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Effects of the Transformation of the Economy of the Republic of Poland in the Process of European Integration: Foreign Economic Aspect

Abstract. Introduction*. In the twenty years since Poland joined the European Union, it has significantly closed the gap in macroeconomic indicators. Access to the single European market has enabled the Polish economy to outpace that of many other member states. In the foreseeable future, Poland aims to catch up with European leaders.*

Purpose*. The study aims to analyze the effects of the transformation of the Polish economy during the process of European integration, focusing on the foreign economic aspect.*

Results*. Poland has made more impressive progress than its Visegrad Group partners during its time in the European Union. This suggests that Poland was able to take fuller advantage of the opportunities afforded by EU accession than its neighbors. First, unimpeded trade with EU countries significantly contributed to Poland's economic development. Second, the influx of foreign investment positively impacted the economy, enabling it to modernize and restructure. However, unrestrained foreign capital expansion could result in a de facto loss of national economic control. Foreign-controlled enterprises account for more than a third of Poland's production. Foreign capital dominates banking, insurance, telecommunications, the hotel industry, retail chains, and other sectors.*

Conclusions*. Thus, the EU's influence on the country's development cannot be evaluated definitively. For Poland, joining European integration has become a guarantee of stable political and economic development, offering the opportunity for accelerated modernization. However, it was also a challenge. If the country responded inappropriately, it could have failed to find its niche in the European economy and lost the competitive battle. Poland seized this opportunity effectively, primarily due to the efforts of its government and citizens. Poland has finally become an integral part of the European Union. It has moved beyond being primarily a consumer of the benefits of European integration and is now ready to contribute to them.*

Keywords*: foreign economic relations; foreign trade; export; import; investment; Poland; European Union; European integration; economic transformation.*

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Ефекти трансформації економіки Республіки Польщі у процесі євроінтеграції: зовнішньоекономічний аспект

Анотація. *За двадцять років перебування Польщі в Європейському Союзі вона зуміла значною мірою ліквідувати відставання за макроекономічними показниками, а доступ до єдиного загальноєвропейського ринку дозволив польській економіці за результатами економічного розвитку випередити багато країн-членів і в найближчій перспективі ставити завдання зрівнятися з європейськими лідерами.*

Метою дослідження є аналіз ефектів трансформації польської економіки в процесі євроінтеграції з акцентом на зовнішньоекономічний аспект.

Обґрунтовано, що за час перебування в ЄС Польща здійснила більш вражаючий економічний ривок, ніж її партнери з Вишеградської групи. Це дає підстави стверджувати, що існували фактори, які дозволили їй повніше, ніж найближчим сусідам, використати можливості, що відкрилися після вступу до ЄС. По-перше, в економічному розвитку Польщі важливу роль відіграла можливість безперешкодної торгівлі з державами ЄС, а по-друге, надходження іноземних інвестицій мало безперечний позитивний ефект, дозволивши модернізувати економіку та перебудувати її структуру. Водночас необмежена експансія іноземного капіталу може призвести до фактичної втрати національного контролю над економікою. На підприємства, що перебувають під іноземним контролем, у Польщі припадає понад третину обсягів виробництва. Іноземний капітал домінує у банківській сфері, страховому секторі, телекомунікаціях, готельному бізнесі, мережах роздрібної торгівлі тощо.

Таким чином, зроблено висновок, що вплив ЄС на розвиток країни не може бути оцінений однозначно. Приєднання до європейської інтеграції стало для Польщі гарантією політичної та економічної стабільності, надавши можливості для прискореної модернізації. Водночас воно стало й викликом, за неналежного реагування на який країна могла не знайти своєї ніші в європейській економіці та програти конкурентну боротьбу. Польща використала цю можливість надзвичайно ефективно, і в цьому, передусім, заслуга уряду та громадян країни.

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Держава остаточно стала невід'ємною частиною Європейського Союзу: вона пройшла етап, коли була переважно споживачем благ європейської інтеграції, і нині готова брати участь у їх створенні.

Ключові слова: *зовнішньоекономічні відносини; зовнішня торгівля; експорт; імпорт; інвестиції; Польща; Європейський Союз; європейська інтеграція; трансформація економіки.*

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Formulation of the problem. Poland's twenty years in the European Union are invariably presented as a success story. The country was once one of the weakest in Europe, having emerged from nearly half a century of communist rule. However, thanks to EU accession, it has managed to significantly close the ga and aims to catch up with European leaders in the foreseeable future [7].

Analysis of recent research and publications. Today, numerous studies have appeared devoted to this topic. For example, R. Rapacki and M. Prochniak analyze the relationship between EU membership and economic growth based on empirical data from Central and Southeastern European countries [13]. J.L. Wong Villanueva, T. Kidokoro, and F. Seta focus on the features of cross-border integration, cooperation, and governance effectiveness in cross-border regions [15].

At the same time, we believe that issues related to the specifics of reforming individual national economies during European integration require in-depth research.

