significant factor in either the declining share of manufacturing in the GDP of the EU or in the rise of unemployment.⁶¹

Moreover, evidence of various studies produced after 1993 indicated that the EAs were not causing a trade imbalance in favour of CEE, disrupting the EU's economy or making it more difficult for EU producers to compete in third country markets. Faini and Portes even demonstrated that,

the Agreements did not introduce localised differences for specific sectors or regions of the EU, and, if anything, the resulting job creation in the EU outweighed job

⁵⁹ Neven, D. (1995). ‘Trade liberalisation with Eastern nations: How sensitive?’, in Faini and Portes (Ed.) (1995). *ibid.*

Cadot, O. and Melo, J. de (1995). ‘France and the CEEC's’, in Faini and Portes (Ed.) (1995). *ibid.*

⁶⁰ Hindley, B.V. (1993). ‘Helping transition through trade?: EC and US policy towards exports from Eastern and Central Europe’, *EBRD Working paper*, No 4, London: EBRD.

⁶¹ Dittus and Andersen (1995). ‘Sectoral and Employment Effects of the Opening up of Eastern Europe’, in Fontenay, P.de, Gomel, G. and Hochreiter, E. (Ed.) (1995). *Western Europe in Transition*. (1995). *ibid.*, p 58.

*destruction. In fact, the authors concluded that the impact has been favourable or at worse quite small, and the fears have been exaggerated.*⁶²

Not only were the apprehensions about eastern competition unsubstantiated by economic analysis, but they were also subject to statistical manipulation due to the obvious disparity in income and GDP levels between the current and future member states of the Union.⁶³

Finally, while in previous enlargements, the Community budget was used to counterbalance the costs of adaptation for new members by offering them fiscal transfers in exchange for their economic opening up, the financial commitments of the EAs, mainly Phare and other pre-accession tools introduced later, remained very modest, representing less than 0.5% of the EU's GDP, only 10% of the assistance granted to Greece and Portugal, and fraction of the transfers to Germany's eastern *lander*.⁶⁴ As Inotai concluded,

*the trade deficits with the Union of all the advanced candidate countries indicates the main flaw of the construction of the Association Agreements, namely that in the past, deficits of associated countries were in effect neutralised by community transfers, while no such opportunity exists in the present situation.*⁶⁵

Consequently it could be argued that while association was promoted as a reward for the CEE countries for their bold reform efforts and a demonstration of the Union's recognition that this enlargement was unique due to the nature of the radical changes required of the candidates, the actual effect of the EAs was paradoxically to protect the current member states' interests and to minimise the level of disruption felt by the EU-15. As such, this accession has indeed been unmatched.⁶⁶ For the first time in successes processes of EC enlargement, the costs of adjustment seem to have fallen mainly on the candidates.

III. The Polish case

As far as the assessment of the EA specifically for Poland, all of the criticism discussed above as to the limits of the Agreement has proven applicable. Because of the limited scope of this paper the author will thus refrain from repeating most of the generalisations of the impact of the EAs on CEE trade with regards to Poland.

⁶² Faini and Portes (1995). 'Opportunities Outweigh Adjustments'. Ibid., p 6.

⁶³ Friedrich Ebert Stiftung (1996). 'The costs of eastern enlargement of the EU are exaggerated', *Study Group of European Integration, Working paper, No 2*, Bonn: Friedrich Ebert Foundation, December.

Blanchard, O.J., Froot, K. and Sachs, J. (1994). *The Transition in Eastern Europe. National Bureau of Economic Research Project Report*. Chicago: University of Chicago Press.

⁶⁴ Mayhew. (2001). *Enlargement and the Community Budget*, Warsaw: UKIE, March.

⁶⁵ A Inotai, Eastern Enlargement: Benefits for the European Union, In *Studia Europejskie*, CEUW, No 3 (7) 1998, Warsaw p 32.

As far as the macro effects on the Polish economy⁶⁷, trade policy has often resulted in outcomes at conflict with the aims of stabilisation, particularly at the onset of the transition. For example, tariff reform caused revenue loss and contributed to a bigger fiscal deficit, while the devaluation of the zloty, while increasing international competitiveness, also caused inflation. Moreover, the radical import liberalisation aggravated balance of payment problems and current account deficits.

Finally, the most obvious and yet most significant effect that trade opening has had on the Polish economy has been in terms of employment levels. As the WTO has maintained, "trade reform can both create and destroy markets. Extreme poverty shocks are often associated with disappearance of a market, while poverty alleviation arises when new markets are introduced."⁶⁸ According to economic theory, exports affect employment levels by leading to increases in demand for jobs, especially if the trade pattern is based on labour-intensive industries. Because more people are needed to provide the work in order to create new exports, employment rises. By the same token, increasing imports leads to the destruction of work places, and as worsens income distribution and poverty levels in society.⁶⁹

This phenomenon has been additionally complicated by the multi-faceted environment of the transition process. If, for example, if foreign competition from the EU led to massive redundancies in industries based on low qualified workers coupled with the destruction of the agricultural sector, the effect on employment and labour markets could have been permanent and of structural nature.⁷⁰ Furthermore, in a transition economy, not only do workers suffer from potential job losses due to increased imports, but because whole enterprises go bankrupt, the toll of the trade deficit can extend to the managerial level. The World Bank has thus asserted that even if decreases in employment in some industries are compensated by job creation in other more competitive, export oriented sectors, short term unemployment is bound to take place

⁶⁶ See Eatwell, J., Ellman, M., Karlsson, M., Nuti, D. M. and Shapiro, J. (1997). *Not 'just another accession'*. ibid.

⁶⁷ Ben-David, D., Winters, L.A. and Nordström, H. (2000). 'Trade, Income Disparity and Poverty', *World Trade Organisation Special Studies*, No 5, Geneva: WTO., p58.

⁶⁸ WTO, 1999, ibid, p 5.

⁶⁹ Winters, L.A. (2000). 'Trade, Liberalisation and Poverty', *Poverty Research Unit Discussion Paper*, No 7, Sussex: SEI, p 54.

⁷⁰ See Plowiec, U. (Red.) (2000). *Polska i Unia Europejska: stan obecny i wyzwania na przyszłość*. Warszawa: Placet.

Plucinski, E.M. (1998). *Makroekonomia Gospodarki Otwartej: wybrane zagadania teoretyczno-empiryczne z integracji polskiej gospodarki z rynkiem Unii Europejskiej*. Warszawa: WSHIFM.

Grey, H.P. (1990). *International Economic Problems and Policies*. London: St Martin's Press.

under the simultaneous pressures of transformation, restructurisation and liberalisation.⁷¹

Moreover, as M Levigne pointed out, “in a situation where a satisfactory social safety net cannot be put into place because of budgetary constraints, the easiest way to cushion effects of the austerity programme for the governments in transition is to refrain from closing down large state enterprises and to protect agriculture.”⁷² A trade deficit thus creates additional pressure for protection of domestic producers.

In Poland, the liberalisation of trade and the opening of markets led to an enormous inflow of imports in the early 90's, contributing to falling levels of domestic production and higher unemployment.⁷³ The level of unemployment radically increased from 3.5% in 1990 to 9.2% in 1991 and 12.8% in 1992. After fluctuating in the mid-nineties, the percentage of those without work again began to rise by the end of the decade, reaching a staggering 18% in 2002.

In the European Union, in turn, low and unstable levels of employment in the early 90's created, according to economist W Orlowski, a need to export unemployment to the candidates by limiting imports while supporting exports.⁷⁴ The effect of the trade surplus for the EU has thus been to have a positive impact on the Union's employment levels at the expense of jobs in Poland.

A. Trade deficit and commodity pattern

By the late 1990's Polish economists were claiming that there was no clear correlation between the liberalisation timetable in the Europe Agreement and trends in the growth of Polish exports. To prove this assertion, E Kawecka-Wyrzykowska pointed out that paradoxically, under the EA, the exports of products liberalised fastest grew the slowest, while exports with small preferences developed rapidly.⁷⁵

Other assessments of the EA, relying on simulation results, demonstrated that the EA had contributed to the growth of Polish- EU trade by increasing Polish exports to the Union by 2.4bn US\$ and imports by 3.4bn US\$ by the beginning of 2000. These conclusions signified an overall increase of exports by 2 and half times and of imports

⁷¹ Thomas, V. and Nash, J.D. (1991). *Best practices in Trade Policy Reform*. Oxford: Published for the World Bank by Oxford University Press.

⁷² Levigne, M. (1995). *The Economics of Transition*. *ibid.*, p146.

⁷³ World Bank (1994). *Poverty in Poland*. *ibid.*

⁷⁴ Orlowski, W. (1997). 'Polskie Przedsiębiorstwa a Jednolity Rynek Unii Europejskiej: koszty i korzyści', *UKIE* pracowanie zrodlowe, Nr 14, Lodz, Warszawa: UKIE, NOBE, p 18.

Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *Accession or Integration*. *ibid.*, pp 54-63.

⁷⁵ Kawecka-Wyrzykowska, (1997). 'Effects'. *ibid.*

by 3 and half times, from the moment of the going into effect of the interim agreement until the end of the decade.

By the end of 2000, Poland was the Union's 4th largest export market following the US, Japan and Switzerland. It was also the 7th largest provider of imports to the EU, again following the previous three, plus China, Norway and Russia. At this time, the EU was absorbing 69.2% of Polish exports and providing 61.4% of imports.⁷⁶

**Table 5.1 Polish export, import and balance of trade 1989-2000
in current prices mln zloty, for 1989 in bln zloty**

Year	Export	Import	Balance
1989	19476.0	14864.0	4612.0
1990	13605.5	9051.3	4554.2
1991	15771.6	16425.9	-654.3
1992	17968.7	21995.0	-4026.3
1993	25756.8	34018.3	-8261.5
1994	39246.1	49072.3	-9826.2
1995	55515.1	70502.3	-14987.2
1996	65819.4	100231.3	-34411.9
1997	84479.6	138897.8	-54418.2
1998	98647.9	162963.0	-64315.1
1999	108757.9	182400.0	-73642.1
2000	137908.7	213071.8	-75163.1

Source: Yearly Statistics, GUS, various years.

⁷⁶ For Polish detailed analysis of Polish trade reorientation see: www.mg.gov.pl/ewg/www_raml.htm
Council of Ministers, Republic of Poland (2000). *Raport w Sprawie Korzysty i Kosztow Integracji Rzeczypospolitej Polski z Unia Europejska*. Warsaw: Council of Ministers.
(various years). *The National Programme of Preparation for Membership in the European Union*. Warsaw: Council of Ministers.
Orlowski, W. (2000). *The Costs and Gains from Poland's Membership in the EU: Methods, Models, Estimations*. Warsaw: CASE.
MG (1999). *Polska, Raport o Stanie Handlu Zagranicznego w Roku 1998*. Warszawa: Ministerstwo Gospodarki.
UKIE (1997). 'Raport z wykonania programu dzialan dostosowujacych polska gospodarkę i system prawny do wymagan Ukadu Europejskiego oraz przyszlego czlonkostwa Polski w Unii Europejskiej w latach 1992-1996', *Monitor Intergracji Europejskiej*, Warszawa: UKIE, Rada Ministrow, maj.
(Red). (1998). 'Wdrazanie Przez Polske Zobowiazan Przyjetych w Ukkladzie Europejskim', *UKIE*, No 15, Warszawa: UKIE.
Marcinek-Neider, D. (1996). 'Nowe warunki dostaw w handlu zagranicznym', in *Poland's Foreign Trade Policy 1995-1996*. Warsaw: Foreign Trade Research Institute.
Budzowski, K. and Wydymusa, S. (1999). *Handel Zagraniczny: metody, problemy, tendencje*. Krakow: Akademia Ekonomiczna.
Zukrowska, K. (1998). 'The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience', in Zielinska- Glebocka and Stepniak (Ed) (1998). *ibid*.
Zukrowska, K. (2000). 'Opening of the Polish Economy in Context of Integration with the EU', in *Yearbook of Polish European Studies*, No 4, Warsaw: UWCE.
Wysokińska, Z. (1994). 'The Association Agreement between Poland and the EC: the directions of trade liberalization', *Osteuropa Wirtschaft*, Vol 39, No 1, March.
(1997). 'Evaluation of Structural Changes in Polish Industry and in Foreign Capital Flow to Poland in the Period of Systemic Transformation', in *Economic Developments and Reforms in Cooperation Partner Countries: External Economic Relations with Particular Focus on Regional Cooperation*, NATO-COLLOQUIUM, Brussels: NATO.

Table 5.2 Polish export to the European Union 1991-2000

Year	Export to the EU Mln ECU/euro	Year 1991 = 100	Export to the EU in % Of total export
1991	5559	100.0	51.5
1992	5880	105.8	57.9
1993	7644	137.5	63.3
1994	9083	163.4	62.7
1995	12260	220.5	70.0
1996	12755	229.4	66.3
1997	14573	262.1	64.2
1998	17188	309.2	68.3
1999	18088	325.4	70.5
2000	24017	432.0	69.9

Source: 'Handel Polski z UE', RCSS, Warszawa 2002.

Table 5.3 Polish import from the EU 1991-2000

Year	Import from the EU mln ECU/euro	Year 1991 = 100	Import from the EU in % of total import
1991	6093	100.0	48.2
1992	7617	125.0	62.1
1993	9210	151.1	57.3
1994	10427	171.1	57.5
1995	14358	235.6	64.6
1996	18695	306.8	63.9
1997	23807	390.7	63.8
1998	27676	454.2	65.9
1999	27957	458.8	64.9
2000	32456	532.7	61.1

Source: 'Handel Polski z Unia Europejska w okresie obowizywania
Ukladu Europejskiego', RCSS, Warszawa 2002.

Table 5.4 Polish share of EU's external trade in %

Year	Polish % of EU import	Polish % of EU export
1991	1.26	1.86
1992	1.45	1.87
1993	1.56	2.05
1994	1.69	2.03
1995	2.25	2.67
1996	2.11	3.19
1997	2.12	3.48
1998	2.28	3.85
1999	2.26	3.81
2000	2.26	3.60

Source: 'Handel Polski z Unia Europejska', RCSS, Warszawa 2002.

However, if as Kawecka- Wyrzykowska has maintained "the trade deficit as well as the resulting commodity pattern can be used as two yardsticks to measure the advantages of

the EA for the Polish economy”, than the developments in both have not been favourable to the assessment of the EA. The commodity pattern includes elements such as the size and structure of trade, orientation and direction, specialisation and CA⁷⁷, while a trade deficit is defined as the difference between a country’s total exports and imports of goods and services.⁷⁸

In 1992, Poland’s trade surplus with the Union turned into a deficit and has remained so throughout the next decade, deteriorating to highest levels in 1998 when a record -11,757.5mln US\$ was reached, a staggering 6.5% of Polish GDP. While Poland was recording a large overall trade deficit, the main source of this imbalance stemmed from trade with the European Union. This situation contributed to other macroeconomic difficulties, leading to the deterioration of the current account and to worsening balance of payments problems between 1995 and 1998.

D Rosati has argued that prior to 1992, the high growth rates of trade with the EC in 90’ and 91’ “suggest that a substantial trade creation effect, stemming from the general liberalisation of trade and currency convertibility, must have been reinforced by a trade diversion from CMEA markets to the West.”⁷⁹ In 1992, exactly at the time of going into effect of the Interim Agreement, the situation noticeably turned for the worse. This appearance of the deficit could be attributed to both the conditions prevalent in the domestic transition, particularly the appreciation of the zloty, and to restricted market access in the West.

Although increased flows of imports are a natural phenomenon for states in transition, explained by an augmented propensity to import due to high growth rates and the need to bring in equipment and materials for supply and production, particularly for FDI firms, the levels of the deficit suggest that the import/ export structure was much more complicated than could be explained simply by reference to the growth of domestic demand. For example, Orłowski maintained that while it was true that the trade imbalance could have been attributed to rising demand for imports, as a result of falling domestic output and production and better competitiveness of imported products, the deficit never the less has been caused “less by the desire of Poland to import and more by the desire of the EU to export.”⁸⁰

The import structure has likewise exhibited worrying tendencies, and thus far the Polish tariff structure created under the EA has been deficient in accomplishing long- term

⁷⁷ Kawecka- Wyrzykowska (1997). ‘Effects’. *ibid.*, p 125.

⁷⁸ Baldwin (1988). *ibid.* p 255.

⁷⁹ Rosati, D. (1994). *Changes in the Structure of Manufactured Trade between Poland and the European Community*. Warsaw: Foreign Trade Research Institute, p14.

trade policy objectives such as increasing national competitiveness. While, bringing in foreign capital and technological goods intended for investment is not a problem for the deficit, a significant proportion of Polish imports has been made up of consumer products, a phenomenon for which the framework of liberalisation within the EA has been partially to blame. The abrupt growth of consumption products and services exacerbated the growth of a structural current account deficit and suggested a need for the government to intervene.

Table 5.5 Polish import structure 1993, 1995, 2000 in %

Import	Investment	Supplies/equipment	Consumption
1993	14.7	64.8	19.9
1995	13.0	68.4	17.8
2000	14.7	66.3	18.8

Source: *Handel Polski z Unia Europejskaw Okresie Obowiazywania UE*, RCSS, Warszawa, 2002

Moreover, the deficit itself suggests that Polish producers, due to both internal and external factors, have had limited capacity to generate exports, until well into the decade following the going into effect of the Agreement.⁸¹ On the domestic front, supply side impediments to export growth have included the exchange rate policy (appreciation of the zloty) which has had adverse effects on the export competitiveness, shortages of export credits and insurance, low production capacities, low quality of goods and services, lack of proper marketing, export promotion or distribution. All of these factors can generally be attributed to the neglect of subsequent Polish governments as well as the policy framework of the EA to provide for a long term, coherent industrial and export promoting policy in Poland.⁸² The low competitiveness of Polish manufacturing has mainly resulted from an outdated structures of fixed capital and production combined with low levels of scientific and technological absorption, all legacies from the socialist command economy.

On the external side, the ability to export has been curtailed by the recession in the EU itself, various non- tariff barriers that have curbed the possibilities of taking advantage of the concessions offered under the EA, as well as the structure of Polish exports,

⁸⁰ Orlowski (1997). *ibid.*, p 16.

⁸¹ Even when export did begin to grow, such as was the case in 2002, national 'competitiveness' has shown little improvement as Poland continues to export mainly low-tech. goods. Moreover, the recession in the EU, and Germany in particular, has forced Polish exporters to seek other markets such as Russia, the CIS, and Asia, where, again, low-processed goods have tended to dominate. Finally, precise comparisons in the growth of exports have been difficult as Polish government statistics have been inconsistently based on both the dollar and the Euro accounts and have fluctuated accordingly.

⁸² Orlowski (1997). *ibid.*

which has been dominated by products considered as sensitive and therefore subject to additional restrictions in the EU. Polish dependence on cyclical business situation in its main partners' economies has additionally compounded the situation. Finally a lack of information amongst Polish producers, as well as government officials, as to export opportunities in the EU, for which the Union side should be mostly held responsible⁸³, and the complicated procedures on the internal market have contributed to lowering Poland's capacity to export as well as ability to make full use of the preferential quotas.

B. Enterprise adjustment

As far as the microeconomic impact of the EA, on the import side the main positive effects stemmed from increased economies of scale, changes in market structure and productivity increases in individual enterprises, due to increased competition. The Polish consumer has likewise felt the benefits of liberalisation, as prices fell and diverse goods were made more readily available. The main costs and largest negative consequences for Polish enterprises came from the adjustment requirements of legal harmonisation with the Union's *acquis communautaire* and preparation for entry into the EU's internal market. As a result of the signing of the Agreement and the initiation of the adjustment process, Polish enterprises were confronted with the necessity to introduce changes and adapt themselves to the principles of Community law. These adaptation efforts to meet EU standards in areas such as environmental protection, regulatory alignment or social policy increased the costs of production for Polish firms, thereby having the effect of lowering their price- advantage competitiveness.⁸⁴ The huge costs of upgrading Polish businesses to the Union's norms, without adequate financial and technical support from the EU, have been difficult to absorb for Polish industry and agriculture.

Problems, stemming directly from legal harmonisation with the *acquis*, have included lengthy procedures of approval and granting of quality certificates in the EU, the discontinuation of sale of certain products and large reductions in state aid to ailing enterprises. Both small and large businesses have encountered immense difficulties in putting Community certification procedures into effect and implementing Community law on social and environmental policy. Moreover, most businesses have not been able

Munko, A. (1998). 'Wspieranie polskiego Eksportu w Kontekście Integracji z Unia Europejska', *Wspolnoty Europejskie*, Nr 11, Vol 87.

⁸³ The new, post-socialist Polish governments did not have sufficient resources, financial or informational, to be capable to adequately assist Polish exporters.

⁸⁴ See Kundera, J. (1998). 'Obroty Handlowe Polski z Unia Europejska', w *Studia Europejskie*, No 3, Vol 7, Warszawa: CEUW.

Kundera, J. i Ostrowska, E. (1998). *Wymiana Towarow i Inwestycji Miedzy Polska a Krajami Unii Europejskiej*. Wroclaw: Wydawnictwo Uniwersytetu Wroclawskiego.

to afford the high expenses and long waiting periods for standardisation, and, in the end, the costs for them have often exceeded the profits earned. While the institutional rationale for the approximation of laws is solid, from the point of view of economic considerations, it could be argued that harmonisation proceeded too quickly and without adequate attention paid to the flexibility requirements of transition.

The lack of EU advice on implementation of a complex and coherent strategic trade or industrial policy in Poland or requirements within the EA to do so, coupled with increasing levels of EU imports, have contributed to the destruction of many key sectors in Poland as well as hindered the development of modern industries in their infant stages, both which needed additional protection before being opened up to competition.⁸⁵ This was especially true for the textiles and clothing industry, pharmaceuticals, telecommunications, electronic, paper and wood industry and automobiles. Polish government reports confirmed that sectors such as the steel, milk and food processing industries were and are still not ready to face open market forces without special protection.

In addition, the problems of over-production capacity in Poland and growing surges of EU imports were exacerbated in those in those sectors classified as sensitive within the EA and fell disproportionately on Polish infant industries. In accordance with new trade theories, Orlowski concluded that “rather than liberalising strategically and selectively, the government opened up too quickly in these sectors, thereby knocking them out.”⁸⁶ (see chapter seven). According to this author’s analysis, the gains to be gained from transparent and temporary protection, even picking winners, would have far outweighed the costs, and in the long run would have been a better tool in achieving consistent liberalisation than excessive opening, followed by ad hoc reversals in response to social crises and illicit rent-seeking activities.

In sum, the liberalisation schedule within the framework of the EA seemed to neglect the realities of Polish backwardness suggesting that the main flaw in the EU’s strategy for Polish modernisation was to underestimate the enormous difficulties to be overcome by Polish enterprises and not provide for a much more active policy-mix within the framework of the EA. On the internal supply side, radical liberalisation and a dismantling of tariff barriers was not accompanied by a coherent industrial and export promoting strategy. The EA failed to provide a strategic approach to trade liberalisation, which would grant selective and temporary protection to certain key industries in order

⁸⁵ Michalek, J. (2000). ‘The Europe Agreement and the Evolution of Polish Trade Policy’, in *Yearbook of European Studies*, No 4, Warsaw: CEUW.

to allow them to successfully restructure, adjust to the changing environment and reach minimal levels of competitiveness. On the external, demand side, the asymmetry granted under the EA was not enough to induce the development of Polish competitiveness and lead to an increasingly technologically advanced and sustainable export-led growth. Domestic flaws in trade and industrial policies were thus deepened by the structure of the liberalisation schedule in the EA, whereby sensitive products in which Polish producers had a comparative advantage in were protected most fiercely in EU markets.

Polish enterprises were unable to overcome the various informational, technological and organisational barriers in order to effectively expand their activities and conquer EU markets. On the other hand, EU enterprises had a huge comparative advantage of not only better quality goods and services, but more importantly knowledge and experience of functioning in an open, market based and global economy. The final outcome was to increase calls for protectionism from Polish industry and agriculture ultimately contributing to reversals in liberal economic reform measures themselves.

C. Sensitive industries

Because the commodity pattern of Polish trade has been based on specialisation in sensitive products, the importance of these sectors for the domestic economy was crucial for various reasons. In the first place, the majority of sensitive products come from ailing traditional industries that were being forced to undergo rapid restructuring to overcome their backwardness inherited from the socialist economy. Due to the over-emphasis of the command system on these traditional sectors, they remained the main source of employment for many Polish regions and for large segments of the population. At the same time, the stagnating structures of the socialist system as well as its isolation from world markets did little to induce these industries to increase their effectiveness, thereby hindering the type of modernisation processes going on in the West. When socialism collapsed and the transition to the market was initiated, the over-capacity and over-employment levels in these traditional sectors was much higher in Poland than in the EU, where restructuring had been taking place since the early 70's. This meant that the adjustment of these enterprises would have to occur at much faster speed that was permitted in the West, thus having higher economic and social costs. Since 1990, all Polish enterprises have been operating in a troublesome external environment, due to falling domestic demand, loss of the traditional CMEA markets, the inability to enforce payments of outstanding debts, rising prices of supplies, increasing

⁸⁶ Orlowski (1997). *ibid.* p 14.

tax burdens, increasing competition and the credit trap resulting from high interest rates as a part of governments macroeconomic stability programme. Many of the loss making enterprises never recovered from the shock of 1990 where sales losses grew immensely. Those that did were further subject to the increasing pressure of competition as Poland began to open up as well as to reorient its trade pattern from East to West. A carefully planned out strategic trade policy, based on gradual opening on the one hand and securing markets on the other, as well as fair competition on world markets was crucial for the survival of these sectors, guaranteeing their successful modernisation and future development.

However, while Polish commodity structure of trade has continued to display comparative advantage in these traditional labour and resource intensive industries, the exported products were classified as sensitive in the EA and subject to extra-ordinary protection. In the early 90's, over 60% of Polish exports to the EU were made up of sensitive products, in textiles and clothing, leather, ores and metals, food, beverages and tobacco, and chemicals. Experts therefore considered it unjustifiable that the timetable for liberalisation of the EU's markets was slowest for these goods.

In 1992, the EC's highest trade barriers were spread across different sectors in capital-intensive factors (food processing, metallurgy, motor vehicles), labour intensive (textiles, clothing and footwear) and energy intensive (iron and steel, starch and sugar). The highest protection levels were against labour intensive products, a total of 16.65% of Polish exports in 1992 and Poland's specialisation.⁸⁷ In 1993, 30% of Polish industrial exports fell into the group with highest tariff rates in the EC.

Moreover, because economists do not consider tariffs as the primary import barrier for industrial goods in the EU, their liberalisation reductions in the subsequent years did little to significantly improve market access for these Polish products. Rosati observed that,

*in the short term, the impact of tariff reductions in imports from Poland to the EC has been negligible, because these are not the most important factors in restricting access to the EC. On the other hand, the impact of removing other Non-Tariff Barriers and Quantitative Restrictions has not been very pronounced.*⁸⁸

QRs continued to be concentrated on those commodity groups, which were most important for Poland, namely textiles and metals, affecting 20% of Polish exports in 1993. 60% of products continued to be subject to other NTB's.

⁸⁷ Rosati (1994). *ibid.*

⁸⁸ Rosati (1994). *ibid.*, p 62.

The sectoral implication of radical trade liberalisation coupled with restricted market access to Poland's main trading partners in the Union was to have serious consequences for employment levels as the centrality of sensitive industries for the Polish economy could not be undervalued. While still in 1995, Poland's trade deficit with the Union amounted to –3, 058 mln Euros, by 2000 it had reached –10,559, contributing to macroeconomic instability as the current account deficit increased and strengthening the overall symptoms of a recession. In turn, the growth of the trade imbalance signified that jobs in Poland were being lost to those in the Union. By 2000, unemployment levels in Poland had reached 15.1%, rising to 18.1% by 2002.⁸⁹ (See chapter seven). In addition, under the EA, the EU side has expected Poland to restructure these sectors to avoid EU markets being destabilised by large supplies of cheap Polish products. The Association Council has been directly involved in overseeing the adjustment efforts in Poland, pressuring the candidate to reduce production capacities and making state aid and delays in tariff reductions conditional upon the Polish side presenting restructuring programmes based on employment and output reductions. The government has been faced with some rather difficult dilemmas in order to meet the conditions set out by the Association Council and framed within the EA and restructuring has proceeded haphazardously. While production quotas have been introduced and employment levels curtailed in some industries and at random intervals, other sectors have undergone minimal restructuring and have instead continued to display socialist command structures.

D. Agriculture

If sensitive industrial products have constituted an important part of the Polish economy and of Poland's export specialisation, this has even more been the case for agriculture. The significance of the agrarian sector stems from the fact that it makes up about 26% of Poland's work force. Typical of traditional agrarian societies, the productivity of this sector is low, reflected in the disproportionate share of the gross national product, which tends to fluctuate around 6%. Since the beginning of transition, Polish agricultural policy has evolved through three very separate stages, marked by radical liberalism between mid 1989 and mid 1991, followed by return to protectionism until 1994, and finally a more coherent agrarian development and rural policy from 1995 onwards.

⁸⁹ Export growth creates jobs by expanding demand for certain products and thus increasing demand for the supply of labour, while the opposite is true for the growth of a trade deficit. This is particularly true in transition economies where the adjustment costs are high and there are large market distortions contributing to wage and price rigidities as well as general domestic factor immobility. Economists in these cases suggest temporary protection as a superior alternative to permanent or inconsistent protection. See trade theory.

The problematic nature of Polish agriculture is beyond the scope of this chapter, but its importance should be stressed here as far as Polish trade is concerned. The complexity of world trade in agricultural goods has been further compounded in the Polish situation where the destruction of the sector would have meant destabilisation of the entire economy, threatening a social and political crisis. For example, 35% of total unemployment in Poland has its sources in the agricultural sector and rural areas, where unqualified farmers have been unable to find work outside of their trade.⁹⁰ In fact, the majority of these rural inhabitants might never find work again as their potential employers tend to be those industries undergoing restructuring and cutting employment levels.

On the other hand, self-adjustment for individuals in the villages has been particularly difficult in Poland because of various market-distortions. Often incompatible economic policy goals have tended to complicate the situation further on an already inflexible labour market. High interest rates, due to the need to curb inflation, have stifled investment, and an increasing tax burden combined with rising prices of production have led to drastic falls of income for family farms. The educational degradation of the village has made seeking employment outside of very low qualified trades virtually impossible, leading to a situation whereby transition has actually made it harder than under the previous system for young rural people to advance socially. Moreover, the poor state of rural infrastructure has been deteriorating, thus far largely neglected by the government due to budgetary constraints.

Finally, the lack of demand and structural problems accompanying the privatisation process have negatively affected investment in the agrarian sector.⁹¹ Fiscal concerns have decreased the possibility for public financing, and the question of land ownership has been an obstacle for foreign investment.

Between April and August 1989, agricultural reform centred around the liberal notion that the market should be introduced with as little government intervention as possible. Production processes were thus freed, and nearly all subsidies to farmers abolished. Rising costs, due to inflation, led to cuts in output levels and paradoxically resulted in

Dillon, et al.(1990). *Assessing the Usefulness of Trade Theory for Policy Analysis*. ibid

⁹⁰ See Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *Accession or Integration? Poland's Road to the European Union, EU Monitoring II*. Warsaw: Friedrich Ebert Stiftung.

Hausner, J. and Marody M. (Ed.) (1999). *Three Polands: The Potential for and Barriers to Integration with the EU, EU Monitoring III*. Warsaw: Friedrich Ebert Stiftung.

⁹¹ Kawecka-Wyrzykowska, E. (Ed.) (1995). *Prospects for Trade in Sensitive Products between Poland and the EU*. Warsaw: Foreign Trade Research Institute.

Mayhew (1998). ibid.

an increase in food prices. 1990 witnessed a 41% fall in agricultural output. As the rest of society underwent adjustment shock, incomes fell and consumption was reduced to a bare minimum, leading to further falls in demand for agricultural products.

Following a wave of strikes in July, the government partially reinstated some subsidies as well as introduced minimum prices for certain products. However this provided little relief to the Polish farmers because it coincided with massive increases of agricultural imports, which served to drive out many local producers. The falls in farmers' revenue were further complicated by a hard drought between 1992-1993, as well as ongoing land reform and restitution problems. Debts and bankruptcy were on the rise amongst the family farms, and the pressure on the government to protect agriculture from foreign competition increased. To make matters worse, the collapse of the CMEA took away traditional food markets, while it seemed that the EC was unprepared to absorb the extra import surplus from Poland. The villages in turn responded through a growing wave of violent protests and demonstrations.

As discussed in chapter two, the Europe Agreements did little to liberalise trade in agricultural products between the Community and Poland. Moreover, the standstill clause pertaining to industrial products, preventing a return to restrictive measures following their liberalisation, was not applied to agriculture. However, because was once considered a traditional exporter of agricultural products⁹², one might have expected Polish exports to grow to the Union despite the lack of formal liberalisation. The fact that the agricultural trade surplus still recorded in 1992, turned quickly into a deficit suggests that the concessions granted under the EA were too small to balance the disadvantages of the Polish producers. It also implies that perhaps the restrictive nature of the EA actually reinforced the EU's general protectionist stance in agricultural trade. Criticism of agricultural liberalisation within the EA has been based on two observations. On the one hand, the access granted to Polish exporters was not enough seriously to provide them with the opportunities to develop their potential and take advantage of their comparative advantages, while, on the other, the system of preferential quotas used by the Union, even within these minimum concessions, further hindered the ability of Polish producers to export. The two main food groups that Poland has been exporting to the Union have consisted of live animals and meat, and fruit and vegetables, both characterised by an intensely restrictive import system in the CCP and the CAP. Czyzewski thus observed that "undoubtedly, the EU's dominating position in trade exchange of agricultural-food products with Poland became much

⁹² Especially in the inter-war period.

stronger since the EA was signed.”⁹³ In addition, Radzimska demonstrated that the effect of creation and shift in trade calculated since the going into effect of the Interim Agreement in 1992 was twice as high for the EU agricultural goods as for Poland.⁹⁴ In sum regardless of the criteria used to assess the EA, the existence of the dramatic trade deficit means that thanks to Polish consumers, jobs were secured for many producers of food in the Union, exporting to Poland.

The EA concessions consisted of reductions in levies within preferential tariff quotas as well as some lowering of custom duties. The planned quotas remained unused when prices on the EU market fell below minimum levels, established within the CAP. In addition, the small EA concessions were even less significant quantitatively than they appeared on paper, because they did not correspond to the potential trade pattern of post-1989 Poland. The preferential tariff quotas were based on the pre-transition period, under the command economy, and established on an irrelevant historical pattern, while changes in production structure following the introduction of the free market made it very difficult to utilise many of them. For example, a rather substantial quota was granted for the export of Polish buckwheat, a crop Poland no longer specialised in producing after 1989. Furthermore, the quotas were fixed on the basis of production between 1989 and 1990, where agricultural output had witnessed the most dramatic deterioration.

The complicated procedure required to obtain preferential access to the EU’s agrarian markets, combined with a lack of information, time and money by Polish producers wishing to export to the Union further lowered the potential utilisation of the quotas. Under this system, the Union has imposed obligations on possible importers to participate in tenders and pay a deposit, to be kept indefinitely, in case the planned transaction was not carried out. Additionally, exporters have had to prove that they have been carrying out the activities involved in the application for at least 12 months and that their firms have been registered in EU countries. The lack of an informational system which would provide the Polish producers with the necessary knowledge about the needs of the EU market, how the quotas are to be applied for and used, or the availability of credits in the importing countries, together with other political barriers and bureaucratic obstacles have seriously hindered their ability to make full use of the concessions granted. As Grzelak concluded, “taking advantage of the preferential quotas

⁹³ Czyzewski, A. and Grzelak, A. (1998). ‘Initial Experiences of Integrating the Polish Agricultural Food Sector with EU Markets’, in Zielinska-Glebocka and Stepniak (Ed.) (1998). *ibid.*, p 279.

⁹⁴ Radzimska, T. (1996). ‘W która stronę asymetria?’, *Zycie Gospodarcze*, Nr 24, p 29.

requires time and money, and it is by no means sure that the preferences (margins) obtained will provide sufficient compensation, for the procedure required.”⁹⁵

Meanwhile, the EA foresaw the possibility of further negotiations on concessions in agricultural trade, and, in the spirit of Copenhagen, the Community did indeed declare to further open up its market on a unilateral basis. Never the less, the concessions actually granted were minimal, causing some to observe that they were nothing more than a political move and not a wish to facilitate the access to unions’ markets for Polish products.⁹⁶ In 1997, the Additional Protocol adjusting agricultural trade to the effects of the EFTA enlargement and to the Uruguay Round also increased some agricultural quotas by 10%, but the real breakthroughs in agricultural liberalisation were not achieved until 2000, when the double zero agreement was signed.⁹⁷

Moreover, issue of fair competition in agrarian trade between the Union and Poland, on both domestic and third markets, has evolved around the controversial subsidies provided to EU farmers within the Common Agricultural Policy. Direct payments to farmers as a compensatory mechanism for reduced prices do not exist in Poland, and subsidies were only partially reinstated in 1992 following their total elimination in 1989. Because the Polish government has not been granting these kinds of price supports to its farmers, they have been unable to compete with the cheaper foods stuffs exported by the Union, both within the FTA and to third markets such as Russia. Thus highly price competitive and attractive EU imports, especially processed foods, sugar, dairy, beef and pork, coupled with restrictive trade barriers have contributed to the Polish domestic agricultural problems as well as had a destabilising effect on world prices, making Polish producers uncompetitive in third countries entirely due to external factors.

The question of level playing fields competition has not only concerned the EU’s subsidy scheme. In general, Polish farmers have been granted considerably less protection than their equivalents in the Union. The net percentage Producer Subsidy Equivalent⁹⁸ of the value of Polish agricultural production was 15% in 1990, compared with 47% in the EU, rising to 28% in 1996, and still well below the 42% in the Union. Moreover, intervention prices during this time were 30% of those in the EU for beef and 28% of those for milk, the two most protected sectors in the EU. Generally most other

⁹⁵ Czyzewski & Grzelak (1998). *ibid.*, p 281.

⁹⁶ Kawecka-Wyrzykowska (1999). *ibid.*, p 36.

⁹⁷ This agreement called for both sides to lower their tariff levels to zero and eliminate subsidies on unprocessed agricultural products.

⁹⁸ Producer subsidy equivalent- established by the OECD, reflects state support to farmers, such as direct payments, tariff and non-tariff protection and other benefits, like VAT or tax exemptions.

farm gate prices were well below those in the Union.⁹⁹ This leads one to the observation that in order to be able to effectively compete with the Union's agricultural products and ensure level playing fields in agrarian trade, the Polish government would have to accordingly raise the levels of price supports and other types of domestic protection provided to its farmers.

Taking all the above factors into consideration, Mayhew concluded that,

*the agricultural articles in the EAs were not supportive of economic reform in the associated countries, and they contributed greatly to a sense of disillusionment with the market economy. It seemed paradoxically that Community political leaders were forever preaching market reform in CE while at the same time closing Community markets for farm products. This was interpreted as some sort of cynical managed-economy game at the expense of the reforming countries!*¹⁰⁰

E. Contingent protection

An assessment of the EA on the Polish economy is not complete without a remark on contingent protection.¹⁰¹ While this issue is examined more thoroughly in chapter seven, it is worth mentioning here the possible economic consequences of this type of protection.

Despite the standstill clause, the Europe Agreement left a large scope for manoeuvre within the various loopholes in the law that allowed both partners to effectively protect domestic producers through various Non Tariff Barriers. These NTB's have often been applied based on discretionary decisions and subject more to political influence than economic motives. Kaminski pointed out that, "clearly the EA has not deprived the EU of resort to its most favoured import restricting tool- 'voluntary' quotas in the name of safeguards and tariffs against dumping."

Moreover, the share of NTB- affected exports has been significantly larger for Poland on average than for other developing countries exporting to the EU.¹⁰² In 1995, NTB-affected measures accounted for 30% of all Polish exports to the Union. 60% of these were subject to Voluntary Export Restraints, whereby the Polish producer agrees to limit exports in order to avoid imposition of mandatory restrictions by the EU. 12% of the NTB- affected measures were exposed to "other entry charges", like fees paid for

⁹⁹ Mayhew (1998). *ibid.*

¹⁰⁰ Mayhew (1998). *ibid.*, p 250.

¹⁰¹ See Ehrenhaft, P., Hindley, B., Michalopoulos, C. and Winters, L.A. (1997). *ibid.*

Bofinger, P. (1995). 'The Political Economy of the Eastern Enlargement of the EU'. *ibid.*

Wang, Z.K. and Winters, L.A. (1993). 'EC Imports from Eastern Europe: iron and steel', *CEPR Discussion paper series*, No 825, London: CEPR.

Rządowe Centrum Studiów Strategicznych (2002). *Handel Polski z Unia Europejska w Okresie Obowiązywania Układu Europejskiego*. Warszawa: RCSS, Departament strategii i integracji międzynarodowej.

¹⁰² Kaminski (1999). *ibid.*, p 7.

product certification. Another 8% was affected by variable levies designed to raise the price of an imported good to that of a corresponding domestic product. The remaining 20% of NTB-affected exports faced seasonal duties, Anti Dumping investigations and Countervailing Duties.¹⁰³ Moreover, even though agricultural products and animal feed have faced the highest levels of nominal tariff protection, they have also been some of the most NTB-ridden products on the EU market. For manufacturers, leather and leather goods, textiles, yarn and fabrics, as well as clothing and footwear have displayed the highest incidence of NTB's.¹⁰⁴ Because of the deterrent effects of these measures, discussed in the following chapters, Polish producers have chosen to restrict their exports voluntarily, or, alternatively, to increase their prices in order to avoid the cumbersome investigation process and the numerous sanctions that could potentially be applied.

In short, Kaminski concluded:

*NTB's have constituted an important impediment to Polish exports and, in specific sectors, they might have put a brake on trade expansion. Export expansion (especially of sensitive goods), price distortions and implicit subsidies which have yet to be removed seem to have made Polish exporters an easy prey to EU vested interests. Therefore, one may suspect that Polish exports might have been significantly larger in the absence of NTBs.*¹⁰⁵

Conclusion

The objective of the Europe Agreement was to improve the competitiveness of Polish industry and agriculture by stimulating productivity levels and changes in the commodity structure of both imports and exports. However, as E Kawecka-Wyrzykowska has demonstrated, the commodity pattern of Polish trade has not responded explicitly to the liberalisation under the EA. In some cases, for example, preferences offered by the EC were granted for products, like microwave ovens, never exported by Poland!¹⁰⁶

While, the structure and composition of Polish exports has experienced some positive changes in the last ten years, as is reflected in the increasing share of labour and capital intensive goods¹⁰⁷, by the end of the 90's, 60% of Polish exports continued to be

¹⁰³ Kaminski (1999) *ibid.*, p 8.

¹⁰⁴ These amount to 31% of Polish manufacturing exports and 20% of total exports.

¹⁰⁵ Kaminski (1999). *ibid.*, p 9.

¹⁰⁶ Kawecka-Wyrzykowska (Red.) (1998). 'Ocena Stopnia Realizacji'. *ibid.*

¹⁰⁷ In 1998 for the first time, the trade structure began reflecting growth of higher value added and technologically advanced goods, at the expense of semi-finished and raw materials. By 1999, higher value added goods constituted about 18% of exports, and increase of 6% over 1992. This was apparent in the increases of Poland's largest three commodity export groups, namely electrical machinery products, furniture and lightening equipment, and textiles and apparel. However, because the biggest share of Polish foreign trade turnover in advanced products has come from firms with foreign direct investment, it is difficult to attribute this change in the commodity structure as directly related to the EA.

resource and labour intensive products, such as clothing, furniture, copper, coal, textiles, live animals, fruits, vegetables, steel & iron products, shoes, and paper products, with only motor vehicles representing the more technologically advanced goods. Moreover, the Polish commodity structure to date still displays comparative advantage in traditional sectors, characterised by unqualified labour, natural resources and energy intensive products. This is especially evident in raw labour-intensive, agricultural products such as soft fruits and vegetables, as well as some processed foodstuffs, such as apple juice, meat and meat products. These Comparative Advantage sectors display output that is relatively unprocessed, employing traditional production technologies, and, while the demand for them is income inelastic, strong competition on markets world wide, especially among developing and emerging countries, makes the prospects for trade expansion very limited. The openness of markets to these exports thus determines their success; and, unfortunately, they are still prone to highest protection levels in the EU.

Another significant problem of the pattern and composition of trade that has developed between Poland and the EU within the framework of the EA is that top quality goods based on highly skilled labour have tended to flow mainly in one direction, while low skilled labour, mass-produced goods have been shipped in the other. This has led to inter-industry rather than intra-industry trade specialisation and increased demand for skilled labour in the EU, while reinforcing Poland's comparative advantage in unqualified labour. The country's dependence on price competitiveness, subject to cyclical downturns in the partner's economy, has thus been further exacerbated. Moreover, because modern industries have been located on EU territories rather than in Poland, this has had a negative impact on the outflow of qualified Polish labour, leading to the so-called brain drain phenomenon.

Other criticisms of the sectoral impact of the EA, have included the negative effects of the outward processing traffic rules on textiles, which seemed to have been designed to keep fully made Polish products out of EU markets, while favouring semi-finished goods produced by EU multinationals. These overly restrictive rules have discouraged Polish exporters and producers from developing their own independent capacity, making their manufacturing contingent on orders and inputs from the outside.

In addition, from 1999 onwards, other factors that have contributed to Poland's strengthening national competitiveness and decreasing trade deficit have included a devaluation of the zloty, higher productivity as firms were forced to cut costs and decrease wages in response to an economic recession and Russian crisis, and falling levels of investments/ savings due to political instability and falling attractiveness of emerging markets. Thus export growth and gains in effectiveness of national firms were once again not attributable to the EA.

