



CHAPTER 1

Introduction to Poland

1.1 Geography, Climate, Population, Language and Currency

Poland is one of the largest country located in Central Europe covering the areas of 312,683 square kilometers (120,725 square miles), part of which runs along the coastal sandy beach of the Baltic Sea on the North. Its border is attached to Germany on the West, Austria and Slovakia on the South, and Lithuania, Belorussia and Ukraine on the East. In terms of its size it ranks seventh in Europe. Poland is generally a flat country with 75% of the area below 200 meters above the sea level with mountains (the Sudety and Carpathian) in the South.

Poland has adequate water supply from its four largest rivers: the Vistula, Odra, Warta, and Bug. It also has lake districts with more post glacial lakes than any country in Europe except Finland. About 30% of the country is covered by forests which gives adequate raw material for timber product industry.

Poland has a moderate continental climate with a maritime influence along the Baltic coast. Average temperature range between -1C (30F) in January to 18C (65F) in July. Spring has warm days and chilly nights, while summer can be hot. Autumn is crisp and sunny, but winter may be severely cold with snow from December to March. Average rain fall is 60 centimeters per year, mainly in summer.¹

¹ Price Waterhouse, "Doing Business in Poland". (USA:1998), pp. 1-2

Poland has a population ("Poles") of 38.6 million (1996) for which 1.7 million live in Warsaw, its capital. As the population has been growing slowly since 1980, it is expected that the number of population will rise to 40 million in the year 2010.² The population is predominantly (90%) Roman Catholic.³

The official language used across the country is Polish⁴. Its official currency is nominated in Zloty or PLN (US\$ 1= PLN 3.49)⁵. It is fully convertible according to IMF standards.⁶

1.2 Political Environment

Poland is a parliamentary republic. The legislative power is exercised through the Sejm (Lower House) and the Senate (Upper House).

The members of the Sejm are fixed at 460 in number and are chosen at general elections held once in every four years. In turn, the members of the Senate are made up at 100 in number who serve also the same four years term. The members of the Sejm votes on laws, establishes directives for the activities of the state and supervises the activities of all other state bodies, including the appointments to the Council to Ministers. The Senate has a supervisory function.

² United Nations Industrial Development Organization in Warsaw, "Foreign Investor's Guide to Poland". (Warsaw: May, 1996), p. 6

³ Op. Cit., p. 9

⁴ Ibid, p. 7, also see The Foreign Trade Research Institute, "Poland: Your Business Partner", (Warsaw:1996), p. 11

⁵ Ibid, p. 15

⁶ Understanding Global Issues Limited, The Remaking of Poland: From Command to Market Economy", Cheltenham, England: 1996, p. 0

The executive power is exercised through the President and the Council of Ministers. The President is the Head of State and is considered as the supreme representative of the country. The President has an office term of five years and is chosen during the course of presidential elections. The President retains an influential role in the running of the government through nominating the Prime Minister and, among other powers, has the right to dissolve the parliament if it is unable to approve the budget laws or to form the government.

The Council of Ministers is appointed by a confidential vote by the members of the Sejm and approved by the President.⁷

1.3 Economic environment

The Constitution provides the foundation for basic economic reforms. The privatization process physically started in 1990 as the major step in transforming the country from centralized planned economy to market economy. In 1995, the gross domestic product (GDP)⁸ reached 7% which was the best of the six years of economic transformation in Poland.⁹ Increased GDP continued between 5.6 and 6% in 1996 and is forecasted to be 5.7% in 1997 and 4.8% in 1998.¹⁰ Such high growth rate stems from the fast increase in industrial production (by 9.4%) and agricultural output (by 13%). The rate of inflation slowed down. It dropped from 23% in 1995 to 18.6% in

⁷ The Foreign Trade Research Institute, "Poland: Your Business Partner", (Warsaw: 1996), p. 12

⁸ GDP is measured according to the rules of the System of National Accounts (SNA-1993) set by the United Nations. Specifically, it is the sum of the gross added value produced by all business entities of the national economy, calculated as the difference between the total value of goods and services minus the value of indirect consumption, expressed in the fixed prices.

