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A Retrospective on Poland's Foreign Trade: Changes in the Regime Accomplished in the Light of Poland's History of Central Planning and its Membership in COMECON, The Early Years

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Abstract

This paper considers the nature of Polish foreign trade, both before and after the economic transformation in 1989. The paper discusses the context of trade within the COMECON and state central planning systems, which confined trade to specially designated foreign trade organizations (FTOs) and placed it under the direction of the bureaucracy or nomenklatura. The paper discusses the impetus for reform that occurred after 1989 in the Balcerowicz Plan, its major macro strategies, the derivative traits of the command-and-control economy, and the concrete actions undertaken in the economy as a whole and specifically in the conduct of foreign trade. The paper considers these issues within two important "change" contexts: Poland's impending membership in the European Union and the virtual collapse of the Soviet Union's market and its currency which brought about significant currency exchange difficulties. The paper concludes with a discussion of the positive changes that have occurred in Polish trade in both imports and exports in the context of developed, EU, and developing nations.

JEL classification numbers: F1
Keywords: COMECON; state central planning; nomenklatura; economic reform; transferable rubles; European Union; currency issues.

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1 Introduction

In the summer and spring of 1989 and extending into early in 1990, a fundamental change in the political situation in Poland was brought about by accession to power of Tadeusz Mazowiecki as Prime Minister and the successful introduction of the Balcerowicz Plan. These changes resulted in a major reappraisal of Poland's export and import policies. (Curtis, 1992). As the Soviet Union and its hegemony in Central and Eastern Europe came to an abrupt end, and along with it, a much less reliable source of income in the form of transferable rubles (De Jonge, 2013), hard or convertible currencies became the predominant medium of exchange among its former members and allied countries. Confronted by this situation, Poland began to "look West" and increased its volume of trade with much more "demanding" Western partners who would insist on quality products offered at competitive pricing, but who would both pay and demand payments in hard currencies.

1.1 Central Planning, Poland and Trade

Centrally planned economies typically eschewed trade with free-trade Western markets because their bureaucratic systems were simply unable to adjust in a timely fashion to changing circumstances inherent in market economies. (Grzybowski, 1971; Curtis, 1992). Thus, a high degree of self-sufficiency or inward looking (sometimes referred to as autarchy), often played-out in a series of complicated barter (countertrade) transactions, was a declared economic objective of the Soviet-inspired COMECON system. (Lanyi, 1993; Bonell, 2008). The Council of Mutual Aid, known in the West as COMECON, was an economic organization that existed from 1949 to 1991 under the sponsorship of the Soviet Union that comprised the countries of the Eastern Bloc along with a number of "fraternal" socialist states elsewhere in the world. Its headquarters was located in Moscow. COMECON was formally disbanded in Budapest on June 28, 1991, although it had ceased many of its "coordinating" activities as early as 1989. Several other "fraternal communist states"—such as China, North Korea, and North Vietnam—were granted official COMECON observer status. Other countries gained membership or observer status in COMECON.

Vause (1988) points out that "The self-imposed isolationism of the Soviet Union was used to limit contact with the influence of Westernization. So long as the Soviets were willing to conduct trade in a relatively isolated posture, focusing trade relations primarily on members of the Council for Mutual Economic Assistance ("COMECON") members and other communist countries, it could afford to maintain its extreme protectionist views towards the non-communist world." (Vause, 1998, p. 252).

1.2 "The System"

A major dysfunction in "People's Poland" was the system itself. (Hunter & Ryan, 2008). A centrally planned economy has been variously called a command-and-control economy, the command-rationing mechanism (CRM), or the monocentric system. A centrally planned economy is one in which the factors of production (land, labor, capital, and entrepreneurial/managerial ability) are owned or tightly controlled by the state. The government and its "central planers" in the economic and political bureaucracy make all, or nearly all, economic decisions. Central planning agencies and the political and

economic bureaucracy involved in the planning process set detailed production goals for each segment of the economy, determined inputs, and fixed prices on all goods and services. Although central planning was not necessarily the creation of the Soviet Union, and had been refined and practiced in Great Britain, Japan, France and several northern European nations, it became the modus vivendi of Stalinism after World War II. (Budd, 1978; Brown, 1990).

The purpose of central planning was, of course, ostensibly to achieve a wide range of laudable political, economic, and social objectives—as determined by state central authorities. The system, however, removed decision-making from front-line management and placed it in the hands of sometimes distant central bureaucrats. (Lange, 1960; contra, Montias, 1962; Kornai, 1992; Hunter & Ryan, 1998). The generic term for the bureaucracy in Poland's centrally planned economy is the nomenklatura. Milovan Djilas (1957/1985) is credited with coining the term "New Class" as a description of the political and economic bureaucracy. The term "apparatchik" usually referred to members of the various communist parties. The term most often used in China to describe the "ruling class" is oligarchy, although the term aptly describes the same group today in Russia. (Blodgett, Hunter & Hayden, 2009). John Radzilowski (2003) writes: "Incomplete political and economic reforms created a kind of kleptocracy in which insiders, mainly those well connected to the former Party, grabbed lucrative posts and enriched themselves." (Radzilowski, 2003, p. 212).

