The Impact of Association with the EU on Domestic Industrial Policy Making: The Case of Poland 1990-1995

Thesis Submitted in Partial Fulfillment of the Requirements for the degree of Doctor of Philosophy in the University of Oxford

Carolyn Campbell
Balliol College

Faculty of Social Studies, Sub-Faculty of Politics
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DOCTORAL THESIS ABSTRACT

The Impact of Association with the EU on Domestic Industrial Policy Making: The Case of Poland 1990-1995

Carolyn Campbell
Faculty of Social Studies, Sub-Faculty of Politics
D.Phil. Candidate, Trinity Term 1999

This thesis is a case study of the effects of association with the EU on domestic industrial policy making in Poland during 1990-1995 from a *liberal intergovernmentalist* perspective, showing how association affected the industrial policy-making autonomy of the Government in relation to other domestic actors in two ways. First, because domestic interests were weak and divided in transition-era Poland, the EU provided political leaders with a sharper focus and allowed them to consolidate domestic support for government industrial policy initiatives. Second, where domestic opposition arose, association helped political leaders to overcome it by giving industrial policy initiatives greater legitimacy and allowing them to be portrayed as "mandatory" for EU membership. The manner in which the Government handled domestic pressure for intervention from state enterprises seeking to avoid painful adjustments and restructuring during the transition offers a prime test of the effects of EU association on industrial policy-making autonomy.

In most areas, the pro-market, pro-competition policies mandated by EU association were incompatible with the nature and level of governmental involvement in industry under socialism, requiring an end to state subsidies and other forms of discretionary support enjoyed by state enterprises for nearly four decades. Incorporating case studies of the steel and textiles sectors, this thesis illustrates how in the context of transition, the Government's commitment to EU association was stronger than for other recent EU members and ensured that the Government would deviate from the course charted in the Association Agreement only in cases of intense domestic pressure, and even then only temporarily. Accordingly, in a new twist to liberal intergovernmentalism, Poland's transitional domestic situation coupled with the country's enduring commitment to eventual EU membership ensured that the effects of association on policy-making autonomy were more pronounced in Poland than in existing member states.

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LIST OF ABBREVIATIONS

AMO	Antimonopoly Office
BBWR	Non-Partisan Bloc for Support of the Reforms
CBOS	Centre for Public Opinion Research
CEE	Central and Eastern Europe
CEFTA	Central European Free Trade Agreement
CMEA	Council for Mutual Economic Assistance
CN	Combined Nomenclature
DGIV	Competition Directorate General of the EU
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEC	European Economic Communities
EFTA	European Free Trade Agreement
ERM	Exchange Rate Mechanism
EU	European Union
EUROFER	European Federation of Iron and Steel Producers
FDI	Foreign Direct Investment
FTO	Foreign Trade Organization
GATT	General Agreement on Trade and Tariffs
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	General System of Preferences
IMF	International Monetary Fund
KERM	Economic Committee of the Council of Ministers
KLD	Democratic Liberal Congress
KUKE	Polish Export Credit Agency
LDC	Less Developed Country
MFA	Multi-Fibre Arrangement
MFER	Ministry of Foreign Economic Affairs
MFN	Most Favored Nation
MIA	Ministry of Interior and Central Administation
MIT	Ministry of Industry and Trade
MOE	Ministry of the Economy
MOF	Ministry of Finance
NATO	North Atlantic Treaty Organization
NTB	Non-Tariff Barrier
OECD	Organization for Cooperation and Development

OPZZ	Polish Confederation of Trade Unions
PC	Center Alliance
PKN	Polska Kompania Naftowa
PSL	Polish Peasants' Party
SITC	Standard International Trade Classification
SLD	Democratic Left Alliance
SME	Small- or Medium-Sized Enterprise
UD	Democratic Union
UK	United Kingdom
UP	Labor Union
US	United States
UW	Freedom Union
VAT	Value-Added Tax
WOG	Great Economic Organization
WTO	World Trade Organization
ZChN	Christian National Union

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INTRODUCTION

Background

Three years after the country held its first free national elections since World War II, Poland formally requested to become an associate member state of the European Union (EU)[1] on the basis of Article 238 of the Treaty of Rome. It was a time when major shifts - political, economic and social - were occurring in the country, resulting in periods of instability and turmoil as successive democratic Governments sought to restore a liberal democracy and establish a modern market economy out of the ruins of communism. Because of these destabilizing shifts, political leaders made EU association and eventual membership the top priority on the national post-communist agenda. Their ability to stay focused on EU association during an era of rapid transition - through successive political swings and periods of economic volatility - showed a deep and enduring commitment to the EU, primarily because it accorded with the Government's long-term reform vision. As an outsider desiring to join its neighbors in the EU club, successive Governments attributed to membership an

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[1] The Treaty of Rome of 1957 originally used the designation "European Economic Community", which as changed by the Single European Act of 1987 to "European Communities". The Treaty on European Union of 1992 changed the name "European Communities" to "European Union", marking closer ties between the member states, although the new designation has yet to be fully implemented and thus "European Communities" remains in effect as the official party in a number of agreements and laws. This thesis uses the term "European Union" or "EU" to mean the European Economic Community and its successive designations.

intrinsic value that grew with time regardless of the price that might have to be paid to attain it. While the entire country expected association to enhance economic welfare, political leaders saw pursuit of association as a means of legitimizing policies and augmenting their power domestically.

At first glance, it may appear that the Government in 1990 lacked any meaningful alternatives to EU association, but the variety of options available to policy makers proves otherwise. Poland's transformation came at a point in history when global economic cooperation through multilateral arrangements had evolved to fairly advanced levels and there was arguably no need to "belong" to any particular regional grouping. On the contrary, Polish leaders had the option of sticking to globally-oriented multilateral trade and economic arrangements, such as the GATT, GATS, MFA and similar conventions. Alternatively, newly freed from the bonds of Soviet domination, the country could have chosen to simply "experience its independence" in a fashion similar to the course pursued by ex-Soviet Lithuania under Prime Minister Landsbergis. Finally, political leaders also had the option of pursuing regional initiatives to consolidate trade and economic ties with the country's transitional Central European neighbors that had cooperated in the struggle to overthrow communism. For the majority of political leaders and Polish society, however, these choices paled in comparison to the opportunities presented by the pursuit of membership in the EU.

The Government negotiated the Association Agreement for almost two years. Far from being a mere commercial treaty or providing for the establishment of a customs union (as desired by Poland), it laid down rules aimed at gradually integrating

Poland country into the EU. Most importantly in terms of industrial policy, it provided for the integration of the entire industrial sector of the Polish economy with that of the EU and for the adoption by Poland of compatible industrial, trade and competition policies. The goal of the Agreement was to assist Poland to become, after due preparation and reform, a fully-fledged member state, the industrial sector of which would be wide open to EU competition. Associate member status did not guarantee Poland full membership in the EU, however, and the preamble of the Association Agreement recognized only that "the final objective *of Poland* is to become a member of the Community and that this association, in the view of the Parties, will help to achieve this objective." Without even a conditional promise of membership, the pressure to satisfy EU expectations with regard to appropriate industrial policies and programs was felt more intensely in Poland than in the more secure member states.

That EU association had an impact on industrial policy making in Poland is hardly surprising. EU scholars have offered numerous competing theories as to how membership in the EU alters the relative balance of power between member state governments and supranational EU structures. In more recent years, Andrew Moravcsik (known for introducing the theory of *liberal intergovernmentalism* in 1993)[2] has asserted that the EU tends to strengthen the autonomy of EU member state

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[2] Moravcsik, A., "Preferences and Power in the European Community: A Liberal Intergovernmental Approach", Journal of Common Market Studies, vol. 31:4 (1993) pp. 473-524.

leaders relative to other domestic actors, and more so as the EU continues to deepen.[3] Among other reasons, Moravcsik asserts that membership in the EU strengthens domestic policy-making autonomy both institutionally and substantively, by assisting national leaders to overcome domestic opposition to government policy initiatives through the focus on (and pull toward) EU policies and institutions and by granting leaders greater domestic agenda-setting power through their development of policies with greater political legitimacy since they have proven effective in the powerful and wealthy EU.

The tendency of the EU to enhance the policy-making autonomy of national leaders relative to other domestic actors has been explored in relation to member states such as France and Germany[4] but little research has been done from this perspective on Central European states such as Poland that have recently concluded Association Agreements with the EU in the hopes of eventual membership. Intuitively, however, this approach to analyzing the impact of EU membership makes sense for a study of

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[3] This concept is in contrast to the theory of neo-functionalism, which assets that EU integration strengthens the autonomy of *supranational* EU officials. See, e.g., Haas, E.B., The Uniting of Europe: Political, Social and Economic Forces, 1950-1957 (Stanford, CA: Stanford University Press 1958); Lindberg, L.N., The Political Dynamics of European Economic Integration (Stanford, CA 1963); Nye, J., International Regionalism (Boston: Little, Brown 1968); Lindberg, L.N. and Schneingold, S.A., Europe's Would-Be Policy: Patterns of Change in the European Community (Englewood Cliffs, NJ: 1970).

[4] See Moravcsik, A., "Why the European Community Strengthens the State: Domestic Politics and International Cooperation", Working Paper Series #52 (Cambridge, MA: Center for European Studies, Harvard University 1994); Milner, H., "Resisting the Protectionist Temptation: Industry and the Making of Trade Policy in France and the United States during the 1970s", International Organization, vol. 41:4 (Autumn 1987).

the effects of association with a view to membership on a country in transition such as Poland. First, during the transition era the relationship among the Government and other domestic actors was shifting and therefore susceptible to influence by an external actor such as the EU. Second, as an associated country, the Government was under pressure to adopt EU policies in order to build a case for inclusion in the EU. Finally, Polish policy makers and society were eager to emulate advanced members state economies by adopting "successful" EU market-based policies.

This thesis is a case study of the impact of association with the EU on domestic industrial policy making in Poland from a liberal intergovernmentalist perspective. Since agriculture was excluded from the scope of the Association Agreement, this thesis focuses on policies relating to the adaptation of industry to EU rules and regulations, in particular through industrial trade liberalization and restrictions on state intervention.[5] The goal of the thesis will be to show how EU association affected the policy-making discretion of political leaders in the industrial sphere in relation to other domestic actors, essentially conferring greater agenda-setting power, in two ways. First, because domestic interests were weak and divided in transition-era Poland, the EU provided political leaders with a sharper focus and helped them to consolidate domestic support for government industrial policy initiatives. Second, where domestic

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[5] At the time of negotiation of the Association Agreement, it was unclear whether eventual membership would require adoption of the EU's Common Agricultural Policy or some alternative policy. Thus, the issue was removed from the agenda of the association negotiations and left to be decided at a later date.

opposition arose, association helped political leaders to overcome it by giving industrial policy initiatives greater legitimacy in the sense that they could be portrayed as "mandatory" for EU membership.

In order to show how EU association had these effects, this thesis analyzes the adoption of market-oriented reforms by the Government and the development of a deep commitment on the part of Polish policy makers to association with and eventual membership in the EU. While clearly not all EU policies coincided with the desires of the political leadership, for the most part they were harmonious with the Government's broader reform vision. This thesis then explores how this commitment shaped the role of successive Governments in industry. Finally, it examines the emergence of domestic pressures for state assistance to industry in the process of economic reform and industrial restructuring. In particular, early post-communist leaders expected association with the EU, and the replacement of central planning with pro-market policies, to allow the country's natural comparative advantage to emerge through spontaneous industrial restructuring. However, other factors influenced Polish industry, including changes in trade policy, pressure from domestic lobbies, distorted credit and labor markets, delayed privatization and the pattern of foreign investment. As a result, domestic pressures emerged for the formation of interventionist industrial policies, many of which were incompatible with the Government's commitment to association and eventual accession.

The manner in which the Government handled domestic pressure for intervention in industry offers a prime test of the effects of EU association on industrial

policy-making autonomy. In most areas, the pro-market and pro-competition policies mandated by EU association were incompatible with the nature and level of governmental involvement in industry under socialism. Association and eventual accession required an end to state subsidies and other forms of discretionary support enjoyed by state enterprises for nearly four decades while market-based industrial reform required painful adjustments and restructuring. Many state enterprises sought to avoid the process and resorted to appeals for government assistance. Instinctively, the impact of EU association on the autonomy of industrial policy makers should be strongly correlated with the ability of the Government to stay its pro-market, pro-EU policy-making course. In particular, its resistance to appeals for incompatible state intervention in industry should reveal the relationship between EU association and domestic industrial policy making during the transition era.

This thesis is an original contribution to the study of the influence of EU association on domestic industrial policy making in a post-communist country such as Poland. No previous study has examined industrial policy making in Poland from a liberal intergovernmentalist perspective (adapted to the context of transition) in this level of detail. While several studies have looked at trade and industrial policy reform in Central Europe since 1990,[6] none have specifically focused on how Poland's

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[6] See Hughes, G. and Hare, P., "Industrial Policy and Restructuring in Eastern Europe", Oxford Review of Economic Policy, vol. 8:1 (1992) pp. 82-104; Konings, J., Lehmann, H. and Schaffer, M.E., "Job Creation and Job Destruction in a Transition Economy: Ownership, Firm Size, and Gross Job Flows in Polish Manufacturing 1988-91", Centre for Economic

(continued...)

decision to associate with the EU in pursuit of eventual membership affected domestic industrial policy making. Building on studies regarding the country's post-communist political and economic transition and the integration of Polish and EU industry, this thesis explores the reciprocal influence of underlying economic shifts arising from EU association and changes in relations between the Government and other domestic actors. This thesis thus takes a political economy approach to analyzing the evolution of Polish industrial policy, an evolution that will be closely studied by other countries seeking EU membership throughout Central and Eastern Europe.

Questions Analyzed

The underlying goal of the thesis is to examine how EU association affected the policy-making discretion of political leaders in the industrial sphere in relation to other domestic actors. In analyzing this broad question, the thesis examines several related questions, such as:

(i) How did the focus on EU policies and the drive toward EU membership develop?

(ii) What was the impact of industrial trade liberalization and economic integration with the EU on industry?

(iii) How did association affect non-governmental domestic actors in the industrial sector?

(...continued)

Performance Discussion Paper No. 282 (London: The London School of Economics and Political Science March 1996); Hughes, K. "The Development of Industrial Policy in Transition Economies: A Comparative Analysis" (April 1996); Gros, D. and Steinherr, A., Winds of Change: Economic Transition in Central and Eastern Europe (London: Longman Group UK Ltd. 1995).

iv) How did association affect the ability of government policy makers to form and implement policy initiatives and to respond to domestic pressure for intervention?

'lan and Overview

Chapter One outlines an analytical framework - predominantly based on the ıeory of liberal intergovernmentalism - for examining how association with the EU ffected the autonomy of the Government in the domestic industrial policy-making phere. On the basis of liberal intergovernmentalism, this Chapter develops a set of ypotheses and outlines additional factors (drawn from related theories) that onditioned the domestic impact of association with the EU. In particular, it surmises ow the special features of Poland, a country in transition and aspiring to EU ıembership, should be expected to alter the central predictions yielded by liberal ıtergovernmentalism, essentially strengthening the autonomy of EU-focused policy ıakers in relation to other domestic actors. The analytical framework developed in ıis Chapter forms the theoretical framework for the detailed empirical case study that ıllows.

Chapters Two, Three and Four examine the development of the Government's ng-term pro-market reform focus, the decision to pursue association with the EU and e negotiation of the Association Agreement, showing how successive Polish ɔvernments, supported by a growing private sector and the citizenry, became edisposed toward adoption of EU industrial policies. These Chapters frame the ıctical constraints on market-oriented policy makers and the implications of

association for their policy-making autonomy. Chapter Two examines the evolution of Polish economic policy as embodied in the country's recent economic reforms and during the transition period. The central purpose of this Chapter is to place the Government's pursuit of association with the EU in context by showing the influence of exposure to global economic forces and economic policy reform prior to the commencement of association. Accordingly, this Chapter examines historical developments that influenced the adoption by early post-communist Governments of a markedly reduced role for the state in the economy, revealing how association with the EU accorded with, and thereby "legitimized," the Government's reform program.

Chapter Three explores the factors that underpinned the Government's decision to pursue association with the EU. This Chapter looks at the evolution of Polish-EU relations during the late 1980s prior to the collapse of communism and evaluates how a broad domestic consensus - political and social - formed in support of association, affording political leaders focused on EU affairs wide discretion relative to other domestic actors such as traditional trade unions and fledgling interest groups. This Chapter then evaluates the prime motivations underlying the decision of government policy makers to pursue association in light of alternative external economic policies, as well as the expectations regarding the impact of association on industrial reform and policy making that accompanied the decision. The Government's rejection of alternative policy strategies and its near single-minded pursuit of association establish the strength of the Government's commitment to association and eventual membership in the EU.

Chapter Four evaluates the approach and policy objectives of the Government during the association negotiations, focusing on the relative negotiating freedom they enjoyed in relation to other domestic actors and their primary goals at the outset of the negotiation process. This Chapter shows that while policy makers had little leverage in relation to their EU counterparts, they had significant autonomy vis-à-vis other domestic actors, in particular because the "net costs and benefits" of association were diffuse and ambiguous and the societal constraints on the Government were consequently relaxed. It then analyzes the "outcome" of the negotiations in terms of the degree of EU market access granted to Polish industrial exports under the Association Agreement, assessing the significance of the Agreement for different Polish industrial sectors and actors. It also examines the key policy prescriptions and industrial trade and dispute resolution provisions of the Agreement that could be expected to bolster the restraints imposed by the Agreement on government intervention in industry.

Chapters Five, Six and Seven examine the effects of implementation of the Association Agreement on domestic industrial policy making. These Chapters trace the emergence of domestic pressures for state intervention in industry and the Government's response to such pressures in light of its commitment to eventual membership in the EU. Chapter Five analyzes the influence of association with the EU on institutions, institutional reform and policy-making autonomy as built into the new institutional framework developed after the Association Agreement was concluded, increasing the autonomy of EU-focused policy makers relative to other domestic

actors. This Chapter explores ways in which implementation of the Association Agreement by the Government fostered reform of the basic domestic institutions in the industrial policy-making sphere and development of bilateral institutions, and how these changes affected the industrial policy-making process during the transition. This Chapter also shows how the weak and divided nature of early transition-era interest groups augmented the policy-making maneuverability (or "agency slack") of the Government.

Chapter Six analyzes the effect of the Association Agreement on the policy-making environment in Poland in light of the continuous endeavors of successive post-communist Governments to implement the Agreement. This Chapter focuses on two issues, namely how association bolstered the commitment of policy makers to trade liberalization and how faithful implementation of the Association Agreement affected the domestic policy-making environment in Poland through its effects on the country's internal economic situation and trade balance with the EU. As a measure of the economic impact of association on Poland, this Chapter outlines the changes in industrial resource allocation and the pattern of industrial exports to the EU that occurred under the Association Agreement, examining how they could be expected to inspire the formation of domestic interest groups through their effects on different segments of industry. The purpose of Chapter Six is to predict where pressure would emerge for protection by revealing which sectors faced the most severe economic downturn, were sheltered, remained undiversified and/or suffered from excess capacity.

Chapter Seven examines how, as they adjusted to the economic effects of association, certain industries and enterprises began appealing for government assistance and how, despite occasional digressions, the Government was able to resist demands for intervention and stay its pro-market, pro-EU course as a result of its commitment to EU association. This Chapter shows that not only did the autonomy of EU-focused policy makers increase relative to other domestic actors (as shown in Chapter Five), but the autonomy of other actors, including the political opposition, actually decreased, with the commitment to association typically prevailing over attempts to develop more active industrial policies. As an illustration, this Chapter includes case studies of two key Polish industrial sectors, textiles and steel, both of which were important sectors under central planning and both of which were designated as "sensitive" sectors and received special treatment in the Association Agreement. The purpose of Chapter Seven is to show that even where domestic opposition was expected to be strong (e.g. in sectors facing high "costs" from association because of excess capacity and restricted market access), government leaders were able to preserve their autonomy by invoking the "shield" of mandatory harmonization with EU policies.

Finally, the conclusion draws several lessons as to how association with the EU has influenced domestic industrial policy making in post-communist Poland. It illustrates how, in the context of transition, the Government's commitment to EU association was stronger than for other recent EU members, ensuring that the Government would deviate from the requirements of the Association Agreement only

in cases of intense domestic pressure, and even then only temporarily. The overwhelming domestic support for association and the weak and fragmented nature of interest groups further enhanced the autonomy of government policy makers in relation to other domestic actors during the turbulent transition era, ensuring the development of industrial policies compatible with the pursuit of EU membership. Accordingly, in a new twist to liberal intergovernmentalism, Poland's transitional domestic situation coupled with the country's enduring commitment to eventual EU membership ensured that the effects of association on policy-making autonomy were more pronounced in Poland than in existing member states.

Sources Used in the Thesis

The primary resources used in this thesis relating to the formation of Polish trade, industrial and competition policy, the structure and performance of industry, and the functioning of domestic economic institutions include policy statements, public opinion polls, government reports, academic publications, draft legislation, and personal interviews of several Polish and foreign negotiators of the Association Agreement and of numerous government officials responsible for its implementation. These resources were obtained from the Ministry of Foreign Economic Cooperation, Ministry of Privatization, Ministry of Industry and Trade, Ministry of Finance, National Bank of Poland, major multilateral organizations and financial institutions, and other governmental, civic and academic institutions.

Several significant constraints arose in relation to availability and reliability of data. First, because Poland was eager to join the EU, and because the EU made it

clear that it would not afford any "special treatment" to Poland in relation to the reforms required for membership, successive post-communist Governments have tended to present information regarding industry in a manner supportive of their claims of complying with the Association Agreement and of being prepared for EU accession. Second, because the financial situation of the steel and textiles sectors was so sensitive within the framework of the Polish-EU negotiations on liberalization and state aids, available information tended to be of a general nature as opposed to providing a detailed financial picture. Finally, because Poland was simultaneously negotiating with multilateral agencies such as the International Monetary Fund and the World Bank, the Government imposed restrictions on the nature and amount of available financial information.

Method of Analysis

This thesis is a case study based on Max Weber's definition of the concept of "ideal types."[7] In this view, a case study is one step in the process of generating broader theories and conclusions in the social sciences, with an "ideal type" referring to a category or case under study as opposed to any value-laden ideal. This thesis takes a political economy approach to analyzing the evolution of Polish industrial policy in the sense of examining political questions by looking at the economic consequences of the factors being considered, in this case exploring the reciprocal

influence of underlying economic shifts arising from EU association and changes in relations between the Government and other domestic actors. The thesis is not a comprehensive analysis of association as a whole (excluding the influence of association on agriculture, society and public finance), nor is it a positive analysis of whether or not association has been good or bad for Poland. Instead, it analyzes association only as it relates to policy-making in the industrial sphere.

(...continued)

[7] On the origin of the term "case study", see Weber, M., "'Objectivity' in Social Science and Social Policy", in Finch, H.A., The Methodology of the Social Sciences (trans.) (New York: The Free Press 1949).

I. Chapter One: Liberal Intergovernmentalism, EU Association, and Transition

This Chapter develops an analytical framework for examining how Poland's decision to associate with and seek membership in the European Union (EU) bolstered the Government's policy-making autonomy in the domestic industrial sphere during the transition era. It first examines an existing theoretical paradigm known as *liberal intergovernmentalism*, depicting the effects of the EU on the role of member state governments in the domestic industrial policy-making sphere, and develops a set of hypotheses that will be used to analyze this paradigm in relation to Poland. This Chapter then describes how the special features of association with the EU and profound political and economic transition[1] alter the traditional predictions of liberal intergovernmentalism when applied to Poland. Finally, this Chapter explains how policy constraints stemming from economic integration (via association)[2] with the EU may be distinguished from the pressures of the broader globalization process, and explores specific factors that conditioned the influence of the EU on Poland as the country moved toward a market economy and a liberal democracy. The analytical framework developed in this Chapter highlights the basic questions that will be

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[1] In this thesis, the term "transition" when used with reference to a polity means the state of undergoing a transformation from a non-democratic to a democratic regime, and when used with reference to an economy means the state of undergoing a transformation from a socialist to a market economy.

[2] In this thesis, the term "economic integration" when used in reference to Poland refers to the process of aligning Polish trade and economic activity with EU trade and economic activity as required by the Association Agreement and eventual membership.

explored throughout the thesis in examining the effect of association with the EU on domestic industrial policy making.

A. The Effects of Association with the EU on Domestic Industrial Policy Making

(i) Liberal Intergovernmentalism

In his theory of "liberal intergovernmentalism", Andrew Moravcsik asserts that membership in the EU strengthens the "national executive" vis-à-vis other domestic actors.[3] Specifically, cooperation at the supranational level in the EU redistributes "domestic power resources" between the government and society in favor of a discrete executive, meaning not only the head of state or government or highest political authority in a particular issue area, but those policy makers who participate directly in international negotiations and institutions. According to liberal intergovernmentalism, policy coordination among EU member states confers domestic "agenda control" on national executives, allowing them to determine which issues receive attention and to veto proposals that conflict with external agreements. Whereas many theoreticians have asserted that international cooperation weakens national executives ("ties their hands"),[4] liberal intergovernmentalism contends that it empowers them and allows them to relax domestic constraints ("cut slack") imposed by legislatures, interest groups and other societal actors, particularly where domestic opposition is weak. The

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[3] In the case of Poland, the relevant "executive" in the realm of EU association encompassed not only the traditional executive but also EU-focused policy makers, including in the Committee for European Integration and special EU departments throughout the government bureaucracy. Moravcsik, A., "Why the European Community Strengthens the State" (1994).

strength of domestic opposition, in turn, depends on the policy-making process, the institutional structure, the degree of relevant knowledge possessed by society, and the amount of ideological support for particular policies. In this view, power redistribution is widespread in the EU, where deepening of integration has removed many issues from the domestic to the supranational level, subjecting them to far less legislative, judicial and public oversight.[5]

According to liberal intergovernmentalism, international negotiations and institutions should alter the domestic balance of power between the executive and other domestic groups in Poland through four causal mechanisms: initiative, institutions, information and ideas. First, in the area of foreign policy, strong executive control over policy initiation is reinforced domestically and internationally, through the delegation of authority in national constitutions to the executive (with parliamentary, ministerial and public oversight), and through the recognition by international

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[4] See, e.g., Schelling, T.C., Choice and Consequence (Cambridge: Harvard University Press 1984).

[5] Some theorists assert that the impact of the EU on policy making depends on the degree of economic sovereignty and institutional framework of a country. As Mica Panic explains, "[n]o government can have an effective economic policy, still less a mix of such policies, if its decisions are either imposed by some outside authority or can be changed by it." Economic sovereignty in this sense is measured by the autonomy of the government to devise and implement economic policy. An interesting feature in the case of Poland has been the marked imbalance between the degree of economic sovereignty possessed by the Government domestically and internationally. While the Government enjoyed considerable freedom domestically to fashion industrial policy based on the lack of strong interest groups, the weak identification of political parties with policy platforms and the wide array of plausible economic policy alternatives for industrial restructuring and development, it was considerably restrained in the industrial policy-making sphere by its commitment to EU association and eventual membership, both of which required the Government to adopt EU policies and comply with EU norms. Linz, J.J. and Stepan, A., Problems of Democratic Transition and

institutions of only the executive as the legitimate national representative. Second, since the executive maintains control over the negotiation and implementation of international agreements, with domestic parliaments playing an active role, if any, only after negotiations are concluded, domestic institutions should bolster the autonomy of executives in the international arena by making direct opposition to formal ratification and implementation impractical. Third, international negotiations should fortify the executive by providing privileged access to information, both about alternative policies and about other international actors, which the executive can choose to share selectively with other domestic actors. Finally, participation in international negotiations should strengthen the executive by providing additional sources of legitimation, allowing the executive to link policies to common economic, political, strategic or philosophical ideas.

On the basis of preliminary empirical research, liberal intergovernmentalism appears to offer a particularly plausible foundation for a study of the evolution of industrial policy-making autonomy in Poland. Indeed, its central tenet - that "[r]ather than 'domesticating' the international system, the EC 'internationalizes' domestic politics"[6] - has strong intuitive appeal in the context of the post-communist Polish political system. In particular, this theoretical proposition seems well-suited to a fledgling democracy in which, for the sake of expediency, most policy proposals are made by an executive body or cabinet as opposed to by the legislature. Moreover, the

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Consolidation: Southern Europe, South America and Post-Communist Europe (Baltimore: The Johns Hopkins University Press 1996) pp. 282-92.

four central factors used to support the assertions of liberal intergovernmentalism - power shifts in relation to initiative, institutions, information and ideas - correspond to four major phenomena in transitional Poland. First, by definition a "transitional" political system is one in which both initiative, or control over the domestic agenda, and institutions, or decision-making procedures, are evolving rapidly. Similarly, access to information and ideas, or domestic ideological justifications for policies, are also in a state of flux during the process of massive policy overhaul. As a result of these special features, the circumstances of transition should enhance the tendency of EU association to insulate and empower the executive.

In relation to Central Europe, some scholars have made blanket assertions about differences between the relative "strength" and "weakness" of Western and Eastern European state structures that also support the tendency toward a powerful executive in post-communist Poland. According to George Schopflin, whereas the Western European political tradition has emphasized pluralism and the fragmentation of power, the pre-communist Eastern European tradition focused on the dominant role of the state as the principal agent of change in both the political and economic spheres. Historically, Eastern European rulers were relatively strong while partition and foreign occupation weakened national institutions. As a result, the power of society failed to develop, political participation remained the privilege of the elite, and few political rights were accorded to individuals. What limited political participation did develop during the interwar period was destroyed during the period of communism,

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[6] Moravcsik, "Why The European Community Strengthens the State" (1994) p. 3.

empowering the state even further.[7] In light of this heritage, and given that the industrial policy-making process was undergoing continuous reforms in Poland between 1990 and 1995, the policy-making process should be expected to have greater susceptibility to influence by the EU.

Since the autonomy of domestic political leaders corresponds to the nature and existence of domestic interest groups, liberal intergovernmentalism makes several predictions in relation to their effect on the executive. In particular, governments participating in international negotiations are both empowered and constrained by important societal groups, which calculate their interests based on perceived costs and benefits of specific policies under discussion. At times the government is able to wield greater discretion because the interest groups in a particular issue area (or country) are relatively weak or divided, thereby creating "agency slack" in the principal-agent relationship between the government and other domestic actors. Conversely, powerful social groups can obstruct government policies even where they generate net gains for society as a whole. Where the effects of a given policy are uncertain or insignificant, organized opposition is normally diluted and the constraints on the government are looser. However, where the effects are perceived as threatening - such as the effects of market liberalization and the introduction of market competition - sectors and firms that are sheltered or undiversified, that face chronic surplus capacity, cyclical downturn

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[7] Schopflin, G., "The Political Traditions of Eastern Europe", DAEDALUS, Journal of the American Academy of Arts and Sciences (Winter 1990) pp. 55-90.

or long-term decline, or have irreversible investments, are more likely to press for protection.

Yet liberal intergovernmentalism is based on several assumptions - such as rational state behavior and a liberal theory of national preference - that need to be modified when applied to Poland.[8] Rational state behavior assumes the government acts purposively in the international arena based on goals that are defined according to shifting pressure from domestic social groups whose preferences are aggregated through political institutions. While it is plausible to assume that preferences are rapidly evolving in a transitional political system,[9] it is less plausible to assume that the nexus between domestic preferences and political institutions is as direct as in more settled systems. Similarly, the liberal theory of national preference assumes that state priorities and policies are determined by political leaders at the head of national government, who are "embedded in domestic and transnational civil society, which decisively constrains their identities and purposes." Thus, "[t]he most fundamental influences on foreign policy are the identity of important societal groups, the nature of their interests, and their relative influences on domestic policy."[10] While liberal intergovernmentalism acknowledges that the identity and influence of groups will vary over time, place and issue depending on the costs and benefits of a particular policy,

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[8] Since this thesis does not employ liberal intergovernmentalism in the traditional sense to evaluate the relationship between Polish leaders and the EU, it does not rely on Moravcsik's third assumption of intergovernmentalist analysis of interstate negotiation, i.e. that EU institutions provide a set of passive, transaction-cost reducing rules and delegate and pool sovereignty. Moravcsik , "Preferences and Power" (1993) p. 480.

[9] As Moravcsik notes, other theories, such as neo-realism, treat domestic preferences for wealth, security or power as fixed. Moravcsik, "Preferences and Power" (1993) p. 481.

the undeveloped nature of interest groups in Poland renders them a particularly weak domestic actor relative to the Government.

(ii) Key Questions and Related Concepts

Liberal intergovernmentalism provides two central hypotheses to be tested in relation to industrial policy making in Poland: *first*, whether the role of the "executive" was strengthened by the pursuit of EU association and eventual membership, and *second*, subsequent to any ensuing redistribution of power, whether the executive was able to mold domestic industrial policy initiatives to accord with prevailing EU policies. While liberal intergovernmentalism furnishes these hypotheses, however, it does not provide a concrete formula or approach for testing them. On the contrary, most applied studies have used a country-by-country (and policy-by-policy) approach and explored a wide variety of factors in order to reach conclusions in each case. Moreover, in testing these hypotheses several additional factors aside from pursuit of EU membership need to be considered, in particular the special features of Poland's profound political and economic transition and the pressures of the broader internationalization process ongoing generally. As will be examined below, it should be easy to distinguish the effects attributable to association from the more diffuse pressures of globalization, clarifying how the features of transition strengthen the predicted effects of association on industrial policy in Poland according to liberal intergovernmentalism.

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[10] Moravcsik, "Preferences and Power" (1993) p. 483.

a. Special Features of Poland: Transition and Aspiration to EU Membership

Pursuant to liberal intergovernmentalism, the degree to which the process of association with the EU strengthens the role of the executive in the industrial policy-making sphere, if at all, through the process of association with the EU depends upon a variety of factors, such as the policy-making process, the domestic institutional structure, the level of development of intermediate associations, the degree of knowledge possessed by society, and many other country-specific features. Consequently, the theory yields widely differing predictions even among EU member states. Intuitively, however, we would expect the predictions to be amplified when applied to Poland as a result of two features that are time- and country-specific: first, the country's deep political and economic transition, and second, the country's status as a non-EU member state aspiring to membership. Because of these special features, the effect of association with the EU on domestic industrial policy making in Poland should logically be greater than in EU member states. In particular, the dual aspects of profound transition and aspiration to membership affect the elements of liberal intergovernmentalism in a manner that strengthens its underlying predictions during the period under analysis.

First, the redistribution of power in favor of policy makers entrusted with association was stronger in Poland than in EU member states because political parties were weaker and interest groups were not as sophisticated as the well-developed lobbies in the EU, and the linkages between the two groups were extremely tenuous.

At the time the economic reforms were initiated in 1990, domestic constraints on the "executive" (i.e. government policy makers) were extremely loose in Poland's fledgling post-communist democracy, as reflected in the free rein policy makers enjoyed in relation to domestic legislators, interest groups and other societal actors while negotiating the Association Agreement. Deputy Prime Minister Leszek Balcerowicz, the principal economic policy maker at the time,[11] described the situation as a period of "extraordinary politics", during which "major discontinuities, i.e., liberation from external dependence and a political liberalization, produce a special state of mass psychology and a corresponding state of political system", resulting in an abnormally high level of readiness to accept radical economic measures.[12] Thus, while no powerful opposition parties or interest groups existed to limit the freedom of the Government to fashion economic policy, the degree of national consensus on the desire to join the EU shifted power not only toward the national executive in the traditional sense but also toward all high-level policy makers focused on EU association.

Second, because of the dramatic nature of the shift from socialism to a market economy and the lack of any recent experience with capitalism, the Government was able to conform the national economic ideology to internationally prevailing norms. While the domestic agenda was extremely volatile, with a wide range of major issues being introduced on a daily basis, information regarding external economic policy was

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[11] Leszek Balcerowicz was Deputy Prime Minister and Minister of Finance in both the Mazowiecki and the Bielecki Governments (from September 1989 to December 1992).

[12] Balcerowicz, L., Socialism, Capitalism, Transformation (New York: Central European University Press 1995) pp. 264-66.

not widely disseminated among those outside the Government due to severe informational and technical constraints. Third, because of the severe distortions of central planning and the extreme isolation of the Polish economy within the former Soviet trade system, Poland's production profile underwent visibly dramatic changes with the opening of the economy; because the Polish economy was undergoing a more profound transition than previously associated member states, the economic effects of association were magnified. Finally, by virtue of its associate status, the Government did not fully participate in EU decision making or the shaping of EU policy, while the overwhelming desire to achieve membership limited the range of policy choices considered by the Government and conferred supreme power on the EU, namely the power to decide whether and when to admit Poland as a member. This final feature placed heavy pressure on the Government to adopt EU policies.

b. Related Concepts and Considerations

As a point of departure for testing the predictions of liberal intergovernmentalism in relation to industrial policy making in Poland, the concept of "industrial policy" must be defined. Revealing its broad nature, industrial policy as a concept does not have an accepted definition and is used in a wide variety of contexts.[13] Brian Bayliss and Ali El-Agraa define industrial policy as embracing "all

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[13] Even the four volumes of The New Palgrave: A Dictionary of Economics do not contain a definition of the term "industrial policy". Fingleton et al. define industrial policy as a policy to save jobs or create jobs or build national champions regardless of possible anti-competitive effects. Fingleton, J. et al., Competition Policy and The Transformation of Central Europe (London: CEPR 1996) p. 3. The Collins Dictionary of Economics defines industrial policy as any policy designed to improve industrial performance and efficiency, to regenerate industry or maintain and increase employment in the industrial sector. Pass, C., Lowes, B. and Davies, L.,

acts and policies of the state in relation to industry", whether negative (policies designed to minimize state intervention in industry) or positive (policies designed to influence industry).[14] In order to employ a meaningful and workable definition, most studies of industrial policy restrict their scope to positive acts having as their *primary purpose* the allocation of resources between economic activities or industries. This distinguishes policies designed to support a particular industry from general environmental, monetary, fiscal, or other macroeconomic policies.[15] Revealing how industrial policy and trade policy overlap, the principal instruments of industrial policy are subsidies and protection from foreign competition, which often coincide in a single policy, such as a public procurement policy that expressly favors domestic producers.[16] In Poland, where the state ran industry under central planning, industrial policy

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Collins Dictionary of Economics, 2nd edition (Glasgow: HarpersCollins 1993) p. 254. Finger and Messerlin define industrial policy as "government actions and programs that support particular firms or industries. These policies, which are conditioned by different institutional and policy settings and aimed at different objectives, often reflect no overall economic strategy." Finger, J. M. and Messerlin, P.A., "The Effects of Industrial Countries' Policies on Developing Countries", International Economics Department, Policy, Planning and Research (Washington, DC: World Bank 1989) p. 2.

[14] Bayliss, B.T. and El-Agraa, A.M., "Competition and Industrial Policies with Emphasis on Competition Policy," in El-Agraa (ed.), Economics of the European Community, 3rd edition (London: Harvester Wheatsheaf: 1994) pp. 137-55.

[15] Price, V. C., "Competition and Industrial Policies with Emphasis on Industrial Policy", in Ugur, M., Policy Issues in the European Union: A Reader in the Political Economy of European Integration (Dartford: Greenwich University Press 1995) pp. 69-70. Price argues that "resource allocation policy" would be a more accurate term, and that the distinction between agricultural, industrial and service policies is in this sense artificial since all three may qualify as industrial policies.

[16] As indicated by the nature of these instruments, often the formation of industrial policy is in response to pressure from interest groups formed in order to combat declines in production, profits or employment in a particular industry.

encompasses *both* discrete restructuring, privatization and trade liberalization policies *and* policies related to continued state ownership of enterprises.

When comparing the effect of the EU on Poland with its effect on member states, it must also be borne in mind that while the nature and frequency of positive industrial policy actions varies among member states, EU industrial policy overall has become more market-oriented and less tolerant of state intervention. The EU initially took a more permissive approach in relation to proactive intervention in industry by national governments. In the decades following World War II, the role of national governments in Western Europe in restructuring domestic industry was facilitated by several factors, such as the existence of wartime controls and the widespread wariness among national governments of economic depression experienced in the 1930s. Further, on a global level the multilateral and regional trading systems were relatively weak and these countries maintained a strong degree of "economic sovereignty". Thus, the UK and France were free to nationalize a number of sectors, and France, the Netherlands and Norway were free to implement indicative planning. In subsequent decades, however, the EU began to adopt a more restrictive stance regarding national state intervention in industry. Consequently, the European Commission in practice began to deem a wide variety of government programs to constitute prohibited forms of state intervention, particularly those involving direct subsidies and sectoral targeting. As a result, the effect of the EU on domestic industrial policy making in member states has become sharper in recent years for certain sectors.

Another limitation of liberal intergovernmentalism is that it suffers from a deliberate, explicit focus on the effects of the EU on relations *among* domestic political actors. Clearly, membership in the EU also entails a shift in power from the national government as a whole to the EU. Thus, Hussein Kassim and Anand Menon analyze the effects of EU membership on state autonomy in the industrial sector, dividing it into two spheres: its effect on the substance of national *policy*, and its effect on national *policy making*.[17] In relation to the effects of the EU on national *policy*, the development of general and sector-specific policies at the EU level may preclude or otherwise influence policies at the national level by compelling governments to abandon or modify existing policy objectives and instruments in order to comply with new EU policies. Similarly, the application of general EU rules and directives may also affect the implementation of domestic policy. For instance, EU competition rules that regulate state aids and relations between state authorities and firms, as well as the jurisprudence of the European Court of Justice, may prohibit state support for preferred sectors or national champions. Finally, EU policy in other areas, such as fiscal policy, may also restrict industrial policy options. At the same time, however, national authorities may profit from the use of EU rules and policies as a pretext for

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[17] Kassim, H. and Menon, A., "The European Union and State Autonomy", in Kassim, H. and Menon, A. (eds.) The European Union and National Industrial Policy (London: Routledge 1996) p. 5. Kassim and Menon purposely refer to state "autonomy" as opposed to sovereignty, stating that "[t]he notion of autonomy seems better suited to capture the capacities of the state than sovereignty" and that "[a]utonomy is a far more precise analytical instrument than sovereignty" for analyzing the ability of the state to implement policies given the existing domestic social forces, economic situation and international pressures. Kassim and Menon (1996) p. 3.

overcoming opposition to restructuring, thereby strengthening their "autonomy" vis-à-vis other domestic actors.

In relation to the effects of EU membership on national *policy making*, policies adopted at the EU level have the tendency to influence the distribution of power between national actors and to constrain governmental autonomy by privileging one set of interests over another. By virtue of its power to determine the salience of a particular issue at the supranational level, the EU influences the substance of politics and thus the focus of policy makers at the national level - even for an associated country.[18] However, the fact that membership in the EU entails a transfer of power to the EU does not directly undermine the assertions of liberal intergovernmentalism. It simply means that the amount of power available at the national level for redistribution among domestic political actors is diminished by membership in the EU. For instance, while certain trade liberalization policies of the EU may strengthen private firms relative to public ones, and consumers relative to producers, they may at the same time weaken the capacity of a national government to intervene in the private sector. In this context, the autonomy of domestic policy makers is likely to be greater where interest groups have been relatively unorganized or dormant, for instance in substantively new

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[18] Thus, the convergence criteria embodied in the Maastricht Treaty (as well as the fixed parities of the ERM) have constrained the ability of member states to fund industrial projects through deficit budgeting or increased government debt. Similarly, during the development of the Single Market Programme, private business owners exerted considerable pressure on their national policy makers to undertake market deregulation on an EU-wide scale. Finally, EU action has increased the difficulties encountered by member states in formulating policies acceptable to domestic lobbies, often through the formation of alliances between the EU and domestic actors. Menon, A. and Hayward, J., "States, Industrial Policies and the European

areas of policy.[19] For a country undergoing massive policy overhaul such as Poland, this prediction carries even more weight.

Yet, while large in theory, in practice the amount of power ceded to the EU in the industrial policy-making sphere is conditioned by several factors and varies markedly by sector and by state. First, even where the EU treaties expressly govern a particular sector, member states tend to be deeply involved in the EU decision-making system and the formation of policy.[20] As a result, EU policy tends to impose weaker constraints on politically-sensitive sectors, such as steel and textiles, than on other sectors. Second, member states hold different views regarding the EU's stance on industrial policy, as evidenced by the vague and contradictory statements made in the Maastricht Treaty and other comprehensive EU studies such as the Cecchini Report.[21] Governments favoring greater state intervention in industry, such as France and Italy,

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Union", in Kassim and Menon (1996) p. 269. See also Sandholz, W. and Zysman, J., "1992: Recasting the European Bargain", World Politics, vol. 42 (1989) pp. 95-128.

[19] The EU also has an effect on the locus of "interest intermediation", as evidenced by the proliferation of interest groups in Brussels and the creation of EU-wide interest group federations. The centralized policy-making process of the EU raises the potential return to lobbying for protection in the form of a regional protection policy. In the EU context, for example, interest groups have often found it expedient - and been encouraged - to relocate to Brussels; at the same time, a significant amount of lobbying for protection against firms of other member states has continued at the national level. Pierce, W., "Unanimous Decisions in a Redistributive Context: The Council of Ministers of the European Communities", in Vaubel, F. and Willet, T. (eds.), The Political Economy of International Organizations: A Public Choice Approach (Boulder: Westview Press 1991).

[20] Member states exert considerable influence within the cabinets of individual EU Commissioners and within the services of the Commission "where nationals, especially of the southern states, maintain strong links with their national administrations". Peterson, J., "Decision-making in the European Union: Towards a Framework for Analysis", Journal of European Public Policy, vol. 2(1) (1995) pp. 74-75.

[21] See Hayward, J., "International Industrial Champions", in Hayward, J. and Page, E.C. (eds.), Governing the New Europe (Oxford: Policy Press 1995) p. 8.

have been more constrained by the EU in their development of industrial policies, particularly policies seeking to foster the growth of national or European "champions". In contrast, governments practicing a less interventionist approach to industrial policy, such as the UK and The Netherlands, have found EU policies consistent with their national policy choices.[22] Accordingly, Menon and Hayward conclude that the influence of EU action on domestic industrial policy depends heavily on national characteristics, and "[i]t is a grasp of the iterative process, involving the interaction over time of sub-national, national, EC and international actors, operating within one or more of these policy arenas, that is the prerequisite to an understanding of the outcomes of the intentions of industrial policy makers."[23]

By not requiring a strict categorization of Polish institutions and political actors, liberal intergovernmentalism is well-suited for a case study of a country in transition. By contrast, other theories of international political economy tend to be overly rigid, such as the five distinct facets of economic policy making outlined by Peter Gourevitch to explain economic policy choices.[24] These facets include the

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[22] Menon and Hayward (1996) p. 275.

[23] Menon and Hayward (1996) p. 287.

[24] Gourevitch, P., Politics in Hard Times: Comparative Responses to International Crises (Ithaca: Cornell University Press 1986) p. 21. For a journalistic case study of economic policy making in the U.S., see Woodward, B., The Agenda: Inside the Clinton White House (New York: Simon & Schuster 1994). When a country liberalizes its external trade regime, domestic policy adjustments reflect not only the response of domestic economic concerns but also a variety of domestic political factors. Policy choices are determined not by the formal structure of domestic institutions, but by the way in which institutions interact with political leaders and other societal actors. Whereas a government ministry may be entrusted with the protection of domestic industry, the goals of top government officials or political leaders may have a strong influence on the policy outcome. These domestic political factors, and the mechanisms of policy making and intervention available to the state, vary widely across countries.

"production profile" of a country; the character of its "intermediate associations"; its "state structure"; the "economic ideology" prevailing in the country; and the country's position in the "international system". The production profile explanation focuses on how the international and domestic positions of societal actors (business, labor and agriculture) shape their policy preferences. The intermediate associations explanation focuses on how political organizations and interest groups convey social preferences to state institutions. The state structure explanation focuses on how institutions mediate and define interests, in particular of intermediate associations. The economic ideology explanation focuses on how values and traditions shape perceptions of economic and political circumstances. Finally, the international system explanation focuses on how international developments shape economic policy.[25] Many elements of these approaches are rapidly evolving and thus inapplicable in the context of transition. Nonetheless, changes within particular categories, such as changes in a country's production profile or intermediate associations, may themselves evidence the effect of association with the EU.

Similarly, in an even more rigid theoretical construct, Ha-Joon Chang has developed three classifications for analyzing the political forces that shape industrial policy and its response to external influences, namely the "autonomous-state approach", the "interest-group approach" and the "self-seeking bureaucrats approach".

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[25] Gourevitch (1986) pp. 54-66. Related to the international system approach are the so-called "reverse second-image" approaches, which look at the influence on domestic policy or politics of international phenomena, such as different levels of economic development and market power, and political-military rivalries. See, e.g., Waltz, K., Man, the State and War (New York: Columbia University Press 1959).

The autonomous state approach views the state as a dynamic and independent force with its own objective function, distinct from that of society, which seeks to maximize the profit and power of the government.[26] The interest-group approach views the state as an arena where economic interest groups or social movements vie with one another to shape public policy regarding the allocation of benefits among competing groups. This approach incorporates the "regulatory capture" theory of the Chicago school pursuant to which an industry tends to "acquire" control over regulation and ensures that it is designed and implemented primarily for the industry's benefit. Finally, the self-seeking bureaucrats approach views bureaucrats as individuals that pursue their own interests unless otherwise constrained from doing so.[27] As both the industrial policy making process and the domestic political forces shaping it were swiftly evolving in Poland after 1989, we would expect Poland's state structure and intermediate associations to evade these narrow categorizations and be more heavily influenced by the association process.

B. Association and Industrial Policy Making in Post-Communist Poland

(i) Internationalization Versus Integration

Because during the early transition era Poland as an aspiring EU member state was newly opened to the outside world, an analysis of the effects of association with the EU on Polish industrial policy making must isolate the effects of association from

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[26] The government in this regard may be either "predatory" or "non-predatory" depending on how aggressively it seeks to fulfill its profit maximization function.

[27] Chang, H-J., The Political Economy of Industrial Policy (London: St. Martin's Press 1994) pp. 18-24.

the effects of other forces. Specifically, the effects of association on domestic policy making must be distinguished from the more diffuse pressures of globalization, or "internationalization." Since association may be considered a part of the internationalization process, this requires demonstrating that effects attributed to association would have not have occurred anyhow in the course of the ongoing internationalization process. For this purpose, the relevant notions of internationalization and association - or the less formal concept of "integration" - must be carefully elucidated. Most definitions of economic internationalization focus on the increasing exposure of national economies to international pressure through the rise of international trade, foreign investment and finance. Internationalization in this sense contributes to the development of a "world economic system",[28] through a gradual process, the end-point of which is embodied in a prediction made by Robert Reich that "[w]e are living through a transformation that will rearrange the politics and economics of the coming century. There will be no *national* products or technologies, no national corporations, no national industries."[29]

Similarly, Helen Milner and Robert Keohane explain that "we can no longer understand politics within countries - what we still conventionally call "domestic" politics - without comprehending the nature of the linkages between national

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[28] Some see this process as entailing global stratification into core areas and peripheral areas. Camilleri, J.A. and Falk, J., The End of Sovereignty? The Politics of a Shrinking and Fragmenting World (London: Edward Elgar 1992) pp. 69-72, 77-79.

[29] Reich, R., "The National Idea", The Work of Nations: Preparing Ourselves for 21st-Century Capitalism (New York: Alfred A. Knopf 1991) p. 3.

economies and the world economy, and changes in such linkages."[30] The central proposition made by Milner and Keohane, and supported by a number of studies, refers to the loss of control experienced by national governments as a result of increasing international flows of goods, capital and services. Most studies discern the general pressures flowing from internationalization, however, as opposed to specific effects on specific issues, with findings along the following lines: (i) given a set of domestic political institutions, the responsiveness of democratic regimes to an increase in the international exposure of the economy will depend on the policy-making process and the strength of domestic institutions, such as the bureaucracy and trade unions;[31] (ii) different levels of integration into the world economy entail different degrees of influence on national political institutions; and (iii) the greater the exogenous liberalization of trade, the more likely a government will be to undertake liberalization and "liberalization-favoring" institutional reform.[32] In the case of Poland, by radically opening its economy to global economic forces, the effects of international exposure

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[30] Milner, H. and Keohane, R.O., "Internationalization and Domestic Politics: An Introduction", in Keohane and Milner (eds.), Internationalization and Domestic Politics (Cambridge: Cambridge University Press 1996) p. 3.

[31] Garrett, G. and Lange, P., "Internationalization, Institutions and Political Change," in Milner and Keohane (1996).

[32] Frieden, J.A. and Rogowski, R., "The Impact of International Economy on National Policies: An Analytical Overview", in Milner and Keohane (1996) p. 43. The ease with which liberalization will occur depends on three factors: (i) the breadth of domestic constituencies and coalitions; (ii) the credibility of national decision makers; and (iii) the time perspective of national decision makers (a long-term outlook being more congruent with liberalization). Moreover, where existing institutions generate powerful pressures for governments to maintain policies favored by their closest constituents, governments may have incentives to change the institutional structure of their polities "so as to mitigate the tension between distributional politics and economic performance." Garrett and Lange, in Milner and Keohane (1996) p. 54.

are more obtuse and easy to distinguish from discreet policy changes in line with specific EU policy prescriptions.[33]

Whereas internationalization is a broad, dynamic concept, integration (and correspondingly association) is more circumscribed and often refers to a particular region or grouping of countries. Accordingly, integration is subject to many classifications: it may be formal, in the sense of deliberate actions by policy makers to establish common rules and institutions, or informal, in the sense of market-driven increases in economic exchanges and the spontaneous growth of agreements.[34] Formal integration may be either proactive, having discreet political goals such as the redirection of economic flows against the tide of internationalization (referred to as "nation building"), or it may be reactive, involving adjustments to domestic rules and procedures in response to economic and social changes. Integration may be further

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[33] According to Milner, the influence of greater international economic linkages on a country's domestic industrial policies depends on the "strength" or "weakness" of the policy making process in terms of: (i) the unity of state policy-making structures, in terms of whether they are centralized or decentralized; (ii) the insulation of the bureaucracy from societal influence; (iii) the number of policy instruments used by the government; and (iv) the coherence of the government's stated policy goals. These features determine the degree to which a national government will be insulated from appeals for protection by industries that are not strongly internationally-oriented. In theory, the more each of these features characterizes the policy-making process, the "stronger" the government and the more immune the policy-making process to industrial influence; however, as Milner herself notes, a country which qualifies as having a strong structure may in fact be weak depending upon how firms' preferences are integrated into the policy-making process. Milner shows France to be an example of his phenomenon. Milner, "Resisting the Protectionist Temptation" (1987) pp. 639-65.

[34] Wallace, W., "The Dynamics of Integration", The Transformation of Western Europe, Chatham House Papers (London: Royal Institute of International Affairs 1990). Wallace notes the ambiguous nature of the concept of integration, stating that "'[i]ntegration' is as imprecise a term as 'independence', 'authority', 'sovereignty', or 'state', and as widely used - and misused - by politicians and political scientists, economists, sociologists and lawyers. . . Few except such historicists as Hegel and Marx have claimed to encompass the full complexity of social, economic and political integration within a single theory." pp. 53-54.

classified as being political, social or economic. Political integration involves the development of a political community of shared values, social integration involves the intensification of peaceful human exchanges, and economic integration involves the intensification of economic exchanges (similar to informal integration). In reality these distinctions are relatively meaningless, since most integration processes, as in the EU, have political, social and economic dimensions.

Of relevance to the EU, the deeper the level of integration, and the more formal, proactive and multi-dimensional the integration process, the easier it is to distinguish the effects of a particular integration process from the broader internationalization process ongoing globally. Conversely, reactive and informal integration are closest to what most theorists mean by the term internationalization. Because of the formal nature and depth of integration in the EU, in many areas the effects of integration on policy and policy makers in EU member states are discernible from those of the more general internationalization pressures.[35] This is particularly true where EU member states are bound by discreet directives or quantitative criteria which are more constraining than the norms and criteria agreed in broader multilateral forums, such as the World Trade Organization or the International Monetary Fund. Moreover, while pressures of internationalization tend to push domestic economic policy in the same direction as integration - such as toward lower tariff barriers and

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[35] Regional integration in the EU was preceded by "national" integration (the centralization of the national political community and the rise of the centralizing state), a sequence of events which has allegedly postponed the development of truly supranational EU institutions. By contrast, national integration never came to fruition in Poland during the interwar period. Schopflin (1990) p. 73.

budget deficits - they are slower to evolve and more easily resisted than EU directives implemented and enforced by the extensive EU institutional apparatus.

For several reasons, the effects of association on Polish industrial policy making are distinguishable from the broader pressures of internationalization, even though the country embarked on association with the EU and opened itself to international economic pressures simultaneously.[36] First, Poland entered the international mainstream and confronted the brunt of global economic pressures in a precipitous fashion as the economy was dramatically opened and the country renegotiated its obligations under the GATT and its membership in the IMF, the World Bank and other multilateral organizations during the first two years of the reforms.[37] Thus, the Government completed the most significant adjustments to international pressures during a concentrated period of time. In contrast, the process of association with the EU accelerated during the 1990-95 period, so that the Government's efforts to adjust to the association process could reasonably be expected to become deeper and more sustained, and EU norms and policies could reasonably be expected to

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[36] When used in relation to Poland, "internationalization", "integration" and "industrial policy" take on new dimensions. In the simplest sense, the "internationalization" of policy refers to the process of adapting policy to international pressures or bringing policy under international control, although the term is often used in reference to the increasing global linkages between countries. The term may be used to characterize the process of opening the economy to global trade and investment flows, even if Poland's growing international linkages are heavily dominated by the EU. Meanwhile, "integration" (via association) with the EU may be defined as either a process or as an end in itself. In the sense that it is ongoing, integration in the context of Poland refers to a process, namely that of linking the economy with the economies of the EU, whereas accession refers to the desired end to the process. Webster's New Universal Unabridged Dictionary, Deluxe Second Edition (New York: Simon & Schuster 1983) p. 959.

become increasingly binding, in each successive year. Second, even where association and internationalization moved policy in the same direction, the process of association with the EU imposed concrete deadlines for the adoption of particular policies. In this regard, the effect of association was to expedite the development of policy in many areas, as evidenced by express references to EU policy.

(ii) Industrial Policy Making During Transition

The purview of "industrial policy" also takes on a new dimension in the context of transition, namely the monumental task of industrial transformation. In Poland, "negative" acts embodied in *laissez faire* policies toward industry have been a prevalent component of industrial policy, as evidenced by Polish Minister of Industry Tadeusz Syryjczyk's avowal that "the best industrial policy is no industrial policy."[38] Transitional Polish industrial policy may be viewed as the "withdrawal of the state's hand" from industry after decades of deep intervention; and where new "positive" acts have been used it may be conceptualized as the substitution of a lighter hand for a formerly heavy hand. A study by the Warsaw School of Economics described the concept as follows: "[t]he difficulties experienced by many Polish industrial enterprises in the early stages of reform provoked strong demands for state interventionism. Many expect the state to influence market allocation through an industrial policy. But the

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[37] Because such a large portion of Polish trade became bound with the EU, the effects of wider internationalization of Polish economic policy, through participation in international financial institutions and the WTO, were increasingly dominated by association with the EU.

[38] Kolodko, G., Poland 2000: The New Economic Strategy (Warsaw: Poltext 1996) p. 17. The same comment has also been attributed to Deputy Prime Minister Balcerowicz. See World Economy Research Institute, Warsaw, and International Centre for Economic Growth, San

industrial policy experience and instruments used by developed market-economy countries cannot be applied to Polish industry because it is still dominated by the state. This explains why, between 1991 and 1994, industrial policy was one of the most feverishly discussed and controversial issues." The authors adapted the notion of industrial policy in the Polish context to mean "a sum of state activities designed to influence the form and development of industrial structures."[39]

As demonstrated by the case of Poland, the functions of industrial policy in a transitional economy are also broader than they are in more advanced Western economies, and the objectives of sectoral and economy-wide approaches often overlap.[40] Industrial policy is in this sense both more pervasive and less descript. In particular, the special functions of transitional industrial policy include: (i) assistance in reforming the industrial structure through corporatization, privatization and the

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Francisco, Transforming the Polish Economy (Warsaw: Warsaw School of Economics 1994) p. 115.

[39] Transforming the Polish Economy (1994) p. 113. Similarly, Roberta Benini described how "[i]n Western countries industrial policy had acquired various objectives depending on the country's background, the particular phase of growth, the dominant economic governmental philosophy and therefore also on the role assigned to the State in the economic sphere. . . The main objective of [transitional] industrial policy has been primarily that of *promoting industrial growth* and favouring the improvement of efficiency. The second determining objective has been that of *facilitating substantial restructuring* when the need for costly adjustments arose, in order to ease resource allocation, thereby reducing the cost of the dismantling capacities." Benini, R., "The Need for an Industrial Policy in the Transition: Questions and Challenges," MOCT-MOST, vol. 4(2) (1994) p. 8. See also Socha, M. and Sztanderska, U., "Restructuring and Industrial Policy in Poland", MOCT-MOST, vol. 4(2) (1994) pp. 71-106.

[40] The tools of government policy making, which normally include legislation, revenues and expenditures, actions of public officials and "mobilizing symbols for collective action", are in some senses more diverse in a transitional economy. See Almond, G.A. and Powell, G.B. (eds.) Comparative Politics Today: A World View (Boston: Little, Brown and Company 1984) pp. 188-89.

promotion of small-and medium-sized enterprises; (ii) competition policy to prevent antimonopolistic practices and to facilitate the dismantling of former state monopolies; (iii) improvement of outmoded technology through state support for research and development; (iv) long-term financial restructuring, including the development of credit policies and the strengthening of commercial banks; and (v) promotion of the intersectoral transfer of resources from industry to services in order to support the development of private industry and to absorb redundant service capacities from state industry.[41] If pursued fully by the Government, performance of these functions would entail a deep level of state intervention in industry, whereas in practice the Government refrained from deep involvement in the traditional Western European sense.

Finally, the nature of the post-communist industrial structure also bears on how industrial policy should be viewed in Poland. For instance, Poland inherited an industrial structure characterized by excessive development and geographical concentration of heavy industries, under-development of high-technology, service and consumer industries, and extreme horizontal and vertical integration of firms.[42] The implementation of radical economic reforms did not result in the spontaneous

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[41] Fingleton et al. (1996) p. 13; Benini (1994) p. 12.

[42] Benini outlined four structural constraints on the "spontaneous adjustment" of transition economies to market forces: (i) the *physical dimension of industrialization,* characterized by oversized enterprises, an excessive level of territorial concentration and underutilized fixed assets; (ii) *deep-rooted rigidities and imbalances* in the industrial structure, characterized by excessive emphasis on heavy industry and lack of enterprise specialization; (iii) a new *competitive environment*, characterized by market criteria and openness to international trade; and (iv) *absence of positive externalities*, due to poor infrastructure and the internalization of services by enterprises. Benini (1994) pp. 1-14, 4-5.

adjustment of this structure.[43] Moreover, under central planning, the authorities encouraged, and indeed the system necessitated, a high degree of horizontal integration and what would be considered collusion in a market economy as a means of business operation.[44] As Fingleton et al. note, "[l]earning to compete required firms to conceive of each other in a wholly new way, and has often produced a certain bewilderment among managers at the idea that price-fixing or market-sharing, for instance, might be socially harmful and therefore illegal."[45] Accordingly, market habits and institutions in many areas began to form in an atypical manner, with some old habits and institutions from central planning persisting during the process of economic transformation. These features required the Government to make certain market-oriented corrections in order to effect the transition to a market economy that should not be considered intervention in the traditional industrial policy sense.

Conclusion

Several factors conditioned the effects of association with the EU on industrial policy making in post-communist Poland in ways supporting the conclusion that not only should the predictions of liberal intergovernmentalism hold true, but the influence

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[43] Jakobik, W, "Liberalization and De-Regulation of the Public Sector in the Transition from Plan to Market", MOCT-MOST, vol. 1 (January 1993) pp. 23-36; Jakobik, W., "Dylematy Polityki Przemyslowej w Warunkach Transformacji Systemowej" [Industrial Policy Dilemmas in the Conditions of Systemic Transformation], Gospodarka Narodowa, vol. 5(61) (May 1995) pp. 1-6.

[44] Joskow, P.L., Schmalensee, R. and Tsukanova, N., "Competition Policy in Russia during and after Privatisation", Brookings Papers on Economic Activity: Microeconomics (1994) pp. 301-81.

[45] Fingleton et al. (1996) p. 45. Similarly, consumer activism, which was practically non-existent under central planning, viewed suspiciously by political authorities and largely pointless in a situation of excess consumer demand, was slow to develop.

on industrial policy making should be even greater for Poland than for existing member states. While the special features of transition weakened the negotiating position of Polish leaders externally, they facilitated the shift of power domestically in favor of government policy makers focused on association. The empirical analysis that follows highlights the three country-specific factors most relevant to this outcome: First, since policy makers began at an extreme economically and politically, they had a greater distance to bridge with the reforms and adopted farther-reaching policies; second, as a non-EU member state the country was deprived of a formal role in shaping EU legislation or policy and thus was predisposed to accept it unquestioningly; and third, the EU wielded a more coercive influence over Polish policy makers by virtue of its ultimate negotiating option, the power to delay or refuse Poland's membership. By encouraging political leaders to embrace EU policies more strongly, these factors strengthen the predicted increase in the policy-making autonomy of the Government relative to other domestic actors resulting from association with the EU.