⁹ Foreign Trade Research Institute, "Selected Data on Polish Foreign Trade", (Warsaw: 1996), p. 7 and UNIDO, "Foreign Investors' Guide to Poland", (Warsaw: May 1996), p. 13

¹⁰ Price Waterhouse, "Doing Business in Poland", (USA:1998), p.9

1996.¹¹ Labor productivity and production efficiency showed an improvement.

The private sector recorded fast development. At the end of 1995, the private sector's share was estimated at 45% in sold production of industry, 87% in construction, some 92% in commerce, some 57% in exports and 70% in imports. Private enterprises accounted for 62.6% of total employment in Poland.¹²

The foreign trade turnover reached a record high level (above US\$52 billion). The high growth rate of exports is still the factor stimulating the development of the Polish economy.

The growth rate of capital investment increased, indicating a replacement of productive assets in the Polish economy. Employment reported a rise.¹³

¹¹ Jewelry News Asia, "Poland: Supply Lower Than Demand". December 1997, p. 84.

¹² Polska Rzeczpospolita, "Transforming the Command Economy", Reprinted from Euromoney, September 1994, p. 1

¹³ Foreign Trade Research Institute, "Selected Data on Polish Foreign Trade", (Warsaw: 1996), p. 6

Poland: Main Economic Indicators¹⁴

Specification	Increase/Decrease in %		
	1993	1994	1995
Gross domestic product (GDP) ¹	3.8	5.2	7.0
Private consumption ¹	5.2	4.3	4.9
Gross fixed capital investments ¹	2.9	9.2	19.0
Industrial output sold ¹	6.4	12.1	9.4
Total agricultural production ¹	6.8	-9.3	13.0
Exports (on customs basis) ¹	-2.4	18.3	16.7
Imports (on customs basis) ¹	20.0	13.4	20.5
Employment in national economy ²	-1.7	1.1	0.2
Average monthly net wage/salary	31.3	32.9	32.3
Consumer price index	35.3	32.2	27.8
Budget deficit (as % of GDP)	2.8	2.7	2.7
Unemployment rate (%)	16.4	16.0	14.9
Foreign indebtedness in bn USD	47.2	42.2	43.9
Foreign debt/export receipts ratio	3.5	2.5	1.9

¹At constant prices

²Excluding employment in the Ministry of National Defense and the Ministry of Interior.

The increase of such economic indicators facilitates the process of Poland's integration with the world economy. Economic links to the European Union became closer. An increase in Poland's trade with the

¹⁴ Ibid, p. 7

CEFTA countries and eastern partners was reported. Poland joined the World Trade Organization. At the same time, it continued to adjust its legal and institutional infrastructures to the WTO and OECD norms and standards.

1.4 Brief History during the Transitional Period

Poland was a leading country in Central and Eastern Europe which took political initiatives in 1980 after more than three decades of communism. The political transformation commenced with the emergence of the Solidarity in 1979 under the leadership of Lech Walesa, the first ever free trade union outside the communist party controlled in the Soviet bloc.¹⁵ It was closely related to the Workers Defense Committee (KOR), a dissident movement of underground societies and organizations among intellectuals and workers during the 1970's.¹⁶ The Solidarity was formed as a national protest movement during the Edward Gierk's administration which mismanaged the country. Several strikes took place throughout the country forcing the Gierk's government to resign on 1 September 1980. Stanislaw Kania replaced Edward Gierk only to be replaced shortly afterwards by General Wojciech Jaruzelski, the then Minister of Defence. The Solidarity proposed a democratization program for Poland. The Jaruzelski government was forced by nation-wide protests and along with the threat of the Soviet Union's military intervention to proclaim martial law and set up a Military Council of National Salvation to replace

¹⁵ Solidarity was legitimized in 1981.

¹⁶ Vajrasthira, Prathoomporn, "The European Union's Assistance to the Visegrad Countries", Chulalongkorn University, European Studies Programme, February 1995, p. 13

the existing government on 13 December 1981.¹⁷ The Solidarity was outlawed.

