

## ARTICLES

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**THE PATH TOWARDS THE EUROPEAN INTEGRATION.  
THE CASE OF POLAND.  
Economic restructuring versus integration processes**

**Abstract:** The paper describes evolution of the political and economic situation which led to and accompanied the creation of market economy and parliamentary democracy as well as changes in the institutional system in Poland. The paper concentrates on economic issues, in particular on several aspects of the economic performance and policy after 1989, such as general trends, privatisation, foreign investment, unemployment, social and environmental issues, etc. in two stages of transformation: (1) the period of output decline and creation of basis for market economy; (2) the period of recovery. After this presentation, the paper analyses weaknesses and strengths of Poland's economy in the perspective of its integration in the EU.

**Key words:** economic transformation, spatial market economy, European integration, privatisation.

## 1. TOWARDS DEMOCRACY AND MARKET ECONOMY – INTRODUCTION

The crucial moment in the road towards democracy and market economy in Poland, as in most Central European countries, took place in 1989 when the process called 'transition' or 'transformation' started. It should be kept in mind, however, that the start of the transformation, as well as some important characteristics of the transformation itself in Poland differed considerably from what happened in other countries of the region. These differences, in turn, resulted from the differences in the legacy of the old economic and political system as well as from the differences in the way the old system collapsed.

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It should be noted in this connection that both the economic and the political system of 'communist' Poland differed considerably from the 'classical' communist model.

In the economic system elements of the market economy survived throughout the whole period of 'communist' or 'centrally planned' economy. For instance, private ownership never disappeared – it was dominant in agriculture and was significant in other sectors, like commerce and services. The share of the private sector, after the decline during the first three decades of that period, started to grow at the beginning of the 1970s. This growth accelerated in the 1980s, together with reforms liberalising the economic system and introducing more and more elements of market economy.<sup>1</sup>

In sum, the economic transformation which started in 1989 was a kind of continuation of the previous developments. What was new in the 'big bang' or 'shock therapy' policy implemented in 1989/1990 was not introducing market rules in the economy but the strong ('sound') economic (especially fiscal and monetary) policy aimed at achieving market equilibrium, eliminating 'demand overhang', reducing inflation pressure and strengthening the *złoty* (Polish currency). This policy resulted in the logic of market economy that already existed superseding the logic of the 'late socialist' economy. In this respect it should be stressed that one of the most important elements of the legacy of the 'late socialist' economy in Poland was a tremendous and still growing market disequilibrium expressed in heavy demand overhang, price distortions, double price and exchange system, etc. (Szul, 1995).

As regards the political and social system of the communist period, it continuously evolved towards more technocracy and bureaucracy and even pluralism and liberalism and less rigid communist ideology. It is worth mentioning that by the end of the 1980s many, if not most, Poles did not consider the then existing political system as 'communism' (the term 'communism' was reserved usually for the period before 1956). So, elements of democratic and pluralistic society existed already before 1989. These were, first of all, independent Catholic Church, independent and usually opposition-minded intellectual elite, free 'second circulation' newspapers (which forced the official media to be more open and reliable) and, after the events of 1980/1981 – independent political opposition concentrated mostly in the 'Solidarity' movement. Elements of pluralism also existed within the political establishment composed by the 'leading' party (Polish United Workers' Party), two 'allied' parties (United Peasant Party, Democratic Party) and some small political organisations. All the parties and organisations were deprived of the communist ideology and were turned into

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<sup>1</sup> In 1989, the private sector accounted for 30% of total employment; more than 3/4 of agricultural land was in private hands; also almost 30% of the shops and above 45% of the catering establishments (naturally small-sized) belonged to private owners.

technocratic and bureaucratic institutions dominated by pragmatically-minded politicians.

In 1988 the political establishment came to the conclusion that the old political and economic system did not work and the efforts to mend it were bound to fail, so the only way out was to prepare far-reaching reforms. So, they invited prominent representatives of the political opposition (from the then illegal 'Solidarity') for the 'round table' talks, which paved the way to the June 1989 general parliamentary election. The election was only partially democratic – in the *Sejm* (the lower chamber) 45% of seats were reserved for the 'leading' party and 20% for the remaining 'allied' parties and organisations, and only 35% of seats were to be 'occupied' democratically, while the election to the Senate was entirely democratic.

The election was a victory of 'Solidarity' which took all the free seats in the *Sejm* and 99 (out of 100) seats in the Senate. These results forced the old political establishment to give over considerable part of the power to 'Solidarity' (Chłopecki, 1990; Szczepański, 1989).

In September 1989 a period of 'political cohabitation' started: the new government led by T. Mazowiecki, representing the 'Solidarity' movement shared the power with general W. Jaruzelski, representing the 'old establishment'. This tandem led Poland through the most troublesome and dramatic period of dismantling the old political system and through the critical initial stage of the 'shock therapy' in 1989–1990.

The 'Solidarity' movement took the whole power by the end of 1990 when, after Jaruzelski's resignation, 'Solidarity's' leader Lech Wałęsa won the presidential election. Earlier that year a process of deep and sometime dramatic splits and divisions within 'Solidarity' began giving rise to emergence of political parties and groups. The main criteria of the divisions were both ideological and personal. Among the ideological criteria were, first of all, attitudes towards the ongoing shock therapy and views on the relationships between the State and the Church and religion as well as opinions on what to do with 'people of the old system' (whether to put some legal restrictions on their activity in the new system or not – the so-called dispute between 'de-communisers' and their opponents). The 1991 parliamentary elections – the first fully democratic ones – gave a relative victory to the 'post-solidarity' parties which occupied the whole range of opinions and attitudes.

At the turn of 1990/1991 the Polish United Workers' Party was self-dissolved and some former members of the party, usually unknown to ordinary members of the public and low or medium-range activists established a new party called 'Social Democracy of the Republic of Poland' which, together with a number of organisations formed a coalition named 'Democratic Left Alliance'. Another party of the old system – the United Peasant Party, renamed into 'Polish

Peasant Party', representing interests of farmers, survived the crisis and even strengthened its political position.

Various 'post-solidarity' governments ran the country until September 1993 parliamentary election, continuing, with higher or lower speed, reforms towards free market and democracy.

The election gave relative victory to the Democratic Left Alliance (20.4% of votes) and the Polish Peasant Party (15.4% of votes) promising corrections to the economic policy in favour of the most affected sectors of the population and (in the case of the Alliance) reduction of the role of the Church in the political life, by many considered as too high. Due to the election system favourable for bigger winners, the above mentioned parties took as much as nearly 66% of seats in the *Sejm* and formed a coalition government. This government, by and large, continued the economic and political course of the previous governments, putting, however, more emphasis on protectionist and economic (e.g. export) promotion measures. It should be stressed that since 1993 the Polish economy reveals fairly good economic results – by some interpreted as a proof of good governance by the social democratic-peasant government.

## 2. KEY ASPECTS OF TRANSFORMATIONS

### 2.1. Organisational and institutional changes

As pointed out earlier, some changes paving the way for market economy took place before the very start of transformation. It is worthwhile to mention e.g. lifting limits on the size of private firms, elimination of all other legal limitations hindering private entrepreneurship, elimination of 49%-limit of foreign participation in joint ventures and thus admitting establishment of entirely foreign-owned firms, legalisation of foreign exchange market, transformation of the monolithic National Bank of Poland into a two-tier banking system (by separation of the central banking functions from commercial banks), etc.<sup>2</sup>

At the beginning of the transformation some organisational steps were taken to adapt the institutional network to market economy: some institutions were

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<sup>2</sup> *Ustawa z 23 grudnia 1988 r. o działalności gospodarczej z udziałem podmiotów zagranicznych (The act of December 23, 1988 on business operations with the participation of foreign entities)*, "Dziennik Ustaw" 1988, No. 41, item 325; 1989, No. 74, item 442; 1990, No. 51, item 199 and 1991, No. 31, item 128; *Ustawa z 16 stycznia 1989 r. – Prawo bankowe (The act of January 16, 1989 – Banking law)*, "Dziennik Ustaw" 1989, No. 4, item 21; No. 54, item 320; No. 59, item 350 and No. 74, item 439 and 440; *Ustawa z 31 stycznia 1989 r. o Narodowym Banku Polskim (The act of January 31, 1989 on the National Bank of Poland)*, "Dziennik Ustaw" 1989, No. 4, item 22; No. 74, item 439.

liquidated, some new ones established or re-organised. Planning Commission was liquidated. Instead a consulting body was created named Central Planning Office preparing analyses and proposals for economic policy. A former institution giving obligatory concessions for foreign investment was reorganised (in 1992) into an institution promoting Poland and servicing foreign investors, named Polish Agency for Foreign Investment. Several ministries were united into the Ministry of Industry and Commerce. Some completely new institutions were set up, e.g. the Ministry of Ownership Transformation (dealing with privatisation), State Treasury Agricultural Property Agency (dealing with property of bankrupt state farms). Very important was the creation of the Securities Commission supervising the emerging securities market, as well as opening of the Warsaw Stock Exchange (in 1991). Parallel to the creation of those institutions was, of course, adoption of legal measures regulating their activities.

