

**The Market of Goods. Adaptation of New Eastern European Member States to EU Requirements with Special Reference to Poland**

**Abstract**

*The aim of the article is to present main tendencies in the market of goods in the European Union and in Poland as the accession country , with special reference to foreign trade and competitiveness indices. Poland achieved during the adaptation period to EU requirements big progress in structural adjustments in its foreign trade calculated according to factors of endowment . This progress was connected with restructuring of production and the increase of the share of manufacture products and highly processed agriculture products and with the better access to the EU internal market.*

**Introduction**

**The single European market** favours expansion of trade between the member states, after the abolition of barriers impeding trading activities (trade creation). Because trade among the member states is free, intra-Community imports replace domestic production and supplies from the third countries, if the external customs tariff exceeds national tariffs in the integrating countries. The external import also expands, when the abolition of barriers to trade within the EU coincides with external barrier reductions in those countries, where such barriers were higher before the countries joined the single market. This means that the countries' domestic production and intra-Community imports are replaced by imports from outside the European Union. Finally, *the trade*

*suppression effect* can occur, when the single market makes it possible for some number of firms to take advantage of the economies of scale and to expand intra-Community production that would be unprofitable in less voluminous national markets.

Further, the introduction of the **economic and monetary union rules** triggers processes improving the effectiveness and functioning of the goods, services, capital, and labour markets by eliminating traders' and investors uncertainty as to the future evolution of exchange rates and unnecessary transaction costs. Such processes, as well as stiffening competition (especially in the financial services sector), rationalize the allocation of resources in the production sector and financial services sector owing to boosted efficiency of the financial system management and improved overall economic stability that help intensify international trade and accelerate economic growth of the entire EU.

### **1. Europe's position in global trade against other regions of the world**

Europe belongs to those regions of the world that hold the largest shares in international trade (see table 1). Between 1990 and 2004, the share held by highly developed European countries in the world trade always accounted for more than 40%. This value was the highest in 1990 (47.1%), but in the next years of the 1990s it was consistently falling and reached its lowest level (40.1%) in the year 2000. In the successive years of the new century, Europe's competitive position in the world trade has been gradually improving, up to ca 43% share, which is comparable with the 1980 value (table 1).

As for the European "transition" countries in Central, Eastern and Southern Europe and the CIS countries, their shares in the world export also showed a strong downward trend, mainly due to the transformation of their political systems. In the 1990s, their share in world exports dropped from 3.7% to 2.2% and in the next years of the new century it gradually improved to reach 3.5% in 2004 (see table 1). Altogether, in 2004 the European countries accounted for over 46% of world exports, becoming a leader among the regions of the contemporary world, while having merely 11% of the world population (table 2).

Table 1. Regions' shares in world exports, years 1980-2004

Region and economic grouping	Exports - Exportations (f.o.b. / f.a.b.)										
	1980	1990	1995	1997	1998	1999	2000	2001	2002	2003	2004
<b>WORLD</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
DEVELOPED ECONOMIES	65.27	72.04	69.78	68.03	69.98	68.77	65.72	66.29	65.54	64.84	63.07
DEVELOPING ECONOMIES	29.47	24.26	27.61	29.31	27.65	28.98	31.64	30.93	31.64	32.09	33.46
SOUTH-EAST EUROPE AND CIS	5.26	3.70	2.62	2.66	2.37	2.24	2.64	2.78	2.82	3.07	3.47
<b>DEVELOPED ECONOMIES:</b>											
America	14.43	14.92	15.03	16.20	16.32	16.37	16.45	16.01	14.62	13.32	12.51
Europe	42.81	47.15	44.51	42.50	44.94	43.40	40.13	42.03	42.78	43.63	42.64
Asia	6.69	8.56	8.94	7.95	7.48	7.80	7.94	7.00	6.90	6.72	6.73
Oceania	1.35	1.41	1.29	1.38	1.24	1.20	1.20	1.25	1.23	1.18	1.19
<b>DEVELOPING ECONOMIES:</b>											
<i>By region</i>											
America	5.50	4.14	4.36	5.02	5.04	5.17	5.50	5.54	5.28	4.99	5.12
South America	3.23	2.48	2.46	2.67	2.51	2.38	2.53	2.58	2.45	2.46	2.71
Other America	2.27	1.66	1.90	2.35	2.53	2.79	2.98	2.95	2.83	2.54	2.40
Africa	5.91	3.17	2.18	2.31	1.95	2.04	2.27	2.24	2.27	2.39	2.51
North Africa	2.17	1.18	0.70	0.74	0.61	0.67	0.83	0.81	0.80	0.86	0.93
Other Africa	3.74	1.99	1.48	1.57	1.34	1.37	1.43	1.43	1.47	1.53	1.59
Asia	17.95	16.87	20.99	21.91	20.60	21.72	23.81	23.10	24.05	24.65	25.78
West Asia	9.89	3.92	2.98	3.28	2.65	3.27	4.10	3.93	3.94	4.11	4.43
Other Asia	8.06	12.95	18.01	18.63	17.95	18.44	19.71	19.17	20.11	20.55	21.35
Oceania	0.12	0.08	0.09	0.08	0.07	0.07	0.06	0.05	0.05	0.06	0.05
<i>By major category</i>											
Major petroleum exporters	15.76	6.30	4.64	5.13	4.07	4.85	6.31	5.86	5.73	5.80	6.17
Other developing economies	13.71	17.96	22.97	24.18	23.59	24.14	25.33	25.07	25.92	26.29	27.30
Major exporters of manufactures	8.33	14.11	19.42	20.42	19.96	20.59	21.87	21.49	22.37	22.73	23.65
Remaining economies	5.38	3.85	3.55	3.76	3.63	3.55	3.46	3.58	3.54	3.56	3.65
America	2.22	1.47	1.48	1.63	1.59	1.50	1.47	1.47	1.40	1.38	1.46
Africa	2.63	1.78	1.41	1.40	1.31	1.29	1.21	1.28	1.31	1.34	1.35
West Asia	0.08	0.05	0.05	0.04	0.05	0.04	0.04	0.05	0.06	0.06	0.06
Other Asia	0.36	0.48	0.52	0.61	0.62	0.65	0.68	0.72	0.73	0.73	0.72
<i>By income group (per capita GDP in 2000)</i>											
High-income countries	16.06	13.16	15.32	16.06	14.87	15.63	17.26	16.27	16.10	15.81	16.22
Middle-income countries	6.51	5.89	6.20	6.32	5.89	6.13	6.33	6.34	6.40	6.47	6.85
Low-income countries	6.90	5.21	6.09	6.93	6.89	7.23	8.05	8.32	9.15	9.82	10.40
<b>MEMO ITEM:</b>											
Least developed countries	0.75	0.56	0.47	0.49	0.46	0.51	0.56	0.58	0.61	0.61	0.64
Heavily indebted poor countries	1.19	0.85	0.72	0.79	0.77	0.80	0.85	0.90	0.96	0.97	1.00
Landlocked countries	0.41	0.31	0.53	0.56	0.50	0.50	0.51	0.54	0.54	0.56	0.62