Most people, however, turned down their support to the martial law regime of General Jaruzelski and gave their support to the opposition, the underground Solidarity. Although the de-centralization economic reforms had been initiated in 1982 and the martial law was lifted in 1983, the government was unable to call for support from the people who were still disillusioned with the government and the failure of the de-centralization program. There was no economic growth at all during the years 1981 to 1985. In 1988, the huge hard currency debt continued to grow to US\$ 40 billions with extremely high inflation of 600%. This dramatically decreased the people's standard of living and concurrently led to workers demands for wage increases. Protests and strikes took place regularly. In spring of 1988, the strikers demanded economic improvement and political reforms with legalization of the Solidarity. On 31 August 1988 (the anniversary of the signing of the Gdansk Agreements 1980), the Interior Minister Czeslaw Kiszczak met with the Solidarity leader Lech Walesa by offering him legalization of the Solidarity if he could make the strikers return to work as normal. Mr. Walesa successfully convinced the strikers to end their strikes. This then paved the way to the "Round Table Talks" between the representatives of the opposition and the government for political and economic reforms in mid-April 1989. The Talks resulted in the transformation on the return to parliamentary democracy and the initiation of economic reforms and general elections. The Solidarity was allowed to participate in the parliamentary arena, i.e., by having seats upto 35% in the Sejm (Lower House) at the beginning and subsequently

¹⁷ Ibid., p. 14 and see also Polish Information Agency, "Outline of History of the Polish State", (Warsaw:1997), p. 15.

without limit.¹⁸ This was proclaimed by Mr. Walesa as "THIS IS THE BEGINNING OF DEMOCRACY AND A FREE POLAND."

Amendments to the Constitution introduced on 7 April 1989 created other two institutions, the Office of the President and the Senate (Upper House) and the name of the country reverted to the Republic of Poland.

The open election was held in early June 1989. Mr. Walesa did not run for the election but decided to stay above politics. Many veterans of the opposition who were arrested during the unrest period were elected. Due to the 35% restriction, as the opposition (Solidarity and KOR - the Workers' Defense Committee) was allowed to contest 161 of the 460 seats in the Sejm which was classed as minority, it successfully took 99 seats out of 100 in the Senate as there was no restriction in number in the Senate. However, as agreed from the Round Table Talks, Jaruzelski was elected as the President by the new parliament. The PSL and Democratic Party which earlier supported Jaruzelski, had swung their votes for the election to the non-communist background Prime Minister, Tadeusz Mazowiecki. A coalition cabinet was finally formed in September 1989. This made Poland become known as the first non-communist government in Central and Eastern Europe.

The Mazowiecki government aimed to reduce inflation immediately and to implement the economic plans in laying the ground work for a market economy. Although inflation was successfully reduced, there were adverse economic consequences of decreased purchasing power, reduction in production and high unemployment rate.

¹⁸ Ibid., pp. 14-15.

The popularity of the government rapidly declined, even from Mr. Walesa who was at that time Leader of the Opposition coalition, called the Center Alliance. In response, Mazowiecki's supporters formed another coalition, called Democratic Action (thereafter changed to Democratic Union).

In 1990, President Wojciech Jaruzelski stepped down from his presidency. This paved the way for Walesa and Mazowiecki, the Solidarity supported, to run for the Presidency. As a result, in 1991, Walesa won the runoff for the presidency but, Mazowiecki, who had won only 18% of the vote in the first round, treated the results as a public vote of no-confidence. Mazowiecki and his government then resigned.

President Walesa nominated Krzysztof Bielecki, the new Prime Minister, to lead the new government which fully consisted of "experts" to administer the country's economy during the transitional period. However, as the economic reform programs which were implemented had inflicted hardship on many people, it reduced the popularity of Walesa and his government.

