Is EU accession confirming Poland’s return to Europe?

https://www.e-ir.info/2011/10/01/is-eu-accession-confirming-poland%e2%80%99s-return-to-europe/

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1. Introduction

Since Poland gained its independence in1989, economic development and modernization has been a driving factor for reforms. As EU at the time was closely associated with democratic stability and the prosperity enjoyed in Western Europe, membership became a vital step in the pursuit to attain Western level of welfare and prosperity.[1] EU accession has therefore been considered as a strategic goal, and all socio-economic groups as well as electorates of the main political parties expressed support to membership.[2] In the accession process, Poland’s historical belonging to Europe and the prospects of EU providing the political and economic assistance required for the country to complete its transformation process. Highlighting the argument of a ‘civilizational’ belonging to Europe, then head of Poland’s office for EU integration, Jacek Saryusz-Wolski, described Poland’s accession as not even worth debating.[3] This made the idea of EU accession as a ‘return to Europe’ a key theme throughout the accession. In addition to being a main slogan in the election campaign,[4] one of then President Alexander Kwasniewski’s first comments on the result of the 2004 referendum was “We have returned to the European family”.[5]

EU accession comes with a range of expectations such as free movement of goods and services, privatization and liberalization of the economy, capital flows from the EU (notably structural and cohesion funds, but also prospect of increased access to FDI and free movement of labour. In theory, this is expected to contribute to substantial medium- and long run gains, particularly for the acceding countries.[6] This research starts off with an assumption that EU accession requires fundamental adjustments and changes in a country’s institutional, economic and societal structures, particularly significant for ex-communist countries. As this potentially poses tough challenges to economic policy makers in how to reconcile economic growth and at the same time maintain popular support, a key question throughout the paper will on challenges in the accession period, both in political practices as well in terms of how to maintain public support.

This project will in chapter 2 start by establishing relevant definitions such as the concepts of ‘Europe’ and ‘Europeanization’. When evaluating the effect of EU membership, it is natural to see that in context of initial possibilities and strategies, but also popular expectations. Chapter 3 will give a brief introduction to the accession process and its main challenges. Chapter 4 will contain an evaluation of relevant factors of success or failure. This will include basic economic indicators’, ‘Agriculture, CAP, the development of rural areas’, ‘Utilization of EU funding’, ‘Foreign Direct Investment, ‘Employment and Migration’, ‘the Monetary Situation’ and ‘popular support’. Finally, chapter 5 will build on these indicators in order to draw general conclusion. Acknowledging that European integration is a lengthy process, it is natural to look at the whole period from early 1990s and onwards, however, the main focus will be on the post-accession period. Further, as Poland’s accession is a relatively recent event, it is still too early to access the long-term impacts of membership. The final chapter will therefore start with a preliminary overview of costs and benefits in relation to theoretical and popular expectation in the pre-accession period. This will then be followed by a discussion of to what extent Poland’s EU accession provides a foundation for in the future achieving real convergence with the Western-Europe.

2. Background

2.1. Defining ‘Europe’ and Europeanization

Acknowledging the diversity in linguistics, religion, ethnicity and geography it is hard to come up with a common definition of 'Europe'. As observed by Delany, Europe is protean idea which does not naturally exist.[7] Although EU since the 1973 'Declaration of European Identity' has made numerous attempts to create a European identity building on some common characteristics in political and cultural terms, "Europe" still remains an imagined construct.[8] Modern concepts of Europe have to a large extent shaped by the Cold War which created a division between the West and the East.[9] However, as the Cold War ended the Eastern frontier vanished,[10] and image of Europe as predominantly Western-Europe were challenged.[11] The EU enlargement altered the social- and political construct of Europe and proved the changeable nature of the European map. Further, it largely confirms Europe as discursive strategy which can mean whatever one intends.[12]

Europeanization is a wide phenomenon that needs to be explained.[13] Although acknowledging that Europeanization can refer to various concepts such as historical and cultural, this paper will refer to Europeanization in its political context. As observed by Radaelli (2003), this is increasingly referred to as an "EU-isation".[14] Building on this assumption, Europeanization can be defined as an agenda which involves extensive restructuring and institutional arrangements,[15] generally referring to how EU norms, rules and practices have been adapted by member states.[16] Furthermore, it points to a process in which rules and procedures defined by EU are incorporated into national discourses, political structures and public policies.[17]

European integration is frequently hailed as a political success. However, it must be stressed that integration not a goal in itself, but rather a mean of achieving goals such as increased prosperity in a more efficient ways than individual nation states.[18] Although having to accept an 'asymmetric interdependence', EU-10 therefore framed accession as a vital national interest in the early 1990s.[19]

Despite EU-10 enjoying substantial economic growth in the pre-accession period, the economic disparity between EU-15 and EU-10 were still substantial. Highlighting this, GDP per capita (at purchasing power parity) in NMS stood to 40 percent of EU-15 average.[20] As a consequence of this economic disparity, the Eastern Enlargement was by many in Western Europe seen as a potential damage to their economies and as a threat to the European Social model.[21] This combination of expectations in accession countries and scepticism in the 'Old' Europe increased the pressure on new member to successfully utilize their accession to establish sustainable economic growth for over time can achieve real convergence with the West.

2.2. The accession process

Poland began its accession process in 1990, when the government of then Prime Minister Tadeusz Mazowiecki submitted an official application for opening of 'accession negotiations'. However, already in 1989, a Polish Mission at the European Community had been established in Brussels.[22] By signing the 'European Treaty' with the then EC in December 1991, Poland initiated a gradual and lengthy process.[23] From that point, Poland actively pursued a policy of strengthening its ties with the EU, as well as sought to harmonize its macro-economic development and key policy areas such as customs, tax, employment and welfare, state of industry and agriculture, foreign policy and security with EU standards.[24] As the 1993 Copenhagen summit officially agreed to approve 10 new members and setting a target admission date of joining to May 2004, Poland's ministry of Foreign Affairs formally submitted Poland's official application in May 1994.

