International Studies, 2011, Vol. 13, No. 1, 11-21, DOI: 10.2478/v10223-011-0003-3

POLISH-RUSSIAN ECONOMIC RELATIONS UNDER THE CONDITIONS OF SYSTEM TRANSFORMATION

Paweł Bożyk

ABSTRACT

The rapid economic transformation in Central and Eastern Europe, modelled on Western economies and based, in some aspects, on neoliberal principles, has found the region's countries to a bigger (Eastern European countries) or lesser (Poland, Czechoslovakia, Hungary) degree unprepared. The resulting economic recession, especially in Russia, has had an adverse effect on mutual trade between Poland and Russia. In order to improve economic relations with Russia and increase the trade volume, Poland, remaining within the bounds of EU standards and regulations, needs to adapt the commodity structure of Polish exports to the needs of the Russian market.

KEY WORDS: system transformation; Polish-Russian economic relations; economic policy; economic transformation in Central-Eastern Europe

Political determinants of system transformation

The last twenty years have witnessed a major change in the evaluation of the causes and consequences of the system transformation in Poland and Russia. The enthusiasm of most politicians and economists who expressed their opinions on the subject twenty years ago has been replaced with more realistic assessments and balanced criticism. The reasons for the change are not difficult to understand; two decades of experience and experimenting had to lead to such changes in common awareness[1].

1 T. Kowalik, WWW Polska transformacja.pl, MUZA, Warszawa 2009.

Opinions expressed twenty years ago clearly pointed out that the fast and radical character of reforms was accepted solely due to political reasons; if other factors had been taken into consideration, for instance, economic ones, the transformation would have been carried out in an entirely different way. The process would have been solidly prepared and then divided into stages.

It appears that politicians responsible for the reform mainly feared that the establishment of 'the old regime' would boycott the reform. Immediate changes affecting all basic segments of public life, including economy, served to prevent this.

This argument, however, was untrue, far-fetched, and largely demagogic. In Poland, for example, the establishment of the Polish People's Republic (PRL) responsible for the reforms (I. Sekuła and M. Wilczek among other cabinet ministers) represented an even more radical wing of supporters of system change than L. Balcerowicz, J. Sachs and others recommended by "Solidarity". However, even if the establishment had been made up of the supporters of 'the old order', after the system changes in the former USSR began, their chances of boycotting the reform would have been reduced to zero.

The reformers' conviction of the need for instant implementation of the free market system resulted from the blind enthusiasm for neoliberalism that was common at that time. It was expressed through Reagonomics and Thatcherism – dominant system ideologies in the United States and Great Britain. They proposed to abandon, as soon as possible, economic policy derived from Keynesianism and, in consequence, reduce the importance of the state's role to a minimum, carry out the privatization of the economy, open the market to the import of foreign capital goods, initiate price liberalization and eliminate subsidies or other forms of supporting enterprises. All these recommendations were codified in 1988 in the form of the so-called *Washington Consensus*[2]. *The Washington Consensus* was recognized by the International Monetary Fund as a valid system of principles that had to be accepted by all countries applying for credit aid provided by the organization.

In 2010, after twenty years of reforms, the common fascination with the miraculous qualities of neoliberalism had shrunk to just a few groups of politicians and economists. In the meantime, it turned out that economic policy based on neoliberalism brought about numerous social and economic pathologies. The ongoing world financial crisis is a clear example.

The lack of preparation of Central and Eastern Europe to apply neoliberal principles of economic policy

Twenty years ago Central and Eastern Europe was not prepared for the immediate re-

2 J. Williamson, Did the Washington Consensus Fail?, Institute for International Economics, Washington D.C., 2002.

placement of their centrally-planned economy with the free market system. The region's countries lacked free market infrastructure: there were no commercial banks, no well-functioning stock markets and a lack of specific free market legal regulations and experienced staff. The organisation of the economy was adjusted to conditions which were different from free market requirements: at that time we could observe the dominance of sector ministries and enterprises subsidised by the state.

Enterprises were not sufficiently independent; their structure and organisation drastically differed from the needs of the free market. When the market system became a reality, enterprises lacked proper guidance or preparation and, not surprisingly, more than half of these enterprises went bankrupt.

Some of the countries in Central and Eastern Europe had no previous experience of the market economy, or the system functioned there in a distorted form. Russia and other republics which constituted the former Soviet Union (apart from Lithuania, Latvia and Estonia), as well as Romania and Bulgaria, implemented the central planning system in the infrastructural conditions typical of a pre-capitalist economy. The transformation of the planning and management system into the system of a free market economy in those countries would turn out to be a particularly costly and long-lasting process.