II. Chapter Two: Polish Economic Reforms and the Development of Foreign Economic Policy

Several features of Poland as a country in transition are relevant to the effects of the EU on industrial policy making. As a result of the dramatic shift from socialism to a market economy and the lack of recent experience with capitalism, the Government had a special ability to mold the prevailing economic ideology in the country. Specifically, because of the severe distortions of central planning and the long period of isolation of the Polish economy within the former Soviet trade system, the country's production profile underwent visibly dramatic changes with the opening of the economy that required strong and decisive leadership. Moreover, due to extensive state ownership of industrial enterprises and assets, industrial policy had a broader function in Poland and thus increased the potential empowerment of industrial policy makers relative to other domestic actors. This Chapter examines historical developments that influenced the adoption by early post-communist Governments of a markedly reduced role for the state in the economy, setting the stage for alignment with the EU. It also explores the economic landscape underpinning the industrial sector. The central purpose of this Chapter is to place the Government's approach to post-communist industrial policy making in context by examining the reorientation of the country's economic focus from East to West and the economic policy reforms that preceded the country's formation of an association with the EU.

A. Background to Economic Reforms

(i) Ideological Foundations

Following the conclusion of the historic Round Table Agreement in April 1989 that eventuated in the dissolution of the Polish United Workers' Party (Communist Party), the Government of Prime Minister Jan Bielecki introduced radical economic reforms under the comprehensive Economic Transformation Program. The Program, also referred to as the "Balcerowicz Plan" or "shock therapy",[1] embodied a neo-classical approach to reform. Reflecting an aversion to state involvement in the economy, policy makers in charge of designing the initial economic reforms relied almost exclusively on market forces, such as self-adjusting mechanisms and private property, as the means to achieve the transition from a command economy to a market economy. Thus, each of the three main components of the Program-- stabilization, liberalization and privatization -- was designed to reduce or eliminate state involvement in the economy. This approach manifested a simple *laissez-faire* rationale for Poland's new political economy: The role of government should be limited to providing a stable, neutral incentive system and to overseeing ownership changes in order to avoid a repetition of the errors committed under central planning.[2]

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[1] The Solidarity Government's economic reform program was first outlined by Deputy Prime Minister Balcerowicz in September 1989 and elaborated in the Economic Transformation Program announced by the Council of Ministers in October 1989. The Economic Transformation Program was structured under the auspices of the World Bank and the International Monetary Fund with substantial funding from the international financial community.

[2] See Balcerowicz, Socialism, Capitalism, Transformation (1995); Kornai, J., The Road to a Free Economy: Shifting from a Socialist System: The Example of Hungary (New York: W.W. Norton 1990).

The Government made liberalization of industrial trade a cornerstone of the economic reforms. The architects of the Economic Transformation Program recognized that Poland's favorable geographic location - its border with Germany - had the potential to facilitate trade with the West and generate employment- and income-creation effects. Deputy Prime Minister Balcerowicz thus explained that "[e]conomic transition is largely the result of the interplay between the uncontrollable inherited and the external conditions and the controllable economic policy. This interplay resembles the interactions between a person's genes and environment in shaping that person's characteristics and behaviour. In both cases the uncontrollable factors determine the range of possibilities, while the potentially controllable variables decide which of these possibilities are activated, i.e. become a reality."[3] Consideration of Poland's geographic advantage together with pressure from the international community led the Government to pursue a strongly outward-oriented foreign trade strategy from 1990.[4] The liberalization of foreign trade and the country's proximity to

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[3] Balcerowicz, Socialism, Capitalism, Transformation (1995) pp. 169-70.

[4] Balcerowicz noted that his thinking was positively affected by the writings of free trade advocates Anne Krueger and Bela Balassa. The ideological basis for trade liberalization rested largely on the "technology gap" hypothesis originally formulated by Thorstein Veblen (1915) and Alexander Gerschenkron (1952) that developing countries with open trade policies are able to "catch up" to more advanced economies faster than developing countries with closed trade policies. Socialism, Capitalism, Transformation (1995) p. 343. Recent empirical studies of the technology gap hypothesis have found evidence of a "convergence club" in which the latecomers have closed the gap between themselves and the technologically more advanced members. The club appears to be fairly small, however, with most developing countries excluded and some countries achieving only "second or third class" membership status. See Baumol, W., Blackman, S. and Wolff, E., Productivity and American Leadership: The Long View (Cambridge, Massachusetts: MIT Press 1989) ch. 5, p 97. The former centrally-planned economies of Central Europe, such as Poland, have been found to display convergence since 1990, but at a rate significantly below that exhibited by the industrialized market economies.

the EU resulted in a marked increase in Polish-EU trade flows and encouraged the Government to sponsor economic integration with the EU. However, while one policy objective of the Program was to build "a modern market economy capable of soon joining the successful economies of the European Community (EC)",[5] pursuit of this goal was not the driving force behind the formation of the initial economic reforms.

In designing the Economic Transformation Program, the Government faced the unprecedented task of converting a socialist economy to a market-based one following discontinuous political regime change. Capturing the dilemma facing policy makers entrusted with devising the economic reforms, Deputy Prime Minister Balcerowicz explained that "[i]n deciding the timing of the reforms, the choice was between a risky option and a hopeless option. It is risky to commence stabilization, liberalization and institutional restructuring simultaneously and immediately, realizing that deep institutional restructuring will be achieved much later. However, institutional restructuring only has a chance of succeeding if stabilization and liberalization are achieved - in other words privatizing during hyperinflation is like trying to rebuild a house that is on fire".[6] Accordingly, while Polish policy makers were aware of the risks involved in their radical approach to reform, at the same time they felt constrained by a palpable lack of viable alternatives. It was in this context that the

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Sachs, J. and Warner, A., "Economic Convergence and Economic Policies", Working Paper No. 5039 (Cambridge, Massachusetts: National Bureau of Economic Research 1995).

[5] World Bank, "Poland: Economic Transformation at a Crossroads" (March 16, 1992) p. v.

[6] Speech delivered to International Professional Women's Group, Marriott Hotel Congress Hall, January 18, 1993.

political leadership devised a reform program to create a market-based economy at the opposite end of the spectrum from socialism.

Recognizing the need for foreign assistance, Polish policy makers were heavily influenced by the international community. In particular, Poland's economic reforms were designed at a time of consensus among the world's leading financial institutions that the best policy approach for developing countries, particularly heavily indebted ones, was to link outward-orientation with growth and adjustment. This orthodox development strategy is referred to in the literature of the late 1980s as "growth-oriented structural adjustment".[7] Typically, the strategy sequence involves achieving macroeconomic stabilization before attempting structural adjustment, since structural adjustment is easier to achieve if undertaken in a stable macroeconomic environment. The strategy basically involves undertaking liberalization of domestic prices prior to liberalization of trade, and liberalization of current account transfers prior to liberalization of capital account transfers. By giving rise to the expectation that capital movements will be liberalized, this sequence ensures that income streams, and consequently asset prices (as determined by the present value of income streams) are not significantly distorted.[8] Moreover, since asset markets adjust more rapidly than commodity markets, this sequence prevents large capital movements and their

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[7] Corbo, V., Goldstein, M. and Khan, M. (eds.), "Growth-Oriented Adjustment Programs: Proceedings of a Symposium in Washington, DC held February 25-27, 1987" (Washington, DC: International Monetary Fund and World Bank 1987).

[8] In particular, the expectation that capital movements will be liberalized may allow arbitrage to begin so that distortions are small.

potentially destabilizing consequences for the real exchange rate until after trade has been liberalized.

Viewing this strategy as compatible with the country's long-term interests, the Government adopted a modified version in the form of the Economic Transformation Program. The Government was aware that "adjustment" in relation to external trade policy entailed achieving balance-of-payments viability and establishing normal external debtor-creditor relationships in a way that would promote sustainable economic growth, open and growing international trade, and international monetary cooperation. Because the economy was suffering from government-created economic distortions, such as high and variable tariffs and a proliferation of import quotas, adjustment would also involve simplifying and decreasing government interventions. Eager to please the international financial community, the Government openly embraced the orthodox strategy, with only relatively minor, and mostly necessary, adaptations. The Economic Transformation Program included an initial real devaluation, trade liberalization, conversion of quantitative restrictions to low uniform tariffs, simplification of the tariff schedule to two or three rates in the 10-15 percent range, unification of exchange rates, an emphasis on privatization and the private sector as the source of growth, a general reduction of all forms of government intervention, in capital and factor markets, and a decrease in the overall level of government taxation and expenditure.[9]

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[9] Sachs, J., "Trade and Exchange Rate Policies in Growth-Oriented Adjustment Programs", in Corbo et al. (1987) pp. 291-325.

The Government's whole-scale adoption of a Western, market-oriented model of economic reform at the outset of the post-communist era was in keeping with the country's policy-making experience prior to World War II and its suppression by the Soviet Union. During the interwar period, policy makers throughout Central Europe had assumed they could achieve political and economic development to Western European levels quickly by adopting West European political forms with scant adaptation to local conditions. As George Schopflin explains, "[o]ften, it seemed, East European elites were content with the introduction of West European institutions into their own polities pro forma and were unable or unwilling to appreciate the generations of development in values and attitudes that lay behind particular Western technologies. The motivation for this was the tendency towards models of simplicity and predictability that makes it easier for administration."[10] With the level of advancement of contemporary Western economies being far greater than it was prior to the communist era, however, the Government was faced with a wide range of Western models to consider. Indeed, when drawing up the initial reform program the Government looked well beyond the EU for guidance and policy prescriptions.

In particular, by 1989 economic reforms could generally be classified along a spectrum beginning with the so-called "big bang" approach and moving to more gradualist approaches, with East Asian models of "government-led" development, based on occasional, "market-friendly" government interventions, falling somewhere in

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[10] Schopflin, "The Political Traditions of Eastern Europe" (1990) p. 64. Moreover, in Poland, where the native nobility was sizeable prior to World War II, ethnically alien groups were

the middle of the spectrum.[11] While the designers of Poland's economic reforms gave consideration to both East Asian and more gradualist approaches, the Government initially preferred to follow "working models" of rapid structural adjustment with minimal government intervention, provided by Latin American examples of the 1970s and 1980s, particularly those programs that had addressed severe debt and inflation crises (for example Argentina, Bolivia, Brazil, Mexico and Peru).[12] Government advocates of radical reform hoped that a "free market" environment would reveal the viability of enterprises and give rise to a natural selection process, obviating the need for extensive governmental intervention. Government policy makers also expected radical economic reforms to move the Polish economy closer to the West.[13] Accordingly, the Government "autonomously" selected a radical market-based reform program at the outset of the post-communist era that had as an added feature - but not its sole focus - compatibility with the economies of the EU.

(ii) The Reforms: Main Policy Goals for the Short-and Medium-Term

The Government had many concerns aside from EU association to address in devising the initial economic reforms and its approach to policy making was complicated by several important distinctions between transition and economic development. First, transition involves an unprecedented shift from central planning

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entrusted with the task of economic development.

[11] Amsden et al. (1994), Chang, H., "Return to Europe? Is There Anything for Eastern Europe to Learn from East Asia?", in Chang H. and Nolan, P. (eds.), The Transformation of the Communist Economies (1995); Lee, C., "The Economic Transformation of South Korea: Lessons for Transition Economies", OECD Development Series, monograph (1995).

[12] See Weis (1995).

[13] None of the interventionist approaches was adopted, however.

and state ownership to competitive markets and private ownership. Second, market-economy institutions in transition economies are generally underdeveloped while industry is overdeveloped. Third, prices, technology, capital flows, and managerial, worker and household behavior have been severely distorted for several decades.[14] Thus, the liberalization component of the Program represented a sharp intensification of reforms formulated during the late 1980s and partially implemented by the communist Government under Deputy Prime Minister Mieczyslaw Rakowski.[15] However, the stabilization component of the Program embodied its radical nature - dramatically tightening fiscal, monetary and credit policies during the first half of 1990 so as to eliminate shortages by reducing demand.[16] The Government expected the more radical elements of the reforms to achieve the following policy objectives:

- Macroeconomic stabilization, to create an economic climate favorable for private initiative, by limiting the budget deficit and decreasing the growth of the money supply and inflation;
- Microeconomic liberalization, or enlarging the scope of economic freedom, by removing restrictions on the establishment of private businesses, eliminating price controls and restrictions on foreign trade, removing controls on interest rates and introducing currency convertibility; and

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[14] Flemming, J., ""Public Finance, Unemployment and Economies in Transition", in Bos, D. (ed.), Economics in a Changing World, Proceedings of the Tenth World Congress of the International Economics Association, Moscow, Russia, vol. 3 (Public Policy and Economic Organization, International Economics Association 1993) pp. 60-79.

[15] Mieczyslaw Rakowski was the Deputy Prime Minister directly responsible for relations with Solidarity during the 1980s. While a certain degree of liberalization did occur under the Rakowski Government, it was selective and price controls on inputs were maintained, leading to inflation and shortage. See Ash, T.G., The Polish Revolution: Solidarity, 1980-82 (London: J. Cape 1983).

[16] Slay, B. and Rutkowski, M., "Product and Labor Markets", in Staar, R. (ed.), Transition to Democracy in Poland (New York: St. Martin's Press 1993) pp. 145-66.

- Institutional restructuring by privatizing state enterprises, reorganizing the state administration, reforming the tax system and creating new market institutions such as a stock exchange.

Pursuant to the reforms, the Government reduced the amount of state intervention in the economy significantly after 1990, with a steep decline in subsidies to state enterprises matched by a steep increase in cash transfer payments to individuals including, in particular, unemployment benefits and pension payments. Overall, total Government spending as a percentage of GDP increased from 45 percent in 1990 to 50.2 percent in 1994;[17] subsidies to state enterprises as a percentage of GDP decreased from 3.6 percent in 1991 to 2.1 percent in 1994, while social insurance payments as a percentage of GDP increased from 4.5 percent in 1991 to 6.8 percent in 1994.[18] The Government also significantly reduced expenditures on capital investments financed from the budget, expenditures on infrastructure, research and development, science, education and health services. In the industrial sector, the Government continued to subsidize only certain fertilizers, textbooks, prepaid purchases of passenger cars and a portion of defense sector readiness capacities.[19]

The Government achieved many of the goals of its initial economic reform program through stabilization and liberalization. After a sharp fall in gross domestic product in real terms, a sharp rise in unemployment in 1990 and 1991, and a sharp rise in inflation in 1990, Poland became the first country in Central Europe to return to

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[17] Spending was also lower in absolute terms in 1990 than in 1994.
[18] Data were obtained directly from the Ministry of Finance.
[19] Socha and Sztanderska, "Restructuring and Industrial Policy in Poland" (1994) p. 74.

growth, with positive and increasing rates of GDP growth for the years 1992 through 1995 (see Annex I). By 1995, the private sector accounted for more than half of all production and employment, and the Polish economy was characterised by lower rates of inflation than in 1990, almost complete freedom of prices from administrative control, sustained growth, reduced levels of external debt, a lower state budget deficit, liberalized rules on foreign exchange transactions, a rising level of foreign exchange reserves, growing exports and a reorientation of trade from eastern to western markets. Further, society had become familiar with, and generally accepting of, the consumer market as well as the producer market, as evidenced by a revival of private entrepreneurship.[20] By the time the Government began pursuing integration with the EU more actively in 1992, the country was well on its way to establishing a market economy.

However, the Government intended the initial reforms to lay only the foundations for a market economy, the final shape of which would be determined by market forces. Thus, most of the economic reforms achieved during 1990-91 were related to liberalization as opposed to structural reform. Subsequent phases of reform were to address the remaining systemic challenges, including reform of the social security system, further reform of the financial sector, continued privatization, reform of the system of wage negotiations and labor relations (in particular within state enterprises), and reduction of unemployment and inflation. While stabilization and at

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[20] Amsden, A., Kochanowicz, P. And Taylor, L., The Market Meets its Match (Cambridge, Massachusetts: Harvard University Press 1994).

least partial liberalization were achieved fairly rapidly in Poland, structural adjustment and institutional change became longer-term objectives. Indeed, most of the new firms established during the early part of the period were small rather than medium-sized and concentrated in trade and services as opposed to manufacturing,[21] were financed by family savings rather than bank loans, operated only locally, and were predominantly motivated by the desire, on the part of the entrepreneur, to secure an independent source of family income rather than to acquire wealth.[22] While start-ups had a high rate of mortality, large state enterprises remained largely unreformed.

While "shock therapy" made a decisive break with the socialist economic past, it was not concerned with the task of capitalist construction; this task was left to the next phase of post-communist economic development. A convenient if not ideal means of maintaining the reform momentum, the pursuit of EU association provided both a sharp policy-making focus and a source of legitimization for painful restructuring. Whereas the Government principally intended the initial economic reforms to build a viable market economy, one of the dominant motivations for subsequent reforms became future membership in the EU. In addition to determining the choice of policy alternatives, Poland's economic alignment with the EU pursuant to the association process also had a visible effect on the country's trade specialization and pattern of effective comparative advantage, and thus became a significant factor in the formation

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[21] The trend in this regard appeared to be changing after 1994, a year in which investment was dominated by larger firms investing in assembly-type works and production facilities. Interview with Marek Gorski, Polish Agency for Foreign Investment, Warsaw, Poland, May 8, 1995.

[22] See Amsden et al (1994).

of economic policies designed to restructure domestic industries so as to become competitive with EU industries. Indeed, as industrial trade reorientation progressed further toward the EU, the process of industrial restructuring became irreversible, further empowering policy makers to adopt pro-market industrial reforms. Again, however, while this reorientation was compatible with EU association, it was also compatible with the country's prewar market heritage.

(iii) Industrial Trade Reorientation from East to West

As with the other economic reforms, the Government had many reasons for undertaking industrial trade liberalization, among which EU association featured prominently but not exclusively. Faced with limited domestic sources of capital and a small domestic market, the Government intended industrial trade liberalization to motivate Polish enterprises to seek new trade opportunities abroad. As the Government liberalized foreign industrial trade, the geographic distribution of Poland's trade underwent a dramatic shift from East to West. While between 1985 and 1990 some redirection of trade from socialist to EU markets occurred, this trend accelerated markedly after 1990 (see Table 2.1). Overall, exports to the West increased by 60.8 percent during the period 1990-91 and by 13 percent during the period 1992-93, and imports from the West increased by 53 percent and 40 percent, respectively. Moreover, these statistics fail to capture the large increases in Polish-German cross-

border trade (consisting largely of cross-border day shopping), which Polish exports were estimated to dominate.[23]

Meanwhile, Polish trade with former socialist bloc countries changed significantly after 1990. Following the dissolution of the Council for Mutual Economic Assistance (CMEA) trade system in June 1991, exports to the former Soviet Union increased temporarily. However exports to smaller CMEA countries, namely Bulgaria, Czechoslovakia, Hungary and Romania, collapsed. Specifically, in the late 1980s, trade in non-convertible currencies or pursuant to bilateral agreements accounted for nearly 50 percent of Poland's total trade. By 1994, this type of trade accounted for no more than 0.3 percent of Poland's total trade,[24] while trade with the EU came to account for approximately 70 percent of total trade (with Germany accounting for nearly 40 percent of Poland's trade with the EU). However, under the terms of the Association Agreement, Polish exports to the EU continued to face substantial barriers, particularly non-tariff barriers, in four major export sectors: agriculture; textiles and apparel; iron and steel; and chemicals, allowing for the possibility of further increases in Polish-EU trade as the barriers were lifted.

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[23] Balcerowicz, Socialism, Capitalism, Transformation (1995) p. 333, n. 14.

[24] By 1994, Poland's non-convertible trade consisted mainly of residual transactions in transferable roubles.

Table 2.1: Geographic Distribution of Polish Trade: 1985-94 (In Percent)

Exports to:	***1985***	***1989***	***1990***	***1991***	***1992***	***1993***	***1994***
European Union	23.2	32.1	47.2	59.2	68.2	71.2	70.7
CMEA (Europe)	48.8	34.8	21.4	12.1	10.6	9.4	10.2
Other	28.0	33.1	31.4	28.7	21.2	19.4	19.1
Imports from:							
European Union	20.5	33.8	45.6	53.3	66.1	68.4	69.1
CMEA (Europe)	53.6	32.2	22.3	9.8	12.6	10.3	10.9
Russia	25.9	34.0	32.1	36.9	21.3	21.3	20.0

Sources: Central Planning Office (1985-91); Central Statistical Office (1992-94)[25]

The pattern of Polish trade between 1990 and 1995 was diverse and paralleled the trade patterns of EU countries, such as France, the Benelux countries and Austria, more closely than those of other emerging countries. Moreover, as shown in Table 2.2, the pattern of Polish trade flows became broadly similar to their pre-World War II pattern. In particular, in 1929, Poland's largest export markets were Germany, Czechoslovakia and Austria, which accounted for the largest percentage of imports to the Polish market. In 1938, by contrast, Poland's largest export markets were the UK, Germany and Sweden, while the largest percentage of imports came from Germany, the US and the UK.[26] These trade patterns showed Germany to be a natural trade partner for Poland, having been Poland's most dominant trade partner in 1929 and in 1994, and Poland's second most dominant trade partner in 1938, prior to the onset of World War II, and in 1989, prior to the collapse of the CMEA trade system. They also

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[25] Figures for "European Union" include the EFTA countries, and figures for CMEA (Europe) include the CEFTA countries and Russia. Zmiany Struktury i Efektywnosc Gospodarowania w Latach 1989-1991 (Warsaw: Centralny Urzad Planowania 1992) reprinted in Kaminski, B., "Emerging Patterns of Foreign Trade", in Staar, Transition to Democracy in Poland (1993) p. 182.

[26] Figures were provided by the Polish Central Statistical Office in 1995.

showed that Poland's industrial trade relations with Germany and the rest of Europe had been distorted by major geopolitical shifts occurring during the periods of war and Soviet domination. A review of Polish trade up to 1989 places the pursuit of EU association in larger context, revealing it to be a return to pre-war trends as opposed to an entirely new direction.

Table 2.2: Poland's Main Trading Partners (Percentage Share)

	1929	*1938*	*1989*	*1994*
Exports	Germany (31.2) Czechoslovakia (10.5) Austria (10.5)	UK (18.2) Germany (14.5) Sweden (6.0)	USSR (20.8) W.Germany (14.2) UK (6.5)	Germany (35.7) Netherlands (5.9) Russia (5.4)
Imports	Germany (27.3) Czechoslovakia (12.5) Austria (8.5)	Germany (14.5) USA (12.2) UK (11.4)	W.Germany (18.7) USSR (17.4) Austria (5.8)	Germany (27.5) Italy (8.4) Russia (6.8)

Source: Central Statistical Office (1995)

a. Pre-CMEA Trade Policy

After 1989, Polish policy makers were driven by a longing to join the global market economy, predominantly via the EU. Two features of the communist era reveal the inevitability of the post-communist Government's preference for a market economy: first, the aversion to Poland's forced participation in the CMEA, and second, the country's pre-Soviet incarnation as a rising market economy. The country's disdain for Soviet-imposed socialism and its market heritage served as guiding forces for post-communist industrial policy making. After 123 years of partition, Poland emerged from World War I as an independent nation and made extensive use of trade regulation to increase state budget revenues and protect the

domestic market.[27] While the Government struggled to promote industrialization and self-sufficiency, the new state lacked an effective plan for restructuring. Instead, it restricted foreign capital despite the dire need for investment and taxed rural concerns heavily, reducing demand and restricting the development of the domestic market for industrial goods.[28]

Poland experienced the worst economic devastation among the Central European countries during World War II.[29] After World War II, the country's boundaries shifted territorially to the West[30] and the Soviet-dominated communist regime in Poland adopted central planning, introducing widespread state ownership over productive assets and creating state monopolies in domestic factor, commodity and financial markets. The Government made industrialization a priority, and the country developed a dominant industrial sector covering a full spectrum of industries (see Table 2.3). A significant amount of employment in agriculture migrated to

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[27] The principal motivation for employing tariffs during the interwar period was to foster industrial development; however the tariffs were relatively ineffective in this regard. See League of Nations, Tariff Level Indices (Geneva: League of Nations 1927).

[28] See Kaser, M. (ed.), The Economic History of Eastern Europe 1919-1975, vol. II (Oxford: Clarendon Press 1986) pp. 99-106; see also Kaser, M. and Notel, R., "East European Economies in Two World Crises", Papers in East European Economics No. 71 (Oxford: Russian and East European Centre, St. Antony's College 1985).

[29] One study estimated capital losses relative to respective national incomes in 1938 to be 29% for Romania, 33% for Bulgaria, 115% for Czechoslovakia, 194% for Hungary, 274% for Yugoslavia, and 350% for Poland. Pollard, S., Peaceful Conquest: The Industrialization of Europe 1760-1970 (Oxford: Oxford University Press 1981) p. 311

[30] Walters, E. G., The Other Europe: Eastern Europe to 1945 (New York: Syracuse University Press 1988). Poland, in particular, acquired a substantial amount of territory to the West from Germany and lost territory to the East. See Snell, J.L., The Meaning of Yalta: Big Three Diplomacy and the New Balance of Power (Baton Rouge: Louisiana State University Press 1966); Konferencja Jaltanska W Polskiej Perspektywie (Rome: Zeszyty Edukacji Narodowej 1976).

industry[31] and open unemployment was officially eliminated, through a massive shift of investment into the industrial and services sectors and large state expenditures on training and education. The capital intensity of industrial production increased considerably. Both GNP and foreign trade increased, generally more than in proportion to increases in factor inputs and output, largely as a result of shifts of capital and labor inputs between sectors and general increases of labor productivity. As Aldcroft and Morewood described, "taking all things into consideration, the reconstruction and recovery of the Eastern European economies was quite spectacular. After a slow start the overall performance withstands comparison with that of most of the nations of Western Europe".[32]

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[31] The reconstruction programs of most of the Central European countries after World War II entailed large increases in non-agricultural employment and productivity, both of which were viewed as important preconditions for full-scale national planning. Polish industrial employment increased by 40 percent during the period 1946-49. Brus, W., "Postwar Reconstruction and Socio-Economic Transformation", in Kaser, M. and Radice, E.A. (eds.), The Economic History of Eastern Europe 1919-1975: Interwar Policy, the War and Reconstruction, vol. II (Oxford: Oxford University Press 1986) pp. 623-24.

[32] Aldcroft, D. H. and Morewood, S., Economic Change in Eastern Europe Since 1918 (Vermont: Edward Edgar 1995) p. 104.

Table 2.3: Percentage Changes in Industrial Production Between 1946-1949 (Prewar Year=100)[33]

[redacted]

Source: Brus (1986, p. 626, Table 22.16)[35]

By the end of the 1940s, the Government had institutionalized central planning under communist rule and completed the transition from capitalism to socialism (with the exception of agriculture, which remained largely private),[36] severing most of the country's trade links with the West. After the post-World War II period of

[33] The text corresponding to this table notes that accurate data on industrial production before and after the war is not available and the figures in the table are estimates. The text also notes that methodologies used to estimate the data in the table were not comparable for each country as a result of the lack of accurate data, and thus a range of estimates were given. Finally, the figures do not account for large territorial shifts that occurred in the region after World War II.

[34] The figures in this column represent an average of the lower and upper estimates for 1949.

[35] Brus (1986) cites as sources for the table the following: United Nations, Economic Survey of Europe in 1948, 1949 and 1950 (Geneva: 1949, 1950, 1951).; United Nations, Survey of Europe Since the War (Geneva 1953); Anuari statistikor I RPSh, 1958; Rocznik Statistyczny, 1970; Anuaril Statistic al RPR, 1961; Dobrin, B., Bulgarian Economic Development Since World War II, (New York: Praeger Publishers 1973); K. Secomski, K., Analiza wykonania planu trzyletniego (Warsaw: Panstwowe Wydawnictwo Ekonomiczne 1950); Bobrowski, Chairman of the [Polish] Central Planning Office from 1945 to 1948, quoted in Podolski, T.M., Socialist Banking and Monetary Control: The Experience of Poland (Cambridge: Cambridge University Press 1972) pp. 76-7; and Berend, I.T. and Ranki, G., "Revolutionary Transformation and Rapid Economic growth after the Second World War," background paper prepared for Brus (1986).

[36] Following Kornai's approach, this thesis uses the terms "socialism", "socialist system", "Soviet-type system", "centrally-planned economy", "command economy" and "state socialism" interchangeably, without resolving the debate over whether "true" socialism was ever achieved in practice. As Kornai noted, "[m]any socialists, including numerous social democrats, Trotskyists, and adherents of the New Left, do not consider the system in the countries [of the Soviet bloc] "true" socialism at all." Kornai, J., The Socialist System: The Political Economy of Communism (Oxford: Clarendon Press 1992) pp. 9-10.

reconstruction (1949-53), the Government initiated policies to accelerate the industrialization process. The political and social tensions that ensued suggested that the Polish population was not prepared to pay the heavy social costs entailed by fast growth and structural change. Following Stalin's death in March 1953 the Government entertained several proposals to slow the pace of industrialization, most of which were never implemented. By the end of the 1960s, the Polish economy had recorded a significant growth in output, but Soviet-style central planning engendered four major distortions: (i) an extreme preference for investment over consumption; (ii) excessive concentration on heavy industry; (iii) the tendency of enterprises to produce only a limited range of manufactured goods; and (iv) unfulfilled potential resulting from the irrelevance of cost and efficiency. As a result, the Polish economy began to experience a deteriorating standard of living, shortages of consumer goods and services, and hoarding by enterprise managers and bureaucrats.[37]

b. Trade Policy under the CMEA

Poland's post-World War II economic reconstruction took the country far from its pre-war experience with economic freedom, although it would not be long before the political opposition began pushing for at least a partial return to the era of experimentation with market-oriented policies. After World War II, the communist Government assumed direct control of Poland's post-communist trade system, and Polish trade underwent a rapid reorientation from the West, particularly Germany, to

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[37] See generally Aldcroft and Morewood (1995).

the East beginning in 1945.[38] Nearly all foreign trade was nationalized in 1946 (and the remainder was nationalized by 1949), although the Government published the constitution asserting the state's monopoly of foreign trade only in 1952.[39] From 1948 until the mid-1950s, the Government developed a Soviet-style foreign trade monopoly having three essential features. First, the Government separated foreign trade from domestic production and trade and formed foreign trade organizations (FTOs)(approximately 27 by 1953), each having a monopoly of trade in a particular sector. In 1949, the Government replaced the Ministry of Industry and Trade (which it had created only in 1947) with the Ministry of Foreign Trade, and converted the foreign trade departments of central supply and sales organizations into FTOs subordinated exclusively to the Ministry of Foreign Trade.

Second, the Government incorporated foreign trade directly into the central plan; after the Council of Ministers had approved the foreign trade plan as part of the overall plan, the Ministry of Foreign Trade was responsible for seeing that the FTOs carried out the appropriate directives, which were highly detailed and included maximum limits on imports and minimum limits on exports. Third, the Government instituted the setting of domestic prices, resulting in the divergence of domestic and

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[38] The state began its direct control of foreign trade in 1944, pursuant to the Decree of the Council of Ministers issued in September 1, 1939, which subjected all foreign trade to license. Dziennik Urzedowy Rzeczpospolitej Polskiej, No. 87/9, 1939, para. 555, cited in Matejka, H., "The Foreign Trade System", in Kaser and Radice (1986) p. 250.

[39] The July Manifesto of the Polish Committee of National Liberation, dated July 22, 1944, declared that large enterprises, including trade enterprises, were under Government control, and a decree dated January 3, 1946 made nationalization law. Further, article 7, paragraph 2 of the Polish Constitution of July 22, 1952 stated that "the state possesses a monopoly of foreign

foreign prices and the need to compensate FTOs for transactions between state trading organizations and domestic suppliers and distributors. When the Polish zloty became overvalued as a result of domestic inflation or currency reform, the state paid the FTOs "equalizing subsidies" on exports (paid out in exports) and partially financed by "equalizing tariffs" on imports equal to the difference between varying world prices and fixed domestic prices.[40] Further, the FTOs were required to surrender all receipts in foreign exchange to the central authorities and to obtain permission from them for all payments.

Beginning in the mid-1950s, the Government initiated partial decentralization of foreign trade, and a limited number of industrial producers were granted licenses from the Ministry of Foreign Trade to engage in foreign trade. However, fearing excessive decentralization, the Economic Committee of the Council of Ministers reasserted in 1959 the principle that only organizations subordinated to the Ministry of Foreign Trade were to transact foreign trade, and only exceptionally were other organizations to transact foreign trade;[41] by 1983 only 245 individual enterprises held

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trade". See Zieleniewski, J. and Szczypiorski, S., Zasady Organizacji I Techniki Handlu Zagranicznego (Warsaw: Panstwowe Wydawnictwo Naukowe 1963) p. 250.

[40] The plan directives also included the level, direction and commodity composition of imports and exports, and served as trade-policy instruments and, by determining foreign expenditures and receipts, balance-of-payments instruments. In the early fifties, the FTOs were made subject to Soviet-style cost by accounting, thereby losing their previous right to work on a commission basis and thus their financial independence. Matejka (1986) p. 253.

[41] Decision of the Economic Committee of the Council of Ministers, No. 214, dated May 22, 1959, as amended by Decision of the Economic Committee of the Council of Ministers No. 243, dated August 19, 1960. In June 1964, three Polish manufacturers, the H. Cegielski machine engineering enterprise, the Befama textile machinery producer, and the Rafamet machine tool producer, were granted the right to engage directly in foreign trade. Decree Nos.

foreign trade licenses.[42] Reform of the foreign trade regime continued through the 1960s and 1970s, with 27 out of the 42 FTOs being subordinated to industrial ministries and being granted the right to receive commissions for trading on behalf of a particular domestic producer or group of producers. Further, the number of agents representing the FTOs abroad increased, and foreign entities were granted the right to establish foreign trade agencies in Poland.[43] Finally, domestic producers were gradually allowed to participate in the formation of the economic plans, including the foreign trade portions of such plans, and in January 1966 the directives issued to the FTOs and trading enterprises were changed from physical directives to value indicators relating to broad groups of products.[44]

Resistance to central planning was made more difficult by Poland's mandatory membership in the Soviet-sponsored CMEA.[45] Formed in Moscow in January 1949 to

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63, 64, and 65 of the Ministry of Foreign Trade, dated June 22, 1964, Dziennik Urzedowy Ministerstwa Handlu Zagranicznego No. 16 (July 10, 1964).

[42] Rocznik statystyczny 1988 (Warsaw: Glowny Urzad Statystyczny 1988) p. 366.

[43] Order of the Council of Ministers dated February 6, 1976.

[44] Decision of the Economic Committee of the Council of Ministers No. 22, dated January 28, 1966. From January 1, 1966, physical directives were issued only in relation to food and to certain essential, raw and semi-processed materials.

[45] The CMEA is alternatively referred to in the literature as "Comecon", an analogous parallel to the Soviet Cominform and Comintern institutions. For a full account of the origins and evolution of the CMEA, Kaser, M., Comecon: Integration Problems of the Planned Economies 2nd ed. (London: Issued under the auspices of the Royal Institute of International Affairs by Oxford University Press 1967) p. 46. Searching for a means of resisting Soviet domination, during and after World War II the Government considered several initiatives for regional economic cooperation with other Central European countries that were never fully implemented. See Brabant, J.M. van, Economic Integration in Eastern Europe: A Handbook (London: Harvester Wheatsheaf 1989); See Marczewski, J. Planification et Croissance Economique des Democracies Populaires (Paris: Presses Universitaire de la France 1956) pp. 236-37. Integration initiatives were arrested on the personal orders of Stalin, whose primary goal was to secure control of the region as opposed to maximizing economic development.

foster "mutual economic assistance and economic integration", the initial membership of the CMEA included the Soviet Union, Poland, Hungary, the former Czechoslovakia, Bulgaria and Romania.[46] Within the CMEA market, the Soviet Union devised different policies for the northern and southern tiers of Central Europe, viewing the northern tier - East Germany, Poland and Czechoslovakia - as the most important economies,[47] the southern tier as less important and less of a security threat to the Soviet Union, and Hungary as a relatively important buffer zone between the two groups. Many scholars considered the formation of the CMEA to have been a reaction to the Marshall Plan, or, alternatively, an effort to thwart burgeoning initiatives among the Central European states aimed at greater regional economic integration among themselves and with the West.[48] Indeed, growing trade links among the Central European economies was such that by 1948 the share of the Soviet Union

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Spulber, N., The Economics of Communist Eastern Europe (New York: Wiley 1957) pp. 427-28.

[46] Membership in the CMEA evolved considerably since its creation in 1949. East Germany joined in 1950; Albania's membership effectively lapsed in 1962; Yugoslavia retained observer status intermittently (in 1956-58 and again from 1965); Asian socialist countries were granted observer status, namely China from 1956 (although China later withdrew), North Korea from 1957, North Vietnam and Mongolia from 1958 (leading to full membership for Mongolia in 1962 and for Vietnam in 1978); and Cuba was granted observer status in 1963 (leading to full membership in 1972).

[47] East Germany and Czechoslovakia were the industrially more advanced economies, while Poland possessed an abundance of raw materials and a young labor supply. Brown, B., Monetary Chaos in Europe: the End of an Era (London: Croom Helm 1988) pp. 33-35.

[48] In particular, the Soviet Union pursued economic integration and self-sufficiency in Central and Eastern Europe in response to the US-sponsored Economic Recovery Program (ERP) for Europe.

in Polish trade was only 20 percent.[49] Thus, had it not been for Soviet intervention, Poland and the Central European countries would probably have developed complementary and interlinking economic systems.[50]

As a founding member of the CMEA, the Government was obliged to abide by its initial goals and actively pursued integration with the other members in conformity with the plan established to govern the system. The plan provided for (i) expanding the scope of mutual trade, (ii) coordinating foreign trade plans; (iii) instituting regional prices and multilateral clearing; (iv) coordinating economic plans, in particular production plans for important industrial products and raw materials; (v) providing mutual assistance in relation to reconstruction and development; (vi) cooperating in the area of technology development; and (vii) coordinating economic relations with Yugoslavia.[51] In relation to trade in particular, it was intended that the CMEA members would coordinate their export and import plans for products of prime importance to intra-CMEA trade, that they would import mainly noncompeting

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[49] Similarly, the share of the Soviet Union in the trade of the other Central European economies was only 10-20 percent (although slightly higher for Bulgaria and Romania). See Brus (1986) p. 580-82.

[50] See Brabant (1989) pp. 11-12, 14; see also Smith, A.H., The Planned Economies of Eastern Europe (London: Macmillan 1983) pp. 151-53, 174.

[51] Two further events led to the insulation of the Central European economies in the CMEA system: the Coordinating Committee for Multilateral Export Controls ("CoCom") embargo on exports of strategic and technological products, which restricted all recipients of Marshall Aid from engaging in trade with members of the Soviet bloc, and Western European initiatives aimed at economic integration. Polish trade with the West was particularly impeded by the formation of the European Coal and Steel Community in 1951, which restricted imports of Polish coal. For a description and analysis of the operations of CoCom, see Mastanduno, M., Economic Containment: CoCom and the Politics of East-West Trade (Ithaca: Cornell University Press 1992). In 1991, the members of CoCom agreed to reduce markedly the

products, including from other CMEA members, and that they would coordinate their import and export price policies, including bilateral trade and payments agreements, governing their trade with the West. Based on its rigid structure, the CMEA framework allowed for scant experimentation with market-based policies.

Despite its ambitious aims, the CMEA was essentially moribund from its early years.[52] The CMEA never achieved the Soviet goal of a "common market", which in the context of a group of socialist countries would have required the adoption of a single plan, or, as a second-best alternative, the use of world prices as a means of coordinating the diverse domestic policies of the member countries.[53] Neither solution was feasible: the adoption of a single plan was considered to be infeasible by the socialist nationalist planners, and the planning mechanism did not respond well to

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number of exports subject to controls. Dawkins, W., "World Trade News: CoCom Nears Pact on Exports", Financial Times (May 24, 1991) p. 5.

[52] Economic integration of the member states was prevented by their lack of coordination in formulating their respective five-year economic plans, which also resulted in a significant amount of output duplication. Efforts to integrate the economies of member countries did not intensify until 1966-75, a period in which the foreign economic relations of the member states (with the exception of Yugoslavia) assumed greater importance. While the stated intent of the CMEA was to foster "mutual economic assistance", limited financial and technological capacity forced member states to rely on the West for the acquisition of technology. Consequently, the percentage of CMEA trade in Poland's total trade fell from 60.5 to 47.0 between 1965 and 1974, although this trend was partly reversed in 1975. See Kaser, M. and Radice, E.A., The Economic History of Eastern Europe 1919-1975: Economic Structure and Performance Between the Two Wars, vol. 1 (Oxford: Clarendon Press 1986).

[53] In order to adjust CMEA prices to international developments, the CMEA used world prices as the basis for mutual settlements of intra-CMEA trade. However, large differences in domestic price ratios, unjustified by comparative costs, prevented any market-determined trade flows. Through an elaborate organizational network designed to facilitate trade and information flows, CMEA members exchanged information regarding their prospective national plans, from which approximately one thousand indicators were formulated in order to establish some two hundred provisional trade balances as a whole.

world prices.[54] According to Professor Wlodzimierz Brus, economic conditions were not ripe for integration among the CMEA economies for two reasons. First, domestic economic reforms in each of the member countries were "on the whole less profound than expected, in many cases simply short-lived, and even in Hungary suffered from a great deal of instability in the 'rules of the game'".[55] As a result, efforts to coordinate policies were reduced to the "lowest common denominator", with the Soviet Union at the bottom of the group. Second, reforms that allowed greater autonomy to certain enterprises did not induce integration "from below" as the planners had hoped.[56]

In later years, the members of the CMEA made further unsuccessful attempts to deepen intra-CMEA integration. In 1969, at the 20th anniversary summit of the CMEA, the members formally adopted a comprehensive strategy for economic integration, which included detailed plans with regard to the objectives, institutions and instruments for integration.[57] However, the plan for deeper integration was never fully implemented as a result of several constraints, including regional output constraints for basic materials, the continued lack of a mechanism for coordinating national plans and insufficient domestic growth. As a result of trade and general supply shortages, in

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[54] Brabant examined a copy of the purported Treaty on CMEA Cooperation and found that many of its provisions were never implemented. For instance, while the Treaty called for the national economic development plans of the members to be drawn up in compliance with advice from the Council, in practice the Council did no more than prepare a few mechanisms by which better coordination of national economic and trade policies could be secured. Brabant (1989) pp. 19-20.

[55] Brus, vol. III (1986) p. 235.

[56] Brus, vol. III (1986) pp. 235-38.

[57] The comprehensive strategy was elaborated in a document entitled "Comprehensive program for the further extension and improvement of cooperation and the development of economic

1972 the Polish Government initiated an 'import-led growth' strategy, emulated by all CMEA countries later in the decade (the Soviet Union, however, began to reduce its imports of equipment from the West starting in 1977). This strategy involved purchasing western investment goods with convertible currency credits and using these investment goods to generate export production and earnings with which to repay the credits.[58] Not long before its demise, at the Prague session of the CMEA in July 1988, unsuccessful renewed calls were made (with Romania dissenting) to undertake more serious efforts to establish a common market, to streamline the CMEA bureaucracy and to deepen cooperation.[59]

c. Trade Policy Reform in the 1980s

Despite the limited economic integration among CMEA members, by the 1980s Poland's trade was characterized by a significant proportion of trade with CMEA countries denominated in non-convertible currencies, high tariff and non-tariff barriers

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integration by the CMEA member countries". See Brabant (1989) for a description of the document.

[58] However, between 1980-83, a period dominated by widespread social unrest and the declaration of martial law, the US imposed unilateral trade sanctions against Poland, the Government temporarily severed trade links with the West and the world recession of 1979-83 reduced Western demand for Polish exports, largely thwarting this strategy. Thus, Poland began to fall short of hard-currency revenues needed to service the country's external debt. In March 1981, amidst domestic political strife and economic crisis, the Government was forced to apply to the country's official and commercial creditors (the so-called "Paris Club" and "London Club" creditors) for a rescheduling of the country's principal external debt.

[59] Even in 1988 restructuring of the CMEA did not amount to market reform. The Communique on the 44th Session of the CMEA, held in Prague on July 7, 1988, stated that the "development of co-operation, of the socialist economic integration, and the deepening of the international socialist division of labour are becoming increasingly important factors of the political and economic life in the CMEA countries and of their socio-economic development." Evidencing the growing focus of the CMEA on multilateral expansion, representatives of

with non-CMEA countries, and a restrictive foreign exchange regime. Poland was heavily dependent on Soviet demand for Polish exports in many sectors, including machinery, textiles, electronics and pharmaceuticals. During the two decades leading up to the 1980s, three notable trends emerged in Poland: declining output growth, increasing technological backwardness vis-à-vis the advanced market economies, and deteriorating relative performance of the manufacturing sector on world markets. Average annual growth rates of national income throughout Central Europe began to decline in the mid-1970s, although the slowdown was unevenly distributed across the region. Romania registered the most dramatic decline, with Poland suffering the second largest decrease, and Hungary and Bulgaria displayed a pattern of decline similar to that of Poland. The Soviet Union, Czechoslovakia and East Germany also performed poorly, but their annual rates of growth remained positive throughout the period.

The Polish Government placed a heavy emphasis on foreign trade in the economic reforms it initiated in the 1980s. Since the CMEA trade system remained highly centralized, foreign trade reform occurred mainly in relation to trade with the West. The Government indexed domestic prices to world market prices, allowed individual enterprises some freedom to exploit export opportunities directly, established more flexible foreign trade intermediaries, introduced currency auctions, and reduced the number of multiple exchange rates, devaluing them to less distorted

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Afghanistan, Angola, Ethiopia, Mozambique, Nicaragua and the People's Democratic Republic of Yemen participated in the session as observers. Rzeczpospolita (July 8, 1988).

levels. Between 1983 and 1987, the Government increased the number foreign trade licenses granted to individual enterprises from 245 to 597.[60] These limited reforms, however, did not fundamentally alter the insular and inefficient nature of central planning, and the Government allowed the anti-export bias to persist, through import restrictions, administrative allocation of raw materials and foreign exchange, and price controls.[61]

The Government also negotiated Most Favored Nation (MFN) status with the EU, pursuant to which Polish exports to the EU became subject to the same tariffs as exports to the EU from non-European MFN industrial economies. These tariffs, however, were considerably higher than those levied on imports from developing countries or European OECD countries. After the collapse of trade with the West during the period of martial law (1980-83), the Government actively pursued expanded trade with western markets, and Poland achieved a level of exports to the OECD countries that was second only to Hungary among the CMEA countries.[62] By 1989,

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[60] Rocznik statystyczny (1988) p. 366. Alternative figures showed the number of licenses increasing from 109 to 361 between 1982 and 1985. Kaminski (1993) p. 184. At the same time, the Government undertook further enterprise reform. In September 1981, the State Enterprises Personnel Self-Government Act was enacted, providing that "the personnel shall participate in managing the State enterprise" in the form of the general meeting of employees (delegates) and the workers' council. Dziennik Ustaw (Dz.U.) 1981 no. 24, item 123, arts. 1, 2, as amended, reprinted in Gratkowska, I., et al., Polish Business Law 1992 (1992).

[61] While these reforms enhanced the exposure of domestic enterprises to the international market, enterprises nonetheless remained insulated from international competition. Equalization policies provided a buffer between domestic producers and world prices, and central planning did not discern whether domestically-profitable enterprises operated at positive or negative value added at world prices. Kaminski (1993) p. 184.

[62] However, while Polish exporters of coal, farm products and manufactures managed to increase their shares of OECD markets, Polish exporters as a whole were unable to recapture the share of OECD markets that they had held in 1980. Kaminski estimated that had Polish

convertible currency trade accounted for 56 percent of total trade, while trade with CMEA countries accounted for only 44 percent of total trade, a lower percentage than for other Central European countries.[63] Nonetheless, by the late 1980s, Poland and the rest of the CMEA were suffering from a significant decline in general economic growth and from a continued decline in their capacity to design finished manufactured goods of sufficient quality and technical sophistication to be marketable in the West.[64] Increasingly receptive to pressures from the political opposition, the Government viewed trade reform, in particular reform of the industrial export sector, as essential.

The three main periods described above may be distinguished by the different forces that shaped industrial trade policy. Prior to World War II, the Government used trade protection as a means to achieve industrialization in a manner similar to other countries in the region. After World War II, the Government adopted Soviet-style central planning, and the country's trade arrangements were largely dictated by the Soviet Union under the auspices of the CMEA trade system. The Government's pursuit of economic integration within the CMEA was, however, reluctant and halting. More recently, in the 1980s, the country initiated limited economic reforms and

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foreign trade continued its trend from the 1980s into the 1990s, Poland's position in western markets would have been stagnant or improving only slightly, while the composition of Polish exports would have continued to shift slowly away from capital-and technology-intensive products toward natural-resource- and unskilled labor-intensive products. Kaminski (1993) pp. 187-88.

[63] Balcerowicz, Socialism, Capitalism, Transformation (1995). Further, in 1989 the Soviet Union accounted for approximately 60 percent of total Polish trade with CMEA countries. Schrenk, M., "CMEA Trade and Payments: Conditions for Institutional Change", in Milanovic, B. and Hillman, A. (eds.), The Transition from Socialism in Eastern Europe: Domestic Restructuring and Foreign Trade (Washington DC: The World Bank 1992) p. 221.

[64] See Marrese (1992); Brabant (1989).

granted greater freedom to enterprises to conduct foreign trade. But in practice enterprises were prevented from fully exploiting new trade opportunities by the requirements of the central plan. When the Government opened the economy in 1990, exports increased and trade was reoriented from East to West, so that the post-1990 pattern of Polish trade came to resemble the pre-World War II pattern. With the collapse of communism, the new democratic, pro-market Government gained the freedom to resume pro-market policies halted by the imposition of Soviet-style policies and to pursue new external arrangements in which the EU, by virtue of its geographical proximity, level of economic development and rapidly-evolving trade links with Poland, would feature prominently.

B. Post-Communist Trade and Industrial Policy Reform

Whereas the general framework of the radical economic reforms incorporated into the Economic Transformation Program - stabilization, liberalization and privatization - was premised on a desire to create a functioning market economy, the more detailed components of the reforms were developed with an eye to the requirements of EU association. The deep industrial sector reforms envisaged by the Economic Transformation Program required a longer time frame than stabilization, liberalization and small-scale privatization, because of the outmoded size and structure of the sector and the lack of sufficient capital, public or private, to support the massive restructuring and privatization measures required to create a viable and modern industrial sector. Policies relating to the industrial sector, including industrial trade policy reform and industrial restructuring and privatization, evolved more slowly,

allowing the country's deepening relations with the EU to have more influence as the Government devised and implemented a wide range of industrial reform policies.

(i) Industrial Trade Policy Reform

In January 1990, the Government began a radical liberalization of industrial trade by suspending or sharply reducing most tariff and non-tariff barriers, ending the state monopoly on foreign trade and introducing internal convertibility of the Polish zloty. Average tariffs declined from 18.3 percent in early 1989 to 5.5 percent by August 1991. The dissolution of the CMEA in June 1991[65] led to a fall in Polish exports to the former CMEA market and import and export licensing was reduced to cover a limited range of products, such as cigarettes, alcohol, dairy products, oil and natural gas. Meanwhile, the EU granted General System of Preferences (GSP) status to Poland, marking the beginning of enhanced EU-Polish trade.[66] As a result, border protection in Poland became lower, more uniform and more transparent than that accorded to domestic producers in many OECD countries in the late 1980s.[67]

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[65] The dissolution of the CMEA occurred at the organization's 46th General Session in Moscow on June 28, 1991. Its membership at the time included Bulgaria, Cuba, the former Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, the Soviet Union and Vietnam. Viewing the CMEA as an instrument of Soviet hegemony, the members did not attempt to preserve any of the cooperative arrangements that had been established under the CMEA. See Brabant, J.M. van, The New Eastern Europe and the World Economy (Boulder Colorado: Westview 1993).

[66] This implied lower tariffs, the removal of specific quantitative restrictions, the suspension of non-specific restrictions in 1990-92, the elimination of quantitative restrictions on steel and iron exports to EU countries (excluding Germany and Italy) and larger quotas for textile exports. As a result of these arrangements, Polish exporters had considerable tariff preferences in the EU over exports from non-European OECD countries.

[67] Messerlin, P., "Central and East European Countries' Trade Laws in the Light of International Experience", in Winters, A. (ed.), Foundations of an Open Economy: Trade

However, after a significant deterioration in the balance of trade, in late 1991 the Government reimposed many of the suspended tariffs. In 1992 the average tariff increased to 18.4 percent and in 1993 an import surcharge of 6 percent was imposed on the value of imports.[68] The Government continued to gradually decrease average tariff levels, however, and in January 1995 reduced the average tariff on industrial goods to 9.3 percent and lowered the import surcharge to 5 percent.

In summary, the broad range of industrial trade reforms pursued during 1990-95 may be grouped into distinct phases of (i) unilateral liberalization, (ii) tariff reimposition, (iii) conclusion of new regional arrangements, and (iv) further tariff reform. These phases may summarized as follows:

- **1990-91 Unilateral Trade Liberalization.** The average import tariff was reduced from 18.3 percent in August 1990 to 5.5 percent in August 1991 and most non-tariff barriers were either eliminated or sharply reduced. Import and export licensing requirements were reduced to cover relatively few products (mostly imports of cigarettes, alcohol, dairy products, natural gas, oil and some sensitive products).
- **1991 Tariff Reimposition.** A more restrictive system was introduced in August 1991 following a significant deterioration of the trade balance in the first half of 1991. Suspended tariffs and non-tariff barriers were reimposed and the average tariff rose from 5.5 percent to 18.4 percent in 1992. Poland began to negotiate bilateral and multilateral trade arrangements for future mutual reductions in tariff and non-tariff barriers.

Laws and Institutions for Eastern Europe (London: Centre for Economic Policy Research 1995).

[68] Polish policy makers devised the import surcharge as a temporary means of protection that would not violate its agreement to liberalize trade with the EU. Thus, the EU consented to the imposition of the tax for a two-year period to protect Polish industry against excessive imports. However, the import surcharge was fully refundable on imports that were subsequently re-exported and partially refundable on imports of raw materials used in the production of exports. "New Tax on Imports", Zycie Warszawy (November 17, 1993) p. 11.

- **1991-93 Free Trade Agreements.** Poland concluded three significant free trade agreements, containing similar commitments to trade liberalization and covering approximately 75 percent of Poland's trade flows, as well as a trade agreement with the Russian Federation.
  - In December 1991, Poland signed the Europe Agreement, establishing an association and providing for an eventual free trade area with the EU.
  - In November 1992, Poland signed a free trade agreement with the member countries of EFTA, seeking to abolish tariff barriers for almost all goods among its members by January 2001.
  - In December 1992, Poland signed CEFTA with the Czech Republic, Slovakia and Hungary, providing for the establishment of a free trade area by 2001.
  - In August 1993, Poland and the Russian Federation concluded the Treaty on Trade and Co-operation, pursuant to which Poland extended to the Russian Federation a trading status broadly equivalent to the MFN status but providing for selective bilateral safeguard measures.
- **1993-95 Tariff Reform.** In July 1993, the average tariff rate, excluding agriculture, was lowered from 16.3 percent to 14.6 percent. As a result, lower tariffs were charged on imported raw materials and semi-finished products than on finished products. Further, tariff quotas were increasingly used to relieve manufacturers of duties on inputs; in 1994, 24 tariff quotas were in force favouring final users, the most important category being electronic goods. Collectively, cascading tariffs and tariff quotas have increased the effective rate of protection for a number of producers, including automobile manufacturers. In December 1993, the Government announced that new tariffs would be introduced only once per year as in the EU. Since December 1993, the average tariff level has been gradually decreasing and in January 1995 it was reduced to 9.3 percent.

As the Government reformed industrial trade tariffs, it simultaneously undertook exchange rate reform, employing various fixed exchange rate mechanisms during the period. The Government sharply devalued the exchange rate in January 1990 to the level of the parallel market, and fixed the Polish zloty against the US dollar

from January 1990 to May 1991, and then against a basket of weighted currencies until October 1991. The Government introduced a currency basket in May 1991, from which time the currency basket has been weighted as follows: US dollar (45 percent), German mark (35 percent), British pound (10 percent), French franc (5 percent), and Swiss franc (5 percent). After October 1992, the Government implemented a "crawling peg" system pursuant to which the National Bank of Poland announced a monthly rate of devaluation of the zloty against the currency basked until further notice and the official exchange rate announced each day represented the incremental daily devaluation calculated to achieve the Bank's monthly devaluation goal. The National Bank of Poland adjusted the rate of the "crawl" on several occasions; the rate of devaluation represented by the crawl was reduced during 1994 from 1.6 percent to 1.4 percent and in February 1995 it was reduced to 1.2 percent.

The Government also ended the monopoly enjoyed by the FTOs on industrial trade. After 1989, the FTOs were privatized and, by taking advantage of the devaluation of the Polish zloty, six FTOs began to emerge as industrial conglomerates more typical of East Asian economies. Often referred to as "baby chaebols" (referring to the Korean conglomerates), the shares of these FTOs accounted for nearly one-third of the value of the Polish stock market as of August 1995. The FTOs expanded rapidly between 1990 and 1995, through purchases of diverse business interests such as banks and other firms remotely related to their core businesses. Similar to Korean chaebols, the Polish Government continued to own a substantial stake in the privatized FTOs and has on occasion been willing to protect their domestic market share through

certification requirements.[69] However, the FTOs continued to experience serious management deficits, over-expansion, and financial difficulties throughout the period, and the Government on occasion asserted its ownership rights to restrict the investment plans of FTO managers.[70]

As revealed by the reforms outlined above, the Government had significantly revised industrial trade policy and exposed domestic industry to global economic forces prior to commencing the formal association process with the EU. As the Government liberalized prices, foreign trade and exchange rates, the country's foreign trade patterns changed markedly. These changes were attributable to the broader pressures of exposing the economy to international trade flows and competition, as shown by the reversion of trade to its pre-CMEA pattern. Clearly, however, among the free trade agreements signed by the Government between 1991 and 1993, the Association Agreement predominated in terms of industrial trade flows and the extent of required liberalization. While the Government would have pursued industrial reform and trade liberalization even in the absence of association with the EU (as evidenced by the extent of unilateral liberalization) it is far from certain whether the Government would have been able to maintain its commitment to liberalization in the absence of the

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[69] Under central planning, FTOs had been more similar to the Japanese *zaibatsu*, which is a group of large companies owned by a family-controlled holding company, with the state taking the place of the family.

[70] On at least one occasion government interference was motivated by political concerns. In May 1995, Minister of Industry and Trade Podkanski fired the manager of one prominent FTO, Ciech, in an attempt to replace the manager with a representative of the Minister's own political party (PSL). As it turned out, the Minister himself was subsequently dismissed and neither the Minister's nor the fired manager's investment strategies for the FTO were

binding requirements of EU association. Moreover, "spontaneous" industrial restructuring did not occur as expected by the Government on the heels of the industrial trade liberalization process. Instead, industrial policy reform became an ongoing process susceptible to greater influence by the EU as the association process progressed.

(ii) Polish Industrial Policy: 1990-95

The EU was more deeply involved in the development of Polish post-communist industrial policy for several reasons, including the nature of the industrial reforms - massive and ongoing - and the EU's own active interest in industrial policy. Prior to examining the impact of the EU on domestic industrial policy making, it is important to develop an understanding of the state of the industrial sector at the outset of the reforms and the challenges faced by Polish policy makers in reforming the sector. Theoretically, under central planning autonomous economic enterprises and markets did not exist, so that the terms "industrial concentration", "industrial structure" and "enterprise" were essentially meaningless.[71] Enterprise reforms in the 1980s attempted to introduce "market socialism", a system in which the state would

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implemented. "Survey of Poland: Prey to Political Manoeuvring: Background to the Economy", Financial Times (March 28, 1995) p. III.

[71] George Blazyca used the term "administrative structure" in order to avoid this semantic dilemma. "Industrial Structure and the Economic Problems of Industry in a Centrally Planned Economy: The Polish Case", The Journal of Industrial Economics, vol. 28, no. 3 (1980) pp. 313-26. Nationalization of industry was largely completed in Poland by 1946, and the first Polish Three-Year Plan was initiated during the period 1947-49. All enterprises subject to nationalization were subordinated to the Ministry of Industry, which operated through fourteen central industrial administrations and their branch administrations (known as "enterprise associations"). The authority of workers' committees was sharply curtailed and professional

retain ownership of the means of production but the market would coordinate economic activity. However, as Janos Kornai explains, because the market mechanism, which is intrinsically linked to the autonomy of the decision maker, had not been operating in the state sector, the discontinuation of plan commands did not give rise to market coordination of state-owned firms.[72]

Instead, as a result of the enterprise reforms a *dual* economy, comprised of a state sector and a private sector, emerged and persisted throughout the period 1990-95.[73] Despite the Government's abolition of most state legal monopolies and the introduction of competitive forces, the structure of most Polish industries did not change substantially after 1990 and the dual structure of industry became an entrenched feature of the sector and an endemic problem for policy makers. Accordingly, the industrial sector was characterized by an excessive concentration on heavy industry and less progressive, traditional sectors such as heavy chemicals and steel. Moreover, the industrial sector was resistant to change as a result of entrenched norms, patterns of behavior and business habits developed under central planning. Because of the lack of a meaningful context, the terms "industrial concentration" and

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staff were entrusted with management. For a discussion of the evolution of central planning in Poland, see Brus, vol. II (1986) pp. 603-24.

[72] Kornai referred to several post-1968 studies of Hungary that revealed that reforms centered on the development of market socialism resulted only in the replacement of direct bureaucratic regulation of the state sector by indirect bureaucratic regulation. Kornai (1990) p. 59.

[73] Speaking with specific reference to Hungary, Kornai explained that "we must have no illusions, and recognize that this will be a gradual and protracted development. The proportions between private and state sectors will shift in the former's favor continually (and one hopes as fast as possible), but there is still a lengthy period of coexistence between them ahead. This symbioses, though replete with conflicts and frictions, will remain inescapable for a good while." Kornai (1990).

"industrial structure" when used in this study with reference to the pre-1990 state sector should be construed to refer to the size distribution and number of socialist entities in an industry, and the term "enterprise" when so used should be construed to refer to an administrative unit or organization.

a. Background: Pre-Reform Industrial Structure

Posing a serious challenge to successive pro-market, post-communist Governments, Polish industry at the start of the reforms in 1990 was largely incompatible with the organizational requirements of market competition.[74] State enterprises were administrative units, as opposed to genuine firms, and operated at prescribed prices as opposed to maximizing profits. The overall structure of the Polish socialist economy was purposely anti-competitive, designed to facilitate central planning through control of large-scale production units and large firms integrated both horizontally and vertically.[75] To facilitate control, factories were grouped together into large organizations loosely called "enterprises" employing several hundred individuals. The economy was broken down into broad sectors, such as steel, sugar, textiles, trucks and rubber, and individual enterprises used generic names such as "truck enterprise" or "rubber factory" in order to preclude brand name distinction that might stimulate

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[74] However, the share of the state sector in Poland in 1988 (81.2 percent) was smaller than in Czechoslovakia (99.3 percent), East Germany (96.4 percent) or Hungary (92.9 percent). Kornai, The Socialist System (1992), p. 72, Table 5.1.

[75] While the system of central planning gave some incentives to enterprise directors and workers to raise profits, the incentives were generally weak and set arbitrarily by the central authorities, as a means of enhancing the control of the center over the system. Kornai, The Socialist System (1992) p. 74.

competition.[76] Moreover, "enterprise associations" between firms at the industry level reinforced the anti-competitive nature of industry.

On a sectoral level, the industrial structure was heavily skewed toward heavy industry and capital goods and away from light industry, services and consumer goods. This emphasis was the result of two main factors: first, the obsessive growth orientation of the Stalinist model; and second, the CMEA trade pattern, pursuant to which Poland had developed large industries to process Soviet raw materials and re-export them to the Soviet Union in semi-finished or finished form. In 1987, for example, Poland's industrial and construction sectors produced 52 percent of GDP, compared with just 29 percent to 38 percent in Greece, and in Portugal and Spain. In contrast, the Polish services sector was extremely small.[77] Further, in 1989 most socialist industrial entities were large, and the average industrial state enterprise (outside the so-called "cooperative sector") employed 1,132 workers, typically in multiplant operations, while the average plant employed 378 workers. Moreover, the 115 largest entities, each with more than 5,000 employees, accounted for more than one fifth of industrial employment and production.[78] The size structure of industry was

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[76] See Dolan, E.G., Basic Microeconomics, 2nd edition (1980) pp. 41-455.

[77] See Sachs, J. and Lipton, J., "Creating a Market Economy in Eastern Europe: The Case of Poland", Brookings Papers on Economic Activity, vol. 1 (1990).

[78] Rocznik Statystyczny Przemyslu (Warsaw: Glowny Urzad Statystyczny 1989). One study analyzed the structure of industry in Poland using the "Lista 500", a survey of the 500 largest socialist entities (out of a total of 5,823) in 1987 based on enterprise sales at the three-digit level of industrial classification. According to this study, Polish industry in 1987 was *not* dominated by a small number of large monopolies; only 13 enterprises in the Lista 500 had a market share in excess of 50 percent and two-thirds had a market share of 10 percent or less. Instead, this study found that based on four-firm concentration ratios Polish industry was highly oligopolistic in structure, to the extent that such a term is consistent with central

the result of the development of large-scale production units and the tendency to group separate factories in a particular sector together as a small number of state enterprises.

