

*Zofia Wysokińska\**

## **COMPETITIVENESS OF THE POLISH ECONOMY AND THE LABOUR MARKET WITHIN THE EU ENLARGEMENT**

The aim of this paper is to assess the activities of international business from the point of view of its effects on the labour markets of those accession countries which are undergoing systemic transformation. This analysis covers the sphere of foreign trade in the Central and Eastern European Countries (CEECs) in light of their accession to the European Union.

According to the theory of international regional integration and the study of processes going on the European single internal market, there are various economic results of the creation and moving of trade which influence the following processes:

Moving of production resources (in the integrating states) to the areas where they can be more efficiently used, because they are more competitive owing to the lower manpower costs (influencing the so-called comparative advantage in exports) and higher quality competitiveness (non-cost competitiveness). This effect means that the producers whose production costs are too high to bear the competition pressures in the big integrated market go bankrupt, which influences increasing unemployment as long as the production resources (labour resources included) are not moved to better efficiency areas. The effect is linked to the process of restructuring economy in order to eliminate ineffective enterprises or even the whole branches of production unable to meet the competition criteria in the big integrated area within the free trade area or/and the customs union. In real terms, the effect is visible in the increasing penetration of import, i.e. the growing share in the home market of competitive goods imported from the EU member states.

The process of a member state's competitive export gaining better access to the big integrated market of other members helps producers to achieve the aim of increasing the scale of production and lowering unit costs; it also guarantees their access to foreign technologies and management methods. The rise in the scale of production and new possibilities of export to the member states' markets

---

\* Prof., Department of Economics, University of Łódź.

make it possible for producers to employ more people and to absorb the part of production resources liberated as a result of the augmented penetration of import. Enterprises get bigger; in effect they gain a better position for negotiation, an easier and more advantageous access to capital, they can economise on manpower since e.g. mobilising means for innovation and attracting highly qualified labour gets easier. Sales on the big integrated market may entail the reduction of costs because of fuller and more effective use of manufacturing powers and due to employing people with higher qualifications in technologies of production and management.

Thus, the impact of the commerce creation effect on employment in a given country-member of the free trade area is the resultant of both above-mentioned processes. That impact depends on the country's economic force and its competitiveness on international markets.

Theory shows that integrating markets in factors of production have a positive effect on restructuring processes in the integrated area, provided that the movement of goods within the customs union gets liberalised before the movement of factors of production does (Molle 1990, p. 132; Wysokińska, Witkowska, pp. 39–162). The dynamic effects of the integration of the market in factors of production ensue from the increasing competition between financial organisations, due to the increasing benefits from the rise in the scale of production of the services they offer. The increasing competition on the capital market influences the protected (against activating integration processes) banking and financial institutions forced to improve quality of their services. On the other hand though, the increasing competition on the capital and labour markets may turn out positive for loanees, who had not been able to use cheaper foreign capitals, and for producers of goods and services, for whom the ability to use cheaper and more accessible loans and cheaper manpower may mean boosting competitiveness of their goods both on the integrated and third-countries markets. This process may in turn trigger further impulses that would stimulate the economic growth of the integrated area and influence third countries.

The following conclusions drawn from the experience of the EU member states during the formation of the single European market may turn out vital for the labour market:

1. The structural transformation of production and foreign trade was accompanied by the tendency to reduce employment in industrial sectors of economic activities and augment it in the sector of services provided for industrial activities, mainly computer and information services, telecommunication, medical, financial (banking and insurance) and business services.

2. The single European market has contributed to the internal commerce creation by removing barriers within the EU. The internal import from the EU

has replaced in some sectors local production of the member states. Analogously, the single market makes commerce change direction if the continued existence of the external EU barriers leads to replacing the import from third countries with the import from the EU. On the other hand, the creation and moving of external trade can be observed when removing the EU trade barriers is accompanied by introducing lower external trade barriers in those member states whose external tariff and non-tariff barriers were higher before the single market was implemented. It means that in those countries their home production and internal EU import are adequately replaced with the import from outside the Union. There is still another probability: *the effect of quelling of trade* may take place when the single market allows that a certain number of companies use economies of scale and develop production of the EU internal and external import. Although the above-analysed effects refer to the direct impact of import prices on commercial transfers, this analysis can in theory be applied also to trade models changing in the result of competition, scale effects and dynamic effects of the single European market. Theoretical results of the international trade model *in the conditions of imperfect competition* suggest that the trade model may undergo further changes if the enlargement of the market stimulates competition between companies, enables to use a big scale of production and/or changes the degree of sales range in each industrial sector. The removal of non-tariff barriers may augment the internal EU commerce to the extent comparable with the extent to which the liberalisation 'cuts' the price-cost margin within the EU and results in a bigger scale of production but a fewer number of companies, which considerably affects the EU labour market.