Source: calculations based on "UNCTAD HANDBOOK OF STATISTICS", UN, New York-Geneva 2005.

**Table 2. Population of the world. Major development groups and major areas, 1950, 1975, 2005 and 2050, by projection variants, based on: <http://www.un.org/esa/population/publications/WPP2004/2004EnglishES.pdf>**

Major area	Population (millions)			Population in 2050 (millions)			
	1950	1975	2005	Low	Medium	High	Constant
World .....	2 519	4 074	6 465	7 680	9 076	10 646	11 658
More developed regions .....	813	1 047	1 211	1 057	1 236	1 440	1 195
Less developed regions.....	1 707	3 027	5 253	6 622	7 840	9 206	10 463
Least developed countries.....	201	356	759	1 497	1 735	1 994	2 744
Other less developed countries.....	1 506	2 671	4 494	5 126	6 104	7 213	7 719
Africa .....	224	416	906	1 666	1 937	2 228	3 100
Asia.....	1 396	2 395	3 905	4 388	5 217	6 161	6 487
Europe.....	547	676	728	557	653	764	606
Latin America and the Caribbean.....	167	322	561	653	783	930	957
Northern America .....	172	243	331	375	438	509	454
Oceania.....	13	21	33	41	48	55	55

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat (2005). *World Population Prospects: The 2004 Revision. Highlights*. New York. United Nations.

## 2. Assessment of the integration processes in the Polish goods market in the accession period

### 2.1. Results of accession negotiations on the free movement of goods

The free movement of industrial and agricultural goods is one of the four pillars underpinning the EU single market. It results from laws governing the free trade in goods among the member states, e.g. horizontal laws applying to the conformity assessment system, goods safety, standardization and market supervision, rules prohibiting discrimination and those underlying the abolition of trade barriers, and public procurement.

When presenting her position in the negotiations, Poland declared her will to accept the entire *acquis communautaire* of the European Communities applicable to that area and did not apply for interim solutions.

Closing the negotiations, Poland reserved herself the right to seek an interim period with respect to the implementation of Directive 65/65/EEC on the registration procedure for pharmaceuticals, because of the necessity to harmonize Polish pharmaceuticals laws with the EU legislation. At the same

time, Poland was granted an interim period for the validity of medicinal products' certificates issued under the previous legal system.

On 28 November 2001, talks were reopened to and closed shortly afterwards. The EU accepted Poland's request for an interim period running until 31 December, so that the medicinal products registration procedure could be completed. The approval of the interim period was made contingent on Poland's assuming the following obligations:

- following 31 December 2008 all pharmaceutical products traded in the Polish market should meet requirements provided in the *acquis communautaire*. After that date, non-complying pharmaceutical products must be withdrawn from the market;
- Poland accepts the authority that the member states have been granted under the EU law, allowing them to prohibit the trade in Polish products in the EU market until their trade is allowed according to a procedure provided in the EU law;
- after Poland joins the EU, laws making it obligatory to apply for marketing authorization for products exempted from such obligation in the EU will be abolished;
- following the date of its EU membership, Poland shall fully apply a centralized procedure for marketing authorizations and a procedure for the mutual recognition of pharmaceutical products marketed in the EU member states;
- Poland shall ensure that the data protection period in force will be maintained.