Concentration of industry under central planning was exacerbated by three main factors. First, since the Government viewed coordination of activities among state enterprises as beneficial to implementation of the plan it was encouraged by the center; indeed collusion was often essential to securing material inputs and supplies in the shortage economy.[79] One of the legacies of the *nomeklatura* system, the system of communist party administrative appointment for civil service positions, was a large number of enterprise directors with Communist Party connections who were inclined to coordinate their activities informally. Second, the socialist system lacked procedures for the entry and exit of enterprises. Enterprises were typically "founded" by a ministry or local authority that arranged for its funding; without funding, lack of capital prevented enterprises from entering the market. Meanwhile, exit was restricted by administrative controls and the lack of bankruptcy and liquidation procedures.[80]

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planning, with a minority of industries completely dominated by a few enterprises. Specifically, the average state-owned industrial enterprise had over 700 employees and about six separate factories. While informative, the Lista 500 data were overly inclusive and likely underestimated the degree of concentration in Polish industry. Schaffer, M.E., "Redistribution of Profit, Financial Flows and Economic Reform in Polish Industry: Evidence form the 'Lista 500', Paper prepared for the Symposium on Monetary Policy, Financial Flows, and Reforms in Centrally Planned Economies, Gerzenzee, Switzerland, 2-4 March 1989 (revised April 1989).

[79] Both vertical and horizontal coordination were important for the functioning of central planning; middle-level leaders in the bureaucracy and enterprise directors had strong incentives to forge close links with superiors, with subordinates and with sellers and buyers (other enterprises). Further, competition was strongly discouraged and even treacherous: "i[t] is unwise to criticize upward, come out with unusual ideas, or take initiatives. It does not pay to think for oneself or take risks on one's own". Kornai, The Socialist System (1992) pp. 120-21.

[80] Indeed, the absence of markets and meaningful relative prices in the economy rendered the "viability" or "non-viability" of an enterprise meaningless.

Third, in order to cope with chronic excess demand, enterprises employed an *autarkic* or self-reliant production strategy, pursuant to which they inefficiently produced all their own inputs as opposed to specializing.[81]

Beginning in the early 1960s, opposition developed in Poland to the inflexible and wasteful nature of central planning, and proposals for "market socialism" were initiated.[82] The reforms sought to stimulate enterprises through market-based incentives aimed at aligning the interests of enterprises and central planners. Associations of enterprises, so-called "Great Economic Organizations (WOGs)", were created to coordinate the activities of managers of different enterprises; the WOGs assumed a position in the planning hierarchy between the ministry-level and the enterprise-level. In reality, the WOGs had little effect, and only led to further over-investment as rival managers abused their new flexibility.[83] In addition, the notion of "workers committees" was introduced, the number of compulsory indicators was reduced, and enterprises were given greater flexibility in developing their own plans; these workers committees would be an important feature of the post-communist

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[81] This strategy was in sharp contrast to that of Japanese *kanban* or just-in-time production organization, in which large firms rely on small, highly-specialized firms to provide inputs on a carefully timed, highly reliable basis. In contrast to the Japanese system, prior to 1989 almost no small independent firms existed in Poland to service large enterprises.

[82] J.S. Berliner categorizes "state socialism" and "market socialism" as two sub-species of "socialism", defined as an economic system in which productive property is predominantly publicly-owned. In contrast to "state socialism" developed in Poland under central planning, in which the transactions among state-owned enterprises were governed by a central economic plan, "market socialism" is a system in which the transactions among publicly-owned (although not necessarily state-owned) enterprises are conducted in markets. Berliner, J.S., "Innovation, the Soviet Union and Market Socialism", in Bardham, P.K. and Roemer, J.E. (eds.), Market Socialism: The Current Debate (New York: OUP 1993) pp. 190-91.

[83] Ash (1983) p. 15.

landscape. However, the effect of these reforms was limited as Soviet hard-liners quickly suppressed the proposals, demoted the reformers, and re-injected themselves into the decision-making process.[84]

During the 1980s, as the Government experimented with limited trade reforms, central planning was partially replaced by market-type controls and central allocation of goods was progressively reduced in scope. Pursuant to the 1981 Law on State Enterprises, enterprises were given "autonomy" which the state could abridge only in specified legal cases. Further, material allocations were replaced by "price signals", consisting of prices, interest rates and tax rates that were negotiated between financial authorities and enterprises.[85] Despite the reduction in the sphere of central planning and the growing autonomy of enterprises, however, normal competitive relations did not emerge and indeed "horizontal" or inter-enterprise cooperation increased during the 1980s.[86] Thus, at the time of commencement of the initial economic reforms, the structure of the industrial sector was largely unreformed and remained deeply reflective of the socialist system of central planning.

b. Industrial Policy During Transition

The Government's development of Polish industrial policy between 1990-95 was progressively shaped by the country's commitment to joining the EU. First, the Government received technical assistance from the EU (under the Phare program)[87]

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[84] See Aldcroft and Morewood (1995); see also Ash (1983).
[85] Sachs and Lipton (1990).
[86] Kornai, J., Contradictions and Dilemmas (Cambridge, Massachusetts: MIT Press 1986).
[87] The term "Phare" is an acronym for "Poland/Hungary Assistance for Economic Restructuring". Developed by the G-24 countries and coordinated by the EU, Phare was a

and other international and national institutions that encourage the adoption of industrial policies similar to current policies in Western Europe. Western European industrial policies, while varying across countries, had by that time generally shifted their emphasis away from sectoral policies toward horizontal policies aimed at improving competitiveness (world export share, productivity and income per capita). Reflecting this influence, the industrial policies implemented in Poland were mostly horizontal policies, including policies for the following: small- and medium- sized enterprises, export promotion, regional aid, research and development/technology, infrastructure, foreign direct investment, employment, environment and energy, sector support, and state enterprises.[88] Second, the Government was restricted by its commitments under the Association Agreement to adopt industrial policies that were compatible with EU policy. As an aspiring member state, the Government was aware of the restrictions on EU member states in relation to industrial policies, in particular those involving subsidies to particular firms and sectors.

For several reasons, the Government refrained from adopting a comprehensive industrial policy framework at the beginning of the transition. First, the Government did not have the institutional, policy or economic framework within which to develop a

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program of technical and financial assistance initially restricted to Poland and Hungary and later extended to other Central European, Baltic and Balkan countries. For each of the years 1990-93, Poland was allocated ECU 200 million, and for each of the years 1994-95 Poland was allocated ECU 225 million, from Phare. Bobinski, C., "Survey of Poland: Preparing for Eventual Membership of the EC: A Look at the Phare Project", Financial Times (June 17, 1993) p. XI.

[88] Belka, M. and Krajewski, S., "Small and Medium-Sized Enterprise Policy in Poland in the Transition", ACE Project: Industrial Policy (December 1995).

comprehensive industrial policy, such as that of France or Germany.[89] Second, the Government's immediate challenge was to initiate the transition from a centrally-planned economy to a market-based economy and to establish a democratic political system. The transition required policies for freeing prices, privatizing assets, establishing property rights and developing new economic structures and institutions including new legal frameworks and banking systems; these policies were designed to have major effects on industry that extended beyond the normal scope of industrial policy.[90] Thus, the Government focused on reducing its involvement in industry, discontinuing most output and price subsidies (except for selected agricultural goods, electricity, water and public transportation). After 1994, the Government earmarked no budgetary funds for subsidies of specific industrial activities, except for funds to help liquidate a number of mines and funds used for large infrastructure projects.

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[89] Within the EU, the breadth and depth of industrial policies differs significantly from country to country. Compared to the ad hoc, minimalist approach of the UK, Kirsty Hughes describes German industrial policies as "being generally stronger and more coherent and relating clearly to the wider German policy framework and institutions. Germany has a much stronger and more coherent regional aspect to its policies due to its federal system and the role of the Laender governments. Germany has a strong SME sector - the mittelstand - which is reinforced both by specific industrial policies such as those on technology diffusion but which also benefits from broader aspects of the German system including the availability of low fixed rate, long term funds, the skills and training system, and wider macroeconomic stability." Hughes, K., "The Development of Industrial Policy in Transition Economies: A Comparative Analysis" (London: Royal Institute of International Affairs 1996). See also Cowling, K. and Tomann, H. (eds.), Industrial Policy after 1992 - an Anglo-German Perspective (London: Anglo-German Foundation 1990).

[90] Poland's closest western advisors did not support the development of strategic, or sectoral, industrial policies, although many recognized of the importance of horizontal, or economy-wide, industrial policies. Hughes, "The Development of Industrial Policy in Transition Economies" (1996).

As the transition progressed, however, the demands of industrial restructuring and of developing new enterprise sectors created some pressure for the development of industrial policies. The Government developed several ad hoc policies, ranging from policies towards small- and medium-sized enterprises and export loan guarantees to crisis policies for particular regions and sectors. For example, sectoral policies were implemented for the coal, iron and steel sectors, and policies were developed to deal with bad debts of state-owned enterprises. Unlike Hungary, which developed a broad industrial strategy to cover the period 1991-94, the Government continued to reject the idea of an overall industrial policy. Moreover, within the Government an ongoing debate developed over whether, and to what extent, a comprehensive industrial policy should be developed to assist with industrial restructuring. The Ministry of Industry and Commerce began working on "Industrial Policy Guidelines", the first edition of which were published in June 1992. Yet given the challenges remaining to industrial reform, industrial policy making remained in a state of flux and susceptible to outside influence, particularly by the EU.

The Industrial Policy Guidelines stressed the need to develop a coherent industrial policy to improve enterprise performance and competitiveness and to promote innovation. While the Guidelines never evolved into formal policy, the Ministry of Industry and Trade began working to revise the Guidelines into policy recommendations for assisting industry with industrial restructuring and the adjustment to the new market-based system. Further, multilateral institutions, such as the OECD, began to consider the potential usefulness of developing an industrial policy in Poland.

In a 1993 study,[91] the OECD discussed the benefits of comprehensive industrial programs that had been introduced in Ireland, Portugal and Spain in order to assist industries with the development and exploitation of opportunities presented by their integration with the EU and global markets. In the context of Poland, the report recommended the development of an industrial policy to counterbalance the distortions and imperfections of the market, to facilitate industrial development, particularly in transport, telecommunications and infrastructure, and to expedite industrial restructuring.

With the accession of the post-communist Democratic Left Alliance-Peasants Party coalition to Government 1993, the Government adopted a more activist rhetoric in relation to industrial policy but simultaneously became more mindful of the requirements of EU association. This rhetoric spurred considerable speculation about a "return to socialism". Thus, Jan Szomburg remarked, "[f]rom the moment that the post-communist parties formed their coalition Government in late 1993 a change in the overall course of economic policy could be observed: preference for a liberal model of a market-based capitalism was replaced by a model of state capitalism."[92] State capitalism in this sense involved a shift in the focus of economic policy from privatization of state enterprises to rationalization of their management, meaning

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[91] Organisation for Economic Co-operation and Development, OECD Economic Surveys: Poland (1994).

[92] Szomburg, J., "The Political Constraints on Polish Privatization", in Blazyca, G. and Dabrowski, J. (eds.), Monitoring Economic Transition: The Polish Case (Aldershot: Avebury 1995) p. 82.

greater state involvement and less autonomy.[93] Fueling charges of renewed "hands on" government interventionism, the Pawlak Government introduced an extremely comprehensive industrial policy framework to cover the period 1993-95. The industrial policy embodied a 10-year time horizon for improving competitiveness and for increasing the efficiency and innovative capacity of enterprises.

The Government's 1993-95 industrial policy had two main parts - a horizontal approach and a sectoral approach. The horizontal portion included a series of sub-goals aimed at promoting growth and competitiveness while the sectoral portion was focused on selective industries.[94] Revealing an increasing preoccupation with industry, in 1995 the Government issued a white paper, "Program dla Polski", on Polish industrial competitiveness, more narrowly focused than the 1993-95 industrial policy on export promotion, technological change and structural change. As a result of the 1993-95 and 1995 initiatives, a 1996 comparative survey of Hungary, Poland, the Czech Republic and Bulgaria found that Polish industrial policy, broadly defined, was relatively more interventionist and comprehensive than Czech or Bulgarian industrial policies.[95] However, in view of the limitations on state intervention imposed by EU

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[93] Toward this end, the Pawlak Government proposed the "mass commercialization" of all state enterprises into commercial companies wholly-owned by the Government; such a policy would eliminate the powers of employee councils, give the Government more political control over the economy and free state enterprises of the obligation to pay the excess wage tax (or *popiwek*) opposed by SLD. The proposal was not resolved during the 1990-95 period, however, due to the lack of clear support from the trade unions.

[94] The sub-goals also included reversing the recession and further stabilizing the economy, expanding small- and medium-sized businesses, attracting foreign capital, and eliminating the dual standards of commercial laws for state and private enterprises.

[95] Hughes, K. et al., "Industrial Restructuring and the Role of Industrial Policy in the Transition in Central and Eastern Europe", London Conference, ACE Project (1996).

association and the dearth of state budgetary funds, none of the industrial policy initiatives specified concrete measures to be taken in individual sectors or any financial plan for the capital outlays that would be required for particular projects, severely limiting their implementation.

(iii) Competition Policy Reform

The influence of the Government's commitment to association with the EU was more immediate in an area closely related to industrial policy, namely competition policy. Indeed, the Association Agreement directly incorporated the competition provisions of the Treaty of Rome, as well as the methods used by the EU to interpret and enforce them, marking the first time that the EU had included a competition section in an association agreement and greatly augmenting the importance of competition policy in relation to Poland's quest for membership. While from 1990 Polish policy makers attached primary importance to competition as a means of facilitating economic transformation and growth, their approach to competition policy making was shaped by extremely close ties with the EU competition directorate, DGIV.[96] This pro-EU orientation encouraged competition authorities to resist growing pressures to expand domestic market protection against imports, and prompted representatives of the Antimonopoly Office to participate on government

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[96] Sir Leon Brittan described the influence of EU competition policy on integration as follows: "We have to provide an example for the fragile democracies of Eastern Europe. When they look at what binds the twelve member states together in a Community, they notice that at the heart of its successful market economy lies a sound competition policy." Speech of Commissioner Sir Leon Brittan to the EC Chamber of Commerce in New York city on March 26, 1990, quoted in Fidler, D.P., "Competition Law and International Relations", 41 International & Comparative Law Quarterly 563 (1992).

bodies responsible for regulating foreign trade, such as the Inter-Ministerial Commission for Updating and Modifying Customs Tariffs on Imports.[97]

Revealing a natural proclivity for competition, the Government was the first of the Central European governments to create a legal framework for an active competition policy and the first to develop a strong working relationship with DGIV. Indeed, links between policy makers at the Antimonopoly Office (AMO) and those in DGIV were extremely close, entailing frequent visits, telephone calls and joint conferences. Formerly sheltered state enterprises were highly resistant to the introduction of competition, yet with strong support from DGIV, Polish policy makers developed a competition regime compatible with EU competition law and policy through institutional reform and harmonization of Polish law with EU law. Competition policy during the 1990-95 period had two main goals: first, the reduction and elimination of trade protection; and second, the creation of competitive market structures and the introduction and protection of competition in industry. Aside from liberalization of prices, trade and commercial activity, other sources of competition in Poland included passage of the Antimonopoly Law in 1990 and liberalization of economic activity and of the foreign exchange market.

The Government established the AMO in 1990 to promote competition and to prevent any behavior constraining production or prices, such as price cartels, market

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[97] The Polish Office adopted strongly pro-market rhetoric, frequently insisting that liberalizing foreign trade and thereby imposing competitive pressure on the Polish economy was "a more efficient tool [than administrative commands] for introducing market functions and behavior". 1992 Annual Report on Activity of the Polish Antimonopoly Office (Warsaw, Poland: Antimonopoly Office 1992) p. 11.

segmentation or the abuse of a dominant position (defined as a 40 percent market share). As a sub-ministerial agency, the AMO was free to work closely with DGIV and became on of the closest points of contact for the Government with the EU. During 1990-95, the AMO issued over 2,000 decisions, ordered the division of 20 regional state enterprises with a dominant position on local markets, and in 11 instances prohibited the incorporation of monopolistic state enterprises. Enterprises with a domestic market share of over 80 percent were closely monitored and their number declined from nearly 200 at the start of the transition to 74 by 1994.[98] Despite its achievements and its support from the EU, however, the influence of the AMO in Poland was modest and enforcement was relatively weak as a result of limited administrative and judicial resources. Instead, broader industrial policy - privatization and the liberalization of prices, trade and commercial activity - was a more important force in the development of a competitive market structure.[99]

Conclusion

During the early part of the 1990-95 period, the Government initiated major adjustments in the Polish economic system, including substantial liberalization of prices, business activity and industrial trade, in an effort to make the economy

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[98] While the AMO was not successful in preventing the development and abuse of monopoly power in the telecommunications and energy sectors, it was instrumental in other sectors such as grain milling and sugar. AMO Annual Report (Warsaw, Poland: Antimonopoly Office 1995).

[99] The Act on Entrepreneurship of January 1989 provided free access to all business activities and the basis for the emerging new private sector. The Amended Foreign Exchange Law of January 1995 allowed Poland, in June 1995, to accede formally to the obligations under Article VIII of the IMF Articles of Agreement providing for full current account convertibility of the zloty.

compatible with world market systems. These adjustments reflected the prevailing laissez-faire attitude of the Government, which was born out of frustration with the perceived failure of central planning and a desire to emulate successful Western economic achievements. While the notion of pursuing an association with the EU was on the policy horizon, it was not the dominant motivation for these initial changes; indeed the Government considered a wide variety of economic systems - American, Asian and EU - in formulating the Economic Transformation Program. Instead, the most that may be said of the EU's influence in relation to the initial reforms was that the country's geographical proximity and growing trade links with the EU encouraged the Government to design a market economic systembroadly compatible with those in place in EU member states. That the adoption of various reform measures coincided with EU policy prescriptions and would eventually pave the way for the pursuit of association with the EU was largely incidental.

Annex I

Economic Summary[1]

	1990	1991	1992	1993	1994	1995
Gross Domestic Product						
Nominal (PLN)	56,027	80,883	114,944	155,780	211,500	210,400
Real (PLN)[2]	56,027	52,121	53,489	55,516	58,292	62,372
% change from prior year	(11.6)	(7.0)	2.6	3.8	5.2	5.7
Unemployment rate[3]	6.3	11.8	13.6	14.7	16.0	14.9
Total exports(USD)[4]	14.3	14.9	13.2	14.1	17.2	22.9
Balance of trade(USD)[4]	4.8	(0.6)	(2.7)	(4.7)	(4.3)	(6.2)
Consumer prices[5]	249.3	60.4	44.3	37.6	29.5	21.6
Producer prices[5]	192.9	35.7	31.5	35.9	27.9	18.9

Notes:

(1) Figures are in millions of PLN or USD, as noted, except for percentages or otherwise noted.

(2) At constant 1990 prices.

(3) As percentage of labor force.

(4) In billions (Source: 1998 Polish Statistical Yearbook).

(5) Average percentage change over same period of previous year.

Sources: Ministry of Finance, National Bank of Poland and Central Planning Office.

Development of the Private Sector

	1990	1991	1992	1993	1994	1995
GDP[1][2]	30.9	42.1	45.4	47.5	56.0	58.0
Industry	18.2	29.9	31.4	36.3	na	na
Construction	39.7	59.9	74.8	82.1	na	na
Agriculture	81.8	84.4	83.9	88.2	na	na
Transportation	20.1	26.2	33.3	39.2	na	na
Trade	51.3	77.0	86.2	92.7	na	na
Employment						
Including Agriculture	48.9	54.3	56.0	58.9	60.8	62.6
Excluding Agriculture	19.1	30.6	32.1	34.6	35.7	na
External Trade						
Total	8.6	36.2	47.2	53.0	59.3	na
Exports	4.9	21.9	38.4	44.0	51.3	56.8
Imports	14.4	49.9	54.5	59.8	65.8	69.7

Notes:

(1) Nominal GDP.

(2) Amounts for periods prior to 1992 have been calculated according to Polish Classification of National Economy ("KGN") methodology and amounts for subsequent periods have been calculated according to European Classification of Activities ("EKD") methodology.

(3) Ministerstwo Skarbu Panstwa Raport O Przeksztalceniach Wlasnosciowych (Warsaw: 1996).

Sources: Central Statistical Office and Central Planning Office

HI. Chapter Three: The Decision to Pursue Association with the European Union

As political leaders toiled to install the basic foundations of a market economy, a strong undercurrent began sweeping Polish society in favor of association with the EU. This desire was captured by the observation of Poland's foremost Western economic advisor, Professor Jeffrey Sachs, that "[t]he urge to harmonize with and eventually join the European Community has deep roots. Poland desires to regain its place in the mainstream of European society and culture. The slogan of the revolutions of 1989, after all, was 'return to Europe'".[1] With the basic mechanisms of the economic reforms in place, policy makers began to exploit the vast popular support for their historic mission to pursue EU association and eventual membership, a mission which strongly correlated with their policy agenda. This Chapter first analyzes how association evolved as a strategic goal of the Government and how it fit in among other public policy goals during the transition era, showing the degree to which association coincided with the economic agenda of successive post-communist Governments. It then examines how a broad domestic consensus formed in support of association with the EU, enhancing the manoeuvrability of government leaders in relation to other domestic actors as they carried out the reforms. The decision to pursue association reflected a complete reversal of Polish communist foreign policy,

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[1] Sachs, J., "Building a Market Economy in Poland", Scientific American (March 1992) pp. 34-35. Here the "return to Europe" referred more to escape from the throes of Soviet domination than association with the EU.

evolving from the late 1980s as the Government, driven by economic necessity, began to seek economic rapprochement with the EU.

A. Pre-Association Agreement Trade Arrangements with the EU

(i) Pre-Association Foreign Policy: The Emergence of a European Focus

Not yet considered an option, association with the EU was not the dominant focus of Polish foreign policy at the beginning of the post-communist political and economic transition.[2] Instead, the most pressing task for Polish foreign policy makers was to secure Poland's status as a free and independent nation after nearly two hundred years of invasion, partition and domination by foreign powers.[3] As expressed by Minister of Foreign Affairs Krzysztof Skubiszewski,[4] "[t]he basic objective of Polish foreign policy conceived at the turning point of 1989 was to protect the sovereignty and security of Poland, advance the country's economic and civil development, attain a strong position in Europe and in the world. Our policy was fundamentally to define the Polish *raison d'etat*."[5] While government leaders made mention of the newfound importance of Europe, asserting Poland's identity as distinct

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[2] Greenhouse, S., "Calling Party Too Weak to Go On, Polish Communists Act to Disband", N.Y. Times, January 28, 1990, p. A1; Greenhouse, S., "Successor Party Picks New Leaders", N.Y. Times, January 30, 1990, p. A14.

[3] Poland as a sovereign state disappeared between 1795 and 1918 due to a series of partitions between Prussia, Russia and Austria-Hungary in 1772, 1793 and 1795. At the end of World War I, the Versailles Treaty of 1918 re-established Poland's sovereignty. See Davies, N., Heart of Europe: A Short History of Poland (Oxford: Oxford University Press 1984) pp. 109-29, 299-311.

[4] Krzysztof Skubiszewski was Minister of Foreign Affairs from September 1989 until October 1993.

from the Soviet Union after forty years of subordination was plainly the top priority of Polish foreign policy during the earliest days of the post-communist era.

Emphasizing the focus on sovereignty, Prime Minister Tadeusz Mazowiecki declared in January 1990 that "[o]nly a Poland, which chooses its system in a sovereign way, can be a factor of political stabilization in Europe. Today these words are no longer a mere declaration but a reflection of reality."[6] Referring to the Soviet Union, Mazowiecki went on to state that "[t]he basic premise in our mutual relations is independence of the Polish state, above all freedom of the people to choose any form of a democratic system based on free elections and the right to decide who is to hold power in the state."[7] However, even while jockeying for position vis-à-vis the Soviet Union in these early remarks, Mazowiecki hinted at the nation's interest in aligning its foreign policy with that of Europe, proposing the creation of a "pan-European political structure, a kind of a standing European cooperation council,", the aim of which would be "to maintain permanent political dialogue between all member states and, first and foremost, to pave the way for all-European forms of integration."[8] Accordingly, as the country struggled to fortify its sovereign status its desire to belong to the EU began to surface.

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[5] Skubiszewski, K. "Pozycja Polski w Europie" [Poland's Position in Europe] (Warsaw: Fundacja Studiow Miedzynarodowych, Warszawa 1994) p. 7.

[6] Expose Premiera RP Tadeusza Mazowieckiego w Sejmie, Warszawa, 18 stycznia 1990r. [Sejm Expose by the Polish Prime Minister Tadeusz Mazowiecki, Warsaw, January 18, 1990], Trybuna Ludu, January 19, 1990.

[7] Id.

[8] Id.

From subsequent speeches of policy makers, it became clear that part of the attraction of Europe was the opportunity to develop a market economic system similar to the types of systems functioning in EU member states. In an address to the European Parliament in February 1990,[9] Prime Minister Mazowiecki explained that while Poland was eager to "get away as soon as feasible from the forms of economic management which proved a dead-end alley, and to return to economic normalcy", the country had no intention or desire to head toward "19th century capitalism, but toward a modern European market economy, that is a social market economy." The Polish perception of a European (i.e. EU) "social market economy", as explained by Mazowiecki, was of an economy in which the government played an active role in protecting the welfare of its citizens. Referring to the concept of a social market economy, he explained that "[w]e shall seek its expression, not forgetting those who may find it impossible to cope with the stern market conditions. The programme includes social safety net provisions of the sort we can afford at present." Thus, affinity for EU-style economic systems appears to have played a prominent role in the development of Poland's pro-EU foreign policy in the early months of 1990.

A major reorientation of foreign policy from East to West occurred throughout the course of 1990. However, speeches by Foreign Affairs Minister Skubiszewski sounded a cautious note in relation to the EU, reflecting a concern that the still-extant Soviet Union might be provoked by a more blatantly EU-oriented foreign policy. In

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[9] Przemowienie Premiera RP Tadeusza Mazowieckiego w Parlamencie Europejskim, Bruksela, 1 lutego 1990r. [Address by Prime Minister of the RP Tadeusz Mazowiecki to the European

his speech to the Polish Sejm in April 1990 outlining his foreign policy priorities, Minister Skubiszewski did not specifically mention the EU and was careful to emphasize "dualism" in Poland's approach to forging new regional links, referring to Poland's continued membership in the Warsaw Pact and in the CMEA. Minister Skubiszewski also framed this new dualism in terms of Poland's position between the Soviet Union and Germany (as opposed to the EU), emphasizing that "[r]elations with the USSR continue to be the key task of our state strategy", and noting that "[t]hese relations, like those with all other states, today are based on respect of independence and everything which independence entails. They are characterized by partnership based on equal rights, mutual respect for interests and for agreements made. These relations have been cleared of their tremendous ideological burden, of multifarious dependence and satellite-like relations stemming from this. At present these relations have to be good-neighbourly in the spirit of the new times."[10]

The desire to pursue a dualistic Soviet-German approach in Polish foreign policy proved to be an interim point along the course of Poland's reorientation toward the EU. Accordingly, Minister Skubiszewski emphasized that Europe was the key to Poland's "balance" between the Soviet Union and Germany. Framing Poland's security dilemma in terms of the country's need to find a unique position on the continent "between two giants", he explained that "[h]ere European cooperation and

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Parliament, Brussels, February 1, 1990], Rzeczpospolita, February 2, 1990.

[10] Sejmowe Expose Ministra Spraw Zagranicznych RP Krzysztofa Skubiszewskiego, Warszawa, 26 kwietnia 1990r. [Sejm Expose by Minister for Foreign Affairs of the RP, Krzysztof Skubiszewski, Warsaw, April 26, 1990], Zbior Dokumentow, vol. 2 (1990).

the prospect for the security system acquire top significance. The construction of the security system depends on the redoubled effort of the Europeans. Like the German question finds its proper place in the European answer, so does the position of Poland become safe in the European peace order. . . ."[11] In the same speech, Minister Skubiszewski gently depicted the near-defunct status of the Warsaw Treaty, describing it as a purely "defense alliance" as opposed to an "instrument for influencing the political and economic system and order of the contracting states." He similarly described the CMEA, emphasizing that it was not a "strictly regional organization" and that "[r]egional economic ties do not need the CMEA".[12] The portions of his speech portending greater economic and political ties with Western Europe and even Japan were far more energized and optimistic than those outlining the future of Polish-Soviet relations; however, at this stage Minister Skubiszewski diplomatically characterized Polish aspirations as appeals for "European unity."[13]

During the course of 1990 political leaders became decidedly pro-Western European and less cautious about antagonizing the Soviet Union, yet remained sensitive to how the country's future relationship with the Soviet Union was publicly portrayed.[14] In June 1990 the Polish Government and the EU signed a memorandum

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[11] Id.
[12] Id.
[13] Id.
[14] In February 1991, Poland's approach toward EU integration acquired a new dimension when the leaders of Poland, Czechoslovakia and Hungary met in Visegrad, Czechoslovakia to discuss ways to coordinate their efforts in relation to EU integration. Recognizing that the three countries shared similar goals, the leaders issued a declaration to the effect that "in the light of the political, economic and social challenges facing them and the efforts for a renewal based on democratic principles, their cooperation represents an important step on the path towards all-

relating to the principles of the country's association with the EU. The memorandum contained the main points to be reflected in an association agreement, emphasizing that the two parties intended to form the deepest link possible between the peoples of Poland and those of the EU and explaining that during the "transition period" both parties were to retain their autonomy to fashion their "individual political economy" vis-à-vis third countries.[15] Reflecting Poland's new foreign policy stance, Minister Skubiszewski outlined the nature of changes in Poland's foreign policy in a speech to the Polish Senate in September 1990, emphasizing that "[i]n our mind the Eastern bloc - this term is still sometimes used in the West - does not exist, which does not mean that having our European policy we are turning our back on the East . . . We belong to Europe, to Western European culture; we cultivate and expand ties with the East. Some here talk of acting as a 'bridge'. I prefer to avoid that term since I am not very sure what it means."[16]

European integration". Deklaracja O Wspolpracy Rzeczypospolitej Polskiej, Czeskiej i Slowackiej Republiki Federacyjnej if Republik Wegierskiej w Dazeniu do Integracji Europejskiej, Wyszehrad, 15 lutego 1991 r. [Declaration of the Republic of Poland, the Czech and Slovak Federal Republic, and the Republic of Hungary on Cooperation in Pursuit of European Integration, Visegrad, February 15, 1991]. Subsequent to the declaration, the will to cooperate waxed and waned.

[15] It is unclear from the text of the Memorandum whether the "transition period" refers to the period prior to the ratification of the Association Agreement, or the period prior to full EU membership as outlined in the actual text of the Association Agreement. Memorandum Rzadu Rzeczypospolitej Polskiej w Sprawie Zasad Stowarzyszenia Polski z Europejska Wspolnota Gospodarcza, przekazane w Brukseli 21 czerwca 1990r. [Memorandum du Gouvernement de la Republique de Pologne Relatif aux Principes d'Association Entre la Pologne et la Communaute Economique Europeenne, Transmit a Bruxelles, le 21 juin 1990], Zbior Dokumentow, vol. 14 (1990) pp. 87-93.

[16] Polska Wobec Wschodu - Wystapienie Ministra Spraw Zagranicznych RP Krzysztofa Skubiszewskiego w Senacie, Warszawa, 7 wrzesnia 1990r. [Poland and the East - Statement

It was only in 1991 that Minister Skubiszewski's speeches began to emphasize why the EU should welcome Poland into its fold. In his Sejm address of February 1991, Minister Skubiszewski explained that Poland's choice to go West as opposed to East was really a choice between a military giant (the Soviet Union) and an economic giant (Germany). When articulating Poland's new pro-European stance, Minister Skubiszewski was still mindful not to isolate the Soviet Union, stating that "[w]e reject prejudices and distancing ourselves, we have also finished with the legacy of the past 45-years, that is with the satellite dependence on the USSR at the expense of sovereignty. . . there is no balancing the intensiveness of relationships. Our relations with Germany may and probably will be developing in a special way in view of our aspiration to join the European Community, but all the same through our ties with the West we should pursue our eastern policies to become an attractive partner for the East."[17] While cementing Poland's western orientation, Minister Skubiszewski was cautious not to isolate Poland from the sizeable markets to the East, referring repeatedly to the East as a "source of potential economic benefits", and describing how Poland should pursue economic projects in the region that would otherwise be pursued by the EU.

The ease with which the reorientation of Poland's foreign policy toward the EU occurred implies that political leaders enjoyed wide lattitude during the transition and

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by the Polish Foreign Minister Krzysztof Skubiszewski in the Senate, Warsaw, September 7, 1990], Zbior Dokumentow, vol. 4 (1990) pp. 13-17.

[17] Problemy Polityki Zagranicznej u Progu Roku 1991 - Wystapienie Ministra Spraw Zagranicznych RP Krzystofa Skubiszewskiego w Sejmie, Warszawa, 14 lutego 1991r.

eagerly contemplated the benefits of EU association for domestic policy making in terms of providing a sharper focus and enhancing discretion.[18] The Government was able to engineer the shift delicately and without undue animosity from within or from the East. While it is difficult to gauge the extent to which the public was informed about the inner workings of the Government in the foreign policy-making realm, presumably in the midst of the massive political and economic upheaval the public tended to monitor government operations, including foreign affairs, fairly closely. The smooth execution of the shift indicates foreign policy makers were strongly supported in their efforts by other domestic actors and the general Polish public. By 1991, the Polish leadership sought to turn the country's historically perilous geopolitical position to its advantage, in particular through the cultivation of new external economic arrangements, and the Government's pursuit of EU association took on a sharper "economic" dimension.[19] This new economic course built on the existing economic relationship Poland had developed with the EU in 1989.

(ii) Precursor to Association: Poland-EU Agreement on Trade and Economic Cooperation of 1989

As the geographical shift in the country's foreign policy focus was occurring, Polish policy makers began to pursue economic ties with the EU through initiatives designed to establish deeper economic cooperation and trade links and bolster the pro-

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[Foreign Policy Address at the Start of 1991- Address by the Polish Foreign Minister Krzysztof Skubiszewski in the Sejm, Warsaw, February 14, 1991].

[18] Leszek Balcerowicz referred to this era as a period of "extraordinary politics." Balcerowicz, Socialism, Capitalism, Transformation (1995) p. 265.

market reforms. In September 1989, Poland and the EU concluded the Agreement on Trade and Economic Cooperation, normalizing trade and economic relations with the EU, which until then had not been governed by any formal arrangement. The Agreement recognized the importance from a European perspective of traditional links between Poland and the EU, and the parties' desire to expand and diversify trade in a nondiscriminatory and mutually reciprocal fashion.[20] The Agreement also acknowledged the desire of the parties to reaffirm their respective commitments to the GATT, to give effect to the Final Act of the Conference on Security and Cooperation in Europe, and to establish wider-ranging and closer contractual links as a basis for the development of a deeper relationship in the future.

Reflecting the as-yet uncertain commitment of the parties to a relationship, the Agreement was narrowly focused and gave no hint of a potentially deeper economic arrangement. It had four main sections, providing respectively for Trade and Commercial Cooperation, Economic Cooperation, the establishment of a Joint Committee, and General Provisions. In the Trade and Commercial Cooperation section, the parties reaffirmed their commitment to accord each other MFN treatment in accordance with the GATT and with the Protocol for the accession of Poland to the

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[19] Speaking in 1994, Minister Skubiszewski explained that "[f]rom the second half of the 18th century our geopolitical position had catastrophic effects. Since 1989, we have been trying to turn this position to our advantage." Skubiszewski, "Pozycja Polski w Europie" (1994) p. 8.

[20] The Agreement was concluded by Foreign Affairs Minister Skubiszewski, Minister for Foreign Economic Relations, Marcin Swiecicki, President of the Council of the European Communities, Roland Dumas, and Member of the European Commission, Frans Andriessen, in Warsaw on September 19, 1989.

GATT.[21] The Agreement applied to all products originating in either Poland or the EU, except for those products covered by the European Coal and Steel Community (ECSC) and those products covered by existing agreements on trade in textile and agricultural products.[22] However, in 1990 Poland signed an Agreement with the ECSC extending the provisions of the Agreement on Trade and Economic Cooperation to cooperation in the fields of metallurgy and mining.

The Agreement embodied basic trade arrangements, including the "most favored nation" principle. The main provisions of the Trade and Commercial Cooperation section required each party to accord to imports from the other party the highest degree of liberalization that they generally accorded to third countries. In addition, the EU agreed to eliminate the quantitative restrictions referred to in the Protocol for the accession of Poland to the GATT[23] and the quantitative restrictions on numerous other imports listed in the annexes to the Agreement. The EU in particular also agreed to open and gradually increase import quotas for certain products subject to quantitative restrictions; but only "in good time in order not to hinder normal trade flows".[24] Disregarding Poland's socialist economic system, the Agreement also provided that goods would be traded between the parties at market-related prices. Finally, the parties agreed to consult each other in the event that imports of any

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[21] Poland's initial GATT membership on special terms dating from 1967 having lapsed, the country renegotiated the terms of its GATT membership only in 1995.

[22] The Agreement did provide, however, for certain agricultural concessions and for an examination of the possibilities for granting reciprocal new concessions on a product-by-product basis. Article 12(1) and (2).

[23] See Article 3(a) of the Protocol.

[24] See Article 11 of the Agreement.

product increased and threatened to cause serious injury to domestic producers of similar products and to allow for "emergency measures" under certain circumstances, for instance in cases of disagreement or where delay would be unduly damaging to their respective economies or trade flows.

In the Economic Cooperation section, the parties agreed to promote closer economic links with each other, by promoting joint ventures, research and development projects, information sharing and the development of new markets in both parties. The EU specifically agreed to support structural changes in the Polish economy with a view to increasing the diversity and volume of trade with the EU. In the section on the establishment of a Joint Committee, the Agreement provided that the Committee would be comprised of representatives of both parties, and would be entrusted with the task of formulating recommendations and rules of procedure as necessary for the implementation of the Agreement. The Joint Committee was to meet once per year, to review progress under the Agreement, to formulate ways to resolve conflicts that might arise, and to seek ways to expand trade between the parties. Finally, the General Provisions section provided that the provisions of the Agreement were to replace similar provisions of all former agreements that had been concluded between Poland and the EU, and that the Agreement was to remain in force for five years with provision for automatic renewal.[25]

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[25] The Agreement emphasized that it did not impair the rights and obligations of the parties under GATT or under the Protocol for the accession of Poland to GATT.

While furnishing a foundation for closer trade and commercial ties, the Agreement on Trade and Economic Cooperation did not provide a basis for formal association or any deeper influence on industrial policy making. Indeed, little evidence exists of either party taking full advantage of the economic opportunities offered by the Agreement as Polish exports to the EU did not respond in any remarkable fashion. In this regard, the Agreement belonged to the genre of basic, so-called "first generation" trade and economic cooperation agreements that the EU concluded with all former CMEA members between 1989 and 1992.[26] While the Agreement envisioned considerable financial, technical and other assistance from the EU, it did not contain any specific provisions in this regard, and thus was largely gratuitous. Only after the Polish leadership had placed the country's pro-market economic reform agenda in order and become aware of the EU's receptivity to a deeper relationship did policy makers begin to pursue a deeper arrangement and ways to conclude a formal association with the EU in a serious manner.

B. Decision to Associate with the EU

Viewing the country's position as distinct from that of its eastern neighbors, and eager to exploit the propitious post-communist euphoria in the West, Poland was the first nation in Central Europe to make a formal approach to the EU regarding the

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[26] By contrast, the association agreements signed with the Central European countries were referred to by the EU as "second-generation" agreements. See Matejka, H., "The New East in Multilateral Economic Organizations" in Brabant, Jozef van (ed.), The New Eastern Europe and the World Economy (Boulder, Colorado: Westview Press 1993).

prospect of concluding an association.[27] On March 29, 1990, Prime Minister Mazowiecki first broached the issue in a letter to President of the European Commission Jacques Delors, and on May 25, 1990, Foreign Affairs Minister Skubiszewski made a request to the Irish Foreign Minister and President of the Council of Ministers of the EU, Gerard Collins, for the formal commencement of association negotiations. Several weeks later, the Polish Government submitted a memorandum to the European Commission outlining the expectations of the Government in relation to the principles that would govern Poland's association with the EU, and the two sides began negotiating the terms in earnest.[28]

The motivations underpinning the Government's pursuit of association differed in several senses from those of the newer members during their recent periods of association. Regime change had precipitated the associations of Greece, Spain and Portugal and produced a similar pro-EU consensus in each of those countries. But the depth of the change was greater in Poland. Having been locked within the Soviet system for several decades, and having had little opportunity to express its national identity, the magnitude of the foreign policy reversal was greater and the sense of

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[27] In contrast, many countries, such as the Baltic states, initially chose to renew their "first-generation" trade and economic cooperation agreements with the EU rather than to pursue association. In the words of Prime Minister Vytautas Landsbergis, "Lithuania has waited to long to be free to begin pursuing membership in another bloc of countries so soon. We want to feel our independence for a while." Interview with Prime Minister Vytautas Landsbergis in the Lithuanian Parliament, Vilnius, Lithuania, July 7, 1994.

[28] Oswiadczenie Ministra Spraw Zagranicznych Rzeczypospolitej Polskiej Andrzeja Olechowskiego Wygloszone w Sejmie Rzeczypospolitej Polskiej na Temat Wniosku Polski o Przystapienie do Unii Europejskiej, Warszawa, 7 kwietnia 1994r. [Statement by Minister of Foreign Affairs of the Republic of Poland Andrzej Olechowski to the Sejm of the Republic of

freedom being suddenly experienced was socially and psychologically more complex. The simultaneous transformation from a centrally-planned to a market-based economy augmented the dynamics of the required transition. Consequently, despite a shorter separation from the West, the country's desire to reassert its Europeanness and join the EU remained as strong in post-communist Poland as in the newer Mediterranean members states.

Statements of domestic policy makers around the time of commencement of the association talks set forth a variety of motivations underpinning the desire to forge deeper political and economic links with and "rejoin" the community of European nations. Difficult to capture, these motivations often were expressed obscurely, as shown by the preamble of the Government's position paper relating to the country's application for membership:

Poland on Poland's Application for Accession to the European Union, Warsaw, April 7, 1994], Zbior Dokumentow, vol. 2 (1994) p. 11.

> Poland's strategic goal is accession to the European Union. However, this is not a goal in itself. For Poland, accession to the Union means consolidating the results of democratic and systemic transformations and accelerating her economic development. Stabilizing the process of change and strengthening democracy and market economy in Central Europe is not only in the interest of the countries situated in this region, but also in the interest of the Union and its Member States. By participating extensively in the European political and economic system, we wish to contribute to accelerating the development of all the countries engaged in the integration process. . .[29]

The declared goals of "consolidating the results of democratic and systemic transformations and accelerating her economic development" and "strengthening democracy and market economy" fit in well with the overall policy-making agenda of the political leadership, particularly the longer-term goals of the economic reforms.

The Association Agreement itself recited lofty political, economic and historic motivations that also accorded with the basic direction of the reform program.[30] It stressed the commitment of the EU and Poland to enhancing political and economic freedoms and to "establishing in Europe a system of stability based on cooperation".[31] The Association Agreement also cited the "existing traditional links" between the EU,

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[29] The preamble goes on to state that "[t]his should advance political stabilization and generate a stronger sense of security throughout the region. Poland's membership in the European Union should be conducive to maintaining peace and stability in Europe, as it would put a final end to the division of the continent. It would also foster a lasting Polish-German reconciliation, which is in the interest of the whole European community." Pro Memoria, Poland's position paper linked with the application for membership in the European Union, Council of Ministers, Office of the Undersecretary of State for European Integration and Foreign Assistance (Warsaw, Poland: November 1994).

[30] The formal title of the Association Agreement is the "Europe Agreement establishing an association between the European Communities and their Member States, of the one part, and the Republic of Poland, of the other part" (hereinafter the Association Agreement).

[31] Association Agreement, preamble, p. 2.

its member states, and Poland as well as their "common values",[32] referring to Poland's traditional status as a European state and its desire to reassert this status. Finally, the Association Agreement contemplated Poland's economic development and prosperity, furthered by the EU's willingness to support Poland's economic reforms and establish "instruments of cooperation and economic, technical and financial assistance on a global and multi-annual basis."[33] Citing the experiences of Spain and Portugal, Polish advocates of the country's association with the EU began to assert that free trade and close financial ties with the EU would assist Poland in its effort to achieve the higher standards of living found in the Community.[34]

Geopolitical motivations, underpinned by the country's historically unfavorable location between hegemonic empires and ongoing struggle to maintain a national identity may have predominated Poland's initial inspiration to join the EU. Nonetheless, as the economic transition got underway, commercial aims became equally important.[35] Expressing concern about the country's economic future, President Lech Walesa in 1992 admonished that "[w]e are losing credibility. Poland belongs to the so-called countries with a high risk factor. No one will provide money

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[32] Association Agreement, preamble, pp. 1-2.

[33] Association Agreement, preamble, p. 2.

[34] Sachs, "Building a Market Economy in Poland" (1992) p. 35. Portugal was cited early on as a model for economic transformation in Eastern Europe, although Portugal's economic transformation followed a period of authoritarian rule as opposed to communist rule. Gumbel, P., "Portugal May Be Model for Eastern Europe: Stability Returns After Authoritarian Rule, Wall Street Journal, May 7, 1992.

[35] Even the inspiration for seeking to join NATO had a strong economic component among the Central European countries. Indeed, former Foreign Minister of Russia, Andrei Kozyrev went so far as to assert that "[a]s foreign minister, I found that every Eastern European leader who

for a risky business. Only a stable Government, a realistic programme of changes and a strict implementation of the timetable of changes can change Poland's image in Europe and the world. Otherwise no serious capital will ever flow into Poland."[36] This motivation was reinforced by Professor Sachs, who suggested that deeper trade relations with the EU "could irrevocably set Poland on a free-trading course and so make investment there more attractive".[37] Gradually, a fuller range of policy motivations - painting a collectively positive picture of the benefits of EU association for policy-making discretion and legitimacy - began to emerge.

(i) Policy Motivations: Political, Economic and Socio-Cultural

The Government's wide array of political, economic and socio-cultural motivations for seeking to join the EU were reflected in both the spirit and the shape of the association Polish policy makers pursued. Looking at the spirit of the Agreement, an association agreement with the EU may be designed either to prepare an associated country for full membership, as in the case of Greece and Turkey (although the latter country has never fulfilled this objective), or to maintain "special links" between certain member states and non-member states, as in the case of association agreements that have been used to avoid application of the EU's common external tariff to the overseas departments and territories with which Belgium, France, Italy and the Netherlands

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wanted NATO membership saw it primarily as an economic move, not a military one." Kozyrev, A., "NATO Is Not Our Enemy," Newsweek, February 10, 1997, p. 31.

[36] "Walesa's Seym Address", Gazeta Wyborcza, May 10, 1992.

[37] Sachs, "Building a Market Economy in Poland" (1992) p. 35.

maintain close relations as a result of their former colonial empires.[38] The association Polish policy makers sought to establish was of the former category, in recognition of "the fact that the final objective of Poland is to become a member of the Community and that this association, in the view of the Parties, will help to achieve this objective."[39]

The desired shape of the Agreement reflected the ideological aims of Polish and EU policy makers in deciding to pursue an association. The one express objective of the association was to strengthen the commitment of the EU and Poland to enhancing political and economic freedoms and to "establishing in Europe a system of stability based on cooperation."[40] From the perspective of Polish policy makers, the association was expressly designed to be a partnership, based on the "existing traditional links" between the EU, its member states and Poland as well as their "common values," referring to Poland's traditional status as a European state and prewar market economy and its desire to reassert this status. At the same time, Polish policy makers expected association to hold certain advantages, such as the promotion of Poland's economic development and prosperity, furthered by the EU's willingness to support Poland's economic reforms and to establish in favor of the country

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[38] Borchardt, K., The ABC of Community Law, 3d ed. (Brussels: European Commission 1991) p. 33. For a discussion of EU convention concerning association agreements, see Kapteyn, P.J.G. and Van Themaat, P. V. (eds.), Introduction to the European Communities after the Coming into Force of the Single European Act, 2nd edition (The Hague, Netherlands: Kluwer Law International 1989) pp. 831-38.

[39] Association Agreement, preamble.

[40] Association Agreement, p. 2.

"instruments of cooperation and economic, technical and financial assistance on a global and multi-annual basis."[41]

Masking the degree to which association complimented the Government's economic policy-making agenda, most policy makers asserted that the primary motivation for seeking to join the EU was "political", a broad term with different meanings to different policy makers but largely based on security concerns. Supporting this notion, Minister Skubiszewski stated in 1995 that "our association, our efforts to join, have above all a political character, and in several dimensions. The process, as in Germany, Italy, Spain and Portugal takes us far from totalitarianism and ensures a democratic future in our country."[42] Similarly, Undersecretary for European Integration, Jacek Saryusz-Wolski, claimed that "the primary motivation is political, to join workable solutions in order to have 'soft security'", which he defined as meaning the deep economic entrenchment within a regional trading arrangement as opposed to "hard security" in the form of express military guarantees.[43] Despite these statements, the broad domestic consensus that formed in support of association with the EU was attributable not to any one goal but rather to a mix of political, economic and social aims to be achieved by adopting EU policy. As association progressed the implications for economic policy-making would become more significant.

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[41] Association Agreement, preamble.

[42] Skubiszewski, K., "Pozycja Polski w Europie", in Targowski, A. (ed.), Wizja Polski (Warsaw: P.W. "Com-Tour" S.A. 1995).

[43] Undersecretary Saryusz-Wolski sardonically cited Article 5 of the Warsaw Treaty as an example of "hard security". "The Future Integration of Central Europe", address given to the European Affairs Society in Oxford, England on November 7, 1996.

a. Political Motivations

One of the dominant political motivations for seeking to associate with the EU was the desire to achieve lasting political stability in Poland. After 123 years of partition,[44] two world wars, and four decades of totalitarianism, Poland looked to the West as a model of successful political harmony.[45] While Poland was the first country in the region to institute democratic reforms, the country's political transition was far from smooth. First, in exchange for democratic freedoms, the Communist Party exacted a large compromise from the democratic opposition pursuant to which the first national elections were only partially free.[46] Consequently, the drafting of a new constitution was postponed and the relationship between the President, the Prime Minister and the Sejm remained ill-defined and unstable.[47] Further, as a result of the strong ideological divisions within the democratic opposition to communism, which

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[44] See Davies, Heart of Europe (1984) pp. 109-29, 299-311.

[45] As Minister Skubiszewski explained in relation to Poland's decision to integrate with the EU, "[n]ear the end of the 20th century, the EU is the most successful answer to a secure future. . . That which pulls us toward the EU, as a matter of fact, is that she is a 'goodwill team'. No hegemony by one member exists within the group. The Union is a dynamic organization, which evolved from a simple form of union, that of a customs union and free market, toward a multi-faceted form of political union." Skubiszewski, "Pozycja Polski w Europie" (1995) p. 10.

[46] Pursuant to the compromise, only 35 percent of the seats in the Sejm, the lower and at that time the only chamber of parliament, were open to free and competitive elections. Consequently, Linz and Stepan have described the Polish political reforms as a "pacted transition". Linz and Stepan, Problems of Democratic Transition (1996) pp. 264-69.

[47] In the first seven months following the first fully free elections in October 1991, three different Prime Ministers served, and none commanded a stable coalitional majority. The concept of a "Bermuda Triangle" between the President, the Prime Minister and the Sejm became popular. Linz and Stepan (1996) pp. 275, 283.

eventually culminated in the fragmentation of Solidarity, party platforms were weak and the Polish public evinced an extremely low level of party identification.[48]

In the political realm, the drive for EU association was a unifying force. When dealing with EU issues, the leaders of successive post-communist Polish Governments were less influenced by "party politics" and more focused on goal achievement and EU association became a prime goal of Government leaders from a wide spectrum of parties. Because EU association involved external constraints that diminished policy-making discretion, this focus often provided relief from the more chaotic confrontation among political actors over domestic issues. Thus, at the conclusion of their study on democratic transition in Poland, Juan Linz and Alfred Stepan speculated that "many observers inside and outside of Poland believe that Poland's chances of entering the European Union by the end of the 1990s are good. The very fact that this is an option for Poland creates incentives for Polish political actors to act in a responsible, democratic manner. This usable future as well as elements of its usable past will contribute significantly to hindering democratic breakdown and assisting democratic consolidation."[49]

Adding another attractive feature to the notion of association, the Polish Government made the decision to associate with the EU at a time when Polish political leaders were painfully aware of the importance of achieving credibility in international financial markets. The most serious perceived threat to this goal during 1991-92 was

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[48] Golebiowski, J. (ed.), "Social Perceptions of Market Reforms", Transforming the Polish Economy (Warsaw: Warsaw School of Economics 1994) pp. 44-48.

the fragmentation of political power that began not long after Solidarity was elected to government in 1990. In the nation's first free parliamentary elections in October 1991, approximately 30 parties obtained seats in the Polish Parliament, each with its own economic, social and political agenda.[50] Aside from the large number of political parties in power, the Government came under strong pressures from special interest groups (such as workers, farmers and the elderly)[51] which further fragmented Polish politics. Viewing political pressures as a threat to the continuity of the economic reforms, policy makers strongly believed that the external obligations created by association with the EU would make it easier for the Government to resist politically-motivated opposition to reform and maintain continuity in the economic transformation process.[52]

b. Economic Motivations

Receiving less attention until after public acceptance of EU association had been secured, economic motivations were deemed equally salient but not as politically pressing to the Government. After the most immediate goals of the Economic

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[49] Linz and Stepan (1996) p. 292.

[50] "Democratic Union's Narrow Win Predicted", Zycie Warszawy, October 31-November 1, 1991, p. 1, reprinted in Polish News Bulletin, October 31, 1991, pp. 2-3.

[51] The Government did not even pretend that it would satisfy the divergent interests of groups such as trade unions, nationalists, the Catholic Church, farmers and state pensioners. See, e.g., "Strikes Fomented", Rzeczpospolita, September 9, 1992, pp. 2-3; "Bishop Appeals for Justice", Gazeta Wyborcza, June 22, 1992, p. 10; "Farmers Seize Tobacco Plant", Rzeczpospolita, October 16, 1992, p. 2.

[52] Bolstered by the entry into force of the Interim Agreement, the Suchocka Government demonstrated firm resolve to continue with Poland's economic reform commitments during the nationwide strikes of autumn 1992, saying that "it is time to abandon the idea that every strike has to end in victory". "Government on Strikes", Rzeczpospolita, September 9, 1992, p. 2, reprinted in Polish News Bulletin, September 9, 1992, p. 4.

Transformation Program - stabilization and liberalization - had been largely achieved, Polish economic policy makers began seeking ways to ensure Poland's long-term economic development and growth. In addition to ensuring continued implementation of the economic reforms, two additional economic objectives motivated Poland to seek association with the EU: the possibility of securing access to the EU market for Polish exports and the prospect of large-scale budgetary assistance. Policy makers in favor of association believed that eventual full membership in the EU would permanently secure the favorable conditions for trade and economic relations that were certain to be created by the assured free flow of goods between Poland and the EU. Proponents of association also cited the experiences of Spain and Portugal as support for the assertion that free trade and close financial ties with the EU would assist Poland to achieve the higher standards of living prevailing in EU member states.[53]

Policy makers advocating association with the EU also believed that other aspects of the *process* of association would foster economic stability and development. For instance, they felt that harmonization of Polish commercial laws would provide a stable legislative framework for government-sponsored economic reforms such as the privatization of Polish state enterprises, the promotion of foreign investment and the creation of a modern banking system.[54] Expressing a view prevalent among Polish policy makers, Head of the European Communities Department at the Institute of Foreign Trade Economy and Prices, Elzbieta Kawecka-Wyrzykowska, surmised in

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[53] Sachs, "Building a Market Economy in Poland" (1992) p. 35.

April 1992 that EU association under the auspices of the Association Agreement "guarantees stability of legislation, which should encourage EU investors, who until now were deterred by the constantly changing rules of taxation and profit repatriation."[55] Further, economic policy makers believed that increased commercial activity and economic cooperation between the EU and Poland would increase domestic employment opportunities and industrial competitiveness and thereby improve the performance and development of the overall economy.[56]

c. Socio-Cultural Motivations

More nebulous than the political and economic motivations, but equally important to policy-making legitimacy and discretion, the dominant socio-cultural motivation for the decision to pursue association with the EU was reflected in an oft-used refrain of Polish policy makers at the time: the desire to "return to Europe". Capturing the essence of this collective consciousness, in January 1990 Prime Minister Tadeusz Mazowiecki movingly declared to the Parliamentary Assembly of the Council of Europe:

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[54] The approximation of laws provision required Poland to adopt the approximately 8,000 fundamental laws in force in the EU.

[55] Sosnowska-Smogorzewska, L., "Europe or Bust", Warsaw Voice, April 26, 1992, p. B1.

[56] See Balcerowicz (1995).

> Europe is living though an exceptional time. Half of the continent cut off from its mother trunk nearly half a century ago, wants to return to it. A return to Europe! . . . Poles are a nation aware of its belonging to Europe, of their European character. They are aware of it, like other European nations living at the convergence of cultures, in the neighborhood of big powers, living through the periods of a political presence or absence and, hence, requiring a re-assertion of their identity. Europe has always been for us a point of reference in our quest for our identity. . . So, Europie is present in Polish consciousness as a value for which it was worthwhile to live and for which it was sometimes necessary to die. It was to this Europe that sometimes claims and grudges were addressed and this attitude is present in our consciousness till today. We still see in Europe a value, a homeland of freedom and law - and we still identify ourselves with Europe.[57]

Poland's historical status as a "European" nation was frequently invoked by the political leadership during the pursuit of deeper relations with the EU. At the signing of the Association Agreement in Brussels in December 1991, Polish Deputy Prime Minister Leszek Balcerowicz declared that "[t]hroughout its long history, Poland has been a European state, creatively active in European political thought and in its economic reality. After 40 years of artificial division we recognize formally here today that Poland is resuming its role at the heart of development."[58] Similarly, in her address to the Parliamentary Assembly of the Council of Europe in May 1993, Prime Minister Hanna Suchocka emphasized, "[o]ur complicated history has always made us

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[57] Przemowienie Premiera RP Tadeusza Mazowieckiego w Zgromadzeniu Parlamentarnym Rady Europy, Strasburg, 30 stycznia 1990r. [Address by Prime Minister of the RP Tadeusz Mazowiecki in the Parliamentary Assembly of the Council of Europe, Strasbourg, January 30, 1990], Zbior Dokumentow, vol. 2 (1990) pp. 14-16.

[58] Przemowienie Wicepremiera RP Leszka Balcerowicza z Okazji Podpisania Umowy o Stowarzyszeniu ze Wspolnota Europejska, Bruksela, 16 grudnia 1991r. [Speech by the Polish Deputy Prime Minister Leszek Balcerowicz at the Signing of the Association Agreement with the European Community, Brussels, December 16, 1991], Zbior Dokumentow, vol. 17 (1991) pp. 141-42.

turn to Europe. Europe is the place where the fundamental elements of our common culture and civilization have been preserved. We turn to Europe not only for intellectual inspiration, but also for models of political organization and economic ideas. Full membership of the Council of Europe was a sign of our coming back to Europe."[59] This sentiment was echoed by Minister of Foreign Affairs Andrzej Olechowski,[60] who in November 1993 stated that "[i]n the long run, the reason for wanting to form ties with the West is that Poland feels more part of the West than the East for civilizational, historical and many various other reasons."[61]

While emphasizing the country's European roots, Polish policy makers did not disregard Poland's special relationship to the East in terms of shared Slavic culture and norms, possibly as an additional enticement to the EU to support Polish association. Accordingly, Minister Skubiszewski encouraged Polish policy makers to seek ways to exploit Poland's "special position" between East and West in ways that would not threaten Poland's future place in the EU. In a speech to the Polish Senate in September 1990, Minister Skubiszewski advised that "[w]e should make the most of the fact that Poles have an advantage over other nations in Europe - I am not referring only to Western Europe, but also to Central, Central above all, in having a better understanding and knowledge of the East. More important - since there is also another

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[59] Przemowienie Premier RP Hanny Suchockiej Wygloszone Podczas 44 Sesji Zgromadzenia Parliamentarnego Rady Europy, Strasburg, 13 maja 1993 r. [Address by the Polish Premier Hanna Suchocka at the 44th Session of the Parliamentary Assembly of the Council of Europe, Strasbourg, May 13, 1993], Zbior Dokumentow, vol. 17 (1993) p. 130.

[60] Andrzej Olechowski was Minister of Foreign Affairs from November 1993 until March 1995.

side to this coin - Poles are better understood in the East. For various reasons: close ties, centuries of interflow of values. . . Quite simply, several million Byelorussians, Russians, Latvians - and, I might add, Lithuanians . . . can at least understand Polish. So there is a great opportunity."[62] Even strongly reform-minded policy makers acknowledged that Poland's socio-cultural constituency was richer than simply European, although decidedly closer to that of Europe.

(ii) The Politics of Association: Spectrum of Support from Polish Political Parties

Politicians from across the political spectrum recognized the advantages of association from a policy-making perspective, stemming from the enhanced legitimacy and manoeuvrability afforded by the "mandatory" adoption of EU policy. This recognition, together with overwhelming popular support, fostered the emergence of a broad political consensus in favor of association. During the early part of the post-communist era, in particular under the Governments of successive Prime Ministers Olszewski and Suchocka, political parties began to evince support for EU association in their platforms, although they expressed it in disparate rhetoric. In June 1992, five separate Sejm commissions (of Foreign Affairs, Foreign Economic Relations and

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[61] "Olechowski: We Belong More to West than East", Rzeczpospolita, Nov. 17, 1993, p. 1, reprinted in Polish News Bulletin, No. 217-93, Nov. 18, 1993, at B1.

[62] Polska Wobec Wschodu, Zbior Dokumentow (1990) p. 18. President Walesa suggested to the Group of Seven industrialized nations that foreign assistance to Russia be chaneled through Central and Eastern European countries. Speaking in April 1993, Spokesperson for President Walesa, Andrzej Drzycimski, explained that "Poland, the Czech Republic, Slovakia and Hungary represent a higher level of economic advancement so they can act as a conveyor belt to transmit assistance to Russia" and that "[e]ach dollar invested in Poland with Russia in mind can be counted double." "Walesa: Help Russia Via Poland," Gazeta Wyborcza, April 16, 1993, p. 3, reprinted in Polish News Bulletin, April 16, 1993, p. 4.

Shipping, Agriculture and Food, Economic Policy, Budget and Finance, and the Legislative Commission) decided by a majority of votes to recommend to the Sejm the passage of a law consenting to the President's ratification of the Association Agreement;[63] the Sejm ratified the Association Agreement in a plenary session on July 4, 1992. Eager to further the association process, the commissions simultaneously recommended that the Sejm appoint an extraordinary commission for Association Agreement affairs, the prime tasks of which would be to supervise the implementation of the Association Agreement and the related adjustment program and to advise on negotiations conducted by the Government with EU bodies.[64]

The political consensus in support of EU association produced a solid platform for addressing several association-oriented tasks. First, it allowed the Government to make a swift and decisive showing to the EU of the country's will to become a full member state. Second, in the midst of continuous political upheaval over major reform issues such as privatization and lustration, it gave the Government breathing space to introduce several institutional and policy-oriented reform initiatives required for association. Third, it augmented public support for the association process, by casting association in a positive light, characterized by political unity as opposed to conflict that accompanied many, if not most, political discussions concerning the direction of the transition. Only occasionally did leaders politicize the issue of EU association in

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[63] Under the Polish Constitution in force at the time, international treaties had to be ratified by the President, who was obligated to obtain the prior approval of the Parliament in the form of a Parliamentary Law. Konstytucja Polskiej Rzecapospolitej Ludowej 1952 [Constitution of the People's Republic of Poland of 1952], art. XXXII.

order to attract votes. For instance, in February 1993, with a new ruling coalition in place under Prime Minister Suchocka, made up of Democratic Union (UD), Democratic Liberal Congress (KLD), Centre Alliance (PC) and Christian National Union (ZChN), heated debate erupted in the Sejm over the conditions under which Poland should associate with the EU, with politicians from PC and ZChN - the weaker parties of the coalition - voicing the most extreme opinions on the issue.