Among the most important systemic changes was the change in the organisation of state power, including activation of local self-government.

## **2.2. Local democracy**

In 1990 the state was reorganised: the old-style 'people's councils' were liquidated. At the local level (communes and towns) they were replaced by democratically elected local authorities and the communes and towns were given considerable autonomy in running their affairs. The financial, property and legal system was adapted to this new situation enabling local authorities to be independent in the reach of their competencies and responsibilities.<sup>3</sup>

The first elections to new local authorities were in 1990, the next in 1994. According to a prevailing opinion, local authorities have proved themselves: they have been a stable element in the (otherwise pretty unstable) political system, they turned out to be more efficient in spending public money than central government administration, they were very effective in privatisation, etc.

It is worth noting that the political setting at the local level quite often differs from that at the central level; in some places (e.g. in the City Council of Warsaw) parties which are in 'conflict' at the central level form local ruling coalitions. It confirms the autonomy of the local authorities and maturity of the whole political system.

At the regional (or voivodeship) level, after the liquidation of 'people's councils', the only power institution which remained was 'voivode' or regional representative of the central government, appointed by the prime minister.

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<sup>3</sup> *Ustawa z 8 marca 1990 r. o samorządzie terytorialnym (The act of March 8, 1990 on territorial self-government)*, "Dziennik Ustaw" 1996, No. 13, item 74.

Currently there are discussions on several proposals for creation of a second level of local self-government, combined with proposals for new territorial division of the country (Potrykowski, 1993; Gorzelak, 1992).

### **2.3. Economic transformations**

#### 2.3.1. General trends

The economic transformation in Poland can be divided into two stages differing both as regards systemic changes and economic performance.

The first stage (1989–1992) was a time of laying foundations for the functioning of the market economy and of stabilising the economy. In that time market equilibrium was achieved due to price liberalisation and limitations on demand growth (limits on nominal increases of salaries and wages, reductions in credit expansion, cuts in budget subsidies, etc.). Achievement of the market equilibrium was a real breaking point in the functioning of the economy as it introduced a new logic into the whole economy: looking for customers and profits rather than looking for supplies and way how to satisfy (or deceive) state economic bureaucracy (Kołodko, 1993). It was not only the commodities market which started to function properly, but also the labour market and capital market. (The latter, in fact, only appeared in that time.) In that time a large process of privatisation started, and in some sectors (like commerce and services) was practically completed, which considerably contributed to the strengthening of the market rules in the functioning of the economy.

The process of dramatic systemic changes in 1989–1992 was accompanied by a general downward tendency in the output (which affected all branches), GDP and investment (i.e. fixed capital formation), emergence and rapid growth of unemployment, high (although steadily decreasing) inflation<sup>4</sup> (Kołodko, 1991) and a shift of foreign trade (from domination of links with the USSR and other Eastern European countries to domination of EU in Polish exports and imports) (Soldaczuk, 1992) (cf. figure 1).

The second stage of the transformation (since 1993) has been a time of continuing, with some corrections, the processes initiated earlier (like privatisation of industry, reorganisation and privatisation of the banking system, etc.). In comparison to previous governments, the governments in power at this stage relied less on free market game and more on direct action (e.g. more emphasis on protecting internal market, especially for food products, on promoting exports, and the like).

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<sup>4</sup> The increase in prices of consumption goods and services amounted to: 585.8% in 1990; 70.3% in 1991; 43% in 1992; 35.3% in 1993; 32.2% in 1994 and 27.8% in 1995.

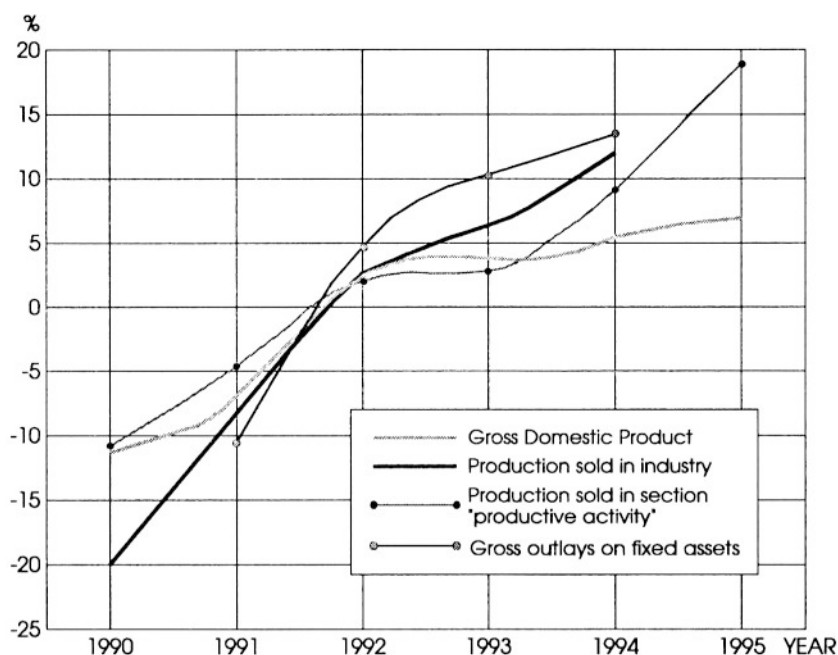


Fig. 1. Dynamics of the main economic indicators of Poland in 1990–1995, constant prices, 1990 and 1995 – estimates

It was a time of improvement of most economic indicators: growing output, GDP and investment, stopping of the growth and then some reduction in the unemployment, further (although rather modest) decrease in inflation, etc.<sup>5</sup>

The transformation implied several new developments or substantial changes in already existing phenomena in the economy. Among them one should mention first of all:

- 1) privatisation;
- 2) foreign investment and capital flow;
- 3) new labour market situation (unemployment, new forms of job creation);
- 4) new characteristics of the informal sector;
- 5) new geographical and sectoral directions of foreign trade.

### 2.3.2. Privatisation processes

As regards privatisation, it can be divided into two kinds: ‘small privatisation’ and ‘big privatisation’ (Gomułka and Jasiński, 1994).

<sup>5</sup> *Economic u-turn sets. The stage for a boom*, “Poland” – supplement to the “International Herald Tribune” 1994, May 6.

The former applied to small units, usually of commerce and services. The most popular forms of it were selling or renting a given unit (e.g. a shop) in auction (when the only criterion was the offered price or rent) or after a 'competition of offers' (when there were several criteria, e.g. plans of activity, technological, ecological issues, etc.). Privatised objects were quite often sold, rented or leased to their staffs. (Sometimes they had priority in buying their shops.) The small privatisation was carried out by local authorities (in Warsaw by town district authorities) and the process was practically completed in 1990–1991.

The 'big privatisation' applies to medium-sized and big enterprises. It started in 1990 and is still under way.<sup>6</sup> There are several forms of 'big privatisation', the most important being up to now: capital privatisation, privatisation by liquidation, and privatisation by bankruptcy.

The capital privatisation consists in transforming a state-owned firm into a joint stock company (so-called commercialisation) and selling its shares to investors (from inside or from outside the firm; domestic or foreign). Some part of shares (10–20%) is usually reserved for or sold on concessional terms to employees, another part is retained by the state treasury. There are several forms of distributing shares to investors, the most important being selling shares to a 'strategic investor' (usually, but not always, a foreign firm) after a competition of offers, and selling shares through the Warsaw Stock Exchange (there are more than 70 medium-sized and big firms quoted there). Capital privatisation is carried out by the Ministry of Ownership Transformations and applies to firms in good economic condition.

The privatisation by liquidation consists in liquidating a firm as a legal entity (not as a technological unit) and selling, renting or leasing it to investors (quite often these investors are employees and/or enterprise management) or using it as apport in joint venture. This form is usually applied to small or medium-sized firms in good conditions and has been often carried out by local authorities. The privatisation by bankruptcy consists in liquidation of a plant both as a legal and technological unit, dividing it into pieces and selling them to any buyer. This form applies to firms in bad condition and is often carried out by local authorities.

Until the end of 1995 the above forms of privatisation reduced the number of state-owned firms from 8453 at the beginning of privatisation to 4357.<sup>7</sup> Some

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<sup>6</sup> *Ustawa z 13 lipca 1990 r. o prywatyzacji przedsiębiorstw państwowych (The act of July 13, 1990 on privatisation of state-owned enterprises)*, "Dziennik Ustaw" 1990, No. 51, item 298 and 1991, No. 60, item 253.

<sup>7</sup> *Prywatyzacja przedsiębiorstw państwowych w okresie 1.08.1990 r. - 31.12.1991 r. (Privatisation of state-owned enterprises in the period 1.08.1990-31.12.1991)*, GUS, Warsaw, March 1992, p. 12; *Zmiany strukturalne grup podmiotów gospodarki narodowej w 1995 r. (Structural changes among groups of economic agents in 1995)*, "Informacje i Opracowania Statystyczne", GUS, Warsaw, 1996, p. 16.



new state-owned firms emerged as a result of division of firms during various programmes of enterprise restructuring (cf. figure 2).

