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# The Implications of European Economic Governance for International Business in the New Member States: Experiences of the Czech Republic, Hungary, Poland and Slovakia

**Abstract**

*This chapter focuses on the impact of European economic governance on international business behaviour in the new member countries of the EU. The experiences of the Czech Republic, Hungary, Poland and Slovakia during both the pre- and post-accession periods are examined. The main tasks of the paper are as follows:*

- *to define the notion of 'European governance' and to examine the relationship between European economic governance and global governance;*
- *to analyze the impact of European economic governance on international business within the Single European Market and the impact of different EU policy instruments on international business behaviour following the accession of the New Member States;*
- *to present international business performance in the Mew member States.*

## 1. INTRODUCTION

The aim of this paper is to discuss the impact of European economic governance on international business behaviour in the new member countries. The experiences of the Czech Republic, Hungary, Poland and Slovakia during both the pre- and post-accession periods are examined.

The main tasks of the paper are as follows:

(1) to define the notion of 'European governance' and to examine the relationship between European economic governance and global governance;

(2) to analyze the impact of European economic governance on international business within the Single European Market and the impact of different EU policy instruments on international business behaviour following the accession of the new member states;

(3) to present international business performance in the new member states.

Using data from the Czech Republic, Hungary, Poland and Slovakia, an attempt will be made to evaluate the performance of international business in these countries in both the pre- and post accession periods. The role of the European governance in this process will be examined throughout.

A limitation on the proposed research could be the lack of certain data related to different forms of international business activities following the accession of the new Member States, as well as difficulties in discerning differences between factors which influence international business behaviour.

## 2. EUROPEAN GOVERNANCE VS. GLOBAL GOVERNANCE – NOTIONS AND RELATIONSHIPS

'European governance', as used in this paper, denotes common EU sectoral policies at the supra-national, EU level. The issues of European governance, regulation, and de-regulation have been discussed in the scientific literature in the context of formation of the European economy (G.Majone 1990, C.B. Blankart 1990, S.Breyer 1990, G. Thompson 2001, Z.Wysokińska, J.Witkowska 2002). Two economic governance systems are distinguished, i.e. the 'regulatory order' and the 'market order'. This paper will concentrate on the 'regulatory order' and on the implications of this mode of governance, introduced at the European level over the activities of international business in the new member states. The term 'regulation', for the purposes of this paper, is equated with the sum of legal norms and acts in force in the business sphere which are aimed at influencing and shaping the economic activities undertaken by business.

While European Governance remains connected with the global processes instituted within the concept of Global governance, not all European Union policies have equivalents at the global and supra-national levels. The connections are most visible in the areas of trade policy, competition policy, environmental policy, and economic and social cohesion policies.

## 3. THE IMPACT OF EUROPEAN UNION POLICIES ON INTERNATIONAL BUSINESS BEHAVIOUR IN THE NEW MEMBER STATES

The impact of European sectoral policies on international business in the new member states takes place first and foremost in the adaptation processes which these countries undergo in harmonizing their regulations with the common community policies, especially community trade policies (connected with joining the common customs union on the day of accession), competition policies, environmental protection policies, and joining the common *European Research Space*, which enables small and medium sized enterprises (SMEs) to participate in the scientific research network, have access to the newest technologies, and commercialize innovation.

Other EU sectoral policies, such as socio-economic cohesion policies, policies concerning SMEs, consumer protection, transportation and social rights only indirectly affect international business in the new member states.

### 3.1. Trade Policies

The new Central and Eastern Europe (CEE) member states' processes of adapting to the principles governing the EU's common trade policy took place in the context of acceptance and implementation of the so-called Community Pyramid of Preferences, designed to protect the Single European Market by allowing it to:

1. grant preferences to selected third (i.e. non-EU) countries in their access to the internal EU market and establish common EU external tariffs and customs for all third countries via the application of TARIC;
2. support EU exports to third countries in accordance with existing GATT/WTO and OECD regulations.

The common European Union trade policy is carried out at two complementary levels:

- supranational, arising from membership in the World Trade Organization (WTO);
- bilateral and regional, implemented by agreements with particular countries or groups of countries, creating 'blocs' in different regions of the world.

The system of supporting EU exports is based on harmonization of the use of instruments and mechanisms used to directly support export, including:

- export credit insurance,

- credit guarantees.

The foundations of the EU system in this area are contained in Council Directive No. 98/29 of 07.05.1998 concerning harmonization of the major regulations governing export credit insurance for medium and long-term transactions, as well as in Council decisions concerning specific tasks and methods of functioning of the overall system.[1]

**The common trade policy of the EU is based on geographical differentiation.** Various countries and groups of countries have differing statuses in their trade relations with the EU, depending on the preference level of their mutual trade relations. As regards the **highly economically developed countries** two major groups of countries can be differentiated; i.e. those which cooperate with the European Union based on:

1. the functioning of the European Economic Space (EES) which went into effect on 1.01.1994. The EES encompasses cooperation in the community market in terms of industrial goods, services, and capital between the countries of the EU and the EFTA countries (with the exception of Switzerland), so long as EU competition norms are observed and highly developed cooperation is in place in terms of environmental protection, research and development, as well as the protection of social rights;
2. the existence of most-preferred nation agreements, which together with *national treatment agreements* set forth the basic principles for mutual relations between GATT/WTO member states. This type of cooperation can be found in the EU's relations with the USA, Canadą, Japan, New Zealand, Australia, South Korea, Singapore and Taiwan.