The Soviet-inspired system of central planning had been imposed on Poland and other nations throughout the region of Central and Eastern Europe as a result of the realities of Soviet military success during World War II and the decisions taken at the Yalta and Potsdam Conferences. These decisions had recognized that the region was within the Soviet "sphere of influence" which extended to economic, as well as political and military matters. On the economic front, it might be argued that central planning had enjoyed some "limited success" both in Hungary (Balassa, 1959) in the period 1950-1953 and in Yugoslavia after its rather notorious break with the Soviet Union in 1948. (Estrin, 1991). However, the system literally collapsed first in Poland in the period 1988-1989, and later, throughout the region, although because of variety of individualized factors and reasons. What were these reasons?

By the late 1980s, the nomenklatura or bureaucratic system had developed into a highly centralized administrative structure—not only for national economic and political organs, but also for intermediary organizations, whereby smaller enterprises operated only as a part of a huge centrally organized bureaucracy. (Generally, Hunter, 1986). (Thus, the key players in the tripartite societal structure typically were the State or government apparatus, the Communist Party, and the nomenklatura.) By the late 1980s, not only in Poland, but also throughout the region of East-Central Europe, Lawrence Weschler (1982) noted that the system had virtually elapsed into a "lunatic collage of incompetence, privilege, pandering and outright corruption," based on a "principle of under-qualification and a 'perverted practice' of negative selection." (Weschler, 1982, p. 46).

The role of the nomenklatura is still hotly debated in Polish society. A pattern was common in transition economies throughout the region. Not surprisingly, members of the nomenklatura almost immediately became active in private businesses and banks—especially as the prospects for advancing their bureaucratic careers in the "new system" appeared more limited. The privatization process presented especially fertile ground, as unquestionably, members of the nomenklatura greatly benefited politically and economically from the popular discontent that is practically unavoidable during economic

reforms begun under very difficult economic conditions and circumstances. Members of the nomenklatura were major "winners" in the transformation process—at least initially. (Hunter, Ryan, & Hrechak, 1994, pp. 318-329, 334-335; Matonyte, 2009).

The particular type of privatization carried out by the nomenklatura in the early period has sometimes derisively been referred to as "spontaneous privatization," but was in reality theft of public assets and property—described as kleptocracy in the Russian context. (Radzilowski, 2003, p. 212; Hunter & Ryan, 1997, pp. 112-113). Newly appointed directors and managers exercised their authority to split up state companies or to spin off or divest units into limited liability companies or other new joint ventures. Skilled workers were often transferred to the new enterprises to the detriment of their former enterprises. (Greenhouse, 1989, p. B2).

The economic situation plummeted from crisis to crisis and a new wave of strikes once again paralyzed Poland in a virtual stalemate in the winter of 1988-1989. The situation was no doubt also aided by the changes that had occurred in the Soviet Union that resulted in the coming to power in the late 1980s of a new breed of Soviet leadership that had replaced the Stalinist "Old Guard"—personified by Mikhail Gorbachev, who instituted both glasnost and perestroika as reform policies and a fundamental reordering of Soviet economic and political life. W. Gary Vause (1988) notes that as early as the 27th Congress of the Communist Party of the Soviet Union in 1986, Gorbachev, who had become General Secretary in March 1985, began to move his perestroika agenda. "From late 1986 through early 1987, the Soviets announced significant policy decisions to legalize private labor, authorize the establishment of independent cooperatives, and authorize foreign investment joint ventures." (Vause, 1988, p. 252).

What was the relationship of foreign trade with the system? State dominance in foreign trade was an integral part of a centrally planned economic system. "Under the traditional version of the centrally planned non-market economy, the state controls all sectors involved in trade, and state agencies are directly responsible for the negotiation of detailed terms of trade and for assurances thereon." (Vause, 1988, p. 253). The Ministry of Foreign Economic Relations maintained effective control of all foreign trade activities, including payment options on both the import and export sides of a transaction. As Curtis points out, originally, all foreign trade activities which were authorized under the central planning system were conducted exclusively by officially sanctioned specialized "foreign trade organizations" or FTOs. (Quigley, 1975; Curtis, 1992). In Poland, many, if not most of these preferred organizations were staffed and organized by members of the Polish nomenklatura. The system isolated domestic producers of export products and domestic buyers of imported goods from the world market by interposing the state apparatus between them and their trading counterparts. (Salvatore, 1992).