The further accession processes were driven by three main requirements set out by the European Council's Conclusion of the presidency of June 1993, including;

- "Sustaining a *functioning market economy* with the capacity to meet competitive standards and market forces within the EU community;
- *Stabilizing foundational political institutions*, essentially providing evidence of a functioning "civil society", including creating political and social institutions guaranteeing democracy, the rule of law, and respect for minority and human rights; and
- Demonstrating an *ability to assume the obligations of full EU membership* , including those delineated in the *acquis communitaire*, the body of EU's legislative requirements.[25]

The initial pre-accession period was characterized by rapid economic reform, but also by frequent changes of government as tensions increased parallel with affected policy areas. However, the 1996 establishment of the *Committee on European Integration* and its arbitrary powers brought a big leap forward in providing solutions to complex and multifaceted problems. This was shortly followed by the ‘January 1997 ‘National Integration Strategy’ which sought to systematize the integration responsibilities and tasks to be completed during the pre-accession period. [26]

From then, the accession process was halted, as the report was criticized for being superficial and without clear aims. The consolidation of the right-wing before the 1997 election further complicated to progress. Supported by conservative voices from the Catholic Church, the election produced a two major blocks, thus polarized domestic politics. Although committed to accession, the new government of ‘Solidarity Electoral Action’ and Jerzy Buzek created a significant turnover of personnel in national and provincial governments. This created uncertainty both of the quality of the new appointee; moreover there were no longer a guaranteed strong and stable consensus throughout the negotiation period.[27]As the EU commission from 1997 began to issue regular reports on the candidate nations’ progress, practical obstacles became more visible. While the first report in 1997 praised Poland’s properly functioning political institutions, stability and respect of fundamental rights; the (1999) Prodi Report’ proved more challenging for Poland and other applicants. Although recognizing a significant progress in establishing market economy and attaining institutional political stability, the report concluded that Poland had not achieved satisfactory progress in implementing reforms for related to curtaining government aid for ailing Polish industries, modernization of the agricultural sector, harmonization of statutory framework to the acquis, and upgrading its inadequate infrastructure.[28]

The next report in 2001 concluded that Poland had fulfilled the political criteria for accession, particularly highlighting the country’s success in building viable institutions for guaranteeing democracy. The 2002 were again supportive of Poland’s interests, but despite having closed 27 outstanding issues, there were still obstacles related to targeting corruption in both government administration and business. However, in conclusion the report concluded that Poland had achieved a sufficient high degree of alignment with the acquis, making Poland ready for the scheduled entry as long as Polish voters concurred through the 2003 referendum.[29]

3. Preface

3.1. EU as a strategy of development

Although having enjoyed a status of a relatively advanced producer within the COMECON market, Poland’s trade with West in the late 1980s were dominated by fuel, materials, food and other items involving limiting processing. However, as of 1989, Poland was not regarded as a non-market economy.[30] Resembling as a developing country, this reinforced a growing technology gap with the West.[31] Critics such as Ekiert (1991) claimed that post-communist regime as administrators of social and economic catastrophe rather than the champions of freedom and prosperity.[32]

The IMF imposed shock therapies applied in the 1990 to cope with hyperinflation brought severe hardship to the population. Increased job insecurity and falling economic output and failing real wages made critics accuse politicians for ignoring the social consequences of reforms and particularly disregarding the situation for the poor and the weak.[33] Constituting another major transformation, EU was met with some scepticism. However, as economic and social cohesion has been framed as important EU goals,[34] the accession process brought hopes of measurable improvement, infrastructure, standards of living and reduced unemployment.[35]

By creating to create an environment of stability, security and prosperity, EU accession is expected to attract FDI and boost general economic growth.[36] Therefore accession was framed as a key economic strategy in the 1990s.[37] Extensive democratic, economic and institutional reforms in order to qualify for EU accession are naturally based on an expected future positive outcome.[38] The adoption of free market mechanisms is generally perceived as a method by which one hope to achieve increased efficiency and restructuring of a country’s real sector. In theory, adapting the core EU economic policies related to free flow of labour, capital and goods, will increase trade, commercial links and cooperation. This increase competition in national markets, thus lowering costs, improving efficiency and technological and institutional innovations is expected to bring along substantial medium and long term gains.[39] Many politicians and scholars such as George Blazyca therefore regarded EU accession as a vital goal, arguing that it would be vital in order to facilitate the transformation and modernization of the Polish economy.[40]

3.2. Expectations and popular opinion

Poland's relationship to Europe has been mixed. Having historically been a part of the European economy, events such as the18th century partitions such as when the country was carved up by then Prussia, Austria and Russia, the Molotov-Ribbentrop pact of 1939 have created a deep mistrust towards its neighbours, particularly Russia and Germany.[41] One could therefore expect that EU accession would be examined carefully and met with some scepticism. Having said that; Poland's traditional, historic and geographical familiarity with the liberal-democratic political and economic order, places its national identity well within European tradition. Highlighting this, Poland scored well in 'European compatibility potential'.[42] Based on this, particularly the political elites framed re-integration with Western- Europe as a political and economic imperative. However, the chance of taking part in shaping 'New Europe' appealed to politicians as well as the public.[43]

In line with other NMS, Polish political parties after independence were in their infancy and therefore lacked deep roots. [44] As a result, there were no major difference between left and right in terms of economic policies.[45] Therefore, personalities of politicians tended to matter more than party ideology. This made the prospect of accession therefore contributed with a uniting focus.[46]

Popular opinion in Poland is interesting for two main reasons. Firstly, the combination of nationalism and historical scepticism to Western Europe would presumable for many make EU accession an emotional issue. Second, the initial transition associated with socio-economic hardship, most notably high unemployment.[47] These factors posed a substantial burden on the integration process to deliver visible benefits.[48]

As mentioned in the introduction, the idea of a 'return to Europe' was central in the initial accession debate. Arguments in favour of accession tended to be presented in reference to historical precedent, geographical position and psychological need with hardly any disagreement that full membership was the only option. When looking at the media coverage, public speeches and parliamentary debates; one can argue that the political debate rarely went beyond that level.[49] Consequently, the initial phase of transformation was characterized by an information asymmetry in which average citizens were not well informed and therefore largely unable to take part in the political process. As a result, politicians and others belonging to a typical small circle of elites were free to implement strategies for reforming the state and economical system.[50] This lack of public debate also generated a low societal participation, largely confirming Nugent's theory accession as an elite driven process.[51]

As Poland's 1997 constitution contained a 'European clause', there were no major legal obstacles to Poland's accession.[52] However, process towards ratification was turbulent as parts of the Solidarity movement raised a wide range of objections including 'loss of polish independence and claims that accession would destroy Poland's economy. The European clause' was also used by right-wing parties objecting to the 'sale of Polish sovereignty'.[53] Arguments from right wing commentators such 'globalization being the communism of 21st century further underlined the sensitivity of the topic.[54] In the referendum less than 43 percent of eligible voters participated, approving the constitution with a narrow majority.[55]