EU cooperation with the remaining group of **developing countries** encompasses various levels of preferences in terms of those countries' access to the EU internal market. A particular set of preferences is enjoyed by the **Mediteranean countries, which includes three countries which are associated with the European Community**: **Turkey** (based on the Agreement of 1963); **Malta** (Agreement of 1970); and **Cyprus** (Agreement of 1972). The cooperation of these countries, seeking accession, with the EU is based on the establishment of a customs union. **The Mahgreb Countries (Morocco, Tunisia, and Algeria)** signed an Agreement with the EU in 1976 granting them

[1] Council Decision 2001/76/EC of 22.12.2000 amending the Decision of 04.04.1978 concerning the application of certain principles in the area of governmental support of exports, overruling the Council Decisions of 93/112/EEC and 97/137/EC of 03.03.1997 amending the Decision of 04.04.1978 concerning the implementation of major principles concerning governmental support of exports: as well as Council Decision 76/641/EEC of 27.07.1976 amending Council Decision 73/391/EEC concerning consultation and information on methods of guaranteeing and financing credit.

**unilateral preferences in access to the EC market** for industrial exports, and to a limited degree for agricultural exports. New association preference agreements were concluded in 1995 between the European Union and Tunisia and Morocco. These agreements constitute an element in the concept of a Mediterranean Economic Space (MES) and grant a high degree of preference in terms of access to the EU market, being aimed at the creation of a free trade zone for industrial goods within 12 years and an expansion of preferential treatment being granted to agricultural/foodstuffs exports from Tunesia and Morocco to the EU. The Trade and Cooperation Agreements concluded in 1977 between the EC and the **Middle Eastern countries**: **Egypt, Jordan, Lebanon, and Syria,** are based on the granting of **unilateral preferences** in access to the EU market as well as pledges of financial assistance to these countries. The EU's cooperation with **Israel** is presently based on an **Assocation-type agreement** entered into in 1995, also encompassing **technical and financial assistance.** Seventy African Saharan countries, included in the so-called **ACP Group** consisting of 77 African, Caribbean, and Pacific countries, also enjoy grants of preferential access to the EU market on the basis of the Lome Convention, signed in 1975 and systematically renewed. This cooperation is based on the establishment of free access to the EU market for industrial goods and wide-ranging access for agricultural goods (in particular for goods such as bananas, sugar, bovine meat and rum). These countries also receive financial assistance from the European Union within the STABEX and SYSMIN funds. In February of 2000 the EU adopted a policy integrating trade and development with regard to these countries, aimed at integrating them into the world economy **(the *Cotonou Agreement).*** The Cotonou Agreement is an example of an *Economic Partnership Agreement (EPA*). Negotiations were commenced in September of 2002 aimed at increased political, economic, and trade cooperation as well as offering EU developmental assistance to the countries of the ACP (European Commission 2002a).

In addition a number of the countries of Asia and Latin America belong to the *Generalized System of Preferences (GSP)* in terms of their access to the European Community Market. This system offers certain customs ceilings in access to the EU market for industrial exports from these countries, with the exception of so-called „sensitive goods", which include textiles and most agricultural products. Separate free trade agreements were signed with **Mexico** (in 2000 – aimed at eliminating customs by the end of 2007) and **Chile** (the Agreement signed on 18.11.2002 concerning certain trade items has been in force since 2003). Negotiations are continuing concerning trade liberalization with **MERCOSUR** – the Common Market of South American Countries. These negotiations are not only aimed at reaching an agreement on trade liberalization, but also concern issues such as public procurements, protection of intellectual property, competition policy, and direct foreign investment.

Negotiations concerning free trade agreements are also underway with six Gulf Straits' countries grouped in the **GCC (*Gulf Cooperation Council*)**, which includes Bahrain, Kuwait, Quatar, Oman, Saudia Arabia and the United Arab Republic. Discussions continue concerning the feasibility of signing an agreement with Iran.

Partnership and Cooperation Agreements have already been signed with a number of former USSR republics (**Russia, Azerbajdzhan, Kazachstan, Moldova and Ukraine**). These agreements envision the possibilty of the future establishment of a free trade zone between the signatories and the EU.

In 2000 the EU signed a bilateral agreement on trade, cooperation, and development with **South Africa**, aimed at the establishment of a free trade zone between the signatories within 12 years.

The implementation of the EU common external customs policy (TARIC) by the new member states, as well as acceptance of the above-described Community Pyramid of Preferences, has meant that those firms which import finished products from third countries are faced with greater competion, while those which import production components from third countries have improved their relative competitive positions, since they can now lower the unit costs of their finished products. These conditions particularly concern firms importing from countries to whom the EU grants liberal access to the single market, i.e. EES and MES countries, and some Latin American and Asian countries granted access to the EU market on the basis of the GSP.

In Poland's case the level of customs duties in TARIC differed from those in force in Poland before joining the EU and generally speaking was lower in Poland. (see Table 1). Table 1 demonstrates that the level of protection of Poland's market has declined since its entry into the EU, which is also a result of the fact that the EU's common trade policy employs a universal system of preferences. (Z. Wysokińska, J. Witkowska, 2002, p.325).

**Table 1. Tariff rates in the EU and in Poland following the liberalization of customs in 2001 in accordance with the Uruguay Round of GATT**

| Country | Average customs rate applied after liberalization (%) |
|---|---|
| **Industrial goods (excluding petroleum products)** | |
| EU | 4,1 |
| Poland | 10,4 |
| **Agricultural Products** | |
| EU | 19,5 |
| Poland | 52,8 |

Source: Z. Wysokińska, J. Witkowska, Integracja europejska. Dostosowania w Polsce w dziedzinie polityk. PWE, Warszawa, 2004, p.95.

As regards the use of financial instruments to support exports, Poland and the other new member states which were also members of the OECD (the Visherad countries) had been obligated from the time of their OECD membership to accept the Agreement on Principles Governing Official Support of Export Credit (which until 2002 operated on the basis of the so-called *OECD Consensus*, granting Poland, Czech and Hungary preferential treatment as *countries in transition*, which allowed them the apply a wider range of export support instruments until 2002, although Poland took almost no advantage of the opportunities it was offered) (Z. Wysokińska, J. Witkowska, 2002a).

