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Mexico and Poland compared”

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## List of Abbreviations

AFTA	ASEAN Free Trade Area
BANAMEX	Banco Nacional de Mexico
CEEC	Central and Eastern European Countries
CFSP	Common Foreign and Security Policy
CIA	Central Intelligence Agency
COMECON	Council for Mutual Economic Assistance
CPI	Corruption Perception Index
CUSFTA	Canada-United States Free Trade Agreement
EC	European Community
ECB	European Central Bank
ECSC	European Coal and Steel Community
EEC	European Economic Community
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
EMU	Economic and Monetary Union
EU	European Union
EURATOM	European Atomic Energy Community
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
HICP	Harmonized Index of Consumer Prices
IMF	International Monetary Fund

INEGI	Instituto Nacional de Estadística, Geografía e Informática
ISI	Import Substitution Industrialization
MERCOSUR	Mercado Común del Sur
MFN	Most-Favored-Nation
MXN	Mexican Peso
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
PAN	Partido de Acción Nacional
PHARE	Poland and Hungary – Aid for Restructuring of the Economies
PLN	Polish Złoty
PPP	Purchasing Power Parity
PRD	Partido de la Revolución Democrática
PRI	Partido Revolucionario Institucional
PRONASOL	Programa de Solidaridad Nacional
SAFTA	South Asia Free Trade Agreement
SEA	Single European Act
TEU	Treaty on European Union
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
US	United States of America
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

# Part I

## 1 Introduction

Over the past decades free trade agreements have been addressed by many countries. After the Second World War the General Agreement on Tariffs and Trade (GATT) was introduced to foster economic recovery and free trade among all nations. The agreement was signed by 23 countries. The long term goal of GATT was to abolish all trade barriers between nations. Consequently, GATT explicitly encouraged the idea of deeper economic relationships between nations through regional free trade agreements.

The corner stone for this new economic order was laid in Bretton Woods, adopting a new system of exchange rates, and founding GATT, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (later World Bank).

Europe was quick to adopt a free trade policy, at least between the founding members<sup>1</sup> of the European Coal and Steel Community (ECSC). All the founding members were economically more or less at the same level. All of them had suffered the consequences of two world wars and they all hoped for long lasting peace in Europe by tightly linking their trade and by building a foundation for economic development.

Later more free trade agreements succeeded, one of them is NAFTA, the North American Free Trade Agreement. The participating nations are Canada, Mexico and the United States. What makes this free trade agreement particularly interesting is the combination of partners: “NAFTA is an unprecedented reciprocal free trade accord between high-productivity industrialized nations and a low-productivity developing country.”<sup>2</sup>

After thirteen years of being in place, how far has economic integration gone? Have the initial expectations been met?

Another point of interest is the recent history of the European Union (EU). Since its beginnings with the ECSC Europe has amazingly developed far beyond a free trade union into a political union, covering by now big parts of Europe. In 2004, the biggest enlargement in its history took place, giving access to countries of the former Soviet bloc.

There are some interesting parallels to NAFTA and Mexico’s role in it, as most of the new EU member countries are economically far less developed than the “old” EU members. It

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<sup>1</sup> France, Germany, Belgium, Netherlands, Luxembourg, Italy

<sup>2</sup> See Eaton, George E. et al. (1996) p.21

is particularly interesting to highlight Poland's development in the past years within the EU and to make some comparisons to Mexico, which already disposes of a thirteen year record within NAFTA.

Is economic integration possible between unequal partners? Have Mexico's expectations been met? Can Poland's expectations be met in the future? This paper tries to identify economic key indicators that are significant for a nation's development within a free trade agreement. These indicators will be used to review and analyze Mexico's evolution within NAFTA, and to analyze and forecast Poland's development within the EU.

As a side note it has to be mentioned that Free Trade Agreements (FTA) can obviously not be regarded as isolated constructs, they are on the contrary parts of a much bigger picture and are exposed to many different influences. This paper tries to capture the most important economic factors and influences. Unfortunately, a deeper analysis of social phenomena or politics would go beyond the scope of this work and cannot be conducted in depth. Particularly with regard to the EU many other dimensions of integration exist besides economic integration that would be worth being analyzed in this context.

## **1.1 Economic Integration**

As Bela Balassa defined in his standard publication for economic integration, "we propose to define economic integration as a process and a state of affairs. Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies."<sup>3</sup>

Several levels of economic integration exist. The examples of NAFTA and the EU alone represent two different types of economic integration. Following Predöhl<sup>4</sup> integration can either be pursued in a functional way, and is therefore called *functional integration*, or in an institutional way, which is thus called *institutional integration*. Functional integration means that the process of integration is left over to market mechanisms which are supposed to help improve structures in trade and production. Institutional integration on the other hand implies the partial abandonment of national sovereignty in favour of common institutions.

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<sup>3</sup> Balassa, B. (1961), p.1

<sup>4</sup> See Predöhl, A. / Jürgensen, H. (1961), p.371



Following this definition, the NAFTA member states are integrated functionally, as no supranational institution has assumed duties which formerly belonged to the national sovereignty of the participating countries. The EU has evolved from functional integration to institutional integration over the decades and has now a big body of supranational institutions that coordinate actions in economics but also in many other areas.

### **1.1.1 Degrees of Economic Integration**

Following Balassa<sup>5</sup>, distinctions are made between different forms of integration, such as free trade area, customs union, common market, economic union and total integration. At the same time these different forms of integration represent different degrees of economic integration: One might also want to list the preferential trade area as a form of integration, more concretely as the weakest form of economic integration, as it exists for example between the EU and the ACP states<sup>6</sup>. In that case, tariffs are reduced for certain product categories, but tariffs will not be abolished completely. However, Balassa rather calls this a cooperation, and not economic integration. The different forms of economic integration can be described as follows:

- Free Trade Area

A free trade area (like NAFTA) is a form of integration, although a rather weak one. In this construct, tariffs and quotas are abolished between the member countries, but with regards to non-members each country pursues its own tariff policy. In order to avoid a by-passing of the regulations by a non-member country, the member countries use to have rules of origin which include a minimum extent of local material inputs and transformations that add value to the goods. Only with this requirement fulfilled, goods are entitled for the free trade area treatment. Other examples for free trade areas besides NAFTA are AFTA, EFTA, and SAFTA<sup>7</sup>, to name only a few.

- Customs Union

The next degree of integration, the so called customs union, does not only delete all discriminations in the field of commodity movement within the FTA, it also establishes equal tariffs for all member countries with respect to non-members. Thus, a common

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<sup>5</sup> See Balassa, B. (1961), p.ix

<sup>6</sup> African, Carribean and Pacific countries, see also:

[http://ec.europa.eu/development/body/countr/country\\_en.cfm](http://ec.europa.eu/development/body/countr/country_en.cfm), accessed on March 28, 2007

<sup>7</sup> ASEAN Free Trade Area (AFTA) with Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar, Vietnam;

European Free Trade Association (EFTA) between Iceland, Norway, Switzerland and Liechtenstein; and the South Asia Free Trade Agreement (SAFTA) between India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives

external trade policy is set up. A well-known example for a customs union is MERCOSUR<sup>8</sup>, which comprises some important Latin American countries.

- Common Market

A common market goes even further and does not only abolish trade restrictions but also restrictions on factor movements within the participating countries. Factor movements are movements of labor and capital.

- Single Market/Economic Union

The EU can be seen as a common market, although it is commonly called a single market, which goes further in the sense of political will to remove physical borders, establish common technical standards and adapt fiscal policies within the union in order to harmonize politics in these areas. Balassa calls this form of integration economic union.

- Total Economic Integration

The highest degree of economic integration is the so called total economic integration, which includes, besides all of the above, “the unification of monetary, fiscal, social and countercyclical policies and requires the setting-up of a supra-national authority whose decisions are binding for the member states.”<sup>9</sup> Until now, this level is only reached by individual countries and not yet by any supra-national authority. However, the EU is evolving into the direction of total economic integration, right now already thirteen member countries<sup>10</sup> form part of an economic and monetary union, where the Euro is used as a common currency.

### 1.1.2 Goals of Economic Integration

“It can be said that the ultimate objective of economic activity is an increase in welfare.”<sup>11</sup>

In the case of unequal partners within a FTA, one can say this means that convergence effects need to be reached in order to provide welfare to all partners. Economic integration is thus the main instrument to reach convergence and the goal of entering a FTA is to reach higher welfare. Still, having reached a certain degree of economic integration does not automatically lead to convergence between the member states.

There are various plausible indicators to analyze the level of convergence that should follow economic integration. The most obvious one is the difference between countries in the level of economic development. Furthermore the effects of investment flows and

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<sup>8</sup> Mercado común del Sur (MERCOSUR) between Argentina, Brazil, Uruguay, Paraguay and Venezuela

<sup>9</sup> Balassa, B. (1961), p.2

<sup>10</sup> Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain

<sup>11</sup> Balassa, B. (1961), p.10

increased capital mobility give insights about a country's development within a FTA. Another indicator is the nature of institutional structures in a country.

## **1.2 Quantification of Economic Integration and Convergence**

As Mexico has been part of the NAFTA for more than a decade by now, it is possible to observe economic developments that occurred before its entry to the agreement as well as the economic evolution from 1994 onwards until now. For Poland, the time spent within the EU has been much shorter; however, it is very interesting to look at national statistics reaching back to the nineties, as well as at EU statistics that include Poland as a member country.

In the following, indicators and indices of different economic aspects will be described in order to give an overview of the tools that will be used in the following sections of this paper. The statistics presented below include demographic data, basic economic data, data on national finances, labor market indicators, as well as some statistics on infrastructure, human development and corruption.

This combination of different statistics aims at giving an insight into various areas of integration and development. The comparison of data among nations and FTAs will allow for analysis of convergence within FTAs.

### **1.2.1 Demographic Data**

#### Total Population

The population is defined as all residents regardless of legal status or citizenship, except for refugees who are not permanently settled in the country of asylum. They are generally considered as part of the population of their country of origin.<sup>12</sup>

#### Population Growth Rate

The population growth rate is the "average annual percent change in the population, resulting from a surplus (or deficit) of births over deaths and the balance of migrants entering and leaving a country."<sup>13</sup>

#### Birth Rate/Death Rate

The birth rate and the death rate give the average annual number of births and death during a year per 1000 persons in the population. Both rates combined determine the population growth rate of a year.

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<sup>12</sup> Worldbank: <http://devdata.worldbank.org>, accessed on March 29, 2007

<sup>13</sup> CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html#2095>, accessed on March 29, 2007

### Infant Mortality Rate

This rate represents the number of infants dying before reaching one year of age, per 1000 live births in a given year.

### Life Expectancy Rate

Life expectancy at birth indicates the number of years a newborn child would live if prevailing patterns of mortality at each age remained constant in the future.

### Literacy Rate

“Literacy is the ability to read and write with understanding a simple statement related to one’s daily life. It involves a continuum of reading and writing skills, and often includes also basic arithmetic skills.”<sup>14</sup>

The literacy rate is “the number of literate persons in a given age group, expressed as a percentage of the total population in that age group. The adult literacy rate measures literacy in persons aged 15 years and above and the youth literacy rate in persons aged between 15 and 24 years.”<sup>15</sup>

### Population living below Poverty Line

The World Bank defines the national poverty rate as percentage of the population living below the national poverty line. National estimates are based on population-weighted subgroup estimates from household surveys.<sup>16</sup> Definitions of poverty vary considerably among nations.

## **1.2.2 Economic Data**

### Gross Domestic Product (GDP)

GDP is a growth indicator for the overall economic performance of a country. It comprises the total market value of all final goods and services produced by natives and foreigners in a country in a given year. It comprises consumption, government spending, investments, and exports minus imports (which results in the trade balance)<sup>17</sup>. It is calculated without making deductions for the depreciation of real capital or the depletion and degradation of natural resources<sup>18</sup>.

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<sup>14</sup> UNESCO: <http://www.uis.unesco.org/glossary/Term.aspx?name=Literacy&lang=en>, accessed on March 29, 2007

<sup>15</sup> UNESCO: <http://www.uis.unesco.org/glossary/Term.aspx?name=Literacy%20rate&lang=en>, accessed on March 29, 2007

<sup>16</sup> Worldbank: <http://devdata.worldbank.org/data-query/>, accessed on March 29, 2007

<sup>17</sup>  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$

<sup>18</sup> Fischer Weltalmanach (2007): „Nicht enthalten sind Abzüge für die Wertminderung von Sachkapital oder die Erschöpfung und Verminderung von Ressourcen.“

### GDP Growth Rate

The GDP growth rate is the annual percentage growth rate of GDP based on constant local currency<sup>19</sup>.

### GDP Composition by Sector

The GDP composition by sector gives the percentage contribution of agriculture, industry, and services to total GDP. The distribution will total less than 100 percent if the data are incomplete.<sup>20</sup>

### Gross National Income (formerly GNP)

“GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies.”<sup>21</sup>

### GNI Per Capita

GNI per capita (formerly GNP per capita) is the gross national income divided by the midyear population.

### Exports/Imports/Balance of Trade<sup>22</sup>

Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labor and property income (formerly called factor services) as well as transfer payments.

Imports of goods and services represent the value of all goods and other market services received from the rest of the world.

The balance of trade is the difference in value over a period of time of a country's imports and exports of merchandise.<sup>23</sup> The balance of trade is favorable (trade surplus), when exports exceed imports. Imports exceeding exports is known as trade deficit.

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<sup>19</sup> Worldbank: <http://devdata.worldbank.org>, accessed on March 29, 2007

<sup>20</sup> CIA Factbook: <https://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html#2001>, accessed on March 29, 2007

<sup>21</sup> Worldbank: <http://devdata.worldbank.org>, accessed on March 29, 2007

<sup>22</sup> Worldbank: <http://devdata.worldbank.org/data-query/>, accessed on March 29, 2007

<sup>23</sup> Princeton: <http://wordnet.princeton.edu/>, accessed on March 30, 2007

### Imports/Exports Partners

The volume of trade with other countries defines the importance of an import or export partner. The most important trade partners are commonly listed in a rank order; the ranks are often expressed in percent of total trade volume of a country.

### Gross Capital Formation (in percent of GDP)<sup>24</sup>

Gross capital formation (formerly gross domestic investment) consists of total business spending on additions to the fixed assets of the economy plus net changes in the level of inventories.

Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and “work in progress”. Net acquisitions of valuables are also considered capital formation.

### Foreign Direct Investment (FDI)

“FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated.

FDI has three components: equity capital, reinvested earnings and intra-company loans. FDI flows are recorded on a net basis (capital account credits less debits between direct investors and their foreign affiliates) in a particular year.”<sup>25</sup>

Inflows of FDI: Comprises the capital provided by a foreign direct investor to a company resident in the economy.

Outflows of FDI: Comprises the capital provided by a company resident in the economy to an enterprise based in another country.

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<sup>24</sup> Worldbank: <http://devdata.worldbank.org/data-query/>, accessed on March 29, 2007

<sup>25</sup> UNCTAD: <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=2190&lang=1>, accessed on March 30, 2007

### Exchange Rates<sup>26</sup>

Nominal effective exchange rate indices are calculated by comparing, for each country, the change in its own exchange rate against the US dollar to a weighted average of changes in its competitors' exchange rates (also against the US dollar), using the weighting matrix for the current year (based on the importance of bilateral trade).

Relative consumer price indices and relative unit labor costs in manufacturing can be described as indices of real effective exchange rates. Unlike nominal effective exchange rates, they take into account not only changes in market exchange rates, but also variations in relative price levels (using, respectively, consumer prices and unit labor costs in manufacturing), and therefore can be used as indicators of competitiveness.

### Market capitalization of listed companies<sup>27</sup>

Market capitalization (also known as market value) is the share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies do not include investment companies, mutual funds, or other collective investment vehicles.

### Long Term Interest Rates<sup>28</sup>

These interest rates refer to government bonds with a residual maturity of about ten years. They are not the interest rates at which the loans were issued, but the interest rates implied by the prices at which the bonds are traded on financial markets.

### Inflation rate/Consumer Price Index

This indicator as measured by the annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency. It is usually measured over one year, five year and ten year periods. Deviations are possible due to the varying baskets of goods that underlie the calculations.<sup>29</sup>

### Remittances from Nationals living Abroad

Generally, remittance is the flow of funds from migrant workers back to their families in their home country. However, there is no universally accepted definition of remittances. The IMF definition of remittances goes beyond the definition of transfers as defined in the

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<sup>26</sup> OECD: <http://stats.oecd.org/WBOS/ViewHTML.aspx?QueryName=191&QueryType=View&Lang=en>, accessed on March 31, 2007

<sup>27</sup> Worldbank: <http://devdata.worldbank.org/data-query/>

<sup>28</sup> OECD: <http://stats.oecd.org/WBOS/ViewHTML.aspx?QueryName=191&QueryType=View&Lang=en>

<sup>29</sup> Fischer Weltalmanach (2007): „Abweichungen ergeben sich durch unterschiedliche »Warenkörbe« als Berechnungsgrundlage.“

Balance of Payments Manual, Fifth Edition, 1993, which includes workers' remittances, compensation of employees, and migrants' transfers.

The IMF definition includes both cross border and domestic transfers. Remittances comprise unrequited transfers by workers abroad to their relatives, other household-to-household transfers, and transfers to/from non-governmental organizations. In addition, remittance systems may also be used by citizens and businesses to pay for services (e.g., education), investments and goods.<sup>30</sup>

### **1.2.3 National Finance Data**

#### Budget (revenues/expenses)

A government budget consists of revenues and expenses during a given period. Revenue is generated from taxes, social contributions, fines, fees, rent and income from property or sales. Expenses on the other hand comprise all expenditures of a government during a given period. If revenues exceed expenses, a budget surplus is reached. However, if the expenses outreach the revenues, this is called a budget deficit. A deficit or surplus is commonly calculated as the ratio of the government deficit to the GDP.<sup>31</sup>

#### Total Tax Revenue<sup>32</sup>

Taxes are defined as compulsory, unrequited payments to general government. They are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments.

Taxes on incomes and profits cover taxes levied on the net income or profits (gross income minus allowable tax reliefs) of individuals and enterprises. They also cover taxes levied on the capital gains of individuals and enterprises, and gains from gambling.

Taxes on goods and services cover all taxes levied on the production, extraction, sale, transfer, leasing or delivery of goods, and the rendering of services, or on the use of goods or permission to use goods or to perform activities. They consist mainly of value added and sales taxes.

The sum of taxes on goods and services and taxes on income and profits do not equal total tax revenues, which also includes payments by employers and employees made under compulsory social security schemes as well as payroll taxes, taxes related to the ownership and transfer of property, and other taxes.

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<sup>30</sup> See Ingves, S. (2005), p.6

<sup>31</sup> See also: Definition of Maastricht Criteria, <http://europa.eu/scadplus/leg/en/lvb/l25014.htm>

<sup>32</sup> OECD: <http://stats.oecd.org/WBOS/ViewHTML.aspx?QueryName=191&QueryType=View&Lang=en>



### Reserves of Foreign Exchange and Gold

The reserves of foreign exchange and gold are defined as “the dollar value for the stock of all financial assets that are available to the central monetary authority for use in meeting a country's balance of payments needs as of the end-date of the period specified. This category includes not only foreign currency and gold, but also a country's holdings of Special Drawing Rights in the IMF, and its reserve position in the Fund.”<sup>33</sup>

### Public Debt

Public debt (also known as government debt or national debt) is money or credit borrowed by the government (municipal or local government included<sup>34</sup>), either from lenders within the given country or from foreign lenders, as a result of budget deficits. Governments usually borrow money by issuing government bonds or, in developing countries, from international financial institutions. Debts of duration until one year are called short term debts and debts of ten years or more are considered long term debts.

### Total Debt Service<sup>35</sup>

Total debt service is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt and repayments (repurchases and charges) to the IMF. Exports of goods and services include income and workers' remittances.

### Economic Aid Recipient

Following the CIA factbook definition, this term, which is subject to major problems of definition and statistical coverage, refers to the net inflow of Official Development Finance (ODF) to recipient countries. The figure includes assistance from the World Bank, the IMF, and other international organizations and from individual nation donors. Formal commitments of aid are included in the data. Omitted from the data are grants by private organizations. Aid comes in various forms including outright grants and loans. The entry thus is the difference between new inflows and repayments. These figures are calculated on an exchange rate basis, i.e., not in purchasing power parity (PPP) terms.<sup>36</sup>

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<sup>33</sup> CIA factbook: <https://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html>

<sup>34</sup> Fischer Weltalmanach (2007): „Schulden der Gebietskörperschaften (Bund, Länder, Gemeinden)“

<sup>35</sup> Worldbank: <http://devdata.worldbank.org>, accessed on March 29, 2007

<sup>36</sup> CIA factbook: <https://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html>, accessed on March 30, 2007

## **1.2.4 Labor Market Data**

### Labor Force by Occupation

Labor force by occupation divides the labor force into the three sectors: agriculture, industry and services.<sup>37</sup> The distribution will total less than 100 percent if the data are incomplete.

### Unemployment Rate

Unemployment refers to the condition and extent of joblessness within a country, and it is measured in terms of the unemployment rate. The unemployment rate of an economy is the main indicator for the labor market situation. It is calculated as the number of unemployed workers divided by the total civilian labor force.

### Net Migration Rate<sup>38</sup>

“The difference between the number of migrants entering and those leaving a country in a year, per 1,000 midyear population is called the net migration rate. It may also be expressed in percent. A positive figure is known as a net immigration rate and a negative figure as a net emigration rate.”<sup>39</sup> The net migration rate indicates the contribution of migration to the overall level of population change.

## **1.2.5 Infrastructure**

### Access to Sanitation Facilities

“Access to improved sanitation facilities refers to the percentage of the population with at least adequate access to excreta disposal facilities that can effectively prevent human, animal, and insect contact with excreta. Improved facilities range from simple but protected pit latrines to flush toilets with a sewerage connection. To be effective, facilities must be correctly constructed and properly maintained.”<sup>40</sup>

### Access to Clean Water

This indicator refers to the percentage of the population with reasonable access to an appropriate amount of water from an improved source (such as household connection, borehole, public standpipe, protected well or spring). By contrast, vendors, tanker trucks, and unprotected dwells and springs belong to unimproved sources.

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<sup>37</sup> AK Austria: <http://www1.arbeiterkammer.at/taschenbuch/tbi2006/>, accessed on March 29, 2007

<sup>38</sup> The Net Migration Rate is included in the section “Labor market data” as lack of working opportunities is the often the main motivation for people to emigrate.

<sup>39</sup> US Census Bureau: <http://www.census.gov/ipc/www/wp96glos.html>, accessed on March 29, 2007

<sup>40</sup> Worldbank: <http://devdata.worldbank.org>, accessed on March 29, 2007

Reasonable access is defined as the availability of at least 20 liters per person a day from a source within one kilometer of the home.<sup>41</sup>

## 1.2.6 Gini Index/Human Development Index

### Gini Coefficient (income equality)<sup>42,43</sup>

The Gini Index is the most common measure for the degree of inequality in the distribution of family income in a nation. The coefficient varies between zero and one, where zero reflects complete equality and one complete inequality. The index is calculated from the Lorenz curve, in which cumulative family income is plotted against the number of families arranged from the poorest to the richest.

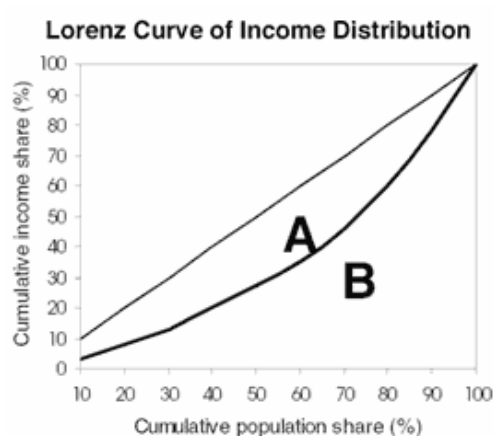


Figure 1: The Gini Coefficient<sup>44</sup>

Graphically, the Gini Coefficient can be easily represented by the area between the Lorenz curve and the 45 degree line (line of equality). If income were distributed with perfect equality, the Lorenz curve would coincide with the 45 degree line and the index would be zero.

It is sometimes argued that one of the disadvantages of the Gini coefficient is that it is not additive across groups. That means the total Gini of a society is not equal to the sum of the Ginis for its sub-groups.

<sup>41</sup> Worldbank: <http://devdata.worldbank.org>, accessed on March 29, 2007

<sup>42</sup> See CIA Factbook: <https://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html#2001>, accessed on March 31, 2007

<sup>43</sup> See Worldbank: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20238991~menuPK:492138~pagePK:148956~piPK:216618~theSitePK:430367,00.html>, accessed on March 31, 2007

<sup>44</sup> Source: World Bank

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20238991~menuPK:435055~pagePK:148956~piPK:216618~theSitePK:430367,00.html>, accessed on March 9, 2007

### Human Development Index<sup>45</sup>

The human development index (HDI) is published annually by the United Nations Development Programme (UNDP) that looks beyond GDP to a broader definition of well-being. The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard of living (measured by PPP, income). The index is not in any sense a comprehensive measure of human development. It does not, for example, include important indicators such as inequality and difficult to measure indicators like respect for human rights and political freedoms.

### **1.2.7 Corruption Perception Index (CPI)**<sup>46</sup>

The Transparency International Corruption Perceptions Index ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, a poll of polls, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions. The CPI focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The surveys used in compiling the CPI ask questions that relate to the misuse of public power for private benefit, for example bribery of public officials, kickbacks in public procurement, embezzlement of public funds or questions that probe the strength of anti-corruption policies, thereby encompassing both administrative and political corruption.

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<sup>45</sup> UNDP: <http://hdr.undp.org/hdr2006/statistics/>, accessed on March 30, 2007

<sup>46</sup> See Transparency International: <http://www.transparency.org>

## 2 NAFTA and EU

As already mentioned above, NAFTA and EU have some characteristics in common, above all regarding economic issues. However, the two represent two different degrees of economic integration, with NAFTA being a FTA and the EU being a single market and partly a monetary union.

In this chapter the developments as well as the main characteristics of NAFTA and EU will be presented.

### 2.1 NAFTA

“In June 1990, Mexican President Carlos Salinas de Gortari and US President George H. W. Bush announced a daring initiative: the creation of a free trade area between the United States and Mexico.”<sup>47</sup> By that time Canada and the US had already signed a bilateral FTA<sup>48</sup>, which had been in place since 1989. When formal negotiations for the new FTA started in 1991, Canada decided to join the NAFTA project as well. The North American Free Trade Agreement was signed by the United States, Canada and Mexico on December 17, 1992, after 14 months of negotiations. The agreement entered into force on January 1, 1994. By that time, “NAFTA represented a \$6 trillion economy with a population of 360 million. Ten years later, the NAFTA area grew to a \$12.5 trillion economy with a population of 430 million.”<sup>49</sup>

The economic integration in North America did not only start with CUSFTA or NAFTA: the United States already accounted for the major share of trade and FDI in Canada and Mexico before any FTA had been signed. However, NAFTA represented for the United States an opportunity to take advantage of a growing export market to the south, but also a political chance to turn Mexico into a politically stable neighbour country. It should not be omitted that the Mexican-US border and the illegal immigration into the United States have always been huge bilateral issues and that the US also hoped for declining immigration flows from Mexico into the United States with NAFTA being in place.

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<sup>47</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J.(2005), p.1

<sup>48</sup> CUSFTA: Canada-US Free Trade Agreement

<sup>49</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J.(2005), p.1

### **2.1.1 Objectives**

According to Article 102 of NAFTA<sup>50</sup>, the member states had the following objectives and goals:

“The objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency, are to:

- Eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties;
- Promote conditions of fair competition in the free trade area;
- Increase substantially investment opportunities in the territories of the Parties;
- Provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
- Create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
- Establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.”

### **2.1.2 Contents of the Agreement**

The agreement consists of a preamble and eight parts, covering tariffs and market access, non-tariff-measures, rules of origin, investment and dispute settlement, services, competition policy, monopolies and state enterprises, the energy sector, labor market, exceptions and final provisions.

After renegotiations under the Clinton administration, three side agreements were included into the agreement: North American Agreement on Environmental Cooperation, North American Agreement on Labor Cooperation and North American Agreement on Import Surges.

Two important principles the NAFTA members agreed on are national treatment and most-favored-nation (MFN) treatment: National treatment means that goods from one member country imported to another member country are entitled to the same treatment as a national good in the importing country. MFN treatment means that goods imported from

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<sup>50</sup> OAS: <http://www.sice.oas.org/trade/nafta/naftatce.asp>, accessed on April 1, 2007

one member country into another member country are not treated less favourably than any other goods of other countries.

- Tariff Elimination

All tariffs on goods originating from the United States, Canada and Mexico were either eliminated immediately or were phased out over five or ten years. Tariffs on certain economically or politically sensitive items are being phased out over fifteen years. By 2009 all tariffs between the three countries should be abolished.

- Market Access

Non-tariff measures such as import licences and quotas were eliminated as well. Still, each member country reserved the right to restrict trade in the areas of health, environment, agricultural products, automotive and energy-related products.

- Country of Origin

Strict rules of origin ensure that only goods and services produced or sufficiently transformed in a NAFTA country benefit from the agreement. For some goods<sup>51</sup> a specified percentage of North American content is required to be considered as “made in NAFTA“. These rules intend to ensure that non-members do not gain duty-free access to NAFTA members by building plants in one NAFTA country and then exporting duty-free to the other member countries.

- Investment

Significant investment barriers were removed and mechanisms for dispute settlements provided. Furthermore intellectual property<sup>52</sup> is protected, and NAFTA investors can convert local currency into foreign currency at the prevailing market rate of exchange. Investments are also protected from expropriation, except expropriation serves a public purpose and is compensated at a fair market value.

- Services

Services have been completely liberalized, this can be clearly seen in financial services where Mexico opened up to foreign investors and Canadian and US firms are now authorized to own Mexican companies and also Mexican banks and insurance companies.

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<sup>51</sup> Products of the automotive sector require „local content“ of 62.5%.

<sup>52</sup> e.g.: Patents, copyrights, trademarks, sound recordings, computer software, etc.

- Competition Policy, Monopolies and State Enterprises

The agreement opened a significant portion of the government procurement market to suppliers on a non-discriminatory basis for goods, and engineering and construction services.<sup>53</sup>

- Energy Sector

Mexico did not liberalize its energy sector; it avoided liberalization of oil, gas, refining, basic petrochemicals, the nuclear sector and the electricity sector. The oil industry remained under state control. However, the other NAFTA investors may acquire, establish and operate facilities in some restricted areas.<sup>54</sup>

- Labor Market

NAFTA is no common market, thus there is no free movement of labor. Each member country maintained its rights to protect the permanent employment base of its domestic labor force, to implement its own immigration policies, and to pursue independent border security politics.

- Exceptions

Although trade was liberalized significantly, the member states agreed upon restrictions in many areas: these restrictions concern for example the textile sector, the automotive sector, agriculture and state monopolies on energy.

- Final Provisions

After a cancellation period of six months each member state is allowed to withdraw from the NAFTA. Moreover each country willing to accept the NAFTA regulations may be accepted as a member state.

## **2.2 EU<sup>55</sup>**

In contrast to NAFTA, the European Union has never consisted of one single agreement on free trade. Free trade is only one part of what defines the EU. As already addressed in the introduction, European countries had deep political reasons for economic integration after

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<sup>53</sup> This rule does not apply to the procurement of arms, ammunition and weapons or to other national security procurements.

<sup>54</sup> These areas include: nonbasic petrochemical goods, electricity-generating facilities for „own use“, cogeneration and independent power production.

<sup>55</sup> See: Pfetsch, F. (2005)



the Second World War. Already back in 1946 Winston Churchill<sup>56</sup> stated: “We must build a kind of United States of Europe“<sup>57</sup>.

However, economic integration was the most effective way to get closer, and the first step was undertaken by the French foreign secretary Robert Schuman who proposed the foundation of the ECSC. The treaty was signed in 1951. Seven years later, on March 25, 1957, the six founding members deepened their relationships with the signature of the Treaty of Rome, which is now known as the cornerstone of the EU<sup>58</sup>. The treaty included the creation of the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM). In 1959 tariffs were reduced by 10 percent for the first time within the EEC. In 1967 the three institutions merged to become the European Community (EC). One year later the customs union and a common external tariff were introduced. In 1973 the first enlargement took place and Great Britain, Ireland and Denmark entered the EC. In the mid-eighties the first Schengen Agreement was signed, opening the way to abolish systematic boarder controls between the signing nations.<sup>59</sup> A few months later the Single European Act (SEA) which was the first major revision of the Treaty of Rome, was signed. The act set the goal of establishing a single market until 1992.

For a long time, EC members had also thought about monetary integration but the implementation had already failed a few times. In 1989 the Delors Report<sup>60</sup> suggested three steps to establish the Economic and Monetary Union (EMU). The first step was realized in 1990 by abolishing all exchange controls and completely liberalizing capital movements within the EC. Later, convergence criteria were set in the Treaty of Maastricht (1992) concerning inflation rate, public finances, interest rates and exchange rate stability. A stability and growth pact was put into place and the European Central Bank (ECB) was founded in Frankfurt. As a last step twelve nations adopted the Euro as their common currency (Slovenia joined later).<sup>61</sup>

The Treaty of Maastricht, formally called the Treaty on European Union<sup>62</sup> (TEU), was signed on February 7, 1992. It introduced the three pillars of the EU, namely the European Communities pillar, the Common Foreign and Security Policy (CFSP) pillar, and the

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<sup>56</sup> UK Prime Minister

<sup>57</sup> <http://www.europa-web.de/europa/02wwwswww/202histo/churchil.htm>, accessed on April 1, 2007

<sup>58</sup> On March 25, 2007 the EU officially celebrated its 50 year anniversary

<sup>59</sup> Originally the signing nations were Belgium, France, West Germany, Luxembourg, Netherlands

<sup>60</sup> Jacques Delors was the President of the European Commission at the time

<sup>61</sup> Every member country fulfilling the convergence criteria and being in the European Exchange Rate Mechanism (ERM II) for two years may adopt the Euro.

<sup>62</sup> Text of the Treaty: <http://eur-lex.europa.eu/en/treaties/dat/11992M/htm/11992M.html>, accessed on April 1, 2007

Justice and Home Affairs pillar. The first pillar, concentrating on the EMU, is the most integrated one, led by the supranational principle. As Pfetsch<sup>63</sup> points out, the economic area which has been the heart of the efforts for European integration since the Schuman-plan, the ECSC and the EEC, remains the most developed area concerning integration thanks to its movement towards supranationalism<sup>64</sup>.

In 1993 the single European market was completed<sup>65</sup> and one year later the convergence criteria came into effect.

As a reaction to unfavorable economic developments and high unemployment rates, the Heads of State launched the “Lisbon Strategy” in March 2000 aimed at making the EU the most competitive economy in the world and achieving full employment by 2010. In 2004, the treaty for a European Constitution was signed by the member states.

