Poland and the European Union

Richard J. Hunter, Jr.
Professor of Legal Studies, Stillman School of Business, Seton Hall University, South Orange, N.J.

Leo V. Ryan, C.S.V.
Dean and Professor Emeritus, Kellstadt School of Management, DePaul University, Chicago. Ill.

Abstract

This article deals with Poland’s membership in the European Union. It outlines both the positive and negative aspects of membership. Among the positive aspects of Polish membership include inclusion in decision-making options within Europe, financial assistance received, economic growth, export possibilities, wage growth, and the positive effect on Polish agriculture. Negative aspects include persistent unemployment, issues relating to the adoption of the Euro, and Poland’s health care system. The article concludes with a brief discussion of the possible consequences of a failed European Union on Poland and the other members the group.

1. Introduction

“We oppose initiatives aimed at giving Poland less funds from the EU budget on account of our robust economic growth. We do not want to be punished for being a success story!” [Foreign Minister Radek Sikorski to the Polish Parliament on March 29, 2012.]

The European Union or EU is made up of twenty-seven Member States with an additional six "candidate or acceding countries" in various stages of the accession process. Croatia is an acceding country; candidate countries include the Former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, and Turkey. Since Poland joined the European Union on May 1, 2004 (Hunter, Ryan & Shapiro, 2003, pp. 125-145), even the “Euro-skeptics” have to admit that Poland has benefitted from membership (Baczkowska, 2011).

2. Economic Advantages To Poland

Several advantages have undoubtedly accrued to Poland from its membership in the European Union. Poland has gained the ability to participate fully in the wide array of decisions at the EU level—a situation which signaled Poland’s return to Europe as a full and participating member. (Europe.eu, 2012). The EU’s standard decision-making procedure is known as ‘Ordinary Legislative Procedure.’ Under this rubric, the directly elected European Parliament has to approve EU legislation, together with the Council (the governments of the 27 EU countries). The Commission drafts and implements EU legislation. The European Union, as are other
democratic institutions, is based on the rule of law. This means that every action taken by the EU is founded on treaties that have been approved voluntarily and democratically by all EU member countries.

This change in perspective was best stated by Polish Foreign Minister Radoslaw Sikorski who noted: “We have reaffirmed our status as a heavyweight Member state. We changed Poland’s image from a country which only benefits from the EU to a country which—true—benefits, but also inspires others to act. Today when others think of Poland, they think of economic growth, a modern country, and effective governance—we have become a partner worth courting” (Sikorski, 2012).

3. Financial Considerations

On the financial front, membership in the European Union has resulted in the transfer of large amounts from “Brussels to Poland.” From May 2004 through February of 2012, Poland received a net total of 39 billion Euros from the EU. [At the writing of this paper, 1 Euro equals approximately $1.276 dollars.] Thus, transfer payments to Poland during this period have amounted to nearly $50 billion. Andrzej Ratajczyk, writing for the Warsaw Voice, estimates that Poland will be the beneficiary of over 80 billion Euros (slightly over $102) from these various funding sources. (Ratajczyk, May 2012, p. 11). What is clear is that Poland is clearly the largest beneficiary of EU funding in net terms!

Poland has also gained access to both EU structural and cohesion funds. Structural Funds and the Cohesion Fund are financial tools set up to implement the Cohesion policy also referred to as the Regional policy of the European Union (European Union Funding Programs, 2012). These funds were designed to reduce regional disparities in terms of income, wealth, and opportunities for individual nations’ citizens. Although the funds were created to benefit “Europe's poorer regions,” all European regions are eligible for funding under the policy's various funds and programs. In fact, Poland is expected to receive 80 billion Euros of the total of 376 billion Euros assigned to the cohesion policy. This may be especially relevant in light of the sovereign debt crisis that has befallen the EU’s so-called “PIIGS”—Portugal, Ireland, Italy, Greece and Spain which may restrict direct EU funding in the future (BBC News, 2010).

The Structural Funds are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). As noted by Jerzy Kwiecinski, an expert on regional development with the Polish Business Centre Club, “Poland is most interested in the cohesion policy, as structural funds have clearly helped Poland change and develop.” (Ratajczyk, 2011). Together with the Common Agricultural Policy (CAP)—actually created in 1962—the Structural Funds and the Cohesion Fund make up the great bulk of EU funding, and the majority of total EU spending. In addition to the Structural and Cohesion Funds, there are other funds that have the potential to contribute to the regional development. These include funds under the CAP, namely the European agricultural guarantee fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD); and funding through the European fisheries fund (EFF) established for

The Polish economy has grown faster than any other economy within the European Union over the past seven years. Poland’s economy recorded a growth rate of over 30 percent while the EU-27 economy grew at a mere 6 percent over this same period, reflecting a severe economic downturn on the European continent. For 2012, Poland’s GDP was expected to rise by at least 2.7 percent—still the fastest growth recorded in the European Union. In the period between accession and 2012, Poland has continued to be an attractive location for attracting foreign direct investment [FDI] (Hunter and Ryan, 2011), the combined value of which now exceeds 160 billion Euros—approximately $191 billion. (Zimny, 2011; National Bank of Poland, 2011, p. 41). Dr. Nouriel Roubini, advisor to the International Monetary Fund, commented: “The causality between enhanced trade and FDI has long been recognized. Emerging economies trade has increased substantially and so have their economic achievements” (AimCongress, 2012).

