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Preparation for Eastward Enlargement from Perspectives of the European Union and Poland

1. General considerations on of Eastward enlargement[1]

All of the countries of Central and Eastern Europe (CEEC) have already signed Europe Agreements or Free Trade Agreements with the European Union. A great majority have expressed a political will to join the Union sooner or later. The European Council meeting in Copenhagen in June 1993 accepted the principle of Eastward enlargement and concluded: *„the associated countries of central and Eastern Europe that so desire shall become members of the EU. Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required"*.

The criteria specified by the Copenhagen meeting are:

– stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities,
– the existence of a functioning market economy,

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[1] See general references: *An industrial competitiveness policy for the European Union*, European Commission, *„Bulletin of the European Communities"*, Supplement 3/94; *European Industrial Policy for the 1990s*, European Commission, *„Bulletin of the European Communities"*, Supplement 3/91; *The Global Challenge of International Trade: A Market Access Strategy for the European Union*, European Commission, COM (96) 53 final; *Growth, Competitiveness, Employment. The Challenges and Ways forward into the 21st Century*, European Commission, *„Bulletin of the European Communities"*, Supplement 6/93; P.R.Krugman, *The Narrow and Broad Arguments for Free Trade, „The American Economic Review"*, vol.83, no.2 1993; *Od GATT do WTO. Skutki Rundy Urugwajskiej dla Polski (From GATT to WTO. The Effects of the Uruguay Round on Poland)*, ed. J.Kaczurba, E.Kawecka-Wyrzykowska, Warsaw 1995; A.Zielińska-Głębocka, *Poland's Strategy for Accession to the EU, „The European Government Journal"*, vol.4, no.4 1995.

- capacity to cope with competitive pressure and market forces within the Union,
- ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

The Council also pointed out the need for considering *„the Union's capacity to absorb new members while maintaining the momentum of European integration."* This need was confirmed by European institutions through their position at the 1996 Intergovernmental Conference. As stated by the Commission in its opinion as of February 1996, *„enlargement must be undertaken with safeguards for the achievements of forty years of European integration. (..) Similarly, the commitments undertaken by the Treaty on European Union must be fully respected"*.[2] Following the Copenhagen criteria, „A Strategy to Prepare the Countries of Central and Eastern Europe for Accession" was adopted by the Essen European Council in December, 1994. In order to assist the CEECs in preparing for accession the Commission launched in April, 1995 the *White Paper* about alignment, with the internal market addressed to the associated countries of CEEC (adopted by the European Council at the meeting in Cannes in June, 1995). The *White Paper* provides guidelines for the content and organisation of the pre-accession process with respect to CEECs integration into the internal market. The reform of EU policies with regard to enlargement will be debated by the Member Sates during the IGC. In accordance with the Essen European Council position, negotiations with the CEECs on membership may start six months after the Conference has ended. The candidate countries remain free in adopting their own priorities and determining their own timetable of adjustment strategy.

Enlargement poses a great challenge to both the Member States and CEE countries. Within the EU, adaptation requires institutional and economic changes at national and community levels. At the EU level institutional reform seems to be a prerequisite for settling the timetable and conditions of CEEEs' accession. At the national level political consensus is required in a number of fields, including financial solidarity, redistribution policy and regional cohesion. The position of the EU and its Member States will also be affected by external factors, in particular by the structure of international competitiveness as well as the globalisation of markets and competition.

For CEECs the EU membership overlaps with a political and economic transition towards a market economy. Building market infrastructure and removing the heritage of the past communist system are fundamentals of this transition. An early membership in the EU may play the role of guardian for

[2] *Commission Opinion. Reinforcing Political Union and Preparing for Enlargement*, COM (96) 90 final.

continued transformation and restructuring. It is likely to become a catalyst and accelerator of further progress.

Among the countries of Central and Eastern Europe, Poland holds a specific positions due to its geopolitical situation and large population. In many respects Poland can be perceived by the EU Member States as a „problem country." The problems are created by a number of factors, including a high share of agriculture in GDP and national employment (26%), high level of inflation, and great regional disparities. On the other hand Poland has a lot of merits attracting European agents. It constitutes a big market characterised by strong demand for moderately advanced Linder-type products and services. There is a large shortage of capital in Poland, producing incentives for foreign investment and establishment. A lot of companies perceive Poland as a bridge to the East and treat operations there as a starting point for further expansion towards Russia or Ukraine.

