Opinion of the Chief Economist of the Union of Entrepreneurs and Employers on the economic benefits of transformation and accession to the EU

Systemic transformation of our region began in a formal sense over three decades ago. Apart from the Polish general elections on 4th June or the wave of protests in the countries of the so-called people's democracy, one of its most momentous events, was the fall of the Berlin Wall. It marked the beginning of the process of German reunification (following the German unification of the 19th century), which ended in October 1990. Thirty years ago, in 1991, the Soviet Union collapsed, although this did not mean the collapse of the Soviet, and later Russian sphere of influence.

From the Polish perspective, systemic transformation opened a window of opportunity. For the first time in two centuries, all Polish lands and the Polish nation were outside the Russian / Soviet sphere of influence. While the incorporation of East Germany into the West in 1989 was self-explanatory, or the historical and cultural closeness of Czechoslovakia, Slovenia and Hungary to Germany and Austria opened the door to the West for them relatively wide, the fate of Poland (along with Romania, Bulgaria, Latvia and several other countries) was not sure back in 1989. In the case of Poland, the efforts of the Americans were critical, as they translated in economic terms into direct involvement of experts, led by Jeffrey Sachs, in the process of economic transformation. However, this does not in any way diminish the role of domestic authorities. They led Poland onto a path of integration with the West and dynamic and thorough socio-economic changes, which resulted in the emergence of a modern market economy on the ruins of an inefficient planned economy. And they achieved it in a way that allowed for preservation of many of our resources, human capital more than anything else, developed in the times of real socialism.

In the years and decades to follow, Poland's ties with Western Europe (first with the European Economic Community and later the European Union) became increasingly essential. These countries (including Germany, the Netherlands and Austria) played a progressively vital role in Poland's trade. Independently and as a European Community alike, they became the main donors of development aid, which accelerated the Polish reforms. From today's perspective, the scale of this aid in the 1990s (the equivalent of EUR 3-4 billion) was minor, one must, however, keep in mind that back then Poland's GDP was several times lower than it is today.

The accession of Poland and several other countries in CEE constituted in 2004 a symbolic end to the first phase of transformation. It encouraged further integration and rapid development. One can look at it from a number of angles. Becoming part of EU institutions brought about stabilisation and order to the regulatory and institutional framework. It was then that the post-communist era began to end in Poland. The inflow of EU funds, the spending of which was subject to increasingly stringent requirements, the transposition of European law, and finally political and clerical contacts at various levels radically changed the model of the functioning of the public sphere in Poland. Some of these changes were taking place under the influence of external pressure and could be objected to, but they undoubtedly civilised Polish politics, especially the meeting point of politics, the state and the private sector. Subsequent reports from Transparency International proved this to be right: the level of corruption in Poland and other countries in the region began to decline, among others, in the eyes of foreign investors and politicians. This impression was true for the entire region; therefore, it is difficult to name specific internal factor that would impact this process.

Furthermore, over the first years after Poland's accession to the EU, the last such great migration in Polish history took place (at least in a foreseeable time perspective). Although it was inevitable on an open labour market and it solved several internal problems in the short term (it improved budget stability thanks to a decrease in social benefits, lowered unemployment and eased political tensions), it contributed in the long term to the considerable demographic challenges that Poland is facing nowadays. It also shed light on the short-sightedness of the political elites of that time (regardless of political affiliation). Politicians did not even try to put any tools to use in order to mitigate this enormous outflow of human capital from Poland – neither during accession negotiations, nor after 2004. Perhaps it was simply impossible? Nonetheless, we must not forget that the inflow of funds sent by migrants back to their families in Poland did in a way offset the costs of the human capital outflow. According to some estimates, this stream of money amounted to more than 2% GDP by 2010, and in the next decade remained at the level of over 1% GDP (after the accession, it remained in the range of EUR 3-5 billion annually).

The accession also resulted in unprecedented infrastructural aid that Poland and countries of the region benefited from. New investments reached a scale unseen in decades, and one could compare EU-funded development programmes to the Marshall Plan. The inflow of funds incomparably greater than in the pre-accession period made it possible to expand infrastructure, in particular in the easternmost regions. One might question some of the investments, or complain about execution or disappointing effects of other, but there can be no doubt that EU funds were behind the great shift that took place in Poland over the last dozen or so years. Moreover, this change at least in part supported the development of Poland, as domestic companies were employed as contractors and subcontractors, pro-development infrastructure grew, and there were funds for research and development projects.

However, it is probably Poland's participation in the European open market that brought the greatest profits. Investment capital from abroad flooded the market, followed by technologies and organisational changes that went far beyond what happened in the last decade of the 20th century. It gave Polish companies easy access to the European market, which brought many benefits, especially in the field of services (such as Polish road transport services – a highly interesting case indeed). A process of spectacular re-industrialisation of Poland was put into motion although, unfortunately, to this day most Polish companies tend to be mid-level subcontractors in production chains. Of course, one could argue there are costs associated with participation in the European market: the collapse of uncompetitive companies or changes in the ownership structure. A more serious challenge are the efforts of some Western countries to restrict the freedom of exchange, in particular in services, thus limiting Polish entrepreneurs' competitive advantages – the foundation of their success in European services.

There can be no doubt that the accession to the EU accelerated the economic development of Poland and the entire region in a significant way. It extended the period of rapid convergence to the economies of the West that had lasted since 1989. As a result, the level of GDP *per capita* (in purchasing power parity) in Poland reached the level of GDP in Portugal (and the level of GDP *per capita* in the Czech Republic reached last year the level of Italy). For the first time since the end of World War II, the development of the Polish state has come close to that of the countries of the European South and never have we been so close before.

The above comments primarily concern economic issues. Political ties with the West, stronger than have been in centuries (even despite recent turbulences), are testament to the success of transformation. Nevertheless, it remains to be seen whether we wasted the period of peace, rejoicing at economic success, part of which was pure luck. The contributions of the architects of economic transformation are undoubtedly enormous. Later, however, we capitalised on economic integration with the West, competitive advantages, and the influx of huge postaccession funds. The open question we ought to ask ourselves is: what will drive further development in the nearest future?

Piotr Koryś, Ph.D.
Chief Economist of the Union of Entrepreneurs and Employers