Table 1: A listing of major investors by percentage of investments in the Polish economy includes:

<table>
<thead>
<tr>
<th>Country</th>
<th>Value in EUR mn</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2,137</td>
<td>21.73%</td>
</tr>
<tr>
<td>France</td>
<td>1,375</td>
<td>13.98%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1,250</td>
<td>12.71%</td>
</tr>
<tr>
<td>Sweden</td>
<td>940</td>
<td>9.56%</td>
</tr>
<tr>
<td>USA</td>
<td>895</td>
<td>9.10%</td>
</tr>
<tr>
<td>Austria</td>
<td>586</td>
<td>5.96%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>478</td>
<td>4.86%</td>
</tr>
<tr>
<td>Italy</td>
<td>459</td>
<td>4.67%</td>
</tr>
<tr>
<td>Spain</td>
<td>393</td>
<td>4.00%</td>
</tr>
<tr>
<td>Other</td>
<td>429</td>
<td>13.73%</td>
</tr>
</tbody>
</table>

4. Exports, Trade and Investment

Polish exports have nearly tripped from 47.5 billion Euros in 2003 [approximately $60.61] to 136 billion Euros in 2011 [approximately $173.53 billion]. The EU is now Poland’s main trading partner—accounting for 78.6 percent of Poland’s exports and 58.8 percent of Poland’s imports. The following are the major components of Polish exports: machinery and equipment; textiles and footwear; metals and metal products; minerals and fuels; chemicals; and agricultural products. The major Polish imports are machinery; fuels and minerals; textiles; metals; and agricultural products. [Imports and exports seem to track in terms of categories; yet the level of use and sophistication differ greatly.] In terms of Poland’s individual trading partners,
Germany stands at 27 percent; Italy 6.6 percent; France 6.2 percent, the United Kingdom at 5.7 percent; and the Czech Republic 4.3 percent. Poles and Germans continue to get along in a symbiotic economic relationship. Germany clearly benefits from low production costs and Poland has gained from German demand and investment.

Wages for Polish workers grew by a third since 2004 but are still only one-third of the EU average (Kaitz, 1970; Dolado et al., 1996). The first group, where the index varies between 29% and 38%, includes the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Spain. The second group, with Kaitz indices of between 40% and 44%, includes Bulgaria, Cyprus, Malta, Slovakia, Slovenia, and the UK. The third group, with Kaitz indices in excess of 45%, includes Greece and Ireland. In addition, today, Belgium and France may be added to this group.

In 2011, the average gross wage in Poland was equivalent to 800 Euros per month [$1020.80] which was 33 percent higher than wages recorded in 2005 (Eurostat, 2012; GUS, 2012). The average gross wages in the EU was 2,177 Euros per month [approximately $2,758 a month], which grew by 11.5 percent since 2004.

As important, Polish agriculture—perhaps the most skeptical of all economic sectors regarding EU membership—has undergone a rapid modernization, mainly due to the infusion of EU funds, the introduction of technology, and organizational changes introduced by Marek Sawicki, Minister of Agriculture and Rural Development. [There are approximately 2 million farms in Poland which account for 27.5 percent of the labor force in Poland.] Major farms products available for export include grains, sugar, pork, processed meats, and dairy products.

The balance of trade in Polish foodstuffs has created a surplus of 3 billion Euros [$3.28 billion]. As Minister Sawicki noted: “Today, Poland’s dairy and meat processing sectors are among the most advanced not only in Europe but also in the world” (Sawicki, 2012).

Although not strictly connected Poland accession to the EU, the emergence of Poland’s stock exchange [WSE], which was reconstituted on April 16, 1991 with five companies listed, seven brokerage houses participating in trading, and a total turnover of around $2,200, has contributed to the favorability of Poland’s desirability as a host for FDI. Today, the WSE ranks first in the world in terms of the growth in the number of companies listed and seventh in terms of growth in equity turnover. According to the latest IPO Watch Europe report (2012), Poland ranks first in Europe in terms of IPO numbers. It is also important to note that the WSE has been a listed company on the Warsaw Floor since November 9, 2010 having itself been privatized.

5. Some Negatives

Issues surrounding Polish adoption of the Euro have persisted in recent years. The single currency was formally adopted January 1, 1999. The Eurozone currently consists of Austria,
Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. The criteria for adopting the Euro were originally termed the “convergence criteria.” They included:

- Inflation rates: No more than 1.5 percentage points higher than the average of the three best performing member states of the EU.
- Government finance: The ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year. If not it is at least required to reach a level close to 3%. Only exceptional and temporary excesses would be granted for exceptional cases.
- Government debt: The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year. Even if the target cannot be achieved due to the specific conditions, the ratio must have sufficiently diminished and must be approaching the reference value at a satisfactory pace.
- Exchange rate: Applicant countries should have joined the exchange-rate mechanism (ERM II) under the European Monetary System (EMS) for two consecutive years and should not have devalued its currency during the period.