Formulation of research goals. The study aims to analyze the effects of the transformation of the Polish economy during the process of European integration, with a focus on foreign economic aspects.

Presentation of the main research material. This paper employs system analysis methods to examine Poland's trade and economic relations as components of its national economic system during its transformation. Additionally, it uses structural and comparative analysis methods to study significant changes in Poland's macroeconomic and foreign trade indicators in the context of its EU membership.

Indeed, the Poles have much to be proud of. When Poland joined the European Union in 2004, its GDP per capita was only 51,5% of the EU average. Compared to larger countries such as Germany (122%) and France (112%), it was even worse. Poland lagged behind most of its regional neighbors, ranking ahead of only Latvia and Lithuania. As of 2023, however, Poland's GDP per capita had reached 80% of the European average, surpassing that of Greece and Portugal. Catching up with Germany is now on the agenda.

The country's GDP has grown significantly in absolute terms. While it stood at €206 billion in 2004, it exceeded €750 billion in 2023, representing a 3,5-fold increase, despite inflation remaining below 3-4% for most of this period. This figure is not only the highest among its regional neighbors, but also in the entire European Union [4].

Thanks to rapid economic growth, people's financial situation has significantly improved. The average monthly salary increased from 2,300 zlotys in 2004 to 7,150 zlotys in 2023. Even considering the accelerated inflation of recent years, the average Pole's income has increased by 140%. When adjusted for purchasing power parity, Poland's average salary surpasses those of all its regional neighbors and is quickly approaching the average salary of "old" EU member states. The minimum wage has also increased. In 2003, it was only 800 zlotys; however, as of January 1,2024, it will exceed 4,200 zlotys. Meanwhile, the unemployment rate has fallen. In May 2004, it exceeded 19,3%; by the end of 2008, it had dropped to 8%; and in January 2024, it stood at 2,9% [2].

Given the rapid growth in prosperity, it's no surprise that support for EU membership remains high. Most Poles understand the benefits of EU membership for their country. Although many initially expressed apprehension, support has remained high in recent years, reaching 92% in 2022 [11].

Given such rapid growth in prosperity, it's no surprise that support for EU membership remains consistently high. Most Poles understand the benefits of EU membership for their country. While many initially expressed apprehension, support for EU membership has remained consistently high in recent years, reaching 92% in 2022 [11].

Regarding Poland's successes, it should be noted that it has made a more impressive leap than its Visegrad Group partners during its membership in the EU, outpacing Slovakia, the Czech Republic, and Hungary. At the same time, however, Bulgaria and Romania (although they started from a very low base) and the smaller Baltic states, which receive record-breaking European subsidies per capita, have grown more significantly. This suggests that although Poland's experience is typical of Central and Southeastern European countries, it had factors that allowed it to take fuller advantage of the opportunities afforded by EU accession than its neighbors did [1].

According to Polish economists' calculations, access to the EU's internal market – with its approximately 450 million consumers and contribution of nearly 15% to global GDP – has been far more significant to the country's economic development than the subsidies it receives from the EU. While European funds added only 0,3-0,5% to annual growth, access to the single European market accelerated GDP growth by 1,6-2,1%. Thus, free trade has a 4-5 times greater effect than EU budget funds [1].

Had Poland not joined the EU, its per capita GDP in 2021 would have been 31% lower, remaining at the level it reached in 2014 [14].

EU countries indeed account for 75% of Poland's imports and 50-60% of its exports. Furthermore, over the past 20 years, exports have grown by 478%, while imports have grown by 295%. Thus, Poland's trade balance with the EU is positive [8].

In 2023, the top three destinations for Polish exports were EU countries: Germany (27,9%), the Czech Republic (6,3%), and France (6,1%). Two of the top three import partners were also EU countries: Germany (19,8%) and Italy (4,9%). China was sandwiched between them with 13,9%. Seven out of Poland's top ten trading partners were EU members, both in terms of exports and imports [14].

The figures speak for themselves, and it's difficult to dispute the significant role that unimpeded trade with EU countries has played in Poland's economic development. However, two factors should be considered to fully assess this.

First, the EU's share of Polish exports has remained roughly constant for 20 years, while its share of imports has declined. This means that, in 2023, the EU's share of Poland's trade turnover was the same as in 2004 and showed a downward trend. This suggests that trade with third countries has developed at least as rapidly despite the constraints. Therefore, the importance of access to the internal market may have been exaggerated.

First, it's conceivable that the EU's role in Polish trade will diminish over time as non-European markets grow faster and offer greater opportunities for developing business ties.

Second, EU accession did not represent a turning point in the development of Polish trade. Trade has grown steadily since at least the mid-1990s. When difficulties have arisen, they have primarily been due to global economic fluctuations, such as during the 2009 financial crisis or the 2020 restrictions imposed by the Coronavirus pandemic. Trade with the EU is no exception, which is unsurprising since a significant portion of the barriers were eliminated during the pre-membership phase. As early as the early 2000s, 60-65% of trade turnover, including nearly 100% of industrial goods trade, was carried out duty-free [3].