Similarly, the EA has contributed to trade diversion in several key Polish sectors. In the automobile industry, for example, the additional annex provided for in the EA created voluntary import expansion schemes in Poland that have favoured the EU car industry at the expense of third countries¹⁰⁸, while various EU multinationals have lobbied the Polish government for increased tariff protection, angering the United States and provoking reservations from the WTO.¹⁰⁹

The fact that the Polish structure and commodity pattern of trade has not changed enough to clearly improve the country's competitiveness, despite twelve years of reforms, suggests that the application of contingent protection and of restrictive rules of origin within the EA as well as the restricted liberalisation of sensitive products could have had a deterrent effect on investment, hindering the modernisation of the Polish economy. Regardless of the effects on investment, it could be argued that in general the EA did not serve to promote the development of Polish competitiveness, but has rather contributed to prolonging an outdated and backward composition of trade. From the point of view of integration theories, rather than evolving towards complementary structures of trade, Polish-EU exchange has continued to be dominated by competitive, inter-industry trade.¹¹⁰ As such, the composition of Polish trade has been a barrier not only to the development of Polish exports, but also to the entire process of integration with the European Union and ultimately to long-term sustainable domestic growth in general.

Thus, following detailed analysis of the impact of the EA on the Polish economy, Kawecka Wyrzykowska concluded that, "while a change in the commodity pattern is highly desirable in Poland's trade with EU, and the Europe Agreement has done little to help this."¹¹¹

The effects of the Europe Agreement on the Polish economy analysed above seem to suggest that the direct and short-term benefits of the liberalisation schedule have been stronger for the European Union than for Poland. There appears to be an inherent flaw in the make up of the EA, whereby the declared asymmetry in favour of Poland has turned out to either be too limited to provide the necessary incentives for sustainable export-led growth and modernisation of the Polish economy, or that the dismantling of

¹⁰⁸ See Flemming & Rollo (1992). *ibid.*

Mayhew (1998). *ibid.*

¹⁰⁹ Especially Fiat and Phillips.

Levigne, M. (1995). *ibid.*, p 216.

¹¹⁰ Plowiec, U. (1998). 'Polands preparation'. *ibid.*, p 289.

See also Pawlas, I. and Tendera-Wlaszczuk, T. (1999). *Poland's Economy Competitiveness with Respect to the Integration with the European Union*. Warsaw: University Centre for Europe, Warsaw University.

¹¹¹ Kawecka-Wyrzykowska (1997) *Stosunki*. *ibid.*, p 250.

tariffs in some sectors has been offset by continued restrictiveness in others. Moreover, the introduction and increasing incidence of application of various Non Tariffs Barriers by the Community have greatly eroded the margin of preferences granted to Polish producers. Because NTBs have been the main source of protection on the EU market, the full benefits of trade liberalisation could not be achieved until these procedures were limited and bound by clear rules. In this respect, the EA did little to help liberalise trade because as Kamiski pointed out, “while the Agreement is very specific on tariff measures, it does not embrace any special provisions that would limit the use of NTBs. Therefore tariff levels have been unlikely to change the level of protection.”¹¹²

By having reserved for itself the right to invoke contingent protection and diverse safeguard clauses at any time and under any alleged reason, the European Union has created a large element of uncertainty pertaining to trade relations between itself and the associated partner, disrupting not only economic relations, but having negative repercussions for political cooperation and finally exacerbating the difficulties of the transformation.

Inotai accused the Union of creating through the EA, an ‘asymmetric dependence’ whereby the candidates, much more dependent on trade with the EU than vice versa, have been in a much weaker position in the process of bargaining and have thus had to concede to the Union’s demands even at the price of internal considerations.¹¹³

Moreover, the provisions of the EA were probably not flexible enough for developing economies and did not provide sufficient support for the process of transformation or opportunities for the associates to fully integrate with the Union.¹¹⁴ Finally, because the Agreements did not provide adequate transfers to balance the growing trade deficits,

¹¹² Kaminski (1999). *ibid.*, p 7.

¹¹³ Inotai, A. (1998) ‘Eastern Enlargement’. *ibid.*

¹¹⁴ See Maresceau, M. (Ed.) (1997). *Enlarging the European Union: relations between the EU and Central and Eastern Europe*. London: Longman.
 Dijck, P. van and Faber, G (Ed.) (2000). *The External Dimension of the European Union*. The Hague: Kluwer Law International.
 Keren, M. and Ofer, G. (1992). *Trials of Transition: economic reform in the former Communist bloc*. Boulder: Westview Press.
 Winters, LA. (Ed.) (1994). *Foundations of an Open Economy: trade laws and institutions for Eastern Europe*. London: CEPR.
 Maliszewska, M. (1997). ‘Kontrowersje Wokół Tempa Rozszerzania Unii Europejskiej na Wschód’, *Gospodarka Narodowa*, Nr 10.
 Pelkmans, J., Gros, G. and Nunez Ferrer, J. (2000). ‘Long Run Economic Aspects of the European Union’s Eastern Enlargement’, *WRR Working Documents*, No 109, The Hague: WRR Scientific Council for Government Policy.

they made adjustment highly one sided, clearly diverging from the classical Community method of enlargement.¹¹⁵

The negative balances that have occurred in trade of all the countries in transition with the European Union, emerging commodity patterns, continued application of CP, minimal progress in agricultural liberalisation, restrictive rules of origin and limited freedom of movement for services, labour and capital have demonstrated the deviation between the EU's rhetorical support for the transition process and reality. These developments have also indicated an ambiguity in the Union's collective conduct of its relations with CEE and Poland in particular. The increasingly protectionist stance of the EU as well as restrictive approach to budgetary transfers, as reflected in the financial framework of Agenda 2000¹¹⁶, have demonstrated the low political urgency of enlargement for the Union and the expectation of the member states that it could be achieved at minimum cost to themselves.

Finally, because of the lack of clarity as to the outcome of enlargement, best demonstrated by the inability of the Commission to propose any concrete dates until 2000, the uncertainty as to future membership has additionally lowered potential levels of investment in the region.

The current member states have proven reluctant to accept that the new members will be more competitive in some sectors and have instead continued to pressure the Commission to apply controversial restrictions to CEE exports, leading to numerous trade disputes, retaliation and growing pressure for protection within the candidates. This in turn has created mistrust and apprehension on both sides, contributing to a deterioration of relations in general and reducing or threatening to reduce the benefits of integration and future enlargement. For these developments in political relations, the author now turns to the next chapter.

¹¹⁵ In previous enlargements, large fiscal transfers, unavailable this time, were used to help the new members not only to adjust, but also to balance their trade deficits with the Union. Moreover, complete harmonisation and opening up of markets were only expected after accession.

¹¹⁶ Mahyew, A. (2001). *Enlargement and the Community Budget*, Warsaw: UKIE, March.
Mayhew A. (2002). *The Brussels European Council: historical step forward or short-sighted short-termism*. Warsaw: UKIE.

6. Political Consequences of the Europe Agreement: trade disputes

The management of trade disputes arising under the EAs has been an important stage in the policy alignment process. The extent to which both sides have been vulnerable to domestic interest group pressure presages more serious potential issues ahead during full accession negotiations.¹

Chapter five assessed the overall impact of the Europe Agreement on the Polish economy and suggested that the asymmetry granted under the Agreement turned out to be more in favour of the EU than of the Polish partner. This chapter, in turn, focuses in on the development of political relations between the associated partners within the framework of the EA and as affected by its implementation, by describing a range of trade disputes, accompanying tensions and consequently increasingly strained cooperation.

The scope for discussion on this issue is huge, not only because the Agreement covers a multitude of aspects of the association process, but also because regional integration is by nature a highly political process, subject to controversial compromises and often contradictory aims. Thus, the prospective points of contention and their impact on the partnership between Warsaw and Brussels could range anywhere from macro questions of budgetary transfers to micro issues such as the weight of herring. While recognising that it is impossible clearly to separate the diverse layers of integration, the author will restrict herself to a discussion of the major trends in relations, deliberately covering a small number of outstanding trade disputes and omitting the other contentious issues surrounding eastern enlargement, such as the free movement of labour, services and capital, direct payments to CEE farmers, questions of future institutional arrangements, Schengen procedures, ESDP or budgetary transfers. Although it is evident that these issues have represent the most difficult areas in the accession negotiations between the Union and the candidates, this paper concentrates rather on the difficulties encountered in trade relations during the phase of association.

It is the author's belief that the psychological impact of these contentious issues, as well as the economic consequences discussed in the previous chapter, have contributed to Polish disillusionment with the EU as well as with liberal trade policies. Because the EA has proven less beneficial to the Polish economy than initially expected and the political damage surrounding various aspects of the Agreement's implementation has been pronounced, the result was to reverse the trend towards greater policy

¹ Preston, C. (1998). 'Poland and EU Membership: Current issues and future prospects', *European Integration*, Vol 21, OPA, N.V., p152.

liberalisation in Poland, threatening to negate the most crucial benefit of association, namely enhanced policy stability and reform credibility.

I. Trade disputes and the Europe Agreement

Chapter one provided the reader with a theoretical background to international trade negotiations, maintaining that international bargains are not simply about relations between nations, but are more about the distribution of costs and benefits among domestic groups. Contrary to the expectations of neoliberal institutionalists, that policy stabilisation takes place when domestic reforms are externally 'anchored', this thesis contends that during association, it has been the two-way relationship between domestic interests and international politics that has determined the outcomes of the negotiations, conditioning national policy preferences and shaping the bargains eventually struck. In spite of warnings from political economist, in the early euphoria following the collapse of socialism, Prime Ministers, Presidents and Foreign Ministers in the elitists circles of high Europeans politics enthusiastically signalled their readiness to 'reunite Europe', undervaluing the future implications of interest group resistance to economic integration.² Convinced that eventually society would recognise their great historical accomplishment, the elites underplayed the potential threat to the integration project that would come from divided domestic opinion on the issue of enlargement and reluctant interests across the European continent. The political advantages of a generous approach to the applicants should have been obvious to EU governments, but despite what the Heads of States said, at the lower level, established attitudes and interests maintained their resistance to concessions.

In addition throughout the 90's, most EU leaders remained ambivalent about Eastern Enlargement, focusing on other priorities, while, due to abruptly changing government coalitions, Poland's ability to remind the Union of what was at stake in the relationship was reduced. Thus, while trade and mutual opening up of markets was considered to be the most important element in building partnership between Poland and the EU, trade, as A Mayhew has pointed out, "not only brings prosperity; it also brings conflict.

Accordingly, since the signing of the Association Agreements, almost all the Association Committees with Hungary and Poland have been dominated by contentious trade issues, which have frequently soured relations."³

² Rollo, J.M.C. with Batt, J. et al. (1990). *ibid.*

Brabant, J. van. (1993). *The New Eastern Europe and The World Economy: Eastern Europe after communism*. Boulder: Westview Press.

Winters (1994). *ibid.*

³ Mayhew (1998). *ibid.*, p 60.

Consequently, while the champagne was still pouring over the collapse of the Berlin Wall, petty trade disputes over banal technical issues, such as the size of cucumbers or the weight of baby calves, were already beginning to take over the economic, political and security calculations of the benefits of Enlargement for the whole of Europe. As Wallace aptly observed, “politics was following its own logic, not simply that of economics and technology.”⁴

In previous chapters it was shown that for the EU as a whole, the economic costs of opening up would have been marginal, even in the most favourable from the point of view of Poland variant of liberalisation. While the Commission recognised this argument, its initiative to be more generous to the weaker Polish partner was blocked by the interests of multiple regions and sectors within the individual member states. This, in turn, bred growing exasperation from the Polish side.

Concurrently, the complicated political economy process of trade policy making in transformation was proving to be an obstacle to the Polish government’s initial desire to liberalise, and domestic pressures led to progressive failures to fulfil Poland’s trade obligations.

As the atmosphere of tension increased around sensitive trade issues, highly visible to the public in the media, the association process was starting to amount to little more than tedious tit-for-tat bargaining. Regrettably, the political will for enlargement faded with each passing year, and the Commission was unable to take the political risks which might have lessened the domestic rent seeking activities, on both sides. While both associated partners were putting their short-term interests ahead of long-term European interest, attempting to secure for themselves the best possible terms of trade, the institutions of the Union remained too weak and divided to provide the leverage needed to stop the deterioration of relations. To reiterate the arguments of political economists, “it was political reverberations rather than economic consequences that became the obstacle to reaching agreement between a developed (EU) and a developing (CEE)”⁵, and the unfortunate result was increasing levels of protection in the Polish candidate.

A. The negotiations of the Europe Agreement

The informal discussions towards association between Poland and the Communities began on July 25th of 1990. Not having the experience, information, or knowledge that is available today, the Polish negotiators could not predict that, “by the end of the

⁴ Wallace, W. ‘Introduction: The dynamics of European Integration’, in Wallace (Ed.) (1991). *The Dynamics of European Integration*. London: Pinter for the Royal Institute of International Affairs, p 15.

⁵ Fontenay, P.de, Gomel, G. and Hochreiter, E. (Ed.) (1995). ‘Western Europe in Transition : the impact of the opening up of Eastern Europe and the former Soviet Union’. *ibid.*, p 95.

negotiations, the distance between Polish expectations and the Community's concessions would be significant."⁶

Already at the first meeting, the Commission, delegated to bargain in the name of the member states, refused to speak in any binding terms of possible Polish membership, even though this was a crucial issue for Poland and the Polish government's ultimate goal. The Commission claimed that the political and economic costs of putting into the Agreement a formal declaration as to the possibility of Poland's future accession were too high, and that neither COREPER⁷ nor the parliaments of the EC-12 would have accepted or ratified this binding statement.

Moreover, differences over economic integration were also evident. The Commission rejected the idea of setting up a customs union between Poland and the EC, only conceding to a possible creation of a Free Trade Area, but even within this limited framework, disagreements arose as to the free flow of labour, as well as trade in textiles, steel and agriculture. The least controversial aspect of the first meeting was the issue of political cooperation, resulting in the decision to set up formalised political dialogue between the associate and its partners.

At the second meeting of the delegations, it was thus confirmed that an FTA would be established according to the rules of article XXIV of the GATT, with a separate protocol provided for agricultural trade on the EC's insistence.

On December 22, the real negotiations began⁸, and it quickly became obvious that even if the Commission was ready to give Poland greater concessions, the member states steadfastly rejected any formula providing additional benefits to the candidate.

Coinciding with the touchy issue of membership aspirations, another dispute arose as to the formal composition of the Agreement. The Polish side wanted the incorporation of a financial protocol within an annex of the Agreement, formally institutionalising the priorities of the financial aid to be to Poland and giving Polish authorities greater say in the decision making over the allocation of the resources. Thanks to the persistence of P Benevides- Sales, the Chief EC negotiator, some general statements as to PHARE and loans from the EIB were eventually included in the EA, but the Commission was unable

⁶ For detailed description see , Tabor, M. (1994). 'Dynamika i uwarunkowania procesu negocjacji Układu Europejskiego', w Wysokińska (Red.) (1994). *Polska w procesie integracji ze Wspólnotami Europejskimi*.

The author had the chance to work with M Tabor, member of the Polish EA negotiating team, and discuss the details of the negotiations.

⁷ European Committee of Permanent Representatives

⁸ Poland was represented by the Ministry for Economic Cooperation with the Abroad, Ministry of Foreign Affairs, Council of Ministers, and until March 1998, the government plenipotentiary for European Integration, Minister J Saruysz-Wolski. The economic part of the EA was negotiated by the newly created Ministry of the Economy under Minister J Kaczurba.

to fully formalise the entire protocol, again giving in to the interests of the member states. Access for Poland to structural funds remained a taboo topic throughout the negotiations.⁹

In April of 1991, the then current President of Poland L. Walesa spoke of the insufficient preferences granted to CEE within the EA negotiations and warned that this would lead to the creation of 'a new gold curtain' to replace the old one made of 'iron'. Walesa argued that the Visegrad three needed trade concessions and investment more than direct financial aid or technical assistance, and that by failing to provide for these, the Community did not understand CEE aspirations to eventual membership. The divergence between the CEE goals and the limited concessions granted by the EU was, according to Walesa, damaging the development of relations. In response, Commissioner Andriessen proposed partial affiliate membership for CEE, an offer that was quickly rejected by both sides for very different reasons.¹⁰

The third round of negotiations began, after a certain impasse in the talks, on the 22nd April 1991. Because the Commission had now been given a wider mandate to negotiate in the name of the Member states, a somewhat better atmosphere prevailed between the Polish and the EC delegation. However, this reconciliation did not last for long, as serious disagreements arose on the notion of asymmetrical trade liberalisation particularly in sensitive products. Ireland joined France in rejecting bigger agricultural concessions for Poland, while Portugal stood its ground on giving better access for textiles. An already tense situation was made worse by the EC's decision to decrease the import quotas for Polish veal, mushroom and soft fruits, granted earlier in 1989 as a part of the GSP preferences.

In August of 1991, the association negotiations were overshadowed by the situation in the former Soviet Union, where Yeltsin was staging a coup to outstep Gorbachev. While the stability of the entire European continent was being threatened by daily events in the East, the French were busy complaining that the size of the quota for Polish beef and sheep meat was too generous. The French government backed by the Irish, who for their own reasons wanted to stall enlargement, managed to expeditiously secure credits for Polish products to be exported east, thus guaranteeing that the surplus of agriculture would not find itself on the EC's markets. Thus, the French farmers

⁹ R. Stewarska served on the government negotiating team.

Stewarska, R. (1998). 'On some consequences of the Eastern Enlargement of the European Union', in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.*, p 167.

¹⁰ Commissioner Andriessen presented an offer of partial- membership which was too far-reaching for the EC member states, while not enough for the Poles.

coupled with the Irish fearful of losing structural and cohesion funds to the poorer regions in the east brought the negotiations down to a battle of particular interests. In hindsight, Faini and Portes observed that, “the trade ministers were much less enthusiastic than their colleagues in foreign ministries and more inclined to bend to the pressure of their domestic and sectorial constituencies than to rhetoric of the cold war.”¹¹

On the 30th of November, 1992, the first serious dispute between the EC and Poland took place over the terms of dividing up the duty- free quota for cars imported into Poland amongst the member states.¹² This disagreement delayed the taking effect of the automobile protocol and consequently the liberalisation of the Polish automotive market. Finally, under the special annex devoted to automobiles, Poland agreed to a voluntary import expansion scheme in favour of the EC car industry. The government granted the Communities a duty free quota of 25,000 cars with catalytic converters and 5,000 without. According to Mayhew, “this extremely bizarre arrangement was clearly made to satisfy European companies.”¹³

Moreover, EC multinationals were at the forefront of seeking protection during the negotiations by pushing the Polish government for higher tariffs against third countries, before agreeing to invest. Fiat was the most glaring case, lobbying throughout the negotiations of the automobile protocol agreement for higher protection against US and Asian counterparts.¹⁴ As a result, Poland raised overall customs duties for motor vehicles from 15 to 35% in January of 1992 and excluded car tariffs from the Uruguay Round, thus breaching GATT GSP obligations granted prior to signing of the EA.¹⁵ Developing countries and India in particular were agitated by the duty free quota granted to the EC and took the dispute to the WTO. Under international pressure, Poland finally agreed to open up a temporary zero tariff quota for small passenger cars originating in developing countries.

Throughout the negotiations, the Polish side never had full certainty as to whether any issue already settled would not again be modified by the Communities. According to J Saruysz-Wolski, the government plenipotentiary for European integration and chief

¹¹ Faini, R and Portes, R. (1995). ‘Opportunities outweigh adjustments’, Faini & Portes (ed.) (1995). *ibid.*, p 6.

¹² English and French producers were somehow left out of the first version, allegedly because Poland did not want to give duty- free quotas to countries not willing to invest.

¹³ Mayhew (1998). *ibid.*, p 102.

¹⁴ Kawecka- Wyrzykowska (Red.) (1998). ‘Ocena Stopnia Realizacji Układu Europejskiego’. *ibid.* Levigne (1995). *The Economics*. *ibid.*

Rollo and Flemming (1992). *ibid.*

¹⁵ *Financial Times*, 26/02/92.

Polish negotiator, even after certain problems were resolved and agreement had been reached between the two sides, COREPER would at the last minute and without prior consultation, change the given proposition and send back the altered version to Poland. This particular method of bargaining was taken to its most absurd level when 90 minutes before the signing ceremony of the Association Agreements took place, Spain attempted to force the CEECs to accept voluntary export restraints on steel, something it had been demanding throughout the entire process of negotiations. The Spanish government insisted that without an additional protocol for steel, it would not sign the Agreement. Never-the-less, after joint consultations, the Prime Ministers of the Visegrad three together refused to accept this protocol and, in order to avoid humiliation, Spain was forced to concede. After much ado and already frayed relations, The Europe Agreement establishing association between Poland and the Communities was finally signed on 13 December, 1991.

Even though the Polish side was prepared to wait longer to end the negotiations until it could secure more favourable conditions, the window of opportunity was closing quickly, and the public was expecting some sort of concrete result of the protracted talks. Moreover, the deteriorating economic situation at home was making reaching an agreement on market access crucial for the Polish elites to provide relief for the transition depression. From the point of view of Poland's negotiators, the economic parts of the EA were critical to allow the expansion of Poland's most competitive sectors while simultaneously protecting those industries which were threatened most by the huge costs of the reforms.

While some Polish academic circles insisted that transition and restructuring of the economy required subsidies and protection at home with unconditional access to markets abroad, other more liberal wings of the Polish elites supported the Commission's drive for tougher demands from the Polish liberalisation schedule, believing that the pressure from the EU would be essential to keep the government on track with the reforms and help it resist future protectionist pressures from threatened sectors. Former negotiator J Kaczurba even exclaimed following the negotiations: "Brussels was right! Integration had become a political football. I wish I had not negotiated such long transition periods for our steel works, refineries and banks. A dose of competition would have done them good."¹⁶

Thus the anchoring strategy was chosen for the reforms and the Polish liberal elites tied their own hands to avoid future policy manoeuvring. However despite internal

¹⁶ *Polityka*, 'Interview with J. Kaczurba', 01/02/97.

disagreements on the speed and scope of the Polish economic opening, all policy circles within Poland were in accord that the principle of asymmetric liberalisation was a fundamental prerequisite to a successful transition at home. In the meantime, the asymmetry provided for in the EA seemed to favour the Community, and the Polish government expressed its disappointment in the scope of concessions granted by the EC on the free flow of goods, services, capital and labour. Simulation results obtained by Polish economists, and confirmed by western studies¹⁷, indicated that even with a variant of trade liberalisation most favourable to Poland, it would still be the Community that would have the biggest benefits from the creation of an FTA. Summarising, M Karasinska- Fendler, another former member of the Polish negotiating team and subsequently Secretary of State for European Integration, commented that, “the behaviour of certain member states used to exasperate me during the negotiations of the EA. They claimed that Polish food and agricultural products would flood the EU market. That in itself was clear and conscious misinformation.”¹⁸

While the EC was thus formally insisting that the basic instrument of integration would be mutual market opening and compensation to the weaker partner through asymmetric liberalisation, its declarations were far divorced from the concrete preferences granted. Real asymmetry remained an intent on paper, but even before the ink was dried, it was obvious to the Polish negotiators for whom the Agreement would be beneficial.¹⁹

B. Implementing the Agreement

Well before the EA became operative, EC producers were already threatening Anti-Dumping actions against their Polish competitors in iron, steel and chemicals.²⁰ Moreover, throughout the course of the negotiations, various EC firms were busy actively lobbying their causes to both the individual member states and to the Commission.

¹⁷ Faini and Portes (1995). *ibid.*

Fontenay, P.de, Gornel, G. and Hochreiter, E. (Ed.) (1995). *ibid.*

Padoan, PC. (1994). ‘The Changing European Political Economy’, in Stubbs and Underhill (Ed.) (1994). *ibid.*

Rollo, J.M.C. and Smith, A. (1993). ‘The Political Economy of Eastern European Trade with the European Community: why so sensitive?’, *Economic Policy*, Vol 8, No 16, April.

¹⁸ *Unia & Polska*, ‘Interview with Maria Karasinska-Fendler’ (former Secretary of UKIE)’, 4/12/98, p 5.

¹⁹ Already in 1991, several members of the Polish team admitted being aware of the short-comings of the EA for Poland; interviews with E Synowiec, M Tabor, J Saryusz-Wolski, J Kaczurba., J Pietras.

²⁰ See Hindley, B.V. (1993). ‘Helping transition through trade?: EC and US policy towards exports from Eastern and Central Europe’, *EBRD Working paper*, No 4, London: EBRD.

Ehrenhaft, P., Hindley, B., Michalopoulos, C. and Winters, L.A. (1997). ‘Policies on Imports from Economies in Transition’, *World Bank Discussion Paper*, No 22, Washington DC: World Bank.

For example, according to J Rollo,

*EUROFER was in the room next door throughout the crucial stages. Not only did the EC iron and steel producers start to prepare wholesale AD cases in preparation for tariff liberalisation, but Eurofer even invited Czech producers to agree to a minimum price arrangement.*²¹

The EA reduced tariffs on EC steel by 20%, leaving the European steel industry more open to cheaper eastern imports. The over-capacity of the EC steel industry coupled with the coinciding economic recession led to increased pressure on Brussels to protect domestic producers of steel pipes. After an 18 month campaign, in November of 1992, the EC steel makers finally won the AD case against the 3 CEEs and Croatia. An AD duty of 10.8% was placed on Polish seamless tubes and pipes of iron or non-alloy steel and a variable levy on pig-hematite. Thus, when Quantitative Restrictions in steel were removed, the EC introduced other measures of protection, and a trade war erupted between Poland and the Communities in February and March of 1993. Moreover, for the purpose of the anti dumping investigation, Poland was treated as a State Trading Economy and consequently its AD duty was adjusted higher according to this non-market economy classification.²² M Levigne claimed,

*that while public opinion in the west was mobilised against the invasion of eastern goods, which was held responsible for losses of jobs in the industry, the highly cartelised western steel industry was deliberately increasing unemployment by its own trade practices.*²³

By 1992, 50,000 employees had lost their jobs in the Polish steel mills and were left without any additional social safety nets, unlike their counterparts in the west. This however did not constitute an important enough reason for the EC to give up its use of AD duties.²⁴

In the meantime, an agricultural trade war erupted in April of 1993. The EC had put a ban on Polish even-toed animals and products thereof due to the supposed detection of

²¹ Eurofer- Association of European iron and steel producers.

Rollo, JMC. (1992). 'The EC, European Integration and the World Trading System' in Flemming and Rollo (1992). *ibid.*, p 48.

Also see Faini and Portes (1995). *ibid.*

²² *Financial Times*. 17/02/93; 22/02/93; 29/03/93.

²³ It has been questioned whether the EC steel products were not being sold at satisfactory levels due to their own lack of competitiveness.

Levigne (1995). *ibid.*, p 220.

²⁴ In 1994, another AD complaint was launched by the EC steel industry, against Polish structural steel to be used in construction.

Financial Times. 2/8/94.

Hindley (1993). *ibid.*

foot and mouth disease.²⁵ Later this proved to be unfounded; in some cases CEE had higher levels of veterinary control than many member states.²⁶ However, the political and economic damage had already been done. The foot and mouth case caused outrage in CEE at being treated as part of some unified bloc, and the Polish side itself retaliated by banning the import of the same goods from the EC, using the same pretext and formally claiming its rights according to the General exceptions clause in the EA (art 35 on retaliatory measures).

Moreover, according to J Pietras, a member of the Polish delegation, “the issue of trade restrictiveness in the case of foot and mouth disease damaged the perception of the state of relations between the Communities and Poland much more than any other such incidence.”²⁷ The dispute also served as proof that even the minimal concessions granted formally under the EA were subject to further erosion to NTB’s and were not in and of themselves enough to enable the growth of Polish exports.

Nowhere was this observation more clear than in the EU’s infamous restrictions on Polish soft fruits. Each year the Commission was responsible for setting high minimum prices for German sour cherries and British raspberries. While these should have been consulted with the Polish side and adjusted to the current situation on the fruit market, the Community instead established the prices unilaterally and expected Poland to adjust accordingly. The soft fruit case led to marketing problems for Polish producers and had a negative effect on their ability to take advantage and utilise all preferential quotas granted. While the imposition of minimum prices on sour cherries was according to Mayhew,

*a purely political measure with trivial economic consequences, it led to massive ill feeling in CE where it was considered to be a real response of the Union to these countries’ needs. The fact that these prices were being used as a simple protectionist tool rather than a way of taking care of sudden import surges was shown by the fact that the request was made from member states to establish price minima frequently well ahead of harvest, when cherries were still green on the trees!*²⁸

On the Polish side, the first sign of protectionism appeared in December 1992, when the government imposed a 6% import tax. The Polish authorities justified this by balance of payments difficulties caused by falls in official revenues, due to the adverse consequences of the 1992 drought. Calling on the Balance of Payments Difficulty

²⁵ Italy claimed tracing foot-and-mouth disease to its imports from Croatia. Although this was never proven, what irritated the Polish delegation even more was that the Member States were treating the CEEC as a unit rather than as individual countries.

²⁶ Mayhew (1998). *ibid.*, p 250.

²⁷ Pietras, J. i Harasimowicz, A. (1994). ‘Stan i Perspektywy Stosunkow Polski z Unia Europejska’, *Sprawy Miedzynarodowe*, Nr 1.

²⁸ Mayhew (1998). *ibid.*, p 49.

Clause under article 64 of the EA, Poland took its case to the GATT. Paradoxically, while the GATT Balance of Payments Committee accepted this measure under GATT Art. XII, based on macroeconomic analysis, the EC partners were more than reluctant to give into the Polish arguments.²⁹ In the end, Poland agreed to cut this import tax to 5% by the beginning of 1995, to 3% in 96' and to fully withdraw it by 97'.

These spurs represent only a few of those that took place during and shortly after the negotiations of the Europe Agreement. Below the author takes a look at some of the other most outstanding disagreements that have transpired during the period of association. Poland has had the biggest number of trade disputes with the European Union of any of the other associated states. As a result of these contentious issues, the relationship between the Polish side and the EU delegation has often been on the brink of a trade war. Misunderstandings have taken place from a very different interpretation of the EA rules and the principle of asymmetric opening. By the time of the Copenhagen proposals for improvement in 1993, trade relations between the Union and the Polish delegation were very difficult and causing major political friction.

Another problem in resolving the various trade disputes has stemmed from the fact that the Association Council (AC) was meeting quite infrequently, and, according to the Polish delegation, that "form and procedure tended to dominate over content."³⁰ In the first two meetings of the AC, for example, only one hour was allotted to high-level consultations, and there was a glaring absence of the majority of EU ministers, who sent their deputies as replacements. The agenda tended to be monopolised by minor technical and trade problems, with very little time left for more cooperative political dialogue and long-term, strategic accession policy. Moreover, because the number of candidates negotiating on accession had risen to ten, the situation deteriorated further during the course of association.

²⁹ Michalek, J. (2000). 'The Europe Agreement and the Evolution of Polish Trade Policy', in *Yearbook of European Studies*, No 4, Warsaw: CEUW, p100.

³⁰ Urząd Komitetu Integracji Europejskiej (various issues). *Monitor Integracji Europejskiej*. Warszawa: UKIE.

Instytut Koniunktur i Cen Handlu Zagranicznego -Foreign Trade Research Institute:
IKiCHZ. *Wspólnoty Europejskie, Biuletyn Informacyjny*. Nr 77, 78, 81, 88, 90, 91, 92,94. Warszawa:
IKiCHZ.

Ministerstwo Gospodarki, Departament Integracji Europejskiej I Organizacji Międzynarodowych.
<http://www.mg.gov.pl>

Kawecka- Wyrzykowska, E. (1997). *Stosunki Polski ze Wspólnotami Europejskimi od 1989 Roku*.
Warszawa: SGH.

To conclude, a member of the Polish negotiations team aptly observed that,

*little by little as the agreements were implemented and the countries' economic transition progressed, it turned out that the EA was a lopsided deal with built in mechanisms preventing equality, and that there is much to be read between the lines.*³¹

Holzman has echoed this sentiment by claiming that the incidence of trade restrictions on Polish exports shows the extent that hidden protection is latent in the EA. "To repeat the Minister – President's of Saarland words, Saarland's economy is doing fine. The only thing it needs is protection against cheap imports of EE coal and steel."³²

II. Dispute Resolution at the Association Council

Trade and economic problems between Poland and the EU were discussed simultaneously at the meetings of the Association Council, the Association Committee and various Subcommittees, who were, according to the EA, charged with overseeing its implementation.

The first meeting of the Association Council took place in March of 1994. It was to be the last joint consultation not marked by any specific issues of contention. The agenda was set and regulatory issues hammered out as to the implementation of the Agreement. However, at the second meeting already, on July 17 1995, the EU side questioned Poland's restrictions on exports of raw leather and leather goods. Poland had called on the re-export and serious shortage clause (art. 31 of the EA) to prohibit the export of various skins and leathers between Sep 4 1993 and Dec 31 1993. In addition in 1995 an import quota for leather was established. The problem escalated rapidly and because a compromise was unable to be reached within the AC, the EU side proposed to subject the case to the arbitration procedure at the European Court of Justice. The Polish side, convinced of its right to use the safeguard clause, agreed. This case marked the only time where a trade dispute between Poland and the EC went to the highest level of conflict resolution.³³ In the end, thanks to continued consultations at the level of the Association Committee, the arbitration procedure could be discontinued and an agreement between the two sides was reached.

The modernisation and restructuring of the Polish steel and iron industry became the second disputed issue and a topic that was to occupy all the Association Council, Committee, and Subcommittee meetings well into the negotiations for accession. To this day, the issue of steel and iron restructuring has not been fully resolved. From the beginning, the EU delegation questioned the compatibility of the Polish restructuring

³¹ Stewarska, R. (1998). *ibid.*

³² R Holzman, quoted in Fontenay, P.de, Gomel, G. and Hochreiter, E. (Ed.) (1995). *ibid.*, p 49.

programme with the EU's own plans. The conflict revolved around tariff reductions, state aids and reductions in employment and production capacities of the Polish mills. By the beginning of 1997, the Polish authorities had finally decided formally to apply the restructuring clause of the EA (art. 28), to protect the steel and iron industry. However, under political pressure from the EU, the Polish side agreed to avoid a formal procedure, giving way to a Gentlemen's Agreement, where the EU agreed to delay the Polish steel liberalisation schedule, conditional upon Poland presenting a programme for restructuring compatible with the EU's requirements. (See below)

In addition, the delays in the Polish liberalisation of motor vehicles became another contended issue. Using the general safeguard clause of the EA (art. 30), the Polish government was trying to develop its automotive industry behind barriers.³⁴ By July 21, 1994 most liberalised principles of imports from EU, EFTA and CEFTA on utility motor vehicles were withdrawn, and Poland prohibited the import of motor and special vehicles older than three years as well as harvester combines older than six. Because the Polish side had applied art. 30 without going through the formal procedure required by the EA, of proving the threat to Polish domestic industry, the EC side questioned its rights under the Agreement. The problem escalated quickly, leading to another possible case of arbitration, but thanks to the work of the Association Committee, a formal legal settlement was avoided when Poland agreed to extend the age limits to six years for both motor vehicles and combines by 1996, followed by total abolition of restrictions by 1997.

The third meeting of the AC, on 16 July 1996, was completely dominated by unresolved trade disputes. These ranged from Poland's restrictions on imported telecommunications components and equipment in 1995, to rising protectionism in the petrochemical industry as well as the ongoing dispute over the industrial assembly of motor vehicles. In August of 1995, the Polish government had raised tariffs on telecommunication equipment and in September on components, claiming the need to protect this infant-industry. Then in January 1996, the authorities announced their intention prolong the period of custom duties reductions for refining products from the original EA timetable.³⁵ In both the telecommunications and in the petrochemical industry cases, the Polish side argued that the import limits met formal requirements of the restructuring

³³ Kawecka- Wyrzykowska (Red.) (1998). 'Ocena Stopnia Realizacji Układu Europejskiego'. *ibid.*

³⁴ Another problem revolved around the import of car-components from third country markets; See below.

³⁵ To be cut to zero by the beginning of 1999; including petrol imports, diesel, light and medium oils and gas oil.

Instytut Koniunktur i Cen Handlu Zagranicznego (various years). *Annual Reports*. Warsaw: IKiCHZ.

clause under art. 30 of the EA and thus were not in breach of it. This however did appease the EU delegation.

Moreover, during this time a long drawn out dispute began over the standards and rules set for the assembly for motor vehicles in Poland. The AC questioned Poland's temporary imposition, between 24/8/96 and 1/7/97, of an obligation for foreign producers to apply for permits for the parts intended for the industrial assembly of vehicles. As a result of these rules, different components of cars became either exempt or subject to custom duties, in effect resulting in very different prices for the final product. A competitive war ensued between EU automobile car producers and Daewoo on the Polish market, demonstrating how the classification of products could serve as a NTB. The Commission was highly displeased with the favourable terms negotiated for Daewoo, which was able to dismantle vehicles into 8 sections and then import them as car parts to be reassembled in its Polish plant and exported to the EU on a preferential basis.³⁶

The other extended trade difficulty that began at this AC meeting, revolved around the system of Polish certification, and as was the case with other contentious issues, these negotiations proved more difficult than anticipated.³⁷ The problem that escalated in the Polish certification case was about the compatibility of the associated partners' regulatory systems with the EU's New Approach Directives³⁸, and consequent access to the Polish market for imported products required to undergo lengthy national standards control tests.

In early 1994, the Polish authorities approved a list of 'B' Safety certificates necessary to import over 1400 types of manufactured goods, ranging anywhere from shampoo or steel pipes to capital equipment, electronic products to textiles and clothing. These imported products became the subjects of mandatory and lengthy testing procedures by the Polish Certification, Testing and Standards Centre, (PCTSC), in order, according to official rationale, to protect the Polish consumer. According to EU producers, the requirement of introducing mandatory quality certificates in Poland and the refusal of Polish authorities to accept foreign firms' self-certification of conformance to domestic

(2000). *Zagraniczna Polityka Gospodarcza i Handel Zagraniczny Polski 1999-2000*. Warsaw: IiCHZ

³⁶ *Rzeczpospolita*. 'Najbardziej zaszkodzi nam Daewoo', 27/1/97.

³⁷ Preston, C. and Michonski, A. (1999). *Negotiating Regulatory Alignment in Central Europe: the case of the Poland/ EU European Conformity Assessment Agreement*. Sussex: Sussex European Institute.

³⁸ The New Approach Directives were designed to establish mutual recognition of national standards and thus help to avoid prolonged procedures in product regulation within intra-Community trade. CEE firms exporting to the EU were obliged by the EA to meet these Community products' standards.

standards made it extremely difficult for them to sell their products on the Polish market.³⁹

The EU industry associations claimed that system introduced in 1994 constituted a breach of the standstill clause in EA by erecting a new technical barrier to trade, and consequently, they threatened legal action in the Polish Supreme Court. The issue was also raised at all the Association Council and Committee meetings between June 1994 and 1998, where Poland was rebuffed for breaking the rules of the EA.

The Polish side continued to defend its system of product regulation as a precaution to guarantee the safety of consumers, but subsequently, under pressure from the EU, the government agreed in 1995 to review the contentious 'B' list and eventually remove a number of problematic products.

However, it took until July 30, 1998 to only get the Polish authorities to formalise the Protocol to an eventual Agreement on European Conformity Assessment into the Polish legal system and voice its intention to have a fully EU compatible conformity assessment law before the end of 2000.⁴⁰

Prior to this third, key AC meeting, Kawecka-Wyrzykowska claimed the EC had been using political pressure to get the Polish side to concede in the most controversial of issues. In the run up to the official publication of the Commission's *Avis* on Poland's membership application, the Commission complained about the amount and scope of trade policy reversals in Poland. Using the application process as a trump card, the EU was able to take advantage of the candidate's weak bargaining position to achieve its own economic goals. The political statements issued right before the AC meeting were overly critical of Poland's progress in legal harmonisation. According to the EC delegation, Poland's slow pace of harmonisation and the administrative difficulties in the adjustment to and implementation of the *aquis* were the main reasons for the ongoing disputes in trade liberalisation. In light of the fact that the harmonisation process had just begun, the criticism was probably unjustified, and the harsh analysis was subsequently withdrawn. However, the toned-down opinion as to Poland's progress in harmonisation actually delivered during the AC's meeting did little to change the fact that the application process had been exploited by the EU to pressure Poland to give in to its interests. Kawecka-Wyrzykowska maintained that this was only the first instance where the EU consciously linked discussions of Poland's progress in legal harmonisation and the compatibility of Polish and EU regulatory alignment systems

³⁹ Kamisnki, (1999). 'The Role'. *ibid.*, p 31.

with ongoing trade disputes. In the future, the issue would be tied up again in discussions over steel restructuring as well as in Poland's prohibition to produce and trade smokeless tobacco products.⁴¹

At the fourth AC meeting, on 30/4/97⁴², the ongoing controversy over the cumulation of the rules of origin was finally resolved, giving way to the *Additional Protocol to the EA establishing Pan-european cumulation*. At this meeting, Poland's *National Strategy for Integration with the EU* was also discussed and many of the ongoing problems began to be gradually resolved.

By the time the *Avis* was published in July 1997 some of the tension about trade had eased after numerous consultations. Under pressure to begin the accession negotiations, the Polish government conceded to many of the EU's demands, getting rid of the limits on the import of law leather in 1998, agreeing to abolish QRs on steel products by 1999 and liberalising the petrochemical trade regime. In addition, the Polish side completely yielded to the EU's postulates on petroleum products by agreeing to remove all price and quantitative restrictions by January of 1999. In February, in turn, the government freed oil and petrol prices on the domestic market and agreed to gradually lower tariff levels on benzene and diesel oil until their total elimination by 2001.

Furthermore, progress was made on the mutual recognition of standards of product quality and the restrictions on the telecommunications imports were lifted. In the automotive industry, Poland began to reduce the 35% tariff level on used vehicles, by 5% per annum, and extend the age of banned products from 3 to 6 years of age. The Polish side also conceded on the dispute over Daewoo, which according to one negotiator, "was beginning to develop into a serious political conflict that Poland wished to avoid."⁴³

1998 began on a mixed note in terms of the progress made in bilateral trade relations. Just following the official opening of the accession negotiations in March, the 5th AC meeting was marked by increased tension over the export of milk to the EU market. Following the EU's embargo of Polish milk and dairy products in 1997, due to questionable veterinary standards, by 1998, five Polish milk plants had fulfilled the stringent standards and safety criteria and in theory gained the right to preferential market access in the EU. However, due to back up and delays in the EU's

⁴⁰ Ministerstwo Ekonomii, *Strategia dostosowania Polski w zakresie oceny zgodności, certyfikacji, normalizacji i regulacji technicznych*, Warszawa, 1998.

⁴¹ *Monitor Integracji Europejskiej*. (1998). Nr 17.

<http://www.ukie.gov.pl/dase/publikacje/monitor/m17.pdf>

⁴² KIE, (1997). 'Czwarte posiedzenie rady stowarzyszenia Polskiej z UE', *Wspólnoty Komunikat Prasowy, Monitor Integracji Europejskiej*, nr 12.

administration system, the access had been severely delayed, causing the Polish milk industry to lose millions of ECUs. Polish Foreign Minister B Geremek tried to convince the EC delegation to speed up the bureaucratic apparatus and give the plants the consent to export. Finally, after a series of high-level interventions, EU Commissioner H van der Broek promised that by November official permission to allow the uptake of exports for the five milk plants in question, would be granted, and, in addition, that the Polish veterinary authorities would gain the right, according to their own standards and controls, to add to the list of approved firms any milk producers having past inspection. This way, van der Broek argued, “we will at some point get back to the level of exports prior to the embargo.”⁴⁴

That year was also characterised by a series of disruptive disputes over steel and other restrictions on trade, including Poland’s unilateral ban on the import of gelatine from Great Britain as well as the issue of Poland’s eastern borders following accession.⁴⁵ In the meantime, van der Broek ignored further calls from the Polish side for bigger agricultural concessions, arguing that the Poles should first themselves abolish the various barriers to EU exports, including certifications and QRs on EU fruit, vegetables, poultry, beef and pork.

The *1998 Regular Report on Polish Accession to the Union* praised the candidate on a number of resolutions of the ongoing trade disputes. The Commission saw the lifting of hides and skins and ferrous metal restrictions, as well as the removal of the quota on spirits as a sign of Polish good will. However, according to the report, “this trend towards significantly improved cooperation had suffered some serious reversals with notable difficulties persisting in the field of processed and unprocessed agricultural products.” The Commission also mentioned the delays in the field of certification, where the agreed upon Protocol had not yet been implemented, as having a negative impact on Polish-EU trade and Poland’s internal market preparation.⁴⁶

On the 29th of April 1999, the discussions of the seventh session of the AC revolved around the ongoing restructuring of Polish steel and coal mines, the system of concessions for the assembly of motor vehicles, and technical consultations over the issue of certification. The EU delegation questioned once again Poland’s granting of undue (according to the Commission) public aid to Daewoo. Moreover the *Partnership*

⁴³ *Rzeczpospolita*. 01/02/97.

⁴⁴ *Gazeta Wyborcza*. ‘Trudna Rada’, 15/03/98.

⁴⁵ It was argued that closing Poland’s eastern border (required by the EU even prior to accession) would lead to the disruption of the ‘grey’ economy (consequently hurting overall economic growth) as well as damage relations between Poland and its eastern neighbours.

⁴⁶ European Commission, (1998). *Poland Regular Report*, p 8.

for Accession and the National Programme for Preparation for Accession were jointly approved, and the issue of Poland moving into the second phase of association under the Europe Agreement was deliberated.

According to the subsequent *Regular Report* on Poland,

although the EA provides for entry into its second stage since February 1999, a number of legal requirements have yet to be fulfilled to permit this transition. A range of difficulties in the implementation of the EA by Poland remain, from complex long standing issues such as steel restructuring and certification, to more recent issues such as trade in agriculture. The tendency noted in the last regular report towards reversal of the close cooperation on trade matters identified in the Opinion has unfortunately continued. There has been a protracted dispute relating to the import of yoghurt- an issue in many respects symptomatic of broader difficulties in the processed and unprocessed agricultural sectors. Furthermore, in mid September Poland decided to raise a number of agricultural tariffs to their WTO bound level, without prior consultation foreseen in the EA. Elsewhere, the restructuring of the steel sector has stalled.

