The integration of Poland into the European Union

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This version: September 2001

Abstract

Poland was among the first Eastern European countries to apply for membership of the European Union. In view of Poland's tragic history and the economic liberalisation that has taken place since 1989, we believe that the EU should adopt a generous approach toward its application. Unfortunately it looks as if the EU wants Poland to conform with all its laws before it can join. Our research suggests that the EU should pursue an open trade, labour and investment policy. Poland's membership will not significantly threaten EU employment. EU companies will not transfer all their industrial activities to Poland. Polish workers will not leave their country en masse. The Polish membership will have a certain impact on the EU budget, particularly in the fields of agriculture, regional and environmental aid but the authors believe that the EU should not cut Poland's entitlements. Moreover the EU should not use the long overdue reform of its institutions as a pretext for postponing the Polish membership sine die.

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[1] We would like to thank Prof. Dr. Chris Braecke for useful comments. Any remaining errors are ours.

I. Introduction

The opening of Central and Eastern Europe confronted the European Union (EU) with a real challenge. The Central and Eastern European economic system had been based on central planning for almost fifty years. Moreover, the gaps in income, remuneration and productivity between Eastern and Western Europe were immense. Contrary to the gradual process of economic integration that had taken place in Western Europe after World War II, the collapse of communism came abruptly.

Where possible we will in this paper focus on Poland as it is in many respects the most important of the applicants. After its liberation from communism, Poland was among the first former communist countries to apply for EU membership. At first the EU tried to stave off the application by offering the PHARE Programme and by signing an Association Agreement (16 December 1991). The PHARE Programme provided for financial aid in five priority areas: access to Member States markets, agriculture and food industry, promotion of foreign direct investment (FDI), training and environment. The Association Agreement – also called Europe Agreement – established a free trade zone and called for political dialogue and gradual extension of the internal market to Poland. Once a year the Association Council was to be convened. It could deal with all kinds of issues, but it had no binding power (European Commission, 2001, p. 18-19).

Poland and the other associated countries were far from satisfied. In a further development the Copenhagen European Council (June 1993) agreed that the Associated Countries from Central and Eastern Europe could join the EU, on condition that they accepted in full the obligations of membership. Apart from the political conditions (stable democratic institutions and respect for minorities), membership required a functioning market economy, the capacity to cope with competitive pressures and market forces within the EU, and eventual adherence to the goals of the EMU. The message to the Associated countries was clear: if they wanted to join the EU they had to adopt the so-called *acquis communautaire*, a kind of bible with some eighty thousands pages of laws. The EU did not want its legal system to collapse under the weight of newcomers: the internal market should not be eroded. In some fields the *acquis* contains a limited number of community rules, e.g. on Research and Development (twelve directives), but in other fields the *acquis* is more extensive, e.g. on telecommunications (seventy directives).

Poland decided to take the risk: on 5 May 1995 it formally applied for membership. In July 1997 the European Commission presented *Agenda 2000* to the European Parliament. A questionnaire was sent to the countries applying for membership and Poland was among the six lucky ones to be eligible for negotiations on membership. The first round of negotiations – which began in March 1998 - is basically about Poland (Faucompret, Konings, Vandenbussche, 1999, p. 134). Sharing democracy and enhancing security is the main political reason for enlarging the EU. Moreover the Central and Eastern European countries (CEECs) need to be helped by the EU in their transition from planning to market economies. In this construction Poland occupies a privileged position: not only because it is the most populous country of the ten applicant states, but also because geo-strategically it is more important than countries like Hungary or Slovenia. Its borders with both Germany and Russia put it on the fault

lines of Western and Eastern civilisations and throughout its long and tragic history it has often been invaded by powerful neighbours. Its precarious geopolitical position engenders a continuing external security threat. But Poland is still a lot less prosperous than the current Member States and their economic backgrounds are entirely different. In table 1 we compare some macro-economic key indicators for Poland with the corresponding ones for the EU.

Table 1: *Some macro-economic key indicators Poland-EU (1997)*

	Population (million)	*GDP (% EU-average; purchasing parity)*	*Export to EU (% total export)*
Poland	39	31	68
EU-15	371	100	61

Source: *Macro-Economische Verkenning 2001,* Den Haag, CPB, September 2000, p. 177.

It is politically unthinkable that Poland would not be part of the first wave of countries to join the EU; at the same time it is economically obvious that Poland is not yet ready for accession to the EU if the latter does not adopt a generous approach. There are 31 chapters the enlargement negotiations are based on[2]. In this article we will deal with some of these chapters. We advance the thesis that the attitude of the EU versus Poland is far too conservative and pessimistic. In view of Poland's tragic history a more stimulating response to Poland's application for EU membership is desirable. EU reluctance is related to the fear of losing investments and jobs and the unwillingness to carry the budgetary load. We will show that in many respects this fear is ungrounded. Short-run costly adjustments may occur, as they did in the sixties, when the EU was established. Long-run gains from integration are less visible but real.

In section II we will go back in time and tell something about Poland's political and economic situation under communism. In section III we will deal with the present political and economic situation in Poland. In section IV we will focus on the free movement of goods. In section V we will deal with the free movement of capital. Section VI analyses the free movement of labour. In section VII we will face the budgetary consequences of EU enlargement. Section VIII focuses on the necessary reform of EU institutions. Section IX is a concluding one.

[2] Free movement of goods; free movement of persons; free movement of services; free movement of capital; company law; competition policy; CAP; common fisheries policy; transport; tax policy; European Monetary Union; statistics; environment; social policy; energy; industrial policy; Small and medium size enterprises; education; telecommunications; cultural policy; regional policy; consumer policy; justice and home affairs; customs union; external relations; Common Foreign and Security Policy; budgetary control; financial matters; institutions; miscellaneous.

II. Poland under communism

1. *Four times divided*

In the 18th century Poland bordered on the spheres of influence of three continental superpowers: Prussia, Russia and the Austro-Hungarian Empire. Between 1772 and 1795 Polish lands were partitioned among its powerful neighbours. At the end of the century Poland did not exist anymore as an independent state. The name Poland was supposed to disappear from world maps forever. After the Napoleonic Wars the major part of its territory was annexed by Russia. Until 1830 it benefited from a kind of regional autonomy. But in 1830 a major uprising was crushed by Russian troops (thus saving in a way the independence of Belgium).

World War I offered a new chance for Polish independence: the Tsarist Empire had disintegrated and Austria and Germany were defeated. Poland regained its independence because its three arch enemies had bitten the dust. The Poles were not satisfied with the borders accorded to their country in the Treaty of Versailles. Poland declared war on the USSR and annexed Ukrainian and Belorussian territory. When a referendum in Upper Silesia turned in favour of the Germans, the Poles occupied the area, thus contravening the Peace Treaties. The domestic political situation was very unstable. Cabinets collapsed in rapid succession. Like in other Eastern European countries multi-party democracy soon perished (Faucompret, 2001, p. 18).

In May 1926 Jozef Pilsudski waged a coup and put an end to eight years of weak democracy. He installed a personal dictatorship that soon turned into a fascist state. Poland felt threatened by both Nazi Germany and Stalinist Russia. At first it signed a Security Treaty with France, but after a while it lost trust in its Western-European ally. Pilsudski took a major security risk by signing a Friendship Treaty with Nazi-Germany. In August 1939 Molotov and von Ribbentrop signed a Non-Aggression Pact, which for the fourth time in its history divided Poland. During World War II Poland suffered more than any other country from a double aggression of Germany and the Soviet Union. One-fifth of its pre-war population – more than six million people – were killed (Taras, 1998, p. 370). Some three million Jews (90 percent) were exterminated in the camps. The ghetto of Warsaw was completely liquidated. Polish officers were brutally murdered by Soviet troops in Katyn. In the 63-day long Warsaw uprising of August 1944, nearly 200,000 Poles lost their lives[3].

At the Yalta Conference (February 1945) Poland was a contentious issue. The American president F. D. Roosevelt and the British prime minister Winston Churchill did not want to abandon the Polish government in exile, while Stalin supported the communist government at Lublin. It was decided to form a coalition government with representatives of both the London and the Lublin government. In accordance with Stalin's wish, Poland's borders shifted westward: the USSR could keep the territory formerly accorded to her in the Molotov-Von Ribbentrop Pact, while Poland was allowed to annex German territory. The Yalta decisions did not create a permanent solution to the Polish problem. Stalin eliminated the non-communist members of the provisional government. The promised elections were held in January 1947 but the results were falsified: the leader of the Peasant's Party, Mikolayczyk, had to leave the

[3] Russian troops remained on the other side of the river Vistula, offering no support.

country. while the west refused to recognise the borders of Poland *de jure* (Calvocoressi, 2001, p. 298).

2. *Political and economic problems under communism*

The Polish communist government felt threatened by Germany: it signed a Friendship Treaty with the USSR. Poland became a staunch ally of the USSR, was one of the founding members of the COMECON and the Warsaw Pact, but the government did not enjoy the support of the majority of the people. Roman Catholic Poles regarded communism as atheistic, while they were equally hostile to Russian Orthodox Christianity. Poles felt relatively secure because Poland had the second strongest army in the Warsaw Pact. The USSR would therefore think twice before invading the country. On the other hand, unlike Hungary or Czechoslovakia, Poland's geopolitical situation ruled out any easy detachment of the Soviet bloc.

Like in other CEECs, the Polish economy was the Achilles' heel of the regime. The Polish economic system scored some successes between 1945 and 1989 (see table 2). Gross domestic product per capita increased from $271 in 1950 to $4,099 in 1990; workforce outside of agriculture almost doubled. Education was improved. Living standards ameliorated. Meat consumption quadrupled while consumption of potatoes halved (see table 3). The regime claimed that Poland was among the top ten industrial countries in the world, with a specialisation in metallurgy, chemicals and shipbuilding.

Table 2: *Indices of Economic and Social Change in Poland, 1950-1990*

	1950	*1960*	*1970*	*1980*	*1990*
Per capita gross domestic product ($)	271	564	955	4,276	4,099
Workforce outside of agriculture (%)	46.4	56.7	65.7	70.3	73.2
High school graduates (000s)	111	105	365	552	440

Source: Taras, 1999, p. 372.

Table 3: *Patterns of Food Consumption per capita in Poland (in kilograms)*

Product	*1945*	*1996*
Potatoes	273	138
Vegetables	61	120
Fruit	8	41
Meat and meat products	37	65
Fish	2	7

Source: Taras, 1999, p. 373.