In the late 1980s, during a period of putative reform initiated by the Polish government reeling from a near collapse in the economy (Hunter, 1986; Hunter, 1987), some state and cooperative production enterprises (co-ops) received special licenses from the Ministry of Foreign Economic Relations to become directly involved in foreign trade. Data indicates that by 1988, the number of economic units authorized by the Ministry to conduct foreign trade had nearly tripled. Cole states that in a very practical way, "socialism had ended with the introduction of the Law on Economic Activities in January 1989. The law freed most sectors of the economy from centralized planning and resource allocation. It is widely held that these reforms were unsuccessful, but may have paved the way for an opening of the economy accomplished later under the Balcerowicz Plan. Poland's

transition to market democracy was underway." (Cole, 1999, p. 2095, citing Brzezinski, 1998, p. 276). But, would these changes extend to the area of foreign trade?

In reality, very little actually changed. Because the former system provided few personal or organizational incentives and few rewards for capitalist risk-taking, it was not at all surprising that many enterprises—most especially the larger state-owned-enterprises or WOGS, a Polish acronym for Wielkie Organizacje Gospodarcze, referring to large, politically connected state-owned enterprises (Lewis, 1982)—preferred the risk-averse, conventional approach to foreign trade, and continued to operate through an FTO, relying on traditional guaranteed COMECON markets, and avoided capitalist marketing efforts and the imposition of Western-advanced quality control requirements for their products.

In analyzing the main characteristics of the Polish foreign trade regime prior to 1990, Curtis (1992) points out the following elements that were prevalent in the system:

- a required license or concession to conduct any foreign transactions;
- allocation of quotas by central planning authorities for the import and export of most basic raw materials and intermediate goods;
- state allocation and control of exchange and transfer of most foreign currencies;
- an arbitrary rate of currency exchange lacking all relation to real economic conditions;
- an artificial leveling of domestic and foreign prices by transfers within a special account of the state budget.

Yet, despite some opening up of the system, even among COMECON countries, Poland's foreign trade was insignificant and had a particularly low value. Poland's share of total world exports, which stood at 0.6 percent in 1985, dropped even further to 0.4 percent in 1989. The share of imports dropped even more dramatically, from 0.5 to 0.3 percent, during this same period.

As has been noted, in the late summer and fall of 1989, as a result of the collapse of the proposed communist government under General Kiszczak and then the appointment of Tadeusz Mazowiecki as Prime Minister, Poland entered a process of massive transformation under a program called the Balcerowicz Plan. What had occurred in Poland to make these changes so necessary and possible? Would these changes finally impact the area of Poland's foreign trade?

2 The Impetus for Reform

From the perspective of more than twenty-five years, it is now possible to state with absolute certainty that despite a "propaganda of success" trumpeted by adherents to the former system, the system of central planning, also called the command-rationing method or CRM, literally had imploded because of a combination of four interrelated factors, which we have termed as the "Grand Failures" of the socialist system as it existed in Poland:

1. Failure to create economic value or to improve the standard of living for the average Pole;
2. Failure to provide adequate individual and organizational incentives;
3. Failure to "measure up" to comparative economies, not only those capitalist economies in the West, but also several "fraternal" socialist economies in Central and

Eastern Europe (most notably, Hungary, Czechoslovakia, and Slovenia—then a part of Yugoslavia); and

4. Failure to satisfy basic consumer needs, essentially creating an unofficial dollarization of the Polish economy through the existence of a large, open, semi-official, and surprisingly efficient black market, and the existence of official "dollar" stores and foreign currency shops.
5. In attempting to implement the macro and micro economic strategies required to affect the enormous policy shift from the CRM to one based upon a free market philosophy, certain core assumptions were adopted by the Mazowiecki government in the initial or formative period after it came to power in the summer of 1989:
6. The authoritarian nature of society must change into one based on administrative and bureaucratic competence, so as to weaken the decisive role of central authorities and to strengthen the role of the individual and the market in critical resource and financial allocations and in the management of the economy;
7. The top-down "command-and-control" economy and bureaucratic-administrative system (Generally, Balcerowicz, 1995) had to change into one based upon information sharing, transparency, and consultation in Polish society; and
8. The state-dominated, state-centered society must change into a full civil society (Hunter& Ryan, 1998, p. 162; Taras, 1997; Magner, 2005; Holc, 2006, pp. 371-372) marked by community self-governance, economic discipline, honest career building, and one in which "independent individuals characterized by self-esteem, self-reliance, and self-empowerment" (Fulin, 2002, pp. 1-2) were in charge of economic decision-making.