Since the entry into force of the EA, discussions on a resource agreement and fisheries have not made any progress. The lack of progress identified in the 1998 report concerning the certification of industrial products remains. The short term result is the continuation of a number of market access difficulties which have an impact on the bilateral relationship as a whole. In the longer term, the lack of harmonisation with the acquis is having a negative effect on the competitiveness of Polish firms on their largest export market, the EU.⁴⁷

The report was critical of the minimal progress made in getting rid of 'B' products for mandatory certification, and the Commission continued to criticise Poland for public aids and competition policy with particular reference to the export subsidies to coal, Special Economic Zones and steel restructuring. Although by October, Poland had provided the Commission with an updated programme for restructuring the steel and iron industry, its slow implementation as well as the continuation in breaking the EA rules on steel state aids were heavily reproached. In terms of the liberalisation of the Polish motor vehicle market, the most important change in the rules of trade took place through the WTO, where the Polish government agreed to reduce import duties on passenger cars produced outside the EU from 35 to 17.5%. However, the reduction applied only to cars with engines bigger than 2.5 litres, and, the EU authorities observed cynically that this change in duties for large-capacity cars came about because of continued pressure from the U.S. government.

On the other hand, some things were finally resolved such as the elimination of Polish tariffs on steel by 2000 and the opening of the negotiations on reciprocal concessions in agricultural trade.

⁴⁷ European Commission, (1999). *Poland Regular Report*, p 6.

Between the Association Council meetings in Dec 1999 and in Oct 2000, the Double-zero agreement on agricultural trade had been concluded, allowing freer access for 3/4ths of bilateral trade in agricultural products (see below).

In addition, in July 2000, negotiations also opened in field of fish and fisheries products as well as in trade of processed agricultural goods. The *Regular Report* on Poland in 2000 states that as far as agricultural trade, “the negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interest of the European Community, the EU Member States and those of Poland.”

Never the less, many of the trade difficulties remained, leading the Comission to conclude that Poland was still not ready to move towards the second stage of the EA, and that, „since the identification of reversals in close cooperation on trade matters in the last report, the situation has been rather mixed.”⁴⁸

By 2001, the balance of stabilising and destabilising effects of the various trade disputes on Polish EU trade relations had taken its toll and was not boding well for building the trust so fundamental to European integration. The deterioration of relations was further exacerbated as large amounts of information had been leaking out to the media on the disputes in the AC. For the Polish public, these disagreements were perceived as proof that the Community was using blackmail rather than cooperation to resolve the conflicts. As the sense of partnership was weakened and the Polish delegation became increasingly exasperated with the EU side, Poland adopted an ever more defensive attitude.

For the EU, on the other hand, C Preston has argued that,

*to a large degree, the rigidity of the EU's public position was a reflection of tensions within the EU over wider implications of enlargement. The focus on the classical method concealed major conflicts between member states as to how their own interests would be affected by enlargement.*⁴⁹

Some of the most contentious trade issues had been resolved and the majority of industrial products in mutual trade faced tariff and QRs free access to both partners' markets.⁵⁰ On the other hand, protracted disagreements remained over agriculture,

⁴⁸ European Commission, (2000). *Poland Regular Report*.

⁴⁹ Preston, C. (1995). 'Obstacles to EU Enlargement: The Classical Community Method and the prospects for a wider Europe', *Journal of Common Market Studies*, Vol 33, No 3, p 167.

⁵⁰ With the exception of motor vehicles imported into Poland on which duties were to disappear by January 2002.

Foreign Trade Research Institute (1992-1998). *Annual Reports*.

<http://www.paiz.gov.pl/macro.htm>

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contingent protection, competition policy and state aids. For a closer look at these ongoing controversies, we turn to below.

A. Agriculture

Negotiations on market access for agricultural products in the Association Council meetings have been dominated by the subjects of mutual trade concessions as well as veterinary and phyto-sanitary controls required to obtain the EU's safety quality certificates.

As Mayhew has noticed that the Community always took an extremely hard line on agriculture, sometimes adopting positions that were hard to justify. For example, attempts by the associated countries to raise duties on agricultural imports from the Community on the basis of the EA article allowing changes in agricultural policy were met for some time with the argument that, because they did not have an agricultural policy like the CAP, but only a series of measures, they could not apply this clause, invented for the benefit of the Community. Furthermore, the candidates' multiple requests to shift the composition of exports within the overall quota between the different components of that quota were often bitterly contested by the Union, even though the overall quotas themselves were very restrictive.⁵¹

Following a very liberal trade policy phase from 1989 to the middle of 1991, the Polish government in turn began increasing its own levels of agricultural protection. The average tariff level was raised from 10.4% to 17.4% in early 91' and again to 26.6% in August. Other hefty hikes included a 120% rise in tariffs on tobacco products and 145% increase for certain alcohol. The Polish authorities justified these increases in customs duties by pointing to the decline in agricultural output and the worsening balance of trade in agricultural products. The average tariff was then established at 21% in 1993 to prepare for negotiations in the GATT.

Moreover, in early 1994, Poland introduced a system of variable levies and subsidies for 143 products, designed to provide effective protection of the domestic agricultural market under conditions of fast growing imports. Even though this system was analogous to the one used by the EU within the Common Agricultural Policy, at the second Association Council meeting in July, the Polish government was heavily criticised for it. Justifying the decision to raise tariffs based on the excessive import safeguard for agriculture under the EA, the Polish delegation produced *The Report*

<http://www.mac.doc.gov/eebic/countryr/poland/polcg98.htm>

Verblanc, U. (1999). 'The trade policy implications of joining the EU: comparison between Poland and Estonia'. *ibid.*

⁵¹ Mayhew (1998). *ibid.* p 250. See chapter 5

about the State of Polish Agriculture as well as *Conceptions for Social Policy in Agriculture* which both justified rising protection under the rules of the EA. The EU side rejected the arguments, and thus the problems in agricultural trade began.

In June of 1994, The Polish government introduced another complicated system (MOB) for calculating agricultural products that resulted in rising protection from the previous tariff levels initially for 15 new product groups and subsequently for another 43. In the AC meeting on 1/12/94, the Polish side was reproached for these trade policy reversals, and the issue remained unresolved till well into 1995.⁵²

In addition, in July 1995, the Polish authorities once more introduced higher tariff rates on 19% of imported foodstuffs and agricultural products in connection with the WTO membership, and the government again sought refuge under the agricultural safeguard in the Agreement, permitting the reintroduction of protectionist measures under conditions of excessive imports that cause injury to domestic producers.⁵³

In critique of the EU, on the other hand, up until 1996, the Polish delegation tried, without success, to convince the Communities to make the agricultural quota system more flexible and to grant the Polish exporters bigger concessions. For example, the milk quota system used by the EU was creating many difficulties for the Polish dairy industry, as it required that the quota be calculated on bases of production in the period between 92-94. Because this was the time of the deepest decline in milk production in Poland, the insistence on these lower than average production limits was hampering the development of the Polish dairy sector and related food processing industry. None of Poland's demands were met by the Community, and that year it was decided that any further liberalisation in agricultural products would only take place within negotiated agreements on mutual trade concessions.

Furthermore, the *Additional Protocol* that was to adjust the agricultural trade articles in the EA to the EFTA enlargement as well as to the results of the UR, proved more difficult to implement than anticipated due to the Union's protracted and lengthy bureaucratic delays. The *Additional Protocol* was important for Poland for a number of reasons, granting a rising quota of 5% per annum for agricultural products and making the ability to take advantage of the quotas more elastic. Moreover, because there was no discussion between Poland and the Communities on trade in fisheries until late 1996, it

⁵² Kawecka-Wyrzykowska (Red). (1998). 'Wdrażanie Przez Polskę Zobowiązań Przyjętych w Układzie Europejskim', *UKIE*, No 15, Warszawa: UKIE, p 28.

KIE, (1995). 'Informacja o przebiegu drugiego posiedzenia Komitetu Stowarzyszenia RP-UE w Brukseli', *Monitor Integracji Europejskiej*, No 1, p 7.

⁵³ Instytut Koniunktur i Cen Handlu Zagranicznego (2000). *Zagraniczna Polityka Gospodarcza i Handel Zagraniczny Polski 1999-2000*. Warsaw: IiCHZ, p 311-313.

was only in the *Protocol* that the Polish side was allotted for the first time some concessions, including a tariff free quota for 5 products. It is important to recall, however, that these additional preferences provided by the *Protocol* were in fact only to compensate Poland for the margin of preferences lost as a result of both the EFTA enlargement and the UR.

In addition, the minor concessions gained themselves were subject to massive backlogs from the EU's side. Even though the protocol had been signed in 1997, each year, the Polish delegation claimed the Community had failed to put the agreements into practice, because of endless delays in the publication of annual ordinances. As a result, in the early months of every year since 1997, Polish products were being discriminated upon against those of the other associated states. While the Polish side had been trying to intervene in this matter for over three years at the Association Council, Association Committee and Subcommittee for Agriculture, no progress had been made on resolving the issue. The Polish side argued that, in the year 2000 alone, for example, the publication of the essential ordinance was over two months late, effectively making it impossible for Polish producers to take advantage of the duty free quotas and thus voiding the concessions granted under the *Protocol*. Complaints of these administrative backlogs echoed well into 2001, when the Polish delegation continued to question the EU's fulfilment of its obligations under the *Additional Protocol*. According to Pietras, then Polish Under-secretary for European Integration and member of negotiating team, "these kind of petty technical details, which perhaps in the end were not just entirely technical, obstructed the taking effect of the Protocol." Pietras recalled that each time a technical difficulty was brought up in front of the Association Council, the group then translated the complaint into 15 languages prior to any consultation, subsequently sending the modified version back to the Polish side. Poland would then find another small mistake and procedure would begin all over again.⁵⁴ In the meantime, Poland was fulfilling her side of the bargain each year by the January first deadline and as such was demanding compensation for the losses incurred thus far.

A.2 VAT for citrus fruit

Another infamous issue of contention involved the level of VAT over citrus fruit. The dispute began in 1997 when Spain complained that the Polish tax system was discriminating against foreign fruit producers, as the VAT collected on imported citrus fruit amounted to 22%, while domestic fruit growers including apple, plum and pear planters, were only required to pay 3%. The AC wanted Poland to lower the VAT on

⁵⁴ J Pietras, in interview for *PAP* 12/01/01 and various discussions with author.

imports to 7%, and the Polish side agreed not wanting to prolong the disagreement prior to the publication of the Commission's Avis on the accession negotiations. In 1998, at one of the most important meetings of the Association Council, VAT levels dominated the agenda, and Spain even threatened to bloc the entire discussions over the continuing citrus controversy. By now Poland had lowered the VAT level on imported fruit to 7%, but the EU delegation persisted in its complaints that it was still too high in relation to the 3% VAT collected on fruit produced locally. The EU side argued that during the meeting of the AC in 1997, the Polish Foreign Minister D Rosati had agreed verbally to not only lower the VAT to 7% for imported fruit by 1/1/98, but also to equalise it for foreign and domestic producers. Minister Rosati maintained on the other hand, that he had made no such promises. He claimed that, "we had indeed agreed to lower the VAT on imported fruit to 7%, by January 1998, but had made it clear that raising the VAT on domestic fruit to 7%, in order to make the levels equal, would only take place by 2003."⁵⁵

Never the less, Brussels continued to insist that the Polish side had agreed to equalise the VAT by 1998, and the dispute persisted over the exact words of Minister Rosati in the Agreed Minutes of the 1997 Association Council meeting. Kawecka-Wyrzykowska recalls that,

*the pressure on Poland to give in was intense, and the matter could have been taken advantage of at any minute as more proof that Poland not only has massive delays in agricultural reform and was lagging behind the other candidates in legal harmonisation, but, in addition, was failing time and time again to make good on her promises. The impasse was not resolved until much later in the accession negotiations.*⁵⁶

A.3 Tariff war over yoghurt and grain

In March 1999, Poland introduced higher custom duties for yoghurt, pork, milk, wheat and muslin. Preferences for imports of yoghurt with a higher fat content were withdrawn, and the 9% preferential rate for all yoghurts was replaced with 25%. Other rises in custom duties both for EU and CEFTA exporters included livers of swine, ossein and bones, parings and waste of raw hides and skins as well as malt to be used in brewing. These reversals in trade opening sparked off the infamous tariff war over yoghurt and grain between the EU and Poland.

Even though April's rise in tariffs for yoghurt caused an uproar with the Commission, that autumn, the Ministry of Agriculture requested many other tariff increases, blaming

⁵⁵ *Gazeta Wyborcza*. 'Jak cytrusy z szafy', 02/03/98.

⁵⁶ IKiCHZ (1998). *Wspólnoty Europejskie, Biuletyn Informacyjny*, Nr 93, p 17.

the excessive liberalisation for the Polish trade deficit and the deterioration in Polish agriculture. While the government was initially reluctant to agree to the Ministry's demands, aware that this would cause major friction with the EU, it eventually gave in under tremendous pressure from the farmers. In September, thus, the average tariff levels were raised on butter from 40% to 117%, yoghurt and pork, from 25% to 83.35% and poultry, wheat, rape seed and sugar from 170 Euro per ton to 450 Euro per ton. To justify its decision on the increases in protection of the dairy industry, the Polish side claimed that it needed to limit the import of milk in order to stabilise the situation on the Polish dairy market. The delegation argued that prices for butter had been falling on world markets, while those in Poland had slightly risen, making it consequently profitable to export to Poland. The Polish government feared that in order to get rid of their surplus and take advantage of the rising prices in Poland, foreign producers would now attempt to shift their exports to Poland, thus swamping the dairy market and destabilising the Polish milk industry. Because Poland has been self-sufficient in the production of butter, any increase in imports would be followed by rising difficulties for national firms trying to sell butter at home. Accordingly, the government justified its decision by claiming excessive imports that cause domestic injury and, calling on the agricultural safeguard in the EA, raised duties to the highest level allowed by the WTO. As far as yoghurt was concerned, the Polish delegation presented various studies showing that the rise in imports of foreign yoghurts had increased 40 times over in the last two years. According to these studies⁵⁷, between 97' and 99', the imports had taken over a third of the domestic market consumption of yoghurt. The agricultural industry claimed that the main source of the problem came from yoghurts with a higher fat content than those produced in Poland. To avoid this market-share situation from deteriorating, the Polish government raised tariffs in March on yoghurt with a fat content of between 3-6%. However, the agricultural ministry subsequently complained that this had not solved the problem, as the higher fat content yoghurt was replaced by those with only slighter lower contents of fat, which were still subject to preferential access. Thus in the first half of 99' alone, 31,000 tons of yoghurt were imported into Poland. Based on these facts, the Polish delegation continued to uphold the claim that it had the right to raise duties according to both the rules of the EA and of the WTO.

⁵⁷ 'Instrukcja na posiedzenie podkomitetu ds. Rolnictwa i Rybołówstwa w dniu 16/3/2000', Warszawa: Ministerstwo Gospodarki, Departament Integracji Europejskiej.

Whatever the government's official rationale was for the sudden introduction of higher agricultural tariffs, a trade war with Brussels erupted, leading to a situation described by the Polish media whereby,

*Polish farmers burned tires on the streets in protest against imports of subsidised food & food products from the EU, and when the government raised tariffs, under tremendous social pressure, Brussels warned us (Poland) of the consequences of such action.*⁵⁸

Calling the tariff rises a breach of the EA, the EU threatened to retaliate and increase duties on both fresh and frozen fruits and vegetables.

Needless to say, the tension was high at the concurring Association Council and Committee meetings in 1999, and to make matters worse, by January 2000, the Polish government introduced more import duties on imported flour made of other than wheat cereals, malt, bruised grain and barn. The decision was once again explained as appropriate under the EA due to domestic injury caused by excessive imports.⁵⁹

A.4 Liberalisation in unprocessed agricultural goods

Under this strained atmosphere, the negotiations for the so- called *Double-zero Agreement* began in September 1999, between the Polish side led by Agricultural Minister A Balazs and the EU represented by Agricultural Commissioner F Fischler. The goal was gradually to abolish all tariffs and export subsidies in agricultural trade of unprocessed goods, until their total elimination by 1/1/2001. Although both sides aspired to finish the negotiations by the end of that year so that the *Agreement* could go into life by January 2000, the task proved impossible due to the escalating dispute over Polish tariffs. Fischler complained that Poland had failed, according to the obligations of the EA, to consult the EU side prior to the introduction of higher duties, while Balazs stood his ground, justifying the decisions as in accordance with Poland's international trade agreements.⁶⁰

Furthermore, on the 16th of March 2000, during the meeting of the Subcommittee for Agriculture and Fisheries, the Polish delegation protested against the EU's level of tariffs for apples, cherries, plums and cucumbers. According to the argument, the introduction of additional, specific- tariffs on these products had caused their levels to be actually ten times higher than those agreed upon in the EA. These special specific-

⁵⁸ *Gazeta Wyborcza*. 17/3/2000.

⁵⁹ Kaliszuk, E. and Synowiec, E. (1995). 'Klauzule Ochrone z Układu Europejskiego: gdzie zastosowano i w czym pomogly obu stronom', *Rynki Zagraniczne*, No 24, February.

Mroczek, W. (1995). 'Agrculture', in Kawecka- Wyrzykowska, E. (1995). *Poland's Foreign Trade Policy*. Warsaw: Foreign Trade Research Institute.

⁶⁰ *Gazeta Wyborcza*. 'Pieniadze to nie wszystko'. 20/10/99.

tariffs thus resulted in the discrimination of Polish products and in an unclear and unpredictable environment for Polish exporters. Moreover, even the agreement on the *Additional Protocol on Agricultural Trade* had failed to resolve the issue.

The Polish delegation also complained of the various NTB's to the EU market, in the form of veterinary and phytosanitary controls, against, for example, Polish mushrooms and potatoes, arguing that there was no justification for these restrictions. The EU, on the other hand, brought up the ongoing dispute over Polish yoghurt, and the Polish side reiterated that it was monitoring the yoghurt market and that there were no apparent decreases in the imports from the EU, despite the higher tariff levels. Moreover, Poland persisted that it could not open up the tariff quota until the EU stopped subsidising its processed foodstuffs.⁶¹

In May, the early consultations on the *Double-zero Agreement* ended in a fiasco. The EU was refusing most of the Polish postulates and its stance caused an uproar in the Polish press. According to the media, Poland would not be given any derogation after accession on unilateral agricultural tariff rises, even in the case of imports flooding the domestic market and consequently leading to a serious deterioration of Polish agriculture.⁶² The candidate would also not be allowed to keep national forms of state aid to farmers, while simultaneously, there was no possibility of securing the direct payments provided to EU farmers through the CAP.⁶³ This, in turn, the Polish delegation maintained, would lead to unfair competition between the subsidised EU producers and the unsubsidised Polish farmer. In addition, the size of production quotas to be granted to Poland continued to be a problem. The EU was insisting that the time-frame between 1995-99 should be taken as a reference point for the establishment of the quota, while Poland demanded 1989-91 production volumes, claiming that output had dramatically fallen in 1992 due to excessive liberal trade policy, a rise in imports, a hard drought and a domestic recession.⁶⁴ In addition, the EU refused to consider the possibility of extending the CAP to Polish agricultural specialities such as potatoes, apple juice concentrate, frozen fruit (raspberries, strawberries, cherries) or herbs, while wanting Poland to adopt some of the most contentious aspects of the CAP, like the

⁶¹ 'Instrukcja na posiedzenie podkomitetu ds. Rolnictwa i Rybołówstwa w dniu 16/3/2000', Warszawa: Ministerstwo Gospodarki, Departament Integracji Europejskiej.

⁶² *Gazeta Wyborcza*. 25/5/00.

⁶³ The EU maintained that the state aids received by Polish farmers were not in accordance with EU competition rules, particularly the fuel subsidies, subsidies for the purchase of fertiliser, subsidised credits and investment rebates.

⁶⁴ Czyżewski, A and Grzelak, A. (1998). 'Initial Experiences of Integrating the Polish Agricultural- Food Sector with the EU', in Zielinska-Glebocka and Stepniak (ed.). (1998). *ibid*.
Miklaszewski, S. (Ed.) (1998). 'Polskie Rolnictwo a Unia Europejska', *MCRD zeszyt*, Nr 34, Krakow: Międzynarodowe Centrum Rozwoju Demokracji

banana regime, which would consequently lead to trade diversion and a rise in the price of bananas on the Polish market.⁶⁵ The EU likewise rejected the Polish request that Polish fruit wine be labelled as 'Polish Wine', claiming that this would suggest a wine made of grapes and thus mislead the consumer. Accordingly, a 'Fruit Wine' label would suffice, and would not compete with the interests of EU wine makers.

Another problem that contributed to the breakdown in the Double-zero talks was the issue of pork. The EU wanted to establish a duty free quota for pork, but the Polish side refused, claiming that this would only benefit the EU producers. Due to the supposed presence in Poland of hog cholera disease, the EU closed its borders to Polish pork in 1993. The Polish veterinary commission pointed out that the existence of this disease had never been documented in Poland, and that no other trade partner including the US had any doubts as to the safety of Polish pork. Moreover, according to the President of Polish Meat Plant Zakłady Sokol, J Augustynowicz, Poland was losing tens of millions of zloty per year due to this embargo and thus had no real motivation to further negotiate on a quota opening with the Community until the ban was lifted.⁶⁶ Finally in May 2001, after seven years of embargo and under increasing pressure from the Polish side, the Communities allowed Poland to regain her status as a country free from hog cholera, thus enabling the resumption of pork exports to the EU. It remains to be added that within those seven years, not a single case of cholera was found in Polish pork, additionally damaging already strained political relations and adding to Poland's growing exacerbation.⁶⁷

In spite of the various disputes and the protracted negotiations and after a long hard-fought battle by both sides, the *Double-Zero Agreement* on unprocessed agricultural products was finally signed in September 2000, freeing 3/4th of agricultural trade between Poland and the Communities from tariffs and subsidies. A duty free quota growing 10% a year was established for sensitive products, and all duties and restrictions were abolished for the non-sensitive product category. This, however, was not to end the trade war in agriculture, as already preparations were being made for a new round of negotiations to be launched over trade in processed goods.

A.5 Liberalisation in processed agricultural goods

In October 2000, consultations began between the Polish delegation and the EU side on further liberalisation of processed agricultural goods. However, by the time of the

⁶⁵ Instead of importing from cheaper producers of bananas in Latin America, Poland would now have to give preferences to the EU's former colonies banana planters!

⁶⁶ *Wprost*. 24/10/99.

⁶⁷ *Gazeta Wyborcza*. 'Swinskim targiem', 12-13/05/01.

meeting of the Subcommittee for Agriculture and Fisheries in March 2001⁶⁸, no real serious progress had been made. Poland was seriously criticising the EU for failing to meet its obligations under the Double- Zero Agreement and consequently being in breach of Art. 35 of the Europe Agreement. While pointing out that it had fulfilled all the requirements of the Agreement by the first of January, 2001, the Polish delegation charged the EU with delays in the implementation of its side of the bargain. By March, according to the Polish side, the issue of subsidy elimination for butter, wheat and rye, exported in the form of processed goods, was still unresolved. When Poland proposed to discuss this topic within the framework of the negotiations for trade in processed goods, the EU showed no flexibility towards compromise. According to Fischler, the subject of export subsidies had not been formally dealt with within the EA, and thus the Commission did not have a mandate to negotiate on it. There was no further discussion on this Polish complaint for months.

Meanwhile, at the same Subcommittee meeting, the issue of Polish yoghurt resurfaced. This time, it was Poland's restrictions on aromatised yoghurt, justified on the basis on Art. 30 of the EA, that were being questioned by the Community. The Polish delegation again reiterated that it would be willing to abolish these restriction and further open up the quota to EU producers, once the Community eliminated subsidies of raw agricultural products that go into processing yoghurt. Poland argued that while the EU did get rid of subsidies for milk in July 2000, it continued to refuse to do the same for eggs, grains, sugar and rice, the other main ingredients of yoghurt. Under these circumstances, the Polish side felt that the EU had yet to fulfil the conditions for complete liberalisation.

J Plewa, Deputy Ministry of Agriculture and chief Polish agricultural negotiator, contended that Poland would not agree to liberalise duties without the EU first getting rid of subsidies that were breaking the rules of fair trade. Echoing his minister, Balazs himself demanded that the EU agree to get rid of all subsidies of products that go into processed foods, just as it had done in the agreement for trade in unprocessed products.⁶⁹ Fischler retorted that it had been made clear from the very beginning that the elimination of export- subsidies concerned only the Double-zero Agreement from which the currently negotiated arrangement on processed goods differed considerably.

The current mandate of the European Commission, which is negotiating in the name of the member states, is based on the postulates of the Associate Agreement between

⁶⁸ 'Instrukcja Na Posiedzenie podkomitetu RP-UE DS. Rolnictwa i Rybolowstwa 26-27/3/01', Warszawa: Ministerstwo Gospodarki, Departament Integracji Europejskiej.

⁶⁹ *Gazeta Wyborcza*. 13/5/2000.

Poland and the Union. This agreement doesn't anticipate the abolishment of export subsidies. For this reason, any kind of concessions made towards Poland in this case would require legal authorisation (a new mandate) from the 15.⁷⁰

Balazs, in turn, upheld Poland's willingness to continue negotiating, but stated that he saw no possibility of a compromise due to the Union's hard-line and unconciliatory attitude.

The Commission is ready to grant Poland only marginal duty free quotas, increasing the quota size which has been minuscule for some time, while expecting the Polish side totally to liberalise its tariffs and abolish all Quantitative Restrictions on imports. Moreover, while Poland wanted to link the reduction of duties in processed foodstuffs with the abolishment of export subsidies, the Commission would not even hear of it.

While the negotiations should continue

(Balazs warned), they should be based on the principle of equal treatment for both sides according to international standards. This principle should contribute to Poland's further integration with the internal market. Any other conditions would result in unequivocal exchange of concessions and would intensify the Polish trade deficit in these processed products.⁷¹

The Polish side persisted in upholding its demands, arguing that the EU was still trying to protect those industries in which it was not very competitive, while trying to force through further liberalisation in products where it had a definite competitive advantage and could dominate the Polish market. The new agreement was to deal with several hundred product positions such as biscuits, chocolate, pasta, jams, yoghurt and alcohol. In contrast to the EU, where tariffs on processed foods were relatively negligible, in Poland they remained very high, particularly for alcohol, confectionery goods and dairy products, in which, due to the ongoing transformation needs of restructuring and privatisation, Poland was continuing to protect domestic producers through a high 80% import duty. As a result of this imbalance, the Polish delegation claimed that it made no economic sense for Poland to give into the Union's demands. The team also pointed out that if they agreed to the EU's conditions, just the Polish producers of chocolate, confectionery and other baking goods would lose a total 39% of the value of all processed exports.

Thus, the negotiations over processed foods came to an impasse, with neither side willing to give an inch. Moreover, the EU negotiators observed that all the other nine candidates had agreed to the liberalisation in processed goods and declared that Poland's refusal didn't bode well for her accession to the Union. Poland was prompted to liberalise its agricultural trade now if she wanted to get into the EU in the next two

⁷⁰ PAP. 'UE/ Rozmowy o handlu artykułami spożywczymi na jałowym biegu'. 05/03/01.

⁷¹ PAP. 05.03.2001.

years. Brussels gently reminded the Polish team that eventually they would have to give in, as they had for the double-zero agreement, once all the other candidates had signed on, otherwise Poland would lose out to competitors with preferential access. In the couloirs, talk was heard of Poland's unduly stubbornness which eventually turns into acquiescence when the candidate is forced to give in at the very last minute...⁷²

During 2001, a series of other disputes evolved concurrently to the difficulties in the processed food negotiations. In April, Poland was unexpectantly classified as a country with a high risk of BSE, even though no such case had even been documented. Minister Balazs observed that Poland had never actually used the EU feeds to nourish its animals, and that,

two years ago when I banned the import of this animal based feed from the EU, the Community accused me of damaging Polish-EU relations. And now they are charging us with using the very same feeds. At the time of the Polish restrictions, the EU claimed that these feeds had met all the EU safety and health requirements and thus were perfectly safe.⁷³

B. Competition and state aids

B.1 Steel and iron

Coal and steel products were treated separately in the *ECSC Protocol 2* of the Europe Agreement, which concentrated on mutual trade opening in steel.⁷⁴ According to the original timetable of the EA, custom duties in the EU were to be eliminated on European steel by 1/1/96⁷⁵, while Poland, based on the principle of asymmetric opening, had more time to liberalise, with a schedule that envisaged gradual annual reductions of tariffs over a span of 7 years until their total elimination in 1999.

In addition, the EA included specific rules on competition and state aids in the *ECSC Protocol*. The provisions state that agreements between undertakings, abuse of dominant position and excessive public aid are incompatible with the Agreement and any dispute arising from anti-competitive behaviour of the giving of state aids is to be judged on the basis of practice in the Community. However, the Polish side was granted a special five-year derogation period in which it could provide extensive public aid to the steel and iron industry for the purpose of restructuring, conditional upon reductions

⁷² *Zycie*. 'Bitwa o jogurt', 05/03/2001.

⁷³ *Gazeta Wyborcza*. 03/04/01.

⁷⁴ See Treaty of Paris. European Coal and Steel Community, 1951.

Treaty of Rome. Establishing the European Community, 1957.

Tsoukalis (1997).

in production capacity and employment. Under art. 63.4 (a) of the EA, the Polish state has been considered as a European 'region', where the standard of living is below 60 % of EU average (all the Polish regions except Mazowsze), and is consequently allowed greater flexibility and scope in the provision of public aids for modernisation as well as social and environmental purposes. When the five year period for state aids ran out in January 1997, the EA provided for the possibility of extension subject to the approval of the Association Council.

Thus far the restructuring of the steel industry, which had begun in 1989, has had mixed effects and has remained a thorny issue subject to repeated chafferring in Polish EU relations.⁷⁶

The *National Programme for the Restructuring of the Iron and Steel Industry*⁷⁷, which was first prepared in Poland in 1992 and revised several times since, was to be completed by 2002. At this point production capacity should have been lowered to 12.3 million tons of steel per year, accompanied by a level of employment at about 23,000 people and an implementation of major technological changes. In the early 90's, taking into consideration the falls in demand on the Polish market, the Union feared that the Polish production surplus would be re-oriented towards the EU market, and thus the Commission generously applauded various studies conducted on the Polish steel-mining industry, suggesting that production should be drastically reduced. An early Canadian study insisted that production should be lowered from 18mln to 11.7 million tons of liquid steel per annum. The government's programme for the restructuring in 1992 was accordingly based on these estimates. However, several economists were pointing out already at this time that the scheme was far from perfect because it underestimated the growth of the Polish economy and with it the rise in demand for steel. It turned out that the GDP growth in Poland in the mid-nineties was twice as high as the Canadian study predicted.

⁷⁵ With the exception of specific products or 'regions' such as Germany or Spain.

⁷⁶ Instytut Koniunktur i Cen Handlu Zagranicznego (1999). *Wspolnoty Europejskie, Biuletyn Informacyjny*, No 91, Warszawa: IKiCHZ, marzec.

Winters, L.A. (1994). 'The Liberalisation of European Steel Trade', CEPR Discussion Paper, No 1002, London: CEPR.

Wang, Z.K. and Winters, L.A. (1993). 'EC Imports from Eastern Europe: iron and steel', *CEPR Discussion paper series*, No 825, London: CEPR.

WTO. (2001). *Trade Policy Review Poland 2000*. Geneva: WTO.

Urząd Komitetu Integracji Europejskiej (various years). *Biuletyn Analiz*. Warszawa: UKIE.

UKIE (various years). *Monitor Integracji Europejskiej*. Warszawa: UKIE.

Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Ed.) (1997). *The Polish Transformation from the Perspectives of European Integration, EU Monitoring*. Warsaw: Friedrich Ebert Stiftung.

In the first part of the decade, Polish steel exports to the EU remained at pretty steady levels of 4 million tons of steel products per year. Import levels from the EU, on the other hand, grew 7 times over between 1991 and 1997, from .2 to 1.4 million tons per annum. This fast growing rate of imports did not help the restructuring efforts. By 1997, employment levels in the Polish steel mills stood at 60,000 people and the plan was to make another 40,000 redundant in order to make the mills competitive. Despite high economic growth in the first half of the 90's, the restructuring programme was only partly implemented, and, in 1997, the European Commission demanded that Poland meet its obligations regarding the opening up of its market.

In response, the Polish Ministry of the Economy attempted to extend the deadline for abolishing customs duties, arguing the need for protection of the domestic market while the restructuring programme was being carried out. Moreover, the government proposed to the EU that production capacity levels should, based on estimates of the new *Gliwicka* study conducted nationally, be decreased to only 13.5 mln tons by 2002, a level considerably higher than the EU had initially expected. This caused an uproar in the Commission, and protests especially from Spain and Germany, the EU's main producers of steel. Commission claimed that the program's estimates for demand were methodologically wrong, and that it was over-simplified and too primitive to properly calculate cost. Commissioner for Enlargement, van der Broek accused the Polish government of postponing restructuring for political and social reasons, noting that many enterprises were as yet "untouched" by reforms and portraying their extended protection as very "short-sighted".⁷⁸

This *Gliwicka* analysis was later confirmed by a study done by a British consultancy, Beddows & Co., which published a prognosis for the demand for steel on the Polish market.⁷⁹ In its report to the European Commission, the *Steel Market Evolution in Poland* -1/4/98, Beddows & Co. maintained that the demand for steel products in Poland in 2010 would be approximately 9.2 mln tons per year. In this situation, the Canadian firm's early recommendations to reduce raw steel capacity to 11.7 mln tons would be irrational and would allow the EU steel producers to reap the benefits of Poland's economic growth.⁸⁰ This scale of reduction would require of the Polish government to close down several of the largest steel mills in Poland and radically

⁷⁷ Ministry of Economy, *National Programme for the Restructuring of the Iron and Steel industry*, 30/06/98.

⁷⁸ *Rzeczpospolita*, 19-20/10/98.

⁷⁹ Demand on the Polish market being the main determining factor for the restructuring programme.

⁸⁰ Instytut Koniunktury i Cen Handlu Zagranicznego (1999). *Wspólnoty Europejskie, Biuletyn Informacyjny*, No 91, Warszawa: IKiCHZ, marzec.

reduce employment. The conflict over steel escalated quickly as 1,8 mln tons of processed liquid steel is worth 1.5 mln\$.

In the ongoing dispute, Germany and Spain demanded a complete removal of duties on imported steel. The Polish side, on the other hand, wanted to maintain certain customs barriers, to protect the Polish market and give Polish steel mills time for modernisation in preparation for operations on the free market.

When Poland decided to formally call on the restructuring clause of the EA⁸¹, the EU toned down its critique and recommend not using this clause. Eventually a Gentlemen's Agreement was accepted and on September 1997, Poland's time allotted for public aid was extend until at least 1999, with a possibility of another extension until 2001.

Moreover, the government was granted the right to delay its steel liberalisation schedule envisaged in the EA, and the Commission agreed to allow Poland to keep tariff rates at 9% in 1997, rather than reducing them to 6% as was established in the original tariff reduction timetable. Poland had also requested to keep this 9% tariff level throughout 1998, lowering it to 6% by 1999 and abolishing it only by 2001. Under protests from Spain and Germany, the Commission was pressured to reject this extensive delay in opening up and agreed only to a schedule based on 6% tariff levels in 1998, 4% in 99, 2% in 00' and 0% in 01'.

The Polish programme for restructuring was hastily updated and the changes proposed by the Community included in order to win the Commission's approval and to secure a financial support package worth 30mln Euro for the benefit of the iron and steel workers who had to be made redundant. Both sides also agreed that that the association committee would be informed and consulted on all state aid planned, and that this would be dependent on a new restructuring programme as well as further production capacity and employment reductions.

On 16/12/97, the EU Council of Ministers accepted a final version of the Polish liberalisation schedule, whereby tariff levels would amount to 6% in 98, 5% in 99, 3% in 00 and 0% in 01'. While this was an obvious compromise on the side of the Community, the Polish government continued to feel political pressure even after initially accepting the Community approved schedule, and in July 1998, for tactical reasons, decided to further reduce tariffs by half from 6% to 4% in 1998, then to 3% in 99 and total elimination by 2000. This was all provided for in the new and updated *National Programme for Restructuring of the Steel and Iron Industry*, which the

⁸¹ To which Poland had a right due to the difficulties of restructuring and the high social costs involved.

Commission praised and received with approval. Simultaneously, however, Spain, Italy and Germany continued to question the viability of Poland's plans and openly display doubts as the Commission's endorsement of the programme.⁸²

From hindsight, the slower pace of liberalisation combined with additional protection of the Polish steel industry allowed several of the steel mills to pull themselves out from the verge of collapse, effectively restructure and create a modern raw steel sector. The role of the duties was crucial, as the slowing down of the anticipated tariff decreases allowed the Polish steel mills to accumulate the capital needed for investment and keep the potential for steel production at the level of 13.5 mln tons of raw steel per year, the amount, according to the Polish government, that would give Poland a strong competitive position in Europe.

Kawecka- Wyrzykowska has argued that,

*without these duties and other forms of state aid, it would have been impossible to carry through such a massive investment plan, and that, quite probably, the quicker pace of tariff liberalisation envisaged in the EA would have been the best method to bring Polish production levels well below the 13.5 mln goal, consequently, and unnecessarily lowering production capacity in order to give the EU steel mills a competitive advantage. (The author further maintained), that most likely, this original timetable of tariff reductions was decided on arbitrarily and without due consideration of the tempo and progress of the Polish steel sector restructuring.*⁸³

The main problem with all the subsequent restructuring programmes has been that there has been no clear vision on who is to cover the costs. Not only is the Polish government budget too limited, but most importantly the role of the state is severely curtailed due to the restrictive competition and state aid rules of the EA. The state cannot use direct grants or donations to the steel mills, while other forms of public aid, such as profits from privatisation, are not allowed by the EU's competition rules under art 68 of the EA.

Kaliszuck i Synowiec (1995). *ibid.*

⁸² Complaints made by the EU side against the Polish plan: the prognosis for the demand for steel in Poland were too high, it was very questionable whether 85% of the production would be taken in by internal market while only 15% would be exported, privatisation plans were too vague and based on usage of state (public) aids not allowed for in the Union, plan was too costly for the state budget to send 3,000 people on early retirement, and the plan did not take into account the condition on the world market for steel, especially the Asian and Russian crisis.

Instytut Koniunktur i Cen Handlu Zagranicznego (1999). *Wspolnoty Europejskie, Biuletyn Informacyjny*, No 90, Warszawa: IKiCHZ, luty.

Instytut Koniunktur i Cen Handlu Zagranicznego (1999). *Wspolnoty Europejskie, Biuletyn Informacyjny*, No 91, Warszawa: IKiCHZ, marzec.

Kawecka- Wyrzykowska (Red.) (1998). 'Ocena Stopnia Realizacji Układu Europejskiego Ustanawiajacego Stowarzyszenie Miedzy Polska a Wspolnotami Europejskimi i Panstwami Czlonkowskimi'. *ibid.*

⁸³ Kawecka- Wyrzykowska quoted in, Instytut Koniunktur i Cen Handlu Zagranicznego (1999). *Wspolnoty Europejskie, Biuletyn Informacyjny*, No 91, Warszawa: IKiCHZ, marzec, p 30.

By 1999, the EU was again encouraging Poland to cooperate in steel liberalisation and restructuring. However, the economic downturn in 1998-1999 had a deeply negative impact on the Polish iron and steel industry, and the issue of delays in restructuring has continued to dominate the various meetings of the Association Council. In 1999, Brussels wanted quick privatisation of the Huta Katowice and Sendzimir Mills, and when the Polish government stalled under social pressure, the Commission was again furious. All the subsequent *Progress Reports* on Poland in 1999, 2000, and 2001 have paid particular attention problematic lack in progress in the restructuring of the Polish steel and iron industry.

In 2001, during the writing of this paper, the Polish side was again negotiating with the Commission on annual production levels in the Polish steel mills. Under pressure from the Commission, the Polish authorities had lowered their original estimates of 13.5mln tons per year, to 12.8 mln. The Communities, on the other hand, continued to insist on 11.6 mln tons. That summer more negotiations on reductions in capacity and employment led to another updated and modified restructuring programme which was supposed to take into account the suggestions pushed by the Commission for the last ten years.

B.2 Special Economic Zones

Art. 63 point 4(b) of the Europe Agreement obliges Poland to adopt the EU's competition policy. One of the main problems encountered in the time of association as far as this requirement is concerned has revolved around Poland's Special Economic Zones (SEZ). Seeking to address high unemployment rates in some regions, the government has been introducing investment- related tax rebates, or more specifically temporary tax holidays, and establishing local 'zones' in which these additional privileges are granted to firms as an incentive to invest.

The goal of SEZ has thus to bring in capital into those regions and sectors where either unemployment is particularly high or the infrastructure is good, but hasn't thus far been used effectively.⁸⁴ It is hoped that the investment will improve this infrastructure and create zones in Poland that offer wide ranging opportunities for the development of high-skilled and technologically- advanced industries. Moreover, SEZ have been created to help relieve the regional and sectoral disparities resulting from the transition process, by improving the situation on a tight labour market and lowering

⁸⁴ Budzowski, K. and Wydymusa, S. (1999). *Handel Zagraniczny: metody, problemy, tendencje*. Krakow: Akademia Ekonomiczna.

unemployment levels in regions that would otherwise have little hope of attracting capital and know how.

The Commission has argued that Poland's granting of income tax exemptions to these enterprises is not in line with the EA competition rules. Even though the issue of SEZ is dealt with by the WTO, and thus the Commission's judgement on the matter is not legally binding, political pressure has been used on Poland to abolish these Zones and to eliminate the special privileges granted to those investors that have already set up operation therein.

The Commissions has had a particular problem with the Polish state's use of measures in the Zones directly supporting exports, which are treated as a violation of the fair competition principle and forbidden by the EA. These include corporate income tax allowances with possibility to deduct over 50% of the investment expenditure from income, export credits and export credit insurance, subsidies to interest rates on long term credits and programmes of support for export contracts. Enterprises in these zones have been granted these forms of state aid for export promotion, which, according to the Commission is a breach of EU competition rules and consequently needs to be modified. The Polish side has been slowly conceding to the EU's demands. In 1997, for example, after severe criticism from the Commission, the government abolished the preferences for export promotion in SEZ Mielec.⁸⁵

Finally, in January 2001, Poland adjusted its SEZ regulations to Community law by passing a new legislative act on competition and public aids. According to this law, investors in SEZ will only be able to receive a tax exemption worth at the most 50% of their investment costs. At this time, there were 14 functioning SEZ in Poland⁸⁶, and the Polish government had asked the Commission in its negotiations position to keep the tax rebates until 2017, for the investors who had set up their businesses in SEZ prior to January 2001. This postulate has been rejected. In addition the Commission has accused Poland of being 9 years late in harmonising her competition and state aids law with Community regulations. According to the EA, Poland was supposed to adjust its competition law to the *acquis* on the day of going into effect of the Interim Agreement, namely 1st February 1992.

In defence of its negotiating position, the Polish delegation has argued that giving into the EU's demands for the abolition of these zones would require tremendous

⁸⁵ Instytut Koniunktur i Cen Handlu Zagranicznego (1998). *Wspolnoty Europejskie, Biuletyn Informacyjny*, No 77, Warszawa: IKiCHZ, January.

expenditure from the state's already limited budget. Because the EU has refused to accept the regulations and agreements signed by the Polish state with the investors in the Zones, the Polish government would now have to somehow compensate the firms for losing their already-acquired privileges. While many Polish economists maintain that SEZ are not an effective way to restructure backward segments of the economy⁸⁶, they do point out that the Commission's persistence in the matter and the inflexible position adopted on the abolishment of SEZ is unjustified.

C. Anti-dumping actions

C.1 Polypropylene sheaf- binding rope

In January 1998, the Commission put a 20.3% AD duty on Polish producers of polypropylene sheaf- binding rope, used in agriculture to 'tie' straw and hay. Most Polish exporters were also forced to accept minimum price arrangements within certain allotted quotas. Moreover, the management of the conflict resolution process within the AC left much to be desired. While the Polish authorities were informed of the intention to apply AD duties on 30/12/97, the procedure was set in motion only 2 days later! This behaviour was an obvious breach of the dispute settlement procedure provided for in the EA, whereby each side is required to inform the other of the intent to begin AD action considerably in advance of the procedure. By failing to act in accordance with this system of early warning, the Commission's AD suit had done double the damage to the Polish producers, who were unable even to prepare for the upcoming proceedings

In the name of France, Belgium, Great Britain, Ireland, Portugal, Austria, Sweden and Finland (70% of the European wire industry), the association of European producers of rope and nets (EUROCARD) filed a complaint to the Commission in November 1997, claiming that Poland was selling the rope in Europe at prices that barely cover the production costs. According to their analysis, the Polish rope was being exported and sold at a 20-30% margin of dumping⁸⁷, which determines the difference between imported prices and those in the EU.

EUROCARD had been arguing that the Polish exporters, thanks to abnormally low prices, were completely wiping out European rope production, and that in order to remain competitive on the EU market, EU firms would have to lower their prices to such an extent they would not be able to cover production costs. Furthermore, because

⁸⁶ 17 SEZ existed initially; 3 were abolished by 2001, two due to pressure from the Commission.

⁸⁷ Orłowski, W. (2000). *The Costs and Gains from Poland's Membership in the EU: Methods, Models, Estimations*. Warsaw: CASE.

these producers had just incurred large investment costs to move from the production of sisal type rope to polypropylene, due to a shift in demand on the market, they expected that they would now profit from this outlay. Instead, due to dumped Polish products, they were losing out to Polish producers.

Prior to this, in January 1996, all quantitative restrictions on polypropylene sheaf-binding rope were abolished by both sides in accordance with the Multi Fibre Agreement and the GATT. Moreover, on 1/1/97, as was anticipated within the liberalisation schedule of the EA, tariff rates for polypropylene rope imported into the EU were abolished. Thanks to the liberalisation of trade, the EU has become Poland's most important market for sheaf-binding rope, taking over 90% of her global exports, Germany on its own dependent on 70-75% of its rope market on Polish products while the Union's collectively dependent on 26%.⁸⁹ Thus, because Germany had ceased to produce the rope domestically due to obvious comparative disadvantage, it did not take part in the group of European producers filing the AD suit against Poland!

