

Lessons for China from Success of Poland's "Transition"

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In September, the writer visited Warsaw, Poland in group mission trip and communicated with the think-tank of Poland International Institute for Strategic Studies. During the visit, the writer is deeply impressed by the overall development level of Poland, the public security and hygiene conditions of Warsaw, and its citizen's culture and morality, which leaves the author an intuitive impression that today's Poland has reached the standard of moderately developed countries in terms of the economy (ranking 18th in the world on economic aggregate). However, the atmosphere in the street is more like that of China in its 90s when China was at its early stage of economic boom: passionate, high-spirited and enterprising (which is rare in Western Europe). The increasing curiosity motivates the author to refer to some materials at hand, in combination with the experience of this visit, to look into the reasons for Poland's steady economy, enterprising citizens and gradually improving society.

I. The fundamental realities of Poland

To my surprise, the first valuable article I found was published by Matthew Lynn, a columnist of Market Watch, in August, 2014, with the title "You Will Never Guess the Biggest Success of the Past 25 Years". In the article, the author innovatively pointed out that the most remarkable economic success story of the last quarter of the 20th century was not China, India or Brazil but Poland. "Of all the big European nations, it is the only one to equal Germany for consistency of economic performances in the past decade."

Poland is one of the first cards of the "dominos" of Radical Social Changes in Soviet and East Europe—it happened to be on August 19th, 1989, a date destined to be remembered by many historic events, when the anti-communist "Solidarność" came to power, marking the opening of Radical Social Changes in Soviet and East Europe. While from 1989 to 2007, Poland's economy had grown by 177%. Since its joining the European Union in 2004, Poland's economy has been growing steadily by an average of 4% a year, which made it one of the fastest growing nations in Europe. In 2006, the GDP growth rate once reached 6.4%. Now, its per capital GDP has surpassed 10,000 US dollars, "It sailed through the crash with just a single year of recession. This year it forecasts to grow at 3%, despite the tough conditions in Western Europe, the major market

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for its exports”. Back to 1989, no one could have imagined that a country, struggling under the Soviet Union system and being about to take “shock therapy”, can make such a success today.

II. The process of realizing the transition from planned economy to marketization

Objectively speaking, Poland’s experience is a good lesson for those Eastern European countries and countries of the former Soviet Unions that are still suffering from the transition, and can enlighten China’s institutional transformation. Then the writer read the second valuable article, named “the process of Poland’s transformation and its inspiration”, from the summary record of the speech “the process of Poland’s fifteen-year marketization and democratization—its inspiration for China” addressed by the former Polish Deputy Premier and Minister of Finance, Grzegorz W. Kolodko, in Peking University’s China Center for Economic Studies, March, 2004. As to the process of Poland’s transition, based on the comparison with China’s transformation, Pro. Kolodko summarized three major differences:

Firstly, year 1989 was the clear cut-off point of Poland’s transformation, with the most revolutionary change of the political system reform. The initial difference between Poland and China is that Poland started many of its economic reform since 60s and 70s, and after 1989, the political transformation began as well. The same time when Kolodko emphasized that “if the transformation methods can be reasonably designed, democratic transformation can inter-coordinate with marketization transformation”, he confessed, the process of Poland’s transformation suggested that in the short term, democracy might cause many difficulties for the economic transformation, including the economic policy making.

Secondly, after 1989, Western countries’ attitude toward Poland had changed fundamentally. In the 70s and 80s, Poland had started to accept some direct foreign investment, initiating the marketization transformation. In the late 80s, the appeal to furthering the transformation toward market economy became louder and louder under the huge pressure of foreign debts. At last, in the negotiation on debt restructuring, the Western countries raised a pre-condition that Poland should deepen its transformation toward marketization and liberalization.

Thirdly, after 1989, Poland started its system transition, which might be the biggest difference from China. Kolodko thought transition meant that knowing “from where” and “where to go”, while transformation meant knowing “from where”, but not knowing “where to go”. Generally, the orientation of Poland’s system transition was similar to the economic systems of the EU countries.

Kolodko didn't avoid the problems occurred during the “transition” process, including the three-year “shock without treatment period”. The radical transformation short of relevant steady policy had caused much unnecessary loss. He pointed out that the most impressive lesson of Poland’s transition had been that it counted on the self-regulation of the market by the “Invisible Hand” rather than promoting the economic policy. The matter was that the self-regulation of the market was not sufficient. Meanwhile, he emphasized that democracy and market economy were mutually promotive. In the long term, democracy could stop and correct the wrong policies. Sooner or later, marketization transformation would lead to democratization that was a “learn by doing” process.

III. The reasons and experience of Poland’s successful transition

At present, in the general concept of Europeans, Poland’s economic and political transition is considered to be the most successful one among the former Eastern European socialist countries. It is still fresh to read Kolodko’s speech 11 years later. Plus the perception gained the world and China’s development practice, the writer thinks, we should have a more profound understanding of Poland’s transition.