In the late communist period Poland knew growing poverty, affecting all social groups. In table 4 poverty and wealth are measured by the per capita income in accordance with the socio-occupational group. The 'low income' group owns less than 50 percent of average per capita household income, while the 'high income' group owns more than 150 percent of average per capita household income. Communism did not create a more equal society. On the contrary, income inequalities were steadily growing, instead of decreasing. In Poland's agricultural sector output rose but investment was insufficient. Investment in industry increased output but not productivity. There was barter trade with the other COMECON countries but exports declined. In June 1956 there were food riots in the city of Poznan. In an unprecedented move, the Politburo appointed former communist dissident Wladyslaw Gomulka to First secretary. Gomulka favoured a more Polish kind of communism, less subservient to Moscow. Khrushchev gave in: Gomulka was a communist who did not want to share power with non-communists and who did not question the Soviet communist supremacy (Calvocoressi, 2001, p. 306). Gomulka succeeded in jumpstarting the Polish economy. But the Polish October was short-lived: Gomulka made few significant changes to the system.

Table 4: *Poverty and Wealth in Poland by Socio-Occupational Group, 1982 and 1988*

	Low Income 1982	*High Income 1982*	*Low income 1988*	*High Income 1988*
Professionals	0.6	21.6	10.7	27.7
Intermediate non-manual	4.3	8.5	15.1	18.7
Skilled workers	9.0	8.1	23.5	10.1
Unskilled workers	9.6	6.3	31.7	2.9
Private farmers	12.8	15.3	40.2	11.7
Others in private sector	1.6	31.1	10.1	30.4

Source: Taras, 1999, p. 373.

In 1970 increases in food prices provoked strikes and riots in shipyards located on the Baltic coast, which the government failed to control. After the Soviet refusal to back up the Polish regime by military force, Gomulka resigned and was replaced by Edward Gierek. For a certain time Gierek succeeded in restoring the economy. He received massive credits from West Germany. Wages were raised and social allowances became more generous. Prices were frozen. The press was given more freedom. But the mini-economic boom had a reverse side: foreign debt was mounting as the government imported goods and services from the west. In 1976 huge price increases led to new social unrest. A Committee for the Defence of the Workers (KOR) was established. The regime bowed to the will of the KOR: price increases were abolished and wages were raised. During the following years inflation soared and foreign debt raised astronomically to $20 billion (Calvocoressi, 2001, p. 316-318).

3. *Solidarity*

In 1979 Cardinal Wojtyla was elected to the papacy. Because of another bad harvest people were starving. These two events had a tremendous impact on the Polish nation. In August 1980 workers went on a massive strike bringing the shipyards along the Baltic to a halt. Shipyard electrician Lech Walesa became spokesman for Solidarity, the independent trade union, made up of workers from factories across the country. The regime found itself in a difficult situation. On the one hand, the army could not suppress the whole workers class united in Solidarity. On the other hand, the room for manoeuvring by the government was extremely small, because of the USSR looking with Argus' eyes at what was going on in Poland. In the end an agreement was signed between the government and the strikers, which was bound to have far reaching consequences for communist countries. Solidarity accepted the basic tenets of the so-called Brezhnev-doctrine: the socialist system of Poland, the supremacy of the Communist Party, the leading role of the USSR in COMECON and Warsaw Pact. But the government also made astonishing concessions such as the right to set up an independent trade union (thereby admitting that workers were not well represented by communist trade unions); the right to go on strike; the abolishment of censorship; appointments and promotion on merit; increased wages and pensions and better working conditions (Taras, 1999, p. 373-375).

In the aftermath of its success, Solidarity was divided over the course to follow. This enabled Prime Minister and Communist Party Leader General Jaruzelski to proclaim martial law in December 1981. Solidarity leaders were arrested and the trade union was placed outside the law. Two years later martial law was lifted but the government could not stifle the revolutionary climate. Shortages in the supply of food were endemic. The murder in October 1984 of Father Jerzy Popieluszko, an outspoken proponent of Solidarity, led to new street protests. Stanislaw Kania replaced Gierek as Secretary-General of the Communist Party. In 1985 Gorbachev came to power in Moscow and he was not slow in proclaiming the death of the Brezhnev-doctrine. This offered new opportunities for all CEECs. In Poland Jaruzelsky's government tried to broaden its popular base, but its economic austerity program was rejected in a popular referendum in 1987.

Early 1988 significant price rises were imposed. Widespread protests were organised to demand compensatory wage increases. In August a strike by pro-Solidarity miners spread to other sectors. Jaruzelski drew the logical conclusion from these events: overriding opposition from hard line communists, he re-legalised Solidarity. Thus Poland became the first Eastern European country with a multi-party democracy. Elections were held for the Seym (House of Representatives) – reserving for the communists two-thirds of the seats – and the Senate. The Communists suffered an overwhelming defeat: Solidarity won 99 out of the 100 seats in the Senate and the maximum possible in the Seym (162 out of 460). One of Solidarity's leaders, Tadeus Mazowiecki, became prime minister.

III. Poland as a democracy

1. *Economic success story*

By launching the Balcorowiecz Plan (1990), Poland opted for a big bang reform of the economy. The plan – named after the new Finance Minister – was designed to stabilise the economy, control the inflation, and pave the way for economic integration into Western Europe. It included the following (Floyd and Morrison, 2000, p. 12):

- strong price and trade liberalisation
- low entry barriers for foreign firms
- rapid privatisation of smaller firms (but slower rates of privatisation for larger firms)
- the establishment of a legal system capable of enforcing contracts
- the establishment of a strongly regulated financial system capable of inducing the privatisation process
- the establishment of a system of state welfare offering low unemployment benefit but a higher level of pension support
- low budget deficit and a restrictive monetary policy
- rapid introduction of a modern tax system and a shift from profit taxes towards other taxes including Value Added Tax
- the elimination of foreign debt
- the establishment of a crawling peg exchange rate system
- rapid expansion of business schools to create an entrepreneurial culture

Table 5: *A brief review on Poland's economic reforms*

1990	
January	Most prices liberalised
January	Most foreign trade controls removed
January	Small-scale privatisation begins
January	Fixed exchange rate introduced
January	Competition law adopted
January	Competition agency established
April	Privatisation law adopted
December	Insurance law adopted
1991	
January	Telecommunications law enacted
March	Securities law adopted
April	Stock exchange begins trading
May	Treasury bills market initiated
May	Crawling exchange rate regime introduced
September	Banking law enacted
1992	
January	Corporate and personal income taxes reformed
March	EU Association Agreement
December	Banking law amended
1993	
February	Financial restructuring law adopted

March	Central European Free Trade Agreement
April	membership
April	Mass privatisation programme begins
May	First bank privatised
July	Bank of International Settlements capital adequacy
November	adopted
	VAT introduced
	EFTA agreement
1994	
October	Major external debt restructuring
December	National Investment Funds established
1995	
January	Wage restrictions redefined
May	Agricultural import restrictions changed
May	Managed float with fluctuation band introduced
May	Telecommunications law amended
June	First sovereign Eurobond
June	Full current account convertibility introduced
July	WTO membership
July	State enterprises allocated to National Investment
July	Funds
October	Railway law adopted
	Insurance law amended
1996	
April	New privatisation law adopted
August	First corporate Eurobond
August	Gdansk Shipyard declared bankrupt
November	OECD membership
1997	
March	First toll motorway concession awarded
May	Energy law adopted
June	Securities law amended
June	National Investment Funds shares listed on
December	Warsaw Stock Exchange
	Electricity law adopted
1998	
January	Banking act amended
January	Independent banking regulator established
January	Bankruptcy law amended
February	Investment funds law enacted
February	Independent Monetary Policy Council established
November	EU accession negotiations started
November	Telecommunications privatisation begins
November	Mine restructuring law adopted
1999	
January	New foreign exchange law enacted
January	Pension reforms implemented
January	Health care system reformed
January	Insurance law amended
December	Import tariffs on agricultural products increased

2000	
January	Corporate tax reform implemented
April	Exchange rate floated
May	New telecommunications law adopted

Source: EBRD (2000), *Transition Report. Update*

The successful implementation of the Balcorowiecz Plan (see table 5) made of Poland the most entrepreneur-friendly country in Eastern and Central Europe. Whereas in 1989, 20 percent of the Polish GDP was produced by private enterprises, ten years later, its share was 65 percent (Komorowski, 2000, p. 133). This convinced the west to come to the aid of Poland. Poland's foreign debt was softened by concessions from the Paris Club of official creditors. The US, France and the UK wrote off two-thirds of the Polish foreign debt. Over 1990-1999, the Polish GDP increased, in real terms, by 4.5 percent a year (see table 6); hyperinflation was reduced from 585.80 to 7.30 percent; the zloty was stabilised; the service sector grew exponentially; the capital, Warsaw, became a financial hub.

Table 6: *Macro-economic indicators for Poland*

Year	*Economic growth (% change in real GDP)*	*Unemployment rate (%)*	*Inflation (CPI)*
1990	- 11.6	6.10	585.80
1991	- 7.6	11.80	70.30
1992	2.6	13.60	43.00
1993	3.8	15.70	35.30
1994	5.2	16.00	32.20
1995	7.0	14.90	27.80
1996	6.1	13.20	19.90
1997	6.9	8.60	14.90
1998	4.8	10.40	11.80
1999	4.1	13.00	7.30
2000 (estimate)	5	NA	9.50

Source: EBRD (2000), *Transition Report. Update*

But the average cost of living remained high (see table 7) and a significant part of the active population continued to be employed in farming (see table 8). Most of the remaining state-owned enterprises, including major banks, steelworks and other industrial plans were to put up fierce resistance if the government tried to privatise them. Relatively high wages in certain sectors, poor infrastructure and relatively high income tax rates discourage FDI. (Total tax burden in Poland amounts to 48% of GDP compared to 45.5% of GDP in the EU.)

Table 7: *Cost of living in Poland (Consumer Price Index; base 1990 = 100)*

	1995	*1996*	*1997*	*1998*
Food	461,6	550.2	620.1	677.0
All items	556.7	667.5	767.0	857.5

Source: The Europa World Year Book 2000, London, Europa Publications, 2000, p. 2971.

Table 8: *Economically active population ('000 persons aged 15 years and over)*

	1995	*1996*	*1997*
Agriculture	3,331	3,298	3,104
Manufacturing	3,119	3,130	3,182
Total employed	14,791	14,969	15,177
Total unemployed	2,277	2,108	1,923

Source: The Europa World Year Book 2000, London, Europa Publications, 2000, p. 2969.