While Polish politics were extremely fragmented during the transition, nearly all parties were united in their support for association with the EU. The unity underpinning association facilitated the adoption of policies required by association and the goal of membership. The consensus in support of EU association bridged deep ideological divides and was incorporated into most party platforms, even those that were relatively weak. Not a single party identified itself as anti-EU association, revealing perhaps a lack of constituents or political will for such a position but more likely revealing the affirmative anticipation of benefits that would inure to the country. The "liberal" (post-Solidarity, pro-reform) parties, UD and KLD, which eventually merged to form the Freedom Union (UW) party, viewed EU association as one of their main policy priorities. In the words of Sejm Deputy Andrzej Zarebski of KLD, "integration is indispensable because on our own we do not have sufficient political and economic strength to pull the country out of the crisis. Besides, the effort toward

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[64] "Sejm Commissions Recommend European Treaty Ratification", Rzeczpospolita, June 20-21, 1991, p. 1, reprinted in Polish News Bulletin, June 22, 1991, p. 11.

integration undertaken by the Polish economy is doing it good, regardless of its final outcome."[65]

While favoring association, some parties expressed their support in ways that preserved their separate political identity without threatening the underlying consensus. Many "non-liberal" parties, in particular the more nationalist ZChN, supported European cooperation but flatly rejected the notion of a "return to Europe", which in the words of Sejm Deputy Marek Jurek of ZChN "implies that Poland should alter her identity and adapt to the Western patterns with regard to morality, culture, the conception of democracy, etc. For the same reasons, we are against the creation of a supra-national Euro-union and are opposed to the doctrine which signifies that Poland's association with Europe is a prelude to the surrendering of Poland's sovereignty in favour of the Europe devised in Maastricht." ZChN also objected to the creation of Euro-regions as a "form of partitioning" of Poland,[66] and the party's position led to a split among the ruling coalition. Zarebski countered this assertion by saying, "[a]lso the character of borders will change, they will become more easily permeable, and this will not lead to the partitioning of states. National languages and

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[65] Czaczkowska, E. and Groblewski, K., "Commentaries: No Agreement on Poland's Place in Europe", Rzeczpospolita February 23, 1993, p. 2, reprinted in Polish News Bulletin, November 24, 1993, p. B1. For similar reasons, the liberal parties were also not opposed to the establishment of "Euro-regions", special areas designated for cooperative efforts on environmental protection, development of transport, culture, education and public relations between countries of the region, as part of the process of furthering association with the EU. "Sejm in Discord Over Euro-Region", Gazeta Wyborcza, February 22, 1993, p. 3, reprinted in Polish News Bulletin, February 22, 1993, p. 2.

[66] ZChN's worries in this regard were particularly manifest in relation to Germany, whose involvement in the Euro-Regions was extremely worrying to many politicians in Western Poland at the time. Czaczkowska and Groblewski, "Commentaries" at B1.

tradition will not disappear. With or without Poland, Europe will be integrating all the same. The challenge for us is to make sure that the boundaries of Europe are not west of Poland."[67] The issue of Euro-regions aside, however, ZChN was willing and able to support association provided that the EU remained a "Europe des patries."

The "non-liberal", Christian democratic PC was more definite than ZChN that Poland should apply without delay for full membership in both the EU and NATO. Similar to ZChN, however, PC opposed the establishment of Euro-regions but supported the notion of a "Europe des patries". In particular, PC viewed the concept of Euro-regions as an EU-, or more particularly a German-, sponsored means of partial assimilation with the EU and thus as a potential tactic devised by the EU in order to forestall membership. The leftist Polish Peasants' Party (PSL) also supported EU association, but stressed that the principle of partnership must be observed in the process. In the words of PSL deputy Aleksander Luczak, "[t]his must not be bargaining between David and Goliath because the small guys will be the losers. There is not one road of integration but many. The choice should depend on the current situation, the possibilities, culture and customs of individual nations. It is hard to imagine the integration of structures that find it hard to understand each other, e.g., in the political field."[68]

The main "liberal" reform party, UD, sharply denounced appeals to nationalist sentiments in relation to EU association. Vice Chairman of the Council of Europe and

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[67] Id.
[68] Id.

Sejm Deputy Andrzej Wielowieyski of UD declared that the Sejm debates on the issue of Euro-regions reflected ignorance, emotion and politically-motivated opposition to the Government for the sake of principle. He stated that:

> [t]here are dozens of agreements of all kinds on cooperation in border regions in Europe and there will be more and more of them because there is an inevitable demand for them . . . Integration can proceed on various planes: political, military, economic, parliamentary, cultural, etc. For security reasons, integration on the political military plane should proceed faster while economic integration, which is much more difficult to attain, should advance in step with the development of the economic situation of individual countries.[69]

The center-left Democratic Left Alliance (SLD) basically supported UD in this regard. Sejm Deputy Longin Pastusiak of SLD thus declared that there was no turning back along the road to Europe, which SLD regarded as "a consequence of the present stage of Poland's economic development and of the advancing universalization and globalization of world affairs."[70] SLD did stress, however, that integration should be pursued with a view to achieving "optimization of sovereignty or raison d'etat", meaning "the type of cooperation with the Community member states that will not make us totally dependent on its main decision-making bodies."[71]

Broad support for association persisted after the full Association Agreement entered into force in February 1994 and the Sejm began working in earnest on the reform initiatives required for eventual EU accession. Indeed, the issue of association became less politicized after the decision was made to go ahead with the process. In

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[69] Czaczkowska and Groblewski, "Commentaries" at B2.
[70] Id.

particular, at the third sitting in 1995 of the joint EU-Poland Association Parliamentary Committee established by the Association Agreement, the delegation from the Sejm was comprised of a wide cross-section of deputies, including Tadeusz Bilinski of SLD, Jan Borkowski of SLD, Roman Jagielinski of PSL, Piotr Nowina-Konopka of UW, Zofia Kuratowska of UW, Henryk Makarewicz of PSL, Stanislaw Pasori of PSL, Bernard Szweda of the Non-Partisan Bloc for the Support of the Reforms (BBWR), Marcin Swiecicki of UW and Krzysztof Wieczec of the Labor Union (UP). In responding to the various issues during the course of the meetings, the Polish delegation emphasized that no fundamental differences existed between the coalition and the opposition on the most important issues, such as security, economic reform and desired accession to the EU.[72]

While the spectrum of political support occasionally fluctuated at the margins, the political consensus in favor of association rarely wavered.[73] In September 1994, the Center for Public Opinion Research (CBOS) investigated the support of the various political parties for association after the Maastricht Treaty had been concluded and the association process appeared to be progressing. According to the CBOS poll, the notion of a "united Europe" received most support from those affiliated with three

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[71] Id.

[72] The delegation from the EU was particularly interested in the level of foreign investment in Poland, the course and scope of privatization and the progress achieved in relation to the restructuring of Polish industry. "3rd Sitting of the Poland-EU Parliamentary Joint Commission", Kronika Sejmowa, vol. no. 63(186) II, February 8-14, 1995, p. 19.

[73] Indeed, the post-communist Cimosiewicz Government accepted the plan for integration - the "National Integration Strategy" for the elimination of trade barriers and protection - nearly unanimously, with only one cabinet member, Deputy Prime Minister Miroslaw Pietrewicz of

parties, namely UW (82 percent), UP (77 percent), and BBWR (77 percent). Support was somewhat lower among those affiliated with NSZZ "Solidarnosc" (57 percent), and the Coalition for Poland, a grouping of the center-right and Christian democratic parties (62 percent). These results indicated fairly steady support for EU association across parties. They also appeared to indicate that the self-defined political categories of "right" and "left" (liberal and non-liberal) did not directly reflect differences in voting preferences on the issue, which were widely supportive.[74]

(iii) Public Support for EU Association

The ability of national leaders to exploit EU association as a platform for increasing government policy-making legitimacy and autonomy was bolstered by overwhelming public support for association, which would later facilitate adoption and implementation of EU-compatible industrial policies. With the "return to Europe" occurring in the midst of a deep political and economic transition, the nature of public support for EU association developed a distinct character. Public opinion polls indicated less contention over the issue of association with the EU than generally found in EU member states over the issue of further deepening of intra-EU relations. The favorable public outlook was attributable to several factors, including a rosy outlook on life in the EU, the desire to become unquestionably "European" once again and the lack of adequate information pertaining to the concrete realities of association. But rarely did such polls ask questions of or furnish information to the participants in a

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PSL, voting against it. The other members of the cabinet from PSL did not even put forward demands for greater protection for agriculture. OMRI Daily Digest, Part II, January 19, 1997.

level of detail that would have required real knowledge of specific issues. Accordingly, the polls revealed a strikingly positive view of association, at least on the surface.

As early as December 1992, a CBOS poll found that more than half of all Polish respondents believed that the Association Agreement (then recently ratified by the Polish Sejm) was favorable for the country. As CBOS explained, the results reflected the fact that "for over three years, the words 'Poland back in Europe' had given Poles hope for an improvement in their situation, hope that the country will at last join the rank of 'normal' European states."[75] However, the poll also indicated that EU association tended to be more popular when described in general terms; Poles were not sufficiently informed about the EU and its functioning to form judgments on more specific aspects of the association process. The poll identified three main public perceptions of EU association: "The first is symbolic, where it is seen as Poland's entry into Europe and the road to prosperity. The second relates to a set of liberal values and the conditions which will help the creation and development of a Polish middle class. The third is about traditional values, and here there is a moral thread - entry is seen as an opportunity to further religious and family values."[76]

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[74] CBOS Bulletin, "Polak - Europejczyk" [Pole - European], September 1994.

[75] CBOS Bulletin, "Opinie o Integracji Polski ze Wspolnotami Europejskimi" [Opinion on Polish Integration with the European Community], December 1992.

[76] Interestingly, the poll found that "at the deepest emotional level", the respondents felt that Poland's integration was inevitable, and 46 percent felt that it would benefit the EU and Poland equally and 16 percent felt that it would benefit Poland more than the EU. On this same question, 28% felt that it would benefit the EU more than Poland and 10% were unable to gage who would benefit more.

As the road to full membership began to appear long and arduous, and the social impact of the economic reforms became discernible, public opinion became more nuanced and divided. A CBOS poll taken in May 1993 indicated that 25 percent of respondents believed that Poland's association with Europe was too slow, and only 8 percent were satisfied with Poland's assimilation with EU countries; over half of the respondents expressed opposition to simple "imitation" of western systems. Rising SLD leader Aleksander Kwasniewski publicly seized on two factors underpinning this more cautious attitude: first, Polish society was deeply attached to national tradition, patriotism and cultural identity, and second, many segments of society were beginning to feel the painful effects of the deep economic transition. Similarly, Director of the Polish Studies Institute of the Polish Academy of Sciences, Edmund Wnuk-Lipinski, described how "a distrust of the West has come after the first euphoria caused by the fall of communism, and at a time when capitalist and market rules have become a threat to the budgets of a significant part of households."[77] Many Poles began to realize that living in a capitalist and democratic country represented a serious challenge as much as an opportunity.

Nonetheless, in a July 1993 CBOS poll, 75 percent of adult respondents favored association immediately, while 25 percent favored association in five years' time and only 6 percent opposed association. According to the poll, the greatest support for association came from Polish citizens with higher education, private

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[77] "Poles Suspicious of Europe", Zycie Warszawy, May 20, 1993, p. 3, reprinted in Polish News Bulletin, May 20, 1993, p. 9.

business owners and managers, and white-collar employees, while farmers, rural residents, the elderly and those with only elementary education were most critical.[78] This dichotomy reflected the fact that opportunities for improving one's financial status in post-communist Poland appeared to be more abundant for the young and well-educated. After July 1993 public support for EU association began to decline gradually. A May 1994 CBOS poll found that the number of respondents that supported EU association had fallen from 75 percent to 70 percent, although the number of respondents who were undecided rose so that the number opposed remained unchanged.[79] Only 40 percent of respondents expressed the desire for Poland to join the EU immediately, while 20 percent favored association in five years' time and 25 percent were undecided. Respondents opposed or indifferent to association felt the EU should provide Poland more assistance, and farmers and rural respondents felt that association had been of greater benefit to the EU than to Poland.

The decline in public support was short-lived and the number of respondents favoring EU association began to rise again from March 1994, although not to the level of support reached at the beginning of 1991 (see Tables 3.1 and 3.2). According to CBOS, support for EU association fell slightly in the immediate aftermath of the signing of the Maastricht Treaty, which was viewed as embodying a loss of sovereignty for EU members, but rose again as Poles became more familiar with the actual

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[78] "Poles Generally Favour Association with EEC", Gazeta Wyborcza, July 14, 1993, p. 3, reprinted in Polish News Bulletin, July 14, 1993, p. 7.

[79] CBOS Bulletin, "Opinie o Integracji Polski z Unia Europejska po Wejsciu w Zycie Ukladu Stowarzyszeniowego" [Opinion on Polish Integration with the European Union After the Association Agreement Entered into Effect], May 1994.

implications of the Maastricht Treaty for member states.[80] While support remained high, it also became divided among social groups. An October 1994 CBOS poll found that 28 percent of respondents were decidedly in favor of EU association, and 51 percent were "fairly supportive" of the process. Two-thirds of the respondents believed that association would foster the development of the Polish banking system and private enterprises, and 63 percent believed that association would have a favorable effect on Polish trade and services.

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[80] CBOS Bulletin, "Miejsce Polski w Europie - Pozadani Partnerzy Gospodarczy i Polityczni" [Poland's Place in Europe - View of Economic and Political Partners], August 1994. In a September 1994 CBOS poll, when asked "with which country should Poland have its closest economic cooperation", the largest number of respondents favored Germany (56 percent), followed by the U.S. (51 percent), Russia (26 percent), France (24 percent) and Japan (18 percent), with young respondents favoring Germany in particular.

Table 3.1: CBOS Public Opinion Polls on Poland's Future Membership in the EU



Source: CBOS Bulletin, "Integracja Polski z Unia Europejska", June 1995, p. 3.

Table 3.2: CBOS Public Opinion Polls on the "Unification of the Whole of Europe" (the Elimination of Borders and Divisions)[81]



Source: CBOS Bulletin, "Integracja Polski z Unia Europejska", June 1995, p. 2.

By June 1995, a CBOS poll found that support for EU association had leveled off at approximately 72 percent, with 64 percent of respondents supporting further deepening of the EU. Most people who supported association had adjusted to the social costs of economic transformation and had accepted the inevitability of association as the logical final objective of the reform process.[82] Those most supportive of association were younger than 34 years of age and between the ages of 55 and 64, well-educated and lived and worked in large cities, often for private enterprises. They cited as expected benefits of association advancement of the

[81] In the poll, the "Unification of the Whole of Europe" appears to refer to the deepening of the EU in the spirit of the Maastricht Treaty and not to a broader grouping of countries.

economy, improvement in industrial competitiveness and the quality of materials, and reduction of tariffs. Those less certain of the benefits of association included farmers, low-skilled workers, rural residents and middle-aged and elderly individuals. The poll found that most respondents on the whole believed that harmonization with binding EU norms and regulations would be most difficult for Polish agriculture, followed by Polish habits and customs, and state-owned industry, and easiest for Polish labor practices and relations and banking and finance regulation.[83]

That supportive segments of the Polish public did not appear to base their support on any tangible aspects of association bolstered the discretion of policy makers in charge of the process. Public opinion polls taken between 1990 and 1993 showed that while the majority of Poles favored association, their knowledge of the EU was negligible despite informational efforts devised by the Government. For instance, in July 1993 the European Commission and the Polish Government initiated a plan to inform the public about the Interim Agreement under the auspices of the Phare fund of the EU Sierra Program and the Polish Office for European Integration began to organize seminars for representatives of local government and business, to whom they distributed an annotated version of the Interim Agreement and a promotional film featuring the history and organization of the EU. The Government was particularly eager to distribute information to potential Polish exporters, since it became apparent

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[82] CBOS Bulletin, "Integracja Polski z Unia Europejska - Opinie Spoleczne w Czerwcu '95" [Polish Integration with the European Union - Public Opinion in June '95', June 1995.

[83] CBOS Bulletin, "Konsekwencje Procesu Integracji Polski z Unia Europejska, Analiza Danych z Lat 1992-94" [Consequences of the Process of Poland's Integration with the EU, Analysis of Data from the Years 1992-1994], October 1994.

in 1993 that Polish exporters were not fully using the country's export quotas under the Association Agreement.[84] The Government acknowledged that despite its efforts, information on EU activities and market regulations was not perceived to be readily available in Poland.[85]

Not until 1995 did Polish citizens begin to appear better informed about association and about the internal functioning and activities of the EU. Subsequent to the informational initiatives, a CBOS poll taken in June 1995 found that respondents increasingly viewed association as a process entailing equal opportunities for both Poland and the EU.[86] While in 1993, 41 percent of respondents believed association to be more advantageous to the EU, by 1995, only 31 percent believed so while 33 percent believed that association was equally advantageous for Poland. However, despite the sustained mass media campaign, the poll found that respondents, even well-educated ones, were not well-informed about current events taking place in the EU; while 21 percent knew the correct number of EU member states as of March 1992, only 6 percent knew the correct number of EU member states after the accession of the EFTA countries in 1995. Further, only 22 percent of respondents were aware of the general date of entry into force of the Maastricht Treaty.

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[84] This was true in particular for methanol, anhydrous ammonia, pharmaceuticals, diodes, television sets, and microwave stoves. However, in the course of the healthy volume of trade between Poland and the EU that developed following Poland's trade reorientation and conclusion of the Association Agreement, some duty-free import contingents of the Interim Agreement were already exhausted by September 1992. Business Update Poland, Business Update Series, Warsaw, Poland, September 1, 1992, p. 1.

[85] "Promoting Knowledge on EC", Rzeczpospolita, September 8, 1993, p. 5, reprinted in Polish News Bulletin, September 8, 1993, pp. 9-10.

Whether the public consensus in support of EU association was based on an objective understanding of the association process or a more idealized vision of the benefits of EU membership was difficult to assess. As Table 3.3 shows, over 50 percent of all respondents in polls taken in 1994 and 1995 believed that by joining the EU economically weaker countries, such as Greece, Portugal and Ireland, have gained more than they have lost vis-à-vis economically stronger countries, such as the United Kingdom, Germany and France. Interestingly, those respondents who tended to view the objectives and activities of the EU positively (see Table 3.4) were those with a direct interest in them, for instance respondents who were at least fairly well-educated, such as industrial workers, managers and executives. These respondents also tended to be supporters of BBWR, UW, UP and extra-parliamentary right-wing groups. Respondents who tended to view the objectives and activities of the EU less positively included farmers, rural residents, elderly people and those with a lower level of education (such respondents have also tended to be supporters of PSL).

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[86] CBOS Bulletin, "Unia Europejska w Swiadomosci Spolecznej" [Public Awareness of the European Union], June 1995.

Table 3.3: CBOS Public Opinion Polls on Whether Economically Weaker Countries Gain or Lose More by Joining the EU in Comparison to Stronger Countries

[redacted]

Source: CBOS Bulletin, "Unia Europejska w Swiadomosci Spolecznej", June 1995, p. 4.

Table 3.4: CBOS Public Opinion Polls on the Goals and Activities of the EU

[redacted]

Source: CBOS Bulletin, "Unia Europejska w Swiadomosci Spolecznej", June 1995, p. 3.

The solid public support for EU association deeply enhanced the ability of the Government to exploit association as a means of increasing policy-making autonomy and legitimacy. While differences in the degree of support for EU association began to emerge between different social groups, for the most part the Polish public was consistent in its desire to "rejoin" the EU on political, economic and social levels without demanding much from political leaders in the way of a fuller accounting of the extent of domestic adjustments required and the time frame within which to complete them. The Government continuously manifested a rosy outlook on EU association and that outlook was mirrored in public opinion. Indeed, public statements on the issue rarely mentioned the serious costs and adjustments that would be involved during the

process of industrial trade and broader economic liberalization. Instead most public statements reflected optimism about the benefits of association and tended to ignore some of the harsher realities of the alignment process. While in many instances public optimism and high expectations appeared to be genuine rather than politically-motivated, they were nearly certain to lead to disappointment as the Government began to tackle the practical aspects of pursuing eventual membership.

(iv) Economic Expectations and the Decision to Apply for Membership

When seeking to maintain popular support for EU association, political leaders rarely invoked domestic policy-making stability and legitimization. Instead, they trumpetted more alluring benefits such as the provision by the EU of new markets to replace the declining CMEA markets and of potential budgetary and technical assistance. Meanwhile, when seeking to convince EU leaders to let the country into the club, Polish policy makers asserted that access to EU markets - not budgetary assistance - was more important. In her address to the Council of Europe, Prime Minister Suchocka declared that "[o]pening of the Community's markets to products from Central and Eastern Europe is not only a requirement of the fundamental principle of justice, but also of economic logic."[87] Similarly, in their Cracow Declaration, the leaders of Poland, Czechoslovakia and Hungary acknowledged the importance of budgetary assistance from the EU, but cautioned that "it cannot be in any case a substitute for general liberalization of the access to the Community

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[87] Przemowienie Premier RP Hanny Suchockiej Wygloszone, Zbior Dokumentow (1993) p. 136.

market,"[88] and in their political memorandum on strengthening EU association, they declared that "[t]here are many ways in which the Communities can help to promote economic growth in our countries. It can be done by helping us to approximate our laws, norms and standards to those of the Communities' and by helping us to develop our infra-structure. Opening markets to our products remains still, in our opinion, the most important and efficient way of assisting our countries."[89]

The emphasis of policy makers on market access may have been partly strategic, since early appeals for budgetary assistance would have risked diminishing the prospects for securing a sufficient commitment from the EU for eventual membership. During the early stages of Poland's trade reorientation from East to West, policy makers were uncertain as to whether or not Polish producers would be able to compete with Western producers once they were granted access to the EU market. By 1992, however, Poland had become the first country in the region to return to positive economic growth, and Polish producers appeared capable of competing in several sectors, such as coal, copper and to a lesser extent sulphur and electro-engineering (privatization and foreign capital and technology rapidly revitalized

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[88] The leaders of the three countries stressed that they expected the EU to accord them the same access as it accorded to the EFTA countries. Deklaracja Krakowska "Panstw Trojkata", Krakow, 6 pazdziernika 1991r. [Cracow Declaration of the "Triangle States", Cracow, October 6, 1991], Zbior Dokumentow, vol. 23 (1991) pp. 175-76.

[89] Memorandum Polityczne Rzadow Czeskiej i Slowackiej Republiki Federacyjne, Republiki Segierskiej i Rzeczypospolitej Polskiej w Sprawie Scislejszej Integracji ze Wspolnotami Europejskimi i Perspektywy Przystapienia, Budapeszt, Praga, Warszawa, 11 wrzesnia 1992 r. [Political Memorandum of the Governments of the Czech and Slovak Federal Republic, the Republic of Hungary and the Republic of Poland on Strengthening Their Integration with the European Communities and on the Perspective of Accession, Budapest, Prague, Warsaw, September 11, 1992], Zbior Dokumentow, vol. 16 (1992) p. 126.

the electro-engineering sector, as in Ireland, Greece and Spain). Several domestic producers seemed to accept that in order to compete effectively in Europe they would have to meet stringent EU standards of quality, delivery deadlines, attractive packaging, pricing and marketing.[90]

However, by 1993, Polish policy makers had become keenly aware of a sizeable "gap" between Poland and the EU in almost all areas of the economy, including competitiveness of production, consumer interests, investment, trade and environmental protection.[91] Further, Polish exports to the EU consisted mainly of unprocessed goods while EU exports to Poland consisted mainly of finished goods. In particular, the main Polish exports to the EU in 1993 consisted of raw materials, textiles, farm produce, and products of industries that generated a high level of environmental pollution, such as chemicals. By contrast, the main EU exports to Poland consisted of highly-processed products and capital goods.[92] The structure of Poland's trade with the EU was a strong indication to Polish policy makers that the country needed to undertake significant industrial restructuring and modernization. Accordingly, Polish policy makers began to stress the possibilities for receiving budgetary assistance and FDI from the EU.

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[90] Waleswka, D., "Trading with the EC", Rzeczpospolita, October 17-18, 1992, p. 1, reprinted in Polish News Bulletin, November 4, 1992, p. B2.

[91] The simultaneous implementation of sweeping economic and institutional reform proved more difficult to complete than policy makers had originally expected. The anticipated levels of commercial activity and investment were not forthcoming, with investment levels falling 10.6 percent in 1990 and a further 7.5 percent in 1991. "Polish Economy: A Patient in Critical Condition", Zycie Gospodarcze, May 10, 1992, reprinted in Polish News Bulletin Economic Review, May 12, 1992, pp. 5-6.

While acknowledging the assistance received from the PHARE fund in the form of investment aid, Undersecretary Saryusz-Wolski explained that "[n]ow that we are an Associate Country, we would like the Union's assistance to be aligned with its internal structural programmes, including growth of regional assistance to small- and medium-size enterprises and Poland to be included in the Trans-European Networks programme (roads, railways, telecommunications, energy)."[93] Undersecretary Saryusz-Wolski also added that "[w]e are trying to ensure that the 'Iberian formula' is applied by the Community to Poland, which will mean that the period of association will be used as a pre-entry stage towards full membership."[94] Similarly, Professor Jaroslaw Mulewicz, one of the chief negotiators of the Association Agreement from the Foreign Affairs Ministry, stated in a speech before the Polish Institute of International Affairs that while the budgetary assistance provided under the Association Agreement was minimal, "[i]n the case that Poland was to become a full EU member state the country would become a beneficiary of each of the EU funds, including the Farm Orientation and Guarantee Fund, the Social Fund, the Regional Fund."[95]

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[92] "Trade Exchange with the Community", Gazeta Wyborcza, April 8, 1993, p. 15, reprinted in Polish News Bulletin, April 8, 1993, pp. 8-9.

[93] Uklad Europejski Wchodzi w Zycie: Wystapienie Jacka Saryusza-Wolskiego Pelnomocnika Rzadu Rzeczypospolitej Polskiej do Spraw Integracji Europejskiej Oraz Pomocy Zagranicznej, Warszawa, 26 stycznia 1994r. [The Europe Agreement Enters into Force: Statement by Jacek Saryusz-Wolski, Government Commissioner for European Integration and Foreign Aid, Warsaw, January 26, 1994], Biuro Prasowe Rzadu, Biuletyn Tygodniowy, vol. 5(35) (1994).

[94] Id.

[95] Professor Mulewicz highlighted the financial advantages of full membership as an enticement to the members of the Institute for their support of the Association Agreement. Mulewicz, J., "Doswiadczenia Polski w Negocjacjach w Sprawie Ukladu o Stowarzyszeniu ze Wspolnotami

Recognizing that assistance, and not only access, was an important aspect of future EU membership, political leaders began to solicit a firmer commitment from the EU on future Polish accession. As a result of the euphoria surrounding the collapse of the communist regime and the commitment to create a market economy in Poland, government leaders expected the EU to welcome Poland quite rapidly into its membership. However, by March 1993, one year after the Interim Agreement entered into effect, leaders became painfully aware of the sluggish speed of the EU bureaucracy when only four EU member states had ratified Poland's Association Agreement, despite the fact that all EU member states had promised to ratify the Agreement by the end of 1992. Speaking to Hans van den Broek in Warsaw, President Walesa admonished that "[w]e did not count on sentiments, but on Western Europe treating us on equal partnership terms. . . Either Europe understands the processes which are taking place here, or we are condemned to destroy our revolution's accomplishments. . . We have an opportunity to go forward, only Europe has to give us a chance."[96] While the European Parliament ratified the Association Agreement in September 1992, the member state parliaments took much longer and the Agreement entered into force in its entirety only on February 1, 1994.

Europejskimi" [The Experience of Poland in Negotiating the Association Agreement with the EU], Studia i Materialy (Warsaw, Poland: Polski Instytut Spraw Miedzynarodowych May 1992) p. 18.

[96] President Walesa's frustration was echoed by Minister of Foreign Economic Relations Andrzej Arendarski, who declared that "Poland would not agree to be a cordon sanitaire in the outskirts of the Community." "Polish-EC Talks in Warsaw", Gazeta Wyborcza, March 16, 1993, p. 1, reprinted in Polish News Bulletin, March 16, 1993, p.1.

In a move designed to hasten consideration of Polish membership, on April 8, 1994, in Athens, Greece, Polish Foreign Affairs Minister Olechowski submitted an application to the EU for full membership, making Poland the second Central European country after Hungary to apply formally for full EU membership. In his statement to the Polish Sejm, Minister Olechowski declared that "[a]spiration to membership in the Communities, and thereafter in the European Union established with effect from 1st November last year, has been the basis of Polish foreign policy since the radical turn of 1989."[97] The decision to apply for full membership was initiated by the Polish Council of Ministers on March 29, 1994, followed by a debate in the Sejm on the issue during which all the relevant Sejm committees voted in favor of submission of the application. As expressed in policy statements on the decision, the Government hoped that the decision would evidence its steadfast commitment to the EU by further binding Polish policy makers to undertake the reforms necessary to satisfy the numerous technical requirements for membership.

The policy goals of the Government were evident in the text of the application, which stated that "[w]e strongly hope, that through close integration with the EU political and economic system, we will achieve faster development" and that "further

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[97] Oswiadczenie Ministra Spraw Zagranicznych Rzeczypospolitej Polskiej Andrzeja Olechowskiego, Zbior Dokumentow, vol. 2 (1994) p. 10. At the time of submission of the application, the Government believed the country satisfied the formal requirements for membership articulated by the EU member states at the 1993 Copenhagen summit. These requirements included the existence of stable democratic institutions, a legal government, respect for the rule of law and human rights, including the rights of national minorities, adjustment of national laws to those of the EU, and the existence of a market economy able to cope with the competitive pressures within the EU market. "Stowarzyszenie Polski z WE", [Polish Relations with the EU], Wspolpracy Europejskie, vol. 4(32) (1994) p. 11.

economic development depends on a clear vision for the future", which includes concrete technical requirements and deadlines.[98] These goals were further evident in a position paper issued by Foreign Affairs Minister Olechowski in June 1994 stating that "Poland has great hopes for the acceleration of her integration with the European Union". The paper went on to state that "[w]e expect all of the conclusions of the Copenhagen European Council, on co-operation with the Associated Countries geared to the objective of membership in the European Union, to be carried into effect. The Europe Agreement needs to be used more fully, by giving it a dynamic interpretation. We hope that the main stages, timetable and instruments of achievement of this objective will be defined in specific proposals which the Commission is to make for further implementation of the Europe Agreements. . ."[99]

By asserting its expectations, the Government was preserving ground vis-à-vis the EU and demonstrating its pro-active foreign policy to other domestic actors in an effort to maintain the domestic consensus in favor of association. The decision to apply for membership was made at a time when Poland's trade deficit with the EU was sizeable and persistent and the public was increasingly aware of the harsher realities of the process of economic integration.[100] The more those realities became apparent, the

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[98] Pro Memoria, Application for membership in the European Union, Council of Ministers, Office of the Undersecretary of State for European Integration and Foreign Assistance (Warsaw, Poland: November 1994) paras. 1 and 11.

[99] Minister of Foreign Affairs Andzrej Olechowski, "Poland's Expectations with Regard to the Acceleration of her Integration into the European Union", policy statement issued in Warsaw, Poland, August 2, 1994.

[100] The paper made several proposals, including raising the level of political dialogue from an exchange of information to the holding of more formal meetings and allowing Polish representatives to participate in the preparations for meetings of the European Council. The

more eager the Government appeared to cement the country's future place in the EU. Indeed, the formal application followed several expressions of interest in membership made by the Government to the EU, for instance during the negotiation of the Association Agreement, in the Memorandum of the Visegrad Group submitted to the Edinburgh summit, and in the Aide Memoire submitted to the Copenhagen summit by the Polish President, Prime Minister and Minister of Foreign Affairs.[101] Polish leaders viewed greater access to EU markets as crucial to reducing the trade deficit and association, by requiring continued pursuit of their market-oriented policy agenda, as a key means of facilitating economic reform.

Conclusion

Having successfully initiated radical economic transformation, political leaders were free to turn their attention to the opportunities presented by closer relations with the EU. The Government's overtures to the EU were bolstered by a solid domestic consensus and a broad range of policy motivations - political, economic and socio-cultural - in support of association and eventual membership. Consequently, policy makers had substantial discretion to initiate a foreign policy shift from East to West and to negotiate the terms of the Association Agreement without significant opposition from other domestic actors. In the process, leaders raised expectations relating to market access and potential budgetary assistance in their efforts to preserve support

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paper noted that Polish exporters had been unable to exploit fully the export opportunities provided by the Association Agreement, especially in sensitive sectors. Toward this end, the paper proposed the abolition of quotas in textiles and the suspension of the application of protective trade measures by the EU, including anti-dumping and anti-subsidy procedures.

[101] "Stowarzyszenie Polski z WE" (1994) p. 11.

for the concept of association. Building on the profound domestic consensus, and viewing association as a means of bolstering policy-making legitimacy and manoeuvrability during subsequent phases of the economic reforms, Polish policy makers approached the association negotiations with a strong sense of urgency and determination to achieve their mission.

IV. Chapter Four: Negotiation of the Association Agreement

Supported by a strong and sustained domestic consensus, the Government's representatives in the association negotiations enjoyed substantial discretion and autonomy from other domestic actors in approaching their mission. The Polish team operated as an island within the Government and the inner workings of the team were not widely reported in the press, insulating the negotiations from public scrutiny and largely muting interference by special interests. Since conclusion of an association agreement was considered imperative by the Government, the hardest constraint encountered by the Polish side came from the hesitancy of the EU side. While the EU had the stronger bargaining position, however, in comparison to "negotiations" with Soviet authorities under communism the association negotiations were genuinely two-sided. This Chapter analyzes the policy objectives of the Government during the association negotiations and the degree of freedom enjoyed by the Polish team. It then examines the outcome in terms of mandatory policy harmonization and the degree of EU market access granted to Polish industrial exports. The obligation to adopt policies compatible with the EU and to liberalize industrial trade enhanced the autonomy of domestic policy makers by committing them to the course charted in the Association Agreement regardless of any ensuing domestic opposition.

A. The Negotiation Process: Polish and EU Interests and Interests

Forming a pro-EU avant-garde, members of the Polish team had begun to prepare for possible association with the EU as early as fall 1988, when a group led by

Jaroslaw Mulewicz initiated the preparation of a draft association agreement. The draft, an amended version of which was submitted in May 1990 to the Economic Committee of the Polish Council of Ministers,[1] was based on the existing Agreement on Trade and Economic Cooperation of 1989, as well as on the association agreements concluded by each of Greece, Turkey, Malta and Cyprus with the EU. In April 1990, Deputy Foreign Affairs Minister Jerzy Makarczyk[2] formed a task force, headed by Mulewicz, that began preparing for formal negotiations and submitted a memorandum to the EU outlining the basic goals of Poland's association, eventual EU membership and the creation of a customs union.[3] The European Commission presented its own draft association agreement, which was "less advantageous and plainly less ambitious" than the Polish draft.[4] On December 18, 1990, the European Council issued a negotiating mandate to the European Commission and on December 22, 1990 the formal negotiations commenced.[5]

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[1] According to Mulewicz, the Polish Ministry of Foreign Affairs introduced an initiative to explore association with the EU early in 1988, but was unable to develop the initiative fully until the first non-communist government was formed. "Doswiadczenia Polski w Negocjacjach w Sprawie Ukladu o Stowarzyszeniu ze Wspolnotami Europejskimi" [The Experience of Poland in Negotiating the Association Agreement with the EU], Studia i Materialy (Warsaw, Poland: Polski Instytut Spraw Miedzynarodowych May 1992) p. 5.

[2] While Deputy Minister Makarczyk was the formal head of the interdepartmental group, Mulewicz was informally the chief negotiator. Telephone interview with Jaroslaw Pietras, Director of Economic Department for European Integration, Committee for European Integration Affairs, in Warsaw, Poland, October 21, 1996.

[3] The task force made this decision jointly with the Economic Committee of the Council of Ministers (KERM).

[4] Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 6.

[5] The mandate also authorized the Commission to undertake association negotiations with Czechoslovakia and Hungary. "EEC Ministers Approve New Talks with Three East Europe Nations", Reuter Libr. Rep., December 18, 1990 (NEXIS, Nexis Library, Lbyrpt file).

Modern negotiation theory asserts that power *asymmetry* rather than *symmetry* produces the most "successful" or mutually satisfying results, and the association negotiations basically support this conclusion.[6] At the signing of the Association Agreement in Brussels in 1991 Polish Deputy Prime Minister Balcerowicz declared that "[t]his agreement is the end of a year of hard negotiation, in which the partners often lost sight of the vision of a united, democratic, prosperous Europe and became bogged down in laborious detail. Sometimes we have felt that the Community did not understand that for us this is a matter of survival, a guarantee that we have moved away from the despair of the post-Yalta years. The text which we are signing today is a compromise favourable to both Poland and the Community."[7] In resolving the widely disparate interests of Poland and the EU, the Association Agreement was viewed by both parties as a compromise as opposed to a victory of one side over the other, reached after eleven months of negotiation so intense as to absorb the Polish team completely in the EU realm.

Traditionally, large differences in perceived power between countries - determined almost exclusively by reference to GDP, military strength, physical size and other tangible assets - were believed to diminish the effectiveness of negotiations and induce a "stronger" party to behave exploitatively. Modern negotiating theory has increasingly recognized, however, that by applying will and/or skill, a traditionally

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[6] See Rubin, J.Z. and I.W. Zartman, "Asymmetrical Negotiations: Some Survey Results that May Surprise," Negotiation Journal (October 1995) pp. 349-63.

[7] Przemowienie Wicepremiera RP Leszka Balcerowicza, Zbior Dokumentow (1991) pp 141-42.

"weaker" negotiating party such as Poland can obtain at least some desired results. In this view, the very act of voluntarily negotiating levels the playing field and negotiation becomes a positive-sum game in which both sides are made better off (otherwise they would not have entered into the negotiations in the first place).[8] As the theory allows, what the Polish side lacked in resources it made up for in terms of will. As explained by Jaroslaw Mulewicz, a member of the Polish negotiating team from the Foreign Affairs Ministry, the Polish team approached the negotiations with "an enormous determination and an ambitious will to negotiate" a compromise favorable to Poland.[9]

Reflecting the structure of the negotiations, the Polish negotiating team, known domestically as the Interdepartmental Team, developed a tripartite structure, the respective sides of which were headed by Foreign Minister Krzysztof Skubiszewski, Deputy Minister of Foreign Economic Affairs[10] Andrzej Olechowski, and Undersecretary for EU Integration Jacek Saryusz-Wolski.[11] Each of these three policy makers had a different priority: Skubiszewski viewed the Association Agreement as "one more treaty" in his overall political strategy to conclude as many treaties as possible in order to secure the country's post-communist status; Olechowski focused

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[8] Rubin and Zartman, "Asymmetrical Negotiations" (October 1995) pp. 349-50.
[9] Mulewicz, Doswiadczenia Polski w Negocjacjach (May 1992) p. 7.
[10] The Ministry of Foreign Economic Affairs was formerly the Ministry of Foreign Trade.
[11] Undersecretary Saryusz-Wolski was responsible for services, competition regulation and the financial protocol, and Minister Olechowski was responsible for trade. Prior to the creation of the Office of the Undersecretary for European Integration in March 1991, the Office of the Council of Ministers, represented by Witold Trzeciakowski, comprised the third part of the negotiating team. Tabor, M., Uklad Europejski: Dynamika I Uwarunkowania Procesu Negocjacji [Magister Thesis], Wydzial Dziennikarstwa i Nauk Poligycznych, Uniwersytetu Warszawskiego Instytut Stosunkow Miedzynarodowych (Warsaw, Poland: October 1992) p. 36.

on achieving asymmetrical trade liberalization in Poland's favor; and Saryusz-Wolski concentrated on trying to secure provision of a financial protocol that would have made aid available from the EU to Poland.[12] Of the three policy makers, Saryusz-Wolski was the most skeptical about the effects of the economic provisions of the Association Agreement, asserting that "asymmetry" had failed to work "economic magic" for other previously associated countries (and in fact had normally resulted in large trade deficits).

Many of the Polish negotiators had at least some "Western" negotiating experience or had at least spent some time abroad, making them intrinsically familiar with the policy implications of association.[13] Prime Minister Jan Bielecki had done post-graduate work at the University of Oslo in Norway; Skubiszewski had studied at Columbia, Harvard and Oxford; Olechowski had worked at the World Bank in Washington, DC and at UNCTAD in Geneva; and Saryusz-Wolski had done post-doctoral work in Nancy, France and been a Jean Monnet fellow in economics at the European University Institute in Florence, Italy.[14] Mulewicz had done post-graduate studies in international affairs in Salzburg and Geneva. Tomasz Jodko, who was

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[12] In particular, Olechowski attempted to convince Prime Minister Bielecki that the asymmetry formula negotiated with the EU would yield Poland a multi-million dollar trade surplus, but Bielecki, on advice from Saryusz-Wolski, was not convinced. Interview with Prime Minister Jan Bielecki, at the EBRD, in London, England, October 29, 1996.

[13] Most of the key members of the team viewed themselves as technocrats, rather than political activists or ideologues. As Pietras, a professor of international economics from Warsaw University, emphasized, "I have never been a member of any political party and I intend to stay this way". Interview with Pietras, October 31, 1996.

[14] As a professor of economics, Saryusz-Wolski formed the Center for European Studies at the University of Lodz. Professor Saryusz-Wolski's masters degree focused on the integration of the UK into the EU. Interview with Bielecki, October 29, 1996.

responsible for negotiating the industrial trade liberalization provisions, had trained at the GATT shortly after Poland's accession in the 1960s and served as the Polish representative to the GATT for five years in the 1970s. Jaroslaw Pietras, the team member who negotiated the provisions on freedom of services and establishment, had been a Fulbright scholar at Duke University. Stanislaw Soltysinski, who negotiated the provisions on competition law, freedom of services and intellectual property, had been a visiting professor at the University of Pennsylvania and the College of Europe in Bruges.[15]

Despite the depth of experience and knowledge of the Polish negotiators, the playing field was plainly uneven and Saryusz-Wolski encouraged Bielecki to hire two advisers from the EU Commission, George Renski and Alan Mayhew, to provide the Polish side with "inside information".[16] In the summer of 1991, Saryusz-Wolski began feeling that the negotiations were hopelessly one-sided and convinced Bielecki to halt the negotiations, fortuitously just before the onset of the August coup in Moscow, until the EU negotiating mandate could be broadened to allow for negotiation of

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[15] The team was also supported by a wide range of economic and legal experts from centers in Poland and abroad. See "International Exhaustion of Intellectual Exhaustion of Intellectual Property Rights under the Trips, the EC Law and the Europe Agreements", Gewerblicher Rechtsschutz und Urheberrecht Internationaler Teil (Weinheim: VCH Verlagsgesellschaft 1996) p. 316.

[16] Pietras explained that "negotiations are never fair, and the negotiations with the EU were biased. There was an obvious asymmetry between Poland and the EU, in which Poland was like an individual person going to the bank to negotiate credit." Looking back on the negotiation teams, "the EU negotiators were well-trained while the Polish team was a bunch of naive and innocent individuals". Interview with Pietras, October 31, 1996.

greater market access and a financial protocol.[17] As Bielecki described the situation, "I telephoned around the world - I had Walesa telephone President Bush and EU Council President, Prime Minister Ruud Lubbers of the Netherlands, who was in charge of the negotiations, and during the first two days of the coup I secured better deals for Poland; unfortunately the EU side then went on holiday over the weekend and 'forgot' some of the deals that we had struck."[18] Nonetheless, the strategy worked and the EU mandate improved sufficiently in September 1991 to allow the negotiations to continue, but without providing for negotiation of a financial protocol.

The Polish team was given a very broad mandate by the Polish Council of Ministers, allowing them to press ahead in the negotiations without having to check each point agreed with either the Prime Minister or the Council of Ministers.[19] While the Polish team focused on many objectives in relation to the negotiations, the dominant consideration for the team, under the weighty influence of Minister Skubiszewski, was to conclude *an* association agreement; thus, among several important priorities, the team's will to conclude an agreement overwhelmingly outweighed other aims. The team's guiding motivation was the conviction that association with the EU would have enormous political advantages, partly by securing

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[17] See Gardner, D., "Poland Threatens to Cancel EC Talks in Row Over Market Access", Financial Times, September 10, 1991. See also Tabor (1992) p. 74.

[18] Interview with Bielecki, October 29, 1996.

[19] In order to shorten the length of the negotiations from three or four years to eleven months, the Polish side proposed that negotiations be held among blocks of 20 or so experts from each side, as opposed to in plenary sessions in which the representatives of the twelve member states totalled more than 100 individuals. After the experts of the two sides reached agreement on a proposition, the proposition would be put before the plenary session for inclusion in the

Poland's status as a politically stable country in a formerly communist region. The agreement would also "freeze" in place the procedures to be followed in making the most important economic and political decisions during a period of profound transition; such certainty would be a vital aspect of the government's domestic and external credibility and would facilitate transition-era policy making. Finally, the team was eager to ensure the reform of the Polish legal system required in order to attract investors, particularly foreign investors, and viewed the agreement as a means of cementing the continued development of the Polish economy for the foreseeable future.[20]

In the economic realm, the prime goal of the Polish team was to obtain a commitment to establish a customs union, which they perceived as a precondition to eventual membership. When the EU proved recalcitrant on the issue, the team struggled to secure an eventual free trade area.[21] Declining to develop a detailed list of economic objectives, the Polish negotiators understood it would be futile to try to seek protection for the full range of Polish economic interests. Instead, viewing Polish special interest lobbies as fragmented and weak, the negotiators tried to achieve the

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Association Agreement. In the final phases of the negotiations, however, the Polish Council of Ministers was more deeply involved in resolving particularly controversial issues.

[20] Interviews with Pietras, October 31, 1996, and Bielecki, October 29, 1996.

[21] Soltysinski, S., "Agreement on Association of Poland with the European Communities: Legal and Economic Issues", Polish Yearbook of International Law, vol. 19 (1991-92) p. 180. As Tabor noted, the "economic issues proved to be much more difficult to negotiate than the political ones". Tabor (1992) p. 37.

best overall deal for the country.[22] The negotiators expected Polish producers to specialize during the course of the economic transition and refused to seek special treatment for any one sector before specialization based upon "survival of the fittest" competition had revealed comparatively advantaged sectors. As Mulewicz explained:

> [n]aturally, in the course of integration with the EU we must find for ourselves a specialization, for it cannot continue that we support the development of every agricultural or industrial producer. Our battle will be to find our niche in the EU market. Already several producers who are exporting to the EU are specializing in certain types of production. . . it is not possible to promote the entire economic spectrum, we must find certain sectors in which we can compete. For me the best model is Switzerland, which has achieved a successful degree of specialization.[23]

The negotiating autonomy of the Polish team was limited by parallel negotiations ongoing between the EU and each of Hungary and Czechoslovakia.[24] The three Central European negotiating teams worked together to negotiate nearly identical association agreements, however in certain areas where one of the three countries had

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[22] Further, such lobbies would have to arise spontaneously; the Government could play no part in creating them even indirectly through negotiation of the Association Agreement. Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 31.

[23] Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 22. While one of the goals of the CMEA had been to foster specialization, this goal was never achieved. As Josef Brada remarked, the lack of success in this regard "was due to the fact that all countries sought their 'just' share of specialization positions without regard to their abilities to develop basic competence in their areas of specialization. Specialization thus degenerated into a process of parcelling out new areas of production among all members, often broadening rather than narrowing the range of products produced by any one country." Brada, J. C., "Regional Integration in Eastern Europe: Prospects for Integration within the Region and with the European Community", in De Melo, J. and Panagariya, A. (eds.), New Dimensions in Regional Integration (Cambridge: Cambridge University Press 1993).

[24] Subsequent to the dissolution of the Czech and Slovak Federal Republic at the end of 1992, the Czech Republic and Slovakia each signed separate, identical versions of the Association Agreement on October 4, 1993. Telephone interview with Willem Aldershoff, Administrator, DG 1, European Commission, December 20, 1993.

a particular interest that country would lead the negotiations.[25] For instance, in the areas of freedom of services and freedom of establishment, the Polish team took a more liberal position than the EU and insisted that the Polish platform be the starting point for the negotiations. Specifically, the team asserted that "the Association Agreement most interested Polish concerns that desired to achieve not so much trade liberalization as the opportunity to buy and sell EU businesses and conduct economic activity in the EU market through such types of investment".[26] As representatives of the only coastal state, the Polish team also assumed primary responsibility for the negotiations involving fisheries. In some areas one of the other two countries often assumed primary responsibility for the negotiations. In most cases, however, the three countries found common ground among themselves and formed a united front.

On the opposing side, the degree to which the EU would be flexible on various issues was immediately evident. The European Commission made it clear from the outset of the negotiations that the broad parameters of each issue were fixed on the EU side. While the EU would agree to eliminate existing quotas on industrial products and apply duty-free status to most Polish industrial exports to the EU, in return the EU would require Poland to accept continued trade protection for exports deemed "sensitive" to the EU - coal, iron and steel, textiles and agriculture - and restrictions on anti-competitive practices and state aids. Importantly, the EU was readily forthcoming

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[25] While the three countries negotiated simultaneously, Czechoslovakia and Hungary were not interested in any closer form of cooperation at the time. Indeed, suggestions made by Polish policy makers that the three countries develop a unified position in relation to the negotiations, or that they develop concrete sectoral proposals, "were not met with any interest" from the other two countries. Tabor (1992) p. 49.

about its intention not to include any limitations on the EU's freedom to initiate antidumping, countervailing duty or other safeguard measures compatible with GATT regulations.[27] Further, upon entering the negotiations the Polish side discovered that the process of negotiating with the EU had a "particular flavor" and involved three overlapping layers of interests: (i) special economic interests, often operating at local levels, (ii) the interests of individual member states, and (iii) the interests of the institutions comprising the EU bureaucracy.

Despite repeated avowals from the EU of strong political will to maximize market access for Polish industrial exports, where the EU's "sensitive" economic interests were involved special economic groups controlled the final outcome. Discovering how "during the toughest moments of the negotiations, the interests of producers of strawberries, meat, cars and many other economic interests, and not political declarations were decisive,"[28] the Polish negotiators confronted narrow microeconomic interests and a narrowly-defined mandate granted by the European

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[26] Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 33.

[27] "EEC Ministers Approve New Talks" (December 18, 1990). "Dumping" may be defined as selling a product in a foreign market for less than the price at which the company sells the product in its the home market (the difference being the "dumping margin", or the constructed value of the home market price, based on the comprehensively accounted cost of production plus a reasonable profit). A "countervailing duty" is a customs duty imposed to offset the effect of government assistance or subsidies granted to foreign producers or exporters. See Pattison, J., Antidumping and Countervailing Duty Laws, sections 1.02(1) and (2) (St. Paul, Minnesota: West Group 1990). "Safeguard measures", also called "protective measures", are measures taken by an importing country in response to the imports "in such greatly increased quantities and/or on such terms or conditions as to cause, or threaten to cause, substantial injury to [domestic] producers of like or directly competing products." McGovern, E., International Trade Regulation: GATT, the United States and the European Community (St. Paul: Clark Boardman Callaghan 1982) pp. 242-43.

[28] Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 7.

Commission to the EU team to satisfy special economic interests. Further, the Polish team witnessed first-hand how "extremely well-financed and organized interest groups exerted a strong influence on the Commission as well as on member state governments."[29] Prime Minister Bielecki encouraged representatives of the Polish Chamber of Commerce and the Confederation of Polish Employers to meet with the Union of Industrial Confederation of European Employers (UNICE), the European Federation of Iron and Steel Producers (EUROFER), the European Federation of Textile Industry (COMITEXTILE) and the European Association Chamber of Industrial-Trade (EUROCHAMBER). While the EU groups influenced EU institutions by "proposing import quotas" and "specifying the delivery and technical conditions for exports to the EU," the Polish groups had little impact on the negotiations, essentially observing the lobbying process and making new contacts.[30]

Pursuant to customary EU practice, the role of the individual member states often took precedence over the independent role of the European Commission, requiring the Polish team to negotiate with individual governments in addition to the main institutions of the EU. This feature of the negotiations took the Polish side by surprise. "The team was negotiating not with the European Commission alone, but with each of the twelve member states,"[31] and the Polish Foreign Affairs Ministry began receiving frequent and time-consuming visits from the ambassadors of each of

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[29] Tabor (1992) p. 44.
[30] Tabor (1992) p. 60. Tabor noted that while interest groups from Czechoslovakia had become active and influential in lobbying EU institutions, interest groups from Poland had not been active in Brussels before June 1991.
[31] Id., p. 8.

the twelve member states, and in the case of very important issues from representatives of their prime ministers and presidents. The Polish team conducted frequent side negotiations with newer and smaller member states, in particular Spain, Portugal, Ireland and Greece, which were hostile to the prospect of increased demands for EU financial assistance and greater economic competition in the EU market, in particular in the textiles and steel industries.[32] In relation to textiles, pressure from less developed member states, such as Portugal, resulted in an extension of the phased reduction of EU trade barriers to 1998 (and a commitment from the EU to provide financial assistance to the Portuguese textile industry).[33] In relation to steel, pressure from France, Italy, Portugal and Spain resulted in the adoption of the provision on safeguard measures.[34]

On the Polish home front, Prime Minister Bielecki was coping with a situation of overlapping workers' protests in front of the Council of Ministers building, with over 20,000 strikes nationwide in 1991. While the strikes were not focused on the

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[32] On these issues in particular, the Polish team was frustrated by the lack of immediate contact with independent EU lobby organizations, which had considerable influence on the negotiations but with which dialogue was very limited. In hindsight, Mulewicz has suggested that it would have been more productive and advantageous to have allowed Polish producers to hold discussions directly with their counterparts in the EU, since in the future these groups would have to cooperate under the terms of the Association Agreement.

[33] In an effort to ameliorate this pressure, Minister Olechowski visited Paris, Madrid and Lisbon to discuss agricultural exports, fruit exports and textile exports respectively. Portugal generally lowered its opposition to Polish textile exports and agreed to liberalization of textile trade over a six-year period beginning in 1993. Tabor (1992) p. 56.

[34] France, Italy, Portugal and Spain initially demanded a provision permitting voluntary export restraints for steel and steel products, but the European Commission refused to agree to such a provision. After the provision on safeguard measures was adopted, the International Herald Tribune announced on November 15, 1991 that the trade association of West European steel

consequences of association for industrial trade liberalization, Polish steel unions were openly wary of the Association Agreement. After the break-up of Solidarity, the various unions "refused to cooperate with one another and simply rose up against everything" in the economic reform program, demanding more protection, border controls and greater subsidies. In order to procure some support and understanding from Polish industry, Bielecki urged Solidarity leaders to educate the steel lobbies about the economic reforms and trade liberalization in order "to break down their prejudices" against the government initiatives and organized a trip to Brussels for an association of livestock producers so that "one lobbying group would know what I am talking about".[35]

Finally, the EU institutional network posed a challenge for Polish negotiators. The Polish team became intimately familiar with the difficulties of negotiating with the large and multi-layered EU bureaucracy. In particular, Polish negotiators frequently found it difficult to discern which EU institution had the competence and jurisdiction to discuss a certain issue, and having managed to identify the proper institution, they often found it difficult to locate a suitable representative. The Polish team discovered that "as in all institutions, one could find among the representatives highly qualified professionals, whom Poland appreciated enormously and with whom it was possible to cooperate easily, but one could also find individuals unfavorably disposed toward

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producers, Eurofer, was reportedly ready to file anti-dumping complaints against Polish steel exporters. Brada, "Regional Integration in Eastern Europe" (1993) pp. 337-38.

[35] Bielecki saw his role as an organizer of Polish lobbies whose mission was to get them to act like Western lobbies.

Poland, for whom the importance of national interests outweighed their specific functions."[36] Furthermore, the team was disadvantaged by the size of its support wing - the Polish Mission in Brussels - which consisted of just six qualified employees, compared with those of Cyprus or Malta, which each consisted of more than 50 employees, or those of member state missions, which typically employed several hundred individuals.[37]

While the EU wielded unquestionably greater "bargaining power" in the traditional sense, the parties managed to conclude the negotiations and successfully reached a binding agreement acceptable to both sides. After eight rounds and eleven months, Polish Deputy Prime Minister Leszek Balcerowicz, President of the EU Council of Ministers Hans Van Den Broek, President of the EU Commission Jacques Delors, and the twelve foreign ministers of the existing EU member states signed the Association Agreement on December 16, 1991, at the EU Council of Ministers in Brussels.[38] Pending full ratification of the Agreement, the commercial portion known

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[36] Id. p. 9

[37] The dearth of Polish representatives in Brussels also made negotiation of the Association Agreement much more cumbersome; each tariff proposition (in particular those contained in the lengthy appendices) had to be faxed back to Warsaw and often the negotiators could not be certain of the exact economic effect of a given proposition. At the same time, however, the EU side used several time-consuming techniques despite the abundance of technical support for the EU side in Brussels. For instance, important propositions, many of which had already been agreed upon, were submitted to the Committee of Permanent Representatives and then to the EU Council, and then to each country for plenary review; often these bodies would request that the proposition be reformulated. Id.

[38] Czechoslovakia and Hungary simultaneously signed nearly identical agreements with the EU. "Agreement with the EEC to be Signed Today", Gazeta Wyborcza, December 14-16, 1991, p. 3; "Poland and the EC to Sign Association Treaty in December", PAP Polish Press Agency, December 13, 1991.

as the Interim Agreement entered into force on March 1, 1992.[39] The Interim Agreement comprised the portions of the Association Agreement on freedom of movement of goods, current account payments and competition, all of which were within the respective competencies of the Polish Government and the European Commission and did not require ratification.[40] For the Polish side, the Agreement was a significant milestone that cemented the direction of policy making for the foreseeable future in ways basically congruent with the Government's economic policy agenda.

B. The Deal Negotiated: Trade Liberalization and Dispute Settlement

(i) The Market Economy Model and Free Trade

Polish leaders publicly heralded the Association Agreement as an unqualified success. They had fulfilled their mission of concluding "*an* association agreement" with the EU, and the preamble incorporated the greater aspiration of the Government to achieve eventual full membership. Accordingly, the Association Agreement received an overwhelmingly favorable billing in the Polish press, and ratification by the Polish Government occurred smoothly in 1992 given the momentous significance of the document for Polish foreign economic and political relations. While the Association Agreement was similarly touted as a major foreign policy success by the EU, ratification by the EU and all twelve member states nonetheless took much longer,

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[39] 1992 O.J. (L 114). The commercial portions of the association agreements with Czechoslovakia and Hungary also entered into force on March 1, 1992. O.J. (L 115) (interim agreement with the Czech and Slovak Federal Republic); 1992 O.J. (L 116) (interim agreement with the Republic of Hungary).

[40] While the EU in its entirety was a party to the Association Agreement, only the EEC, the ECSC and Poland were formal parties to the Interim Agreement.

reflecting a diminished degree of will and larger political obstacles. As a result, the Association Agreement entered into full force only on February 1, 1994.[41]

The provisions of the Association Agreement relating to the desired "final economic model" for the Polish economy were compatible with the objectives of the economic reforms in Poland.[42] The preamble affirmed the commitment of the parties to free trade and, in the case of Poland, to completion of the economic reforms necessary for the functioning of a modern market economy. The rules regulating competition between member states,[43] limitations on the provision of state aids,[44] prohibitions on preferential treatment of so-called public undertakings,[45] prohibitions against quantitative restrictions,[46] protection of intellectual property[47] and the

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[41] The Polish Parliament ratified the Association Agreement on July 4, 1992, by an overwhelming majority of 238 votes for, 78 votes against, and 20 abstentions. "Sejm Meets", Zycie Warszawy, July 6, 1992, p. 1.

[42] Toward this end, the Association Agreement anticipated the eventual free movement of capital and the right of investors to repatriate profit from investments, and obliged both parties to ensure payment in foreign exchange in trade of services and employment. The Association Agreement also provided that the Association Council would consider the possibility of introducing all EEC standards relating to capital movement and investment, including free transfer of capital and the elimination of existing Polish currency limitations with respect to investments by Polish entities on the territory of the EU. Association Agreement, arts. 59-70. It is worth noting, however, that Poland had already made commitments similar to many of those embodied in the Association Agreement when joining multilateral institutions such as the EBRD.

[43] Association Agreement, art. 63(1)-(3). The provisions on competition and state aids were nearly identical to those in the Treaty of Rome. Similar to the concept of antitrust legislation in the US, the "fair competition" provisions deemed the following practices to be "incompatible with the proper functioning" of the Association Agreement: (i) agreements between enterprises, decisions by associations of enterprises, and concerted practices between enterprises having as their object or effect the prevention, restriction, or distortion of competition; (ii) abuse by one or more enterprises of a dominant position in the EU or in Poland; and (iii) public aid which distorts or threatens to distort competition.

[44] Association Agreement, art. 63(3).

[45] Association Agreement, art. 65.

[46] Association Agreement, arts. 30 and 36.

obligation to provide access and equal treatment to foreign entities in relation to public procurement would all be required as Poland became integrated with the global economy, and the commitment to abide by such rules implied a certain degree of policy-making focus and stability.[48] The provisions also afforded Polish policy makers with an opportunity to protect Polish entities in trade negotiations with stronger foreign partners.[49]

The Polish negotiators were somewhat disappointed that the Agreement did not go farther toward deepening the relationship. The most salient feature of the Agreement relating to commercial trade was that it committed the parties to the creation of a free trade area but did not provide for the creation of a customs union. This feature reflected the fact that despite considerable efforts, Poland and the other Central European countries were unable to obtain a clear declaration of support from the EU for eventual full membership; instead the Agreement stated it is the *final objective of Poland*, and not of both Poland and the EU, for the country to join the EU.[50] As an "association" rather than an "accession" agreement, it did not establish a

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[47] Poland was obliged to conclude a number of agreements on intellectual property to bring the level of protection up to EU standards by 1997. Appendix 13 of the Association Agreement.

[48] Association Agreement, art. 67.

[49] As Mulewicz wrote after the Association Agreement was concluded, "the Association Agreement freezes in place from the moment it enters into force certain principles and requires that the mot important economic questions be consulted in Brussels, and it will no longer be possible unilaterally to move along in fiscal matters, customs tariffs and other economic fields. But it is thanks to this "freezing" in place that we will benefit from reliability, because we have surrendered ourselves to international control." Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 16.

[50] Indeed, the European Commission has officially informed the European Parliament that the Association Agreement cannot be treated as a promise of full membership in the EU. Soltysinski, "Agreement on Association" (1991-92) p. 180, n. 4.

target date for membership nor the precise conditions Poland must satisfy in order to join. By contrast, the previous association agreements with Greece and Portugal both contained a clear promise of membership, made largely for political purposes and motivating the pro-European factions in these countries to gear their economic programs toward association.[51] At the same time, however, in the association agreement concluded with Turkey in 1973, the EU included a promise of membership which was never fulfilled.[52]

The overall policy-making implications of the Agreement were clear. The provisions requiring industrial trade liberalization were based on the Treaty of Rome, and in many cases were identical to the Treaty with minor modifications. They provided for freedom of movement of goods, services and capital (in varying degrees), freedom of establishment of companies, and the gradual creation of a free trade area, exclusive of food products, over a period of ten years. This period was divided into two five-year periods structured asymmetrically to account for "the economic and social disparities between the Community and Poland." During the first five-year period, the EU agreed to immediately remove duties on the majority of Polish goods,

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[51] European Parliament, "Report of the Committee on External Economic Relations on a General Outline for Association with the Countries of Central and Eastern Europe," Doc. EN/RP/105815, March 13, 1991, p. 11.

[52] Nonetheless, the Association Agreement was unprecedented in relation to EU association agreements in several areas, the most important of which were the provisions on political dialogue (arts. 2-5), the necessity of adjusting the Polish legal system to conform with EU law and directives (arts. 68-70) and the provision on cultural and other cooperation (art. 94). The EU also committed to assist Poland in restructuring the Polish economy and in developing Polish monetary policy, including the introduction of full convertibility of the zloty and the approximation of Polish monetary policy to that of the European Monetary System (arts. 71-2, 84).

gradually lower duties on specific goods such as textiles and steel, and gradually abolish import quotas (effective immediately for steel import quotas). Between the third and seventh year of the Interim Agreement, the Polish Government agreed to remove the majority of Polish customs duties on EU industrial exports, although a number of Polish customs duties were removed in 1992.[53] The Polish Government also agreed to lift duties on approximately 27% of EU imports, primarily raw materials, semi-finished products and capital equipment, and to lift the remaining duties by 20% each year from 1995.

Other features of the Agreement had more ambiguous implications for policy making. Specifically, the Agreement made significant departures from free trade in relation to trade in industrial goods, which were embodied in the special provisions for exports deemed politically "sensitive" by the EU and subject to a more gradual and less certain time table for liberalization, and in the allowance for the imposition of "safeguard measures", including anti-dumping and countervailing duty measures in certain circumstances. Controversially, a World Bank study cautioned that "[t]he threat of the EC's retreat into protectionism is writ large in the Agreements. There are no provisions that would prevent an increase in managed trade through informal agreements and anti-dumping threats. This danger is particularly present in "traditional" industrial sectors (mainly steel). It should be reduced to some extent once institutional provisions concerning the rules of competition and subsidies in CEE-

[53] For instance, beginning in 1992 30,000 automobiles were allowed to be imported duty-free from the EU into Poland.

5 countries are in force."[54] The departures from free trade were also concentrated in four of the most sensitive Polish industrial sectors, reducing the predictability of the policy-making course for these sectors.

Typical of free trade agreements, the provisions on the rules of origin set out in Protocol No. 4 to the Agreement specified that 60 percent of the value of goods qualifying for preferential treatment as EU imports should consist of "local" or EU content. While the rules were designed to encourage subcontracting, they had a strong potential to discourage non-EU entities from investing in Polish manufacturing, as during the initial stages new production facilities often have to rely on imported components. In order to benefit from the trade arrangements of the Association Agreement such components would have to be imported from EU member states,[55] and non-EU, Central European investors would not be able to import components from their home countries if they wanted duty-free treatment of their Polish-based exports to the EU. To improve the rules, the European Council subsequently requested the European Commission to undertake a feasibility study in relation to the possible cumulation of rules of origin for exports from Poland and the other associated

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[54] Kaminski, B. "The Significance of the 'Europe Agreements' for Central European Industrial Exports", Policy Research Working Paper No. 1314 (Washington, DC: World Bank 1994) p. 35. In this context the term "CEE-5" refers to Poland, former Czechoslovakia, Hungary, Bulgaria and Rumania.