As might be imagined, because of the dual economic and political aspects of the CRM and the enormity of its negative legacy that had led to an almost total collapse of the economy in the period immediately before the Round Table in 1989, reform of the central planning system posed a considerable challenge. From the outset, accomplishing any "real" reform would involve a delicate blending of both political and economic considerations in the following macro strategies:

1. Attaining political stability and pluralism, which would be accomplished through holding free and multiparty elections as soon as possible. (The initial elections agreed upon at the Round Table took place on June 4, 1989, in which Solidarity was victorious, winning all contested seats in the lower house or Sejm and "winning ninety-nine of a hundred seats in the Senate. The first non-Communist government in East Europe (since Yalta) was formed with Tadeusz Mazowiecki named Premier. (Hunter & Ryan 2009a). Lech Walesa, the "hero of Solidarity," was elected President of the Polish Republic in 1990." (Kubow, 2013, p. 14).
2. Implementing a program of "real" economic reform with the evolution to a private market economy, involving an emphasis on the development of a substantial private sector through a multi-track program of privatization; (Fischer & Gelb, 1991) and
3. Creating the basic institutions of capitalism, including a private banking system, credit institutions, customs and clearing houses, currency exchanges, a private insurance system, the reintroduction of the Polish stock market, the creation of investment funds and investment vehicles, and the introduction of a new system of taxation into Polish society (which eventually included a drop in Poland's top personal rate of taxation from 40 percent to 32 percent and the introduction of a corporate rate of 19 percent).

Leszek Balcerowicz was placed in charge of the economy. As Minister of Finance and Deputy Prime Minister, he was the chief architect of what became known as "shock therapy" in Poland. Balcerowicz was especially influenced by Harvard economist Jeffrey Sachs and former International Monetary Fund economist David Lipton. Professor Sachs had been instrumental in the controversial reform and restructuring of the Bolivian government in 1985. (Sachs, 1994). Based upon a careful critique of the crisis, Balcerowicz and his team (see Appendix I) identified certain derivative traits of the command-and-control economy that were in need of immediate attention and reform. These included:

- Administrative price fixing by central authorities;
- Isolation of domestic producers from foreign markets;
- Excessive regulation of imports through licenses and import quotas;
- The tendency by central planners to engage in "import substitution" (Kaestner, 2014), often accomplished through rationing, queues, lines, and coupons;
- "Soft budget constraint" in which targets of planning were revised downward or inputs significantly increased in order to meet plan targets;
- The lack of true commercial and financial institutions;
- Monopolization of the state sector due to extreme organizational concentration, the centralization of organizational rights, and the lack of foreign competition; and perhaps most importantly,
- The lack of any motivation mechanisms for either line managers or workers.

Early in the transformation process, Minister Balcerowicz decided on a strategy that would be based on two overriding policy considerations: A market economy was preferred over a centrally planned economy and a private market economy was preferred over so-called "market socialism." (Balcerowicz, 1995). As result, the process of economic transformation in Poland has been quite instructive and has provided a more general model for other Central and Eastern European transition economies in their own transformation processes to a variant of free market capitalism. (Contra, Kolodko & Nuti, 1997).

The program adopted by Minister Balcerowicz was based on what have come to be known as the "five pillars of economic transformation." These included: (1) rapid transformation of the monocentric system of state central planning into a private functioning market economy; (2) liberalization of economic functions, especially in relation to foreign trade and foreign direct investment; (3) privatization of state-owned enterprises (SOEs); (4) construction of an effective social safety net; and (5) mobilization of international financial assistance to support the process.

Mirroring what has come to be known as the Balcerowicz-Sachs model, Poland undertook the following concrete actions as the main components of its process of economic reform and transformation:

- Liberalizing prices from state control, opening up the economy to foreign trade, and formalizing and simplifying the requirements for new market entry; (Berg, Sachs, Baldwin & Fleming, 1992)
- Stabilizing the Polish zloty, eliminating hyperinflation, regularizing public finance, and managing foreign debt;

- Effecting changes in the economy leading to privatization of state property and to an increase in the nature and volume of international trade;
- Remodeling and upgrading the important social-safety net, most especially, the pension, education, social insurance, and unemployment systems (largely still not accomplished);
- Assuring eventual full convertibility of the Polish zloty;
- Gaining extensive external assistance of the International Monetary Fund, and the “London” (private commercial creditors) and “Paris” Clubs (public creditors); (see Appendix II)
- Gaining full membership in NATO, the OECD, and the European Union;
- Creating new market institutions, a viable commercial code, a revised tax code, recognizing private property rights, and the construction of a financial and capital market—perhaps most importantly, the creation of a viable stock market and a properly functioning central bank.

It was clear from the outset that in addition to the necessity of attracting foreign investment into the Polish market, reintegration of Poland into the world economy was a primary objective. The Mazowiecki government began to dismantle the existing foreign trade mechanism and replace it with a mechanism compatible with a market economy. (Wolf, 1990). It is important to note that Minister Balcerowicz rejected the Chinese model of a “socialist market economy” in which the state would continue to play the decisive role in matters of foreign trade.

2.1 Changes in Foreign Trade

The changes specifically initiated in the conduct of foreign trade:

- eliminated onerous license and concession requirements;
- eliminated quotas except in trade with the Soviet Union,
- introduced internal convertibility of the Polish zloty;
- instituted the free exchange of foreign currencies, supported by a liberal tariff system; and
- accepted the rate of exchange as the main instrument of adjustment of exports and imports.

Continued cooperation with the Soviet Union might strike the reader as unusual, given the circumstances of Poland’s forced integration into COMECON and somewhat unhappy association with the Soviet Union. Yet, in early 1990, the Mazowiecki government planned to maintain Poland's high export volume to the Soviet Union for an indefinite period. It believed it had no other viable choice.