Because of the dumping accusations, the Polish exporters obliged themselves to provide the EU authorities with a monthly report from July 1996 onwards, on the changing size and value of the European market for rope. However, this monthly update did not stop the EU producers from filing the harmful AD suit. It is worth mentioning, in addition, that the EU producers of textile-based products, to which rope belongs according to the MFA of the GATT, and particularly of goods made from artificial fibres, had been very active during this time, accusing other external exporters of using dumping methods. Suits had been filed against India, Pakistan, China, Turkey and Thailand, and the concurrence of these actions with the trend towards greater liberalisation in the trade of textiles within the WTO could not be but noticed.⁹⁰

C.2 Binder/baler twine and steel wire ropes and cables.

In July of 1998, the Committee of European Wire Producers (EWRIS), representing 90% of wire production in the EU, filed an anti-dumping complaint to the European Commission against Polish exporters. Poland, among 7 other countries, was accused of dumping as well as causing injury to European wire industry and was charged with very high dumping margin of 35%. In February of 1999, a temporary AD duty was imposed

⁸⁸ Analysis of past cases shows that the Community's dumping margin is biased in favour of Community producers; Mayhew (1998). *ibid.*, p 98.

⁸⁹ Between 1994 and 1997, the Polish rope producers increased their share of the EU rope market from 4.7% to 10.2%, and in first half of 97'alone, the value of this export grew from 2.1 mln\$ to 5.7 mln\$. Ministerstwo Gospodarki, Centrum Informacji Handlu Zagranicznego.

on steel wire ropes and cables while in August a final duty ranging from 27.9% to 48.3% was levied.

Meanwhile, the percentage of the wire market was gradually falling for EU producers from 75% in 1994 to 66% in 1997, while it steadily rose for the countries in question from 12% in 1994 to 23% in 1998. Because a substantial 20% of the Polish wire production was being exported to the Communities, the mere threat of AD measures would serve to practically eliminate the Polish producers from the EU market.

Furthermore, because the duty was also aimed at keeping out even cheaper producers, such as the countries of the former Soviet Union, the latter would now most likely reorient their sales towards the Polish market, increasing imports and contributing to a further deterioration of the Polish producers' position.

In their defence, the accused countries pointed out to the Commission that some of the producers filing the complaint were themselves importing the same product that they argued was being dumped. The Commission called this normal practice, and the matter remained unresolved. Moreover, there were huge discrepancies within the statistics used to determine the amount of Polish exports to EU market, some studies claiming that the Polish share actually fell between 1994 and 1997, while other demonstrating that it rose.

In spite of these controversies, the Polish wire producers continued to defend themselves against dumping allegations. According to their arguments, using lower than on the domestic market prices in the EU was justified by a very different situation on both markets. While, for example, the sales on the EU market were geared towards large enterprises, and thus were available more cheaply due to bulk rates, in Poland the sales went to small producers, where the quantity demanded was less and so the costs of production were higher. Moreover, the Polish producers claimed that they were able to sell cheaper products in the EU because they were also guaranteed there to receive their due payments within 14 days, while in Poland they had to wait for 3-4 months to be reimbursed.

The Commission in turn did not accept these arguments and claimed that they did not justify dumping. In addition to the AD duties, the Polish firms "DRUMET S.A." and "LINODRUT" agreed to minimal process, within an agreed quota, that were 35% higher than those used at time of suit. It was agreed that the dismissal of the AD duty would

⁹⁰ Instytut Koniunktur i Cen Handlu Zagranicznego (1999). *Wspolnoty Europejskie, Biuletyn Informacyjny*, No 90, Warszawa: IKiCHZ, luty.

only take place after the producers filed a petition with details as to the new terms of sale.⁹¹

D. Coal

In 1999, The British Confederation of Coal Producers filed an AD complaint to the Commission against the Polish firm Weglokoks, the biggest supplier of Polish coal to the United Kingdom. The problem again seemed to be rising imports of Polish coal, a threat to the British mines. An AD investigation was launched against alleged Polish state subsidies to the coal industry that were making the export prices of coal too low for British producers to compete with.

The Polish side defended itself maintaining that it actually sold coal in Britain at much higher prices than in Poland in order to be reap greater profits, and that the price currently stood at 34\$ per ton, a world market level, and not the 26\$ as the Confederation was claiming. Moreover, the government pointed out that cheaper coal was being sold on the British market by importers from Colombia and South Africa, and that the type of coal Poland sold on the British market differed considerably from the kind sold by British mines, and thus was in no way a competitive threat.

In order to avoid a formal AD duty, Weglokoks decided to accept minimum prices and Voluntary Export Restraints for at least a year. In the meantime, several British coal-using producers and other interested consumers lobbied the Commission in support of Poland, arguing that any restrictions on import of Polish coal would hurt the British economy. ICF, the biggest British firm importing Polish coal onto the UK market, wrote to the Commission in defence of the Polish producers, claiming that not only was the Polish coal not the cheapest import on the British market, but in addition the British coal mines were never interested in selling their coal to British power plants. The type of lower quality Polish coal was better suited for the needs of power plants, and limiting the imports from Poland would cause supply problems on the British market, disrupting the economy.

During the year that Weglokoks lowered its export levels to the UK, according to the self-imposed VER, not a single British coal producer took Poland's place. Instead, cheaper coal from Colombia and South Africa replaced the energy supply to the power plants. On the other hand, the AD investigation and VER's took their toll on the Polish mines, not only entailing serious losses for the coal industry, but also stalling the process of restructuring.

⁹¹ Instytut Koniunktur i Cen Handlu Zagranicznego (1999). *Wspólnoty Europejskie, Biuletyn Informacyjny*, No 91, Warszawa: IKiCHZ, marzec, p 33-34.

By early 2000, the end of the conflict was in sight, when Richard Budge, President of RJB, the biggest coal mining firm in the UK, as well as representative of the Association of British Coal Producers, visited the Polish Slask coal mining region in order to resolve the issue through consultation. The AD suit in Brussels was eventually dropped, but Budge threatened to launch another complaint unless Weglokos stuck to its VER agreement. Budge defended the abandonment of the suit by saying that the price of Polish coal had in the meantime risen. The Polish side claimed, on the other hand, that the dispute was ended peacefully, because the British government had given into the Association's demands and began subsidising British coal.⁹²

E. Petrochemical industry

Other infamous cases of AD investigations against Polish imports involve the petrochemical industry. In 1994, the first year of the functioning of the EA, two suits were filed against Polish and other CEE portland cement producers. In April, the European Association of Cement Producers accused Poland, the Czech Republic and Slovakia of dumping on the EU market. Sometime later, these firms were themselves charged by the Commission for price fixing in the Community.

That very same year, another dispute began over the import of Polish ammonium nitrate (RSM). Polish producers, in order to avoid a protracted investigation, agreed to minimum prices on the export of RSM for a period of 5 years. When this time frame ran out in 1999, according to the EA, Poland gained access to the EU ammonium nitrate market without the restrictiveness of minimum prices. However, immediately after this breakthrough for the Polish exporters, an AD investigation was launched, and in July 1999, without attempting to reach a consulted compromise, the Commission imposed a temporary AD duty of 25.2-30.5% on the Polish RSM plant, Zakłady Azotowe.

The RSM producers, in turn, feeling that the duty was unjustified and the procedure of putting it forth was questionable, accused the Communities of being in breach of the EA, by making exports to the EU even more restrictive than had been the case under the prior imposition of minimum prices.

In addition, Lord Inglewood as well as representatives of the National Farmers Union in the United Kingdom pressured Brussels to drop the suit, arguing that AD duties restricting Polish imports of RSM into the Communities were hurting British farmers who rely on this type of fertiliser. Because 80% of the UK RSM market came from Polish exports, the duties were making production costs rise. The NFU claimed that the AD duty had been dictated by two EU chemical giants, namely the German BASF and

⁹² *Unia & Polska*. 'interview with Steinhoff', 22/11/10.

the French Grand Paroisse, and that the damage incurred by the British farmers had not been taken into consideration by the Commission in its AD investigation.

In 2000, in addition to the action against RSM, AD duties were also placed on other Polish chemical industry products such as lime nitrogen, and an AD investigation was launched on urea and saltpetre. The urea investigation against Zakłady Chemiczne Police S.A. ended in June 2001 with no dumping found by the Commission. However, the Polish chemical industry has been experiencing losses worth thousands of dollars yearly as a result of all these AD complaints.⁹³

Moreover, cases such as the portland cement one also demonstrate, as Mayhew has noticed “how firms can use an AD duty for narrow private gain and to maintain a monopoly situation in the Community market, at the expense of the consumers.”⁹⁴

Trends and Conclusions

There seems to have been more friction in Polish- EU relations than in the case of any other applicant. Moreover, the issue of trade relations became increasingly controversial in Poland, owing to a series of high profile disputes and questions of agricultural trade access under the EA. These contentious and often bitterly fought political battles were widely covered in the Polish press, leading many Poles with a distinct impression that in the future Union their interests, already neglected during association would be further marginalised or even ignored.⁹⁵

It is important to point out that the asymmetric dependence of Poland on access to the EU market increased the relative political strength of the Union and consequently its ability to unilaterally affect the terms of trade. This, in turn, as Baldwin observed, was translated into an instrument of political power.⁹⁶ On the other hand, the low proportion of EU imports from Poland⁹⁷ did little to justify the protectionist stance of the Union. Moreover, while most studies commissioned by the EU showed that the liberalisation of trade would bring about more advantages than disadvantages for the Community and bigger concessions would ease protectionist pressures in the associated countries, the EU, collectively, chose to remain deaf to these calls for greater openness.⁹⁸ The

⁹³ *Gazeta Wyborcza*. ‘Sir anti-dumping’, 03/2000.

⁹⁴ Mayhew (1998). *ibid.*, p 96.

⁹⁵ R Bugaj, former head of the Polish Worker’s Union Party
Unia & Polska. ‘interview with Bugaj’, 11/99.

⁹⁶ Baldwin, (1994). *Towards an Integrated Europe*, *ibid.*, p 152.

⁹⁷ See table 5.4, chapter five.

⁹⁸ von Ow, B.(1995). ‘Problems and Perspectives of the Accession of the Countries of CEE’, in Weidenfeld, W. and Altmann, F. (Ed.) (1995). *Central and Eastern Europe on the Way into the European Union: problems and prospects of integration*. Gütersloh: Bertelsmann Foundation Publishers, p 19. See also Czyzewski, A. i Orłowski, W. (Red.) (1993). *Raport Polska- Wspólnoty europejskie: perspektywa 2000*. Warszawa: UKIE, Urząd Rady Ministrów, Biuro ds. Integracji europejskiej.

influence of established interests in the sectoral and fragmented policy-processes of the EU meant that it would only have been possible to ensure that the EA was implemented in a generous fashion through active political engagement and demonstration of will. However almost all EU governments remained ambivalent about Eastern enlargements, and, while recognising the political imperative, they were more preoccupied by the detailed economic difficulties.

Both Poland and the EU applied the safeguard clauses provided in the EA on numerous occasions. Although both sides, according to the EA, had the right to apply these measures, it could be argued that the EU, as a state superior in political and economic strength, should have, even for the sake of example, refrained from extracting concessions from the weaker trading partner. This became particularly the case when the EU trade surplus appeared and the pressure increased in Poland to stop the further deterioration of the trade balance.

Likewise, the EU's application of anti-dumping actions deserves serious criticism. Kawecka- Wyrzykowska pointed out that although formally the EU had the right to apply these protective measures, the practice of their implementation suggested that they were not always driven by economic considerations. Kawecka described the AD procedures, "or rather lack of procedures" as "arbitrary, exemplified by the declaration to introduce import barriers on Friday when the action was to begin on the following Monday. This not only made it difficult to reach Polish producers on time with the relevant information, but also left a number of exports already on the way into the EU in a curious situation." In addition, because the firms in the candidate countries have been organisationally, financially and strategically weaker than their EU counterparts, they have been unable to defend themselves against AD charges, even if the accusations were unfounded. Kawecka observed that "these occurrences as well as overly restrictive barriers which had no economic or real basis (referring to the foot and mouth disease never detected in Poland) not only had a negative impact on Polish exports but also on the atmosphere of political relations!"⁹⁹

The application of contingent protection was thus not only economically damaging for Poland, but also had a psychological impact on economic policy preferences, undermining the viability of the market reforms in Poland by discrediting liberal

⁹⁹ (Red.) (1998). 'Ocena Stopnia Realizacji Układu Europejskiego Ustanawiającego Stowarzyszenie Między Polską a Wspólnotami Europejskimi i Państwami Członkowskimi'. *ibid.*, pp 68-69.

See also Kawecka- Wyrzykowska (Red). (1998). 'Wdrażanie Przez Polskę Zobowiązań Przyjętych w Układzie Europejskim'. *ibid.*

Kawecka- Wyrzykowska, E. (1999). *Polska w drodze do Unii Europejskiej*. Warszawa: Polskie Wydawnictwo Ekonomiczne.

economic policies¹⁰⁰ (see chapter seven). For example, a popular topic of technical assistance in Poland became how to avoid AD measures. The unfortunate by-product of this exercise in harmonisation was to encourage anti-competitive behaviour in Polish economic policy making which, according to the preliminary objectives of association, was to be going in the direction of liberalisation and de-monopolisation.¹⁰¹

To conclude, in the words of B Kaminski,

*it became clear that the disciplines of the EA have focused mostly on preventing negative externalities on the EU associated with various measures, rather than on compelling the Polish government to adopt policies that would increase national welfare.*¹⁰²

Given the theoretical arguments in favour of non-discriminatory trade, with which the author agrees, the phenomenon of reciprocal agency capture verifies that regional integration is a highly complicated process dominated by narrow calculations of costs and benefits as well as the political influence of domestic interests.¹⁰³ Thus, it could be argued that in the design of the EA, not enough political attention at high level was paid to its implementation, and, while the instrument was heralded as the bedrock of liberal economic policy, the fulfilment of its obligations by both sides turned into a battle by protectionist domestic interests.

The next chapter takes a look at the political economy of trade policy making in Poland, assessing the impact that the liberalisation experiences under the EA have had on Polish domestic politics, policy preferences and outcomes.

¹⁰⁰ See Winters (Ed.) (1994). *Foundations*. *ibid*.

Ehrenhaft, P., Hindley, B., Michalopoulos, C. and Winters, L.A. (1997). 'Policies on Imports from Economies in Transition'. *ibid*.

Eatwell, J., Ellman, M., Karlsson, M., Nuti, D. M. and Shapiro, J. (1997). *Not 'just another accession'*. *ibid*.

Mayhew (1998). *ibid*.

¹⁰¹ Mayhew (1998). *ibid*., p 98.

¹⁰² Kaminski (1999). *Ibid*., p 29.

¹⁰³ Bilal, S. (1998). 'Political Economy Considerations on the Supply of Trade Protection in Regional Integration Agreements', *JCMS*, Vol 36, No 1, March, Maastricht: European Institute of Public Administration.

7. Explanations for Polish Trade Policy Reversals

Under representative democracy, individuals don't have the opportunity of using their vote to influence trade policy directly, but they can seek to secure the election of a representative whose views on the issue of protection for a particular industry reflect their own, in the representative democracy, contestability of policy may occur, and this is to be expected.¹

Having assessed the impact of the Europe Agreement on the Polish economy and on Polish-EU political relations (chapters 5 & 6), as well as discussed the domestic conditions for reform initiation in Poland (chapters 3 & 4), this chapter will now try to tie all these elements together and examine the most important factors responsible for Polish trade policy outcomes. The author will identify whether it has been the international repercussions of trade negotiations, domestic politics or both that have shaped and moulded policy preferences in Poland, maintaining throughout that the *neoliberal institutionalist* expectations about policy anchoring have proved insufficient in predicting the direction of policy reform.

The Europe Agreement was designed not only to assist the Polish economy in overcoming the transition recession, through its impact on export growth and trade reorientation, but most importantly to anchor the Polish trade regime in an irreversible process of liberalisation, thereby adding credibility to the market reforms. This liberalisation however has not consistently taken place, and the Polish institutions of trade have become subject to various manipulations and haphazardous tinkering.² The evolution of Polish trade policy, in fact, has been driven in multiple directions by social tensions and increasingly better-organised domestic interests seeking protection from foreign competition, on the one hand, and international commitments to trade liberalisation, on the other.

The author asserts that the reasons for this policy instability have been several fold and can be partially attributed both directly and indirectly to the liberalisation experiences within the framework of the Europe Agreement. The economic and political repercussions of the association process, discussed in preceding chapters, suggest that integration between Poland and the European Union has provided a fertile ground for domestic politics to impact inter- state cooperation, demonstrating the increasingly complex linkages between

¹ Hillman, A.L. (1990). *The Political Economy of Protection: Fundamentals of Pure and Applied Economics*. London: Harwood Academic Publishers, p 43.

² See B Kaminski (1999). *ibid.*

domestic and international relations as well as the difficulty in separating the internal political economy of policy reform from external influences.

I. The Europe Agreement and Trade Reform Viability

For neoliberal institutionalist expectations to be fulfilled and for external policy anchors, like the EA, to work in stabilising domestic reform, several assumptions have to hold. To reiterate these assumptions, in setting the conditions for association, the EU was to find an appropriate balance; giving support both to the process of democratisation and to the introduction of markets. The EA was thus to not only furnish additional pressure for reform continuation, by providing binding requirements, but also to bolster economic growth in Poland, thereby strengthening the hand of the reforming elites through incentives and rewards and contributing to the development of political pluralism. On the level of support for democracy building, the EA was to serve as an institutional model, and its legal framework was to be devised in such a way as to grant the Polish authorities enough leeway to respond to domestic demands and conflicts. In this way, the external leverage was not to contribute to complicating the policy dilemmas for the Polish authorities, by forcing them to choose between responding to international pressures on the one hand and to domestic needs on the other. The government's social responsiveness, in turn, was ultimately to contribute to building internal legitimisation of the economic policies pursued and increase the public support for the programme.

Finally, in implementing the EA, it was important for the Union to itself act and pursue the policies proposed consistently as well as uphold the conviction that both partners' interests were being weighed equally in the process of arriving at common positions and compromises on the level of the bi-lateral negotiations. Because the recognition that the partner with whom one is interacting is an equal and has the right to be respected regardless of his position is crucial to international cooperation, the EU's acknowledgement of the Polish side's needs and respect for its postulates would constitute the minimum requirement for pacifying potential conflicts.³ As such, the settlement of disagreements, the resolution of contentious issues through joint consultation and the pursuit of negotiations within the framework of association was to be based on partnership, designed to ultimately serve both partner's long-term objectives.⁴

³ Sztompka, P. (1996). 'Trust and Emerging Democracy: lessons from Poland', *International Sociology*, Vol 11, No 1, March.

⁴ It is the author's belief that the obvious asymmetry in bargaining power between the candidates and the Union does not need to be an obstacle to reaching mutually satisfactory solutions, if "Europe's" long-term

However, this author's analysis suggests that the trade disputes discussed in the last chapter and the actual implementation of the liberalisation framework within the EA have served to erode Polish trust, damage relations and contribute to not only an ever increasingly defensive position from the Poles, but also to policy backsliding in Poland. The Polish liberals were increasingly placed in the awkward position of having to argue for a 'free' trade policy in the face of very different behaviour of Poland's main trading partner. Because of the asymmetry in bargaining power between the associated sides, stemming from the nature of the membership application procedure, the weaker Polish partner was forced to accept many of the EU's terms, even if they later proved harmful to its economic, social or political interests. Moreover, the way some of the difficult issues were bitterly contested as well as their final resolution demonstrated that the EU's upper hand in the accession process was often used as a trump card to pressure the Polish side into conceding, and reinforced the Polish conviction that the transition process had become one in which the targets set were being imposed from the outside by the dominant Union.

In addition, Poland as a smaller country was unable to use the retaliation technique to seriously threaten the Union, as this strategy had the potential to bring about even bigger, self-inflicted economic damage as a result of counter-retaliation. Thus even though the Union's often quite domineering demands forced the Polish authorities to stop certain practices and accept certain terms of trade, these concessions took place at the price of worsening political relations. The Polish side perceived many of the techniques employed by the EU to pressure it to accept its requests as exploitation of the EU's stronger bargaining position and, in the words of W Wallace, "highly asymmetrical relationship."

The refusal of the member states to put accession as a goal into the preamble of the EA in 1991 was already an indicator of how the bilateral relations would unfold. Moreover, the divergence between the Commission's generosity and the member states' minimal concessions granted to the candidate forebode how incoherent the Community's policies could be and how unprepared the Union was to send aid to any region outside of the third world. In the Polish perception, the tit for tat bargaining which took place during the negotiations of the EA pointed to a lack of commitment from the EU's side to Eastern enlargement and transition in general. According to W Wallace,

interests are kept in mind, and if there is sufficient political will on the side of the stronger Union to fulfil the objectives aimed to benefit all parties.

the negotiations on AAs between the EU and the Polish government during the course of 1990-91 were thus a painful and disillusioning experience. The willingness of post-socialist governments to adopt western models, rebuild and redefine the structures of domestic sovereignty and the boundaries between 'state' and civil society was met by the imposition of detailed conditions.⁵

Publicly, even the chief Polish negotiator J Kulakowski, a man known for his knowledge of and many years of experience in the negotiations in 'Brussels', called the attitude of the EU "arrogant", questioning whether it was based on "partnership or blackmail."⁶ Mayhew also blamed the Union on the breakdowns and delays in integration, whereby "the member states have continued to be tempted to put short-term national interest before medium term strategic European interests."⁷ While focusing on the criteria for the candidate rather than on any minimal changes required from its side for eventual enlargement, the EU demonstrated that it was more interested in securing its own advantages rather than in achieving compatibility between transition and accession or providing the kind of declared support for the building of market democracy in Poland officially declared in 1990. The incoherent strategies pursued by the member states and mercantilist approach to trade policy making have not only furnished arguments for trade reform reversals in Poland, but have provided an example of the methods of managed trade to the Polish candidate. The Union's collectively protectionist policies were criticised by the Polish side as an irresponsible model undermining the credibility of the liberal reform attempts in Poland and the reformers themselves. Polish economists complained that in responding to protectionist pressure at home they have been unable to even look to the Union to provide an example of economic openness.⁸ Thus, not only have the Polish authorities been faced with having to defend their own difficult economic decisions, but they have also had to justify the

⁵ Wallace, W. (1999). 'Europe after the cold war: international society or interstate order?', *Review of International Studies*, p 10.

⁶ *Unia & Polska*. 'Interview with J Kulakowski', Nov 1998, No 2.

⁷ Mayhew, A. (2000). 'Enlargement of the European Union: An analysis of the negotiations with the Central and Eastern European Candidate Countries', *Sussex Working Papers in Contemporary European Studies*, No 39, Sussex: Sussex European Institute, December.

⁸ Winters (Ed.) (1994). *ibid*.

Weidenfeld, W. and Altmann, F. (Ed.) (1995). *Central and Eastern Europe on the Way into the European Union: problems and prospects of integration*. Gütersloh: Bertelsmann Foundation Publishers.

Dijk, P. van and Faber, G (Ed.) (2000). *The External Dimension of the European Union*. The Hague: Kluwer Law International.

Ciamaga, L. (Red.) (1997). *Zagraniczna Polityka Gospodarcza Polski w teorii i praktyce dostosowan do Unii Europejskiej*. Warszawa: SGH, Elipsa.

Mayhew (1998). *ibid*.

continuation of liberalisation in face rising protectionism in the EU. To conclude, in the words of Polish Under-Secretary of State for European Integration, J Pietras,

*the Union is partially to be blamed for the backsliding on trade obligations. The restrictions and impediments to the Union's market for our products, in particular agricultural goods, have discouraged a large proportion of our society from liberal reforms.*⁹

A. Recourse to protectionism

The section below briefly covers some of Polish trade policy reversals and is designed to demonstrate that the radical opening of the Polish economy in the days following the introduction of the Balcerowicz plan was quickly followed by a swing back towards protectionism. The three following sections discuss the interwoven factors most likely responsible for these developments.

While the aim of the EA was to cement the political reforms in Poland and help the government avoid recidivism in economic policy by committing it to international obligations, as R Staar has observed, “Polish authorities have displayed considerable ingenuity in exploiting loopholes and circumventing corresponding provisions of respective international agreements.”¹⁰ Many of these trade policy reversals were discussed in chapter six as a part of the ongoing trade disputes and will not be repeated in this section.

The first months of 1990 represented the most open phase of Polish trade policy making with an introduction of a far ranging trade liberalisation programme into the transformation shock therapy package. This included a new customs law, unification of the exchange rates and convertibility of the Zloty and a uniform application of tariffs (see chapter 2).

However, already by June of that year, extra import taxes were placed on consumer electronics, and by 1991, the government responded to increasing pressure from various sectors by devaluing the Zloty to increase export performance. In August of 1991, a new trade regime was introduced counteracting the liberalisation of 1990, and by September, outright trade policy reversals began to take place when tariff cuts and duties were discontinued.¹¹ The trade regime was step by step becoming increasingly subjected to ‘fine-

⁹ J Pietras, member of Polish negotiating team of the EA.
Unia & Polska. ‘interview with Pietras’, 6/12/99.

¹⁰ Staar, R.F. (1998). *Transition to Democracy in Poland*. NY: St. Martin's Press, p 4.

¹¹ See Levigne (1995). *ibid*.
Bobinska (1999). ‘Liberalizacja Handlu Zagranicznego’, w Budzowski, K. and Wydymusa, S. (1999). *Handel Zagraniczny: metody, problemy, tendencje*. Krakow: Akademia Ekonomiczna.
Kaminski, B. (1999). ‘The Role of Foreign Direct Investment and Trade Policies in Poland’s Accession to the European Union’, *World Bank Technical Paper*, No 442, Washington DC: World Bank.

tuning' by domestic interests, able to capture the 'state' because of large scale deficiencies in the institutional structures underpinning the policy making process.

In the early 90's, there was little knowledge on the Polish side as to which sectors of the economy should be protected by tariffs and which ones should be exposed to competition. Tariffs and customs were seen as a source of fiscal revenue and a part of the stabilisation package and not as tool for protection or as instruments for increasing competitiveness. However by 1993, trade policy began to be used to protect domestic producers and respond to social demands¹², and in the next ten years, state intervention has gradually crept back into the trade regime. After an initial period of liberal orthodoxy, Polish authorities began applying various instruments of trade management, including safeguard clauses, Non Tariff Barriers and intransparent measures of export promotion.

In terms of tariff reductions, the trade regime displayed considerable, but differentiated liberalisation of imports, with a quick reduction in custom duties on imported industrial products, to be entirely abolished by 2000, combined with insignificant reductions in duties on imported agricultural products. However, even in industrial products the lower tariffs were gradually replaced with various NTB's, such as national mandatory quality certificates, control systems, frontier charges, & export restrictions.

Kawecka- Wyrzykowska, E. (Ed.) (1995). *Poland's Foreign Trade Policy*. Warsaw: Foreign Trade Research Institute.

Kawecka- Wyrzykowska (Red.) (1998). 'Ocena Stopnia Realizacji Układu Europejskiego Ustanawiajacego Stowarzyszenie Miedzy Polska a Wspolnotami Europejskimi i Panstwami Czlonkowskimi', *ibid*.

Kawecka- Wyrzykowska (Red.) (1998). 'Wdrazanie Przez Polske Zobowiazan Przyjetych w Ukkladzie Europejskim', *ibid*.

Kawecka- Wyrzykowska (1999). *Polska w drodze do Unii Europejskiej*. Warszawa: Polskie Wydawnictwo Ekonomiczne.

IKiCHZ (2000). *Zagraniczna Polityka Gospodarcza i Handel Zagraniczny Polski 1999-2000*. Warsaw: IiCHZ.

Główny Urząd Statystyczny (various years). *Rocznik statystyczny handlu zagranicznego- yearbook of foreign trade statistics*. Warsaw: GUS.

Ministerstwo Gospodarki RP- Ministry of the Economy: (1999). *Polska, Raport o Stanie Handlu Zagranicznego w Roku 1998*. Warszawa: Ministerstwo Gospodarki.

Rządowe Centrum Studiów Strategicznych (2002). *Handel Polski z Unia Europejska w Okresie Obowiazywania Układu Europejskiego*. Warszawa: RCSS, Departament strategii i integracji miedzynarodowej.

WTO (2001). *Trade Policy Review Poland 2000*. Geneva: WTO.

Verblane, U. (1999). 'The trade policy implications of joining the EU: comparison between Poland and Estonia', paper for conference SSEES, London: SSEES. 12 March.

Zukrowska, K. (1998). 'The Scope of Opening of the Economy in the Pre-accession Period: exemplified by the Polish experience', in Zielinska- Glebocka and Stepniak (Ed) (1998). *ibid*.

Zukrowska, K. (2000). 'Opening of the Polish Economy in Context of Integration with the EU', in *Yearbook of Polish European Studies*, No 4, Warsaw: UWCE.

Wysokinska, Z. i Witkowska, J. (1999). *Integracja europejska: teoria i praktyka*. Warszawa: PWN.

Flemming and Rollo (1992). *ibid*.

¹² See Michalek, J. (2000). 'The Europe Agreement and the Evolution of Polish Trade Policy'. *ibid*.

While B Kaminski has observed that by the standards of highly developed countries, the NTB coverage- ratio¹³ in Poland has remained very low (3%, while 16.5% in EU), less prevalent and less diversified than in the EU, NTB's have never-the-less increasingly been applied to a number of imported products, such as beverages and tobacco, live animals for meat and motor vehicles.

The general doctrine of protection has been to use infant industry and restructuring arguments to slow down trade liberalisation, as well as to introduce import surcharges to protect ailing Polish industry. The most protected Polish sectors have included agriculture, coal, motor vehicles, defence, energy, oil, shipyards, and pharmaceuticals. Moreover, while protection was mainly achieved through the application of quotas and other import prohibitions, tariff suspensions and exemptions have also been used to controversially accomplish other objectives such as the attraction of foreign direct investment.

As far as the application of safeguard clauses provided for in the EA, subsequent Polish governments applied the General Safeguard (Art. 30) to protect the motor vehicle sector, petrochemical products, oil and the steel industry. The Balance of Payments Clause (Art. 64) was used to introduce a special import tax, and the Serious Shortage Clause (Art. 31) to restrict exports of various products such as skins, leather goods and other steel and iron industry products. The Polish authorities also applied the General Exceptions Clause (Art. 35) to retaliate against the EU's restrictions on import of even-toed animals, as well as the Infant Industry Clause (Art. 112) to impose additional tariffs on telecommunications components and equipment. Finally, the Restructuring Clause (art. 112) was formally employed to raise tariffs and delay the liberalisation schedule of petrochemical products. In addition, since 1993, the Polish legal system has evolved to introduce stronger contingent protection provisions. In January 1998, a *New Customs Code* became effective which in most respects approximated the EU's instruments of commercial defence regulations¹⁴, however, in 1999, a controversial Anti-Dumping bill was introduced, despite the fact that the 1998 law had dealt explicitly with contingent protection. None the less the ability to carry out the AD investigations by Polish producers did not in effect increase the levels of protection between 1990-99, because the exporters, inexperienced, lacking

Kaliszuk, E. and Synowiec, E. (1995). 'Klauzule Ochrone z Układu Europejskiego'. *ibid.*

¹³ Percentage of Polish imports subject to NTBs.

Kaminski (1999). *ibid.*, p 16.

¹⁴ See Plowiec, U. (1998). 'Poland's Preparation for Membership: Foreign Trade Problems', in Zielinska-Glebocka and Stepniak (Ed.) (1998). *ibid.*

information on the availability of this form of protection as well as deficient in lobbying skills, rarely attempted to defend their interest in this way.¹⁵

The issue of subsidies, competition policy and state aids have continued to remain contentious in the accession negotiations, never the less, in these areas, the Polish trade regime has been progressing consistently towards legal harmonisation with the *acquis* and application of the Union's standards and practices, and could thus be considered stable. In general the Polish trade regime has displayed policy making on a case by case approach, lacking a single, long term and coherent strategy of liberalisation. Moreover, the institutions of the trade regime had not been built around a functional and transparent framework, constraining both inappropriate rent-seeking activities¹⁶ and policymaker's responses to them. According to the World Bank, the institutional design of the foreign trade policy process in Poland is not conducive to sound policies and the process of policy formulation has been increasingly captured by narrow sectoral interests. Although the trade regime is not NTB ridden, the temptation to resort to NTB has been on the rise, as private lobbying activities, conducted outside of any legal framework, have intensified.¹⁷ Due to the lack of regulation of these rent-seeking activities, the element of uncertainty and unpredictability of the changes in trade policy making has grown.

In sum each subsequent government, following the first Liberalisers, has reacted in an inconsistent manner to pressure from both domestic lobbies and to the requirements of the EA and WTO membership, and as Kaminski has summarised, "the focus of foreign trade policy has been on finding ways of maintaining if not increasing protection in face of declining border protection as required by international treaties."¹⁸ Moreover, when the authorities did rely on formal application of protection by calling on the EA, the EU side made its disapproval apparent, contributing to the rising tendency in Poland to seek protection outside of transparent and institutionalised mechanism provided for by international institutions. By the mid- nineties there was an apparent shift in policy making to a grater use of non- border protection as a substitute for lowered tariffs.

¹⁵ Kawecka- Wyrzykowska, E. (Ed.) (1995). *ibid.*

Gawlikowska- Hueckel, K. (Red.)(1999). *Polska- Unia Europejska: Problemy prawne I ekonomiczne*. Gdansk: Uniwersytet Gdanski.

¹⁶ Corruption based. Powerful interconnections between industry, finance, media and politics which lead to blackmail, bribery, buy off, backhanded enticements, etc...

¹⁷ Kaminski (1999). *Ibid.*

¹⁸ Kaminski (1999). *ibid.*, p 198.

J Michalek, for example, pointed out that

*the application of safeguard clauses by Poland can be regarded as a manifestation of backsliding in the trade liberalisation policy, these delays in liberalisation were policy steps explicitly foreseen in the EA and thus could not be treated as illegal or unfair.*¹⁹

In the overwhelming majority of cases, where the Polish side did endeavour to apply transparent instruments of protection, it met the formal criteria necessary for application of a given clause. In addition, the government never raised its tariffs above the level of bound duties contained in the WTO schedule of concessions, and the extent of safeguard clauses applied was quite limited in time and scope. The most ambiguous cases concerned agriculture, where, the Polish authorities did often increase protection under powerful pressure from the farmers' lobbying groups.

Because subsequent governing coalitions have attempted to continue the façade of liberalisation in order to meet international obligations, much of the policy backtracking has taken place through NTB's and other measures of administrative control. Powerful vested interests, with strong ties to the ruling governments, have blocked policy reform or configured them to the benefit of a relatively narrow group in the population. Corruption, in turn, has distorted the administrative responses to domestic pressures, allowing bureaucrats to intervene in areas where they should not, while undermining their capacity to act efficiently in those areas where their attention was urgently needed, such as export promotion, industrial policies or the enforcement of competition policy.

The overall development of the Polish trade regime has revolved around ad hoc management of quotas and tariff exemptions (procedural protection), as well as an intransparent and unpredictable structure of tariffs.²⁰ These instruments, by granting erratic favours of duty free import for some while restricting the access for others, not only displayed signs of mercantilist policy making but, in addition, create a patronage relationship between the government and the affected firms. They have thus not only reversed many of the early liberalisation efforts, a highly regrettable development, but simultaneously contributed to increasing illicit rent-seeking activities and corruption in Polish regime trade, reinforcing the dysfunctional policy formulation environment.

¹⁹ Michalek (2000). *ibid*, p 115.

²⁰ The variation of tariff rates, diversified custom schedules and administrative complexity increase the discretion of the bureaucracy, and inevitably the lack of transparency opens the door to corruption. Tariff exemptions (duty suspensions) and quotas are granted by the government for a limited period of time and in Poland have covered a wide range of products, including pesticides, electronic equipment, lightening equipment, building materials and medical equipment.

Incomplete economic reform during the initial phase of reform, characterised by neglect of institutional and regulatory frameworks, contributed to the capture of the weak state by powerful economic interests, particularly the ‘winners’ of this early phase. This, in turn, played a significant part in concentrating market power within a very narrow group of beneficiaries, able and willing to prevent further reform or even instigate policy reversals.²¹

II. Economic Explanations for Trade Reversals

Economic explanations as to why a nation would raise its levels of protection after initially lowering them centre on arguments of transaction costs. According to economic theory, a country chooses to protect its industry for either one of three reasons; to improve the difficulties associated with a deteriorating trade balance and balance of payments situation, to strategically protect its infant industries, or to retaliate against unfair behaviour of the trading partner. In the Polish case, all three reasons were present and were used by various governments to justify the increasing levels of protection.

Table 7.1 Foreign Balance of Trade of CEE’s with the European Union 1995 and 2000

Country	Trade in mln ECU/euro	
	1995	2000
Bulgaria	-217	-162
Estonia	-461	-42
Lithuania	-50	-410
Latvia	184	-138
Poland	-3058	-10549
Czech Rep	-2660	-2401
Rumania	-405	-1090
Slovakia	-105	343
Slovenia	-934	-1844
Hungary	-1120	-1280
Total	-8827	-17572

Source: “Handel Polski z Unia Europejska w okresie obowizywania, Układu Europejskiego”, RCSS, Warszawa 2002.

In the words of economist R Baldwin, “showing a substantial trade deficit, or failure of exports and imports to grow at approximately the same rate from a particular base period, is regarded as sufficient evidence to warrant raising protection.”²² Thus, the competitive pressures stemming from imports combined with rising unemployment can explain the frequent withdrawals by the Polish government from commitments adopted under the EA.²³

Kaminski (1999). *ibid.*, pp 17-18.
²¹ EBRD, Transition Report 1998
²² Baldwin (1988) *Trade Policy in a Changing World Economy*. London: Harvester- Wheatsheaf, p 255.
²³ Orłowski (1997). ‘Polskie Przedsiębiorstwa a Jednolity Rynek Unii Europejskiej: koszty i korzyści’, *ibid.*, p 11.

Because the first liberal government liberalised too soon, many Polish producers were effectively wiped out before they even had time to adjust to the changing environment. In addition, while the EA was designed to support the transition process in Poland²⁴, by providing an outlet for Polish producers to sell their products once demand fell on the domestic market and increasing inflows of capital investment, the development of trade relations during association did not meet these textbook expectations.

As the number of Polish enterprises recording net losses grew and production plummeted, the dilemma faced by subsequent authorities revolved around what to do with firms recording losses while at the same time continuing market reforms and not reneging on international agreements. In addition, the opening of the Polish market to EU enterprises took place without adequate financial assistance from the EU²⁵, and as K Popowicz has observed “the principle of asymmetry declared in the EA, under this kind of disproportional economic potential, could not have been a barrier to the growth of a huge trade deficit.”²⁶ Because the process of restructuring has been unusually difficult in Poland, it has been crucial that the government carry out the reforms under conditions of high economic growth, enabling it to provide social safety nets to compensate the losers for their adjustment costs.²⁷ Enforcing large-scale competition, required for the leap from state to market, on the other hand, has had negative effects on both growth and stability. Although the growing transition difficulties should be attributed to both internal and external factors, there is no doubt that the liberalisation schedule within the EA as well as its actual implementation contributed to multiplying the problems. According to Belka et al., “the radical changes in demand which took place as a result of the speed of integration and liberalisation processes with the Communities contributed in Poland to the symptomatic appearance a recession.”²⁸ The recession, in turn, coupled with a sudden surge of imports

²⁴ To ease the short-term costs of transition, provide an outlet for Polish products once internal demand fell due to transition recession and assist the Polish authorities in jump-starting the economy following the introduction of shock therapy.

See chapter two.

²⁵ As was granted to Spain, Portugal or Greece in previous enlargements.

See Inotai, A. (1998) ‘Eastern Enlargement: Benefits for the European Union’, in *Studia Europejskie*, CEUW, No 3, Vol 7, Warsaw: CEUW.

Padoan, PC. (1994). ‘The Changing European Political Economy’, in Stubbs and Underhill (Ed.) (1994). *ibid.*

²⁶ Popowicz, K. (1999). ‘Polska- UE: trzy scenariusze’, w Kolarska-Bobinska (Red.) (1999). *Ibid.*, p 341.

²⁷ More difficult than in the other CEE due to the larger scale of the problems.

²⁸ Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Ed.) (1997). *The Polish Transformation from the Perspectives of European Integration, EU Monitoring*. *ibid.*, p 32.

raised the benefits, both economic and political, that subsequent governing coalitions had to gain from reneging on parts of international trade agreements negotiated by the Liberals.²⁹ While increasing competition on the Polish market, the EA did not provide the incentives and opportunities to increase Poland's international competitiveness or the conditions for export-led growth. This was mainly due to the implementation of the trade liberalisation schedule which proved to be more favourable to the Union than to the weaker candidate, as well as to the EU's intensifying application of contingent protection, restrictive rules of origin and little progress made on the free movement of services and labour (discussed in chapter five).

It could even be argued that the terms of trade provided under the EA did not create a level playing field for Polish firms and that the attention paid to microeconomic enterprise adjustment in Poland or to the domestic social ramifications of the liberalisation process was not adequate. The years of association have indeed proved that Polish firms have not been sufficiently prepared for the radical trade opening as envisaged under the EA, and that the Agreement has done little to overcome this situation³⁰, maybe even perpetuating the backwards composition of the Polish export structure. According to K Marczewski, for example, the strong penetration of the Polish market by EU high-tech products in the early 90's led to the destruction of many important Polish sectors, such as electronics, necessary for the modernisation of production networks. Marczewski concluded that, "this had the effect of cementing the command economic structure of commodity trade and solidifying backward production, leading to a trade deficit with a structural, long-term character."³¹ In conclusion, the initially premature liberalisation of the trade regime combined with restricted access for sensitive products to Poland's main market and indispensable outlet as well as application of CP by the EU had negative consequences for macroeconomic stability in Poland, income distribution, government revenues and employment levels and contributed to the deterioration of national industry and agriculture. All of these developments can partially explain Polish trade policy reversals.

²⁹ Dixit, A.K. (1996). *The Making of Economic Policy: a transaction-cost politics perspective*. Cambridge, Mass, London: MIT Press, p 78.

³⁰ See Kawecka- Wyrzykowska (1997). *Stosunki*. *ibid*.

Kawecka Wyrzykowska (1997). 'Effects of the EA on Polish Economy and Pre-accession Challenges', in *Studia Europejskie*. *ibid*.

A. Strategic Trade Policy

Normative economic theory, and in particular New International Economics and Strategic Trade Policy, can also be used to explain rising levels of protection in the Polish trade regime. The justifications for rising protection centre around efficiency considerations, such as those espoused to by the newly growing literature on strategic intervention.³² While upholding the case that free trade is optimal, new trade theories relax the assumptions as to 'ideal' economic conditions and allot for intervention under very specific circumstances. As such, these theories do not neglect issues such as unemployment, adjustment costs or factor mobility, making their economic prescriptions more appropriate for transition economic, than the more traditional neo-liberal variants.

According to these arguments, and those supported by the author, even from an economic point of view it made sense for Poland, as a state in transition, to establish slower, more gradual, but consistent liberalisation instead of rapid and complete trade opening followed by policy reversals. Temporary protection could have been granted to the sensitive sectors to allow the to effectively adjust, restructure and increase national competitiveness.

Strategic Trade policy, maintains that "the case for free trade does not require complete laissez faire", and that "theories should not be judged independently of their application".³³ Conditions, such as transition, where externalities are present, might not represent instances where laissez faire is a good idea. For example, while export growth creates jobs by expanding demand for certain products and thus increasing demand for the supply of labour, and the opposite is true for the growth of a trade deficit. This effect is exacerbated in an environment of rapid restructuring and liberalisation of an entire economic system. Under conditions of transition, in addition, adjustment costs are particularly high, and there are large market distortions contributing to wage and price rigidities, as well as general domestic factor immobility. Modern Trade Theory suggests that temporary protection, in such a case, is a superior alternative to permanent or inconsistent protection.

According to this author's analysis, the Polish conditions represent a case in which temporary deviation from a completely open trade policy would have been more desirable

³¹ Marczewski, K. (1992). 'Wspolpraca gospodarcza z zagranica w okresie transformacji', in Zienkowski, L. (Ed.). (1992). *Gospodarka Polska w Latach 1990-1992: doswiadczenia i wnioski*. Warszawa: GUS i PAN, p 120.

³² Corden, Krugman, Lancaster, Helpman, Brander and Spencer

³³ Dillon, P., Lehman, J. and Willett, T. (1990). 'Assessing the Usefulness of International Trade Theory for Policy Analysis', in Odell, J.S. and Willett, T.D. (Ed.) (1990). *International trade policies: gains from exchange between economics and political science*. Ann Arbor: University of Michigan Press, pp 24- 25.

than rapid liberalisation followed by reversals. Intervention was needed to help the government avoid a long-term structural current account and trade deficit and break the vicious cycles of industrial decline, coupled with rising unemployment. In this type of situation, a government, due to complex reform dilemmas and multiplied problems, is forced to adopt short-term, ad hoc policy management in order to avert a political or economic crisis.³⁴ As a result, modernisation is stalled and competitiveness cannot budge. Selective and transparent liberalisation in contrast to radical opening followed by ad hoc policy reversals, could have contributed to evading these developments, boosting long-term and viable liberalisation.

Strategic trade policy provides the rationale for domestic protection under circumstances of *revitalisation purposes*, when a sector is affected by imports and the protection can increase its competitiveness for a temporary amount of time, or as *phase down protection*, to limit job losses and the concentration of social and other transaction costs in a sector that does not have a Comparative Advantage and will remain uncompetitive. In Poland, the speed and scope of the transition and internationalisation changes provided rationale for both of these types of protection.