[55] See, e.g., Inotai, A., "Transformation in Progress: A Preliminary Assessment of the External Economic Factor, Forschungsebrichte, vol. 200 (Vienna: The Vienna Institute for Comparative Economic Studies 1993).

countries, which would allow them to pool components from among any of the three countries when assessing local content of a final product.[56]

While the commercial portion of the Association Agreement was designed to be initially asymmetrical, it nonetheless committed Poland to substantial trade liberalization beyond what the country had already undertaken. Generally comporting with the Government's desired modernization of the economy, the liberalization requirements furnished a domestic policy-making "shield". The Government could justify policies as being necessary for eventual EU membership, even though this commitment required an element of blind faith as membership was far from assured. In the words of negotiator Professor Soltysinski, "taking into consideration the differences in the levels of economic development between the EEC and the Republic of Poland, the opening of the Polish market will be unprecedented in the post-war history of economic relations. The process of removing customs duties and quotas is occurring much more quickly than the similar process among the founding countries of the EEC."[57] Indeed, the Treaty of Rome provided that customs duties and non-tariff instruments of market protection would be eliminated among the six founding members within eleven years, over the period 1957-68. Similarly, the association agreements between the EU and each of Greece, Spain and Portugal provided for the elimination of trade barriers over a much longer time period of between twenty and twenty-three years.

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[56] Dokumenty z Sesji Rady Europejski w Kopenhadze (1993) Annex II, p. 153
[57] Soltysinski, "Agreement on Association" (1991-92) p. 184.

Poland's "bargain" with the EU committed the Government to a more certain course than other associated countries, a feature that was made widely known to other domestic actors. Among the three Central European countries that simultaneously negotiated association agreements, Hungary negotiated the longest transition period lasting nine years, for eliminating customs duties and non-tariff barriers. Poland and Czechoslovakia negotiated the shortest transition periods, lasting only seven years, for opening their markets to imports of industrial goods from the EU.[58] The discrepancy led some observers to criticize the length of the transition period negotiated by the Polish team. Thus, Professor Soltysinski concluded that, "[t]he cautious approach of Hungary and the 'gradualism' that is so characteristic of its economic policy have won praise from may western observers who consider Hungary to have a market of the lowest risk in Central Europe. Since Hungary and the Czech Republic have more developed economies than Poland and their export potential *per capita* exceeds that of this country, it is doubtful this aspect of [Polish] shock therapy has any chance for success."[59]

Seeking to hone the policy focus required by association, Polish negotiators responsible for industrial trade liberalization had purposely selected a short transition period. As Tomasz Jodko explained, "it is difficult to say whether Poland got a bad deal in relation to industrial trade liberalization, because the dismantling process is

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[58] Association Agreement, art. 8.

[59] Soltysinski, "Agreement on Association" (1991-92) p. 184. Professor Soltysinski goes on to cite a newspaper article in which a Belgian businessman, L. Kawana, is quoted as saying that "Hungarians are very clever. They move slower and with less noise. That is why Hungary is the most stable country in Central Europe." Wall Street Journal, March 22, 1992.

important for integration; earlier dismantling gets you ahead faster. Polish policy makers did not think that maintaining trade barriers was 'better' and dismantling them was 'worse'".[60] While the negotiators realized that some Polish industries would be unable to prepare for unilateral dismantling of trade protection, they welcomed the opportunity to sort the adaptable enterprises from the unadaptable ones. Committed to rapid liberalization, both Saryusz-Wolski and Jodko dismissed the shorter transition periods negotiated by other countries, assuming that "if the economy is ready to adapt, and if the country wants to achieve membership in the future, then it should proceed with the process of adapting."[61] If the choice of a short transition was courageous, however, the Polish team had not intended the "asymmetrical formula" to be more liberal in areas where the EU had a comparative advantage and more restrictive in areas where Poland had a comparative advantage, as in the steel, textiles, cement sectors.

The Association Agreement also provided for two important freedoms related to trade liberalization, namely freedom of movement of services and freedom of establishment. Bearing in mind that the Association Agreement was signed prior to the

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[60] Interview with Tomasz Jodko, Director, Multilateral Treaties Department, Ministry of Foreign Economic Relations, in Warsaw, Poland, November 1, 1996.

[61] Interview with Jacek Saryusz-Wolski, Undersecretary of Office for European Integration, in Oxford, England, November 2, 1996. The purpose of the asymmetrical formula was to allow the most competitive Polish export sectors to expand and to protect those sectors which required reform before becoming competitive. Tabor (1992) p. 70. Additionally, from the EU perspective the asymmetrical formula was also designed to prevent Poland from becoming "overliberalized", as the removal of restrictions on free trade at the start of the transition had resulted in an extraordinarily low level of tariff protection on imports to Poland (since the only trade barriers under central planning had been the direct government restrictions, when trade was liberalized few tariffs were in place).

conclusion of the Uruguay Round of GATT negotiations on liberalization of trade in services, the Agreement provided for the reciprocal removal of most restrictions on market access by suppliers of a significant majority of services. The Agreement also provided for the freedom to transfer so-called "key personnel" of service suppliers and the right of such personnel to take up temporary residence on the territory where services are supplied.[62] However, it entitled individuals to temporary residence in the territory of the other party for commercial purposes, such as negotiating and executing contracts, *only* if they are representatives or owners of the relevant service supplier. Compared with liberalization of trade in goods, the "asymmetrical formula" for liberalization of trade in services was less restrictive of Poland, since the EU market was opened to Polish services on March 1, 1992, while the Polish market was to be opened only over ten years.

The Association Agreement also provided for the reciprocal freedom of establishment, meaning the right to establish and operate companies, subsidiaries and representative offices. Pursuant to freedom of establishment, Polish and EU companies were granted equal rights, or national treatment, on the territories of both parties. The provisions on freedom of establishment were also initially asymmetrical in Poland's favor and were particularly important for businesses relying on direct access

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[62] Association Agreement, art. 56. The restriction on movement of employees to only "key personnel" limited the opportunity for many firms, such as construction firms, to take advantage of cheap Polish labor. Specifically, while Spain had nearly one million and Turkey had nearly three million workers employed in companies located in the EU in 1992, Poland, Hungary, the Czech Republic and Slovakia had only 100,000 "guest workers" employed in the EU owing to this restriction. Interview with Krzysztof Popowicz, First Secretary, Polish Mission to Brussels, Belgium, January 31, 1992.

to a sales market, such as mining and machine and tool manufacturing. While EU member states were required to grant full freedom of establishment to Polish companies upon entry into force of the Agreement, Poland was required to grant freedom of establishment to EU companies and nationals only in specified sectors, such as manufacturing (including fuel and power), chemicals, textiles, wood and paper, food processing, transport equipment and construction.[63] The Association Agreement afforded Poland additional time to implement freedom of establishment in sectors such as mining, weapons, pharmaceuticals and services (banking, financial and insurance), ranging from five to ten years, provided such sectors were undergoing restructuring, newly emerging, or facing serious difficulties.

(ii) Market Access Under the Association Agreement

The provisions of the Association Agreement concerning liberalization of the industrial sector had the most profound and immediate consequences for policy making. Industrial products accounted for the majority of Polish exports to the EU in 1992 (see Table 4.1), their share in total exports to the EU having increased during the 1988-94 period facilitated by easier market access for industrial products.[64] Before the collapse of central planning, Polish exports (together with all CMEA member country exports) were at the bottom of the EU preferential trading arrangement; deemed "state trading countries" by the EU, CMEA member countries faced EU tariffs higher than on imports from developing countries and the EU used non-tariff barriers ("NTBs")

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[63] Association Agreement, art. 44(1)(i).
[64] See Kaminski, "The Significance of the 'Europe Agreements'" (1994) p. 10.

against CMEA member countries with higher frequency and of types "among those generally considered most restrictive (i.e. quotas, variable levies, discretionary licensing schemes, etc.)."[65] As a result of the liberalization of EU market access that began in the late 1980s, by 1990 Polish industrial exports faced significantly lower EU tariffs than other exports and the proportion of exports affected by NTBs was substantially lower (by almost half) for industrial products (see Table 4.2).

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[65] Olechowski, A. and Yeats, A., "The Influence of Nontariff Barriers on Socialist Countries' Exports", Economia Internazionale (Fall 1982); Olechowski, A. and Yeats, A., "The Influence of Nontariff Barriers on Exports from Socialist Countries of Eastern Europe", Discussion Paper No. 6 (Geneva: UNCTAD 1982). Of all the CMEA member countries, exports from the Soviet Union to the EU were subject to the greatest trade barriers. Kaminski, B. and Yeats, A., "The OECD Trade Barriers Faced by the Successor States of the Soviet Union", Policy Research Working Papers, WPS 1176 (Washington, DC: The World Bank 1993).

Table 4.1: Relative Share of Industrial Products in Polish Exports to EU (1988-95)

	Industrial Exports (in US$ millions)	*Share In Total Exports to EU (in percent)*	*Share of Industry in GDP (percent)*[66]	*Industrial Production (percent change)*
1988	3,092	78	na	na
1989	3,230	75	44.1	(1.4)
1990	5,089	77	44.9	(26.1)
1991	6,247	81	40.2	(8.0)
1992	7,793	85	34.0	2.8
1993	7,938	88.7	32.9	6.4
1994	9,011	83.2	32.2	11.9
1995	13,092	56.1	28.9	9.4

Sources: United Nations COMTRADE Database, in Kaminski (1994), EBRD Transition Report (1995 and 1996) and Central Statistical Office.[67]

Table 4.2: Pre-Association Agreement Market Access to EU for Industrial and Other Products

	Index 1991 (1988=100)	*NTB Coverage Ratio (in percent)*	*Simple Average Tariff Rate (in percent)*
Industrial	202	23.6	0.1
Other	165	48.6	10.5

Source: Derived from United Nations COMTRADE and UNCTAD-World Bank SMART Databases in Kaminski (1994)

While falling short of a customs union, the trade-related provisions of the Association Agreement went beyond the full establishment of normal GATT-based trade relations and committed Polish leaders to far-reaching liberalization. Association advanced Poland and the other Central European countries to the top of the hierarchy

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[66] Figures are in current prices.

[67] Figures in the first two columns are from Kaminski,, "The Significance of the 'Europe Agreements'" (1994) p. 10, and figures in the second two columns are from EBRD, Transition Report 1995: Investment and Enterprise Development (London: EBRD 1995) p. 203 and EBRD, Transition Report 1996: Infrastructure and Savings (London: EBRD 1996) p. 201.

of EU preferential trading arrangements, and improved access to the EU market for most Polish industrial exports, except for certain "sensitive" products. Nonetheless, as shown by successive GATT trade negotiations, as tariffs are reduced, NTBs often become the major instrument of protection and improvement in market access must be measured not simply by reductions in tariff rates but by elimination of NTBs.[68] While the Association Agreement effectively reduced tariffs and eliminated quantitative restrictions it did not preclude the ability of either party to impose contingent protective measures, a subtle point policy makers did not publicize widely domestically. Accordingly, the structure and coverage of NTBs had the potential to fluctuate with changes in the pattern of exports to the EU. The industrial trade liberalization schedule would provide a test of the effects of association on government policy-making autonomy as those opposed to liberalization clamored for protection.

(iii) Industrial Trade Liberalization

The Association Agreement distinguished among six groups of industrial products subject to different liberalization schedules and measures, although quantitative restrictions on most Polish industrial exports to the EU were abolished on the date of entry into force of the Interim Agreement. The groups of industrial products were categorized as follows: (i) the "first-year" group, benefiting from free

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[68] Moreover, high tariffs often coincide with extensive use of NTBs, so that product groups subject to relatively high tariffs are normally also subject to NTBs. Yeats, A., Trade Barriers Facing Developing Countries (London: MacMillan 1979).

trade in the second year of the Interim Agreement;[69] (ii) the "fourth-year" group, benefiting from free trade from the beginning of the fifth year of the Interim Agreement; (iii) the "fifth-year and quota" group, benefiting from free trade from the beginning of the sixth year of the Interim Agreement; (iv) the Multi-Fiber Arrangement (MFA)[70] group, for which quotas were bilaterally negotiated and progressive liberalization was tied to the Uruguay Round of negotiations); (v) the ECSC group, for which tariffs on steel exports were fully eliminated by the end of the fifth year and tariffs on coal exports to the EU, excluding exports to Germany and Spain, were eliminated at the beginning of the second year of the Interim Agreement; and (vi) the "immediate free trade" group, comprised of a residual group of industrial products benefiting from free trade from the first year of the Interim Agreement.

a. "First-Year" Group

Customs duties on the "first-year" group of products were reduced by 50 percent upon entry into force of the Interim Agreement and eliminated at the beginning of the second year. This group of products included mostly industrial raw materials and was a relatively small group consisting of 92 eight-digit CN tariff items. While this

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[69] For these purposes, the "second" year of the Interim Agreement began on January 1, 1994, the "third" year began on January 1, 1995, and "fourth" year began on January 1, 1996, and the "fifth" year began on January 1, 1997.

[70] The MFA trade agreement of 1974 was concluded by 27 developing countries and 16 developed countries providing for a major exception to the GATT for textiles and clothing. The MFA involves a quota scheme designed to allow textile and clothing manufactures to adjust gradually to shifts in comparative advantage and to free trade. By limiting the exports of developing countries and encouraging a shift to higher quality products among LDCs, in practice, the MFA restricted exports of textiles and clothing to developed consumer countries, increased the cost of clothing, and increased the profits of domestic producers in developed countries. The MFA was renewed three times, most recently in 1986.

group of products accounted for a small share of total Polish industrial exports to the EU in 1992, the rapid liberalization of trade restrictions on this group was a significant concession since the average growth rate of exports of these products during the 1988-91 period exceeded that of other industrial products. In particular, the share of these exports in EU markets increased from 0.1 percent in 1988 to 0.6 percent in 1991, and their value increased by 85 percent in 1992.

b. "Fourth-Year" Group

Customs duties on the "fourth-year" group of products were reduced by 20 percent on the date of entry into force of the Interim Agreement, and then lowered by 20 percent for each year thereafter so that they were fully eliminated at the end of the fourth year.[71] This group of products included all primary intermediate products, e.g. resource-intensive and lightly-processed products such as ferro-manganese (with a carbon content of less than 2 percent), ferro-silicon, unwrought aluminum, and zinc and lead alloys. This group of products accounted for a very small proportion of Polish exports to the EU in 1992, and exports of these products decreased during the 1988-92 period. During the first year of the Interim Agreement, exports of these products from Poland to the EU expanded by 18 percent, while exports of these products from other Central European countries declined.

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[71] Each Central European country negotiated a different list of "fourth-year" products with the EU; the Polish list was the most extensive. See Choi, Y.P., Chung, H.S. and Marian, N., The Multi-Fibre Arrangement in Theory and Practice (London: Pinter 1985).

c. "Fifth-Year and Quota" Group

Customs duties on the "fifth-year and quota" group of products were reduced and tariff quotas and ceilings applicable to these products were increased by the Interim Agreement. In particular, customs duties were suspended within the limits of tariff quotas that were increased by 20 percent annually; customs duties on imports in excess of quotas were to be reduced by 15 percent annually to zero by the end of the fifth year. This group of products comprised the highest proportion of all Polish exports to the EU, accounting for 23.6 percent of all Polish exports to the EU in 1991. This group was highly diversified and included products from most industrial sectors, including organic and inorganic chemicals, some leather products, cord and wood products, glass, some steel products not covered by the ECSC, copper and copper products, electric machinery, optical goods, plastics, footwear, clothing accessories, furniture and motor vehicles. Prior to the conclusion of the Association Agreement, EU market access for these products was better than for all other industrial products and the EU tariff rate was lower than that applied to all other industrial products. However, it was difficult to predict the extent to which the Association Agreement would improve market access for this group of products, for three reasons in particular.

First, under the Agreement, the EU set quotas for some products in this group and ceilings for others; duties on Polish exports of products exceeding quotas were imposed automatically whereas duties on those exceeding ceilings would be levied only if required by domestic EU producers. Second, exports exceeding the relevant quota

faced higher MFN tariffs than industrial products in general. Third, the ceiling or quota "utilization" ratio varied across different products. If quotas had been set in a fixed relationship to previous export performance, then the duty-free component of this group during the first year of association would have been equal to the total value of the quotas. However, because the growth rates of the quotas and the ceilings were established in the Agreement without relation to export growth rates or to quotas or ceilings reflected in earlier levels of exports, the duty-free component of this group did not equal the total value of quotas.[72] The divorce of tariff quotas from prior export performance was particularly manifest in the case of automobiles,[73] with Poland and Hungary enjoying a tariff quota of ECU 125 million and the Czech Republic and Slovakia enjoying a tariff quota of only ECU 80.483 million for the first year.

d. The "Multi-Fiber Arrangement" Group

Customs duties on the "MFA" group of products were to be gradually eliminated by the end of the sixth year through an annual reduction in the tariff rate amounting to one-seventh of the rate in effect prior to the entry into force of the Interim Agreement. Considered to be one of the "sensitive" sectors under the Interim

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[72] Interestingly, most quotas established in the Association Agreements for the Visegrad countries are the same regardless of export performance. For instance, the Polish quota for polyethylene is identical to the Czech, Slovak and Hungarian quotas, even though Polish exports of polyethylene comprise only a fraction of Czech, Slovak and Hungarian exports of this product. See Kaminski, "The Significance of the 'Europe Agreements'" (1994), p. 18. Examples of different tariff quotas and ceilings include: the quota for acids and salts (CN 2981400), which is ECU 368,000 for Poland and Hungary and only ECU 210,000 for the Czech Republic and Slovakia; the quota for leather clothing and apparel (CN 4203100, 42032100, 42032991, 42032999, 4203000, 42034000), which is ECU 6.6 million for Poland and Hungary and only ECU 4.3 million for the Czech Republic and Slovakia. The quotas for Bulgaria and Romania are on average 5 percent higher than for the Visegrad countries.

Agreement, this group of products included textiles and clothing subject to the MFA provision restricting exports of textiles and clothing from developing countries to North America and Western Europe,[74] and contained 1,296 eight-digit CN items, of which 188 were subject to the EU's GSP zero rate. While technically not a "developing country" under the MFA definition, the MFA restrictions had been applied to Poland and the other Central European countries. The products in this group ranked second in terms of their share in total Polish industrial exports to the EU.

Under the Interim Agreement, market access for the products in this group was governed by quantitative restrictions rather than tariffs, and the NTB coverage ratios for these products, which were the highest for all industrial products, were not affected by the Interim Agreement. Instead, Article 3.2 of Protocol 1 of the Interim Agreement provided that the parties would negotiate quotas bilaterally and would implement new arrangements ". . . as soon as the future regime governing international trade in textile products has emerged from the multilateral negotiations of the Uruguay Round." In particular, quantitative restrictions would be abolished over half of the period decided in the Uruguay Round negotiations. The Uruguay Round Agreement on Textiles and Clothing of 1994 required all bilateral restrictions imposed under the MFA to be gradually eliminated in four phases over a ten-year period, after which textiles and clothing will have been completely integrated into the GATT.[75]

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[73] CN 87032110 through 8703909.

[74] Textiles and clothing products covered include CN products 50-63, exclusive of 520100 and 5301-02.

[75] Specifically, textile and clothing imports are to be freed from restrictions as follows: on January 1, 1995, 16 percent of imports (Phase 1); on January 1, 1998, 17 percent of imports

Throughout the 1980s, Polish exports of textile products were significantly below their quotas, achieving an EU quota utilization rate in 1982 of only 35 percent.[76] In 1990 and 1991, Poland and the EU signed a bilateral agreement increasing quotas and market access for re-imports of textiles into the EU, with the effect that Polish textile exports to the EU increased dramatically during that period: the value of MFA exports from Poland to the EU increased by 74 percent in 1990, 35 percent in 1992, and 248 percent overall between 1988 and 1992, although the average utilization ratio for Polish MFA exports was only 33 percent during that period.[77] Since the cost of labor and the capital-intensity of the textile and clothing sector were both relatively low, and since the EU had also been able to expand its exports from this sector to Poland, predictions regarding the potential of Polish textile exports to expand were generally favorable during the early years of implementation of the Association Agreement.[78]

(Phase 2), on January 1, 2002, 18 percent of imports (Phase 3); and on January 1, 2005, the remainder of imports (Phase 4). Leebron, David W., "An Overview of Uruguay Round Results", Columbia Journal of Transnational Law, vol. 34 (1995) p. 28.

[76] Trella, I. and Whalley, J., "Unraveling the Threads of the MFA", in Hamilton, C.B. (ed.), Textiles Trade and the Developing Countries: Eliminating the Multi-Fibre Arrangement in the 1990s (Washington, DC: The World Bank 1990).

[77] Dunin-Wasowicz, M., "Hamowanie w duecie", Gazeta Bankowa, July 3-10, 1993); Kaminski, "The Significance of the 'Europe Agreements'" (1994) p. 22.

[78] See Cable, V., "Adjusting to Textile and Clothing Quotas: A Summary of Some Commonwealth Countries' Experiences as a Pointer to the Future", in Hamilton, Textiles Trade and the Developing Countries (1990); World Bank, Global Economic Prospects and the Developing Countries (Washington DC 1992); see generally Kaminski, "The Significance of the 'Europe Agreements'" (1994) p. 23.

e. The "ECSC" Group

Considered to be one of the "sensitive" sectors under the Interim Agreement, the "ECSC" group of products did not receive uniform concessions in the Interim Agreement. In 1992, this group of products accounted for a significant, 12 percent, but declining share of Polish exports to the EU. Protocol 2 of the Interim Agreement set forth the new provisions governing EU market access for these exports according to three sub-categories: (i) steel products, (ii) coal products (including some manganese and iron ores) imported by Germany and Spain, and (iii) coal products imported by other EU countries.

The steel sub-category of products accounted for 4.5 percent of total Polish exports in 1991 and was subject to average tariff levels and high NTBs in the EU. Protocol 2 of the Interim Agreement granted both tariff and non-tariff concessions for these products, and provided for the gradual elimination of customs duties on these products, beginning with a reduction in customs duties to 80 percent of their basic level at the beginning of the first year of the Interim Agreement, and proceeding with reductions to 60 percent, 40 percent, 20 percent, 10 percent and zero percent of the basic level at the beginning of the third, fourth, fifth and sixth years, respectively. Since steel industries in both Poland and the EU had significant surplus capacity in 1992,[79] it was widely predicted that NTBs on these products would increase as

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[79] A 1993 financial times article estimated that the steel industry in Central Europe (including Poland, Hungary, Czech Republic, Slovakia, Bulgaria and Romania) functioned at approximately 50 percent of its pre-1989 capacity. Peel, Q., "Aid Urged for East European Steel Cuts", Financial Times, June 18, 1993.

quantitative restrictions and customs duties were eliminated. Pressure in this regard was increased by the fact that the share of Polish steel exports in total EU imports doubled between 1988 and 1992, although the EU market share of Polish steel remained relatively low.[80]

The coal sub-category of products consisted of coal products, iron ore and concentrates, iron and steel wastes (slags and scalings), and manganese ores and concentrates. In comparison to other Central European countries, Polish (and Czech and Slovak) exports of these products were significant at the beginning of 1992, and while these products were subject to higher-than-average tariffs they faced no EU-wide NTBs. With the exception of German and Spanish duties, EU duties on Polish exports of these products were eliminated within the first year of entry into force of the Interim Agreement;[81] German and Spanish duties were eliminated at the beginning of the fifth year of the Interim Agreement. Since approximately 55 percent of Polish exports of these products were destined for Germany and Spain in 1992, the exceptions for Germany and Spain were significant for Polish exporters. In contrast to steel exports, little redirection of trade from the former CMEA market to the EU market occurred in exports of coal products; to a large extent Polish exporters had

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[80] Kaminski, "The Significance of the 'Europe Agreements'" (1994) p. 24.

[81] Poland, the Czech Republic and Slovakia obtained a better deal in this regard than did Bulgaria, Hungary, and Romania, whose Interim Agreements provided that EU duties were to be reduced by 50 percent on January 1, 1994 and eliminated only by the end of 1995. See Association Agreements.

already established their market share in the EU prior to 1989 owing to the marketability of coal in hard currency markets.[82]

f. The "Immediate Free Trade" Group

The "immediate free trade" group of products comprised a residual group of products that achieved free trade status upon entry into force of the Interim Agreement. This group consisted of 5,078 products included in the CN 25-97 category, exclusive of products identified in the five other groups discussed above. Since most of the products in this group (4,362) were already subject to GSP rates, the average tariff level for this group was well below the average for all industrial products. Further, Polish exports of these products faced fewer NTBs than exports of other industrial products covered by the Interim Agreement. This group of products accounted for a large share, 41 percent, of Polish exports to the EU in 1991 and the EU was willing to grant free trade status to these products largely because they did not derive from "sensitive" sectors.

g. Additional Concessions Granted at the Copenhagen Summit

Recognizing the positive impact of association on government policy-making autonomy and legitimacy, Polish leaders were eager to deepen and accelerate the relationship with the EU. At the Copenhagen Summit in June 1993, the EU Council of Ministers made two important decisions affecting the terms of Poland's association. First, the EU explicitly recognized the aspiration of Poland and the other associated Central European countries to join the EU in the future. Second, the EU granted

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[82] Kaminski, "The Significance of the 'Europe Agreements'" (1994) p. 26.

further trade concessions for Polish industrial products, in effect accelerating the time table for creating a free trade area in industrial products by one year. In particular, these trade concessions changed the time period for eliminating EU tariffs on Polish industrial exports as follows: (i) the time period for eliminating tariffs on the "fourth-year" group of products was reduced from four years to two years; (ii) the time period for eliminating tariffs on the "fifth-year" group of products was reduced from five years to three years, and the growth rate of tariff-free quotas and ceilings was increased by 10 percent over the 20 percent rate provided by the Interim Agreement; (iii) the time period for eliminating tariffs on MFA products was reduced from six years to five years; and (iv) the time period for eliminating tariffs on steel products was reduced from five years to four years.[83]

Increased access for Polish industrial exports enhanced domestic acceptance of EU association and facilitated implementation of the reforms required by the Association Agreement. Using the actual commodity composition of industrial trade flows by product group in 1992, a World Bank study estimated that for the year 1995, the concessions resulted in a three percent increase relative to the Interim Agreement in the share of industrial products benefiting from duty-free access to the EU market.[84] The study also noted that the accelerated increase in the margins of preference was

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[83] Dokumenty z Sesji Rady Europejski w Kopenhadze (fragmenty), Kopenhaga, 21-22 czerwca 1993r. [Documents from the Session of the European Council in Copenhagen (excerpts), Copenhagen, June 21-22, 1993], Zbior Dokumentow, vol. 21 (1993) Annex II, pp. 151-54.

[84] For the year 1995, the concessions resulted in a 6 percent increase in the share of industrial products benefitting from duty-free access to the EU market; after 1997 the concessions ceased to have any effect.

significant, in particular for the "fifth-year" and MFA groups of products.[85] The degree to which Polish exports to the EU from the various categories changed between 1988 and 1992 is illustrated in Table 4.3. Empirically, restricted access to sensitive markets did not appear to have restrained Polish exports of steel and coal significantly in the 1988-91 pre-association period, as these exports remained fairly stable after 1991, while access for textiles appeared to have improved.

Table 4.3: Composition of Polish Industrial Exports to the EU (1988-92)



[1]Inclusive of Germany and Spain.
[2]Exclusive of Germany and Spain.
Source: Calculated from United Nations COMTRADE Database and Interim Trade Agreements in Kaminski (1994) p. 28.

(iv) Safeguard Measures and Institutional Provisions

While the mandatory industrial trade liberalization schedule bolstered the policy-making autonomy of the Government in relation to other domestic actors, the Agreement recognized that dramatic liberalization could unleash domestic discontent and allowed either party to implement temporary safeguard measures, so-called "appropriate measures", in four important areas. First, such measures were allowable where increased imports caused or threatened to cause either of the following: serious

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[85] Kaminski, "The Significance of the 'Europe Agreements'" (1994) pp. 31-32.

injury to domestic producers of similar products; or serious disturbances in any sector of the economy or difficulties that could bring about serious deterioration in the economic situation of a region.[86] Second, such measures were allowable where trade liberalization caused either of the following: re-export towards a third country against which the exporting party maintained quantitative export restrictions, export duties or "measures having equivalent effect" for the products concerned, or a serious shortage or threat of shortage of a product essential to the exporting party.[87] Third, such measures could be imposed where dumping was occurring, in accordance with the Agreement relating to the application of Article VI of the GATT.[88] Finally, during the first five years of the association, Poland could impose "exceptional measures of limited duration" on imports competing with domestic infant industries or sectors undergoing restructuring or facing difficulties, provided such measures did not exceed 15% of the total imports of industrial products from the EU during the last year for which statistics were available.[89]

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[86] Association Agreement, art. 30.

[87] Association Agreement, art. 31.

[88] Association Agreement, art. 29. Prior to imposing the first three types of safeguard measures, the relevant party must notify the other party and the Association Council and supply the Council with all relevant information that might be necessary in order to resolve the dispute informally. Association Agreement, art. 33. The Association Council then has thirty days to issue a decision resolving the matter, after which time the importing party may adopt the measure. Throughout the period during which any safeguard measures are imposed, the Association Council is required to conduct periodic consultations aimed at establishing a time table for the removal of such measures. Under the Agreement, the only restriction on selection of "appropriate measures" is that "priority will be given to those which least disturb the functioning of the Agreement." Id. art. 33(2).

[89] Association Agreement, art. 28.

The fairly liberal allowance for the imposition of unilateral safeguard measures represented a significant departure from free trade that risked replacing quantitative restrictions with contingent protective measures or "managed trade".[90] In order to prevent this situation, the Agreement required the establishment of an Association Council at the ministerial level and an Association Parliamentary Committee at the parliamentary level. Comprised of members of the European Council of Ministers, the European Commission and the Polish Government, the function of the Association Council was to supervise implementation of the Agreement and to examine periodically Poland's accomplishments in creating a market economy.[91] Comprised of members of the European and Polish Parliaments, the function of the Association Parliamentary Committee was to make recommendations to the Association Council.[92] The institutional provisions provided that political dialogue at the ministerial level would take place within the Association Council, and political dialogue at the parliamentary level would take place within the Association Parliamentary Committee.[93] Both bodies served to buttress the implementation of prescribed policies through any periods of domestic opposition of economic disturbances. It was also a forum for officials to be

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[90] As safeguards and contingent protection are endemic through the GATT, it is not necessarily surprising that they are not abandoned prior to accession (when they become reactions to state aids).

[91] Association Agreement, art. 102-03.

[92] Association Agreement, art. 108-110. Under the Interim Agreement, the Joint Committee previously established by the Agreement on Trade and Economic Cooperation of 1989 performed many of the functions of the Association Parliamentary Committee; the Association Parliamentary Committee replaced the Joint Committee upon entry into force of the Association Agreement.

[93] Association Agreement, arts. 3 and 5.

seen to be actively airing grievances on behalf of domestic constituents without having to exercise any formal remedy.

While final ratification of the Association Agreement was pending, a Joint Parliamentary Committee was established and held its inaugural meeting in Warsaw on November 29-December 1, 1993. Through the Joint Parliamentary Committee, which became the Association Parliamentary Committee when the Association Agreement entered into force on February 1, 1994, the Government expressed its eagerness to implement the Agreement and deepen the relationship. As expressed in a declaration from its inaugural meeting, the Committee intended to focus on strengthening the restoration of democracy and the process of trade liberalization. In particular, by allowing for the increased frequency of contacts between members of the EU and Polish Parliaments, the Committee pledged to "work to ensure that no new division of Europe, based on different levels of economic development, is allowed to develop thereby prolonging the artificial division which existed during the period of confrontation between NATO and the Warsaw Pact".[94] In practice the Polish side used the Committee as a forum for discussing the potential for full Polish membership in the EU.

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[94] The Co-Chairpersons of the Committee were Jan Gawronski, Italian deputy to the European Parliament, and Jan Borkowski, PSL deputy in the Polish Sejm. "Inaugural Meeting of Poland-EU Joint Parliamentary Committee", Kronika Sejmowa , vol. 9(132) II, December 1-7, 1993, p. 40.

C. Perceived Shortcomings of the Association Agreement

As government policy makers prepared to implement the deal negotiated with the EU (in furtherance of their policy preferences), the first hints of domestic opposition began to emerge. While the Association Agreement in its entirety was hailed as an unqualified success, some of its more onerous obligations were gradually brought to public attention in the course of implementation. With scant exception, the Agreement contained few special carve-outs for Poland in recognition of the country's massive economic adjustment. The commitments required under the Agreement were desirable in the long-term, but many of them were harder to legitimize in requiring more of Poland than had been required of member states because of the deepening that had occurred in the EU and the gap between the Polish and EU economies. Consequently, commentators described how:

> [i]f we consider the fact that as recently as in 1991, a number of EEC countries were applying preferential treatment forbidden by the Treaty of Rome with respect to their state-owned enterprises (e.g. France, Great Britain and Italy), then it is difficult to expect that Poland will be able to observe Art. 90 of the Treaty (Art. 65 of the Agreement) within three years from the date of entry into force of the Agreement. Each act of state intervention in the form of a preferential credit, import or export concession, or even tax holiday with respect to a state-owned enterprise, company controlled by the State Treasury or a self-governing unit will be an infringement on the provisions of the Association Agreement. At the same time, restructuring the Polish public sector without active participation by the state is not possible."[95]

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[95] Soltysinski, "Agreement on Association"(1991-92) p. 191.

Moreover, although certain EU member states had at times failed to comply with EU rules without dire consequences, Poland as a country seeking membership was under greater pressure to comply despite the weaker condition of the Polish economy.

The rigors of the bargain reflected the reluctance of the EU toward expanding its common market advantages to the East. Summarizing the priorities of the EU, a study by the World Bank noted how "[t]he EU's negotiation approach, as revealed in the Agreement[s], was to minimize the adverse effects of opening up "sensitive" sectors: the time and the pace of transition tends to be longer and slower for groups of products with higher NTB-coverage ratios and higher average tariffs."[96] These sensitive sectors - steel and iron, coal, textiles, and agriculture - were critical in terms of employment and production in relation to the Polish economy at the time of the negotiations. Without significant restructuring, the more protectionist formula applied to these sectors foreshadowed a decline in employment and output on the Polish side that was certain to result in appeals from the affected sectors for interventionist industrial policies, in the form of guaranteed loans and subsidies, restrictions on imports, deviations to bankruptcy and labor-related tax regulations, as temporary "pain relief' during the course of economic restructuring. Publicly, Polish leaders began to create the appearance of accommodating such appeals while laying an institutional foundation for resisting them.

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[96] The study further concluded that "[w]hether by design or not, the variation in products identified in various provisions assures a more equitable treatment of CEE-5 countries, judging from their industrial export patterns in 1990-92." Kaminski, "The Significance of the 'Europe Agreements'" (1994) Summary Findings.

In his opening statement to the inaugural session of the Joint Parliamentary Committee of Poland and the EU in November 1993, Foreign Affairs Minister Olechowski declared the Association Agreement to be "an undeniable achievement of the two parties. It is wide-ranging and comprehensive, and in a number of fields has set a challenging timetable for Poland's integration into the Communities. But no less crucial than the Agreement's merits are four defects."[97] The first defect was the ambiguous commitment to Polish membership in the EU, and the second defect was the Agreement's "lack of strategic vision of integration in agriculture, of a will to establish a common market in this field, too. In Poland, farmers account for over 25% of total employment and they cultivate a large land area; if they raised productivity to West European standards, they could feed half of Europe. Integration was bound, therefore, to take years and acute conflicts are unavoidable." The third defect was the lack of a commitment from the EU to assist Poland with the "adjustment measures" needed to prepare Poland for membership, such as technical standards for industry and infrastructure. The fourth and final defect was the "inadequate pace of liberalization of access of Polish products to the common market.

By criticizing the Association Agreement for not going far enough in terms of liberalization, Minister Olechowski was anticipating domestic appeals for protection and attempting to mute any opposition by openly acknowledging the tough nature of

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[97] Przemowienie Ministra Spraw Zagranicznych Rzeczpospolitej Polskiej Andrzeja Olechowskiego na Inauguracyjnym Posiedzeniu Wspolnej Komisji Parlamentarnej Rzeczpospolitej Polskiej I Unii Europejskiej, Warszawa, 29 listopada 1993 r. [Opening Statement by Minister of Foreign Affairs Andrzej Olechowski to the Inauguration Session of

the liberalization process. He exclaimed that "[t]he reluctance to open it up entirely undermines the credibility of assurances about membership[98] and deters investors from long-term projects since for them confidence in a country's future political and economic situation is a paramount consideration. Adding to this sense of uncertainty and unreliability is the knowledge that Polish exports are very small, and the resort to protectionist measures indicates that greater political store has been set than on integration with Poland." He went on to describe how the initial asymmetry of the Agreement in Poland's favor was being offset by the intensification of protectionist measures against Poland since the signing of the Agreement, through the classification of key Polish exports as "sensitive" to the EU and subject to a variety of EU import restrictions.

Much of this criticism was not without foundation and anticipated areas where domestic opposition was sure to be greatest. Several provisions of the Association Agreement facilitated imposition by the EU of trade barriers or "contingent" protective measures against Polish exports, and since the Agreement had removed quantitative

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the Joint Parliamentary Commission of the Republic of Poland and the European Union, Warsaw, November 29, 1993], Zbior Dokumentow, vol. 15 (1993) pp. 117-20.

[98] Minister Olechowski was referring to the statement issued at the Copenhagen Summit of the EU Council that "associated countries in Central and Eastern Europe that so desire shall become members of the European Union. Accession will take place as soon a an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required." Wolf, M., "The Markets: Why the European Union will enlarge eastwards, slowly", Economic Eye, Financial Times, April 25, 1994, p. 24. Despite these seeming "assurances of membership", the EU never formally promised membership to Poland and the other Central European countries. While various institutions and representatives of the EU assured Poland that the country would be allowed to join the EU upon meeting certain conditions, such assurances did not constitute a promise of membership, which would require formal consent of the member states.

restrictions and pricing arrangements on trade in steel, Polish steel exports had become more vulnerable to anti-dumping actions.[99] These protectionist practices appeared to contradict the EU's political declarations about support for the process of transformation in the post-communist countries. Closely paralleling these objections, many observers began noting features of the Agreement that reflected "bargaining imposed by the strongest actor", namely limited reference to accession, less-than-total liberalization of trade and "conditional association" based on a commitment from Poland to respect the political and economic principles requested by the EU (such as pluralist democracy based on the rule of law, a market economic system and social justice).[100] The Government quickly became challenged to deal with the criticism that it was making one-sided accommodations by pursuing the EU-focused reforms.

Comparing Poland's Association Agreements with those concluded by the Mediterranean countries, the period of asymmetry, 4-5 years, was considerably shorter. Meanwhile, the right to use preferential customs treatment applied only to sectors in which Poland had limited potential in 1992, such as technology-intensive industrial products and capital-intensive services, while trade in "sensitive" products, namely coal, iron, steel and textiles, did not benefit from asymmetrical trade liberalization to the same extent as other products.[101] Meanwhile, Poland's seven-year transition

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[99] See Ostry, S., The Threat of Managed Trade to Transforming Economies (Washington, DC: Group of Thirty 1993).

[100] Guggenbuhl, A., "The Political Economy of Association with Eastern Europe", in Larsen, F. (ed.), The Political Economy of European Integration (The Hague: Kluwer Law International 1995) pp. 245-47.

[101] Meanwhile, Polish exports comprised only a relatively small amount of total EU imports, estimated at approximately 1 percent. "New Trade Ties to the EC Could Intensify Pain for

period was much shorter.[102] In the case of Greece, the transition period was roughly 12 years for most products and 22 years for "sensitive products".[103] In the case of Portugal, the transition period lasted nearly 21 years[104] and in the case of Spain approximately 16 years.[105] Further, both Spain and Portugal negotiated a schedule for the gradual elimination of customs duties on industrial products lasting seven years

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Three Eastern Nations", Wall Street Journal, March 2, 1992, p. 1. This led some academics to conclude that the Association Agreement "follows the concept of asymmetry of rights for the benefit of the stronger party and in the interest of the least profitable sectors of the EU." Soltysinski (1992) p. 197. See also Winters, A., "The Association Process: Making it Work for Europe" in Materialy Konferencji EWG Poswieconej Umowom Europejskim, Brussels, February 27, 1992; Zu den Assoziationsvertragen der EG mit Polan, Ungarn und der Tschechoslovakei, DIW Wochenbericht [German Institute for Economic Research] vol. 50 (1991).

[102] As Nicolaides and Close observed, while certain applicant countries have valued the transitional period as a means of adjusting to membership, "the Union may also use it as an excuse to put off full accession." Nicolaides, P. and Close, A., "Accession to the European Union: The Ultimate Bargain", in Larsen, The Political Economy of European Integration (1995). For instance, the Association Agreement between Turkey and the EU provided that the "transition period" for the elimination of customs duties would last approximately 22 years. Agreement establishing an association between the European Economic Community and Turkey signed at Ankara, September 12, 1963, O.J. No. C 113/2, 12/24/73, arts. 10-11, in Association Agreement Between the European Economic Community and Turkey: Collected Acts, vol. I (Brussels: Office for Official Publications of the European Communities 1975). The Agreement also provided for a 20-year period of annulment of quantity import quotas in arts. 21-22.

[103] Agreement between the European Economic Community and Greece, signed in Athens on July 9, 1961 (63/107/EEEC), arts. 14-15, in EEC-Greece: Collected Acts, vol. I (Luxembourg: Office for Official Publications of the European Communities 1975). In total, the process of Greek accession to the EU lasted 24 years, from 1961 to 1985.

[104] Agreement between the European Economic Community and the Portuguese Republic signed in Brussels on July 22, 1972, O.J. L 301 12/31/72, in European Communities, Collection of the Agreements Concluded by the European Communities: Bilateral Agreements: European Economic Community-Europe 1958-1975, vol. I (Luxembourg: Office for Official Publications of the European Communities 1977) pp. 747-1027.

[105] Spain initiated integration of its economy with the EU under a commercial agreement concluded in 1970, and negotiations relating to full EU membership lasted for seven years. Agreement between the European Economic Community and Spain signed in Luxembourg on June 29, 1970, O.J. L182 8/16/70, art. 31, in European Communities, Collection of the Agreements, vol. I (1977) pp. 535-744.

after accession. The Government attempted to depict the shorter period as an advantage requiring Poland to evolve sooner rather than later into a modern economy. While strong economic arguments could be made that a shorter transition period would be more auspicious for successful economic reforms, it nonetheless remained true that continued liberalization of these countries' economies after their accession afforded them influence over decisions of the EU and substantial EU funding for restructuring agriculture and other weak sectors.

The Government was forced to counter these criticisms by either recasting them as advantages or pressing for further concessions from the EU. Acknowledging these shortcomings, some government leaders publicly explained how the institutional arrangements due to come into effect only when the full Association Agreement entered into force would protect Poland's trade position vis-à-vis the EU. Thus, the Government optimistically opined in its application for membership:

> the entry into force of the Association Agreement brings a qualitative change to our contacts with the Twelve. Firstly, association institutions, the Council (which is a ministerial-level institution plus the European Commission) and the Association Committee, will come into operation. Henceforth, we will be able to jointly address problems relating to our cooperation. For, as shown by the two-year history of our contacts under the Interim Agreement, many decisions were taken without consulting us (the foot-and-mouth disease affair, minimum prices and anti-dumping proceedings). This means the establishment of a kind of "early warning system" whose workings and decisions will not come as a shock. What is more, we will have opportunities to influence the final shape of pending decisions. That means there will be a chance to stabilize the terms of trade.[106]

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[106] Wniosek Rzadu Rzeczypospolitej Polskiej o Czlonkostwo Rzeczypospolitej Polskiej w Unii Europejskiej, Warszawa, 5 kwietniu 1994r. [Application by the Government of the Republic of

Polish policy makers were registering their awareness that the interpretation given to the Agreement by the EU, and Poland's ability to participate in the decision-making processes of the EU, were as important for government policy-making autonomy and legitimacy as were the actual terms of the Agreement. Specifically, both aspects of association had the potential to help or hinder the implementation of their domestic agenda.[107]

Conclusion

Polish representatives approached the negotiating table with a broad mandate and returned with an agreement hailed as a "success" by virtue of the simple fact that it established an association with the EU. For its own part, the Government benefited from the binding commitment to harmonize Polish policy with EU policy, a commitment that bolstered domestic policy-making autonomy and legitimacy by coinciding with the Government's basic policy preferences as embodied in the economic reforms and the continued struggle to modernize the economy. The implications for policy-making autonomy were clearest where the Agreement adopted free-market prescriptions without deviation, which applied to all but those sectors considered "sensitive" by the EU. Subsequently, the rigors of the bargain for the

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Poland for Membership of the European Union, Warsaw, April 5, 1994], Biuletyn Tygodniowy, Biuro Prasowe Rzadu, vol. 5(34) (1994) p. 2.

[107] See also, Harasimowicz, A., "Po Podpisaniu Ukladu Europejskiego. Perspektywy Wspolpracy ze Wspolnota Europejska. Aspekty Polityczne" [After Signing the Europe Agreement. Perspectives on Cooperation with the European Union. Political Aspects], Rocznik Polskiej Polityki Zagranicznej 1992 (Warsaw: Polski Instytut Spraw Miedzynarodowych 1992).

Polish side - particularly in relation to industrial sector liberalization - were gradually exposed and the Government experienced an ongoing dilemma between heralding the Agreement as an inviolable pact and appearing compassionate toward emerging domestic opposition. As the Agreement came under increasing scrutiny, the Government worked more deliberately to implement the required provisions and ensure that its hard-won bargain (and increased policy-making autonomy) would not be lost.

V. Chapter Five: The Effect of EU Association on Institutional Reform

Government policy-making autonomy depends on the functioning and structure of domestic policy-making institutions. In addition to redistributing power from other domestic actors to the Government directly through the normal channels predicted by liberal intergovernmentalism - tying hands, removing issues from the domestic agenda to the supranational arena - the EU affected policy-making autonomy in Poland indirectly by influencing the shape of domestic institutions during a period of major institutional reform. Several features of the country's transition heightened the susceptibility of institutional reform to outside influence. First, communism and the failed system of central planning were inextricably linked in the national consciousness, and both were anathema to policy makers and the broader public. Successive post-communist governments were consequently committed to an institutional overhaul to reflect the nation's re-emergence as a liberal democracy. While not the exclusive catalyst, association with the EU provided institutional reform with a sharp focus and continued momentum. Second, in the midst of the deep political and economic transition, changes in the institutional landscape were multidimensional. Poland gained complete institutional freedom in relation to the former Soviet bloc, while voluntarily ceding some of its newfound freedom to the EU. Viewed in their totality, the institutional reforms streamlined the bureaucracy, facilitated alignment with the EU and enhanced government policy-making autonomy.

A. The Challenge of Post-Communist Institutional Reform

By its *laissez-faire* nature, shock therapy entailed a markedly reduced role for the Government in industry and the overall economy. In the external sphere, the Government was bound by the scheduled reduction of trade protection under the Association Agreement, the GATT and other trade arrangements. Domestically, the Government embraced a philosophy of minimalist intervention, the essence of which was captured by economist Anne Krueger at a conference of Western and Central European experts in Prague, Czechoslovakia in 1992: "[i]n supporting a market economy, there are many legitimate governmental functions: provision of infrastructure, setting (and enforcing) the rules of the game, improving the quantity and quality of education and health services, etc. Governments which have successfully reformed their economies have shifted attention to this latter set of tasks."[1] This philosophy opposed discretionary economic policies, including discretionary export incentives and government-targeted support for particular economic activities or sectors. While renewed calls for more active government

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[1] Krueger, A. O., "Institutions for the New Private Sector", in Clague, C. and Rausser, G.C. (eds.), The Emergence of Market Economies in Eastern Europe (Oxford: Blackwell 1992) p. 220. It should be noted, however, that this suggested role for government contrasts with the proclivity of government, as articulated by Robert Heilbroner, to mould and channel economic activities to serve the interests of the state and powerful domestic interest groups, and to capture and control the process of economic growth and capital accumulation. Heilbroner, R., The Nature and Logic of Capitalism (New York: W.W. Norton 1985), cited in Gilpin, R., The Political Economy of International Relations (Princeton: Princeton University Press 1987) p. 11.

intervention were made after 1990, supported by both domestic and foreign experts, the Government decided to refrain from deep intervention.[2]

The main institutional challenge for the Government in adhering to this philosophy was the communist legacy of deeply-entrenched socialist institutions and vested interests. Under central planning, direct control over industrial resources by non-state actors was prohibited and control was subsumed instead within the Communist Party, particularly by the ruling party elite or *nomenklatura*.[3] The independent role of managers and employee organizations was weak, and enterprises made their decisions and shaped their activities in response to artificial incentives created by the Government.[4] Through channels not officially recognized by the central authorities, enterprise representatives came to constitute a quasi-interest group adept at procuring government favors and securing profitable opportunities under the central plan, for instance by influencing government regulations and the allocation of permits.

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[2] Economists Richard Portes and Michael Bruno called for an end to "state desertion" of state-owned enterprises, for the rehabilitation of industrial policy and for intervention in financial markets. Blejer, M., Calvo, G., Coricelli, F. and Gelb, A. (eds.), Eastern Europe in Transition: From Recession to Growth?, Proceedings of a Conference on the Macroeconomic Aspects of Adjustment, co-sponsored by the International Monetary Fund and the World Bank, World Bank Discussion Paper 196, (1993) pp. 8-38.

[3] In the 1980s this stance was softened slightly by laws on freedom of economic activity and foreign investment. Whitehead, S., Industrial Power and the Soviet State (Oxford: Clarendon Press 1993) p. 10; see also Brus, W., The Economics and Politics of Socialism (London: Routledge & K. Paul 1973); Nove, A., The Soviet Economic System, 3rd edition (London: Unwin Hyman 1986).

[4] Indeed, management was not a recognized profession under communism for fear of emergence of a managerial elite. Instead, managers were passive and faithful implementers of central plan directives, received minimal training, had scant discretion or flexibility and often learned through "trial and error". Sarapata, A., "Society and Bureaucracy", in Connor, W. and Ploszajski, P. (eds.), The Polish Road from Socialism: The Economics, Sociology and Politics of Transition (Armonk, NY: M.E. Sharpe 1992) pp. 104-08.

Enterprises grew accustomed to reacting to signals from government policy makers as opposed to from the market, and the symbiosis between enterprises and the government was strong enough to render meaningless the distinction between politics and economics.[5] The process of separating these two spheres became a major challenge for Polish policy-makers in designing a new institutional framework to support the emerging market economy.

During the transition period, interest groups engendered by the system of central planning continued to pressure the Government for "temporary" trade protection and government subsidies, threatening government policy-making autonomy and alignment with the EU. These groups were accompanied by a more diffuse source of opposition, most notably the *nomenklatura capitalists*, holdover state bureaucrats in charge of the process of privatization who profited from their selection of the assets, prices and purchasers. Since the *nomenklatura* had occupied all key positions in the communist government within politics, economics, culture and society,[6] they retained privileged access to assets, capital, technology and know-how necessary for exploiting

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[5] Stephen Whitefield described how "[t]he end-point for an analysis of the Soviet state system has often been the assertion that politics are impossible to separate from economics." Whitefield, Industrial Power and the Soviet State (1993) p. 5. Similarly, Brus found that "[e]conomy and politics are so intimately intertwined, especially when considered dynamically, that the continued use of the old conceptual apparatus of base and superstructure becomes more and more inadequate." Brus (1973) p. 88.

[6] Under communism, the *nomenklatura* system of privilege and promotion, by which the Party leadership approved all government appointments, had guaranteed the Party's control over state infrastructure. Positions occupied by the *nomenklatura* included ministers, party functionaries, military commanders, directors of large enterprises, heads of cultural agencies, university administrators, newspaper editors and other positions. See Labour Focus on Eastern Europe, vol. 4, nos. 4-6 (Winter-Spring 1981) pp. 55-56 for a fuller list of *nomenklatura* positions in Poland during the communist era.

new economic opportunities. In designing the new institutional arrangements, successive reform-minded Governments faced the daunting task of containing the risk of continued collusion between former *nomenklatura* operating at the enterprise level and those remaining in power in the founding ministries, in most cases the Ministry of Industry and Trade. The challenge of minimizing such collusion became particularly acute after the reformed socialists returned to power in 1993, since it was under the Oleksy and Cimoszewicz Governments that civil service and central administration reforms were implemented, allowing many former *nomenklatura* to secure privileged positions in the new system under the guise of "career" civil service.[7]

As in all of the formerly communist countries, the Government faced a grave risk at the outset of the reforms that the new institutional framework would continue to resemble the old one, retaining the same institutions and staffs and hampering the changes required by EU association. As Andras Nagy asserted, "[e]ven though there is general agreement that bureaucratization in the socialist system reached incredible proportions, state offices have not closed but have merely changed names, and there is no unemployment among civil servants."[8] Indeed, in Poland the number of central administration employees rose significantly - from 11,039 in 1990 to 19,485 in 1992 -

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[7] Interview with Professor Timothy Garton Ash, St. Antony's College, in Oxford, England November 11, 1996.

[8] Nagy, A., "Institutions and the Transition to a Market Economy", in Clague, C. and Rausser, G.C. (eds.), The Emergence of Market Economies in Eastern Europe (Oxford: Blackwell 1992) p. 305.

largely owing to the expansion of ministerial staffs.[9] While George Schopflin asserted that "[i]n Poland, with every leadership change large numbers of individuals were newly promoted into the bureaucracy. But the phenomenon that was noteworthy about this last change [in 1993] was that many of those appointed were not so much from worker or peasant backgrounds but a younger generation of professionals,"[10] Nagy claimed that "[a]s the opportunity to emasculate many special-interest organizations and their coalitions was missed, there is likely to be a relatively long period of coexistence with the old institutions and with only guarded change."[11] Institutional reform consequently became imperative to reform-minded policy makers focused on EU association.

During the early part of the 1990-95 period, the Government was hopeful that the introduction of domestic and foreign competition would reduce the susceptibility of domestic institutions to influence. However, as Rausser and Simon cautioned, "[i]f, as seems very likely, the post-privatization industrial structure turns out to be highly over-concentrated and inefficient, then the main effect of threatening foreign competition will be to unleash a powerful confluence of political forces in favor of protectionism. Owners of the domestic enterprises will lobby to defend their rents, managers will

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[9] Zielinski, E., "Process Tworzenia Demokratycznego Ladu Ustrojowego w Polsce", in Chrusciak, R. et al. (eds.), Polski System Polityczny w Okresie Transformacji (Warsaw: Uniwersytet Warszawski Instytut Nauk Politycznych 1995) pp. 73-75.
[10] Schopflin, "The Road from Post Communism" in Whitefield (1993) p. 195.
[11] Id. Nagy (1992) p. 307

lobby to defend their privileges, and workers will lobby to defend their jobs."[12] Recognizing that trade liberalization-induced competition would be insufficient as a panacea for restructuring the state industrial sector, and seeking to moderate pressures for discretionary state assistance, the Government created new pro-market institutions, such as the Antimonopoly Office, designed to dismantle the former system of central planning and monopoly. Toward the end of the 1990-95 period, as "Western-style" interest groups began emerging, the process of alignment with the EU gained momentum and the Government initiated a reform of the institutional framework underpinning industry.

B. The New Institutional Framework

(i) Reform of Basic Macroeconomic Policy-Making Institutions

As the Government committed the nation to undertaking industrial trade liberalization and the reform measures necessary for association with and eventual membership in the EU, Polish policy makers began to focus on the development of an institutional framework that would facilitate not only domestic political and economic reform but the process of alignment with the EU. The decision to associate with the EU and the decision to reform the basic policy-making institutions did not occur in strict progression but evolved simultaneously; indeed, Polish policy makers had begun to contemplating deep institutional changes in early 1990 as the Bielecki Government was preparing for the association negotiations. Given the importance of institutional

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[12] Rausser, G.C. and Simon, L.K., "The Political Economy of Transition in Eastern Europe: Packaging Enterprises for Privatization", in Clague, C. and Rausser, G.C. (eds.), The

modernization to policy-making legitimacy and the efficient functioning of the Government, political leaders engaged in vigorous debate regarding the type of institutional framework that would be optimal for coping with post-communist conditions and for realizing the aspiration of EU membership.

The new institutional framework had to meet two challenges. First, it had to account for special circumstances engendered by Poland's advancement not along a continuum of reform but through discontinuous political and economic regime shifts and deepening economic relations with new foreign trade partners. The motivations that had served the Polish bureaucracy under communism would not be compatible with the mission of successive post-communist Governments: to streamline the policy-making process, enhance institutional efficiency and transparency, reduce government intervention in the economy and maximize coordination among all the various ministries that were involved in developing and implementing economic policies and resolving various policy dilemmas. Second, it had to be compatible with the EU institutional framework. Because of the importance of EU association to the Government, the goal of becoming compatible with the EU suffused the entire institutional reform process.

Prior to 1989, the Planning Commission had shaped economic policy under the guidelines of the Communist Party. In connection with the Economic Transformation Program, the Sejm passed a series of acts laying down the legal and institutional bases for a modern macroeconomic policy-making process and providing for an independent

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Emergence of Market Economies in Eastern Europe (Oxford: Blackwell 1992) p. 249.

central bank, the National Bank of Poland. Acting through the Council of Ministers, the Government assumed responsibility for overall coordination and implementation of economic policy. Comprised of the heads of each of the Ministries, the Council of Ministers acquired several roles: it became the cabinet of the Prime Minister (similar to the UK system),[13] the administrative arm of the executive (similar to the US system), the principal liaison with the Sejm, and the representative of the Government in dealings with the regional governments. The Council of Ministers coordinated policy across Ministries and reviewed policy through its key committees, the Economic Committee (KERM) being the most important in the economic policy-making realm. The Council of Ministers continued to serve these roles after EU association, functioning through weekly meetings chaired by the Prime Minister in which all Ministers were entitled to participate and vote on proposed decisions.[14] These meetings became more inclusive and various non-ministerial officials, such as the President, the Governor of the National Bank of Poland, and the heads of the

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[13] While according to formal procedure the Prime Minister selected the cabinet, and the President nominated the cabinet on the Prime Minister's motion, while President Walesa was in office he successfully asserted the prerogative to select the Ministers of Interior, Defense and Foreign Affairs (the so-called security ministers) when he was opposed to selection by the Prime Minister, for instance by Prime Minister Oleksy.

[14] Until October 1996, the Ministries formally comprising the Council of Ministers included the Ministries of: Foreign Affairs; Industry and Trade; Foreign Economic Relations; National Defense; Finance; Transport and Maritime Economy; Telecommunications; Agriculture and Food Economy; Privatization; Justice; Internal Affairs; Health and Social Care; Work and Social Policy; National Education; Economic Space and Construction; Environmental Protection, Natural Resources and Forestry; and Culture and Art. For a comprehensive description of the powers and responsibilities of the respective branches of Polish government after 1989, see Lisicka, H., "Ewolucja Rezimu Politycznego w Polsce Po 1989 Roku" in Antoszewski, A. (ed.), Ewolucja Polskiego Systemu Politycznego Po 1989 Roku w Swietle

Antimonopoly Office, the Constitutional Court and other state agencies, were invited to participate.

Within this institutional framework, the Government retained responsibility for all economic policies relating to industry, including the formation of fiscal, trade and tax policies. At the macroeconomic level, the Ministry of Finance (MOF) prepared a draft of the state budget, which included an estimate of industrial subsidies and customs duties, in consultation with the National Bank of Poland and the Central Planning Office. The budget was then submitted to the budget committee of the Sejm, which was entitled to introduce significant amendments. After its approval by the Sejm, the draft budget was submitted to the Senate, which had to approve the budget within 22 days. If the Senate rejected the draft budget, the Sejm could override the Senate with a two-thirds majority vote. Once passed by the Sejm and Senate, the President had one month to sign or veto the budget law; however, the Sejm could override a presidential veto with a two-thirds majority vote. During this process, the Council of Ministers retained the power to manage public finances on the basis of the draft budget law for a period of up to three months from the date of its submission to the Sejm (such a situation arose once during the 1990-95 period, in early 1995, but was resolved when President Walesa signed the budget law on March 7, 1995).

Between 1990 and 1995, the main institutions involved in the industrial trade policy-making process were the Ministry of Foreign Economic Affairs (MFER,

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Komparatystycznej Teorii Polityki (Wroclaw: Wyawnictwo Uniwersytetu Wroclawskiego 1994).

formerly the Ministry of Foreign Trade), the Ministry of Industry and Trade (MIT), KERM and the Council of Ministers.[15] The MFER prepared the draft annual tariff schedule pursuant to a process in which the Multilateral Treaties Department of the MFER reviewed the schedule for conformity with the country's free trade agreements, including the Association Agreement, CEFTA and EFTA, and with the WTO/GATT. The MIT also reviewed the draft schedule for conformity with any special agreements between Poland and its trading partners providing for special tariff concessions or deviating from the principle of free trade, such as the extension of the trade liberalization schedule of the Association Agreement for the oil refinery industry from 1997 to 2001. After the MFER prepared the first draft, it was submitted for comment to all Ministers in the Council of Ministers and then to KERM, which reviewed the draft and offered proposed revisions. If the Multilateral Treaties Department found the proposed revisions acceptable, then the draft tariff schedule was revised accordingly and resubmitted to the Council of Ministers and KERM. Once accepted, the Council of Ministers published the tariff schedule in a detailed ordinance.

The tariff formation process failed to facilitate the liberalization requirements of association. Because of its institutional proximity to industry, the MIT faced significant exposure to interest group pressure for protection under the draft tariff schedule. In addition to making allowance in the draft schedule for special trade concessions, the MIT had the prerogative to propose export promotion measures and

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[15] Interview with Marek Wejtko, Deputy Director, Head WTO/GATT and OECD Division of Department of Multilateral Economic Relations, Ministry of Foreign Economic Relations, in

incentives, both in relation to particular sectors (sectoral policies) and in relation to the economy as a whole (horizontal policies). While such proposals were subject to review by the MFER and the MOF, the procedural system afforded considerable opportunity for interest groups to attempt to influence MIT proposals and general trade policy. To counter demands for trade protection, the MFER and the MOF reviewed all proposed incentives for conformity with government policy, with the Association Agreement and other free trade agreements, the Uruguay Round agreements relating to certain types of subsidies, and with the conditions on Poland's OECD membership precluding certain types of export credits. It was only at the review stage of the process that the country's binding external commitments served as a constraint against concessions to special interest groups.

The concept of comprehensive institutional reform gained critical momentum after the parliamentary elections of November 1993. While EU association was not the sole focus of the reform, it permeated the entire process. In a sweeping reform proposal, *Strategia dla Polski*,[16] which was adopted by the Government in June 1994, Minister of Finance Grzegorz Kolodko announced a major economic reform strategy for the years 1994-97. *Strategia dla Polski* consisted of ten separate programs, several of which entailed a major overhaul of the central economic institutional framework.[17]

Warsaw, Poland, November 12, 1996.

[16] Government of the Republic of Poland, *Strategia dla Polski*, document passed by the Sejm of the Republic of Poland on June 23, 1994.

[17] Largely designed to demonstrate concern by the new center-left government for the pain being experienced by society in connection with the economic reforms, the ten programs focused on the following objectives: (i) formulation of labor relations and mechanisms for regulation of wages and salaries based on negotiations; (ii) reform of the social security system;

The goal of the program was to ensure that economic reforms were implemented "according to problems and functions and not according to [self-interested] branches" of the bureaucracy, implying the need to make the policy-formation process more comprehensive and less discretionary. The program entailed consolidation of the existing network of ministries, central offices and agencies, and subordination of the most important economic institutions to more direct oversight by the Government. Anticipating charges that the program would augment centralism and expand the bureaucracy, the program provided that once brought under effective management, control of "economic processes" would be "subject to gradual decentralization."[18]

The institutional reforms were prepared by Government Plenipotentiary for Reform of the Central Administration and former Minister of Industry and Trade, Marek Pol. Pursuant to the reforms, effective January 1, 1997, the MFER, MIT and Central Planning Office were merged and substantially downsized into a super Ministry of the Economy (MOE). The Ministry of Privatization was transformed into a Ministry of the State Treasury (MST), increasing government control over privatization proceeds, and a new Ministry of Interior and Central Administration was established.[19] In an effort to enhance institutional coordination, the MOE, MST and

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(iii) prevention of unemployment; (iv) development of rural areas; (v) investment in human resources; (vi) management of state property and processes of ownership transformation; (vii) medium-term financial strategy; (viii) development and reform of the financial sector; (ix) security of economic operations and absorption of the "gray zone"; (x) international competitive position of the Polish economy.

[18] *Strategia dla Polski* (1994) p. 7.

[19] While the reform was effective January 1, 1997, establishment of the MOE was scheduled to take up to two years. The MST replaced the former Ministry of Privatization on October 1, 1997.

Ministry of Interior and Central Administration (MIA) relocated to the building formerly occupied by the MFER, and all major institutions involved in the trade policy-making process, including the Committee for European Integration, came to be housed under one roof. As a by-product of the institutional reforms, the sizeable Office of the Council of Ministers was eliminated, with part of the Office being restructured into a new Office of the Prime Minister and the remainder being reallocated between the new MIA and various other government agencies. This measure effectively enhanced the power of the Council of Ministers and the Prime Minister, authorizing the Prime Minister to undertake initiatives unilaterally in areas where consultation with individual Ministries had formerly been required.[20]

Showing the non-partisan nature of support for association and eventual membership in the EU, the primary objective of the institutional reforms was to become "compatible and competitive with the EU system of government administration".[21] By streamlining and enhancing the transparency of the trade policy-making process, the reforms went a long way toward meeting this goal. The reforms also sought to modernize the institutional structure that dated back to the late 1970s, to eliminate the institutional philosophy of central planning, and to reduce the

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[20] The new law also allows the Prime Minister to request individual Ministers to organize task forces and undertake activities beyond their respective ministerial mandates. Interview with Marek Wejtko, November 12, 1996.