Major events in recent years have been the biggest EU enlargement in its history in 2004, with Poland being one of the new EU members, the rejection of the European Constitution by France and the Netherlands<sup>66</sup>, and the entry of Rumania and Bulgaria in 2007.

At the moment the EU counts 27 member countries with a population of 494 million and a \$12.6 trillion economy, according to Eurostat and the World Bank.

### **2.3 Differences between the Two**

The different degrees of integration already suggest some fundamental differences between NAFTA and EU. The most striking distinction lies definitely in the question of how far integration shall go. The NAFTA members generally agree that no sovereignty shall be ceded to supranational institutions<sup>67</sup>. Within the EU there have always existed various opinions about the depth of integration. Some countries such as Great Britain and Denmark would have welcomed a limitation to a FTA, while other countries such as Germany and the Benelux countries often acted as motors of new initiatives for deeper integration.

More specifically, there are some key areas with great differences such as factor movement (and border control), monetary policy or economic aid for underdeveloped regions.

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<sup>63</sup> Pfetsch, F. (2005), p.61-62: “Der ökonomische Bereich, der seit dem Schuman-Plan, der EGKS und der EWG den Kern der europäischen Integrationsbemühungen ausgemacht hatte, blieb durch den Sprung zum Supranationalismus der am meisten fortentwickelte Bereich der Einigungsbestrebungen.”

<sup>64</sup> The supranational institutions of the EMU are: European Commission, Council of the EU, European Council, European Parliament, European Court of Justice

<sup>65</sup> See Appendix I for an illustration

<sup>66</sup> The constitution was rejected in referendums conducted in these countries.

<sup>67</sup> However, big parts of literature advocate deeper NAFTA integration concerning e.g. monetary policy and dispute settlement.

Within the EU, factor movement is free. There are however some exceptions, like the example of Germany and Austria who negotiated transition periods with respect to free movement of persons from the new EU member countries. Hence, one could see this as a similarity between Mexico's migration situation within NAFTA and Poland's migration situation within the EU. In both cases, remittances are important parts of the national GDP. Still, within NAFTA no common border policies exist, while the EU has indeed adapted common border policies, they have just not been fully implemented yet.

As a side note it is interesting to mention that Spain, Portugal and Greece who entered the EEC in the 1980s, had big emigration flows into the EEC before their membership. After their entry these emigration flows decreased significantly and even became negative in some cases. In the case of NAFTA where a major goal of the US had been to decrease immigration from Mexico, the contrary was the case and Mexican emigration to the US continued to rise after 1994.<sup>68</sup>

Monetary policy is very different between the EU and NAFTA. Within NAFTA, the Canadian Dollar and the Mexican Peso float freely against the US Dollar, "Bilateral real exchange rates have fluctuated strongly and have exhibited persistent trends."<sup>69</sup> According to the importance of sovereignty, monetary policy lies in the hands of the national central banks. In the EU, the supranational ECB is responsible for monetary policy (at least concerning monetary politics of the Euro zone). Besides, all EU member countries participate in the EMU, whose long term goal is to make the Euro the only EU currency. All countries who have not yet adopted the Euro<sup>70</sup> are in an exchange rate mechanism (ERM II) that shall provide stability between the Euro and the remaining national currencies.

Another topic with special interest regarding Mexico and Poland are subsidies for agriculture and aids for economically less developed regions. Big parts of the EU budget go into the support of European agriculture and into structural funds that aim at helping poorer EU regions reach convergence with richer regions more rapidly. Poland profits from both, as its primary sector is the biggest in the entire EU and as the whole country has

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<sup>68</sup> See Eaton, G. (1996), p.124

<sup>69</sup> Coiteux, M. (2003), p.65

<sup>70</sup> Great Britain, Denmark and Sweden have not accepted the Euro and still use their national currencies; the new EU members (except Slovenia) are currently in the second step of the EMU.

been receiving structural funds. Within NAFTA, the focus “is trade, not aid. The assumed financial benefits to Mexico are from increased investment”<sup>71</sup>.

In-depth analysis on Mexico and Poland will be given in part II and III, however this short overview illustrates that several factors need to be kept in mind when comparing these two countries and their evolution within the respective trade blocs.

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<sup>71</sup> Eaton, G. (1996), p.134

## Part II

### 3 Mexico's Development

#### Estados Unidos Mexicanos

<u>Total area:</u>	1 972 550 sq km
<u>Border countries:</u>	Belize 250 km, Guatemala 962 km, US 3141 km
<u>Population:</u>	108 700 891 (July 2007 est.)
<u>Population growth rate:</u>	1,153% (2007 est.)
<u>Languages:</u>	Spanish, Indigenous languages (Mayan, Nahuatl, etc.)
<u>Capital:</u>	Mexico City (Ciudad de Mexico)



Figure 2: Short overview and map of Mexico<sup>72</sup>

Mesoamerica has been home to civilizations such as the Maya and the Aztecs for almost three thousand years. In 1519, the territory that is now known as Mexico was invaded by Spanish conquerors. It became the viceroyalty of New Spain and developed into the largest provider of resources for the Spanish empire, and into the most populated Spanish colony.

In 1810, Miguel Hidalgo declared Mexico independent from Spain. A long war followed and in 1821 the independence was finally recognized and the First Mexican Empire

<sup>72</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html>, accessed on June 4, 2007

established. In 1836, Texas declared its independence from Mexico, and some years later it was annexed by the United States. This provoked a border conflict that culminated in the Mexican-American War (1846-1848). Mexico was defeated by the United States and lost one third of its territory to its war opponent. In the 1860s France occupied Mexico, and the Habsburg Archduke Ferdinand Maximilian of Austria was installed as Emperor Maximilian I of Mexico. In 1867, the previous president of the Republic, Benito Juárez, was able to restore the republic.

The president who succeeded Benito Juárez, Porfirio Díaz, ruled from 1876 until 1911, the long period of his rule is even known as *Porfiriato*. This era was marked by big economic achievements, investments in art and sciences but also by huge economic inequality and political repression. During the *Porfiriato* the US replaced Spain as Mexico's main trading partner. Porfirio Díaz' rule ended with the outbreak of the Mexican Revolution and the subsequent civil war, which lasted until 1921<sup>73</sup> and cost the lives of 900 000 people. By the end of the revolution, a new constitution was introduced, which guaranteed, besides others, the just distribution of land to the Mexicans, and the strict secularization of the country. In the aftermath of the revolution, the National Revolutionary Party was founded. The party was later renamed into *Partido Revolucionario Institucional* (PRI) and has ruled Mexico for 70 years.

The evolution towards a solid democracy was rather slow. However, the rupture of the PRI-domination was peaceful, and in 2000 the candidate of the opposition party *Partido Acción Nacional* (PAN), Vicente Fox, was elected the first non-PRI president since the Mexican Revolution.

At the moment, President Felipe Calderón from PAN governs Mexico. He was elected in July, 2006, in an extremely narrow victory over the candidate from the *Partido de la Revolución Democrática* (PRD), Andrés Manuel López Obrador. The PRI only obtained the third place.

### **3.1 Economic Development in Mexico until 1994<sup>74</sup>**

Mexico's recent economic development was roller coaster like, from spectacular growth in the middle of the century, down to galloping inflation and terrific accumulated debts in the 1980s, up again to big economic growth in the beginning of the 1990s. In the following

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<sup>73</sup> Officially, the revolution ended in 1917. However, the armed conflict lasted until 1921.

<sup>74</sup> See Boris, D. (1996)

section, the country's economic development until the peso crisis of 1994 will be presented. The GDP development of Mexico between 1940 and 2001 can be found in Appendix II.

### **3.1.1 El Milagro Mexicano (1940s until 1970s)**

During the decades following the revolution (1940s until 1970s) and already under the rule of President Lázaro Cárdenas<sup>75</sup>, Mexico experienced big economic growth (called *El Milagro Mexicano*, the Mexican Miracle, by some): The agrarian reform promised in the constitution was pursued further, the oil industry was nationalized<sup>76</sup> and a reallocation in favour of the poor population's income took place; all these measures had positive effects on the development of the domestic market. During this period, the Mexican GDP grew at an average annual rate of 6, 5%, and the income per capita grew at an average of 3% per year<sup>77</sup>.

Mexico, like many other poor countries at that time, held to an economic policy of Import Substitution Industrialization (ISI).<sup>78</sup> As the name suggests, a nation tries to substitute imports by fostering local production and by setting up high tariffs on imports. This implies strong intervention of the state in economic affairs. Mexico, with its huge domestic market and the corporatist structures built up by the PRI, was quite successful with this model for some time.

However, the linkage effects were small, and big parts of the import substitution industry remained dependent on the imports of raw material and intermediate goods from abroad. This, combined with Mexico's technological dependence on other countries, explains the more and more unfavourable balance of trade. Furthermore, industrial production remained capital intensive and relatively unproductive. Many products suffered from quality defects. This development was only able to continue - for quite a long time and without severe consequences for the entrepreneurship - thanks to the Mexican government, which intervened regularly and granted subsidies and rescue plans every time a company was stuck in difficulties.<sup>79</sup>

Some social indicators such as literacy rate and life expectancy improved over this period. However, one of the most important indicators, income distribution, was stuck at the same

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<sup>75</sup> Lázaro Cárdenas was Mexican President from 1934 until 1940.

<sup>76</sup> The state owned oil monopoly PEMEX is still the pride of the Mexican economy.

<sup>77</sup> See Boris, D. (1996), p.11

<sup>78</sup> See Vazquez Gomez, G. (2005), p.55

<sup>79</sup> See Stamm, H. (1992), p.62 in: Boris, D. (1996), pp.15-16

level as some decades before. The deficits of Mexican policy became visible during the presidency of Luis Echeverría (1970-1976) and José López Portillo (1976-1982)<sup>80</sup>.

### **3.1.2 Sexenio of Luis Echeverría (1970 until 1976)**

The presidency of Echeverría was marked by low private investment rates (the main investments came from the state), huge amounts of capital flight and a growing budget deficit. Mexico accumulated debts, and the inflation accelerated. One consequence was the lifting of the parity between the USD and the Mexican Peso (MXN), and the 80% devaluation of the peso. According to Imbusch<sup>81</sup>, “In 1976, Mexico was at the peak of its deepest economic crisis since 1929”.

### **3.1.3 Sexenio of José López Portillo (1976 until 1982)**

The next president, José López Portillo, could initially rely upon the oil “El Dorado” that fully flourished by the end of the 1970s. Between 1977 and 1981 the GDP grew at an annual rate of 8%, the oil sector and the industry grew even faster. Unfortunately, the abundance of oil and the new hopes associated with it “incited a false feeling of welfare in the country. Mexican state-owned companies and the Mexican government itself had borrowed more from foreign banks than any other developing country in the world. The external debt quadrupled between 1976 and 1982.”<sup>82</sup>

By 1982 Mexico suspended its debt service due to illiquidity and an economic crisis broke out that was to last for the whole decade. Various reasons exist for the outbreak of the crisis: First of all, oil prices plunged by 1981. This had disastrous consequences for Mexico, whose oil products accounted for 70% of all exports. At the same time the world interest rates rose, which made the debt payback much more expensive. The situation encouraged capital flight as well and in 1981, an estimated amount of 10 billion USD left the country<sup>83</sup>. In order to resolve the crisis, President Portillo devalued the peso and nationalized the banking system, along with many other industries that were affected by the crisis (e.g. steel industry).

The crisis was also an indicator for the failure of the concept of import substitution. On the one hand, the system had helped industrialize the country, and it had provided political

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<sup>80</sup> In Mexico, each president is only allowed to one term, called *Sexenio*, since one term lasts six years.

<sup>81</sup> Imbusch, P. (1988), p.31: „1976 befand sich Mexiko auf dem Höhepunkt der schwersten Wirtschaftskrise seit 1929“

<sup>82</sup> Vazquez Gomez, G. (2005), p.55

<sup>83</sup> See Boris, D. (1996), p.24



stability over decades. On the other hand, it had produced an uncompetitive industrial sector with low productivity gains. In 1981 for example, the 27 biggest state owned companies made deficits as big as 8,9% of the GDP. This represented 60% of the total budget deficit.<sup>84</sup>

### **3.1.4 Sexenio of Miguel de la Madrid (1982 until 1988)**

By the end of 1982, a new president was elected, Miguel de la Madrid. His *sexenio* was characterized by the permanent pressure of IMF on Mexico and the President's efforts to conduct crisis management. He was the first to introduce liberal reforms: The external trade was liberalized step by step, the maquiladora industry<sup>85</sup> was pushed and big parts of the state owned industry were privatized. Thanks to the plunging oil prices, the export structure was diversified, and the automotive industry, the processed food industry, as well as the chemical industry became dynamic export sectors. The maquiladora industry also accounted for big parts of the exports. By 1986 Mexico joined the GATT.

However, the debt policy of Miguel de la Madrid's government did not show great success, the poverty rate<sup>86</sup> augmented from 32% in 1981 to 41% in 1987, the distribution of income was more unbalanced than ever, and the unprecedented inflation rate of 130% by 1987 falls in his presidency, too. In the light of the galloping inflation rate and the upcoming presidential elections, a pact – called the *Pacto de Solidaridad Económica* - was agreed upon, whose most important measure included a spectacular wage and prize freeze.

As Figure 3 illustrates, inflation reached various peaks during the 1980s, coinciding with the big economic crises of 1982 and 1988. Until 1994 it could be drastically reduced, only to explode by 1995, where it reached another maximum of 35% p.a. From that year on, inflation could be constantly reduced and by 2006 it was at the very low level of 3,6%.

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<sup>84</sup> See Boris, D. (1996), p.43

<sup>85</sup> Maquiladoras are factories - usually close to national borders – that import materials and equipment on a duty-free and tariff-free basis for assembly or manufacturing and then re-export the assembled product, usually back to the originating country.

<sup>86</sup> See Boris, D. (1996), p.54



Figure 3: Mexico's inflation from 1980 until 1995<sup>87</sup>

### 3.1.5 Sexenio of Carlos Salinas de Gortari (1988 until 1994)

The next president, Carlos Salinas de Gortari, continued this pact (under a different name) which started to show success by the end of the decade. In 1988, inflation settled at 2% per month, and the 20% inflation rate of the following year was the lowest since 1982. One of Salinas' most important measures to reach a budget balance was his fiscal policy. He introduced a tax on capital and made a bigger percentage of the population pay income taxes. Furthermore, fines for defraudation of tax were raised. Another focus of Salinas' policy towards a balanced budget was to privatize state owned companies. In an impressive move towards deregulation, practically all state owned companies were transformed into private companies between 1982 and 1994. The notable exceptions were the oil industry and the energy sector which remained state-owned. The estimated 26 billion USD earned from these privatizations were mostly used for internal debt reduction. The public debt could be reduced from 62,4% of GDP in 1988 to 22% of GDP in 1994. On the other hand it can be said, that rather small parts of the population profited from the deregulation: In the *sexenio* of Salinas de Gortari the number of billionaires rose from 2 to 24, which can be easily explained by the favourable acquisition conditions of the state companies; on the other hand these companies often remained in monopolistic positions, which led to price increases but not always to quality increases<sup>88</sup>.

<sup>87</sup> IMF, World Economic Outlook Database, April 2007

<sup>88</sup> One famous example is the Mexican telephone company Telmex, owned by the richest Mexican, Carlos Slim.

The liberalization of the finance sector was also started during this period, partly due to Mexico's obligations that came along with its entry into the GATT. The 18 state-owned banks were completely privatized, which earned the government 13 billion USD, a multiple of what it had paid some years before under President Portillo, when the banking system had been nationalized. Furthermore the Law for the Regulation of Financial Groups was passed, which allowed a single holding company to provide a variety of financial services (i.e. banking, brokerage and insurance services). Deposit and lending rates were liberalized, too.

The so-called "Brady Plan" helped Mexico reduce its external debts considerably: By 1989/1990 the US Secretary of the Treasury Nicholas Brady presented a plan to resolve the debt problems of many deeply indebted nations, including Mexico: Mexico's external debt was shifted from private creditors to public creditors who provided improved pay back conditions.<sup>89</sup>

The losers of this newly introduced liberalism and those impoverished by the economic crisis of the 1980s were aimed at with a government program called PRONASOL (*Programa Nacional de Solidaridad*), a programme of national solidarity. Besides the political propaganda of this programme (it should help raise the popularity rates of the PRI government within the poor population), its goals were to improve national health, infrastructure, employment and regional aid. The programme differentiated itself from other social programmes in defining itself as unbureaucratic, close to the people, participative, decentralized, independent and pluralistic. The programme was in effect more efficient than precedent programmes; however, the claim of independence from political interests cannot be confirmed. It is not very credible that the mounting number of projects before elections was pure coincidence. Hence it comes as no surprise that PRONASOL is closely related to the person of President Salinas de Gortari in Mexico. Interestingly, this programme was a great "marketing" success, although it did not really allocate more money than all the earlier projects. In 1992 the programme was integrated into the ministry of social affairs (SEDESOL – Secretaría de Desarrollo Social).<sup>90</sup>

### **3.1.6 Starting the NAFTA project**

What had already begun in the early eighties with President Miguel de la Madrid, developed into a clear focus on "market opening" (*apertura*) under his successor Carlos

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<sup>89</sup> See <http://www.sjsu.edu/faculty/watkins/brady.htm>, accessed on May 19, 2007

<sup>90</sup> See Boris, D. (1996), p.76-83

Salinas de Gortari. The further opening of the Mexican economy and the commitment to its northern neighbours Canada and the US culminated in the announcement of the FTA (Free Trade Agreement) between the three countries in 1990. On December 18, 1992, the North American Free Trade Agreement was signed between the United States (under President George H. W. Bush), Canada (under Prime Minister Brian Mulroney) and Mexico (under President Carlos Salinas de Gortari). It came into effect on January 1, 1994, after the signature of three additional supplements on environment, labor standards and import surges, required by the newly elected US President Bill Clinton.<sup>91</sup>

“On the same day, Zapatista rebels in the Southern Mexican state of Chiapas launched their uprising. Within a year, Mexico would be in financial crisis, and the Clinton administration would ask congress to bail out its new free trade partner.”<sup>92</sup>

### **3.1.7 The 1994 Crisis**

1994 did not only mark the beginning of NAFTA, but also the beginning of Salinas de Gortari’s last year in office. In a long existing Mexican tradition, Salinas planned a glorious exit. He chose his successor<sup>93</sup>, and irresponsibly raised government spending, since it was election year, and the PRI was to win again.

The combination of fixing the exchange rate, which led to a quick overvaluation of the MXN and increasing consumer spending, led to a rising current account deficit. To help finance the deficit which had already reached 7% of GDP in 1994, the issuing of public debt instruments called *tesobonos* was authorized by Salinas. *Tesobonos* were short term bills denominated in MXN but with a currency adjustment clause that insured repayment in USD (the clause assured the attraction of foreign investors). Furthermore, strict price controls were introduced and smaller minimum wage increments negotiated with labor unions in order to curb inflation. This strategy led to a reduction in inflation, however, growth only averaged 2,8% p.a.

One year later the growth would even reach a negative record. The following graph very well depicts how GDP grew constantly from the 1987 crisis on until 1994, when GDP growth started to fall sharply, until it reached a value of -6,2% in 1995. The course of the 1995 economic crisis is explained below.

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<sup>91</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J.(2005), p.7

<sup>92</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J.(2005), p.8

<sup>93</sup> PRI candidate for the presidential election in 1994: Luis Donaldo Colosio

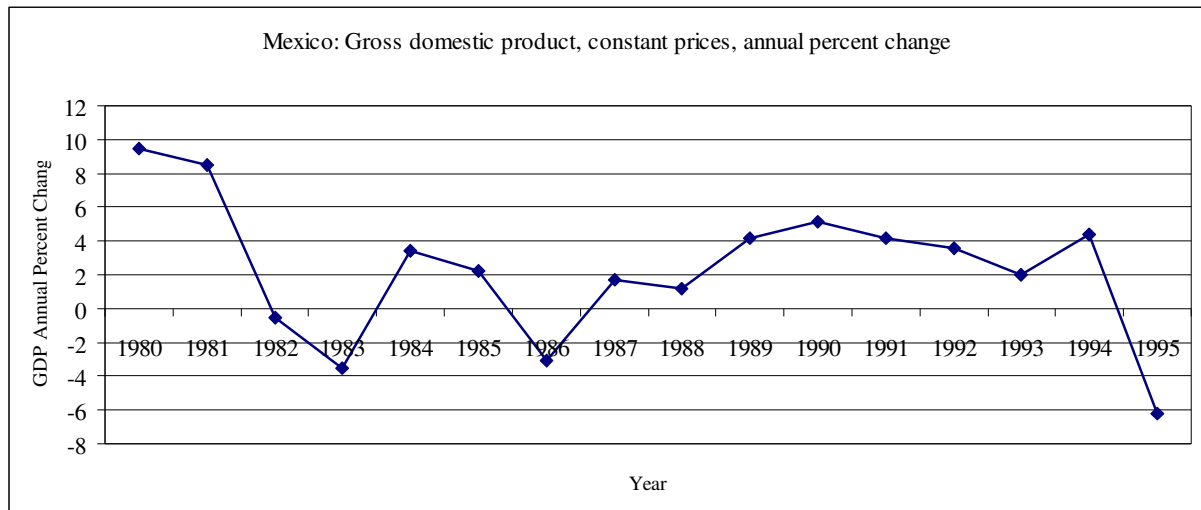


Figure 4: GDP growth in Mexico from 1980 until 1995<sup>94</sup>

The first crisis of the year, the *Zapatista* rebellion that broke out in January, had little to do with the latest Salinas policies and had only weak links with NAFTA. However, the chosen date for the beginning of the rebellion was symbolic, as it coincided with NAFTA's entry into force. This rebellion also highlights the inequality within Mexico as the rebellion was led by big parts of the indigenous population, who protested against their weak position within Mexican society.<sup>95</sup>

Another negative climax was the assassination of the PRI candidate for the presidential election, Luis Donaldo Colosio, in March, when campaigning in Tijuana. Until today, the exact reasons for this murder remain unclear. Ernesto Zedillo Ponce de León was nominated by the PRI to take Colosio's place.

Meanwhile, the current account deficit widened and nervous investors took their money out of Mexico and sold their *tesobonos*. Consequently, the central bank (*Banco de Mexico*) reserves were depleted. Until the new president was elected, the *Banco de Mexico* maintained the fixed exchange rate and purchased Mexican Treasury securities in big volumes to stave off the rocketing inflation.

The crisis broke out as soon as Ernesto Zedillo was inaugurated as the new President. In a first step, the MXN was devalued by 15%. Two days later, as this policy could not be held,

<sup>94</sup> Source: IMF, World Economic Outlook Database, April 2007

<sup>95</sup> For detailed information on the *Zapatistas* and the EZLN, see for example: Tello Díaz, Carlos (2005) *La Rebelión de las Cañadas – Origen y Ascenso del EZLN*. Editorial Planeta Mexicana, Mexico

the government allowed the peso to float freely.<sup>96</sup> Accordingly, the peso collapsed from 3,4 to 7,2 per USD. Prices soared 24% in the first months of 1995.

In contrast to preceding economic crises, this time the international community and the US in particular were quick to help Mexico. “The Clinton administration crafted an international financial rescue package of historic proportion and committed the United States to almost \$20 billion in immediate US assistance to Mexico, plus \$30 billion from other sources – despite opposition in Congress and reservations by key donors in the IMF.”<sup>97</sup>

The Mexican responses to the crisis were strict controls on monetary and fiscal policy. This approach was backed by NAFTA obligations, and detained Mexico from introducing trade and capital controls, which had been the approaches to former crises. The booming exports helped cope with the crisis as well.

Within less than 18 months, the economy was growing again. By 1996 the US loans were fully repaid, even ahead of schedule.

“The IMF, together with the US government, has played an important role in helping the Mexican government deal with the crisis. [...] Mexico received considerable support because, at that moment, it was illiquid but solvent. As Sachs points out, ‘Not many countries share a 2000 mile border with the IMF’s largest shareholder’”.<sup>98</sup>

### **3.2 *Reasons for joining NAFTA***

Under the neoliberal strategies of the eighties, started by Miguel de la Madrid and reinforced by Salinas de Gortari, it was only logical to strive for foreign investment as it was regarded as necessary in order to reduce the external deficit, to attract new technologies and to boost productivity. Mexico’s laws were relatively restrictive towards FDI, as some sectors could only be owned by the Mexican state, others only by Mexican nationals. In other sectors foreign investment was limited to 49%. The NAFTA was an adequate framework to change these laws rapidly towards equal status of foreign investors.

Another important motivation to sign a FTA with the US was the long established importance of the northern neighbour for Mexico’s trade. By the time of the negotiations, the US accounted for two thirds of Mexico’s external trade, and the numbers were still

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<sup>96</sup> See Vazquez Gomez, G. (2005), p.57

<sup>97</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J.(2005), p.10

<sup>98</sup> Vazquez Gomez, G. (2005), pp.58-59

increasing.<sup>99</sup> Many studies, produced before NAFTA came into effect, predicted a strong opportunity for Mexican exports (apparel, cement, glass, steel, shoes). Hence, Mexico wanted to support and intensify its access to the important US market by introducing free trade.

Furthermore, the global economy seemed to become more integrated: As the Soviet bloc collapsed the new market economy countries of Eastern Europe were immediately embraced by Western Europe. “Not only the collapse of socialist regimes in Eastern and Central Europe, but also the transition of those countries to pro-Western, market-oriented economies raised worrisome prospects of compelling, previously unanticipated, sources of new competition for Mexico in trade and investment”<sup>100</sup>, as Gentleman and Zubek put it. It seemed logical and necessary to the Mexican government to push the North American integration in order to stay competitive in a global context.

Interestingly, there was little opposition against NAFTA within Mexico. After a long economic crisis many believed the liberalization of Mexico’s economy was the right answer and would bring welfare to the people. This can be seen as another reason for the Mexican government to join NAFTA. It increased the PRI’s popularity.

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<sup>99</sup> See Boris, D. (1996), p.88

<sup>100</sup> Gentleman, J. and Zubek, V. (1992), p.74

## 4 Poland's Development



### Republic of Poland

Total area:

312,685 sq km

Border countries:

Belarus 416 km, Czech Republic 790 km, Germany 467 km, Lithuania 103 km, Russia

210 km, Slovakia 541 km, Ukraine 529 km

Population:

38,518,241 (July 2007 est.)

Population growth rate:

-0.046% (2007 est.)

Official Language:

Polish

Capital:

Warsaw (Warszawa)

Figure 5: Short overview and map of Poland<sup>101</sup>

In Late Antiquity, the regions now known as Poland were mainly populated by Slavic, Celtic, Baltic and German tribes.<sup>102</sup>

The first Polish state was created in 966, when Poland's first documented ruler, Mieszko I, was baptized. Its boundaries were quite similar to Poland's current borders. In the 11<sup>th</sup> century it became a kingdom, and in 1569 the Polish-Lithuanian Commonwealth was established. As the country expanded and flourished, "contemporaries and later generations called the Jagiellonian era, especially the 16th century, their Golden Age."<sup>103</sup>

By the 18<sup>th</sup> century, the Commonwealth had to fight severe internal problems and was increasingly exposed to foreign attacks. Attempts to reform the country came late and by the end of the century, Poland was partitioned between Russia, Prussia and Austria. From 1795 until 1918, the country ceased to exist.<sup>104</sup>

<sup>101</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/>, accessed on June 4, 2007

<sup>102</sup> See <http://www.poland.gov.pl/History,319.html>, accessed on May 28, 2007

<sup>103</sup> See <http://www.poland.gov.pl/The,Polish,Reformation,335.html>, accessed on May 28, 2007

<sup>104</sup> Only during the rule of Napoleon, between 1807 and 1815, was the Polish state recreated for a short while.



The reestablishment of Poland in 1918 was agreed upon by the Allies of the First World War. US president Wilson<sup>105</sup> had previously set up a fourteen point list, where the reconstitution of Poland appeared as point number thirteen. De facto, “independent Poland emerged from the collapse of the three partitioning powers at the end of the First World War.”<sup>106</sup>

During this period Poland gained its first experience as democracy. However, in May 1926, Józef Piłsudski<sup>107</sup> staged a military coup d'état, after a period of economic crisis and political instability. His rule was marked by a strong emphasis on the military and had clear dictatorial traits. After Piłsudski's death in 1935, power remained in the hands of the military. This period is known as “rule of the Colonels”<sup>108</sup>.

By 1938, Poland had serious diplomatic conflicts with Germany, which was already under national socialist rule. Germany reclaimed the free city of Gdańsk (Danzig), and in August 1939, the German-Soviet Pact of Non-Aggression was signed, which sealed Poland's fate for the next decades: In a secret annex, the spheres of interest were divided between Germany and the Soviet Union, including the division of Poland. On September 1, 1939, German troops entered Poland, two weeks later Soviet troops coming from the east, followed. Warsaw surrendered on September 28. On September 3, France and Great Britain declared war on Germany. As Anita Prażmowska puts it, “The German attack on 1 September opened the most tragic chapter in recent Polish history. [...] Displacement and genocide decreased Poland's population by one-fourth in relation to its pre-war levels. [...] The war destroyed most of Poland's industrial infrastructure so painfully developed during the inter-war period.”<sup>109</sup>

At the end of the war, Poland's borders were shifted westwards, pushing the eastern border to the Curzon line and the western border to the Oder-Neisse line. Eastern territories were transferred to the Soviet Union and western territories from Germany to Poland. The country found itself entirely within the Soviet sphere of influence, and was gradually cut off from the Western world. The first government after the Second World War included Communists (PPR), left-wing socialists (PPS) and the Peasant Alliance (PSL). Nevertheless, all key posts were under communist control. Soon a communist regime was installed, analogous to the rest of the Eastern Bloc, and Poland became a Soviet satellite

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<sup>105</sup> Thomas Woodrow Wilson was the 28<sup>th</sup> president of the US. He was in office from 1913 until 1921.

<sup>106</sup> Prażmowska, A. (2004), p.162

<sup>107</sup> Józef Piłsudski was a Field Marshal and Poland's first Chief of State between 1918 and 1922.

<sup>108</sup> Prażmowska, A. (2004), p.170

<sup>109</sup> Prażmowska, A. (2004), p.177

state. The People's Republic of Poland was officially declared in 1952. As the cold war emerged, Poland also became part of the Warsaw Pact, signed in its capital in 1955.

In 1980, labor turmoil led to the formation of the *Solidarność* (solidarity) movement, an independent trade union, which developed into an important political force. In the 1989 election it defeated the communists and Lech Wałęsa, one of the movement's leaders, became the first post-communist president of Poland. The Polish development was a herald for the succeeding collapse of communism across Eastern Europe.

Since the end of communism, Poland has passed through an intensive phase of democratization and economic transition. Important steps towards a free market economy and democracy were the membership of OECD from 1996 on, the entry into NATO in 1999 and the entry into the European Union in 2004.

At the moment, Poland is ruled by the national conservative party "Law and Justice" (PiS)<sup>110</sup>. Lech Aleksander Kaczyński is Poland's current president, he was elected in 2005. His twin brother, Jarosław Kaczyński, has been the country's prime minister since July 2006.

#### **4.1 Economic Development in Poland until the Nineties**

Poland's economic development has been marked by varying political ideologies and a long period of communism. Following Shapiro, the communist period can be shortly described as follows: "Poland's industrial history since the war falls into four relatively distinct periods. These are the period between the Communists' rise to power in 1944 and Gomułka's return to leadership in 1956 (post-war reconstruction and industrial expansion); the period between 1956 and 1966 (industrial stagnation); that between 1966 and 1970 (industrial contraction); and the Gierek years from 1970 to 1980 (brief respite followed by accelerated decline and crisis)."<sup>111</sup>

The country's recent development since the fall of the iron curtain, however, showed a rapid transition from a centrally planned economy towards a free market economy.

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<sup>110</sup> Prawo i Sprawiedliwość

<sup>111</sup> Shapiro, I. (1981), p.471

### **4.1.1 Economic Development in the Second Polish Republic (1918-1939)**

The Second Polish Republic emerged after 123 years of Poland's absence on maps. The country had been dominated by three different powers, and "had developed along distinct economic and political paths."<sup>112</sup> Major difficulties were caused by three different currencies, different economic systems and little infrastructural links between the three (previously occupied) parts of the country. Additionally, the western parts of the country were far better developed than the eastern half of Poland. World War I and the Polish Soviet War<sup>113</sup> had left behind chaos and destruction.

Bearing all these difficulties in mind, Poland's development was quite considerable: In 1924, the economic minister Władysław Grabski founded the Bank of Poland and introduced the złoty as the new and only currency, stopping hyperinflation and creating a stable currency.

On the basis of economic development plans, two infrastructural projects were focussed upon during this period: The first was the construction of the Gdynia seaport, allowing Poland to bypass Gdańsk, which was under heavy German pressure to boycott Poland's trade: "Germany waged a tariff war against Polish coal and steel as part of the attempt to destroy the new state."<sup>114</sup> The second focus was on the establishment of a central industrial district. The industrialization plans were enabled by French government loans. Hydroelectric dams, steel production, rubber and chemical industries were established. However, these positive developments were abruptly stopped with the outbreak of the Second World War in 1939.

### **4.1.2 Economic Development under Communist Rule (1945-1989)<sup>115</sup>**

As the Soviet Union had contributed considerably to defeat Germany, the allies were in no position to exert pressure on Stalin concerning the case of Poland. When the relationships between the Soviet Union and the Western allies worsened between 1945 and 1948, Europe was split into two opposing ideologies and Poland was left on the eastern side of the Iron Curtain. This included the exposure to Union of Soviet Socialist Republics' (USSR) dominance as well as a centrally planned economy. These plans (short term plans,

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<sup>112</sup> Prażmowska, A. (2004), p.163

<sup>113</sup> The Polish Soviet war lasted from 1919 until 1920.

<sup>114</sup> Prażmowska, A. (2004), p.168

<sup>115</sup> Prażmowska, A. (2004), Chapter 9

annual plans and medium-term plans) covered all aspects of economic activity, and were prepared by the national planning office.<sup>116</sup> In Poland this transformation to a planned economy was initiated with a six-year plan, introduced in 1950.

The dependence on the USSR also meant alienation from Western industrial capitalist countries, and trade with them was limited to a minimum. The Soviet Union focussed mainly on heavy industry, particularly on sectors like coal, steel and machine production, and transferred this focus to its satellite states, too. Light industries and consumer goods industry were rather disregarded.