The main aim of this paper is to examine selected problems that face the EU and Poland before the hoped-for Eastern enlargement. Section One looks at these problems from the side of the Union, and the Polish perspective is presented in Section Two.

2. Enlargement from the EU perspective

Since the turn of eighties and nineties the European Union has been facing the challenge of a changing European and global system. In Europe the collapse of communism paved the way for the countries of Central and Eastern Europe to regain a European identity. It resulted in their gravitation towards the EU in the form of commercial and economic co-operation, association and hoped-for accession. In the world economy a wave of market and enterprise globalisation has dramatically changed the conditions of competition and co-operation. „Global" rules have produced new opportunities for and imposed new threats to the functioning of economic agents. In this situation the EU had become forced to re-examine its internal and external position by searching for a new Europe-wide identity and a new role in the world economy. This „re-examination" may constitute a new element of European dynamics linked to the logic of economic, political and institutional spill-over described by the neo-functionalist theory. The EU has to secure all achievements of the past and present integration, but on the other hand, it cannot avoid institutional reform and economic restructuring. A drive towards full economic and political union, the European social model and the concept of a diversified Union open to new members are the principles of the EU philosophy. They cannot be sacrificed for the sake of current circumstances.

Nevertheless, Europe is dramatically in need of a new institutional framework better adjusted to an expanded Europe that would guarantee successful implementation of commitments made in the Maastricht Treaty. At the same time the worsening of the EU's position in world markets calls for industrial modernisation and restructuring aimed at improvements in international competitiveness. In light of this, the EU will certainly look for new strategies on a national and community level. The emerging challenge will not be indifferent to future enlargement. They are likely to affect the scope and timetable of CEECs' accession. As expressed by the Commission in its opinion: *„the principle of enlargement is accepted. It is no longer some far-off prospect ..., however, because of its scope and its diversity this enlargement will be different from previous ones: an extended Europe is bound to be more heterogeneous and therefore more complex"*.

2.1.The challenge of globalisation and multilateral agenda

In the last decade the world economy has been confronted with the imperative of free and fair trade on a multilateral and non-discriminating basis. The successful completion of the Uruguay Round has enforced the multilateral process and led to the establishment of WTO on solid ground. The multilateral rules-based trading system is crucial to the future of the world economy and is the basis for healthy bilateral and regional relations. The proliferation of regional free trade arrangements (FTAs) has contributed to the liberalisation of trade on a global scale. Regionalism and multilateralism appeared to be complementary rather than contradictory. The regional FTAs have created more than diversified trade because there are natural relations among these close neighbours who usually trade a lot with each other. The role of the EU is crucial in this respect. As the world's largest trading partner, the Union maintains an open approach to the world system. It has a clear interest in strengthening the multilateral rules and undertaking further market opening actions. The multilateral approach is a necessary complement to internal market opening. As stated in the Community document on industrial policy *„it is only by progressing on the road to a really open and fair world economy that new advantages can be obtained in addition to those reaped by completion of the internal market. The multilateral approach remains the best approach which allows all partners, in particular developing countries, to be associated"*.[3]

Ten years have passed since the beginning of the Uruguay Round, and almost two since its completion in Marrakesh. Those ten years have seen a world-wide push towards the liberalisation of trade and investment regimes in

[3] *Commission of the EC. European Industrial Policy for the 1990s, „Bulletin of the European Communities"*, Supplement 3/91.

industrialised and developing countries. The number of countries ready to bear the burden of global arrangements has increased considerably. About 120 countries signed the Final Act of the Uruguay Round and entered the WTO. They are obliged to adhere to and comply with the complex commitments arising out of the agreements concluded during the Round. This concerns the reduction of customs duties, withdrawal of the grey area safeguards such as VERs, liberalisation of trade in services under the GATS, as well as trade-related aspects of intellectual property and investment measures (TRIPs and TRIMs). Trade liberalisation has contributed to the process of a gradual globalisation of markets and firms. Liberalisation and globalisation became the most striking features of the world economy. The globalisation of markets leads to increased competition on domestic and international markets whereas the globalisation of firms is related to the widening and deepening of the operations of firms to produce and sell products in more markets.[4] International sourcing, intra-firm trade and international inter-firm co-operation in the form of strategic alliances are examples of firms' global operations.