Thus, lifting trade restrictions with the EU significantly contributed to the reorientation and modernization of the Polish economy. However, it did not require EU membership and could have been achieved through other forms of cooperation [5-6].

Unlike foreign trade, foreign direct investment is not as transparently dependent on EU membership.

Since the fall of communism in Poland, Western European countries have viewed the country as a profitable investment opportunity. A large flow of foreign investment began flowing into Poland in the early 1990s, reaching $10 billion per year even before the country joined the EU [3].

EU accession itself did not significantly impact capital flows in Poland because the country had already taken measures to ensure its investment attractiveness in the 1990s. These measures included lifting restrictions on foreign investors in virtually all sectors, introducing tax breaks, and allowing foreigners to participate in state-owned asset privatization programs. Due to the high degree of liberalization and harmonization of investment legislation with European standards, EU accession was only effective in minimizing risks for foreign investors because the European Union acted as a guarantor of the country's stable development [9].

Furthermore, the flow of foreign investment into a country depends on many factors, one of which is membership in the European Union. The level of economic development, geographic proximity, a favorable investment climate, the quality of the workforce, political and cultural ties, transport infrastructure, the size of the domestic market, the availability of raw materials, and anticipated risks are all of great importance. Nevertheless, it can be concluded that there is a correlation between EU membership and investment inflows. Without EU membership and adaptation to its regulations, Poland would hardly account for approximately a third of all capital investment in Central and Southeastern Europe [16].

Overall, although investment flows were variable from year to year, they remained relatively stable for a long time after EU accession. They declined in 2009-2011 due to the significant capital outflows that are typical of emerging markets during crises [3].

As of the end of 2022, Poland had accumulated over €250 billion in foreign investment. Of this, approximately 86% (€217,5 billion) came from EU countries, primarily Germany (€42,6 billion), Luxembourg (€35,5 billion), and France (€20,1 billion) [2].

Capital is most readily invested in industry, services, banking, and trade. The influx of foreign investment has undeniably had a positive effect, allowing the economy to modernize and restructure. Low-tech industries inherited from the socialist system have disappeared, labor productivity has increased, and the service sector has grown.

However, unrestrained foreign capital expansion could result in a de facto loss of national economic control. Foreign-controlled enterprises account for more than a third of Poland's production. Foreign capital dominates the banking, insurance, telecommunications, hotel, and retail sectors.

The 2009 crisis clearly demonstrated the negative consequences of capital outflow, which led to a sharp decline in economic growth and an increase in unemployment. Dependence on foreign multinationals for economic growth is a serious problem for all countries in Central and Southeastern Europe because these companies can curtail or relocate production at any time to countries with lower costs. This is the price of integrating into the EU market and, more broadly, of opening their economies to global processes. Along with the emergence of broad development opportunities through attracting foreign capital and growing exports, involvement in the global economy means all crises occurring there inevitably impact the region. The only alternative is a policy of economic isolation. However, this is impossible under EU membership and would be suicidal for small states with small domestic markets and shortages of domestic capital [12]

Conclusions. In summing up the analysis of Poland's economic integration with the European Union, it should be noted that the EU's impact on the country's development cannot be definitively assessed. Joining the EU guaranteed Poland stable political and economic development and offered the opportunity for accelerated modernization. However, it also presented a challenge: if inadequately addressed, Poland could have failed to find its niche in the European economy and lost the competitive battle. Poland seized this opportunity effectively, primarily due to the efforts of its government and citizens.

However, when asked how Poland would have developed better – within or outside the EU – the answer is clear: the country has no alternative to European integration. The EU has been a source of growth. Its funds have enabled structural reforms. Access to European markets has provided production with sales and citizens with opportunities for well-paid work, thereby mitigating unemployment. Had Poland decided to remain outside the EU, it would have had to deal with the same issues alone, without the support of other European states. The difficulties Poland experienced during its time in the EU were an inevitable consequence of adapting to membership in an integrated group. More broadly, they were a manifestation of the modernization of the economic and social system and its adaptation to the realities of a globalized society.

One more circumstance deserves attention. Twenty years ago, joining the EU was a powerful impetus for the country. However, the impact of this impetus is now wearing thin. Poland has adapted to the economic realities imposed by the EU, largely closed the gap with its leaders, and realized its strength and ability to cope without subsidies from the European budget. Therefore, it is no coincidence that the discourse surrounding the current anniversary of Poland's EU membership is completely different from that of five or ten years ago. Previously, the discussion focused on what the EU could offer the country. Now, however, the conversation is more about the kind of European Union Poland needs, its development prospects, and how Poles can ensure the EU meets their interests. This means that Poland has finally become an integral part of the European Union. It has moved beyond being primarily a consumer of the benefits of European integration and is now ready to participate in creating these benefits.

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