By contrast, in Czechoslovakia, Hungary and Poland, the countries which for several decades before the beginning of the transformation had attempted to 'civilise' the centrally-planned economy by 'engrafting' various parts of a market economy, the system transformation was a much easier undertaking and it was connected with lower costs.

Due to the lack of a system of infrastructure specific for a free market and a diversified approach towards the capitalist economy, the system changes in Central and Eastern Europe should have been gradual and evolutionary, and the scale of free market implementation should have been diversified among the countries of the region.

The International Monetary Fund determined the transformation method in the countries of Central and Eastern Europe which applied for IMF's help in solving the problem of their external debt. The International Monetary Fund's aid was conditional on economic stabilization in those countries and their acceptance of the package of solutions, recommended by the IMF, which ensured the tight control of inflation and foreign trade equilibrium. The organisation justified its proposal by citing examples of positive effects obtained in underdeveloped countries, particularly in Central and South America and the Middle East.

The International Monetary Fund treated economic stabilization solely as an introductory stage of system transformation. The transition of the stabilization package from a short-term solution to a long-term process required deeper system transformations. When the system changes in Central and Eastern Europe started, the IMF experts of the period claimed that only a free market could effectively prevent the recurrence of inflation in the region: a uniform solution was suggested by the IMF to all countries in Eastern Europe[3].

3 I participated in two meetings with the representatives of the World Bank in Poland (the so-called 'Marriott Brigades' ('Brygady Marriotta') – the name is derived from the place in which they resided – the

Simultaneously, the IMF presented the view that system transformation (similarly to economy stabilization) should be conducted in a fast and radical way; however, the IMF did not specify the degree of the radicalism involved. The IMF provided Central and Eastern European countries with conceptual help, sending a number of its officials, who, led by Jeffrey Sachs, offered (paid) guidance to national experts.

Government experts in particular countries of Central and Eastern Europe presented diversified opinions concerning the transition towards the free market economy. The Polish government experts chose a radical path, that is, the shortest one, which meant applying free market principles in the Polish economy to the largest possible extent.

Only a small group of Polish economists supported the idea of a gradual transition from the centrally-planned economy to the free market system[4]. However, it had no impact on the transformation method which was applied in practice.

Russia and the majority of former republics belonging to the Commonwealth of Independent States chose an even more radical option than Poland. In other Central and Eastern Europe countries the adopted transformation methods were diversified. The Czech Republic, Slovakia and Slovenia took an evolutionary path.

As a result, the highest costs of the transition were incurred by the countries which began their transformation under the conditions of a complete lack of free market system infrastructure (Russia and post-Soviet republics). The costs were lower in the countries which applied a less radical transformation method (among others, in Poland). In the countries of Central and Eastern Europe, where the transition towards the free market had an evolutionary character, the transformation costs were the lowest[5].

Recession as the consequence of transformation in Poland and Russia; the impact on mutual trade

The first years of system transformation, both in Poland and in Russia, were character-

Marriott Hotel in Warsaw). The first 'Seminar on Managing Inflation in Socialist Economies' took place in Warsaw on 12–13 March 1990 in the Institute of World Economy SGPiS (Instytut Gospodarki Światowej SGPiS.) The second, 'Conference on Adjustment and Growth: Lessons for Eastern Europe'– in Pułtusk, in Dom Polonii, in October 1990. The World Bank delegation was headed by Jeffrey Sachs, who at present is the severest critic of the system therapy proposed by the IMF and the World Bank.
All the comments concerning the need to differentiate the 'therapy' employed in Central and Eastern Europe with regard to the specific characteristics of the countries, their level of development and the condition of their economy, were disregarded by the representatives of the World Bank. The principal argument was the necessity of an immediate start and a fast completion of the transformation. The costs of the transformation were not considered at all. The need to stabilize the economy was at the top of the agenda.

4 When near the end of 1991 in the book: Droga donikąd? Polska i jej sąsiedzi na rozdrożu [A Path to Nowhere? Poland and Its Neighbours at the Crossroads], BGW, Warszawa 1991, I supported the idea of evolutionary transformation and warned about the risk of an extremely high unemployment rate and recession which threatened Poland, there was no reaction on the part of the decision-makers.

5 P. Bożyk: 24 kraje Europy Środkowej i Wschodniej. Transformacja, Warsaw 2002, p. 21–22.

ised by recession tendencies in the economy; however, the recession in Russia was much deeper than in Poland. The obvious reason for such a situation was worse adjustment of the Russian economy to the conditions of the free market, as compared with the Polish economy.