2. *Political instability*

If the Polish economy in the nineties was a success story, the same does not hold for the Polish political situation. The spectacular economic recovery was not matched by a new political system and neither by a model democracy. Poland has a presidential-parliamentary system of government. The president is elected directly by majority vote. He has the right to designate the prime minister, initiate legislation, veto bills (which the Seym can override by a three-fifths majority), refer bills to the Constitutional Court, dissolve parliament and call early elections, call a referendum. The prime minister is officially nominated by the president, but, in practice is chosen by the strongest party in parliament. The candidate may not necessarily come from within the ranks of the strongest party (Taras, 1999, p. 379). In post-communist Poland, political parties proliferated. Seven governments came and went since 1989 (see table 9).

In October 1991 a total of 29 parties won representation in the Seym, but none of them acquired a decisive majority. The first three governments were supported by a limited number of parties but they did not last for long. In July 1992 a centre-right coalition was formed, but less than a year later it was brought down by Solidarity. The electoral law was changed and a 5 % threshold was introduced. This reform worsened the political situation. The number of parties represented in the Seym was reduced to just six, but at the same time two electoral blocs saw the light. They were made up of an amalgamate of little squabbling parties: one centred around the supporters of Solidarity, the other centred around the former Communist Party in alliance with the Peasant's Party. First these blocs have to find an internal compromise. Then they try to obstruct each other as much as possible and bring down the government of the other side. The 1993 general election was a disaster for Solidarity. Voters - expressing their dissatisfaction for the adverse social consequences of the economic reforms - voted in the SLD and the PSL.

During the next four years Poland was ruled by three centre-left coalitions. All three were committed to continuing market-orientated reforms, but at the same time favoured measures to alleviate the adverse social effects of such policies. A referendum on privatisation took place in February 1996 but was inconclusive, since fewer than the requisite 50% of the registered electorate participated. Legislation regulating the commercialisation and privatisation of state-owned enterprises was adopted in June. But Solidarity (now regrouped in the AWS) was determined to make life as difficult as possible for any new coalition of which is was no part. It began a nation-wide programme of strike action, affecting all sectors of the economy. It asked for increased government investment in the public sector and improved measures to combat unemployment. It accused the government of corruption. With right-wing parties it opposed amendments to the constitution, reducing presidential powers and committing the country to a social market economy based on the freedom of economic activity and private ownership[4] (*The Europa World Year Book*, 2000, p. 2961-2986).

Table 9: *Prime Ministers of Poland since 1989*

Prime ministers	*Appointed*	*Supported by*[5]	*Left office*
T. Mazowiecki	August 1989	Solidarity	Dec. 1990
J.K. Bielecki	December 1990	KLD, PC	Dec. 1991
J. Olszewski	December 1991	PC, ZChN, PL	June 1992
W. Pawlak[6]	June 1992	PSL	July 1992
H. Suchocka	July 1992	UD, KLD, ZChN, PSL	May 1993
W. Pawlak	September 1993	PSL, SLD	March 1995
J. Oleksy	March 1995	SLD, PSL	Jan. 1996
W. Cimozsewicz	February 1996	SLD, PSL	Oct. 1997
J. Buzek	November 1997	AWS, (UW)	Sept. 2001

Source: Tars, 1999, p. 380

Co-habitation between a government and a president belonging to the opposition complicates things in Poland. Relations between president Walesa and the center-right governments were never optimal. In January 1995 Walesa urged the population not to pay income taxes anymore and he refused to endorse new tax legislation. The Seym voted to begin impeachment proceedings against the President, should he attempt to dissolve the legislature. There was further discord between the president and the parliament, when Walesa vetoed privatisation measures adopted by the Seym. The bitterly contested presidential elections at the end of that year were lost by Walesa. Alexander Kwasniewski, a former communist, became Poland's third president. The parliamentary election of September 1997 was won by the AWS, itself a loose coalition of some 36 parties. In early November the Seym approved the new Government's programme, which gave priority to the rapid integration of Poland into NATO and the EU. It also wanted to accelerate privatisation and government reform, and to promote *Christian and family values*.

[4] Eventually the new Constitution was adopted by national referendum.
[5] KLD: Liberal Democratic Congress; PC: Center Alliance; ZChN: Christian National Union; PL: Peasant Accord; PSL: Polish Peasant Party; UD: Democratic Union; SLD: Alliance of the Democratic Left; AWS: Solidarity Electoral Action; UW: Freedom Union.
[6] Pawlak was nominated as prime minister, but could not form a government.

Soon social unrest broke out again. Dissatisfaction with the Government's privatisation programme was general. This time the SLD – the president's party - and the PSL were behind the strikes and the demonstrations. Farmers, miners, railway employees and health care workers took to the streets and eventually pressurised the government into making concessions. Farmers for instance only ended their blockade when the Government agreed to a 50% increase in the state subsidy for pork. In 1999 the Buzek-government tried to reform the taxation system but its plan was vetoed by the president. Buzek did succeed in changing radically the rules of aid to public enterprises and in introducing new systems of education, health care and social security. The government survived several motions of no-confidence, but president Kwasniewski was re-elected (December 2000) (*The Europa World Year Book*, 2000, p. 2961-2986).

3. *Qualification for the European Monetary Union*

Formally Poland is not yet ready to join the EMU, because of its high rate of inflation (see table 10) but – notwithstanding the political instability - macro-economic indicators are evolving into the right direction.

Table 10: *Poland and the EU: three convergence criteria* (1999)

	Inflation (%)	*Budget balance (% GDP)*	*Public debt (% GDP)*
Poland	7.3	3.5	43.3
EU-reference	3.1	3.0	60

Source: *Macro-Economische Verkenning 2001,* Den Haag, CPB, September 2000, p. 189.

By the end of the nineties, Poland adopted a more advanced monetary regime of direct inflation targeting, underpinning the significant progress in monetary policy strategies (Orlowski, 2000, p. 134). The zloty fluctuates within a parity margin of 15 percent related to a so-called currency *basket*. The *basket* is composed of the US dollar (45%) and the Euro (55%). The zloty can be converted into hard currency by firms who want to import goods while Polish legal persons can open foreign currency accounts. Since January 1999 the zloty has been completely convertible. It enjoyed relative stability and fared quite well during the 1999 Russian crisis (Komorowski, 2000, p. 132).

One must keep in mind that in 1999 few of the current EMU Members met the five convergence criteria set out in the Maastricht treaty. As far as the debt criterion is concerned, Poland performs even better than almost any of the existing EMU Member States (see table 11). Many present members of the eurozone seem to think there will be a long gap between the time CEECs join the EU and the time they adopt the Euro. But they are probably wrong. A recent study carried out for the Dutch government concluded that if some applicant countries like Poland get into the EU in 2004, they should be able to join the EMU two years later ('A survey of European Union Enlargement', 2001, p. 13).

Table 11: *Public debt as % of GDP (1999)*

Austria	63.6
Belgium	114.2
Denmark	55.3
Finland	52.3
France	58.2
Germany	60.7
Greece	104.5
Ireland	52.6
Italy	114.3
Luxembourg	7.6
Netherlands	67.7
Portugal	58.0
Spain	65.8
Sweden	70.0
UK	50.9

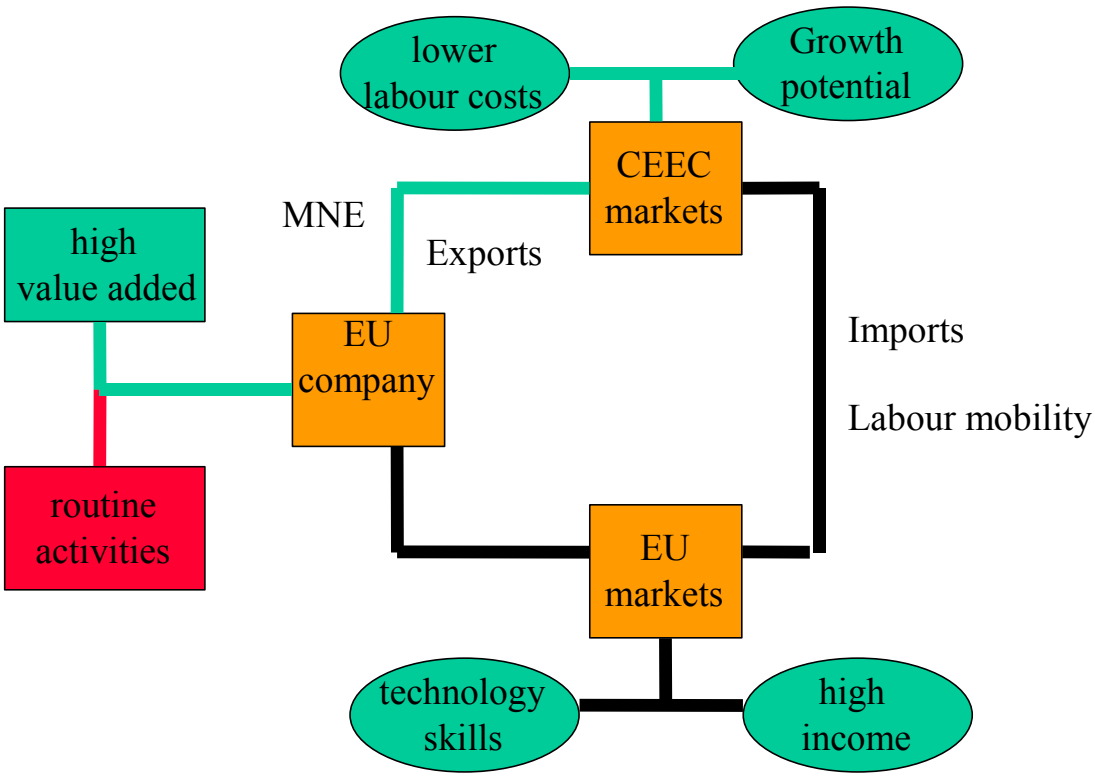
Source: European Commission, *Convergence Statistics for EMU Members*, http://www.bloomberg.com/emu/eurocomm.html

IV. Free movement of goods

Poland has come a long way but it is clear that a lot more has to be done. For this Poland needs the EU. But is the EU ready to come to its aid? The opening of the Polish and of other CEEC markets has generated a far reaching impact both in Western and Eastern Europe. To evaluate the extent of the transformation process, it is useful to take into account economic theory (see figure 1). Markets in Central and Eastern Europe (CEEC) benefit from comparative labour costs and are promising as to further expansion. But the benefits are partially neutralised by the lower labour productivity in CEECs and by the existence of cost-saving technologies in the west. The EU on the other hand benefits from the existence of a large domestic market, from high purchasing power, from up-to-date technology and from highly skilled labour. According to economic theory we can make several predictions about the integration between Poland and the EU. The transformation process will give rise to the following:

- increasing international trade in goods and services
- relocation of firms looking for expanding markets and lower production costs
- migrations of workers looking for better paid jobs.