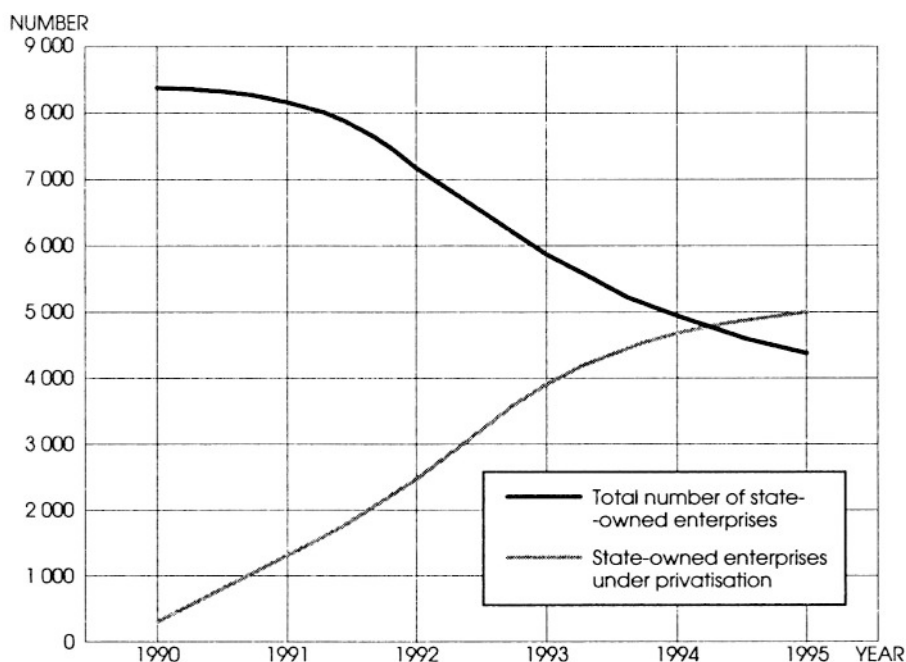


Fig. 2. Changes in the number of state-owned enterprises in Poland in 1990–1995 (as of December 31, 1995 – June 30)

In 1995 another privatisation form started, namely ‘National Investment Funds’ called also ‘mass privatisation scheme’.<sup>8</sup> 512 enterprises were included (usually medium-sized ones) into the scheme; their shares are held by 15 National Investment Funds. Every enterprise has one ‘strategic’ Fund-shareholder and several secondary shareholders. The Funds are joint stock companies whose shares (51%) are to be distributed among the population. Every adult person may obtain a ‘participation certificate’ (distribution of certificates started in autumn 1995 and was to last one year) and change it into shares of any Fund (Łukasiewicz, Marucha and Sobótka, 1995). In the first three months (until end of February 1996) about 8 million persons bought for a rather symbolic price the participation certificates.

The future ways of privatisation were the subject of a nation-wide referendum last February. Among five questions two were the most important:

<sup>8</sup> *Ustawa z 30 kwietnia 1993 r. o Narodowych Funduszach Inwestycyjnych i ich prywatyzacji (The act of April 30, 1993 on National Investment Funds and their privatisation)*, “Dziennik Ustaw” 1993, No. 44, item 202.

1) should the state-owned property be distributed among the population? (it implied a mass privatisation scheme similar to the Czech or Russian coupon privatisation), and

2) should the National Investment Funds programme be enlarged?

The results of the referendum were rather ambiguous: the vast majority of the participants voted for the mass property distribution (94.54%) and against the enlargement of the National Investment Funds programme (72.52%), but the participation was very low – only 32.4% and, according to the constitution, the results are not legally obliging (the minimum participation should be 50% if the results are to be legally binding).

Enterprises which are still in public hands are either medium-sized firms in very good condition or ‘giant’ firms from sectors once considered as strategic: telecommunications, mining (including very profitable copper mining), energy production and distribution (including, again, very profitable, oil refineries), transportation and a few others.

When talking about privatisation one must stress that the private sector in Poland employs the majority (62.6% in 1995) of the working force and generates more than one half of GDP. In the domestic private enterprises alone in 1994 there worked 56% of the total workforce and they produced about 47% of GDP.

### 2.3.3. Foreign investments and capital flow

The above described privatisation accelerated foreign investments and capital flow to Poland which started already in the 1980s (or even in the 1970s on a rather symbolic scale) (Mync, 1993). There are several reasons for investing in Poland, the main ones seem to be getting access to a relatively sizeable and growing market (of nearly 40 million consumers) and making use of lower than in home country production costs. At the end of 1995 accumulated foreign investments were estimated at 7 billion USD.<sup>9</sup> Foreign direct investments are present in practically all sectors and branches (except those where foreign capital is still not allowed, like mining, railways, etc.). The most visible presence of the foreign capital is in car industry, trading, food industry, furniture and other wood processing industries, consumer electronics, detergent industry, etc. Its share is growing in banking and financial services (table 1).

As regards geographical origin of foreign capital, at the beginning of the process it heavily depended on historical links and some ‘non-economic’ factors. Now the economic factors are playing a more important role. This is reflected in the growing share of capital coming from the biggest countries. The first place is occupied by the USA, followed by international capital (like the World Bank

<sup>9</sup> “Rynki Zagraniczne” 1996, January 11.

Table 1. Foreign investment in Poland by selected branches, second quarter of 1995, in million USD

Sector/branch	Equity and loans	Commitments
INDUSTRY GLOBAL	3 198.3	4 121.7
of which:		
– fuel and energy industry	119.9	314.1
– electro-machinery industry	921.8	2 024.0
– chemical industry	273.2	70.3
– mineral industry	318.9	246.5
– wood and paper industry	402.6	142.5
– food processing industry	899.1	900.2
CONSTRUCTION	463.4	181.3
TELECOMMUNICATION	240.4	413.0
TRADE	342.3	191.5
FINANCE	1 073.7	176.0
TOTAL	5 389.5	5 089.0

Source: *List of major...*, (1995).

IFC, the EBRD, etc.) and then by Germany, Italy, the Netherlands, Great Britain, France (cf. table 2). The largest individual investors are: International Paper Corporation (June 1995 – 275 million USD), Fiat (265 million), Polish-American Enterprise Fund (250 million), Coca-Cola (235 millions), EBRD (222 million), IFC (218 million), Pilkington from Great Britain (166 million), ABB (161 million), Thomson from France (147 million), ING Group from the Netherlands (140 million) (*List of major...*, 1995).

In a few years one of the biggest investors should be South Korea – due to Daewoo's pledged investments in car industry exceeding 1 billion USD plus several other projects in car making and electronics. (Contrary to Korea, Japan is practically absent in Poland.)

Table 2. The biggest foreign investments in Poland by countries, second quarter of 1995

Country	Equity and loans		Commitments	
	million USD	in %	million USD	in %
USA	1 702.7	31.6	1 619.0	32.4
International	871.8	16.2	233.5	4.6
Germany	512.3	9.5	413.0	8.1
Italy	378.1	7.0	1 731.0	34.0
Netherlands	353.1	6.5	233.2	4.6
UK	319.5	5.9	149.8	2.9
France	275.3	5.1	146.0	2.9
Austria	246.2	4.6	9.8	0.2
Sweden	140.8	2.6	84.5	1.7
Switzerland	121.9	2.3	37.0	0.7

Source: *List of major...*, (1995).

The inflow of foreign capital to Poland has generally positive consequences for the Polish economy – it ‘stimulates economic growth, creates new jobs, speeds up the modernisation of the economy, improves the competitiveness of production, stimulates exports and contributes to the implementation of new technologies, as well as modern management and organisation of production’ (Pac, 1995; *Drawing capital in...*, 1994).

When talking about foreign investments, one can not forget that they are not a one-way street. According to some estimations, the value of Polish foreign investment abroad in 1990–1994 amounted to 150 million USD (Styczek, 1995) (this number does not include illegal capital transfer). The number of firms with Polish capital abroad is assessed at 5–6 thousand, of which 4 thousand in the former USSR (2300 in Russia, several hundred in Belarus and Ukraine), 500 in Germany, and whereafter in Great Britain, the Netherlands and France. However, Polish firms or Polish-foreign joint ventures are usually very small and first of all engaged in trading and services. It seems that processing is more often undertaken by Polish firms in the ‘East’ than in the ‘West’ (Chojnacki, 1995).

#### 2.3.4. Labour market situation

One of the most important outcomes of the transformation in Poland was a new labour market situation consisting in the emergence and fast growth of unemployment which replaced the previous labour shortage. This new situation was caused by two mechanisms:

1) reductions in employment and reluctance to employ new workers by enterprises as their response to decreased demand, output and incomes, in order to reduce costs and to improve competitiveness;

2) quite generous social safety net, particularly unemployment benefits, which encouraged people, including those who never intended to take a job, to register as ‘unemployed’ (Kabaj, 1995).

As a result, the unemployment grew very fast: from nil at the beginning of 1990 to nearly 3 million persons, or about 17% of the working force, at the beginning of 1994 (cf. figure 3).

