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Opening of Polish Economy in Context of Integration with the European Union

1. Introduction

Opening of the economy plays a very important role in contemporary economy, despite its classification to following groups: (1) advanced market democracies; (2) newly industrialized economies; (3) economies undergoing systemic transformation; (4) developing economies. Not always this fact is taken into account, although more economists realize the meaning of opening of the national economy in the context of globalization. Although with strong resistance, caused by social costs of required adjustments linked with departure from economic system that was in work during the stage of development of national and protective economies, new ideas and new approaches are paving their way in new economic thinking.

This article reviews part of the transformation strategy, linked with its' opening, what is subordinated to adjustment of the economy to the EU membership requirements. Nevertheless, it gives some input to answer the above mentioned questions as a side effect of the conducted study. It shows that not only national economies are becoming more interdependent then they were in the past, but also systems are becoming more and more universal or perhaps even global?

In case of transforming economies opening of the economy played dual role: (1) in transformation of the economic system; (2) in adjustment to EU membership requirements. Numerous moves in the two processes were overlapping, although perspective of membership in the EU enforced their realization faster than perhaps they were required by the transformation. This article argues that Polish strategy, best in region, what was measured by economic growth,[1] was based on

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[1] *Poland 2000. OECD Surveys*, OECD, Paris 2000, p.9.

wider opening of the economy than in remaining economies in the region. Currently the scope of opening of the Polish economy is sufficient to requirements of the EU membership. The strategy of preparation of first five candidates was drafted with utilization of the experience of the three EFTA members, who prepared to membership through European Economic Area.

2. Notion of opening of the economy and ways to measure it

The notion of opening of the economy entered into the vocabulary of economists, despite the fact that not all accept this feature of current stage of international relations. Nevertheless, some economists accepting generally the fact, that current stage of international relations is characterized by specific and new features, try to explain things using same tools as were used in the past. Traditionally new thinking exists together with the old approaches to international relations as it was always in periods of scientific revolutions. A total takeover of new thinking is always preceded by crises of the old approach. Synthetically the differences between old and new ways of approaching to international relations can be characterized by attitude of the scientists representing different schools of thinking (neorealists and neoliberals) about the government, international relations, cooperation, ways of conducting policy, objects of international relations, etc. The main differences that exist between the two schools are presented in Table 1.

The Table can be used to explain why countries often applied mixed approaches in their transformation strategies, adjustments to globalization, as well as requirements formulated by the European Commission. Paradoxically, parallel existence of two models of thinking (the old and new approach) helps to achieve certain goals of further integration of the world's economy. This is so as it uncovers the weaknesses of the old methods used to protect the economy or to stimulate it by direct engagement of the state in active intervention. This can be exemplified by failure of interventionists methods used by West Germany in attempts to stimulate the eastern lander of the former GDR after the reunification, or protection of agricultural and food markets against imports from the EU in Poland (1995). The first despite high costs did not bring expected increase in employment nor in hikes of productivity. The second has increased intensity of competition on the Polish food and agricultural market. This is so as Polish prices before imposition of customs were lower than world level. In the EU prices on this market were not only higher but also subsidized. So when imposed increase of customs rocketed prices at domestic markets this affected profitability of EU exporters and thus increased stimulus to export to Poland, intensifying thus competition on this specific market.

Table 1. Philosophical foundations in two schools of international relations: neorealistic and neoliberal

Contents	Neorealistic approach	Neoliberal approach
Object of international relations	State	State and institutions
Character of international relations	Anarchic – lack of global governance	Cooperative. Interdependent
Character of state	Unitary	Pluralistic
Priorities of the government	Power, security by direct engagement of state into economy (intervention)	Economic development. Social security. Obtained by limitation of state presence in the economy and thus making it more flexible
Way of conducting policy	Power policy (*Realpolitik*). Self-reliance	Cooperation and self-limitation
Approach to international cooperation	Pessimistic: relative profits, "zero sum game"	Optimistic. Absolute profits. "upside down wedding cake"
Role of international institutions	Marginal. Arena for achieving particular state interests	General reduction of cooperation costs, influence the states behavior

Source: J.Czaputowicz, *System czy nieład? Bezpieczeństwo europejskie u progu XXI wieku (System or disorder? European security on the threshold of XXI century),* Centrum Stosunków Międzynarodowych (Center for International Relations), Warsaw 1998, p.52 (with modifications by K.Ż.)

If we accept that new stage of international relations is based on neoliberal approaches not on neorealistic ones, we can see that opening of the economy becomes an inseparable part of the new concept of international relations, which are characterized by globalization, liberalization in international level and by "small government", deregualtion and privatization on the international level. All listed characteristics mean laisez-fairism in economy on national and international level. This in turn increases the share of market forces in the economy depriving the government of certain tools to intervene or distort competition.

At this point it would be advisable to present the definition of opening of the economy. In traditional approaches, opening was departure from protection of national economy in the sphere of trade. In practice this was univocal with reduction of tariff, non-tariff and remaining safeguard measures. As international economic relations started to embrace other activities and were not limited to trade, opening of the economy embraced liberalization of foreign economic relations in such fields as transfer of services, capital and labor, as well as intellectual properties. On higher stages of integration this includes also exchange rate policy leading to common currency as well as tax coordination. Tendencies in this filed can be illustrated by the process of integration within the market of the European Community members. Opening in this case embraced also harmonization of institutions, legal arrangements, technical, medical and sanitary standards, etc. It can also be supported by examples brought from practice of liberalization among OECD members as well as within GATT/WTO.