The degree of liberalisation achieved during the Uruguay Round and the challenge of globalisation form a solid basis for **the new trade agenda** of the WTO, drawn up for the members' to see by the Ministerial Conference and the WTO secretariat. The list of topics which might become the subject of future negotiations includes:

- trade and investment,
- trade and competition,
- trade and environment,
- trade and labour standards,
- trade and bribery.

The above topics are new dimensions of **market access** and **market presence** in a global economy considerably open to international competition. A broader understanding of the concept of market access requires new measures and new policies that protect international competition from distortions and impediments.[5] Globalisation is changing the nature of trade. The new trade agenda must go beyond the traditional issues of domestic commercial policies focused on national interests and demands. It should meet the demands of globalising markets and firms. In this respect two issues deserve particular attention: further liberalisation of investment and a new approach to competition policy.

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[4] *Special Issue on Globalisation, Introduction. Perspectives on globalisation*, *„STI Review"*, OECD, Paris 1993.

[5] See: D.J.Johnston, *The Imperative of Free Trade, „The OECD Observer"*, no.201, August/September 1996.

In a global economy interdependence between trade and investment is systematically growing. As Johnston argues, firms invest to trade and trade to invest.[6] About one third of all trade in goods is intra-firm trade. Global firms integrate their international operations so as to not separate manufacture in one country from sale in another. Highly globalised operations include management, financial control, product and process R&D, production and distribution. The decision on whether to invest in a foreign market (market presence) or to export products there (market access) depends on the strategy of the global firm. As a result, trade and investment are becoming much more complements than substitutes. Falconer and Sauve write *„the growing - and mutually reinforcing - links between trade and investment as means of doing business are a fundamental characteristic of globalisation"*.[7] This constitutes a rationale for further investment liberalisation. The Uruguay Round took the first step toward the liberalisation of trade aspects of investment policies on a multilateral level. Further initiative was taken by the OECD ministers who decided to launch negotiations in the aim of reaching a Multilateral Agreement on Investment (MAI) by May, 1997. The basic framework of the Agreement includes: definitions and scope, investment protection, the treatment of investors and investment, additional disciplines and dispute settlement.[8] The MAI will be a free-standing treaty open not only to the OECD members but also to interested non-Member countries.

The new trade agenda emphasises also the importance of an effective competition policy for maintaining the multilateral trading system. Anti-competitive activities by businesses conducted very often with government involvement or support are distorting market access or market presence. They produce additional barriers to the free movement of goods and investment in a globalising economy. Besides traditional distortions related to anti-competitive enterprise agreements and abuse of dominant positions there are some practices presently exempted from the application of competition law in most countries. This holds particularly true for new practices such as strategic alliances and technological joint ventures, as well as the operation of public monopolies, regulated sectors and state aids. In a globalising environment trade and competition policy are complementary to a relatively high degree which is still growing. This produces international aspects of domestic competition laws and might constitute a rationale for multilateral discussion on the international co-ordination of competition values and policies. The concept of an international

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[6] Ibid.

[7] C.Falconer, P.Sauve, *Globalisation, Trade and Competition*, *„The OECD Observer"*, no.201, August/September 1996.

[8] W.H.Witherell, *An Agreement on Investment*, *„The OECD Observer"*, no.202, October/November 1996.

framework of competition rules will be the topic of the WTO Ministerial Conference in Singapore in December, 1997.

The European Union has effectively contributed to the Uruguay Round and its agreements and is ready to cooperate internationally to build the WTO into a strong, objective and decisive body.[9] The European economy is open to international competition based on multilateral rules and trading systems. Open markets world-wide are considered to be the keys to higher growth and employment in Europe. During the course of the Uruguay Round and now in the WTO, the Union demanded more symmetry in market access and market presence from the trading partners. At present, strong market access asymmetries still exist, caused by differences in regulatory measures and policies of particular countries, as well as by limited implementation of the WTO obligations by certain partners. This results in the absence of a more balanced approach to multilateral disciplines world-wide.