Liberalisation caused major shocks to an overwhelming part of Polish enterprises, households, regions and sectors. Those that were able to effectively adjust remained a minority, while those that witnessed falling income and standards of living, a rising majority.³⁵ The sectors hurt most by the excessive opening up included steel, machinery equipment, electronics, chemical synthesis, transport vehicles, processed agricultural goods, coal mining, shipbuilding, textiles, defence industry, fuels and electrical energy. Under the pressures of liberalisation, these industries were unable to modernise and fell trap to the vicious circle of debt and delays in restructuring. In the electronic industry, for example, the Polish producers were initially doing quite well and had considerable accomplishments, but the government liberalised prematurely, and most of the national producers were destroyed before even having a chance to adjust.³⁶ These kinds of experiences led subsequent governing coalitions to avoid repeating the experience, and arguments for re-introducing various protective measures gained ground even in liberal

³⁴ Orlowski (1997). *ibid.*

³⁵ See for ex Eatwell, J., Ellman, M., Karlsson, M., Nuti, D. M. and Shapiro, J. (1997). *ibid.*
 Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Ed.) (1997). *ibid.*
 Milic-Czerniak, R. (1998). *Gospodarstwa Domowe w Krajach Europy Srodkowej: skutki przemian 1990-1995*. Warszawa: Wydawnictwo IFiS PAN.

policy circles. For these economists, the authorities were able, from both an economic and a political/social point of view, to justify the increasing domestic protection.

Never the less, strategic trade instruments were not explicitly provided for in the Europe Agreement and consequently were criticised by the EU side when the Polish authorities suggested their application. At the beginning the transformation, the first Polish governments did not engage in an active industrial or strategic trade policy, nor did the EA require them to. When it became obvious that the market itself would not increase Poland's competitiveness and the EA was insufficient in providing the incentives and opportunities to modernise the Polish export structure, in 1993, the Ministry of Industry began to develop a strategic policy programme.³⁷

However, the Union's technical and financial assistance and institutional guidance did little to aid the Polish authorities in preparing a complex and coherent policy-mix programme. In addition, when the Polish side argued for the slowing down of liberalisation schedule under the EA, using the same rhetoric as employed by the Union for over three decades to restructure its own industry, gradually increasing its effectiveness behind protective barriers³⁸, their demands were met with unwarranted criticism from the Union.³⁹ What's more, while the Polish authorities' use of the infant industry clause, for example, was successful in improving competitiveness in several key sectors, the EU side continued to disapprove, leading to various disputes in the Association Council. In the motor vehicle sector, for instance, under the new protective barriers, motor production did expand significantly and by 1998 was attracting 23% of Poland's foreign investment.⁴⁰

Subsequent governing coalitions in Poland maintained that without protection and extra time allowed to give ailing industries extensive state aids, domestic producers would never be able to increase their labour productivity and thus would have no way of competing with European firms on the internal market. For example, sectors such as telecommunications

³⁶ Orlowski (1997). *ibid.*, p 32.

³⁷ For example, agriculture and textiles were left completely unprotected although neither sector was prepared for the competition to come, and, by 1993, almost all state farms went bankrupt or were liquidated. Similarly, the textile industry based in Lodz witnessed total destruction with only a few firms surviving the protracted years of association; and only two managing to successfully restructure and remain commercially active. Hausner, J. and Marody M. (Ed.) (1999). *Three Polands: The Potential for and Barriers to Integration with the EU, EU Monitoring III*. Warsaw: Friedrich Ebert Stiftung, p 93.

Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *Accession or Integration? Poland's Road to the European Union, EU Monitoring II*. Warsaw: Friedrich Ebert Stiftung.

³⁸ Orlowski, (1997). *Ibid.*, p 20.

³⁹ Michalek (1997). *ibid.*

See chapter six.

⁴⁰ WTO (2001). *Trade Policy Review Poland 2000*. *ibid.*, pp 104-105.

required additional protection and investment to enable them to develop sufficiently before being opened up to global forces and consequently better cope with the strong pressures of international competition.⁴¹ Likewise, the protection of the petroleum and energy sector was justified by the necessity to restructure, bring in investment and eventually privatise. Protecting the iron and steel industry was on the other hand warranted by phase down protection⁴², while revitalisation purposes could warrant the protection of the agricultural sector.⁴³ By 1998, 27% of the Polish labour force was still actively employed in agriculture, and the huge trade deficit that had developed with the EU was contributing to rising levels of bankruptcy not only among the previously state owned farms, but also among small and medium sized farms, unable to effectively compete with subsidised EU products. Thus, even though the Polish farmers had a comparative advantage, due to cheaper labour and output costs, as well as more 'ecological' methods of production, they were unable to take advantage of the leverage, due to the restrictive nature of agricultural market access to the Union under the EA.⁴⁴

On the issue of export subsidies, credits and state aids for the promotion of export growth, Marczewski pointed out that, "Poland has also been under constant pressure from the EU pushing it to eliminate these instruments of industrial policy and consequently, lowering the

⁴¹ Orlowski (1997). *ibid.*

Narekiwicz, J. (1999). 'Zmiany w systemie funkcjonowania polskiego handlu zagranicznego w drugiej polowie lat dzieidziesiatych', w Budzowski, K. and Wydymusa, S. (Red.) (1999). *ibid.*

Ministry of the Economy. (1999). 'A Conception of the Medium-term Development of the Country Until the Year 2002', *Government Document*, Warsaw: Ministry of Economy.

Council of Ministers, Republic of Poland (2000). *Raport w Sprawie Korzysci i Kosztow Integracji Rzeczpospolitej Polski z Unia Europejska*. Warsaw: Council of Ministers.

Council of Ministers, Republic of Poland (various years). *The National Programme of Preparation for Membership in the European Union*. Warsaw: Council of Ministers.

⁴² This sector has remained one of the biggest employers in Poland, providing for 90,000 jobs in the Silesia region alone. Privatisation has been highly problematic, due to the high share of production by State Owned Enterprises. The government approved redundancy scheme and high social and economic costs have been further exacerbated by fiscal constraints and the EU's state aid restrictions.

Ministry of the Economy (various years). *National Programme for Polish Steel and Iron Industry Restructurisation*. Warsaw: Ministry of the Economy.

Miklaszewski, S. (1998). 'Polska Wobec Reformy Unii Europejskiej', *MCRD zeszyt*, Nr 26, Krakow: MCRD.

⁴³ According to strategic trade policy arguments, if trade liberalisation contributes to a growing deficit and leads to the loss of work for thousands of farmers who might never be able find another job, the state is justified in abandoning its liberal philosophy and instead actively engaging selective protection to arrest the development of permanent structural unemployment.

Winters, LA. (2000). 'Trade, Liberalisation and Poverty', *Poverty Research Unit Discussion Paper*, No 7, Sussex: SEI.

⁴⁴ Especially, the EU's continued application of contingent protection, export subsidies and limiting/ rigid quota system.

ability of Poland to develop high tech production and intra –firm trade.”⁴⁵ Thus, while, the Union pressed hard for restructuring of Polish industry, it did not help to speed up the process through its extensive use of Anti-dumping measures against Polish producers, low levels of pre-accession funds and competition and state aids rules that were probably too strict from the point of view of transition.⁴⁶

In sum, the initial underdevelopment of a coherent industrial and strategic trade policies in Poland could explain the over-reliance of Polish authorities on non- tariff protection and the development of a policy formulation environment characterised by arbitrary law enforcement and intransparent and frequent changes.⁴⁷ The initial negligence of a comprehensive policy- mix, combined with the belief that restructuring would happen on its own accord gave rise to major socio-economic and political problems which would take years to resolve and increased pressure from Polish domestic interests group to slow down the opening up of the economy. Thus instead of applying warranted and transparent trade defence instruments, such as those stemming from New Trade Theories, the Polish government instead ended up reacting to various crises situations and protecting sectors such as steel or agriculture which represented the loudest voices in the social protests. This, in turn, contributed to the uncertainty of the decision-making apparatus, inconsistency in policy making and an incoherent trade regime.

⁴⁵ Marczewski, K. (1992). ‘Współpraca gospodarcza z zagranicą w okresie transformacji’, w Zienkowski, L. (Ed.). (1992). *ibid.*, p 138.

See also, Neider- Marcinek, D. (1999). ‘Nowe Warunki Dostaw w Handlu Zagranicznym’, w Budzowski i Wydymusa (Ed.) (1999). *ibid.*

⁴⁶ See Pelkmans, J., Gros, G. and Nunez Ferrer, J. (2000). ‘Long Run Economic Aspects of the European Union’s Eastern Enlargement’, *WRR Working Documents*, No 109, The Hague: WRR Scientific Council for Government Policy.

Zielinska- Glebocka, A. (1998). ‘Industrial Competitiveness Policy of the European Union. Meeting the Challenges of a Stronger and Wider Europe’, in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.*

Orlowski, W. (1998). ‘Poland and structural funds: a short list of regional problems’, in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.*

Blanchard, O.J., Froot, K. and Sachs, J. (1994). *The Transition in Eastern Europe. National Bureau of Economic Research Project Report*. Chicago: University of Chicago Press.

Pawlas, I. and Tendera-Wlaszczuk, T. (1999). *Poland’s Economy Competitiveness with Respect to the Integration with the European Union*. Warsaw: University Centre for Europe, Warsaw University.

Preston (1998). ‘Poland and EU Membership’, *ibid.*

Sedelmeier, U. (1994). ‘The EU’s Association Policy Towards Central and Eastern Europe: political and economic rationales in conflict’, *SEI working report*, No 7.

Smith, A., Holmes, P, Sedelmeier, U., Wallace, H. and Young A. (1995). ‘The European Union and Central Eastern Europe: Pre- Accession strategies’, *Sussex European Institute Working paper*, No 15, Sussex: Sussex European Institute.

Wallace, H.S. (1998). ‘Coming to Terms with a Larger Europe: Options for economic integration’, *SEI working paper*, January.

III. Political explanations

While the economic passages above have shown how the repercussions of trade liberalisation within the framework of the EA can be used to explain Polish trade policy backsliding, this section, in turn, demonstrates that many of the policy reversals can also be partially attributed to political factors on the international level and issues such as retaliation, reciprocity, and fairness in trade relations.

As the 90's progressed, relations gradually deteriorated, as a result of the crisis in trade disputes, discussed in chapter six, between Poland and the EU. Many of the details of the disputes leaked out on to the media and as R Baldwin has pointed out, "because typically the news media tend to give wide and sympathetic circulation to their own countries view point, the disputes quickly became a matter of national pride."⁴⁸

The number of incidences suggesting a lack of strong outside support from the Union and signalling competing motives from the individual member states increased the risk of Poland reversing its initially open trade policies. The protectionist bias in the EU's CCP, documented in chapter six, made political arguments for protection a formidable force in determining policy outcomes in Poland. Although further liberalisation on the EU's side, in the 90's, would certainly have eased the pressure for protection in the candidate, the Union's continued demands that Poland open up, while simultaneously restricting access to its own markets was perceived by the Polish side as expectation of unilateral adjustment. In addition, the belief that the domestic reforms were being coerced through from the outside by the EU began to dominate public opinion and the 'Europe' debate began to be used by Polish opposition parties for internal reasons.

It was perceived by the Polish side, that in order to avoid EU markets being destabilised by increasing supplies of cheaper Polish products, the member states expected Poland to limit production in the sensitive sectors already characterised by surpluses; namely coal, steel, agriculture and chemicals. Through this behaviour, the Union strengthened the Polish conviction that its pre-accession strategy was not based on a balanced assessment of what was best for the future EU as a whole, but rather on what was in fact in the short-term interest of the current member states.

⁴⁷ It is also worth mentioning that even after the official industrial policy documents had been passed through legislature, these instruments were used minimally, due to serious budget deficit problems and fiscal policy constraints.

⁴⁸ Baldwin (1988). *ibid.*, p 257.

Thus, when examining the political implications of the trade liberalisation experiences under the EAs, one is tempted to agree with Csaba that,

*while the agreements have indeed been legally binding, they have never the less been politically damaging and have led to piecemeal policy reversals in the candidates. The EA's have only played a marginal role in the process of reform in the candidates and have served as insufficient anchors.*⁴⁹

The failure of the EU to live up to its initial political commitments reinforced the image of a self-interested and protectionist Union, and weakened the position of the liberal reformers within Polish politics. Moreover, the restrictions encouraged retaliatory responses from the Polish side, and as W Orlowski observed, “by limiting imports but encouraging exports, and thus exporting unemployment to Poland, the EU has itself directly contributed to policy reversals in the Polish trade regime.”⁵⁰

A. Political relations under association

Because the Union has had such a far ranging influence over many of the most important domestic decisions in Poland, its credibility as a fair and equitable partner has been crucial in legitimising the liberal reforms as well as affecting the outcome and performance of the economic measures themselves. The Commission has had a say over not only the Polish trade liberalisation schedule under the EA, but over many other key policy areas such as restructuring, industrial and competition policy and privatisation. The importance of how these EU strategies were presented to the Polish side, in another words the *image factor*, was clearly demonstrated by the impact that the disputes have had on political relations (discussed in chapter six), and, in turn, on the policy responses from Polish authorities. As Bhagwatti has claimed,

*it is hard enough to cope with the demise of an industry in pursuit of the gains from trade if another country has a market determined advantage. But if the foreign industry is backed by artificial support from its governments, that often raises the angry question of fairness.*⁵¹

The difficulty of separating trade liberalisation within the framework of association from the concurring accession negotiations further complicates the assessment of the impact of the EA or Polish-EU political relations on economic policy-making Poland. The two concurring processes have been inseparable in the Polish debate over Europe, disputes over trade concessions coinciding with bigger issues of future budgetary repercussions or

⁴⁹ Csaba (1994). ‘The Political Economy of Trade Regimes’, in Winters (Ed.) (1994). *ibid.*, p 68.

⁵⁰ Orlowski (1997). *ibid.*, p 18.

transition periods after membership. The already tense atmosphere in Poland over the problematic developments in trade relations was further antagonised by the difficulties encountered in the accession negotiations themselves and served to reinforce the Polish conviction that the EU was unwilling to accommodate Polish interests.

In the Polish side's perception of the evolving relationship, integration has been characterised by discriminatory conditions set out by the Union and to be accepted by the candidate. Moreover, the apprehension has grown that not only has the principle of asymmetry been trampled upon throughout association, but the criteria for accession itself has been considerably higher than under previous enlargements. The chief politicians responsible for EU affairs during the period of 1997-2001, J Kulakowski and J Saryusz-Wolski have both publicly displayed their personal disapproval of the EU's position, calling the Union's expectations of Poland's acquiescence a double standard. They have argued that, the present candidates for EU membership have not had the same flexible options to opt out of areas of the *acquis* as in previous enlargements and at the same time have not received the same level of transfers in exchange for opening up their economies. While before, trade barriers to the candidates' market were totally eliminated only after accession, and so membership was seen as a reward for liberalisation, this time it has been expected of the candidates to fully open up without the secured benefits.⁵² Mayhew has echoed this sentiment by observing that, "the Berlin decision (Agenda 2000) suggests that the member states were trying to demonstrate that enlargement could be achieved at minimum cost to the Union."⁵³

In fact, the Union was demanding that the candidates take on many of the obligations of membership, prior to being granted the privileges, such as introducing migration restrictions or taking on the Common Commercial Policy, even though these might have been detrimental to an economy undergoing radical systemic reform and requiring a minimum level of elasticity. J Saryusz-Wolski remarked that, "so far the flexibility is lacking, and it seems that the EU wants to apply very strict rules, while receiving all innovative proposals with reservations."⁵⁴

⁵¹ Bhagwati, J.N. (1988). *Protectionism: The Ohlin lectures*. Cambridge, Mass., London: MIT Press, p 36.

⁵² Saryusz-Wolski, J. (2000). 'EU Enlargement- East European Perceptions', *International Yearbook of Centre d'Informacio I Documentacio Internationales a Barcelona*. Barcelona.

⁵³ Myhew, A. (2001). *Enlargement and the Community Budget*, Warsaw: UKIE, 2 March.

⁵⁴ Saryusz-Wolski, J. (2001). 'The Enlargement of the European Union- The Current State of affairs: The view from Poland', *speech given at ESCA Forum*, Brussels, December.

He also observed, for example, that while the EU has been very harsh in demanding and forcing through the programmes for restructuring in Polish industry, especially with regard to state aids and competition policy, it has simultaneously continued to apply AD procedures not used amongst the member states that have fully complied with the rules. By 2000, the EU was still applying AD measures. In addition, the Union has been unwilling to agree to a “flexibility” clause for state aids, in even though this would have been justified through the experience of the *New Bundeslander* as well as by the objective needs of an economy undergoing transformation.

Finally, certain parts of the association process such as the Accession Partnerships were not even agreed upon by both sides, but were instead imposed upon the Polish government, which was expected to unilaterally adjust or risk losing EU funding and approval. In the words of A Mayhew, advisor to the Polish government and negotiating team,

*both the strengthened notions of conditionality as well as the insistence on verification of the acquis depart from previous enlargements raising the threshold to membership and demanding more of the candidates than was in the past. While previously conditionality has been often imposed, usually at least a facade of agreement by the recipient state was preserved, and that verification has been an attempt to create ‘perfect member states’, with higher levels of compliance required from the candidates than from existing member states.*⁵⁵

By presenting the Polish side with stringent, inelastic criteria the member states have often ignored the gravity of Polish social fears and apprehensions, while simultaneously invoking their own public moods and emotions to justify lengthy post- accession transition periods for the candidate. This has been particularly true of the behaviour of Germany and Austria over liberalisation in services and labour mobility.⁵⁶ These

⁵⁵ Mayhew (2000). ‘Enlargement of the European Union’ An analysis of the negotiations with the Central and Eastern European Candidate Countries’, *ibid*.

⁵⁶ Germany and Austria have insisted on the longest transition period (7 years) for free labour mobility after enlargement, based on social fears of cheap eastern migrants flooding national labour markets; apprehensions yet to be substantiated by any relevant report. Germany and Austria have also demanded a five year transition period before the Polish cabotage/ transport firms can freely provide their services on the internal market, Austria demanding transition periods for construction services, cleaning and laundry, mechanical/repair services, gardening, beauty salon services, printing, medical sector, and other such sectors where Poland has an obvious comparative advantage.

Boswell, C. (2000). ‘Study on Unfounded Migration’, *RIIA Paper*, London: RIIA.

European Commission (2001). *The Free Movement of Workers in the Context of Enlargement*, Brussels: EC, March.

European Commission (2000). *Report: Employment in Europe 2000*, Brussels: EC.

PAP. ‘interview with R Prodi’, 06/03/01.

Unia & Polska. 11/99, No 23.

OBOP ‘study 28-30/10/00’, in *Gazeta Wyborcza*. Praca- tak, ziemia- nie’, 08/12/00.

Rzeczpospolita. ‘wywiad z Van der Broek’, 19-20/10/96.

developments as well as the norm compulsion that has rarely taken into account the specificity of transformation have served to reinforce the Polish belief that the EU expects Poland to adjust unilaterally, if it wants to be granted membership, leading to the expectation “that in the future Union Polish interests would be further marginalised.”⁵⁷ In sum, the Union’s failure to live up to its commitments provided material to Poland’s media to portray the EU as malign rather than benevolent. Relying on many of the contentious issues described in previous sections, the Polish press, both liberal and nationalistic, has been able to present the EU collectively as dominating in the negotiations. The Commission has been portrayed as *commanding, ordering, designating, pressuring, urging, wanting, demanding, requiring and insisting*. Hardly ever has the Commission been seen as *yielding, conceding, permitting or allowing* the Polish side to act as it deemed essential for an economy in transformation, rather treating Polish propositions with cold reservation.⁵⁸

It is important to point out, never-the-less, that the media coverage has implied that this has not necessarily been the fault of the Commission itself, which has had to answer for its policies to the member states. This presentation of the unbalanced relationship between the member states and the Commission was particularly evident in the depiction of the steel dispute⁵⁹, when, the press maintained that it was the moderate Commission that was asking for compromises from the much more unyielding member states, who were demanding tougher rules and bigger concessions from the Polish side.

In the meantime, Poland has been described as a *petitioner, a powerless aspirant*, that must unconditionally and unilaterally comply with the Union’s requirements. The Polish side has been depicted as *feebly demanding, asking for and attempting, trying to convince, begging*

Rzeczpospolita. ‘Szlaban na piec lat’, 21/03/01.

Rzeczpospolita. ‘Za praca po 2007 roku’, 11/01/01.

Gazeta Wyborcza. ‘Usługi z przeszkodami’, 16/05/01.

⁵⁷ See Kolarska-Bobinska, L. i Kucharczyk, J. (1999). ‘Negocjacje z Unia Europejska- opinie Polakow’, w Kolarska-Bobinska (Red.) (1999). *Polska Eurodebata*. ibid.

Skotnicka-Illasiewicz, E. (1998). ‘Poland on its Way Towards Membership of the EU and NATO: Hopes and Anxieties in a view of Public Opinion Polls’, in *Yearbook of Polish European Studies*, Vol 2, Warsaw: WUCE.

Kucia, M (1999). ‘Public Opinion in Central Europe on EU Accession’, *Journal of Common Market Studies*, Vol 37, No 1, March.

Kuklinski, A. and Pawlowska, K. (Red.) (1998). *Kreowanie Obrazu Polski w Swiecie, Tom II*. Nowy Sacz: Wyzsza Szkola Biznesu.

⁵⁸ Lubienski, M. (1999) ‘Polska-Unia, Analiza prasy’, in Kolarska-Bobinska, L. (Ed.) (1999). *Polska Eurodebata*. Warszawa: Instytut Spraw Publicznych, pp 277-296.

See also *Unia & Polska*, various issues.

⁵⁹ See chapter six

and getting on its knees, vocabulary as extreme as *colonisation or dictatorship* even being used, putting in doubt in the whole idea of partnership and cooperation in the eyes of Polish public opinion.⁶⁰

In the media, the lethal trade deficit argument has been combined with issues ranging from legal harmonisation or compliance with the EU's state aids and competition policies to observations over the proportionally minuscule and inflexible pre-accession budget, questions over future access to the direct payments and structural funds, the Schengen visa arrangements and other contentious points, contributing to Polish doubts whether it will not be effectively be granted second class membership.

Agriculture and restructuring of heavy industry, particularly the various difficulties encountered by Polish farmers when exporting to the Union, have provided fertile ground for rationalising populist rhetoric and public fears associated with accession. In 1998, for example the restrictions on the import of gelatine, the disputes over steel, the export of Polish milk as well as the eastern border issue of visas and potential trade losses towered above all other questions of integration in the press coverage, making the issue of enlargement in Poland subject to a quite negative campaign by anti-EU groupings. The papers have concentrated on the frequent visits of various EU 'control commissions' to check on Polish industry, agriculture and other public agencies, intervening in their internal affairs. The fulfilment by Polish producers of the EU's stringent standards criteria has been portrayed as an uncompromising condition for being granted any of the Union's privileges, including market access.

In addition, the negative perception of the EU's sensitivity to Polish public opinion has not been helped by the presence of foreign capital both as investors and in the privatisation process. Naturally, most European multinationals have pursued their own aims often at odds with certain Polish domestic objectives. Thus, as the initiators behind many controversial directives and investigations, business and EU producers have often been conceived in Poland as the biggest threat to national interests. Kaczurba, former Polish negotiator of the EA, representative to the WTO and responsible for trade in the Ministry of Economy, observed that, "in the EU, economic interests and the EU producers are usually the culprits behind decisions that are unfavourable to Poland."⁶¹ Moreover, such incidences as the European MNCs' demands that the Polish government grant them greater protection

⁶⁰ Lubienski, M. (1999). *ibid.*

⁶¹ *Unia & Polska*. 'interview with J Kaczurba', 13/10/99, No 18.

against third countries, devalue the exchange rate or even delay the liberalisation schedule of the EA have not assisted in convincing Polish society of the benefits of openness. For example, Kaminski provided evidence that specific protectionist measures were introduced into the Polish trade regime in direct response to pressures from European investors and producer lobbies, such as the exemption of lightening equipment from duties that coincided with decision of Philips to invest in Poland.⁶² This behaviour of EU business has reinforced the belief that the Union is mostly interested in what is best for the current member states and that particular interests dominate the EU's agenda while political will for enlargement remains largely a declaration on paper. According to ISP polls, 12 years after the beginning of the transformation, the Polish public is convinced that foreign capital has been the biggest beneficiary of association.⁶³

Finally, the press has also tended to emphasise the negative portrayal of Poland in the western media, where the Polish side has been said to be described as an *arrogant, stubborn and unpredictable*. Moreover, the Poles themselves have been subjected to rather negative stereotypes within the Union's coverage of the ongoing association and accession processes, reinforcing the image of Poland in the eyes of western public opinion as backwards, zealously religious and corrupt, and suggesting that little was being done by the European elites to overcome these damaging clichés.⁶⁴ The Polish papers have thus echoed the warnings of their EU counterparts that Poland's over-confidence might prove illusionary, insinuating that the candidate could loose its place on the list of frontrunners for the next accession.

The inclusion of the Polish media coverage in this section has been meant to demonstrate to the reader the amount of political damage done to Polish- EU relations by the trade disputes

⁶² Kaminski (1999). *ibid.* p 19.

⁶³ *Gazeta Wyborcza*. 'interview with L. Kolarska Bobinska', 12/07/01.

⁶⁴ Poland is perceived by west Europeans as a country that is as Catholic, poor, backwards, corrupt, associated with crime, (especially car theft), out-of-date state of agriculture and rural/village areas, and incompetent authorities. On a more abstract side, the West Europeans associate Poland with World War II, Walesa, the Solidarity movement and the Pope. The statistical Pole is primarily perceived as religious, conservative and backward, albeit kind and disciplined.

See Lis, T. (1998). 'Miedzynarodowy Obraz Polski', w Kuklinski i Pawlowska (Red.) (1998). *ibid.*

Sikorska, M. (2000). *Polska-Austria: Wzajemny wizerunek w okresie rozszerzania Unii Europejskiej*. Warszawa: ISP.

Kolarska-Bobinska, L. (2000). 'Polska- Francja, Polska-Niemcy. Wzajemne wizerunki w okresie rozszerzenia', *Study by ISP*, Warsaw: ISP, October- December.

Gazeta Wyborcza. 'Nie taka przesada', 16/02/01.

Gazeta Wyborcza. 'Sadzenie adwokatow', 27-28/01/01.

European Commission (2001). *Obraz Unii Europejskiej, postaw i oczekiwan spolecznych w 15 krajach czlonkowskich i 9 panstwach kandydujacych*, Brussels: EC, Paris: OPTEM, July.

and other unresolved issues of contention discussed in chapter six. The author believes that the development of this negative press coverage in Poland (or on the EU side for that matter) has been indicative of the lack of dialogue between the partners as well proof of waning trust, and has served ultimately to increase protectionist responses from the Polish side.

B. Anti-Dumping

If policy reversals in Poland can partially be attributed to issues of reciprocity or observations that EU is not an open liberal trader, nowhere is this more evident than in the Union’s application of contingent protection. Initially, while the EU made wide use of AD measures, the Polish side, due to the lack of experience in applying CP, resorted to them considerably less frequently. However, by 1999, Polish authorities learned to apply such defence policy instruments, launching their first AD investigation against German exporters of X-ray film.⁶⁵

Protection in the EA has proven to be sector-specific and increasingly based on AD investigations. Polish exporters have been an easy prey to EU vested interests’ abuse of these measures because of initially inadequate harmonisation and implementation of the Union’s state aids and competition policy legislation with Polish law.⁶⁶ However, even when the Polish government was preparing to comply fully with this *acquis* requirement, the Union did not cease to use AD duties, further provoking criticism and damaging political relations. Thus, Poland’s ‘non discriminatory’ access to the EU’s market has been offset to a large extent by the subjection of exports to such NTBs.⁶⁷ Moreover Mayhew noted that, “it is not just the conclusion, but also the opening of an AD enquiry which does enormous economic and political damage.”⁶⁸

Anti- dumping legislation, based on art 113 of the CCP, is where the authority rests in the hands of the European Commission rather than on the member states.⁶⁹ However, for the

Interview with J. Kucharczyk, sociologist at ISP, Warsaw, April 2000.

⁶⁵ <http://www.mg.gov.pl>

⁶⁶ Kaminski (1999). Ibid., p 9.

⁶⁷ Including QRs (MFA and agricultural products), VERs, AD investigations and undertakings, licenses and import surveillance.

⁶⁸ Mayhew (1998). *ibid.*, p 97.

⁶⁹ Article 30 of EC-Poland EA permits either party to act against dumping, and Art. 31 allows either to take safeguard action. Concurrently, art. 34 provides that before taking actions under art. 30 & 31, the party contemplating the action... *shall supply the Association Council with all relevant information with a view to seeking a solution acceptable to the two parties.* The importing party may take appropriate measures if no such solution is reached after 30 days or if the exporting party has not taken a decision putting an end to the difficulties. Apart from the requirement to seek cooperative solutions through the Association Council, the EA places no formal constraints on the use of CP.

procedure to be opened up by the Commission an official complaint must first be made by EU producers. This in turn can breed lobbying, corruption, and rent-seeking activities, opening up the possibility that the AD investigation will be used for political reasons to protect domestic industry at the expense of not only efficiency considerations but also of the consumer and relevant importer.

While the economic justification for launching an investigation revolves around the threat of predatory dumping⁷⁰, and, while most economists agree that protection against this sort of pricing may be desirable, the evidence strongly suggests that this is not the actual motivation for initiating AD cases because predatory pricing is so rare.⁷¹ In addition, Mayhew has pointed out that, “it is extremely difficult to believe that it could be practised by companies from the associated countries.”⁷²

Finally, because these instruments of managed trade, unlike other measures of protection, have an extremely attractive delivery campaign, accompanied by an impressive public relations programme in the press⁷³, they have not only done enormous damage to political relations between the associated partners, but have eroded Polish public confidence in the EU’s motives. It has not just been the frequent use by the EU of AD that has caused such a stir in Poland, but also the actual implementation of the procedure itself.⁷⁴ The proceedings have often been extended to firms not even exporting to the EU, and the system of early warning has frequently been disregarded. Finally, R Stewarska has shown that AD

See Winters, L.A. (2000). ‘EU’s Preferential Trade Agreements: objectives and outcomes’, in Dijk, P. van and Faber, G (Ed.) (2000). *ibid.*

Nello, S. S. (1991). *The New Europe: Changing Economic Relations Between East and West*. *ibid.*

Ehrenhaft, P., Hindley, B., Michalopoulos, C. and Winters, L.A. (1997). ‘Policies on Imports from Economies in Transition’, *ibid.*

⁷⁰ This is when an exporter sets out to gain a dominant position on the importing country market through dumping, with the objective of gaining monopoly rents.

⁷¹ According to the OECD, 90% of EU and US AD actions are filed not out of fear of predatory dumping or in response to a real threat of unfair behaviour, but against fair competition. Kaminski (1999). *ibid.*, p 17.

See also Kaminski, B., Wang, Z. and Winters, L.A. (1996). ‘Foreign Trade in the Transition: the international environment and domestic policy’, *World Bank Studies of Economies in Transformation*, No 20, Washington DC: World Bank.

⁷² Mayhew (1998). *ibid.*, p 95.

⁷³ Baldwin (1988). *ibid.*

⁷⁴ For example, instead of using the firms’ cost data, EU AD authorities applied the concept of the so-called constructed normal value, including hefty profit rates.

See Bilal, S. (1998). ‘Political Economy Considerations on the Supply of Trade Protection in Regional Integration Agreements’, *JCMS*, Vol 36, No 1, March, Maastricht: European Institute of Public Administration.

Bhagwati, J. N. (1992). ‘Regionalism and multilateralism : an overview’, *Columbia University Discussion Paper Series*, No 603, New York: Columbia University, Dept of Economics.

Bhagwati, J. N. and Panagariya, A. (Ed.) (1996). *The Economics of Preferential Trade Agreements*. Washington DC: AEI Press.

investigations have been used by the Union in Poland not only for protection, but also to lower the market value of an enterprise to be privatised in order to obtain a better price for interested EU business.⁷⁵ The documentary burdens and apparent arbitrariness of the investigations were discussed in more detail in chapter six, but their political impact has been to serve as an example to the reforming candidates of the self-interested methods of managed trade.

IV. Political Economy Explanations

In the previous sections the author has covered political and economic explanations for Polish trade policy reversals. The section below provides political economy explanations. According to political economy arguments, it becomes very difficult for the government to liberalise externally and restructure internally for political reasons originating in domestic interests, institutions and ideas. The main obstacles to policy sustainability are socio-economic and distributional consequences of the reforms, as they relate to direct interests that either stand to lose or benefit from the changes taking place. According to S Haggard, *because trade opening creates both winners and losers, both the density and composition of these societal groups and how they express their interests through state institutions then shapes policy outcomes and determines the incentives for leaders to either liberalise or protect the economy.*⁷⁶

Political economists of the liberal interdependence school argue that conflict, bargaining, and eventual responsiveness to domestic interest group pressure demonstrates nothing more than the growing influence of internal factors on foreign policy making, and that domestic politics has the most lasting intervening effect on policy choices and outcomes.

Political economy explanations are the most complicated and problematic of the three justifications for Polish trade policy reversals, because they involve many unquantifiable factors, including mental legacies of the past, evolving ideas in the present, perceptions and other sociological determinants.

This is also the domain where future implications for policy sustainability tend to be most hazy, and the realm where the ‘state’ has the least room for manoeuvre, as the evolution of reform is largely contingent on the slow process of creating domestic interests, institutions and ideas and their future impact on policy making. This is also the area of political

⁷⁵ Stewarska, R. (1998). ‘On some consequences of the eastern Enlargement of the European Union’, in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.*, p 162.

⁷⁶ Haggard, S. (1995). ‘Inflation and Stabilisation’, in S Haggard, Frieden, J. and Lake, D. (Ed.) (1995). *ibid.*, p 457.

science, where the relationship between the market and democracy is most crucial in determining policy outcomes.

A. Political economy in transformation

The phenomenon of agency capture is exacerbated by the conditions of transformation where, in the words of B Kaminski,

*the barriers to trade stemming from ad hoc administration tend to be more pervasive due to the legacies of central planning, inherited bureaucratic structures, less respect for property rights and bigger efforts from the state administration to maintain direct influence over economic activity.*⁷⁷

Moreover, the political instability accompanying the transformation process, coupled with the low status of the law means that the government is more easily influenced by pressure groups, and policy makers have to be extremely sensitive to the demands of producers, and particularly the ‘winners’ of the early transition phase, threatened by further reform. Simultaneously, because of the ongoing process of democratisation, the ‘state’ must explicitly respond to the demands of both the winners and the losers to strengthen its political mandate.

In addition, because the Polish system of interest representation has not been fully institutionalised, successive governments have tended to respond to pressures in a distorted manner, not balancing the demands of winners and losers, to strengthen their political mandate, and in a transparent policy environment, but reacting to rent-seeking activities on the part of powerful groups with the closest ties to the authorities or to the loudest and most politically aggressive interests. The legal system has remained complex and nontransparent and frequent changes have bred uncertainty.⁷⁸

The Polish ‘state’ has thus been less able to represent national interests on the international arena, and the negotiators of international agreements have been deprived of important information coming from businesses, trade unions or other institutions and organisations. With a lower level of information available, there has been less direct involvement and support from Polish interest groups for international negotiations, increasing the threat that international agreements reached by statesmen might not be domestically ratified or implemented following their introduction to the Parliament.

⁷⁷ Kaminski (1999). *ibid.*, p 18.
⁷⁸ Kaminski (1999). *Ibid.*

Moreover, while in established pluralist democracies, the diversity of interests allows for a certain symmetry between pro-reform and etatist groups, between the winners and losers of openness, and policy outcomes reflect their political balance within national institutions, in Poland this equilibrium has been lacking. The Polish political landscape continues to be dominated by a conglomeration of powerful groups from the old system, intermingled with only emerging new interests that have yet to develop their political power (see chapter four). Thus, even though the process of internationalisation has consistently taking place, the decision-making apparatus has not been reflecting pro-trade objectives, and the pattern of interest articulation and balancing, as modelled by political economists and expected by the liberal interdependence school, has yet to emerge.⁷⁹

While Bhagwati for example remains “confident that in the long-run pro-trade forces that I have identified and the institutional reforms to harness them and to inhibit the protectionist forces that I have proposed will work”⁸⁰, in Poland, protectionist tendencies have tended to dominate policy outcomes, as the older, more powerful interests, threatened by the process of trade liberalisation have fought for survival. The winners of the liberalisation process in Poland have been few and widely dispersed, and their organisational strength weak due to a lack of both political and economic resources. On the other hand, the losers and potential losers from opening up process have grown in strength proportionally to the costs of the reforms, and their political weight has increased, both due to a lack of an institutional policy framework and because of increasing economic shocks.

Because lobbying activities have not been formally institutionalised, an exceptional role has been created for Polish ‘state’ as simultaneously the mediator between diverse interests, the guardian of overall national objectives, the defender of liberal policies and the initiator and driver of policy reform. In the words of B Kaminski,

*The lack of well-designed and established policy making arrangements and deficiencies in the institutional structure underpinning the foreign trade policy process in Poland has made devising sound economic policies, taking into account public rather than sectoral interest, a formidable challenge.*⁸¹

Prior to 1996, the Ministry of Economic Cooperation with the Abroad was responsible for trade policy-making. After 1996, the function of foreign trade policy making was taken over by the Ministry of the Economy, but the establishment of one super economy ministry

⁷⁹ See Keohane, R. and Milner, H. (Ed.) (1996). *Internationalisation and Domestic Politics*. Cambridge: Cambridge University Press.

⁸⁰ Bhagwati, J.N. (1988). *Protectionism*. *ibid.*, p 2.

was accompanied by the introduction of a rule allowing for trade officials to take seats on boards of industrial companies. Imbalances and incomplete reform of the institutional and regulatory framework, neglected during the first reform phase, has yielded extremely high benefits for small groups and various interests⁸², whose ties to successive governments have grown in strength, as the capacity of the state to sustain support for its measures was weakened. These groups and winners have subsequently captured the policy making process and attempted to prevent further reform. Naturally, corruption followed. The problem has been additionally exacerbated by the giving of authority to take foreign-trade related actions to various branch ministries, including the Ministry of Agriculture and Industry, each maintaining control over their sectoral aspects of trade. The officials in these ministries have clearly been more representative of specific interests than of national interest as a whole, and in the absence of an independent institution responsible for foreign trade, the balance has been usually tilted in favour of import-competing producers. Additionally, discussions over modifications in trade policy have taken place at the Council of Ministers, where again the different ministries represented have each tried to pressure the government for protection for their own individual sectors. According to Kaminski,

*These arrangements have undoubtedly bred a protective bias into the Polish trade regime as the framework to balance the interests of import-competing versus exporting groups and consumers has been inadequate and domestic actors depending on imports or exports have not be able to voice their voices in the policy setting process on equal footing with import-competing producers.*⁸³

Corruption, in turn, has distorted state behaviour by allowing bureaucrats to intervene at their own discretion and weakening the ability of the state to enforce compliance with the rules and institutions of the trade regime. Ultimately this has undermined the public's trust that these rules and institutions were designed to be fair.⁸⁴

B. The Europeanisation of Polish domestic politics

The developments in political relations between Poland and the Union during association discussed above and in previous chapters have not only damaged political relations between the partners, but have also spilled over into divisions over Polish domestic politics, the European option being linked to disputes over the pace of the internal reforms and

⁸¹ Kaminski (1999). *ibid.*, p 5.

⁸² Particularly vested interest from the previous system such as large trading companies and other SOE's.

⁸³ Kaminski (1999). *ibid.*, p 28.

⁸⁴ EBRD, Transition Report 1998.

becoming a controversial topic in political campaigns.⁸⁵ Additionally, the contentious issues arising during the implementation of the EA have provided Polish populist forces with powerful anti- EU rhetoric and justification for increasing national levels of domestic protection, shaping the emerging political economy of trade policy reform. Accordingly, the political repercussions of the international negotiations can be partially held responsible for Polish trade policy reversals.

Not only has Polish public opinion been negatively influenced by the appearance of difficulties during association, but the political damage of the disputes has affected both the parliament's and subsequent governing coalitions' stance towards economic openness.⁸⁶

According to the Polish Press Agency report in April 1997, "the Parliament has obliged the government to submit a program of 'an all encompassing and coherent foreign trade policy', and there are signs that it may contain measures severely curbing imports even if it involves renegotiating international economic treaties."⁸⁷

The mixed signals sent from Brussels created a perfect opportunity for populist leaders in Poland to manipulate the facts to their own advantage and contributed to strengthening their position at the expense of more liberal, reformist government factions. While many of the arguments relied upon by anti- EU forces have been built around moral/ cultural propaganda and national sovereignty themes, making extensive use of typical populist rhetoric such as "the selling out of Polish land and treasures to aggressive foreign capital impoverishing the Polish population"⁸⁸, they have never the less been able to substantiate their claims that Poland is losing out on integration by concrete examples in the developments of Polish-EU relations.

The League of Polish Families has openly presented evidence of the negative impact of the EA both on the Polish economy as a whole and on particular socio-economic interests and has called for "the re-negotiation of this destructive arrangement, detrimental to the development and modernisation of Poland." The party has been able to appeal to a wide segment of the population, especially the farmers, not only losing from and thus fatigued by

⁸⁵ Blazyca, G. and Kolkiewicz, M. (2000). 'Poland and the EU: Internal disputes, domestic politics and accession', *Paper presented at UACES conference*, Budapest: UACES, April.

Mach, Z. (1998). 'Integracja Europejska w Oczach Polakow', *MCRD zeszyt*, Nr 5, Krakow: MCRD.

⁸⁶ See Sejm Rzeczypospolitej Polskiej Kadencja III (2000). *Sprawozdanie Stenograficzne z 71ego Posiedzenia Sejmu RP, w dniu 16 lutego*. Warszawa: Sejm.

⁸⁷ PAP. 22/04/99.

⁸⁸ Lubienski (1999). *ibid*.
Zycie. 06/03/98.

the internal process of transition, but also hurt by the liberalisation of trade under association and apprehensive as to the future impact of enlargement.

Current Our Party leader and former Prime Minister J Olszewski, in turn, publicly polemicised:

*The restructuring programmes in Poland are the realisation of Brussels's expectations, and that the Polish nation which has just regained its sovereignty and independence is now expected to resign from this freedom on many important domestic issues in the name of foreign bureaucracy! The lack of gestures of good will from the EU and its continued demands on Poland such as limiting production capacities in Polish steel mines has contributed to weakening support for integration and liberalisation.*⁸⁹

The trade deficit argument has been used by the populists to demonstrate to the Polish public that Poland's current status in the association has been to serve as a market for dumping EU products and not an equal partner. Members of several parliamentary grouping contended that, "the hostile intervention of the Commission within the framework of the EA was limiting Polish production potential through administrative measures in industry, agriculture and services, the result of which was the closing down of enterprises and liquidation of work places."⁹⁰ According to the protectionist forces, the trade creation occurring in favour of the EU under the EA was thus limiting employment in sectors which were unable to withstand western competition, and consequently, further exacerbating the already very difficult situation on the Polish labour market.

For parties such as the Peasant Movement or Self-defence, the main issue has been agriculture and the present and future treatment of Polish farmers. J Kalinowski, leader of The Peasants, has often described the EU's agricultural trade policy as "limiting Polish national potential in the agricultural and food processing industry", contributing to rising unemployment and deteriorating conditions in the village, arguing that the Polish government should use the same instruments of support and intervention on the agricultural market as those employed by the Union.⁹¹ The Polish Agricultural Council has admitted that while from 1990 onwards the farmers had been hoping that the process of integration would lead to the modernisation and restructuring of Polish agriculture and food processing industry under terms of fair and equitable competition, the disappointing developments

⁸⁹ *Gazeta Wyborcza*, 'Ujawnili sie zniecierpliwieni', 11/10/99.

⁹⁰ *Unia & Polska*, 'Osi Sporu', 16/12/1999.

⁹¹ *Unia & Polska*. 'interview with Kalinowski', 16/12/99.

under the EA suggested that, “the market opening has been one sided without any readiness on the part of the EU to open its markets to Polish products.”⁹²

By pointing to the various discriminatory conditions of association, these groups have thus not only been able to criticise the Union, but also to question the credibility of the reformist governments in charge of negotiating and implementing the EA as well as conducting Polish-EU relations to date. A main line of division over ‘Europe’ has centred around the assessment of how well have the different governing coalitions and their appointed EU negotiators have defended Poland’s interests. While, pro- EU, reformism parties have contended that the government has done a good job protecting Polish concerns and has negotiated the best possible conditions for association and future accession, the anti-EU opposition forces have criticised the ruling coalitions for negotiating too softly and failing to defend Polish rights or the welfare of Polish citizens.⁹³ Opposition parties throughout the 90’s have maintained that the liberal governments in power, between 1990-93 and again 1997-2001, had been too submissive and conciliatory in their approach towards the Union, agreeing to too many demands and basing their programme on too many illusions concerning the advantages of a market economy in general and of competition and integration in particular.⁹⁴ The opponents of the reforms regularly asserted that the reformist elites have destroyed Poland’s bargaining position *vis a vis* the EU already in 1991, during the negotiations of the EA, by giving away Poland’s main card in the accession negotiations, namely the 40mln consumer market.

Kalinowski, for example, has blamed the rise in prices of foodstuffs and energy on the Polish market on the excessively liberal trade policy and lack of government intervention, and under his leadership, the Peasant Party has loudly criticised the initial liberal government economic policies, that had in early 90’s completely given up subsidising Polish agriculture while simultaneously dismantling industrial tariffs and not applying any measures of contingent protection. The Peasants claimed that these policies had left the Polish economy open to unfair outside competition and substantiated their arguments by pointing to the fact that even after 1994, the EU continued to subsidise 46% of its

⁹² Quoted in *PAP*. 12/11/02.

⁹³ Kucharczyk, J. (1999). ‘Porwanie Europy’, w Kolarska-Bobinska (Red.) (1999). *Eurodebata*. *ibid.*, p 297-332.

⁹⁴ Sapir, A.(1994). ‘The Europe Agreements: the implications for trade laws and institutions’, in Winters (Ed.) (1994). *ibid.*

Nagy (1994). in Winters (Ed.) (1994). *ibid.*

Steil, B. (1993). *Competition, Integration and Regulation in the EC Capital Market*. London: RIIA.

agriculture, while Poland subsidised only 8-12%, and that under these conditions Polish domestic agricultural production would be completely priced out of the market in a few years time.⁹⁵

As a result, in 2001, 41% of the Poles believed that the liberal AWS-UW coalition, in power between 90-93' and 97-01', was too yielding towards the EU side, while only 10% thought that they were effective in protecting Polish interests.⁹⁶ With 43% of the public not trusting the negotiators, accusations even appeared that the liberal elites had motivations of personal gain.