## 3.2. Competition Policies

European Union competition policy is grouped around four major tasks:

– the elimination of agreements or understandings which restrict competition and lead to the abuse of a dominant market position (np. for example price-fixing agreements between competitors);
– controlling mergers, acquisitions, and takeovers of enterprises (the merger of two larger firms or groups of firms can, for example, result in domination of the market by the merged company);
– liberalization of monopolized sectors of the economy (such as telecommunications, rail transporation, the energy sector, and fuel supply);
– the monitoring of state aid (prohibiting, for example, states subsidies to firms generating losses which have no realistic chance to regain financial stability) (European Commission 2000, p.8).

The adaptation to the competition rules in effect in the Single European Market and the influence of that process on international business in Central and Eastern Europe has consisted primarily of the implementation of legal rules and regulations associated with protection of markets against excessive and unfair competition from foreign companies, i.e. protecting markets against price dumping and/or subsidized industrial imports. Adjustments to the EU rules regarding state aid for enterprises have also had a significant impact on the international business environment in the new member states.

In terms of public assistance in Poland during the pre-accession period, sectoral assistance designed to aid in the process of restructurization played an important role. Most of it went to the mining and metallurgy industries (in 2003 97.7% of general sectoral aid went to these two branches of industry).

Horizontal assistance in the new CEE member states consitutes the basic method for supporting the development of entrepreneurship and improving the competitiveness of business firms, aimed at enabling them to function in the Single European Market. An overview of the assistance provided to small and medium sized enterprises in Poland in recent years is as follows:

**Table 2. Public assistance for enterprises in Poland between 2000-2004 (in mln euro)**

| 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| 4,4 | 17,7 | 13,5 | 11,4 | 12,7 |

Source: PROGRAM POLITYKI W ZAKRESIE POMOCY PUBLICZNEJ NA LATA 2005-2010 (Public Assistance Policy for 2005-2010), Warsaw, March 2005, accepted by the Council of Ministers on March 29, 2005. www.mgip.gov.pl.

In 2004 Poland, with the aim of realizing its National Development Plan, set up the following operational programs designed to support enterprise development: Sektorowy Program Operacyjny: Wzrost Konkurencyjności Przedsiębiorstw (Operational Sectoral Program: Increasing the Competitiveness of Enterprises); Sektorowy Program Operacyjny Rozwój Zasobów Ludzkich (Operational Sectoral Program: Developing Human Resources); and Zintegrowany Program Operacyjny Rozwoju Regionalnego (Integrated Operational Program to Aid in Regional Development. Approximately 2000 mln euro have been designated for enterprise development within the context of these programs.

### 3.3. Economic and social cohesion policy

The need to implement an **economic and social cohesion policy** at the EU level arises from the appearance, in the context of international economic integration, of so-called ‘problem regions’ – areas characterized by backwardness in terms of economic development, poor infrastructures, or located in peripheral regions (N. Jovanovic 1997). The general aim of economic and social cohesion policy is to strenghten the economic cohesion of the European Union, assessed in terms of per capital GNP, and the EU’s social cohesion, assessed in terms of employment and unemployment rates as well as a region’s proportional share of overall EU income. The operational aims of these policies are formulated in accordance with established financial prospects and projections and criteria used in distributing both regional and horizontal aid. In light of the current financial assessments, three concrete aims have been established, as follows:

- Aim 1 – providing developmental assistance and adapting the infrastructures of regions characterized by backward development (i.e. with a per capita GNP lower than 75% of the overall EU average per capital GNP) as well as areas encompassed by the Sixth Framework Program in the years 1995-1999 (i.e. sparsely inhabited areas);
- Aim 2 – providing economic and social support for the reconversion of regions undergoing structural difficulties;
- Aim 3 – providing assistance in the adaptation and modernization of educational policy and systems, the provision of professional training, and employment policies.

The policy instruments currently used to implement the EU’s economic and social cohesion policies are the Structural Funds and the Cohesion Funds. In the pre-accession period, the new CEE member states were the beneficiaries of pre-accesion funds (PHARE, ISPA, SAPARD).

The EU’s economic and social cohesion policies have an indirect influence on international business activities being carried out in the integrating market. The most influential effects should be wrought by policies and programs which improve the infrastructures of poorer countries and regions, increase the competitiveness of firms, and develop the business environment. Financial assistance from the European Regional Development Funds and the Cohesion Funds are designated for improving the infrastructures of the lesser developed EU member states and regions characterized by backward development. The current new member states also made use of pre-accession funds for this purpose, in particular with regard to ISPA Funds. The Structural Funds are also aimed at supporting the development of local potential, stimulating the activities of SMEs, and supporting education and the development of human resources. All this should encourage the long-term ‘internationalization’ of firms, and the activities undertaken within the context of economic and social cohesion policies should facilitate international trade and cross-border cooperation (the latter of which is also supported by a community initiative, INTERREG).

Various operational programs put in place in Poland in implementation of its National Development Plan are also aimed at increasing economic and social cohesion.

The aim of the *Integrated Operatinal Program for Regional Development (ZPORR in Polish*) is „the creation of conditions which will increase the economic competitiveness of regions and prevent the marginalization of certain areas in such a way as to facilitate the long-term economic development of the country as a whole, its economic, social, and territorial cohesion, and integration with the EU.”

**Table 3. Funds available for the implementation of ZPORR programs between 2004-2006 (in mln euro)**

| | National public funds | EU public funds | **Total funds** |
|---|---|---|---|
| 2004 | 260,6 | 693,6 | **954,2** |
| 2005 | 372,4 | 990,9 | **1 363,3** |
| 2006 | 482,5 | 1 283,9 | **1 766,4** |
| **Total** | **1 115,5** | **2 968,4** | **4 083,9** |

Source: same as Table 2.

Economic and social cohesion policies will improve, over the long term, the location advantages the selected member states and regions are able to provide, as understood in the OLI paradigm of J. Dunning. This should increase the stream of direct foreign investment (DFI) flowing into the beneficiary countries and regions. The experiences to date of the new CEE member states confirm to a certain extent the above suppositions (the next presentation will treat in more detail the topic of the reaction of international business to EU expansion).