In order to introduce more discipline into its trade relations with the third partners on the basis of the multilateral agenda, in February, 1996, the Union launched a proposal entitled „A Market Access Strategy for the European Union". This strategy is a response to the global challenge of international trade and new trade rules agreed upon by the WTO Members. It sets out the objectives and policy instruments aimed at securing a greater degree of open market for the Community's trading partners.

The strategy emphasises that, *„the Community must strive to achieve improved market access in third countries, parallel to the continued opening of its own market both by ensuring the full implementation by its partners of their Uruguay Round obligations and through other market access actions"*.[10] The Union will demand more symmetrical relations with individual third countries and regional groupings. With respect to Poland and other Central and Eastern European countries the Union will pay more attention to improved market access for European products and firms on these countries' markets. Toward this aim the Europe Agreements and other actions facilitating CEECs accession to the Union will be fully implemented.

The demand for more symmetry in trade with CEECs begins a new step in mutual relations. The Europe Agreement was initially based on built-in asymmetry in favour of the associated countries. The asymmetrical provisions were extended during the Copenhagen meeting of the European Council in June, 1993. The agreed provisions on EU trade concessions reflect the initial concept that the main concern of both partners was the improved access of CEECs to the internal market. The EU Market Access Strategy introduces a new approach

[9] See: COM (95) 411.
[10] COM (96) 53 final.

based on the requirements of greater market opening of the CEECs for European firms and products. As a consequence the associated countries will be obliged to undertake further market opening actions and introduce more discipline into their trade policies. They can also expect more aggressive Community actions to promote European trade and support European business operating on their markets. The symmetry-holiday characteristic of the first step will gradually come into an end and will be replaced by the principle of full reciprocity.

In the new Strategy the Union also expressed a will to work on the new trade agenda with the WTO partners. This concerns both further market opening actions, such as the liberalisation of financial services and telecommunications, and the new areas of liberalisation, including competition rules, foreign investment and environmental and social standards. The Union opts for introducing international competition rules. Its proposals in this respect are presented in the Commission Announcement „Towards an International Framework of Competition Rules" prepared for the Singapore WTO meeting.[11] The possible elements of an international framework might be: agreement on common rules on the basis of stable domestic competition structures, establishment of instruments for co-operation between competition authorities and dispute settlements. From the Community's point of view the need for multilateral rules on competition is justified by its high share in world trade and investment. Within the internal market effective competition is protected by the European law. The competition provisions of the Treaty guarantee the integrity of the single market by eliminating the anti-competitive practices of enterprises and governments. However, the lack of internationally agreed-upon rules may put European firms at a disadvantage in competition if they have to compete on world markets with producers from countries that have less restrictive competition policies.

In a globalising economy the Community will seek *„the same commitment to competition enforcement from its partners in their markets as applies to operators, irrespective of their origin, on its own"*.

The EU has to respond to global challenges through improvements in industrial competitiveness. The competitive, innovative industry should constitute the basis for further economic growth and market gains in relation to main trading partners. In the last decades the EU competitive position has worsened dramatically. Since the late 70's, Europe has systematically been loosing its market shares to the US, Japan and the Dynamic Asian Economies. Its present position in the TRIAD is very disadvantageous, particularly in high-technology products which meet strong demand on international markets. Globalisation is likely to accelerate the technology race and the intensity of

[11] COM (96) 284 final.

competition among main economic regions. If Europe intends to play one of the leading roles in the world economy, it has to adjust its economic structures to the changing world conditions. This requires a new attitude of economic agents and policy-makers toward international co-operation.

First of all, the advantages of the single market must be fully taken advantage of in order to level playing fields for European businesses operating in Europe. Experience gained from operations on the large European market may be effectively used abroad in overseas transactions. The ongoing process of the single market programme has to be completed in such fields as tax harmonisation, corporate law, enterprise policy and deregulation of the services sector.

Secondly, increased global competition requires a greater openness of the internal market. Within the Community new sectors and firms have to be exposed to competition. This holds true for a number of service sectors and public enterprises. Great progress has already been made in highly regulated EU sectors such as telecommunications, financial services and maritime transport. Further liberalisation is envisaged in the energy sector, postal services and the audio-visual services sector.