Opposition experts contended that the trade deficit was being caused by the restrictive liberalisation of sensitive products under the EA, NTB's used by the EU and the resulting structure and commodity pattern of Polish trade. To stop the excessive growth of imports and retaliate against unfair competition from the EU side, the critics warned that the only solution was active intervention on the part of 'the state' in protecting domestic industry.⁹⁷

C. The fall of Polish liberals

As various protectionist forces became more influential in policy circles, they undermined the liberal factions' attempts to reform and negatively impacted the sustainability of open economic policies. Moreover, the critique of the reformist coalitions by anti-EU forces contributed dramatically to a decline in public support for the parties responsible for negotiating association in 1991 or implementing the majority of liberal transition reforms throughout the nineties. Consequently, both Freedom Union (UW) and Solidarity Election Action (AWS) failed to get over the minimum threshold required for parliamentary representation in the 2001 elections. Instead the right wing League of Polish Families and populist Self-defence, both highly opposed to enlargement, critical of the Union and of any kind of market reform secured their parliamentary representation, followed by even more astounding local government victories in 2002.

⁹⁵ See Wysokińska, Z. (Red.) (1994). *Polska w procesie integracji ze Wspólnotami Europejskimi*. Warszawa, Lodz: Wydawnictwo Naukowe PWN.

⁹⁶ See CBOS *Opinion Poll*. 03/01.
OBOP Opinion Poll. 10/00
PAP. 01/12/00.

⁹⁷ Ciamaga (Red.) (1997). *ibid*.
Budzowski i Wydymusa (Red.) (1999). *Ibid*.
Gawlikowska-Hueckel, K., Stępnia, A. i Zielińska-Głębocka, A. (1993). *Polska - EWG, Wybrane aspekty dostosowań w świetle rynku 1992 i umowy o stowarzyszeniu*. Gdansk: Uniwersytet Gdanski.
Wilczyński, W. (1999). *Wrocie Panstwo Opiekuncze: czyli trudna droga Polski do gospodarki rynkowej*. Warszawa: Wydawnictwo Naukowe PWN.

At the beginning of the transition, the radically liberal faction of the reformers believed that the Market would take care of everything. However, by 1990 already, large scale social protests were being staged by anti reformist forces, and in 1991, populist Stan Tyminski came in second in the Presidential elections, beating intellectual, liberal reformer, former Solidarity dissident and first post-socialist Polish Prime Minister Tadeusz Mazowiecki. The role of the 'state', regulation and institution building none the less continued to be underrated by the governing elites.

Throughout the 1991 election campaign, the Peasant Party, with its Framers Union wing, in coalition with their industry counterpart, Trade Union NSZZ RI S, actively protested against shock therapy, calling for reversals in the economic programme, including protection in face of a growing trade deficit, excessive liberalisation and unfair foreign competition. Growing protests in 1992 under the Olszewski and Bielecki governments led to the liberals being dealt a profound blow in 1993, when the Solidarity government under PM Suchocka was toppled by its own trade union, NSZZ S, with a vote of no confidence. NSZZ S claimed that the government was too liberal and was choosing to protect European values at the expense of national virtues, not taking into account the social costs of the drastic reforms. (See chapter four).

The Social Democrats⁹⁸ in coalition with the Peasant Party were the next to be elected and the leader of the Peasant Party and staunch defender of mercantilism, Pawlak, was charged with the office of the Prime Minister. However, his government suffered the same fate as his predecessors and Pawlak was replaced in 1995 by former Communist activist J Oleksy. Up until 1995, all the Polish political parties were expressing their more-or-less pro-European view⁹⁹, that year The Movement for the Restoration of Poland (ROP) became the first real contender for a radical, populist Eurosceptic party, under the leadership of former Solidarity PM J Olszewski. By November of 1997, Our Party (Nasze Kolo), a faction of Solidarity Election Action (AWS), emerged as another party outright hostile to EU membership, followed by the appearance of Polish Family (Rodzina Polska), another party with roots in Solidarity, supported by the right wing religious radio station Radio Maryja.

⁹⁸ Formerly the Polish United Workers' Party

⁹⁹ With the exception of Konfederacja Polski Niepodleglej which later disappeared.

See for example Szerbiak, A. (1998). 'Prospects for the Emergence of a Polish Eurosceptic Lobby', *paper prepared for Poland and EU Enlargement conference*, London: SSEES, 12 March.

Taras, R. (1995). *Consolidating Democracy in Poland*. Boulder CO: Westview.

In the 1997 parliamentary elections, the victory of the reformist coalition Solidarity/ Freedom Union proved to be an illusion that liberal values had triumphed, as soon after their elections, Solidarity, dependent on the support of its trade union wing, demonstrated that it was more protectionist than the previous Social Democratic/ Peasant alliance. Unable to continue any of its planned reforms or implement its desired liberal policies, the weaker coalition partner, Freedom Union under the leadership of shock therapy architect and Minister of Finance L Balcerowicz, withdrew from the coalition in 2001, and a crisis ensued in the political arena. As already mentioned, neither UW or any part of the AWS Party crossed the parliamentary threshold in the 2001 elections, opening the door for another Social Democratic Alliance victory. While the post-communists are themselves a pro-European party, the electoral loss of AWS/ UW coupled with weak minority support for the centre-right Law and Order and Civic Platform, paved the way for other anti-EU forces to enter Parliament.¹⁰⁰ Thus, populist Self-defence, directly nationalistic, anti-EU League of Polish Families, together with the rightists, conservative and EU sceptic Law and Order as well as the Peasants¹⁰¹, as the weaker coalition partner, joined ranks in the Parliament criticising liberalism, the liberal reformers and ultimately key elements of EU aspirations, as espoused to by the wining SLD.

By 2001, thus a serious anti- EU lobby had formed in Poland representing a political force actually capable of channelling and mobilising an otherwise passive public opinion into a coherent movement opposed to Polish EU membership.¹⁰² In the 2001 parliamentary elections, to everyone's surprise the League of Polish Families passed the threshold required for parliamentary representation with 8 % of the electorate and found convenient partners not only in the more powerful Peasants (PSL), but also in another new political force led by populist A Lepper, the Self-defence Movement, which had taken 10% of the parliamentary seats. Twelve years after the peaceful revolution, Freedom Union and Solidarity, both parties made up of the liberal, intellectual reformers who had initially set Poland forth on the road to a market-democracy and who were the Polish architects of association with the Communities as well as negotiators of the Europe Agreement, were

¹⁰⁰ Such as ZchN, KPN Ojczyzna, AWS 'S', Samoobrona, LPR.

¹⁰¹ The Peasants have agreed to support EU accession, but only if Polish farmers are treated as equals to their western counterpart and get access to the same levels of direct payments and other forms of aid.

¹⁰² *Wprost*. 24/11/2002.

barely able together to secure 10% of the national vote¹⁰³, effectively being cleared off of the Polish political scene.

D. Interest articulation and representation

Because the negative effects of radical Shock Therapy in Poland lessened the enthusiasm for the transformation, the impetus of the reforms slackened in the 90's, and the revived interest groups become increasingly resistant to the continuation of change. The initial and broad political consensus supporting the reforms and constituting the liberalisers' most valuable asset was quickly destroyed by the focus on rapid marketisation and liberalisation, without adequate attention paid to microeconomic foundations.¹⁰⁴ The failure of concrete and visible benefits to materialise for the majority of the public, due to lower economic performance than was initially expected especially in light of association, led to large-scale social tensions.¹⁰⁵ In addition, as a result of the democratisation process, the reformers in Poland were faced with the problem of having to secure a political mandate for continuing to implement the difficult economic measures, initiated under conditions of extra-ordinary politics.

Trade unions and directors of state industry as well as a mounting group of workers and farmers and even some managers of Small and Medium Enterprises began demanding protection, and the weak and unstable government coalitions were finally forced to attempt various domestic negotiations and endeavours at social dialogue.¹⁰⁶ However, more often than not these efforts amounted to little more than official aspirations to reach national consensus, as either a compromise was never attained or the long fought after agreement was never implemented, due to fiscal constraints and international credibility requirements. Eventually, the losers of transition initially neglected had become too radicalised in their opinions and too obstinate in their postulates to be able to negotiate or compromise.

Within the *Tripartite Commission*, various governments, beginning in 1993, have tried to arrive at corporate arrangements between the labour unions, employers organisation and themselves, but due to the complicated and unresolved legal standing of the social partners,

¹⁰³ Prominent figures include T. Mazowiecki, B. Geremek, J.K., Bielecki, T. Syryjczyk, D. Tusk, W. Frasyniuk, L. Balcerowicz, J.S. Wolski, J. Kuron, J. Lewandowski, Osiatynski, etc...
Wprost. 7/10/2001

¹⁰⁴ See E Wnuk-Lipinski, 'Dziesiec lat pozniej', in *Polityka*, nr 1 (2174), 2/01/99.
M Marody 'Dlaczego Wygra SLD?', *GW* 4/04/01/

¹⁰⁵ Ost, D. (1995). 'Labour, Class and Democracy: Shaping Political Antagonisms in Post-Communist Society', in Crawford (Ed.) (1995). *ibid*.

Sachs (1994). 'Life in the Economic Emergency Room', in Bates (ed.) (1994). *ibid*.

¹⁰⁶ See Winiiecki (Ed.) (1996). *ibid*.

well as their radicalisation, most of the difficult issues were never agreed upon, and those that were finally past by one parliament, were ignored by the next.¹⁰⁷ The labour unions, in turn, have claimed that their postulates are not respected, taking to the streets to voice their concerns. Employer organisations, in the same fashion, have dismissed the work of the Tripartite Commission, because it has “favoured unions”¹⁰⁸, resorting to other less transparent forms of lobbying the government. The ‘state’ itself has subject to ‘capture’ by one or the other of the warring domestic interest groups or by its obligation to follow through on international agreements, making it impossible for the administration to create a coherent, consistent and predictable policy making environment, based on a long –term, strategic approach to policy formulation.

The lack of symmetry or balance between the labour unions, supportive of protection, and the employers organisation, divided on the issue of economic policies, has made the functioning of the *Tripartite Commission* clumsy and the results erratic. Primarily, this has been because of the imbalance in power between the unions and the employers organisation. As a result of the workers council experiences beginning in 1956 and reinforced during the active Solidarity phase in the 1980’s, followed by the Round Table Negotiations, Polish labour unions and managers of state owned industry were able to keep their special status and many legal privileges, despite falling rates of membership. The legal status of employers’ organisations, on the other hand, has remained vague, fluctuating with the changing laws. In addition, the differences in opinions on policy stances have also been evident within the employers’ coalition itself.¹⁰⁹

After seven years of failure, only in 2001, the AWS government passed a new act on social dialogue to break the impasse. Up until then, The Polish Employers’ Confederation (KPP) was the only employers organisation formally recognised in Poland and granted legal status to participate in the *Commission*. KPP has represented the state industry employers, of sectors such as coal, steel mining and power, and has generally represented quite a protectionist stance in its lobbying activities.¹¹⁰ The managers of state owned enterprises

Hausner (1992). (1993). (1994). (1995). *ibid*.

¹⁰⁷ *Gazeta Wyborcza*. 06/02/03.

¹⁰⁸ Interview with H Bochniarz, President of the Private Polish Confederation of Employers J Drygalski, ‘Stan chroniczny’ *GW* 12/04/00.

A Smolar, ‘Rewolucja bez utopii’, *GW* 25-26/08/01,

‘Koalicja przeciw rynkowi’, *Wprost*, 26/09/99.

¹⁰⁹ Gardawski, J., Gaciarz, B., Mokrzyszewski, A. and Pankow, W. (1999). *ibid*.

¹¹⁰ *Wprost*. 7/11/99.

Gazeta Wyborcza. ‘Prawo lobbysty’, 06/03/03.

have been able to count on the support of their workers in their demands for protection, as both have had a large incentive to lobby, motivated by the perspective of losing their job. Moreover, because the members of this state sector organisation have been in effect employed by the government, their autonomy as an independent social partner has been questionable to say the least. On the other hand, the more liberal and economically open Polish Confederation of Private Employers (PKKP), made up mostly of small and medium size enterprises, has been considerably weaker, lacking in political and organisational power, and as such not as efficient in lobbying or able to compete with the more powerful KPP. Until 2001, PKKP has not been even able to negotiate within the Tripartite Commission and has had no legal rights.

Finally, because both the employers organisations and the trade unions have had to turn to the ‘state’ as a mediator, and not to each other, for conflict resolution, the emergence of these domestic negotiations has taken place at the expense of further eroding the government’s capacity to manage its multi-functional role. The complex and inconsistent legal system, a legacy of the early reform days, has provided a fertile ground for corruption and over-politicisation of economic decision making, resulting in policy outcomes based more on values assigned to certain options than on concrete cost and benefit calculations. This has been evident in labour market reforms¹¹¹, retirement and disability pensions, or policies towards the coal miners and farmers, making their privileges considerably higher than the rest of society. Connections between the Polish ‘state’ and the powerful state-industry and agricultural lobbies have slowed down the reform process in key Polish sectors, including the automotive¹¹², oil, gas, health care, railways, defence, sugar, coal, steel, chemicals and textiles. (See chapter four). These groups and their labour unions, particularly under the AWS/ UW government coalition, have been extensively represented in the Tripartite Commission and have managed to successfully block subsequent privatisation, restructuring and liberalisation attempts.¹¹³

¹¹¹ See paid leave, especially sick days, insurance and other benefit related reforms,

¹¹² For example there are 230 different positions of tariffs in the automotive tariff code. See Verblane, U. (1999). *ibid*.

¹¹³ M Krzaklewski was simultaneously a leader of AWS Solidarnosc faction and NSZZ Solidarnosc union; See ‘Zwiazkokracja’, *Polityka* nr 15 (2171), 12/12/98; ‘Rewaloryzacja Rządu’, *Wprost* 3/10/99; R Kalkulkin, ‘Dialog monologow’, *GW*, 6/06/99.

The coal mining industry in Poland, is a perfect example of the complexity of the political economy of the transition process.¹¹⁴ The sector has been plagued by severe indebtedness towards the state budget¹¹⁵, excessive employment and liquidity problems. The deteriorating conditions of the coal mines have in turn led to higher production costs, decreasing the price competitiveness of Polish coal extraction. Because of social considerations, initially, radical restructuring was not undertaken, and the coal companies have tried instead to increase coal output in order to retain financial liquidity. This heightened the already high production levels and drew criticism from the EU as a breach of state aids rules.

Due to the existence of powerful labour unions, particularly Solidarity, the coal sector has had a huge influence on economic policy making, receiving more state support than any other industry undergoing restructuring. Thus even though by 1993 direct subsidisation of coal was abolished, other indirect forms of state aid, such as massive tax exemptions were introduced. Between 1989-1999, the labour unions were able to organise a series of massive strikes and protests, until finally the Minister for Labour and Social Policy L Komolowski agreed that no group redundancies would be made and that those leaving the sector would get high compensation packages. Thus, throughout the 90's, the coal miners were more or less bought off with various social policies including wage increases twice as high as other public sectors and large one-off compensatory payments for the loss of employment. Even though coal was not protected by tariffs, it was pumped full of other types of intransparent state aid instead.

Similarly, the farmers lobby has successfully brought agricultural protection to levels almost comparable to those of many highly developed countries and has vehemently opposed privatisation and restructuring. In Poland, farmers have represented the most powerful and best-organised of any socio-economic interest group, capable not only of effective political lobbying, but also of various public manifestations, including road blockades, parliamentary sit-ins and other forms of protests like dumping grain. In addition, the lobby has been extremely well represented in the parliament¹¹⁶ and has managed to push through its agricultural agenda at the expense of other segments of society.

¹¹⁴ Coal is still the most important export commodity of Poland.

¹¹⁵ Amounting to 70% of annual output.

¹¹⁶ Especially during the years of 1993-1997 and 2001- 2003, when the Peasant Party formed the government.

In late 1998-1999, for example, the farmers' protests intensified, while the active manifestations of discontent organised by the unions attracted high levels of social support. 92% of the Polish population supported the farmers in their quest for higher tariff protection against EU agricultural producers.¹¹⁷ The representatives of the farmers have used the trade deficit argument and issue of state subsidies for agriculture in the market-oriented EU to warrant their grievances against the government, claiming the farmers were not only deprived of subsidies, but also exposed to unfair competition from their western counterparts. The government, wanting to appease the agricultural lobby, has usually given into its demands, even at the price of breaking international agreements.¹¹⁸ The politically powerful sugar lobby, for example, has been able to ensure that the growth of the Polish sugar industry has taken place behind very high levels of protection. Consolidation, as opposed to privatisation and restructuring, has thus become the chosen path for the development of the sugar sector, ensuring it more power as a lobby and future protection from external competition.¹¹⁹

In sum, the complicated political economy of policy making in Poland, cannot be oversimplified by a reductionist analysis of either domestic or international factors. While the development in Poland of 'ordinary politics' and state responsiveness to domestic pressure has been a positive development, the type of institutional environment that has emerged has not allotted for transparent and legally regulated interest mediation. In its place, a policy making process based on discriminating state intervention, inconsistent law enforcement and intransparent rent-seeking activities has evolved. These developments can be attributed to both the domestic style of technocratic policy making chosen and implemented by the early Polish liberals and to international factors that have made abandoning this method of policy making impossible for successive governments, required to fulfil external obligations.

Conclusion

This chapter has argued that the developments in Polish-EU relations during the period of association can be used to explain Polish trade policy reversals. The political and economic

¹¹⁷ *OBOP opinion poll*, Polacy o integracji z Unia Europejska, 09/98.

Giza-Pleszczuk, A., Marody, M. and Rychard, A. (2000). *Strategie i System: Polacy w obliczu zmiany społecznej*. Warszawa: Instytut Filozofii i Sociologii PAN.

Instytut Spraw Publicznych- Institute of Public Affairs (various years). *Opinion Polls*.

(2000). *Chłop, rolnik, farmer*. Warsaw: ISP.

¹¹⁸ Hausner, J. and Marody M. (Ed.) (1999). *Three Polands: The Potential for and Barriers to Integration with the EU, EU Monitoring III*. *ibid.*.

repercussions of the implementation of the EA have not only damaged mutual relations, but have also undermined the EU's credibility as a fair trading partner, discrediting open economic policies in Poland and indirectly contributing to trade policy reversals.

The author concludes that Polish policy backsliding, as in the other CEE countries, cannot simply be explained by domestic political economy considerations, in isolation from the external environment. As far as economic explanations go, the EAs have had a pronounced negative impact on CEE economies, providing justification for the demands for protection. In the political realm, questions of reciprocity and fairness in trade relations have likewise been partially responsible for undermining liberal reforms, domestic perceptions of the EU's handling of various contentious issues influencing policy preference and outcomes. The growth of trade deficits with the Union, throughout the region, combined with the disappointing asymmetry of the EAs, weakened the position of domestic reformers, giving ammunition to opposition groups and populist parties, while providing material to the media to call for economic closure. Because the Union has loudly been preaching liberal economic virtues, while itself retaining high levels of protection, its policies have had a detrimental effect on public support in CEE for both the liberal reforms and for the liberal governments.

Finally, in the political economy domain, the EAs, while binding CEE governments to uphold their liberalisation targets, were not implemented in such a way as to enable the authorities to respond adequately and flexibly to the emerging public expectations. The magnitude of this development was especially evident in the Polish case.

When successive Polish governments attempted to reach an agreement between themselves and the social partners, the implementation of this domestic compromise was often made impossible due to EU obligations. This has been evident, for example, in the application of state-aids or in the restructuring of the steel industry. Breaking promises made within institutionalised arrangements, has meant that less transparent and more corrupt options of influencing government policy have become more pervasive. The radicalisation of large and powerful Polish interests, especially groups tied to the former system¹²⁰, has led to policy delays and reversals. Technocratic policy making, a method chosen by the early Polish liberals and required by the European Union to implement its association and

¹¹⁹ Verblane (1999). *ibid.*

¹²⁰ Not necessarily socialist groups but rather workers of SOEs, farmer on SO farms, public sector employers, union members...

accession targets, has thus made social dialogue appear like a mirage, contributing to the alienation of social partners and increasing the frequency of uninstitutionalised forms of rent-seeking and political reactions based on ad hoc state responses proportional to the amount of pressure.

Indirectly, then, the EAs impacted the policy-making process in transition by increasingly straining the relationship between the 'state' and its social partners, complicating the internal search for consensus and policy legitimisation and contributing to the weakening of state capacity and authority in Poland. These issues are elaborated on in the next chapter.

8. Democratisation, Institutionalisation and Policy Reform: the Europe Agreement and the transformation paradox

Why is that which was to be irreversible turning out to show so many disturbing signs of reversibility? Social processes are not pulled by some ultimate single end, rather they are pushed by innumerable actions and decisions of human individuals, acting on their visions, moved by variable and often conflicting images of desired goals. There is no absolute progress, but only relative and variable mixtures of progress and regress, of betterment and deterioration of the human condition. Is it progressive to have full shops but lower wages, stop inflation but raise unemployment, open free markets but limit local production, give power to a democratic parliament but make the country ungovernable, liberalise the law enforcement but suffer an upsurge of crime, abolish censorship and witness a flood of pornography and third rate literature. If this is progress, than progress of what, progress for whom?¹

As an integral part of the socialist system was a complete disjunction of the domestic economy from external influences by means of special instruments and institutions, the first step in the market transition revolved around creating the tools and institutions necessary to enable the re-kindling of open external economic relations. Accordingly, the role of the newly elected Polish government in 1990 was to find an appropriate political and economic strategy that would serve as the basis for long-term sustainable growth under conditions of a parliamentary democracy.

The path of reform chosen by the Polish liberal elites was based on ‘anchoring’ domestic policies in international institutions. This was to not only increase the credibility of the domestic reform efforts, but also to secure the benefits of economic openness, and meet the criteria, required by the European Union, for association. However, the chosen ‘anchoring’ strategy was based on several assumptions made by the Polish reformers.

It is not the author’s intent to disregard the case made by neoliberal institutionalists for improved policy credibility through ‘anchoring’ strategies², however, a closer study of the political economy of policy reform in Poland suggests that there are distinct limits to the scope of these arguments. While the external confidence in the government’s commitment is in fact strengthened through international obligations, these conditions are insufficient to adequately address the lingering problems of public expectations, the social consensus-seeking and internal legitimisation in policy consolidation and finally the institutionalisation of the reforms.

¹ Sztompka, P. (1993). ‘Lessons of Post-Communist Transition for Sociological Theories of Change’, in Coenen-Huther, J. and Synak, B. (Ed.) (1993). *ibid.*, p 13-14.

² Neoliberal institutionalist arguments rest on the premise that the process of ‘anchoring’ domestic policy in international institutions will consolidate the internal changes and guarantee the stability of economic policy making. See chapter one and two.

To be successful and transition needed two things: economic performance and democracy. The Balcerowicz technocrats expected that the speed and breadth of their initial reforms would be generously rewarded by the European Union and that the EU would readily support the domestic transition process. The assumption was that the material benefits of integration and the economic successes that would come about within a few years time, would be spill over into the political arena, strengthening the balancing of power between interests, as new actors, winners of the transition emerged. This was not only to provide a solid base of support for the elites and their continued reform efforts but also to create healthy political competition and pluralism in a system previous monopolised by one over-arching Party in symbiosis with vested interests tied to its structures.

However, while the liberalisers were not wrong in principle to chose Shock Therapy and ‘anchoring’ as the basis of the transition reforms, they never the less presumed that external leverage would be sufficient to ensure the continuity of domestic changes, neglecting to appreciate that this international dimension of the transition would have to have legitimate linkages to other national policy and institution building areas, in order to pass the tests of sustainability and consolidation. As such they paid inadequate attention to building an adequate microeconomic foundation for the transition. This is particularly true with regards to investing in social capital. The Balcerowicz team neglected to conduct any kind of information campaign or begin the social dialogue and public consensus-seeking necessary for the development of social trust; itself an indispensable ingredient in the formation of capitalistic relationships. By the time the government, under the leadership of the more socially oriented Minister of Labour J Kuron, in 1993 attempted to begin consultations with social partners on policy options, interests, such as labour unions, had become too frustrated and their views too polarised to make dialogue constructive and agreement possible. (See chapters four and seven). Protests increased and in order to avert a social crises, successive governing coalitions were forced to respond to the loudest and most threatening of these, causing reform delays and even reversals.

Moreover, to make the corporate model function in the Polish system, agreements reached between social partners had to be respected. However, the Polish ‘state’, constrained by obligations arising from EU integration was often forced to break the promises made within domestic negotiations, further radicalising the interest groups. Finally, the macroeconomic stabilisation package chosen by the early liberals and required by the EU for association excessively emphasised privatisation and

liberalisation, without adequate consideration as to institution building or setting up regulatory frameworks (such as contract enforcement, property rights etc.)

Finally, while the benefits of economic openness and free trade expected by the Balcerowicz team are not to be questioned, even the most devout free traders agree that “the tendency of many to equate trade theory with free trade policies and (not infrequently) with complete laissez faire is a misunderstanding”.³ Modern trade theory does not show that free trade is always the best policy. This does not however diminish the overall case made for free trade nor does suggest that a strategy of protectionism is a viable policy option in the long- run.

In the author’s opinion, the path chosen by the liberals and supported by western advisers as well as the EU, did not adequately set the foundations in Poland for an economically functional trade policy in the long run. To expose a nation in its infant stages of economic development to radical liberalisation, experience profound shocks and witness massive trade policy reversals, is in itself an unconstructive path to achieving the desired effect of liberalism.⁴ Consequently, arguing that the author’s criticism of excessive liberalisation coupled with support of a strategic trade policy during the initial stages of transition is itself an argument against free trade is thus an unfounded assumption.

In sum, while there seems to have been no better alternative to the early radicalism of Polish Shock Therapy combined with the ‘anchoring’ strategy, the programme could have been carried out more cautiously and based on less assumptions. Because the entire project has been depended to an over-whelming extent on external support while not paying sufficient attention to domestic microeconomic foundations (including social policies), the possibility of backlash was in fact quite high.

While the Union was presumed to be *able* and *willing* to generously reward the liberalisers for their dramatic efforts and allow them enough leeway, by strengthening the economic transition, to continue to reform under conditions of a parliamentary democracy, this in fact did not follow. In the Polish case, the EU’s protectionism, combined with the technocrats’ top- down, elitist approach and neglect of a coherent

³ Dillon et al. (1990). *ibid*.

⁴ The main argument of J Sachs against strategic trade policy centers on the notion of criticizing the state’s ability to ‘pick winners’. In the case of transformation, however, the state could have applied protection for the purpose of revitalising and phasing down certain industries and sectors (see chapter seven) without randomly picking winners. Moreover, the author assumes that modern economics does in fact choose winning, ‘future’ industries, particularly high technology goods and services, communications, bio-related sectors and others which are crucial to modernisation and development of a knowledge-based economy. (see the EU’s Lisbon Agenda, for example).

policy mix, discredited the liberal reforms and undermined the reformers' efforts, leading to policy backtracking.

In this chapter the author does discuss the political legacies of the early economic reforms and of the developments during association. Assessing the role played by the EU in supporting the process of transformation in Poland, the chapter examines whether the EA has hindered, supported or had no effect on internal political change and ultimately the viability of the policies initially pursued. By focusing in on issues such as state authority and capacity, the role of social consensus and mobilisation in policy making, past mental legacies, present civic culture and the design and evolution of domestic interests and institutions, the author evaluates the effectiveness of the EA, as an institutional tool, in fulfilling the criteria required for an external anchor to work in enhancing domestic reform.

I. Economic Policy Making

At the beginning of the Polish transformation, the reformers felt that the Market would take care of almost everything. This unfounded optimism and faith in the 'invisible hand' led to a neglect of the role of the 'state'. However, as the tension between the democratic political reforms and the process of marketisation increased, the 'state's' role, initially undervalued, became ever more important. One cannot bolster economic growth without strengthening the 'state', public institutions and law enforcement. In turn, to do this, democratic legitimacy itself must be reinforced, as the economy, state and society constitute an inseparable whole.

In chapter seven the author showed that Polish trade policy reversals cannot be explained by relying on a simplified domestic political economy model, and that the influence of the international dimension, as exemplified by the EU, has been pivotal in affecting domestic change and shaping policy preferences. This chapter in turn concludes by further breaking down the intertwined factors that have influenced Polish trade policy reform; focusing in on the interdependence of changes in the political and economic realms of transformation and the extent to which these domestic processes have been shaped by the EU's conditionality criteria and external leverage. The author thus identifies the conditions necessary for the mechanisms of international leverage to work in positively affecting domestic change

Central to this analysis of economic policy making and accordingly to the assessment of the role of international agreements as buffers against future policy instability is the capacity and authority of the 'state', on both international and domestic levels.

Moreover, it is the combination of domestic interest group and the design of national

institutions that provides incentives for leaders to open up their economies. Once liberalisation has been initiated, the 'state' must rely on a stable social base to sustain the envisaged reforms.

Dixit summarises the process of policymaking:

*Tariff cuts and rules of regimes do not eliminate the domestic political pressure for protection in any country, and these pressures will find a way into other protectionist measures such as NTBs. And so government tie their hands, but without political desire, this tying of hands is empty and shallow. Political desire has to be born out of domestic consensus. While tariffs are lowered, domestic groups will look for other ways and measures to protect themselves and the agreements become lip service to the merits of trade.*⁵

A. The economics of trust

Because democracy and economic reform are intertwined, to understand the neoliberal expectation of the role to be played by international institutions in domestic policy consolidation, it is important to take a step back and begin with a general discussion of policy legitimacy. According to D McKay, "legitimacy is made up of those beliefs which, through the operations of democratic institutions, provide moral authority for government action and those beliefs which define the proper ambit or scope of government action."⁶ Because the effectiveness of policy reform depends on the willingness of economic agents to alter their behaviour, it is to a large extent dependent on their legitimacy. Legitimacy on the other hand stems from the credibility of the government in carrying out the reforms and in doing so, acting on behalf of society. Legitimised institutions, which form the basis of the democratic order, fulfil their role, in turn, by strengthening the legitimacy of entire system. Moreover, the link between long- term economic performance and legitimacy indicates that to complete and consolidate the transition, a strong and efficient democracy is needed.

The conceptualisation of the legitimisation dimension sheds light onto the importance of *trust* in democratic policy consolidation and economic reform viability. Concepts such as 'trust', 'socialisation' and 'legitimation', however, are all imprecise terms used by political economists to explain policy performance. These theoreticians none-the-less do not clarify the sources of these concepts or how they are to be incorporated with

⁵ Dixit (1996). *The Making of Economic Policy*. *ibid.*, p 79.

⁶ McKay, D. (1991). 'Policy Legitimacy and Institutional Design: comparative lessons for the EU', in Beetham, D. (Ed.) (1991). *The Legitimation of Power*. London: Macmillan, p 26.

traditional economic theory to provide the conditions indispensable for successful policy reform. For this reason it is useful to turn to the work of sociologists.⁷

According to sociologist P Sztompka, the existence of trust as an essential component of all human relationships is a fundamental concept in sociological analysis.⁸ Trust is the foundation of all human interactions, a primary source of the legitimisation of political decisions and ultimately the source for the consolidation of a market democracy.

Without trust, people avoid taking responsibility for their actions, and the relationships within which capitalism can flourish are weakened. Trust, for example, institutes the basis for investment, which in turn is the source of long term and sustainable economic growth.

To establish legitimacy in the social order, human beings bestow trust upon institutions and organisations as well as the rules and procedures through which these function.⁹

Sztompka asserts that,

*institutional trust is given to those who have constructed the constitutional frame, perform governmental functions and monitor and supervise their performance. Trust may be located in our own society – internal legitimacy- or may also be located in foreign societies- externalised trust. The grounds for trust are either directly justified through reputation or appearance worth trustworthiness, or indirectly transferred from those controlling the object in question and expected to enforce the trust.*¹⁰

Hence, coexistence and interaction in all spheres of social life is based on a general trust in other people and institutions. In a democracy, in order for rules and arbitrator procedures to be legitimated, they have to be built on trust, and subsequently, trust can turn into a normative expectation, becoming embedded in the political culture of a country, turning it into either a culture of trust or distrust.¹¹

B. Conditions for successful international leverage

Trust, as relevant for 'anchoring' strategies, such as the EA, is a necessary factor enabling the mechanism of international leverage to work in successfully stabilising domestic politics and positively affecting internal reform. According to K Zukrowska, primarily, what is needed is "trust of the elites towards the international organisation based on the assumption that equipped in new powers they {the international partners}

⁷ The legitimisation dimension of democracy is contingent on establishing a national political culture, compatible with the basic democratic values, and depends on the psychological predisposition of individuals, attitudes towards the political system and the role of the self in this system.

See Schmitter, P. C. (1992). 'Consolidation and interest systems', in Diamond and Marks (Ed.) *ibid.* Schmitter, P. (1995). 'Zagrożenia, dylematy i perspektywy konsolidacji demokracji', w Hausner, J. (Ed.) (1995). *Studia nad Systemem Reprezentacji Interesów*. *ibid.*

⁸ Sztompka, P. (1996). 'Trust and Emerging Democracy: lessons from Poland', *International Sociology*, Vol 11, No 1, March.

⁹ Marody (1994). 'Polska' in Rootes and Davis (Ed.) (1994). *Ibid.*

¹⁰ Sztompka (1996). *ibid.*, p 42.

will not misuse them.” On the second level, Zukrowska has identified the existence of domestic trust of the voters towards their government, “in the sense of giving credit to the ruling political elites in power, as also a *sine qua non* of consolidating systemic changes.”¹² Without these two factors present, international leverage is not able to fulfil its function in stabilising domestic reform or improving credibility.

This author in turn assumes that ‘trust’ on the international level stems from the perception that cooperation and partnership, as opposed to power politics or blackmail, form the foundations of inter-state relations, and that each partner’s interests are weighed equally in the process of arriving at optimal solutions. In addition, the only way to maintain the ‘trust’ given by national elites to an international organisation is for the external actors to fulfil their initially declared promises and carry through their obligations. The willingness of national elites to reform has to be backed by generous outside support and assistance.

On the domestic level, in turn, the ‘state’ earns social trust when the public is reinforced in its conviction that the authorities are willing and able to listen to its postulates and consult policy decisions with social partners. Moreover, social trust is strengthened, when the government fulfils the promises made and when public institutions function according to clear and consistent rules. Non-discrimination in the enforcement of the rule of law and a transparent legal framework are crucial. The when these factors exist, society domestically legitimises the policy reform process, giving confidence to the authorities who, in turn, externally legitimise the international strategies pursued, by displaying trust and confidence in the authority of the international organisation. In sum, in order for external leverage to work in stabilising domestic reform, it has to be based on trust; trust of the elites in the international organisation, and also trust of the voters in the elites.

The complicated transformation experience raises a number of additional issues in policy reform and tightens the conditions required for international leverage to be successful. Because the ability of the reforming governments to compensate the growing pool of losers and manage social tensions is more curtailed than in developed nations, due to tighter monetary and fiscal policy constraints, many social and political dilemmas are exacerbated.¹³ Thus, the trust on which the mechanism of international leverage is built should be backed by specific *knowledge*, which is not limited to the

¹¹ Sztompka, P. (1992). ‘Dilemmas of the Great Transition’, *Sisyphus: Social Studies*, Vol 2 (Viii).

¹² Zukrowska (1998). ‘The scope of opening’, in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.* p 303.

¹³ Amsden, A.H., Kochanowicz, J., and Taylor, L. (1994). *ibid.*, p 204.

economy, but incorporates politics, social problems and psychology. This expertise, in turn, allows the policy makers to decide which is the most effective way of getting from point 'a' to 'b', in a flexible and creative way, and predict what will happen in certain circumstances when a tool is applied.

Finally, as Winters has maintained, an international institution can only increase domestic policy credibility if the international organisation charged with providing outside support "has sufficient interest and power to discipline policy, and if the reforming government's capacity to readjust to changing circumstances is preserved."¹⁴ Thus the international organisation responsible for exerting external leverage should demonstrate a minimum level of "moral authority" as well as flexibility in its strategies pursued towards the reforming state to strengthen the trust bestowed upon it by national elites. In setting standards consistently and following through on its own obligations the international institutions strengthens its own political credibility, a vital factor in increasing investment flows into the reforming country, ultimately encouraging growth and competitiveness.

C. From reform initiation to consolidation

Because anchoring policies can have destabilising effects on domestic politics, intensifying internal tensions and conflicts by increasing national disparities, such strategies cannot be separated from a theoretical discussion on the intricate linkages between democracy and the market. An analysis of this kind must also differentiate between the processes of democratic and market reform initiation and consolidation, as the dynamics of the two are substantially different.

While, initiation involves setting up formal rules and institutions, the so-called procedural democratic dimension, consolidation rests on the premise of participation and contestation of the citizens within already established institutions. This type of substantive democracy is characterised by the development of free and lively civil society, a relatively autonomous political society, enforcement of the rule of law, stable state bureaucracy, and institutionalisation of economic society¹⁵. It is accompanied by various negotiations and compromises between society and the ruling authorities and is centred around the crucial role to be played by the 'state' as the source of institutions and a forum for conflict resolution.

In democracies, the process of arriving at policy decisions and consequently the fulfilment of international obligations is based on the internal mechanisms of consensus

¹⁴ Winters (2000). 'The external economic dimension', in van Dijck and Faber (Ed.) (2000). *ibid.*, p 210.

¹⁵ See Linz and Stepan

seeking, subject to different opinions and interests. Regardless of external obligations and conditionality entailing sanctions, these diverse voices within domestic politics need to be listened to for the mechanisms of legitimisation to work. This is particularly true in countries undergoing transformation, where the fragile process of democratisation is just being initiated, and political decision-making is just beginning to show signs of institutionalisation.

For consolidation to be completed, civil society must learn to function within these newly established institutions and accept the rules of the game behind them. Otherwise economic strategies can paradoxically create political backlash and ultimately produce greater resistance to the reform measures themselves.

Przeworski has maintained that a “stable democracy requires that government be strong enough to govern effectively but weak enough not to be able to govern against important interests.”¹⁶ These conditions are crucial to the functioning of contestation and participation, as their presence suggest that the authorities are able and willing to respond to public demands, confirming the role of consensus seeking and mobilisation in policy making. In democracies thus, disputes are not settled by imposition from above, but are rather resolved through negotiation, compromises and agreements between the ‘state’ and society. The resolution of differences revolves around elections and campaigns, where unsatisfactory leaders and their governing programmes can be removed. A O Hirschman has argued that “the development of social ‘voice’ through the articulation and aggregation of opinions and interests is synonymous with the history of democratic control.”¹⁷ Moreover, if “in a democracy trade policy must ultimately stem from the legislature in response to public demands”, as A Winters has claimed¹⁸, then it is society’s ‘voice’ in the realm of domestic politics that is the crucial factor in determining policy preferences, outcomes, and ultimately performance.

Another pivotal part of democratic consolidation hinges upon the development of a democratic political culture compatible with liberal economic reform. This “intangible”, as Przeworski observed centres on the linkages “between the performance or effectiveness of new democratic governments and their legitimacy, or the extent to which elites and publics believe in the value of the democratic system.”¹⁹

¹⁶ Przeworski (1991). *Democracy and the Market*. *ibid.*, p 37.

¹⁷ Hirschman, A.O. (1970). *Exit, Voice and Loyalty, responses to decline in firms, organisations and states*. Cambridge, Mass.: Harvard University Press, p 55.

¹⁸ Winters, L.A. (1994). ‘Who should run trade policy in Eastern Europe and how?’, in Winters (Ed.) (1994). *Foundations*. *ibid.*, p 33.

¹⁹ Przeworski (1995). *Sustainable Democracy*. *ibid.*, p 61.

Finally, the legitimisation of democratic regimes cannot be built solely on consensual agreement between conflicting interests and the 'state'. The process of arriving at these agreements is just as important. The way in which the political elites respond to public demands, the presentation and procedure of reaching compromises, resolving problems and handling disputes is as significant to their legitimisation as the outcomes themselves.

In sum, social trust, the foundation for a democratic political culture, and the source of the legitimisation of power given to the elected authorities to govern is reinforced when policy making is characterised by uncertain outcomes but certain and institutionalised rules, and when public opinion is convinced that the political leadership will not impose reform measures at all costs or exploit problems to their own advantage, but instead will seek public participation and negotiation in the process of arriving at political decisions.

D. Democracy and market reform

For neoliberal institutionalists, the main danger is that in a democracy, the losers of the adjustment process will indirectly influence future policy through the mechanism of voting and consequently change the desirable course of economic reform. The theories are premised on the belief that democracy can slow down the economic decision making process by making consensus-seeking a prerequisite to legislative decisions. Olson for example has claimed that democracy is dysfunctional for capitalism because it allows for the crystallisation of specific interests, favours redistribution and rent-seeking and hinders the efficient allocation of resources.²⁰

However, if the assumptions about the role of legitimacy in economic reform hold true, then participatory democracy is much more than an end goal in and of itself, but in also the means to create the foundations of a market society and increase economic reform viability. In contrast to neoliberal expectations, democratic legitimacy might in fact be a necessary condition to sustain economic change in the long-run and ultimately ensure market performance.

Moreover, because the development of domestic political culture and of the social 'voice' is itself largely subject to change as it becomes influenced and moulded by developments on both national and international levels, it is the task of the reforming 'state' supported by international institutions and external leverage to not only to create the mechanisms of the market by far ranging liberalisation, but also to safeguard the mechanisms of democratic rule. For this to happen and for the legitimacy of the new regime to be secured, some measure of economic success must take place, and the

²⁰ Olson, M (1982). as quoted in Amsden, A.H., Kochanowicz, J., and Taylor, L. (1994). *ibid.* p 183.

transaction costs of the reforms, be they social, political or economic, must not be so great that the government is forced to choose between authoritarian means to achieve economic goals, on the one hand, or the continuation of democratic politics at the expense of economic growth, on the other.²¹

In another words, for people to accept temporary hardships and support policy reform, they must have confidence in the government's capacity to carry out the reforms and be convinced that their own situation and material conditions will eventually improve.

To conclude, for successful economic reform two things are needed: democratic rule and economic performance.²² The role of the international leverage is to strengthen these two impulses, and the focus of this chapter primarily is to assess how the European Union, within the framework of the Europe Agreement, has buttressed these two mechanisms in Poland. To successfully exert pressure on Polish domestic change, the EU would have to be highly effective in regulating the Polish reforms, and its moral authority would have to be derived from expertise knowledge coupled with fulfilment of its declared obligations. Shortly, the Union would have to set the standards and be accountable for the strategies advocated to the Polish associated partner as well as for its own collective actions.

On the second national level, to ensure democratic rule and economic performance, domestic elites themselves have to be held accountable for the policy implementation. The top- down, technocratic approach characteristic of the early reform efforts can endanger the development of the social voice, precisely at the time when the population is expecting a more elastic and representative form of politics. Secondly, thus, this chapter assesses what effect the reform methods used by the technocrats and type of elitist policy- style implemented throughout the twelve years of transformation has had on the new policy-making environment in Poland, and how the political legacies of the early reform phases have impacted current policy performance.

II. Association and Reform Consolidation

In the early 90's, the EU's official aim was to ensure that "Community policy shall contribute to the general objective of developing and consolidating democracy and the rule of law and that of corresponding human rights and fundamental freedoms."²³ In Poland, as in the other CEE states, the Union's objective was to support the processes of

²¹ See Deschouwer, K. and Coppieters, B. (1993). 'A western European Model for Social democracy in East-Central Europe' in Waller, M., Coppieters, B. and Deschouwer, K. (Ed.) (1993). *Social democracy in a Post-Communist Europe*. *ibid*.

²² Nowotny, T. (1997). 'Economic Transition, Democratic Consolidation and the Integration of Central-Eastern European Countries into European Structures', in *Economic Developments and Reforms in Cooperation Partner Countries, NATO Colloquium*, Brussels: NATO, June, p 198.

policy institutionalisation, strengthening market forces through economic integration, as well as buttressing the political development of nascent democratic structures and encouraging the emergence of an active civil society. According to the endorsed rhetoric, the Community's motives for association with the Polish state were based on the desire "to help consolidate political democratisation, even at the price of economics."²⁴

On the Polish side, in turn, during the first phase of the transformation, the reformist elites were seeking outside support for their internal reform efforts. The main assumption behind locking in Polish systemic changes within institutionalised structures with the Communities was that association was to serve as an 'anchor' for domestic economic and political changes, enhancing the stability of the reforms pursued. Economic and political integration with the EU, a key component of the transition strategy, was itself dependent on the viability and credibility of the domestic reforms. For the Poles, the EA was to fulfil a number of objectives.²⁵ Primarily, it was to contribute to strengthening internal economic performance, crucial to long term policy consolidation, by providing an environment that would enable the fragile transition economy to resume growth.²⁶ Indirectly, by securing the benefits of Regional Trade Agreements, the Agreement was to encourage the creation of domestic winners and supporters of open economic policies and thus the development of political pluralism. Secondly, in the political dimension, the EA was to avail as a model for institution building, serving as a legal guideline for the design of a future market democracy, as well as an indispensable tool for association and eventual accession to the Union. Finally, the EA was to support the building of democracy itself. This required that, the European Union apply the notion of conditionality to pressure the Polish elites to continue their reforms in such a way as not to interfere with internal dialogue between the 'state' and society and avoid restricting the national reform debate to a choice between responding to binding international obligations and credibility constraints, on the one hand, and domestic pressures and democratic considerations, on the other. In this way, the EU was not only to strengthen the hand of the reformers by giving them

²³ As defined by Art. 130u paragraph 2, Title XVII on Development Cooperation.

²⁴ See Pridham, G. (1991). 'The Politics of the European Community, transnational networks and democratic transition in Southern Europe', in Pridham, G. (Ed.) (1991). *Encouraging Democrac.* *ibid.*, p 239.

Pridham has maintained that in the case of eastern enlargement this democratic solidarity argument was again clearly present.

Lewis, P.G. and Pridham, G. (Ed.) (1996). *Stabilising Fragile Democracies.* *ibid.*

²⁵ See chapter two.

²⁶ This was to be achieved by providing Polish producers with generous market access, investment and other forms of both direct and indirect financial aid.

incentives and rewards for the continuation of reforms, but more importantly grant them enough leeway to adequately respond to domestic demands and emerging social conflicts (even if these did not always reflect optimal economic objectives in the short run).