3. In the 1990s Spain, Portugal, Ireland and Greece in particular underwent structural changes which influenced the shape of the labour market. The analysis of the data provided by the Eurostat demonstrates that the share of labour-absorbing goods in their total exports went down dramatically. Those changes may have influenced the migration of human production resources on the Spanish and Portuguese labour markets as well as the drop in employment in traditional labour-absorbing sectors and their moving to other areas of use.

4. Those processes were also influenced by the emergence of competing import from Central and Eastern Europe. They spurred restructuring processes in those economy sectors and decreased employment in them. When highly labour-absorbing industries, such as textile and clothing industry or shoe and leather industry, were being restructured in the 1990s, they systematically reduced employment, eventually by 750 078 people (i.e. by 26%, from 2 904 663 to 2 154 585 employees). This tendency was particularly evident in the less developed member states such as Ireland, Greece, Spain and Portugal. In Greece there was an almost 50% drop in employment in labour-absorbing sectors at the end of the 1990s, while in Spain it was over 60% compared to the end of the

1980s. Ireland and Portugal suffered a less dramatic reduction of employment, about 20% each in the same period<sup>1</sup>.

The so-called labour-absorbing goods increased the most their share in Polish export to the European Union (from about 30% to 43%). This resulted from Poland's comparative advantage linked to the cost of manpower lower than in the EU. The goods whose growth was especially dynamic were textile ones (almost 150% in 1993–1998), out of which over 80% was exported to the EU for the so-called enrichment processing, and wooden goods (mainly furniture). Those goods sections witnessed an important improvement of Polish exporters' competitiveness, especially on the German market, receiving almost 40% of Polish industrial export to the EU. In 1998 the comparative advantage in the Polish export of labour-absorbing goods to the EU went down, and was continuously going down in subsequent years especially in the exports of goods for enrichment processing (Wysokińska 2002). This in turn caused a significant drop in the export of goods using extensively labour factor, which also worsened the situation on the labour market. In 1992–1996 the share of import from the EU using less qualified labour went up by almost 13 per cent points, even though in 1996–1998 it went down again by approximately 6 per cent points.

The demonstrated structure of Polish foreign trade with the European Union and the dynamics of goods exchange in that direction have a substantial impact on the functioning of the Polish labour market, since in the nearest future Poland will continue to be an important exporter of labour-absorbing goods on the European market. It will engage a large number of less qualified labour and influence considerably the development of the Polish labour market. This concerns mainly export for enrichment processing and by companies with foreign capital. The tendency of wages to rise slowly in the sector of labour-absorbing goods, noticed in the second half of the 1990s<sup>2</sup>, and the significant rise in costs due to taxing wages create a threat of reallocating transaction orders in enrichment processing e.g. to the CIS to a bigger extent than before. Only branded goods, whose promotion engaged big investment, such as e.g. Wistula or Wólczanka, are more liable to be exported.

A significant penetration of import in Poland will contribute to the reduction of employment and the elimination of especially those companies and branches which have lower competitiveness indicators, i.e. those which do not have or are

<sup>1</sup> Eurostat Yearbook 1998/1999, p. 390.

<sup>2</sup> In 1992–1996 the dynamics of real wages in selected branches of labour-absorbing was as follows: textile production – 116.6%, clothing and fur production – 101.6%, knitted fabric and knitwear – 116.8%, leather and leather goods – 117.2%, cellulose and paper – 142.9%; while the dynamics of the rise in wages in the whole industry was 126.5%, and in high technology branches: machinery and computers – 139.7%, precision goods – 135.3%, vehicles – 139.9%. (My own calculation, based on the data from *Rocznik Statystyczny GUS* [The Annual of Statistics] 1997, Warszawa 1977 p. 153).

about to lose their cost competitiveness (comparative advantage). There exists a threat of a very high import dynamics prevailing over the export dynamics, and of a highly unstable balance of trade especially with the EU.