Figure 1: *Economic impact of CEEC integration on EU firms*

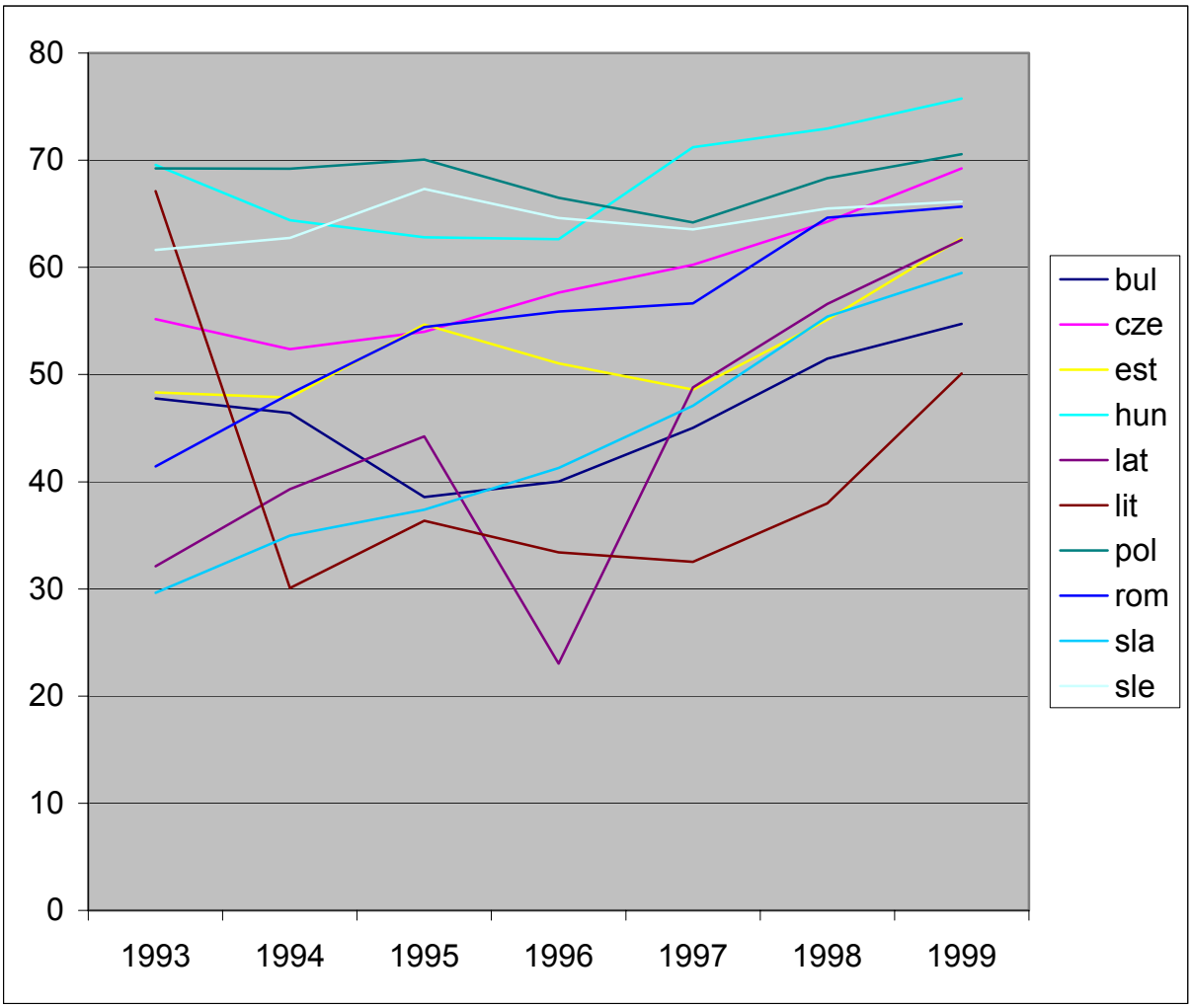


Source: Abraham, F. and J. Konings (1999), Does the opening of CEE threaten employment in the west?, *World Economy*, no. 4, pp. 585-601.

1. Theory on international trade

Western European companies sell part of their goods on EU markets. However, the opening of Poland and other CEECs creates new export opportunities to CEEC markets. On the other hand the EU market is also attractive for Polish and other CEEC companies, considering the high average income level and the purchasing power of EU consumers. The part of exports to the EU from Poland and other CEECs in their total exports has been increasing since 1993 (see figure 2). According to the Heckschler-Ohlin-Samuelson theory on international trade, the economic integration between two countries (or between two trading blocs) by means of trade or by means of mobility of labour are but two sides of the same coin. Goods and services incorporate the labour of those who produced them. Either the worker moves to the other country or the good is exported to that same country. In this section we will focus on the second alternative. The cost of labour is very important. Polish export companies have a comparative advantage as far as routine labour is considered. The advantage - if at all – is much smaller in the case of skilled labour. That is why Polish export companies will specialise in manufacturing processes, making use of labour intensive methods and routine activities. This will generate jobs for the lowly skilled Polish workers whose wages will increase.

Figure 2: *Fraction of exports of CEECs to the EU in their total exports*



Source: IMF + the authors

The EU export companies on the other hand will specialise in products that require highly skilled labour. This implies that high-tech jobs will be created and that low tech jobs will be destroyed. However, these theoretical predictions have to be put in perspective. First of all, it takes some time before the transformation process induced by international trade will have its course. Given their inflexibility it will take time for EU labour markets to adapt to the new situation (see Garibaldi, Konings and Pissarides, 1997). Moreover, the average schooling level in CEECs is high and even comparable to the west (see Hamilton and Winters, 1992 and CEPR, 1990).

This implies that integration by means of trade will not necessarily be detrimental to lowly skilled labour. Last but not least intra-industry trade has been rising rapidly in bilateral trade flows. Most of this intra-industry trade is vertical in nature (which means exchange of similar goods with different qualities), accounting for 80 to 90 percent of the total intra-industry trade between CEECs and the EU (see Aturupane, Djankov and Hoekman, 1999, p. 77). This kind of trade does not have the same kind

of impact on employment as traditional trade flows based on comparative advantages have.

2. Trading partners

What is the relevance of the preceding for Polish-EU trading relations? Since 1989 Poland has completely re-oriented its foreign trade. Among its seven most important trading partners are five EU Member States (see tables 12 and 13). Poland is the fifth largest trading partner of the EU, accounting for about 70 percent of Polish exports and about 65 percent of its imports. Although EU imports from Poland continued to rise, it is especially EU exports towards Poland which experienced the most dramatic increase. Thus the EU has significantly contributed to the trade deficit of Poland.

In the Association Agreement, Poland and the EU accord each other tariff preferences. Unfortunately Poland still faces a lot of hindrances when exporting to the EU. Products have to originate in either the EU or Poland. This means that the simple assembly of parts imported from third countries to constitute a complete product is not covered by the Association Agreement. Only in 1997 the EU extended the local content rules to products originating in the EFTA countries, in the Baltic states and in the countries that are part of the Central European Free Trade Agreement (Hungary, Slovakia, Czech Republic, Slovenia, Rumania, Bulgaria and Poland). Diagonal cumulation enables Polish firms to export semi-final products to neighbouring countries, transform them into final products and export them duty-free to the EU.

Table 12: *Principal trading partners of Poland (1998; million new zlotys): imports c.i.f.*

Germany	42,036.7
Italy	15,371.1
France	10,599.0
Russia	8,278.7
United Kingdom	8,057.2
United States	6,167.0
Netherlands	6,257.2
Total imports (incl. others)	162,963.0

Source: The Europa World Year Book 2000, London, Europa Publications, 2000, p. 2972.

Table 13: *Principal trading partners of Poland (1998; million new zlotys): exports f.o.b.*

Germany	35,767.8
Italy	5,790.7
Russia	5,566.3
Netherlands	4,732.7
France	4,637.9
United Kingdom	3,845.0
United States	2,643.1
Total exports (incl. others)	98,647.9

Source: The Europa World Year Book 2000, London, Europa Publications, 2000, p. 2973.

Contravening a judgement from the European Court of Justice (Cassis de Dijon, 1979) – harmonisation should follow from trade not precede it – EU Member States invoke all kinds of grounds for special protection of e.g. public morality, public security, health, industrial property, interests of workers or the environment. Part of the *acquis communautaire* already mentioned follows from these preoccupations. When EU standards and specifications are harmonised, a high minimum level is chosen. Thus these standards and specifications act as non-tariff barriers between Member States, protecting inefficient industries and employment. Mutual recognition of standards and specifications would stimulate trade among Member States and would enable EU companies to buy in third countries without further administrative formalities.

Export countries like Poland lack the technology to meet all of these different norms and standards. Moreover not all of these are relevant to a country like Poland with a different socio-economic background. If EU importers buy Polish products not meeting certain standards, then the risk is very real that EU producers will go to Court, arguing that importers falsify competition in the EU. On the other hand it is clear from cases being dealt with by the European Court of Justice that the current Member States often do not comply themselves with the *acquis communautaire* they are so eager to impose on applicant Member States.

3. EU worries

Poland exports a large variety of products (see table 14). Polish exports are labour-intensive (textiles, clothes and shoes), raw material- and energy-intensive (chemical, rubber, plastics), and they consist of products where economies of scale are relevant (iron, steel, wood, shipping). Most EU-countries are specialised in the exports of knowledge-intensive products. So-called *sensitive* EU-sectors are often those in which Poland has comparative advantages. Threats to EU-sectors exporting these goods are real, but should not be overrated. In table 15 we compare the Polish and the Belgian exports for 21 product categories. The value of Belgium's export to the EU capacity is six times as strong as the Polish. In the short run no single sector of the Belgian economy should feel threatened. In the long run, all things remaining equal, Belgian industry could face tough competition in sectors 5, 8, 9, 11 and 15. But within each of

these sectors there are similar products with different qualities, so that is difficult to predict future trade flows.

Table 14: *Polish exports f.o.b. of selected products*

Exports f.o.b.	*1996*	*1997*	*1998*
Food and live animals	6,652.6	10,021.6	9,921.6
Crude materials (inedible) except fuels	2,215.9	2,678.0	2,805.1
Mineral fuels, lubricants, etc.	4,518.5	5,616.7	5,406.5
Chemicals and related products	5,082.2	6,649.0	6,634.4
Basic manufactures	16,984.3	22,383.2	24,868.5
Machinery and transport equipment	15,401.3	18,239.9	28,022.0
Miscellaneous manufactured articles	14,486.8	18,365.5	20,495.8
Total (incl. others)	65,819.4	84,479.6	98,647.9

Source: *The Europa World Year Book 2000*, London, Europa Publications, 2000, p. 2973.