[21] The statement noted that the result of the reform would be to "modernize the system of government administration, improving its efficiency, competence and fairness". Urzad Rady Ministrow, Biuro Pelnomocnika RM do Spraw Reformy Centrum Gospodarczego Rzadu, "Reforma Centrum Administracyjno - Gospodarczego Rzadu," Warszawa 22 sierpnia 1996r. [Council of Ministers, Office of the Plenipotentiary for Reform of the Central Administration,

vulnerability of government policy makers to influence, particularly in the MIT. However, since the reform was proposed by the ruling SLD-PSL coalition and implemented by the Cimosiewicz Government, and since most of the new appointments were to be made from the ruling SLD-PSL coalition,[22] the reform was criticized as having "socialist" leanings and opponents of the move asserted that it would serve merely to consolidate power over industry in fewer hands. This criticism intensified as PSL leader Waldemar Pawlak and other members of PSL began to manoeuvre for the appointment of a PSL candidate as the new Minister of the Economy.[23]

While the goal of the reformers was to fortify the independent functioning of domestic institutions in ways compatible with EU association, the reforms came under attack in the political arena from suspicious members of the opposition. Indeed, various critics characterized the reforms as being "personality driven". As Christopher Bobinski of the *Financial Times* wrote, "[t]he reorganization, designed to make the administration more responsive to the needs of an increasingly privatized economy, puts Miroslaw Pietrewicz of the peasants party [PSL] in charge of the new state treasury which is to oversee state-owned companies and handle privatization. This

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"Reform of the Central Government Administration and Economy," Warsaw, August 22, 1996].

[22] In particular, Miroslaw Pietremicz of SdRP, former Deputy Prime Minister and Head of the Central Planning Office, was appointed as Minister of the State Treasury, and former Minister of Privatization Kaczmarek of SdRP was appointed Deputy Minister. Similarly, Leszek Miller of SdRP, former Head of the Office of the Council of Ministers, was slated to become the new Minister of Interior and Central Administration. Interview with Ewa Glowka, Press Section of the Polish Embassy, in London, England, November 18, 1996.

was part of a *political* compromise required to ensure survival of the socialist-led coalition government until general elections next year."[24] Indeed, since Pietrewicz was formerly the head of the Central Planning Office and since his predecessor as Minister of Privatization, Wieslaw Kaczmarek, had been viewed by the PSL as overzealous in his privatization strategy, the reorganization was widely predicted to slow the process of privatization.

Responding to such criticism the Cimosiewicz Government maintained that consolidation of the economic institutions served to streamline the bureaucracy, improve inter-ministerial coordination, and enhance the transparency and legitimacy of the industrial policy-making process. In defense of its strategy, the Government highlighted the fact that the reform would effectively sever responsibility for the functions of regulation and ownership, formerly consolidated within the MIT, and delegate them separately to the MOE and the MST respectively, the separation of these economic policy-making powers being based on Western models. Until the new MOE developed a track record, however, the actual impact of the reforms was difficult to ascertain, as indicated in a remark by Marek Wejtko, Deputy Director of the Multilateral Treaties Department, which identified the *raison d'etre* of the institution as being "similar to [the Japanese] MITI, large and powerful and responsible for creating a comprehensive policy framework for the whole economy, while at the same

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[23] Interview with Ewa Glowka, November 18, 1996; see also Paradowska, J., "Niezatapialna Koalicja", Polityka, vol. 28 (2045), July 13, 1996, p. 21.

[24] Emphasis added. Bobinski, C., "Polish government reshuffle may slow pace of sell-offs", Financial Times, October 2, 1996, p. 2.

time serving to reduce discretionary government intervention, such as concessions and quotas."[25] While only discernible over time, the consolidation and insulation of industrial policy making, when combined with the lack of a well-developed lobby system, would expectedly increase government policy-making autonomy by facilitating co-ordination and alignment with the EU.

(ii) Other Domestic Actors: The Emergence of Domestic Interest Groups

a. The Nature of Post-Communist Polish Lobbying

The autonomy of government policy making is negatively correlated with the relative power of other domestic actors, principally interest groups. At the time of conclusion of the Association Agreement, it was widely predicted that increased access to the EU market would engender the creation and mobilization of "legitimate", or formal, industrial lobby groups to protest the effects of increased competition.[26] Contrary to such expectations, while organized communist lobbying (for instance through WOGs) ceased with the demise of central planning, capitalist lobbying did not readily develop in its place. Instead, representatives of various enterprises occasionally jointly lobbied the Government, in particular the MIT, in relation to certain issues, but did not coordinate their activities through organized groups or follow routinized

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[25] Interview with Marek Wejtko, November 12, 1996.

[26] Indeed, Prime Minister Bielecki bravely brought a group of livestock producers to Brussels to observe the negotiation process to encourage them to organize an "EU-style" lobby. Interview with Bielecki, October 29, 1996.

procedures.[27] Further, political parties did not formulate strong party platforms or identify with particular interests, leading one commentator to note how "during the early phases of the transition. . . interest groups certainly have been quite weak. Sectorial interests are virtually non-existent in the political scene."[28] Consequently, the existence and operation of post-communist interest groups in Poland remained difficult to assess.

Difficult to define in Poland, the definition of what constitutes an "interest" or "pressure" group has been the subject of a considerable literature in relation to liberal democracies and socialist systems.[29] According to the broad definition of Alan Ball and Frances Millard, a pressure group is any "social aggregate with some level of cohesion and shared aims which attempts to influence the political decision-making process,"[30] recognizing that the focal point for decision making may not always be clear. In the context of liberal democracies, most definitions of pressure groups assume that while they do not normally seek to usurp the function of the government, they may nevertheless function within the government, for instance when a particular

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[27] Interview with Janusz Zgorzynski, Director of the Department of Foreign Trade, Ministry of Industry and Trade, in Warsaw, Poland, November 14, 1996.

[28] Bialasiak, J., "Dilemma of Political Interests in Postcommunist Transition", in Connor and Ploszajski, The Polish Road from Socialism (1991) pp. 210-11, quoted in Linz and Stepan, Problems of Democratic Transition (1996). The new organizations, described by Linz and Stepan as "fragmenting ex-Solidarity groups" or "nonparties with an organizational style of antipolitics", claimed to be the rightful heirs to Solidarity's morality and focused not on tangible goals but on non-negotiable values, traditions and norms.

[29] For a discussion of the distinction between terms such as "lobby", "interest group" and "pressure group", see Alderman, G., Pressure Groups and Government in Britain (London: Longman 1984) ch. 1 and Wootton, G., Pressure Politics in Contemporary Britain (Lexington, MA: Lexington Books 1978).

governmental department pursues its own interests or the interests of external pressure groups.[31] In particular, groups existing within the government bureaucracy and administration are recognized to have privileged access to the decision-making process and greater organizational stability. An analysis of the functioning of interest groups and lobbies in Poland's post-communist economic institutional framework requires an inexact definition of such groups because of their amorphous and changing nature.

Several factors help to explain why a formal system of lobbying failed to develop in Poland between 1990 and 1995. First, many features of the communist legacy, such as the atomization of society and the enfeebling of state enterprise managers, the bureaucracy and political parties, significantly weakened the potential for the formation of interest groups and lobbies.[32] While during the early part of the communist era economic and political organizations, state and local bureaucracies and the communist party evolved into special-interest organizations focusing on trade, agriculture and the military,[33] their influence was largely neutralized in their internecine struggle for the scarce resources that existed under central planning, as they separately

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[30] Ball, A.R. and Millard, F., Pressure Politics in Industrial Societies: A Comparative Introduction (London: MacMillan 1986) pp. 33-34.

[31] Richardson, J.J. and Jordan, A.G., Governing under Pressure (Oxford: Martin Robertson 1979) p. 15; Finer, S.E., Anonymous Empire, 2nd edition (London: Pall Mall 1966) p. 3.

[32] See Kolarska-Bobinska, L., Aspirations, Values, and Interests: Poland 1989-94 (Warsaw: PAN IFiS 1994) (discussing how the process of change after 1990 diminished the willingness of individuals to go beyond the framework of their personal lives in order to cooperate with others and join organizations); Kolankiewicz, G., "Poland", in Whitefield (1993)(explaining the atomization and fragmentation of society as a legacy of socialism); and Wesolowski, W., "The Formation of Political Parties in Post-Communist Poland", Sisyphus I (IX) (1993) pp. 9-34 (describing the failure of political parties to articulate comprehensive political and economic platforms and the resultingly weak identification of society with particular parties).

vied for investment subsidies, favorable prices, wages, bonuses and contracts.[34] Based on their experience with politicians and bureaucrats under central planning and during the early years of the transition, many industries remained distrustful and wary of government. Thus, by most accounts a routinized, legitimate practice of turning to the state for assistance in organizing and effecting policy changes did not truly materialize during the 1990-95 period.

Second, the impact of domestic industrial lobbies was diminished by their late formation and by the lack of a formal system of lobbying in relation to the Sejm similar to the system found in the EU. During the early part of the reform era, smaller interest groups found it easier to argue for changes in trade policy when law reform was occurring at a faster pace and "one additional amendment" seemed relatively insignificant in the context of massive legislative overhaul. At the same time, many Polish industrial lobbies became more favorably convinced of the benefits of EU association and more supportive of pro-EU policies, which also may have served to impede the development of organized opposition.[35] Third, lobbies may have been discouraged from forming as a result of excessive collusion in some sectors (reducing the utility of overt lobbying) or stiff competition in others (resulting in atomization of

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[33] These special interest organizations became powerful lobbies, which exerted influence on the formation and implementation of central plan directives.

[34] Central authorities were able to play different groups off of one another in the bargaining process. Nagy, A., in Clague and Rausser (1992) pp. 302-303. Because they were subject to control by the Communist Party, interest groups that existed under the communist system were prevented from autonomously mobilizing for political action, demonstrating that the term "interest group" had a particular meaning in the socialist system. See Ball and Millard (1986) pp. 38-39.

[35] Interview with Bielecki, October 29, 1996.

interests), since both collusion and competition were rife in the post-communist era. Finally, much lobbying activity allegedly took the form of unobservable or "illegitimate" *nomenklatura* lobbying. In particular, with the "privatization of the *nomenklatura*," and the rise of so-called "*nomenklatura* capitalism," many observers asserted invisible *nomenklatura* lobbying to be a pervasive phenomenon, with the lobbyist and the person to be lobbied not infrequently being the same individual or from the same business or family.

While the presence and activities of interest groups in post-communist Poland were difficult to verify, their effectiveness was even more difficult to assess using the traditional factors for evaluating the power and influence of interest groups. Such factors include: (i) the goals and objectives of the group; (ii) the organizational structure of the group; (iii) the size and breadth of membership; (iv) the assets and resources, both financial and non-financial, of the group; and (v) the methods used by the group to achieve its objectives.[36] However, since many if not most groups in Poland were not formally registered, and since the activities of pressure groups and lobbies were not yet routinized, an evaluation of their effectiveness was likely to be at best only qualitative and partial. Broadly speaking, the main types of observable pressure groups and lobbies that emerged in Poland after 1990 included private business interest groups, state enterprise interest groups and groups formed by foreign

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[36] See Ball and Millard (1986) p. 47; Eckstein, H., Pressure Group Politics (London: Allen & Unwin 1960) p. 35. For a discussion of the distinction between the "influence", "power" and "authority" of a group, see Dahl, R., Modern Political Analysis (Englewood Cliffs: Prentice-Hall 1963); Lukes, S., Power: A Radical View (London: MacMillan 1974); and Wrong, D., Power: Its Forms, Bases and Uses (Oxford: Blackwell 1979).

interests operating domestically. As may be demonstrated in certain cases, quantitatively insignificant groups, such as those with foreign participation or those in 'high-priority' sectors, were often qualitatively more significant than larger groups.

b. Prominent Polish Interest Groups

As the main economic policy-making institutions were restructured to facilitate industrial trade reform and coordinate overall alignment with the EU, new domestic interest groups began establishing themselves on two levels: within individual sectors and across Polish industry. Within individual sectors, a wide variety of groups began to form on behalf of employers and enterprises. However these groups had modest resources and their activities were typically ad hoc and difficult to classify, marginalizing their impact on policy-making. As Polish political scientist Ryszard Herbert observed, "these groups resemble more closely social groups than strong political organizations that formulate joint program demands, and members tend to be supporters of different parties."[37] Examples of modestly influential sectoral lobbies included the pharmaceuticals lobby, the steel sector lobby, the computer sector lobby (Optimus), the textile sector lobby and the shipbuilding sector lobby. Examples of pan-industry lobbies, which were generally better-funded and more visible, included the National Chamber of Commerce, the Foreign Investors Chamber of Commerce, the Confederation of Employers, the Polish Business Council and the Business Centre Club.

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[37] Herbert in Antoszewski (1994) p. 195.

The Polish Business Council (*Polskiej Rady Biznesu*), formed in 1992 by the 18 largest private domestic and foreign firms, came closest to resembling a US-style lobby. Its members cultivated close ties to government offices, and while they did not as a practice make financial contributions to particular parties, they tended to be supporters of economically liberal parties.[38] The Business Centre Club, while the largest private sector lobby in terms of membership (600 entrepreneurs and 400 firms in 1994), was politically less influential and treated more like an advisory body or group of experts by the Government, although its members on occasion made campaign contributions to particular parties.[39] The Confederation of Employers (*Konfederacja Pracodawcow*), formed in 1992, focused its efforts on influencing government policies in relation to commercialization and privatization of the state sector, as well as labor relations and employment legislation. In a relatively confrontational stance, the Confederation sought to diminish employee activism and participation in policy making, advocating the replacement of workers' councils with supervisory councils.[40]

Most of the interest groups that emerged during the post-communist era did not pose any threat to the course of industrial policy making required by association. Among the observable interest groups that emerged, the most well-organized and effective lobbies were those formed with the participation of foreign interests,

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[38] Members of the Polskiej Rady Biznesu are required to have at least US$2 million in capital. Indeed, members of the Polskiej Rady Biznesu took part in the preparation of the Charter of Economic Principles of Poland. Herbert in Antoszewski (1994) p. 195.
[39] Herbert in Antoszewski (1994) p. 196.
[40] Herbert in Antoszewski (1994) p. 196.

particularly EU firms.[41] While their impact was relatively small in quantitative terms, it was quite significant in qualitative terms. One example of this phenomenon was provided by an initiative of the French electronics firm Thomson, which had invested in a Polish factory producing cathode-ray tubes. In the course of implementing its investment, Thomson ran up against binding tariffs imposed by the EU on exports of tubes in excess of 2.5 million ECU. In defense of its investment, Thomson spearheaded an initiative to lobby EU institutions to increase the EU quota on Polish exports of cathode-ray tubes. Through informal negotiation, no doubt assisted by the company's contacts in Brussels, Thomson successfully, and expeditiously, convinced the EU to increase the quota to 9 million ECU.[42]

Further bolstering the relative policy-making autonomy of the Government, the influence of traditional trade union activity began to decrease. In particular, the nature and frequency of strikes changed after 1990, falling from 6,351 in 1992 and 7,443 in 1993 to only 428 in 1994, with the number of man-days lost through strikes declining from 2,360,392 in 1992 to 580,429 in 1993 and 561,802 in 1994. During the first five months of 1995 only 25 strikes occurred and 47,200 man-days were lost. The diminished importance of strikes reflected the fragmentation of Solidarity, the participation of many Solidarity leaders in government, and the resistance, increasingly

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[41] This has also sometimes been the case in the EU, for instance in relation to the film and television industry. Indeed, the lobbying efforts of the Motion Pictures Association, the lobbying group for prominent Hollywood studios operating in the EU, have been successful in preventing the European Parliament from imposing higher import quotas on film and television imports from the US. Buerkle, T., "Parliament Calls Truce in Fight with Hollywood", International Herald Tribune, November 13, 1996, p. 1.

legitimized in public opinion, of the Government to trade union demands.[43] As an exception to this trend, however, Solidarity's main rival, the ex-communist Polish Confederation of Trade Unions (OPZZ), and *Siec*, a horizontal grouping of 250 large and economically significant factories, began to be "actively courted" by the President and successive Prime Ministers in connection with privatization and enterprise policy.[44] Moreover, various trade unions began actively engaging in parliamentary politics,

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[42] "Poor Relations: Eastern Europe is Knocking at the European Community's Door", The Economist, May 1, 1993, p. 55.

[43] While centered in Gdansk, the Solidarity movement solidified the interests of workers throughout Poland, and incorporated the interests of the intelligentsia and students. Initially, engineers and other professionals generally did not participate in the frequent occupational strikes initiated by inter-enterprise strike committees. However, as the strikes and demands of the workers intensified, the distinctions between the various strata belonging to Solidarity began to disappear and very divergent interests were united in a common struggle. Kennedy, M. D., Professionals, Power and Solidarity in Poland: A Critical Sociology of Soviet-Type Society (Cambridge: Cambridge University Press 1991) pp. 51-53. See also, Kolankiewicz, G., "Employee Self-Management and Socialist Trade Unionism", in Woodall, J. (ed.), Policy and Politics in Contemporary Poland: Reform, Failure, Crisis (London: Pinter 1988). As Kolankiewicz wrote, "[i]dentities associated with right and left, believer and atheist, nationalist vs. cosmopolitan, market interventionist vs. liberal, were all originally submerged in the common task of overthrowing the communist system." Kolankiewicz, "Poland", in Whitefield (1993) p. 107. When the common struggle ended, so did the extraordinary coalescence of interests.

[44] Siec is comprised of 260 "Solidarity" plant commissions from the largest state enterprises, including Stocznia Gdanska, Huta Sedzimira and Kopalnia Wujek. Dabrowski, J., "State-Owned Enterprises Under Pressure", in Blazyca and Dabrowski, Monitoring Economic Transition (1995) p. 65. In a massive demonstration in April 1992, these two unions admonished the Government to "heed the voice" of organized labour and not to presume labour's willingness to accept Solidarity-initiated economic reforms at any price. Kolankiewicz, "Poland", in Whitefield (1993) pp. 104-05. The tradition of economic activism of workers is not a recent phenomenon. During the interwar period, Polish workers developed the technique of the occupation strike as a response to lock outs. In 1936, 675,000 strikers took part in strikes in 22,016 factories, out of a total industrial working class of 830,000 workers. Schopflin, "The Political Traditions of Eastern Europe" (1990) p. 86.

serving in the *Sejm* and participating in parliamentary coalitions as "extra-parliamentary" groups in a wide spectrum of parties.[45]

Finally, the Polish Catholic Church emerged as an interest group with significant involvement in economic policy making. Historically, throughout the periods of occupation, partition, and communism, the lower clergy had been involved in the practice of a so-called Catholic "civil religion" that combined resistance and nationalism.[46] During the communist era, the Church was deeply involved in the Polish resistance and served as the bedrock for preservation of the national identity. Following the collapse of communism, the Church became openly engaged in the political process, supporting Solidarity-based candidates willing to adopt the Church's legislative agenda. However, with the fragmentation of Solidarity the Church ceased to support single political candidates and focused on pursuing a broad agenda nationally, which included the reintroduction of Catholic teaching into public schools, opposition to abortion, the preservation of Poland's identity as a "Catholic country", the resistance to blanket adoption of modern Western European culture and mores, and the pursuit of "Catholic economics" - a highly egalitarian version of market socialism.[47]

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[45] OPZZ activists were closely linked with the post-communist left-wing parties, and indeed members of OPZZ were elected deputies in the Sejm in the November 1993 elections. Solidarity is more closely associated with center or right-wing parties, while other unions are associated with both the extreme right and left.

[46] Byrnes, T.A., "The Catholic Church and Poland's Return to Europe", East European Quarterly, vol. 30/4 (January 1997) pp. 433-48.

[47] Even in socialist times the Church was often aligned with socialist labor and economic policy, although it was the failed implementation of socialist policies that caused Cardinal Wyszynski to proclaim "[w]e must have done with the belief that there is no connection between the national economy and Christian morality". Michel, P., Politics and Religion in

The Church was skeptical of the country's EU membership aspirations but did not attempt to obstruct EU-inspired industrial policy making. The Church became increasingly vocal in relation to Poland's future place in the EU, with Cardinal Jozef Glemp and other Polish clergy paying visits to EU officials in Brussels to discuss ways Poland's identity might be preserved. Pope John Paul II was very supportive of this mission, defending on numerous occasions Poland's right to join the EU on its own terms and urging Poles not to allow themselves to "get caught up by the civilization of desire and consumption." Indeed, he raised questions concerning the association process, asking "[i]s it civilization or anti-civilization, a culture or an anti-culture. . . ?" and asserting "[w]e do not have to enter Europe, because we helped to create it, and we did so with greater effort than those who claim a monopoly on Europeanness."[48] However, the deep involvement of the Church in the political sphere produced a popular backlash, even among those formerly supportive of the Church and its struggle against totalitarianism during communist times. The backlash was inspired by a broader desire on the part of many Poles to adopt Western modes of capitalism and governance, founded on the separation of church and state.[49]

Eastern Europe: Catholicism in Hungary, Poland and Czechoslovakia (Oxford: Polity Press 1991) pp. 88-89.

[48] N.Y. Times, June 8, 1991.

[49] As one journalist observed, "[o]ver 90% of the 39 million Poles are Catholic, but they no longer blindly follow the Church in political and secular matters. Now it is struggling to find a role for itself in the post-communist world. Many [Catholics], particularly the younger ones, want the Church to stick to the gospel and stay out of politics." Miller, K.L., "The Catholic Church's Divorce from Power", Business Week (Industrial/Technology Edition), vol. 3491, September 2, 1996, p. 25D.

Thus, domestic interest groups had only a marginal effect on government industrial policy making. The fledging nature of post-communist lobbying and the highly uneven distribution of power among interest groups diminished the effectiveness of any resistance to alignment with the EU, while the lack of a well-developed interest group network enhanced the autonomy of government policy-making. Perhaps owing to informational restraints or their ad hoc nature, most interest groups failed to target discrete policies or formulate politically well-planned initiatives, and thus had only modest influence. Given their nature, it is impossible to verify the extent to which any illicit lobbying activities persisted. However, as policy-making institutions became more transparent and less susceptible to cronyism and improper influence, presumably invisible and illegitimate forms of lobbying became less effective. While freedom from Soviet domination, domestic institutional reform and the weak lobbying process had a modest positive effect on policy-making autonomy, the influence of institutional changes aimed at facilitating association with the EU was even greater.

(iii) Institutional Framework for Polish-EU Integration

a. Office of the Undersecretary for European Integration

In contemplation of association and eventual membership, government policy makers recognized the need for a special institutional framework to facilitate alignment with the EU. In a speech to the Polish Institute of International Affairs in May 1992, government negotiator Jaroslaw Mulewicz explained that:

> [t]here are several models of implementing an association agreement with the EU, and there are several models of cooperating with the EU. We have been able to look at every European model and I can generally

> speak about two of them. The first model is the French model, pursuant to which matters of cooperation with the EU are placed on an extremely high level, in the Prime Minister's office. The second model is the Spanish model and this model seems to me to be optimal in the case of Poland. Pursuant to this model, a Secretary of State is established in the Ministry of Foreign Affairs and assumes responsibility for cooperation with the EU. Within this framework, the Secretary of State in charge of EU matters is the head of an interdepartmental team, made up of the Undersecretaries of State of each of the ministerial economic departments. Meanwhile, the Secretary of State also participates in the Council of Ministers and can directly submit questions related to cooperation between Spain and the EU.[50]

As the most vocal advocate on the issue, Mulewicz postulated that the Spanish model would be more congruent with the existing Polish institutional system, calling for the creation of an Undersecretary in the Council of Ministers as opposed to the creation of a separate ministry (while simultaneously acknowledging that in Spain a Ministry for European Integration was eventually created as part of the final model). As the basis for his opinion, Mulewicz explained that "[i]t seems to me that in these uncertain times, when the completion of our political reforms is not assured, the creation of such a ministry would be short-lived. In these times we need to implement a stable, continuous and effective system."[51] Mulewicz's assessment found wide support among Polish policy makers, many of whom, most notably Prime Minister Bielecki, agreed with his basic institutional prescription for a variety of different objectives. The Government proceeded without delay to set up an institutional

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[50] Mulewicz, Doswiadczenia Polski w Negocjacjach (1992) p. 14.
[51] Id.

buttress for its pursuit of membership in the EU that in both functioning and design enhanced policy-making autonomy.

Poland's choice of model was established through the creation of the Office of the Undersecretary of State for European Integration and Foreign Assistance in January 1991.[52] Polish policy makers professedly made this choice based not on the Spanish or other EU member state models, but based on the country's special experience and conditions. The choice of model was based on two primary considerations. First, while elected to Parliament on a Solidarity list in June 1989, Prime Minister Bielecki remained an outsider from Gdansk and wary of the Warsaw establishment (known as *Warszawka*).[53] Suspicious of the existing Polish bureaucracy, Prime Minister Bielecki formed the Office at the undersecretarial level in the Council of Ministers and selected another outsider, Jacek Saryusz-Wolski from Lodz, to be the Undersecretary of the Office.[54] Bielecki gave Saryusz-Wolski considerable latitude to staff the Office, and shielded Saryusz-Wolski from the pressures exerted by other economic departments (the continued existence of which was threatened by the new

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[52] Uchwala Nr 11/91 Rady Ministrow z dnia 26 stycznia 1991r w sprawie ustanowienia Pelnomocnika Rzadu do Spraw Integracji Europejski oraz Pomocy Zagranicznej [Resolution No. 11/91 of the Council of Ministers dated January 26, 1991 concerning the establishment of the Office of the Undersecretary of State for European Integration and Foreign Assistance]. The Resolution was signed by Prime Minister Bielecki, who had actively taken part in its drafting. [Hereinafter referred to as "Office for European Integration".]

[53] *Warszawka* was essentially the Warsaw-based circle of friends and acquaintances who had operated the underground opposition movement during the communist period and who gained prevalence in the Government, the press and academic life beginning in 1990.

[54] Bielecki described how "Mazowiecki was a man from Warsaw" and thus less suspicious of the Warsaw circle of policy makers. While Bielecki contemplated appointing Anna Zelinska, a good friend from the Gdansk Centre for European Integration, as Undersecretary, she was also

arrangement) to find positions for their existing staff members. Second, Prime Minister Bielecki opposed the notion of entrusting a single ministry with sole responsibility for EU association; he strongly believed that it would be important for all major government bodies to become familiar with the responsibilities and procedures entailed by association.

As a brand new and relatively unknown institution, the Office faced relatively light interest group pressure and was less susceptible to "illegitimate" or unobservable forms of lobbying. Saryusz-Wolski made a conscious decision to staff the Office with individuals from outside the core bureaucracy, from universities and academic centers around the country, placing the Office in a unique position within the Government.[55] Further, many members of the staff had spent some time in the West, for formal education, work assignments or as visiting scholars in Western institutions. By contrast, most of the other newly-created ministries, such as the Ministry of Foreign Economic Relations and even the Ministry of Privatization and the Antimonopoly Office, were staffed largely by individuals from former government agencies, although in general the higher-level staff were from outside government (the Ministry of Foreign Economic Relations was formerly the Ministry of Foreign Trade and the Antimonopoly Office was essentially formed from the former Price Office). From its initial staff of

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the wife of the Minister of Education and Bielecki was extremely sensitive as an outsider to conflicts of interest. Interview with Bielecki, October 29, 1996.

[55] Many of the junior-level staff were recent graduates recruited from the newly-established College of Europe in Warsaw, where Undersecretary Saryusz-Wolski was a lecturer. Nonetheless, a number of employees of the Office had previously held positions elsewhere in the central administration.

approximately 30 employees, the Office for Integration grew to approximately 150 employees by 1995.

The Office was divided into two separate bureaux, namely the Bureau for European Integration and the Bureau for Foreign Assistance. Within the Bureau for European Integration there were three further division, namely the Economics Department, the Legal Department and the Information and Education Department (with an associated European Documentation Center Depository Library). The Office was given three main statutory functions, to be undertaken in cooperation with the Ministry of Foreign Affairs, consisting of the following: (i) harmonization and coordination of the process of adaptation to and integration with the EU; (ii) initiation and organization of work and activity for the development of conditions necessary for integration, particularly in the spheres of economic, legal and institutional-organizational affairs; and (iii) coordination and implementation of foreign assistance for Poland. The Office was also responsible for submitting to the Council of Ministers proposals for harmonization with EU law and, after consultation with the appropriate Ministers, proposals for the allocation of foreign assistance.[56] The Office formally participated, through the Ministry of Foreign Affairs, in the coordination and execution of negotiations with the EU, and in particular in relation to the conclusion of agreements with the EU.

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[56] The Office was also empowered to convene, in agreement with the Head of the Legislative Council of the President of the Council of Ministers, a team of legal experts to focus on harmonization of Polish law, as well as other teams of experts as needed in connection with the work of the Office.

Complementing the Office and insulating EU-related policy makers, most Polish Ministries developed special sections, typically European affairs departments, to focus on implementation of the Association Agreement. These new departments were well-insulated from domestic pressure groups and were designed to prepare the Government for eventual membership. As Saryusz-Wolski explained, "while often expertise and experience were lacking, the Polish institutional system was ahead of the other Central European countries; Poland was the only country to establish an Office of the Undersecretary for European Integration in 1991 and European affairs departments within separate ministries. While not yet perfect, the Polish institutional system necessary for European integration was firmly evolving by 1991 and only its size and effectiveness remained to be developed."[57] This institutional structure was dynamic and periodically restructured through measures designed to facilitate alignment with the EU. For example, the Office was increasingly given more power to enhance its effectiveness and, in October 1996, the Office was restructured and tied more closely to the Government than it had been previously.

In a move enhancing its prestige and autonomy, the Office for European Integration was renamed the "Office of the Committee for European Integration Affairs", which held its inaugural meeting on October 15, 1996. The Office's structure and functions were modified so that the Office began to serve as the operational arm of a formal Committee for European Integration Affairs with closer links to the Council

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[57] Interview with Saryusz-Wolski, November 2, 1996.

of Ministers.[58] To facilitate alignment with the EU, the structure of the Office of the Committee was elaborated to include a Political Cabinet of the Head of the Committee, a Secretary of the Committee, a Legal Office, an Administrative-Budget Office, an Office for Staff Training and Organization, and eight individual departments covering the following areas: Legal Harmonization; Negotiation Affairs; Economics; Coordination; European Institutions and Planning; Education and Information; Foreign Assistance, Funds and Cooperation Programs; and European Documentation.

Elevating its status, the Committee consisted of the Polish Prime Minister, serving as its Chairman, eight Ministers (Economy, Finance, Labor and Social Policy, Interior and Central Administration, Agriculture, Justice and Environmental Protection), an Undersecretary of State, a Director General and a Secretary. The Undersecretary of the former Office for European Integration was replaced by a Secretary of the Committee (initially Danuta Hubner, an SLD appointee) who simultaneously serves as Head of the Office. The Office assists the Chairman of the Committee through the Secretary of the Committee, the Undersecretary of State of the Committee, the Director General of the Committee and the directors of the individual offices and departments of the Office. In October 1996, the Committee for European Integration adopted two primary focuses: first, the development of a strategy for EU accession negotiations, and second, coordination of actions by various ministries

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[58] Rozporzadzenie Prezesa Rady Ministrow z dnia 2 pazdziernika 1996r. w sprawie nadania statutu urzedowi Komitetu Integracji Europejski [Decree of the Council of Ministers of October 2, 1996, concerning the official governing statute of the Committee for European Integration], Dziennik Ustaw Nr 116 (1996). Formally, the Office became the "state organizational agency serving the Committee". Article 1 of the Decree (1996).

during the ongoing adjustment of Polish industry, agriculture and legislation to EU standards.

Within the larger institutional framework of the Government, the general purpose of the Office of the Committee was to serve as a focal point for the association process. In this sense it enhanced the policy-making autonomy of the entire Government, at least in the sphere of EU-related policies. As Jaroslaw Pietras of the Economics Department explained, "until the creation of the Committee, relatively few channels of formal cooperation existed, so the Office had to use 'by-passes', such as asking Ministries for special 'favors' to make up for the lack of formal channels and to get things done".[59] Since its establishment, the Office, directly serving the Committee, became a formal participant in the policy decision-making process. For relatively non-controversial decisions, the Office collected opinions from the relevant ministries, coordinated their collective policy-making initiatives, and provided them with high-level, interministerial feedback; for more difficult issues the Office organized a formal inter-ministerial meeting, and, if the relevant Ministries were unable to reach a consensus, referred the issue to the full Council of Ministers for final decision.[60]

Fearing the motivation behind the reorganization of the Office, some policy makers criticized the creation of the Committee for European Integration as being

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[59] Interview with Pietras, October 31, 1996.

[60] The operations of the Office were also modified; whereas formerly all staff were responsible for both policy analysis and governmental coordination, after the restructuring staff were separated into two groups, each of which assumed responsibility for only one of these two functions.

politically-motivated, similar to the criticism encountered in relation to the establishment of the "super" Ministry of the Economy. Reflecting this sentiment, Undersecretary Saryusz-Wolski asserted that the creation of the Committee reflected the "politicization of the integration process", since the former Office for European Integration had been staffed by technocrats and functionaries and operated at the sub-ministerial level, with significantly less exposure to political partisanship at the whim of the Sejm. Pursuant to the restructuring, the Office of the Committee for European Integration was obliged to carry out the tasks delegated to it by the members of the Committee, each of whom represented the political interests of their respective Ministry. Consequently, while the new institutional structure of the Office enhanced the efficiency and coordination of the EU association effort, it also placed the Office much closer to the political domain.

However, the deeper political entrenchment of the Committee also enhanced its power by honing inter-ministerial coordination and increasing governmental policy-making autonomy. Saryusz-Wolski himself acknowledged the disadvantages of the previous structure of the Office, declaring that "while all successive Polish Prime Ministers, beginning with Prime Minister Bielecki, have been politically in favor of EU integration, most of them have been caught up in current affairs related to the process, rather than medium-term and long-term issues concerning future accession."[61] While the new structure of the Office potentially exposed the Office to increased politicization, it also provided both the Committee and the Office of the Committee

with greater opportunity to focus on the long-term strategic issues related to EU accession.[62] Moreover, given that the reorganization occurred subsequent to a change in political leadership, the ensuing criticism appeared to reflect politically partisan motivations, with critics hailing from outside of the ruling SLD-PSL coalition or from within the opposition.

The autonomy and functioning of domestic policy-making institutions were further bolstered by the creation in July 1989 of the Polish Mission to the EU, an extension of the Polish domestic institutional framework housed in Brussels. Since 1990, the role of the Polish Mission included analysis of ongoing activities within the EU, organization of contacts between the Polish and European Parliaments, and protection of Polish trade interests through lobbying at the EU Council of Ministers, the European Parliament, the EU Statistical Office, and various business and industry federations of the EU and its member states. The Polish Mission also endeavored to regularly apprise relevant Polish ministries and government agencies, in particular the Office for European Integration and the Ministries of Privatization and Finance, of proposed EU legislation for incorporation into ministerial strategy and legislative proposals.[63] While the impact of the Polish Mission remained limited due to its small

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[61] Interview with Saryusz-Wolski, November 2, 1996.

[62] Shortly after the reorganization, Foreign Affairs Minister Dariusz Rosati announced that the Committee, together with the Polish Foreign Affairs Ministry, had begun working on a strategy for negotiations with the EU that are to begin in the second half of 1997. "Poland Gears Up for EU", International Herald Tribune, October 16, 1996, p. 5.

[63] Interview with Jan Truszczynski, Plenipotentiary, Polish Mission to the European Union, in Brussels, Belgium, January 31, 1992.

staff size of only 15 employees, it nonetheless provided a direct "supranational" link with the EU.

b. Bilateral Institutions Under the Association Agreement

The bilateral institutions devised to facilitate the coordination of policy initiatives and dispute resolution between Poland and the EU also strengthened the Government's industrial policy-making autonomy. The Association Agreement established three layers of bilateral institutions in which Polish and EU policy makers participated: the Association Council, the Association Committee and several sub-committees. The Association Council functioned through annual meetings attended by the 15 foreign ministers of the member states and Poland. The Association Committee functioned through bi-annual meetings attended by representatives of each of the member state and Poland; this body was the most effective institution for resolving larger issues related to industrial trade policy, such as disputes over Polish steel, oil and automobile exports to the EU, implementation of export certification requirements, and requests from Poland for special exemptions under the Association Agreement.[64] Finally, the sub-committees met more frequently, as needed, focusing on particular areas of required alignment with the EU, such as taxation, the environment, banking, labor and competition.

While theoretically enhancing policy-making autonomy by removing many issues from the domestic agenda to the supranational arena, the formal bilateral institutions were not as effective in resolving issues and disputes as informal bilateral

negotiations between Polish, EU, and EU member state representations. For instance, in 1992 the EU became concerned with the amount of Polish wool exports to EU markets, which threatened sales of more expensive Spanish and British products. Rather than apply "politically charged" safeguard measures, the EU resolved the issue in Poland's favor, requesting Polish policy makers to "do something with the exporters" to alleviate the situation and in the end increased the import quotas for Polish wool.[65] Similarly, Foreign Economic Relations Minister Andrzej Byrt explained in October 1992 that while Poland and the EU had encountered several problems in implementing the Association Agreement, for instance delays in informing member states' customs offices about the entry into force of the Interim Agreement and the increase in the allowable quotas for Polish textiles, such problems were resolved informally rather than through the institutional arrangements provided under the Agreement.

At the same time, the Polish public was not kept well-informed about the functioning of the bilateral institutions or the process of trade liberalization, further insulating government policy makers and increasing industrial policy-making autonomy in the wisdom of liberal intergovernmentalism. Revealing the information gap, as the industrial trade liberalization provisions of the Association Agreement were implemented, EU producers began to complain that they had not been sufficiently informed about the terms of the Agreement and that the lack of information regarding

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[64] Interview with Saryusz-Wolski, November 2, 1996.
[65] "Polish Wool Exports Threaten EEC", Rzeczpospolita, November 17, 1992, p. I.

the tariffs was hindering their normal transaction of trade with Polish producers. In particular, in April 1992, the chairmen of the European Retail Trade Confederation, the Federation of Wholesale and Inter-Group Trade Associations, and the Group of Distributing Enterprises sent a letter to the EU asserting that the lack of sufficient information regarding the new tariffs prevented them from negotiating prices of various Polish exports to the EU.[66]

Seeking to build on the positive effects of the bilateral institutions on policy-making autonomy, Polish leaders pressed the EU for a deepening of the bilateral framework established by the Association Agreement. Accordingly, at the Essen Summit of the Council of Europe in December 1994, the EU announced its pre-accession strategy for Poland and the other Central European countries, which included the issuance by the EU Commission of a White Paper outlining the measures that Poland and the other countries of Central Europe would be required to take in order to prepare their economies for membership.[67] The main elements of the pre-accession strategy were the development of a structured relationship between Poland and the EU and preparation for accession to the internal market.[68] In relation to the development of a structured relationship, the strategy reaffirmed the Copenhagen

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[66] "West Ignorant of Tariffs on Eastern Goods", Zycie Warszawy, April 23, 1992, p. 5.

[67] European Commission, White Paper: Preparation of the Associated Countries of Central and Eastern Europe for Integration in the Internal Market of the Union (Brussels: May 1995).

[68] Report from the Council to the Essen European Council on a Strategy to Prepare for the Accession of the Associated CCEE, SN 284/94, Annex IV (1994). The other less-detailed portions of the pre-accession strategy included examination of agriculture, promotion of investment, development of a common foreign and security policy, cooperation on home and judicial affairs and environmental issues, integration into the Trans-European Networks,

Summit decision to develop a structured dialogue through annual advisory meetings between the heads of state and government, annual meetings in the fields of finance, economics and agriculture (development of the internal market), transport, telecommunications, research and the environment, culture and education, and semi-annual meetings in the fields of foreign affairs, justice and home affairs to take place in connection with the corresponding meeting of the EU Council.

Facilitating Poland's alignment with the EU, the Essen strategy involved three short-term measures, to deal with commercial defense instruments, trade in textiles, and cumulation of the rules of origin under the Association Agreement. The strategy obliged the Commission to provide relevant information to Poland prior to initiating anti-dumping or safeguard measures and to give preference to price undertakings rather than duties in such cases. The strategy also called for granting greater access to the EU textile market by exempting from customs duties products subject to outward processing operations. In relation to rules of origin, the strategy called for ensuring that existing cumulation provisions in the Association Agreement were exploited fully by Polish producers, by allowing for "diagonal cumulation" between all EU, EFTA and Central European countries, including Bulgaria and Romania, and leading to the eventual introduction of full cumulation into the Association Agreement.[69] Finally, the

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cooperation on culture, education and training, financial cooperation, and intra-regional cooperation and promotion of "bon voisinage".

[69] The Council Report noted that owing to the difficulties involved, the Council would take its decision on whether or not to allow full cumulation "on the basis of a thorough evaluation of the sectorial and regional consequences on European industry of introducing full cumulation, taking into account the first two stages" [i.e. first allowing Bulgaria and Romania, and second

strategy provided for two long-term measures, namely the issuance of the White Paper on Integration and the provision of Commission assistance in connection with the harmonization of Polish competition and state aids policies. Thus, while relatively ineffective during the "first phase" of the Association Agreement, the formal bilateral institutions began to play greater roles during the transition to the "second phase" of preparing for formal accession negotiations.

Conclusion

Newly liberated from Soviet institutional dominance, the Government embarked on a massive overhaul of the country's central economic policy-making institutions. Association with the EU and the building drive for full membership gave the reforms a sharp EU focus, entailing the creation of new institutions and departments that were insulated within the institutional framework vis-à-vis purely domestic actors. The institutional reforms also enhanced the transparency of the policy-making process, and thus theoretically its democratic acceptability, while reducing its susceptibility to improper influence through illegitimate forms of lobbying. The failure of a strong interest group network or regular lobbying practice to emerge combined with a sizeable public information gap further enhanced government policy-making autonomy. Nonetheless, political leaders acknowledged that it would take several years to complete the institutional reforms required in order to become compatible with the EU institutional framework, with one government representative

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the EU and EFTA, to participate in diagonal cumulation]. Report from the Council to the Essen European Council (1994) p. 12.

declaring in 1995 how "[o]f course we are not ready now, in agriculture, in banking, in financial services, but talks on membership, even lengthy ones, are the catalyst that will infuse urgency into bringing about the legislative, institutional and economic changes which are needed."[70]

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[70] Bobinski, C., "EU Looking East: Poles Await the Starting Gun to Begin Race for EU Entry - Clamour for an Accession Calendar", July 10, 1995, p. 3. These sentiments have been echoed by several high-level Polish policy makers, including Saryusz-Wolski. See Speech by Saryusz-Wolski, Oxford, November 7, 1996.

VI. Chapter Six: Implementation and Economic Effects of Association

All of the special features of Poland's relationship with the EU - the EU focus of the institutional reforms, widespread domestic support for association and limited public awareness - portended increased policy-making autonomy for the Government in relation to other domestic actors. The actual effect on policy-making autonomy would only be revealed during the implementation and alignment phases of association, as the Government put new policies into practice and industry began adjusting. This Chapter analyzes how the Government went about implementing the Association Agreement and examines the effects of trade liberalization vis-à-vis the EU on Polish industry, focusing in particular on changes in industrial output and exports. The "effects" of trade liberalization on industry depend to a large extent on how faithful the Government was to the liberalization schedule and whether the Government permitted any serious derogation, since the Government's resolve in pursuing association would send important signals to industry. The Chapter begins with an overview of the Government's implementation of the Association Agreement both before and after the return of the reformed communists to power. It then examines how industry responded to the association process as revealed by changes in resource allocation and trade patterns. The Government's approach to implementation of the Association Agreement and the ensuing economic effects offer a test as to whether the relative autonomy enjoyed by the negotiators in bargaining with the EU continued to be enjoyed by Polish policy makers after association.

A. Government Implementation of the Association Agreement

Polish policy makers maintained the pro-EU zeal with which they had pursued the association negotiations after conclusion of the Association Agreement. From the moment the association was concluded, the Government gave the technical requirements high priority in terms of resources and legislative focus and, relative to government initiatives in pursuit of other reforms, made a continued and sustained effort to implement the Association Agreement. Whereas the public response to association in other countries such as Portugal was typically "ambiguous" in many respects,[1] in Poland the public response was definite and unwavering. In many areas, the Government strove to go beyond the letter of the Agreement and pursued related initiatives designed to facilitate future accession. As Pietras explained, "to a large extent, the Association Agreement is already 'depassee', and Poland has already done more than what was required in several areas of Agreement. Poland, unlike Turkey, has been given enough of a promise of membership, and enough precision in terms of what will be required for accession, from the EU in order for the country to really to try for it."[2] Polish policy makers thus aggressively responded to a 200-page

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[1] Tsoukalis, L., The European Community and its Mediterranean Enlargement (London: George Allen & Unwin 1991).

[2] Telephone interview with Jan Pietras, Director of the Economic Department for European Integration, Committee for European Integration Affairs, Warsaw, Poland, October 31, 1996. Quoting Pietras, a Financial Times article described how "Poland already has 60 percent of the necessary legislation in place. He is less optimistic about the institutions needed to enforce this legislation, suggesting only 40 percent are ready. . . Most difficult of all, though, according to Mr. Pietras, are the costly changes which will have to be made in areas such as environmental protection, banking and insurance and capital markets. Here, he says, the country is 20 percent ready." Bobinski, C., "EU Looking East: Poles Await the Starting Gun to Begin Race for EU Entry - Clamour for an Accession Calendar", Financial Times, July 10, 1995, p. 3.

questionnaire from the EU Commission exploring the country's readiness for membership with an extensive, 2,500-page, 26-volume reply.[3]

The Government was faithful to the bargain reached in the association negotiations and endeavored not to derogate in many material respects from the terms and time table governing industrial trade liberalization. Between 1991 and 1995, the Government requested few serious adjustments to the asymmetrical formula of trade liberalization, and in some cases requested an increase in the duty-free quotas for imports from the EU, for instance for automobile imports.[4] However, expectedly while some sectors adjusted quite well to the increased competition engendered by trade liberalization, particularly those that had commenced restructuring between 1990 and 1992, others were more threatened, particularly sectors in which restructuring had been delayed or only partially completed. Specifically, many industrial enterprises and indeed entire industrial sectors discovered that optimistic assumptions about the benefits of association were unrealistic, and they began to seek temporary protection under the "restructuring clause" of Article 28. Article 28 allowed the Government to implement "exceptional measures of limited duration" on imports of EU products competing with domestic infant industries or sectors undergoing restructuring or facing difficulties.[5] Viewing this clause as a discretionary instrument of trade protection, the petroleum refining, steel, pharmaceuticals, fertilizer, banking, and insurance sectors all lobbied the Government for some form of temporary protection. Fearing the signal it would send to the EU regarding the country's preparedness for membership, the

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[3] Oxford Analytica Daily Brief, October 24, 1996.
[4] "Car Quota Still Undecided", Zycie Warszawy, November 17, 1993, p. 13.
[5] The restructuring clause permits such measures to amount to up to 15% of the total imports of industrial products from the EU during the last year for which statistics are available.

Government was resistant to most calls for protection, recognizing, as Bielecki explained, that "the provision of temporary protection pushes the time frame for accession further into the future."

The EU recognized the pressures being placed on the Government but was initially unable to gauge the Government's commitment to liberalization. Clarifying unambiguously its position, and thereby strengthening the Government relative to its opponents, the EU Commission publicly cautioned that any increase in protectionism by appeal to the restructuring clause would delay the process of Poland's accession to the EU.[6] Profiting from the strong admonition by the EU, the Government remained faithful to the market model prescriptions underlying the Association Agreement and refrained from employing sector-selective industrial policies or trade protection on any real scale.[7] Moreover, Polish policy makers found the restructuring clause to be a useful "double-edged sword" - it prevented policy makers from increasing tariffs on industrial goods to a level higher than the corresponding binding GATT commitment, and required them to afford the EU equal or better treatment in terms of tariff concessions it afforded to other countries. Meanwhile, where no binding commitment existed under the GATT, the highest level of duties allowable under the restructuring clause was 25 percent. According to Pietras, this "double-edged sword" allowed the

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[6] Oxford Analytica Daily Brief, October 24, 1996.

[7] Bielecki did not see the demands for temporary protection as reflective of problems with implementing the Association Agreement, but rather with carrying out painful reforms that were initiated in earlier years. For instance, the first program to restructure the petroleum refinery sector was initiated in 1991 but was never completed, leading the unrestructured sector to demand "temporary protection". Interview with Bielecki, October 29, 1996.

Government "to impose discipline on our operators" and to use these limits to resist protectionist appeals from industry.[8]

Maintaining its resolve, the Government invoked the restructuring clause only rarely, in the steel and oil refining sectors, and in two or three minor instances in relation to telecommunications equipment.[9] Even these few instances were heavily criticized by the EU.[10] In each case the total amount of customs duties imposed pursuant to the restructuring clause reached approximately 3 percent of the total value of imports, far below the maximum limit of 15 percent.[11] Nonetheless, as a result of shifts in the political balance in the Sejm after the November 1993 elections and increasing pressure within the Government to develop a more active industrial policy, certain policy makers began to press for increased use of the "restructuring clause" and other safeguard measures. For instance, in measures heavily criticized by the EU, the Government imposed a "luxury tax" in February 1994 on all cars costing more than ECU 7,000 (whereas none of the cars produced in Poland cost more than ECU 6,000), attempted to introduce an import quota on telecommunications components, and tried

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[8] Interview with Pietras, October 31, 1996.

[9] The increases in tariffs did not exceed the relevant MFN rate or three-year time limitation. As noted by the World Bank, however, these "derogations from trade liberalization were not part of a comprehensive program of restructuring; rather, they resulted from pressures either to protect domestic producers or to attract foreign investors." World Bank, Poland: Country Economic Memorandum: Reform and Growth on the Road to the EU (July 15, 1997) p. 30.

[10] See "Commission's Polish Trade Call", Financial Times, July 17, 1996, p. 2.

[11] Interview with Jacek Saryusz-Wolski, Undersecretary of the Office for European Integration, in Oxford, England, November 2, 1996; see also "Kompromisowe stawki na import paliw do 2000r: Cla zostana, kontyngentow nie bedzie", Rzeczpospolita, November 1, 1996, p. 9. However, EU officials did not necessarily view Polish compliance as favorably. Speaking in Warsaw, Hans van den Broek, the Commissioner in charge of Eastern enlargement, warned that Poland would not be allowed to settle its trade disputes with the EU by erecting its own trade barriers, referring to the recent disputes and appeals to invoke the "restructuring clause" in connection with the oil refinery, steel and automobile sectors. Green, P.S.," Rules on

to increase customs duties on telecommunications devices. The Government also invoked the "balance-of payments purposes" clause of Article 64 as the basis for a temporary six percent increase in the import tariff applicable to imports of utility vehicles, with the intention of subsequently invoking the general safeguard clause of Article 30 to increase the import tariff to 45 percent.[12]

In an effort to hold onto power in the face of spreading domestic industrial discontent, the authors of the Government's Industrial Policy for 1993-95 undertook a politically-motivated review of domestic industrial restructuring and came up with a negative assessment. To accelerate their agenda, they began publicly proclaiming the need for greater use of so-called "promotional" measures, such as use of the restructuring clause, as opposed to so-called "remedial" restructuring measures. Thus, the industrial policy program announced for 1995-97, entitled "International Competitiveness of Polish Industry," philosophically declared that while industrial enterprises were responsible for achieving their own competitiveness, the Government was responsible for creating conditions that would channel them toward certain desired activities. Toward this end, one of the formal export-promotion policies of the program involved an analysis of the feasibility and necessity of invoking the "restructuring clause" of the Association Agreement and the "protective clauses" of the GATT/WTO that allowed a developing country to protect the interests of domestic

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Reform Won't Be Bent, EU Tells Poland", International Herald Tribune, October 19-20, 1996, p. 2.

[12] Guggenbuhl, "The Political Economy of Association with Eastern Europe" (1995) pp. 258-59.

producers and exporters.[13] While giving the appearance of concern, the Government was not actually prepared to intervene.

Coming to the rescue, EU officials shored up the Government's resistance to appeals for intervention in industry, making it clear that no deviations would be allowed in terms of the requirements for Polish accession. Hans van den Broek, the EU Commissioner responsible for Central European integration, reiterated the "no slippage" principle, stating that the Central European countries "cannot assume that enlargement will go ahead under any circumstances at an early date for broadly political reasons, or that serious shortcomings in preparations for membership will be taken care of by derogation or exceptions from Union rules".[14] This flat admonition reflected the fact that while the Government had been faithful in implementing the Association Agreement, it had yet to complete several key reforms required for eventual accession, such as reform of state pensions, health care and banking, and restructuring of state-owned industrial enterprises.[15] It also acknowledged the fact that domestic pressures for government intervention in certain industrial sectors were beginning to mount. These pressures were closely tied to changes in resource

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[13] Belka, M. and S. Krajewski, Industrial Policy in Poland, Paper Prepared as Part of ACE Project Number 94-0688-R, "The Role of Industrial Policy in the Transition in Central and Eastern Europe" (March 1996) pp. 13-15.

[14] Green," Rules on Reform Won't Be Bent, EU Tells Poland" (1996) p. 2.

[15] The EU also claimed that Polish procurement practices discriminated unfairly in favor of domestic producers. Accordingly, the Government passed new government procurement legislation in November 1994, which the EU criticized as legalizing the status quo. While the law guaranteed equal terms for all bidders, domestic and foreign, it also provided that all tenders for the provision of goods and services should be both locally sourced and contracted with Polish entities. The Government recognized that the EU's own restrictions in this area were not taken very seriously by member states, with nationally-based procurement policies remaining the norm despite the EU directives. Thus, it followed EU practice, which in the case of Poland entailed higher costs by requiring the Government to purchase more expensive,

allocation among industries and changes in the pattern of industrial exports resulting from liberalization.

B. Imposition of Safeguard Measures Against Polish Industrial Exports

While the removal of industrial trade issues from the domestic agenda to the supranational arena enhanced government policy-making autonomy, the shifting nature of association in the early stages posed a policy-making challenge. Shortly after the Association Agreement was concluded, observers predicted that the wide variety of ambiguous safeguard clauses, "open to virtually unconstrained administrative discretion,"[16] created a risk of manage trade. Indeed, between 1980 and 1988, Polish and other Central Eastern products had been the main target of EU anti-dumping actions, with the EU convincing the Polish Government to conclude voluntary export restraints in steel from 1979 and in textiles from 1987. Fueling such speculation, a World Bank study concluded that "developments under the new [Interim Agreement] regime show that the Agreements have not deprived the EC of trade management instruments. The removal of quantitative restrictions have exposed CEE-5 steel producers to other, equally potent trade-restraining measures. Given the political clout of steel industries in the EC as well as the dramatic increase in imports from the CEE-3 - fueled largely by the redirection of sales from domestic markets and the CMEA - the EC's recourse to these measures comes as no surprise."[17] These observations

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and technically inferior, domestic services and supplies. "Procurement Policy", Oxford Analytica Daily Brief, November 18, 1994.

[16] Ostry, "The Threat of Managed Trade to Transforming Economies" (1993) p. 14; Aghion, P., Burgess, R., Fitoussi, J-P. and Messerlin, P., "Towards the Establishment of a Continental European Customs Union", in Flemming, J. and Rollo, J.M.C. (eds.), Trade, Payments and Adjustment in Central and Eastern Europe (London: Royal Institute of International Affairs 1992).

[17] Kaminski, "The Significance of the 'Europe Agreements'" (1994) p. 25.

forewarned that successful implementation of the Association Agreement would require considerable good will by both sides, and expressed reasonable doubt as to whether such good will would be forthcoming.[18]

Toward the end of the 1990-95 period, the EU began to express increasing concern that Polish authorities were inclined to "creeping protectionism" by appealing to the restructuring clause of the Association Agreement. As a result of its comprehensive scope, the Association Agreement left significant room for a retreat to protectionism by both sides, but practically speaking increases in Polish exports of "sensitive" products to the EU were particularly vulnerable to retaliatory measures under the trade liberalization formula of the Association Agreement. Article 30 of the Association Agreement effectively gave EU companies the right to impose unilateral anti-dumping sanctions as well as "appropriate instruments" of protection in the event of a large increase in Polish exports to the EU of textiles, steel products or chemicals. In particular, the Agreement provided for the introduction of protection in cases where increased Polish exports to the EU resulted in "serious loss" to EU manufacturers, and the imposition of protection did not require proof that dumping had occurred or that the exporter had received any government subsidies.

Despite predictions of widespread imposition of contingent protection against so-called "sensitive" Polish exports to the EU, however, managed trade pursuant to the safeguard measures allowable under the Association Agreement generally did not

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[18] Reinforcing such skepticism, officials [of the EU] stated publicly that ". . they reserve the right to retaliate in the case of any decision hurting . . . their exports. International Trade Reporter, August 18, 1993, p. 1379.

materialize in relation to industrial trade.[19] Indeed, between 1990 and 1995 relatively few formal antidumping proceedings were initiated against Polish exporters, particularly in comparison to the total number of cases initiated against non-EU countries. Specifically, the EU initiated proceedings against Polish exports to the EU of only artificial corundum (review but no duty), ferro-silicon (duty imposed), silicon carbide (duty imposed), urea ammonium nitrate solution (duty imposed), portland cement (pending), and pig iron (duty imposed).[20] Revealingly, the number of cases initiated between 1990 and 1995 was significantly lower than the number of cases initiated against Poland prior to 1990, particularly in relation to Polish steel exports to the EU in the 1970s. Moreover, the EU did not initiate any EC or ECSC anti-subsidy proceedings against Polish exports during the period.

While the EU applied safeguard clauses sparingly, in the period following implementation of the Interim Agreement the EU made numerous attempts to forestall trade liberalization under the Agreement, mostly in relation to steel products. The EU stance on steel was provoked by the large increase in Polish steel exports to the EU

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[19] See Hindlay, B., "Exports from Eastern and Central Europe and Contingent Protection", in Flemming and Rollo, Trade, Payments and Adjustment in Central and Eastern Europe (1992) pp. 144-53.

[20] The particulars of the anti-dumping proceedings were as follows: (i) artificial corundum: OJ 1990 C67/7 (review but no duty); (ii) ferro silicon: OJ 1991 C122/4 (review), OJ 1992 L183/8, 1992 L281/1 (provisional duty), OJ 1992 L369/32 (undertaking); (iii) silicon carbide: OJ 1991 C279/11 (review), OJ 1994 L94/21, 1994 L299/1 (provisional duty); (iv) OJ 1992 C286/3 (review); (iv) urea ammonium nitrate solution: OJ 1993 C123/5 (review), OJ 1994 L162/16 (provisional duty), OJ 1994 L280/1 (extended); (v) portland cement: 1994 C117/3 (initial review). While EC anti-dumping assembly proceedings were initiated against Polish pig iron leading to the imposition of duties (OJ 1991 C246/9, extended OJ 1992 C322/2; provisional duty OJ 1993 L12/5, extended OJ 1994 L122/19; definitive duty OJ 1994 L182/37), in the 1970s EC assembly proceedings were initiated against Polish galvanized steel sheets and plates (duties imposed OJ 1978 L19/3), sheets and plates of iron and steel (duties imposed OJ 1978 L39/13), iron and steel coils for re-rolling (duties imposed OJ 1978 C19/10).

following the EU's removal of all steel import quotas in March 1992.[21] The value of the EU's steel imports from Poland, Hungary, Czechoslovakia, Romania and Bulgaria grew by 27% in 1990, 18% in 1991 and 20% in 1992, while the EU's share of their total exports increased from about a quarter in 1989 to nearly half.[22] The increase of steel exports to the EU solicited demands for protectionist measures initiated by EUROFER, which claimed that the Association Agreement facilitated dumping, mainly in the construction industry, and was being "interpreted by these producers as an invitation to increase their exports . . . through abnormally low prices, favoured by considerable public subsidies."[23] In November 1992, the EU imposed temporary anti-dumping duties of 10.8 percent on seamless steel and iron tubes imported from Poland[24] and in 1993, responding to complaints from domestic steel producers about the "flood' of cheap imports from Eastern Europe, the EU approached the Polish Government to impose voluntary restraints on exports of other steel products (steel coils, sheets, wire rod, strip, and cut length). Further, the EU also commenced an anti-dumping investigation into Polish ferro-silicon exports, imposing provisional duties on such exports in May 1991 and definitive anti-dumping duties in December 1992.[25]

See Van Bael, I. and Bellis, J., Anti-Dumping and Other Trade Protection Laws of the EC, 3rd. edition (Bicester: CCH Europe 1996) Tables I, II and III.

[21] In 1992, Czechoslovakia increased steel exports to the EU by 56% and Hungary did so by 31%.

[22] "Poor Relations: Eastern Europe is Knocking at the European Community's Door" (1993) p. 55.

[23] "EC steel industry claims poles dumping beams", Financial Times, January 14, 1993, p. 3.

[24] Based on an investigation initiated in December 1991, the EU imposed duties of 10.8 percent on Poland, 21.7 percent on Hungary, and 30.4 percent on Czechoslovakia. Commission of the European Communities, Eleventh Annual Report from the Commission to the European Parliament on the Community's Anti-Dumping and Anti-Subsidy Activities (1992) (Brussels 1993).

[25] Commission of the European Communities, Eleventh Annual Report (1993) p. 61

The resort to managed trade by the EU did little to enhance government policy-making autonomy and made it difficult for the Government to follow a clear industrial policy-making path. In particular, the Government's "participation in international negotiations" as an associate of the EU could not "provide additional sources of legitimation by allowing the executive to link policies to common economic, political, strategic or philosophical ideas" where the central EU tenet of free trade was not being observed. As subsequent events revealed, however, the derogation from free trade was only temporary. By 1993 the pressure for protectionist measures within the EU had abated as the level of Polish exports began to stabilize and the EU came under considerable political pressure to give the flagging Central European steel industry time to adjust to the economic reforms.[26] Nonetheless, the degree of any domestic opposition to alignment with the EU, and the degree to which the EU served to legitimize industrial policy making by enhancing industrial development, was also directly dependent on the economic effects of industrial trade liberalization.

C. Resource Allocation and Changes in the Pattern of Industrial Exports

(i) The Emergence of Poland's Natural Comparative Advantage

As a theoretical proposition, when a small, formerly closed country opens its trade in relation to a large country or bloc of countries, relatively more benefits tend to

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[26] Many observers did not believe that the dumping charges were justified. Jim Rollo, former Director of Economics at the Royal Institute of International Affairs in London, asserted that "[t]he latest dumping duties appear to have been imposed using the old criteria, applied when all prices in the former centrally planned economies were artificial and judgments about the degree of dumping were formed by comparison with prices from third countries. Eight months after the EC signed association agreements . . . which apparently liberalised the steel trade we see the Community being bloody-minded at the first hurdle." Boland, V., Bobinski, C., Denton, N. and Robinson, A., "Steel dumping duties upset E Europe: Critics say the EC is using outdated criteria to hobble the most promising industries", Financial Times, November 20, 1992, p. 6.

accrue to the small country. This asymmetry arises because while producers and consumers in both the small and large countries gain new opportunities to conduct their affairs more efficiently by virtue of enlargement of the effective market, small country producers gain *more* opportunities since the size of the effective enlargement is greater for them. Thus, theoretically, one would expect relatively greater gains from integration to accrue to Poland than to the EU. In particular, since capital and modern technology were relatively scarce in Poland under communism, and thus quite expensive, integration with the EU could be expected to systematically lower the prices of products that use these factors, and in the short- and medium-term to lower the proportion of resources devoted to the production of technology- and capital-intensive products.[27] In the long-term, Polish exports could be expected to become more capital- and technology-intensive as Poland accumulated capital and technology imported from the EU.

According to the free trade paradigm, alignment of the Polish and EU markets should, also theoretically, have exhibited three effects, termed by economist Robert Baldwin as *allocation* effects, *accumulation* effects and *location* effects. Allocation effects, meaning movements of resources across sectors, should have begun to occur as economic distortions under the centrally-planned trade regime were eliminated and resources were freed for allocation to more efficient uses. Accumulation or growth effects, meaning the rate at which the economy accumulates factors of production, should have begun to occur as the Polish market was opened to EU investment and imports. Finally, location effects, meaning changes in the geographical allocation of

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[27] Baldwin, R., Towards an Integrated Europe (London: CEPR 1994) p. 161.

resources, may or may not have begun to occur depending upon the costs of relocation, which determine whether production is dispersed or concentrated in a geographical region, and whether the manufacturing center of gravity of the EU economy may have shifted slightly to the East following liberalization.[28]

In a situation of economic *transition*, as opposed to one of pure *development*, it is important to distinguish between *changes* in a country's underlying comparative advantage, and the *emergence* of a country's natural comparative advantage (or changes in the country's effective or revealed comparative advantage). As a public policy argument, the assertion that alignment with the EU would amplify or compliment Poland's comparative advantage had the potential to enhance policy-making legitimacy. One could argue that under central planning, natural comparative advantage was prevented from emerging, since trade and investment patterns were dictated by the central plan and the CMEA trade system, as opposed to by pre-trade price ratios. Thus, while the trade policy reforms implemented between 1990 and 1995 would not have changed the country's natural comparative advantage, since shifts in a country's relative factor endowments may only occur over a longer period of time, theoretically the liberalization of trade and domestic economic activity should have engendered resource re-allocation between sectors and allowed Poland's natural comparative advantage to emerge.