The improved economic situation – resumption of economic growth as well as some measures of the labour market policy of the government caused stabilisation and some decrease in registered unemployment. At the end of 1995 the number of the registered unemployment amounted to 2.6 million and the unemployment rate to 14.9%. The above mentioned measures of the labour market situation were, on the one hand, limitations of unemployment benefits and some ‘cleaning up’ of the unemployment lists, and, on the other hand, increased emphasis on incentives for job creation and job taking. The main instrument in the labour market policy are financial benefits for communes listed as ‘affected by

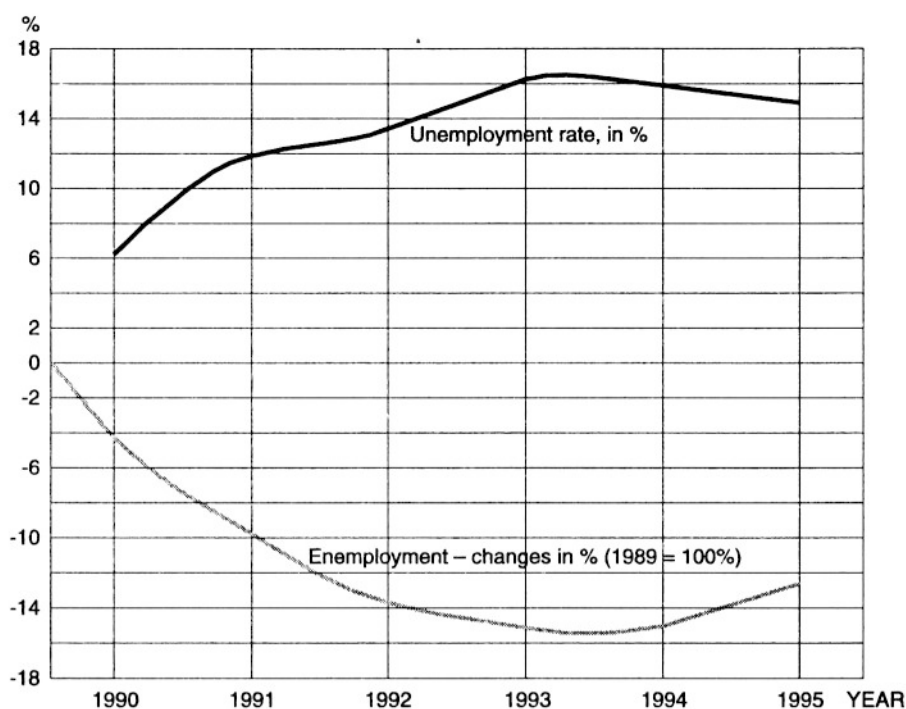


Fig. 3. Situation on the labour market in Poland in 1990–1995 (as of December 31)

structural unemployment'. The unemployed in these communes enjoy enhanced duration (18 months instead of 12 months) of unemployment money, and the investors obtain several benefits for job creation (lower credits, tax exemptions, etc.).

The unemployment problem is differentiated territorially and socially: the most affected are some rural areas and young people while the biggest urban centres are practically free from this phenomenon. In November 1995 the highest unemployment rates were in northern voivodeships, affected by the collapse of state farms: Słupsk (28.2%), Suwałki (27.1%), Koszalin (26.5%), Olsztyn (25.8%) and Elbląg (25.5%); the lowest rates were in Warsaw (5.3%), Poznań (7.5%) and Cracow voivodeships (8%) (figure 4).<sup>10</sup>

The situation of the unemployed is also differentiated. The most affected are young people – 35% of the registered unemployed are people under 25 years of age. People of low education level also represent a high share of the unemployed – 30% in the case of people with primary education only, 40% – in the case of

<sup>10</sup> *Informacja o stanie i strukturze bezrobocia w listopadzie 1995 r. (Information on unemployment and its structure in November 1995)*, No. 11, Departament Statystyki, Analiz i Prognoz, Krajowy Urząd Pracy, Warszawa, 1995.

persons with vocational education. Women's share in the unemployment – 55.8% is slightly higher than their share in total employment. 42.5% of the unemployed are no more eligible to take unemployment money and many of them rely on social welfare to survive, while for some people the unemployment benefit is only an additional income. While 44% of the unemployed remain jobless for more than one year, for many people the time without a job is very short (18% – 3 months or less). In this context it is worth noting that the existence of unemployment in a given area does not mean availability of free working force for the employers: a large part of the registered unemployed are either employed in the informal sector or so demoralised that they can not be considered as ‘free working force’. As a result, even in the areas with the highest unemployment rates there are firms forced to hire foreign workers, mostly from the neighbouring post-Soviet countries.

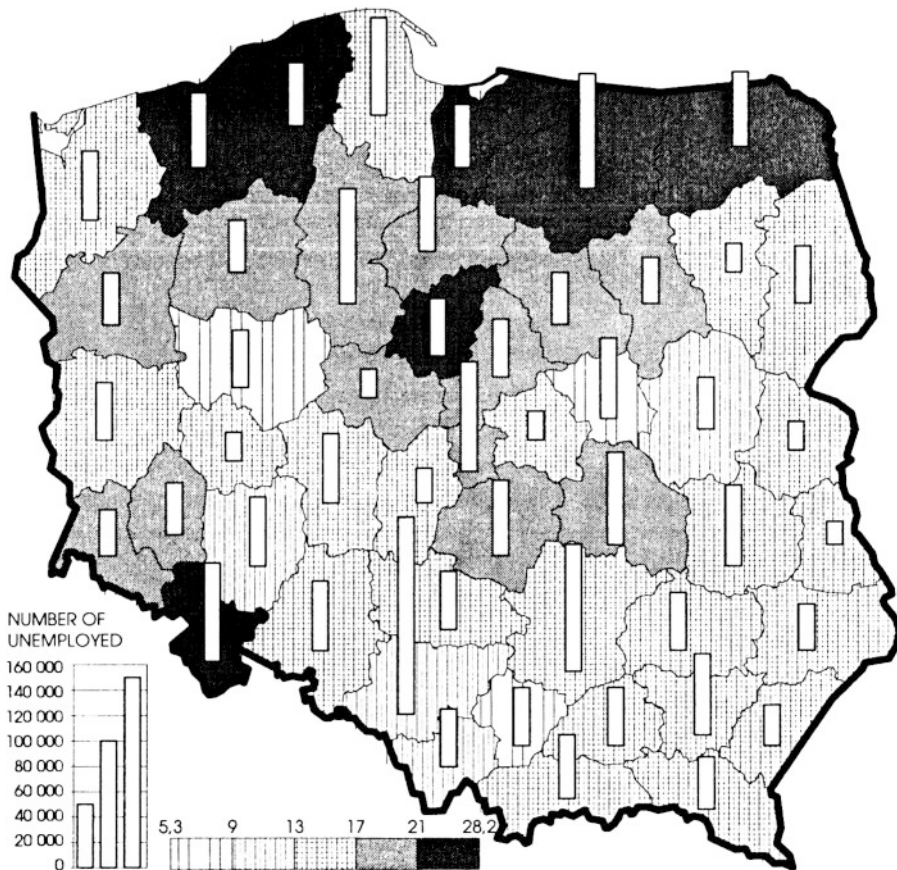


Fig. 4. Unemployment by voivodeships (as of November 30, 1995)

### 2.3.5. Informal sector

Together with the whole economy also the informal sector has undergone deep transformation. The old forms of the informal sector, connected mainly with the 'shortage economics' and domination of the state ownership, have disappeared or lost their importance; new forms emerged or gained importance. The most important old forms consisted, first of all, in:

- 1) taking advantage of market shortages and the resulting double-price system by buying or getting goods at official (low) prices (thanks to professional access to goods, due to personal connections with persons selling goods at official prices or simply after spending time in queues in shops) and selling them at black ('free') market prices or exchanging them for other goods;

- 2) using (including stealing) materials, tools, machines, etc. belonging to enterprises for production for employees' personal needs (including further sales or exchange of such products).

Now the first form has disappeared with the disappearance of market shortages and elimination of double exchange rates. The second form has diminished considerably with the improvement of the labour discipline as a result of strengthening of market motivations in the behaviour of state enterprises, privatisation and weaker position of employees due to the unemployment and growing differences between wages and unemployment benefits.

As regards the size of the informal sector, due to its very nature it is difficult to assess. According to GUS (Central Statistical Office) assessments, in 1995 at least 2.2 million people (or 12% of the active population) were engaged in the 'grey economy' (Kańska and Witkowski, 1996). For about 21% of them the unregistered job was a permanent occupation (lasting at least 4 months in 1995), for 43% it was their main job. Every 10th inhabitant of the rural areas and every 16th inhabitant of the urban areas undertakes a 'grey economy' activity. The most frequent 'grey economy' activities are presented in table 3.

Only 12% of the employed in the 'grey economy' are working for their own account. Nevertheless, from the point of view of the overall economic importance, the most significant part of the informal sector is non-registered business activity. Seldom it takes the form of entirely non-registered or illegal business, more frequently it is partially registered legal activity. It consists, for instance, in declaring lower employment, wages, turnover etc. than real ones in order to pay lower taxes, insurance premium, duties, etc.