In accordance with the Heckschler-Ohlin-Samuelson theory on international trade, the EU should remove all non-tariff barriers that impede Polish imports. Only some very specific EU sectors might be threatened by Polish imports: e.g. those that are heavenly protected by anti-dumping-measures (wood, coal, chemical products, iron and steel products). A study by Vandenbussche (1996) has indicated that there are reasons to believe that European antidumping protection against Poland in the period 1985-1990 was on average overestimated by 20 percent. The Polish-American transplants (screwdriver operations) that no longer have to comply with local content rules might pursue aggressive export strategies.

Table 15a: *Polish and Belgian exports to the EU (1999; 1000 ECU)*

Section	*Polish exports to EU*	*Belgian exports to EU*
1 animal products	451,391	3,455,192
2 vegetable products	431,487	3,115,926
3 fats	13,320	557,181
4 food	322,178	5,731,540
5 minerals	951,903	3,480,089
6 chemical industry	592,821	13,996,585
7 plastics/rubber	639,737	9,209,608
8 skins/leather	127,091	479,805
9 wooden products	945,890	1,154,141
10 paper/pulp	413,443	3,178,687
11 textiles	2,254,879	7,165,384
12 shoes et al.	174,420	1,143,078
13 stone/cement	393,063	2,135,619
14 pearls/ jewellery	176,931	1,600,124
15 basic metals	3,280,621	9,875,590
16 non-electric machinery	2,142,546	15,131,388
17 transport	2,151,565	19,486,130
18 instruments	16,063	1,953,747
19 weapons/ammunition	1,675,011	48,920
20 various	89,757	2,143,142
21 various	217,200	3,964,383
Total	17,461,317	109,006,259

Source: European Commission, 2000.

Table 15b: *Polish and Belgian relative share (%) in EU imports (1999)*

Section	*Polish relative share (%)*	*Belgian relative share (%)*
1 animal products	0.89	6.84

2 vegetable products	0.73	5.32
3 fats	0.01	7.53
4 food	0.45	8.14
5 minerals	0.74	2.71
6 chemical industry	0.38	9.08
7 plastics/rubber	0.75	10.8
8 skins/leather	0.86	3.2
9 wooden products	4.03	4.9
10 paper/pulp	0.77	5.9
11 textiles	1.99	6.3
12 shoes et al.	0.94	6.19
13 stone/cement	1.7	9.39
14 pearls/ jewellery	0.54	4.90
15 basic metals	2.46	7.4
16 non-electric machinery	0.50	3.5
17 transport	0.93	8.5
18 instruments	0.02	3.49
19 weapons/ammunition	NA	NA
20 various	0.21	5.2
21 various	0.69	9.72
Total	0.99	6.2

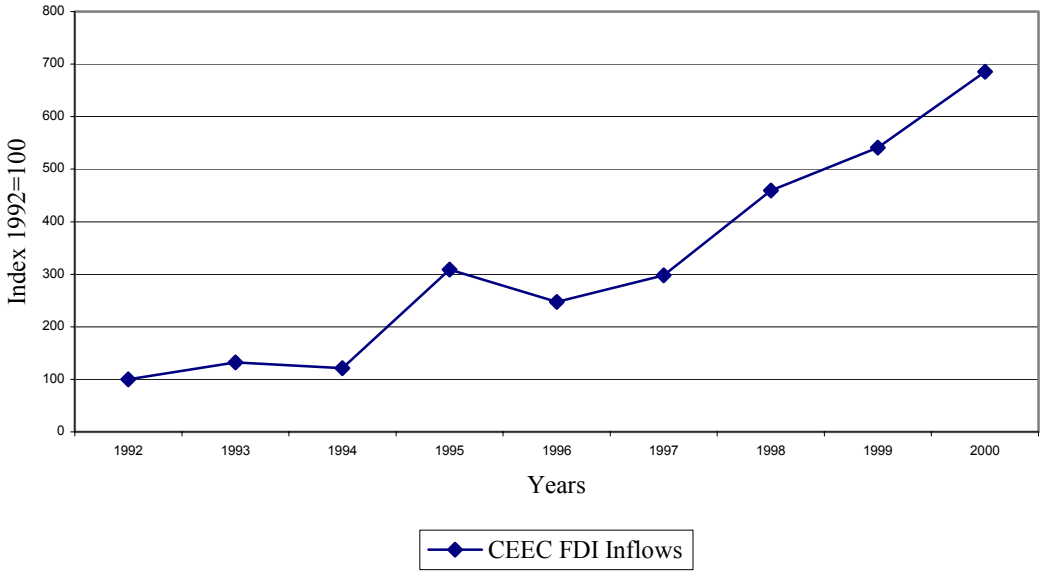
Source: European Commission, 2000; the authors.

V. Free movement of capital

1. *Disappointing figures*

Like goods, capital moves between different economic regions. Although one cannot deny that FDI have been growing in Poland and the CEECs over the last decade (see figure 3), it is a well-known fact that EU companies prefer to invest in other western countries. According to Jungnickel (1995, p. 98) CEECs only received 2 percent of total German investment in 1995. Total German investment was distributed as follows: EU (48 percent), US (24 percent), other industrial countries (17 percent) and developing countries (9 %) (Meyer, 1995). Belgian balance of payments data suggest that only 2.4 percent of total FDI went to CEECs (Planbureau, 1994, p. 111). Madeuf (1995, p. 45) finds that French subsidiaries in CEECs and South-East Asia employed only 4.6 percent of the total French workforce in subsidiaries established abroad.

Figure 3: *Evolution of FDI in CEECs (1992=100)*



Source: IMF Balance of Payments + the authors

Compared to other CEECs Poland did relatively well. FDI have increased since 1989. In the decade to 1995 FDI amounted to less than 1 billion dollar, whereas in 1999 alone the figure was 7.5 billion dollar. FDI per capita in the period 1989-1999 was 518 dollar. FDI are now on a level that seems to be normal for a country with the kind of economic development like Poland. The EU supplies about 60 percent of FDI (see table 16).The current account deficit on the balance of payments has been largely financed by inward FDI (see table 17). Though investments take place in all sectors, production activities take the lion's share (see table 18). From all CEECs Poland has the largest domestic market. A lot of capital is invested in the food industries and in banking and insurance, where proximity and direct contact with consumers are very important (see table 19).

Table 16: *Stock of FDI at end-1998 by countries of origin*

	$ million	*Share*
North America	5,147	18.9
EU	16,160	59.2
Other OECD	2,947	10.9
Non-OECD	1,213	4.4

Source: OECD Economic Surveys Poland, January 2000, p. 195

Table 17: *Balance of Payments of Poland ($ million)*

	1996	*1997*	*1998*
Trade balance	-7,287	-9,822	-12,836
Current balance	-3,264	-5,744	-6,901
Direct investment from abroad	4,498	4,908	6,365
Overall balance	3,637	3,588	5,695

Source: The Europa World Year Book 2000, London, Europa Publications, 2000, p. 2972.

Table 18: *Stock of FDI by sector of destination ($ million)*

Production activities (including food products, beverage and tobacco)	15,912 (4,461)
Financial services	4,803
Trade and repairs	2,943
Construction	1,685
Transportation and communications	719
Hotels and restaurants	430
Service and municipal activities	398
Electricity, gas and water supply	242
Real property services	112
Agriculture	24
Mining and quarrying	12
Total	27,280

Source: OECD Economic Surveys Poland, January 2000, p. 197

Table 19: *Top 10 of major foreign investors in Poland ($ million, 1998)*

No.	*Investor*	*Equity and loans*	*Origin*	*Activities*
1	Fiat	1, 357	Italy	Automotive, banking, insurance
2	Daewoo	1,348	South Korea	Automotive, electronics, construction, insurance
3	RAO Gazprom	958	Russia	Construction
4	Bayerische Hypo- und Vereinsbank AG	724	Germany	Banking
5	EBRD	653	International	Banking, capital investment
6	Metro AG	598	Germany	Retail and wholesale trade
7	Polis-American Enterprise Fund	505	USA	Capital investment
8	IPC	440	USA	Pulp and paper
9	ING Group	420	Netherlands	Banking, insurance
10	Commerzbank AG	389	Germany	Banking

Source: OECD Economic Surveys Poland, January 2000, p. 197

2. EU worries

While Poland and other CEECs welcome the inflow of capital, EU policy makers and trade unions are worried about the disappearance of firms and the accompanying job destruction. It may be profitable for EU parent companies to set up subsidiaries in countries with low labour costs. This multinational cost-saving (or vertical) activity could be an alternative to export. In their home countries, e.g. the EU, multinational enterprises (MNE) exploit their comparative advantages: they specialise in high value added products in management and routine like activities, in Research and Development and in distribution activities. At the same time EU multinational enterprises transfer their routine like activities to CEECs, re-import the finished products and sell them on the EU market. Within the framework of a new division of labour between Western and Eastern Europe, investors might decide to transfer part of their production to CEECs because of lower production costs (*high tech in the west, low labour in the east*).

It is a well known fact that German Firms transferred some of their labour-intensive production to Poland. Sometimes these investments are nicknamed *Maquiladoras*: they could be compared to the American export-only firms set up in the North of Mexico under NAFTA. EU companies often opt for *outward processing trade* with CEECs. EU customs rules allow these firms to ship components outside the EU territory and re-import them duty-free without any quota's being applied (see Djankov and Hoekman, 1996). One cannot deny that there is a correlation by sector between FDI and lost jobs in the EU. Djankov and Hoekman (1996; 1998) show that EU investors are essentially interested in construction, food and beverages, leather, textiles, services, electrical appliances, precision instruments and furniture. In these sectors a lot of jobs were killed following the transfer of industrial activities. Studies on Belgium (Planbureau, 1994), France (Madeuf, 1995) and Germany (Meyer, 1995) prove that employment in the textiles and clothing sectors and in the leather and shoes sectors suffered from low wage countries competition. According to the Belgian Planbureau there were over the period 1986-1993 seventy-seven firms that closed domestic subsidiaries, while at the same time opening subsidiaries abroad. But only a few of these were related to CEECs.