### 3.4. SME Policy

EU policies toward enterprises are addressed generally to the entire business community. Their general aims are (European Commission 2004):

- promotion of entrepreneurship,
- encouraging innovation,
- creating and strengthening the commerical and legal conditions whic would facilitate the development of business and innovation;
- improving the competitiveness of firms in the knowledge economy,
- creating a financial climate which encourages business activities,
- promoting cooperation between enterprises and assuring support for business services,
- improving access to markets and encouraging enterprises to make use of the advantages provided by the single internal market,
- encouraging more and better use of existing services.

The EU employs a broad range of instruments – financial, legal and administrative, and institutional – in order to achieve the above aims. Currently solutions to overcome the difficulties and obstacles which arise in the context of direct actions are being sought in the coordination of national policies and the implementation of new initiatives designed to support business and increase the scope of its application. The member states are encouraged to exchange experiences in order to learn from each other and to accelerate the dissemination of best practices. New procedures such as BEST (*Business Environment Simplification Task Force)* are used and applied together with previous activities, comprising benchmarking, seminars, conferences, and policy sessions. These procedures and events are supported by statistical data collection, analysis, and research. In combination all these activities enable the EU and its member states to implement enterprise-friendly policies throughout the EU.

The above-described EU policy with regard to enterprises generally, encompassing small and medium sized enterprises as well, would appear to be of crucial significance for the 'internationalization' process of firms in the particular member states. The activities and instruments generally applied to assist firm development at the same time take them through an internationalization process. Exports, cooperation agreements, and other forms of international cooperation between firms, as well as DFI in SMEs, are subject to many factors. The European Union policies and the coordinated policies of the EU member states are all aimed at eliminating barriers to firm development, and the financial assistance available within the framework of these policies is aimed at decreasing and/or eliminating ineffective market mechanisms and market failures.

A network of *Euro-Info-Centers* has been established in order to implement policy aims with regard to SMEs. The aim of this network is to provide information, counselling, and assistance to SMEs. Other similar institutional instruments are also available, such as: *BC-Net (Business Cooperation Network)*, *BRE (Bureau de Rapprochement des Enterprises),* as well as the '*Europartenariat*' and '*Enterprise*' initiatives, within which direct contacts and meetings between firms are arranged and cooperation is facilitated and encouraged.

Financial instruments are also in place aimed at improving the overall financial environment in which businesses operate, in particular with regard to SMEs. The European Investment Fund operates at the EU level. It invests in high risk enterprises and offers capital to firms engaged in projects implementing new technologies, creates guaranty funds, aids SMEs in searching for capital on financial markets, and suppports business innovation by establishing start-up capital funds and enterprise incubators. At the national level, policies and programs of EU member states designed to provide support for SMEs must be in accordance with the principles established by the EU for the provision of such support. In addition to the provision of national support, member states may access structural funds and funds made available by the European Investment Bank.

The European Commission and national governments cooperate with each other, using the *procedure BEST*, in order to examine and analyse the difficulties and problems encountered by firms carrying out business activities, as well as to identify best practices and assess the effects of the policy choices made.

The adaptation of member states' national policies regarding SMEs to the requirements of EU membership should, in the long term, create a business environment conducive to the development and internationalization of SMEs. The information currently available suggests, however, that the current internationalization process of SMEs in the new member states is proceeding very slowly (J.Witkowska, Z. Wysokińska 2004).

Poland, in the contest of its National Development Plan, is currently implementing its *Operational Sector Program to Increase the Competiveness of Enterprises (SPO WKP in Polish)*. This program establishes guidelines and activities for policies to support enterprise development and innovation, taking into particular account the needs of SMEs.

**Table 4. Funds available to implement SPO WKP between 2004-2006 (in mln euro)**

| | National Public Funds | EU Public Funds | **Total** |
|---|---|---|---|
| 2004 | 107,8 | 292,3 | **400,1** |
| 2005 | 154,0 | 417,6 | **571,6** |
| 2006 | 199,6 | 541,1 | **740,7** |
| **Total** | **461,4** | **1 251,0** | **1 712,4** |

Source: same as Table 2.

## 3.5. Policies supporting research and technological development

Small and medium sized enterprises in the new member states were given the opportunity to obtain financial support from the Fifth, Sixth, and Seventh Framework Programs of the EU. The aim and purpose underlying the financing of these activities was to establish networks connecting European firms via the creation of „clusters" and the establishment of „intra-firm-trade".

The financial incentives provided to enterprises are designed to increase their expenditures of time, effort, and capital on R & D activities, innovation by new technology transfers, commercialization of R & D results produced by scientific centres, and increase the number of enterprises offering products or services based on new technological solutions. Institutional support, through tax incentives and provision of capital, is aimed at increasing the role of the private sector in scientific research and development in accordance with the priorities elaborated in the Lisbon Strategy.

Regional Innovation Strategies have been developed by Poland and other new CEE member states. These policy strategies are aimed at improving innovation and regional competitiveness with assistance from the EU structural funds.

**Table 5. Public financial assistance on research and development in Poland in 2001-2003 (in mln euro)**

| **2001** | **2002** | **2003** |
|---|---|---|
| 23,3 | 34,2 | 26,4 |

Source: same as Table 2.

The total public assistance offered in support of R & D activities in the years 2001–2003 in Poland was thus very small, totalling **84 mln euro**. Public investment in R & D must be increased, and this increased investment should be accompanied by closer cooperation between R & D institutes and business. This should be accomplished by a new law regarding educational financing and support for innovative activities, coupled with the restructurization of R&D institutes, designed to rationalize and optimize their structures, adapting them to the needs of the new knowledge economy.