The first free parliamentary election took place in October 1991 which made the communists lost their majority for the first time in the Sejm. However, among those elected, Walesa reluctantly nominated Jan Olszewski, a critic of the free market economic reforms, Prime Minister to lead a coalition government. Olszewski government was in the office not for long, and was replaced by Hanna Suchocka in 1992. However, the Suchocka's government collapsed with a vote of no-confidence. Mr. Walesa then had to dissolved the parliament. The

instability of the governments in the office was viewed suspiciously as the failure of democracy.

In 1993, there was a second general election with Mr. Waldemar Pawlak, leader of the Polish Peasant Party, nominated as Prime Minister. The new coalition government was unstable, but managed to survive. However, the government had changed its Prime Minister twice - Mr. Josef Oleksy (SLD) was nominated Prime Minister and was replaced by Mr. Wtoozimier Cimoszewics (SLD)

1.5 Present Political Elections

The latest parliamentary elections which took place in September 1997, the seats of Sejm and Senate members are made up as follows:¹⁹

¹⁹ Political Bulletin - Weekly Review. (Warsaw:1997)

Political Parties	Number of Seats in Sejm	Number of Seats in Senate
Solidarity Election Action (AWS)	201	51
Democratic Left Alliance (SLD)	164	28
The Freedom Union (UW)	60	8
Polish Peasants' Party (PSL)	27	3
The Reconstruction of Poland (ROP)	6	5
The Silesian German Minority	2	5
Total	460	100

According to the above election, as there were representatives from many political parties being elected, the coalition government had to be formed. Mr. Jerzy Buzek, the Prime Minister, a designate proposed by the Solidarity Election Action (AWS) grouping, under the presidency of Mr. Aleksander Kwasniewski, began the process of consultation over the formation of a new coalition government. Under the coalition agreement between AWS and the Freedom Union (UW), the UW leader, Mr. Leszek Balcerowicz was nominated First Deputy Prime Minister and Minister of Finance, the posts he held in the first Solidarity government headed by Mr. Tadeusz Mazowiecki in 1990.

1.6 Liberalization and Democratization

Although Poland had undergone several economic and political reform programs in various periods during the communist regime of the Soviet Union, the process of the reform has turned into the development of, so-called "liberalization" and "democratization" until and after the collapse of communism.

Liberalization in Poland was the development process of gradual change from strict communist regime where-by the professional and technocrat members of the communist party were first given larger controlling power and decision-making powers. Non-communist party members were allowed to participate in the election and/or being appointed into legislative and executive positions. Civic activities were encouraged or were less restricted to people. Freedom of movement and associations were allowed. Solidarity which emerged in 1979, was the result of such reforms. It was allowed as a legitimate free trade union and started involving in strong political activities during 1980-1981 which was considered as the exceptional peak of liberalization before the collapse of the communist regime²⁰ which, paved the way for the country to enter into democratization and market economy.

Democratization, with overlapping in concept with liberalization, was obviously resulted and developed following the collapse of the communist regime until today. It physically started from the time General Wojciech Jaruzelski agreed to participate in the Round Table Talks with the Solidarity which led to the non-communist members were given the right to participate in the election and the right to be involved in the

²⁰ Vajrasthira, Prathoomporn, "The European Union's Assistance to the Visegrad Countries", (Bangkok: Chulalongkorn University, February, 1995), page 10.

legislative and executive positions.²¹ We can say that the democratization in Poland has been developed from the authoritarian limited typed pluralism into the new parliamentary democracy sharing power with the Communist through the process of the Round Table Talks with limited free elections.

The Solidarity was the main political body which first proposed new programs for Poland in 1981 to be completely democratized from the communist ruled government in 1981. It proposed for a referendum whether the communist regime should continue to rule the country which created chaos and threat of military intervention from the Soviet Union. This made General Jaruzelski proclaimed martial law and replaced the government with the Military Council of National Salvation. Hence, the Solidarity became unrecognized by the law. However, the underground movement of the Solidarity were still being supported by people and until its leader, Mr. Lech Walesa, won the Nobel Peace Prize in 1983, that further strong supports from the outside world were fully received.²² This paved the way to the present democratic system of Poland.

²¹ Ibid, page 11.

²² Ibid, page 14.