One should not overrate the job-killing impact of FDI. Both traditional (e.g. Dunning, 1980) and more recent theories (e.g. Brainard, 1997; Markusen et al., 1996) focus on other reasons for companies to set up subsidiaries abroad. MNE want to invest in CEECs with a view to pursuing expansive (or horizontal) multinational activities and exploiting new market opportunities in growing markets. Rather than export finished goods, they prefer to set up subsidiaries that produce these goods. Goods are not re-imported by the EU but sold on the local markets. The expansion of CEEC production often creates a derived demand for goods and services manufactured by the parent company in the country of origin. Far from killing jobs, this growing intra-firm commerce benefits EU employment. According to Jungnickel (1995, p. 98) 75 percent of German FDI was possibly not motivated by cost saving. This concurs with findings from Slaughter (1995) who concludes that wage differentials between countries only had a slight impact on investment decisions by American MNE. According to Andersson (1995), there was in Sweden a correlation between foreign and domestic expansion of employment. (Because of the deteriorating business environment the link was broken during the second half of the eighties.)

3. Belgian FDI

To illustrate further the thesis that MNE might transfer their activities abroad because of market expansion motives, we will use annual balance sheets of Belgian MNE and their subsidiaries both in the EU and in the CEECs. We will show that there was during the time period considered *on average* no substitution of employment between large Belgian enterprises and their CEEC subsidiaries. Our core sample consists of 1272 large and medium size EU multinational enterprises available from a commercial database (Ammadeus CD-rom, Van Dijck office). In table 20 information is given on the employment, the wage cost and the labour productivity in the parent companies and in both EU and CEEC subsidiaries. Whereas the average wage costs in parent companies and EU subsidiaries are more or less equal, wages in CEEC subsidiaries are much lower than those in parent companies. But the same goes for labour productivity in CEEC subsidiaries: it is not clear at all whether the lower wage costs in CEECs should be regarded as a comparative advantage.

To investigate whether employment relocation is taking place between Belgian parent companies and their subsidiaries we use a smaller sample of 99 large Belgian enterprises operating in the manufacturing sector. To this end we regress the employment in the parent company against the wage cost in the parent company, the average wage cost in the EU subsidiary and the average wage cost in the CEEC subsidiary. In table 21 we report the results. We find that the parent company's own wage cost elasticity is –0.50, which means that an increase in the wage cost by 5 percent will cause employment to decrease by 10 percent. This is the result we expected: the price of labour is important if one wants to explain the demand for labour (see also Konings and Roodhooft, 1997). If we want to know more about the possible loss of jobs in the EU because of transfer of industrial activities to CEECs, we should look at the cross wage elasticity. The cross wage elasticity in EU subsidiaries is positive (0.06) and statistically significant at the 5 percent significance level, while the cross wage elasticity in CEEC subsidiaries is negative (-0.03) and moreover not statistically significant. This regression result suggests that there is *on average* employment substitution between large Belgian parent companies and their EU subsidiaries but that there is *on average* no employment substitution between large Belgian enterprises and their CEEC subsidiaries.

These findings are consistent with the idea that CEECs mainly attract FDI because of the growth potential of their domestic markets, while in the integrated EU markets, companies, having already acquired strategic positions, are essentially motivated by cost saving. This result corresponds with earlier research based on business enquiries. In table 22 results are reported of such an enquiry: Belgian firms were asked why they had decided to invest in CEECs. The majority cites the exploration of new markets and the acquisition of a strategic position as the main reasons while only in 26 percent of the cases the use of cheaper labour was quoted. Abraham and Konings (1999) have shown that a distinction has to be made between the effect of increased CEEC competition on smaller versus larger firms. While increased CEEC competition appears to reduce the demand for labour in small companies, this effect reverses in large companies. In conclusion we believe the EU should not be worried: consumers in CEECs have a lot of needs. There is a gigantic potential demand, part of which has to be met by FDI.

Table 20: C*haracteristics of European MNE*

	Overall Sample	Manufacturing	Non-Manufacturing
Parent company employment	2174	2452	1619
Subsidiary employment (EU)	328	300	389
Subsidiary employment (CEECs)	669	674	660
Parent company wage cost	52.11	50.23	55.86
Subsidiary wage cost (EU)	44.97	45.49	44.10
Subsidiary wage cost (CEECs)	8.48	7.85	9.49
Parent Labour productivity	213.29	148.09	349.23
Subsidiary Labour productivity (EU)	142.17	161.69	105.42
Subsidiary Labour Productivity (CEECs)	21.43	23.81	17.60
Distribution of firms	100%	66.7%	33.3%

Source: Konings and Murphy (2001)

Table 21: *Regression results*

Explanatory variables	Dependent variable: ln (parent employment)
Ln (wage cost parent)	-0.48 (0.06)
Ln (wage cost EU subsidiary)	0.06 (0.03)
Ln (wage cost CEEC subsidiary)	-0.03 (0.03)
Ln (total value added MNE)	0.15 (0.02)
Year dummies	Yes
Total R^2	0.738

Note: Between brackets robust standard errors; estimates based on fixed effects model for panel data.

Table 22: *Reasons for investing in CEECs*

Exploring new markets	43%
Acquiring a strategic position	37%
Making use of cheap labour	26%
Exploiting fiscal advantages	2%
Expectation of EU membership	7%
Other reasons	2%

Note: More than one answer was possible;
the enquiry was based on 312 Belgian companies,
see Janssens en Konings (1999).

VI. Free movement of Labour

If companies do not set up subsidiaries in CEECs that could absorb part of the unemployed workforce and if the EU goes on hindering CEEC imports, there is no alternative left for the unemployed in the east but to emigrate to the EU. Immigration is a complex issue. For CEEC workers EU jobs are attractive, considering the relatively high wage and the generous social benefits they will receive. EU firms that hire CEEC workers will be able to cut labour costs. Given the labour and skill shortages in the present Member States, they should welcome an influx of eager young workers. The Western European population is ageing, while the population in CEECs is much younger (see Zimmerman, 1995, p. 48-52). But there are also disadvantages attached to immigration. There is unemployment in the EU especially among its unskilled and immigrant workers; trade unions worry about the social consequences of labour market competition; even skilled workers might end up in poorly paid jobs not corresponding to their levels of knowledge; labour market imbalances might increase instead of decrease; there are growing anti-immigrant sentiments with the EU population; the brain drain caused by the emigration of part of the young and active population is hardly compatible with the long term prospect of CEEC economic development[7].

For these reasons EU Member States decided to block CEEC labour movements. One EU country after another adopted a more restrictive attitude towards visa and work permits (Abraham and Konings, 1999, p. 588). Border controls to stop illegal immigration became stricter. Within the framework of the Schengen and the Dublin conventions, EU Member States co-operated in order to enforce a more stringent application of immigration law. Germany – particularly the eastern *Länder* - and Austria as bordering countries felt threatened by illegal Polish and Ukrainian immigration. According to semi-official estimates Germany hosts already a significant number of illegal Polish immigrants. In 1989 a visa obligation was introduced but a lot of Polish workers whose visa had expired, did not return to their country. An agreement was signed with Poland, giving Berlin the right to expel Polish illegal immigrants (Dietrich, 1998, p. 44). If Poland joins the EU, Germany and Austria will request a seven year transitional period, with respect to the free movement of workers.

[7] That is why Germany opted for the economic development of the former DDR *Länder* rather than trying to re-allocate the active East German population.

It is difficult to predict whether in case of EU membership and the free movement of workers as a result of it, immigration from Poland and other CEECs will increase. From research on immigration it becomes clear that the decision to emigrate is the result of a complex interaction between so-called *pull* and *push* factors, respectively in the host country and in the country of origin (see Fischer and Nijkamp, 1987). It is argued that a substantial wage differential might act as a strong incentive to further Polish emigration to Germany and the rest of the EU. But the wage gap is the widest for routine jobs and much smaller (if it exists at all) for skilled labour. In to-day's EU there is not much mobility either. There was never massive emigration from the Mediterranean countries upon their accession to the EU. It is hindered by the formal educational degrees for specific jobs that differ between countries, by different languages and cultural traditions, by rigid housing and labour markets, and – compared to the US - by a lack of ethnic networks that facilitate assimilation of migrants in the host country (Abraham and Konings, 1999, p. 588).

Even in CEECs themselves labour mobility is very weak. Burda reports that there are significant regional differences as to unemployment and mobility (Burda, 1998). Faggio and Konings (2001) show that job reallocation takes place within regions and within sectors. A recent study by the European Integration Consortium, a grouping of Western European think tanks, estimated that the current Member States are likely to attract 335,000 immigrants a year from CEECs, once free movement of labour is introduced ('A survey of European Union enlargement', 2001, p. 6). There may be some frictions, but since immigrants will go where jobs are available, these are unlikely to be severe. It will take some time before Poland and other CEECs reach their economic potential. Economic development can act as a powerful stimulus to keep the Polish workforce home. EU membership in turn will stimulate the economic development of Poland. If the EU wants to prevent Polish workers from emigrating to the west, it should open up its borders to Polish goods and services and stimulate FDI.

VII. Budgetary consequences of EU membership

EU enlargement will not only affect trade, investment and employment but it will also have a significant impact on the EU budget. Agricultural, Structural and Environmental aid account for more than 80 percent of the EU financial commitments[8]. This is in line with the genesis of the European economic integration process. Farmers need support, for they should have a level of earnings comparable with that of workers in other sectors. Poor regions need support, because incomes should be levelled throughout the EU. Moreover the EU is also committed to the objective of safeguarding the environment and improving the quality of life. The budget entitlements for agriculture and regional and environmental aid are in sharp contrast with the entitlements that have been set aside to prepare the applicant countries for membership: they amount to less than 3 percent of total entitlements: 21,840 billion Euro of which PHARE: 10.5, ISPA: 7, SAPARD: 3.5 (see table 23) [9]. Poland can live with that, provided that - once being a Member State - it will be able

[8] Agriculture and Structural Aid take the lion's share out of the budget. Environmental aid is given by the European Investment Bank in the form of long-term loans for investment projects.
[9] PHARE: aid for infrastructure, environment and transport; ISPA: structural instrument for pre-accession; SAPARD: Special Accession Programme for Agriculture and Rural Development.

to enjoy in full the benefits of the CAP and the Regional Policy. But the current Member States are worried about the budgetary consequences of EU enlargement.

Table 23: *Community expenditure: financial previsions 2000-2006 (million Euro, 1999 prices)*

Commit-ments	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
CAP	40,920	42,800	43,900	43,770	42,760	41,930	41,660
Regional Policy	32,045	31,455	30,865	30,285	29,595	29,595	29,170
Accession	3,120	3,120	3,120	3,120	3,120	3,120	3,120
Total	92,025	93,475	93,955	93,215	91,735	91,125	90,660

Source: Europese Commissie, Algemeen Verslag over de Werkzaamheden van de Europese Unie 1999, Brussel; Luxemburg, p. 334.