Thus, the stated objective of Poland’s foreign trade policy immediately after the start of the transition was to ensure a long-term position for Poland in the Soviet Union’s market and to protect domestic industry from a further decline in production, which would then exacerbate the expected increase in Poland’s unemployment caused initially by the adoption of “shock therapy.” However, almost from the beginning of 1990, a limitation on exports to the Soviet Union became necessary to avoid Poland accumulating an excessive surplus of essentially valueless transferable rubles, as the Soviet Union continued to unravel.

All of that changed dramatically in 1992, after the Soviet Union split into a number of independent states. The Polish government grew concerned whether existing positive balances in Poland's trade with the "new Russia" would ever be exchanged into convertible currencies, or under what conditions or timetable that might occur—if ever. "Russia" gave no indication as to the answers to any of these questions. (Fallenbuchl, 1994).

3 Poland and the European Community

Meanwhile, Poland had clearly "moved West." In December of 1991, Poland reached agreement on associate membership in the then European Community (EC). This was an intermediate step and the Polish government set the goal of full membership by the year 2000. As might be expected, issues relating to foreign trade were among the most important. Among the requirements established for associate membership on the Polish side were gradual removal of tariffs and quotas on Polish food exports to EC countries; immediate removal of EC tariffs on most industrial goods imported from Poland; full membership for Poland in the EC free trade area for industrial goods in 1999; EC financial aid to restructure the Polish economy; and agreements on labor transfer, rights of settlement, cultural cooperation, and other issues.

The initial agreement required ratification by the Polish government and all twelve members of the EC, and the European Parliament. However, the agreement went into interim operation as those bodies considered its merits. Both the Polish Senat and Sejm ratified the agreement in July 1992. (Hunter & Ryan 2009b; Hunter & Ryan, 2009c; Dzikowska, Gorynia, Jankowska & Pietrzyjkowski, 2014).

4 Poland and the Soviet Union, or is it Russia?

And what of Polish ties with the now defunct Soviet Union?

In 1990, Poland's trade balance with the Soviet Union had reached nearly 4.4 billion transferable (also commonly called "transfer rubles" in the West) rubles. At that point, some Polish exporters took the risk of continuing their exports to traditional Soviet markets, in the expectation (or rather hope) that they would eventually be paid either by the importers in the Soviet Union (in reality the government itself), who still valued Polish exports because of their quality in relation to most Soviet-produced goods, or would be bailed out by the Polish government. There was a flaw in this thinking. Marie Oh notes: "For transactions within the Council of Mutual Economic Aid (CMEA) countries, the value of goods is measured in 'transferable rubles.' If a country does not purchase enough goods to balance its accounts within the time set limitation, it receives clearing credits. Although stated in terms of currency, clearing credits cannot be redeemed for currency." (Oh, 1985, p. 156).

In the first quarter of 1991, the value of these exports was about US$130 million. However, only about US$20 million or about 15 percent was actually received by the Polish side. It became clear that the Soviet government was prepared to pay only for imported foodstuffs, which received the highest priority in its import policy because of domestic political considerations. The Soviet government refused to pay the bill for

Soviet importers who had purchased machines, pharmaceuticals, electronics, textiles, and clothing from Poland.

The sudden, but not altogether unexpected, collapse of COMECON in 1990 was yet another spur to the geographic direction of trade. The share of Poland's trade generated by the COMECON declined to 22.3 percent in 1990 and 14.4 percent in 1991. Relating to the export sector, COMECON's share declined to 21.4 and 9.8 in the respective years.

4.1 Currency Exchange Issues

The collapse of COMECON resulted in expanded exports to the West. This provided the only real alternative for the growing numbers of Polish enterprises whose survival and future depended on foreign trade. The government's stabilization policy, coupled with the expected privatization in the Polish domestic market, would only be successful if it could be linked to a sustained expansion of exports to hard-currency markets. In 1991, however, Poland experienced a sharp decline in its economy resulting in a drastic contraction of domestic demand, devaluation of the zloty by 32 percent, and liberalization of access to foreign trade by private entrepreneurs.

These conditions resulted in significant expansion of export earnings in convertible currencies. In 1990, the volume of hard-currency exports increased by 40.9 percent to over US$12 billion, while hard-currency imports increased by 6.3 percent, resulting in a positive trade balance of US$2.6 billion.

Curtis reported that the level of exports earning hard currency in 1990 must be viewed in light of what had occurred in the 1980s when Poland's economy had grinded to a veritable halt. In the waning years of the nearly forty-five years of communism, fuel exports declined steadily, and metallurgical exports decreased in three of the last five communist-era years. Construction work in countries paying in hard currency declined in the first three years of the period, whereas exports from the wood and paper, engineering, and chemical industries behaved on "uneven levels." (Curtis, 1992).