Looking closer at the most advanced process of integration among national economies of different states, i.e. European Community one can say that at the beginning of the process opening of the economies was limited solely to reduction of custom duties hampering the mutual trade. Consequently after abolition of tariff trade barriers the scope of mutual liberalization among member states was widened by inclusion of alike-tariff and beyond tariff barriers. This process was supported by creation of common external customs duty for members of the Community, what finally resulted in creation of the customs union on 1 July 1968 for industrial products and 1 January 1970 for agricultural products.[2] The stage of creation of single internal market went further in deepening liberalization of mutual relations as it embraced four liberties. In addition to trade transfers, capital, labor and services were also free to move from one national economy to another within the Community. This stage was completed in 1992. Next move embraced common currency, what eliminated the costs of risk ascribed to exchange rate fluctuations and foreign transactions costs. Full integration of national economies was not completed yet as countries shape autonomously their income tax policies or VAT (which is only co-ordinated, what means indication of lowest level applied).

Opening of the economy in a transformation (post-communist countries) embraces all mentioned elements but they can be done as an upshot following decisions resulting in departure from certain mechanisms of centralized, command-distributing system. In such conditions opening of the economy in a post-communist country embraces following steps: (1) liberalization of prices; (2) liberalization of trade; (3) introduction of convertibility of national currency; (4) decentralization of trade; (5) changes in the state budget on the side of revenues and expenditures, leading to withdrawal of the state from direct intervention, what is univocal with increasing reliance on market mechanism and competition; (6) privatization, what leads to similar effects as above.

[2] The custom duty was achieved 1,5 year earlier in comparison with the planned schedule. It has given acceleration of rates of growth in the Member States, which exceeded the rates achieved in countries outside the Community.

Opening of the economy is important not only in process of consolidation of national economies into one entity but also in case of transforming economies. In case of the latter opening serves as a tool to bring in stabilization, what is achieved by introduction of equilibrium between demand and supply. Before 1989 all planned economies were characterized by deep disequilibrium between demand and supply, what was labeled as "deficit economies" by famous Hungarian economists Janos Kornai.[3] Moreover, opening of the economy helps to achieve equilibrium with relatively lower prices after their liberalization than in case of stabilization achieved in closed economy conditions. On the top of all opening in a post-communist economy introduces market forces and competition into the economy, accelerating the process of restructuring and enforcing signals which indicate what type of production is competitive, which can become competitive and which should be closed down. The quicker this is done the better for the economy and employment. Deep depression with opening results in quick departure from it and fast acceleration of the rates of growth. Deep depression achieved in closed conditions results in slow recovery (Russia). Shallow depression with medium moderate opening results in slow rates of growth, which do not compensate the fall of production in 10 years (Czech Republic, Hungary, Bulgaria, Romania).

In sum the process of opening of the economy in a post-communist state includes such moves as those, which are typical for creation of Single European Market as well as some steps which occur solely in transforming economies. This embraces: introduction of convertibility of currency, exchange rate policy, decentralization and demonopolization of foreign trade, harmonization of law, limitation of state intervention, distorting market mechanism, privatization and changes in the state budget (elimination of subsidies, dotations), etc. The listed moves indicate that in case of transforming economies the process is more compound than in case of developed market democracies. This is resulted by the fact that transforming economies depart from autonomous economies, which were developing mainly according to the guidelines of self-sufficiency strategies, in which foreign trade surpassed the necessary minimum. In case of imports those were mainly the goods which were not produced in the economy, while in case of exports those were goods which were produced with surpluses, not as a result of international division of labor.

The debt of changes in this field in post-communist states is directly linked with the starting point to the reforms and scope of opening of the economy on this stage. This is also connected with processes that are underway in market economies, who are preparing themselves to compete in global conditions. The

[3] J.Kornai, *Przemiany posocjalistyczne i państwo: refleksje na temat węgierskich problemów finansowych* (*Post-socialist Changes and the State: Reflections on Hungarian Financial Problems*), *„Gospodarka Narodowa"*, March 1993.

success of transformation – not saying about preparation for EU membership – are both resulted by width of opening of the economy. This has to be supported by institutional changes, without which market mechanism working on its own would be too week to push forward the expected economic changes (such as structural or ownership changes).

Comparative studies of the process of opening of different post-communist economies show clearly that important role in this respect was played by Europe Agreements and other type of institutionalized arrangements made with the EU. This organization is not the unique one that was engaged in this specific activity. Countries that are considered to be most advanced in their preparation towards the membership, what the Union awarded by invitation to start membership negotiations in first tour of enlargement, as early as April 1998, are already prepared for membership as the three EFTA states, who have entered EU through European Economic Area. This opinion is funded by following facts: (1) creation of free trade area for industrial good, with small exceptions (steel, energy, cars); (2) freedom of capital flows (long-term, medium and short), resulted by membership in the OECD; freedom of services movement regulated by imposed limits. The only exception in comparison with the EFTA countries is the labor movement, which is limited by bilateral agreements negotiated by member states with the candidates.

It should be mentioned that freedom of capital transfers achieved within OECD concerns only three post-communist countries: Czech Republic, Hungary and Poland. On the other side it embraces all EU members as all of them are members of OECD. As far as remaining post-communist states are concerned they have to liberalize their economies autonomously. Estonia has done this going far beyond any limits of control, what is not the case with Slovenia, which still controls some of the capital transfers.

2.1. Ways of measuring openness of the economy

Traditionally measuring of the opening of the economy is ascribed to share of foreign trade in the GNP. This index is still in use, nevertheless, it illustrates only part of the scale of engagement of the economy in international trade and is often misleading. For instance using this indicator we can come to a conclusion that the USA economy is a closed, while Luxembourg's economy is an open one. It is so as the indicator does not take into account the size of internal market of the country. In other words using this indicator one has to take into consideration the fact that small economies are always engaged more in foreign trade than big economies. This is resulted by the fact, that their abilities of being self-sufficient are limited. This in turn ensures relatively close links with the world economy and participation in international division of labor.