The impact of the rise in exports, which doubled during the period of system transformation (exports to the EU), manifested itself in the significant share of labour-absorbing goods at the cost of raw-materials-absorbing goods, which helped to stabilise the labour market. This was however a less important impact than in the case of import (Kwiatkowski et al. 1999).

The data in Table 1 show that in 1995–2001 Poland had the biggest trade deficit in the commercial exchange with the EU, compared to other candidate countries (see Table 1). In 1995 the deficit in Poland's current turnover amounted to –6035.8 million USD, while in 1999 its level went up to –20185.3 million USD. In subsequent years it began to decrease though; in 2000 it amounted to –18977.2 million USD, in 2001 to –15177.2 million USD. The analysis presented in Table 2 shows that the approximate share of the EU in Poland's current turnover balance can be estimated as about 57% in 1999, about 46% in 2000 and about 41% in 2001. The estimation presented in Table 1 demonstrates that the passive balance of trade in Polish goods and services with the EU corresponds to the reduction of employment by approximately 1460.7 thousand jobs in 1999, approximately 1047.7 thousand in 2000 and approximately 676.3 thousand in 2002 (see Table 2). The analysis of that table's data based on Poland's balance of international payments (the NBP [National Bank of Poland] data) makes it possible to make those estimations lower: 713.2 thousand jobs in 1999, 601.4 thousand in 2000 and 304.2 thousand in 2001 respectively (see: Part 2 of Table 2 – calculations based on the balance of international payments).

A new restructuring stimulus, although much weaker than the formation of the area of free trade in industrial goods while associating with the Union, may result in Poland's accepting the external EU customs rate. After the WTO liberalisation in industrial goods that rate will be lower than the Polish one by about 3–6 per cent point on the average (Wysokińska, Witkowska 1999). It may bring about the bankruptcy of ineffective enterprises in the branches of industry based on the import from third countries, mainly Eastern European and Asian markets. The impact of that effect on the labour market depends on the capacity of the enterprises cooperating with those markets to adapt to new ways of domestic market protection (better usage of protective clauses, import of cheaper components from third countries).

The growing export expansion of the companies adapted to the EU technical, veterinary and phytosanitary norms and standards may stabilise the labour market, provided that those companies increase their marketing activity in the European and non-European markets, and in particular create branches of their parent companies in Poland.



Table 1. The EU balance of trade with the candidate countries (millions USD)

Total trade	1995	1996	1997	1998	1999	2000	2001
EU external balance with following countries:	36655.6	57493.0	55069.8	25661.2	-20923.9	-84410.2	-3950
Estonia	603.4	769.2	1001.8	1151.7	555.9	30.6	2
Latvia	-240.4	-34.2	287.9	534.6	273.1	115.8	47
Lithuania	65.5	433.2	953.8	1096.5	509.4	381.5	69
Poland	4000.3	9804.9	12307.0	13487.0	12140.8	9700.6	802
The Czech Republic	3479.3	5386.0	4710.9	2852.4	1693.9	2184.2	217
Slovakia	137.5	742.5	948.1	488.7	-473.5	-317.3	-20
Hungary	1465.5	1499.2	2168.4	2475.5	870.9	917.0	-54
Romania	529.4	1120.7	665.7	1320.4	594.0	1009.2	100
Bulgaria	284.4	-21.8	-276.8	221.6	478.4	142.4	44
Slovenia	1221.5	1417.5	1894.0	1733.8	1727.8	1717.7	168
Cyprus	1671.7	1738.4	1798.7	1901.4	1879.2	1957.0	178

Source: My own calculation based on the Eurostat data.

In the nearest pre-accession period, the liberalisation of the agricultural and food commodities market may significantly influence the labour market. The preceding reduction of customs rates by about 10 per cent points when the Agreement of Association came into force had barely influenced the availability of the EU products in Poland. That liberalisation may have a positive effect, provided that the European Union wider opens its market for exports of agricultural and food commodities from Poland, that the scale of processing and production of organic agricultural and food commodities increases, and that their marketing performance on foreign markets improves.