Thirdly, the Community policies and actions to promote competitiveness in European industry must be reinforced. This concerns the objectives of the 1993 *White Paper on Growth, Competitiveness, Employment,* as well as the implementation of the Community industrial competitiveness policy announced in 1994.[12]

Next, there is a need to continue the reform of the common commercial policy in line with the requirements of globalisation and the commitments of WTO. Protectionism in traditional sectors such as textiles and clothing, steel industry and the shipbuilding industry has to be relaxed. The emphasis of the CCP must be shifted to an instrument of new policy aimed at securing fair trade and levelling the playing field. The examples of these instruments are: rules of competition, anti-dumping and anti-subsidy procedures, labour standards, environmental standards, protection of intellectual property rights, etc. A growing role should be given to a strategic trade policy oriented toward high-technology sectors that are likely to contribute to the creation of an information society.

3. The Polish perspective

Unlike the European Union, which strives for coping with the challenge of global competition, Poland must reach for the conditions of **minimal**

[12] See: *An industrial Competitiveness Policy for the European Union*, European Commission, *„Bulletin of the EU"*, Supplement 3/94; *Implementing a programme of Community action to promote the competitiveness of European industry,* COM (96) 31 final.

competitiveness that could secure its ability to operate on the internal market. The notion of minimal competitiveness is very complex and ambiguous if we take into account the starting point of the transition. In the years 1989-1995 Poland made enormous efforts to remove the nightmare of the communist system and to transform its economic and political structures. The results cannot be assessed exclusively as positive or negative. The examples of positive effects are: a high rate of economic growth, high dynamics of foreign trade, a growing number of competitive sectors and a general integration with the world economy. The membership in WTO and the most recent accession to the OECD point to a stable position in the world economy. Poland has also built market institutions and infrastructures from the ground, including the capital market, the foreign exchange market, the stock exchange and the banking sector. Insufficient progress has been made in the sphere of privatisation and decentralisation of the national economy. Poland has also recorded huge trade deficits in total trade and in trade with the EU, in spite of a significant increase in inflows of foreign exchange. Ambiguous conclusions can also be drawn from an analysis of the directions of sectoral changes in production and employment. Poland still maintains its traditional GDP structure and employment based on a high proportion of declining sectors and industries. The role of the more advanced sectors is very limited. A big proportion of agriculture in the GDP and employment is a source of serious economic and social problems that are likely to affect the adjustment to full integration with the Union. During the transition period the pace of structural changes has not been very quick, which can be explained by a high degree of rigidity on factor markets. The mobility of labour from both a professional and regional standpoint is extremely small in Poland due to the unresolved housing problem and an education crisis. A lack of physical and monetary capital contributed to the low rate of investment growth.

The delayed, from the centrally planned economy, domestic demand for a number of goods including necessities, has brought about the expansion of traditional sectors producing consumer goods. It has also led to a dynamic growth of imports which could not be matched by an equivalent increase in exports due to the low cost and quality competitiveness of Polish products. Poland is still suffering from the burden of the so-called socialist industrialisation, which was based on a high proportion of heavy industry in the total national product. The coal mining and the steel industries are the most evident examples of this tradition.

The Polish economy has entered the transition period with a relatively large percent of primary and secondary sectors in the GDP and employment. The percent of the service sector was dramatically small, which indicated a relative impediment of Polish economy compared to industrialised countries. The underdevelopment of the service sector had ideological roots related to the concept of the Material Product System, under which the importance of services was underestimated while the production of material goods was considered to be the main source of economic growth and potential competitiveness. Between 1989 and 1995 the percent of the primary sector in total employment dropped by 2% and stabilised at 26% indicating a structural burden on the economy. During the same period there was a shift of employment from industry to the service sector which increased its percent in total employment by 6%. The dynamic growth of the services was mainly caused by the emerging private establishments, particularly in trade and distribution and in road transport. The industrial sector still suffers from insufficient restructuring and modernisation. A lot of factors prevented deep changes therein, including the large amount of participation of big state enterprises and the high degree of monopoly power. A delay in the privatisation process tends to contribute considerably to this negative phenomenon.