### 3.6. Environmental Protection Policy

In Poland and the other new member states of the EU the implementation of EU principles of environmental protection has had a significant effect on international business conducted therein. This is particularly evident as regards the EU principles concerning prevention, on-site liquidation, the „*polluter pays* principle, partnership (the necessity for all actors involved in pollution to cooperate in undertaking activities aimed at environmental protection), the insertion of environmental protection policies in other policy areas, and the subsidiarity principle (Z. Wysokińska, J. Witkowska, 2002, p.219-221).

In concrete terms, environmental protection activities instituted in the new member states which have significantly affected international business encompass the implementation of EU regulations in areas such as: community waste disposal, packaging and disposal of packaging waste, prohibition of waste disposal in water sources, control of orgainic air emissions associated with petroleum storage, protection against ion radiation in medical procedures, and supervison and control over waste transfer and disposal sites within the territory of the EU as well as outside.

The support offered to enterprises engaging in environmental protection activities is aimed at: upgrading existing installations to accord with the best available techniques (BAT); applying clean and energy-saving production techniques and technologies; conservation of natural resources; investment in renewable energy resources; protecting the air, water, and soil against pollution; improving the qualities of fuel and creating improved power transportation mechanisms, and adapting waste disposal techniques to the needs of the environment.

The need to provide financial support to enable enterprises to comply with environmental protection regulations results from the high costs associating with pro-ecological investment and the implementation of pro-ecological innovations.

**Table 6. The amount of public assistance provided to enterprises by environmental protection and water management funds in the years 1999-2003[2] (in mln euro)**

| 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| 78,9 | 69,7 | 22,4 | 27,1 | 90,2 |

Source: same as Table 2.

In sum, the the National Environmental Protection and Water Management Fund, together with the provincial Environmental Protection and Water Management Funds rendered **288,2 mln euro** worth of public assistance in the years 1999-2003**.**

## 3.7. Consumer Protection Policy

**Consumer Protection Policy** at the Community level developed incrementally in conjunction with the construction and development of the unified internal market. The free exchange of goods and services within the context of the established market required the establishment of certain common, or at least similar, rules regarding the level of protection offered to consumers and the elimination of legal barriers and market distortions. (D. Swann, 1995, Z.Wysokińska, J.Witkowska 2004). Among the activities undertaken and instruments created in the implementation of consumer protection policies which have significantly affected international business, the following should be noted (European Commission 2002, Rolling Programme 2002):

– legal regulations concerning consumer safety encompassing, in accordance with the currently implemented *Policy strategy for consumer protection, 2002-2006,* new types of public services – transport, energy, telecommunications, postal service;
– increasing cooperation between the member states by creating the legal basis for uniform consumer protecton legislation in areas within the competence of member states, regions, or local communities;

[2] Data from the years 1999-2001 come from „Zmiany w systemie udzielania pomocy publicznej na ochronę środowiska w Polsce w świetle przepisów prawnych Unii Europejskiej oraz polskich nowych aktów prawnych w tym zakresie" (Changes in the system of granting public assistance for environmental protection in Poland in light of EU regulations), while data for the years 2002-2003 comes from „Raport o pomocy publicznej w Polsce udzielonej przedsiębiorcom w 2003 r". (Report on public assistance given by Poland to enterprises in 2003).

– expanding informal cooperation between member states by the use of instruments such as: International marketing supervision network – IMNS; access to a data base containing information on unfair contract practices – CLAB ( fr. „clauses abusives");
– collection and evaluation of information concerning unsafe consumer products and the risks associated with certain service practices, as well as information concerning accidents associated with products and services, and the creation of system for exchanging information in the event of a public threat (RAPEX – „rapid alert system");
– creation of a program designed to avoid accidents by gathering and assessing information on accidents related to the possession or use of particular products (Injury Prevention Programme);
– creating legal mechanisms for the collection of damages in the event of injury or damage associated with a product manufactured in a country other than an injured party's country of residence; as well as creation of an alternative dispute resolution procedure for resolving such disputes within the EU member states and the creation of extra-judicial networks (EEJ-Net), as well as FIN-NET, which deals with trans-national complaints with regard to financial services;
– the creation of European consumer centres (Euroguichets).

The activities listed above level the playing field and competitive conditions for international business firms in the unified internal market. They raise the level of consumer protection on the entire market, which can constitute a challenge to certain exporters or foreign investors producing products for a domestic market. This is of particular significance to the new CEE member states, where many firms have functioned for years in markets characterized by scarcities and monopolies, which allowed them to engage in shabby practices to the detriment of consumers. The ability of such exporter firms, both foreign and domestic, to adapt to the demands of the single market is associated with additional costs, which reduces their competitiveness. On the other hand, today's investments designed to improve consumer protection bring with them long term competitive advantages and the access to the vast single market.

EU regulations concerning consumer protection comprise a certain restriction on the market behaviour of both international and domestic business firms.

### 3.8. Transport Policy

The integration of transport policy has proved difficult due to the variety of conflicting economic interests in the member states. Advanced progress is visible only in certain areas, and in general is highly differentiated (White Paper 2001, Policy guidelines 2001). Nevertheless it can be said that basic liberalization in the area of transportation has been achieved, which is reflected in the freedom to render transportation services in and between all member states. This is of critical significance for international businesses operating on the single market. The liberalization that has been effected has brought about the efficent transportation of goods and products, reducing the costs of their export. A trans-European transportation network is being created, increasing the attractiveness of various regions for foreign investors. This aids in the re-organization and rationalization of international production in the framework of an integrated economic space.

Even in the pre-accession phase the new member states already were participating in the construction of a transportation network in reliance on pre-accession funds, primarily those of PHARE and ISPA. Presently there are good opportunities for building and modernizing transportation networks using the Structural and Cohesion Funds, which in the long term should significantly influence the choices available to and made by international business.

Within the context of its National Development Plan Poland has implemented an Operational Sectoral Program known as ***Transport,*** relying on the financial support provided by EU funds. Table 7 below presents a more detailed picture of the financial structure of this Program.

