GENERAL AGREEMENT ON
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and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Poland
(Spec(82)6/Add.12)

1. Introducing his country's submission, the representative of Poland said that over the last twelve or thirteen years there had been two distinct periods in the economic development of Poland; the different experience in these two phases brought out certain points about the relationship between trade and structural adjustment.

2. Poland had entered the 1970s without external debt and with a surplus in its trade with contracting parties taken as a group. However, at the same time the economy had been characterized by an inefficient production structure, increasingly insufficient domestic supplies of consumer goods especially food items, slow technical change, low social mobility and a passive role of trade with the outside world, exportation being undertaken to the extent necessary to finance imports and with no particular relationship to the economy's structure.

3. Against the background of these circumstances, policies had been followed in the 1970s with the following main aims:

- to accelerate economic growth and modernize productive capacity;

- to accomplish this through the opening of the economy to international commercial interaction, through intensifying imports and, if necessary, foreign borrowing on the assumption that the investment based on foreign credits would pay off through increased exports that would enable the foreign loans to be repaid.

4. While this economic policy had had a number of positive aspects and had made the economy more responsive to change, it had had certain built-in disadvantages that had subsequently turned out to be decisive. The economy had become more vulnerable to external developments beyond Poland's control. But most importantly, the modification of the physical assets of the economy had not been followed by corresponding changes in economic and social management. Credits in some respects had served as a substitute for change.

5. Illustrating the effects of these developments, he said that in the first half of the 1970s GNP had increased at constant prices by nearly 10 per cent per annum and investment had risen at 19 per cent per annum, raising the overall share of investment in distributed GNP to 35 per cent by the mid-1970s. Industrial productivity had increased at about 8 per cent

per annum, largely due to an improved capital-labour ratio. Industrial output had grown at 11 per cent per annum, higher than ever before in Poland. Exports to contracting parties at current prices had risen at 22 per cent per annum, while imports from contracting parties had grown at 38 per cent per annum.

6. There had been a marked change in the trend of all these indicators at the beginning of the second half of the 1970s. The rate of increase of GNP had fallen to just over 1 per cent per annum in the second half of the 1970s, with substantially negative rates being experienced at the end of the decade.

7. He said that the major reason for this change had been the growing domestic disequilibrium which had become increasingly related to the worsening balance-of-payments position. The deterioration in the balance-of-payments position had been caused by: first, the inadequate creation of new export-oriented capacity; second, excessively consumption-oriented imports; third, worsening market conditions generally in the world for Poland's exports; and, fourth, curtailed availability of foreign credits. The major factor in the worsening economic situation had been the diminished ability to sustain the necessary level of imports. In the second half of the 1970s the average annual rate of growth of imports from contracting parties had fallen to only 3 per cent.

8. The importance of the trade factor had been due to the remarkably high import intensity of the Polish economy. The average import content in final industrial output in the late 1970s had been estimated at approximately 22 per cent. In the case of exports to developed market economy countries, the import content from these market economy countries had been considerably higher. This situation had been caused by, among other factors, the neglect of investment in the production of raw materials and intermediate products in the 1970s. He added that difficulties with import financing had been amplified towards the end of the period by outright import restrictions applied by some contracting parties against Poland.

9. He said that the developments that he had described had had significant implications for the commodity and geographical structure of Poland's foreign trade. There had been a shift towards trade on the basis of other than convertible currency, be it trade with the CMEA countries or trade on the basis of buy-back or other similar arrangements. The change in the commodity structure of external trade had been markedly to the detriment of the share of capital goods, paralleling the substantial fall in the share of investment in GNP.

10. He said that it was in these circumstances that Poland had embarked on an ambitious and complex programme of economic reform. In terms of the legal and institutional changes involved, this reform programme had now passed the point of no return. The most important principle of the reform was to let enterprises act on the basis of what they perceived to be the appropriate market signals. Individual enterprises took their own investment and production decisions on the basis of these indications. This entailed the replacement of tight centrally-controlled planning by indicative planning.

11. The eligibility criteria for foreign trade operations had been extended considerably to cover a wide spectrum of enterprises and also individuals. One effect of this was to give greater flexibility to manufacturers to choose partners to market their goods or to serve as suppliers. Another effect was to increase the incentives for export-oriented production. Exporting manufacturing enterprises were now able to retain a sizeable proportion of their export earnings and thus to finance their own imports. Until a few years ago, all export earnings had been transferred to the State budget, which had provided for the overall allocation of resources, including foreign exchange for imports.