1. Impact on the EU Common Agricultural Policy (CAP)

Agriculture is a far more important sector in Poland than it is in the EU, in terms of both contribution to GDP (Poland: 6 percent; EU: 2.4 percent) and contribution to share in total employment (Poland: 25 percent; EU: 5.7 percent). Even under communism Polish farmers were – in contrast to farmers in other CEECs – relatively free to purchase land. All these years Poland remained a net exporter. The land is divided into about 2 million small individual holdings, some of them smaller than a hectare, and some of them worked inefficiently. The average farm size is just eight hectares. Unemployment and underemployment are high. Polish farmers obtain less support than EU farmers. Agricultural prices in Poland are in general substantially lower than those in the EU, although differences vary from produce to produce (milk: 147 ECU/ton in Poland versus 287 ECU/ton in EU). The Polish external tariff is lower than the Common External Tariff, which stimulates imports (mostly from EU Member States). Therefore Polish farmers require protection and intervention from their government.

With the CAP the EU tries to guarantee an income to its farmers. By means of target prices (well above market prices) and levies it tries to keep competitive imports out of the EU markets. But the CAP has proven to be too expensive. With the MacSharry reforms (1992) the EU has decided to decrease target prices for wheat, beef and oilseeds in order to call a halt to overproduction. Farmers receive direct income subsidies per hectare or animal that are meant as compensation for the reduction in price support. Moreover the EU has to reform further the CAP, so as to bring it in compliance with the WTO, of which it violates the rules. The current Member States do not want to extend the CAP in its present form to Poland: this will increase surpluses, which would be added to the growing market imbalances that exist already. On an annual basis the extension of the CAP to Poland, Hungary and the Czech Republic would cost additionally about 40 billion ECU (Stehn, 1999, p. 5). Such a

concession would set a dangerous precedent if other CEECs were to join, e.g. Rumania or Bulgaria, not to mention Turkey.

For the EU the extension of the CAP to Poland is both politically unacceptable and financially infeasible, at a time when EU farmers themselves have to scale down their production and have to start living with less protection. Poland has to cut its farming production; EU target prices should further go down so as to bring them progressively in line with world market prices; the MacSharry subsidies have to be phased out; production quotas have to be widened; Poland should finance structural reforms and rural development. According to Poland, EU behaviour is motivated by selfish financial concerns: the CAP has to benefit its farmers. The price increases, the MacSharry subsidies and the rise in productivity will contribute to Poland's export potential. In January 1998 the Commission unilaterally decided to check EU import of Polish food products and to inspect its warehouses. In 1999 the EU unilaterally decided not to extend direct payments for farmers, to new Member States. The EU wants to reform the CAP before new Member States join. The rules of the game are changed when a new contestant enters.

2. Impact on the EU Regional Policy

By setting up Structural Funds (the European Regional Development Fund, the European Social Fund, the guidance Section of the European Agricultural Guidance and Guarantee Fund, the Financial Instrument for Fisheries Guidance) and the more recently established Cohesion Fund the EU tries to level income disparities between the different regions. Among the most important aims are: support for the development of the poorest regions (objective 1); conversion of declining industrial, rural and urban areas facing structural difficulties (objective 2); modernising systems of training and promoting employment (objective 3). A special solidarity Fund, the Cohesion Fund, was established in 1993 to help Greece, Portugal, Ireland and Spain if they join the EMU. It provides assistance to finance projects in the fields of environment and transport.

Stehn points out that the link between the budget entitlements and the regional development plans of Member States is vague, to say the least (Stehn, 1999, p. 10). Regional criteria hardly come into play when the money is distributed. The Funds aim at a *fair* distribution of income among Member States and a transfer of money from rich to poor Member States. Member States get their money from the Funds before they have defined their regional development plans. In table 24 a correlation is reported between the entitlements per capita of the population and the share in GDP. It is evident that Ireland, Spain, Greece and Portugal are the main beneficiaries of EU regional policy.

Will Poland qualify for aid from Stuctural Funds and Cohesion Fund? Like those of other CEECs its regional needs are enormous in every respect: infrastructure, industry, services, small businesses, agriculture and environment. According to the ILO, Poland has a serious regional problem: "East of the Vistula River … is something like 'Poland B': little empty towns [and] much more unemployment where factories and big state farms were closed" (Gruber, 2000, p. 21). A comparison between the regional GDP per capita of the EU and Poland highlights the different level of economic development (see table 25).

Table 24: *Structural Funds allocation by Member State (1994-1999)*

	Appropriation per capita (ECU)	*Share in GDP (in %)*
Luxembourg	37	0.15
Belgium	31	0.17
Denmark	25	0.14
Austria	40	0.23
France	37	0.21
Germany	42	0.25
Netherlands	23	0.14
Italy	60	0.37
United Kingdom	29	0.19
Sweden	32	0.21
Finland	67	0.47
Ireland	334	2.60
Spain	171	1.39
Portugal	298	2.73
Greece	279	2.79

Source: Stehn, 1998, p. 327

Table 25: *Range of regional GDP per capita in Poland and the EU*

Country	*Year*	*Region with minimum value*	*GDP as % of EU average*	*Region with maximum value*	*GDP as % of EU average*
Poland	1996	Suwalskie	23	Warsawskie	65
Poland	1996	Nowosadec-kie	23	Legickie	48

Source: European Commission, 1999, p. 10

A more detailed analysis by the European Commission leads to the following results (European Commission, 1999, p. 12; p. 18-20):

- 50 percent of the regions in Poland had GDP per capita figures below 30 % of the EU average;
- there was only one region out of 49 in Poland that equalled or exceeded 50 % of the EU average (Warsawskie);
- no region in Poland has a GDP per capita above 75 % of the EU average;
- just 2 out of 49 Polish regions make up 25 % of the national GDP (Katowickie and Warsawskie);

As a future Member State which is likely to benefit from the financial funds, Poland does not want the regional policy of the EU to be reformed. The Polish GDP per capita is lower than that of any of the current Member States (see table 26). The incomes per capita of the four largest beneficiaries of the Structural and the Cohesion Funds are three to four times higher than that of Poland. Moreover accession to the EU of ten new Member States means that the EU average GDP per capita will decrease (see table 27). Some of the Irish, Portuguese, Greek and Spanish regions now benefiting from the Funds will no longer qualify. Spain would even lose all contributions from the Cohesion Fund. If the total budget does not increase, payments in favour of the current Member States are bound to go down.

Table 26: *Gross domestic product per capita (1998; dollars)*

Country	*GDP per capita*
Poland	3,847
Belgium	24,788
Denmark	33,038
Finland	24,334
France	24,457
Germany	26,076
Greece	11,389
Ireland	21,278
Italy	20,381
Luxembourg	39,325
Netherlands	24,122
Portugal	10,922
Spain	13,961
Sweden	25,520
United Kingdom	23,657

Source: UNCTAD Handbook of Statistics, 2000

If the entitlements are distributed in accordance with the per capita GDP of the Member States, Poland would cash annually about 12.5 billion ECU (Stehn, 1998, p. 328). The EU has three options. It could increase budgetary expenditures so as to prevent Ireland, Spain, Portugal and Greece from receiving a reduced contribution from the Funds. But this runs counter to decisions made by the Berlin European Council (March 1999) on the financial previsions of the EU. The EU could redistribute the entitlements for regional and cohesion policy to the Funds. This means that Ireland and the three Mediterranean countries will see their entitlements go down to the benefit of Poland and the other newcomers (see table 27). They are likely to resist this option and they have the power to veto any decision on regional policy. The EU could try to reform the regional policy and to bring it more in line with the real purpose of the Funds: to compensate Member States that do not benefit from the CAP. But this option means that Poland is losing another advantage attached to EU membership. By comparing figures in tables 28 and 29, one can notice the different way in which the EU treats current Member States and applicant countries like Poland. The annual allocation Poland receives from the Pre-accession Funds (maximum 951.5 million euro) is a far cry from what it would get from the Structural Funds and the Cohesion Fund, if it were a EU Member State.

Table 27: *Gross Domestic Product per capita in Purchasing Power Standards for EU Member States and for Poland in 1996*

Country	*EU- average=100*	*EU-15 + 10 average=100*
Austria	112	130
Belgium	112	130
Denmark	119	138
Finland	97	112
France	104	120
Germany	108	128
Greece	68	78
Ireland	97	112
Italy	103	119
Luxembourg	169	195
Netherlands	107	123
Portugal	70	81
Spain	79	91
Sweden	101	117
United kingdom	100	115
Poland	35	40

Source: European Commission, 1999, p. 9

Table 28: *Structural Funds allocation by Member State 2000-2006 (million Euro, at 1999 prices)*

Member state	*Allocation*
Austria	1,469
Belgium	1,795
Denmark	548
Finland	1,805
France	14,395
Germany	28,049
Greece	20,961
Ireland	3,088
Italy	28,388
Luxembourg	78
Netherlands	2,604
Portugal	19,029
Spain	42,887
Sweden	1,848
United kingdom	15,514
EU	182,458

Source: European Union, *Working for the regions*, 2000, p. 11.

Table 29: *Pre-accession funds yearly allocations beginning in the year 2000 for negotiating candidate countries (million Euro, at 1999 prices)*

Applicant country	*PHARE*	*ISPRA (maximum)*	*SAPARD*
Poland	398	384.8	168.7

Source: European Union, *Working for the regions*, 2000, p. 17.

3. Impact on the EU Environmental Policy

The early European Community directives from the 1970s and 1980s on environmental policy merely co-ordinated existing national laws and regulations. They were concerned with testing and labelling of dangerous chemicals, drinking-water and surface-water protection, and controlling air pollutants and particulates from power plants and vehicles. In 1987 the EU environmental policy saw the light with the entry into force of the Single European Act. The EU set out three objectives: protection of the environment, human health, and prudent and rational use of natural resources (Article 130r). The Maastricht Treaty places the emphasis on sustainable development, a concept borrowed from *Agenda 21*. The Amsterdam Treaty goes even further: care for the environment should be essential in all areas of the EU decision-making process. On certain conditions Member States are allowed to impose stricter environmental norms than the ones agreed upon by the EU (European Commission, 1997; p. 7).