In the course of the negotiations, the EU stressed that Poland had to implement the entire *acquis communautaire* by the date of becoming an EU member. The adjustment of the Polish legislation to EU requirements required substantial efforts, necessary to reorganize in-depth the previous approach. Inconsistencies were found with respect to the horizontal issues and narrow sectoral problems; in the light of the EU law they impeded the free movement of goods. Therefore, it became necessary to introduce a range of horizontal and procedural measures, as well as establish an adequate institutional structure enabling the introduction of entire legislation applying to the area „free movement of goods”, especially in the extent of implementation of the new approach directives, market supervision system, and sectoral regulations. The most important laws in that respect were the standards act, the conformity assessment system act, a package of so-called pharmaceutical laws (the pharmaceuticals act, the Office For Registration Of Medicinal Products, Medical Devices And Biocidal Products act), as well as laws applying to the safety of

food (amended health conditions of food and nutrition act, and the food-contact materials act).

The most difficult to negotiate were the necessary adjustments in the Polish registration procedure to EU standards and the arising obligation to keep the documentation on medicinal products complete until the date of accession. Not only did this require substantial changes in the law, but also increased the national budget's expenditure, as well as manufacturers' costs. The adjustment of the registration system entailed the training of the registration agency's personnel and training in the sector of manufacturers.

The interim period Poland has been granted to introduce the Community registration procedure is crucial for the Polish medicinal products sector, but its social and budgetary dimensions were as important. The period allows the marketing of a broad range of Polish-made medicinal products, after the country joined the European Union. Therefore, budget refunds of medicines' costs have not grown and the position of Polish producers of pharmaceuticals has not been downgraded. Consumers do not have to spend larger amounts on medicines, either. Poland has been granted the longest interim period among the EU accession countries to help her harmonize the national registration documentation with the Community criteria<sup>1</sup>.

## **2.2. Conclusions of EC's Monitoring Report on the free movement of goods**

The free movement of goods means that goods can be traded freely between different parts of the Community. In many sectors, this general principle has been put within a standard legislative framework, either under the "old approach" (that requires detailed product specifications), or the „new approach" (products are subject to general requirements). The report mainly discusses the transposition of the harmonized Community legislation in the chapter on the free movement of goods. In addition, it assigns key importance to the effective application of horizontal and procedural measures in areas such as standardization, certification, and market supervision. The chapter addresses also detailed European Community rules on public procurement that require specialist executive authorities.

Essential horizontal and procedural measures necessary to administer the *acquis* applying to the "new approach" products have been established, as well as all executive structures responsible for standardization, metrology, accreditation, conformity assessment, and market supervision. Training

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<sup>1</sup> *Raport z rezultatów negocjacji...*, op.cit., [www.kprm.gov.pl](http://www.kprm.gov.pl).

programmes provided by relevant authorities guarantees the authorities' effective operation following the accession date. Special attention is paid to preparations necessary for market supervision, as the supervision's importance and scope will be growing together with progressing implementation of the new approach regulations. The Polish Committee for Standardization (PCS) is affiliated to CEN and CENELEC. The PCS is expected to become a full member in the near future.

Poland has transposed most of the sectoral legislation under the new approach. Still missing, or not fully adjusted yet, is legalisation applying to cableway installations, medicinal products, non-automatic weighing instruments, marine equipment, as well as radio and telecommunications terminal equipment. Other areas may still be in need of some adjustments. Poland was granted an interim period in which present certificates of the medicinal products were to remain effective until expiry, or until the end of 2005 whichever comes first.

As for the "old approach" directives, Poland has successfully transposed a large portion of the *acquis* applying to the products sector. It is, however, necessary to take further steps in areas such as textile products, legal metrology, motor vehicles, chemical products, fertilizers, medicinal products, cosmetics, and wood.

Progress has been made and good cooperation established regarding the transposition of the food-related *acquis*. Most horizontal food directives require transposition and implementation. As for chemical products, priority has been given to "new" chemical substances on the market. Poland should prepare correct procedures allowing to report on such substances in line with the *acquis*. Special attention must be paid to: strengthening institutional cooperation in the food safety area, training businesses and inspectors in the applicable *acquis* (for instance, by continuing the preparation of good hygienic practice guides), making preparations for the full implementation and obligatory application of the analysis of hazards and critical control points (HACCP) in all food producing establishments, and further restructuring and modernization of laboratories to be incorporated in the official control system. It is necessary to refine the RASFF warning procedures.

Regarding the public procurement system, legislative work aimed to ensure full compliance with the *acquis* has to be continued. Now gaps can be mainly found in the definitions of the public-law bodies, the scope of exemptions, and the range of information available for unsuccessful tenderers'. The Public Procurement Office is operational, but it requires further strengthening, especially adequately trained personnel is needed. Other players

in the public procurement market also call for training, especially one ensuring a smooth use of aid granted by the structural funds and the Cohesion Fund<sup>2</sup>.

### **3. Assessment of integration processes in the market of goods and services**

In 2002, the process of building free zones for trade in industrial goods and considerable liberalization in trade in the processed agricultural and food products between Poland and the European Union, EFTA and CEFTA were finally complete. Following the implementation of the WTO Agreement, Poland was allowed to access markets of the 147 partners in this organization and reciprocally opened her market to them. Since 1995, customs duties were reduced by ca 39% and 36% on industrial goods and agricultural goods, respectively (the developing countries reduced them by at least 15%).

As a result of the twin processes of economic transformation and integration with Western European Institutions, the CEE countries have:

- already totally opened their economies to flows of manufactured products, (free trade area has been established finally in the year 2002) and agri-food products, and fully opened the capital market for FDI and portfolio investment flows,
- nearly fully opened the services market (negotiation in progress of EU Directive concerning the services sector).