In current conditions opening of the economy should not be limited to foreign trade, it has to include also remaining economic international relations, which very often are characterized by relatively higher rates of increase than trade and finally gain importance in economic performance of states. This means that with regional integration and global liberalization such indicators as average weighted custom duties loose their importance. This is so as mentioned indicators of economy opening are often replaced by indicator of customs duties incomes in the budget. Still all mentioned methods are applied solely to trade and trade barriers are not the only obstacles to trade, that have to be overcome in enhancing economic relations internationally. Important role was ascribed to exchange rate peg and exchange rate policy. Devaluation of the national currency can stimulate exports and can be used at the same time as tool of protection of the national market. On the contrary appreciation of the currency can be used as tool stimulating imports and increasing intensity of competition on internal market. Moreover, national currency can be overvalued or undervalued, when one compares values of real and nominal exchange rates, what increases the meaning of the exchange rate policy as tool to protect or open the economy. Elimination of national policies in the field of currencies acts as abolition of border taxation or custom duties – and is considered by traders as additional cost in international transactions. One common currency eliminates this type of costs and means in practice deepening of mutual opening of the national economies of members states.

This finding is not a new thing in the economy although it was very difficult to deprive states of using this specific tool in protecting their economies. The process of departure was accelerated by elimination of golden standard in the international financial system, what has taken place on 15 of August 1971.[4] Elasticity of the exchange rates brought into being by widening of the fluctuation band can be considered as measure of both "depoliticization" and "denationalization" of the exchange rate policy. In future return to narrow bands should be expected, but this will happen after close convergence of the economies of EU members and stabilization of the international system. The system was destabilized strongly by both interventionists actions and speculations, but they were given ground by wrong exchange rates policies conducted by the countries, which either kept exchange rates fixed or allowed them to depart far from their nominal values, causing inflow or outflow of short term speculation capital. Looking at the exchange rate policy from the point of opening of the economy one should take into account the violidity fluctuations of the exchange rate and scale of changes. It is also important to understand how far the real

[4] M. Levinson, *Beyond Free Markets. The Revival of Activists Economies. Toward a new understanding of the role government should play in an imperfect world*, Lexington Books, Lexington-Toronto 1988, p.99.

exchange rate is from its nominal value and what is the direction of changes. This type of knowledge helps to anticipate main trends of the capital flows on the market and with such knowledge things are not taking by surprise. Moreover, it is important to understand what is the role played by currency pegs, what is happening with their exchange rates and how this influences real value of currency in question.

Harmonization of institutions as well as legal and technological standards is also part of the process of opening of the economy. Most of the mentioned indicators that can be used to illustrate the scope of opening of the economy are not measured mathematically, except the share of trade in GNP or share of customs duties incomes in the state budget revenues. Most of the policies applied here can be rather presented descriptively than in figures. Although some reports on transformation progress try to evaluate the scope of opening of the economies under systemic changes.

2.2. Methods of opening of the economy

Economies can be opened as result of institutionalization of foreign relations, what means certain conditions of membership in economic and financial institutions, negotiated individually by countries. Institutionalization introduces certain rules to international relations, which could be considered as limiting national sovereignty as they impose defined behavior of states on the international arena. Regulations imposing specific rules on behavior of states in their international relations concern solutions on global, regional or bilateral arrangements. Resignation of part of sovereignty rights by a state in this process is a cost on the one hand, but on the other hand it eliminates discretion of behavior and by introducing restrictions and patterns increases anticipation of what countries can do, what they should and what is forbidden. Violation of those rules exposes a country to restrictions from the remaining participants of organization.

The second possibility which countries can chose to open their economies or use it in addition to institutionalization of foreign relations is ascribed to their autonomous decisions, what often is neglected, while countries often limit themselves to guidelines given by the EU, what is not sufficient in many terms. This thesis has strong background in mutual interdependence between political life and economics. It is easier to achieve certain goals drawing far-reaching aims than those, which are easier, close and short sighted. In reality things are more complex and difficult to achieve than one can foresee even drafting most detailed plans. Always some obstacles of different nature occur in the process of realization, which not always can be foreseen in planning phase. They also occur in realization of prudent concepts. In such circumstances drawing a far-reaching plan of achieving the final goal is better as it helps to fulfill the plan quicker than in case of applying a small steps strategy. This finding is true under certain conditions e.g. in situation when a country needs hard-nosed leaders to turn those concepts into reality. Otherwise small steps are certainly easier to achieve and more effective, although more costly as they take longer to achieve the same point as in case of radical change.

Different institutions can be mentioned here as platform, which can be helpful in achieving certain scope of opening of the economy in post-communist states. Those institutions are following: IMF. World Bank, European Bank for Reconstruction and Development, OECD, European Union, GATT/WTO, CEFTA, EFTA, etc. Being more specific one has to give some closer information what is the role of each of the listed organization in opening the economy. The activity of individual international organizations is pointed at liberalization either of external or internal relations, some act towards liberalization of both of them. In each case the aim of the organization is clearly formulated in its statute.

IMF (International Monetary Fund), funded in 1944 as part of the Bretton Woods system is aimed at stabilization of the international economy in order to eliminate such deep crises as the one that happened in 1930's. Establishment of the Fund was realization of the Keynesian idea, who has drawn concept of international interdependent word, based on open trade between states in different stages of development. Practically IMF starts the serious institutionalization process of each post-communist country. The membership in this organization is conditioned by fulfillment of certain requirements liberalizing the economy, and further on the credits granted by this organization are also conditioned, what disciplines the debtor and helps to obtain desired goals. Agreement with IMF is usually a signal that country undergoes macro stabilization, which should bring about fall of price indexes and departure from the transformation depression. This opens the door to other international organizations and generally improves the image of the economy in question.

Goals of IMF are pointed at realization of the currency policy by member states, liquidity of international payments and convertibility of currencies. IMF supports member states with financial sources in order to stabilize their accounts of payments in case of difficulties, what is subordinated to the former aim of this organization. Finally IMF serves as forum of multilateral negotiations and cooperation in the field of international monetary relations.