As a result of this the EU has a strong environmental record of about 14,000 regulations, directives and other legal instruments, which brings environmental standards and practices in the Member States up to a common level, often based on the level achieved by the most progressive Member State. Yet it depends on the goodwill of EU Member States to transpose directives into national law. Often Member States fail to do this. The poorer Member States lack the appropriate means to ensure compliance with the law. This explains why so many cases before the European Court of Justice are related to environmental law. At the same time the EU wants applicant Member States like Poland to adopt in full the environmental *acquis communautaire*, which encompasses about half of the total EU *acquis*. The EU fears that non-compliance by Polish export firms with European environmental law – so-called environmental dumping - might fragment the internal market and lead to (further) non-compliance by EU firms.

Under communism CEEC governments gave priority to economic growth and full employment and did not care for the environment. Until to-day there is no legislation on industrial waste. Intensive farming has damaged the quality of drinking water. Growing urbanisation and the increased use of cars have a detrimental impact on the quality of the air. The quality of the soil is poor, especially in the immediate vicinity of former military bases. Firms do not have to pay for the damage they caused to the environment. People are relatively insensitive to environmental issues. Governments lack environmental knowledge: when deciding on large infrastructure works they do not evaluate the environmental risks in their cost-benefit-analysis (Hermann and Kessler, 1999, p. 736-739).

In 1995, the EU launched an Environmental Action Programme for Central and Eastern Europe (EAP). In the Association Agreement Poland had to commit itself to combating pollution. Due to economic restructuring, the most polluting modes of energy production were abandoned especially in the coal-mining region bordering Germany. The Polish government devoted part of its budget to environmental aid. That part equalled more or less that of the average EU Member State (Deloire, 1999, p. 25). Rather conservative estimates by experts tell us that about 100 to 150 billion Euro will be necessary to clean up the environment in CEECs and to enable the ten applicant countries to comply with EU laws (Hermann and Kessler, 1999, p. 737; Deloire, 1999, p. 25). Among the CEEC, Poland is the one that will have to spend the most (see table 30).

Table 30: *Estimated costs for Poland to combat pollution (billion ECU)*

Country	Water	Air	Waste	Total investment
Poland	18.1	13.9	3.3	35.2

Source: Deloire, 1999, p. 29.

The financial aid given by the EU to all CEEC is 21 billion Euro, only part of which could be used to combat pollution. Table 31 gives specific information on Poland. From these figures it becomes clear that Poland will be unable to adopt the environmental *acquis communautaire*. As a second best solution, it will be necessary for the EU to concentrate on the core environmental laws that directly affect

competitiveness and trade (e.g. industrial pollution controls), while being less concerned about aspects that mostly affect the general population (e.g. EU drinking water standards). If Poland falls short of that kind of EU norms, the effects will almost entirely be felt within its own borders. As the first best solution though, the EU should be more generous and give more financial aid to Poland for cleaning the environment.

Table 31: *Funds provided by the EU for combating pollution and nuclear security (million ECU)*

	1990-1993	1994	1995	1996	1997	Total
Poland	75	12	22	5	0	114

Source: Deloire, 1999, p. 31

VIII. Reform of EU institutions

The EU is an international organisation of a particular kind. It is intergovernmental and supranational at the same time. Like in any other intergovernmental organisation, its decisions are the result of a compromise between sovereign Member States. This explains why the European integration process is characterised by periods of progress and diffidence. It also explains why it took relatively long for the EU to make up its mind on the eastward enlargement. France cared for its farmers and feared that the eastward enlargement would enhance Germany's power in the EU, while the Mediterranean countries had regional interests at stake. The United Kingdom and Denmark on the other hand favoured EU enlargement, for it would cut short further EU political aspirations. Germany under Chancellor Kohl also supported enlargement: it wanted to stabilise its eastern borders. As a supranational organisation the EU has independent institutions and it can enforce its decisions by law. Unlike any other international organisation it creates legal borders that separate EU Member States from the outside world. This has tremendous consequences for goods, services, capital, workers and for almost any other aspect of social and economic life. The EU groups together states that have the highest welfare of the world and that guarantee freedom to their citizens. Therefore it is spontaneously associated with democracy, richness and market economy. It cannot but attract neighbouring countries that have been less lucky.

Since 1952 the European Community has expanded four times (in 1973, 1981, 1986 and 1995). The EU keeps repeating that an expanding Union could not be run on the same lines as a Community of six and that EU enlargement renders imperative a fundamental reform of the EU institutions. But even in 1995 Austria, Sweden, Finland (and Norway) were being accepted under the 1952 institutional arrangements. Out of the 1996 Intergovernmental Conference came the Amsterdam Treaty that took effect on 1 May 1999. The mountain brought fort a mouse: the Amsterdam Treaty did not fundamentally reform EU institutions. The 2000 Intergovernmental Conference did a slightly better job: the Nice Treaty reformed the composition of the European Commission, changed the weighting of votes in the Council, simplified the role of the European Parliament in EU decision making and made possible enhanced co-operation among a limited number Member States. But it left one of the major issues

unsolved: the extension of majority decisions in the Council of Ministers. Unanimity remains the rule when the Council had to vote on a significant number of so-called sensitive issues. Moreover the Nice Treaty has not yet taken force. There seems to be no consensus in the EU on the agenda of the future (2004) Intergovernmental Conference. The question of the reform of the institutions is closely linked to the further political evolution of the EU.

Truth is Member States do not share a common vision on the finality of the European integration process. To illustrate this, we will compare the opinions of German, French and British policymakers as they were reflected in major addresses to international audiences. The view of the German government was well worded by Foreign Minister Joschka Fischer in a speech delivered on 12 May 2000. He came out in favour of a EU *centre of gravity* being made up of a limited number of Member States which are ready to sign a new European Framework Treaty. On the basis of that treaty, the European Federation had to develop its own institutions, establish a government "which could speak with one voice on as many issues possible", a strong parliament and a directly elected president (*EPC Communications*). In his speech at the International Press Centre, French Prime Minister Jospin rejected the German vision on Europe. France wanted to reinforce the position of the Member States in the EU and to create a Confederation of Nation-States (*Site du Premier Ministre*). In his speech at the German Bundestag (27 June 2000) French president Chirac, emphasising the unitary nature of French society, warned about European expectations that were set too high. He declared himself favourable to the idea of setting up a *pioneering group* of Member States committed to co-ordinating macro-economic policy, defence and security, home affairs and justice. But he opposed the ideas of concluding a new European treaty and of establishing supranational institutions (*EPC Communications*). President Chirac found a kindred spirit in the British Prime Minister, Tony Blair. In his speech delivered a few months earlier (23 February 2000), Blair favoured direct co-operation between governments over supranational decision-making by EU institutions. But he rejected the idea of a two-tier Europe. "European Citizens", he said, "identify first and foremost with their national governments and national parliaments". Rather than dealing with politics the EU should focus on the economic dimension of the European integration process: Europe has to become "the best place in the world to do business with in the high-tech knowledge economy; there has to be full employment and the European social policy has to be modernised" (*Ten Downing Street*).

We support the thesis that it will be impossible to reform the EU institutions if the large Member States do not agree on the fundamentals of the European integration process. Arguing that the EU institutions have to be reformed before CEECs can enter into the EU comes down to postponing EU enlargement indefinitely.

IX. Conclusion

This study argues that the balance of arguments is strongly in favour of the Polish membership of the EU.

1. In 1989 Poland was liberated from communism. EU membership was considered to be the completion of the process of its reintegration with Europe, for which Poland

has always been a constitute in historical and cultural terms. Polish public opinion favours EU membership - the number of proponents outweighs that of opponents - but support has diminished since 1997 (Neumayer, 1999, p. 42) (see table 32). In April 1999 a new right-wing political party was established rejecting Poland's application for membership: the Polish Accord Party. In May 1999 farmers, led by the ferocious Lepper, blockaded roads to protest EU membership and its effects on Polish farming. Like in other CEECs the economic reforms entail high social costs which tend to dampen support for EU membership. By 1998 Poland has regained the output level it had reached in 1989. It is now enjoying more rapid economic growth than the current EU as a whole. It is even fairly close to meeting the demanding Maastricht criteria on inflation, fiscal deficits and public debt. Poland has achieved a degree of market liberalisation in particular sectors that goes further than what some of the current Member States have achieved.

Table 32: *Polish public opinion towards EU membership (in percent)*

	Positive	*Negative*
1995	22	52
1996	40	33
1997	40	38
1998	49	30

Source: Neumayer, 1999, p. 40

The Polish leaders find themselves in a difficult position. They worry about Polish political opinion but at the same time they realise the EU does not want to make sufficient concessions that make it easier to sell membership to the electorate. In an interview the words of Polish president, Kwasniewski, reflect these views: "We do not want a privileged treatment but we think that the EU should behave in a moral way vis-à-vis Poland. Here a process started that led to the end of communism in Central and Eastern Europe, to the reunification of Germany and the collapse of the USSR … It is good that everybody has this idea on his mind …"(Zeslawski, 2001, p. 197). Polish prime minister, Buzek, echoes his words: "The eastward enlargement is the EU's historic mission. On January 1, 2003 Poland will be ready for accession …" (Sitalsing, 2001, p. 22).

2. The problem of EU membership of Poland has more to do with the EU than it has with Poland. It looks as if the EU wants Poland to conform with all its voluminous laws and norms before it can come in. Negotiations in the most difficult chapters still lie ahead. Whether they will be successfully completed depends on the willingness of the EU to be generous and to adapt to new challenges. Unfortunately the Polish application for membership could not have come at a worse time. National governments in the current Member States are bound to their countries electoral cycles. Short-term agendas easily deflect from considering the long-term interests of Europe as a whole. France does not want to abandon its farmers: more Member States means a smaller portion of the subsidy pie for domestic farmers. The Mediterranean countries benefit from EU Regional Policy: they reject the restructuring of the Structural and the Cohesion Funds. Germany, Austria and other Member States succumb to their voters' worries about East Europeans' having the right to move and work freely throughout the EU. Influenced by extreme right-wing propaganda, people in the west are worried about new immigration and the accompanying increase in the

national crime rate and the possible erosion of existing pay and benefit levels. Germany, the Netherlands, Sweden and Austria – as net contributors to the budget – do not want EU expenses to increase.

3. Our research suggests that an open trade, labour and investment policy should be pursued. CEECs do not significantly threaten EU employment. There may be short term frictions but it is the interest of the EU to transfer routine like activities to lower wage countries. EU and CEEC economies are more complementary than they are competitive. Western European companies will benefit from new market opportunities in CEECs. Much of the enlargement debate comes down to money, particularly in the tricky areas of agricultural, regional and environmental policies. We believe that the EU should not try to find ways to cut down CEEC entitlements. A lot is at stake: political stability in Eastern Europe, economic welfare and last but not least EU credibility. Unless the EU acts promptly, it risks squandering a historic opportunity.

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