Combined with the absence of substantial societal participation, this led many public opinion researchers to suggest a psychological unpreparedness, and raised fears that Poland was not ready or prepared, and therefore should not rush the integration process.[56] This assumption was to some extent confirmed in the final stage of the accession process as CBOS stats from 2004 revealed substantial domestic fears and anxiety, particularly referring to expected price increases.[57] This slow and costly pace in integration in the run-up to accession fuelled negative ideas of Poland becoming a 'second class' member state,[58] and an increasing number wished Poland to join as 'late as possible'.[59]

4. Evaluation of relevant indicators of success or failure

4.1. Basic economic indicators

In order to achieve 'real convergence' with EU-15, Poland would need to on one hand develop and sustain rapid economic growth; while at the same time as maintain its macroeconomic balances. Being less developed than the EU-15 average, it was at the time of accession expected that liberalization of trade and reduction of technical barriers would improve their economic performance at a faster pace than EU-15. Consequently one should observe some visible changed 6 years after. The transition period has represented a period of uninterrupted growth. Experiencing a slowdown in to 1.2 percent in 2001, and 1.4 percent in 2002; figures rose to 3.9 percent in 2003 and 5.3 percent in 2004. Accession was followed by another slump to 3.6 percent in 2005, but recovered with 6.2 percent in 2006 and 6.8 percent in 2007.[60] Notably, the average economic growth of 4.2 percent in the period from 2004-2006, Poland's economic growth were twice as high as the average of EU-15. Although the global financial crisis led to a slowdown in 2009, with quarterly growth ranging from 0.5 – 3.2 percent, but as of 2010, Poland had recovered back to steady growth levels above 3 percent.[61]

One year after EU accession, Poland as the only transition economy had narrowed the gap in GDP per capita in relations to EU-15. In 1989, the fifteen most developed EU countries had a GPD per capita of 262 percent to Poland, this gap had by then decreased to 216 percent, with figures showing a steady decrease despite some slowdown after 2000. However, as the growth in per capita GDP compared to EU-15 modestly rose from 40.1percent in 1997 to 46percent in 2006, there are still vital challenges to be solved.[62] Since 2005, there has been a constant rise, peaking with a 5 percent growth from 2007 to 2008.[63] Looking at the period from 2004 to 2008, GDP per capita rose from 13 012 USD to 17 294 USD, or 32.9 percent.[64] As the rise has continued in 2009 and by 3.5 percent in 2010,[65] macroeconomic factors have on the whole steadily improved throughout the accession period.

4.2. Agriculture, CAP and the development of rural areas

The agricultural sector plays a vital role in Poland's economy. Despite contributing to only 4 percent of GDP (2003 numbers), the sector still employ around 20 percent of the working population,[66] significantly higher than the EU-15 average of 5 percent.[67] This shows the sector decisiveness for the social-economic situation in rural regions. Suffering from substantial underinvestment in the early transformation period, Poland's agricultural sector has lagged behind the rest of the economy and faced massive economic, structural and technological challenges. Having been sheltered from international competition modernization and re-structuring has not been prioritized and agricultural output dropped by 10 percent from 1990 to 2002.[68] Moreover, Poland's traditional rural region also struggles with low level of education and unemployment.[69] This shows that the modernization of the agricultural sectors is vital in evening out the regional disparities as well as modernizing the economy as a whole. However, as rural areas have suffered the highest unemployment rates it has been vital to build a foundation for developing new enterprises.

EU accession represented great insecurity for Poland's rural areas. Fearing imposition of stricter production demands and standards, foreigners buying farmland and domestic markets flooded with EU products, it is estimated that around 60 percent of people living on farms voting against accession.[70] Looking at the 2000-2002 period, EU spent on average of 14,000USD per individual active in agriculture, compared to 530 USD in Poland.[71] From an optimistic point of view, the access to CAP funds could give access too much needed funding and provided incentives for investments and modernization projects, something which the private sector not the Polish government had been capable of doing. On the other hand the dismantling of import barriers on foodstuffs would be dismantled, potentially leading to deteriorating effects on many small scale producers.[72]

Figures show that Polish food exports doubled from 2003-2004.[73] Despite increasing income in 2004, Polish farmers also face lower processing and trade margins. As an example: in 2004 agricultural prices stood to 20-25percent lower in Poland compared to neighbouring Germany. At the same time, retail prices of food in Poland were 40 percent lower than average prices in EU-15.[74] This difference has led to a rapid growth of agricultural and food exports to the EU market, both in terms of value and as percentage share of total Polish export volumes.[75] As a result of this Polish food industry had reached to 6th position within the European Union only one year after accession.[76]

Common fears regarding Polish agriculture and food processing industries would be unable to withstand external competition has therefore to a large extent been proven wrong. Highlighting Poland’s low costs and good quality, EU importers have pointed out that Poland enjoys a comparative advantage in agricultural products.[77] As a consequence, effective utilization of funds for agricultural and rural development has been stressed as vital in developing its poorer regions. CAP funds have been highly beneficial for Poland. Already in 2004, this system of direct transfer covered more than 90 percent of all agricultural land in Poland. This made Poland among the seven largest beneficiaries already in its first years of membership, enabling rapid improvement and increased profitability.[78]

This growth in agricultural exports has helped speeding up industrialization processes within the sector, and served as an incentive for further investments.[79] As Poland’s export-import balance in the agricultural sector has developed positively in the years following the accession, Poland seems to benefit from a comparative advantage in production and export of food products. Acknowledging reports from the ‘National Research Institute of Agricultural and Food Economics’ expressing concerns about ‘hidden unemployment’, data from the Central Statistical Office registered a 40percent decrease in unemployment in rural areas from 2003-2007. As a result, agriculture has been one of the sectors profiting the most from EU membership. Despite 2006 figures shows that the top 10 percent biggest farm and agricultural companies generated 50 percent of agricultural profits, but also received 42 percent of agricultural subsidies,[80] polls done in 2009 showing strong support for accession among the rural population.[81]

A study published ‘Center for International Relations’ points out the increase the increase of salary as a main factor. As average remuneration of Polish farmers at time accession stood to 24percent of Polish average salary before accession, it had risen to 54 percent by 2005.[82] Recent figures from 2009 shows that Polish farmers have increased their income with 207 percent from 2000 to 2009.[83]