What a difference a change in the system would make! In 1990, by contrast, hard-currency exports increased in most sectors of the economy. The largest increases were achieved in agricultural, metallurgical, and chemical products. Not altogether unsurprisingly, the share of manufactured products in Poland's export mix declined sharply with the sudden shift away from COMECON trade, portending a future trend. In 1990, major categories of exports in the manufacturing sector included: machines and transport equipment, miscellaneous manufactured goods, and chemicals. The share of exports from the manufacturing sector was 42.4 percent, compared with 67.3 percent for the same categories in 1985. Growth in exports of food, raw materials, and fuels accounted for the difference.

Although the share of higher-end engineering products among exports declined, that group was the most important single earner of hard currency in 1990 essentially because of volume pricing. Engineering products were followed by metallurgical, chemical, and food products. In 1992, these industries possessed the unusual capacity to expand their productivity in the Polish market, as a result of significant investment in modernization and marketing by a combination of private (FDI) and governmental expenditures.

One of the main reasons for the expansion of trade in these industries is that both modernization and marketing depended heavily on cooperation with Western firms.

At the beginning of 1991, as the negative aspects of the slow-down in the economy set in, the growth rate of hard currency exports declined, and imports increased very rapidly.

Inflation remained high, and the advantage created by the 1990 devaluation of the zloty slowly eroded. Another devaluation of the zloty—this time 17 percent—was undertaken in May of 1991. At the same time, the zloty was pegged to a combination or "basket" of hard currencies instead of to the US dollar alone. (Anonymous, 1999, pp. 34-36). In October of 1991, the fixed exchange rate was replaced by an adjustable rate that would be devalued automatically by 1.8 percent every month as a partial hedge against inflation. The final import figure for 1991 was 87.4 percent higher than that for 1990. In 1991, exports in convertible currencies were a little over US$14.6 billion and imports were nearly US$15.5 billion, creating a hard-currency trade deficit of about US$900 million.
Figures for the first five months of 1992 showed a reversal of the previous year's imbalance. The hard-currency trade surplus of US$340 million reported for that period was attributed to a combination of commodity turnover and, perhaps more importantly, by the cancellation of interest payments in Poland's debt reduction agreement negotiated with the Paris Club, which had been one of the major objectives of the original Balcerowicz Plan.
Under the former system, Poland dispersed only small amounts of its export and import trade to a large number of non-COMECON countries. Curtis notes that "smaller or marginal suppliers and buyers usually trade at less favorable terms than high-volume partners, making the smaller participants literally expendable in difficult economic times." (Curtis, 1992). This factor became even more important in the first post-communist years as the government continued to implement its economic policies. In 1990, Poland's fifteen top import customers absorbed 81.3 percent of exports, while the fifteen top suppliers contributed 86.2 percent of Polish imports. Poland's traditional partners in the former Soviet Union and Germany (both before and after their respective changes) retained disproportionately high shares in both categories in 1990. The situation, of course, would change dramatically as the Soviet Union continued to disintegrate. (Daily News Bulletin, 2001).

5 A Concluding Example: The Current Scene

Poland is a founding member of the World Trade Organization, having joined the organization in 1995. Now, as a full member of the European Union (Hunter & Ryan, 2012; Hunter & Ryan, 2014), it applies the common external tariff to goods from other countries including the United States. (Nilsson, 2011). Poland's major imports are capital goods needed for industrial retooling and for manufacturing inputs. The country's exports also include machinery, furniture, organic foods and meats, motor boats, light planes, hardwood products, casual clothing, shoes and cosmetics. As will be seen below, Germany is the largest importer of Polish goods (as of 2013). Poland's agricultural sector, which had been most skeptical and resistant to membership in the European Union, has also benefitted from its export position. Exports include smoked and fresh fish, fine chocolate, and dairy products, meats and specialty breads, with the exchange rate conducive to export growth. Food exports amounted to 62 billion zloty 2011, increasing by 17% from 2010.
By 2011, the volume of trade (exports plus imports) with the Euro area as share of GDP was 40%, a doubling from the mid 1990s. Nearly 30% of Poland's exports are to Germany and another 30% to the rest of Europe. There has been substantial increase in Poland's exports to Russia. (Ho, 2012). However in August 2014, exports of fruits and

vegetables to Russia fell dramatically following its politically motivated ban by Moscow as a result of renewed tensions in the region. It is certainly true that politics continues to impact international trade.
By the way of contrast, in the first half of 2011 the geographical structure of Polish exports indicated the following:

Country	Share (%)	EUR bn
Germany	26,00	17,30
France	6,50	4,30
Great Britain	6,50	4,30
Czech Republic	6,20	4,10
Italy	5,80	3,90
Netherlands	4,30	2,90
Russia	4,30	2,90
Sweden	2,90	1,90
Spain	2,60	1,80
Belgium	2,40	1,60
Others	32,50	21,70
TOTAL	**100,00**	**66,70**

(Quoracy.com, 2011).
Now, let us see information on the current situation relating to both imports and exports.