With regard to the services market, the mandated liberalization process required the immediate introduction of a national treatment clause applicable to construction, consulting, transportation and financial services (banking and insurance), as well as the conclusion of liberalization of the telecommunication industry and in transactions involving the delivery of high-voltage electricity and natural gas.(Wysokińska Z., Witkowska J. 2002).

During the recent decade of association, following trends could be observed in the examined CEEs:

- total export increased from 5 times in Poland, Slovakia, the Czech Republic to more than 6 times in Hungary and Slovenia,
- the total import in the CEE region increased more than 5 times,
- the share of sensitive products (coal, steel, textiles, and agriculture products) in CEES' export to the EU was deeply reduced- see table 3.

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<sup>2</sup> *Comprehensive monitoring report on Poland's preparations for membership*, 5 November 2003, European Commission, working translation, [www.unia.gov.pl](http://www.unia.gov.pl).



**Table 3. Export share of „sensitive” goods (textiles, coal and steel and their products, agricultural products) in overall export to the EC/EU (%)**

Goods	Year	Czecho-slovakia	Czech Republic	Slovakia	Hungary	Poland
Textiles	1990	9.3			9.3	5.7
	1995		7.84	11.19	13.91	15.95
	1997		8.39	10.17	9.12	15.38
	2000		6.20		7.45	13.49
Coal	1990	3.2			-	8.1
	1995		3.59	0.02	0.21	5.44
	1997		2.05	0.03	0.00	5.55
	2000		1.10		0.03	3.40
Steel	1990	13.3			5.2	7.4
	1995		7.94	14.13	3.62	4.64
	1997		5.40	11.46	1.89	3.51
	2000		3.11		0.98	2.50
Agricultural Products	1990	7.9			28.4	18.3
	1995		5.30	2.81	14.49	8.03
	1997		2.99	2.28	7.91	7.17
	2000		3.66		5.91	6.12

Source: Zofia Wysockńska, author's calculations based on national official statistics.

### **3.1. Results of Poland's international trade with the EU and the competitiveness of the country's export against other Vysehrad Group countries (the Czech Republic, Slovakia and Hungary). Analysis based on the intensity of factor utilization**

Restructuring processes in the Polish economy, its growing competitiveness, especially observable in operations of the foreign-owned businesses, affected the structure of Polish exports and imports analysed with respect to the intensity of factor utilization.

Compared with other developed countries, as well as CEE states, the effects of the Polish international trade indicate relatively low export activities. In absolute terms, the present level of the Polish export is similar to levels in much smaller countries, e.g. the Czech Republic, or Hungary. Its share in GDP approached 22% only in 2002. In the Czech Republic, it is 55% and in Hungary it exceeds 65%.

Results of analysis provided in table 4 suggest a generally positive direction of structural changes in the Polish international trade with the European Union in the examined period. The direction can be described as follows (see table 4):

- a considerable reduction in the share of resource-intensive commodities,
- continuation of a relatively high share of the labour-intensive commodities, (due to the comparative advantage in the export of this group of commodities due to a large gap between wages earned in Poland and in the EU countries) and stable position of capital-intensive commodities,
- slightly increased share of technology-intensive commodities.

Similar structural changes can be found in the Czech, Hungarian and Slovakian foreign trade, but the share of technology-intensive commodities grew higher in the Czech and Hungarian export, which allowed the two countries to reach in the analysed period a rate of revealed comparative advantage larger than 1 (the Hungarian RCA was 1.28 in the year 2000 and 1.13 for the Czech Republic; Polish and Slovakian RCA did not exceed 1, despite certain improvement in that period 1) (see table 5).

**Table 4. Structural adjustment in foreign trade according to factors endowment in CEE countries 1995-2004 in %**

	1995		2000		2004	
	Import	Export	Import	Export	Import	Export
<b>POLAND</b>						
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00
resource-intensive commodities	22.14	22.53	19.44	15.61	17.60	15.60
labor-intensive commodities	24.72	35.67	21.72	33.98	20.40	29.20
capital-intensive commodities	14.00	19.59	16.71	20.83	20.00	23.90
technology-intensive commodities easy to imitate	17.39	6.31	19.00	7.69	17.00	7.20
technology-intensive commodities difficult to imitate	21.42	15.86	22.98	21.87	24.90	24.10
<b>CZECH REPUBLIC</b>						
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00
resource-intensive commodities	17.12	14.03	16.32	8.05	13.40	7.30
labor-intensive commodities	21.45	32.07	21.35	26.62	21.20	24.60
capital-intensive commodities	17.85	21.83	18.28	23.30	20.30	25.50