Another important factor pointed out the institute is the impression of “hope” in relation to EU membership. Access to EU funds, new labour markets and new education opportunities have been well received, and there have been few worrying tendencies in the agricultural sector. Decreasing number of people in agriculture has not made any noticeable macro-economic impact, as increased access to education has given young people additional possibilities and thus created a foundation for optimism in rural areas.[84]

4.3 Utilization of EU funding

Although generally requiring co-financing (up to 15-15percent),[85] structural and cohesion have proven important tools for developing human capital, framing innovation and R&D, and the construction of institutions and infrastructure. However, funding is dependent upon viable projects.[86] As this funding largely came as a compensation for the opening of domestic market, an effective utilization of these funds could prove decisive for the outcome of accession.[87]

Already before accession, Poland has received more than 6 billion Euros through pre-accession programs such as ‘PHARE’, ‘SAPARD’ and ‘ISPA’.[88] Although experiencing initial problems regarding slow absorption of structural funds, simplified domestic regulations regarding the use of EU funds and increased administrative capacity has improved Poland’s capacity to utilize these funds. The PHARE program became essential in bringing Poland to the standards of a European market economy and to contribute in building democratic institutions and a viable civil society.[89]

Despite positive developments, it is worth noticing that although competition for project funding increased innovation and entrepreneurship among local authorities is has also created a lot of waste as resources were spent on technical and economic documentation which failed to get funding.[90] Critics have pointed out to a lack of coherence in particularly the IROP funding. Due to its decentralized nature, the utilization of funds has differed between regions and locations in their implementation.[91] This has made it difficult to fulfil bigger projects involving different municipalities within regions.[92]

In the period ranging from 2004-06 Poland received EU support of 7.3 Billion Euro, the largest share in the 'Integrated Regional Operational Programme' (IROP), taking receiving 39 percent of the total. These funds were mostly directed to modernization of the regional infrastructure, receiving 59 percent of EU support and covering the more costly infrastructure projects, but also at strengthening the development of human resources as well as local development.[93]

Approved by the European Commission in 2007, the 'Operational program 2007-2013: 'Developing Eastern Poland' is directed towards community investment for the five regions of Warminsko-Mazurskie, Podlanskie, Lubelski, Pordkarpackie and Swietokrzyskie. Stimulation economic growth and development through modernization of the economic structures and infrastructure projects will be important tools to reach the strategic objective to accelerate the socio-economic development. Of the around 2.8 billion Euro in total fund, only 0.4 billion is funded through National Public Contribution.[94] As several of these regions traditionally have benefitted from trade with Ukraine, Belarus and the Russian Kaliningrad district, the implementation of the Schengen visa regime have complicated this trade.[95] It will therefore be important to contribute to economic development in these regions in order to compensate for the costs of exclusion from its traditional markets.

Structural transfers might make up a small amount compared to expected inflow; however, it is predominantly aimed at different segments of the economy. In some regions such as Opole, cohesion funds have equalled to one year one year budget revenues.[96] This makes the public impact of cohesion funds essential. As the investments are largely directed towards transportation infrastructure and at co-financing projects in education, training, infrastructure and enterprise sector, these funds forms have produced visible benefits (particularly in infrastructure) and therefore provide major incentives for structural change and modernization.[97] Moreover, structural funds are also believed to promote a more transparent business environment and reduction in corruption, hence making the country a more attractive location for investment.[98]

High Ranking Polish officials, among them Minister for Regional Development; Izbieta Bienkowska claimed in March 2010 that Poland's use of EU funding have been the most efficient of all new member states. Polish EU experts have contended to argue that skilful and efficient uptake of EU funding has been a key reason why Poland as the only EU country avoided recession in 2009. Other economists have not been fully convinced, rather pointing to its large consumer market and strong fundamentals to explain this success.[99] Leaving this question open, but acknowledging Poland established itself as the main beneficiary of EU funds in 2009.[100] Based on this, the country arguably has developed a promising absorption capacity of EU funds.

4.5 Foreign Direct Investment

The prospect of attracting FDI is normal reason for seeking economic integration with other countries, and an important tool to incorporate the economy into pan-European and global market.[101] Thus and fundamental feature of EU accession is prospects of future opportunity of higher economic growth and belief of increased and new waves of FDI. Acknowledging that FDI in itself is not a guarantee for economic modernization, examples such as Ireland's economic transformation highlights its potential. Often referred to as the 'Celtic miracle', Ireland actively used its EU accession to attract FDI that strongly contributed to promote prosperity, economic growth and modernization, as well as a change of production and trade structures and increased funding for' Research and Developments' programs.[102] This led to rapid development and contributed to establish Ireland as one of the most modern economies in the world.[103]

Poland's potential for attracting FDI was clearly shown throughout the 1990s. As FDI rose from around 7.8 million USD in 1995 to 36.5 million USD in 2000, Poland established themselves as the largest recipient of FDI among the EU-10.[104] Looking at the 1990s in total, FDI to Poland rose on average by remarkable 44 percent per year in the period from 1991-2000 economy.[105] As a consequence, as FDI soon exceeded the limited domestic sources of funding, FDI became a major source of financing Poland's economic transformation.[106]

According to a 2003 OECD study, predicting that EU accession could more than double the inward stock of FDI relative to GDP in Poland, making a positive contribution to productivity and income growth beyond what domestic investment would be capable of triggering.[107] Benefiting from high labour productivity, moderate labour costs, safety of investments and central location, Poland have shown considerable investment attractiveness.[108] Initially, these investments were dominated by US investments such as the 'Polish-American Enterprise Fund'. However, throughout the 1990s the European share of the investments increased rapidly. Examining the development of FDI patterns, one can observe a growing dependency of FDI from EU-15, constituting to more than 80 percent of total FDI. By 2005, the US counted in 2005 for only 8 percent of total FDI.[109]

Having said that, it is keeping in mind that much of the FDI growth took place in the end of the 1990s based on the anticipated EU accession as overall GDP growth, peaking in 2000 by 9.34 million USD. However, the inflow declined in the years up to accession. In 2004, FDI inflow stood to modest 4.13 million USD, less than half of its neighbour Czech Republic.[110] These fluctuations in FDI patterns highlight one of the key challenges raised in the introduction, the challenge of building sustainable economic growth.