**Table 7. Funds available for the Progam SPO Transport (in mln euro)**

| | National Public Funds | EU Public Funds | **Total** |
|---|---|---|---|
| 2004 | 90,7 | 271,8 | **362,5** |
| 2005 | 129,6 | 388,4 | **518,0** |
| 2006 | 167,9 | 503,2 | **671,1** |
| **Total** | **388,2** | **1 163,4** | **1 551,6** |

Source: same as Table 2.

### 3.9. Social Policy

Responsibility for the implementation of **social policy** is divided between European Community institutions and the member states. Throughout the process of European integration an assymetry has evolved between policies designed to promote market effectiveness and policies promoting social protection and equality (F.W.Sharpf 2002). This assymetry arises from the fact that economic policy is becoming progressively 'europeanized', while social policy remains primarily within the national domain. Currently the Community is implementing its Social Policy Agenda, which is treated as a kind of 'road map' designed to modernize and modify the European social model by investment in human resources and actively building up the common wealth (European Commission (2003). The Social Policy Agenda refers to the following social policy areas and proposes various actions and activities: **employment, free flow of workers, work standards, social dialogue, workplace equality for men and women, and social protection.**

Social policy has an indirect effect on international business. The regulations and activities in particular spheres of social policy do affect business decisions. Educational programs affecting higher institutions of education, professional training, and cooperation between education institutions and industry affect employment policies, leading in the long term to a more highly qualified workforce, which in turn increases the attractiveness of locations, particularly in the lesser developed countries, making them more attractive as locations for DFI.

Implementaion of the principle of the free flow of workers affects areas such as the mutual recognition of diplomas and educational qualifications, and also leads to the establishment of various enterprises designed to encourage mobility for scientists (the creation of the Mobility Portal for scientists and the Pan-European Network of Scientific Mobility Centres), all of which increases workplace mobility for scientists and reduces fragmentation of the labor market in the sciences. These actions correct market imbalances and improve the overall conditions in which international business functions.

As regards workplace standards, the activities of the European Union are designed to motivate the member states to apply higher standards in their own countries. The standards elaborated include not only workplace conditions and health, safety, and hygiene, but also the provision of information to employees, consultation with them, and their participation in enterprise management. While these issues generate controversy in various member states, they were among the earliest labour issues to be regulated by Community regulations (in the form of both framework directives and a series of detailed directives in the areas of workplace safety and hygiene as well as workers' rights and workplace conditions). It is estimated that in these areas the greatest degree of uniformity in national legislation has been achieved. For both international and domestic enterprises conformity with these regulations has increased the costs of doing business, which has been particularly true in the case of direct foreign investment in the new CEE member states. It should also be noted that many of these states have yet to fully comply with the obligations imposed on them by the directives. For example, it is estimated that the cost of compliance with certain directives in the area of workplace safety and hygiene in Poland is about 133 mln PLN (UKIE 2003). Full compliance with these regulations by enterprises will, in the short term, reduce their cost competitiveness, although over the longer term compliance should result in less workloss by reducing workplace accidents, work-associated illnesses, and sick leave overall. These long term advantages will also increase worker productivity and improve the quality of products and services.

Regulations and activities in the sphere of social dialogue are focused on the creation and establishment of institutions which will facilitate and enhance such dialogue. These include: European Centre for Industrial Relations, European Forum on Social Policy, Standing Committee on Employment. A new initiative involves the creation of a forum to discuss *Corporate Social Responsibility.* The aim of the EU community institutions is to promote the idea of corporate social responsibility and motivate firms to take into consideration the social and environmental aspects of their business activities on a voluntary basis (Adapting 2004). This area of social policy is not directly connected with legal obligations and costs, but by creating regulatory mechanisms which would not evolve naturally in the free market it would facilitate the implementation of social dialogue, including among foreign investors, who are particularly vulnerable to generating social conflicts owing to cultural differences and the fact that foreign companies often have a different approach to work than that prevailing in firms in the new member states.

In the area of equal treatment for men and women basic uniformity has been achieved in the legislation of all member states, binding on foreign investors.

Within the context of its National Development Plan Poland has implemented an *Operational Sectoral Program for the Development of Human Resources (known in Polish as SPO RZL).* The aim of this Program is to construct an „open house built on social awareness, assuring that conditions conducive to the development of human resouces in the areas of education, training, and labour are achieved." Table 8 below presents a more detailed picture of the financial structure of this Program.

**Tablea 8. Funds available for SPO RZL between 2004-2006 (in mln euro)**

| | National Public Funds | EU Public Funds | **Total** |
|---|---|---|---|
| 2004 | 114,5 | 343,4 | **457,9** |
| 2005 | 163,6 | 490,7 | **654,3** |
| 2006 | 212,0 | 635,9 | **847,9** |
| **Total** | **490,1** | **1 470, 0** | **1 960,1** |

Source: same as Table 2.

## IV. INTERNATIONAL BUSINESS PERFORMANCE IN THE NEW MEMBER STATES

In the years 2000-2002, i.e. after the EU member states implemented the requirements of Economic and Monetary Union, one can observe that **the share of internal import in overall EU import has increased by 1.22%, with external import registering a corresponding decrease**. This phenomenon is most visible in the area of finished goods falling with Section 7 SITC (machinery and transportation equipment) and to a lesser extent to goods falling within Section 5 SITC (chemical products) and Section 6 SITC (basic industrial goods). It is worth noting that EU internal imports have increased even as a significant 37% liberalization in customs rates between the EU and third countries was implemented in accordance with WTO obligations, which may indicate that in the years 2000-2002 the liberalization of internal EU trade, and in particular its application of EU norms and standards to goods and products from third countries in the areas of product quality, ecological standards, and technical norms played a greater role than the reduction of tariff bariers. **The reduction in EU external exports and corresponding increase in internal exports for the years 2000-2002 is estimated at 0.77%.** External exports rose significantly to the EU candidate countries (with the exception of Malta and Cyprus), especially to Poland and the other Visherad countries (Czech, Hungary, and Slovakia). The candidate countries also increased their overall share in EU external imports, from 8.66% to 10.85%. Once again this increase was most visible in the Visherad countries, as well as in Slovenia (Z. Wysokińska, J. Witkowska, 2004. pp.16-20).