The free market economy was an abstract notion in Russia: for years the term was most severely criticized by socialist activists. In Poland, free market capitalism was largely a real concept; for decades millions of Poles had penetrated European and American capitalism, mainly as window shoppers, but also as illegally, and sometimes legally, employed workers. The Russians, by contrast, had no possibility to experience real capitalism: ordinary citizens had no chance of leaving the country.

Not surprisingly, many years passed before the Russians learned the rules of free market activity, and during that time the economic crisis was gradually deepening. The Poles needed less time to understand the functioning of the free market; thus, the crisis in Poland was shorter than and not as severe as in Russia.

During the period of 'shock therapy' in Russia, the decline in trade with Poland had been caused by crisis phenomena in the Russian economy. Russia started its transformation two years after Poland. In the first years the transformation was of a steady and gradual character, only later did it take the form of a 'shock therapy'. In other words, at the beginning of the 1990s, when Poland experienced a drastic fall in GDP and industrial production, Russia was still to deal with the phenomenon. In the mid-1990s, when Poland started to return to the previous level of GDP, Russia was facing its drastic fall. Thus, we may conclude that the desynchronisation of the transformation processes in Poland and Russia had a major influence on Polish-Russian relations.

Also, strictly political factors exerted a considerable influence on the situation. From the very beginning of the transformation period, Poland and Russia differed in their outlooks on the future of Europe and the roles they should play there. Russia wanted to retain its traditional zone of influence in Europe at all costs. Poland, by contrast, aimed to leave the zone as soon as possible, and enter NATO and the European Union.

Both countries also differed with regard to their political goals. Poland demanded, as an ultimatum, that Russia immediately withdraw the Red Army soldiers based in Poland. Poland also demanded access to the archives of documents concerning the most recent history. In both cases, the demands were highly inconvenient for Russia. Therefore, Russia was trying to play for time on these demands. However, Russia soon had to yield to Poland's requests, especially with regard to the first demand.

These issues soured mutual political relations of the two countries. At the beginning of the 1990s, Poland was seen by Russia as the main obstacle in realizing its strategic goals in foreign policy formulated in 1993 in 'The Foreign Policy Concept of the Russian Federation'[6]. Simultaneously, Russia started to regard Poland as a third-category country, with a high level of political risk, which meant a complete marginalization of Poland's im-

6 Stosunki gospodarcze Polska-Rosja w warunkach integracji z Unią Europejską, ed. P. Bożyk, WSE, Warszawa, 2004, p. 17.

portance in Russia's economic relations with foreign countries. Russia took great interest in economic cooperation with Western European countries, and the political relations between Russia and Western countries have improved. The Russian Federation took a similar approach with regard to the United States. During the system transformation period, political factors were undoubtedly one of the main reasons for the decreasing importance of mutual trade, both for Poland and for Russia. Political interaction is a deciding factor determining Russian foreign economic relations: good political relations are an incentive for Russian entrepreneurs to develop economic relations; in turn, poor political relations hinder the development of economic relations.

Perspectives for the development of Polish-Russian economic relations

In the period of system transformation, the importance of mutual economic relations both for Poland and for Russia diminished considerably, as compared with the pre-transition period. The Russian share in Polish foreign trade has been reduced: it ceased to be a key business partner for Poland and it has been replaced by Germany. At present, 75% of Polish foreign trade is based on cooperation with economically developed countries mainly from Western Europe, and a third part of it in trade with Germany.

Should these proportions be seen as a permanent change? The answer to the question is usually affirmative. The common view is that the geographical structure of Polish foreign trade, shaped in the last twenty years, will not undergo any major changes until 2020.

This forecast is highly probable and the claim will remain true on condition that both non-economic (mainly political ones) and economic factors influence Polish-Russian trade in the next decade in an identical way as was the case in 1990–2010. It is assumed that political relations will still be strained, hampering the development of mutual exchange.

The question arises: have the two countries become irreversibly indifferent to each other with regard to economic cooperation? It is claimed that the present geographical structure of Polish foreign trade should be seen as permanent. The supporters of this position take the view that there are no prerequisites to increase the importance of Russia's role in Polish foreign trade or Poland's role in the Russian trade. They believe that the structural reorientation is not likely to change[7].