12. This reform, which had proved highly successful so far, had far-reaching ramifications for the foreign trade system in Poland. By giving enterprises and end-users greater scope for taking independant decisions about foreign trade, the role of traditional, classical instruments for influencing foreign trade was being increased.

13. In conclusion, he said that Poland was still at the beginning of the reform process and still had far to go. However, the direction was clear and the mentality associated with the new economic system was gradually becoming embedded in the minds of decision-makers.

14. Turning to a number of questions and requests for further information about changes to the planning system and the principle of autonomy in relation to enterprises, the representative of Poland said that under the new system plans indicated, first, the major economic and social targets of the government, secondly, the probable scenario for domestic and international developments under which the plan was likely to be carried out and, thirdly, certain specific targets in respect of particular areas or aspects of the economy, e.g. the consumption rate, the overall rate of inflation, employment, etc. Individual enterprises were responsible for drawing up their own plans according to their own assessment of probable market conditions.

15. In regard to enterprise autonomy in the field of foreign trade, he said that enterprises had complete discretion as regards the use they made of the part of their export receipts that they could retain. Generally, these receipts were used to purchase material inputs or capital goods. Enterprises in 1983 were expected to accumulate in their retention accounts approximately US$1 billion; in 1982 the figure had been about US$450 million. He added that the principle of autonomy in foreign trade applied to both imports and exports.

16. As regard the criteria for authorizing enterprises to engage in foreign trade, he said that the main requirement for industrial enterprises was that at least 25 per cent of final output should be exported at the time that the enterprise applied for a foreign trade licence. Major producers had also to meet some threshold values for manufacturing output. However, minor producers, whether cooperatives or privately-owned, were also able to conduct their own foreign trade operations. The same applied to firms with foreign equity participation or even complete foreign ownership.

17. Enterprises which did not have direct access to foreign exchange because they did not export, could acquire hard currency to purchase inputs necessary for production for export through hard currency auctions carried out by the National Bank. The basic criterion was the expected efficiency of use of the hard currency, it being left to enterprises to make the best case they could in this respect.

18. Turning to questions on the role of profit and the pricing mechanism, he said that profit had become the most important yardstick for gauging an enterprise's performance. This was because all basic economic functions of the enterprise were related to profit, including wages and the ability to finance the expansion of the enterprise. Most enterprises were responsible for their own financing; exceptions were some enterprises engaged in meeting certain specific social needs such as food, some staple consumption goods and pharmaceuticals.

19. On pricing, he said that there were presently two forms of pricing mechanism in Poland. Certain prices were regulated by the government; these included the prices of basic inputs, all energy sources, basic raw materials, some types of equipment, and commodities with a particularly high degree of social importance, such as basic foodstuffs, basic textile and footwear products, and pharmaceuticals. Prices of all other products were determined by the seller subject to market conditions. This had become a major issue in Poland since it had given a powerful boost to inflationary pressures. The inflation rate was high because the economy was still in the process of adjusting to the new price system and because competitive forces were still insufficient in certain areas.

20. Questioned about the trade policy instruments that were expected to gain in importance, he said that one such instrument was the rate of exchange which was revised periodically in the light of the competitive position of Polish exports. Tariffs were another such instrument. Customs tariffs, which had been introduced in 1976, were already playing a significant role in respect of imports financed by the enterprises themselves and certain luxury consumer items. Gradually, tariffs would gain additional importance in respect of other inputs required for manufacturing, except for raw materials which were subject to zero or very low rates of tariff.

21. In response to another question, he said that the Polish government did envisage changes to the Polish tariff. It was too early to know the direction, content or extent of these changes. The tariff, when amended, would be altered in the light of the then prevailing market conditions.

22. Answering a question about trade measures affecting structural adjustment, he said that no restrictive measures had been taken for this purpose. The only restrictive measures were those resulting from the shortage of hard currency.

23. Replying to a comment, he said that he did not expect any difficulties for Poland's economic reforms to arise from the shift of trade towards forms of trade not based on convertible currency. Such trade was presently in products that the Polish economy needed most - raw materials, intermediate goods, and basic foodstuffs. In regard to this latter area, he added that

the main emphasis of agricultural policy was on securing the confidence of farmers and affirming the stability of the treatment of the private sector as a permanent feature of the agricultural system. Eighty-five per cent of land in Poland was owned by private farmers, and it had recently become a constitutional principle that this situation would be maintained.