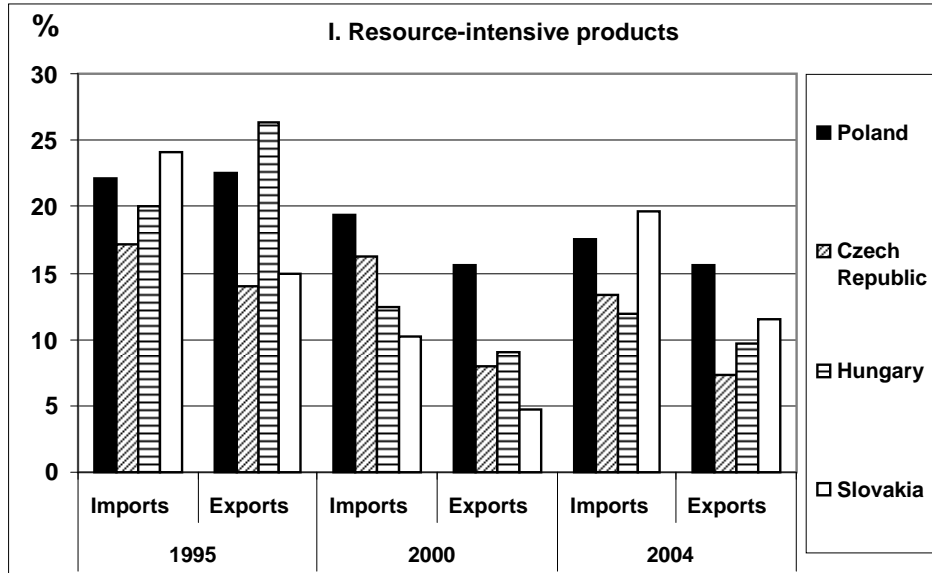
**Table 4. Structural adjustment in foreign trade according to factors endowment in CEE countries 1995-2004 in % – continuation**

	1995		2000		2004	
	Import	Export	Import	Export	Import	Export
technology-intensive commodities easy to imitate	16.20	8.72	16.43	8.18	17.80	15.20
technology-intensive commodities difficult to imitate	26.20	21.71	27.59	23.87	27.20	27.40
<b>SLOVAKIA</b>						
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00
resource-intensive commodities	24.10	14.94	10.16	4.72	19.60	11.50
labor-intensive commodities	16.00	28.51	7.55	9.16	20.00	22.20
capital-intensive commodities	16.59	28.45	7.49	12.99	23.00	38.70
technology-intensive commodities easy to imitate	16.49	11.29	5.31	3.44	13.00	9.50
technology-intensive commodities difficult to imitate	19.78	14.43	8.79	6.29	24.20	18.00
<b>HUNGARY</b>						
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00
resource-intensive commodities	20.12	26.34	12.53	9.03	11.90	9.70
labor-intensive commodities	24.40	24.95	18.98	15.12	17.20	14.20
capital-intensive commodities	16.56	15.80	14.92	12.11	16.30	12.80
technology-intensive commodities easy to imitate	17.54	15.18	20.46	26.64	19.80	33.10
technology-intensive commodities difficult to imitate	21.36	17.69	32.59	24.19	34.30	29.80
<b>SLOVENIA</b>						
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00
resource-intensive commodities	19.75	5.44	19.61	4.56	17.58	4.02
labor-intensive commodities	21.27	39.00	22.56	34.64	21.64	30.29
capital-intensive commodities	22.93	24.69	22.59	26.37	25.73	27.62
technology-intensive commodities easy to imitate	13.87	9.50	14.61	9.70	15.13	11.81
technology-intensive commodities difficult to imitate	19.26	21.13	20.47	24.48	19.75	26.05

Source: Zofia Wysokińska – author's calculations based on official national statistics of the examined countries.

Graphs:

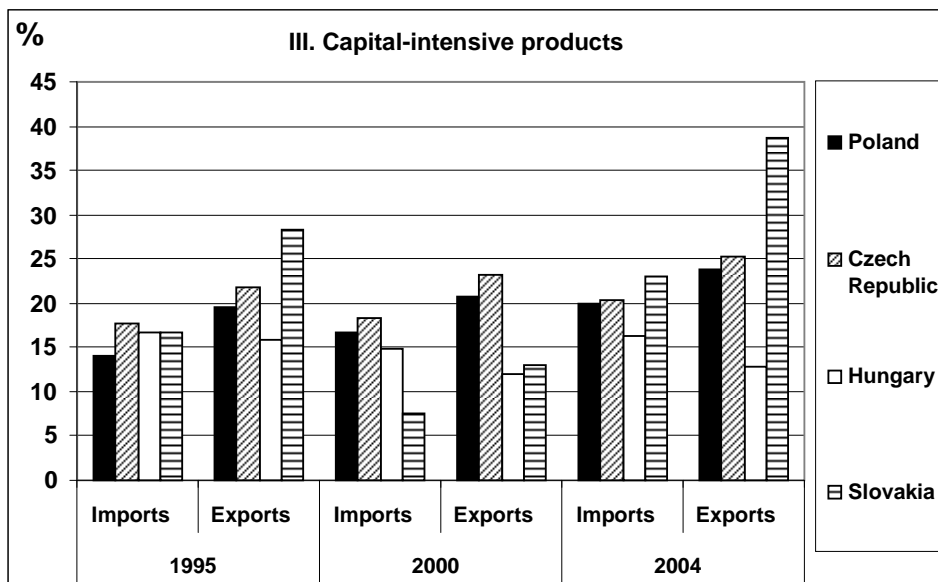
Graph 1.