Shapiro's examples illustrate the dependence created by the Soviet Union: It went "from the building of factories requiring the import of Soviet raw materials, to excessively cheap military production to meet Soviet needs, particularly during the Korean war, to Soviet "purchase" of Polish coal reserves, in one case at 10% of world market prices."<sup>117</sup>

Such actions, together with the creation of the Council for Mutual Economic Assistance (COMECON), helped consolidate Soviet dominance in the Eastern bloc. COMECON was the USSR's answer to the US Marshall Plan<sup>118</sup>, which had only been introduced in 1947. This plan, formally called European Recovery Program (ERP), provided economic assistance from the US to Western European countries. The assistance was offered to the Eastern bloc as well, but the money was tied to requirements such as convertible currencies and market economies. When some countries, such as Poland and Hungary, showed interest in the Marshall Plan anyway, the Soviet Union countered with the introduction of COMECON. All satellite states of the USSR became members of this organization. In the long run, the organization's goal was to coordinate the national economic plans, as well as to cooperate and specialize within the international division of labor between the participating countries.<sup>119</sup>

During the first decade of Communist rule, Poland grew considerably, keeping in mind that the country had been devastated by the Second World War. Above all, the industrial sector grew very fast: Had the coal production fallen from about 70 000 tons in 1938 to about 27 000 tons in 1945, it rose to about 95 000 tons by 1955. Crude steel, coke, iron ore,

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<sup>116</sup> Kornai, J. (1992), p.111

<sup>117</sup> Shapiro, I. (1981), p.472

<sup>118</sup> The plan was named after the US Secretary of State George Marshall.

<sup>119</sup> See Meyers Lexikon: [http://lexikon.meyers.de/meyers/Rat\\_f%C3%BCr\\_gegenseitige\\_Wirtschaftshilfe](http://lexikon.meyers.de/meyers/Rat_f%C3%BCr_gegenseitige_Wirtschaftshilfe), accessed on June 1, 2007

cement and electric power production experienced similar positive developments. National income grew at an annual rate of 8,6% between 1951 and 1955.<sup>120</sup>

Until the 1960s, Poland was a stable economy. The relative well-being of the people was crucial for the acceptance of the communist regime. One advantage of communism was an unemployment rate of zero, and the expanding industries of steel and coal production as well as the chemical industry facilitated this policy. Yet, this turned into a problem, when rising labor participation ratios, combined with declining growth rates and stagnation in income growth emerged in the early 1960s.

By 1968, the economy stagnated, and although this was not expressed in an increase in unemployment rates (as this might be the case in a market economy), it became manifest in consumer good shortages. Products such as meat became scarce. Like other parts of Europe, Poland was swamped by student protests, too. Obviously, the official response was “heavy-handed”<sup>121</sup>. It was not only food that was scarce due to bad planning. One of the biggest problems apart from basic food was housing, as “housing programmes lagged behind growing demand”<sup>122</sup>. When food shortages became worse by the end of the 1960s, government raised the prices for basic foods, in order to balance supply and demand. This move led to riots in coastal towns such as Gdynia. Again, the official response was brutal and some workers were shot.

After these events, the First Secretary of the Polish United Workers’ Party, Władysław Gomułka, who had been in office from the 1956 riots on (they had also started due to food shortages), resigned, and cleared the way for Edward Gierek. The new government under Gierek had to stop price increases and instead decided on a two year price freeze, which then had to be extended until 1975.

Edward Gierek was communist party first secretary from 1970 to 1980. Gierek relied heavily on establishing relations with the West in contrast to his predecessors: “From the moment that the Gierek team came to power (December 1970), one of its key foreign policy concerns was Poland's relations with the West. According to the *Gierekovite* design, Poland was supposed to become a buffer society par excellence between East and West.”<sup>123</sup> By creating ties to Western countries and particularly to Germany’s and France’s governments, Western capital could be attracted to large extent. Under this policy, FDI

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<sup>120</sup> Shapiro, I. (1981), p.471

<sup>121</sup> Prażmowska, A. (2004), p.201

<sup>122</sup> Prażmowska, A. (2004), p.202

<sup>123</sup> Gentleman, J. and Zubek, V. (1992), p.61

rose considerably and Poland experienced big economic growth. The idea was to build up modern industries, where cheap socialist workers would produce goods that could compete in Western countries. This policy showed quite some success at the beginning: Real wages increased by 100% between 1970 and 1975, and the production of domestic consumer goods augmented considerably.<sup>124</sup>

This boom was not to last for a long time, partly due to the lack in managerial knowledge in Polish companies. The huge amount of fresh capital could not be used effectively, as Poland did not provide the know-how to establish an industry that could compete with Western standards. As the strategy failed, Western countries were not willing any more to give credits, and Poland remained with a huge external debt. “Debt service expanded from 27% of merchandise exports in 1974 to 43% in 1975 to 70% in 1980. After 1976, debt-servicing needs forced leadership to turn to short term high interest loans to remain solvent.[...] By late 1979 Poland was desperately negotiating a USD 500 million loan to deal with short-term debt-service commitments as the debt-service ratios soared, reaching levels comparable only with countries like Mexico and Brazil.”<sup>125</sup>

As experienced before in Poland’s existence under communism, the population was affected heavily by the economic crises: The shops were empty and food prices rose quickly. Besides strikes another consequence that resulted from the shortages and price increases was a boom of the black market.

According to Sanford, 1976 and onwards was the time, when “Soviet bloc failure of the command economy in terms of growth performance, efficiency and consumer satisfaction was most striking.”<sup>126</sup> Characteristics of this failure were the above mentioned consumer shortages and the black market, but also growing inflation and hard currency debts.

By the end of the 1970s two big events shaped the general development of Poland: In 1978, a Polish Cardinal was elected Pope: Karol Józef Wojtyła. This was seen as a signal for the international recognition of Poland’s suffering under de facto foreign rule and communism.

Secondly, a worker’s strike that had broken out at Gdansk shipyard in 1980 led to the emergence of the *Solidarność* movement. The immediate trigger for the outbreak of the strike was the price increase of meat. The underlying reasons for the crisis were, obviously, much more complex: As Shapiro puts it, “the convergence of Poland's long-term structural

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<sup>124</sup> See Shapiro, I. (1981), p.488

<sup>125</sup> Shapiro, I. (1981), p.475

<sup>126</sup> Sanford, G. (1992), p.1

problems of investment shortage, weak trading position, and chronically unproductive agriculture”<sup>127</sup> caused the 1980 events. That year, Poland required about 11 billion USD for debt service and the country’s hard currency reserves were more and more depleted, as the money was needed for subsidized consumption imports. Since 1975, productivity had grown much slower than wages. “This combination was bound to result in incompatible demands being placed on economic planners.”<sup>128</sup>

As the following graph illustrates, GDP, too, developed very negatively. It has experienced extreme negative growth twice since 1980: During and after the 1980 crisis, when it reached a negative record of -10%, and one decade later, by 1990, when Poland went through an economic crisis described in Chapter 4.1.3. In 1990, GDP growth reached a negative value of -7,2%.

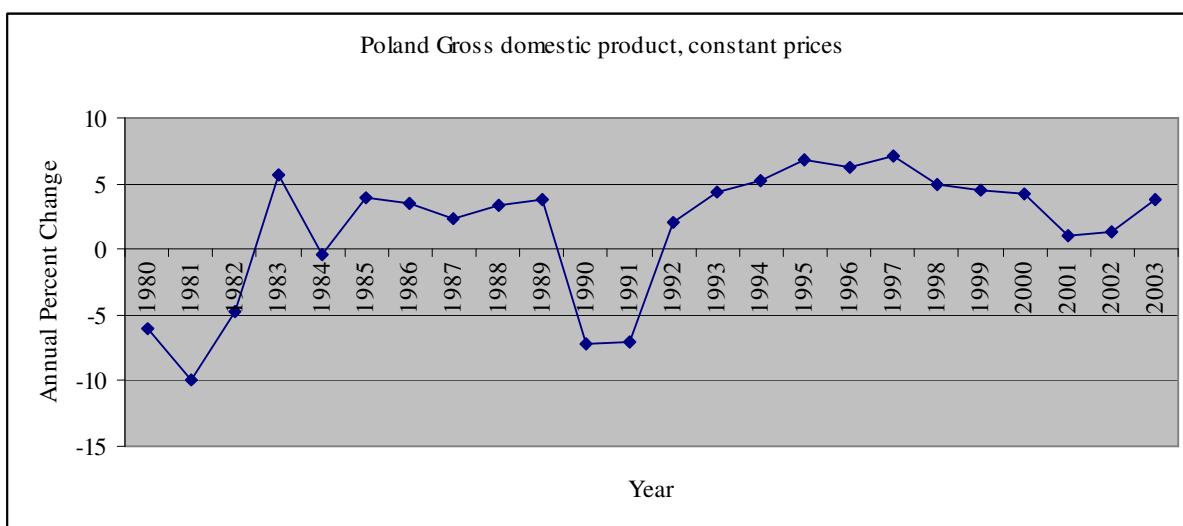


Figure 6: Poland's GDP annual growth rate from 1980 until 2003<sup>129</sup>

Appendix III illustrates the GDP development under Communism from 1950 until the mid 1980s.

The *Solidarność* movement had severe and long lasting consequences for Poland compared to previous working class – state confrontations (like the crises in 1956, 1970-71 and 1976), which seem to have a historical tradition. Aspects that differ to prior crises “concern the historically unparalleled staying power and organizational self-discipline of the striking workers; the different social groupings, with the intellectuals allying themselves to the workers and the Catholic church equivocating and finally coming out against the

<sup>127</sup> Shapiro, I. (1981), p.492

<sup>128</sup> Shapiro, I. (1981), p.492

<sup>129</sup> IMF, World Economic Outlook Database, April 2007

continuation of the strikes and for the forces of “order”; and the response of the Party to the crisis, which was more subtle and sophisticated than in previous years.”<sup>130</sup>

The most visible response of the government was to displace Gierek. The next strong political leader in office was Wojciech Witold Jaruzelski, who was Prime Minister from 1981 to 1985.<sup>131</sup> By the fall of 1981, “when the momentum of the Solidarity movement coupled with the development of a grass-roots movement within the local party apparatus threatened to sweep the increasingly more isolated communist elite from power”<sup>132</sup>, and when the Soviet Union heavily threatened to intervene in Poland via the Warsaw Pact, Jaruzelski imposed martial law in Poland. This step rendered Solidarity an illegal organization, and thousands of its members and activists were arrested and put into specially built camps. “Initially all forms of social associations were banned, all enterprises came under the control, or at least the scrutiny, of military commissioners, and a curfew was imposed.”<sup>133</sup> In response to these developments, the West was quick to react and imposed a number of economic sanctions against Poland. These sanctions mainly comprised the halt of substantial capital movements to Poland and the denial of many trade opportunities. The Jaruzelski regime defended its actions arguing that it had been forced to take on extreme measures in order to protect Poland from disaster. Jaruzelski affirmed his commitment to reforms and liberalization.<sup>134</sup>

Martial law did not last for a very long time: By April 1982, the government had started to dialogue with the opposition, in November Lech Wałęsa was released from internment (in 1983 he was awarded the Nobel Prize for Peace) and in July 1982, martial law was terminated. In 1986 all remaining detainees (arrested under martial law) were amnestied. One of the main goals of Jaruzelski, the weakening of Solidarity, had not been achieved with the imposition of martial law. At best, it had delayed its advance by several years.<sup>135</sup>

Following Gentleman and Zubek, four factors contributed to the demise of the Polish Communist system in the second half of the 1980s: First of all, as already mentioned above, Poland’s economy was paralyzed by foreign debt and was still stuck in structural crisis. After years of stagnation, deep recession followed and throughout the whole of the 1980s, the standard of living of the population worsened. Second, the solidarity movement

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<sup>130</sup> Shapiro, I. (1981), p.469

<sup>131</sup> Later, between 1989 and 1990, he was Poland’s President.

<sup>132</sup> Gentleman, J. and Zubek, V. (1992), pp.64-65

<sup>133</sup> Prażmowska, A. (2004), p.209

<sup>134</sup> See Gentleman, J. and Zubek, V. (1992), pp.64-65

<sup>135</sup> See Holzer and Leski (1990) in Gentleman, J. and Zubek, V. (1992), p.92



was growing rapidly, it enjoyed great reputation in wide parts of society. Thirdly, new intellectual life within the Communist party emerged. However, it did not remain within the party, but spread to the opposition as well. Apart from these domestic developments, the USSR experienced great changes from 1985 on, when Mikhail Gorbachev became General Secretary of the Communist Party. He started his reform programmes by 1986, and *glasnost* (liberalization) and *perestroika* (reconstruction) not only had consequences for the Soviet Union but also for its satellite states. At the same time, the satellite states were allowed more freedom, and the economic and military threat was diminished.

As opposition and criticism had grown strikingly, and as the government had to cope with foreign debts amounting to 45 billion USD in 1988, it had to seek social approval for difficult economic reforms. Hence the government had to open negotiations with the opposition. “Although the Polish communist leadership was still reluctant to draw solidarity into discussions, it had no choice. Between 6 February and 4 June 1989 the newly legalised Solidarity trade union, led by Wałęsa, in the course of long debates hammered out conditions under which they would support the government’s reforms.”<sup>136</sup> The negotiations, called Round Table Talks, led to astonishing results: Free trade unions were legalised, but what was even more important, rules were set up for the process of transformation to a fully democratic political system. All these decisions were fully backed by Gorbachev. The agreements specified that political democratization would start with parliamentary elections in June 1989, and would conclude with fully democratic elections held no later than 1993, “that would firmly establish the country’s democratic credentials.”<sup>137</sup> At the same time economic reforms and liberalization should take place. In 1990, Lech Wałęsa became the first freely elected President of the Republic of Poland.

János Kornai wrote in a comment in 1990: “Immediately following the revolutions all East European countries knew a period of euphoria and new hopes associated with the idea of free elections. However, that will all be behind us after a while, and then comes the more difficult phase of actual policymaking.”<sup>138</sup> This phase was to be called the transition period.

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<sup>136</sup> Prażmowska, A. (2004), p.210

<sup>137</sup> Geremenk (1989) in Gentleman, J. and Zubek, V. (1992), p.68

<sup>138</sup> Lipton, D. and Sachs, J. (1990), p.139

### 4.1.3 Polish Society between Communism and Transition

To get an impression on how Polish society thought about this eventful time, it is very useful and interesting to read through *Laborem Exercens*, written by the most prominent Pole of that time, Pope John Paul II, who published the encyclical shortly after the *Solidarność* movement reached its peak, in September 1981. Although the Pope does not explicitly write about Poland, he stresses “a need for ever new movements of solidarity of the workers and with the workers. This solidarity must be present whenever it is called for by the social degrading of the subject of work, by exploitation of the workers, and by the growing areas of poverty and even hunger. The Church is firmly committed to this cause [...]”<sup>139</sup> The Pope’s support for the Solidarity movement does not mean he condemns Marxism: Various parts of *Laborem exercens* seem to be quite compatible with communism, as the passage on work and ownership illustrates: “the right to private property is subordinated to the right to common use, to the fact that goods are meant for everyone.”<sup>140</sup> Chapter 16 sounds quite socialistic, too, when the Pope writes: “Work is, as has been said, an obligation, that is to say, a duty, on the part of man.”<sup>141</sup> Concerning unemployment, he states: “In order to meet the danger of unemployment and to ensure employment for all, the agents defined here as “indirect employer” must make provision for overall planning with regard to the different kinds of work [...]. In the final analysis this overall concern weighs on the shoulders of the State [...]”<sup>142</sup> This chapter further points out the important role of International Organizations in reducing “the disturbing differences”<sup>143</sup> in living standard among different countries.

A passage that has gained even more importance nowadays that unemployment in Poland is soaring can be found in Chapter 9, where John Paul II declares: “Work is a good thing for man – a good thing for his humanity – because through work man not only transforms nature, adapting it to his own needs, but he also achieves fulfilment as a human being and indeed, in a sense, becomes ‘more a human being’.”<sup>144</sup>

To conclude, John Paul II, and with him many Poles, did not postulate the end of socialism, but rather called for condign working conditions and better living standards for

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<sup>139</sup> Ioannes Paulus PP. II (1981), Chapter 8 (6)

<sup>140</sup> Ioannes Paulus PP. II (1981), Chapter 14 (2)

<sup>141</sup> Ioannes Paulus PP. II (1981), Chapter 16 (2)

<sup>142</sup> Ioannes Paulus PP. II (1981), Chapter 18 (2)

<sup>143</sup> Ioannes Paulus PP. II (1981), Chapter 18 (3)

<sup>144</sup> Ioannes Paulus PP. II (1981), Chapter 9 (3)

the Polish people. The fast transition towards a market economy came as a shock for many and until today many Poles rather think in socialist than in liberal terms.

#### **4.1.4 Economic Development in the Transition Period**

Despite the agreement on the necessity of introducing a pluralist democracy and a market-driven economy, fears came up concerning the external debt the country still had to deal with by the beginning of the nineties. Some daunting examples of indebted developing nations created worries that Poland would be left with no room for economic maneuver, and that the national economy “would languish, stagnant, on the fringes of the capitalist economies,”<sup>145</sup> as Gentleman and Zubek put it. Thus it became clear very quickly that the best guarantee for rapid economic growth and wealth lay in joining Western Europe, which was at the very same moment in the middle of reaching deeper economic integration (the Maastricht treaty was signed in 1992). Lipton and Sachs argue in a similar way, saying that in 1989 leaders of Eastern Europe described their aim as a “return to Europe”.<sup>146</sup> This view was underpinned by calling the region rather East Central Europe than Eastern Europe, “stressing their countries’ place in the mainstream of European history, politics, arts, and economy.”<sup>147</sup>

One problem Poland had to deal with quickly when transition started was hyperinflation. The reasons for this hyperinflation were diverse: On the one hand, households were given legal access to foreign exchange in the parallel market in 1989, which led to a currency flight. On the other hand, formal wage indexation was introduced as one result of the Round Table Talks. This resulted in huge real wage increases in some sectors. And finally, the level of food subsidies was reduced and most retail food prices were freed from controls, which led to an explosion in food prices.

The measures concerning transition to a market economy taken by the government, also known as “shock therapy”, were extensive and very ambitious. The initiatives included: “privatization, to begin transforming the ownership structure of national assets; a competition program, to break up and prevent monopolies, remove restrictions to the entry of new enterprises, and introduce bankruptcy procedures suited to a corporate setting; banking system modernization, to increase the number and variety of financial institutions and improve the regulatory, accounting, and prudential environment; and tax reform, to

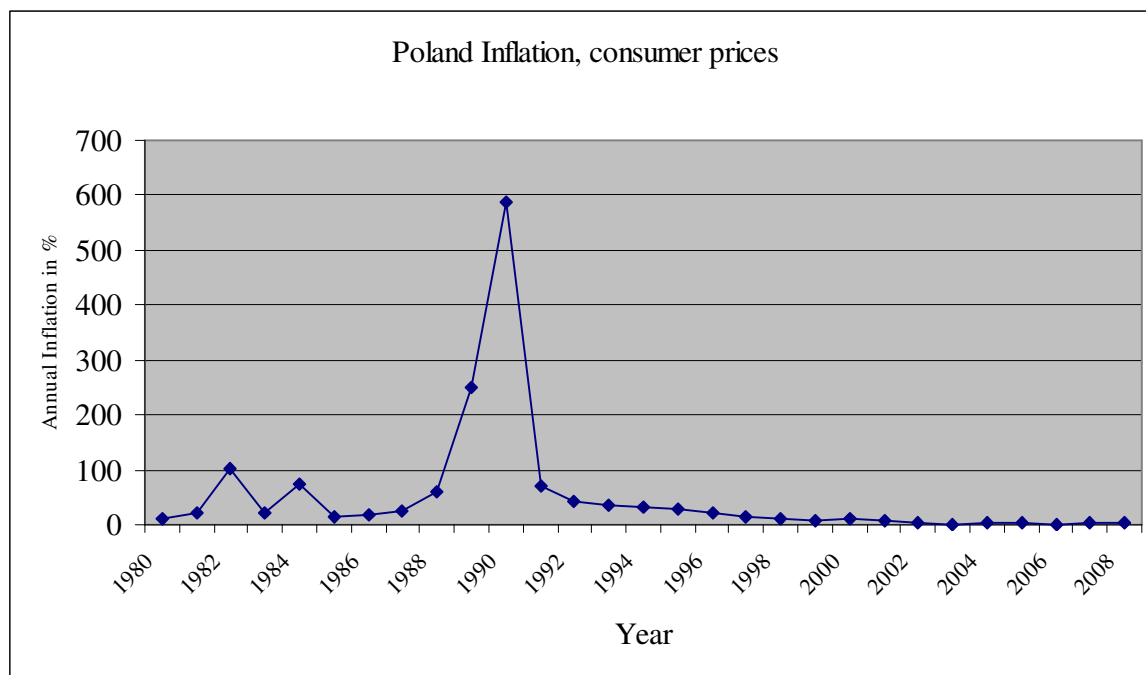
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<sup>145</sup> Gentleman, J. and Zubek, V. (1992), pp.67

<sup>146</sup> See Lipton, D. and Sachs, J. (1990), p.75

<sup>147</sup> Lipton, D. and Sachs, J. (1990), p.75

reduce the present reliance on the distortionary turnover tax and introduce a broad-based value-added tax and a personal income tax.”<sup>148</sup> Concrete measures included the introduction of a uniform tariff of 20%, a depreciation of the zloty, and the establishment of currency convertibility and a fixed exchange rate for current account transactions. Prices of most goods were liberalized (except for goods being under price control in Western economies, too, such as public transportation fares, etc.), which enhanced the soaring inflation further.



**Figure 7: Inflation in Poland from 1980 until 2006<sup>149</sup>**

As the chart above shows, Poland’s inflation (as expressed in annual percentage change) showed extreme peaks in various years of the 1980s, but the absolute maximum was reached in 1990, when inflation reached 585,5%.

The ambitious reform program that had to be pushed through was financially supported by important Western institutions. Balance of payments support was provided by: The IMF, which contributed a 700 billion USD standby arrangement, the Bank for International Settlements, which provided a 215 million USD bridge loan to the first drawing of the standby, and a stabilization fund created by industrial country governments, which contributed 1 billion USD. These supports allowed the Polish government to consider the

<sup>148</sup> Lipton, D. and Sachs, J. (1990), p.111

<sup>149</sup> IMF, World Economic Outlook Database, April 2007; The indicated 2007 and 2008 inflation rates are estimates.

introduction of a convertible and stable exchange rate.<sup>150</sup> Furthermore the Paris club, an important creditor of Poland, agreed to reschedule the repayment of debts.

Obviously, the high inflation rate was a huge burden for the population, as was the soaring unemployment rate. As Lipton and Sachs predicted in their 1990 paper, the unemployment rate grew steadily until 2002, where it reached a peak of 19,9% (in absolute numbers: over 3,3 million unemployed people).<sup>151</sup> Real figures were even worse than their prediction; they estimated the peak would be reached at 10% as a result of the adjustment process.<sup>152</sup> Other problems emerged from the world industrial recession of the 1990s which heavily affected the formerly protected industries of Poland, particularly steel, coalmining and shipbuilding. This contributed to increased unemployment, too and insecurity among Poles augmented.<sup>153</sup>

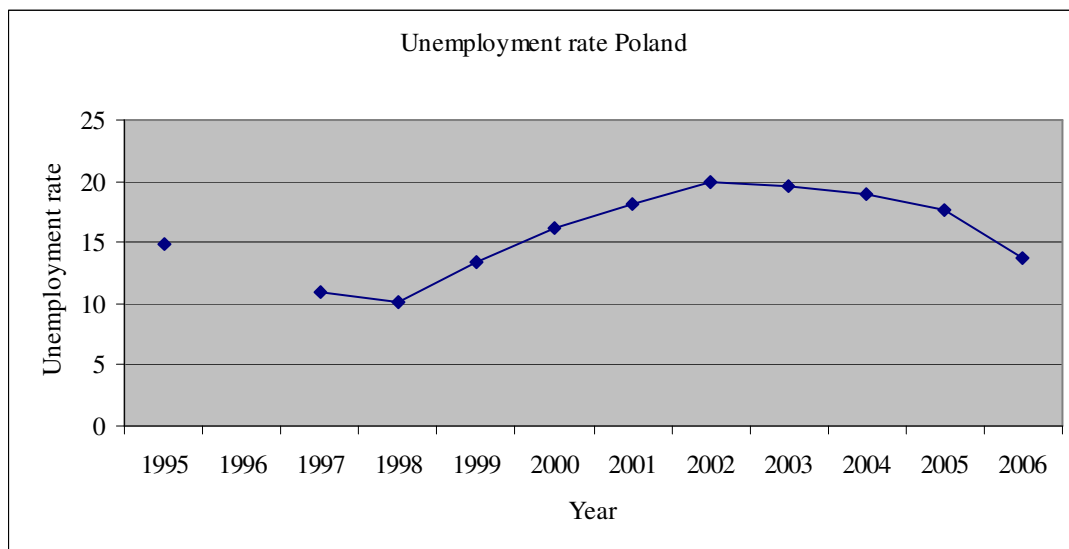


Figure 8: Unemployment rate in Poland from 1995 until 2006<sup>154</sup>

#### 4.1.5 Poland's way into the European Union

From the beginning of transition, the EU was a “relevant external actor”, as Barbara Lippert puts it, “that tries to influence the path of transformation by setting strategic objectives (free trade area, membership), conditions (provisions in Association /Europe agreements, membership criteria) and by giving political and financial assistance and

<sup>150</sup> See Lipton, D. and Sachs, J. (1990), p.119

<sup>151</sup> Eurostat:

[http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1996,39140985&\\_dad=portal&\\_schema=PORTAL&screen=detailref&language=en&product=STRIND\\_EMPLOI&root=STRIND\\_EMPLOI/emploi/em071](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em071), accessed on June 4, 2007.

<sup>152</sup> See Lipton, D. and Sachs, J. (1990), p.126

<sup>153</sup> See Prażmowska, A. (2004), p.210

<sup>154</sup> Eurostat, the 1995 value is taken from the Polish Central Statistical Office

incentives (PHARE; privileged cooperation and consultation e.g. through structured dialogue).”<sup>155</sup>

Hence, Poland already signed an economic agreement with the EC by September 1989. It was not only logical from Poland’s point of view to seek the proximity to the EC for various reasons that will be discussed in Chapter 4.3. Also from the EC’s viewpoint, it was not only reasonable to see new trade opportunities in the Eastern transition countries, but also to participate actively in their process of democratization and economic transition. The EC had already gained some experience “in influencing transition from dictatorship to democracy [...] since Spain, Portugal and Greece have joined in 1986 and 1981, respectively.”<sup>156</sup> However, concerning the new transition economies of Poland and the other former Eastern bloc countries, the EC took far more responsibility than it had done in the 1970s and 1980s. Having more influence on Poland than other external actors such as NATO or OECD<sup>157</sup>, the EU offered “carrots” to Poland, such as granting of credits and assistance, in exchange for democratic compliance.

One of the first steps the EC undertook was to introduce an assistance programme for Poland and Hungary, called “Poland and Hungary: Assistance for Restructuring their Economies” (PHARE), which was later extended to all Central and Eastern European Countries (CEEC). This programme offered know-how concerning economic transformation. Later, a “democracy programme” was included as well, which lent its support to new intermediary players and to Non Governmental Organizations (NGO).

In May 1990 Poland applied for an association status in the EU. One year later, in December 1991, the Europe Agreement was signed as a result of the negotiations between Poland and the EC, including already a perspective of EU membership.<sup>158</sup> This agreement was somewhat asymmetric, as it granted full access to the EC for many goods, while Poland had a longer period available to grant full reciprocity.<sup>159</sup>

In June 1993, at a meeting of the European Council in Copenhagen, the principle of Eastern Enlargement was decided upon.<sup>160</sup> The EU declared that “the associated countries in Central and Eastern Europe that so desire shall become members of the European Union [...]” and that “the future cooperation [...] shall be geared to the objective of membership

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<sup>155</sup> Becker, P. and Lippert, B. (1998), p.20

<sup>156</sup> Becker, P. and Lippert, B. (1998), p.20

<sup>157</sup> Poland became member of the OECD in 1996 and member of the NATO in 1999.

<sup>158</sup> Pfetsch, F. (2005), p.378

<sup>159</sup> See Becker, P. and Lippert, B. (1998), p.83

<sup>160</sup> Pfetsch, F. (2005), p.379

which has now been established.”<sup>161</sup> The criteria for membership were also formulated on this occasion. They included stability of institutions guaranteeing democracy, rule of law, a functioning market economy and the capacity to cope with competitive pressure, besides other conditions. Furthermore, the obligations of the membership included compliance with the aims of the political, economic and monetary union.<sup>162</sup>

In comparison to the other candidate countries, Poland had the advantage of the pioneer role concerning its democratization. Since the opposition had already been incorporated into politics by 1989, the EU considered Poland to be already in the stage of “consolidation” by the end of the 1990s, meaning that the country already possessed the characteristics of a democracy.<sup>163</sup>

In April 1994 Poland formally applied for EU membership. That same year it participated in the meeting of the European Council for the first time. In 1997 the European Commission published the Agenda 2000, where it proposed to officially start negotiations of membership with Poland. One year later, in March 1998, membership negotiations took off. By October 2002 the European Commission published a recommendation, stating that by the end of 2002, the negotiations with the 10 candidates should be finished, and that the candidates would be ready for membership by the beginning of 2004. In 2003, the entry of all ten candidates was accepted by the European Parliament, and the accession treaties were signed. In a public opinion poll of 2003, 77% of the Polish electorate was in favour of Poland’s entry into the EU. The participation in the poll reached 56,58%. On May 1, 2004 Poland, together with nine other countries, became a member state of the EU.

Concerning the way to a market economy, Poland went through several stages, too. In a first step, prices, trade and currency were liberalized. Concerning monetary policy, Poland oriented its reforms towards the European Monetary System straight away. Furthermore the National Bank obtained independence; it was assigned to carry out Poland’s monetary system and became at the same time a supervisor of the banking system. Its main goal since the beginning of the transformation process was to strengthen the zloty.

Another important step already mentioned was the transfer in ownership. By 1998, the private sector already accounted for 64% of total labor force and for 60% of GDP.<sup>164</sup> In the same year, a Free Trade Area was established between the EU and Poland. However,

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<sup>161</sup> Conclusions of the Presidency, in: Europe Documents, No.1844/85, in: Becker, P. and Lippert, B. (1998), p.24

<sup>162</sup> See Becker, P. and Lippert, B. (1998), pp.20-21

<sup>163</sup> See Becker, P. and Lippert, B. (1998), p.31

<sup>164</sup> See Becker, P. and Lippert, B. (1998), p.49

already from 1995 on, 81% of all Polish exports entered the common market duty free. What remained subject to tariffs for a longer period was the agrarian sector. This was an important reason for Poland to seek full membership quickly, as the agrofood industry represented 20% of Poland's entire industry.

The country's trade with the EU rose constantly since the signing of the Europe Agreement: By 1995, trade with the EU accounted already for 70% of Poland's foreign trade as concerns exports and for 65% in imports. Foreign direct investment, which was definitely something Poland hoped to attract through its liberalization, also rose considerably during the nineties. According to the Polish Agency for Foreign Investment (PAIZ), the level of FDI accounted for over 12 billion USD in December 1996.<sup>165</sup> The biggest investors during transition were US and international companies. However, German, Italian, Dutch and French companies also contributed considerably to the high FDI values. Poland's biggest trading partners in 1996 were Germany, Italy and the Netherlands.<sup>166</sup>

## **4.2 Reasons for joining the EU**

Poland was in a very special situation by the end of the 1980s, together with all other Central and Eastern European Countries. The Soviet Union collapsed and faster than everybody had hoped for, Poland was free to choose its own way concerning politics and the economy. As the dominance of the USSR had always been seen as a permanent menace to the sovereignty of Poland, it seems logical that the country turned to the West, hoping to reintegrate itself into Europe.

For Poland not only the EU membership was crucial, NATO membership had a huge importance in its strategic orientation as well: NATO membership was a guarantee of security, as Poland sees itself as being geopolitically exposed between Russia and Germany, two historical threats.<sup>167</sup> Hence, the US (and thus the NATO) was seen as the only possible protecting power.

EU membership was seen as a security advantage as well, but in this case the economic aspects were far more important. Poland sought above all "long-term prospects for economic growth", it hoped for a fast transfer of Western know-how to Poland, concerning

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<sup>165</sup> See Becker, P. and Lippert, B. (1998), p.92

<sup>166</sup> See Becker, P. and Lippert, B. (1998), p.203

<sup>167</sup> See Pfetsch, F. (2005), p.102



all aspects of the economy, and big amounts of FDI inflow, as it had to struggle with a huge external debt in 1990.

As could be seen in the negotiations for membership, Poland had big doubts about the EU as well, particularly concerning agriculture: With its entry, Poland would become the EU member with the biggest agrarian sector (2 million out of 22 million EU farmers are Polish<sup>168</sup>). Thus, it reclaimed big amounts of agricultural subsidies, as its agriculture would be exposed to competition immediately.

On the other hand the liberalization of Poland's economy, including the agrarian sector, opened a market of 400 million inhabitants to the country, offering thus huge potential for growth.

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<sup>168</sup> See Pfetsch, F. (2005), p.103

## 5 Comparison Poland - Mexico<sup>169</sup>

The cases of Mexico and Poland during the second part of the last century are very interesting to compare, as these two countries show some very similar developments in the past, but simultaneously some contrasting ones.<sup>170</sup>

Something both countries have in common is the style of political governance throughout big parts of the twentieth century: Mexico and Poland were both ruled under authoritarian regimes during long periods of time. Both leaderships were taken over in the name of Marxism, although the following politics took very different directions. The leading power in Poland was a Communist hegemonic party which enjoyed sovereignty within the Soviet bloc. In Mexico the ruling party was the *Partido Revolucionario Institucional* that “jealously guarded the national sovereignty and promoted a state-led mixed economy and a corporatist order.”<sup>171</sup> Interestingly, both clearly undemocratic regimes wanted to preserve the image of functioning democratic processes as much as possible. This resulted in many quasidemocratic institutions and regular elections. In Poland, strict pre-arranged methods assured regular victories of the Communist party, whereas in Mexico electoral fraud made sure the PRI would always win elections.

Another point in common of both countries was their fast industrialization in the 1970s. Initially both ruling parties emphasized trade promotion and were rather reserved towards borrowing of foreign capital and technology. However, as these strategies did not quite work out, both countries switched to massive foreign borrowing from Western industrial nations in order to reach rapid industrialization. The governments calculated that the impetus of foreign capital would create so much improvement in productivity that they would be able to meet their external obligations easily (This was particularly the belief in Mexico in the times of their oil *El Dorado*).