According to Jaworski; the link between FDI and integration is largely depended on the degree of policy reform in receiving country and its locational advantage.[111] This has also been visible in Poland. The change of government in 2000 and the subsequent 2001 parliamentary election bringing two socialist parties into power substantially slowed down the privatization process. The expected increase in FDI after EU accession initially proved true as 2004 witnessed an increase of 2.5 times the previous year. Despite this, 2005 led to a disappointing decrease of 22 percent. Amounting to only 31 percent of GDP, this placed Poland 3rd from bottom of the EU-10 ranking.[112]

Increased inflow of FDI seems to have contributed positively to economic development, and FDI as percentage to GDP reached 42.5 percent in 2009, close to the EU average of 45.5 percent. As a consequence, Poland has established a significant FDI dependency of its economy and has exposed the country to the vulnerability of international markets.[113] The latter been shown by the overall FDI decline in the aftermath of the 1998 Russian crisis,[114] but also slumps such as the 2.16 billion USD compared to the 4.17 billion USD inflow of 2004 have highlighted the volatility of FDI dependence.[115]

Since accession, FDI inflow has risen from 10.2 billion USD in 2005, 19.6 in 2006 and peaking with 22.6 in 2007.[116] Since then FDI has steadily declined from around 14.7 billion USD in 2008, to 11.4 billion USD in 2010.[117] However, much of this decline is expected to be related to the global financial crisis. When assessing FDI trends it is worth noticing that FDI as percentage of gross capital formation has declined 25.7 percent in 2007, to 12.6 percent in 2009.[118] Consequently Poland has become less dependent on FDI and arguably the economic growth highlighted in chapter 4.1 has become increasingly sustainable.

4.6 Employment and migration

Having struggled with job shortages and soaring unemployment throughout the 1990s, reaching 19.9 percent in 2002, unemployment has been an important push factor for accession. Furthermore, calculations from the Poland's 'Central Statistical Office' (GUS) shows a GDP and unemployment as highly interlinked, as unemployment reached its peak in 1998 when GDP growth stood at its lowest.[119] Statistics from the European Commission shows that as much as 69 percent of the population in the EU-10 countries pointed to unemployment as the main factor for poverty and social exclusion, compared to 50 percent in EU-15.[120] This makes the development of the labour market of particular importance in assessing the state of the transformation of the Polish economy.

Accession did not make an instant impact on unemployment rate. Although decreasing from 2003, approximately 19 percent remained unemployed at the end of the year, making Poland rank among the highest in EU-25.[121] Although decreasing from since accession, 2005 unemployment rate stood to 17 percent and consequently leaving 10-12 percent virtually unemployable. Moreover, youth employment (15-24-year-olds) stood at more than 40 percent, more than twice than EU-15.[122] Examining the trends of the labour market, EUROSTAT data showed a decline in the unemployment rate to about 10 percent in 2007, meaning that unemployment rate had declined by almost a half compared to the time of accession.[123]

Seeking to explain the positive development in employment rates, Kolodko has pointed to a constant rise in labour productivity throughout the accession period.[124] Other reports such as a 2007 World Bank report highlight the development as demand driven, hence not be explained by pointing to increased flexibility, deregulation or active labour market policies.[125]

The increased mobility since the 2004 enlargement has been closely observed by both researchers and policy makers. Although it is too early to make any concluding regarding the long term effects, it is expected to influence the demographic, social and economic situation in the sending country as well the receiving areas.[126]

Flexibility of capital and labour has been considered an important tool for bringing down the social cleavages between West and the East. The 2004 enlargement with its subsequent opening of the markets have prompted new patterns of competition, migration and adjustments in national labour market regimes. Accounting for more than 80 percent of the migrant workers to UK and the Nordic countries, Poland along with the Baltic States, Poland has emerged as a main sending country of the EU-10 countries.[127] This increase has been noted both as short term and long term (more or less than 12 months) migration.[128] Based on data from the 'Polish Labour Force Survey' (BAEL), it is estimated that at least 60,000 emigrated after the 2004 accession by end of 2006, and a further 84,000 leaving by the end of 2007 suggest an amount closer to 84,000.[129]

Looking at the pre-accession period, the majority of migrants possessed education below vocational level. However, since accession Polish migrant are increasingly younger and better educated. Highlighting this, close to 80 percent of migrants is under the age of 39, with the age group 25-34 accounting for 40 percent. Further, the share of migrants with tertiary/academic education have risen from 16.5 percent in the pre-accession period has increased to 33.7 percent in the post post-accession period.[130] Moreover, migration has become more diversified in terms of duration, destination country, personal motivation as well as personal profile of migrants.[131]

Despite this diversification most migrants still come from the less developed regions such as Lubelskie, Malopolskie, Podkarpackie and Swietokrzyskie, all regions displaying a relatively low economic participation rate and where a high proportion of households live on social benefits or pensions. As a contrast, the region of Mazowieckie with the capital Warsaw sends few migrants and has overall low density of outflow.[132] This may suggest that Poland as a whole benefits from migration; however the picture is more mixed.

Economic theory argue that massive outflow will evidently lead to declining unemployment rates, increasing number of domestic vacancies, higher wages, and growing demand of foreign labour.[133] Research undertaken by Kepinska (2007) suggests that migration have served as a labour market relief. This tendency is also observed by 'GUS' figures from one which can observe correlation between increasing migration and falling domestic unemployment in the post-accession period.

Neo-classical economic theory tends to perceive migration is largely perceived as a result of wage differentials and as mean reduces inequalities in wages and living conditions.[134] Highlighting the economic benefits of working in Western Europe; research by Kaczmarczyk and Okolski (2008) suggest a tendency of migrants willing to exchange qualified jobs in Poland for better paid but subordinate positions in their destination countries. This arguably highlights a potential of a 'brain-waste', and does not strengthen incentives for investments in training and education.[135]

This migration of skilled labour might pose a future problem for Poland. Although average wages have risen steadily, peaking with a 6 percent rise from 2007 to 2008, Poland still remains far behind Western Europe.[136] Being unable to compete on wages, Balcerowicz (2007) observed a growing tendency of shortages of skilled workers, particularly in the health care sector.[137] Similar tendencies are noticed also in other sectors. Particularly since 2006, an increasing number of Polish companies have reported difficulties in filling vacancies, particularly in the sectors of manufacturing, trade, hotels and restaurants and construction.[138] However, recent studies by the 'Office of the Committee for European Integration' suggest an increasingly temporary character of the migration.[139] The fear of brain-drain is to some extent also contradicted by public opinion polls from 2007 and 2008, showing a decreasing number of people interested and economic emigration and growing will to of emigrants to return to Poland. Among the reasons were "considerably greater development opportunities".[140]