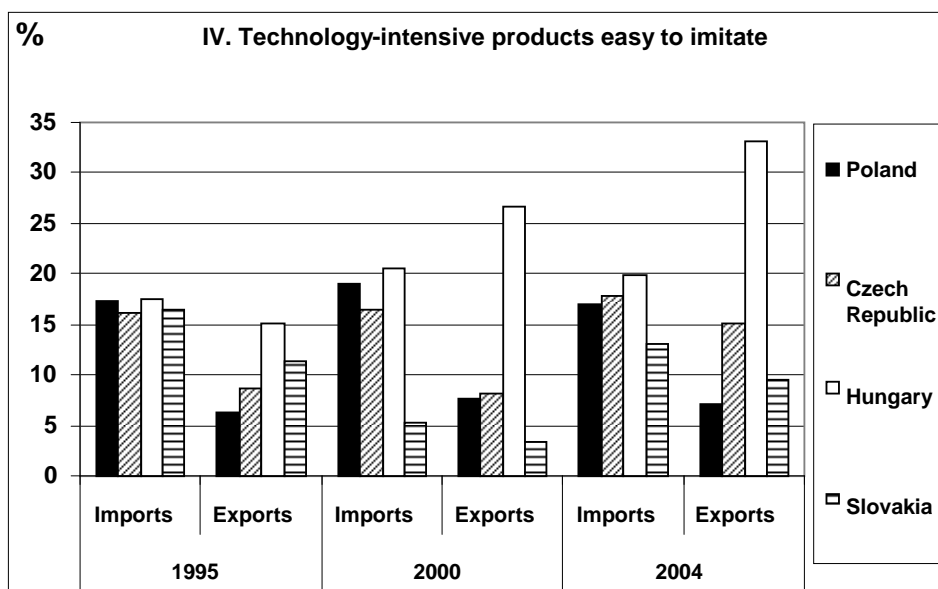
Graph 2.



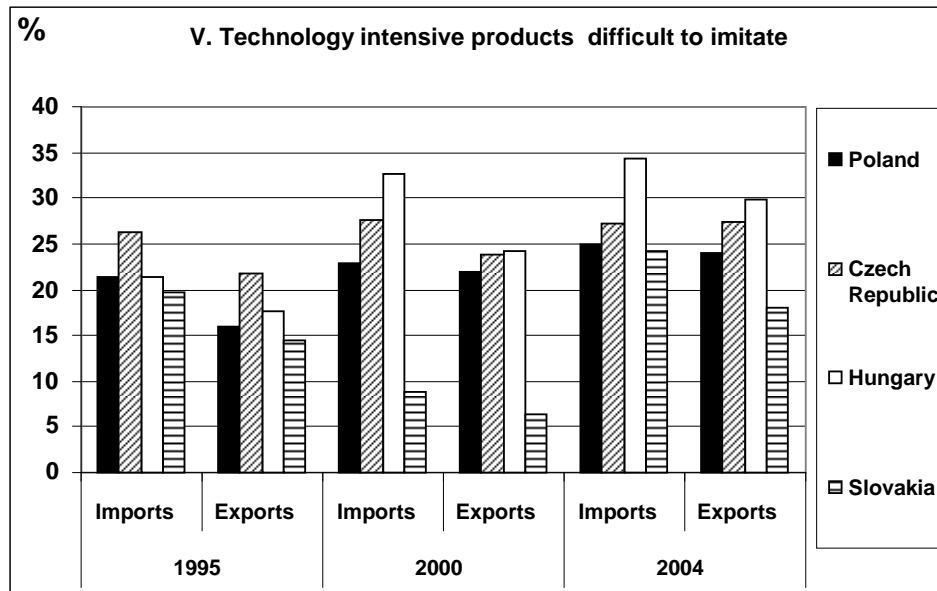
Graph 3.



Graph 4.



Graph 5.



**Table 5. RCA index of 5 groups of products calculated by factors endowment in foreign trade of selected New Member States against EU-15**

Commodities' groups	POLAND			CZECH REPUBLIC			SLOVAKIA			HUNGARY		
	1995	2000	2004	1995	2000	2004	1995	2000	2004	1995	2000	2004
TOTAL	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
I	1.70	1.27	1.25	1.06	0.73	0.58	1.13	1.05	0.92	1.99	0.84	0.77
II	1.66	1.78	1.61	1.50	1.55	1.35	1.33	1.31	1.22	1.16	0.91	0.78
III	0.93	1.04	1.10	1.04	1.29	1.17	1.35	1.78	1.78	0.75	0.69	0.59
IV	0.37	0.38	0.36	0.51	0.45	0.75	0.66	0.46	0.47	0.89	1.50	1.64
V	0.63	0.84	0.96	0.86	1.01	1.09	0.57	0.66	0.71	0.70	1.06	1.18

Source: Zofia Wysokińska – author's calculations based on Eurostat.

Conclusions from the table 5:

- Downward trend in factor-based products (resource- and labour intensive) in all examined countries;

- Upward trend in investment based products (capital intensive) in Poland, the Czech Republic, Slovakia and a relatively stable trend in Hungary;
- Very strong upward trend in innovation and technology driven sectors in Hungary (the share almost doubled in 2004 compared with 1995), in the Czech Republic, smaller increase in Poland and Slovakia (although Slovakia achieved very positive results in 2004);
- The Czech Republic and Hungary totally lost comparative advantage for products based on factor-driven stage of development (resource and labour-intensive products);
- Hungary noted the highest improvement of RCA indices for the innovation-based products; in the Czech Republic the improvement was weaker;
- The Czech Republic, Poland and Slovakia noted an improving RCA trend for investment-based products;
- Poland noted relatively high RCA indices for the resource-intensive products, but the index showed a downward trend;
- all examined countries retained the comparative advantage in labour-intensive products.