As already discussed in previous chapters, these beliefs proved to be wrong and Poland and Mexico were left with tremendous amounts of external debts, paralyzing the national economies and lowering the standard of living of the population seriously. In both countries this situation led to big social and political unrest, and the opposition was clearly strengthened: “In Poland, this led to the unprecedented emergence of Solidarity, and in

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<sup>169</sup> See Gentleman, J. and Zubek, V. (1992), pp.88-95

<sup>170</sup> See Appendix IV for a GDP per capita comparison between 1950 and 2001

<sup>171</sup> Gentleman, J. and Zubek, V. (1992), p.88

Mexico it served to re-energize the Center-Right PAN on the one hand and to serve as a catalyst for the new Cardenas movement on the other.”<sup>172</sup>

What was very different in the developments of Poland and Mexico was the way they organized for reform and economic transition: In the case of Poland it was clear from the beginning on that economic development and integration would go hand in hand with democratization. This was not only clear since Gorbachev had proclaimed *perestroika* and *glasnost*, but also due to the fact that the European Community required all countries interested in membership to provide functioning democracies (this requirement was already written down in the Treaty of Rome<sup>173</sup>). Anyway, following Wojna, “Polish elites were clearly committed to democracy and were determined to shape Poland's political future to accommodate West European expectations of political development in an entirely clear and unambiguous way.”<sup>174</sup>

In Mexico on the other hand it was very important to President Salinas that the US would not insist on any democratic conditions in the negotiations for NAFTA. In press statements by the end of 1990, he clearly stated “that any further political liberalization would have to wait till after economic goals had been reached.”<sup>175</sup> His argument was that the improvement of the population’s well-being could be primarily met with economic reform, and that well-being was the government’s priority. According to Armendares, the US backed the position that political reform should be preceded by economic reform.<sup>176</sup> Thus, Mexico clearly understood that in contrast to Poland’s integration to the European Community, democratization was no prerequisite for Mexico’s participation in the North American Free Trade Agreement.

This fundamental difference already gives a hint at the differing conceptions of the EU and the NAFTA and shows that the concept of the EU is far more comprehensive than NAFTA ever intended. On the other hand, the US do not only possess the instrument of NAFTA to influence and shape developments within Mexico.

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<sup>172</sup> Gentleman, J. and Zubek, V. (1992), p.91

<sup>173</sup> See Gentleman, J. and Zubek, V. (1992), p.94

<sup>174</sup> Wojna (1990), in Gentleman, J. and Zubek, V. (1992), p.94

<sup>175</sup> Gentleman, J. and Zubek, V. (1992), p.79

<sup>176</sup> See Armendares (1990) in Gentleman, J. and Zubek, V. (1992), p.84

## Part III

### 6 The Countries' recent Developments

In this part, conclusions from historical developments in Mexico and Poland will be drawn and insights into recent developments in these economies will be provided. First, the indicators described in Chapter 1.2 will be analysed in depth and possible relationships between them will be identified. Then, the general economic and political environment will be discussed and positive and negative effects of NAFTA and EU membership examined.

To sum up, the main differences between Mexico as part of NAFTA and Poland as part of EU will be outlined and possible future implications presented.

#### 6.1 *Mexico's recent development in numbers*

Demographic developments as well as general economic and national finance data, data on the Mexican labor market and indicators for infrastructure, human development and corruption will be described in detail in the following sections.

##### 6.1.1 Demographic Data

Concerning total population and the population growth rate, data reaching back to 1980 can be found at the IMF's statistical database.<sup>177</sup> Mexico's population is continuously growing, although the pace of growth has been slowing in recent years. While Mexico had a population of 67,57 million in 1980 and an annual population growth rate of 2,40%, the growth slowed to 1% per year and the country reached a population figure of 104,14 million by 2006. Estimates for next year show population figures of 106,27 million by the year 2008. These IMF figures correspond largely with the figures published by the *Instituto Nacional de Estadística, Geografía e Informática* (INEGI) of Mexico<sup>178</sup>, however other sources such as the CIA factbook estimate Mexico to have a population of 108,7 million in 2007<sup>179</sup>. Appendix V illustrates the development of Mexico's population and its growth rate over the last decades.

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<sup>177</sup> International Monetary Fund, World Economic Outlook Database, April 2007

<sup>178</sup> INEGI: <http://www.inegi.gob.mx/est/contenidos/espanol/rutinas/ept.asp?t=mpob01&c=3178>, accessed on June 22, 2007

<sup>179</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#People>, accessed on June 22, 2007

Mexico ranks 11<sup>th</sup> among the world's most populous countries and is the largest Spanish speaking country in the world.

The CIA factbook information on Mexico also includes 2007 estimates for birth rate and death rate. 20,36 births per 1000 inhabitants and 4,76 deaths per 1000 inhabitants confirm the data on a positive population growth rate.

Other indicators, such as the infant mortality rate and life expectancy rate give a little insight into a country's health care system. The higher the infant mortality and the lower the life expectancy, the worse are the medical standards of the country. In Mexico the relation of deaths to live births is 19,63 to 1000 (2007 estimate), which is average in global comparison.<sup>180</sup> Following OECD statistics the infant mortality rate has developed positively, declining from 23,3 deaths per 1000 live births in the year 2000 to 19,7 : 1000 in 2004.<sup>181</sup> Concerning the life expectancy rate at birth, Mexico developed positively as well: OECD statistics show an increase from 74,1 years in the year 2000 to 75,2 years by the year 2004. The CIA factbook estimate for 2007 reaches 75,63 years.

The following indicators, literacy rate and population living below poverty line, permit some conclusions concerning the education system and welfare in a given country. Mexico's literacy rate is relatively high; the 2007 estimate of the CIA factbook reaches 91%. However, literacy is not equally distributed between men and women. An education brief provided by UNESCO shows a literacy rate of over 93% for men and only 91% for women. A positive trend is the high literacy rate among young people: Within the age group between 15 to 24 years, 97,6% are literate (both men and women).<sup>182</sup>

Poverty is a big problem in Mexico: In 2000, 24,2% of Mexico's population lived below the national poverty line. According to the World Bank poverty indicators, this level could be reduced to 17,2% in 2005. What is even worse: 3% of Mexico's population has only 1 USD or less available per day.<sup>183</sup>

### **6.1.2 Economic Data**

Mexico's GDP has been growing considerably over the last two decades. The GDP curve depicted in Appendix VI illustrates the development from 206,6 billion USD in 1980 up to

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<sup>180</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#People>, accessed on June 22, 2007

<sup>181</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

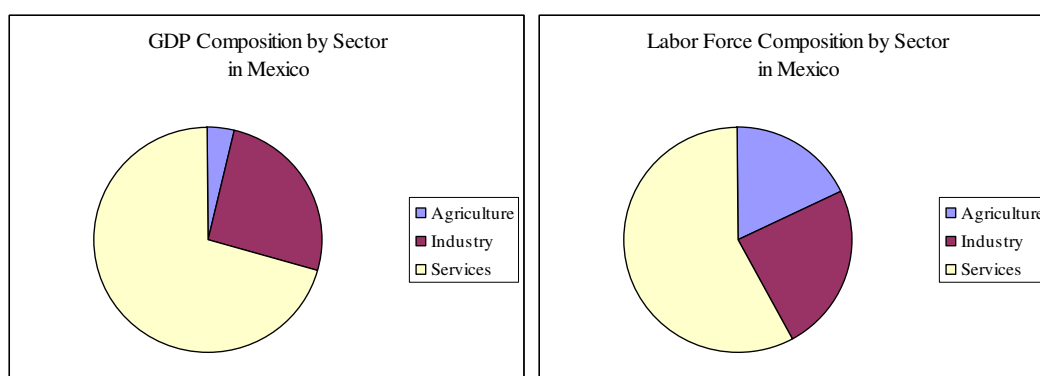
<sup>182</sup> UNESCO: <http://stats.uis.unesco.org/unesco/TableViewer/document.aspx?Report>, accessed on June 8, 2007

<sup>183</sup> Worldbank: <http://devdata.worldbank.org/data-query/>, accessed on June 22, 2007

840 billion USD by 2006. However, economic crises are also reflected in the GDP development. Slumps in the GDP curve can be observed from the beginning of the 1980ies until 1986, when Mexican GDP reached a bottom level of 135,4 billion USD. Another sharp decline followed between 1994 and 1995, when GDP fell from 420,7 billion USD to 286,2 billion USD within one year. Since then, GDP has continuously been growing, despite the year 2003 when a slightly negative growth rate of – 1,52% could be observed. In 2006 the annual GDP grew at a rate of 9,42%. For the years 2007 and 2008 the IMF predicts a slower growth of 6,8%, respectively 6%.

According to an OECD economic outlook for 2007, “private investment, in particular, was an important driver of growth, as solid export volume growth and reduced political uncertainties after the elections boosted business confidence.”<sup>184</sup>

GDP composition by sector follows the global trend: According to the CIA factbook<sup>185</sup>, 70,5% of the GDP are made up by services, followed by industry with 25,7% and agriculture with only 3,9%. However, labor force composition by sector shows another picture: Only 58% of Mexico’s labor force is occupied in services, 24% are employed in industry, and 18% work in agriculture. Hence, Mexican agriculture is highly inefficient, whereas industry and services are rather efficient.



**Figure 9: GDP and Labor Market Composition by Sector in Mexico**

Mexico’s gross national income, similar to GDP, has also increased since 1990, with the exception of 1995, when it declined from 412 billion USD to 347 billion USD. Appendix VII illustrates GNI levels and GNI per capita levels between 1990 and 2004. By 2004, GNI reached a level of 707 billion USD, while GNI per capita reached 6930 USD (with an

<sup>184</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>185</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#Econ>, accessed on June 26, 2007

estimated population of 102 million in 2002).<sup>186</sup> However, the World Bank Data does not correspond to the data provided by OECD<sup>187</sup>: According to OECD data, GNI per capita amounted to 9989 USD by 2004, which would imply a GNI of more than 1000 billion USD for that year. Although the data differ, both show a clearly positive trend.

A rather negative trend can be observed within trade. Although Mexico has been acting on the maxim of export led growth since the 1980ies, the trade balance is still negative. Mexico has indeed achieved growth in exports of goods and small increases in exports of services since the year 2000; however, imports of goods and services remain larger, as Table 1 illustrates below (See Appendix VIII for graphical illustration). By 2005 Mexico's exports equalled 230,3 billion USD, while its imports accounted for 242,6 billion USD, which resulted in a trade deficit of -12,32 billion USD. Apart from being negative, the trade balance has even worsened over the last years: In 2000, the trade deficit had been lower, with a value of -8,11 billion USD.<sup>188</sup>

However, an OECD economic outlook for Mexico assesses the situation positively, stating: "The current account was close to balance in 2006, reflecting a spike in automobile exports, high oil revenue and continued high migrants' remittances."<sup>189</sup>

Year	Imports of Goods	Exports of Goods	Imports of Services	Exports of Services	Balance of Trade
2000	171,0581	165,2721	16,0357	13,7123	-8,1094
2001	165,0947	157,5298	16,2179	12,6603	-11,1225
2002	165,7084	159,9779	16,7398	12,6916	-9,7787
2003	170,5458	164,9123	17,1337	12,533	-10,2342
2004	196,8094	187,9804	18,5619	13,9551	-13,4358
2005	221,819	214,2073	20,7795	16,0663	-12,3249

**Table 1: Mexican Imports and Exports between 2000 and 2005**<sup>190</sup>

Concerning the country's trading partners, Mexico's most important import partner remains the US, accounting for 53,4% of all imports, followed by China and Japan, who make up 8% and 5,9% of all imports. To the country's exporting companies, the US is

<sup>186</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>187</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>188</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>189</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>190</sup> Data given in billion USD

even more important: 85,7% of all Mexican exports go to the US, while the other “big” export partners, Canada and Spain, only receive 2% and 1,4% of all Mexican exports.<sup>191</sup>

Looking at some investment data proves interesting as well: Gross capital formation has been continuously moving between 20% and 25% of GDP during the last 15 years, although an increase between the years 1995 and 2000 (with a peak level of 26% in 1997) can be observed.<sup>192</sup> This indicates a relation with NAFTA, which came into force by 1994. However, it seems the effect of NAFTA did not last too long, as the 2004 level (22% of GDP) is even slightly below the 1990 level (23% of GDP) of gross capital formation.<sup>193</sup> Here again, World Bank data and OECD data do not fully correspond: OECD data available for the years 2000 until 2005 even state a continued decline in gross capital formation since the year 2000 (from 21,38% of GDP in 2000 to 19,31% in 2005).<sup>194</sup>

Data on foreign direct investment are also provided by OECD<sup>195</sup>: After the 1995 crisis, FDI recovered quickly and moved from 9,7 billion USD that year to the peak value of 27,1 billion USD by the year 2001. After 2001 FDI inflows went down to 14,1 billion USD by 2003, only to increase again, as the OECD economic outlook 2007 states: “Foreign direct investment (FDI) inflows again reached a solid 19 billion USD (or 2% of GDP) in 2006.”<sup>196</sup> Most FDI flew in from the US, followed by the European Union, Canada and Japan.

FDI outflows developed analogously: After a sharp decrease following 2001, FDI outflows improved again and reached 6 billion USD by 2005.<sup>197</sup>

Exchange Rates developments show the following picture: During the last years, the exchange rates (rates of conversion) between the Mexican Peso and the USD remained relatively stable. After one year of appreciation (2001), the peso depreciated slightly against the USD: While in 2000 9,5 MXN bought 1 USD, by the year 2005 the exchange rate was 10,9 MXN to 1 USD. Concerning the year 2006, an OECD statement says: “The peso remained broadly stable vis-à-vis the dollar over the year, with a slight depreciation in

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<sup>191</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#Econ>, accessed on June 27, 2007.

<sup>192</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>193</sup> See Appendix IX for a graphical representation.

<sup>194</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>195</sup> Data from 1994 until 2000 extracted from: Hufbauer, Gary Clyde and Schott, Jeffrey J.(2005), p.31

<sup>196</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>197</sup> See Appendix X for a graphical representation.



the latter part of the year reversing an earlier appreciation.”<sup>198</sup> The following table gives the monthly exchange rates starting in January 2000.

Month/Year	2000	2001	2002	2003	2004	2005	2006	2007
January	9,6253	9,6828	9,1480	10,8990	11,0700	11,1925	10,5593	11,0155
February	9,3662	9,6900	9,1038	11,0300	11,0780	11,1010	10,5470	11,1795
March	9,2845	9,5800	9,0000	10,7800	11,1440	11,1928	10,9000	11,0573
April	9,4127	9,3500	9,4100	10,2700	11,4350	11,1035	11,0455	10,9615
May	9,5110	9,2700	9,6400	10,3250	11,4370	10,9012	11,3618	10,7540
June	9,8243	9,0710	9,9700	10,4650	11,5500	10,7600	11,1500	10,8153
July	9,3667	9,1692	9,8700	10,6100	11,4300	10,6100	10,9853	
August	9,1995	9,1982	9,9800	10,7340	11,4050	10,8150	10,9280	
September	9,4459	9,5200	10,2150	11,1300	11,3950	10,7765	11,0061	
October	9,5680	9,2700	10,2070	11,0250	11,5400	10,8010	10,7706	
November	9,4155	9,2250	10,1550	11,3620	11,2512	10,5660	10,9840	
December	9,6098	9,2018	10,4000	11,3200	11,1595	10,6415	10,8170	
Average	9,4691	9,3523	9,7582	10,8292	11,3246	10,8718	10,9212	10,9639

Table 2: Monthly Exchange Rates MXN-USD between 2000 and 2007<sup>199</sup>

Other data available are on the nominal effective exchange rate, the relative consumer price index and the relative unit labor costs. The combination of the latter gives the real effective exchange rates. As can be observed in Appendix XI, real effective exchange rates were always above the nominal effective exchange rate. The appreciation of relative unit labor costs implies a certain loss of competitiveness vis-à-vis other currencies.<sup>200</sup>

Mexico’s long term interest rates have been quite high compared to the US or European countries. However, the country’s interest rates have decreased from 16,9% in 2000 to 7,5% by 2006.<sup>201</sup> Since 2002, the interest rates have been stable between 7 and 8%.<sup>202</sup>

In the long term, Mexico’s inflation has developed positively since the late nineties: From 1999 on, inflation has continuously decreased. At the moment it is stable at approximately 4% per annum.<sup>203</sup> However, OECD officials state the following concerning Mexico’s inflation in 2006 and onwards: “Reflecting erratic movements in food prices and a series of supply shocks, consumer price index headline inflation turned up in the course of 2006 and has been hovering just over 4% (year-on-year) since September, above the Central Bank’s target of 3% at the top of its variability interval of plus or minus 1 percentage point. Core

<sup>198</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>199</sup> BANAMEX: [http://www.banamex.com/esp/finanzas/historicos/dolar/historico\\_dolar.jsp](http://www.banamex.com/esp/finanzas/historicos/dolar/historico_dolar.jsp), accessed on June 30, 2007

<sup>200</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>201</sup> OECD Economic Outlook 81 database

<sup>202</sup> For a graphical illustration, see Appendix XII

<sup>203</sup> IMF, World Economic Outlook Database, April 2007

inflation has also been increasing, reaching close to 4% in March. Even so, inflation expectations for the end of 2008 remain broadly unchanged at 3,5%, and contractual wage increases are still moderate at around 4,3%.”<sup>204</sup> Appendix XIII gives an overview of the country’s inflation rate over the last two decades.

A particularly interesting indicator for a country like Mexico is the amount of remittances from nationals living abroad. According to the world development indicators database of the World Bank<sup>205</sup>, remittances have augmented from 7,5 billion USD in 2000 to 21,8 billion USD in 2005. This value exceeds all FDI inflows to Mexico (18 billion USD) the same year. At the same time the increasing amount of remittances indicates that immigration from Mexicans to the US is ever increasing, a development the US had hoped to halt with NAFTA.

### 6.1.3 National Finance Data

In 2006, Mexico’s budget was balanced, reaching revenues of 196,5 billion USD versus 196,2 billion USD in expenditures.<sup>206</sup> For this year OECD officials state: “The 2007 budget targets a balanced budget [...]. Given the budget assumption of a slowdown in activity and lower oil related revenue, this target implies a tightening of the fiscal stance.”<sup>207</sup> A tightening of the fiscal state is a measure many international experts (across OECD, IMF, World Bank, etc) claim, as the country is losing huge amounts of tax revenues at the moment.

The country’s total tax revenue<sup>208</sup> is very low compared to other OECD countries, such as Austria but also the US.<sup>209</sup> Since 2000 it has hardly increased: While accounting for 18,48% of Mexico’s GDP in 2000, it only augmented to 19,28% by the year 2005.

Taxes on goods and services<sup>210</sup> account for the biggest share within total tax revenue: While decreasing from 9,8% of GDP in 2000 to 8,9% in 2002, this trend could be reversed and by 2005, taxes on goods and services accounted for 11,26% of GDP.

Taxes on income and profits<sup>211</sup> form an important part of total tax revenue, too, although their share of GDP has decreased over time. In 2000, taxes on income and profits

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<sup>204</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>205</sup> World Bank: World Development Indicators database, April 2007

<sup>206</sup> CIA Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#Govt>, accessed on July 4, 2007

<sup>207</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>208</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>209</sup> Total tax revenue 2005: Austria – 41,89%, Canada – 33,49%, US – 26,81%

<sup>210</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

accounted for 5,04% of GDP, while by 2005, their share had already decreased to 4,8% of GDP.

At a later point in their report, OECD officials reinforce the need for tightening of fiscal stance and fiscal reform: “[...] if a fiscal reform is passed to establish a reliable revenue basis for the financing of development needs and if progress is made in increasing effective competition in product markets, then this would boost confidence and underpin higher GDP growth.”<sup>212</sup>

Unlike the country’s low tax income, Mexico’s reserves of foreign exchange and gold are huge: In 2006, these reserves had a value of 85 billion USD.<sup>213</sup>

Another aspect of Mexico’s finance is the country’s indebtedness. According to CIA data, the country’s public debt corresponded to 20,7% of GDP by 2006.<sup>214</sup> Its total debt service has decreased from 30,4% (Percent of exports of goods, services and income) in 2000 to 17,2% by 2005.<sup>215</sup>

Mexico is an economic aid recipient. In 2005, it received 189,4 million USD in official development assistance and official aid.

#### **6.1.4 Labor Market Data**

As depicted in Figure 1, labor force by occupation in Mexico is divided into 58% working in services, 24% in industry and 18% in agriculture. Total employment rate has hardly changed between 2000 and 2005: It remained stable at approximately 60%.

Officially, Mexico has an extremely low unemployment rate: According to INEGI and CIA information, it only reaches 3,2% (2006 survey data). The CIA information includes the side note that approximately 25% of Mexico’s labor force is underemployed (less than 35 hours of work per week).

Since unemployment compensation is inexistent, the unemployed (and big parts of the underemployed) are actually working in the underground economy and do not state that they are unemployed. Data are gathered through surveys and not through government agencies (as in other countries where government agencies are responsible to pay

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<sup>211</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>212</sup> OECD Economic Outlook 2007, Preliminary Edition

<sup>213</sup> CIA Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#Govt>, accessed on July 4, 2007

<sup>214</sup> CIA Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#Govt>, accessed on July 4, 2007

<sup>215</sup> World Bank: World Development Indicators Database, April 2007

unemployment compensation and give incentives to the unemployed to register). This provides the government with very low unemployment figures; however, these people's situation is extremely precarious, since their work situation has no legal base.

This situation leads to the paradox that children selling chewing gum in the streets or people selling pirated CDs on the subway count as employed.

Furthermore it is interesting to take a look at youth unemployment, since these rates (even the official ones) are significantly higher than overall unemployment rates: According to the World Bank, unemployment among 15-24 year olds reached 6% in 2004 (it has been at around 6% for several years).<sup>216</sup>

### **6.1.5 Infrastructure**

Some data on infrastructure<sup>217</sup> give insight into the development of living conditions in Mexico: While in 1990, only 58% of Mexico's population had access to improved sanitation facilities, this number augmented to 79% by 2004.

Access to clean water has nearly reached 100%: while in 1990, only 82% had access to an improved water source, by 2004 97% of all Mexicans accessed clean water.

Although these data indicate big improvements in living conditions, much remains to be done concerning improved sanitation facilities, as 20% of Mexico's population still lives without appropriate access to the very same.

### **6.1.6 Composite Indices**

Several indicators of income inequality exist. One of them, the Gini Coefficient, takes into account the inequality in the distribution of family income over its whole range in a country. According to UNDP's Human Development Report 2006, Mexico has a Gini Coefficient of 0,495.<sup>218</sup>

The Human Development Index, where Mexico ranks 53<sup>rd</sup> (out of 177 listed nations), is a broader index, as it comprises not only the dimension of income inequality but also other factors, such as life expectancy and literacy rates. During the last thirty years, Mexico's HDI has been continuously rising, from 0,691 in 1975 up to 0,821 in 2004.<sup>219</sup>

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<sup>216</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>217</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>218</sup> The highest ranked country is Norway with a Gini Coefficient of 0,26.

<sup>219</sup> UNDP: Human Development Report 2006, p.288

As Mexico lies within the upper third in both indices, it ranks as to equality below all other OECD countries, leaving much space for improvement.

Another composite index is the corruption perception index (CPI), published annually by Transparency International.<sup>220</sup> The index ranges from 10 (highly clean) to 0 (highly corrupt), and is calculated on a country basis. For 2006, 163 countries have been surveyed by Transparency International. Mexico occupies rank number 75, with a score of 3,3. Other countries scoring 3,3 are China, Egypt and Ghana.<sup>221</sup> As can be easily seen from Mexico's corruption perception index, the country has a huge corruption problem. Looking at CPI publications from 2001 onwards, Mexico's perceived corruption has even worsened: In 2001, the country had a CPI of 3,7, compared to 3,5 in 2005 and 3,3 in 2006.

### **6.1.7 Regional Disparities**

Although most statistics published by international organizations compare nations with each other, it is also worth to take a look at regional disparities within a single country. In the case of Mexico it is well known that regional differences are most visible between Northern and Southern regions of the country. It is generally said that Mexico's north is much more developed than Mexico's south. Even in last June's presidential elections this trend could be observed, when neoliberal PAN won majorities in virtually all Northern regions, while socialist PRD won majorities all over the South.<sup>222</sup>

Concerning the above mentioned indicators – such as GDP per capita – disparities can also be found. According to an OECD report, Mexico is among the member countries with the “largest regional inequalities in GDP per capita.”<sup>223</sup> As Figure 10 illustrates, GDP per capita is significantly lower in Mexico's South than in its North (with the exceptions of the Yucatán Peninsula and Mexico City, both situated in the South).

Regions with higher-than-average GDP per capita are kept in dark blue while regions with low GDP per capita levels are kept in dark red.

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<sup>220</sup> Transparency International: <http://www.transparency.org/>, accessed on March 16, 2007

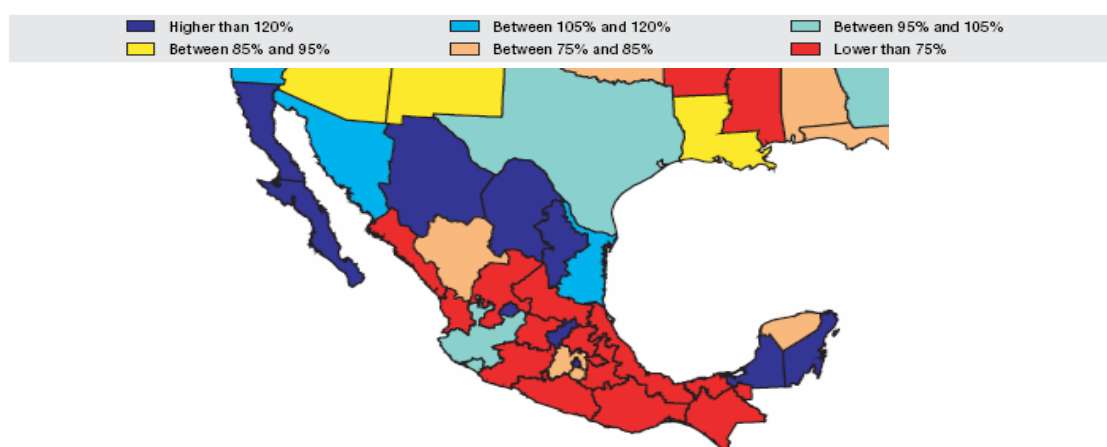
<sup>221</sup> Highest scoring countries: Finland, Iceland, New Zealand (9,6); Lowest scoring country: Haiti (1,8)

<sup>222</sup> For a graphical illustration, see: [www.ife.org.mx/documentos/Estadisticas2006/presidente/m\\_pdte\\_1.html](http://www.ife.org.mx/documentos/Estadisticas2006/presidente/m_pdte_1.html), accessed on July 7, 2007

<sup>223</sup> OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.82

### 11.7. Regional GDP per capita: North America TL2

Percentage of national GDP per capita 2001



**Figure 10: Regional GDP per capita in Mexico**<sup>224</sup>

Regional productivity shows a similar picture: While all Southern States (except Yucatán Peninsula and Mexico City) are below 75% of national productivity, all northern states (bordering the US) are above 120% of Mexico's national productivity.<sup>225</sup>

Another indicator, giving more detailed information on the population's skills, is tertiary education per region. Here again, Northern regions lie clearly above the national average, while Southern regions lag behind and are mostly below 70% of the national average.<sup>226</sup>

Appendix XIV shows illustrations of regional productivity and tertiary education by region.

Since huge regional differences cannot be neglected in Mexico it would be interesting to know why the country is divided into north and south. The main reason probably lies within Mexico's borders: The country only has northern and southern borders, since it is surrounded by the Caribbean Sea in the East and the Pacific on its Western coast. Its northern neighbour is the US, while in the South it borders Guatemala and Belize (see map in Part II for an illustration). Mexico's north clearly profits from its vicinity to the United States, virtually the entire maquiladora industry has been installed in border cities. Furthermore big parts of Mexico's indigenous population live in the South. Their communities are often badly integrated into Mexico's infrastructure and educational system, circumstances which enhance poverty. Guatemala is much poorer than Mexico, hence no positive synergy effects can be expected from this vicinity.

<sup>224</sup> OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.83

<sup>225</sup> OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.92

<sup>226</sup> OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.149

## 6.2 Poland's recent development in numbers

In the following sections some numbers and figures about Poland will be provided. These include main economic indicators, national finance data, labor market data, some information on infrastructure and on human development.

### 6.2.1 Demographic Data

Poland's total population experienced continuous positive growth since 1980, until stagnation took place in the mid-nineties. Today, growth rates are negative. While Poland had a population of 35,58 million by 1980, this number rose to 38,66 million by 1998. Since then, population growth has stagnated and even decreased. The total population of Poland only reached 38,097 in 2006 and is expected to further decrease. While the country had a peak population growth rate of 1,4% in 1983, the growth rate turned negative by 1999, by now reaching a level of – 0,18%.<sup>227</sup> A graphical representation of Poland's total population and population growth rates between 1980 and 2006 can be found in Appendix XV.

This negative trend is confirmed by birth and death rates of Poland. Both rates are estimated at 9,94 per 1000 inhabitants in 2007<sup>228</sup>, which means that deaths equal births in numbers. Additionally, many Poles emigrate to other countries, which leaves Poland with a negative population growth rate.

Although Poland's population decreases, the infant mortality rate has developed positively over the last years. The rate could be reduced from 7,7 deaths per 1000 live births in 2001 to 7 deaths per 1000 live births in 2004, according to OECD data. Life expectancy has developed positively, too. While in 2001, Poles had an average life expectancy of 74,3 years, this number rose to 75,1 years by 2005.<sup>229</sup> According to CIA estimates<sup>230</sup>, this number will continue to rise this year.

Used as rough indicators for education and welfare, literacy rate and population living below poverty line will be presented next. As published by the CIA, 99,8% of Poland's population of age 15 and over can read and write. Hence it can be said that illiteracy is inexistent in Poland. Concerning population living below poverty line, hardly any data

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<sup>227</sup> International Monetary Fund, World Economic Outlook Database, April 2007

<sup>228</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html#People>, accessed on June 24, 2007

<sup>229</sup> data extracted on 2007/06/08 14:19 from OECD.Stat

<sup>230</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html#People>, accessed on June 24, 2007

could be found. According to the Human Development Report 2006, 23,8% of Poland's populations lived below the national poverty line between 1990 and 2003.<sup>231</sup> A World Bank publication<sup>232</sup> reports that by the year 2000, 2% of Poland's population had to live with 1 USD or less per day.

## 6.2.2 Economic Data

Poland's gross domestic product has developed considerably over the last decades: Although the country's GDP curve experienced some ups and downs, too, its growth was far more consistent than Mexico's. While Poland had a GDP of 56,62 billion USD in 1980, its GDP has reached 338,69 billion USD by 2006. Looking at the numbers in detail, a development close to stagnation during the 1980ies can be observed. Within the whole decade, Polish GDP only grew to 62,08 billion USD (by 1990). Nevertheless, at the beginning of the nineties and the beginning of Poland's transition to democracy and a market economy, the country's GDP started to grow, reaching its highest growth rate (34,15%) in 1995, when GDP reached a level of 139,1 billion USD. Later growth slowed down, but took off again with Poland's entry into the European Union in 2004. Between 2004 and 2006 growth rates were always beyond 10%, reaching nearly 20% in 2005, when GDP equalled 303,16 billion USD.<sup>233</sup>

Poland's GDP is expected to grow further; however, IMF officials expect growth to slow down during 2007 and 2008. Poland's GDP and GDP growth rates between 1980 and 2006 are depicted in Appendix XVI.

Looking at the compositions of GDP and labor force by sector<sup>234</sup> proves to be very interesting in Poland, too. GDP composition is slightly more diversified in Poland than in Mexico: 64% of GDP are made up by services, 31,2% by industry and 4,8% by agriculture. Looking at labor force composition by sector shows quite a similar picture to Mexico: Only 54,9% are actually employed in services, while 29% are employed in industry and 16,1% in agriculture. Although Poland's GDP composition corresponds slightly more to its labor force composition than Mexico's, Poland's highly inefficient agriculture still remains a big problem. Figure 11 illustrates GDP and labor force composition in Poland.

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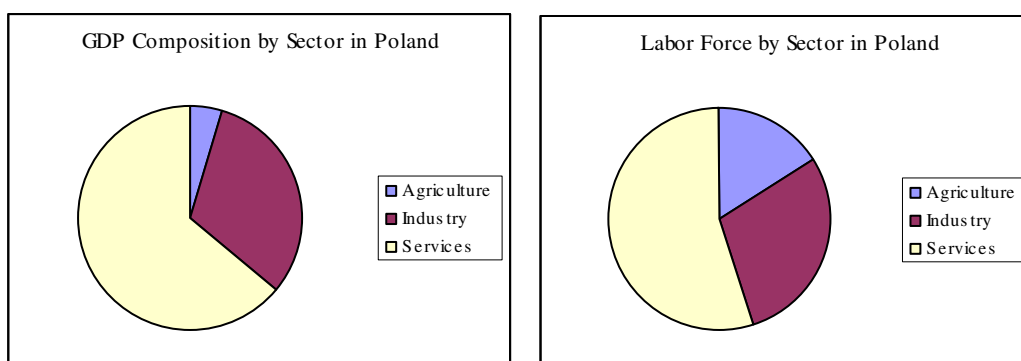
<sup>231</sup> UNDP: [http://hdr.undp.org/hdr2006/statistics/countries/data\\_sheets/cty\\_ds\\_POL.html](http://hdr.undp.org/hdr2006/statistics/countries/data_sheets/cty_ds_POL.html), Accessed on June 24, 2007

<sup>232</sup> Worldbank: <http://devdata.worldbank.org/data-query/>, accessed on June 22, 2007

<sup>233</sup> International Monetary Fund, World Economic Outlook Database, April 2007

<sup>234</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html#Econ>, accessed on July 4, 2007





**Figure 11: GDP and Labor Market Composition by Sector in Poland**

Gross national income and GNI per capita developed the same way as did GDP. While GNI was 73,72 billion USD in 1992, it increased strongly until 1997, when it reached 161,38 billion USD. After a five year period of slow growth, GNI growth accelerated again and by 2005 it reached a level of 273,1 billion USD. GNI per capita was at 1910 USD in 1992. By 2005 this amount had increased to 7160 USD.<sup>235</sup> GNI and GNI per capita are depicted in Appendix XVII. In the case of Poland, too, World Bank data and OECD data do not fully correspond: According to OECD, GNI per capita reached 13432 USD<sup>236</sup> in 2005, which is far more than the amount published by the World Bank. However, both publications show positive developments.

Although Poland's balance of trade<sup>237</sup> is not satisfying, it shows a much more positive trend than does Mexico. Both countries changed their trade politics from import substitution to export led growth in the eighties. Both countries still have negative balances of trade. However, Polish imports and exports have been growing very fast during the last years and the country's trade deficit could be reduced from -13,39 billion USD in 2001 to -10,25 billion USD in 2005. While imports of goods accounted for 101,54 billion USD in 2005, exports of goods accounted for 89,37 billion USD. Although it accounts for a much smaller part in trade, services regularly reach a surplus: While imports of services accounted for 14,31 billion USD in 2005, exports of services accounted for 16,23 billion USD. This makes Poland a net exporter of services. Concerning the import and export situation in 2006, Austria's Central Bank stated: "Although real import growth accelerated more than real export growth in response to the upswing in total demand, the contribution

<sup>235</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>236</sup> OECD data on GNI given in USD, current prices and PPP's

<sup>237</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

of net exports to GDP growth in the first half of 2006 remained positive.”<sup>238</sup> The following table as well as Appendix XVIII illustrate developments in trade in detail.