5.1 Current Statistical Information: Exports

1	DEU	Germany	$40,319,669,031.24	23%
2	GBR	United Kingdom	$11,455,561,846.80	6.6%
3	FRA	France	$10,432,690,727.17	6.0%
4	CZE	Czech Republic	$9,997,482,424.87	5.8%
5	RUS	Russia	$9,069,322,520.99	5.2%
6	ITA	Italy	$9,050,010,594.55	5.2%
7	NLD	Netherlands	$7,482,339,090.25	4.3%
8	SWE	Sweden	$4,506,708,926.54	2.6%
9	USA	United States	$4,436,145,094.48	2.6%
10	UKR	Ukraine	$4,373,290,644.44	2.5%

11	BLX	Belgium-Luxembourg	$4,170,668,642.11	2.4%
12	HUN	Hungary	$4,135,063,941.80	2.4%
13	ESP	Spain	$3,529,344,735.79	2.0%
14	NOR	Norway	$3,518,336,682.32	2.0%
15	SVK	Slovakia	$3,479,921,399.83	2.0%
16	AUT	Austria	$3,422,385,413.23	2.0%
17	TUR	Turkey	$3,084,382,770.38	1.8%
18	DNK	Denmark	$3,030,141,003.92	1.8%
19	LTU	Lithuania	$2,923,330,483.62	1.7%
20	ROU	Romania	$2,885,671,877.62	1.7%

5.2 Current Statistical Information: Imports

1	DEU	Germany	$42,843,623,136.17	22%
2	RUS	Russia	$21,029,995,008.19	11%
3	CHN	China	$16,971,798,638.54	8.9%
4	ITA	Italy	$10,155,736,128.96	5.3%
5	FRA	France	$7,758,713,430.12	4.1%
6	NLD	Netherlands	$7,672,678,531.36	4.0%
7	CZE	Czech Republic	$7,606,595,479.45	4.0%
8	BLX	Belgium-Luxembourg	$5,035,202,203.53	2.6%
9	SVK	Slovakia	$4,802,614,480.95	2.5%
10	USA	United States	$4,676,964,172.42	2.4%
11	GBR	United Kingdom	$4,662,232,393.05	2.4%

12	KOR	South Korea	$4,344,488,780.51	2.3%
13	ESP	Spain	$3,957,344,744.43	2.1%
14	SWE	Sweden	$3,589,318,552.78	1.9%
15	HUN	Hungary	$3,296,725,581.59	1.7%
16	AUT	Austria	$3,228,651,043.89	1.7%
17	NOR	Norway	$2,881,437,199.70	1.5%
18	JPN	Japan	$2,699,632,581.09	1.4%
19	UKR	Ukraine	$2,491,933,003.35	1.3%
20	DNK	Denmark	$2,233,765,901.52	1.2%

The Central Statistical Office (GUS, 2014) announced that in January 2014, the value of Poland's exports amounted to 12.9 billion Euros (US$17.8 billion) while imports reached 12.7 billion Euros (US$17.5billion) and both were higher than the year before. Exports increased by 5.7%, and imports by 0.7%. (OECD, 2014).

As a result, Poland recorded a surplus in foreign trade of 176.4 million Euros in January 2014 (US$250 million). (GUS, 2014).

The mix of Poland's trade by trading partners (developed nations, nations within the expanded European Union, and developing nations) in 2014 indicate the following:

Developed nations: In January of 2014, exports to developed markets amounted to nearly 11 billion Euros—an increase of 6.7% (US$15.1 billion—an increase of 10.5%). At the same time, imports from these markets decreased by 2.1% to 7.8 billion Euros (nearly US$ 10.8 billion—an increase of 1.5). Poland amassed a surplus in trade with developed countries, which stood at nearly 3.2 billion Euros (US$4.3 billion). In January 2014, exports to developed countries constituted 85.1% of the total of Poland's exports (84.3% in January 2013), while imports from these countries constituted 61.5% of the total Poland's imports (63.2% in January 2013). (GUS, 2014). (See Appendix III for information relating to United States-Polish trade.)

European Union: Exports to the European Union amounted to around 10 billion Euros in January 2014 and rose slower than to entire group of developed markets—5.1% (US$13.7 billion—an increase of 8.9%). Calculated in Euros imports from EU fell by 0.3 per cent to around 7.1 billion Euros (US$9.7 billion)—an increase of 3.3%. As a result, Poland earned a surplus of 3.2 billion Euros in January 2014 in trade with the European Union. Trade with EU countries amounted to 77.5 per cent of Poland's export value (77.9% in January 2013) and for 55.5 percent of the import value (56.0% in January 2013).

In November of 2014, the Warsaw Voice reported that "EU markets account for more than 75 percent of Poland's exports and for more than 5 percent of its total imports." (Ratajczyk, 2014).