4.7 Monetary situation

According to the Copenhagen criteria, adherence to aim of entering into the EMU is a required duty for any new member state.[141] This was further stressed by the Maastricht-treaty who requires all new member (with the exception of the United Kingdom and Denmark) to aim to join the EMU.[142] The goal of the EMU is to establish a stable macroeconomic framework of low inflation, no exchange rate risks, sustainable fiscal positions of member countries and an absolute free capital movement.[143] Adopting the Euro will therefore be a vital decision, which possibly will ensure good conditions for strong economic growth.[144] Throughout the 1990s Poland has actively sought to harmonize its legal framework with EU law. A central element of this process has been the Balcerowicz stabilization plan from the early 1990s with EU related goals in the monetary policy. Particularly the new constitution and central bank's law of 1997 were important steps forward. By prohibiting central bank financing of budget deficits and the institutionalization of its rule forbidding public depth to exceed 60 percent of GDP and reforms regarding central bank autonomy completed in 2003, Poland's economy were shaped after the principles carved out by the Maastricht treaty. However, fulfilling the criteria includes the maintenance of an inflation rate of maximum 2.3 percent, maintain a budget deficit of less than three percent of GDP and maintain the level of government debt of maximum 60 percent of GDP.[145] Despite having yet to come within the limits of the Maastricht reference values; Poland's recent development has fuelled optimism. In the period from 2000, to 2009, its inflation rate declined from 10.1 to 2.9 percent.[146] In the same period, Poland's interest rate was brought in line with the top EU performers.[147]

As established in chapter 4.1, the vast majority of Poland's economy is increasingly based on the single market. As 2007 figures shows that more than 77 percent of exports and 73 percent of imports were coming from EU countries, one can argue that access to the single market have been a positive factor for economic growth.[148] Based on this dependence, there seems to be clear benefit in joining the EMU as soon as possible, however, Poland also enjoys some benefits of staying out. Despite appreciation of the zloty in the period up to accession, 2004, exports grew by 25.6 percent, the 3rd highest growth rate among the EU-10.[149] This can largely be explained by the lowered costs of servicing foreign debt, a weaker inflationary pressure and the possibility to more affordable imports of technology used to modernize its economy.[150]

Having a different economic structure than other EU countries; high participation of agriculture, more people employed in industry and few in services, the country has its main comparative advantages in labour intensive and low to medium technological advanced goods.[151] These are industries that have witnessed a strong decline within the EMU, largely because of increased production costs. As growth in technology intensive export in the 2000-2007 period have not been significant, Poland is still very dependent on raw-material intensive and labour intensive production in which the country benefit production costs but also a skilled labour force. This shows that Poland have yet to achieve the same industrial structure as the EU-15. Until the economic structures have been sufficient synchronized, there are many potential disadvantages of having a monetary policy run from Brussels, particularly in terms of rising inflation the moment of accession.[152]

Despite a clear majority of population and institutions being in favour of membership, the picture is less clear when it comes to the adoption of the Euro. Many citizens, particularly from lower income segments fear that an introduction of Euro will increase the prices of primary goods, which in Poland is about 50 percent below the average of EU-15.[153] Although reports from the Polish National Bank have argued that this will only be a short-term effect that will be evened out by increased competition and lowered inflation, large parts of the public is not yet convinced.

The EMU accession debate has also highlighted some domestic political tensions as the Poland's two major parties, the conservative 'Law and Justice' PiS. Having on several occasion expressed scepticism towards economic liberalism and fronted traditional family and religious values, including tax breaks and state aid for the poor, PiS founded an minority government after the 2005 election, supported by the radical right-wing parties of 'Samoobrona' (Self Defence) and the ultra-conservative league of Polish Families' (LPR). This has conflicted with the views of Poland's other major party, liberal-conservative Citizens Platform (PO). With 'business friendly' image, framing de-regulation, hastening of privatization and as quick as possibly Euro adoption. [154]

This coalition halted Poland's drive towards Euro until it was replaced by a 'PO' dominated coalition in 2007. Then new prime minister, Donald Tusk had been promising to accelerate economic growth, increase pensions and social benefits, major investments in infrastructure, reform of healthcare system, flat income tax, encourage Polish emigrants to return home and invest and to combat corruption. This outward looking approach created renewed optimism among those eager to introduce the Euro.[155]

4.8 Popular support

Despite the opposition from the Polish right wing, support for accession remained high throughout accession period, reaching its peak of 80 per cent in May 1996. Despite this, there were considerable amount of concern regarding both the result as well the turnout of the referendum. After having implemented close to 2,683 EU directives, there were signs of fatigue with systemic reforms and a lengthy process.[156] However, accession was approved by a 59 percent turnout, in which 77 percent votes yes to membership.[157] Surveys undertaken in the aftermath of accession furthered strengthened the positive impression of the population. Many regarded the accession as one of the country's greatest successes.[158] In addition to highlighting the improved economic and political image, the strong initial improvement had positive benefits on public opinion. It is particularly worth noticing that popular support in rural and agricultural communities increased from 20 to 70 percent in the period from early-2004 to April 2005. Despite disappointments regarding insufficient growth of wages, the prices of living costs have increased to smaller extent as expected, thus fuelled popular support for the accession project.[159] The image of strong popular support was again highlighted by CBOS's April 2007 issue of 'Polish Public Opinion' in which 86 percent expressed support and only 7 percent expressing being against.[160]

In the light of this research it is particularly interesting to notice that the number of people stating that the Integration with the EU brings Poland brings "more gains than losses" increased from modest 39 percent in 2004, to 64 percent in 2007. The same trend is observable in the question of whether the integration with the EU brings you personally "more gains than losses", increasing from 24 percent to 40 percent in the same period.[161] A growing number connected the situations in the employment market with accession. Further, the number of people considering Poland to be a main beneficiary of the EU extension outnumbers the people expressing the opposite.[162] This stability of positive polls suggests that that a significant number of citizens have experienced visible benefits; and maybe more importantly, linked the good economic situation and improved living conditions to the EU accession. This gives Polish politicians a strong mandate to carry on further required reforms such as the introduction of the Euro.