During the pre-accession period, the new CEE member states increased their overall trade with the EU countries by 3 to 5 times. Analysis of the data contained in Table 9 demonstrates, however, that during the time that the new CEE member states were associated with the EU via Association Agreements, they increased their shares in overall EU imports in a very uneven and differentiated fashion. From 1990 - 2002 Poland increased its share in overall EU imports from 0.57% to 1.13% (by comparison, its share in 1975 was about 0.98%); Czech and Slovakia increased their shares from 0.34% to 2.61% (in 1975 their share was 0.55%); and Hungary's share rose from 0.36% to 1.02% (in 1975 its share was 0.45%) (Z. Wysokińska, J. Witkowska, 2004, p.21).

Following completion of the free trade zone for industrial goods during the pre-accession period, the then candidate countries gained full EU membership status on 1.05.2004, bringing with it full access for their agricultural and foodstuff goods and products so long as they met the prevailing EU sanitary and veterinary norms. This significantly increased their overall export to the EU.

The data shows that the EU as a whole remains a major recipient of FDI inflows, although it has experienced a sharp decline of these inflows after 2001. The annual FDI inflows into the EU fell from a record USD 671.4 billion in 2000 to USD 295.2 billion in 2003, i.e. more than twice (UNCTAD 2004). The decline of FDI inflows into particular member countries was uneven.

The accession countries from Central and Eastern Europe - now eight new Member States - received a small portion of global FDI inflows in the 90's. It was only 2.6% in the years 1992-1997. This share rose to 3.9% in 1999, but fell again to 2% in 2003. In absolute terms, the annual FDI inflows in 2003 amounted to only 56% of those in 2000 (UNCTAD 2004 and own calculations). The country distribution of FDI inflows shows relatively high concentration of FDI inflows into three new Member States. Poland, the Czech Republic and Hungary received more than 80% of total FDI inflows into new CEE Member States (see Table 10).

The prospect of membership in the EU was not a strong enough factor attracting FDI into these countries when some negatives trends occurred in the world economy. However, the initial estimations of the scale of FDI inflows into some of the new member states after they joined the EU shows that their attractiveness to foreign investors is again growing. Poland, Czech, and Slovakia have all noted increases in DFI following their accession to the EU. In Poland, according to the National Information Agency for Foreign Investment (PAIZ) DFI reached 7.9 bln USD in 2004, which was a 22% increase compared to the previous year. The Czech Republic experienced a spectacular 93% increase, while in Slovakia the incomplete data to date – for the first 8 months of 2002 – indicates a modest increase of slightly more than 8% (data from PAIZ, CzechInvest, SARIO, and own calculations).

Transnational corporations from the EU have plans for the re-location of some affiliates into the new member states. This would confirm the thesis extant in the literature that the deepening and widening of European integration processes encourage both newcomers to invest in the EU and already established investors to seek an optimum location within the integrated area.

## CONCLUSIONS

1. European governance, understood as common EU sectoral policies, are implemented at the supra-national level and constitute a regulatory order supplementing and correcting market mechanisms and activities within the Single European Market.
2. A significant portion of common EU sectoral policies are related to supra-national and global regulations (issuing from the OECD, WTO, and UN). These include: Common Trade, Competition, Sustainable Development and Environmental Protection, and Social and Economic Cohesion Policies.
3. EU policies have a significant effect on international businesses operating on the Single European Market, particularly as regards trade and foreign inverstment in the new member states. Some of these policies impact directly on international business, such as trade policies and competition policy, while other policies have an indirect effect, such as economic and social cohesion policies and policies regarding small and medium-sized businesses.
4. Entry into the EU customs area (acceptance of the Community Pyramid of Preferences and TARIC as regards external customs) had the most significant effect on trade in the new member states, both as regards internal EU trade and trade with third countries. Of key significance was also the adaptation process to EU competition rules, particularly with regard to state aid to enterprises.
5. The overall effect of the common EU policies on international business behaviour may appear in the relocation of DFI into the territories of the new member states. At the same time the increase in EU internal trade may compensate the ‘old’ member states for workplace losses which may result from such relocations.

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**Table 9. Country shares in EU foreign trade (15 together with former NRD) in % from 1970-2002**