Developing countries: In January 2014, exports to developing countries rose by 3.7 % and amounted to 1 billion Euros (US$1.4 billion)—an increase of 7.4 %). In the same period, imports increased by 2.5% to 2.8 billion Euros (US$3.9)—an increase of 6.2%). As a result, Poland recorded a deficit in foreign trade with developing countries of 1.7 billion Euros in the first month of this year (deficit of US$2.5 billion). (Marshal's Office, 2014).

The lessons from state planning and being tethered to the Soviet Union through COMECON had been learned well. Indeed, had Poland not only "looked West" but had actually found itself to be a western country to a large extent. As Andrzej Ratajczyk (2014), writing for the Warsaw Voice, has stated: "Despite the considerable uncertainty over developments in Ukraine, Polish exports are expected to set a record this year…. Exports could reach 159.6 billion Euros for the full year, 7.2 percent more than a year earlier. And next year, as the economy improves, exports are expected to grow by 11.5 percent to 178 billion Euros." (Ratajczyk, 2014).

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Appendices

Appendix 1: "THE BALCEROWICZ TEAM"

"In the process of economic transformation, following the elevation of Tadeusz Mazowiecki to the position of Prime Minister in the summer of 1989, Finance Minister and Deputy Prime Minister Balcerowicz was aided by a well-prepared transition team consisting of both Polish nationals and so-called Polonia (émigré) specialists. The leading foreign experts were certainly then Harvard Economist Jeffrey Sachs (now the Director of the Earth Institute at Columbia University) and David Lipton.

The "Balcerowicz Team" consisted, among others, of Marek Dabrowski, later deputy in the Ministry of Finance; Stefan Kawalec, first chief adviser, responsible for financial institutions; Janusz Sawicki, responsible for foreign debt negotiations; Andrzej Podsiadlo, who oversaw state enterprises; and Grzegorz Wojtowicz, first deputy chairman of the Polish National Bank, and its chairman in 1991. All were graduates of the Faculty of Foreign Trade of the Central School of Planning and Statistics in Warsaw, Poland's premier school for state planning and for producing "policy experts." Wojciech Misiag and Ryszard Pazura were also deputies in the Ministry of Finance. In addition, the team included numerous foreign advisers—Jeffrey Sachs, David Lipton, Wladyslaw Brzeski, Stanislaw Gomulka, Jacek Rostowski, and Stanislaw Welisz—and Polish ones—Karol Lutkowski, Andrzej Bratkowski, Antoni Kantecki, Adam Lipowski, Andrzej Parkola, and Andrzej Ochocki. Many of the foreign advisers were of Polish origin—so called Polonia academics. Minister Balcerowicz was a Professor of Economics at the Warsaw Institute of Economics. Balcerowicz had graduated from the Faculty of Foreign Trade of the Central School of Planning and Statistics—now the Warsaw School of Economics.

Between September 1972 and January 1974, Balcerowicz had studied business administration at St. John's University in New York City. In 1978, Balcerowicz presciently had established a "think tank" composed of ten young economists who would meet regularly to discuss and debate potential programs for economic reform. These informal meetings shaped the program of transformation adopted by the Mazowiecki government and subsequent Solidarity governments, and greatly influenced all post-1989 Polish governments—both positively and negatively—in their policy assessments." (Quoted in Hunter & Ryan, 2003, pp. 19-20).

Former Prime Minister Mazowiecki died in November of 2013 and has been acclaimed as one of the most important persons of the transition period.

Appendix 2

The Paris Club was comprised of nations that had financed public (sovereign) debt and the London Club was comprised of private lenders, banks, brokerage houses, etc. that had financed governmental debt, determined as of the start of the transformation process. The Paris Club is composed of 19 permanent members and other official creditors who have participated in some official lending. Official Paris Club creditors often included Germany, France, Austria, the United States, Canada, the U.K., Italy, and Japan. Brazil, not a permanent member of the Paris Club, also provided significant aid—especially to Poland. Other permanent members of the Paris Club include Australia, Belgium, Denmark, Finland, Ireland, Netherlands, Norway, Russian Federation, Spain, Sweden, and Switzerland. Other non-permanent members include Abu Dhabi, South Africa,

Argentina, Korea, Israel, Kuwait, Mexico, Morocco, New Zealand, Portugal, Trinidad and Tobago, and Turkey. (Club de Paris, 2014).

Appendix 3

2014: U.S. trade in goods with Poland (Bureau of the Census, 2014).

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding.

Month	Exports	Imports	Balance
January 2014	271.7	373.8	-102.1
February 2014	275.2	366.2	-91.0
March 2014	332.4	446.5	-114.1
April 2014	423.3	429.0	-5.7
May 2014	286.6	416.6	-130.0
June 2014	267.4	426.5	-159.1
July 2014	292.4	472.7	-180.3
August 2014	318.9	441.1	-122.2
September 2014	287.5	466.1	-178.6
October 2014	307.9	452.4	-144.5
TOTAL 2014	**3,063.5**	**4,290.9**	**-1,227.4**