### 3.2. Openness and competitiveness of the Polish economy

The assessment of Polish economy's competitiveness does not provide optimistic conclusions, although some symptoms of improvement have been observed recently, such as growing dynamics of export and increasing shares of higher-processed goods in the structure of the country's export<sup>3</sup>. The Polish economy is becoming more and more open. This is proved by the significant removal of barriers to trade and the market made fully accessible to industrial goods, but also processed agricultural and food products, from the EU, EFTA and CEFTA countries from the beginning of 2002. In the period of transition and integration with the EU, Poland's position in global international trade improved from 0.4% in 1989 to over 0.6% in 2003 (export), and from 0.3% to 0.9% (import). Notwithstanding, the value of export per capita is many times lower than in the EU countries.

Ratios of prices received by Polish exporters for individual commodity groups to average prices earned by exporters from outside the EU allow to formulate a conclusion that Polish exporters are paid higher prices than other

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<sup>3</sup> Z. Wysockińska, *Konkurencyjność w międzynarodowym i globalnym handlu technologiami*, PWN, Warsaw 2001, chapter V.

delivers only for traditional, relatively low-processed products. On the other hand, Polish exports of the science-intensive industries are priced relatively low and the situation does not show any observable improvement.

The GDP share of import is another measure of economy's openness. In the structure of Polish imports the intermediate and investment goods prevail (in 2002 they accounted for approximately 81%). They help expand export production, widen the range of marketed goods, and consequently boost competitiveness. Investigation into the commodity composition of import in the 1990s indicates that the import's fast growth contributed to economic restructuring, but did not suffice to reorient our economy to export.

The introduced convertibility of the zloty and gradual reduction in tariffs on industrial imports from the EU and CEFTA countries until their complete abolition exposed most Polish producers to external competition in the 1990s, mainly from the EU-based enterprises. With the economy opening wider and wider, the competitiveness of the Polish industry was put to the test. As a result, some industrial enterprises were liquidated, others underwent deep restructuring.

After the European Treaty was made effective in the 1990s, shares of various commodity groups exported from Poland in the EU external import evolved differently. For instance, the labour-intensive commodities (furniture, men's and women's clothes made of fabric, knitwear, industrial textiles and tapestry) typically held large shares, whereas products requiring larger inputs of technology and human capital were still at a relatively low level (below 0.5%)<sup>4</sup>. Between 1999 and 2000, the export of textiles and clothing goods sank, which should be partially attributed to the deteriorating price competitiveness of that industry, particularly regarding goods exported under so-called outside processing arrangements. At the same time, the favourable situation of the trade in furniture stabilized in 2000, and the group of electro-engineering products showed positive changes (especially the export of diesel engines grew high), as well as other groups of industrial goods, because of earlier made investments, including those by firms with foreign capital.

A comparison of branches based on the RCA indicator and volumes of the intra-industry trade reveals that Poland held the largest comparative advantages in traditional sectors, where unskilled labour prevailed. The export of some goods manufactured using natural resources extracted in the country is also very

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<sup>4</sup> Z. Wysokińska, J. Witkowska, *Tendencje popytu na wybranych rynkach zagranicznych*, Wydawnictwo UŁ, Łódź 1998, pp. 25-120.



important. Finally, Poland holds a relatively strong position in few highly capital-intensive branches of the manufacturing industry<sup>5</sup>.

Some symptoms of improving labour force's education and qualifications can be observed. Compared with other countries at a similar level of development, the education of Polish workers is quite good. In the 1990s, the relatively well-qualified labour force was an important factor attracting the inflow of FDI capital to Poland<sup>6</sup>.

### **3.3. Implications of the EU membership for the goods market**

Because of Poland's accession to the European Union, industrial enterprises can operate in the single market uncontrolled by any customs duties and quotas (following Poland's association with the EU in the area of free trade in industrial goods). Enterprises that comply with European standards – qualitative and environmental (veterinary and sanitary in the case of produce and food articles), product safety standards and product conformity criteria – are allowed an unobstructed access to the single European market with approximately 420 million of consumers (15 "old" member states plus 10 "new" member states). Firms failing to meet the EU requirements will not only be prohibited to export their products to the EU – they will be gradually losing local markets as well, because their products will be replaced by competitive articles manufactured in other member states (excluding some goods granted the status of regional (local) products, such as smoked sheep's milk cheese (oscypek), zubrońka, cherry vodka, etc.).

With Poland's acceptance of EU's common external tariff, importers of finished goods from third countries have become exposed to stronger competition, whereas those buying components have been given a chance to improve their competitiveness by reducing unit costs of their finished products<sup>7</sup>. This observation is especially true about competition against those third countries that the EU granted a very preferential access to her market (the EEA members and countries in the Mediterranean Economic Area, some states in Latin America and Asia allowed to trade in the EU market according to GSP rules).

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<sup>5</sup> J. Kotyński (ed.), *Korzyści i koszty członkostwa Polski w Unii Europejskiej*, IKC HZ, Warsaw 2000 – a synthesis.

<sup>6</sup> J. Witkowska, Z. Wysokińska, *Motywy inwestorów...*

<sup>7</sup> A detailed analysis, see the chapter on adjustments in trade policy.