Poland is facing the challenge of adjustment to international competition that results from both the multilateral and regional agenda. As a WTO member it has to take on the obligations and commitments defined in the Uruguay Round and the negotiating agenda of the WTO. Membership in OECD obliges Poland to respect the liberalising codes and rules of this organisation, as well as to participate in negotiations on new agreements, including a high standard Multilateral Agreement on Investment which is to be reached by mid-1997. The implementation of the Europe Agreement and a pre-accession strategy imposes additional obligations which are related to integration with European structures and programmes. There is a great amount of consistency between multilateral and regional obligations. All these obligations are likely to affect the ability of Polish industry to compete internationally.

A comprehensive set of competitiveness-related objectives arises for Poland because of the impact of multilateral and regional issues. The following goals seem to be of particular importance:

- further liberalisation of trade and investment,
- a more careful approach to protectionist clauses,
- a new approach to industrial policy,
- increased competition and more rigorous rules on state aid, public regulations and monopoly rights,
- the restructuring of industrial sectors,
- building a complex competition strategy consistent with the WTO obligations and the Community policy stance.

The liberalisation process in Poland is scheduled by the Uruguay Round and Europe Agreement. The new situation emerging after the Round is paving the way to the application of a broader concept of market access. Poland should not only implement and consolidate the Round *acquis* but also work on a more coherent set of non-discriminatory trade and investment disciplines which could be applied on **multilateral** terms. Reduction of tariffs, full implementation of GATS rules and disciplines after the transitory period, introduction of TRIPs until 2005 and the gradual liberalisation of trade in agricultural products are examples of the Round obligations. The new concept of market access requires that the domestic policy framework is centred around conditions governing the access to markets and presence there of goods, services, investment and business people. Government activities such as the regulation of telecommunications networks and services, the granting of support for regional development and R&D, the enforcement of health, safety and environmental standards, the treatment of investors and investment, and the application of licensing requirements to service providers exert a strong impact on conditions of market access and presence.[13]

A number of market access and presence rules are implemented by the European Union within the internal market programme. The provisions of the Europe Agreement and the *White Paper* guidelines define measures which can be applied **bilaterally** between the Union and Poland. Full liberalisation of trade in industrial products, gradual liberalisation of trade in services, free movement of capital, and freedom of establishment are the most important liberalising initiatives provided for in the Europe Agreement. A pre-accession strategy goes much further and provides full alignment with the internal market based on free market access and market presence. Preparation for integration with the internal market characterised by a high degree of openness should proceed parallel to multilateral initiatives undertaken within the WTO and OECD. The bilateral and multilateral actions are mutually reinforcing. The experience gained in relations with the Union can be effectively used for multilateral arrangements, and vice versa, and the multilateral commitments are likely to help in implementing the regional rules.

As an emerging market economy Poland is a beneficiary of various derogations and transitory solutions both in the regional and multilateral process. The Europe Agreement provides exceptional protective measures applicable only in Poland. They concern the movement of goods and freedom of establishment and are justified on the basis of the infant industry argument and the restructuring clause. A number of exceptional solutions are given under the multilateral agreements. Nevertheless, all of these solutions are of a temporary nature, and concern the means for reaching a final objective and the forms possible not an objective per se. As a result, Poland has some freedom in choosing a goal-reaching strategy. It can accelerate adjustment through the implementation of an open strategy that would refrain from the use of protective

[13] C.Falconer, P.Sauve, op.cit.

measures and increase the degree of market opening for foreign partners. Poland can also postpone market opening by means of protective actions or slowing the pace of implementing the WTO commitments. In the face of market globalisation and the new approach to market access in the WTO and European Union, there are strong arguments for the application of the more outward-oriented strategy based on liberal policy towards trade barriers and market access. This calls for a new approach to trade policy less conducive to the protectionist pressures of interest groups and lobbies.

Poland is confronted with the necessity of developing a general approach to industrial policy due to the challenge of a broad concept of market access and competitiveness. Industrial policy should promote the most efficient functioning of markets and accelerate the structural adjustment of industry. Sectoral interventions directed more toward social objectives than the achievement of adjustment should be carefully examined and possibly reshaped. Sector-specific policies must promote adjustment and not retard it. Defensive instruments of a protectionist nature in the aim of protecting declining industries against market forces should be limited in time and scope.