System transformation in Poland led almost all enterprises which had no export alternative to bankruptcy. At the same time, there emerged small and medium-sized enterprises which were focusing entirely on domestic or western markets. With regard to the import of manufactured goods, Poland became completely independent of the Russian

7 M. Guzek, A. Kuźnar, Prognoza rozwoju obrotów towarowych Polski z Rosją do 2020 roku z uwzględnieniem głównych grup towarowych, [in:] Polska–Rosja. Stosunki gospodarcze 2000–2020, ed. P. Bożyk, WSEI, Warsaw, 2009, p. 120–129.

market, concentrating its attention on highly industrialised countries. The dominance of small and medium enterprises in the Polish economy has resulted in the fact that our exporters are not treated as serious business partners for the large Russian market. Russia has lost its interest in importing manufactured goods from Poland: Polish enterprises have very limited possibilities with regard to the volume of supplies or granting credits, and it is very difficult for them to compete, both in terms of quality and technology, on the Russian market. Russia is mainly interested in supplies from economically developed countries. At the same time, the markets of these countries are major recipients of Russian raw materials and energy resources.

Poland is unilaterally dependent on Russian supplies of oil and natural gas. This kind of dependence is highly unfavourable for Poland, especially when Poland is of third-rate importance for Russia. Thus, Poland has two alternatives: becoming independent from Russian supplies of energy resources, or alleviating the conflicts with Russia. Both solutions are difficult. Replacing Russia as a strategic energy supplier is theoretically possible. However, it requires considerable investment outlays and, simultaneously, it leads to a considerable rise in the cost of oil and natural gas on the Polish market.

In my opinion, basing Poland's future trade relations with Russia on the present 'status quo' is a great simplification both in the sphere of policy and economy. Increasing the significance of mutual trade would be advantageous for both parties.

In order to develop economic relations with Russia, Poland should aim to increase exports while not limiting imports. Russia's share in Polish global exports should reach at least the level of 7.5–10%. The increase of Polish exports to Russia is a prerequisite for a balanced and growing import of energy resources. At present, the negative trade balance reaches 10 billion a year and is showing a tendency to increase even further. Cautious estimates of the deficit for 2020 show that it will exceed 15 billion dollars a year[8].

The export of industrial goods should be increased; however, it concerns mainly modern goods which are exported in long batches, supported by State aid. The market for industrial goods in Russia is an extremely vast area of competition for large Western European corporations as well as American and Japanese businesses. At this point we should note that it is not an easy market, in contrast to the reality of the Soviet Union. The quality and technical requirements are much higher, which is caused mainly by competition and the opening of the Russian market to foreign suppliers. Russia is on the eve of technological modernisation. Thousands of enterprises established under the conditions of the former system would definitely benefit from access to new technologies, know-how, modern methods of production management etc. Simultaneously, Russia has the financial means to pay for the technologies: abundant resources of oil and gas, and a developed transport infrastructure, in the form of oil and gas pipeline systems, which allows for fast and relatively cheap transfer of the resources to Western countries.

Poland's membership in the European Union has created possibilities of increasing

8 Ibidem, p. 131.

the export of manufactured goods to the Russian market through subcontracted supplies for large EU corporations which export to Russia. At present, some Polish firms already act as subcontracted suppliers cooperating with such enterprises, mainly German corporations.

In order to use all possibilities to increase Polish exports of manufactured goods to Russia in the context of Poland's membership of the European Union, Poland needs to satisfy the following requirements.

Firstly, Poland needs to apply EU standards in its foreign policy, namely, the policy must be based on respect for the interests of both parties[9]. In practice, it would mean the need to refrain from the policy of incessant quarrels with Russia and look to reach a compromise wherever possible.

Secondly, Poland has to develop medium-term and long-term strategies of adapting the commodity structure of Polish exports to the needs of the Russian market.

Thirdly, Poland needs to adjust its foreign economic policy to EU standards and the policy should provide for the interests of Polish exporters (crediting and insuring the exports) by means of signing appropriate treaties and international agreements.

Fourthly, the potential of Polish exporters should be increased. Small and medium enterprises are willing to adapt to new requirements; however, they are surpassed by large enterprises. Considering the difficult conditions of the Russian market, fulfilling this requirement is a necessity. The state should establish associations for the enterprises interested in exporting to Russia, uniting their efforts with regard to penetrating the Russian market and working on common solutions concerning advertising, marketing, transport, etc. Increasing Polish exports to Russia requires firm and ongoing institutional support, especially organisational help provided by the Polish State.

9 A. Stępień-Kuczyńska, M. Słowikowski, Stosunki polsko-rosyjskie na tle relacji rosyjsko-unijnych [in:] Polska–Rosja…, p. 92.