It is assessed that 30% of the income of the 'grey economy' comes from 'black' (or totally illegal) activity, while 70% from the illegal activity of registered firms (*Ocena sytuacji...*, 1993). The share of the 'grey economy' in GDP is assessed at 20–30%.

Table 3. Persons engaged in the informal sector, according to activities, 1995

Activity	% of the total informal sector
Horticultural and agricultural works	24.7
Construction and installation services	14.2
'Neighbour's services'	12.9
Construction and installation repair works	11.4
Commerce	8.2
Tailor's services	6.7
Car repairs and services	6.4
Transport services	5.2
Personal care	4.3
Private lessons	3.8
Production activity	3.2
House works	3.0
Other	11.4

Source: Kałaska and Witkowski (1996), p. 36.

### 2.3.6. External economic relations

The transformation affected not only internal but also external economic relations. It is expressed, first of all, in geographical directions and structure of Polish foreign trade. The most dramatic change occurred in 1991 with the collapse of the CMEA, economic crisis in the USSR and the abandonment of the old settlement system (multiple clearing) in the trade between Poland, the USSR and other (post)socialist countries (table 4). As a result, Polish exports to the USSR dropped substantially. Polish import from the USSR fell less dramatically as it was much more 'rigid' because of its structure (high share of energy carriers and other strategic raw materials). An opposite tendency – growing exports and imports – started in 1990 in Polish trade with Western countries, especially with Germany and EU in general (Połowiec, 1994).

Table 4. Polish foreign trade in 1989–1994

Specification	1989	1990	1991	1992	1993	1994
	in million USD, current prices					
Imports	10 277.3	9 527.7	15 521.7	15 912.9	18 834.4	21 569.1
Exports	13 466.1	14 321.6	14 903.4	13 186.6	14 143.1	17 240.1
	previous year = 100, constant prices					
Imports	101.5	82.1	137.8	113.9	118.5	113.4
Exports	100.2	113.7	97.6	97.4	98.9	118.3

Source: *Rocznik statystyczny 1995 (Statistical yearbook 1995)*, Warsaw: GUS.



As a result, Germany, whose share in Polish foreign trade exceeds 1/3, has become the first trading partner of Poland, by far outpacing the other partners (cf. figure 5). The whole EU accounts for roughly 2/3 of Polish trade.

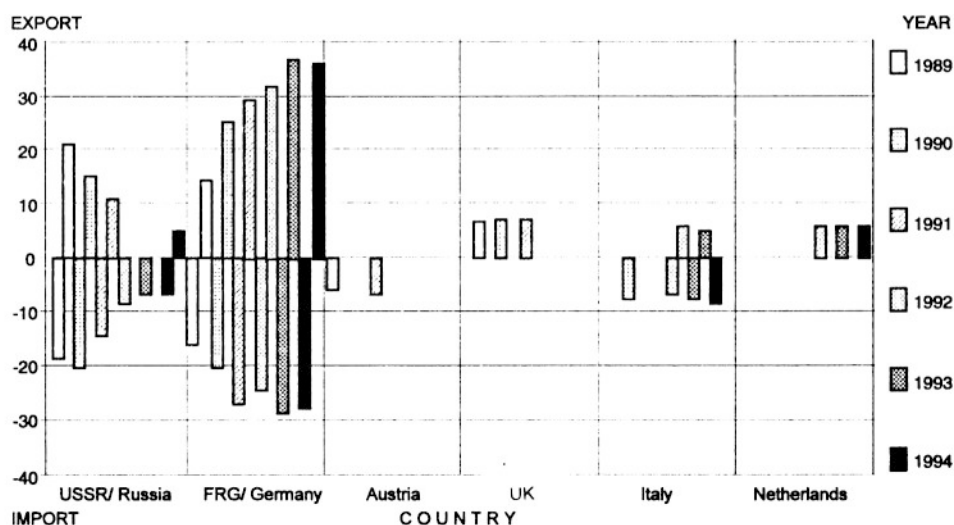


Fig. 5. Imports and exports of Poland in 1989–1994 by three main partners (in % of total, current prices)

Some correction to this tendency began one-two years ago, when the trade with the countries of the region started to grow again.

During the transformation also the structure of Polish foreign trade underwent some changes. In the first stage of the transformation the share of processed and more sophisticated goods diminished as a result of decreasing export to the USSR (in which products of engineering industry, chemistry etc. were very important items) and increasing export of labour-intensive less processed goods (textiles, wood products, steel, etc.) to the Western European markets. On the import side, the share of consumer goods, including food, grew. In the second stage of the transformation mainly the import changed its structure: the share of food and consumer goods diminished in favour of capital goods and technology. On the export side, the growing share of technologically more advanced products based on foreign technologies and/or produced by foreign or joint enterprises is worth noting (cf. table 5).

Table 5. Polish foreign trade in 1985–1994 by selected groups of branches, in %

Groups of branches	1985	1990	1991	1992	1993	1994
Imports						
Total	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
Fuel and energy	22.1	20.9	18.8	16.8	12.6	10.5
Industry:						
– metallurgy	9.1	6.7	4.0	4.5	4.6	4.9
– electro-machinery industry	33.5	40.2	37.6	35.6	34.4	33.8
– chemical industry	13.2	11.5	12.6	17.4	17.5	19.2
– mineral, wood and paper industry	3.3	2.8	4.2	5.8	5.6	6.3
– light industry	5.7	6.1	6.1	4.5	10.0	10.6
– food industry	6.9	7.6	10.4	8.5	4.7	7.8
Exports						
Total	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
Fuel and energy	15.6	10.1	10.7	10.6	9.5	8.9
Industry:						
– metallurgy	8.6	14.6	15.9	16.8	14.6	13.8
– electro-machinery	39.4	29.3	22.4	24.3	25.8	25.8
– chemical industry	10.4	12.0	11.6	12.1	9.8	10.0
– mineral, wood and paper industry	3.0	5.8	10.0	10.8	11.5	13.3
– light industry	5.9	6.4	6.1	8.5	15.3	14.8
– food industry	6.6	10.0	10.0	9.8	9.1	9.7

Source: Own calculations on the base of *Rocznik statystyczny 1995 (Statistical yearbook 1995)*, Warsaw: GUS.

#### 2.4. Development of communication and transport infrastructure

A characteristic element of the transformation in Poland is accelerated development of some kinds of technical infrastructure. This development means bridging the gap between the state of the domestic infrastructure (whose development was badly neglected in the past) and requirements resulting from the new economic system and Polish aspirations to join the European Union and to take advantage of the international location of Poland. The most visible progress after 1989 took place in telecommunications (telephones). The number of wire-telephone holders by the end of 1994 grew 1.6-fold, their number per 1000 people increased from 82.1 to 129.8 (figure 6). The quality of phone connections also improved. 90% of the connections now are in the automatic system, while by the end of the 1980s – only 70%. In the 1990s, cellular telephony appeared and grew very fast. In the years 1992–1994 the number of cellular phone holders increased from 2.8 thousand to 38.9 thousand, i.e. almost 14 times.

Nevertheless, not in every area the development is so fast. The situation of some sectors of infrastructure is even relatively worsening. It applies first of all to the road network. Although the density of public roads per 100 km<sup>2</sup> in the years 1989–1994 increased from 69 km to 75 km, the share of better quality roads diminished. Building, repair and modernisation works are too slow to catch up with the growing number of cars on the roads and growing importance of automobile transportation of goods. In 1989–1994 the number of cars per 1000 people increased from 127 to 185. In Poland, as in many other countries, the length of exploited railway lines diminished (from 7.8 km to 7.3 km per 100 km<sup>2</sup>).