There are a lot of arguments against such instruments:

- The experience of many European countries has proven that a sectoral approach may be counter-productive and only partially successful in terms of social advantages (employment).
- The EU guidelines on industrial policy are in favour of positive adjustment and against the dominance of sectoral approaches. The perspective of future integration with the Union, should induce Poland to follow the EU concept and avoid strong interventionist stances.
- The structure of Polish industry points to the low efficiency of sectoral interventions. Protective measures are likely to strengthen negative phenomena and postpone modernisation and structural adjustment.
- The political market in Poland in conducive to industrial lobbing. A sectoral approach to industrial policy may increase competition among industrial groups for additional governmental privileges and aids.[14]

Sectoral policies of an offensive nature are less distortive than defensive interventions but can produce negative effects when based on the policy-justified selection of industries which became special targets of government actions. Targeting is always related to specific criteria set out by public authorities who may have limited access to information or may rely on political determinants.

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[14] K.Gawlikowska-Hueckel, A.Zielińska-Głębocka, *Industrial Policy in Poland: Determinants and Concepts* in: *Transformation and Integration. Structural Adjustment and Environmental Policy*, ed. A.Evans, P.Falk, University of Umea, Sweden 1994.

Mistaken classification of targeted industries can cause inefficient allocation of resources and impediments in structural adjustment.

Poland has to build a positive approach to industrial policy centred around the following programmes:

- Maintaining a stable and competitive economic environment for business operations by means of the privatisation process and the improved market mechanisms. The implementation of this programme would allow Poland to meet the Copenhagen criteria on accession to the Union.
- Promoting business co-operation, in particular, among small-sized enterprises.
- Restructuring and modernising industrial sectors in decline, particularly the steel industry and coal mining.
- Promoting technologically-advanced industrial sectors which are the core of an information society.
- Demonopolisation of industrial sectors with the dominance of state-owned enterprises. This concerns mainly the petrochemical industry and telecommunications services.
- Maintaining an open approach to markets on regional and multilateral terms. Without open markets the benefits of competition and specialisation cannot be fully achieved.
- Securing a high degree of coherence between industrial policy and other policies, in particular trade policy and competition policy.

Poland has already adopted anti-monopoly rules for the domestic market. The Europe Agreement provides for the approximation of Polish law with the Community legislation. The Agreement defines competition rules as necessary for the proper development of economic relations between the EU and Poland. The Community *aquis* are a model for legislation in Poland. Three Articles of the EC Treaty are mentioned: Article 85 and 86 (competition rules toward enterprises), and Article 92 which concerns state aid. Poland should also follow the Community approach to competition policy in spheres not covered by the Agreement. This type of voluntary adjustment is concerned with policy toward public enterprises, monopoly rights and regulated sectors. The EU will fully liberalise the telecommunications services markets by 1 January 1998. The Commission also works on deregulation measures for other sectors, including postal services, energy and transport. As a WTO member Poland should contribute to negotiations on the new trade agenda, of which the international framework of competition rules is an important element. Competition policy must become an effective policy instrument which not only protects the domestic market from anti-competitive practices but also integrates Poland into the internal and international markets.

The multilateral and regional environment creates strong motivation for a complex competitiveness strategy aimed at the positive adjustment of Polish industry to the free trade imperative. The strategy-formulation implies a continuum of trade, industrial and competition policy that results in a coherent **policy-mix** based on a large scope of policy compatibility. Policy compatibility produces positive relations between various instruments and goals. Porosity across objectives and instruments is less likely to appear. An example of positive relations between trade policy and industrial policy is where reductions of trade barriers encourage a shift from defensive instruments to more general objectives within industrial policy. Likewise, the liberalisation of trade is likely to increase the role of competition policy on a level-playing field for economic agents.

4. Conclusions

Since 1989 Poland has made a lot of efforts to transform its policies aimed at reintegrating Polish industry into the European and world economy. Three conclusions can be drawn from the experience of the last years:

- Poland has the stable institutional and legal framework necessary for co-operation on a regional and world level (WTO membership, OECD membership, Europe Agreement).
- Basic domestic policy structures have been created. In the case of trade, industrial and competition policies, these are: fundamental legislation, responsible institutions, and adequate measures.
- A complex competitiveness policy based on a policy-mix of trade, industrial and competition policy has not yet been formulated. This poses a real challenge to Polish authorities, if Poland is to improve its competitiveness on the internal market and world-wide.