As a result of the stabilization measures and industrial trade policy reforms, resources began to shift from production of nontraded goods toward production of

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[28] Baldwin appears to suggest that the center of gravity has a strong potential to shift to the East, recalling "how important *Mittleuropa* was to the European economy before the imposition of central planning." Baldwin (1994) pp. 159-60.

exports. Thus, along with the change in the geographic distribution of trade, the composition of Poland's exports according to the Standard International Trade Classification (SITC) began to change. Between 1992 and 1995, exports of industrial goods increased from 67 percent to 77 percent of total exports and exports of agricultural products declined from 13.5 percent to 10 percent (see Annex I). Thus, manufactures, as opposed to farm products, energy or raw materials, were the main force behind the Polish export boom which began during the period 1990-91.[29] The composition of Poland's imports by SITC category appeared to have undergone more significant changes than that of exports. Textiles, light industry and raw materials imports doubled and fuel imports declined significantly between 1992 and 1995 (see Annex I).[30] Finally, the composition of Polish employment in manufacturing during 1990-94 underwent a shift away from heavy industrial (science, electro-engineering,

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[29] Related to this shift into exports, a study by Hughes and Hare assessed the competitiveness of different branches of industry in Poland in 1992, measuring the competitiveness of an industry by its estimated value added in terms of world market prices. The study concluded that the shift from domestic to export markets did not lead to a shift toward the more competitive industries, but the shift from CMEA to Western markets did lead to an improvement in the average level of world value added per unit value of output. Further, exports to the EU typically came from sectors that were less competitive than the average for all exports or for all production, perhaps indicating that the Polish economy was having difficulty meeting the quality standards of the EU market (however, only 8.4 percent of Polish industrial output was generated by industries with negative value added at quality-adjusted world prices compared with 34.6 percent for Hungary and 34.8 percent for the former Czechoslovakia). The study concluded that "comparative advantage does appear to have played some role in determining the composition of exports", and that considerations of competitiveness appear to have played a greater role in Poland's trade with Western (particularly non-EU) markets than within the CMEA. Hughes and Hare, "Industrial Policy and Restructuring in Eastern Europe" (1992) pp. 82-104.

[30] The Polish Economic Classification (CN) system also indicates changes in the composition of Poland's exports between 1990 and 1994 within the industrial product range, with processing activities expanding, particularly in the textile and transport equipment sectors. The largest export items in 1994 were thus coal, steel products, furniture, shipping vessels, textiles, automobiles and agricultural products (fresh and frozen fruits and dairy and meat products). Bulletin of the Central Statistical Office (1995).

fuel and power) to light industrial, human capital-intensive sectors (textiles, food processing) (see Annex II).

Assessing changes in Poland's effective comparative advantage during the reorientation of trade from the former CMEA to the EU market during the economic transition is highly speculative, since an undue tendency toward autarky under central planning must be assumed in order for neo-classical trade theory to be relevant. Under such an assumption, as the barriers to the movement of goods, services and capital between Poland and the EU were removed, trade between them should have intensified, permitting greater specialization of production and resulting in convergence of prices, wages and interest rates.[31] To the extent that liberalization was only partial, however, as it was under the Association Agreement in the areas of freedom of movement of labor and capital, one would expect a lower degree of convergence. Indeed, this appears to have been the case even within the EU, where distortions have persisted owing to a variety of non-tariff barriers.[32] Nonetheless, looking broadly at the pattern of Polish employment, the employment shifts in Table 6.1 indicate that Poland's effective comparative advantage became more representative of the developed EU market economies, with a decrease in the share of agricultural employment and an increase in services employment.

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[31] See Hine, R.C., "International Economic Integration", in Greenaway, D. and Winters, A.L., (eds.) Surveys in International Trade (Oxford: Blackwell 1994).

[32] Cecchini, P. et al., The European Challenge 1992 (Aldershot: Gower 1988). In practice full convergence of prices is prevented by differences in consumption patterns, quality and other intrinsic differences between countries.

Table 6.1: Employment Allocation Across Sectors (1988-94)

[redacted]

Source: *ILO Statistical Yearbook, 1993-94*[33]

Within industry, changes in effective comparative advantage are reflected in changes in factor intensities of industrial exports. In order to examine changes in relative factor intensities of exports, many studies use four categories: (i) natural resource-intensive products, such as crude materials, mineral fuels, leather, plywood, mineral manufactures, diamonds and non-ferrous metals; (ii) unskilled labor-intensive products, such as textiles, garments, furniture, glass and others; (iii) technology-intensive products, such as chemicals, plastics, fertilizers, some capital equipment, telecommunications equipment, medical, scientific and measuring equipment and photographic supplies; and (iv) human-capital intensive products, such as paints, rubber, paper, television and radio sets. Natural resource- and unskilled labor-intensive products are characterized by low value-added, high natural resource-intensiveness and basic technologies, and account for a dominant share of exports of developing countries. Technology- and human capital-intensive products require the most sophisticated inputs.[34]

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[33] Construction is included under "Industry". Derived from Fingleton et al. (1996) p. 21.

[34] Unskilled-labor intensive products have the lowest value added per worker. Technology-intensive products have the highest ratios of research and development expenditures to value added, while human capital-intensive products have the lowest ratios of research and development expenditures to value added. See, e.g., Krause, L.B., U.S. Economic Policy Toward the Association of Southeast Nations: Meeting the Japanese Challenge (Washington, DC: Brookings Institution 1988) pp. 91-95.

Problems related to statistical data and the short time period make it difficult to assess changes in Polish factor intensities. Nonetheless, evidence of certain changes did emerge. A World Bank study in June 1993 analyzing Polish export performance after 1990 concluded that "contrary to expectations, the driving force behind the export upswing were manufactures - not raw materials, mineral fuels, or agricultural products."[35] The study made several findings regarding Polish exports during the period. First, the study noted that access to Western markets in 1990-91 did not improve enough to explain the initial expansion of Polish exports, and attributed the expansion mainly to the disintegration of the CMEA market (and presumably destocking). Second, in defiance of most predictions, Polish state-owned industries appeared to have expanded their exports to Western markets in which competition was intense, despite having outdated technologies and despite the country's situation of rising unemployment, budget deficits, high inflation and declining output. Finally, the study found that the expansion of exports of manufactures was largely attributable to exports of products characterized by a high unskilled-labor content, which was fairly predictable.

During the 1980s, the Polish industrial export structure had become less human capital- and technology-intensive. If the trends in the composition of Polish exports had continued from the 1980s into the 1990s, the country's position in Western markets would have been stagnant or only slightly improving. The share of Polish manufactures in the most rapidly expanding markets would have continued to decline,

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[35] Although the report states that the driving force of the export expansion were "manufactures", it would be more accurate to use the term "manufacturing process". Kaminski, B., "The Foreign Trade Dimension of the Market Transition in Poland: The

and the composition of Polish exports would have continued to shift towards natural resource- and unskilled labor- intensive products. While the share of relatively technology-intensive Polish exports in total Polish exports increased in the 1980s, their share in the EU market (excluding Greece and Portugal) remained constant. Furthermore, the share of relatively human capital-intensive Polish exports declined both in total Polish exports and in the EU market. Polish industrial exporters performed better than other Polish producers only in low value-added production, indicating a shift in Poland's revealed comparative advantage in favor of natural resource-intensive and unskilled labor-intensive products.

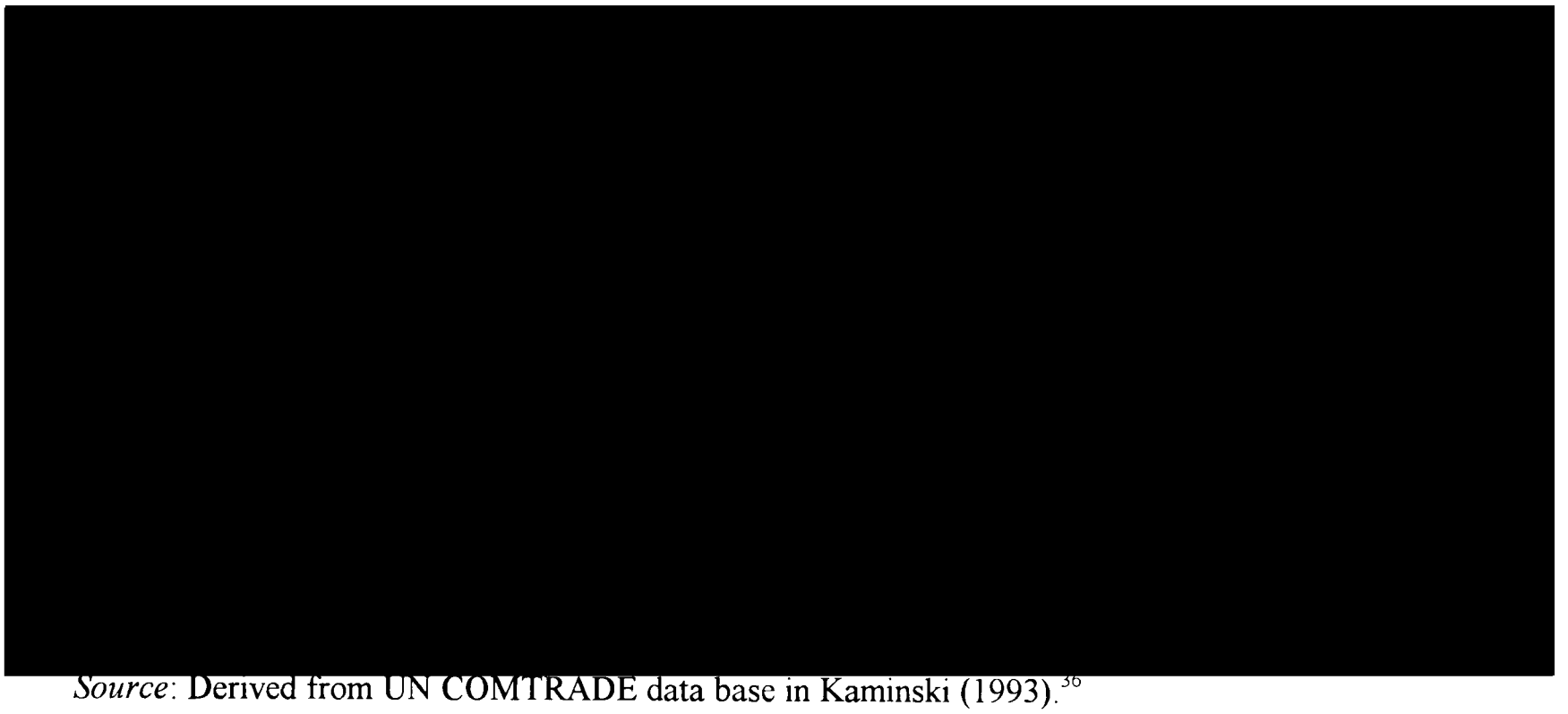
After several relatively stagnant years, Polish industrial export performance in all categories improved during 1990-91, with the share of the country's exports to the OECD in the OECD's total imports of manufactures rising from 0.17 percent in 1984-89 to 0.28 percent in 1990-91 (a 63 percent increase). Illustrating this export expansion, Table 6.2 demonstrates the reversal of trends in Polish exports to the OECD in the 1980s that occurred following the introduction of the Economic Transformation Program in 1990. Table 6.3 analyzes the "most successful" industrial exports to the EU, meaning those manufactured goods which contributed most to the export expansion to the EU market in two product categories: goods whose export values in 1991 were larger than US$10 million, and goods whose average annual rate of export growth in current prices was equal to or larger than 40 percent. The value of the exports in Table 6.3 accounted for approximately 42 percent of total Polish

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Surprising Export Performance and its Sustainability", Policy Research Working Paper (Washington, DC: World Bank 1993).

manufactured exports to the EU, and approximately 23 percent of total Polish exports to the EU, in 1991.

Table 6.2: Share of Polish Exports to the OECD in OECD Total Imports (In Percent)



Source: Derived from UN COMTRADE data base in Kaminski (1993).[36]

[36] The product categories correspond to the SITC classification as follows: (foods and feeds (SITC Rev. 2.0 +1+22+4); raw materials (SITC Rev.2.2-22-27-28), mineral fuels (SITC Rev. 2.3), ores and metals (SITC Rev. 2. 27+28+68), manufactures (SITC. Rev.2. 5+6+7+8-68).

Table 6.3: Most Successful Polish Industrial Exports to the EU (1990-91)

[redacted]

Source: Derived from Official Polish Sources by Marczewski (1992).[37]

The composition of the "most successful" Polish manufactured exports depicted in Table 6.3 reveals several factors relevant to the country's comparative advantage. First, virtually none of the exports was high technology-intensive (as opposed to technology-intensive), largely because Poland under central planning was insulated from the "information-technology revolution" that occurred in the West.

[37] Marczewski, K., "Poland's Export Performance in 1985-91", mimeo (Washington: World Bank 1992).

Indeed, the "high technology" content of Polish manufactures was lower in the 1980s than in the 1970s.[38] The most impressive export performance occurred in sectors representative of the second industrial revolution, namely in the chemical and steel industries. These two sectors, as well as textiles and non-metallic mineral manufactures, were given priority in terms of investment and production under central planning during the 1960s and early 1970s. Products intensive in physical capital, with the exception of transport equipment, were not prominent in the export upswing of 1990-91. In particular, exports of the shipbuilding industry, which the former communist government had been seeking to downsize for economic reasons, increased by nearly 50 percent in each of 1990 and 1991.

Second, human capital-intensive products achieved the highest increase in manufactured exports to the EU and accounted for 12 product categories in Table 6.2. These products generated export revenues of US$ 739 million and accounted for 47 percent of the exports from the "most successful" group of exports to the EU. Technology-intensive products achieved the second-highest increase in manufactured exports to the EU, generating export revenues of US$ 458 million and accounting for 29 percent of this group. However, the shares of human capital- and technology-intensive products in total exports of the group did not change significantly between 1989 and 1990, indicating that within the "most successful" group relative factor intensities did not undergo any major shift.[39] Further, in 1991 the share of technology-

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[38] Poznanski, Z., "Exchange Rate Policies and Balance of Payments Strategies During the Transition from Communism: The Case of Poland", paper presented at the Forshungsprojekt Transformation von Planwirtschaften conference in Berlin, June 1-2, 1988, pp. 46-52.
[39] Kaminski (1993) p. 10.

intensive products in manufactured exports began to decline, perhaps reflecting the elimination of government energy subsidies during that year.

Given the ambiguous nature of the changes in factor intensity, the Government was unable to exploit them as a basis for enhancing government industrial policy-making legitimacy and autonomy. Despite the large shares of human capital- and technology-intensive exports, however, the share of unskilled labor-intensive exports overall (i.e. EU and non-EU) achieved the largest increase within the "most successful" group, possibly because of the favorable impact on manufactures of the decline in raw material and energy prices in the 1980s, or because of the rapid deterioration in the Polish capital stock during the 1980s and 1990-91. Products typical of a low level of development accounted for the remaining 24 percent of exports from the "most successful" group. In particular, unskilled labor-intensive products accounted for 18 percent of exports and natural-resource intensive products accounted for 6 percent of exports. While the share of natural resource-intensive products in the "most successful" group was fairly low, their share in total exports was significantly larger as a result of Poland's relatively ample endowment in certain non-renewable natural resources (such as coal and copper).[40]

Another feature of the export expansion during 1990-91 was the increased openness of sectors previously oriented toward the domestic market, particularly those that had participated in CMEA specialization schemes. For instance, the export share

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[40] In 1993, Poland was ranked seventh in the world and first in Europe (excluding the former Soviet Union) in the production of crude copper and silver, was ranked the second largest exporter and among the world's largest producers of sulphur, and held 4 percent of the world's total coal reserves. Poland also has significant resources of zinc, lead, natural gas, salt and other minerals, and has prospects for the development of chalk, clay and potash deposits. See BP Statistical Review of World Energy (London: British Petroleum Company June 1994).

in total sales of the wood-paper sector increased from 11 percent to 32 percent, and the export share of the light industry sector increased from 9 percent to 22 percent, between 1989 and 1991.[41] But the dramatic increase in exports to the EU did not necessarily imply an improvement in their overall competitiveness and performance. As economists Fornasari and Grilli cautioned, "the positive results achieved in restoring external balance . . . should not be interpreted as successful instances of production and trade reorientation following the external shocks of 1990-91".[42] The industrial base inherited from central planning remained unchanged and was unlikely to be transformed in the absence of a sustained upward trend in output and capital investment. In many cases, export proceeds failed to cover full production costs, and production costs were often subsidized by intra-enterprise credit and "bad" loans from state-owned banks, so that exports actually represented "distress sales".

Certain aspects of the dramatic growth in Polish industrial exports to the EU were also enigmatic. The shift in the composition of exports toward unsophisticated labor-intensive products appeared to be inconsistent with the country's human capital endowment. Earlier studies had shown a positive correlation between Poland's well-educated and highly-qualified labor supply and comparative advantage in high-technology goods, which was not revealed in changes in Polish exports to the EU.[43] As economist Bartlomiej Kaminski observed, "[w]hether this dissonance is only a transitional phenomenon, the legacy of the earlier misallocation of resources, will

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[41] Central Planning Office, "The State of the Economy: Including Forecasts for the Future: First Half of 1992: A Brief Summary" (Warsaw: Central Planning Office 1992) p. 20.
[42] Fornassi, F. and Grilli, E., "The Integration of the Central and Eastern European Countries into the World Economy", paper presented at the IV Conference of the International Vienna Council (October 1992), p. 12, cited in Kaminski (1993) p. 21.

depend on whether private investors are able to exploit this potential comparative advantage."[44] The composition of Polish exports to the former CMEA market and to the EU began to converge, possibly attributable to two factors. First, as market constraints were imposed on CMEA producers, they began to increase their demand for so-called "hard goods", or goods sold in hard-currency markets, and to decrease their demand for so-called "soft goods", or low-quality goods sold in CMEA markets.[45] Second, while the export expansion was not based on a simple redirection of products formerly sold in the East to the West, some portion consisted of such products.[46]

The puzzling shifts in the composition of Polish exports persisted after 1991 and prevented the Government from exploiting them as a basis for increased policy-making legitimacy. Between 1992 and 1995, Polish industrial exports continued their dynamic expansion, with total Polish exports in nominal terms increasing by 14 percent in 1992, 13.6 percent in 1993, 24.3 percent in 1994 and 35.5 percent in 1995.[47] During the period, the trends observed in 1990-91 in changes in the composition of exports continued. In particular, the share of manufactures in total exports to Western markets increased, with labor-intensive exports registering the largest gains. The share

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[43] See Hamilton, C.B. and Winters, L.A., "Trade with Eastern Europe", Economic Policy (April 1992).

[44] Kaminski (1993) p. 13

[45] Prior to 1990, exports to the CMEA and to the EU had been strongly dissimilar, with exports to the CMEA market consisting mainly of low quality capital equipment and electro-engineering (soft goods) and exports to the EU consisting mainly of food, raw materials and energy (hard goods). Kaminski (1993) p. 15.

[46] In fact, the composition of Polish industrial exports to the EU shifted more toward the former composition of exports to the CMEA than the reverse. See Rodrik, D., "Foreign Trade in Eastern Europe's Transition: Early Results" (Cambridge, MA: National Bureau of Economic Research 1992) p. 18.

of labor-intensive machinery exports was particularly significant while the share of technology-intensive chemical exports declined slightly. Meanwhile, the share of primary products (petroleum and raw materials) and crops (forest products, tropical agriculture, animal products and cereals) declined in total exports to Western markets.[48] Persisting throughout the 1991-95 period, the trends in the pattern of exports made it difficult for political leaders to exploit the "economic effects" of association as a means of enhancing policy-making legitimacy.

(ii) Changes in the Direction of Trade

Increased trade with the EU dominated the multi-dimensional changes in Poland's post-communist trade patterns. While political leaders explored several regional trading arrangements after the collapse of the CMEA trading system, these were relatively insignificant in terms of both volume of trade and impact on policy making. During the early phase of trade reorientation rom East to West, several proposals were raised for the creation of CMEA successor initiatives. Viewing such proposals as less advantageous for industrial policy-making autonomy, Polish leaders did not support the initiative to create an Organization for International Economic

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[47] European Bank for Reconstruction and Development, Transition Report: Infrastructure and Savings 1996 (London: EBRD 1996) p. 201.

[48] Kaminski, B., Wang, Z., Winters, A., Foreign Trade in the Transition: The International Environment and Domestic Policy, Studies of Economies in Transformation No. 20 (Washington, DC: World Bank 1996) p. 21. Regardless of these trends, it was difficult to determine whether reallocation of industrial output among sectors was the result of trade liberalization, the overall economic reforms or normal random shocks. Comparing changes in profitability and changes in production across industrial sectors during 1989-93, one study found that resources had been reallocated in response to the adjustment to world prices and observed changes in output were at least partly attributable to structural shifts as opposed to mere random shocks. Due to, among other things, lack of firm exit procedures and continued government support, resource reallocation appeared to be ongoing, since relative prices had continued to change well after economic liberalization had been initiated in 1990. Fingleton, et

Cooperation as a successor to the CMEA, preferring to focus on the EU and, where complementary, on the more immediate Central European region.[49] Thus, on April 17, 1992, the three ministers in charge of foreign economic relations, Vladimir Dlouhy of Czechoslovakia, Adam Glapinski of Poland and Bela Kadar of Hungary, signed an agreement for the establishment of a Committee for Central European Cooperation. The purpose of the Committee was to accelerate the negotiation of CEFTA and to formulate joint positions in relation to the EU and other international economic institutions.[50]

Underpinning the Government's reluctance, the development of Central European regional initiatives was viewed with skepticism by many trade experts. First, price distortions, high and variable rates of inflation and differences in the purchasing power parities of the countries' currencies delayed implementation of CEFTA. Polish studies of the effects of CEFTA cautioned that the arrangement would lead to increases in the output of sectors that were unviable in the long-term, forestall industrial restructuring and impose further unemployment and readjustment costs on Poland, Hungary and Czechoslovakia.[51] As economist Josef Brada cautioned:

> [w]hether steps to revive intra-regional trade by means of integration measures are desirable and feasible depends critically on the economic rationality of the trade that has been eliminated, on the actual relationship

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al. (1996) pp. 23-24. See Organisation for Economic Co-operation and Development, Country Study: Poland (1994).

[49] At the same time, it appeared that Polish firms were not deterred by political and economic instability in the East. Indeed, directors of Polish firms often took the attitude that "politics is politics while trade must go on". "Polish Traders Not Worried By Russian Events", Gazeta Wyborcza, October 5, 1993, p. 15.

[50] "Glapinski on Central European Cooperation", Rzeczpospolita, April 18-20, 1992, p. 1.

[51] Foreign Trade Research Institute, "Creating a Free Trade Area Czechoslovakia-Hungary-Poland: Consequences for the Polish Economy" (Warsaw: FTRI 1991); Foreign Trade Research Institute, "Economic Cooperation Among Poland, Czechoslovakia and Hungary" (Warsaw: FTRI 1992).

> between intra-regional and extra-regional trade of the East European countries, and on the sources of the decline in intra-regional trade. If factors other than the lack of an integrating mechanism are at work in reducing intra-regional trade, then policies designed to deal with these factors rather than to strengthen integration will be more appropriate. Moreover, if past intra-regional trade was uneconomically high, then efforts to prevent its decline will be futile and counterproductive.[52]

The caution Polish policy makers exercised in relation to Central European integration initiatives contrasted starkly with their zealous pursuit of association with the EU. As Minister of Foreign Economic Relations Burt explained in October 1992, "[i]n Poland's trade, West European markets are successfully replacing the markets lost in the East. They also account for a major part of Poland's imports. Still, this is not a dependence but a natural relationship. By intensifying trade and competing with those producers who meet the requirements of quality, delivery deadlines, attractive packages, prices and marketing, Poland proves it is able to move freely throughout the world." The Government was naturally quick to highlight the areas where Polish producers were proving competitive with their local EU counterparts, for instance in

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[52] Brada in De Melo and Panagariya (1993) pp. 323, 330-33. The causes of the decline in intra-regional trade became the subject of numerous studies. In Poland, restrictive monetary and fiscal policies, price reforms and austerity measures associated with the Economic Transformation Program of 1990 resulted in a decline in production, which in turn resulted in a decline in income and thus demand for imports. The demand side-induced decline in production and imports (mirrored by a decline in exports from other countries), was transmitted to all countries of the region through the so-called "foreign trade multiplier", the mechanism through which changes in the net exports of a country affect its balance of payments on current account and the degree of its domestic capacity utilization. While estimates in gravity model studies undertaken in 1991, for instance by Havrylyshyn and Pritchett and by Winters and Wang, forecast declines in Central European intra-regional trade on the order of 60-57 percent and 50 percent, actual declines were much less. Havrylyshyn, O. and Pritchett, L., "Trade Patterns After the Transition", Working Paper (Washington, DC: World Bank 1991); Wang, Z.K. and Winters, L.A., "The Trading Potential of Eastern Europe", Discussion Paper No. 610 (London: Centre for Economic Policy Research 1991).

the coal, copper and electro-engineering sectors.[53] It expected trade integration with the EU to be more "trade creating" than "trade diverting", entailing the replacement of imports from low-quality, inefficient CMEA manufacturers by higher quality, more efficient EU imports.[54] The new export opportunities accordingly presented an opportunity to "catch up" economically with the EU, which in turn boosted policy-making legitimacy.

Hampering the ability of political leaders to exploit association as a means of enhancing policy-making legitimacy, Poland began to develop a trade deficit with the EU shortly after the Interim Agreement went into effect and after two years of significant trade surpluses. In August 1992, the rate of growth of imports from the EU began to exceed that of exports, and trade deficits arose in capital goods, such as machinery, mechanical and electrical equipment, and radio and television equipment. Meanwhile, surpluses began to develop in metallurgical products, the largest single item in Polish exports to the EU in 1992, followed by raw materials and textile products. While the composition of imports from the EU remained concentrated in capital goods, the composition of the main Polish exports to the EU changed slightly, due to an increase in metallurgical and textile exports and a decline in raw materials,

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[53] "Trading with the EC", Rzeczpospolita, October 17-18, 1992, p. 1.

[54] Many non-EU countries that had not concluded a free trade or other preferential trade arrangement with Poland feared that the integration of Polish and EU industrial trade would be trade diverting vis-à-vis their exports. For instance, in the absence of a free trade arrangement between Poland and the US, US producers asserted that the Association Agreement would have a correspondingly negative effect on trade between the US and Poland, citing to the dramatic increase in Polish-EU trade after 1990 and the surplus reported by Poland in trade with the US in the years 1991-92. EU officials responded that since the Association Agreement was compatible with the GATT, the US could negotiate a similar free trade arrangement to provide for lower tariffs in Poland. Dunne, N. et al., "Polish Tariffs Biased to the EC, Says US", Financial Times, May 15, 1992, p. 4; "Poles Report Surplus in Trade with the U.S.", Gazeta Wyborcza, May 5, 1993, p. 14.

livestock and agricultural products. Presenting a public relations dilemma, the pattern of Polish-EU trade was becoming more typical of developing country-developed country trade, as Polish exports became more concentrated in low-processed, unskilled-labor intensive goods, such as steel and textiles.[55] But the Government remained publicly optimistic that this trend would be reversed as Polish production methods incorporated imports of capital goods, for instance in the highly-processed steel and automobile sectors.[56]

Contrary to official optimism, the deficit persisted both in trade with the EU and in trade with former CMEA member countries, the deficit with the EU being the largest. Germany accounted for the largest portion of the deficit and France for the second largest portion, while Poland maintained a surplus in trade with the UK. The Government attributed much of the deficit to the introduction of the value-added tax (VAT), which encouraged importers to increase imports before the tax took effect in July.[57] Although industrial activity improved, domestic demand decreased, particularly for finished products, and export production stabilized. Meanwhile production costs were pushed upwards by higher official prices of energy, gas and fuel as the Government increased imports of energy and fuel from the EU in an attempt to diminish the country's dependence on energy imports from members of the former CMEA.[58] Further, Poland exhausted its duty-free EU quotas for household goods, shoes, glass and fibre boards, and utilized 90 percent of its quota for cars and 96

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[55] "Trade Exchange with the Community", Gazeta Wyborcza, April 8, 1993, p. 15.
[56] A number of Western-Polish joint ventures had been established in these two sectors. "1992 Foreign Trade Figures", Rzeczpospolita, March 5, 1993, p. 1.
[57] "Foreign Trade Figures Bleak", Zycie Warszawy, November 29, 1993, p. 11.
[58] "Industrial Growth Declines", Gazeta Wyborcza, April 13, 1993, p. 17.

percent of its quota for steel (and exceeded its quota for stainless steel and rolled products).

As the negative effects of industrial trade liberalization vis-à-vis the EU mounted, the Government continued to espouse the notion of "catch up" and portrayed the trade deficit as the natural result of the country's level of economic development. Minister of Finance Kolodko attempted to sooth public unease by explaining how "I don't worry about the trade deficit, for two reasons. First, it's natural that a country in the process of re-engineering and modernizing its industry and infrastructure should import large quantities of advanced capital goods. Second, it's well-known that a tremendous amount of 'unofficial' exporting is taking place along the Polish-German border. These unofficial exports have put our current account in the black."[59] As proof of the sizeable amount of unofficial trade, Polish policy makers pointed to the large and growing official foreign exchange reserves collected from the sale of exports and held by the National Bank of Poland. Meanwhile, the National Bank of Poland resisted appeals to devalue the zloty to improve the trade balance, giving priority to the achievement of the country's inflation targets.

In addition to enhancing the country's foreign trade profile, Polish economic policy makers expected the free trade arrangements of the Association Agreement to encourage non-EU countries to invest in Poland as a means of exploiting the more liberal trade arrangements with the EU. As Mulewicz discovered, "[a]lready investors are not hiding (I know thanks to the discussions that I have held with Japanese and American investors), that they are very willing, thanks to the Association Agreement,

to undertake investment in Poland, simply because through investing in Poland they will be able to reach the EU market while avoiding the trade barriers that they face as non-EU members that they would not face in Poland."[60] As an associated country, Poland was poised to attract non-EU investors by presenting a "back door" to Europe that offered cheaper labor and lower tariffs vis-à-vis the EU. However, as of 1995, seven of the top twelve countries of origin of FDI in Poland - which in descending order were the US, Germany, Italy, France, Netherlands, Switzerland, Sweden, UK, Austria, Belgium, Denmark, Canada - were existing EU member states, tending to refute the "back door" theory.[61]

Moreover, initial agreements concluded by Polish firms with EU investors were often disappointing to Polish industrial enterprises. For instance, in a joint venture agreement between Italy's Fiat and FSM (Small Car Factory) of Bielsko-Biala for the production of Cinquecento cars, Fiat extracted a concession that allowed the company to retain nearly half of the retail prices of Cinquecento cars sold in the West. Further,

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[59] "Investing in Poland: First the Shock, then the Therapy", International Herald Tribune, October 17, 1996, p. 15.

[60] Mulewicz, "Doswiadczenia Polski w Negocjacjach" (1992) p. 17.

[61] This situation would change somewhat as Asian firms, particularly the Korean conglomerate Daewoo, committed to major manufacturing investments in Poland. As of 1994, the share of FDI received by various Polish sectors as a percent of total FDI was as follows: wood, paper and printing (20.1 percent), chemicals (7.5 percent), textiles (6.3 percent), electrical and electronics (5.1 percent), machinery (4.4 percent), metallurgy (2.8 percent), automobiles and components (1.2 percent), and other manufacturing sectors (4.8 percent). In contrast, the share of FDI received in the trade sector was 15.7 percent, in food, beverages and tobacco 15.7 percent, in agriculture 0.3 percent, and in mining 0.3 percent. Moreover, the pattern of FDI in Polish industry was significantly different from the patterns in Hungary and the Czech Republic, where the largest shares of FDI were registered in Machinery (16.3 percent) and Chemicals (11.3 percent) in Hungary, and Consumer Goods (23.4 percent) and Cars and Components (18.6 percent) in the Czech Republic. Statistics on FDI contribution to capital stock are produced by the Polish Foreign Investment Agency, which does not register investments lower than US$ 1 million or reinvestments of profits. Meyer, K.E., "Foreign Direct Investment in the Early Years of Economic Transition: A Survey", Economics of Transition, vol. 3(3) p. 309 (London: EBRD 1995) pp. 301-320.

in the course of implementing the joint venture, Fiat required cars manufactured by FSM to be assembled from mainly Western European parts, and by failing to provide for the design of a new engine for the cars to be produced at the FSM plant, the investment agreement forced FSM to purchase the engines for the cars from Fiat.[62] Meanwhile, the EU refused to give Polish policy makers flexibility in relation to the allocation of duty-free quota of 30,000 passenger cars. When Polish policy makers decided to divide the quota between General Motors (Europe), Fiat and Volkswagen as a means of securing favorable investments by the three EU manufacturers in Polish state automobile enterprises, EU officials asserted that the allocation would violate the non-discrimination clauses of the Association Agreement.[63]

Changes in the direction of trade and the Government's single-minded pursuit of EU association had several major effects, including significant shifts in industrial resource allocation, a sea change in the direction of trade in favor of the EU and, after 1992, a worsening Poland-EU trade balance. These shifts benefited several industries but disfavored the more "traditional" industries, giving rise to domestic opposition and making it difficult for leaders to extoll the benefits of association as a means of increasing policy-making legitimacy. For the most part, the Government resisted pressures for deeper intervention and remained publicly optimistic about the long-term benefits of association, hoping to preserve the enhanced policy-making autonomy it enjoyed as a result of association. The Government's resolve was undeniably bolstered by firm reprovals from the EU regarding any possible digressions from industrial trade

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[62] "Poland Loses on Cinquecento Sales", Gazeta Wyborcza, April 10, 1992, p. 1.
[63] "EC-Poland free trade pact hits car import snag", Financial Times, February 26, 1992, p. 3. The Polish Government finally lifted the allocation decision after established consultation with

liberalization or the other terms of the Association Agreement if Poland desired to become a full member state. However, as a result of the persistent trade deficit and mounting pressures for government intervention in certain sectors, such as steel, oil and telecommunications, the Government came under serious pressure to explore the development of more active industrial policies.

Conclusion

The adherence of Polish leaders to the terms of the Association Agreement and their unwavering commitment to industrial trade liberalization could not be explained solely by the "positive economic effects" of association. The resulting changes in resource allocation, growing trade imbalance and pattern of FDI source countries did not give Polish leaders sufficient justification for their dogged pursuit of alignment with the EU. Instead, additional motivations had to be at work. Political leaders were undeniably encouraged by the policy-making discretion they enjoyed in managing the country's EU affairs, and while changes in resource allocation and the trade balance made it difficult to look to the EU as a source of legitimacy in the present, the prevailing domestic support for association allowed the Government to herald "unknowable and untestable" longer-term benefits. Moreover, having commenced trade liberalization and devoted immense economic resources and political capital to the association process, the Government considered its commitment to be practically irreversible and in this sense its "hands to be tied". On a less aggregated level, however, the Government faced challenges from industrial sectors for which association meant downsizing and not growth and no long-term benefits would be

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and notification by the EU Council to the discriminated-against EU automobile manufacturers

forthcoming. These challenges provided a more meaningful test of the "tied hands" assertion as the Government sought to preserve the enhanced policy-making autonomy attributable to association.

(Notice of November 4, 1992, OJ L319 p. 38).

Composition of Exports[1]

	1992	% of Total	1993[2]	% of Total	1994	% of Total	1995	% of Total
Natural Resource-Based Goods								
Food and Live Animals	1,686	12.7	1,410	9.9	1,735	10.1	2,100	9.2
Beverages and Tobacco	74	0.6	136	1.0	240	1.4	164	0.7
Non-Food Raw Materials[3]	1,128	8.5	788	5.6	810	4.7	1,029	4.5
Mineral Fuels, Lubricants and Related Materials	1,413	10.7	1,374	9.7	1,566	9.1	1,870	8.2
Animal and Vegetable Oil	20	0.2	18	0.1	20	0.1	35	0.1
Subtotal	4,321	32.7	3,726	26.3	4,371	25.4	5,198	22.7
Manufactured Goods								
Chemical Products	1,134	8.6	964	6.8	1,163	6.8	1,774	7.8
Textiles, Light Industry and Raw Materials	3,585	27.1	3,745	26.5	4,742	27.5	6,314	27.6
Machinery, Transport Equip.	2,523	19.1	2,966	20.9	3,411	19.8	4,828	21.1
Misc. Manufactured Articles	1,574	11.9	2,739	19.4	3,542	20.5	4,772	20.8
Non-Classified	76	0.6	3	0.0	11	0.1	9	0.0
Subtotal	8,892	67.3	10,417	73.6	12,869	74.6	17,697	77.3
Total	13,213	100.0	14,143	100.0	17,240	100.0	22,895	100.0

Notes:

(1) Figures are in USD millions, except for percentages, based on customs data and SITC methodology; figures for 1990 and 1991 are not provided because changes in methodology make data for those years incomparable with later years.

(2) Since 1993, the Central Statistical Office has included outward processing on a gross basis.

(3) Excluding fuel.

Source: Central Statistical Office

Composition of Imports[1]

	1992	% of Total	1993[2]	% of Total	1994	% of Total	1995	% of Total
Natural Resource-Based Goods								
Food and Live Animals	1,531	9.6	1,838	9.7	1,876	8.7	2,338	8.0
Beverages and Tobacco	162	1.0	146	0.8	185	0.9	217	0.8
Non-Food Raw Materials[3]	861	5.4	866	4.5	1,111	5.2	1,562	5.4
Mineral Fuels, Lubricants and Related Materials	2,674	16.8	2,346	12.4	2,253	10.4	2,651	9.1
Animal and Vegetable Oil	106	0.7	117	0.6	159	0.7	189	0.7
Subtotal	5,334	33.5	5,313	28.2	5,584	25.9	6,958	24.0
Manufactured Goods								
Chemical Products	2,145	13.4	2,507	13.3	3,168	14.7	4,340	14.9
Textiles, Light Industry and Raw Materials	1,882	11.8	3,482	18.5	4,354	20.2	6,266	21.6
Machinery, Transport Equip.	4,743	29.8	5,568	29.5	6,226	28.9	8,688	29.9
Misc. Manufactured Articles	1,642	10.3	1,911	10.1	2,132	9.9	2,701	9.3
Non-Classified	167	1.0	52	0.3	103	0.5	97	0.3
Subtotal	10,579	66.5	13,520	71.7	15,983	74.1	22,092	76.0
Total	15,913	100.0	18,834	100.0	21,569	100.0	29,050	100.0

Notes:

(1) Figures are in USD millions, except for percentages, based on customs data and SITC methodology; figures for 1990 and 1991 are not provided because changes in methodology make data for those years incomparable with later years.

(2) Since 1993, the Central Statistical Office has included outward processing on a gross basis.

(3) Excluding fuel.

Source: Central Statistical Office

Annex II

Composition of Employment by Sector[1]

	1988	1989	1990	1991	1992	1993[2]	1994	1995
Industry	4,894	4,894	4,620	4,250	3,882	3,629	3,717	3,729
of which:								
Food Processing	420	411	400	449	466	474	454	484
Electro-Engineering	1,361	1,301	1,178	1,078	932	914	na	na
Fuel and Power	646	662	608	563	544	544	276	277
Metallurgy	212	204	194	179	183	163	141	141
Chemicals	280	277	252	254	239	241	na	na
Minerals	220	207	196	199	188	187	77	76
Textiles and Leather	660	634	556	526	465	470	na	na
Wood and Paper	219	211	183	211	210	220	na	na
Other	322	421	540	340	196	77	na	na
Construction	1,350	1,318	1,243	1,116	1,066	867	853	827
Agriculture and Forestry	4,779	4,671	4,558	4,383	4,010	3,923	4,040	4,032
Transport & Communications	1,037	979	932	843	773	728	844	838
Trade	1,477	1,458	1,388	1,561	1,605	1,948	1,892	1,903
Services[3]	3,123	3,394	3,398	3,199	3,190	3,114	na	na
Other	365	415	371	249	202	287	na	na
Total Employment	17,023	17,002	16,280	15,326	15,101	14,761	14,924	14,968

Notes:

(1) Figures are yearly averages in thousands.

[(2) Last year for which data for all sectors is available.]

(3) Includes community services, housing, science, education, cultural services, health and social welfare, tourism, recreation and sports, state administration and justice, and finance and insurance.

Source: Central Statistical Office; Rocznik statystyczny (1990-1996)

VII. Chapter Seven: Impact of EU Association on Industrial Policy Making

> *All in all, the period after 1990 is characterized by various changes in the structure of the Polish economy, which are sometimes quite dramatic and which proceed in different directions. Still, these changes were not, to any extent, a result of the industrial policy understood as a deliberate influence on the structure of production exerted by the Government. On the contrary, the Government declared very early that it did not intend to conduct such policy. There is well known in Poland an official statement made by the then Minister of Industry: 'Our industrial policy is the lack of industrial policy'.*
>
> Marek Belka and Stefan Krajewski
> *Industrial Policy in Poland* (1996)[1]

The EU strongly reinforced the laissez-faire approach of successive post-communist Governments to industrial policy making. Amidst the domestic euphoria over the EU, association helped bolster government policy-making autonomy, allowing the Government to pursue industrial trade liberalization and refrain from intervening in industry as required by the Association Agreement. Gradually, however, domestic opposition to trade liberalization began to build as various industrial groups adjusted to the painful reform process and challenged the newfound autonomy of Polish political

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[1] The quote stated further that "[o]f course, different economic moves taken by the State both in the macroeconomic sphere and in the field of trade or privatization policy exerted a significant impact on the structure of industrial policy. However, they did not assume the form of an integrated programme. At best we can speak here about various moves of a crisis management type, which involved attempts to formulate a programme of transformations in such areas as coal mining, iron and steel metallurgy, or a commonly know programme of Polish bad debt solution addressed to state-owned enterprises, which took the form of the Act about Financial Restructuring of Banks and Enterprises adopted in February 1993." Belka and Krajewski, Industrial Policy in Poland (1996)(emphasis added) p. 2. Marek Belka presently

(continued...)

leaders. This Chapter analyzes the strength of government policy-making autonomy as measured by the Government's ability to resist appeals from industry for temporary protection and government assistance with restructuring. It then assesses how the Government made attempts at political appeasement of domestic opposition through the development of lofty, financially-unrealistic and comprehensive industrial policies. Finally, this Chapter analyzes how the Government's commitment to EU association reinforced its ability to resist domestic pressures for intervention by "tying its hands" and serving as a policy-making "shield," employing case studies of two formerly high-profile state industries in Poland: textiles and steel. While the textiles sector adjusted relatively well to the new economic environment, the steel sector adjusted relatively poorly. Both sectors were governed by special provisions of the Association Agreement, reflecting their politically sensitive status as "sunset" industries in the West and making the pressure for intervention and the constraints imposed by association particularly acute.[2]

A. Domestic Pressures for Government Intervention in Industry

As industrial trade with the EU began flowing more freely and the Polish economy was opened to competition, severe economic imbalances developed in the industrial sector. During the first year of the reforms, gross domestic product had

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(...continued)

serves as economic advisor to the President and was Minister of Finance from January to October 1997.

fallen more in industry than in the rest of the economy and after association many industrial sectors continued to be dominated by unreformed state enterprises and monopolistic structures. The adjustment behavior of state industrial enterprises was diverse, with some enterprises performing at a much higher level than others. This resulted in "the separation of a group of enterprises permanently failing to achieve positive gross profitability."[3] In 1992, the Government relaxed certain macroeconomic austerity measures, allowing the budget deficit and money supply to expand, and aggregate industrial production began to increase. The growth rate of industrial prices was lower than in the economy as a whole, indicating that enterprises were beginning to adjust to the economic reforms by adjusting production as opposed to merely raising prices. However, by operating according to the "principle of self management" by employees, most state industrial enterprises had little incentive to lower their labor costs or expenditure levels.[4] Industry experienced the greatest profitability and productivity declines of the broader economy between 1990 and 1992.

While some industrial segments began experiencing an economic recovery after 1992, others, particularly those in contracting sectors, began to voice concern about the growing Polish-EU trade deficit and to demand greater government intervention in

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(...continued)

[2] See Rausser, G. and Simon, L.K., "The Political Economy of Transition to a Market Economy" in Clague, C. and Rausser, G. (eds.), The Polish Road from Socialism: The Economics, Sociology and Politics of Transition (London: Basil Blackwell 1992) p. 269.

[3] Socha and Sztanderska, "Restructuring and Industrial Policy in Poland" (1994) p. 83.

[4] Included in enterprise expenditures were social expenses (such as employee housing), operating and maintenance costs, unrelated business expenses, and wages.

industry. Although developing countries typically experience current account deficits as they import capital equipment and technology, some industry representatives began portraying the deficit as evidence of a more permanent reduction in exports to the EU and consequently as a dilemma justifying government intervention through means that included state aid and temporary trade protection.[5] As World Bank economist Bartlomiej Kaminski warned:

> [s]ome blame the Association Agreement with the EU (European Union) for Polish trade deficits. Trade deficits in their view are allegedly the best proof that the EU got the better part of the deal when it signed the Association Agreement in December 1991. Since there is not much that can be done about the Association Agreement, which seems to have strong support among the population, they urge the government to take actions that would boost exports and slash imports. With the EU accounting for almost two-thirds of Polish imports, the disciplines of the Association Agreement would seem to provide a significant restraint on arbitrariness in import policies. But, with a little dose of determination and legalistic ingenuity, these disciplines may be circumvented.[6]

Despite the apparent risk of slippage from its market-oriented reform path, the Government was determined not to allow special industrial interests to derail the policy-making course charted by association or jeopardize the country's chances for eventual membership.

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[5] For a study on the range of enterprise responses to the economic reforms, see Wawrzyniak, B. and L. Biegunski, Difficult Change: Corporate Behaviour in the Process of Reforms, Economic and Social Policy Series No. 21 (Warsaw, Poland: Friedrich-Ebert-Foundation 1992).

[6] Kaminski, B., "Are Current Account Deficits a Threat to Poland's Macroeconomic Stability?", World Bank Research Paper (Washington, DC: World Bank 1997) p. 1.

(i) Pressures for Government Intervention in Industry

Having given the first post-communist Government considerable breathing space, workers began losing patience with the reforms as productivity and growth declined and unemployment increased. As the initial elation over democratic freedom slowly wore off and Solidarity splintered into its rival factions, workers' groups and employers in domestic enterprises, particularly in the state-owned sector, began expressing frustration with the pace and effects of the economic reforms and placing pressure on the Government to intervene. As domestic sales and exports of industrial enterprises fell, interest rates and domestic price levels rose, and official unemployment increased from zero at the start of the reforms to 2.14 million by February 1992.[7] Many hard-hit enterprises blamed the reforms for their suffering. Expressing a widely shared sentiment, the managing director of the state-owned Uniontex textile enterprise lamented how the Government had "managed to strangle everything, literally everything. The only advice I'd have now for Balcerowicz is that he should resign."[8] Polish manufacturers also began to protest trade liberalization and the other austerity measures, finding themselves unable to compete with the large volume of imported consumer and industrial goods flooding the newly-opened domestic market.[9]

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[7] Robinson, A., "Up Against the Limits", Financial Times, February 18, 1992, p. 20.
[8] Bobinski, C., "Collapse of domestic market leaves Polish textiles in tatters", Financial Times, February 20, 1990, p. 2a.
[9] "Polish import duties rise to average 14%", Financial Times, July 30, 1991, p. 2. The scenario of rising imports occurred against the background of a fixed nominal exchange rate.

Industrial protests grew in 1992 as more than half the country's coal miners went on strike in Silesia, the country's industrial heartland, pushing the Government to expedite industrial restructuring. The coal miners were supported by the steelworkers, who declared a "strike alert" enabling them to take action if the Government refused to meet the coal workers' demands.[10] Trade unions in these traditional sectors began injecting their opinions more actively into the formation of economic policy, particularly privatization policy. Reflecting the concerns of their constituents, and in open confrontation with the Government, trade unionist members of the Sejm proposed draft privatization laws providing for greater worker participation in the ownership and management of state enterprises.[11] While the Government was eager to sell off state-owned enterprises and assets as quickly as possible, the workers' self-management lobby began to demand that the Government focus on employee share ownership and outright purchases of enterprises. Ultimately, the Government refused to expand the protections accorded under the Privatization Law of 1990 that provided for employees to purchase only up to 20 percent of the shares in a privatized company at preferential rates. But policy makers appeared willing to protect inefficient producers where large increases in unemployment were likely in the absence of

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[10] "Industrial protests increase in Poland", Financial Times, December 17, 1992.
[11] Rice, R., "Unions' fears prolong drafting of privatisation rules in Poland", Financial Times, April 30, 1990, p. 12.

government intervention, a salient example being the Ursus tractor factory outside of Warsaw which staged large and disruptive strikes in front of the Council of Ministers.[12]

Government policy-making autonomy in relation to other domestic actors appeared to be waning. Following the equal treatment principle, many state enterprises started exerting pressure on the Government for assistance to offset what they viewed as a "discriminatory" obligation imposed on state but not private enterprises to pay a "dividend" to the state budget. Consisting of a tax on capital assets, the dividend penalized new investment in state enterprises and most enterprises simply failed to pay it.[13] Seeking to avoid the obligation, many enterprises began pressing the Government, in particular the Ministry of Industry, for an acceleration of the privatization process and a reimposition of import tariffs. Revealing the strength of the industrial opposition, Minister of Industry Andrzej Zawislak asserted in April 1991 that "[n]o country has ever had as liberal an import policy as we have at the moment and something has to be done. . . [t]he invisible hand is taking out the wrong firms, the

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[12] The Ursus tractor factory employed 12,000 workers (8,000 in Warsaw), controlled half of the tractor market in Poland, and "cost preceding governments many sleepless nights." To save the firm from bankruptcy, the Polish Industrial Development Agency initiated a banking arrangement with the firm's 771 creditors involving a write-off of 80 percent of its debt. Sosnowska-Smogorzewska, L., "End of Ursus's Sleepless Nights?", The Warsaw Voice, Business Section, vol. 29:404 (July 21, 1996) p. 1.

[13] The failure to pay the dividend ("popiwek") left the Government with a large portion of uncollectable tax revenue. Robinson, A., "Up Against the Limits", Financial Times, February 18, 1992. p. 20.

best companies, not the worst ones are being ruined."[14] In response to the complaints, later that year the Government raised the average import duty from 11 percent to 14 percent on most consumer goods, to 20 percent on electronic equipment, and to 25-35 percent on textiles and food items. While the Government publicly declared that the reimposition of tariffs was necessary in order to offset depletion of the country's hard currency reserves, it was clearly also a measure to defuse protests by Polish manufacturers having difficulty competing with the large increase in imports.

Underpinned by strong support from the EU and the building association momentum, however, the Government remained committed to the economic reforms, with President Walesa urging political leaders after the 1991 parliamentary elections to give the new Olszewski Government at least two years to continue the economic reforms and to "continue what has been achieved already."[15] Even opposition from pro-steel sector government representatives could not stem the pro-market, pro-EU tide and the increase in the average import tariff was reversed toward the end of 1992. While the members of the center-right coalition headed by Prime Minister Jan Olszewski had come into power on an election platform promising to ease the burdens of the transition to a market economy through trade protection and assistance to state enterprises, they found it difficult to fulfill their campaign promises of in light of the

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[14] Bobinski C., "Poland urged to raise import tariffs to protect its industry", Financial Times, April 28, 1991, p. 2.
[15] Bobinski, C., "Walesa urges continuation of reforms", Financial Times, October 30, 1991, p. 3.

Association Agreement. As Olszewski struggled to form a government, even those in the new ruling parties that had most staunchly criticized the non-interventionist industrial policy found their hands tied and did not attempt to reverse the reforms. Jerzy Eysymontt, head of the Central Planning Office and the strongest government critic of the austerity measures, advocated greater state intervention in industry but "admitted that his plans to halt Poland's recession were limited by the need to guard against renewed inflation."[16] Thus, the *Financial Times* reported that "Poland's recently formed centre-right coalition government is becoming increasingly frustrated at its inability to honour pre-election promises and ease the burdens of a transition to a market system."[17]

The highly unstable Olszewski Government proved utterly incapable of leading the country through the transition and was dismissed by the Sejm after barely six months. In June 1992, leftist PSL leader Waldemar Pawlak replaced Olszewski as Prime Minister. Far from gaining wider lattitude to intervene in industry, the Government came under even greater external pressure to deepen the economic reforms required by both shock therapy and, increasingly, EU association. Unable to weld the pro-intervention parties into a government, Pawlak was replaced as Prime Minister by Hanna Suchocka within the month. During this tumultuous period, in July

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[16] Bobinski, C. and Robinson, A., "Senior Polish Finance Officials Ready to Quit", Financial Times, January 23, 1992, p. 2.
[17] Robinson, A., "Economic Ills Weigh Down Polish Coalition", Financial Times, February 7, 1992, p. 2.

1992 the OECD publicly criticized the Government for failing to build on the initial achievements of the reforms and, in particular, for failing to contain the budget deficit (which grew from 3.8 percent of GDP in 1992 to 5 percent in 1993 as a result of rising pension and housing payments) or reform the tax system. While the requirements of association increased the transparency of Polish industrial trade and tariff policy making, Government resistance to pressures from certain groups was weakening and import tariffs and licensing began to increase. The *Financial Times* quoted a GATT Secretariat report that commented how "former lobbying and decision-making patterns have 'survived to the detriment of efficiency'",[18] although the benefits of overt lobbying efforts for some groups were not widespread.

Beginning in 1993, after the reformed communist parties - SLD and PSL - were elected to a majority position in the Sejm[19] and the country's association commitments started accelerating, the Government came under increasing pressure from various constituents to develop and implement more active industrial policies. Many domestic groups, particularly in industry, blamed the economic recession on the Government's steadfast commitment to the EU and economic liberalism. Simultaneously, since management of most state enterprises had not been restructured, the system of industrial relations remained a significant obstacle to the economic reforms. As economists Socha and Sztanderska noted, "Polish workers and their

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[18] Robinson, A., "Tariffs Creeping Back in Poland", Financial Times, January 13, 1993, p. 4.

unions enjoy privileges rarely encountered anywhere else in the world. Among other things, trade unions have the right to organize political and solidarity strikes, activists are paid with public money and unions may participate in parliamentary elections like any other political party. There are as many as 245 national trade union organizations and 3 federations of employers."'[20] By contrast, management in industrial enterprises was relatively weak, nominated by employee councils and legally prohibited from undertaking lock-outs or other actions to offset the power of employee unions. Thus, the Government could not rely on managers as means of dealing with dissatisfied workers.

Predictably, as the reforms progressed, pressures for derogation from the liberalization formula of the Association Agreement intensified. Trying to appease antagonistic industrial groups, some policy makers postulated that a combination of different trade policy instruments could achieve "certain desired effects" that could not be achieved with a single instrument, particularly in the case of a prohibited instrument such as an import surcharge.[21] Thus, future head of the Office of the Committee for European Integration, Danuta Hubner, began to argue that completely free trade might not be the optimal manner of fostering industrial growth and, instead, basic goals in the

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[19] Robinson, A. and Bobinski, C., "Poland returns ax-communists to prominent role", Financial Times, September 20, 1993, p. 1.

[20] Socha and Sztanderska (1994) pp. 91-92.

[21] Hubner, D., "Strategia rozwoju eksport: czy wystarczy niewidzialna reka rynku?" [Export Development Strategy: Is the Invisible Hand of the Market Sufficient?] (Warsaw: IRiSS 1992).

foreign trade sphere, such as strengthening exports, might be achieved most effectively by applying a full range of instruments. Similarly, Marek Lubinski, an associate at the Polish Main Trade School and Institute of Development and Strategic Studies, explained that association did not mean that Poland had to "resign completely from all tariff protection of the domestic market. However, in each case [of applying protection], it is necessary to obtain the permission of our trade partners, and the scale, scope and duration of protection would have to be carefully defined. Tariff policy is not an instrument for achieving instant results."[22] Since the Government never implemented most of the instruments, this rhetoric was essentially an attempt to pacify industrial pressure groups without contravening the Association Agreement.

While the Government's industrial trade policy proposals reflected a cautious consideration of a full range of instruments, ultimately policy makers abided by the binding limitations on domestic industrial policy making imposed by EU association. After December 1992, the average tariff level began to decline again in line with the Association Agreement and the country's other external trade arrangements. By then determinedly pursuing EU membership, the Government continued to liberalize industrial trade despite the obvious adjustment difficulties state enterprises were experiencing. However, by September 1993, the pro-reform political parties had fallen into such public disfavor, and their election prospects appeared so bleak, that in order

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[22] Lubinski, M., "Polityka handlu zagranicznego Polski" [Polish Foreign Trade Policy], (continued...)

to survive political leaders began openly "blaming" the EU for the economic woes of certain sectors. Balcerowicz himself publicly declared that "[t]he EC has a doubly malign influence on Polish politics. Unwillingness to open the European market to sensitive goods like steel and textiles raises unemployment, while the level of EC protectionism permits critics of the pro-market Liberal Democrats [KLD], in particular, to accuse them of naïveté and ignorance of the real world."[23] While able to attribute its "tied hands" to the EU, the Government's political need to assuage domestic industrial suffering remained acute in some sectors.

(ii) Government Response to Industrial Adjustment

In *Competitive Advantage of Nations,* Michael Porter described how trade liberalization constrains domestic industrial policy making and allows it to serve as a "shield" against pressures for intervention: "[a] nation's international success itself eliminates some of the tools available to government in earlier stages. Gaining foreign market access eventually requires reciprocal behavior, limiting the possibilities for temporary protection."[24] EU association served this function in Poland. However, in many cases, a country employs more interventionist industrial policies during earlier stages of economic development, when fledgling domestic industries demand greater

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Gospodarka Narodowa, Nr. 11 (1994) p. 3.

[23] "'Feel bad' factor threatens Poland's reformers", Financial Times, September 16, 1993, p. 3.

[24] Porter, M., Competitive Advantage of Nations (New York: Free Press 1990) p. 672.

assistance, and less interventionist industrial policies at later stages of development.[25] In this regard, Poland followed an atypical progression between 1990 and 1995, having achieved substantial trade liberalization with the EU prior to completing industrial restructuring. Consequently, it was hardly surprising that tension emerged as the Government pursued association with the EU between the limited ability of policy makers to employ politically-appealing industrial policies and the demands of industrial enterprises and workers for generous government assistance. While minor circumventions would not interfere with Poland's aspiration to EU membership, major government interference would clearly be detrimental to this long-term goal.

Successive reform-minded Governments exhibited a reluctance to intervene in industry, despite the relatively insignificant private capital investment in industry during the first three years of the reforms. While the private sector share in industry increased, its share in employment in other sectors such as services grew even more rapidly. Yet in the market-oriented Polish policy-making environment, and following EU industrial policy trends, the Government did not develop a comprehensive industrial policy program in the Western interventionist sense, nor did the Government employ an export promotion policy aside from its management of the exchange rate.[26]

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[25] Thus, Porter noted that "[u]nless national policy toward industry shifts as a nation moves to the threshold of a more advanced stage, the upgrading of industry will be retarded or blocked", but [t]he protection-devaluation-subsidy cycle is a hard one to break." Competitive Advantage of Nations (1990) p. 673.

[26] Polish policy makers were reluctant to employ export subsidies after 1991 (prior to 1991 prices for raw materials had been below world market prices and enterprises had enjoyed

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Professor Benjamin Slay discerned six phases of industrial policy development which, beginning in 1990, were targeted on an *ad hoc* basis at various adjustment difficulties and fell short of a comprehensive industrial policy. The first three phases were basically passive and involved assessing the state of industry. The first phase consisted of the "liberal approach" to economic policy, during which market forces and privatization were expected to result in spontaneous adjustment and restructuring. The second phase involved the development of sectoral privatization plans at the level of entire industries, although few of these plans were implemented. The third phase involved ministerial prioritization and ranking of enterprises (the identification of "winners" and "losers") by the Ministry of Industry and Trade.

Subsequent phases appeared to be even more interventionist. The fourth phase involved privatization through restructuring, pursuant to which a few small- and medium-sized enterprises entered into two-year management contracts with outside management groups (which received preferential treatment) providing for eventual privatization of enterprises that reached certain performance levels. The fifth phase focused on bank restructuring, pursuant to which banks became actively involved in state enterprise restructuring under the so-called Law on Financial Restructuring of

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access to cheap Soviet raw materials). After 1991, the Government did not want to distort the cost-and-benefit account in export revenues, in order to avoid charges of dumping by foreign countries. Thus, Socha and Sztanderska noted that "export promotion policy so far has been employing short-term instruments (exchange rate and tariffs), neglecting medium- and long-terms export expansion efforts, such as investment and credit policy, science and technology development policy and so on." Socha and Sztanderska (1994) p. 98.

Banks and Enterprises of 1993. This Law provided bank creditors of troubled state enterprises with certain powers to organize debt arrangements and restructurings, including debt cancellation, rescheduling or conversion into equity. Finally, the sixth phase involved the development of a social pact, the so-called Pact on State Enterprises in the Process of Privatization, between the Government, trade unions and employers. This Pact provided that target macroeconomic indicators would be agreed in a national council composed of representatives of the three groups.[27] Despite considerable preparatory work, however, the Government fully implemented only the first phase, which was essentially a non-industrial policy.[28]

Aside from the domestic budgetary and political constraints on policy implementation, many of the *ad hoc* industrial policy proposals were incompatible with the Association Agreement. Some of the programs, such as those involving state financial assistance, had the potential to violate the prohibitions against state aids. Others, such as the initiative to create holding companies as an interim step to privatization, undermined the Government's commitment to economic reform and evoked external disapproval. In particular, the EU urged Polish policy makers to

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[27] The Pact was signed by Minister for Labor and Social Policy, Jacek Kuron, head of the Solidarity trade union, Marion Krzaklewski, and head of an employers' group, Andrzej Machalski. At its inception, the Pact looked certain to have a large impact on relations between the Government and industry, with Minister Kuron stating that while "the transformation of the economy without compromises" had the potential to end dangerously, the Pact would allow for "a major acceleration" of reforms. Bobinski, C., "Poles Sign Enterprise Pact", Financial Times, February 23, 1993, p. 2.

concentrate on preparing enterprises for privatization as opposed to creating financially-unattractive holding companies which the Government would not be able to finance pursuant to EU rules on state aids.[29] As an Oxford Analytica report on the holding company initiative explained, "[o]verall, Warsaw is caught between the demands of current EU membership plans and some powerful domestic lobbies."[30] Recognizing the EU's power to strengthen the Government's hand against such lobbies, Polish Foreign Affairs Minister Dariusz Rosati, himself an economist, signed an agreement with EU Commissioner for External Affairs Hans van den Broek prohibiting the introduction of unilateral protectionist measures in the fuel, steel and motor industries. The Government also promised that restructuring plans for further sectors (other than oil) would be discussed with EU officials in Brussels before their adoption.[31]

The Government's pact with the EU indicated that any conflict between individual industrial policies and EU association would be resolved in favor of the latter. In most segments of industry this solution was satisfactory. However, to appease mounting pressure from those industries experiencing diffculty adjusting to the market reforms, the Government developed a number of sectoral industrial policy

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[28] Slay, B., "Evolution of Industrial Policy in Poland since 1989", RFE/RL Research Report, vol. 2(2) (January 1993).

[29] See, e.g., "State Aid: Downward Pressure to be maintained by the Commission," European Commission Doc. No. IP/98/596 (Brussels: European Commission July 1, 1998).

[30] Oxford Analytica Daily Brief, October 24 1996.

[31] Oxford Analytica Daily Brief, October 24, 1996.

proposals. Here the constraints imposed by EU association became binding, as shown by a sample of the reform proposals:

Steel Sector

The Government developed a restructuring proposal for the steel industry that was expected to entail drastic production and employment reductions. Since export markets were contracting, only those enterprises with stable markets were likely to experience any recovery in the foreseeable future. Consequently, the proposal entailed substantial government involvement and financial assistance. Under its own internal pressure to adopt the Maastricht criteria and to satisfy standards set by the World Bank and IMF for keeping the budget deficit within a certain percentage of GDP, the Government was forced to seek foreign assistance but was unable to obtain funding from the World Bank and the European Bank for Reconstruction and Development in the amounts envisaged by the Ministry of Industry and Trade.[32]

Coal Sector

In devising a medium-term plan for restructuring the loss-making coal industry, the Government was forced to decide between reducing production or maintaining output by introducing export subsidies or increasing inventory, which would place a significant strain on the state budget and require EU approval. In 1996, two separate plans were devised for the sector, the so-called *Markowski* and *Jagielinski* plans. Both

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[32] "Steel Restructuring", Oxford Analytica Daily Brief, February 1, 1993.

plans involved reducing employment, allocating 8 billion zlotys (approximately US $2.97 billion) in financial assistance to the sector over five years, setting up a coal restructuring agency and introducing a levy of 3.7% on the price per ton of coal to pay for restructuring.[33] In April 1996, the Government accepted the Jagielinski plan, but subsequently revised it in light of criticism from the EU that the plan would entail an unrealistic amount of state aid, excessive state intervention and lower long-term industrial competitiveness.