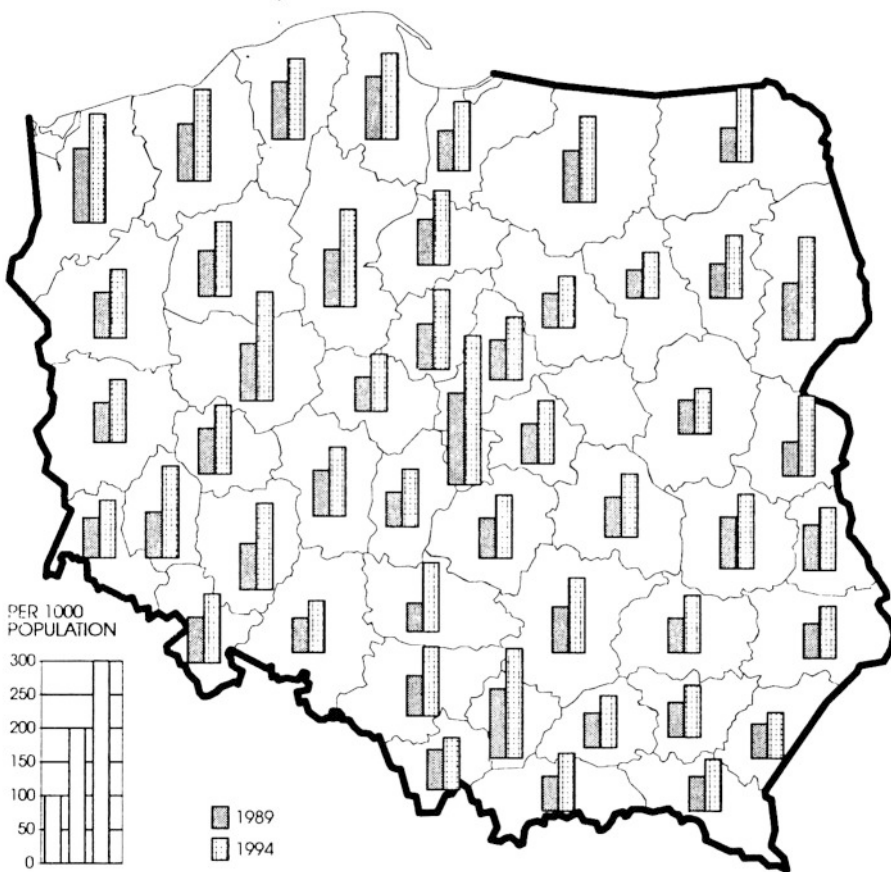


Fig. 6. Telephone licences per 1000 population in 1989–1994 by voivodeships (as of December 31)

As regards the air transportation, after the crisis of the late 1980s and beginning of the 1990s, its importance is growing again. In 1991–1994 the number of passengers grew by 30% and the weight of freight by 60%. It is a result,

among other things, of a rapid modernisation of the air equipment, including almost total replacement of old planes by new ones.

Development of the transport and communication infrastructure in Poland is facing challenges and opportunities stemming from the location of Poland as a 'junction point' in Europe (Sitkowski, 1995). In order to take advantage of this location, a substantial development and modernisation of roads, especially those most important ones (East–West, North–South) and modernisation of railway lines (also East–West, North–South) are required. Until 2010, building of 2500 km of highways is planned, including: A1 – from Gdańsk to Łódź, Silesia, Polish-Czech border (towards Ostrava and Brno); A2 – from Polish-German border (in Frankfurt) to Poznań, Łódź, Warsaw to the eastern border (towards Minsk in Belarus); A3 – from Szczecin to Zielona Góra to Polish-Czech border (towards Prague); and A4 – from German-Polish border (in Görlitz) to Wrocław, Silesia, Cracow to Przemyśl at Polish-Ukrainian border (towards Kiev). This big project is in the initial stage (preparing detailed plans, consulting local communities, receiving offers from consortia interested in financing, etc.). It is to be carried out by private companies (Polish and foreign). The State will only finance purchasing the land for highways.

Another important project, being under way now, is the modernisation of the Polish section of the line Paris–Berlin–Warsaw–Minsk–Moscow.

## 2.5. Social and demographic transformations

The transformation meant changing life conditions of practically all inhabitants. The main characteristic of this change was increasing disparity in living conditions, depending on the economic situation, professional or political career, opportunities, etc.<sup>11</sup> In other words, the lower limit for possible living standard went down, and the upper limit went enormously up. The immediate result of this situation was growing socio-economic differentiation of the population: emergence of a group of very rich people, composed mostly of entrepreneurs and managers (very often related to the foreign capital) and emergence of a stratum of poor people, composed first of all of various handicapped people (the so-called 'social margin'), Gypsy immigrants from Balkans, but also of some jobless. The income gap between the 'production sphere' and the 'state budget sphere' (education, health service, etc.) also increased.<sup>12</sup>

This differentiation was accompanied by a growing scope for personal activity and lowering security (both economic and personal). For those who are

<sup>11</sup> The detailed analysis of the social situation in Poland under the transition is presented in: *Human development report – Poland '95*, UNDP, Warsaw 1995.

<sup>12</sup> For instance, in 1989–1994 average salary in health service and social care dropped from 92% to 82% of the national average, while in the mining industry average wage increased from 176% to 199%.

getting richer the lowering security is more than offset by the growing scope for activity and by their success. For the other social extreme, the economic deterioration is accompanied by the growing insecurity. For those in the middle, the balance is not clear.

The growing scope for activity and choice appears in many fields. One of them, of potentially great importance, is the education system. Apart from the still dominant public education, there have emerged private and social (non-profit non-public) schools at all levels of education.<sup>13</sup> So far it is impossible to say that the quality of education in non-public schools is higher than in public schools, but the situation may change in the future which would mean different access to education for children of richer and poorer families. It should be stressed that the process of differentiation of access to education is to a great extent independent of the phenomenon of emergence of non-public schools: costs of education, especially of university-level education (particularly living costs in students' hostels or rented flats) are so high that they have become a serious obstacle for less wealthy families and families living outside the university towns.

The greater scope for activity and choice also affects the health service. Unlike the non-public education whose service is not necessarily better than that of public schools, private medical centres are for sure better than the public ones, so that the quality of the health service is increasingly differentiating the population according to its economic status. It should be mentioned, however, that this process did not start in recent years: private medical practice and the resulting socio-economic consequences existed already before the transformation, although this phenomenon was limited as compared to the present situation.<sup>14</sup>

A very significant characteristic of the new conditions of life is 'depersonalisation' and growing 'commercialisation' of human relations.

As regards the demographic situation, the 1990s are characterised by the continuation of the process of the demographic senescence of the population (in 1980–1994 the share of people of 65 years of age and more increased from 10% to 11%), by a rather sharp decline in natural increase (table 6) and by decreasing territorial mobility of the population. Whereas in 1980 the natural increase rate (per 1000 inhabitants) amounted to 9.6, in 1994 it was only 2.5. This tendency was especially strong in urban areas – the drop from 9.2 to 1.5 respectively. In the rural areas the rate fell down less dramatically – from 10.3 to 4.0.

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<sup>13</sup> In 1994/1995 there were 1110 non-public schools (out of 30 400 schools in Poland) of all levels, of which 296 primary schools, 415 secondary schools (grammar, technical and vocational schools), as well as 58 high schools. The number of pupils and students amounted to more than 160 thousand (or 2% of the general number of pupils and students in Poland, in high schools this percentage being 8%).

<sup>14</sup> According to estimations, in 1994 there were 300 private medical centres, and private medical practice was carried out by 28 thousand physicians and 17.7 thousand dentists.

Table 6. Dynamics of the main demographic characteristics of Poland in 1980–1994, 1980=100

Specification	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Live births	97.7	91.6	87.4	84.8	81.1	78.7	78.7	74.0	71.0	69.2
Deaths	108.7	107.2	107.8	105.6	108.5	110.5	114.9	111.7	111.1	109.4
Natural increase	86.4	75.4	66.3	63.3	52.9	45.9	41.4	35.2	29.8	27.7

Source: Own calculations on the base of *Rocznik statystyczny 1995 (Statistical yearbook 1995)*, Warsaw: GUS.

The lowest natural increase was in voivodeships dominated by large urban-industrial agglomerations. In 1994, in two of them the natural increase was negative: in Łódź voivodeship (−4.5) and in Warsaw voivodeship (−2.2). Other highly urbanised voivodeships (like Katowice, Cracow, Poznań, Wrocław) recorded rates strongly below the national average. The highest increase was characteristic of northern and south-eastern regions.

As regards the territorial mobility of the population, it started to diminish already at the beginning of the 1980s. This process continued in the 1990s. In 1990–1994 the number of people changing their living place decreased by 17%. This tendency is a result, first of all, of the decline in the rural-urban migrations. It was caused probably by the difficult access to houses in towns (before 1989 mainly due to long waiting time for housing, after 1989 – due to high prices of houses and rents) and by the lack of regular jobs.

As a result of the low natural increase and of migration tendencies, in 1990s in three voivodeships – Łódź, Katowice and Warsaw – the number of inhabitants declined. These three voivodeships, otherwise, are the largest in Poland from the point of view of the number of inhabitants.

## 2.6. Environmental issues

The ecological situation of Poland during the transformation also changed. Changes were going in divergent directions. On the one hand, the decreased industrial output, decline in the use of fertilisers<sup>15</sup> etc., as well as greater efforts (i.e. by local authorities) for purification of pollutant emissions, caused a significant drop in emissions of water and air pollution (Żylicz and Lehoczki, 1994). For instance, the emission of non-purified sewage dropped from 1.3 cubic hectometres in 1990 to 0.8 in 1994. The share of purified industrial and communal sewage drained off to surface waters increased in 1990–1994 from 67.4% to

<sup>15</sup> In 1993/1994 the use of fertilisers amounted to 71 kg per 1 hectare of arable land, while in the second half of the 1980s – 182 kg.

74.6%. The total emission of dust dropped from 1950 thousand tons in 1990 to 1495 thousand tons in 1993 (the dust emissions by industry dropped from 1163 thousand in 1990 to 599 thousand in 1993 and 529 thousand in 1994) and the total emissions of sulphur dioxide in the same time dropped from 3210 thousand tons to 2725 thousand tons.