Year	Imports of Goods	Exports of Goods	Imports of Services	Exports of Services	Balance of Trade
2001	50,2454	36,0538	8,951	9,755	-13,3876
2002	55,0855	40,9693	9,186	10,035	-13,2672
2003	67,9757	53,5393	10,647	11,166	-13,9174
2004	88,1564	73,7812	12,481	13,483	-13,3732
2005	101,5375	89,3739	14,314	16,228	-10,2496

**Table 3: Polish Exports and Imports between 2001 and 2005**

Poland’s trade partners are more diversified than Mexico’s: Its most important import partners are Germany (29,6%), Russia (6,6%), Italy (6,6%), the Netherlands (5,9%) and France (5,7%). The country’s biggest export partners are Germany (28,2%), France (6,2%), Italy (6,1%), United Kingdom (5,6%), Czech Republic (4,6%), Russia (4,4%) and the Netherlands (4,2%).<sup>239</sup> This combination of trade partners provides some insight into how much Poland has changed its focus from Eastern to Western Europe. Apart from some remaining trade with Russia, its main trade partners are Western European countries.

A look at some investment data shows quite a different picture than in Mexico, at least concerning gross capital formation:<sup>240</sup> During the last 15 years, Poland has experienced big fluctuations of gross capital formation between 15% and 26% of GDP. While domestic investment grew continuously between 1992 and 2000 (from 15% up to 25%), it stagnated during the following years and started to decrease in 2001. By 2005 gross capital formation reached 19% of GDP. Again, OECD data differ from World Bank data, giving slightly lower values for each year.<sup>241</sup> However, the trend remains the same. A fifteen year development of gross capital formation can be found in Appendix XIX.

A look at foreign direct investment proves interesting, too: A jump in FDI inflows clearly marks Poland’s entry into the European Union in 2004. While FDI inflows had been at 4,9 billion USD in 2003, they jumped to 12,4 billion USD in 2004. However, in 2005 FDI inflows decreased again, reaching 7,7 billion USD. FDI outflows developed likewise, but

<sup>238</sup> OENB: Focus 02/06 – Developments in Selected Countries, p.21

<sup>239</sup> CIA Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html#Econ>, accessed on July 6, 2007

<sup>240</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>241</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

at a much lower level: In 2002, FDI of 230 million USD flew out of Poland, by 2005 this value had increased to 1,5 billion USD.<sup>242</sup>

A look at exchange rates<sup>243</sup> between the Polish Złoty and the Euro shows that the relationship has been quite stable over the past years: Between 1999 and 2002, the Złoty appreciated against the Euro (in 2002, 3,85 Złoty bought one Euro on average). The appreciation was followed by a two year period of depreciation (in 2004, 4,53 PLN bought 1 EUR on average). At the moment, the Złoty is appreciating again, this June the exchange rate was at 3,807 PLN / 1 EUR. Concerning last years development, Austria's central bank states: "[...] the annual nominal appreciation of the zloty in euro terms continued, albeit declining from nearly 13% on average in 2005 to about 5% in the first half of 2006."<sup>244</sup>

Table 4 shows the monthly exchange rates between PLN and EUR in detail for the past 7 seven years.

<b>Month/Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>January</b>	4,105	4,160	3,859	3,592	4,070	4,713	4,079	3,820	3,880
<b>February</b>	4,248	4,078	3,767	3,642	4,166	4,857	3,987	3,794	3,894
<b>March</b>	4,296	3,946	3,695	3,623	4,336	4,764	4,012	3,884	3,886
<b>April</b>	4,280	4,007	3,590	3,594	4,297	4,760	4,156	3,918	3,814
<b>May</b>	4,181	4,073	3,484	3,713	4,334	4,721	4,175	3,895	3,782
<b>June</b>	4,094	4,173	3,388	3,850	4,434	4,591	4,061	4,026	3,807
<b>July</b>	4,017	4,053	3,617	4,088	4,437	4,465	4,099	3,996	
<b>August</b>	4,197	3,945	3,824	4,084	4,370	4,431	4,044	3,905	
<b>September</b>	4,291	3,917	3,847	4,070	4,464	4,375	3,916	3,965	
<b>October</b>	4,401	3,967	3,747	4,043	4,595	4,318	3,923	3,901	
<b>November</b>	4,397	3,900	3,635	3,957	4,617	4,257	3,970	3,825	
<b>December</b>	4,216	3,874	3,588	3,986	4,660	4,135	3,850	3,813	
<b>Average</b>	<b>4,227</b>	<b>4,008</b>	<b>3,670</b>	<b>3,854</b>	<b>4,398</b>	<b>4,532</b>	<b>4,023</b>	<b>3,895</b>	<b>3,844</b>

**Table 4: Monthly Exchange Rates PLN-EUR between 1999 and 2007**

Additional OECD data for nominal and real effective exchange rates (consumer price index, relative unit labor costs) is provided in Appendix XXI.

Compared to Mexico, Poland's long term interest rates have been relatively low: In 2004, they reached 6,90%, in 2005 they decreased to 5,22%<sup>245</sup> and in 2006 and 2007 they averaged about 5,4 and 5,2%.<sup>246</sup> Hence, the trend moves towards decreasing interest rates.

<sup>242</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat; See Appendix XX for a graphical illustration.

<sup>243</sup> ECB reference exchange rate, Polish zloty/Euro, 2:15 pm (C.E.T.)

<sup>244</sup> OENB: Focus 02/06 – Developments in Selected Countries, p.22

<sup>245</sup> Eurostat Yearbook 2006-07, p. 168

<sup>246</sup> ECB: <http://www.ecb.int/stats/money/long/html/index.en.html>, accessed on July 6, 2007

Since a low level of long term interest rates is a convergence criterion within the European Economic Community, it is in Poland's interest to maintain this trend. The 2006 average within the Euro area was 3,8%.<sup>247</sup> Appendix XXII shows a month to month development of Poland's long term interest rates during last year.

When looking at Poland's inflation<sup>248</sup> over the last two decades it is remarkable that all major movements took place in the eighties. After the economic crisis in 1990 and a peak inflation rate of an incredible 600%, inflation could be continuously reduced. By 1995 inflation was down to 27,9%, in the year 2000 it reached 10% and since then, inflation has been remarkably low, with a value of 3,5% when joining the European Union in 2004 and a 2006 value of only 1%. For the years 2007 and 2008, small inflation increases are predicted by IMF officials.<sup>249</sup> With regards to the European convergence criteria, Poland's inflation rate is very satisfying. The Austrian Central Bank states the following with regards to Poland's inflation rate: "The decline in nominal unit labor costs in industry decisively contributed to very low levels of the various core inflation rates. Annual headline HICP<sup>250</sup> inflation fell from about 3% in the first half of 2005 to about 1% in the first half of 2006, despite the rise in international energy prices. This is by far the lowest inflation rate in the region. Hardly any signs of demand-side inflationary pressures are discernible in the recent development of consumer prices. [...] Drought damage, stepped-up domestic demand and higher wage growth may lead to inflationary pressure or to higher imports."<sup>251</sup>

One last economic indicator shall be presented here: Remittances from nationals living abroad; this indicator is as interesting for Poland as for Mexico, since many Poles leave their country annually and consequently send back huge amounts of money to their families. According to both World Bank<sup>252</sup> and OECD<sup>253</sup> Poland received 3,5 billion USD in remittances from nationals living abroad. This number has more than doubled since 2000, when remittances had augmented to 1,7 billion USD. However, in Poland's case a comparison with FDI inflows is not as surprising as in Mexico's case: Remittances in 2005 were less than half the value of FDI inflows. Anyway, remittances are increasing annually,

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<sup>247</sup> OECD Economic Outlook 81 database

<sup>248</sup> For a graphical illustration, see Appendix XXIII

<sup>249</sup> International Monetary Fund, World Economic Outlook Database, April 2007

<sup>250</sup> HICP = Harmonized Index of Consumer Prices

<sup>251</sup> OENB: Focus 02/06 – Developments in Selected Countries, p.22

<sup>252</sup> World Bank: World Development Indicators database, April 2007

<sup>253</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

which serves as a clear indicator for a continuing strong emigration flow from Poland to other (EU) countries.

### 6.2.3 National Finance Data

Poland's public balance is regularly negative. After a budget deficit of 4,7% (of GDP) in 2003, this value could be reduced to 3,9% in 2004 and to 2,5% in 2005.<sup>254</sup> According to a CIA factbook estimate for 2006, revenues augmented to 62 billion USD that year, while expenditures accounted for 71,25 billion USD.<sup>255</sup> Hence, the country experienced another year of budget deficit.

However, Poland is by far not the only country within the European Union with regular budget deficits. Although all countries are required to reduce their budget deficits below 3% of GDP according to the convergence criteria, not even all countries of the Euro zone fulfil this requirement: In 2005, Germany had a deficit of 3,3%, Greece had a deficit of 4,5% and Portugal had a deficit of 6%. In this light, Poland's public balance has developed very positively, lying below the required 3% in 2005. According to Austria's central bank, Poland's plans for this year's budget deficit look as follows: "For 2007 and 2008, the convergence program envisages a moderate narrowing of the public deficit to 2,2% and 1,9% of GDP, respectively (4,1% and 3,7% of GDP including pension reform costs). The budget draft for 2007 foresees a slightly higher public deficit of 2,4%."<sup>256</sup>

Within the European Union, Poland's total tax revenue is rather low. In 2005, Poland's total tax revenue reached 34,38% of GDP, according to OECD data.<sup>257</sup> This lies between Austria (approximately 40%) and the United States (approximately 26%).

In Poland, taxes on goods and services account for the biggest share in total tax revenue. Their share was at 11,48% in 2001 and has since increased to 12,39% by 2005.

Taxes on income and profit also account for a big share in total tax revenue. However, this share is decreasing: While in 2001, they contributed 9,74% to total tax revenue, this number had decreased to 6,14% by 2005.

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<sup>254</sup> Eurostat Yearbook 2006-07, p. 163

<sup>255</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html#Econ>, accessed on July 7, 2007

<sup>256</sup> OENB: Focus 02/06 – Developments in Selected Countries, p.24

<sup>257</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

According to CIA data<sup>258</sup>, Poland has considerable reserves of foreign exchange and gold, too. It is ranked 20<sup>th</sup>, with an estimated 49,69 billion USD, before countries such as Norway and Germany.

Poland's indebtedness is also worth taking a look at: Public debt has been moving around 40% (of GDP) during the last years (2004: 41,9%; 2005: 42,5%).<sup>259</sup> Its total debt service has increased from 20,3% in 2000 to a peak of 35% in 2005.<sup>260</sup> Last year, total debt service accounted for 29% of exports of goods, services and income.<sup>261</sup>

Concerning official development assistance and official aid, few data are provided by World Bank: In 2000, Poland received 1,4 billion USD.<sup>262</sup>

#### **6.2.4 Labor Market Data**

As depicted in 5.2.2, 54,9% of Poland's labor force works in services, 29% works in industry and 16,1% works in agriculture. The country's total employment rate is 54,5%, which is quite low compared to other EU countries.

Poland's unemployment rate<sup>263</sup>, on the other hand, is the highest among all EU members. In 2006, 13,8% of the entire Polish labor force were unemployed. During the last decade, Poland's unemployment has experienced dramatic developments: While by 1997, unemployment already reached 10,9%, the peak was yet to come in 2003, when unemployment reached 19,6%. Since then, the situation has been slightly improving. However, unemployment remains one of Poland's biggest problems.

Unemployment among young Poles is even higher: a peak was reached in 2002, when 44% of the total labor force aged between 15 and 24 was unemployed. In 2005, this number had decreased to 38%.<sup>264</sup> Hence, the situation remains disastrous, particularly for the young.

Austria's central bank judges the situation ambivalently: On the one hand, Poland was able to slightly reduce total unemployment; on the other hand, this was partly reached through a decline in activity rate: "Production in the export sector boosted employment growth both in manufacturing and in the whole economy. The decline of the unemployment rate, which amounted to 4 percentage points year on year in the second quarter of 2006, was mainly

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<sup>258</sup> CIA factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html#Econ>, accessed on July 7, 2007

<sup>259</sup> Eurostat Yearbook 2006-07, p. 163

<sup>260</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

<sup>261</sup> World Bank: World Development Indicators database, April 2007

<sup>262</sup> World Bank: World Development Indicators database, April 2007

<sup>263</sup> Eurostat: <http://epp.eurostat.ec.europa.eu/>

<sup>264</sup> The World Bank Group: Quick Query Millenium Development Goals, 2007

driven by the increase in the employment rate, which contributed 3 percentage points to this decline, and to a lesser extent also by a decline in the activity rate (due to a growing number of students and emigration).”<sup>265</sup>

A look at Poland’s net migration rate confirms the trend towards emigration: The rate has been negative for some years now (2001: -0,4%, 2005: -0,3%).<sup>266</sup> Many young Poles with no job perspective leave the country, heading to Western EU countries where they can live and work legally.

### **6.2.5 Infrastructure**

In Poland “100% of the population have sustainable access to an improved water source, using the UNDP definition” and “100% of the population also has access to improved sanitation”<sup>267</sup>, according to the European Environment and Health Committee.

### **6.2.6 Composite Indices**

Composite indices such as the Human Development Index can give some insight into a country’s performance in comparison to other nations. According to the Human Development Report 2006, Poland ranks 37<sup>th</sup> with a HDI of 0,862. Poland’s HDI has developed positively over the last decade (in 1990, Poland’s HDI was 0,81).

Income distribution is also more equitable in Poland than it is in Mexico. Poland’s Gini coefficient for 2004 was 0,345.

Poland’s perceived corruption is only slightly lower than Mexico’s. Transparency International ranks Poland 62<sup>nd</sup> on its corruption perception index, where it scores 3,7 (10 stands for highly clean and 0 for highly corrupt). It shares its rank with Jamaica.<sup>268</sup> According to a Transparency International Report, Poland’s corruption problem lies mainly within public administration, where corrupt methods seem to be common.<sup>269</sup>

### **6.2.7 Regional disparities**

Poland offers quite big regional disparities, too. In the case of Poland, disparities exist mainly between Eastern and Western regions. According to an OECD report, regional GDP per capita lies above 120% of national average in most Western regions of Poland,

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<sup>265</sup> OENB: Focus 02/06 – Developments in Selected Countries, p.22

<sup>266</sup> Data extracted on 2007/05/05 15:05 from OECD.Stat

<sup>267</sup> European Environment and Health Committee:

[http://www.euro.who.int/eehc/implementation/20061228\\_8](http://www.euro.who.int/eehc/implementation/20061228_8), accessed on July 7, 2007

<sup>268</sup> Transparency International: [www.transparency.org](http://www.transparency.org), accessed on March 16, 2007

<sup>269</sup> Global Corruption Report 2006: Country Reports, p.227

while lying below 75% in most regions that border Poland's eastern neighbour countries. The region of *Pomorskie* (Eastern Pomerania, capital: Gdańsk) lies below 75%, too.<sup>270</sup> This region suffered particularly from its loss in significance since the end of communism. Shipbuilding as a main provider of employment has lost its competitiveness and what was once Poland's industrial region par excellence now suffers huge economic problems.

Regional productivity<sup>271</sup> also varies between East and West: While most Eastern regions lie below 75% of national productivity, all regions bordering western countries reach at least 100%.

Regional differences in GDP per capita and productivity are illustrated in Appendix XXIV. Unemployment rates<sup>272</sup> vary considerably within Poland, too, although they do not provide such an obvious East - West pattern as do other indicators. On average (between 2001 and 2005), the region *Mazowieckie* had Poland's lowest unemployment rate with 15,44%. Warsaw lies in this region, and as the country's capital it serves as an important job generator. *Lubuskie*, a western region bordering Germany, had the country's lowest unemployment rate in 2005. *Dolnoslaskie* had the highest unemployment rates, on average 24,6%. This region lies in the southwest and borders the Czech Republic. Appendix XXV gives an overview of Poland's regional unemployment.

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<sup>270</sup> OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.85

<sup>271</sup> OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.91

<sup>272</sup> Eurostat: <http://epp.eurostat.ec.europa.eu/>, accessed on July 6, 2007



## **7 Insights about Mexico's Development as a part of NAFTA after thirteen Years**

Mexico's economic development since the 1980s was marked by the change from import substitution towards export led growth, economic liberalization and, last but not least, by NAFTA, which liberalized trade, too. Mexico has since then followed this path, it has signed many more Free Trade Agreements with other countries and very soon, the last tariffs will phase out within NAFTA.

Although NAFTA has been in place for 17 years by now, assessing its impacts on Mexico is not an easy task, as many other factors influenced Mexico's development, too. This includes economic shocks that fell into the period of NAFTA's existence: "Because Mexico has experienced several major economic shocks since the early 1990s, including the Tequila crisis in the mid 1990s and the contagion effects of the financial crisis in Asia, Russia and South America in the late 1990s, it is difficult to isolate the impact of NAFTA on the Mexican economy."<sup>273</sup> Hence it is hard to say whether Mexico would have experienced similar economic developments without NAFTA.

By recalling the initial aspirations of Mexico when signing the NAFTA treaty, the following section aims at drawing some general conclusions and tries to give an assessment of Mexico's performance within NAFTA.

### **7.1 Benefits**

One of Mexico's pronounced goals by signing the NAFTA treaty was to increase welfare for its population and to enhance the country's development. This should be reached by increasing FDI inflows substantially and by intensifying trade. Undoubtedly, Mexico could indeed attract large amounts of FDI and was also able to increase its volume of trade considerably.

#### Trade volume

Concerning trade, Lederman and Servén state: "During the 1990s, Mexico became one of Latin America's heaviest trading economies, with the highest volume of trade as a share of

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<sup>273</sup> World Bank (2007), p.52

gross domestic product (GDP). [...] Importantly, this increase in Mexico's trade was associated with fast growth in intra-NAFTA trade."<sup>274</sup>

However, this statement might be misleading, since it implies that Mexico's trade volume augmented thanks to NAFTA. One must keep in mind that Mexico-US trade had already been very intense before NAFTA came into place, hence the above-described development might have also taken place without NAFTA.

### Foreign direct investment

Concerning foreign direct investment, it is generally agreed upon that a "preferential trade agreement leads to higher investment inflows"<sup>275</sup>. According to Lederman and Servén NAFTA contributed between 25 and 30% of FDI increase in Mexico (when exports are held constant) and up to 60% of FDI increase taking into account the response of exports to NAFTA. However, FDI inflows did not develop as positively as expected over time, which might be due to several reasons: on the one hand, NAFTA might have only had a temporary effect on FDI development, on the other hand, external factors such as the emerging Eastern European countries and their attraction of FDI might have played a role and reduced FDI flows to Mexico.<sup>276</sup>

Did growing trade volumes and FDI inflows increase welfare? As described in Chapter 5.1, many important indicators did develop positively after Mexico's entry into NAFTA. However it is hard to judge to what extent NAFTA contributed to this. Many authors credit Mexico's big GDP growth to NAFTA. What can be said for sure is that without NAFTA, the US would have certainly not reacted that fast when Mexico slipped into the Peso crisis by the end of 1994. Hence, the quick recovery of GDP can be clearly contributed to NAFTA.

### Democratization

Another time coincidence that cannot be neglected is the fact that Mexico's democratization process started simultaneously with NAFTA. Although Mexico explicitly opposed political implications through NAFTA, only one government was led by PRI after NAFTA came into force. The presidential elections of 2000 and 2006 were won by PAN, a liberal party which has far less ideological problems with NAFTA than PRI.

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<sup>274</sup> Lederman, D. and Servén, L. (2005), p.336

<sup>275</sup> Lederman, D. and Servén, L. (2005), p.343

<sup>276</sup> See Lederman, D. and Servén L. (2005), p.343

## Successful Free Trade Agreement

Taking a look on Free Trade Agreements on general, it has to be said that NAFTA is so far the most successful FTA, providing not only a big free trade area but also the necessary tools to handle it: “[...] Going beyond what other shallower preferential trade agreements have achieved, NAFTA established various dispute settlement mechanisms dealing with foreign investment and trade. It also established a review mechanism for the use of antidumping and countervailing duties.”<sup>277</sup>

## **7.2 Drawbacks**

Of course NAFTA could not fulfil all expectations attached to it. Some drawbacks became apparent in the course of the past seventeen years. Here again, it is hard to determine to what extent NAFTA can be held responsible for certain negative developments, since many other factors contributed to Mexico’s economic development, too. However, some drawbacks that are clearly related to NAFTA shall be pointed out here.

### Income distribution:

One consequence of Mexico’s economic liberalization that started back in the 1980s was a shift in income distribution that was further reinforced with NAFTA. According to a World Bank report economic liberalization generated “winners” and “losers”, namely the small number of large, well established business elites on the one hand and employees and smaller firms on the other hand: “A result is a striking concentration of wealth, especially at the top of the income distribution. Mexico is already highly unequal by international standards when measured in standard fashion: in 2000 the incomes of the top 10% of the population were 45 times that of the bottom 10 %, according to the national income and expenditure survey (ENIGH).”<sup>278</sup> According to this report, this pattern repeated itself when NAFTA came into place.

### Relation between real wages and migration:

One important aspect of the welfare goal the Mexican government had in mind when signing the NAFTA treaty was to reach (a certain degree of) real wage convergence with the United States. As Lederman and Servén put it: “Wages, jobs and migration were at the center of the political debate over the merits of NAFTA from the very beginning. A reduction in the wage differential between Mexico and the United States was one of the

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<sup>277</sup> Lederman, D. and Servén, L. (2005), p.336

<sup>278</sup> World Bank (2007), p.50

primary hopes attached to NAFTA.”<sup>279</sup> Higher wages in Mexico would benefit both countries: Mexico’s population would draw direct benefits and at the same time illegal immigration to the US would be lowered since real wage and emigration are negatively correlated.<sup>280</sup>

However, as a comparison of Mexico’s censuses from the years 1990 and 2000 shows, real wages did not increase during this period within Mexico; on the contrary, real wages even declined, partly due to the 1995 crisis. According to Hanson, “the average hourly wage in 1990 dollars declined for males from 1,33 USD to 1,11 USD and for females from 1,24 USD to 1,13 USD.”<sup>281</sup> With Mexican wages falling and US wages growing, one cannot talk about convergence on a national level.

Nevertheless, some convergence has taken place – on a regional level: Real wage differentials have widened within Mexico and Northern states have higher wage levels than Southern states. While Northern wages seem to slowly converge with US levels, the South remains poor. According to Hanson this can be partly explained by “variation in regional access to foreign trade and investment and in regional opportunities for migration to the United States.”<sup>282</sup> As his research shows, “regional relative wages are negatively correlated with distance to Mexico City and with distance to the Mexico-U.S. border.”<sup>283</sup>

Looking at these developments the résumé is ambivalent: On the one hand wage levels could be partly increased, on the other hand only northern regions (and Mexico City) could profit from the positive circumstances created by NAFTA, while those suffering from the loss of state protection and those lacking certain infrastructure and education levels were impoverished. For the people living in these regions US wage levels remain incredibly high, which might also explain why immigration flows to the US have not decreased.

Of course regional disparities have already existed before 1994; however, „the economic gap between the poorest regions or states within Mexico and the rest of the Mexican economy did increase after the trade reforms—including the unilateral reforms initiated in the mid-1980s.”<sup>284</sup> To sum up, wage inequality within Mexico rose, convergence with US wages could not be reached and illegal immigration to the US remains a problem.

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<sup>279</sup> Lederman, D. and Servén, L. (2005), p.338

<sup>280</sup> See: Hanson, G. (1999), p.1337

<sup>281</sup> Hanson, G. (2003), p.15

<sup>282</sup> Hanson, G. (2003), p.1

<sup>283</sup> Hanson, G. (2003), p.9

<sup>284</sup> Lederman, D. and Servén, L. (2005), p.339

## Agriculture

Agriculture is a very sensitive topic within NAFTA. Tariffs on agricultural products will be the last to phase out by next year. It is not for sure what impact this will have on Mexico. On the one hand, heavily subsidized US agricultural products could swamp the country with cheap imports and thus undercut Mexican producers. On the other hand, Mexico subsidizes its farmers, too, and NAFTA offers many loopholes that allow to bypass true free trade in this area: “[..] all member countries have continued to use antidumping and countervailing duties according to their own national trade laws. In addition, NAFTA allows the use of temporary safeguard duties when a country faces sudden import surges that disrupt domestic production.”<sup>285</sup>

Anyway, fears within the Mexican population are big that products like corn – which is of central importance to the Mexican diet – might disappear from Mexican fields in the future. Of course this would not only destroy deeply rooted traditions but also the existence of many Mexican farmers. A New York Times report links the topic with migration: “The flow of immigrants north from Mexico since NAFTA is inextricably linked to the flow of American corn in the opposite direction, a flood of subsidized grain that the Mexican government estimates has thrown two million Mexican farmers and other agricultural workers off the land since the mid-90s [...]”<sup>286</sup>

It is also interesting to know that most of Mexico’s population living under the poverty line lives in rural areas which are at the same time an important source of migrants to the US.

## Asian Competition

One concern that is due to external factors is Mexico’s decreasing competitiveness vis-à-vis Asian countries such as China or Vietnam. When the NAFTA treaty was signed, Mexico assumed it had a comparative advantage in labor-intensive activities over the US. However, it does not have this advantage relative to the emerging Asian economies of South-East Asia. Mexico lost share in trade and FDI to China, since the US started to heavily invest in this region. As a footnote, this raises the question whether it is really necessary to agree upon a FTA in order to attract FDI and to increase trade volume.

Mexico had to react and while it “may have a cost disadvantage relative to China in finished goods like t-shirts, plastic footwear, and simple consumer electronics, it appears to have a cost advantage in assembly services for the U.S. economy. Mexican manufacturing

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<sup>285</sup> Lederman, D. and Servén, L. (2005), p.336

<sup>286</sup> New York Times (2007), p.15

has, in effect, reoriented itself from producing simple consumer goods to being a subcontractor for the North American economy.”<sup>287</sup>

According to *El Financiero*, both China and Mexico reached considerable growth rates in exports to the US. China’s exports to the US increased by 375% within ten years, reaching 152 billion USD in 2003. Mexico’s exports to the US reached 138 billion USD by 2003, which was an increase of 245% within ten years.<sup>288</sup>

### **7.3 Summary**

Summing up the developments since Mexico’s orientation towards export led growth, it has to be said that not everything developed the way Mexico expected it to. Both exports and imports have risen considerably, which leaves the balance of trade as negative as before. The economic integration between Mexico and the US did not only stimulate export led growth (as had been expected) but also negative import substitution.

In this context it is notable that the peso has been continuously depreciating against the USD in recent years, which is actually facilitating Mexican exports to the US, while making imports from the US rather expensive.

By contrast, Poland’s Złoty has been appreciating against the Euro since the country’s accession to the European Union in 2004, which explains why imports to Poland are facilitated and exports rather hindered.

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<sup>287</sup> Hanson, G. (2003), p.12

<sup>288</sup> See: *El Financiero* (2004)

## 8 Insights about Poland's development as part of the European Union

So far Poland's record within EU is not very long. At the moment the country experiences its third year within the European Union. However, preparations for its entry have been very careful and from the time of Poland's application for membership until May 2004, fourteen years have passed. The time has not yet come to draw conclusions from this short membership; however, trends can already be observed and analyzed.

According to an Economist Intelligence Unit (EIU) report on Poland's conditions for the upcoming years, "Poland enjoys several advantages in its efforts to catch up with the established members of the EU. It has a well-educated workforce and an attractive location near the important German market, but also a large and growing domestic market and easy access to the EU's eastern neighbours. The political system is stable<sup>289</sup>, the financial system is secure and developing rapidly, and Poland's accession to the EU has entrenched an economic system based on private ownership and competitive markets with free access to markets in Western Europe."<sup>290</sup>

The EIU further estimates that an accession to the Euro zone until 2015 would have positive effects on Poland, too: Uncertainties concerning the Złoty's volatility would be removed and Poland's trade would receive an impetus for growth.

While the EIU emphasizes the need for a rapid Euro adoption, one of Poland's most important economists and former chairman of Poland's central bank, Leszek Balcerowicz, highlights the need for investment: "The inflow of long-term capital will contribute to an increase in productivity through such means as the transfer of technology and introduction of better management techniques."<sup>291</sup>

In general it seems that most experts agree on Poland's positive developments on its way to EU membership and after EU accession.

In the following some benefits will be discussed as well as remaining problems Poland has to deal with.

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<sup>289</sup> Poland's political landscape is not so stable at the moment: On August 13, 2007, the Prime Minister announced early elections for October, 21, after many disputes with the PiS' coalition partner and the dismissal of various cabinet ministers.

<sup>290</sup> Economist Intelligence Unit (2007)

<sup>291</sup> Balcerowicz, L. (2000), p.14

## **8.1 Benefits**

### Transformation to market economy with EU support

The European Union has been playing a part in Poland's transformation from the early nineties on, in the sense that financial support, technical assistance and know how were provided to the country. At the same time these close links from the beginning of transformation on mean that both Poland and the European Union had large preparation phases for the actual entry in 2004.

The opening up of Mexico's economy in the 1980s without guidance from a strong experienced partner and the rapid negotiations of NAFTA at the beginning of the 1990s seem somewhat chaotic and in some ways deficient compared to Poland's transition and integration into Europe.

### Positive development of main economic indicators

Poland's main economic indicators have developed very positively: the country's GDP has been continuously growing, with the most recent impulse given by EU accession in 2004; Polish trade has been growing considerably, too, although the country still needs some effort to reach a trade surplus; foreign direct investment also keeps flowing to the country. All these indicators show that Poland has managed to transform from a planned to a free market economy within little time.

### Regional disparities: EU support with structural funds

One important difference to NAFTA is the European Union's role of redistribution within the Union. Since one of the main goals within EU is convergence between the different member states, the budget is redistributed according to regional needs: Hence, poor regions receive more money from the structural fund than rich regions. This helps Poland in general, since it has many poor regions; but it also helps to overcome disparities within Poland.

In the long run this is supposed to enhance Poland's development considerably, and it will be interesting to observe in the future whether this approach of regional aid is able to stop emigration flows from Poland to wealthier EU countries.

### Perspective of deeper integration

Since the European Union does not only consist of a free trade agreement but also of many other aspects, deeper integration is always possible. One aspect relevant for Poland's



economy is monetary integration. According to Balcerowicz, the Euro is highly popular within Poland: “The proportion of Polish people pointing to the introduction of the euro as an important event in the EU member states rose from 69% in September 2001 to 88% in January 2002. The polls show that the idea of Poland joining the Euro zone and introducing the common currency enjoys great popularity with the general public in Poland. As many as 64% of Poles would wish the euro to become legal tender in Poland.”<sup>292</sup>

The Polish Złoty has indeed developed positively over the past years. Since 2004, it has been (with slight variations) appreciating against the Euro.

## **8.2 Drawbacks**

Although Poland has been praised for its rapid transition, and although Poles are said to be advocates of the European Union, the country has to struggle with some big problems, some of them related to its EU membership.

### Unemployment

One of Poland’s biggest problems remains unemployment. Although this problem is not directly related with the European Union but rather with Poland’s transformation to a market economy in general, it still has to be stated that Europe has not found any solutions for this problem. Although it had been clear from the beginning that Poland’s unemployment rate would soar after transition, nothing could be done to stop that trend. Since many other EU members experience high unemployment rates, too, one can speak of a European problem that could not yet be solved by the European Union.

On average, NAFTA members have considerably lower unemployment rates than European countries.

### Agriculture

Poland’s agriculture forms an important part of the country’s economy and at the same time a big problem: structures are small and inefficient, and Poland struggles with its competitiveness in agriculture in the single market. “300 000 – 400 000 farms are economically viable, that is around 20 percent of all of them, according to data from the Institute of Agricultural and Food Economics (IERiGZ). These households invest, modernise themselves and bring relatively good profits. They are strongly tied with the

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<sup>292</sup> Balcerowicz, L. (2002/03), p.167

free market system. Over 40 percent of farms in Poland are not. Their owners live off the land and income from other sources, mainly old age and disability benefits.”<sup>293</sup>

These inefficient structures bear the danger of ever higher unemployment since many farmers will be forced out of their jobs due to lack of competitiveness. Furthermore, according to the Polish News Bulletin, the current policy of exclusive financing by the EU could be changed to policies of co-financing by national governments soon: “At the time of joining EU, Poland agreed that the subsidies would initially amount to 25 percent and keep increasing, until they reach 100 percent, so that no more support from the national budget would be needed. Now it is possible that the EC will press for co-financing the subsidies with the help of national budgets of Member Countries. This is an unfavourable solution, as Polish agriculture is much less competitive compared to the Western countries.”<sup>294</sup>

This reveals two more weaknesses: Poland still lacks competitiveness in some aspects of its economy. Agriculture is furthermore a good example for supranationalism: each country joining the European Union must automatically cede big parts of its national sovereignty.

#### Poland lacks competitiveness

According to the Centre for European Reform which publishes competitiveness rankings for EU members annually, Poland dropped back from second to last place this year. According to this report, “Poland’s main drawback is unemployment. It does not invest in innovative businesses - spending on research and development in 2006 was lower than in 2000. Polish companies continually have to adjust to different regulations and administrative procedures, which costs a total of 5 percent of GDP.”<sup>295</sup>

#### Conflict between national sovereignty and EU supranationalism

Recently, Poland has received a lot of media coverage. Europe’s entire press reported on the behaviour of the Kaczyński brothers concerning the European constitution. Of course, media reports were rather negative, given proposals such as using the square root of population numbers of each member country to calculate each country’s weight in EU decision making.

However, one must not forget that Poland, and basically all countries not belonging to the six founding members, need to accept existing regulations when entering the European Union. Any candidate country wishing to join the Union must accept all existing EU

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<sup>293</sup> Interview with Wilkin, J. (2007), p.8

<sup>294</sup> Polish News Bulletin (2007)

<sup>295</sup> Polish News Bulletin (2007)

legislation and adopt it. This can be seen as a huge problem given that every country has to cede considerable parts of its sovereignty when wanting to join the European Union.

In the case of Poland this causes even bigger concerns than in some other countries (like Austria which has been associated with the EU for decades before joining it): Poland regained sovereignty by the late eighties, after years of German and later even longer years of Soviet submission. There was a big need for “nation building”, for feeling independent. At the same time Poland was in need of joining the European Union, in order to develop as fast as possible. There lies the big conflict: the EU is moving more and more towards supranationalism while Poland (as well as the other Eastern European countries within EU) feels a great need for national autonomy and self-determination.

Free trade agreements as a weaker form of economic integration do not bring along such problems. Mexico did not have to fear for its national sovereignty when joining NAFTA.

### **8.3 Summary**

Similar to Mexico, Poland continues to have trade deficits despite its orientation towards export led growth at the end of the eighties. In relative terms, the country's deficit is only slightly lower than Mexico's. However, exports have been growing faster than imports (imports of goods doubled between 2001 and 2005 while exports of goods grew 2,5 times). This is particularly remarkable since Poland's Złoty has been continuously appreciating against the Euro in recent years.