Oil Sector

The Suchocka Government initiated the development of a restructuring plan to attract foreign investment into the refinery portion of the oil sector. Agreed only in 1995, the plan involved establishing a holding company, Polska Kompania Naftowa (PKN), to retain a share in the refineries and petrol stations that were operated by the existing retail network (CPN). The leftist PSL strongly promoted awarding an official role to the oil, petroleum and chemical state foreign trading company, CIECH, asserting that the concern's "useful trading experience" would strengthen the holding company structure. The PSL initiative was politically-motivated, since CIECH was managed by a PSL nominee and, as a result of trade liberalization, the refineries organized their oil imports directly.[34] PSL, through intensive lobbying, won its campaign to have CIECH included in the plan. Preparing for the impending

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[33] "Coal Restructuring", Oxford Analytica Daily Brief, April 25, 1996.

liberalization of the sector, in 1996 the Government decided to expedite implementation of the reform initiative. Unable to meet the scheduled deadline, however, the Government was forced to appeal to EU authorities for a delay in the liberalization time table.[35]

Banking Sector

The policies developed in the banking sector were aimed chiefly at bringing banking practices into line with EU guidelines. The Suchocka Government devised a banking sector reform proposal to consolidate the Polish banking sector in order to make it more competitive internationally (by building up capital and achieving economies of scale) and prepare the sector for opening to foreign banks as envisaged by EU association.[36] The banking sector reform proposal was heavily criticized by the political opposition, which saw the proposal as entailing excessive government intervention and patronage opportunities. Meanwhile, the international banking and financial community criticized the plans as threatening to delay or even reverse privatization.[37] Consequently, the Government did not adopt the reform proposal.

Clearly, not all of the policy prescriptions of the EU coincided with the desires of Polish policy makers, although for the most part they were in harmony with the Government's broader reform vision. Moreover, despite the Government's

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[34] "Privatization Developments", Oxford Analytica Daily Brief, August 21, 1995.
[35] "Oil Industry Reform", Oxford Analytica Daily Brief, February 1, 1996.
[36] Association Agreement, art. 68 (approximation of laws); "Banking Developments", Oxford Analytica, February 22, 1995.

compliance with the industrial trade liberalization measures required by association, several foreign trade policies continued to distort the allocation of resources, reducing the openness of domestic markets and protecting inefficient firms. The most salient policies were the *ad hoc* management of quotas and tariff exemptions and the uneven structure of tariffs. The Government refrained from using traditional border NTB measures and indeed the NTB coverage ratio was far lower in Poland (3%) than in the EU (16.5%). However, instead of adopting EU product standards, safety regulations and certification procedures, Poland adopted its own rules for a large percentage of domestically-produced goods, which amounted to a nontraditional NTB. Strict adherence to market-oriented reforms required uniform reductions in tariffs and removal of all NTBs. By granting temporary protection to various importers on a case by case basis (for electronic components, lightning equipment and building materials), the Government created an uneven playing field for competition. Consequently, the World Bank criticized Poland's uneven tariff structure as inefficient and likely to distort production and consumption patterns.[38]

Contributing to the problem, the Government lacked an independent institution to manage trade liberalization and balance the interests of import-competing sectors against those of exporters and consumers, goals not part of the mission of new super Ministry of Economy. As the World Bank cautioned, "the 'centralization' of the

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[37] "Banking Backtrack" Oxford Analytica Daily Brief, July 25, 1996.

foreign policy setting may not suffice to address protectionist dangers. There is no institutional setting yet that would allow assessing the full costs and benefits of foreign trade measures."[39] Meanwhile, whereas the Government had made impressive progress in modernizing and harmonizing Polish competition law with EU laws, it made far less progress in developing compatible "state aids" legislation. While the Association Agreement pressured Poland to eliminate certain state subsidies which distorted or threatened to distort competition, the Government failed to reach an agreement with the EU on subsidies and continued to apply the more liberal GATT rules.[40] The resulting low level of transparency, combined with the high share of state aids - estimated to be 4% of GDP in Poland in 1994 (twice the level of the EU) - distorted competition. Moreover, the estimated level of state aids in Poland was high even by former Soviet standards, with the level for Ukraine estimated at only 2.5%. This situation arose from the fact that Poland, more so than the Czech Republic, Hungary and Russia, had large sectors such as steel, coal, chemicals and shipbuilding, that were unrestructured and uncompetitive.[41] However, under the Association Agreement and in pursuit of EU membership, the Government continued to make progress on all of these fronts.

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[38] World Bank, Poland (1997) p. 30. Such an institution had operated successfully in Australia.

[39] World Bank, Poland (1997) p. 31.

[40] Association Agreement, Article 63(iii).

[41] Interview with Daniel Oks and Hafez Ghanem, World Bank, in Washington, DC, December 3, 1997.

B. Attempts to Develop Comprehensive Industrial Policies

With the return of the reformed socialists to power in the Sejm, from 1993 the Government began to consider comprehensive industrial policy programs aimed at "increasing the efficiency, competitiveness and innovative character" of industrial enterprises and reducing the share in industry of energy-intensive and ecologically-harmful enterprises.[42] Several features of these programs made them appear more as political promotions than real policy initiatives and reflected their development under considerable pressure. First, they covered a wide range of industries despite the shortage of resources and the diverse nature of the problems faced by the industries, and little effort was made to prioritize among various industries. Second, enterprises were included in programs based on heterogeneous criteria, and no economic evaluation was made of their chances of becoming commercially viable.[43] Third, if taken literally, the totality of the proposed industrial policy measures, which included cheap credit, tax concessions, trade protection and the acceleration of organizational concentration through the creation of holding companies, would have significantly

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[42] According to Robert Gilpin, "[t]he logic of the market is to locate economic activities where they are most productive and profitable, the logic of the state is to capture and control the process of economic growth and capital accumulation." Gilpin, R., The Political Economic of International Relations (Princeton: Princeton University Press 1987) p. 9. The tension between the market and the state was reflected in post-communist Poland in two senses: in tension between the commitment to liberal economic policies (as the best conduit for industrial sector restructuring) and the pressure for state intervention, pitting the aim of EU-focused policy makers to honor the country's Association Agreement with the EU against the desire of other policy makers to develop interventionist industrial policies.

[43] Socha and Sztanderska (1994) p. 87.

distorted the emerging market-based economic system. Fourth, and finally, the Government was not institutionally prepared to implement the programs because of "certain tensions and overlapping competencies" of various agencies such as the Ministry of Industry and Trade and the Ministry of Privatization.[44]

The Government made two attempts to develop a comprehensive transition-era industrial policy between 1990 and 1995. The first formal industrial policy statement was issued in September 1993 by the Ministry of Industry and Trade and incorporated into the policy statement entitled *Strategia dla Polski,*[45] and the second was issued in April 1995 in connection with a report entitled *International Competitiveness of Polish Industry.*[46] Largely a propaganda piece, the first industrial policy statement issued by the Government had twelve strategic goals, ranging from slowing recession and providing a stable economic environment to increasing exports and enhancing the competitiveness and efficiency of Polish enterprises. The main components of the first policy included: (i) ownership and organizational restructuring, (ii) development of SMEs, (iii) financial and economic stimulation instruments, (iv) trade policy, (v) technical policy; (vi) environmental protection, and (vii) sectoral policies. The second industrial policy encompassed the objectives of the first policy and added (a) a pro-

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[44] Id.

[45] Ministry of Industry and Trade, Polityka Przemyslowa: Zalozenia: Program Realizacji w Latach 1993-1995 [Industrial Policy Foundations: Realization Program for the Years 1993-1995] (Warsaw: September 1993).

industrial export policy (consisting of financial instruments, organizational-informational instruments, and foreign trade policy instruments), (b) a technical policy, and (c) structural change.

The first and second industrial policies were similarly designed, consisting of lofty, socio-political declarations intended to induce public favor. They also accorded with the country's association commitments and by issuing them the Government was not jeopardizing its designs on the EU. The first industrial policy stated that "industrial policy is a strategic socio-economic element of the country, concentrating on problems related to restructuring industry. It is the influence of the Government, through helpful economic, legal and other instruments, in selected industrial sectors, toward shaping the rational structure of production in market economic conditions. Economic law and the provisions of our international agreements permit this shaping."[47] Similarly, the second industrial policy stated that "the goal of the industrial policy program for 1995-1997 is to raise the international competitiveness of Polish industry and to ensure economic growth in the conditions of an open economy."[48] While comprehensive in scope, both policies hedged implementation on the conformity with EU association.[49]

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[46] Ministry of Industry and Trade, Miedzynarodowa Konkurncyjnosc Polskiego Przemyslu: Program Polityki Przemyslowej Na Lata 1995-1997 [International Competitiveness of Polish Industry: Industrial Policy Program for the Years 1995-1997] (Warsaw 1995).

[47] Polityha Przemyslowa (1992) p. 1.

[48] Miedzynarodowa Konkurencja (1995) p. 5.

[49] The first industrial policy supposed that much of the funding for 1993 expenditures would come from foreign credit and investment (10 billion zloty from the state budget and foreign investment; 2 billion zloty from domestic assistance funds; 11 billion zloty from foreign credit;

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The first policy recognized that "systemic solutions in the sphere of public expenditures complying with the rules of a market economy would be subordinated to the provisions of EU law,"[50] and the second recognized that "the principles of permissible state assistance are regulated in accordance with the acceptable solutions of the framework of the EU and the provisions of the GATT/WTO."[51]

(i) Key Elements of the First Industrial Policy

The first industrial policy was extremely ambitious in scope, but lacking in terms of specific proposals; for this reason, its actual implementation was unrealistic. Seeking to create an industrial structure that was competitive yet "representative of enterprise interests", the program proposed that after commercialization, the Government would consolidate state enterprises into "holdings and concerns" to facilitate hands-on management by the Government. The instruments of economic and financial stimulation included export promotion, import protection policies for domestic production in approved sectors, and special incentives for strategic domestic and foreign investors, defined as those investors generating jobs in areas necessary for final production, those securing export opportunities, and those introducing new

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30 billion zloty from domestic research funds; and 10 billion zloty from domestic enterprise own funds). Polityka Przemyslowa: Program Realizacja (1993) p. 4. The second industrial policy similarly supposed that a large, but decreasing, portion of the funding for industrial policy expenditures would come from foreign capital (FDI), assistance and loans (4 billion zloty out of the total 14.7 billion zloty in 1994; 4.6 billion out of total 18.1 billion in 1995; 5.2 billion out of 19.8 billion in 1996; and 5.7 billion out of 15.8 billion in 1997). Miedzynarodowy Konkurencynosc (1995) pp. 59-60.

[50] Polityka Przemyslowa (1993) p. 11.

manufacturing processes (particularly pro-ecological ones). The trade policy was aimed at developing new distribution networks, enhancing market infrastructure, creating a system of consumer protection and fulfilling the requirements of EU association, in particular by improving the legal system, enhancing the education system and codifying market production.[52] The requirement that any measures must accord with the EU precluded the adoption of interventionist policies and made government "approval" for protection unlikely.[53]

The first industrial policy also included a sectoral program, designed to "achieve rapid progress in reform of the industrial structure to meet the requirements of a market economy, through applying selective and various instruments at the sectoral level, allowing for a multiplication of advantages thanks to the role of the environment."[54] Selective sectoral industrial policies could be deployed for reasons of

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[51] Miedzynarodowy Konkurencynosc (1995) p. 8.

[52] Polityka Przemyslowa (1993) p. 11.

[53] The trade policy instruments included public purchases, the goal of which was to influence domestic socio-economic development, stabilize the trade balance, contribute to active economic restructuring through a suitable allocation of resources, and effective and rational enhancement of financial resources and available productive capacity. The other elements of the first industrial policy program were less interventionist, such as support for research and development, educational and informational programs, enforcement of environmental protection laws, reform of labor relations laws and regulations, and venous regional initiatives.

[54] Id. p. 17. The first industrial policy incorporated three main areas for government intervention in financing of restructuring. First, the Government would enter into "sectoral contracts" with employers, workers councils, supervisory councils and any professional alliances formed in connection with an enterprise. The contracts would govern taxes, debt, social funds, trade protection and financial assistance on the one hand, and rationalization of employment, organization and ownership restructuring and payments policies on the other. While nonobligatory, those enterprises that did not enter into contracts would not be eligible for

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national security (energy and defense), market concerns (the existence of natural markets), technological and productive enhancement, and financial requirements and benefits.[55] For purposes of the sectoral program, various industrial enterprises were classified into four categories: (i) strategic (defense and fuel-energy),[56] (ii) energy- and capital-intensive (iron and steel, cement, shipbuilding, pulp and paper, and heavy chemicals), (iii) "higher-need" (important for the economy and industrial development, including petrochemicals, electronics, automobiles, packaging, pharmaceuticals, agricultural and food industrial production, light industry, manufacturing installations for environmental protection, rail rolling stock, and construction materials), and (iv) "high-chance" (or good bets - industries in areas that were already competitive or could easily become competitive).[57]

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financial or other restructuring assistance. Second, the Government would provide financial assistance for the restructuring of enterprises and guarantee credit for modernization. Third, the Government would develop an active bank financing policy. Miedzynarodowy Konkurencynosc (1995) p. 22-23.

[55] The sectoral policies constituted what Michael Porter terms "targetting", or the singling out of particular industries for government support in the form of subsidies, selective protection, and capital. Targetting is "indirect", when it involves the preparation of sectoral studies, investments in research, development and training and trade fairs. Targetting is "direct" when it involves subsidies, protection and government-assisted divisions or mergers of enterprises. Porter also cautioned that targetting alters the incentives of private firms to compete in an industry and thus distorts market signals; meanwhile, once a government undertakes active targetting, it is difficult to cease, particularly in countries where special interests are able to influence the political process. Competitive Advantage of Nations (1990) pp. 673-75.

[56] Strategic and energy-intensive sectors included defense, power supply, steel and electronics.

[57] The initial list of "high chance" sectors included clothing, toys, airplanes, automated products, medical implements and apparatus, non-electrical surveying apparatus, machine tools, metallurgical copper, machines for light industry, porcelain-earthenware, ball bearings, electroenergetic machinery and gear, optics, tools, gum products, pharmaceuticals, electronics

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The first industrial policy comprised an excessive array of policy proposals, many of which, if fully employed, had the potential to violate the state aids provisions of the Association Agreement. Further, the program had been devised by only one governmental actor, the Ministry of Industry and Trade, whose objectives were in many cases directly at odds with those of the main policy-making institutions, such as the Ministry of Finance, the Ministry of Privatization, the National Bank of Poland and the Antimonopoly Office.[58] Meanwhile, full implementation of the program required the cooperation of all of these ministries, particularly in the areas of restructuring and finance. Given the amount of state financing required to employ the various measures, as well as the number of domestic political conflicts that would have to be resolved between the competing interests affected by the program, Polish policy makers did not contend that all policy proposals were feasible. Implementation of the program was also predicated on a more thorough verification of the compatibility of each instrument with the objective of EU membership, negating many of the instruments and rendering them closer in appearance to propaganda tools than true policy goals. Accordingly, the actual conflict between the first industrial policy program and the Government's commitment to association with the EU was far less than implied on the face of the program.

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(especially electrical and energo-electrical tools), furniture and building materials. Miedzynarodowy Konkurencynosc (1995) Annex to Chapter 111.

[58] Indeed *Strategia dla Polski* was viewed widely in Poland as populist propaganda issued by the Government dominated by the reformed communists after the November 1993 elections.

(ii) Key Elements of the Second Industrial Policy

The second industrial policy was more concise than the first industrial policy, focusing on three types of policy prescriptions that included a pro-export policy, a technology policy and structural change. The pro-export policy incorporated the pro-export elements of the first industrial policy as well as the *Harmonogram on Activity Relating to the Expansion of State Pro-Export Policy* issued by KERM on May 18, 1994, the main goal of which was to improve export growth as a basic means of increasing the rate and sustainability of the economic development of the country. Slightly more interventionist than the first policy, the pro-export policy provided for export promotion through financial instruments, infrastructural reform, government guarantees for export contracts and tax relief, and increased financing from the Export Contract Guarantee Corporation (KUKE). The statement explained that the majority of the policy's mechanisms for stimulating exports had already been implemented, such as a zero percent tax rate on goods and services, limited customs and tax rebates, as well as the introduction of the VAT system. In addition, however, the policy entailed the *development of* a system of guarantees and pledges from the state budget to support investment in industry, a statement that appeared to contravene the Government's desire to embrace EU directives.

Because the country's economic reorientation towards the EU was fairly complete by the time the new SLD-dominated coalition took office in 1993, the Government was fairly cautious about the types of pro-export policies to pursue. Consequently, despite the reference to state guarantees and pledges the second policy

had less interventionist potential than the first. The pro-export policy provided for "informational-organizational" assistance (such as studies and monitoring of export activity) and government stimulation of exports through assistance *allowable under the Association Agreement* and the GATT/WTO.[59] The policy was also obviously lacking in detail, stating that "for the support of exports the most important instruments will be to have appropriate tax and credit policies as well as to create institutional infrastructure relating to security and government guarantees for export contracts. Important steps in this area will be financing from the state budget in 1994, the Export Contract Guarantee Corporation, as well as Sejm resolutions on State Treasury guarantees securing export contracts and laws on payments of interest for certain bank credits."[60]

Similarly oblique, the technology policy claimed that the Government would assist with the provision of necessary "information and education" in relation to new technology, provide "training programs" for adopting EU standards and regulations and increasing international cooperation, support the creation of "institutional infrastructure", and develop a pro-investment policy, none of which involved prohibited state aids. On the contrary, the policy sought to prepare industry for eventual accession to the EU, implying less intervention not more. The structural change policy focused on commercialization of state enterprises, reform of the

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[59] Id. p. 8.

industrial structure, reform of regions with a high concentration of industry, and internal enterprise restructuring. The structural change reforms focused on several sectors, namely iron and steel, coal and energy, pharmaceuticals, shipbuilding, non-ferrous metals, defense and heavy chemicals. Similar to the technology policy, the structural change policy steered clear of prohibited interventionism and most of the sectoral instruments focused broadly on adapting various sectors to the needs of the market, reducing employment, lowering labor costs and other rationalization measures.

Revealing their nature as mere propaganda, the measures outlined in the second industrial policy were lofty and generic, representing goals to be achieved rather than specific measures to be taken. However, the second industrial policy reflected a consolidation of policy goals and greater awareness of the limitations on state involvement in industry posed by limited financial capacity and the country's commitments to the EU and non-distorting economic policies. The Government conveniently left itself two outs by conditioning implementation on compatibility with the EU and, having vastly underestimated the costs of the programs, on the availability of state budget funds. Both conditions prevented most of the policies from being implemented on any meaningful scale without significant public backlash. While the first and second industrial policies were never fully implemented, their adoption revealed a change in the political atmosphere and greater consideration of industrial

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[60] Id. p. 21.

opposition, particularly in relation to traditional sectors. Even there, however, the Government was able to preserve its newfound policy-making autonomy by exploiting the "tied hands" constraint and greater legitimacy generated by EU association, as illustrated by the steel and textiles sector reforms.

C. Case Studies of Polish Steel and Textiles Sectors

The mass transformation from state to private ownership was particularly difficult for the more traditional industrial sectors that were uncompetitive by world standards. Steel and textiles were two sectors where the pressure to provide assistance and forestall liberalization and restructuring was particularly strong. Coincidentally, these sectors were also considered politically "sensitive" to the EU and the constraints on intervention imposed by EU association were patently binding. These sectors had been central to the country's industrialization under socialism and were geographically concentrated in politically-important regions. Consequently, they had received significant funding and resources, including generous allocations of workers and budget subsidies, under the system of central planning. Meanwhile, insulation from world market competition had rendered the two sectors uncompetitive, and with the opening of the Polish economy in the course of the radical reforms, they faced fierce competition from both developed and newly-industrializing markets around the world. Since the sectors remained important in terms of employment, the political pressure on the Government to intervene in both sectors during the process of restructuring was substantial.

(i) Steel Sector Restructuring Initiatives

The Polish steel sector in 1991 was technologically and financially distressed and widely recognized as one of the most difficult sectors to restructure, accounting for 123,000 employees or 2.9% of total industrial employment.[61] As of 1993, one-fourth of Polish steel was produced in the obsolete open-hearth system,[62] and the sector was made up of 26 plants, 18 of which had been constructed prior to World War 1, two of which had been constructed in the inter-war period and only six of which had been constructed after 1945. After 1980, sectoral output began to decline and quality and technological standards in the steel sector fell far below EU standards. As economists Oliver and Eichmann noted, "[d]irected by the Soviet Union, the central planners throughout Eastern Europe saw the promotion of a self-sufficient steel industry as a necessary building block in their economic development. However, few Eastern steel producers reached a level of competitiveness with the West; rather they subsisted on explicit state aids. For example, Poland invested 13.5% of its total industrial capital investment in its industry from 1975 to 1980. Poland's steel industry nevertheless remains extremely inefficient."[63] Recognizing the urgency of the situation

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[61] See, e.g., Socha and Sztanderska (1994) p. 89. Hutnicza Izba Przemyslowo-Handlowa, Polski Przemysl Stalowy (1996) p. 7.

[62] Jaroszynska. A., "Restructuring Poland's Iron and Steel Industry", Polish Foreign Trade (May/June 1993) pp. 14-15, 43.

[63] Oliver, G.D. and Eichmann, E.P., "European Community Restrictions on Imports from Central and Eastern Europe: The Impact on Western Investors", Law & Policy in International Business, vol. 22 (1991) p. 731, citing Planning Commission Attached to the Council of Ministers, "Wiadomosci Hutnicze" [Factory News], May 1979, cited in Howell, T., Noellert,

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and under pressure from steel sector interest groups, the Government began preparing a remedial policy for the industry.

The crisis in the steel sector was not unique to Poland, particularly in comparison to the domestic steel industries of EU member states. Similarly, the attempt to develop an active sectoral policy was not uncommon and EU policy did not serve the same "tying hands" or "legitimizing" functions as in other sectors. Despite often being labelled as a "sunset" sector in the EU, steel remained a significant component of EU industry in the mid-1990s, with production at over 140 million tons, sales invoices of over US$90 billion and employment at approximately 350,000.[64] Several policies at the EU and national levels had been devised to deal with the so-called "manifest crisis" in steel, referring to the development of excess productive capacity in the steel sectors of all member states, followed by member state attempts to alleviate the crisis through state aids to "national champions". A comparison with the approach taken by the EU and its member states places the Polish policy in larger context. During the early 1990s, several Directorates-General, including the Directorates-General for Competition, Social Affairs and Employment, Economic and Monetary Affairs, External Economic Relations, and Development and Cooperation contributed to the formation of EU-wide remedial policies for the steel sector. These

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W., Kreier, J. and Wolff, A., Steel and the State Government Intervention and Steel's Structural Crisis (1988) pp. 462-91.

[64] Masi, A., "Steel", in Kassim, H. and Menon, A., The European Union and National Industrial Policy (London: Routledge 1996).

policies sought to eliminate excess capacity by linking the granting of permissible state aids to reductions in productive capacity.

The special focus on the steel industry in the Association Agreement reflected the EU's own difficulty in restructuring the sector. Similar to the problems facing the Polish steel sector, the EU was hampered by the potentially large social dislocations associated with de-industrialization and the need to provide alternative employment, benefits and retraining for workers deemed redundant. Indeed, the EU-wide policies were developed in the 1980s after several failed attempts by the ECSC to alleviate the crisis, ranging from a voluntary deliveries program to direct price controls. In 1981, the EU developed a special code on state aids to the iron and steel industry, specifying that "undertakings benefiting from aids had to be engaged in implementing a systematic and specific restructuring program. Such programs should lead to an overall reduction in production capacity and should not add to capacity in areas for which there was no growth market."[65] When the special code proved ineffective, the EU in 1985 adopted strict rules prohibiting aids for operating budgets or investments, exempting aids for carefully-defined and strictly-controlled research and technology expenditures, plant closures and investments designed to protect the environment. When capacity problems persisted, the European Commission decided in June 1987 to permit only aids designed to reduce excess capacity. Despite such measures, however, state aids in

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[65] Swann, D., The Economics of the Common Market (Middlesex: Penguin 1992) p. 326.

the form of debt restructuring persisted and capacity reductions consisted mainly of idle plant and production line closures.[66]

Augmenting the EU's sensitivity to steel, EU steel sector policy was heavily criticized on a number of grounds. First, all EU policies used firm profitability as the main criteria for developing restructuring initiatives, a measure shown to engender serious distortions in competition among individual undertakings and diminishing the eligibility prospects of less profitable firms.[67] Second, EU policy failed to distinguish between private and public undertakings, aside from cases where a member state government afforded special treatment to a particular public undertaking.[68] Finally, in practical terms, the EU allowed state aids as a temporary measure where designed to further restructuring in order to restore competitiveness to the industry through

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[66] Masi, "Steel" (1996) p. 76.

[67] As Masi notes, "if a national steel industry underwent a radial restructuring early in the crisis years, it may now have amortised most of its capital debt and be able to show a profit on its product line, even if some of its output-per-head productivity measures are relatively low. On the other hand, a steel plant with modern, recently installed technology and large debt may not be able to show a profit under present market conditions, even with good output per worker. In other words, it can be difficult to combine profitability and competitiveness, and European Community policy has proved unable to accomplish the task." Masi, "Steel" (1996) pp. 76-77.

[68] The EU examined the extent to which private investors would have made decisions similar to those made by the state for nationalised companies or by the state-holding company in countries that maintain a nominally arm's-length relationship with enterprises. However, the EU was not always in a position to accurately gauge the "hypothetical" decisions of investors. For instance, whereas the EU would assume that private investors would decline to invest in the steel industry during a period of crisis, private entrepreneurs and directors of widely-held companies might decide to invest in anticipation of better market conditions in the future. Alternatively, such institutions could be permanently failing, in which case all investments, public or private, would be money-losing over the long term. Under the EU policy, it was difficult to discern which types of investments would be pro-competitive and which would not be. Masi, "Steel" (1996) p. 77.

"commensurate" reductions in productive capacity. The EU deemed reductions to be commensurate, however, on plants not receiving any aids and usually required the reductions to be made in recently modernized, and thus indebted, plants, often causing significant reductions in employment.[69] Commenting on the EU's discretion to determine which state aids were allowable, a study of the Italian steel sector by Anthony Masi noted that "in many Directorates-General, but particularly DG-IV, decisions that seemed on the surface to be ideologically pure and based soundly on the provisions of the relevant treaty, are in fact highly politicised and tend to favor the interests in Germany or France."[70] It also concluded that "precisely this interplay between the Community and national strategies has contributed to making the crisis of this sector a quasi-permanent feature of European economic policy making."[71]

Accordingly, the Government was less able to point to the EU as a source of legitimacy for a "hands off" approach to steel sector policy and was instead more constrained by the dire state budgetary situation. Faced with not only excess capacity, but obsolete technology and severe overemployment, at the end of 1992 the Polish Ministry of Industry and Trade commissioned the preparation of a restructuring program for the steel sector, which included the preparation of a study by 30 Western specialists of the sector. The study noted that several factories possessed new installations (particularly those factories in Katowice, Ostrowiec and Zawiercie), a

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[69] Masi, "Steel" (1996) p. 77.

sufficient supply of coal coke, and an educated, cheap and well-experienced work force. However, the study also noted the sector's reliance on heavy industry and the former CMEA market, excess productive capacity, obsolete and low level of technology, lack of domestic competition, poor environmental condition and general inefficiency (raw materials factories situated far from the source of raw materials, energy and material waste, and high cost of credit service). The total cost of the restructuring program was estimated at US$ 4.5 billion, which the Government expected to be financed through steel enterprise funds and World Bank loans over a ten-year period. Since the program would result in significant lay-offs, it provided for the restructuring and transfer of several departments to other enterprises.

The general aims of the restructuring program included organizational and ownership restructuring, technical restructuring, financial restructuring and employment restructuring. The more specific elements of the program provided for government guarantees "only for investor proposals for restructuring initiatives determined biannually within the state budget law". The program expressly stated that any tariff policies or quotas would have to be developed in accordance with Poland's EU association policy, although "during the period of restructuring some protection [would be] allowable". Finally, the priorities of the Government's restructuring program were as follows: (i) the reduction of excess capacity from 16.5 million tons

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[70] Masi, "Steel" (1996) p. 78.

to 11.7 million tons of liquid steel, (ii) a production target for pipes aimed at 900,000 tons, (iii) the introduction of continuous casting, (iv) the rationalization of employment (through a reduction of approximately 80,000 workers) and the closure of all open-hearth furnaces, and (v) the privatization of profitable factories.[72] Because steel had been a high-profile industry under central planning, during the transition the Government deemed it to have high potential and showcased it in a number of government-funded glossy promotional materials.

Cognizant of its own deep involvement in the steel sector, the EU was fairly flexible in relation to Polish state initiatives to restructure the industry. In October 1996, the EU recognized the difficulties being experienced by Polish policy makers in restructuring the industry and agreed to allow the Government to maintain a nine percent import duty on steel products through the end of 1997. They also agreed to assist Poland with raising the remaining estimated US$2.5 billion in order to carry out the reform proposal, with the Government reserving the right to maintain high tariffs on steel products in the event the EU failed to secure the required financing.[73] Despite the EU's supportive stance, implementation of the restructuring program was delayed for several reasons. First, the sector benefited from large, long-term subsidies, was highly concentrated with a few plants producing most of the total output, and was

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[71] Masi, "Steel" (1996) p. 75.

[72] These priorities were established on the basis of a sectoral study undertaken by a Canadian consortium comprised of Ernst & Young, Hatch and Stelco in December 1992.

[73] OMRI Economic Digest, vol. 2(44), October 31, 1996.

characterized by overutilization of capital, skilled labor and energy. Second, the sector was characterized by strong labor unions and inflexible high wages, and firms typically dominated the towns in which they were located, for instance, Nowa Huta outside of Cracow, making lay-offs politically unappealing. Finally, the decline in former CMEA market and domestic demand rendered restructuring and privatization extremely difficult

Not surprisingly, given the politically sensitive nature of the sector within the EU, the EU's patience eventually wore thin and European Commissioner Hans van den Broek began publicly referring to the lack of restructuring as a "bone of contention" between Poland and the EU.[74] As bilateral tension grew, Polish leaders refused to concede to the EU's demands. When the time for liberalization arrived in accordance with the time table of the Association Agreement, the Government stalled and continued to maintain the nine percent import tariff, while the EU demanded that it be lowered to three percent as provided in the Agreement. The Government's willingness to postpone compliance with the liberalization schedule showed that government policy-making autonomy vis-à-vis domestic actors was not inviolable when it came to deeply sensitive domestic issues and that the situation in the steel sector had crossed a threshold of political sensitivity that required noncompliance, even if only temporarily, with EU demands.

The Government's capitulation to the demands of domestic steel sector interests was short-lived and the import tariff was eventually lowered. Because of the EU's own history of intervention in the industry, Polish leaders were unable to avail themselves of "the EU model" of dealing with the sector as a source of legitimacy or a means of resisting demands for intervention. Referring to the active involvement of EU governments in steel, the President of the Polish Stalexport company, Ryszard Harhala, asserted that the industry's need for large investments in order to meet Western standards "should be considered by the EU," since many EU member states had restructured their steel sectors over decades with substantial EU and domestic assistance. The ability to postpone liberalization was also bolstered by the fact that despite the high Polish duties on steel imports from the EU such imports continually increased. Thus, the Government was forced to beseech EU officials to show more flexibility toward steel than toward other sectors. Broader public support for EU association and the Government's own desire to pursue eventual membership ultimately allowed the Government to return to its market-oriented, pro-EU policy-making course and to consider only restructuring plans satisfactory to the EU, so that the EU once again became a policy-making "shield".[75]

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[74] "Government Urged to Revamp Steel, Other Sectors, Cut Tariffs on EU Steel", BNA Eastern Europe Reporter, vol. 8, January 23, 1998, p. 129.

[75] In order to meet EU requirements, the Polish Council of Ministers on June 30, 1998, decided to reform the steel industry by cutting 50,000 jobs while maintaining current output levels. "Poland to Reform Coal, Steel Industries," RFE/RL Newsline, vol. 2, No. 124, Part II, 1 July 1998.

(ii) Textiles and Clothing Sector Reform

Similar to the steel sector, the textiles and clothing sector was largely viewed as a "sunset" sector in most EU member states (with the exception of Italy), characterized by rising labor and capital costs and a declining share of domestic and foreign markets. Consequently, the sector was also highly sensitive politically, accounting for nine percent of total industrial employment in the EU. The sector was even more sensitive politically in Greece and Portugal, where it accounted for nearly one-third of manufacturing employment in 1995. Complicating the situation further, the textiles and clothing sectors experienced greater hardship during the recession in the EU in the early 1990s than did the manufacturing sector as a whole. Between 1989 and 1992, textiles production declined 4.7 percent and clothing production declined 6.4 percent, while investment declined 32 percent in textiles and 25 percent in clothing and employment in both sectors declined 14 percent. While the Multi-Fiber Arrangement (MFA) limited the amount of intervention in the sector, this environment sharpened the political focus and strengthened the protective stance shown by EU officials toward the sector in the negotiation of the textiles-related provisions of the Association Agreement.[76]

Compared with Portugal, in 1992 the Polish textiles and clothing sector accounted for a lower proportion of total manufactured output (7.3 percent in Poland

compared with 15.7 percent in Portugal) and a lower proportion of total employment (17.5 percent compared with 30.8 percent). Thus, labor productivity in the Polish sector was only 42 percent of the lower national compared with than the Portuguese 51 percent. Moreover, labor costs and the number of employees per firm were higher than in the Portuguese textiles and clothing sector.[77] Under central planning in Poland, the industry was given low priority and the non-market policy orientation of the sector resulted in a low level of investment and automation, low labor productivity and wages, and intensive use of unskilled labor. The Polish sector was also highly concentrated geographically, with one-third of the industry concentrated in Lodz and a significant proportion concentrated in Lower Silesia (Dolny-Slask) and in the Northeast. Yet, at the start of the reforms the Government maintained high hopes for the sector. Speaking in 1991, Minister of Foreign Economic Relations Olechowski declared that the textiles sector, which then employed approximately 600,000 workers, had the potential to be the "engine of recovery" in Poland.[78]

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[76] Sheehy, J., "Economic Interpenetration Between the European Union and Central and Eastern Europe", in Dobrinsky, R. and Landesmann, M. (eds.), Transforming Economies and European Integration (Aldershot: Edward Elgar 1995) pp. 76-77.

[77] In 1992, the average number of employees per firm in textiles and clothing was 443 and 211 respectively in Poland, and 133 and 74 respectively in Portugal. Corado, C, Benacek, V. and Caban, W., "Adjustment and Performance of the Textile and Clothing Industry in the Czech Republic, Poland and Portugal", CEPR Discussion Paper No. 1260 (London: CEPR November 1995) p. 3.

[78] Dunne, N., "US boost for Polish clothing", Financial Times, September 27, 1991, p. 7. Minister Olechowski made this remark shortly after the US had agreed to widen access for Polish textiles and had identified the sector as a key sector in the Polish economic transition. Minister Olechowski went on to argue that the Polish textile industry should be graduated from

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The Government's first step in restructuring the textiles sector was to conduct an assessment of its economic viability. In January 1991, the Ministry of Industry and Trade hired the Boston Consulting Group to prepare a sectoral study and restructuring program for the industry.[79] The study made several negative findings relating to the sector. First, the industry was characterized by an extreme concentration of open-end spinning capacity, with over 60 percent of ring spinning spindles located in plants of over 40,000 spindles and open-end spinning capacity concentrated in plants with over 10,000 rotors, which was not justified by the insignificant economies of scale.[80] Further, over 60 percent of the spinning machinery was more than 10 years old and the preparation and winding machinery was also outmoded.[81] Finally, the industry was characterized by low labor and machine productivity and rising factor costs,[82] including in the spinning, weaving, dyeing, finishing, and garment-making phases of production. The report recommended significant new investments in machinery and technology and, since Polish textiles exports were likely to be subject to quotas pursuant to the MFA, the development of a "mixed" quota allocation scheme based on past

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the MFA textile quota program because the industry no longer received subsidies and was completely open to trade.

[79] Boston Consulting Group, "Polish Textile and Clothing Industry Restructuring Programme: Executive Summary for the Government of Poland and the World Bank" (London: January 1991).

[80] Benacek, V., Chemetilo, D., Dragan, N. and Petrov, A., "Economic Behavior, Adjustment and Performance of Producers in Transition", Paper of the 10th EEA Congress, Prague (1995).

[81] BCG Study (1991) p. 4. The study also found that while Polish production covered most of domestic consumption requirements for man-made fibers, such as cellulosic fibres, polyester and nylon, imports were significant in natural fibers such as cotton, wool and acrylics. Id. at 2.

performance (used in Korea, Taiwan and Hong Kong) and auctions (used in Turkey and Hong Kong).[83]

In contrast to steel privatization, the Government's plan for textiles centered on extensive privatization as opposed to subsidies or other state assistance. Between 1990 and 1992, nine percent (96 enterprises) of total enterprises in the industry were privatized, with privatization in the sector slowing after 1992 owing to domestic political instability and the sector's deteriorating financial and economic situation. Among the 96 enterprises that were privatized, 13 (8 in textiles and 5 in clothing) were liquidated, meaning their assets were sold or leased to private owners, 30 (24 in textiles and 6 in clothing) were liquidated in bankruptcy-type proceedings, 33 (32 in textiles and 1 in clothing) participated in the mass privatization program and 20 (10 in textiles and 10 in clothing) were privatized by capital privatization (buy-outs).[84] Many enterprises had avoided restructuring during the radical liberalization period of 1990-91 by relying on inventories they had accumulated prior to 1990 and sizeable foreign

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[82] BCG Study (1991) pp. 5-6

[83] BCG Study (1991) pp. 47-48. Previously, the Polish government had allocated quotas to only three monopoly trading companies, Textilimpex, Confexim and Tricot. The mixed allocation system was advocated in order to safeguard existing trade relationships, in particular in relation to the EU, and to accommodate new entrants to the Polish export market.

[84] State enterprises in the sector did not perform well during 1990-91, with declining production and employment, but improved their performance in 1992-93. In particular, textile production fell on average 15.7 percent between 1990 and 1992, which was above the average for the entire manufacturing sector. However, clothing production rose 14.7 percent between 1990 and 1992, and in 1993 production rose 13.4 percent in textiles and 9.7 percent in clothing. Further, new, smaller private firms became significant in the sector, with private sector sales

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exchange bank accounts they had accumulated during the 1980s. After 1991 enterprises began to deplete their inventories and foreign exchange reserves. In order to survive, many enterprises began striving to improve product quality, management and marketing, and their performance generally improved during 1992-93.[85] Nonetheless, the sector retained its "dualistic" nature, characterized by small and medium-sized firms selling on the domestic market and large firms selling on foreign markets.[86]

Characterized by a lower degree of government intervention in the form of subsidies and trade protection, the changes in the textiles sector were markedly different from the restructuring that took place in the steel sector. Investment in the textiles and clothing sector declined more on average between 1990 and 1992 than in the manufacturing industry as a whole, although it rose in the clothing sector by 63.5 percent in 1992 as a result of rapid privatization and new firm entry. Employment reductions in the state-owned portions of the textiles and clothing sector between 1990 and 1992 were also larger than for the manufacturing sector as a whole. In particular, employment in the textiles sector fell 39 percent per year between 1990 and 1992, and

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reaching 27 percent of total textiles sales and 84.5 percent of total clothing sales in 1992. Corado et al. (1995) p. 20.

[85] Corado et al. (1995) p. 25. See also Caban, W. and Wysokinska, Z., "Polski Przemysl Wlokienniczy i Odziezowy w Procesie Transformacji Systemowej" [Polish Textiles and Clothing Industry in the Process of Systemic Transformational], Gospodarka Narodowa, vol. 2 (1993) pp. 3034. Belka, M., Krajewska, A. and Krajewski, S., "Stan I Perspektywy Przemyslu Tekstylnego w Regionie Lodzkim" [The State and Perspectives of the Textile Industry in the Lodz Region], Gospodarka Narodowa, vol. 2 (1993) pp. 34-38.

9 percent in 1993, while employment in the clothing sector fell 9 percent per year between 1990 and 1992 but increased 2.7 percent in 1993. However, when the private portion of the sector was included, the employment share of the textiles and clothing industry in total manufacturing actually rose from 17 percent in 1990 to 17.5 percent in 1992, suggesting a significant reallocation of labor from state-owned to private firms.[87]

Taking into account the changes in production and employment between 1990 and 1993, the textiles and clothing sector remained a large sector of Polish industry. Although the share of the sector in domestic industrial output fell from 12 percent in 1989 to 5.8 percent in 1992, in 1993 the sector accounted for 8.5 percent of gross national production, 8 percent of total exports and 10 percent of the active labor force. Recognizing that most of the output of the sector did not meet the quality requirements of western markets and a large portion of the equipment needed upgrading or replacement, the Polish Agency for the Development of Industry devised four restructuring programs, each of which was far less interventionist than the program devised for the steel sector. The first program, "Polski Len" (Polish linen) covered the ten largest enterprises in the sector, accounting for 70 percent of productive capacity, and the second program, "Bielska Welna" (Bielska-Biala wool) covered nine enterprises. These two programs involved financial assistance amounting to 1.3 billion francs (approximately US $300 million) from the French-Polish

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[86] Corado et al. (1995) pp. 38-39

Foundation and were generally considered to be successful, with output and productivity rising and employment falling in the enterprises concerned. The remaining two programs, "Lodzka Welna" (Lodz wool) and "Lodzka Bawelna" (Lodz cotton), covered thirty enterprises in the Lodz region and involved mostly technical aid for the restructuring of finances and production.[88] As these programs did not entail significant state aids or trade protection, the Government was able to maintain its pro-market policy stance and abide by the terms of EU association.

The Polish steel and textiles sectors provide a good comparative basis for examining how EU association strengthened the Government's hand in the face of domestic industrial opposition. In terms of similarities, both sectors were politically sensitive in Poland and the EU, and both were economically and technologically distressed at the beginning of the transition era. The two sectors were politically charged relative to other industrial sectors and received deep scrutiny in the association negotiations. However, restructuring programs for the two sectors differed substantially in terms of their reliance on state aids and temporary trade protection (see Table 7.1). Whereas the Government focused on privatization in the textiles sector (even where it entailed sizeable employment shifts), the Government continued to devise restructuring programs for the steel sector that entailed enormous, and financially unrealistic, investments in the state-owned steel enterprises. The

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[87] Corado et al. (1995) p. 25.

Government's ability to maintain greater policy-making autonomy in the textiles sector was largely attributable to the lower degree of government intervention within the EU, particularly in light of the MFA. Significantly, while textiles accounted for a higher proportion of employment,[89] the financial burden of restructuring the textiles sector was considerably lower than for the steel sector. While the Government experienced greater difficulty resisting appeals for intervention in the steel sector, in both cases it preserved its policy-making autonomy relative to other domestic actors by reference to the EU.

Table 7.1: Comparison of Restructuring Programs for Steel and Textiles

Sector:	Initial Viability	Potential for Market Expansion	Need for Capital Outlays	Government Intervention	Percent of Total Employment in 1991	Percent of Industrial Employment in 1991
Steel	Low	Considerable	Large	High	.8%	2.9%
Textiles/ Clothing	Low	Moderate	Large	Low	4%	14%

Conclusion

Despite the different approaches to restructuring the Polish steel and textiles industries, both sectors revealed several lessons as the Government faced rising opposition from domestic industrial groups. First, where domestic concerns were

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[88] Borzeda, A., "Le Tissu Industriel Polonais", Le Courrier Des Pays de L'Est, No. 387 (March 1994) pp. 43-73.

particularly strong, as in the steel sector, EU association did not serve as an immediately binding constraint on policy making, although financial resources and practical realities did. The ability of politically-powerful domestic actors to force government leaders off their pro-market, pro-EU course did not appear to be a systemic feature of the domestic political landscape. Moreover, the contentious "interventionism" in the steel sector amounted at most to prolonging the status quo, while discussions with the EU on the issue elucidated a discernible policy frontier beyond which domestic industrial policy makers refused to stray. Second, in the face of domestic opposition, EU association allowed the Government to press ahead with economic reform and shy away from state aids and distortionary export promotion policies. This was true even where trade liberalization under the Association Agreement failed to engender spontaneous adjustment in industry and generated pressures for state assistance. The Government followed a course that reflected both the desire to join the EU and the palpable lack of domestic investment capital with which to assist industry. These factors enhanced the Government's domestic industrial policy-making autonomy, diminishing the prospect expressed by Jan Szomburg in relation to the post-1993 Government that "[t]he *etatist* orientation of the governing

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[89] The steel sector reforms resulted in a considerable decrease in employment from 123,000 in 1991 to 99,700 in 1995. Hutnicza Izba Przemyslowo-Handlowa, Polski Przemysl Stalowy (1996) p. 9.

postcommunist parties combined with the existing social mood could produce an attempt to build state capitalism in Poland."[90]

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[90] Szomburg, "Political Constraints on Polish Privatization" (1995) p. 84.

CONCLUSION

Despite all the turmoil unleashed by economic and political regime change, Poland during its early post-communist phase provides an excellent case study of the effect of association with the EU on domestic industrial policy making. In particular, as a formerly "closed" country, having been confined within the Soviet bloc for over four decades, the newly "opened" Poland underwent an industrial policy-making revolution during a period wrought with special dilemmas - the difficult task of converting from a socialist system to a market economy and the ongoing struggle to consolidate the country's fledgling democratic political system. This analysis of post-communist Polish industrial policy making revealed several lessons based on political theories predicting discernible effects of general economic internationalization on policy-making control, and on the more specific assertions of liberal intergovernmentalism relating to the impact of association with the EU on policy-making autonomy. While the Polish experience supported much of the prevailing wisdom, the circumstances of transition altered many of the underlying assumptions of the existing theory in ways that strengthened some predictions and negated others.

Several aspects of transition affected the evolution of industrial policy-making during the early post-communist era. First, the nation experienced wide swings in the political landscape as the most ardent market-oriented reformers of the Bielecki and Suchocka Governments were replaced by the reformed socialists of the Pawlak, Oleksy and Cimoszewicz Governments. While the major political shift which transpired in

1993 induced changes in official rhetoric and policy-making experimentation, they were not borne out in implementation and did not cause Poland to deviate from its twin goals of building a market economy and pursuing membership in the EU. Second, Poland entered into several bilateral and multilateral agreements with the EU, the WTO, the World Bank, the IMF and a number of other countries which obligated the country to stay a market-oriented course in order to achieve the goals of EU membership and economic modernization and to qualify for financial aid (e.g. structural assistance from the World Bank and stabilization loans from the IMF). Finally, the country lacked public resources to maintain a "social market economy" similar to the economies of Germany, France and Sweden, and so wisely focused on far-reaching privatization and market-oriented industrial reform more congruent with the dominant EU trend.

The course of policy making in Poland closely followed the predictions of Milner and Keohane that the greater the opening of the economy, the more likely the government is to experience a loss of policy-making control and the more willing the government will be to undertake liberalization and "liberalization-favoring" institutional reform. As Polish policy makers liberalized industrial trade under the Association Agreement and other international trade agreements they simultaneously relinquished direct control over industry through privatization and market-based reforms. The extrication of policy makers from direct involvement in industry was facilitated by the lack of a well-defined post-communist system of interest group organization or lobbying through which to consolidate opposition. However, while the

Polish situation fit well into the broad "greater-internationalization-leads-to-greater-liberalization" paradigm, the transitional Polish political and economic situation implied a state of policy-making and institutional flux not suitable for the application of static analytical frameworks. For this reason, the stereotypical classifications of more rigid theoretical models - such as the abstract "production profile" or "economic ideology" approaches outlined by Gourevitch or the "autonomous-state", "interest-group" or "self-seeking bureaucrats" approaches outlined by Chang - were less suitable for the transitional post-communist Polish reality.

By contrast, the evolution of Polish industrial policy making provided a particularly fertile testing ground for certain central tenets of liberal intergovernmentalism. As seen in the case studies of the Polish steel and textiles sectoral reforms, Poland's association with the EU produced unanticipated variations on the basic predictions of liberal intergovernmentalism, namely that membership (or association with a view toward membership) in the EU strengthens the executive vis-à-vis other political actors in member states, redistributing "domestic power resources" between the government and society in favor of policy makers participating directly in EU-directed negotiations and institutions, and conferring domestic "agenda control" on national executives, allowing them to determine which issues appear on the agenda and to veto proposals that conflict with external agreements. In the case of Poland, the "executive" in the realm of EU association included EU-focused policy makers in the Committee for European Integration and special EU departments throughout the government bureaucracy. The evolution of Polish industrial policy making facilitated

an analysis of two prime hypotheses: whether the role of the "executive" was strengthened by the pursuit of EU association and eventual membership, and whether, subsequent to any ensuing redistribution of power, the executive was able to mold industrial policy preferences to accord with EU policy preferences.

Since shock therapy and the subsequent reforms required the Government to extricate itself from industry, the ability to resist appeals for intervention was as good an indicator of autonomy as the ability to mold industrial policy preferences. Early post-communist leaders expected association with the EU, and the replacement of central planning and CMEA trade arrangements with pro-market policies, to allow the country's natural comparative advantage to emerge through spontaneous industrial restructuring. However, other factors also influenced Polish industry, including changes in trade policy, pressure from domestic lobbies, distorted credit and labor markets, the ownership structure of industry and the pattern of foreign investment. As a result, domestic pressures emerged for the formation of interventionist industrial policies, many of which were incompatible with the Government's commitment to association and aspirations of EU membership. The Government generally resolved this tension in a manner compatible with its obligations under the Association Agreement, revealing that a country in transition and seeking membership may be more predisposed than other recent EU member states to resist domestic pressure and abide by the policy-making constraints of the EU (or illustrate "tied hands") in return for greater chances of membership.

By virtue of the insulation of pro-EU policy makers within the Government and the overwhelming popular support for association, Polish policy makers acquired power relative to other domestic actors from the outset of the preparation for the negotiations. Moreover, this power shift continued through the signing of the Association Agreement and increased over the course of its implementation. As predicted by liberal intergovernmentalism, the relative weakness of any domestic opposition to association was a result of the transitional nature of the post-communist policy-making process and institutional structure, the dearth of relevant knowledge possessed by society, and the prevailing ideological support for market-oriented policies. The ensuing "power redistribution" was unaffected by successive changes in government, which for the most part engendered experimentation in the domestic policy-making sphere but did not violate the Association Agreement. The features solidifying power redistribution included reform of the central policy-making institutions, the rapid and evolving nature of the association process which slowed the flow of public information, and the generally improving economic situation characterized after 1992 by positive growth, growing foreign trade and expanding foreign direct investment. In these circumstances, the irreversible drive toward EU membership enabled policy makers to remove many issues from the domestic to the supranational level where they were subject to far less legislative, judicial and public oversight.

At the same time, some of the more painful features of the transition resulted in deviations from the predictions of liberal intergovernmentalism. In particular, where

domestic discontent with planned downsizing or privatization in a sector overwhelmed the Government, as in the steel sector, domestic industrial pressure groups were temporarily empowered vis-à-vis government policy makers and were able to force the government to diverge from the policy-making mandates of EU association. But the ability of temporarily-empowered domestic actors to force government leaders off their pro-market, pro-EU course did not appear to be a systemic feature of the domestic political landscape.[1] Moreover, the contentious "interventionism" in the steel sector amounted at most to prolonging the status quo, while discussions with the EU on the issue elucidated a discernible policy frontier beyond which domestic industrial policy makers refused to stray. Ultimately, the Government remained committed to economic reform and association with the EU, shying away from state aids and distortionary export promotion policies, even where economic reform and trade liberalization under the Association Agreement failed to engender spontaneous adjustment in industry and generated pressures for state assistance.

Finally, the post-communist Polish political system appeared to manifest the central tenet of liberal intergovernmentalism - that "[r]ather than 'domesticating' the international system, the EC 'internationalizes' domestic politics". For a country in transition, one would logically expect expediency to require that most policy proposals

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[1] The situation was repeated in the coal sector in 1998 and would likely recur in other sectors on an ad hoc basis. See, e.g., "Poland: European Union: Government Approves Restructuring Plans for Steel, Coal Sectors Under Pledge to EC", BNA's Eastern Reporter, vol. 8, July 13, 1998, pp. 515-16.

be made by an executive body or cabinet as opposed to by the fragmented legislature. In the "transitional" Polish political system, both initiative, or control over the domestic agenda, and institutions, or decision-making procedures, were evolving rapidly. Similarly, policy innovation, domestic ideological justifications for policies and access to information were also in a state of flux. Thus, early in the transition era many legislative proposals escaped plenary review by all ministries, although this feature of the system changed with the creation of special EU departments within each ministry. Meanwhile, by controlling access to information, the Committee for European Integration retained an informational advantage that augmented its control over the country's policy agenda and made it difficult for other domestic actors to interfere in industrial policy making.

The diminished power of domestic interest groups in the industrial sector was historically predictable, as Poland's quest for membership in the EU echoed the Spanish experience, and that of Portugal and Greece. In these countries the post-dictatorship democratic reformers viewed membership in the EU as one of the main guarantees of democracy and international recognition, and as the best way to achieve economic modernization. Similar to Polish policy makers, they believed Spain's cheap reserves of labor would attract enterprises southward, and expected the large EU market to absorb relatively cheap Spanish products. Moreover, in Spain the post-Franco Government linked membership in the EU with membership in NATO, although the latter was somewhat contentious (unlike in Poland). Miren Etxezarreta could have described Poland when he explained how "[a]ll these factors increased the

pressure to join and the acceptance of almost any conditions that would be imposed on the country by the [EU]. . . As a result, the Spanish entry took place on 1 January 1986 with very tough, if not outright unfair conditions imposed on Spain's economy."[2] Consequently, far from resulting in economic advancement, "[m]embership of the EU means a much weaker capacity for an autonomous economic policy at all levels, and the Maastricht Treaty reinforces that voluntary dependence. In spite of this, it is almost impossible to find among Spanish policy-makers any type of qualification or caution against the requirements established by integration."[3] As in Poland, Spanish policy makers had also been swept along in the pro-EU membership tide.

A comparison with the Mediterranean enlargement places the impact of EU association on Polish industrial policy making in regional and chronological context. It shows that, when viewed from the perspective of liberal intergovernmentalism, the impact on a transitional post-communist country such as Poland, though similar, has probably been even greater than it was initially for Spain, Portugal and Greece. This assertion is true despite the fact that the novelty of the Mediterranean enlargement was that the countries were "outsiders" in terms of the low level of their economic development, infrastructure, industrial productivity and trade composition. While these countries were also in a state of transition as they negotiated association

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[2] Etxezarreta, M., "Economic Integration and the EU: The Spanish Experience", in Paraskevopoulos, C.C., Grinspun, R. and Georgakopoulos, T. (eds.), Economic Integration and the EU: The Spanish Experience (Cheltenham, UK: Edward Elgar 1996) p. 234.
[3] Etxezarreta, "Economic Integration and the EU" (1996) p. 240.

agreements, they faced different geopolitical and economic circumstances vis-à-vis the EU. In particular, the strength and range of the demands made by the EU in relation to acceptable policy-making initiatives and directions have been greater for Central Europe than they were for the more recent Mediterranean members. Because an increase in the number of issues removed from the domestic to the supranational EU agenda has empowered government policy makers in Poland even more than it did in Spain, Portugal and Greece by virtue of their earlier date of entry, it has correspondingly weakened other domestic actors relative to the central bureaucracy.

Three reasons account for the enhanced constraining impact of EU association in Poland. First, with the end of the Cold War, the EU has been less preoccupied with securing its eastern flank and more focused on achieving internal growth and development; put differently "deepening" has dominated "enlargement" in terms of priority. With the accession of the EFTA members having recently increased EU membership to 15, Polish policy makers are aware that the EU is more cautious about accepting the challenge of further enlargement. The EU must confront the significant dilemma posed by the ever-increasing number of languages and size of institutions prior to its enlargement to encompass new members from Central Europe. If the EU were to admit just Poland, the Czech Republic and Hungary, the number of members of parliament and official languages would increase significantly, requiring numerous translators for the 10,000 meetings of EU bodies every year which already necessitate over 200 linguistic combinations. The system of voting is already contentiously complicated given the amplified advantages the small states enjoy relative to larger

ones pursuant to the current qualified majority voting regime. In particular, with more members, an expanded Council would probably increasingly resort to qualified majority voting while the 30% blocking majority would require ever more states to veto a proposal and increase a member's chances of being outvoted.

Second, the EU economy has become vastly more powerful and stable, both in absolute terms and relative to other economically dynamic regions such as East Asia and Latin America. The EU has evolved into a self-contained market of nearly 375 million people whose member states have reached advanced stages of economic development. These factors render the EU and its member states less likely to allow deviations from policy-making discipline, particularly as the depth and reach of EU industrial policy continue to expand. As professors Amado da Silva and Eduardo Cardadeiro of Universidade Catolica Portuguesa described, EU industrial policy provides an "upstream" constraint on industrial restructuring "in the sense that it constrains both the design itself and the nature of the goals" by engendering an "inexorable internationalisation" of firms and industries in the EU.[4] Indeed, the prevailing trend is to cede more authority to the EU over industrial policy, not less, coupled with an increasingly "strong co-ordination of industrial policy, namely with competition and trade policies, both at domestic and EU levels, as well as a trend to

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[4] Amado da Silva, J. and Cardadeiro, E., "Portuguese Industrial Policy: Its Problems and Hints for the CEEC Policies" (Universidade Catolica Portuguesa: Revised Draft Paper January 1996) p. 7.

create a very EU industrial policy."[5] In such circumstances, the autonomy of domestic industrial policy makers throughout the EU, and more so in the associated countries, can be expected to increase in relation to other domestic actors.

Third, having experienced certain growing pains in relation to the Mediterranean enlargement, the EU is more cautious about accepting less economically-advanced countries into its fold. In particular, the accessions of Greece, Spain and Portugal resulted in a significant drain on the EU budget - by virtue of their drain on regional aids - which the EU would like to avoid repeating with Central Europe. Accession to full membership in the EU carries with it entitlement to redistributive expenditure for eligible regions from the Structural and Cohesion Funds and through the Common Agricultural Policy. Much of the non-agricultural expenditure goes to Greece, Spain, Portugal, Ireland, southern Italy and the new eastern Lander, with relatively small amounts allocated to the UK and even smaller amounts for the wealthier states and new EFTA members. While of less benefit to the poorer member states than to northern Europe, farm subsidies remain an important

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[5] Amado da Silva, J. and Cardadeiro, E., "Portuguese Industrial Policy", p. 11; see also Gual, J. "The Three Common Policies on Economic Analysis", in Buiges, P., Jacquemin, A. and Sapir, A. (eds.) European Policies on Competition, Trade and Industry - Conflicts and Complementarities (Aldershot, UK: Edward Elgar 1995). Indeed, Buiges, Jacquemin and Sapir claimed that co-ordination at the EU level "is certainly not sufficient to ensure that the three policies (Industrial, Trade and Competition) are conceived and implemented so that markets efficiently allocate resources and maximise welfare", and that the only way to rectify the problem is to deepen EU-level co-ordination and involvement. Buiges, P., Jacquemin, A. and Sapir, A., "Complementarities and Conflicts in EC Microeconomic Policies", in European Policies on Competition, Trade and Industry (1995).

reason for the political popularity of the EU in the Mediterranean countries. With the growing demands on its budget, the EU is less eager to embrace and generously assist needy new members, and is likely to avoid pressures to co-finance a national industrial policy program such as Programs I and II for the Specific Development of Portuguese Industry which by all accounts took years to achieve any results.[6] Not coincidentally, the most recent enlargement in January 1995 embraced economically-advanced countries - Austria, Sweden and Finland - that were reasonably expected to result in a net gain to the EU budget.

Consequently, in light of the dubious capacity of the EU budget to cope with increased fiscal redistribution, the expectations of policy makers of "want-to-be" members such as Poland should be lower. Indeed, Jacques Delors publicly explained in 1990 that if the same criteria were used for future Central European members as were then used in the Structural Funds, the budget would have to grow by at least $17 billion per year, a highly unlikely scenario.[7] The total budget of the Structural Funds

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[6] Amado da Silva, J. and Cardadeiro, E., "Portuguese Industrial Policy", pp. 4-7. The Programs, PEDIP I and PEDIP II, aimed to create new entrepreneurial and professional skills, change the structure of Portuguese industry, mobilize R&D and restore the capital stock of firms. The Programs ran into difficulty because owners and managers were firmly opposed to opening the capital market to outside investors and to sharing management of their firms with more skilled newcomers. Instead of using the non-reimbursable funds offered to restructure themselves and attract new capital and management, existing firms used the funds as security for traditional bank loans. However, by the time PEDIP II was implemented, firms had tired of the high reserve requirements and interest rates and began to adjust their operations in accordance with the incentives offered by the Programs.

[7] Van Ham, P., The EC, Eastern Europe and European unity: Discord, Collaboration and Integration Since 1947 (London: Pinter 1993).

amounted to less than 2% of the GDP of the EU in 1995,[8] while the means of inter-regional fiscal redistribution within the single market remain weak by comparison with those that operate within the United States or within federal member states such as Germany. Thus, many member state political leaders caution that it would not take much to overwhelm the budgets, and that some kind of compensatory side-payments would have to be offered to the poorer Mediterranean states in return for Eastern enlargement. Meanwhile, fear of uncontrolled immigration from the East and potential job losses among weaker Western producers also underlie hostility toward further expansion. Faced with this atmosphere, domestic Polish actors outside the Government, as complete outsiders to the EU political process, can expect to see their power further eroded by virtue of EU entry.

The different atmosphere underlying Poland's quest for EU membership - and thus the greater reluctance of Polish policy makers to deviate from the spirit and text of the Association Agreement - is evidenced by a declaration of the chief Polish negotiator for EU entry, Jan Kulakowski, on July 21, 1998 that Poland would not seek transition periods in seven negotiation areas. The areas included industrial policy, small- and medium-sized enterprise policy, foreign policy and policies governing foreign investment in the audiovisual media and telecommunications sectors, scientific

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[8] Marks, G., "Structural Policy in the European Community", in Sbragia, A.M. (ed.), Euro-politics: Institutions and Policymaking in the "New" European Community (Washington, DC: Brookings Institution 1992) pp. 191-224.

research and education.[9] Since transition periods are designed to allow non-members time to adopt EU standards, Kulakowski was going beyond the concessions expected of a country seeking accession, and essentially committing the country to be prepared for membership in these areas by 2002, the hoped-for date of commencement of the accession period. Such a unilateral measure revealed sustained if not increasing eagerness to join the EU and implied that power redistribution would be ongoing and perhaps more marked in the future.

Moreover, based on a comparison with the Mediterranean member states, the power shift is likely to continue through any accession period, as seen by its continuation in Spain and Greece after their entry and as EU industrial policy deepens. Despite their pre-accession view of EU membership as a panacea, their industries failed to achieve hoped-for advancement, particularly in comparison with the gains made by stronger EU economies such as Germany. In retrospect, some scholars of Spain believe that instead of facilitating industrial restructuring, the excessively sharp EU focus of Spanish leaders led to incomplete restructuring and a dual productive structure characterized by a few modern firms competitive globally and many traditional small enterprises, accounting for the bulk of employment and on the edge of survival. George Petrakos and Spyros Zikos noted a similar scenario in Greece, where "after entry into the EU, import penetration from the Union has doubled, while the

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[9] "Poland Not to Seek EU Transition Periods in Seven Areas, "RFE/RL Newsline, vol. 2, no.

(continued...)

share of manufacturing output that is exported to the EU has hardly grown at all"[10], while the country has experienced "a shift of investment and employment towards traditional activities and a contraction of the already weak and undeveloped intermediate and capital goods sector".[11]

Looking to the future, the EU policy mandates that industrial policy makers in Poland must embrace by virtue of association and hopeful membership are certain to be increasingly comprehensive. As the EU deepens and more industrial policy issues devolve to the EU agenda, power redistribution in favor of the "executive" - government policy makers at the forefront of association and accession - relative to other domestic actors will continue. Moreover, this trend is likely to be more pronounced in Poland, where domestic industrial policy makers remain outsiders to the EU political process and other domestic actors remain even more so, than in existing member states or in the similarly-situated Mediterranean states at the time of their

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(...continued)

139, part II, July 22, 1998.

[10] Between 1966 and 1970, export expansion in Greece was driven largely by aluminum, nickel, iron-nickel and explosives, whose share in total exports rose from 13 percent in 1966 to more than 36 percent in 1970. Between 1970 and 1979, the share of these products was eclipsed by exports of textiles, clothing, footwear, metal products and cement. Aside from basic metal products, most Greek exports were from labor-intensive industries. During the period of association, a slight shift occurred away from basic consumer goods toward intermediate goods such as chemicals, basic metal products, non-metallic minerals, paper and wood products. Yannopoulos, G., "The Effects of Full Membership on the Manufacturing Industries", in Tsoukalis, L. (ed.), Greece and the European Community (Westmead: Saxon House 1979) pp. 49-50.

[11] Petrakos, G.C. and Zikos, S.E., "European Integration and Industrial Structure in Greece: Prospects and Possibilities for Convergence", in Paraskevopoulos et al., Economic Integration and the EU: The Spanish Experience (1996) p. 247.

entry into the EU. Sustained empowerment of government industrial policy makers, and corresponding disempowerment of other domestic actors, as the country commits ever-increasing national resources toward the goal of membership can be expected to mute any temporary deviations from the policy-making reforms mandated by association as various sectors go through painful restructuring. As shown by the wholehearted commitment to eventual EU membership nationwide, from the political elite to much of the national population, the country appears to have decided that the price, in terms of diminished external policy-making autonomy, will be worth it.

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