World Bank (in full International Bank of Reconstruction and Development – IBR&D) – was created in 1944 in Bretton Woods alongside with the IMF. It was aimed at liberalization of international trade, transfers of capital and international payments. World Bank supplies three types of credits: (1) for structural adjustments; (2) sectoral loans; (3) loans for restructuring of a plant. Bank is closely linked with IMF, what means that only IMF members can apply for membership in it.

European Bank for Reconstruction and Development was created in 1991 as shadow reflection of World Bank, operating on regional,. European scale. It is located in London. Its role is focused on promoting structural and transformation reforms towards market mechanism in East Central European countries as well as in Eastern countries established in the process of disintegration of the former USSR. EBR&D has 59 members, who are active both as creditors and debtors. The initiative of establishing the Bank is ascribed to French president Francoise Mitterand, who has proposed this in 1989 as reaction to fall of communism. The project was supported by European Council with big engagement of Germany. In bilateral sounding most of the countries were in opposition to create a new institutions, which functions could be easily fulfilled by existing organizations such as IMF, World Bank, EBI, etc.

GATT/WTO (General Agreement on Tariffs and Trade/World Trade Organization), situated in Geneva was previously planned as independent Agency of the UN.[5] The initiative was not fully accepted and resulted in creation of GATT in place of ITO. GATT members total value of trade amounts to 90% of whole world turnover. Role of GATT was to reduce custom duties and forbids to take unilateral actions distorting trade, it also helps to reduce existing barriers in trade or activities deforming market forces i.e. by defining such notions as dumping, it acts against introduction of quantitative limits, acts upon nondiscriminatory measures what means that privileges given to one country should be applied also to others with exception of some fields (like agricultural, textiles) regulated separately or in case of customs union. GATT was organizing rounds serving to liberalize trade of certain types of goods. The last concluded Round called Uruguay ended in 1994 and resulted in replacement of GATT by WTO (funded in 1995 in Marrakesh) as well as liberalization of trade in traditional fields and liberalization of capital flows, transfers of intellectual properties, services and sensitive goods like agricultural products and textiles. This means deepening of trade liberalization on world scale as well as expansion of liberalization on new field of economic activities, which are gaining importance in international turnover.

According to approved procedure countries commit themselves to liberalize according mutually accepted schedule, which differs from one group of countries to another (deeper in developed and slower in developing countries). Despite those commitments countries can take autonomous decisions speeding up the process of liberalization, although the choice in this respect is left to them.

European Communities (European Union) were funded in 1957 by six European states. (With Maastricht Treaty European Union has been established.)

[5] Agreement on International Trade Organization was negotiated in 1947 and signed by 23 states a year later. Nevertheless, some problems occurred in the ratification phase, what caused rejection of the whole idea.

EC went through stages of deepening (lowering barriers in mutual relations), widening (increasing number of fields covered by integration) and increasing the number of members (from 6 to 15). It has created customs union, single internal market, economic and monetary union, what consequently leads to political integration mentioned indirectly already in introduction to the Treaty of Rome, where it is said that the Treaty is pointed at creation of conditions for closer and better cooperation of European nations, what can be interpreted as an echo of the US Constitution. The goal of political integration is mentioned officially in 1972 during the Paris Summit, when heads and leaders of member states repeated their aim of restructuring their relations into European Union before the end of the decade. Notion of European Union can be found in numerous documents, which dealt with different phases of institutional development of European Communities.

13 countries are waiting in queue for EU membership. Six started their negotiations in April 1998, six were invited recently to negotiate. The procedure of negotiations is proceeded by reviews of state of adjustment to membership and fulfillment of so called Copenhagen criteria, which were formulated during the summit in 1995. The first group of candidates embraces: Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus. Second group embraces Bulgaria, Latvia, Lithuania, Romania, Slovakia and Malta (which has changed its mind and decided to join). Turkey also applies for membership. It is important to mention here that with time passing and changes of European Community conditions of access were also changing. This transposed into practice means that countries joining had to adjust to new level of integration, in other words they did not follow step by step the whole road that was covered in process of integration by first funding members. This has accelerated the process of integration of the newcomers with the old members, affecting also at the same time the rates of growth.

The Copenhagen criteria – which indicate readiness and preparation of the candidates to membership are following: (1) country should have a functioning market economy and stabilized political democracy; (2) country should be able to shoulder the membership burdens; (3) country should be able to compete on the EU market, characterized by more intensive competition than the one that is met on their own markets. All candidates are being checked in yearly terms on the matter of made progress in order to fulfill the criteria and react to their requirements formulated in those regularly presented reviews. The first review was published in June 1997, second in November 1998, third in October 1999. Political integration in the EU will additionally increase the threshold, what generally pushes countries towards acceleration of their steps in adjusting economies to imposed requirements. This fact increases the role of autonomous decisions in opening the economy, especially when they are so effective in accelerating growth and restructuring the economy.

Decisions taken in EU have an impact on economic policies conducted in all countries that have intensive relations with the EU as changes imposed there affect institutional competitiveness, limiting thus access to the market for exporters, who do not introduce measures of similar type. This means that the EU decisions are not neutral for those countries, which have privileged access to the market. Keeping this access, measured by share in the market, requires deep adjustment in economic policies similar to those, imposed by convergence criteria and new exchange rate policy.

European Investment Bank was established on 1 January 1958 in Luxembourg. Members embrace all EC members. Bank is serving as typical financial institution, although it enjoys also specific functions as international organization. This dual role was subordinated to its functions in supporting harmonious development of the Communities economy. It grants credits (up to 50% of costs of the program) which fall in the framework of main aims of policies conducted by the EU. This means that the jury chooses projects, which contribute to meaningful and sustainable development of the EU market.