The fact that Poland accepts the common EU customs rate, lower than the customs rate (on the Polish external border) associated with Poland's liabilities to the WTO, means that the access to the Polish market will improve for all Poland's trade partners but those who already enjoy free trade. The access to the Polish market will improve especially for such countries as Malta and Cyprus, as well as the Maghreb, mainly Tunisia and Morocco. This will create a bigger competition pressure for Polish producers who will be forced to lower their costs and prices of produced and exported goods. This in turn will stimulate restructuring and pro-efficiency processes. The producers unable to adapt to the new criteria may be threatened with bankruptcy, which will worsen even more the already difficult situation on the Polish labour market. The scope of those disadvantageous changes will be rather small though, significantly smaller than the scope of restructuring in the association period of the 1990s.

Table 2. Calculation of unemployment due to the passive balance of trade in goods and services in Poland

Specification	Value	1995	1996	1997	1998	1999	2000	2001
Calculation based on foreign trade balance								
Gross value added of the whole economy	millions PLN	268289.1	336853.5	412870.4	485177	535829	622840.3	656047.7
Import of goods	millions PLN	70502.3	100231.3	138897.8	162963	182400	213071.8	206252.8
Export of goods	millions PLN	55515.1	65819.4	84479.6	98647.9	108757.9	137908.7	148114.5
Import of services	millions PLN	7384.7	9696.6	11217.1	14624.6	19575.6	22601.3	20322.1
Export of services	millions PLN	7738.7	9122.2	12217.7	12849.8	13132.4	15281.9	16326.5
Foreign trade balance (Fig. 3+5-2-4)	millions PLN	-14633.2	-34986.3	-53417.6	-66089.9	-80085.3	-82482.5	-62133.9
Foreign trade balance (Fig. 3+5-2-4)	millions USD	-6035.8	-12974.7	-16281.9	-18916.9	-20185.3	-18977.2	-15177.2
Approximate share of the EU in the foreign trade balance	%	44.8	59.49	63.41	61.58	56.76	45.74	41.45
Ratio of foreign trade balance to value added (Fig. 7:1)	%	5.45	10.39	12.94	13.62	14.95	13.24	9.47
Active population	thousands	17004	17064	17052	17162	17214	17300	17229
Approximate unemployment due to the passive foreign trade balance	thousands	926.7	1772.9	2206.5	2337.5	2573.5	2290.5	1631.6
Approximate unemployment due to the passive balance of trade with the EU	thousands	415.2	1054.7	1399.2	1439.4	1460.7	1047.7	676.3
Registered unemployment	thousands	2628.8	2359.5	1826.4	1831.4	2349.8	2702.6	3115.1
Unemployment rate	%	13.1	11.5	10.2	10.4	13.1	16	18.5
Ratio of the unemployment due to the passive foreign trade balance to the registered unemployment	%	35.3	75.1	120.8	127.7	109.5	84.8	52.4

Specification	Value	1995	1996	1997	1998	1999	2000	2001
Calculation based on the balance of international payments								
Gross value added of the whole economy	millions PLN	268289.1	336853.5	412870.4	485177	535829	622840.3	656047.7
Import of goods and services	millions PLN	70935	1000223.6	140782.2	184878.8	199903.6	248867	238562
Export of goods and services	millions PLN	78171.7	94191.6	120408.1	155873.8	160768.8	201548	210585
Foreign trade balance (Fig. 3-2)	millions PLN	7236.7	-6032	-20374.1	-29005	-39134.8	-47319	-27977
Foreign trade balance (Fig. 3-2)	millions USD	2984.9	-2237	-6210.1	-8302.1	-9863.8	-10886.9	-6833.8
Approximate share of the EU in the foreign trade balance	%	44.8	59.49	63.41	61.58	56.76	45.74	41.45
Ratio of the foreign trade balance to the value added (Fig. 4:1)	%	2.7	-1.79	-4.93	-5.98	-7.3	-7.6	-4.26
Active population	thousands	17004	17064	17052	17162	16214	17300	17229
Approximate unemployment due to the passive foreign trade balance	thousands	-459.1	305.4	840.7	1026.3	1256.6	1314.8	734
Approximate unemployment due to the passive balance of trade with the EU	thousands	-205.7	181.7	533.1	632	713.2	601.4	304
Registered unemployment	thousands	2628.8	2359.5	1826.4	1831.4	2349.8	2702.6	3115.1
Unemployment rate	%	13.1	11.5	10.2	10.4	13.1	16	18.5
Ratio of the unemployment due to the passive foreign trade balance to the registered unemployment		-17.5	12.9	46	56	53.5	48.6	23.6

Tab. 2 cont.