The above factors caused some improvement of the water and air quality.

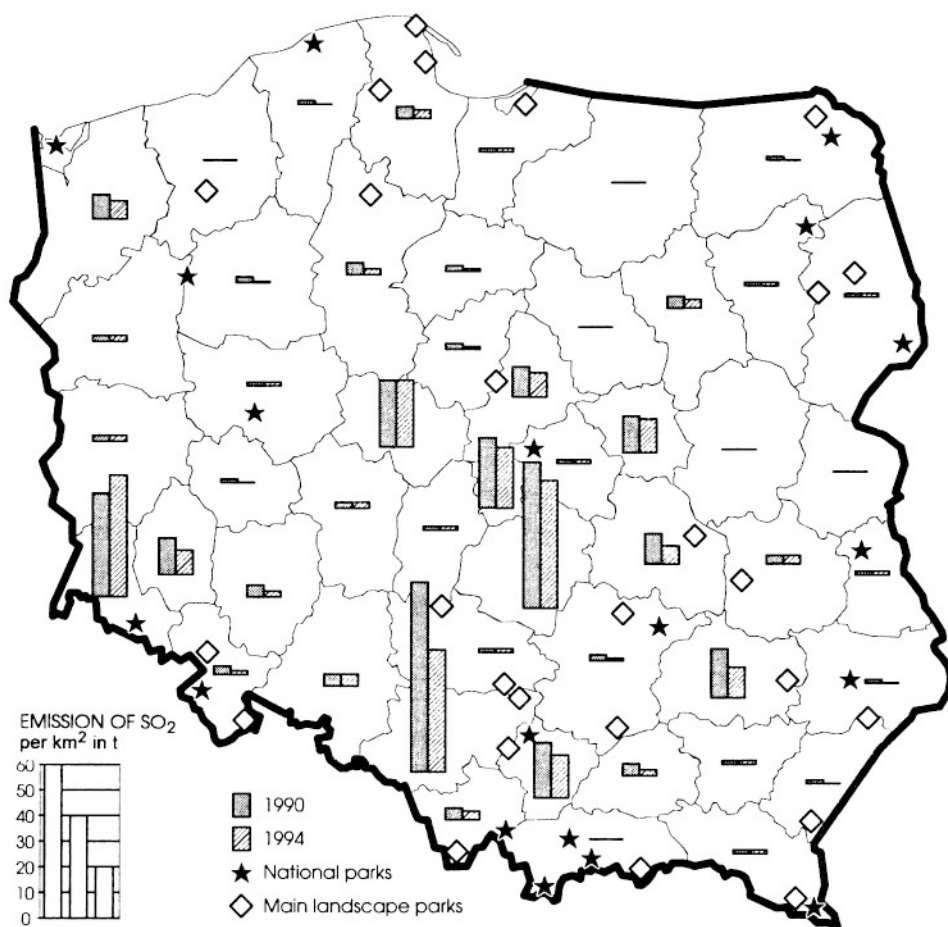


Fig. 7. Ecological situation in Poland in the early 1990s by voivodeships

The transformation had, however, also negative effects for the ecology; first of all, great demand for wood (for processing and energy purposes, and liberalisation of legal rules and practice concerning forest economy). It should be also remembered that for many towns and people legal or illegal exploitation of forests has turned out to be a significant or the main source of income. As a result,

the exploitation of forests in some regions has grown to ecologically dangerous dimensions.

The already mentioned phenomenon – rapidly growing number of cars – also has a negative impact on ecology, gradually offsetting benefits of reduced industrial air pollution (Judge, 1994).

When analysing the ecological situation of Poland during the transformation it should be stressed that the main ecological differentiation of Poland remained roughly unchanged: the worst situation is in some industrial areas (Upper Silesia being the most important) although improvement is quite significant. The best situation, despite the above mentioned phenomenon of forest exploitation, is in the north-east (e.g. ecologically unique areas of Białowieża National Park, ecosystem of the Narew and Biebrza rivers, etc.), north (forest complexes) and in the Carpathian mountains (cf. figure 7).

## **2.7. Spatial patterns of development**

The regional pattern of the Polish transformation was strongly influenced by the first stage of the transformation (1990–1992) when the main systemic change took place – the change from a supply-constrained to a demand-constrained economy. In that time a division of Poland into ‘winning’ and ‘losing’ regions in the transformation appeared (Kukliński, 1995b). The main determinants of this division, generally speaking, were two economic factors (‘corrected’ by non-economic – demographic, cultural and geographical – factors):

1) the share of demand-related activities versus supply-related activities in the economic structure of a given region (area);

2) the eastern orientation versus the western orientation in the international economic relations of a given region (area).

The ‘winning’ areas were first of all towns – places where final demand was realised by surrounding areas and which, at the same time, had strong relations with the West. There were especially big urban centres – Warsaw and Poznań followed by the Gdańsk Agglomeration, Szczecin, Wrocław and Cracow. These areas were characterised by low unemployment rate and relatively good job opportunity, high average personal income and high inflow of foreign capital (Mync, 1993).

The ‘losing’ territories were vast rural areas, including small towns – service centres of such areas, as well as small and medium-sized towns whose economy depended on one big factory, especially producing goods for export to the Soviet Union.

The crisis-affected rural areas could be found practically all over the country, but the deepest crisis occurred in the northern and eastern parts of Poland. These areas were characterised by high unemployment rates, very low job oppor-



tunity, very low incomes of the population, as well as by the general mood of defeat and hopelessness. In the north the bad situation was aggravated by the high share of state farms in the economy, which, contrary to private farms, could not adopt the 'survival strategy'. The eastern part of the country was handicapped by some demographic (high share of elderly people in the agriculture,

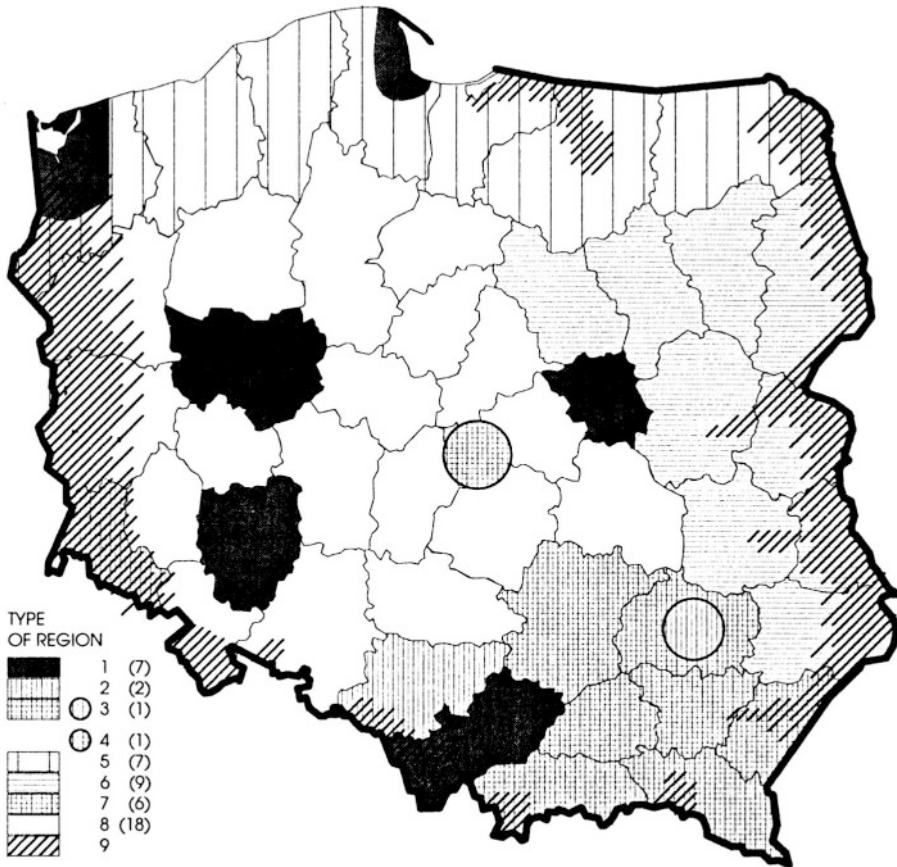


Fig. 8. Regional typology in the second stage of transformation

1 – the most prosperous regions; 2 – old industrial regions requiring restructuring; 3 – an old industrial region requiring restructuring and area of small individual farms with chances for creating multi-functional rural area; 4 – an old industrial region undergoing spontaneous restructuring; 5 – new depressed regions with chances for creating efficient agricultural structures and development of tourism; 6 – less developed (eastern) regions; 7 – areas of small individual farms with chances for creating multi-functional rural areas; 8 – other regions; 9 – border areas; – Western border areas profiting from proximity to the German market and closeness to the European Union; – Eastern border areas profiting from proximity to the markets of the former USSR but threatened by instability of these markets; – Southern areas of intense trans-border co-operation with Czechia and Slovakia

unbalanced sex structure i.e. deficit of young women) and socio-cultural characteristics and especially by the interruption of previously strong relations with the USSR. The above mentioned crisis-affected company-towns were scattered all over the country, but their main concentration was in the south-eastern part. The crisis of enterprises located there affected not only the inhabitants of these towns, but also inhabitants of the surrounding rural areas who were first to lose the job in the enterprise. Their farms were too small to be a source of sufficient income.