Thus the liberal project of economic development espoused to and carried out by the initial Polish elites was dependent to an overwhelming extent on the relationship of the domestic reforms to the external. Moreover, it was conditioned on the fulfilment by the EU of the promises made of assistance with the transformation. By ensuring that the reforms had enough of a life time to take hold in Poland, bolstering the social and political situation in the country, and to avert the rise of populism and nationalism in the region, the EU, in turn, was to secure its own interests.

The trust of the Polish elites that integration would shorten the painful transition stemmed from a general belief that the European partners had the privileged knowledge and political will necessary to directly guide and support the process, as well as the expectations that the EU collectively would be accountable for its actions and would not exploit the confidence given to it to its advantage. However, because no real attempt was made on either the Polish or the EU side before or during the negotiation of the EA seriously to estimate its impact on the transition or to look at what terms of Agreement would have best served the process²⁷, many assumptions made as to the future benefits of association have in fact not held. Moreover, the possible complications of implementing the EA were seriously underestimated, and the resistance of domestic interests (on both the EU and the Polish side) undervalued.

The developments in political relations during association suggest that the mechanism of trust, on both international and domestic levels, has been seriously weakened.

Mayhew has attributed this deterioration in trust partly to the basic lack of understanding in the EU-15 of the situation in countries in transition and in the institutional problems faced by them. "On the side of the Union, the emphasis being put on verification of implementation of the *acquis* today suggests a lack of trust and also opens up many avenues for opponents of enlargement to exploit."²⁸ In fact, the politics of implementing the EA have actually created an acute problem in maintaining confidence, trust and credibility between the associated partners.

²⁷ Mayhew (1998). *ibid.*, p 42.

²⁸ Mayhew, A. (2000). 'Enlargement of the European Union: An analysis of the negotiations with the Central and Eastern European Candidate Countries', *Sussex Working Papers in Contemporary European Studies*, No 39, Sussex: Sussex European Institute, December.

It could be argued that on the level of support for political and institutional reform in Poland, the deviation between the short-term interests of the current member states and considerations of democratic consolidation or specific needs of the transition proved far wider than initially expected. For example, while the Commissioner responsible for Employment and Social Policy, A. Diamantopoulou, criticised the Polish authorities for insufficient institutionalisation of interests representation and dysfunctional social dialogue, the member states represented in the Association Council as well as the Commissioners for Trade, Competition Policy or Internal Market²⁹ continued to make progress in the accession and association negotiations with the Polish side conditional upon the fulfilment of various postulates that in effect were to be imposed upon the social partners without prior consultation.

The low levels of financial transfers³⁰ compared to the effort undertaken by the Polish governments, no possibilities to opt out of certain areas of the *acquis*, strict and inflexible rules on state aids, competition, environmental and social policy, as well as the expectation of full harmonisation and liberalisation even before accession have meant that the costs of adjustment have fallen disproportionately on the candidate. The lack of urgency as to enlargement, as exemplified by the Union's unwillingness to propose any concrete dates well until ten years into association has also brought about political uncertainty. Thus while it was essential for the Union to project a steady and unambiguous commitment to enlargement to buttress political stability in transition, thereby encouraging investment and growth, EU policies have remained plagued by self- interested protectionism.

The fact that the well-being of the present member states, regions and sectors have tended to dominate the EU's collective approach to cooperation with the Polish side has been most explicit in the growing imbalance in trade relations and in handling of the contentious issues themselves (see chapter 5-7). Because the European Union's policies became more protectionistic than originally expected by the Poles, many of the liberal policies initially promoted in Poland were discredited. The opening up experience proved to be much more painful and the costs of adjustment much higher than would have been the case had the Union kept its side of the bargain. Thus as the optimism of the early liberalism as to the process of internationalisation proved unwarranted, populist parties and advocates of protectionism gained ground.

²⁹ Byrne, Solbes, Monti, Lamy.

³⁰ PHARE funding amounted to only .5% of EU GDP and 10% of the grants to Greece and Portugal. In previous enlargements, much larger funds and fiscal transfers were made available to help the new member states adapt.

Technical disputes over the price of steel pipes or the quota for milk production have created an image in Poland of a self-interested Union and have made the EU's declared support for the process of democratisation little more than rhetoric. Already in the early phase of the negotiations of the EA, Pridham observed that, "there was some divergence between the democratic argument and the economic considerations, because the interests of the member states sometimes clashed with the aspirations of candidates."³¹ Thus, even though the early official response of the Union to the changes going on in the east was to express solidarity with the nations in transition and to hold financial aid, market access and the possibility of membership as prospective rewards for the continuation of changes, the initial momentum for trade liberalisation, on both the EU side collectively led by the Commission and in Poland, was quickly undermined when the Union became pre-occupied with its internal affairs.³² This made it difficult for the Union to pay adequate attention to the domestic responses in Poland, preventing it from reacting to the social ramifications, economic developments and political repercussions of the integration process.

As non-competitive Polish sectors began to go under and unemployment to rise, the adjustment assistance policies provided for by the EU proved insufficient to serve the needs of the applicant. While the losses from trade liberalisation under the EA were small for the EU³³, the costs of adjustment were much higher for the Polish side. Economist W Orłowski demonstrated, for example, that even the Polish trade policy reversals had no significant impact on bilateral trade flows, especially if their scope is compared with the estimates of trade imbalances induced by the EA.³⁴ Moreover, experts have provided ample evidence that the EA has had an overall positive effect for EU employment as a result of the significant trade surplus.³⁵ As such, it could be argued that the disparity in the costs of adjustment was not sufficiently responded to from the Union.

³¹ Pridham (1991). 'The politics'. *ibid.*, p 239.

³² Such as EFTA enlargement, the Euro, BSE, economic recession, terrorism or illegal migration.

³³ See Faini and Portes (1995). *ibid.*

Rambow, G. (2000). 'Excerpt from a paper on the Influence of Accession on EU policies'. *ibid.*

Hindley, B.V. (1993). 'Helping transition through trade?', *ibid.*

Fontenay, P.de, Gomel, G. and Hochreiter, E. (Ed.) (1995). *ibid.*

Friedrich Ebert Stiftung (1996). 'The costs'. *ibid.*

Eatwell, J., Ellman, M., Karlsson, M., Nuti, D. M. and Shapiro, J. (1997). *ibid.*

Mayhew (2001). *Enlargement and the Community Budget*. *Ibid.*

³⁴ Orłowski shows that the creation of FTA (up until 1996 alone) under the EA increased Polish exports by 2.4bn US\$ and imports by 3.4 bn, resulting in a trade deficit of -1050mln US\$.

Orłowski, (2000). *The Costs and Gains from Poland's Membership in the EU*. *ibid.*

³⁵ With only slight growth in sectoral deficits in textile, coal and steel industries that continued to decrease throughout the 90's.

Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *Accession or*

In addition, the carrot/stick approach applied by the EU to exert leverage on the applicant, exemplified a lack of flexibility in the Union's collective interpretation of the conditionality criteria. The criticism by and imposition of retaliatory measures against the Polish side for failing to comply with the EU's the policy prescriptions damaged political relations, trust and exacerbated the transition dilemmas. It also meant that successive governments in Poland (from Solidarity, to the Social Democrats, Freedom Union and even the Peasants) have had to continue to fulfil the EA obligations, to some extent, in spite of social protest and growing pressure for backtracking on the reforms. This book has shown, however, that these commitments have not been fulfilled consistently, and that the governments have reacted on a discretionary basis, intervening into the economy at random times (usually in the face of massive strikes or corruption) to domestic pressures and rent-seeking activities. The uninstitutionalisation of economic life in Poland has fueled the ad hoc, unpredictable and reactionary nature of Polish trade policy formulation and contributed to the intransparency of the trade regime. Finally, because the enormous social costs of the transition reforms were initially undervalued, by both associates, and the impact of democracy on the expectations of the public neglected³⁶, the most crucial factors determining long-term policy consolidation were overlooked in the political strategies on which association and transformation were based. The perceived European indifference to or lack of support for the difficult internal process of reform generated a strong public reaction in Poland initially against the transformation reforms, and subsequently against the EU and the Polish liberal reformers. This development, in turn, weakened the economic reform process, increasing policy instability, and intensifying the various transaction costs. Finally, even though in the early nineties West European experts like J Rollo warned that "these kinds of policy mistakes may be punished quickly by voters, and it is essential that western policy be adaptive"³⁷, and others, such as C Preston, echoed this sentiment maintaining that, "international tools, like the EA, can only work and facilitate Poland's internal reforms to the extent, that the method of exerting external leverage is itself adapted to meet the applicant's needs"³⁸, the EU's policies towards the Polish side continued to display a lack of adaptivity. Many of the rigid requirements

Integration. *ibid.*, p 57

³⁶ Rollo, J.M.C. with Batt, J. et al. (1990). *The New Eastern Europe: western responses*. London: RIIA, Pinter.

³⁷ Rollo, JMC. (1990). 'The Role of the West', in Rollo. with Batt. et al. (1990). *ibid.*, p 133.

³⁸ Preston, C. (1995). 'Obstacles to EU Enlargement: The Classical Community Method and the prospects for a wider Europe', *Journal of Common Market Studies*, Vol 33, No 3, p 18. See also Preston, C. (1998). 'Poland and EU Membership: Current issues and future prospects', *European Integration*, Vol 21, OPA, N.V.

advocated by the Community in its pre-accession strategies, combined with restricted market access, not only contributed to slowing down economic growth in Poland, but also handicapped the ability of the 'state' to make good on its reform efforts.

In spite of suggestions to put the interests of the candidate before the short-term interests of the EU, as the stronger partner, the Union's collectively incoherent and inconsistent approach to cooperation with the Polish partner unveiled the inability of the Member states to consider the long-term interests of a united 'Europe' ahead of the short term interests of individual groups, regions and sectors.³⁹

On the Polish domestic politics side, the governing liberal elites likewise lost society's trust, initially given to them in the first free democratic elections. The effect of tying the elites' hands with constraints stemming from association, coupled with the low economic performance of the reforms instigated, disabled the primary and subsequent governments from adequately responding to social demands or fulfilling the promises made to the public. All the successive governing coalitions, regardless of their political orientation, have continued to some extent to implement the elitist style of policy making originally introduced by the technocrats. This can be explained by the continued reliance of Poland on external assistance and the need to fulfil international commitments and conditionality parameters. The 'anchoring' effect of international agreements has consequently perpetuated the top-down style of politics within mainstream parties, contributing to their growing alienation from the public. As a result, populist parties, 'the true friends of the people' have gained political ground as the 'establishment' lost the confidence of the Poles.

In sum, the type of 'anchoring' implemented by the Union has hampered the development of domestic negotiations between the social partners, increasing the impulse towards elitism and the isolation of the political class from society. In the realm of policy reform, where the unpredictability of the government's behaviour and the fluency and instability of the institutions have not allowed for greater public participation in decision-making, interest groups have thus been unable to build the consensus on which the new political and economic system could be institutionalised.

³⁹ Mayhew, A. (2002). *The Brussels European Council: historical step forward or short-sighted short-termism*. Warsaw: UKIE.

Mayhew, A. and Wallace, H. (2001) 'One Europe or Several, Poland: A partnership profile', *OEOS Policy Paper*, April.

Padoan, PC. (1994). 'The Changing European Political Economy', in Stubbs and Underhill (Ed.) (1994). *ibid.*

A. Rewards and sanctions

Assessing the effectiveness of the conditionality used by the EU to exert leverage on Polish authorities is the most crucial dimension in evaluating its impact on domestic reforms. However, the problems stemming from the application of conditionality as a relevant instrument for mobilising domestic change and exerting leverage come from an imprecise understanding of what exactly is meant by the term, and “whether in fact it can be obtained.”⁴⁰

Conditionality revolves around a subtle distinction between power and influence as used in international relations. Commenting on this duality, R Falk has presented a case for “paying more attention to the instrument of influence, in the sense of indirect contact and motivation given for change.”⁴¹ Zukrowska similarly asserted that the reward and promise approach, by playing a mobilising role, is much more effective in influencing domestic changes than the carrot and stick method, because “as sociology tells us in the study of behaviour, punishment is not considered an effective tool moving people into the desired direction.”⁴²

Flexible political and economic conditionality accompanied by generous rewards for the changes taking place can strengthen internal democratic and market mechanisms, giving credibility to the reforms and the reformers. On the other hand, institutional criteria that relies on an overly rigid interpretation of conditionality can exacerbate unpredictability and uncertainty under conditions of rapid social change and paradoxically lead to policy destabilisation.

If it's not flexible enough, an international regime, like the EA, can constrain the 'state's capacity to readjust to changing circumstances, weaken its ability to adequately respond to public demands and increase policy dilemmas. Because such regimes are imperfect and incomplete contracts, Winters has pointed out “that in response to political realities of the time, when rules such as the EA are inconvenient, governments will simply ignore them and respond to domestic needs.”⁴³

B. The Union's application of conditionality

In chapter three, the author has shown that the initiation of reform in Poland was able to take place due to a crisis situation in the economy, which created the conditions of

⁴⁰ The expectation of association was that Poland was to achieve specific implementation targets as a precondition for further negotiations and future membership, reinforced by the conditionality clause, which made financial assistance and other EU concessions dependent on meeting these targets. Rollo, JMC. (1990). *ibid.*

⁴¹ Falk (1981) quoted Almond, G. (1989). 'The international- national connection', *British Journal of Political Science*, April, p 254.

⁴² Zukrowska (1998). 'The Scope', in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.* p 303

⁴³ Winters (2000). 'The external dimension', in Dijck, P. van and Faber, G (Ed.) (2000). *ibid.*, p 210.

‘extra-ordinary politics’. However, as democratisation proceeded and interest groups were reawakened, delays began to appear in the policy decision-making mechanisms, and the commitment to further reform was hampered by the internal need to search for compromises. Sociologists and even economists began to argue that the reforms would only succeed if the parliament managed to combine legitimacy with effectiveness and public acceptance with strategies of economic change.⁴⁴ None the less, the fulfilment of international obligations was constraining the government’s ability to respond to social demands.

The author’s analysis suggests the Union’s policies advocated towards the Polish side and the type of conditionality employed to exert leverage by the EU have forced the Polish authorities to maintain a complex balancing act. The government has had simultaneously to secure future election, achieve the foreign policy goal of accession to the EU, and as such continue with difficult economic reforms under conditions of a parliamentary democracy, and to systematically respond to the voice of public opinion to secure a base for its reform efforts.⁴⁵ Because the implementation of the EA proved that its framework was not flexible enough to allow the Polish authorities to deal with the transaction costs of the transition, or balanced between political requirements, as revolving around participatory democracy, and economic criteria; the ‘anchoring’ strategy, with its diverse targets and schedules, was weakening the Polish ‘state’s’ capacity respond to domestic developments. This, in turn, strained the already tense state-social relationship and contributed to the breakdown of social dialogue. As the Polish people learned that their postulates go unheard and that democratic resolution of conflict based on internal bargaining and consensus seeking is a mirage, the peaceful option of voicing protest turned into more violent forms of political resistance, eventually followed by Hirschman’s ‘exit’ from politics itself.⁴⁶

Public frustration with the reforms, feelings of betrayal, loss of confidence in each of the successive governments and growth of distrust towards all the elites have manifested themselves in various opinion polls. According to an OBOP study conducted in 2003, 88% of the polish population believes in the selfishness of the politicians, 81% think

⁴⁴ See Crawford, B. (Ed.) (1995). *Markets, States and Democracy*. ibid.

Hausner, J. and Marciniak, P. (Red.) (1994).

Ciamaga, L. (Red.) (1997). *Zagraniczna Polityka Gospodarcza Polski w teorii i praktyce dostosowan do Unii Europejskiej*. Warszawa: SGH, Elipsa.

Haggard, S. and Kaufman, R. (1995). *The Political Economy of Democratic Transition*. ibid.

⁴⁵ Both are conditions and criteria for future accession as proclaimed in Copenhagen European Council, 1993. Democratic preconditions with respect to applicant states were recognized in article 237 of the Rome treaty requiring them to be parliamentary democracies.

⁴⁶ Hirschman, A.O. (1970). ibid.

that political parties represent only their own interests.⁴⁷ A CBOS poll carried out in the same period shows that 75% of the Poles treat all the elites, regardless of orientation, as the same 'self-interested power-seeking oligarchy', 'a pack of thieves'⁴⁸. 44% judge the 'all the coalitions since 1989', as 'the most awful' of the governments, while 15% still consider the initial elites as the worst. According to the Poles, all the governing coalitions since the beginning of the reforms have given away lucrative positions and contracts based on nepotistic ties and not meritocracy.⁴⁹

The Poles thus do not trust any of the political parties⁵⁰ and a staggering 26% support a 'strong hand' government.⁵¹ In another study, 44% maintained that power should be in the hands of a strong leader, while this figure corresponded to 7% in the Czech Republic, 12% in Slovakia and 70% in Russia...⁵²

Resentment of the political elite is expressed by those who do not vote at all. 60% of the Poles feel they are not represented by any party.⁵³ According to the Polish Elections Committee only 61.25% of the Poles voted in the 2000 presidential elections, and 46.3% of the eligible voters took part in the 2001 parliamentary elections. In the 2002 local government elections, the corresponding figure was again a low of 44.33%, while the frequency in national referendums has been even lower. In the 1996, affranchisement referendum only 32.44% of the population went to vote, while in the 1997 constitutional referendum the level remained well below half the public, at 42.86%.⁵⁴

C. Zig-zagging reform

The author's analysis thus suggests that the reforms instigated in Poland by a technical government elite and superficially linked to external anchors have augmented the

⁴⁷ OBOP, 07/03

⁴⁸ LKB, 'Frustration Has Many Faces', Warsaw Voice, 19/03/00.

⁴⁹ CBOS, 4-7/4/03.

⁵⁰ GW, 'Najdluzsza wojna na gorze', 28-29/06/03; Polski Generalny Sondaz Społeczny, 2003.

Marianski, J. (2003). *Kondycja Moralna polskiego Spoleczenstwa*. (2003). PAN.

Szacki, J. 'Traktaty niezmiennia ducha', GW, 12/06/03.

'Zimne Piecie, Ciepłe Piwo', GW 1-2/06/02

'Sojusz przeciwko postępowi', Wprost, 28/02/99;

'Ludzie Władzy', Polityka nr 18 (2191), 1/05/99;

'Dziesięć lat później', polityka nr 1 (2174), 2/01/99;

'W ramionach Leppera', Polityka nr 15 (21880), 10/04/99;

'Diagnoza społeczna 2003'. PAN;

Kolarska-Bobinska, L. 'Weźmy kapitał wymosmy zmiany', GW, 04/08/03.

GW, 'Gruzy na demokracji', 11/07/03.

⁵¹ OBOP, poll 14-16/06/03.

⁵² Pew Research Centre Poll, 2003.

⁵³ Interview with J Kucharczyk, sociologist at the Institute of Public Affairs.

⁵⁴ GW. 23-24/11/2002.

GW. 15/01/03.

erosion of public confidence in the 'state' and its institutions, undermining the its authority, capacity and the effectiveness and permanent character of the reforms pursued.⁵⁵

Only 12- 16% of the Poles trust the basic democratic institutions in Poland and a mere 4% think that the institutions are concerned with the interests of ordinary Poles. 7% consider national institutions to be effective, and 8% think that they function generally in an impartial/ just manner. 96% assert national institutions are corrupt!⁵⁶

Accordingly, a weak Polish state, unable to rely on legitimate and stable institutions, faced with social resistance to its reform programme and restrained by the international repercussions of its actions, has not been effective in carrying out responsible policy reform. The attractiveness of the technocratic policy option has meant that despite the official attempts to consult policy decisions with social partners a large proportion of national decisions in Poland continued to be taken without any consultations, bringing on new protests.⁵⁷

In addition, the dilemmas of the 'trapped state', have contributed to a highly unpredictable and unstable climate of policy making. Major reforms began to be postponed in order to satisfy the loudest voices of public protest and create an image of social dialogue. Moreover, the deceleration of change has also been a result of political bickering as well as the resistance of the early 'winners' of the transition, whose concentration of market power and close ties to various political elites have contributed to a policy-making environment characterised by the capture of the 'state' by vested interests and increasing levels of corruption. Backtracking has been especially evident in institutional reform, where, for example, the privatisation of SOE's has been severely delayed in several key sectors. In the legal realm, on the other hand, inappropriate norms and haphazardous application and enforcement of the rule of law have further opened the way for illicit rent- seeking activities at the expense of institutionalised interest mediation.

The reforms in Poland have tended to follow a stop/go pattern, and the policy pendulum has sometimes swung in the direction of the demands of the international and sometimes in the direction of the expectations of society. Paradoxically, then policies, such as openness, that would have been optimal under full credibility of the 'state', have

Polska Komisja Wyborcza, figures.

⁵⁵ Przeworski (1995). *ibid*.

⁵⁶ CBOS poll conducted for ISP. 27/02- 4/03, 2003.

⁵⁷ See Marody, M. (1994). 'State and Society in Poland', in Rootes & Davies (Ed.). *ibid*.

Hausner, J. and Marody M. (Ed.) (1999). *ibid*.

turned out to be less than optimal under conditions of incomplete credibility, waning state authority and capacity.⁵⁸

As Przeworski has noted

if confidence is eroded, radical programmes can not be undertaken again under democratic conditions, as the government must first rebuild confidence. However, vacillations in policy are even more pernicious. If the state goes back on a particular reform package and then launches a new program, people, knowing that reforms have failed in the past are less likely to believe that they will succeed now.

Thus the most likely path of reform is one of radical programs, that are eventually slowed or partly reversed, initiated again in a more gradual form with less popular confidence, and again slowed or reversed, until a new government comes in and promises a clean break, and the cycle starts again. Consequently, the reforms neither to succeed nor to fail but to proceed in spurts: advancing, stumbling, retreating and advancing again.⁵⁹

Nowhere does this description of policy reform fit as well as it does in the evolution of the Polish trade regime. The initial radical opening up of the economy was very quickly followed by reversals and backsliding as the effects of liberalisation began to emerge. Throughout the 90's and into the next decade, the Polish trade policy-making process has been marked by ad hoc decisions and inconsistent application of various measures of both protection and liberalisation, discussed in chapter seven. While tariffs on industrial goods have indeed been lowered, the government has begun to rely heavily on diverse NTBs, such as quality certificates or tax exemptions. In agricultural trade, although the double zero agreement on non-processed goods and continuing negotiations over processed products have represented progress, the first 10 years of association were characterised in the Polish trade regime by creeping state intervention and reliance on various tariff and NTBs. State aids and competition policy have fared considerably better, but even here, domestic interest pressure has become more and more influential on government decisions, and bureaucratically mis-managed responses to diverse demands have dominated over strategic, long-term policy considerations. All of these developments suggest that the EA was not fulfilling its role as an anchor for Polish trade policy reform and sustainability. Partially, this was a result of the weakening sense of the EU's 'external' legitimacy as an example of economic openness. The other reason for the failure of the EA to successfully consolidate the reform efforts in Poland stems from the very nature of economic policy making itself.

⁵⁸ Przeworski (1991). *ibid.* p 180.

⁵⁹ Przeworski (1991). *ibid.*, p 179.

D. Technocratic dangers to democratic consent

While ‘anchoring’ strategies have indeed compelled the Polish government to strictly adhere to certain regulatory frameworks and schedules, in doing so, they have made the process of adjustment rigid and constrained the role of negotiations between the social partners and the ‘state’ on the domestic level. By forcing the Polish ‘state’ to break agreements made within domestic consultations and not keep the promises made to social partners, ‘anchoring strategies’ have contributed to the polarisation of social demands and increasing frequency of protest coupled with political apathy.

Radicalisation of interests has meant that the institutionalisation of interest representation has been replaced with intransparent rent-seeking activities and lobbying outside of the legal framework

The apt question thus arises whether these anchoring tools of the association process should in fact have been used to evoke policy changes that would otherwise be more difficult to achieve, but would instead have been built on internal social dialogue, compromise and legitimacy and therefore be more sustainable in the long run.

Hence, while policy changes, conducted in a transparent manner as a response to domestic pressures, are not optimal from the point of view of economic efficiency considerations, they could be considered desirable from the democratisation objective perspective. However, judging from the Union’s reactions to the Polish authorities’ attempts to respond to domestic pressures within the framework allowed by the EA, (see chapter 6) it could be argued that the evolution of democratic accountability in Poland has not been perceived by the EU side as a desirable process.

In fact, the Head of the British Know-How Fund and institutional adviser to the Polish government applauded the success of the EA, claiming that,

*as was the case with previous enlargements, the specific, legally binding requirements of the EA have been used to confront entrenched domestic interest groups. Whilst the trade disputes that have arisen between Poland and the EU suggest that these interest groups still retain power, particularly within some industries and ministries, without the EA, it is very unlikely that, for instance, steel tariff reduction schedules would have been agreed.*⁶⁰

In contrast, J Rollo observed that,

it is possible that economic conditionality (applied by the EU) has undermined democratic structures (in the candidates) by imposing the sort of outside control that was considered reprehensible under Soviet domination, and that western policy interference has distorted the internal democratic discourse about transformation

⁶⁰ Preston (1998). *ibid.*, p 167.

*policies, while the policies of rapid privatisation and restructurisation have reinforced many of the negative trends in the democratisation process.*⁶¹

Many of the adjustment policies required of subsequent Polish governments by the Union, either in fulfilment of its EA obligations or in preparation for accession, have not been easy to explain to the general public. Thus, because succeeding government coalitions have been afraid to transparently implement the difficult economic reforms, for fear of losing electoral support, they have often resorted to clandestine and semi-authoritarian decision-making options, going above public opinion and presenting it with a *fait accompli*. By failing to persuade their public to follow their lead, the reformers discredited themselves and further strengthened social frustration and mistrust.

Technocratic policymaking used to achieve broad international objectives has thus served to reinforce earlier trends in Polish decision-making. European-related reforms instigated and carried out by technocratic elites were particularly reminiscent of the initial phases of transition, where shock therapy was implemented using the same methods (see chapter 3-4). By avoiding the complicated and time-consuming process of arriving at social compromises, the liberal government was, during this time, able to evade legislative delays and other obstacles to the implementation of the needed reforms.⁶² Later the same method permitted Polish authorities to carry out the most pressing of the EU's demands to meet the conditionality parameters, thus avoiding external reprimands or the imposition of sanctions. The success of implementing these EU requirements has depended on proceeding as quickly as possible, in many instances promising the Commission things that the government knew would break social promises and cumulate in massive protests.⁶³ Having to fulfil the socially costly policy requirements, subsequent coalitions have chosen to force them through rather than attempting the complicated and unpredictable process of consensus-seeking, knowing that the reforms could be stalled if the public failed to accept the austerity measures. However, as Maria Karasinska-Fedler, former Secretary of State for European Integration, pointed out, "the Treaties should not be negotiated by the elites and imposed on the citizens. 80% of the negotiations should take place domestically, because it is crucial primarily to negotiate with our own society on to what we can agree

⁶¹ Rollo (1990). *ibid.*, p 130.

⁶² In 1991, President Walesa asked the Polish parliament to be given power to rule by decree, worried that the government would be unable to process 11 pieces of important economic legislation in the 7 days imposed by the IMF deadline.

⁶³ For example, closing down coal mines, output and employment reductions.

on and what not.”⁶⁴ The neglect of successive governments to consult policy options with social partners strengthened the public conviction that the elites were not interested in social dialogue or internal Polish-Polish negotiations. Consequently, for many Poles, the conduct of the pre-accession process and the state-social relationship that developed in the period of association under the EA reinforced the popular stereotype that European integration is an elite driven process from which only a narrow, wealthy section of the population will benefit.

Finally, this type of “voodoo politics”, in the words of A Przeworski⁶⁵, adopted without consultation and sometimes announced by decree, has solidified the ‘state’s’ image, in the eyes of Polish society, as the principal source of instability and corruption in the country. Strategic national policy decisions taken behind closed doors or bargains struck with the EU side without consultation have had a direct impact on democratic development, systematically educating the people that public opinion has no real role to play in shaping politics. This, in turn, contributed to the frequent withdrawal of the Poles from public life as their conviction that elections are nothing more than a formally staged mirages of democracy and that internal dialogue or opposition parties have no place in Polish politics has been strengthened. The ‘state’ was increasingly perceived by the population, as noted by Przeworski, as “only attempting to negotiate with social partners to orchestrate illusory support for policies which have already been chosen.”⁶⁶

E. The role of conflict in policy making

Political conflict, understood as action by non-governmental actors designed to change either the government or its policy⁶⁷, is a natural bi-product of democratisation. In established democracies, this form of protest is usually non-violent, well-organised and focused exclusively on changing government policy. Although conflict is generated by income inequalities and is a product of social change, its positive role has evolved as a consequence of the growing role of civil society in national policy-making. Winners seek gains in the political arena, while losers use politics to ward off adverse consequences. D Ost has pointed out that “stable democracy requires that the grievances be expressed and not lie latent waiting to blow up, thus consolidating democracy in

⁶⁴ *Unia & Polska*, No 3, 4/12/98, p 12.

⁶⁵ Przeworski (1991). *ibid.*, p 186.

⁶⁶ Przeworski (1995). *ibid* p 84.

⁶⁷ Mc Millan, C. (1991). ‘Foreign Direct Investment Flows to Eastern Europe and Their Implications for Developing Countries’, *Millennium*, No 2, Vol 20, Summer, p 190.

post-communist societies does not depend on avoiding conflict, which is impossible, but on structuring it in the most democratically constructive way.”⁶⁸

In Poland, however, conflict has involved in a peculiar way. While subsequent governments, under the auspices of western advice⁶⁹, have been tempted to minimise political conflict in order to enforce discipline and sustain the reform efforts, conflict between the elites has emerged as the most popular form of relations within the state apparatus. As a result, governing coalitions such as current SLD/ PSL or previous AWS/UW have fallen apart, and all attempts at the consolidation of a right-wing party have failed.⁷⁰

In addition, the party system has not been able to absorb and adapt social tensions. As the bitterness towards the elites grew along with the broken promises, each year into the transformation, the political process in Poland became more and more often characterised by elections, executive decrees and sporadic outbursts of protest.

Przeworski observed that, “people got a chance to vote but not to choose.”⁷¹, and participation in politics waned, making Hirschman’s ‘exit option’ more attractive.

With each new election, the winning governing parties were forced to choose between having to either seek the broadest possible social support to legitimise their reforms or to weaken opposition in order to make their demands ineffective. Regrettably, usually the second option has been chosen, and democratic consultation with partners in an institutionalised setting was replaced by illicit rent-seeking activities as well as large-scale public protests; both forms of conflict resolution functioning outside of any legal framework and without any coherent regulation.

As noted above, the Poles do not trust national political parties, and while these are the institutions of the democratic system that possess real power, their decreasing authority and the falling confidence of the Poles in the motives of the parties has meant that the resolution of political conflicts has been left to structures outside of the state’s institutions. The politicisation of the party apparatus and of the economy, coupled with the increasing tendency, throughout the transformation, of each party to staff the state and local administration as well as corporate boards of newly privatised SOE’s with its own people or appoint highly influential positions in both the public and private sector to persons with the right connections has clearly bred distrust with every newly exposed

⁶⁸ Ost, D. (1995). ‘Labor, Class, and Democracy: Shaping Political Antagonisms in Post-Communist Society’, in Crawford (ed.) (1995). *ibid.*, p 180.

⁶⁹ It setting out strict economic criteria for association, for example.

⁷⁰ First Solidarity split into factions. Then Unia Wolnosci internally fell part; finally AWS itself suffered the same fate.

⁷¹ Przeworski (1995). *ibid* p 84.

case. In addition, the neglect of the initial liberals to reform the institutional and administrative systems has enabled each consequent government and each party to design institutions and formulate policies according to their own interests. Unlike the western political systems that have, over decades, bred certain tried and tested rules and standards that all parties must follow to some extent, the Polish system continues to be characterised by a free- for all.⁷²

As a result of these developments, the evolution of conflict resolution in Poland has taken place in a highly unstable environment, increasingly dominated by non-democratic methods of rent- seeking, as interest groups re-entered politics in a chaotic and unpredictable way. Partnership through consultation, as an institutional arrangement for interest mediation, has been replaced by wheel-dealing, insider lobbying and aggressive protests, as forms to influence the 'state's decision- making process. These activities have had no political transparency and, by increasing the levels of corruption and popular mistrust, they damaged the establishment and institutionalisation of regular patterns of political behaviour.

A situation, specific to Poland, labelled "tribal corporatism" by sociologist M Marody arose, whereby "social groups threatened by either other interests or by the policies of the State, felt that they had a moral right to their demands and deserved immediate realisation of their postulates." (see chapter four). Marody observed that economic conflicts in Poland resulted from competition between these 'tribal corporations' for access to public goods⁷³, classifying this type of social confrontation as *apolitical*, based on pure economic gain and divergent from the system of interest balancing in established pluralist democracies. Instead of competing for alternative economic programmes, as is the case in developed nations, Polish interests have been competing with each other for privileged rights to public goods and budgetary compensation. However because of international obligations, insufficient external support and internal austerity measures, the government's resources have been very limited. Thus reform promises of any one governing coalition in Poland never materialised for the majority of society.

The arguments above suggest that not enough attention was paid in the initial Shock Therapy programme or in the Union's policy prescriptions to Poland to institutional reform, in combination with regulatory issues, and that the social dialogue and consultations dimension of the reforms was highly undervalued.

⁷² Including MP behaviour and numerous scandals on the edge of business and politics.

Neglect to pay attention to this human capital, microeconomic foundation of the transition⁷⁴, has made it especially difficult for the population to adapt to the changing situation, resulting in social apathy, indifference and frustration with normal democratic politics, while at the same time strengthening latent opposition to the reforms that sooner or later was bound to explode.⁷⁵

III. The Classical Community Method and the development of Polish Political Culture

Because the Polish version of capitalism has evolved as a domain restricted to the elites, remaining inaccessible to the majority of the public, it has strengthened the dominant social conviction, rooted in past legacies, that the entire political class has been using the reforms to advance their own interests and reap benefits available only to them. Consequently, politics and politicians have continued to be treated with great suspicion, and the political system has become the main source of tensions, conflicts and instability.⁷⁶ While this development is partially to be blamed on the early Polish liberals for their chosen methods of policy-making and neglect to provide a transparent and non-discriminating institutional framework alongside macroeconomic liberalisation, the EU's Association strategies have reinforced these tendencies. By failing to provide adequate transition assistance to the reforming applicant, sending mixed signals and prescribing inconsistent advice, conducting the implementation of Association without enough flexibility, and insisting on the fulfilment by the Polish side of rigorous economic conditionality, the EU collectively undermined the Polish reformers' authority and, in turn, the viability of liberal reforms themselves. To convince the Polish public to accept the pain and dislocation associated with the enormous costs of adjustment, the Union needed to buttress economic performance in transition, thus ensuring growth, and give certainty as to future membership, so as to increase political stability. Never the less, the EU failed to meet either of these two conditions, instead opting for the "club" approach of the Classical Community Method of enlargement. The Polish people would have been willing to accept the hardships

⁷³ Marody, M. (1997). 'Spolecznostwo polskie w Perspektywie Integracji z Unia Europejska', w Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Red.) (1997). *ibid.*, p 161.

⁷⁴ Particularly evident in the early technocratic reforms of the liberals.

⁷⁵ see Szacki, J. and Kisiel, C.A. (1995) *Liberalism after Communism*. Budapest: Central European University Press.

Amsden, A.H., Kochanowicz, J., and Taylor, L. (1994). *The Market Meets Its Match*. *ibid.*

Wilczynski, W. (1999). *Wrogie Panstwo Opiekuncze*. *ibid.*

Krzysztofek, K. (2000). 'Integracja Polski z Unia Europejska Jako Przestrzeni Kulturowa', w *Studia Europejskie*, No 1, Vol 13, Warszawa: CEUW.

temporarily if at the end of the tunnel they could have seen the visible benefits emerging from transition and integration.

In addition, with its over-reliance on negotiations conducted by bureaucrats and politicians and clandestine agreements reached behind closed doors, the CCM has remained a realm exclusive to the elites, both in the reforming candidates and in their western counterparts. In fact the entire process of Eastern enlargement has been conducted without the active involvement of civil society, and without an effective information campaign, either inside the EU or in the candidate country. The technocratic decision making characteristic of the accession negotiations has made, from the point of view of the Polish public, integration seem like a game played by elites in Brussels, from which only a narrow group would benefit.

In fact, the decline in public support for European integration in Poland has coincided with the politicians' neglect of a serious debate on the European option and reserved attempts at social dialogue. Only in 2002 an information campaign was launched, while by 2000 less than half (47%) of the Poles supported accession to the EU, 17% being directly opposed to it.⁷⁷

While the majority of the blame for the lack of a discussion in Poland on the issues related to association and accession is to be placed on the national governments, the former Polish Chief Negotiator J Kulakowski observed that, "some of this development can also be attributed to the crisis within the EU itself and the Union's attitude and behaviour towards the candidate."⁷⁸ The commonly pursued policies of the Union towards the Polish side have not been built on trust and have not displayed policy credibility.

A. Political culture and democracy

The 1997 regular report of the European Commission has stated that, "Poland continues to fulfil the Copenhagen political criteria."⁷⁹ Most other specialists also maintain that the formal criteria of democratic consolidation have all been achieved in Poland.⁸⁰ However, while the criteria for democratic consolidation remains ambivalent, experts

⁷⁶ Distrust in authorities has its origins in socialist legacies and historical experiences of foreign occupation. See chapter four.

⁷⁷ OBOP *opinion poll* in PAP, 29.11.2000.

⁷⁸ *Unia & Polska*, 22/11/99, p 18.

⁷⁹ European Commission (1997) *Regular Report Poland*

⁸⁰ Dawisha, K. and Parrot, B. (1997). *The Consolidation of Democracy in ECE*. Cambridge: Cambridge University Press.

Taras, R. (1998). 'Consolidating Democracy in Poland', in Staar, R.F. (1998). *Transition to Democracy in Poland*. NY: St. Martin's Press.

World Bank (1996). *From Plan to Market: World Development Report*. Oxford: Oxford University Press.

agree that although elections are a necessary condition, they are not sufficient, and that consolidation also requires accountability, civil society and the rule of law.⁸¹

Thus the difference between representative/ established democracy and participatory/ substantive one is the ability of the individual citizen to take part in the decision-making process over the structures and institutions of the political system. Participatory democracy also depends on the existence of a political culture, based on socially internalised values and ideas, and conducive to the long-term consolidation of the reform efforts.

Political culture is the most ambivalent and difficult criterion to quantify for democratisation. Sociologist G Skapska has maintained that, "it is the civic culture that legitimises the political system and composes the contextual framework in which the new democratic institutions operate."⁸² Without an appropriate civic and political culture, legitimisation and institutionalisation of democracy is not possible, and the danger is increased that the reforms undertaken and the institutions created will not be sustainable in the long run.

The question remains whether the Polish political system can in fact be classified as a consolidated participatory democracy according to this wider conceptualisation.

Although elections are taking place regularly, associations are tolerated, and the law is formally respected, the arbitrary behaviour of the 'state' characterised by ad hoc decision making in reaction to crises or as a response to dubious inter-linkages with vested interests is impeding the consolidation of the rules and institutions necessary for the establishment of a functioning pluralist democracy. Thus while the democratic procedural minimum is there, the entire assembly of the legislative and institutional system does not form a cohesive whole which functions with regularity and is based on legitimised and predictable procedures capable of yielding long-term social support and consequently advancing sustainable economic growth.

Sociologist L Kolarska-Bobinska maintains that democracy is built on two pillars: institutions and an active civil society. She argues that both of these foundations have

White, S., Batt, J. and Lewis, P.G. (Ed.) (1998). *Developments in Central and East European Politics 2*. Basingstoke: Macmillan.

⁸¹ Transition to democratic rule takes place where the basic procedural requirements are laid down and the beginning of the routinisation of political behaviour takes place. This phase is different than consolidation which requires the internalisation of rules and procedures and the establishment of liberal democratic values. See Lewis, P.G. and Pridham, G. (1996). 'Fragile Democracies and the Problem of Regime Change', in Lewis and Pridham (Ed.) (1996). *Stabilising Fragile Democracies*. ibid.

Linz, J. and Stepan, A. (1996). *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-communist Europe*. Baltimore: Johns Hopkins University Press.

Lijphart, A. (1991). 'Constitutional choices for new democracies', *Journal of Democracy*, Vol 2, No 3.

not developed in the Polish system. The institutions of the state apparatus, the Parliament, government and administration, do not function as they should and the public's trust in them is waning, contributing to political apathy. (See polls above). Kolarska accordingly asks how far democracy has really been consolidated in Poland and how far has it indeed been legitimised if only 12-16% of the Poles trust in the basic national institutions, and civil society organisations have no real power or ability to influence policy-making?⁸³

A.2 Pluralism, corporatism or clientalism elitism?

The emerging Polish political culture dominant throughout the 90's has been one characterised by a peculiar mentality based on socialist legacies and past historical experiences incorporated with the experiences of transition. This author thus concludes that substantive democracy in Poland is yet to become fully consolidated.

Linz and Stepan have argued that in addition to the existence of a functioning state, five other interconnected and mutually reinforcing conditions must be present for a democracy to be consolidated. These five are: the development of a free and lively civil society, a relatively autonomous political society, the subjection of all major political actors to the rule of law, the availability of a usable state bureaucracy by the democratic government and the institutionalisation of an economic society.⁸⁴ In their view, "the legacy of ambivalence towards political society must be transcended before Poland can consolidate democracy."⁸⁵

In Poland, the social movement is weak, and the type of elitism that has emerged during transformation and association has reinforced the dysfunctional state- social relationship. While the civic movement has only begun to grow, it has been already been stifled by socially-exclusive, technocratic methods of policy-making.⁸⁶ Ineffective social dialogue along with a strong backlash against the reforms have, in turn, strengthened the allure of populist forces, breeding political instability.⁸⁷

The anti- pluralist, anti-market, dogmatic, nationalistic and conservative pre-war culture, combined with the egalitarian, anti- capitalist and populist ethos of the socialist

⁸² Skapska, G. (1997). 'Civic and Legal Cultures in Spain and Poland', *Polish Sociological Review*, No 1231-1413, Krakow, p 224.

⁸³ Kolarska-Bobinska, L, Wezmy kapital, wymusmy zmiany, in GW, 4/08/03.

⁸⁴ Linz, J. and Stepan, A. (1996). 'Toward consolidated democracies', in *Journal of Democracy*, vol. 7, no. 2 (April), p. 17.

⁸⁵ Linz, J. and Stepan, A. (1996). *Problems of Democratic Transition and Consolidation*. Baltimore, MD: John Hopkins University Press, p. 255.

⁸⁶ Skapska (1995). 'Prisoner of Paradox', in Perdue, W.D. (Ed.) (1995). *ibid*.

⁸⁷ See 'Dlaczego wygra SLD?', GW4/4/01;

'Zimne Piece, Ciepłe piwo', GW 1-2/06/02;

'Siła przyciągania', GW4-5/03/00;

times has made the emergence of a nation wide political culture based on liberal values very troublesome⁸⁸. In addition, the active role of the Solidarity Trade Union in the collapse of socialism, high union membership rates, workers' council experiences in the 1950's and the Round Table negotiations have reinforced the Polish corporatist tradition, which, in turn, has sustained public support for labour.⁸⁹ (see chapters 3 and 4). While corporatism is not interpreted by the author as an 'obstacle' to reform, the dysfunctional nature of the corporate model in Poland, as an instrument of social partnership, has increased intransparent and illicit rent-seeking activities outside of any legal framework. The 'state' has become the main source of claims and demands made directly upon it by the unsatisfied social partners, frustrated by the paralysis of institutionalised social dialogue, as well as by oligopolistic vested interests.⁹⁰ In addition, successive Polish governments have been either unable or have not had the capacity to explain to the public why certain interest groups seem to be privileged while others are not, contributing to the public perception of the randomness of policy making. Without a coherent and planned out social policy and constrained by both national and international pressures, the Polish 'state' continues to give into the most radical social demands, such as farmers, steel/ coal miners or the defence industry, while neglecting other profound postulates of groups like the public administration, educational and health care sectors.

The lack of respect for the rule of law and the lack of desire to take responsibility for one's actions, as well as the search for easy solutions and instant gratification have consequently triumphed over liberalism. Because authorities have not treated the law seriously, the public has never been convinced of the legal possibilities of challenging its interests. Thus, while the rule of law has formally had constitutional status, it has not been fully embraced or internalised by society, making it more difficult to enforce.⁹¹ In addition, the frequent changes, loopholes and inconsistencies in the legal system have created uncertainty that has constituted one of the highest barriers to investment and

Planeta Demokracji, GW 27/06/00.

⁸⁸ See 'Liberalizm bez Liberalow', *Polityka* nr 50 (2171), 12/12/98;

'Nowy Jezyk', GW, 26/02/01.

⁸⁹ See for ex, Morawski, W. (1995). 'Stosunki przemyslowe w postsocjalistycznej polsce', *ibid*.

⁹⁰ See 'Kto bedzie polskim Haiderem?', in *Wprost* 30/04/00;

Janicki, M. (1998). 'Zwiazkokracja', in *Polityka*, No 50 (2171). 12/12/98;

'Centralizm ma sie dobrze', *Wprost*, 24/10/99;

'Ludzie Wladzy', *Polityka*, nr 18 (2191); 1/05/99;

'Wrazliwosc Liberala', *Wprost*, 31/10/99;

'Duch Marksa', *Wprost*, 20/08/00.

⁹¹ Skapska, (1996). *ibid*.