Specification	Value	1995	1996	1997	1998	1999	2000	2001
Approximate unemployment due to the passive foreign trade balance (the calculated average of two different methods of calculating foreign transactions by the GUS [Polish Central Statistical Office])	thousands	233.8	1039.15	1523.6	1681.9	1915.05	1802.65	1182.8
Approximate unemployment due to the passive balance of trade with the EU (the calculated average of two different methods of calculating foreign transactions by the GUS)	thousands	104.75	618.2	966.15	1035.7	1086.95	824.55	490.25
Ratio of the unemployment due to the passive foreign trade balance to the registered unemployment	%	-	26.2	52.9	56.6	46.1	30.5	15.7

Source: My own calculation based on the official GUS and NBP data.



## Conclusions

1. Many of the countries undergoing economic transformation from centrally-planned to free-market economies experienced high trade deficits in the initial period of ownership transformation, in part owing to the predominance of import in the economic activities associated with foreign investment, which in turn exercised a negative effect on their labour markets.

2. Subsequently the trade deficit was incrementally reduced as the share of firms with foreign capital in overall export began to increase and the overall national economies increased their capacities to bring in and handle foreign investment. This increase in exports and reduced trade balance had the effect of creating new jobs.

The above-described trends were evident in the Polish economy as well throughout the period of economic transformation and EU integration. In the 1990's one could observe an increase in the trade deficit with the EU, which brought with it the loss of approximately 1,500,000 jobs in Poland.

3. Beginning with the turn of the new century this situation began to improve as a result of the growth in exports, particularly by firms with foreign capital, and the situation in the Polish labour market improved accordingly.

## References

"Eurostat Yearbook" 1998–1999.

Kwiatkowski E., Wysokińska Z., Witkowska J., Tokarski T., Kaczorowski P. (1999), *Poland's Integration with the European Union and the Labour Market Impacts*, "Comparative Economic Research Central and Eastern Europe", vol. 2, no 1.

Mole W. (1990), *The Economics of European Integration Theory, Practice, Policy*, Hongkong–Singapore–Sydney.

Wysokińska Z. (2002), *Effects of Liberalisation on Trade in Textile and Apparel*, [in:] K. Fatomi, D. Jourdan (eds), *Contemporary Developments in International Business*, Paris.

Wysokińska Z., Witkowska J. (1999), *Integracja europejska, rozwój rynków*, Warszawa–Łódź.

*Zofia Wysokińska***KONKURENCYJNOŚĆ POLSKIEJ GOSPODARKI I RYNKU PRACY  
W ASPEKCIE ROZSZERZENIA UNII EUROPEJSKIEJ**

Celem autorki jest określenie związków między handlem zagranicznym a rynkiem pracy w krajach transformujących swoje gospodarki od centralnie planowanej do rynkowej na przykładzie Polski w okresie jej stowarzyszenia ze Wspólnotami Europejskimi i w perspektywie członkostwa w UE. Wiele z krajów Europy Środkowej i Wschodniej notowało deficyt w obrotach bieżących w okresie transformacji. W Polsce deficyt ten był szczególnie wysoki w końcu lat 90., co przełożyło się na utratę ok. 1,5 mln miejsc pracy zwłaszcza w sektorach tracących posiadaną wcześniej przewagę komparatywną w handlu z UE, a zwłaszcza w przemysłach tzw. surowcochłonnych i pracochłonnych głównie w górnictwie, hutnictwie, przemyśle tekstylno-odzieżowym, należących do sektorów najbardziej „wrażliwych” w handlu z UE. Sytuacja wpływu negatywnego bilansu handlowego z UE na rynek pracy w Polsce zaczęła ulegać poprawie począwszy od roku 2001 i choć bezrobocie miało tendencję nadal rosnącą w Polsce, to trudno jego wzrostowi przypisywać nadal tak silny jak poprzednio wpływ bilansu handlowego.

•