6. The Euro: To Adopt or Not to Adopt?

Poland has continued to delay the adoption of the Euro—which many now ironically see as a decidedly positive occurrence. As noted by Joanna Slater and Joellen Perry, “Even as some countries are eager to crowd under the Euro’s umbrella, the financial crisis and deepening recession have unleashed the biggest challenge of European currency’s lifetime” (Slater & Perry, 2008). It is certainly true that when Poland joined the European Union in 2004, it committed itself to adopt the Euro as its national currency—but at some “appropriate time” in the future (Hunter & Ryan, 2005).

With the fear that a continued depreciation of the Polish zloty against the Euro might result in “higher loan repayments” than investors had foreseen, many Poles initially found it increasingly difficult to repay Euro-denominated loans with rapidly depreciating Polish currency. A move to adopt the Euro was seen as a remedy for this potential difficulty.

Andrzej Ratajczyk makes the conventional pro-Euro argument in many ways and asserts that this failure to adopt the Euro “slows the inflow of foreign direct investment, makes business planning more difficult for the investors, and makes the Polish market less transparent and predictable.” Because Poland is not a member of the single currency or Eurozone (Ratajczyk, 2012, p. 11), businesses which are operating within Poland are exposed to what are termed “currency fluctuation risks.” Because of the wage rate discrepancy between Poland and other EU members, the migration of many young Poles—variously estimated at up to 2 million—to Western European countries after Poland’s entry into the EU may be seen as a further disadvantage since the loss of these individuals’ wages has placed a strain on Poland’s pension system that is in itself in need of reform.
In November of 2008, Poland’s government, under the leadership of Prime Minister Donald Tusk, announced a plan, or what it described as a “roadmap,” to adopt the Euro by 2012, although the Prime Minister stated that should adverse circumstances arise, the plan was open to “discussion” (Polish News Bulletin, 2008). This move, although not altogether unanticipated, was nonetheless controversial since it would require an amendment to Poland’s Constitution and would also require the unusual cooperation of Poland’s two major political parties—now bitter rivals on the Polish political scene. The initial deadline came and went! No decision will now be made—possibly until 2014—at the earliest!

7. Other Issues

What do current economic statistics indicate in relation to Poland’s status as a member of the European Union? According to Jan Cienski, writing for the Financial Times, the finance ministry projects that the budget deficit will fall below three percent of GDP in 2012, and that the public debt, using Eurostat definitions, will fall from 56.3 percent in 2011 to 53.7 percent in 2012 and 52.5 percent in 2013. However, these projections are based on an average exchange rate of 4.17 zlotys to the Euro. Yet, the zloty has fallen by 2 percent against the dollar and by 1.4 percent against both the Euro and the Swiss franc (Cienski, 2012). These are positive signs for the future of Poland as a full participating member of the EU.

On the other hand, membership in the EU has done little to improve Poland’s health care system, described as “one of the worst in Europe” (Polskie Radio, 2012). In fact, according to the Euro Health Consumer Index (EHI), Poland’s health care ranks 27th out of 34 in medical services provided to its citizens and are continuing to deteriorate. The Netherlands has the best health care system in Europe, ranking ahead of Denmark, Iceland, Luxembourg, and Belgium. Only Hungary, Macedonia, Latvia, Romania, Bulgaria and Serbia rank below Poland. The EHI ranks 34 European health care systems on the basis of 42 separate indicators, such as patients’ rights, accessibility of treatment, range and reach of services, and quality of pharmaceuticals and drugs available to the population.

The Report finds that Polish citizens have one of the worst accesses to up-to-date drugs; have one of the highest mortality rates from cancer; and the longest waiting time for an appointment with a doctor or treatment at a hospital.

Finally, Poland’s unemployment rate hovers around 13 percent—a five year high—again showing that benefits of the economic transformation have not flown evenly throughout the Polish population (The Economist, 2012).

8. Mirroring Minister Sikorski: Some Tentative Observations

Foreign Minister Radek Sikorski summed up the political and economic consequence (“worst case scenario”) of the failure of the European Union. Among the “casualties” might be:
• The dismantling of the Schengen security system; (Hunter, 2004)
• More and more countries will close-off their national borders to repel “economic migrants” from other EU Member States;
• The disappearance of the EU “single labor market”;
• The Common Agricultural Policy and Cohesion Policy funding disappears;
• The re-imposition of customs barriers; and
• The return of economic protectionism (Warsaw Voice, 2012).

Can Poland chance a return to the uncertainties of a Europe that might suffer the consequences of its own disintegration? That is the policy question that Poland and other nations might have to face in the not-too-distant future if the euro fails or if some member nations decide on a “go-it-alone” policy.

References