Apart from the above mentioned – prosperous and crisis-affected – areas, there were a lot of regions that could be characterised as intermediary or mixed type in which positive and negative elements coexisted. This type was represented e.g. by Łódź region, Upper and Lower Silesia.

In the second stage of the transformation, the division into ‘winning’ urban regions with domination of the demand functions and ‘losing’ rural areas and predominantly supply-oriented small towns, started slowly to evolve. The economic situation of the rural areas and of the group of small towns began to differentiate. There were several causes of this tendency: the stopping of the deterioration of the profitability of agricultural production, a radical improvement of conditions of such industries like textiles, wood and paper, some improvement in ship building or industry of transportation means.

It should be remembered, however, that despite these positive changes, the general pattern of regional differentiation of Poland remains still in force (Korcelli, 1995), with the correction that for some previous absolute ‘losers’ it is possible now to determine their development chances.

Fundamental relations between Poland's economy and space in a synthetic way are presented in figure 8 (cf. Rykiel, 1995).

### **3. IMPLICATIONS FOR INTEGRATION WITH THE EUROPEAN UNION**

Integration with the European Union has been one of the major goals of Polish policy since the turn-around of 1989, regardless of all changes on the political scene that happened in that time (Kukliński, 1995a). This strategic, historic choice is supported by all meaningful political forces (despite some differences as to the speed and ‘technology’ of the integration) and by an overwhelming majority of the population.

There are several reasons for this choice:

1) expected short- and long-term economic benefits (access to EU funds, better access to the large EU market, presence in one of the world's civilisation, economic and technological centres);

- 2) expected positive influence on external security of Poland;
- 3) symbolic confirmation of Polish presence in Europe which plays an important psychological role.

There are several obstacles on the Polish road to the EU. The most significant ones are the following (Gorzalak, Jałowiecki, Kukliński and Zienkowski, 1994):

- 1) the economic gap (between the level of economic development of Poland and the EU, even the least developed EU members);
- 2) the agricultural systemic incompatibility (of Poland and the EU);
- 3) the burden of Polish heavy industries to be restructured;
- 4) the transport and the communication gap (between Poland and the EU);
- 5) the necessary restructuring of some Polish regions;
- 6) the incompatibility of the legal systems, especially regulations concerning economic activity;
- 7) the weakness of the current economic performance of Poland.

Although the difference in the level of economic development and living standards between Poland and the EU average is not as big as it is usually presented (the data for Poland are significantly underestimated as a result of using undervalued market exchange rate of the Polish currency, rather than purchasing power parity, when calculating Polish GDP and other indices in dollar terms), it is still very big, so that it would make Poland eligible to receive EU resources for less developed countries and regions. Given quite a significant demographic size of Poland (38 million people), it would mean a significant additional burden for the EU budget.

The economic growth of Poland during the second stage of transformation (1993–1995) at the rate of 5–7% yearly (in GDP terms) makes, however, this difference smaller. (The EU growth was by a few percentage points lower.) If this trend continues, in the next 10 years Poland can reach levels of the less developed countries of the EU. Thus, the reluctance of the EU members to admit Poland will be somehow softened.

Agriculture (both the EU and Polish agriculture) represents a set of problems being perhaps even a greater obstacle to Poland's integration with the EU than the general gap in economic development. There are two kinds of problems related to agriculture:

- 1) systemic difference;
- 2) technological and social differences between Polish and EU agriculture.

The systemic difference consists in the different economic mechanisms governing Polish and EU farming, in other words, in the strength of exposure to market forces or, more precisely, in the level of subsidising and protecting the agriculture. While the exposure of the EU agriculture is very limited and subsidising and protecting very high, the exposure of the Polish agriculture is much

stronger and subsidising and protecting much weaker. (Some experts even say that there is no subsidising at all.)

In this situation creation of equal competition conditions for Polish and EU farming would require either reduction of EU subsidies and protection to the Polish level, which is impossible (despite some progress in this respect due to international agreements like the WTO regulations), or raising subsidies and protection for Polish farmers to the EU levels. The latter is also hardly possible, because it would mean a substantial additional burden for the state budget, impossible to undertake both for economic and political reasons. Sharing of this burden by Polish and EU budgets (let alone total financing by the EU side) would also be very difficult given the demographic and economic potential of Polish agriculture to be subsidised (Poland, with its territory and natural conditions would be one of major food producers in the EU).

Another source of problems are the socio-technological characteristics of Polish agriculture: domination of small farms (7 ha on average) and relatively high employment (about 1/5–1/4 of total working force) which means that a very large number of families would be involved in the rather painful process of restructuring if the size of the Polish farming would be reduced to standards of the EU. It is also worth noting that Polish farmers are in high percentage elderly people, inapt for changing profession or for migration. The latter is also hardly possible in the near future because of the urban unemployment and housing problem. The above mentioned characteristics of Polish farming which are, otherwise, its advantage – low costs of labour-intensive production – represent, paradoxically, another obstacle for Polish access to the EU, as they make Polish agriculture excessively competitive for the powerful farmers' lobby in the EU.

During the transformation period no substantial changes took place in the analysed situation. Some increase in the level of protection of Polish agriculture after 1993, which theoretically narrowed the gap between the Polish and the EU agricultural protection, is irrelevant or even counter productive for Polish integration with the EU, as this protection was usually directed against the EU competition on Polish food market and thus strengthened the intensity of conflict between Poland and the EU farmers' lobby.

In such a situation the main hope of Poland lies in the internal reforms within the EU, especially in its CAP, giving more space for market competition in food products.

Restructuring of Polish heavy industries: metallurgy and coal mining, is another obstacle, as it would require some help from the EU. The economic recovery that started in the second stage of the transformation, however, reduces the need for external financing of this process, so that it makes this obstacle relatively less important.

One of the most visible problems of the Poland-EU co-operation is the state of transportation and communication links between them, including the border-

crossing infrastructure. In this respect a considerable progress has been made, especially in the telecommunications and border infrastructure. Several big transportation projects (the highway building programme, the railway modernisation project, etc.) would significantly improve links of Poland with Germany and the rest of the EU as well as links among Polish towns and regions.

Restructuring of heavy industries and improvement of the transportation system of Poland are connected with a serious problem of restructuring some Polish regions, especially Upper Silesia (Szczepański, 1995; Gorzelak, 1995). Diminishing of the dependence of this region on loss making activities like the coal mining and metallurgy, making these industries competitive, improvement of the ecological situation of the region etc. would require substantial resources, including EU ones. Thus, the restructuring of this region is another obstacle for Polish integration with the EU. The transformation brought about some positive changes in this respect. The general decrease in demand for coal and energy diminished pressure on coal extraction giving some space for development of other sectors and reduced the level of pollution emission, thus reducing the ecological problem. Despite its shortcomings, the region is still quite attractive for investments, including foreign ones. The above mentioned big transportation projects also strengthen the region's attractiveness. The inflow of foreign capital is already significant and some big investments are pledged. If this positive trend continues, the burden of restructuring Upper Silesia will lose its importance.

Some obstacles to Poland's integration with the EU result from the incompatibility of the legal systems, especially from regulations concerning economic activity and ownership. Nevertheless, during the transformation and introduction of the market economy in Poland, Polish legal system was gradually made compatible with the EU standards. Now, the biggest deviation from the EU norms relates to two regulations, both affecting foreign activity in Poland:

1) restrictions on purchases by foreigners of immovable property (permission by the Ministry of Internal Affairs is necessary);

2) restrictions and limitations on undertaking of economic activity by foreigners (in some sectors foreign capital is not allowed, e.g. in mining, military industry; in some others ministerial concessions are required).

It should be stressed, however, that even these two regulations are being gradually 'softened', e.g. some kinds of immovables (flats, industrial plots in towns up to 0.4 ha, etc.) have been excluded from the general rules and sectors where foreign capital is not allowed or concessions are required have been reduced. These issues are the subject of current political debate and decisions and every month brings new regulations. The general trend of these regulations is towards the adaptation of the Polish legal system to the EU standards.

Although the economic performance of Poland also deviates from the EU average, and even more from the 'Maastricht criteria', the progress made in this area during the transformation is probably the biggest: inflation rate, although

still unacceptably high, has been reduced from about 600% in 1990 to 22% in 1995; budget deficit/GDP ratio has fallen down to 2.8% in 1995, (compared with 5–7% in 1991–1992) which is below the Maastricht criterion of 3%); public deficit/GDP ratio is also at the ‘Maastricht level’.

The transformation meant not only changes in the economy but also in the whole political system: introduction and strengthening of parliamentary democracy, local democracy, emergence and consolidation of political parties and of the network of institutions of civil society as well as the strengthening and spreading of attitudes and behaviours characteristic of democratic society and good international relations with all neighbours. All these factors should contribute to the Polish effort to join the EU.

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