5. Conclusion

5.1. Preliminary assessment of the adjustment process

This study has attempted to determine to what extent Poland EU accession can be said to have fulfilled its expectations of economic development and created a foundation for its future ambitions of achieving economic convergence with the wealthier Western-Europe. To achieve this, Poland would have had to successfully take advantage of business opportunities in the Single market without being damaged by the competitive pressure on its home market and adapting to standards and regulations.[163] Having examined key macroeconomic data, the evolvement of regional disparity and the agricultural sector, utilization of EU funding, FDI flow, employment and migration, and the monetary situation – as well the trends of popular opinion, it seems justifiable to argue that most of the fears and pessimistic scenarios related to the inadequate preparation from the pre-accession period have not materialized.

The years from 1999 and onwards has represents a period of unprecedented economic growth and positive development of macroeconomic indicators. Economic reforms through harmonization and transposition of EU legislation seems to have created a better business environment and contributed to economic growth. This has been particularly noticeable in the agricultural and industrial sector where opening of borders and elimination of barriers rather benefited Polish producers by reduction costs of trade and transportation.[164] Contradictory to the pessimistic scenarios before accession, EU has become a vital market for Polish agricultural products. Having said this, Poland's improvements and modernization of its agricultural sector has been heavily reliant on EU funds. Despite a steady decline, the sector still employs a disproportionate amount of people as to its percentage of GDP, a continuous use of these is required in order to maintain uphold the positive growth.[165] Regional disparity have been highlighted as a key issue throughout the accession period, and still represent a fundamental challenge as recent growth figures has shown that the largest growth have occurred in and around the special economic zones.[166] Although FDI has contributed positively to the growth in Poland's national economy, it has made it more difficult to address regional disparities. Therefore, the transfer of EUR 13 billion to rural areas in the years 2007-2013 represents an enormous opportunity in terms of accelerating modernization and structural changes and development.[167]

Benefitting from having a large market with very high potential for development, low production costs, high qualification, and easy access to particularly Russian and Ukrainian markets; Poland has also experienced a steady growth in share of foreign investors in stock market.[168] This has arguably increased the pace of economic growth, livened up many economic sectors as well as contributed to stimulate Poland's international competitiveness.[169] This FDI fuelled expansion is also singled out as a key reason for the doubling of Poland's share of world exports doubled in the period from 1995-2005.[170] This does not mean that there are no reasons for concern. As much of the economic growth based on structural funds and CAP transfers Poland has become very dependent on external financing in its economic growth.[171] Highlighting this, data from the 'Institute for structural research' EU funds responsible for half the 2009 growth.[172] Previous slumps has proven the volatile and insecure nature of such funds, thus it is vital to establish sustained economic growth for the future.

Despite the economic expansion, Poland increasingly ratcheted up their current account deficits in the period from 2002-2007. Despite to some extent compensating for this by keeping a relatively low share of 'Foreign Currency Loans', Poland has become increasingly dependent on FDI in order to maintain a balanced fiscal policy. Acknowledging Jaworski's argument that since participation in the EU put huge demands on the administration capacity, institutional modernization should be considered more important than fiscal imbalances,[173] these fiscal imbalances are arguably obstacles to full integration.

Ironically, Poland has to some extent Poland benefitted from its underdeveloped banking sector. Where as in Ireland, amount of assets held by the banking sector in relations to GDP stood to around 900 percent, the same figure for Poland is 60 percent.[174] This helped the country to avoid the 2008-2009 financial crises, through which Poland not only avoided an overall decline in stark contrast to other central European countries and the Baltic States, but maintained growth.[175] By pursuing responsible fiscal policies including maintaining low inflation and limit on loans in foreign currency have improved overall economic performance and controlling budget deficit.[176]

The combination of positive changes and lack of obvious disadvantages related to EU membership have also been reflected in the popular opinion, as an increasing number have expressed support for the European project. Opposed to expectations of price growth as result of EU-accession effect, the increases in prices has been lower than expected.[177]

5.2. Prospects for the future

Poland's economic development in the accession period highlights a stable economy. Political stability, steady economic development and most lately the remarkable growth during the financial crisis has earned Poland increased stature within the Union.[178] Fuelled by an improved labour market, structural transfers and investments in infrastructure, Poland's economy is forecasted to grow twice the EU average in 2011.[179] By strengthening its political ties with European states such as Germany and France as well as other 'Visegrad' countries, Poland has arguably stated its belonging to Europe.[180] As the country is preparing for its stint in the rotation EU presidency for second half of 2011, it seems like Poland is emerging as a player rather than a playground in European diplomacy.[181]

Despite having enjoyed higher economic growth than the EU average, a 2010 report from the 'Centre for Social and Economic Research' points out that Poland would have to grow more than twice as fast to converge with the richer central European Countries.[182] Acknowledging this, recent budget deficit might become problematic. So far, the expected 2011 budget deficit does not seem to scare investors.[183] However, reports of failures to raise the required co-finance infrastructure projects, thus being able to utilize all funds allocated are not able to spend all funds allocated.[184]

The combination increasing inflow of EU funds, improved labour market and increased real wages has contributed to a rise in consumption.[185] This is also confirmed by the ‘National Bank of Poland’ who highlights stable increased in individual consumption and fast growth in public investment, supported by EU fund as the main reasons of economic growth in 2010 and for 2011.[186] As economic growth seems to be increasingly driven by domestic consumption, Poland might arguably be about to ease its dependence of structural funds and FDI.

As pointed out in chapter 4.1 and 4.5, a main challenge will be combating unemployment and even out regional differences. Having established that structural funds have proved an important tool for delivering growth and jobs, the operational program “2007-2013: Developing Eastern Poland” arguably plays a vital role in addressing regional disparities and ensure sustainable growth. Despite showing in positive development, as of 2010 the lowest average monthly wages and salaries were observed in Poland’s poorest regions stood to 16.5 percent less national average, and 26.6 percent less than wealthiest regions.[187] Taken into account Sissenich’s (2005) argument that EU lacks the redistributive effect required to address socioeconomic concerns in new member states,[188] success of the such programs might also prove vital in maintaining popular support for further European integration.

Despite disproving fears suggesting that lack of competiveness of would lead to higher unemployment has, unemployment remains high compared to EU-15 average. From an optimistic point of view, recent report the last report from ‘Centre for Social and Economic Research’ predicts unemployment to fall to10 percent and possibly also below in 2011. Further it also predicts rising wages and improved purchasing power.[189] Thus a maintaining the positive growth trends will remain a vital policy objective in order to catch up with the wealthier nations of Europe.