## 9 Conclusion

As this paper shows, both Mexico and Poland have generally benefited from free trade, no matter whether free trade came along in the form of NAFTA or EU. Both countries were considerably poorer than their partner countries when joining the respective trade blocs and both countries have become wealthier over time.

In general it can be said that Mexico's economic goals associated with NAFTA – increase in trade volume and increase in FDI – have been achieved. Nevertheless, exports did not outrun imports in percentage terms. Furthermore, this trade intensification did not result in a general improvement of living conditions in Mexico, but rather in a concentration of wealth in specific regions.

Furthermore it has to be said that hardly any convergence has taken place with the United States. Wage levels are still well below US levels in Mexico and illegal immigration to the United States continues, which clearly indicates that Mexicans still think the US is a better place to live and earn money than Mexico.

The European Union's approach to integration is more comprehensive and the future will show whether it is more successful than mere free trade agreements to enhance Poland's welfare. Structural and regional differences are taken into account and Poland receives massive financial support in order to converge with the European Union's "old" members. However, the turnaround has not yet come, as unemployment remains huge, Poles continue to emigrate and Poland's population growth rate has become negative.

Both countries have great difficulties with their lagging agricultural sectors. Integration in agriculture has not been successful yet.

There is no doubt the upcoming years will be interesting for Mexico and Poland. In Mexico, President Calderón has to prove his economic and social capacities when all trade barriers on agricultural goods phase out. Meanwhile the United States will see a new President by 2008 and rumours of new NAFTA members (e.g. Chile) have been spread.

The European Union has grown to 27 members at the beginning of 2007, shifting the focus of investors away from the 2004 entrants to Romania and Bulgaria; a constitution for Europe will finally be worked out and implemented starting from 2009; and the upcoming years will show whether the EU's concept of integration can fulfil Poland's economic expectations.

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<http://www.imf.org>

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UNDP (United Nations Development Programme):

<http://www.undp.org>

UNESCO (United Nations Educational, Scientific and Cultural Organization):

<http://www.unesco.org>

<http://www.uis.unesco.org>

US Census Bureau:

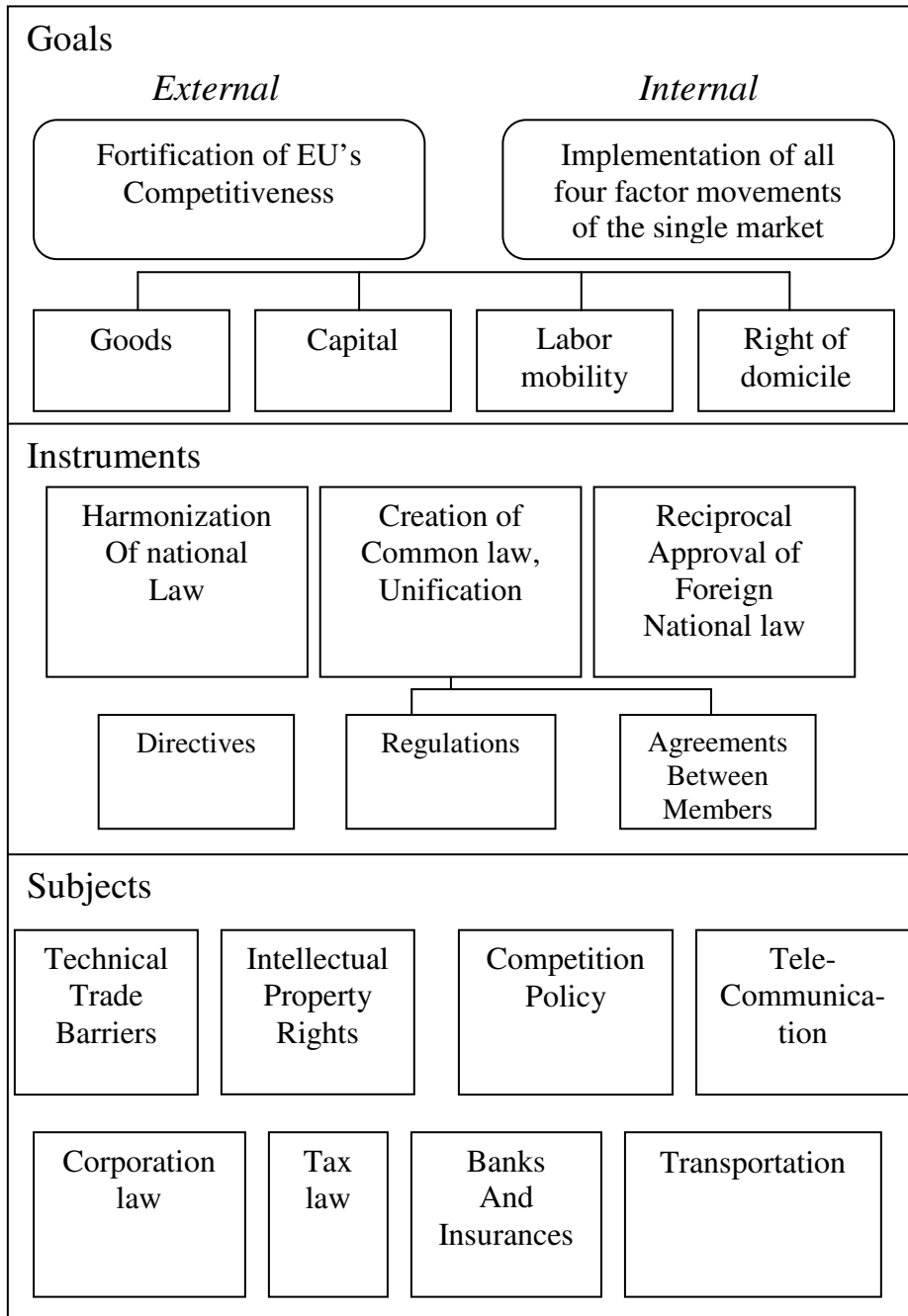
<http://www.census.gov/>

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# 11 Appendices

## Appendix I: The European Single Market 1992



Translated from Pfetsch, F. (2005), p.209

## Appendix II: GDP levels in Mexico between 1940 and 2001

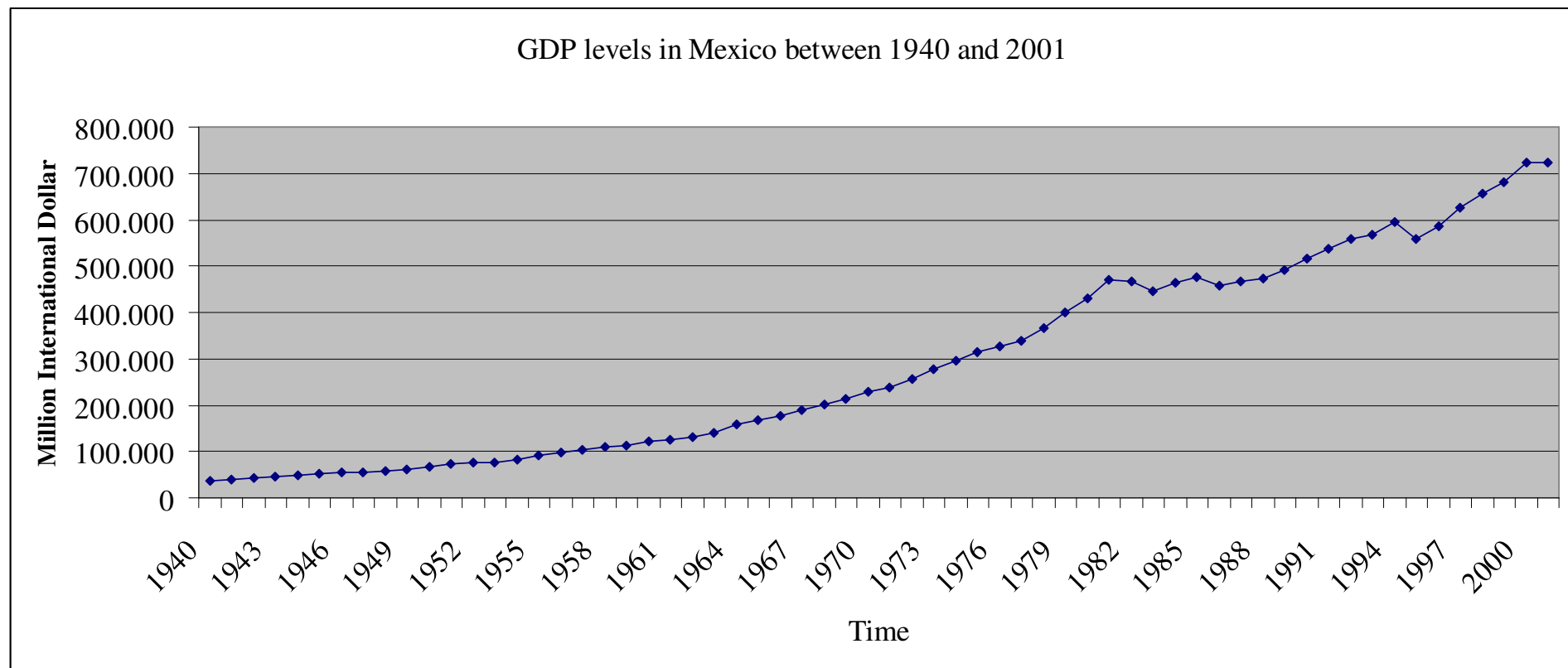
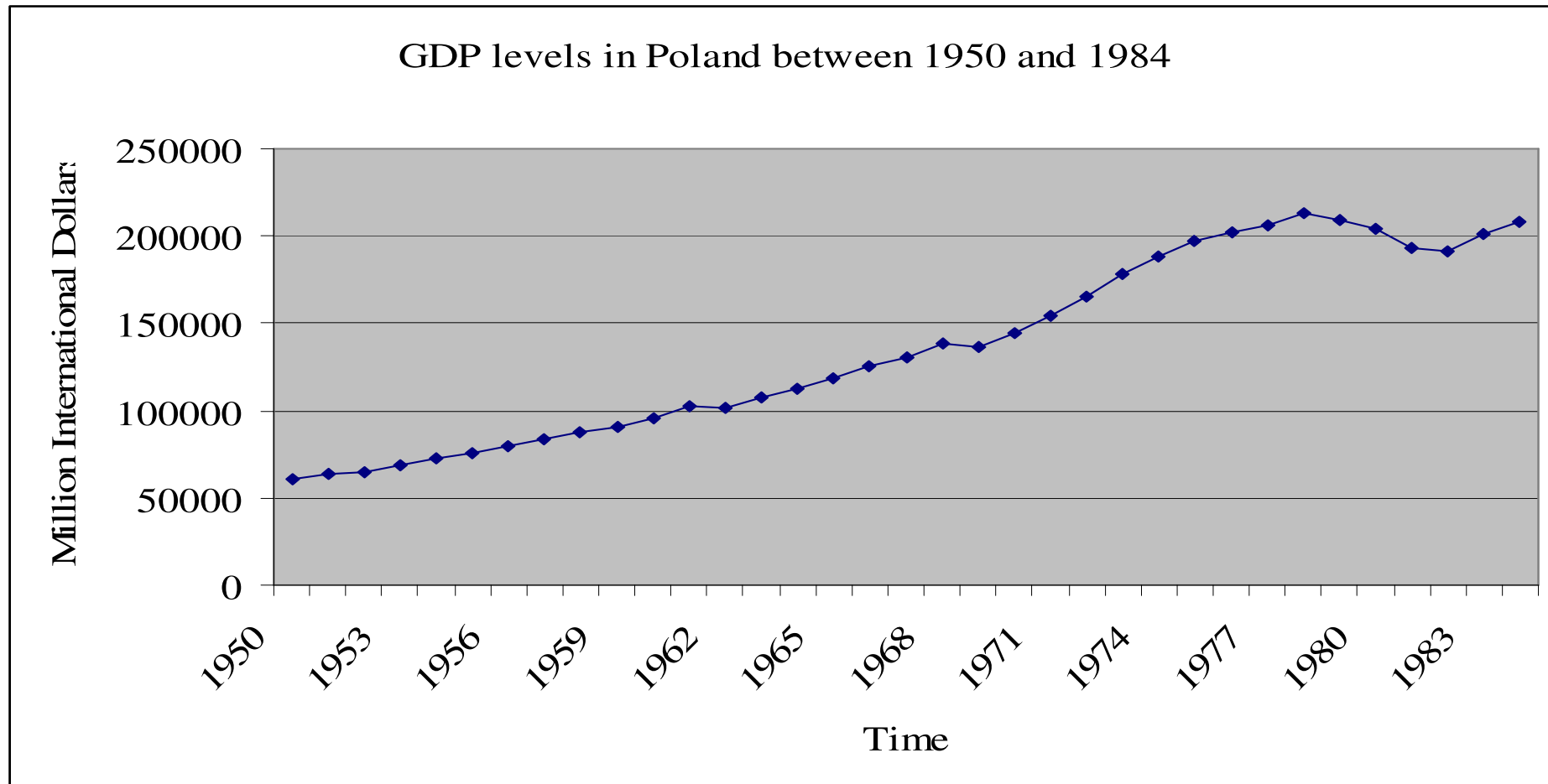


Figure 12: GDP levels in Mexico between 1940 and 2001

Source: OECD The World Economy, Historical Statistics HS-4; <http://dx.doi.org/10.1787/456125276116>, accessed on June 21, 2007

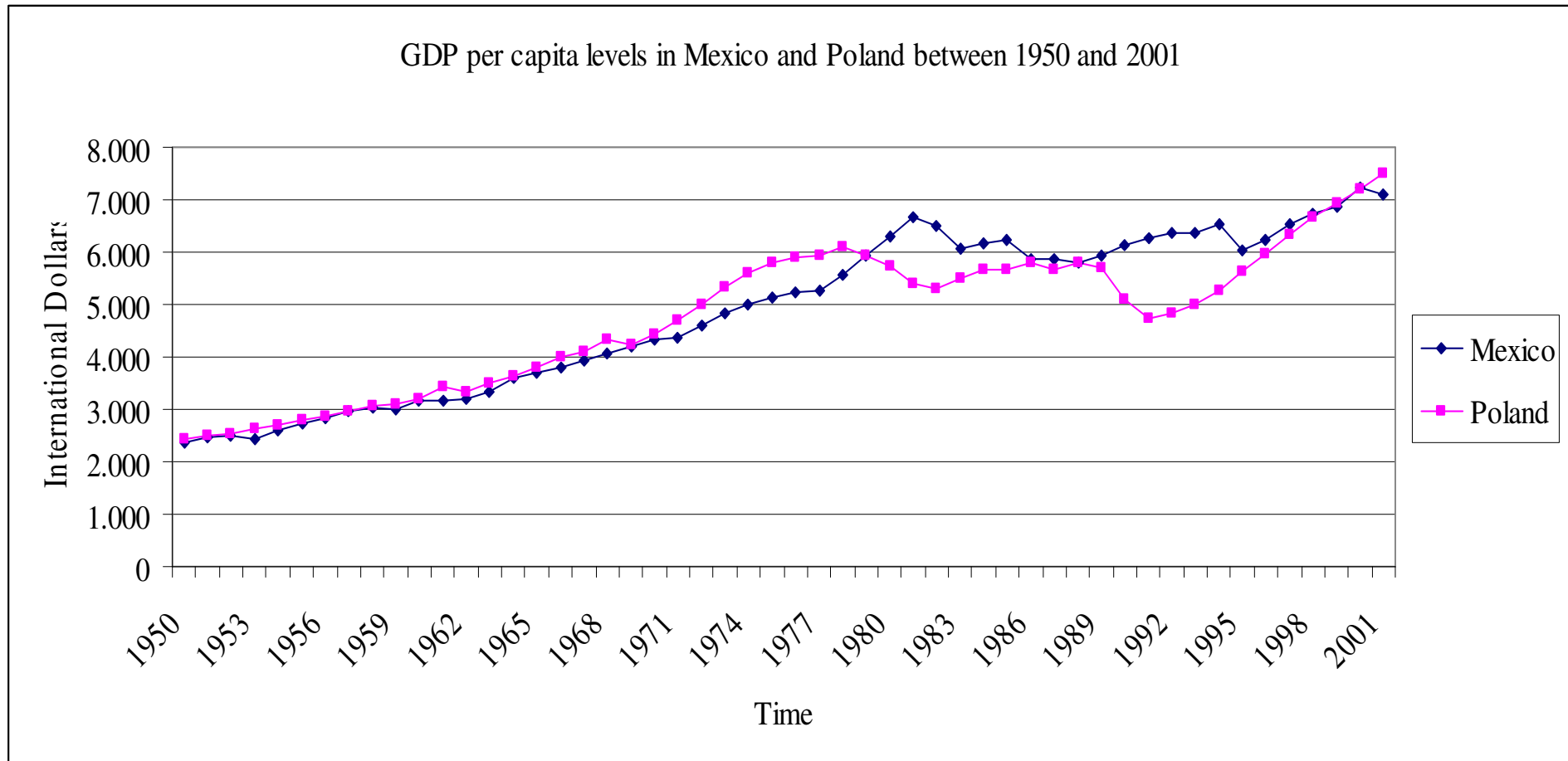
**Appendix III: GDP levels in Poland between 1950 and 1984**



**Figure 13: GDP levels in Poland between 1950 and 1984**

Source: OECD The World Economy, Historical Statistics HS-3; <http://dx.doi.org/10.1787/456125276116>, accessed on June 21, 2007

**Appendix IV: GDP per capita levels in Mexico and Poland between 1950 and 2001**



**Figure 14: GDP per capita levels in Mexico and Poland between 1950 and 2001**

Source: OECD The World Economy, Historical Statistics; <http://dx.doi.org/10.1787/456125276116>, accessed on June 21, 2007

## Appendix V: Population and Population Growth Rate in Mexico

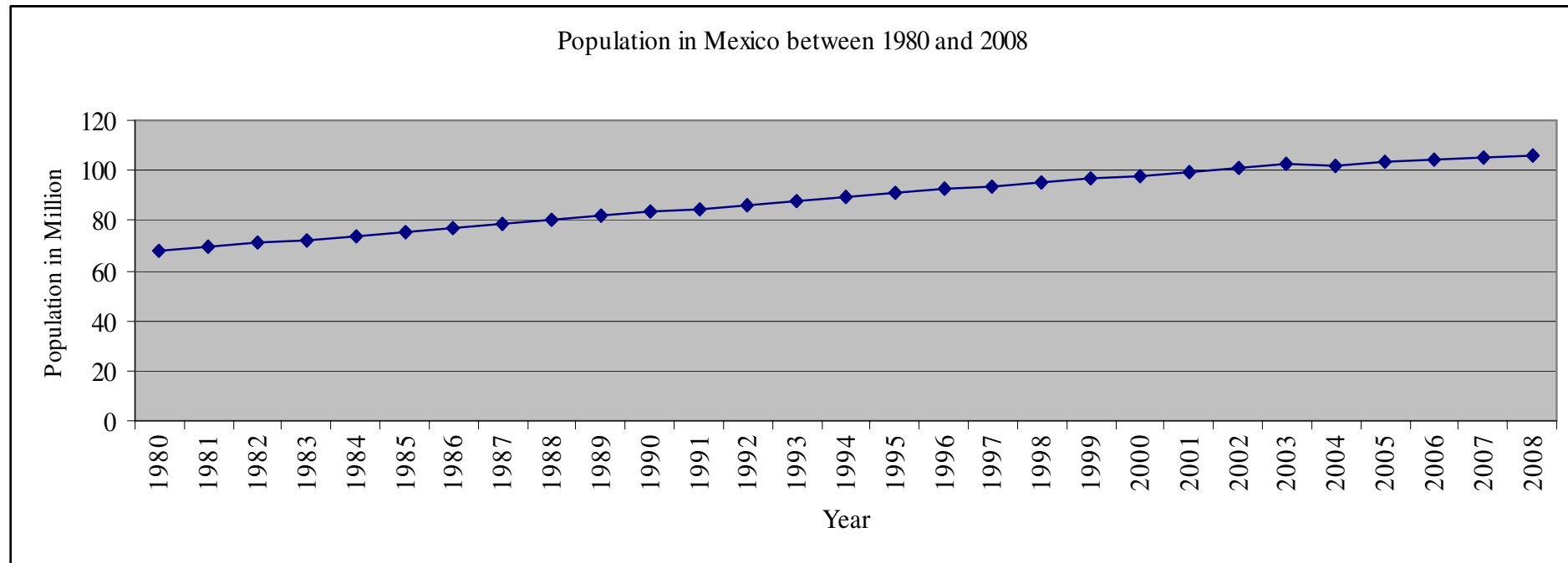


Figure 15: Population in Mexico between 1980 and 2008<sup>296</sup>

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>296</sup> 2007 and 2008 levels are estimates.



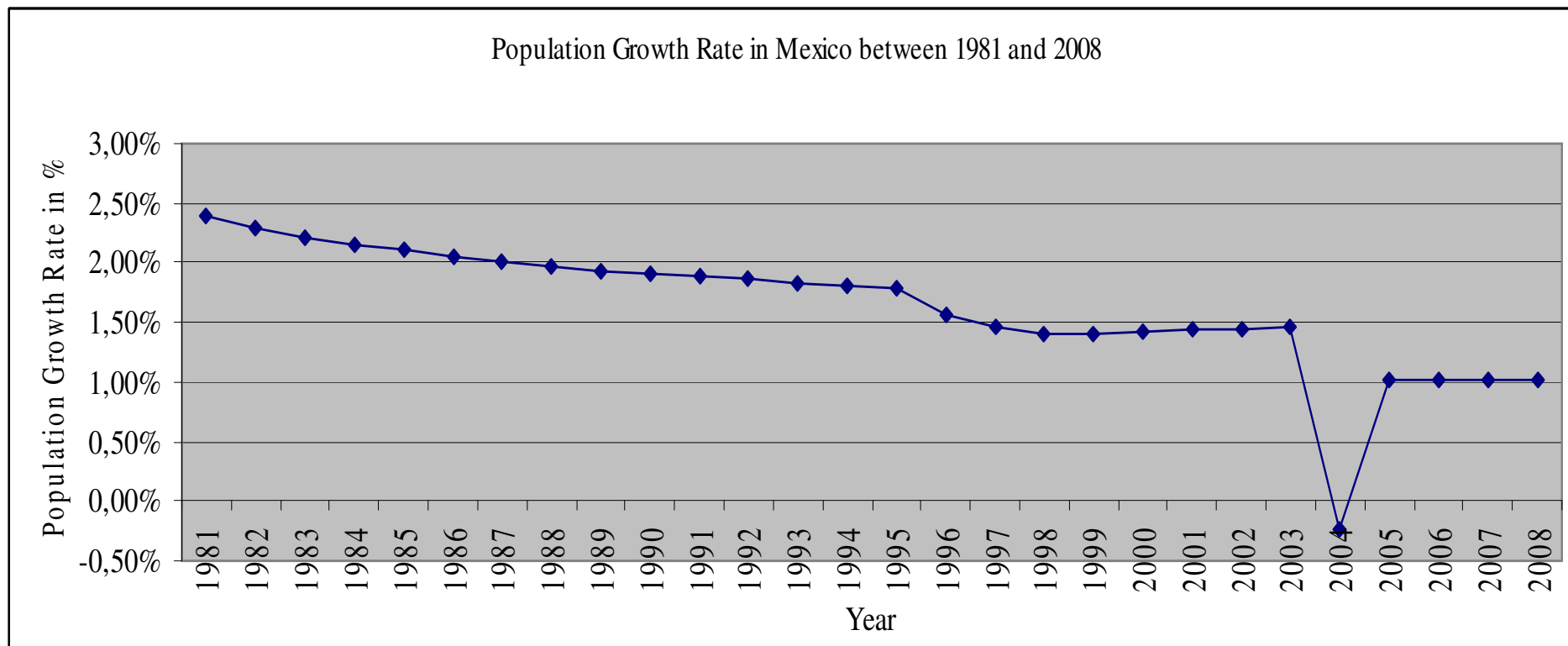


Figure 16: Population Growth Rate in Mexico between 1981 and 2008<sup>297</sup>

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>297</sup> 2007 and 2008 levels are estimates.

## Appendix VI: Mexican GDP and GDP Growth Rate

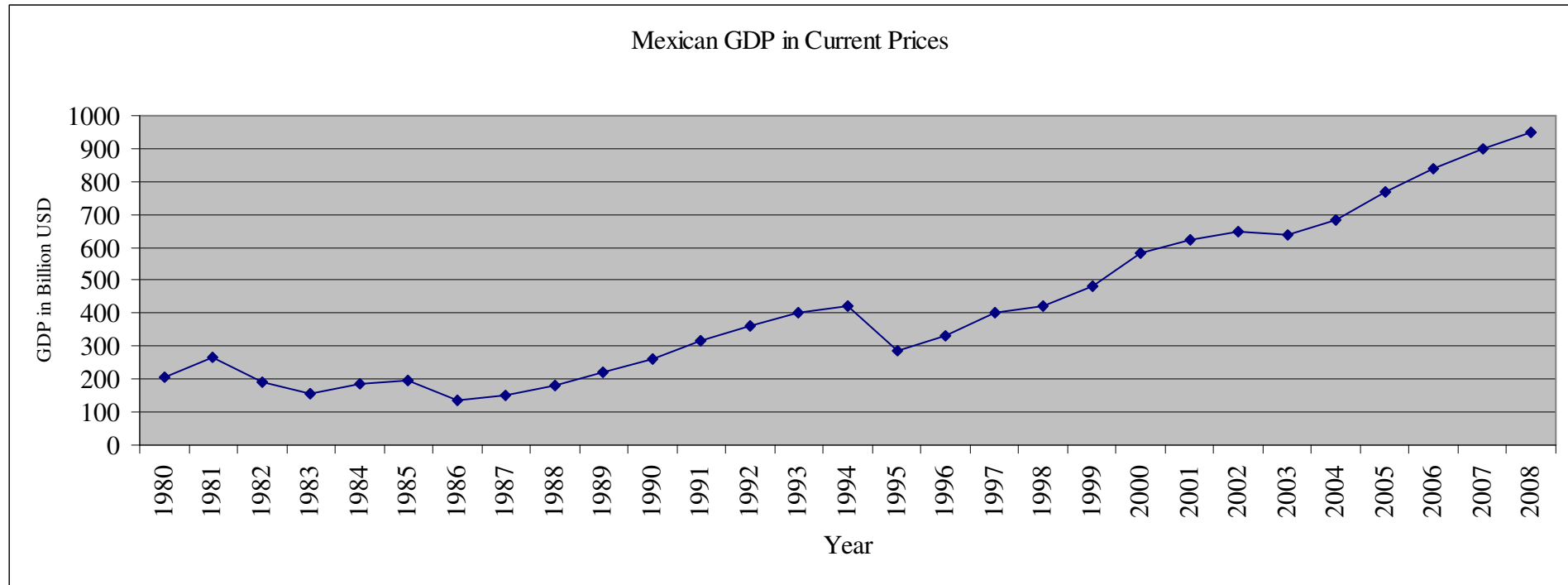
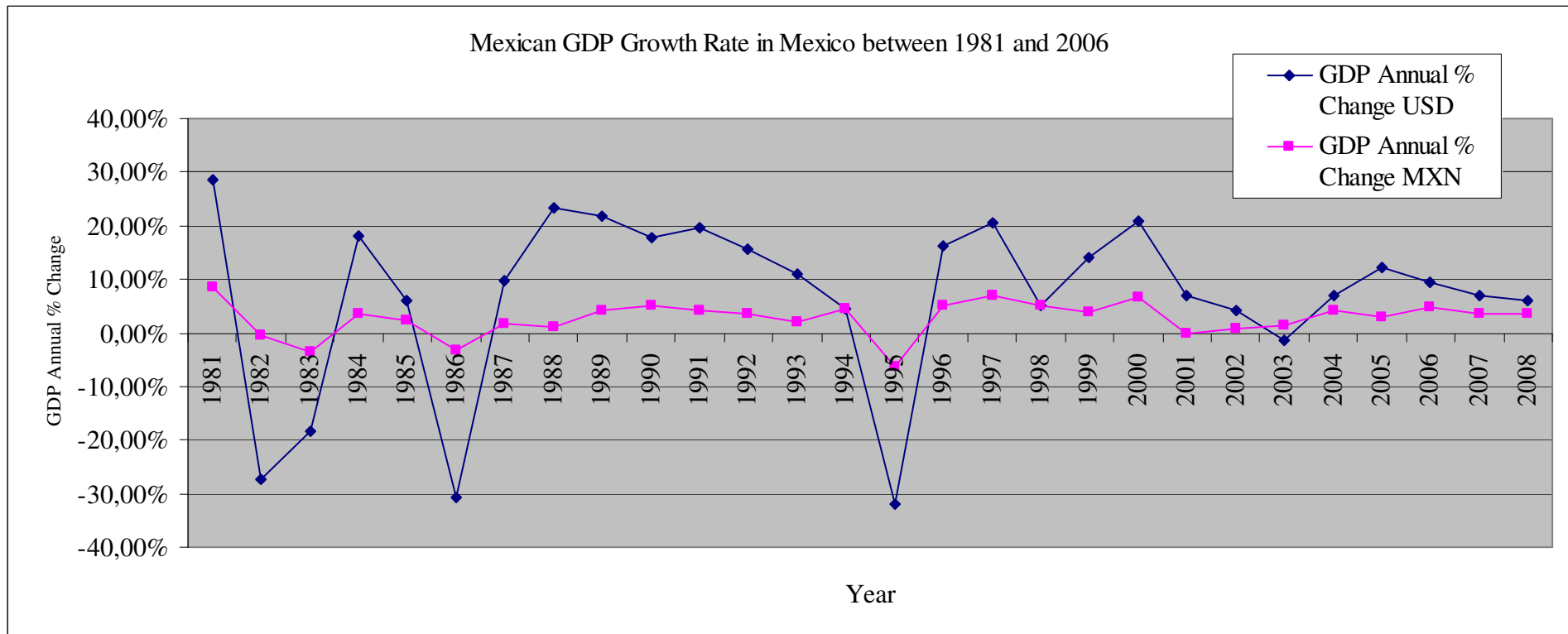


Figure 17: Mexican GDP in USD between 1980 and 2008<sup>298</sup>

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>298</sup> 2007 and 2008 levels are estimates.



**Figure 18: Mexican GDP growth rates in USD and MXN between 1980 and 2008<sup>299</sup>**

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>299</sup> 2007 and 2008 levels are estimates.