OECD (Organization for Cooperation and Economic Development, former OEEC – Organization for European Economic Cooperation) is situated in Paris and is an intergovernmental organization. OEEC was established in 1948 and in 1960 has transformed into OECD.[6] Establishment of payment union is considered to be one of the first achievements of the organization. It has helped to account bilaterally financial commitments through multilateral arrangements that were conducted through the Bank of International Accounting. OECD can take decisions which are binding the member states, it can also establish agreements with third countries as well as international organizations. Despite this OECD is not equipped as the EU with supranational powers. It is aimed at acceleration of growth by liberalization of trade and transfers of capital. Members of OECD embrace the richest countries of the world. Since 1995 also Czech Republic and Hungary are included in the organization, while Poland has joined a year later. Recently OECD is trying to liberalize capital flows among the member countries within the MAI negotiations (Multilateral Agreement on Investments).

EFTA (European Free Trade Association) was established in 1960 as an effect of Stockholm Convention and is pointed at increasing economic expansion, full employment, increased productivity, rational use of resources, financial stability and improvement of living standards. It has to bring an input into harmonized development of world's trade based on fair competition. Funding members of EFTA embraced such countries as: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and United Kingdom. Island has joined in March 1970 and

[6] K.Żukrowska, *Organizacje międzynarodowe w nowych warunkach* (*International Organizations in New Conditions*), "*Sprawy Międzynarodowe"*, no.3-4/1996, p.85-102.

Finland in January 1986 (1961-1986 being associated member). The number of members was decreasing, while countries were joining EC. Denmark and UK joined EC in 1973, Portugal in 1986. In 1986 the Convention was expanded to Liechtenstein, which forms customs union with Switzerland. Three remaining EFTA states (Austria, Finland and Sweden) joined EU in 1995. In 1994 EFTA (without Switzerland) formed European Economic Area with the EU, what means four liberties among all member states without external common tariff.

CEFTA (Central European Free Trade Agreement) established in 1992 by Czechoslovakia, Hungary and Poland, expanded in two ways by division of Czechoslovakia into two autonomous states: Czech and Slovak Republics as well as by access of new members: Slovenia 1995, Romania 1996 and Bulgaria 1999. Was established to create free trade area for industrial goods among members until 2002. The planned goal was achieved two years earlier, in January 2000. Membership conditioned by: (1) agreement with EU; (2) membership in GATT/WTO; (3) acceptance of remaining members.

This is the general overview of organizations, which have participated in the process of opening of the economies of countries in transformation, what was resulted in the process of institutionalization. Role of individual organizations was different in specific cases and was shaped mainly by strategies applied by the interested countries. Fields of opening also differed in case of individual organizations, what was linked with their specialization and aims which it tries to achieve.

Generally the crucial role in opening of the economy is ascribed to European Community but this is partial truth. Before each country came to Europe Agreement it had to sign agreements on macrostabilization policy as well as convertibility of national currency with IMF, WB and WTO. European Community was playing role of the coordinator of aid finances that were flowing to states in transformation. Nevertheless, all organizations were closely cooperating with each other achieving the desired result in transformation. The more linkages a country had with those organizations the better results were achieved in shorter period.

3. Polish specifics in opening economy in introductory stages of transformation

Poland is an example of country, which has established very close linkages with institutions listed in previous chapter. Until 1999 Poland was the only country in the group of post-communist states, which has applied for reduction of its external debts. In 1999 also Bulgaria and Russia have undertaken such a step. With Balcerowicz's "big bang" Poland has introduced convertibility with the start to systemic reform of the economy. IMF and World Bank were engaged in this process. Supporting the country in formation of the stabilization fund and launching the macrostabilization program. The program was realized with big difficulties, what has caused renegotiations of its conditions, resulting in suspension of the stand-by agreement (similarly as in Hungary). The first agreement with the IMF was concluded in 1990 and released credit worth USD 710 million, paid in quarterly installments against realization of agreed commitments. When the commitments were not fulfilled, payments were suspended and new agreement of extended fund facility was signed in 1991.

The new agreement covered period of three years and opened credits worth USD 2,4 billion. From that sum Poland was able to use only USD 310 million. Nevertheless, this agreement helped Poland to reach reduction of state guaranteed loans within the Paris Club and further on with London Club. In 1992 Poland has formulated its new letter of intent. Not going into further details it should be said that agreement with IMF was important in two ways for Poland. On the one hand it enabled the difficult start to reforms, supplying money for that purpose and imposing difficult and generally unrealistic requirements, which have forced Poland to take some austerity measures, having an impact on most difficult stage of transformation. On the other hand on top of those quantitative achievements the agreement with IMF had also non-quantitative results, which can be ascribed to establishment of credit relations with World Bank and the European Community. Credits from World Bank similarly as those from IMF are conditioned and paid in installments. This conditionality in both cases helps to achieve the desired goal without additional costs, which derive from prolongation of the transformation depression and waste the opportunities given by the credit of the society in the first period of transformation to the elites in power.

In September 1989 Poland signs its first generation agreement with the European Communities. In June 1990 Poland presents in Brussels its first version of Association Agreement. Formal negotiations of the Agreement start in December 1990. Negotiations lasted nine rounds. During this time part of the agreement concerning trade, economy, financial and cultural matters – was approved. In December 1991 Poland signs Europe Agreement between Poland and the European Communities and their member-states. On 1 of March the Interim Agreement part of the agreement dealing with trade liberalization enters into force. After ratification the whole agreement enters into force in February 1994. On 8 April Poland applies officially for the membership in EU.

Commenting Polish specifics in relations with the European Community it is worth stressing that Poland was the only country, which until the Russian experience in 1994 has, used the option to liberalize trade relations with the Community before the end of ratification procedure. This was part of the applied strategy of transformation based on market forces.