Rising demands for labour, economic growth and aging populations has made labour immigration indispensible for many Western European countries.[190] Being unable to compete on wages, this is likely to pose and significant challenge for Poland. Being a net migration country; Poland suffers a heavy risk in losing people with university education, professional competence or managerial or entrepreneurial skills.[191] The loss of citizens with high level of human capital can not only deteriorate the quality of workforce, but also be seen as a possible wasteful use of public resources and finances in education and training. This would make it challenging to even out the education gap to EU-15.Migration of skilled labour can potentially strengthen the incentives for investment in education and thereby boost Poland’s innovation and competitiveness. As mentioned in chapters 4.3, the influx in investments has helped creating new jobs in sectors desirable for developing a modern economy. However, although some reports suggest a change in migration patterns, it is still too early to tell whether the young and educated migrant will return to Poland or choose to settle abroad. Having established that migration has reduced unemployment, a main challenge for Poland will therefore be to find a correct balance between internal growth and external migration to avoid domestic shortage of skills and labour.

Despite succeeding in reducing its budget deficit to 1.9 percent in 2007; it rose to 3.7 percent in in 2008, and 7.2 percent in 2009, again bringing general government debt above 50 percent of GDP.[192] Maintaining growth through crisis has made it impossible to meet the Maastricht criteria for EMU.[193] An estimate of 2011 predicts a GDP growth of 3 percent; however, the 2010 estimated budget deficit of 56.5 percent.[194] As a consequence of growing fiscal deficits (it must be mentioned that this also has applied to all other countries in the Eurozone), Poland at the beginning of 2011, Poland only fulfils the interest rate criteria for accession. Consequently, Poland has yet to enter into the EMR-2, of which two years of compliance is a pre-requisite for prospective EMU countries.[195] This has rendered EURO adaption till at earliest 2015.[196]

The scope for monetary policy autonomy has arguably been beneficial in meeting the financial crisis, thus does not suggesting a pressing demand for joining. On the contrary, there are considerable arguments in favour of joining. Eliminated released costs related to currency fluctuations (estimated to 0.2 percent of GDP), could be allocated elsewhere. This would not only increase efficiency of business transactions, but would also lead to a dynamic efficiency gain, eventually magnifying an initial rise in per capita output.[197] The case for joining is also supported by the Mundel-theory of optimal currency area which states that; “welfare gains from adhesion to monetary union are likely to increase with the degree of openness of an economy”.[198] It is also estimated that the elimination of risks related to exchange rates would mostly benefit small and medium size businesses.[199] Further, it is believed that investors are attracted by safe stability and predictability, thus accession could encourage investments both from within and outside the Euro-zone. This is also supported by OECD who highlights Euro adaption as in important tool to ensure a balanced growth and as maximization of economic benefits.[200] Given Poland’s trade integration with the EU and increasingly synchronized economic structures, the benefits of joining the EMU are likely to outweigh the costs.[201]

However, achieving medium and long term benefits of the EMU involves considerable short term costs.[202] This has arguably fuelled public scepticism to the Euro and will make policy reforms challenging.[203] Arguably the current economic crisis makes it a bad timing for joining the EMU. A national run monetary policy will enable Polish national authorities to protect its citizens again recession and rising unemployment rate, hence the Euro would be an external burden in times where many most countries seek flexibility.[204] Moreover, Poland would give up its ability to modify its interest rate to alter an unexpected change in the balance of export and import.[205] However, the failure to meet the Maastricht criteria underlines the substantial disparity of Poland’s economy compared to countries of more developed economic structures.

Having said this; the September 2010 report from ‘Deloitte’ and ‘The World Economic Forum’ describes the Polish economy as both stable and increasingly competitive. The report hails large domestic market, high educational standards and a well-developed financial sector is positive factors, but points out transport infrastructure and government inefficiency as key sectors for improvement.[206] The potential for improvement is also highlighted by the 2010 ‘United Nations Conference on Trade and Development’, which argues that Poland needs to improve both its political and business environment in order to become more attractive to foreign investors.[207] Studies by Åslund (2006) and OECD have mentioned high public expenditure, relatively high taxation and inflexible labour markets obstacles to increased growth.[208] With 2011 parliamentary elections approaching, one can expect Polish government to remain vary of implementing major structural reforms to cut spending and ensure sound public finances.

5.3 Concluding remarks

As mentioned at the beginning of this project, Poland’s EU accession is a relatively recent event. It must therefore be stressed that EU integration is predominantly based on a long term assumption of increased stability and economic growth. Consequently, the long term impacts of EU accession can only be studied after several years, thus there is little or no evidence to support any absolute conclusions. Throughout the accession period Poland has not identified any alternative economic interaction with the EU. Nevertheless, some estimates about the pre-accession period suggest that Poland’s GDP growth were approximately 1 percent higher than if the country would have remained outside of EU.[209] Similar findings can be found in a study in a study by Lejour, de Mooij and Nahuis; arguing that 8.7 percent higher GDP by 2020 as an EU member.[210] However, this question remains open. Due to the variety of influencing factors it is hard to give a precise identification of the ‘accession effect’.[211]

Acknowledging that European integration has not been the only source of influence to the developments of the Polish, this project has not covered all aspects of the transformation process that can affect the economic country’s development. This project therefore acknowledges that domestic factors such as political system and cultural factors, or external and geopolitical factors such as geographical location, neighbours, natural resources and the regional and global economy as a whole can make significant impacts beyond domestic control. Further, it must also be mentioned that other factors e.g. the human the development index might be just as important in in assessing a country’s development.

Nevertheless, based on the material consulted in this research, Poland seems to have benefitted substantially from its structural reforms throughout the accession period. Although the delayed accession into the EMU zone shows that Poland still has some way to go in order to achieve real convergence with EU-15, its positive development and increasing capacity to pursue its interests within the region shows that the country cannot be classified as a ‘second class member’. Having said this; it is important to acknowledge that EU accession is on-going process. Given the constantly changing nature of EU, new challenges requiring strategic planning are continuously arising. Major reforms such as the implementation of the Lisbon treaty require the members to adapt in order to efficiently absorb financial resources from the EU budget.[212] To conclude; European integration remains an unfinished project; and it will be very interesting to look at the consequences and impacts both for Poland as well as EU as a whole.

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Date written: January 2011