| Reporter | Year | Total | Intra - EU | Extra - EU | Candidate countries (combined) | Malta | Estonia | Latvia | Lithuania | Poland | Czecho-słovakia | Czech | Słovakia | Hungary | Słovenia | Cyprus |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **IMPORT** | | | | | | | | | | | | | | | | |
| UE - overall | 1970 | 100,00 | 55,08 | 44,92 | 2,11 | 0,02 | | | | 0,80 | 0,74 | | | 0,48 | | 0,07 |
| | 1975 | 100,00 | 48,81 | 45,27 | 2,13 | 0,03 | | | | 0,98 | 0,64 | | | 0,45 | | 0,03 |
| | 1980 | 100,00 | 66,95 | 46,76 | 1,62 | 0,05 | | | | 0,66 | 0,47 | | | 0,39 | | 0,05 |
| | 1985 | 100,00 | 57,63 | 42,37 | 1,68 | 0,04 | | | | 0,61 | 0,55 | | | 0,45 | | 0,03 |
| | 1990 | 100,00 | 62,99 | 37,01 | 1,36 | 0,06 | | | | 0,57 | 0,34 | | | 0,36 | | 0,04 |
| | 1995 | 100,00 | 63,64 | 36,36 | 2,73 | 0,07 | 0,06 | 0,08 | 0,06 | 0,82 | 0,81 | 0,60 | 0,21 | 0,51 | 0,28 | 0,05 |
| | 2000 | 100,00 | 58,99 | 41,01 | 3,55 | 0,04 | 0,13 | 0,08 | 0,09 | 0,92 | 1,13 | 0,86 | 0,28 | 0,87 | 0,25 | 0,04 |
| | 2002 | 100,00 | 60,21 | 39,79 | 4,32 | 0,05 | 0,12 | 0,08 | 0,11 | 1,13 | 1,50 | 1,11 | 0,39 | 1,02 | 0,28 | 0,03 |
| **EXPORT** | | | | | | | | | | | | | | | | |
| UE - overall | 1970 | 100,00 | 58,16 | 41,84 | 2,48 | 0,09 | | | | 0,84 | 0,84 | | | 0,60 | | 0,11 |
| | 1975 | 100,00 | 57,09 | 42,91 | 3,02 | 0,07 | | | | 1,48 | 0,76 | | | 0,63 | | 0,07 |
| | 1980 | 100,00 | 60,22 | 39,78 | 1,99 | 0,09 | | | | 0,78 | 0,50 | | | 0,50 | | 0,11 |
| | 1985 | 100,00 | 58,28 | 41,72 | 1,74 | 0,08 | | | | 0,55 | 0,49 | | | 0,50 | | 0,12 |
| | 1990 | 100,00 | 65,28 | 34,68 | 1,60 | 0,10 | | | | 0,54 | 0,42 | | | 0,42 | | 0,11 |
| | 1995 | 100,00 | 63,57 | 36,43 | 3,27 | 0,13 | 0,09 | 0,06 | 0,06 | 0,97 | 0,94 | 0,74 | 0,20 | 0,55 | 0,33 | 0,13 |
| | 2000 | 100,00 | 62,41 | 37,59 | 4,36 | 0,11 | 0,13 | 0,08 | 0,10 | 1,35 | 1,22 | 0,96 | 0,26 | 0,92 | 0,32 | 0,12 |
| | 2002 | 100,00 | 61,64 | 38,36 | 4,82 | 0,10 | 0,14 | 0,10 | 0,15 | 1,44 | 1,47 | 1,13 | 0,34 | 0,98 | 0,33 | 0,11 |

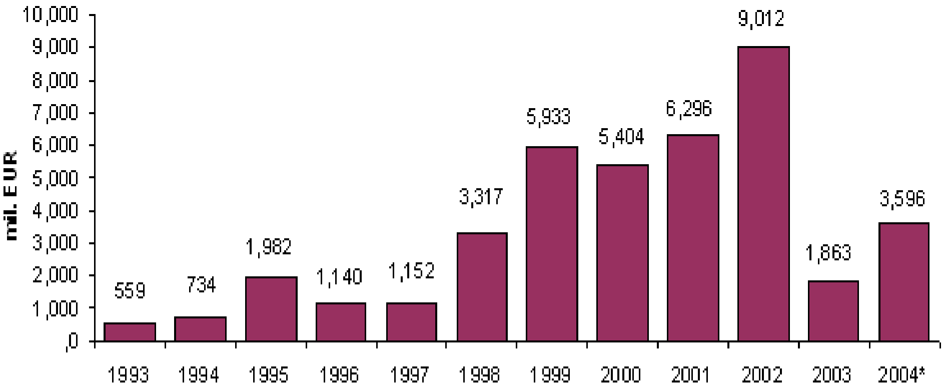
Source: own calculations based on Eurostat data as well as data from the EU candidate countries.

**Table 10. Country distribution of FDI inflows, by selected new Member States, 1992-2003 (%)**

| Specification | 1992-1997 (average) | 1999 | 2000 | 2003 |
|---|---|---|---|---|
| Eight CEE accession countries | 100.0 | 100.0 | 100.0 | 100.0 |
| Czech Republic | 16.2 | 34.0 | 24.5 | 22.5 |
| Estonia | 2.2 | 1.6 | 1.9 | 7.8 |
| Hungary | 36.4 | 17.8 | 13.6 | 21.6 |
| Latvia | 2.9 | 1.9 | 2.0 | 3.1 |
| Lithuania | 1.3 | 2.6 | 1.9 | 1.6 |
| Poland | 36.0 | 39.2 | 46.0 | 36.9 |
| Slovakia | 2.9 | 2.3 | 9.5 | 5.0 |
| Slovenia | 2.1 | 0.6 | 0.7 | 1.6 |

Source: UNCTAD and own calculations.

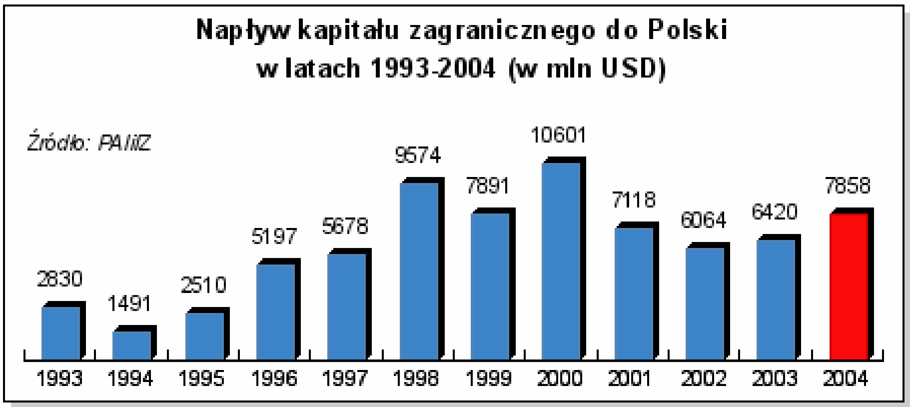
**Chart 1. Inflow of foreign direct investment to the Czech Republic**




* preliminary

Source: CzechInvest.

**Chart 2. Inflow of foreign direct investment to Poland, 1993-2004, USD billion**




Source: PAIiIZ.