## Appendix VII: GNI and GNI per Capita in Mexico

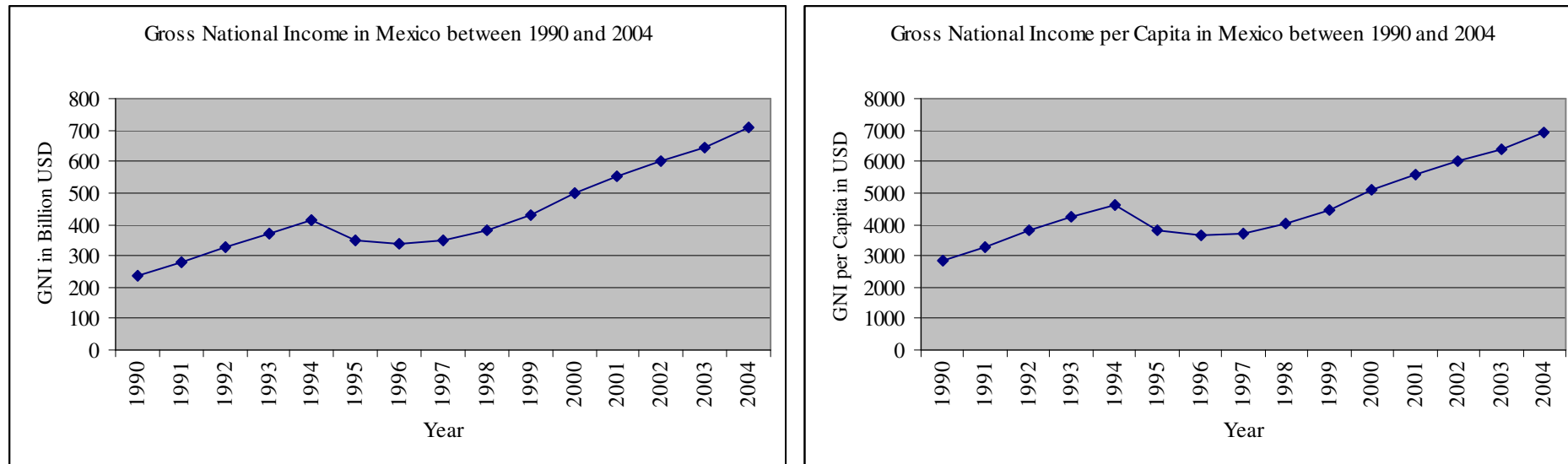


Figure 19: GNI and GNI per Capita in Mexico between 1990 and 2004

Source: The World Bank Group: Quick Query Millenium Development Goals, 2007

## Appendix VIII: Mexican Imports and Exports

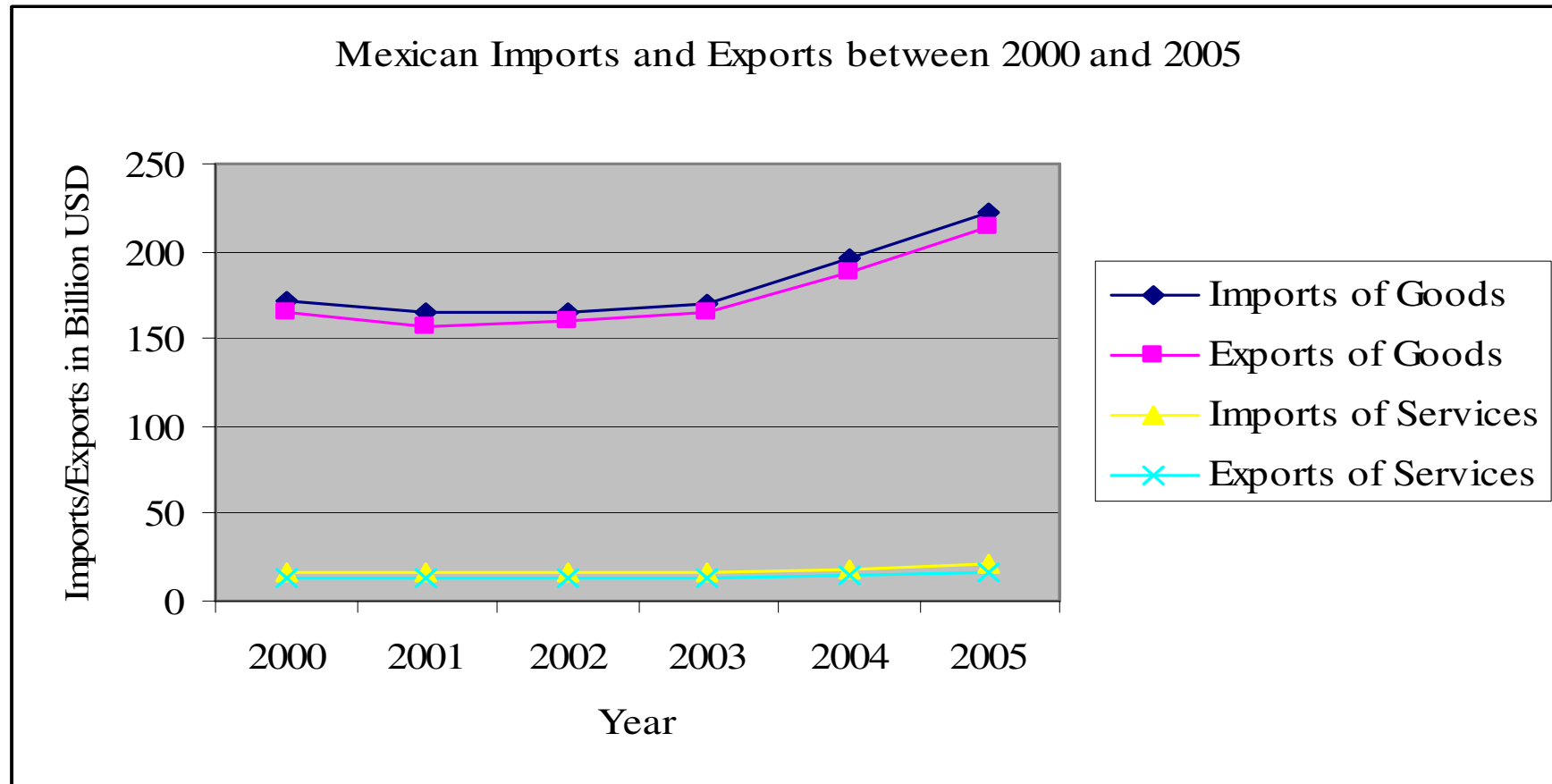


Figure 20: Mexican Imports and Exports between 2000 and 2005

Source: OECD - <http://stats.oecd.org/wbos/viewhtml.aspx?queryname=324&querytype=view&lang=en>, accessed on May 15, 2007

## Appendix IX: Gross Capital Formation in Mexico

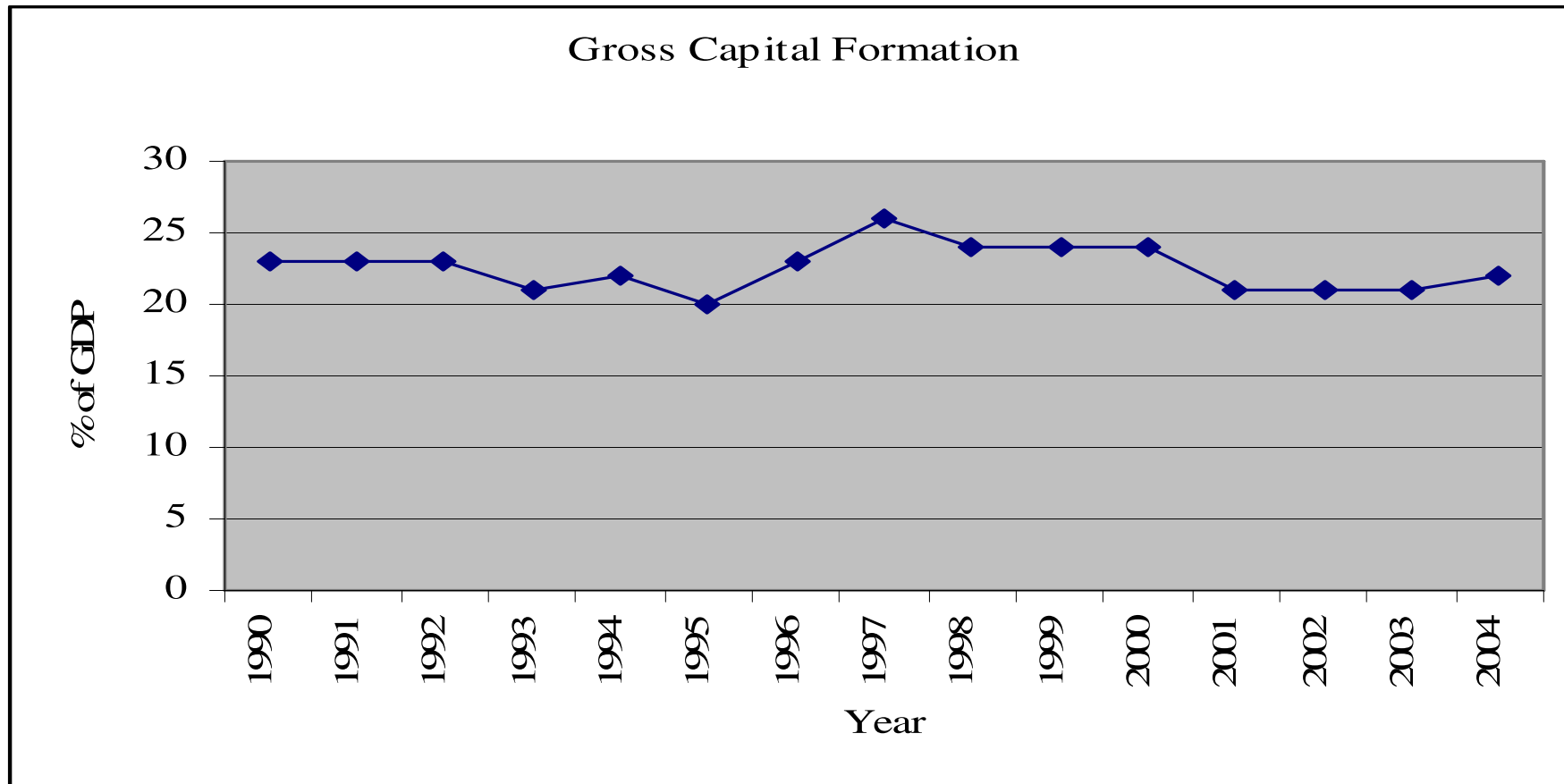


Figure 21: Gross Capital Formation in Mexico between 1990 and 2004

Source: The World Bank Group: Quick Query Millenium Development Goals, 2007

## Appendix X: Foreign Direct Investment in Mexico

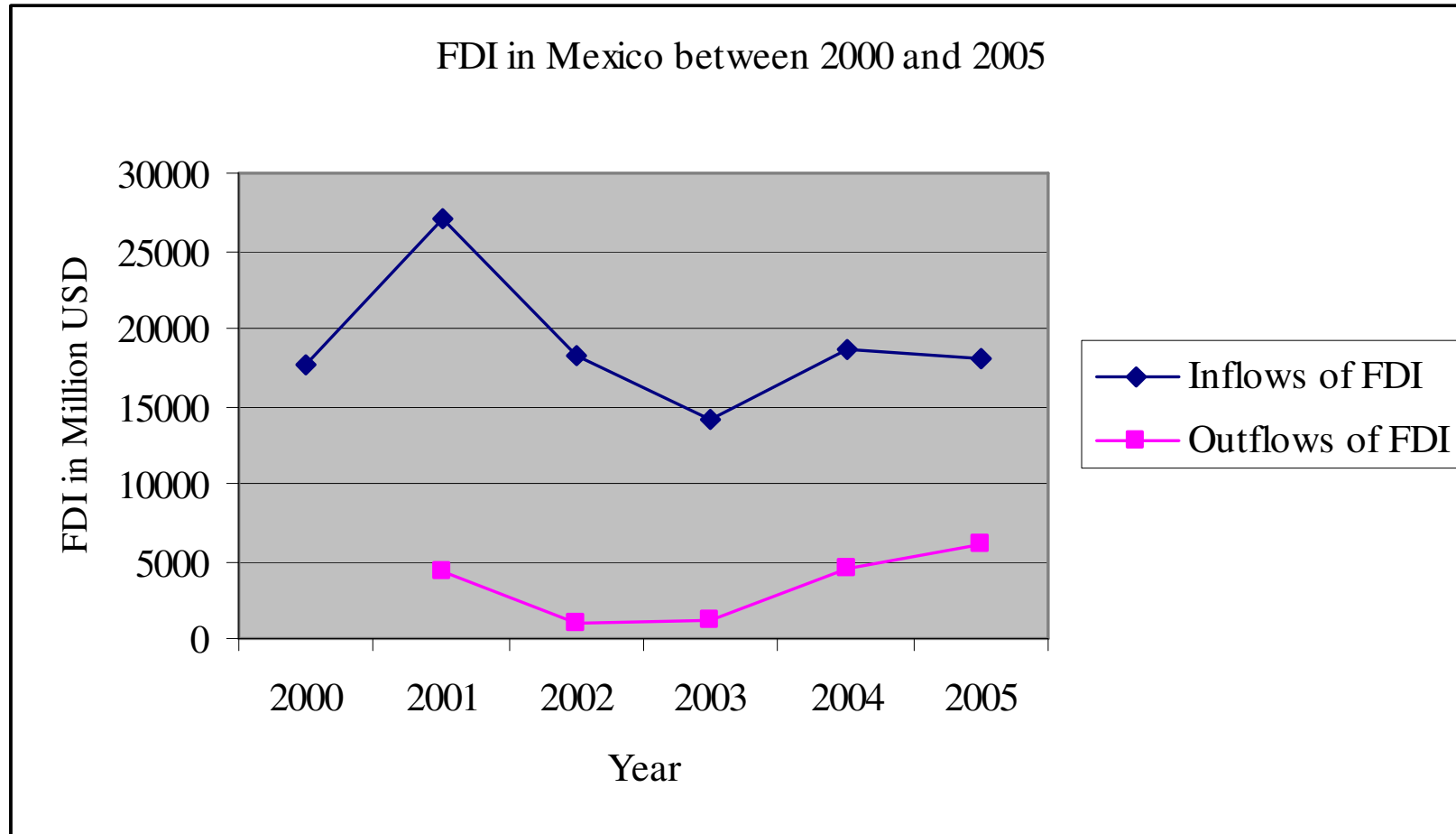


Figure 22: FDI in Mexico between 2000 and 2005

Source: OECD - <http://stats.oecd.org/wbos/viewhtml.aspx?queryname=324&querytype=view&lang=en>, accessed on May 15, 2007

## Appendix XI: Exchange Rates - Mexico

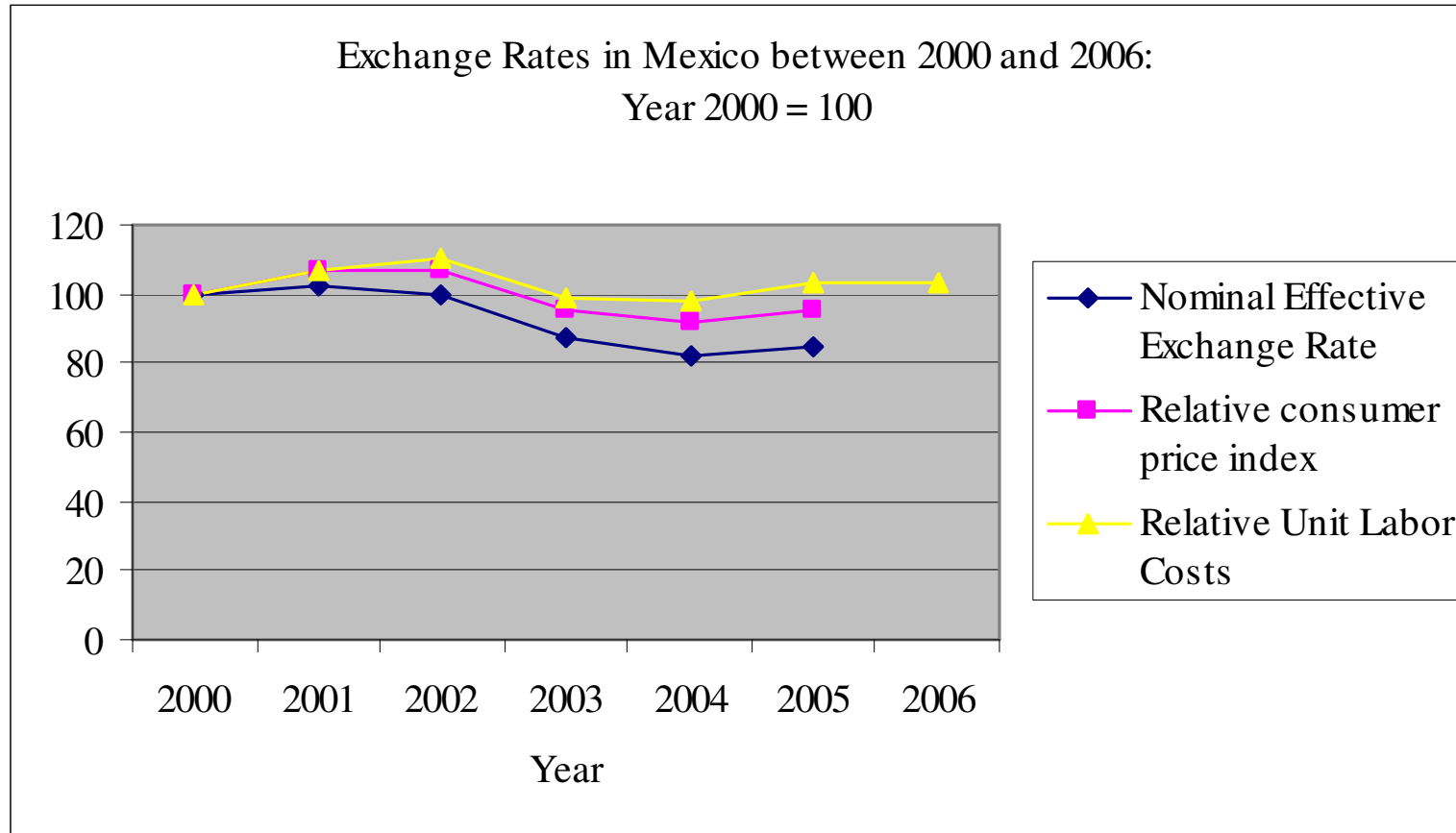


Figure 23: Mexican Exchange Rates between 2000 and 2006

Source: OECD - <http://stats.oecd.org/wbos/viewhtml.aspx?queryname=324&querytype=view&lang=en>, accessed on May 15, 2007



## Appendix XII: Long term interest rates in Mexico

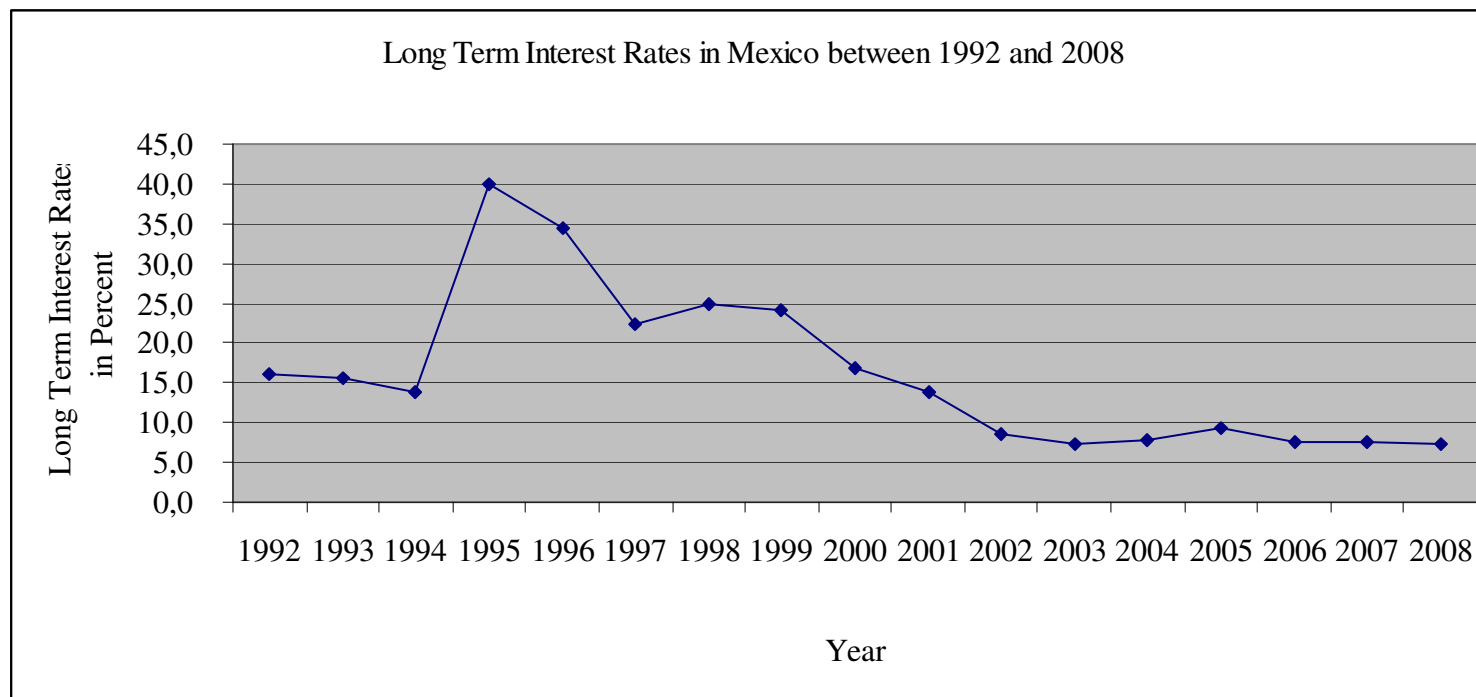


Figure 24: Long Term Interest Rates in Mexico between 1992 and 2008<sup>300</sup>

Source: OECD Economic Outlook 81 database

<sup>300</sup> 2007 and 2008 levels are estimates.

## Appendix XIII: Inflation in Mexico

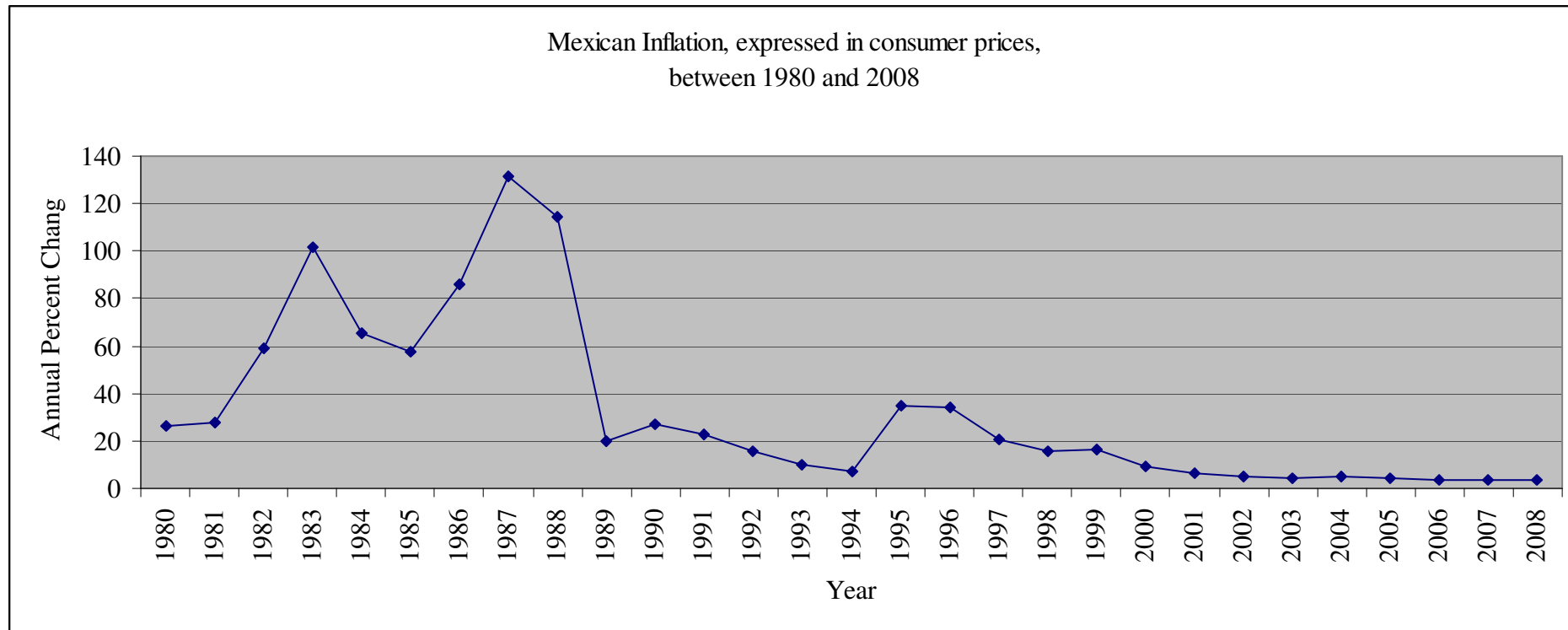


Figure 25: Mexican Inflation Rate between 1980 and 2008<sup>301</sup>

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>301</sup> 2007 and 2008 levels are estimates.

## Appendix XIV: Regional Disparities in Mexico

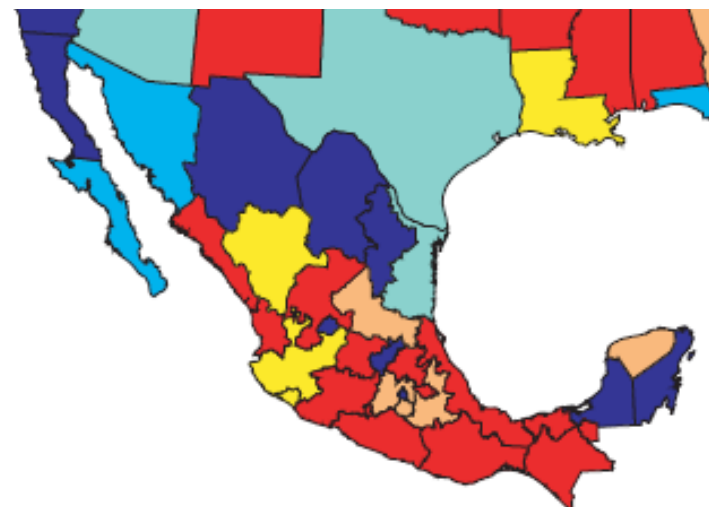
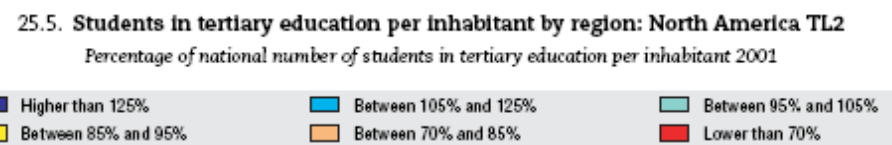
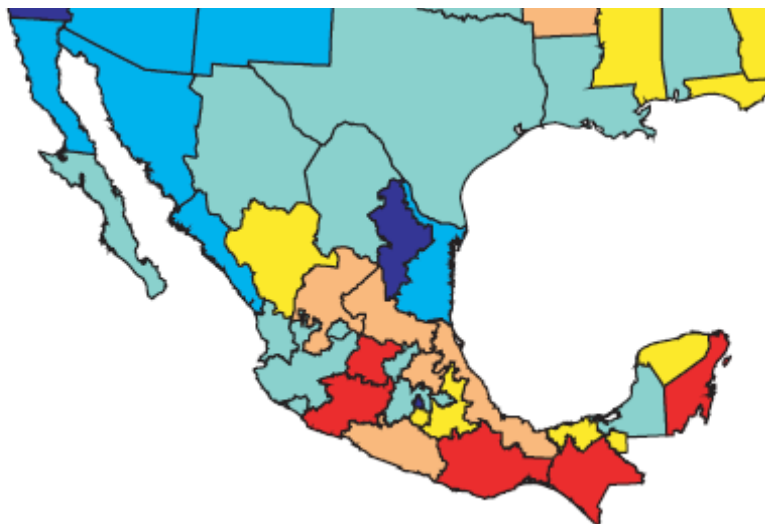
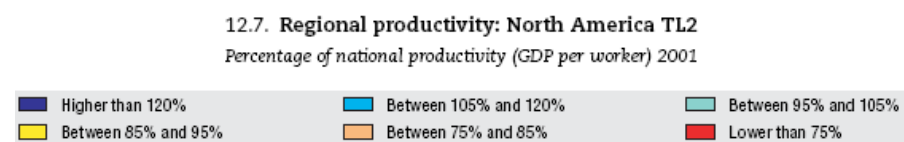


Figure 26: Productivity and students in tertiary education per region in Mexico

Source: OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.82

## Appendix XV: Population and Population Growth Rate in Poland

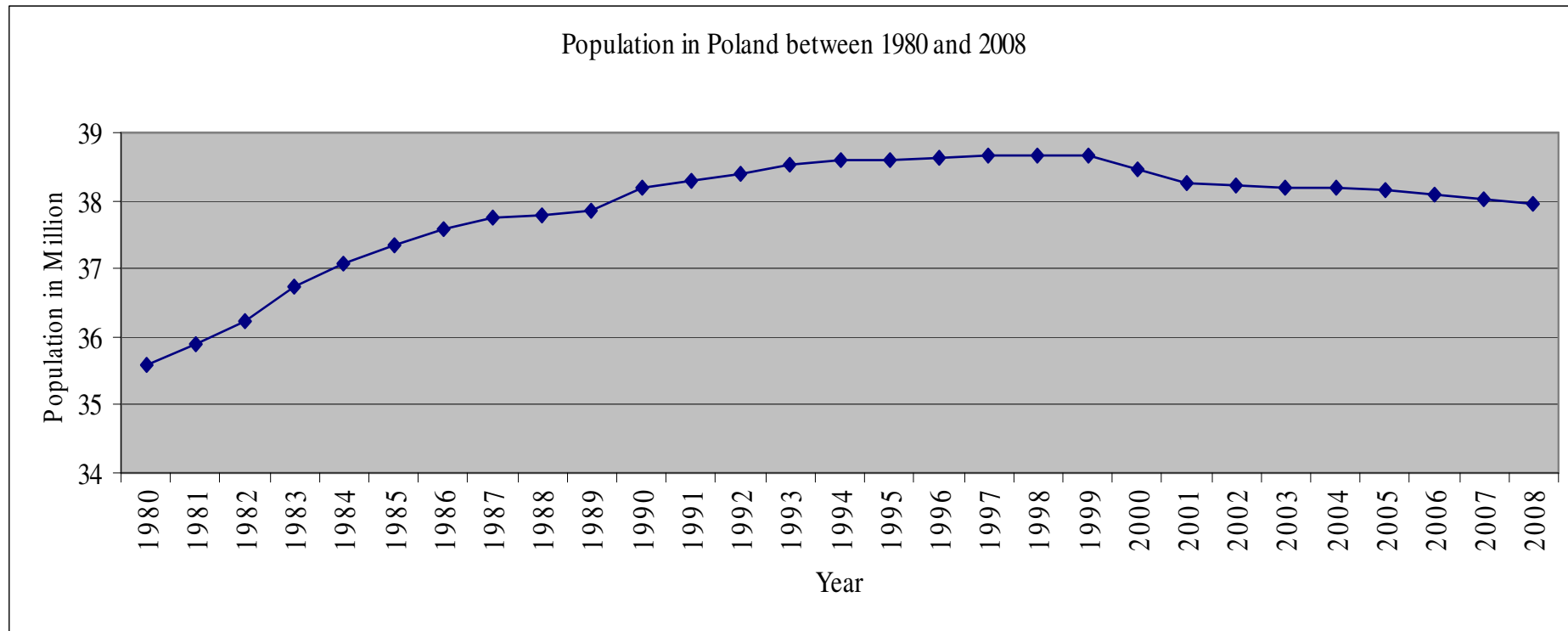
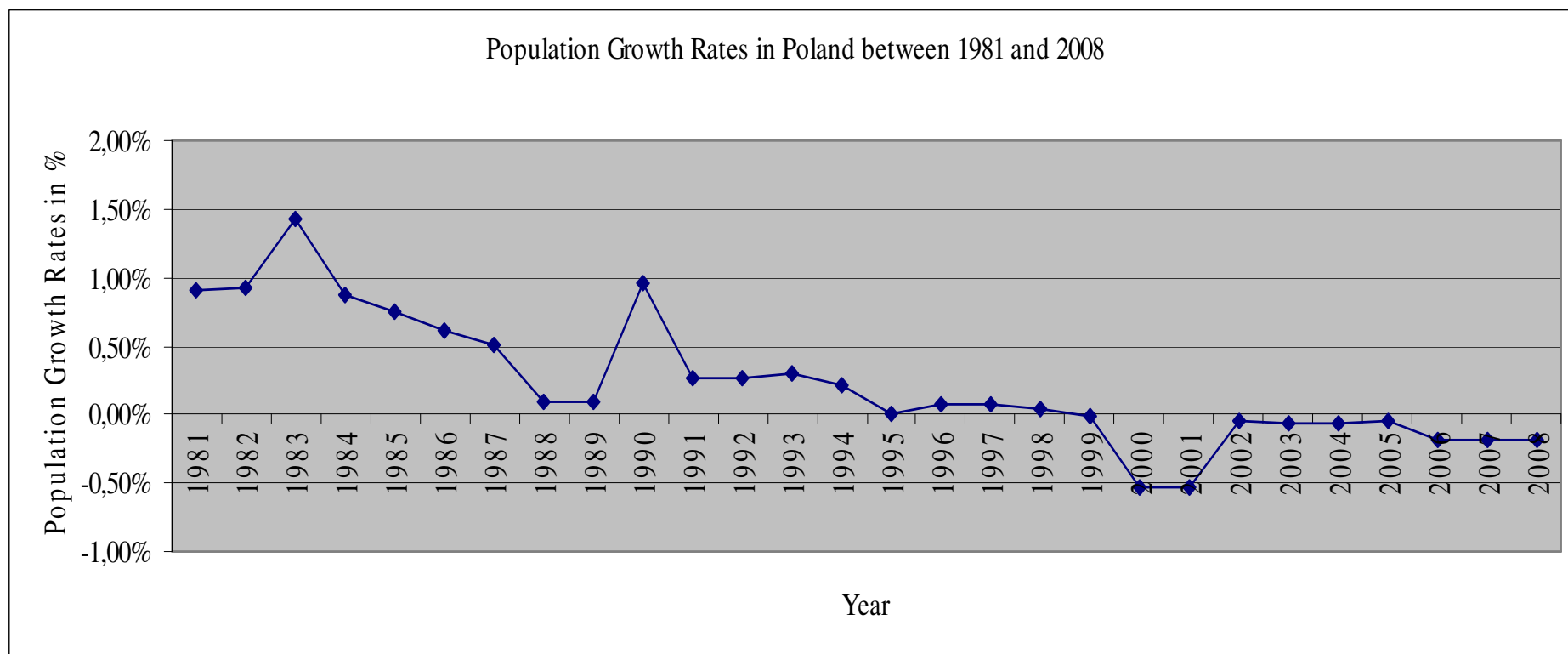


Figure 27: Population in Poland between 1980 and 2008<sup>302</sup>

<sup>302</sup> 2007 and 2008 levels are estimates.



**Figure 28: Population Growth Rate in Poland between 1981 and 2008<sup>303</sup>**

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>303</sup> 2007 and 2008 levels are estimates.

## Appendix XVI: Polish GDP and GDP Growth Rate

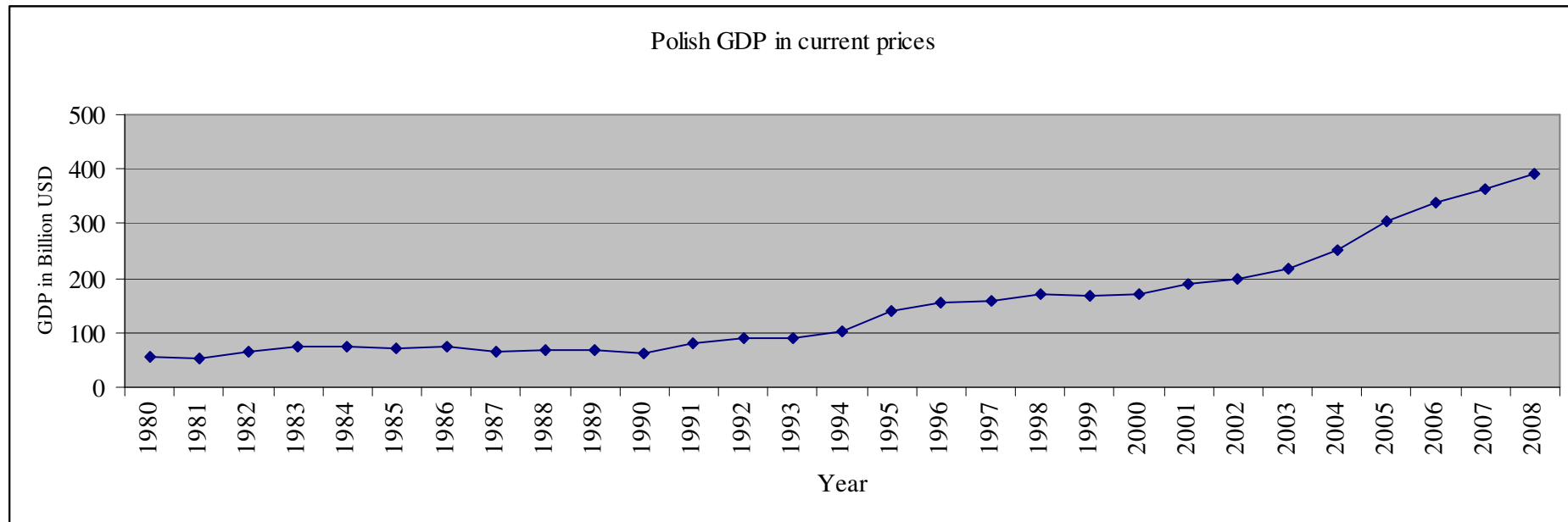


Figure 29: Polish GDP in USD between 1980 and 2008<sup>304</sup>

<sup>304</sup> 2007 and 2008 levels are estimates.