Poland until the middle of 1990 has applied customs tariff, which was introduced in the end of 1980, that was in conditions of centrally planned economy. Demonopolization of foreign trade after 1990 has brought into being all the controversies between functioning tariff and new economic mechanism, what has led to a decision of lowering tariffs. This decision was taken in the second half of 1990, when 2/3 of the positions of tariffs were suspended (with exception of agricultural products and food as well as goods sensitive to competition). In the same time the new custom duties regulations entered into force, which was modified in following years.[7]

Liberalization of foreign trade was a complex problem, which was not limited only to systematic lowering of customs duties. After initial total opening of the economy there were certain moves imposing temporary protection measures to the economy and after a while there was a return to reduction of custom duties. The protection policy, or rather policy of liberalization of the foreign turnover with utilization of custom duties, was supplemented by specific exchange rate policy, tailored to the first stage of the transformation.

Table 2. Agreements concluded by Eastern/Central European countries with EU

State	Type of agreement	Date of signing	Date of entrance into life of agreement on free trade	Date of application for membership	Invitation to negotiate membership conditions
Bulgaria	Europe Agreement (association)	Approved 22 December 1992 signed 8 March 1993	1 February 1995	1995	II round
Czech Republic	Europe Agreement (association)	Approved 23 June 1993 signed 4 October 1993	1 February 1995	1995	I round
Estonia	Agreement on free trade area & related matters	18 July 1994	1 January 1995	1995	I round

[7] See: "*Dziennik Ustaw*" ("*Journal of Laws*") no. 75/1989, position 445; 1991, no. 60, item 320 and no. 150, item 142; 1992, no. 21, item 85; 1993, no. 60, position 279, item 598. Unified text of the Customs Duties Regulations was announced in "*Dziennik Ustaw*" ("*Journal of Laws*"), no. 71/1994, item 312 as an appendix to announcement of Minister of Economic Foreign Cooperation of 16 May 1994.

Lithuania	Agreement on free trade area & related matters	18 July 1994	1 January 1995	1995	II round
Latvia	Agreement on free trade area & related matters	18 July 1994	1 January 1995	1995	II round
Poland	Europe Agreement (association)	16 December 1991	1 February 1994	1994	I round
	Interim Agreement (part of the treaty concerning trade)	16 December 1991	1 March 1992 (lost validity with entrance into life of Europe Agreement)		
Romania	Europe Agreement (association)	1 February 1993	1 February 1995	1996	II round
Slovakia	Europe Agreement (association)	4 October 1993	1 February 1995	1995	II round
Slovenia	Europe Agreement (association)	5 April 1993	1 September 1993	1995	I round
Hungary	Europe Agreement (association)	16 December 1991	1 February 1994	1994	I round

Source: *Annoted Summary of Agreements Linking Communities with Non-Member Countries (as at 31 March 1995 – with a last recent developments updated to 31 December 1995),* European Commission, DG 1a, Brussels, January 1996, IA/47/96-EN

The scope of opening of the economy in the introductory phases of transformation was resulted by the suspension of use of customs duties. In 1990 in parallel to reduction of the customs tariffs temporary suspensions of the tariffs were rather common. Decision in this field were not limited solely to investment goods but embraced also consumer goods. In March 1990 customs for 106 imported goods from the six-number HS classification were suspended.[8] In July 1990 the customs were lowered by 50% for 120 goods that came from import, and 30% of customs were applied to 953 goods.[9] In December 1990 the customs duties for 1076 imported products were lowered, at the same time the number of duties was increased to 22, and their level has fallen between 2%-56%.[10] Main part of the imported goods was covered by customs of 3,5% (67,5%), 10,5% of customs was applied to 21,1% of goods and 15,0% to 13,8% of positions. For instance the customs of 56% was applied only to one imported good, 35% to 5 goods and 28% to 7 goods. At the same time preference customs duties were applied in case of manufactured goods, processed or enrichment and confectioned within the free customs zones. Additionally a GSP formula was applied, what was univocal with application of preference custom duties on imported goods originating from countries outside Europe and developing regions, in which the value of per capita GDP is lower than the same indicator in Poland.[11] Additionally within the framework of suspending the customs duties from imported goods in July this rule was in case of 346 goods from imports, and in December to further 2241 imported goods. Generally in 1990 temporary suspension of custom duties embraced up to 4 569 imported goods, i.e. more than 50% of the whole amount of goods imported by Poland.

The function to protect the economy was taken over in the first phase of transformation by exchange rate, which was undervalued. This undershooting in value helped to increase exports (which enjoyed advantageous pricing) and was halting imports. In other words imports were relatively dear and exports relatively cheap in zloty. In such circumstances if undervalued zloty would be accompanied additionally by customs duties than such policy would be more protective than at the starting point to the reforms. In other words such conditions would mean worsening access to the market in comparison with the former period, this would be univocal with simulated liberalization of foreign trade.

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[8] Regulation of the Council of Ministers of 5 March 1990, "*Dziennik Ustaw" ("Journal of Laws"*), no.9/1990, item 112.

[9] Regulation of the Council of Ministers of 25 July 1990, "*Dziennik Ustaw" ("Journal of Laws"*), no. 52/1990, item 305.

[10] Regulation of the Council of Ministers of 19 December 1990, "*Dziennik Ustaw" ("Journal of Laws"*), no. 91/1990, item 539.

[11] Regulation of the Council of Ministers of 27 December 1990, "*Dziennik Ustaw" ("Journal of Laws"*), no. 1/1991, item 4.

Table 3. Average exchange rate level in years 1989-1998

Year	Average exchange rate level given by PNB per USD 100
1989	2.567
1990	9.500
1991	106,20
1992	130,26
1993	166,79
1994	228,18
1995	258,80
1996	276,11
1997	351,82
1998	441,63
1999	452,61

Source: „*Rocznik Statystyczny 1999"* „(*Polish Statistical Annals 1999"*), GUS, Warsaw 1999, p.407.