Skapska (1997). *ibid*.

economic growth.⁹² Finally, while in the higher developed countries, the incidence of corruption is not infrequent, the political systems there have developed rules and established standards to be followed and, unlike the Polish governments, western elites have had more experience in dealing with interest balancing and rent-seeking activities. For example, while lobbying activities in Poland have been evident throughout transition within the public apparatus, in contrast to western democracies, they have not become institutionalised and have had no legal standing.⁹³ Instead, the 'state' has become an easy target of capture for various interests, and clientalism has emerged as the dominant form of achieving desired goals, strengthening the public conviction that nothing can be obtained without the appropriate contacts and informal networks.⁹⁴ In turn, the belief that fair competition, justice and meritocracy are absent from public institutions has strengthened the role for groups that function outside of the legal framework and reinforced the spread of corruption. The central site of democratic transition, the parliament, has thus emerged in a climate of continuing suspicion about the elites and has become representative of various populist factions and anti-reformist parties.⁹⁵

The Polish institutions themselves have been created in a state of disarray, combining elements of socialism, such as the corporatist tradition, with freshly copied models of western style governance, agencies and administration, and prolonging the hybrid structure of the economy. The frequency of changes to and manipulations within the institutions suggests that they have been more designed to serve each subsequent ruling coalitions' interests than to fulfil some desired purpose or achieve certain reform goals. In the absence of effective parties, social consciousness of the past dependent on a protective, paternalistic 'State', polarised unions, a weak middle class and unstable political class and growing social distrust towards the 'state', the crystallisation of interests representation and the institutionalisation of interest articulation is just beginning. However, neither the corporate relationship that enabled the reforms to proceed in Spain or Ireland nor the pluralist model characteristic of the Anglo-Saxon

⁹² Kaminski, B. (1999). 'The Role of Foreign Direct Investment and Trade Policies in Poland's Accession to the European Union', *ibid.*, p 27.

⁹³ Until 2002.

Gazeta Wyborcza, 6/3/03.

⁹⁴ See chapter four

⁹⁵ Holmes, S. (1995). 'Conceptions of Democracy in the Draft Constitutions of Post-Communist Countries', in Crawford (Ed.) (1995). *ibid.*, p 77.

tradition⁹⁶ has emerged in the Polish institutional system⁹⁷, reinforcing its hybrid nature and contributing to the increasingly problematic policy- formulation environment.⁹⁸

In contrast to its western models, the market democracy that is emerging in Poland is something resembling 'political capitalism' or in the words of C Offe, "capitalism that is designed, organised and set into motion by reform elites."⁹⁹

Accordingly, this author agrees with P Schmitter's and Linz and Stepan's conclusions that democracy in Poland has only been superficially consolidated. In fact, P Schmitter has called the emerging political system in Poland a 'neodemocracy', where "most politicians are not trained for the act of compromise and negotiation, and the haphazardly functioning policy making system does not fulfil the expectations of its citizens. Consequently, its rules are not being socially accepted or embedded and legitimisation is not taking place."¹⁰⁰

Market reform is likewise impaired, and a peculiar syndrome, labelled by economist W Wilczynski as the emergence of a "hostile protective state" appears. "The population does not regard the state as its own, feels alienated from it and relieved of the duty to observe the law and elementary loyalty."¹⁰¹

A.3 Endemic distrust and uninstitutionalised politics

Sociologist M Marody has classified the Polish conditions as 'uninstitutionalised politics' and has gone so far as to conclude that paradoxically, "the new democratic system of political representation is perceived as more remote and out of touch with the problems of the ordinary man, as well as less accessible for him, than the former communist system."¹⁰²

For most Poles, a huge gap exists between the declared virtues of the new system and the ability to actually secure them, leading to a sense of victimisation and Havel's 'powerlessness of the individual'.¹⁰³ In 2003, 68% of the Poles were unhappy with the transformation, claiming that the reforms have not been beneficial and have brought

⁹⁶ To the dismay of the Polish liberals the creation of a pluralist market democracy could not be accomplished by economic decrees of deregulation.

⁹⁷ *Gazeta Wyborcza*. 6/02/03, 'Pakt społeczny na ciężkie czasy'.

⁹⁸ See Hausner, J. (1995). *Studia nad systemem reprezentacji interesow*. *ibid*.

ISP (1999). *Rozpad Bastionu*, *ibid*.

⁹⁹ Offe, C. (1991). 'Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe', *Social Research*, Vol 58, No 4, winter, p 877.

¹⁰⁰ Schmitter (1995). 'Zagrożenia', w Hausner (Red.) (1995)., *ibid*. p 45.

¹⁰¹ Wilczynski, W. (1996). 'Five years of the Polish Transformation: 1989-1994', in Winiecki, J. (Ed.) (1996). *ibid*., p 32.

¹⁰² Marody, M. (1997). 'Społeczeństwo polskie w Perspektywie Integracji z Unią Europejską', w Belka, M., Hausner, J., Jasinski, L., Marody, M. and Zirk-Sadowski, M. (Red.) (1997). *ibid*., p 170. See also Marody (1994). *ibid*.

¹⁰³ Havel, V. (1985). 'The Power of the Powerless, Citizens against the state in Central-Eastern Europe', in Keane, J. (Ed.). Armonk NY: M E Sharpe Inc.

them losses (!), while only 19% claimed to have benefited and 13% were undecided.¹⁰⁴

Another study showed that in still in 1997, 29.2% thought that the transformation had brought them more benefits than costs, while in 1999 the figure fell to 21.5% and by 2002 only 13.6% supported the statement.¹⁰⁵

The broken election promises and benefits that failed to materialise have undermined the elites collective authority and have strengthened social distrust, leading to strong feelings of betrayal and reinforcing the belief that things will only get worse. The high degree of social discontent and uncertainty has created Giddens's "environment of risk"¹⁰⁶, and the growing anxieties have been particularly associated with fear of unemployment. With falling wages, bankrupting enterprises and massive redundancies, these fears have unfortunately been substantiated.

In general, the various sociological opinion polls, discussed above, suggest that most Poles have come to believe that none of the institutions of the political system represent or defend their interests.¹⁰⁷ The inability to affect the policy decision-making process, in turn, along with the perceived injustice of the political system, have contributed to fatalistic attitudes and alienation, fostering aggressive behaviour among large segments of the population.¹⁰⁸

According to the Pew Global Attitudes Project, the Poles are not only one of the least satisfied European societies with their lives, but also one of the least trusting.¹⁰⁹

Throughout the 90's, in all major opinion polls and surveys, over half of Polish society did not trust others and was convinced of a general dominance of egoism, corruption, unfair behaviour and dishonesty amongst the wider public. A strong feeling of victimisation and pessimism accompanied by a sense of martyrdom has also characterised Polish social consciousness, with only 30% of adult Poles expressing by 2002 that they have not been in some way 'done wrong' or have not personally suffered as a result of the various political upheavals in the last decades.

The conviction that corruption exists on every level of Polish public life has been growing from year to in the market economy, which should be regulated by clear and

¹⁰⁴ *Diagnoza społeczna 2003*.

¹⁰⁵ Polski Generalny Sondaz Społeczny, 2003.

¹⁰⁶ Giddens (1990) quoted in Sztompka (1996). *ibid.*, p 47.

¹⁰⁷ Beyme, K. von (1996). *Transition to Democracy in Eastern Europe*. *ibid.*, pp 147-160.

¹⁰⁸ *Gazeta Wyborcza*, 'Zimne piece, ciepłe piwo', 1-2/06/02.

Gazeta Wyborcza. 'Polak Maruda', 20/01/03.

Gazeta Wyborcza. 13/12/2002.

Wprost 2/2/03.

¹⁰⁹ Pew Research Center for People and the Press (2003). *European Values Survey*, in Pew Global Attitudes Project.

transparent criteria.¹¹⁰ 89% of adults in 2003 believing that corruption takes place often or very often, 71% doubting the possibility of fighting it, and 22% assuming that the situation will only get worse. According to sociologist L. Kolarska-Bobinska this conviction about the omnipresence of corruption and lack of ability to fight it not only breaks down trust in the mechanisms of the democracy, but also undermines reform. Consequently, the symptoms of distrust have manifested themselves in Hirschman's 'exit and voice options' discussed above. The 'exit' option, in the form of either emigration or withdrawal from participation in public life, has become more and more pervasive. Those that chose to stay home instead of voting have traditionally been poor and uneducated, initially voting for populist S. Tymiński, later putting their hopes in SLD and finally turning to the most radical Self-defence. The growth of popular support for Self-defence has paralleled the disappointment of large portions of the population with the transformation and with 'the establishment', as perceived to be all mainstream parties. While, in the 90's, those frustrated most with the liberal reforms supported both SLD and AWS, who promised a more gradual course and even backtracking, when Self-defence appeared, contesting the entire transformation project and promising to reverse its direction, it quickly became a powerful political player. Simultaneously, the 'voice' option has been disfigured, when rather than using institutionalised forms of democracy to voice its disapproval of the government, Polish society has instead turned to collective protest.¹¹¹ As a result, institutionalised forms of conflict resolution have been replaced by alternative patterns of protest from below such as street demonstrations, rallies, marches, road blockades and prolonged fasting. If the amount of protest events is a good indicator of public distrust in official politics¹¹², then the culture of distrust in Poland is reaching epidemic proportions. Between 1990 and the beginning of 1998 alone, 14,913 strikes had taken place!¹¹³ This staggering amount of protests that swept the Polish nation within 9 years of transformation has reflected the frustration of the people and their despair to make the 'state' listen and respect the demands made on it. In sum, as various sociologists have argued, the mechanism of social trust in Poland, a foundation for the consolidation of a

¹¹⁰ *Gazeta Wyborcza*. 'OBOP- TNS opinion poll', 24/01/03.

Gazeta Wyborcza 27/01/03.

Also see Sztompka, P. (1997). 'Czy kryzys zaufania w społeczeństwie Polskim?', in Letowski, J. (Ed.) (1997). *Dole i Niedole Współczesnego polskiego Prawa*. Warszawa: Fundacja Wiedza i Działanie.

¹¹¹ Hirschman (1970). *ibid.* p. 48.

¹¹² Sztompka (1996). 'Trust and Emerging Democracy'. *ibid.* p. 52.

¹¹³ *Polityka*. 27/03/99.

GUS statistics.

participatory democracy and basis for strengthening a nation's human capital endowment, has thus collapsed.¹¹⁴

B. State authority and capacity

While part of the reason for this growing manifestation of distrust stems from the legacies of the past, Polish sociologists attribute a large share of the blame on contemporary political conditions.¹¹⁵ This author, in turn, takes the argument one step further, asserting that this particularity of Polish political culture has been exacerbated by the developments in Association.

Instead of paying enough attention to national Polish specificities, in designing its policies towards the 'state' in transition, the EU's association strategy has relied on a generic model applied to previous enlargements. The elitism of this Classical Community Method has reinforced the negative tendencies in Polish social consciousness, undermining many expectations behind the early Shock Therapy programme. Moreover, the Union's inability to carry through its promised assistance for the transformation undercut the assumptions behind the 'anchoring' strategy initially pursued by the Polish liberals. When the visible benefits of external liberalisation failed to materialise for the majority of the Poles, and it became obvious that the member states continued to actively protect their domestic markets while demanding that the Polish side open them up, the liberal reforms lost any credibility in the eyes of the Polish public. Finally, the EU could be partially held responsible for the incoherence and unpredictability of the evolving Polish policy-making process. While requiring the fulfilment of economic conditionality, the Union has continued to insist on democratic accountability and social dialogue as conditions for association. These two requirements, by their very nature, have often been in conflict with each other.

The complexity of the transformation project combined with limited external aid and excessive intervention into domestic politics have reduced the ability of subsequent Polish governments to fulfil their election-promises and make good on their reform efforts. Policy dilemmas, exacerbated by the EU's rigid interpretation of conditionality, have in addition depleted the political authority of successive Polish elites, putting in question the competence of the government. In sum, the policies advocated by the Union towards the Polish candidate have contributed to weakening state capacity and undermining its authority.

¹¹⁴ See J Szacki and P Sztompka in 'Traktaty nie zmienia ducha', in GW, 12/06/03.

¹¹⁵ Sztompka (1992). 'Dilemmas of the Great Transition'. *ibid.* p 46-55.

The ambiguous evolution the 'state's' role and its functions, driven by opposing objectives and inconsistent pressures from both the domestic and international levels, the weakness of its actions and its limited efficiency in carrying out the reforms have, in turn, contributed to the ad hoc nature of policy making and become real dangers threatening the entire process of transformation. By 1994 already, the Polish institutional system was highly inconsistent, plagued by unclear and intransparent criteria for policy making. Various legislative loopholes and contradictory pressures crippled the cohesion of the systemic changes and undermined state capacity to solve real problems.¹¹⁶

On the one hand, subsequent Polish governments have followed a liberal course of reform, stemming from the dogmatic attitude towards rational economic principles first adopted by the early Polish elites and later carried out, to some extent, by all subsequent governments, as required by the EU obligations.¹¹⁷ Pressures for total liberalisation of economic activity and withdrawal of the 'state' from any kind of social intervention bred policies, in the first years of transformation, based on the assumption that somehow society would adjust. The liberals' economic programme, was limited to technocratic designing of free-market capitalism, founded on deregulation, privatisation and liberalisation, without adequate attention paid to the microeconomic foundations of the reforms. Society was expected to somehow generate the institutions it needed and adapt its mentality to the changing circumstances (see chapter three).

On the other, the second characteristic of the evolving institutionalisation of the 'state' has had at its base reactions to the habitual expectations of society, rooted in the legacies of socialism and reinforced under current political conditions, which have manifested themselves in the form of constant social demands.¹¹⁸ Without an institutionalised system of interest representation and with decision-making dominated by technocratic secrecy, when the public resorted to political protest to make its 'social voice' heard and the strength of the resistance to the reforms intensified, various governments were in the end forced to 'buy' social peace. Accordingly, all subsequent Polish governments and ruling coalitions have, at various points in time, given into escalating demands. This has not been a part of a well thought out and socially sensitive

¹¹⁶ Wilczynski (1996). 'Five years', in Winiński (Ed.) *ibid.*, p 30.

¹¹⁷ Policy reversals have taken place within a general course of liberalisation, under all successive governments, regardless of orientation, even the notorious Pawlak PSL/ SLD coalition. Credibility constraints and EU accession requirements have left no alternative.

¹¹⁸ Hausner, J., Marody, M., Wilkin, J., Wojtyna, A. and Zirk-Sadowski, M. (Ed.) (1998). *Accession or Integration?* *ibid.*

strategy of reform, but rather reactionary, incoherent and inconsistent policy manipulation, designed to quell the loudest voices of protest at a given social crisis. While responding to public unrest is a necessary component of democratisation, the type of 'buying of social peace' prevalent in Poland is, in the author's opinion, detrimental to the development system a pluralistic democracy. Each subsequent government in Poland, from the first Solidarity governments, to SLD/PSL, the AWS/UW coalition and finally the currently ruling SLD, has made sweeping election promises it could not meet.¹¹⁹ When protest intensified, each gave into the rent-seeking activities of the most powerful groups. However, institutionalised social dialogue remained dysfunctional and the more subtle and transparent forms of interest articulation were continuously ignored, teaching the population that the only way to affect policy formulation and 'the state' was through rallying, protest and bribery. For example, till this day, the educational and university system remain highly under-financed, as the academic profession has not resorted to mass striking to get their postulates heard. The same is true for health care and SME's. Thus, the unpredictable and precarious involvement of the 'state' in the economy, intervening randomly and without any visibly coherent or rational long-term strategy, has not only created uncertainty over the rules of public life, but even reinforced the conviction that the public administration has it in its power to change any institutional decision which is seemingly inconvenient at the time.¹²⁰

The policy making system, unsupported by a well-functioning institutional setting and consistent law enforcement, has functioned on the basis of tactical, hap hazardous concessions to particular interests, often with close ties to the government or powerful enough to endanger social chaos through protest. The reform imbalances left by inadequate attention paid to institutional reform at the beginning of the transition, when extra-ordinary politics would have made them possible, have meant that the authorities have either forced through liberal programmes with whatever means available, or have modified the measures to make them acceptable to the major social forces, at cost to the rest of society. Subsequent political elites have accordingly vacillated between the technocratic style of reform necessary to implement neoliberal policies and fulfil international obligations, on the one hand, and a corrupt version of the participatory style required to maintain social peace and satisfied vested interest, on the other.

¹¹⁹ Fiscal constraints, international obligations.

¹²⁰ *Gazeta Wyborcza*. 'Dlaczego Wygra SLD', 4/4/2001.
Gazeta Wyborcza. 'Polska zasiłkowa', 13/12/02.

If Przeworski is right that “in politics confidence is stock and can be depleted and eroded in two ways: by erroneous forecasts (if politicians promise immediate improvements but consumption in fact declines) and by vacillations”, than the Polish authorities’ style of policy making, reinforced by the EU’s association strategies, has undermined the stability of the reforms.¹²¹

In fact, in view of the EBRD,

The states in the CEE region face extremely low levels of public confidence and trust, thus undermining their authority to establish institutions that effectively alter the behaviour and practices of the population.

Moreover,

Weakness in democratic and economic governance is often associated with corruption, which, in turn inhibits both investment and further reform. Corruption weakens the state’s ability to gain consent for, and enforce compliance with, rules and institutions, by undermining the public’s trust that these are designed to be fair and be enforced without discretion or prejudice.¹²²

In sum, the over- emphasis on macroeconomic stabilisation and liberalisation targets, and the under-emphasis on institutional and microeconomic reform or little attention paid to the sequencing of reform that could be more socially sensitive, characteristic of both ‘anchoring strategies’ and neoliberal reforms, have paradoxically, and regrettably, created political backlash and produced unpredictable social reactions and greater resistance to the reforms.

IV. Conclusions: The Europe Agreement and the transformation paradox

In the 1998 Regular report, the Commission applauded Poland’s fulfilment of the democratic accession criteria, concluding that,

Poland can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided it strengthens the pace of economic restructuring and continues to avoid reversals in trade policy.¹²³

Various experts and policy makers have also claimed that,

the Europe Agreement has ensured transparency and predictability of CEE’s economic policies through the hands tying effect and binding of domestic policies. As a result, the nations of CEE have gained more through this political impact of the EA than through its economic effects.¹²⁴

¹²¹ Przeworski (1991). *ibid.*, p 18.

¹²² EBRD. (1998). *Transition Report 1998*, p 3; pp24-25.

¹²³ European Commission (1998). *Regular Report Poland*, Brussels, p 20.

¹²⁴ Smith, A., Holmes, P, Sedelmeier, U., Wallace, H. and Young A. (1995). ‘The European Union and Central Eastern Europe: Pre- Accession strategies’, *Sussex European Institute Working paper*, No 15, Sussex: Sussex European Institute.

Where then does a balanced account lie as to the evolution of Polish economic policy-making and the impact that the EA, as an external 'anchor', has had on it? Were the prescriptions in neoliberal institutionalist theories well suited to the particular Polish circumstances in 1989 and later, and did the EU, as an international organisation follow through on these prescriptions?

In this thesis, the author has argued that the implementation of the EA combined with the elitism and technocratic style of Polish policy-making have discredited liberal reform options contributing to backtracking and policy reversals. While Polish society and domestic politics have had their own dynamics and most likely there would have been impulses towards rent-seeking and protectionism anyway¹²⁵, the EU's policies have unexpectedly reinforced many negative tendencies. The behaviour of EU vested interests accordingly vindicated many of the mercantilist inclinations in Polish trade policy formulation, making it extremely difficult for the liberals to criticise the rising protectionism.

In addition, the obligatory nature of the EA and the rigid interpretation of conditionality by the EU have strengthened the Polish authorities' temptation to apply technocratic policy-making options, contributing to social unrest and resistance to the reforms. This has increased the uncertainty and inconsistency of the Polish legal system and added to the erratic nature of economic policy.

The waning political authority and weak leadership of the Polish liberal reformers have been further undermined by the EU's failure to carry through its promises of transition assistance, depleting social confidence in their policy programmes and ruling capacities. The EU's protectionist policies have not served as a good example of economic liberalisation, and the current member states have been unable to commit themselves to maintain openness in the face of increased competition from their eastern partner. In turn, the Union collectively has not displayed the political will to face up to its domestic producer lobbies. The ambivalence of the EU's leadership towards eastern Enlargement has created an image of an inward looking Union; one in which collective political commitments are undermined by incoherent and self-contradictory policies, pursued by individual member states and divided domestic groups and one in which established attitudes and interests at lower levels dominate the agenda.

When it came to detailed negotiations or even when the imbalance of the EA became clear, the Union did not react adequately to Polish domestic responses. Bigger and more

¹²⁵ An issue that the Balcerowicz Team was acutely aware of, thus choosing the 'anchoring' methods to lock in as many of the reforms as possible before ordinary politics resumed.

flexible transfers, comparable to the structural funds, as well as more elasticity in legal harmonisation would certainly have eased many of the financial dilemmas faced by the Polish government and enterprises. Faced with tight fiscal constraints and serious budgetary and liquidity problems, the 'state' in transition and individual sectors did not have the adequate means to finance the rising costs of adjustment.

In addition, the restrictive nature of the customs union built around the framework of the EA has not only excluded liberalisation of agriculture and limited the opening of trade in sensitive products, but simultaneously made no provisions for the free movement of services, capital or labour, even though access to these freedoms would have softened the intensity of the transition recession. While, openness to eastern workers would have provided an important safety valve for the reforming Polish state, the free movement of services is undeniably been an inseparable part of the realisation of the free movement of goods. Liberalisation of both freedoms would have also allowed the Polish associate to exploit its main competitive advantage, namely cheap labour.¹²⁶ Moreover, the EA gave no guarantee against the future application of contingent protection by the EU to protect its markets, a neglect that has allowed various European producers to exploit the legal loopholes within the Treaty to their own advantage at the expense of economic efficiency or the objectives of asymmetric liberalisation. By 2000, the Union was still applying Anti-Dumping duties even though the Polish authorities were straining to not only adopt, but also implement, the Union's competition policies.

Finally, within the framework of the Agreement, the Union failed to adequately address the problems of institutional and structural reform in the candidate, complementary policies or questions of social justice, such as those officially espoused to by the EU itself.¹²⁷ Insufficient attention was paid within the EA to the issue of institution

¹²⁶ See Zielinska- Glebocka, A. (1998). 'Industrial Competitiveness Policy of the European Union. Meeting the Challenges of a Stronger and Wider Europe', in Zielinska- Glebocka and Stepniak (Ed.) (1998). *ibid.*

Orlowski, W. (1998). 'Poland and structural funds: a short list of regional problems', in Zielinska- Glebocka and Stepniak (Ed.) *ibid.*

Janton- Drozdowska, E. and Zielinska-Glebocka, A. (1998). 'Competitiveness of Poland's Economy in View of its integration with the European Union', in Zielinska-Glebocka and Stepniak (Ed.) *ibid.*

Ciamaga, L. (Red.) (1997). *Zagraniczna Polityka Gospodarcza Polski w teorii i praktyce dostosowan do Unii Europejskiej*. Warszawa: SGH, Elipsa.

Wyskokinska, Z. (1997). 'Evaluation of Structural Changes in Polish Industry and in Foreign Capital Flow to Poland in the Period of Systemic Transformation', in *Economic Developments and Reforms in Cooperation Partner Countries: External Economic Relations with Particular Focus on Regional Cooperation, NATO- COLLOQUIUM*, Brussels: NATO.

Pawlas, I. and Tendera-Wlaszczuk, T. (1999). *Poland's Economy Competitiveness with Respect to the Integration with the European Union*. *ibid.*

¹²⁷ See Tsoukalis, L. (1997). *The New European Economy Revisited*. Oxford: Oxford University Press.

building, and the models and solutions provided did not display the kind of flexibility that would have allowed local Polish conditions to be incorporated into the European-wide designs. In Poland, “the rapid pace of liberalisation and privatisation has not been matched by equal progress in the development of institutions necessary to support a well functioning market economy.” These imbalances, in turn, have, according to the EBRD, “caused serious market distortions, generating substantial gains to particular interest groups, often with close ties to the government.”¹²⁸

Significantly, the EA also did not address the issue of strategic trade policy, which might have been more useful in guiding the Polish trade regime into a sustainable and consistent process of opening up the economy than excessive and not- well thought out liberalisation, which led to various reversals. While temporary protection was allotted for in the Agreement, within the various safeguard clauses, when the Polish partner attempted to apply these measures, its requests were met with unwarranted criticism from the Union. Quite frequently this led the Poles to apply less transparent forms of protection.

Finally, this book suggests that one of the main failures of the EA, as an institutional guide for policy reform and economic integration, has been the lack of precision in the Agreement as to the social dimension of the process.¹²⁹ After all, the social element is a fundamental building bloc of the Union and underpinning component of European integration. An externally designed and rigid institutional framework built around specific implementation targets and conditionality, such as the EA, and systemically introduced through technocratic means, cannot provide any real social base for the consolidation of the policies pursued.

While overemphasising macroeconomic targets and liberalisation schedules, the Agreement’s directives did to place enough emphasis on structural adjustment programmes in Poland and undervalued the importance of the development of human capital and social trust for successful policy reform. Thus, by insisting on verification of progress and adjustment made by the candidate, the EU’s not only neglected to take into consideration the complexity and national specificity of the Polish transformation, but has also underrated the crucial political economy dimension of the process and the interdependent relationship between policy legitimisation and long term performance.

According to Tsoukalis the European social model combines the efficiency of market capitalism with the equity provided by a redistributive political system.

¹²⁸ EBRD (1998). *Transition Report*, p 2.

¹²⁹ Even though no one could have predicted what the impact of the economic reforms would have been.

This author believes that the main obstacles to integration between the Polish state and the EU have not been economic, as maintained by individual member states, but rather social, political and ultimately psychological factors, and that the solutions offered in the EA towards increasing the credibility of the transformation reforms in Poland have been inadequate in providing for long-term policy consolidation.¹³⁰ In fact the growing economic difficulties and intensifying political crises, exacerbated by the negative impact of the EA on the Polish economy, have proven that, in many ways, the simultaneous processes of association and transformation have been mutually blocking instead of mutually stimulating one another.

Finally, and significantly, while many specific characters and long-established aspects of Polish political culture have made the development of elite/ public trust and democratic consolidation in Poland particularly difficult¹³¹, the Union's 'anchoring' effect, reliance on technocratic policy formulation and conditionality parameters have paradoxically increased certain negative tendencies of the long-established culture of elitism in Poland.¹³²

This author thus concludes that if the EU had collectively (or perhaps the Commission) taken advantage of the window of opportunity for enlargement earlier on in the process, truly committing itself, displaying signs of political will to stand up to particular interests¹³³, conducting an active information policy to display the cost myths and projecting a more flexible image, it could have had, through the international anchor, a significantly more stabilising impact on the Polish transformation.

A. Political legacies of economic reform

Because liberal reforms can generate conflict on the level of individuals, regions and sectors, and as such endanger social stability, economists, in designing institutions with the aim of supporting the market, need to be aware of the political assumptions underlying their analysis. Economics as a discipline, and in particular trade theory, tend

¹³⁰ Mayhew (1998), (2001), (2002). Ibid.

Padoan, PC. (1994). 'The Changing European Political Economy', in Stubbs and Underhill (Ed.) (1994). ibid.

Fontenay, P.de, Gornel, G. and Hochreiter, E. (Ed.) (1995). ibid.

Faini and Portes (Ed.) (1995). ibid.

Sedelmeier, U. (1994). 'The EU's Association Policy Towards Central and Eastern Europe: political and economic rationales in conflict', *SEI working report*, No 7.

Bideleux, R. (1998). 'The Politics of Eastern Enlargement of the European Union', *ISA Paper*, Vienna, September.

¹³¹ See chapter four.

¹³² Unlike western societies, Poland has not developed a classical urban *bourgeoisie*; first there was the *Szlachta* and the peasants, followed by the *intelligentsia* and the workers.

¹³³ Because the 'costs' of opening up to these interests would have been marginal, perhaps intra-European transfers could have been used to compensate the sectors for their losses, without negatively affecting the growth potential of transition.

not to pay enough attention to cultural factors, legacies and social considerations, basing their prescriptive analyses on over-simplified and generalised models.

Strategies, such as Shock Therapy, never the less, need not be discounted, as the neoliberals have not been economically wrong, in principle, to propose radical change.

What the author would none the less suggest to countries attempting similar transformations, such as the Balkans, EE, and other EU aspirants, is a more cautious approach, which is not based on far reaching assumptions as to the expected behaviour of international partners. Transition in Croatia, Bosnia or even Iraq should not be fundamentally predicated on 'international anchors'.

By over-shooting expectations as to external support, national liberalisers are setting themselves up to have to explain to the public the failure of the international community to follow through on its side of the bargain. When economic performance fails to materialise and the promised benefits do not appear in the amount of time projected, the reformers themselves become discredited, and populists reap gains from the political fall out.

While the eight CEE future members of the European Union have indeed followed somewhat varied paths of reform, with different paces and emphasis placed on various dimensions of marketisation and democratisation, today they face problems that are too similar to be coincidental. Crony capitalism, waning social trust, corruption, ineffective democratic and economic governance, difficulties in the enforcement of the rule of law, uninstitutionalised politics and poor quality of political life, various market distortions and imbalances, growing disparities, weak party systems and frail civil and political societies represent only few of their collective legacies of reform. The social unrest that has accompanied the rise of poverty, marginalisation and crime have further inhibited reform, at a time when it is crucial to secure the benefits of accession. Public feelings of 'betrayal' and 'rejection', exacerbated by the perceived arrogance of the elites, have been the most crucial factors in the emergence of the syndrome of frustration, increasing the allure of alternative political options and populist leaders. The combination of a weak state and an extreme concentration of market power has created a policy making environment in CEE characterised by the capture of the state by powerful economic interest, discretionary intervention by state bureaucrats into the market and high levels of corruption.¹³⁴ Thus, the social experiments built on the premises of elitism and anchoring have had some rather unfavourable results.

¹³⁴ EBRD 1998 p 24

However, because elitism is hard to avoid after the collapse of totalitarian regimes, no matter how problematic it might be for democracy, and ‘anchoring’ is an institutionally sound solution to reform sustainability, the key to transformation should lie in attempting to secure social consent for the reforms, through dialogue and institutionalisation of political conflict in combination with effective regulatory frameworks.

Looking back from the perspective of 2003, it seems that many of the assumptions behind the Polish liberals’ neoliberal institutionalist strategies were not fulfilled.

Notably, the EU never fully carried out its commitments implied in the neoliberal institutionalist anchoring/ transition bargain. The radical policies of the early 1990’s, which the Poles knew to be of high political risk, were accordingly at least in part thwarted by protectionist behaviour of the EU, meant to be assisting and anchoring the transition.

In turn, weak political leadership of the liberals and of successive Polish governments has failed to persuade the public to follow their lead. Technocratic deliberations over the Shock Therapy package did not address the issue of sequencing the reforms in a socially- sensitive way or involving society in the debates. While initially neglecting informational policies and social dialogue¹³⁵, by the mid-nineties, the Polish liberals were left arguing that Polish economic policy should be purer than anyone else’s. This made them appear like economic fundamentalists and not domestic representatives. Additionally, at the beginning of the transition, relatively little time was occupied with discussions about actions to be taken connected with creating the conditions for microeconomic institution- building and establishing a solid regulatory framework. While the government was rightly concerned with overcoming the economic crisis and instigating macroeconomic stability, institutional reform and law enforcement should also have been prioritised at the onset.

By 2003, the paralysis of the political spectrum, backlash against radicalism and internationalisation, combined with fiscal austerity and international obligations making it difficult for any government to respond to social demands¹³⁶, have made the populist option more and more attractive and society’s feelings of betrayal have grown. The ‘establishment’ has failed to make good on its promises and now the populist are up for election, proposing economic and political solutions far from the liberal’s ideal. (Such

¹³⁵ Balcerowicz claims there was not enough time...

¹³⁶ Making even the leftist Social Democrats renege on their election promises.

as re-nationalisation of industry, import barriers, printing of currency, or taking away the independence of the Central Bank).

B. Policy prescriptions

It remains the author's conviction that external anchors should be treated as secondary factors in determining the outcomes of domestic policy reform, and that the focus in reform should be the creation of an institutional framework based on a far-reaching 'policy-mix'. Without adequate domestic dedication to the reforms and an active information campaign to dispel the myths of liberalisation and integration, international anchors will do little to enhance policy credibility.

For policy reform to be successful, national specificities, including interest group balancing, foreign policy considerations, political institutions and public perceptions of fairness need to be considered. In addition, issues of policy legitimisation and trust should be addressed, the concept of human capital¹³⁷ more clearly defined, and the pursuit of macro and microeconomic goals better co-ordinated.¹³⁸ The EBRD has suggested that in addition to liberalisation and privatisation, reforming states should focus on strengthening sound economic and corporate governance, building effective regulatory frameworks and promoting enterprise restructuring. Enforcement of the law is considered crucial for success, just as is investment in the development of individual skills and the building of an adequate social safety net¹³⁹

According to D Ost, the key to successful and long-term consolidation and stabilisation of economic reform under conditions of a parliamentary democracy lies in "structuring social anger and institutionalising political conflict."¹⁴⁰ A critical point of concern for domestic policy makers and international organisations, such as the EU, in attempting to support the consolidation of the transformation is to incorporate the social dimension into economic strategies. This requires the 'state' to supplement deregulation programmes of the economy with active policies to demonstrate its commitment to social dialogue in time of ordinary politics just as much as in moments of social crises.

¹³⁷ Defined as the amount of knowledge, skills, health and vital energy existing in a given society/ nation. World Bank (1994). *Poverty in Poland: an assessment in 2 volumes*. Washington DC: World Bank, 14 September, Vol one, p 161.

¹³⁸ See WTO (1996). *Annual Report: Trade and foreign direct investment*. *ibid*.

WTO (1995). *Regionalism and the World Trading System*, Geneva: World Trade Organisation.

OECD (1998). 'Open Markets Matter: The Benefits of Trade and Investment Liberalisation'. Thomas, V. and Nash, J.D. (1991). *Best practices in Trade Policy Reform*. *ibid*.

World Bank (1998). *The Future Course of Trade Liberalisation*.

Kaminski, B., Wang, Z. and Winters, L.A. (1996). 'Foreign Trade in the Transition: the international environment and domestic policy', *World Bank Studies of Economies in Transformation*, No 20, Washington DC: World Bank.

¹³⁹ EBRD p 23

In practical terms, because economic growth is positively correlated with the advancement of institutional change¹⁴¹, the technical assistance and financial aid of the international 'anchor' should be geared not only towards liberalisation but also toward institution building and regulation. For example, an international organisations can help to build an adequate social safety net in transition economies to effectively target social benefits, such as unemployment schemes. The experience of Western democracies in incorporating welfare institutions into market mechanisms cannot be overvalued for post-socialist countries, where the welfare system from the previous regime has created serious path dependencies. The same can be said for a system of interest representation and lobbying activities, as the transition elites have no experience in dealing with legal rent-seeking behaviour.

Most importantly, however, the international organisation should be aware of the dilemmas placed upon the reforming state in responding to social pressures while trying to uphold international requirements, setting implementation targets and conditionality parameters with enough flexibility to account for changing situations and unpredictable public responses. This allows a government to make and keep agreements with social partners; crucial for the consolidation and institutionalisation of interest representation and indispensable for sustainable reform.

In addition, the new institutions created in regime change should be are adapted to local conditions (and not necessarily the EU *acquis*). Winters, Dixit, Hausner and Kaminski all conclude that mutually acceptable compromises to both the government and social partners should be possible if an institutional framework is established early enough, and if this framework is sufficiently flexible to leave the resolution of particular conflicts to the political process in order to prevent the escalation of social demands.¹⁴²

To minimise the appearance of corruption, law enforcement and fostering the rule of law among society should be prioritised. The international organisation can set the

¹⁴⁰ Ost, D. (1995). 'Labor, Class, and Democracy: Shaping Political Antagonisms in Post-Communist Society', in Crawford (ed.) (1995). *ibid*, p 200.

¹⁴¹ See chapter two.

¹⁴² Winters, L.A. (1994). 'Who should run trade policy in Eastern Europe and how?', *CEPR Discussion Paper*, No 1043, London: CEPR.

Winters (Ed.) (1994). *Foundations of an Open Economy: trade laws and institutions for Eastern Europe*. *ibid*.

Dixit, A.K. (1996). *The Making of Economic Policy*. *ibid*.

Hausner, J. and Marciniak, P. (Red.) (1994). *Studia nad Systemem Reprezentacji Interesow; Od Socjalistycznego Korporacjonizmu do ...?*. *ibid*.

Hausner (Red.) (1995). *Studia nad Systemem Reprezentacji Interesow: Narodziny demokratycznych instytucji*. *ibid*.

Kaminski, B. (1999). 'The Role of Foreign Direct Investment and Trade Policies in Poland's Accession to the European Union'. *ibid*.

standards for fighting corruption through its own practices, and strong political leadership is crucial to assist the governments in transition in their efforts.

Over-emphasising the liberalisation of economic activity and neglecting the fundamental discussion of the role of the state can lead to weakening state capacity and ultimately depleting its authority. A much more active role for the state should thus be sought in administering and keeping watch over the 'deregulatory' measures. Reform of the administration and civil service can thus be considered as important as enterprise restructuring.

A Policy- mix based on a variety of market-supporting policies, that encourage growth and makes it sustainable, can complement the stabilisation package, laying the microeconomic foundations for the transition. These policies include, structural reforms (enterprises), creation of an effective legal framework which protects property rights and defines other aspects of the law, reform of labour market policies to make them more flexible, educational and training systems reform, changes in unemployment and related social benefit systems and tax/ fiscal revenue reform. Financial markets need to be regulated and a sound financial system established.

If the desired outcome of the transformation is the emergence of competitive market economies¹⁴³, programmes which increase national competitiveness, supporting the development of a business friendly investment climate, buttressing SME's, strengthening the national infrastructure, factor mobility and state financing in education and research and development are essential. Institutional models and anchors can accordingly emphasise policies aimed at bolstering the transfer and development of new technologies and know-how and providing incentives for entrepreneurship.

With staggering figures of unemployment directly resulting from both the opening up process and internal restructuring, transformation requires readjustment, redistribution and pro-active labour market policies that not only support the emergence of domestic beneficiaries, but also provide a safety valve for the losers.¹⁴⁴ For example, by 2002, 10% of the Poles found themselves living below poverty line and one out of five Poles was unable to find work, and while restructuring and privatisation processes cannot be delayed in order to avoid further impoverishment or growth of unemployment, the closing down of ineffective firms does not solve the structural nature of the transformation dilemmas. De-regulation of labour-market rigidities, that make labour costs soar, should be complemented by effective assistance and job-retraining

¹⁴³ Kaminski (1999). *ibid.*, p 29.

¹⁴⁴ In 2002 ten years after association, unemployment levels in Poland are at 18-19%.

programmes. Moreover, in countries like Poland, where the trade unions remain strong and the political culture traditionally has egalitarian inclinations, the government should attempt to conduct social dialogue and negotiations, and gradually (but consistently!) pursue economic strategies, to lessen the internal opposition to the reforms.¹⁴⁵

Temporary strategic trade policy coupled with the kind of corporate model of reform followed by Ireland thus both represent solid policy options. Powerful legacies of socialism as well as of the early reform days, evident in public consciousness, and social inclinations towards 'third way elements' suggest that social and microeconomic institution building reforms must be prioritised alongside macroeconomic liberalisation. Polish realities as well as the under-development and backwardness of the Polish enterprises in relation to EU firms suggest that more emphasis should have been put in the EA on an adjustment strategy that would have supported Polish producers in overcoming the financial, informational, organisational and technological barriers which have separated them from their western counterparts.¹⁴⁶ In the absence of such instruments, especially industrial, export-promoting, regional, sectoral and competition policies, economic openness can impose bigger costs for restructuring enterprises than they are capable of covering, effectively leading to their liquidation, or increasing the pressures for protectionism.

For organisations like the European Union, and institutions like the Commission, more risk taking is needed, combined with an active information policy to dispel the various myths concerning integration. Smith et al. have suggested that "the 'conventional practitioners' approach to pre-accession, based on the creation of a FTA and unilateral conditionality, hasn't allowed the candidates to meet the Copenhagen criteria, nor has made accession quick or smooth." Moreover, according to their study "the conventional approach has not lended itself in CEE towards the creation of open markets, but instead has contributed to the re-emergence of *dirigiste* policies."¹⁴⁷ Increasing economic

¹⁴⁵ See Zielinska- Glebocka, A. (1998). 'Preparation for Eastern Enlargement from Perspectives of the European Union and Poland', in *Yearbook of Polish European Studies*, Warsaw University Centre, Warsaw, 1997.

Gazeta Wyborcza. 'Jak wychodowac prace', 21/01/03.

Gardawski, J., Gaciarz, B., Mokrzyzewski, A. and Pankow, W. (1999). *Rozpad Bastionu: związki zawodowe w gospodarce prywatyzowanej*. Warszawa: ISP.

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Orlowski, W. (1997). 'Polskie Przedsiębiorstwa a Jednolity Rynek Unii Europejskiej: koszty i korzyści'. *ibid.*

¹⁴⁶ Müller-Graff, P. and Stepniak, A. (1997). *Poland and the European Union: between association and membership, ECSA-series, Vol 4*. Baden-Baden: Nomos Verlagsgesellschaft.

¹⁴⁷ Smith, A., Holmes, P, Sedelmeier, U., Wallace, H. and Young A. (1995). 'The European Union and Central Eastern Europe: Pre- Accession strategies'. *ibid.*

integration between the present and future members of the Union should, according to the authors, be used to reinforce the formal conditionality of association and constitute the actual course of pre-accession.¹⁴⁸

H Wallace has similarly maintained that the EU focus on “flexibility”¹⁴⁹, remaining as generous as possible in providing the reforming states the tools and assistance necessary to successfully complete the transformation.

In conclusion, external leverage can be used to encourage the development of national attributes and strengthen human capital, two factors which constitute the most significant elements in successful reform.

As R Sally has aptly pointed out with regards to trade,

*while overall, the CEE commercial policy reforms are the most radical the world has ever seen, in the long run, sustainability of trade and investment liberalisation depend on other factors such as support or opposition of interests groups, the power of ideas, the institutional setting. ... Trade policy, like globalisation itself, depends critically on the political choice at the national level.*¹⁵⁰

C. The role of culture and of the individual

In their attempts to understand the sources of the backlash against ‘Europe’ as well as increasing anxieties about globalisation, experts European wide have been assigning a growing role to *culture* as a factor in integration.¹⁵¹ As culture becomes more controversial, it becomes a political issue to be dealt with. For example, the technical questions of land sales to foreigners (free movement of capital) or workers migration (free movement of labour) in the accession negotiations were based on popular fears and perceptions derived from specific, national, historical experiences and not substantiated by economic data. The meanings actors attach to specific issues, the way

¹⁴⁸ See also Pelkmans, J., Gros, G. and Nunez Ferrer, J. (2000). ‘Long Run Economic Aspects of the European Union’s Eastern Enlargement’, *WRR Working Documents*, No 109, The Hague: WRR Scientific Council for Government Policy.

¹⁴⁹ Wallace, H.S. (1998). ‘Coming to Terms with a Larger Europe: Options for economic integration’, *SEI working paper*, January.

See also Mayhew, A. and Wallace, H.S. (2001) ‘One Europe or Several, Poland: A partnership profile’, *OEOS Policy Paper*, April.

¹⁵⁰ Sally, R. (1999). ‘National Trade Policy Reform, the WTO and the Millenium Round: the case of developing countries and countries in transition’, Paper prepared for WTO seminar, *Cato Canter for Trade Policy Studies*, Washington DC, November, p 21.

See also Freytag, A. and Sally, R. (2000). ‘Globalisation and Trade Policy: 1900 and 2000 Compared’, *LSE unpublished paper*, London: London School of Economics.

¹⁵¹ Krzysztofek, K. (2000). ‘Integracja Polski z Unia Europejska Jako Przestrzeni Kulturowa’, w *Studja Europejskie*. *ibid*.

Blazyca, G. and Kolkiewicz, M. (2000). ‘Poland and the EU: Internal disputes, domestic politics and accession’, *Paper presented at UACES conference*, Budapest: UACES, April.

Bideleux, R. (1998). ‘The Politics of Eastern Enlargement of the European Union’. *ibid*.

Sztompka, P. (1999). *Impoderabilie Wielkiej Zmiany: mentalnosc, wartosci i wiezi spoleczne czasow transformacji*. Krakow: Wydawnictwo Naukowe PWN.

they interpret particular events and their 'reading' of global processes must as such be confronted.

This author concludes that if a better economic and political model is to be created as a basis for future European integration, it must derive from profound value changes in society that will lead to the legitimisation of the European project. Accordingly, elements of political culture in CEE that are incompatible with European values have to somehow be challenged. Although mental and psychological barriers to integration take much longer to be removed than changes in institutional and economic laws regulating the European order, if a framework for a new Europe is eventually to be created, than the social obstacles must be overcome. Designing new decrees and statutes will not alter the behaviour of individuals and will not unravel the mysterious 'democratic deficit'. While the focus thus far has been on building the capacity of the Union to deliver new rules, and to ensure procedural democratic accountability, it should now evolve to building real political support for these rules. In fact even former European Trade Commissioner Pascal Lamy has noticed that, "it is quite striking that the debate about EU reform has so far focused almost exclusively on efficiency to the detriment of legitimacy."¹⁵²

In setting conditions, the EU thus has to find an appropriate balance between giving support to the consolidation of markets and democratic considerations. For the candidate states to become 'classical' civil societies and for their mentalities, civilisations and value systems to be compatible with western institutions and standards, time and an active and creative search for solutions and ways of incorporating the publics into the process of integration are needed. The future prospects for the CEE people depend on the building of trust in the new economic sector and the disentangling of ties with the old one. The political culture that will evolve in the process will form the future basis of a stable, democratic- market order, capable of withstanding conflict, strife and challenges to its legitimacy, and, in turn, will increase the ability of the future member states of the Union to take full advantage of the opportunities offered by accession.

Policy makers and theorists should thus be careful to assign right and wrong answers to how people behave, as the unquantifiable elements of social, political and cultural

Giza-Pleszczuk, A., Marody, M. and Rychard, A. (2000). *Strategie i System: Polacy w obliczu zmiany społecznej*. Warszawa: Instytut Filozofii i Sociologii PAN.

¹⁵² According to Pascal Lamy, European Commissioner for trade, the European Project has to score on three accounts: underlying values, efficiency and legitimacy. Lamy, P. 'Between Globalisation and Enlargement', Frei Universitat Berlin, Feb 8, 2001.

www.europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc-SPEECH

integration are not based on outcomes that are always rational. In fact, the transformation experience has been anything but rational, instead constituting a kind of journey; one fraught with unusual bouts of changing circumstances, uncertainty, fluid and unpredictable conditions.

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