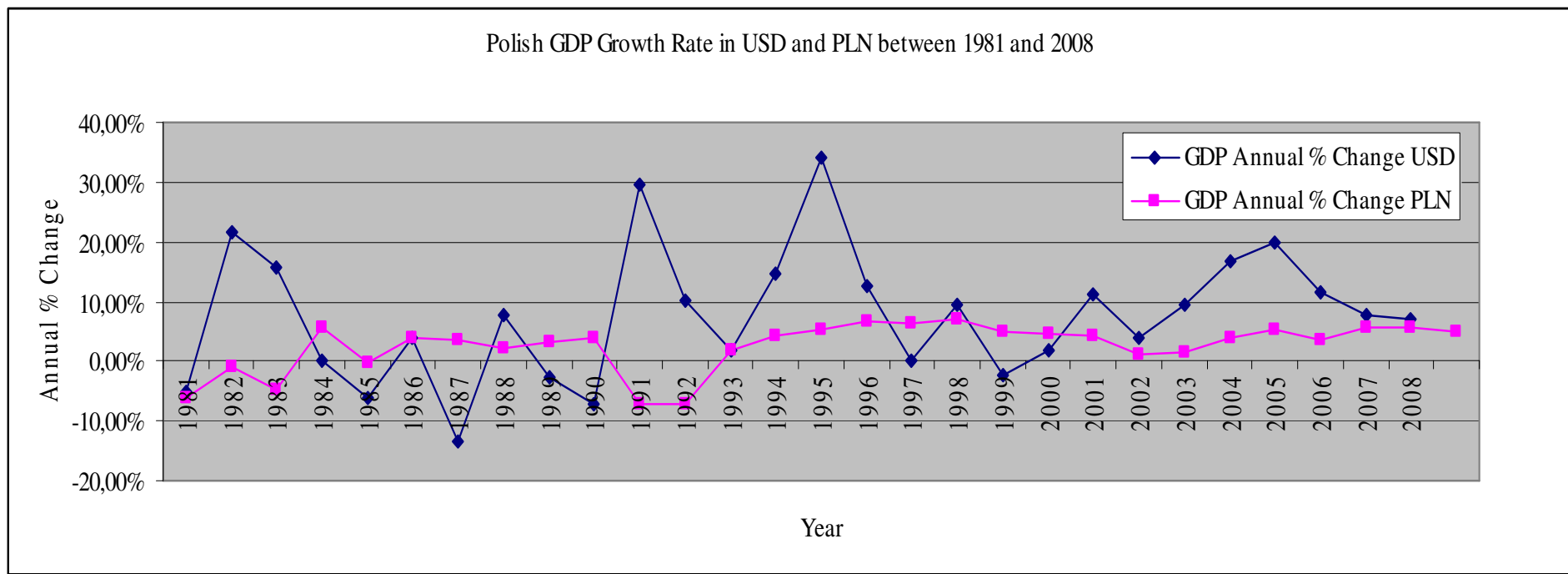


Figure 30: Polish GDP growth rates in USD and PLN between 1980 and 2008<sup>305</sup>

Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>305</sup> 2007 and 2008 levels are estimates.

## Appendix XVII: GNI and GNI per Capita in Poland

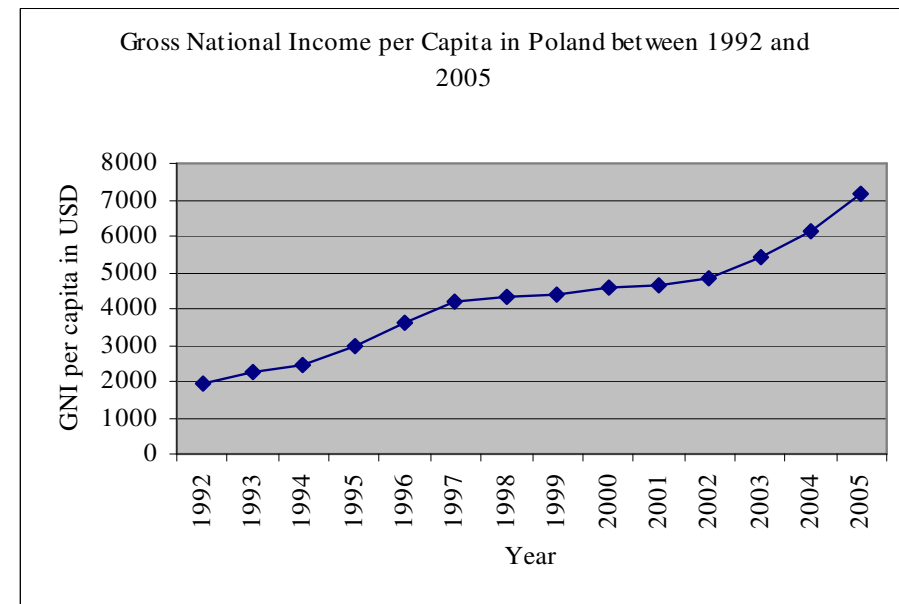


Figure 31: GNI and GNI per capita in Poland between 1992 and 2005

Source: The World Bank Group: Quick Query Millennium Development Goals, 2007



## Appendix XVIII: Polish Imports and Exports

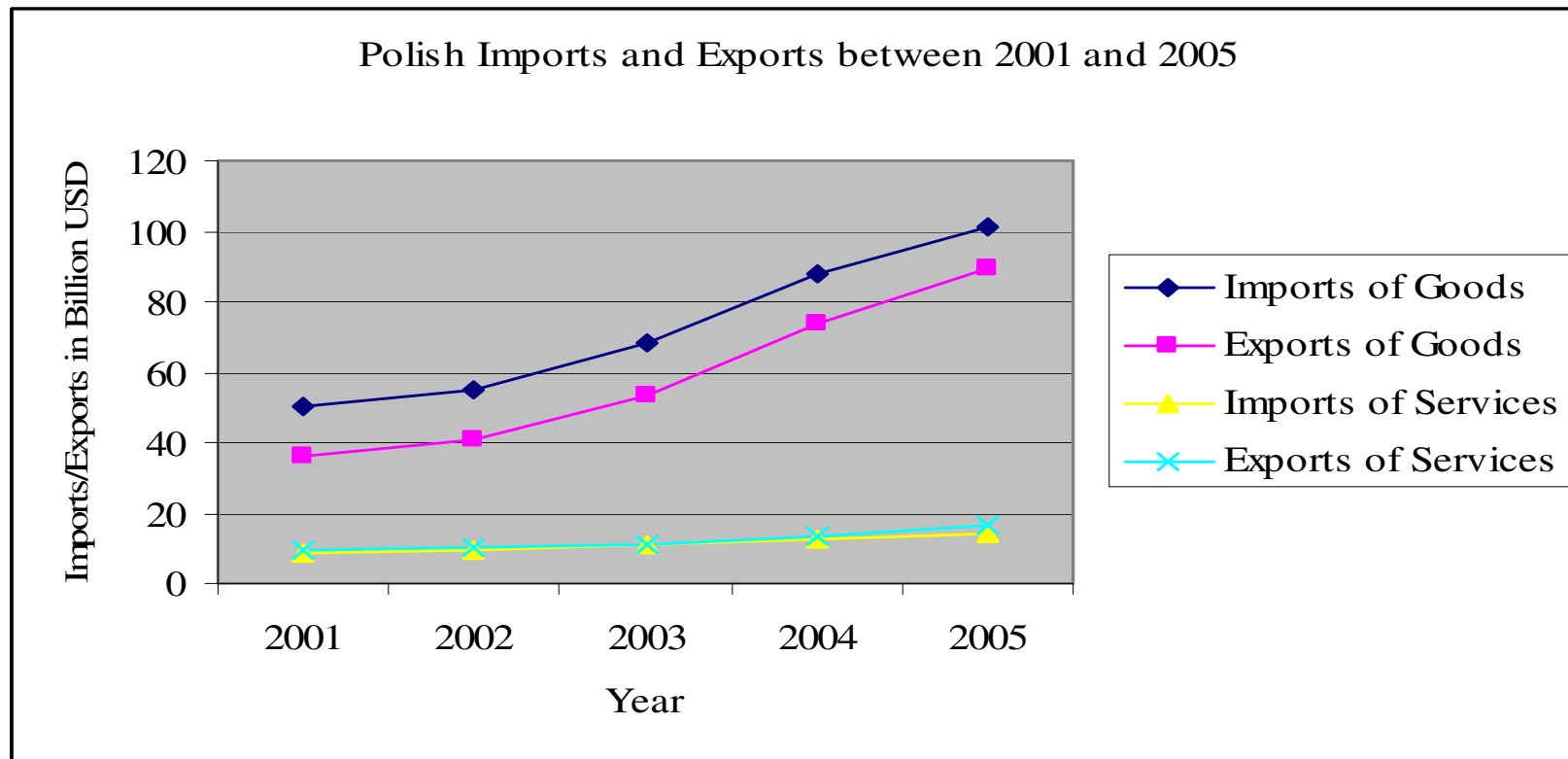


Figure 32: Polish Imports and Exports between 2001 and 2005

Source: OECD - <http://stats.oecd.org/wbos/viewhtml.aspx?queryname=324&querytype=view&lang=en>, accessed on May 15, 2007

## Appendix XIX: Gross Capital Formation in Poland

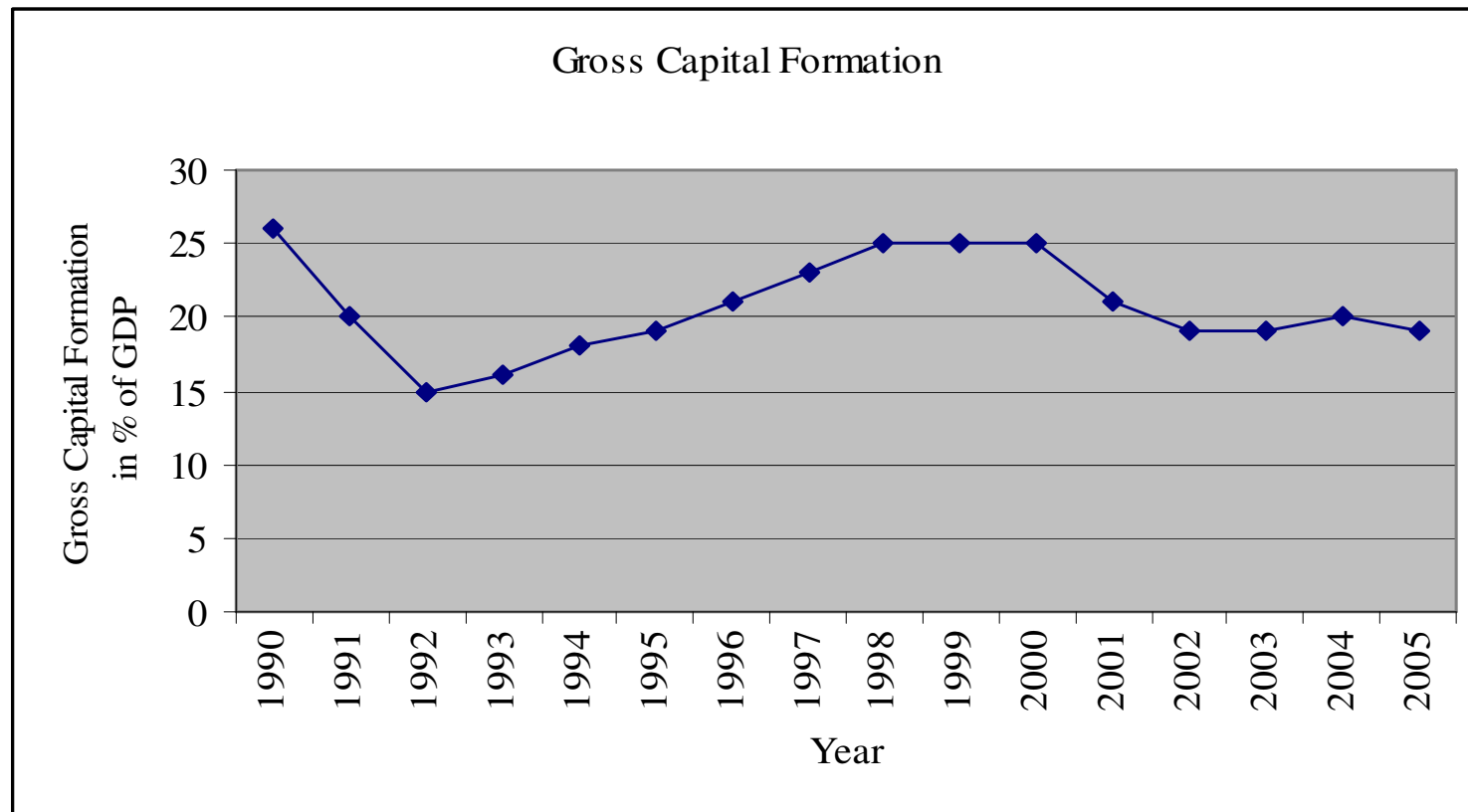


Figure 33: Gross Capital Formation in Poland between 1990 and 2005

Source: The World Bank Group: Quick Query Millenium Development Goals, 2007

## Appendix XX: Foreign Direct Investment in Poland

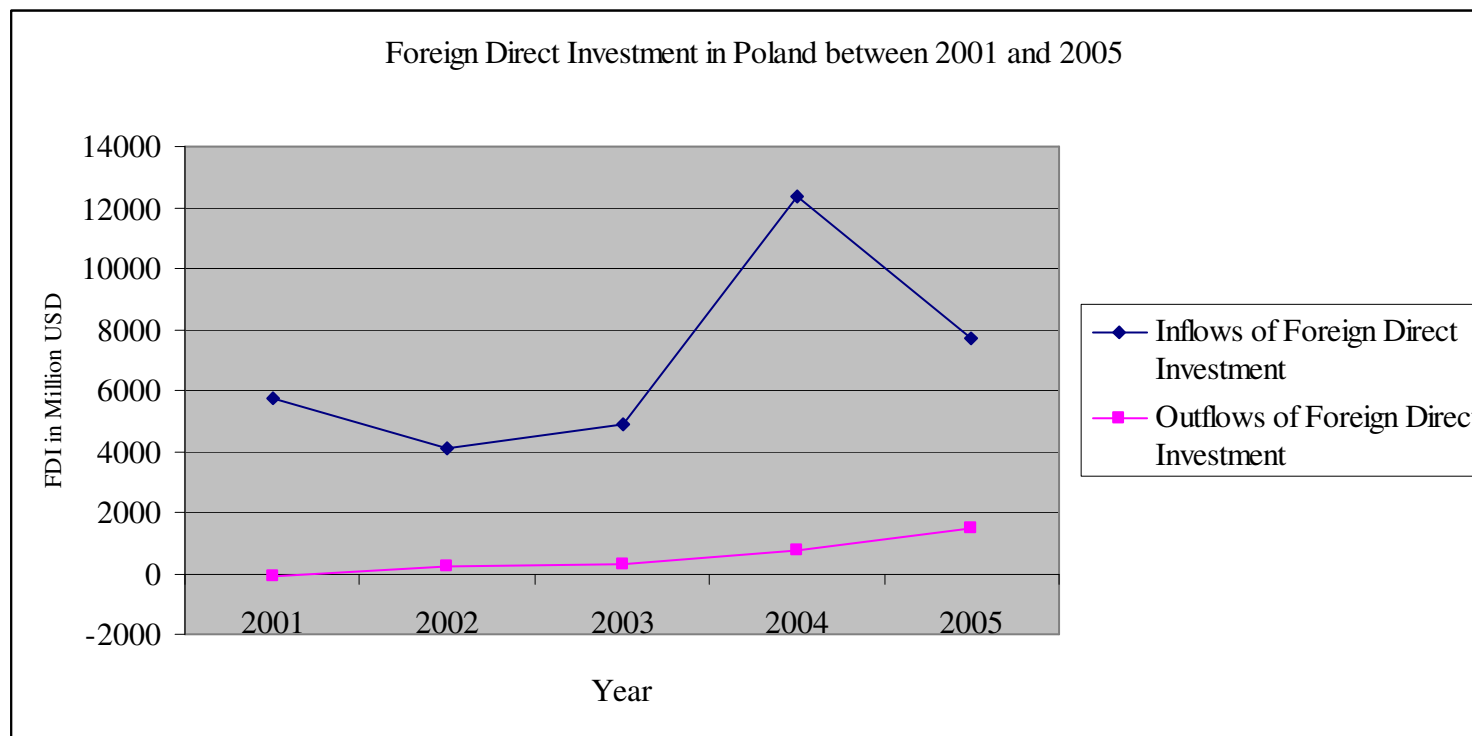


Figure 34: FDI in Poland between 2001 and 2005

Source: OECD - <http://stats.oecd.org/wbos/viewhtml.aspx?queryname=324&querytype=view&lang=en>, accessed on May 15, 2007

## Appendix XXI: Exchange Rates in Poland

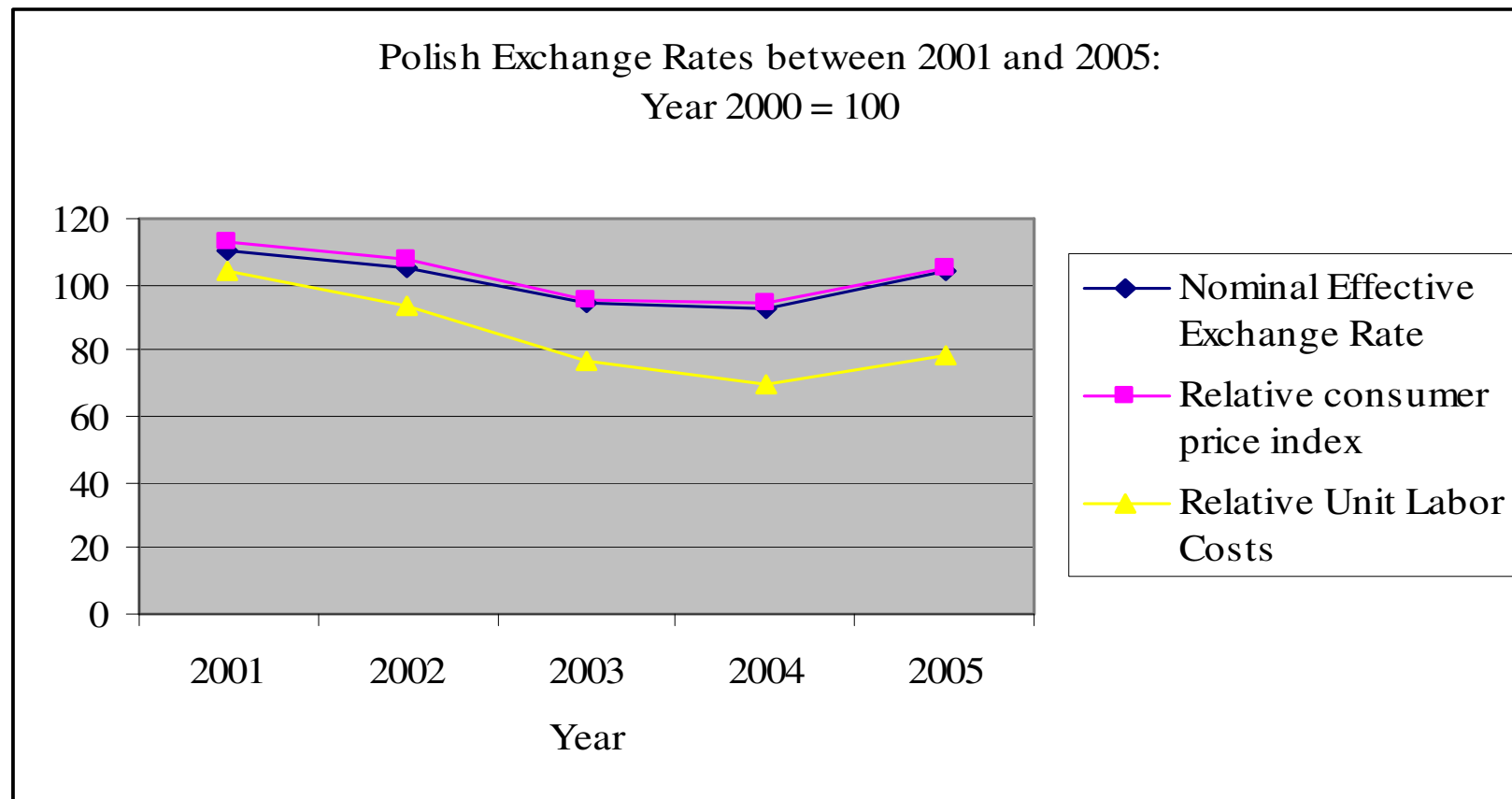


Figure 35: Exchange Rates in Poland between 2001 and 2005

Source: OECD - <http://stats.oecd.org/wbos/viewhtml.aspx?queryname=324&querytype=view&lang=en>, accessed on May 15, 2007

## Appendix XXII: Long term interest rates in Poland

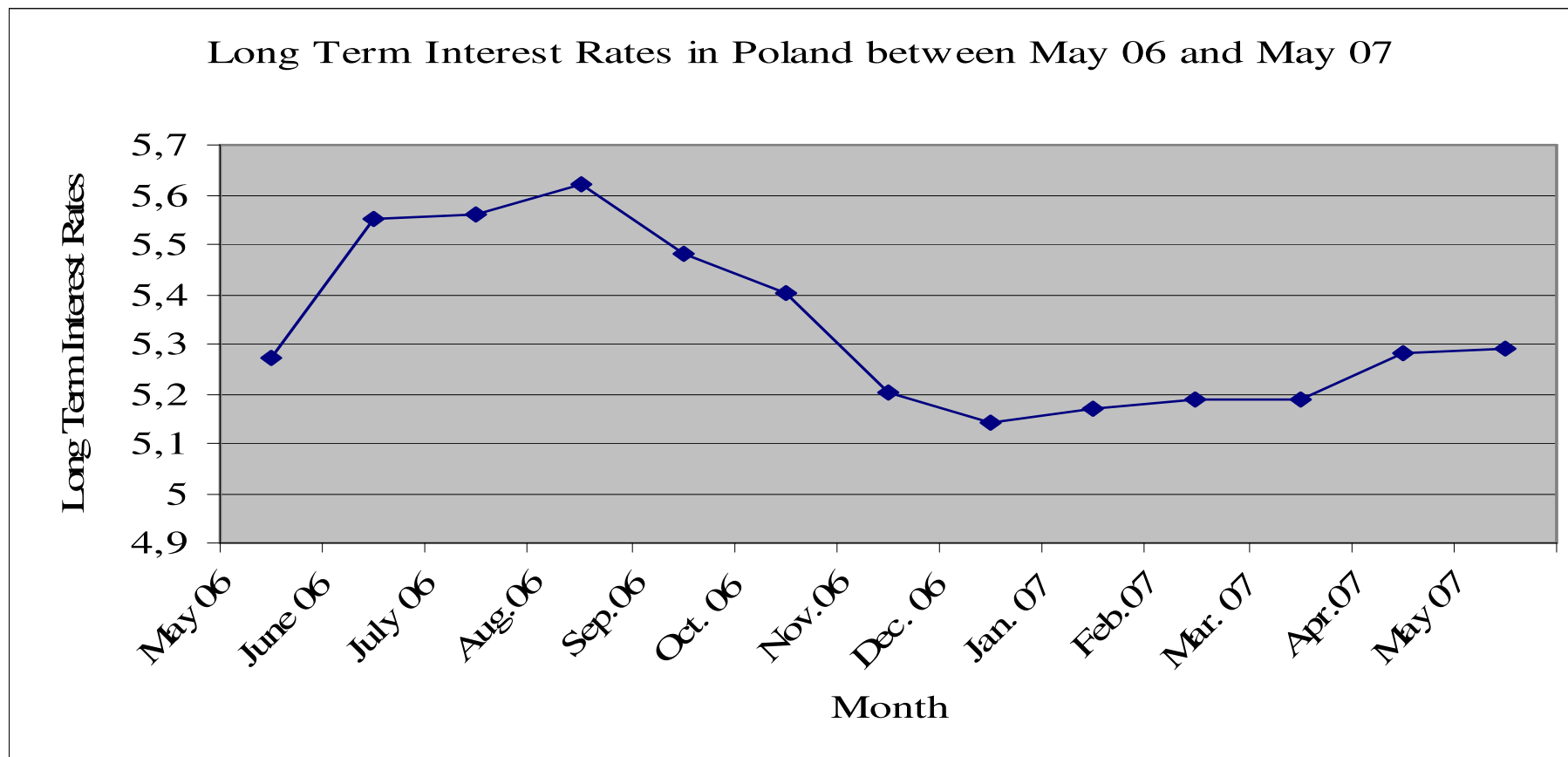


Figure 36: Monthly Long Term Interest Rates in Poland between 2006 and 2007

Source: European Central Bank - <http://www.ecb.int/stats/money/long/html/index.en.html>, accessed on July 6, 2007

## Appendix XXIII: Inflation in Poland

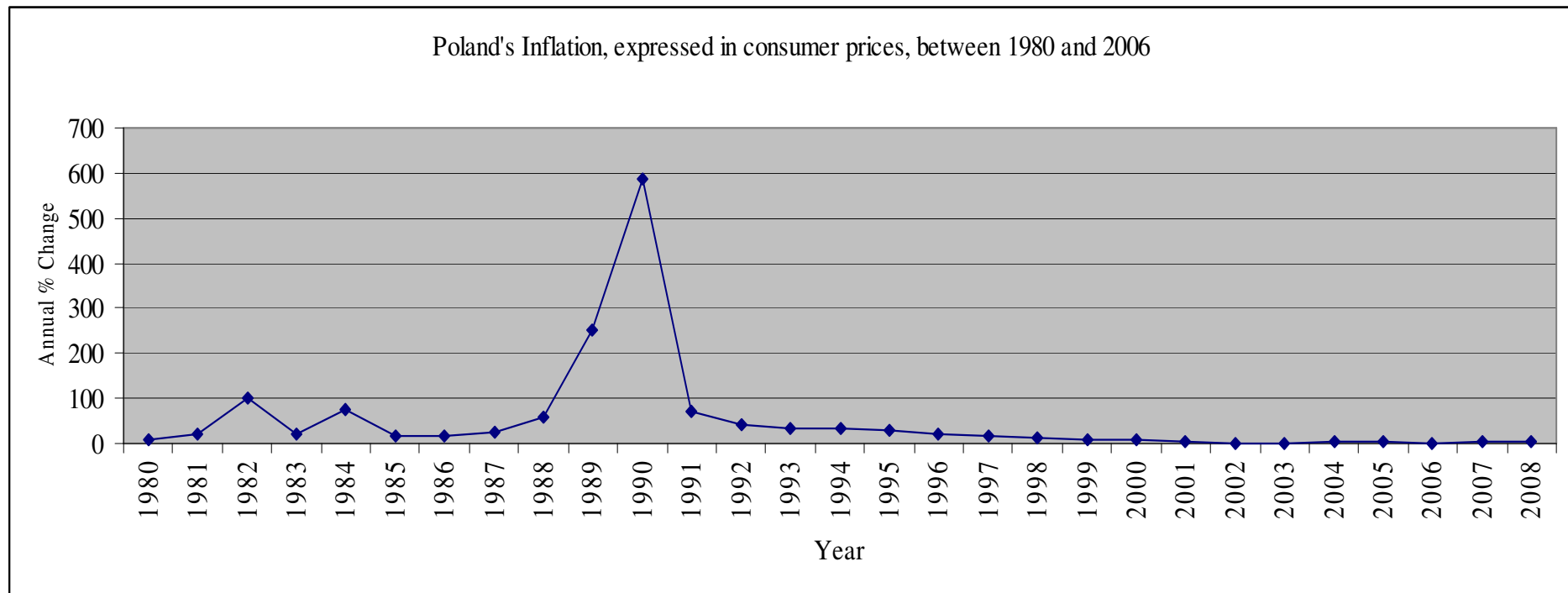


Figure 37: Polish Inflation Rate between 1980 and 2008<sup>306</sup>

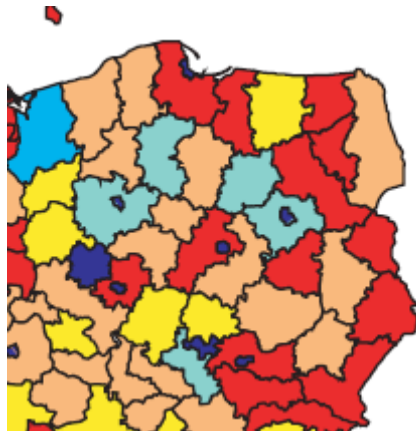
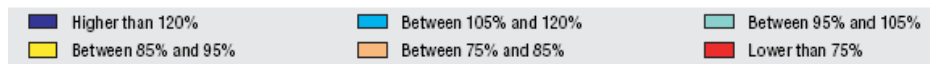
Source: International Monetary Fund, World Economic Outlook Database, April 2007

<sup>306</sup> 2007 and 2008 levels are estimates.

## Appendix XXIV: Regional Disparities in Poland

### 11.6. Regional GDP per capita: Europe TL3

Percentage of national GDP per capita 2001



### 12.6. Regional productivity: Europe TL3

Percentage of national productivity (GDP per worker) 2001

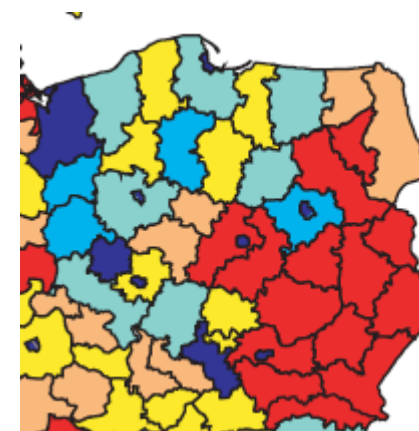
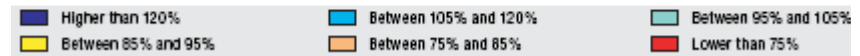


Figure 38: Regional GDP per capita and productivity in Poland

Source: OECD Regions at a Glance, 2005, vol. 2005, no. 6, p.82

## Appendix XXV: Regional Unemployment in Poland



	2001	2002	2003	2004	2005	Average
Lódzkie	19,7	20,3	19,6	18,7	17,3	19,12
Mazowieckie	14,6	17	16,3	14,5	14,8	15,44
Małopolskie	13	16,2	18	17,3	15,2	15,94
Śląskie	19,7	20,1	20,2	19,3	19	19,66
Lubelskie	14,7	16,6	16	16,7	14,3	15,66
Podkarpackie	18	18,2	17,7	16,6	16,7	17,44
Świętokrzyskie	17,9	18,8	19,1	20,6	18,9	19,06
Podlaskie	16	16,8	17,7	15,6	14,4	16,1
Wielkopolskie	17,7	18,2	17,1	18,2	17,1	17,66
Zachodniopomorskie	22,4	26	25,4	23,8	22,7	24,06
Lubuskie	24,3	26,3	24,5	23,2	19,1	23,48
Dolnośląskie	23,7	26	26	24,8	22,8	24,66
Opolskie	18,1	19,7	18,3	17,8	16,9	18,16
Kujawsko-Pomorskie	20	21,5	21,8	22	19,8	21,02
Warmińsko-Mazurskie	23,5	25,9	23,9	22,3	20,4	23,2
Pomorskie	18,5	21,5	20,5	20,2	18,9	19,92

Table 5: Regional Unemployment in Poland between 2001 and 2005

Source: Polish Government - <https://intranet.kpk.gov.pl/sl/MOC/regionyadm.bmp>, accessed on July 8, 2007; Eurostat - Eurostat: <http://epp.eurostat.ec.europa.eu/>, accessed on July 6, 2007



## ***Appendix XXVI: Expert Interview***

Silvia I. Cardenas, Commercial Specialist

US Commercial Service – Mexico

*The opinions contains in this interview do not express any U.S. official posture; they are only personal considerations and comments.*

1. The NAFTA treaty was signed more than a decade ago. What were the pronounced economic goals and objectives of the treaty for Mexico at that time?

The main objective was to expand trade and investment; Mexico recognized that the economic and commercial links between both nations needed a more solid environment and business certainty to support economic growth. Also, there is a natural tendency to integrate economies, we had previously some sectors trade agreements (compensatory quotes, antidumping, etc.) and other economic blocks were consolidated. Mexico had to build a platform to support the future of our trade with the USA.

2. Have these goals been accomplished? What advantages has the Free Trade Agreement brought for Mexico?

In terms of business confidence, trade facilitation, cost reduced, yes, some goals were accomplished. However, NAFTA was only a part of an international trade strategy, was not the complete solution for Mexico's development and economic growth. Some of the advantages were to have an instrument to frame bilateral trade and to take advantages of some Mexican products competitiveness in the US and Canada markets. In contrast, the unequal market/companies sizes have been an important disadvantage for Mexico, as well as the lack of an exporting attitude among manufacturers, official institutions and businessmen.

3. What are the disappointments of NAFTA from the Mexican perspective?

Many small and micro companies completely disappeared; some sectors suffered the avalanche of US products: candy manufacturers, shoes, plastics and textiles. Unemployment by consequence grew up; many Mexican companies were not ready to

compete and were devastated. It is nor possible to have a same conditions/treatments between unequal.

4. Has the public opinion changed with regards to NAFTA? How was it seen in 1994 and how is NAFTA seen now by the public?

Unfortunately NAFTA is not a fashion matter any more, general public has a very short historic memory. There are many other troubles that are catching its attention: security, employment, environment, etc. Maybe in some months when the agricultural protection is removed the issue will recover attention and will be discussed again, but nothing is going to change. On the other hand, NAFTA had in the past a political turn (criticism) by the PRD and the Mexican “left”, so it is used by political groups’ benefits.

5. The last trade restrictions will phase out soon. What impact will this have on Mexican agriculture? Can Mexico compete with the heavily subsidized US agriculture?

Unfortunately, Mexico cannot compete with US subsidies, and every year the agriculture situation is worse, we have been importing traditional products in high proportion. The agriculture is deserted, to the lack of Government’s integral support we have to add that the labour (work force) left their land to go to the USA to look for a job. NAFTA affected the agriculture, but more than that is the Mexican Government’s indifference to pay attention to one of the poorest social and economic sectors (the other is the native groups).

6. The title of my diploma thesis is “Economic integration among unequal partners”: Are Mexico and the US more equal now (in economic terms) than they were at the beginning of the Nineties?

No, I do not think so. A process to overcome underdevelopment does not take 13 years, maybe one complete generation, but up to now any underdeveloped country has reached the point to be developed. In economic terms our economy is situated in the 18<sup>th</sup> worldwide place and the USA is the first, become equals will never happen.

Business conditions are better for big capitals and multinational companies, some sectors have been living a close integration: automotive, chemical/pharmaceutical, energy, but this integration does not mean balance development, it responds more to the “globalisation” process.

7. Do you think the economic integration between NAFTA members should go further?

Should a customs union or even a common market be considered?

We are going towards that direction we like it or not. Recently the Mexican Treasury announced customs common procedures to combat illegal trade, including working hours and technical aspects. The process will take maybe 20 years but the economic links are so complex and strong that finally this will happen. A common market is a very long-term objective and the Mexican Government will avoid giving to much publicity to the facts that are taking us to that inertia or absorption.

8. From an US perspective, has NAFTA contributed positively to the problem of illegal immigration?

In my personal opinion, an illegal immigration reduction was a secondary gain for the US. The purpose was to help their companies to penetrate the market and to build its own regional block. Neither Latin America nor Mexico has been a top priority in the US international agenda but what they really want is to have a secure neighbour and more business. The immigration is a highly sensitive issue that any US Government will support a kind of reform, due to the internal conservative power of certain groups.