Macrostabilization policy works successfully under the condition that it includes liberalization of foreign trade into the stabilization "package". The exchange rate policy was accompanied by restrictive income policy and budgetary constraints, this aspect of the policy also worked as power pushing goods on external markets as national market was shrinking in the first stage of transformation. Such tools activating exports as direct and indirect subsidies, tax reductions, credit preference or securing export transactions were eliminated from the trade policy. Exporters could apply for return of import customs duties as well ass indirect turnover tax, which were deducted on materials, parts, components used in production of the exported goods. Such a policy was dictated by the necessity to limit budgetary expenditures, what was part of the macrostabilization and decentralization policies. Additionally such moves had support in the light of limitation of the state presence in the economy, which was distorting the market signals by intervention measures. This was done as deformed signals received by economic objects may result in wrong decisions and thus may increase the investment risks.

Consecutive change of the tariff was introduced on 1 August 1991. Changes, which covered 10 000 of positions from the tariff list, were pointed at introduction of new nomenclature and differentiation of tariffs.[12] A so called

[12] The differentiation felt between 0% to 45%.

Combined Nomenclature (CN) was introduced. Those changes brought closer the Polish system to solutions that are used in advanced market economies. The introduced nomenclature is a derivative of so called Harmonized System of Defining and Codifying Goods. With novelization of nomenclature and differentiation of applied custom duties the burden of applied duties on imported goods was changed. About 70% of imported industrial goods were burdened by tariffs of 15%. This was univocal with changes of the tariffs from 3,38% to 16,8% in comparison with the tariff applied in the second half of 1990, and with inclusion of the waving of custom duties from 5,49% to 14,27%.

Table 4. Scope of liberalization of the Polish exports to EU

Scope of liberalization	Value in USD million	Share in %
Goods not covered by free trade area	1 090,7	18,3
Goods not covered by liberalization	136,3	2,4
Goods covered by partial liberalization	954,4	15,9
Goods covered by free trade area as destination	4 887,0	81,7
Liberalization – after 5 years	340,5	5,7
After 4 years	927,3	15,5
After 3 years	510,0	8,5
After 2 years	69,1	1,2
After 1 year	8,7	0,1
With the day of entrance of the agreement into life	3 031,4	50,7

Source: J.Adamiec, *Współpraca Polski z Unią Europejską na tle procesów integracji europejskiej (Cooperation of Poland with the European Union in the light of European Integration Processes)*, Warsaw 1996, p.204.

On 5 July 1993 the Polish tariff was modified once again.[13] This step was taken in conjunction with introduction of VAT (tax applied to goods and services). The introduced changes were considered to be big modification in relation to conditions that were applied to imports in the past. The one-column tariff was replaced by a four-column one, what was resulted by inclusion of autonomous tariffs,[14] basic tariffs,[15] preference DEV tariffs[16] and preference LDC tariffs.[17]

[13] Regulation of the Council of Ministers of 30 June 1993 on customs duties applied to imported goods, "*Dziennik Ustaw" ("Journal of Laws"*), no. 16/1993, item. 70.

[14] They are applied to imports from countries, which enjoy the Most Favored Nation Clause (MFNC) status.

[15] Basic tariffs are applied to goods imported from countries, which enjoy MFNC status, i.e. Members States of GATT/WTO as well as those that are granted MFNC by Poland in bilateral agreements or as autonomous decision, as those countries also apply MFNC conditions to Polish

The liberalization of numerous agricultural goods was also deepened. At the same time in case of imports of some agricultural products increased tariffs were applied (this concerns poultry, eggs and flour), textiles, products of steel and iron mills, copper industry products, liquid gas and oils. In result of those changes Polish foreign trade was additionally liberalized. In case of agricultural products the decrease of applied customs duties was 1,41 of percentage points (from 22,23% to 20,82%), for industrial goods the degree of liberalization was deeper as it achieved 3,16 percentage points (decrease from 12,98% to 11,82%). Generally the applied tariffs were lowered in average by 2,95 percentage points (from 14,13% to 11,18%) if the suspensions of applied tariffs are included.

Table 5. Reduction of customs duties applied to industrial commodities imported from Poland, introduced in Europe Agreement (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 products[a] (Protocol 1)	71	71	57	43	29	14	0
Steel products (Protocol 2)	80	80	40	20	10	0	0
Minerals and chemical products (Attachment IIa)	50	0	0	0	0	0	0
Nonferrous metals (Attachment Iia)	80	60	40	0	0	0	0
Other goods from the so called “sensitive” group[b] (Attachment III)	85	70	55	20	0	0	0
Remaining industrial goods[c]	0	0	0	40	0	0	0

[a] The Agreement has preserved beyond tariff barriers introduced by Agreement on voluntary restraints on exports dated 1996. Their elimination was expected within the framework of liberalization introduced within the Uruguay Round of GATT, while the postponement of end of Uruguay Round caused that in December 1992 an additional Protocol was approved, according to which the quantitative limits were to be eliminated till the end of 1997;

[b] The customs are applied to imports exceeding yearly tariff contingents or plafonds, which were increasing by 20% each year;

[c] Limits imposed on coal imports have to be eliminated gradually in the first year of the Agreement, with exception of imports to Germany and Spain, where custom duties are supposed to be lifted till end of 1995.

exports entering their market.

[16] Preference DEV tariffs are applied to commodities imported from developing countries, which are granted tariff preferences by Poland.

[17] Preference tariffs LDC are applied in case of selected commodities imported from countries that represent lowest level of development.

Source: based on *"Dziennik Ustaw" ("Journal of Laws"),* no. 11/1994, pos. 38, Attachment.

On 5 June 1993 a tax of 6% on whole imports was introduced, it is called lineal customs duty and it replaced an import tax of 6%, which was applied since December 1992. This decision was supported by argumentation of growing deficit in trade balance, causing fall of state currency reserves. Nevertheless, in January 1994 the former solution was restored, despite the fact that it was against formerly made commitments within GATT. In consecutive years the tax was reduced: in 1995 to 5%, in 1996 to 3% and in 1997 it was withdrawn.