Stiffening competition makes firms reduce their costs, thus enhancing their ability to compete in the single market and helping the profitable and competitive organization sell their exports in other member states and in the third countries. However, enterprises that fail to stand up to the challenges are eliminated from the market.

Firms with higher inputs of technology and human capital and more innovative about their products and processes have a special opportunity to grow and to expand into the single market by starting co-operative links. Enterprises can apply to the EU programmes, particularly to components 6 and then 7 of the Framework Programme for Research, Technological Development and Demonstration, as well as other EU aid programmes, for funds to subsidise their product and process innovations. Additionally, this business approach allows them to establish and participate in cooperative networks with Community-based firms and firms in the CEE countries and to develop the intrafirm trade. Additionally, Polish firms should make efforts to seek new market niches and to establish cooperation with EU firms in the capacity of their sub-suppliers and contractors, which might enhance the development of the intra-branch trade.

Firms in our country can take advantage of public aid granted under the EU law to regional purposes, horizontal measures, and economic sectors (industry, services sector, and rural areas). The aid emphasises activities such as R+D, environmental protection, small and medium-sized enterprises, workforce training, restructuring and turning around enterprises in a difficult situation, financial aid to personnel employment and retraining, restructuring of enterprises, and degraded urban areas. The activities are expected to boost restructuring processes in enterprises operating in the “difficult” branches of industry, such as mining, metallurgy, man-made fibres, shipyards, automotive industry, as well as help restructure fishery and rural areas.

### **3.4. The importance of services in Poland’s balance of trade**

The General Agreement for Trade in Services (GATS) substantially extended Poland’s multilateral obligations, in addition to those the country had assumed under the European Treaty and the Treaty of Accession<sup>8</sup>. Negotiations on the telecommunications services (the 4<sup>th</sup> protocol of GATS) have improved the access to the public telecommunications market. The WTO negotiations covered other types of services as well, e.g. financial, and accounting services.

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<sup>8</sup> See Z. Wysokińska, J. Witkowska, *Integracja europejska...*, op.cit., pp. 342-444 and *Raport z rezultatów negocjacji...*, op.cit., [www.kprm.gov.pl](http://www.kprm.gov.pl).

Liberalization of the services market was an important issue on the agenda when Poland negotiated her OECD membership. This item accounts for a large portion of the package of our country's obligations to the organization.

The table below highlights the importance of the services sector in Poland's balance of payments. The total sector's share in the current account does not exceed a dozen or so percent. Transport services are the major item in the services turnover, as well as trips abroad that show an upward trend. Relatively important and expanding item in the sector is non-trade services, such as training and cultural exchange, sports exchange programmes, copyright, medical exchange and maintenance of government representative offices.

Between 1992 and 1997, the balance of trade in services showed a small surplus (excluding 1996). In 1997, receipts from exported construction and financial services dropped dramatically, so-called other trade services showed a similar trend (mainly commissions in trade), leasing services, technical services, advisory services, as well as exhibitions and fairs, despite their quite large share in total receipts. In the next years, the balance of foreign trade in services declined. Two important items had a positive balance, i.e. transport services and trips abroad; however, so-called other services showed a negative balance (between 1998 and 2001), mainly due to substantial spending on other trade services and lower receipts from exported construction services (see table 6).

**Table 6. Services in Poland's balance of payments, 1992-2002; million ECU/Euro**

Specification	1992	1995	1996	1997	1998	1999	2000	2001	2002
<b>RECEIPTS FROM THE EXPORT OF SERVICES</b>	1.2342	2.439	2.664	3.284	3.280	3.526	3.810	4462	4215
Transport services	582	812	736	960	870	771	948	1164	1179
Trips abroad	117	170	343	520	592	713	886	125	1054
Other services	543	1.457	1.585	1.803	1.818	2.042	1.976	2273	1982
– post and telecommunications			122	224	209	237	208	209	145
– construction			191	117	173	80	68	93	100
– insurance			149	191	650	212	205	230	241
– financial			176	107	83	160	104	177	124
– IT and information			22	16	14	27	57	77	91
– copyrights, patents and licence fees			19	19	11	22	34	26	23
– other trade services			698	769	618	1.230	1.248	1375	1188
– non-trade services			176	333	45	65	50	77	63
– governmental (maintenance of representative offices)			32	26	15	9	2	9	5
<b>OUTGOINGS DUE TO THE IMPORT OF SERVICES</b>	977	2.324	2.829	3.015	3.734	5.257	5.632	5554	5289
Transport services	168	349	449	360	479	582	699	739	708
Trips abroad	102	323	492	599	687	877	968	1047	992
Other services	707	1.652	1.888	2.056	2.568	3.798	3.945	3768	3589
– post and telecommunications			49	82	213	468	428	274	179
– construction			67	58	164	394	335	303	251
– insurance			258	191	579	234	312	319	370
– financial			176	164	149	223	214	387	181
– IT and information			106	76	75	145	220	264	246
– copyrights, patents and licence fees			103	107	117	366	516	487	445
– other trade services			762	768	1.144	1.720	1.637	1498	1666
– non-trade services			272	502	40	112	148	124	158
– governmental (maintenance of representative offices)			95	108	87	136	135	112	93

Source: according to National Bank of Poland data.