Schemes of mutual liberalization of trade are illustrating asymmetric of mutual opening of EU market and the Polish market. Liberalization covered to a bigger degree market of EU countries for Polish goods, than Polish market for goods imported from EU. In this context the protection of sensitive goods can be interpreted as creation of barriers for export from Poland in competitive fields, which are declining, forcing in this way investments in field more advanced from the technological point of view.

Since January 1996 Polish exports enjoys free access to EU market, with exception of applied limits in case of sensitive goods and agricultural products. Liberalization of imports from EU will take place in 1998 (with exception of cars and deliveries of energy sources).

Table 6. Reduction of customs duties on industrial goods, approved in Europe Agreement for imports from the EU (in % of basic customs duties, applied at the beginning of the year)

Group of commodities	1992	1993	1994	1995	1996	1997
Textiles (Protocol 1)	100	80	60	20	20	0
Steel products (Protocol 2)	100	80	60	20	20	0
Raw material and investment equipment (Attachment IVa)	0	0	0	0	0	0
Remaining industrial articles	100	80	40	20	20	0

Remark: import of cars was regulated separately in Attachment IVb. Since 1 July1992 Poland has introduced contingent without custom duties, increasing by 5% in year terms. In case of imports exceeding contingent there are customs applied reaching 35% in years 1992-1993, 30% in years 1994-1995, 25% till end of 1997 and each year 5% lower till total elimination of customs in 2002.

Source: as in Table 5.

Introduction of tax in 1994 was accompanied by actualization of custom duties that had follow Polish commitments made within the Agreements creating free trade areas with European Community, EFTA and CEFTA. In modified customs tariff, that was in force since 1 January 1994, the average level of customs duties was relatively high and reached the level of 11,83%, from which 10,78% concerned industrial goods, while 20,04% – agricultural products. Entrance into life of those agreements caused a freeze of custom duties in relations of Poland with countries participating in those groupings. The speed of liberalization was accelerated in comparison with commitments made in the agreements. Since 1 January 1996 CEFTA countries: Czech Republic, Hungary, Poland, Slovakia and Slovenia waved all custom duties on industrial commodities and majority duties on agricultural products. In case of imports to Poland from EU and EFTA since 1 January 1997 most of the goods enjoy free access on the Polish market and remaining burdens (with small exceptions) were waved till the end of 1997 (with exception of energy supplies, which are expected to be fully liberalized in 2001 and car imports till 2002).

Table 7. Liberalization approved in Europe Agreements for imports from Poland of agricultural articles

Group of commodities	Guidelines of liberalization
I group – Attachment VIIa – concerning ia. Ducks, pork and teened meet, sausages, potato starch	Reduction of compensatory payments by 50%, within limits increased by 10%, in yearly terms during 10 years
II group – Attachment VIIb – ia. alive horses, pork, poultry, wild meet, 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 – Attachment Xa – ia. young slaughter meat	Reduction of compensatory payments to 25% of basic custom duties, within the limits for 5 years
IV group – Attachment X – ia. beef, pork, sheep and goats, powdered milk, dairy, buckweat	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 – Attachment Xc – ia. 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% in yearly terms
VI group – protocol 3 – agricultural products processed	Consecutive reduction of custom duties[a] 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

[a] Customs duties dependent on type of commodities are reduced in moment of entrance into life of the agreement in 1-4 years; final customs duty for majority of commodities is 0%, but for part of it is fixed on level falling between 3-8%.

Source: as in Table 5.

Table 8. Liberalization in Europe Agreement for imports of agricultural products from EU

Group of commodities	Conditions of liberalization
Attachment IX – majority of alcohol beverages, also beer	Abolishment of quantitative limits not later than in 5 year of introduction of the agreement into life
Attachment XII – ia. alive 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 percentage points at the moment of entrance of the agreement into life
Protocol 3 – agricultural products and processed agricultural products	Decision about the agricultural component till 1.07.1994, between 1995 and 1.01.1999 abolishment of nonagricultural burden

Source: as in Table 5.

Summing up it should be said that Polish market is open in a way that could be compared with the state of opening of the three EFTA members (Austria, Finland. Sweden) economies when they entered into the EU. They have been preparing throughout EEA, although such a strategy requires additional ratification, what can prolonged the transformation and adjustment period. As far goods are concerned there is a free trade area (except steel products, cars and energy carriers), capital flow is fully liberalized by membership in OECD. This is followed by services, although here liberalization requires some additional arrangements. Finally labor migrations are not fully free and contingents are applied here, although this will change with entrance into EU.

In the future the scope of opening of the Polish economy will be defined by commitments of the country within GATT/WTO membership, OECD membership and finally by EU membership. In case of GATT/WTO Poland will liberalize access to her market in return of gaining access to export markets. After EU membership Polish commitments will be replaced by EU commitments in GATT/WTO. Decisions of Uruguay Round widen the scope of liberalization deepening it at the same time. Widening means inclusion of new fields, which were not cover before liberalization, i.e. transfer of capital, services, sensitive goods, agricultural products and finally intellectual property. Within OECD the decisions are undertaken to relax the international flow of capital among the members. Liberalization with EU will lead to inclusion of Polish economy into internal single market with it four liberties: transfer of commodities, services, capital and labor; (2) decrease of custom duties with third countries, what will be defined by difference between the Polish level of external customs duties and duties applied in EU; (3) decrease of tariffs in relations with economies, which enjoy special admission to EU market; (4) future plans of EU expansion in forming free trade zones with the USA (perhaps with NAFTA), Russia, Ukraine and Bielorussia (into EEA) as well as MERCOSUR.[18]

Generally, deepening opening of the Polish economy, univocal with reduction of custom duties and remaining import barriers should be considered as natural consequence and condition of integration of the Polish economy with the world economy.

[18] The agreement with MERCOSUR was concluded in 1999.