Firstly, in the planned economy times, Poland had been searching for a development road that accorded its national conditions. After 1947, with the support of the Soviet Union, Poland set up the socialist system, and accepted the Soviet model of socialism as a whole at the beginning stage. According to the Soviet model, Poland put the development of heavy industry in the first place, with industrialization policy following the “heavy industry—light industry—agriculture” sequence, leading to the result that the portion of the national economy was seriously unbalanced. The heavy industry developed one-sidedly; agriculture fell behind over a long time; the price was soaring; the currency devalued and its people’s living standard came down. Due to Poland’s social structure, policy, culture and the development of capitalist economy, especially its inborn severe hatred toward the Soviet Union, Poland got rid of the “Soviet Model” very soon. Taking advantage of the “Poznan 1956 protests”, Poland proposed the “Poland Road” and transformed its political and economic system, which tethered the carriage of planned economy at an early stage. On the other hand, of the former Eastern European socialist countries, only Poland kept sizable private economy all along. In the 50s, Poland carried out a collective movement for a short time and soon failed. After that, private economy always took the dominant position in agriculture; The Polish has been famous for small business in Eastern Europe, before 1989, they had been travelling around and trading on their own between the West and the East , making profits by selling goods.

These historical background of market economy provided Poland with social experience and management foundation to transit successfully.

Secondly, during the “shock therapy”, Poland had closely connected “privatization of the whole nation” with attracting foreign investment to minimize the pain caused by the “shock”. On one hand, when Poland was carrying out its overall privatization plan, it set up 15 National Investment Funds, which allowed about 1,660,000 people to invest on these funds in the form of purchasing private bonds. Most of the state-owned enterprises had realized privatization and the state property were distributed to its people in a fair way. So that the process of privatization could be carried out successfully and at the same time, get-rich-overnight and corruption could be prevented. On the other hand, in order to utilize the great amount of money badly needed for privatization and infrastructures from the foreign banks, Poland had invented a new method to “match” the domestic banks with foreign strategic investors. In other words, Poland “matched” a domestic bank with a foreign financial institution as a strategic investor, and let the latter supplement money for the former (actually the latter held controlling interest). It also meant to conduct a reform of inside governance and risk management, re-regulate that bank’s credit behavior. In the end, foreign banks became the leading power in Poland’s bank system and the efficiency of the banking industry was improved, which helped to build a modern management system for its domestic banks. The supervision of the banks from the Polish banking supervision department was more strict than the rules signed by the Euro zone last year, which at last ensured the validity of foreign banks.

Thirdly, Poland’s political transformation was carried out synchronically and strictly, ensuring that Poland could walk out of the shadow of “shock” as soon as possible. The Geography professor Joanna Regulska from Rutgers University pointed out that, “the most unique part that other countries didn’t achieve was the reform of its local governments and the removal of centralization”, “it released the social energy such as responsibility, entrepreneurialization and social funds”.

Fourthly, Poland had high-quality and cheap labor resources. The Financial Times says that there are three features of Polish workers: diligence, low salary (compared with other European countries), and high technical level. The French economic study institution Coe-Rexecode found that, the average working hours for the Polish is 1975 hours, much longer than that of French which is 1679 hours, while the salary of the Polish is only one fifth of the German, and the efficiency of the Polish is half of the German. Gareth Richardson, the responsible person for global delivery of the Polish enterprise consulting and IT service company Rule

Financial, said that he thought the Polish employees are more adept than the Asian employees in skills, while the cost of Polish labor is less than half of that the UK's.

The methods and effects of the transformation played a huge role when Poland was faced with crisis. Since the 2008 international financial crisis, especially the European debt crisis, Poland's performance has still been firm. Andrzej Raczko, the former Polish financial minister, thought that the excellent performance of Poland came from four aspects: the robust domestic demand—the Polish consumers didn't give up spending and turned to deposit due to the European debt crisis; the flexible exchange rate—this helped to relieve the exporters from the impact of the crisis; a balance was kept between reducing the deficit and growth due to the financial policies; foreign investment was attracted successfully, with 67 billion euro flowing into Poland from the European Union and spent on the infrastructure and healthily-growing banking industry.

All the above benefited from the successful transition of Poland then.

In addition, Poland has a special, firm and staunch Catholic ideology and liberal tradition. Stalin once said, "Introducing communism to the Polish is more difficult than harnessing an ox". The influence of religion and the loyalty toward Catholic ideology was common during the writer's visit. For instance, the solemn and ancient Catholic churches could be seen everywhere (not tourist attractions but serious and neat religious sites). According to the research, during the time when the communist party was in power, communist ideology didn't root in the heart of the Polish while Catholic churches kept its huge influence. Compared with other Eastern European Communist countries, the Polish Communist government was the most lenient and its control over the ideology was the loosest. The government allowed its scholars to go to the west for travelling and communication. It seldom interfered with the social science. That is why the Poland's political and economic transition could be carried out successfully. Poland is known to have a democratic tradition in the history and its people's democratic consciousness is relatively high. After the re-establishment of democratic system, the Polish adjusted to it very soon and is willing to abide by the democratic system and regulations. After the WWII, a large group of Polish emigrants returning to Poland and the German nationals leaving, there were no minorities any more. The consistent national identity, the stable political situation and the harmonious society made a fundamental condition for the development of economy.

On the whole, during this visit, Poland left a deep and good impression on the writer and the visiting group. When its neighbor Ukraine is still

struggling between “west” and “east”, and other Eastern European countries are competing to “catch up”, Poland, used to be the “European stepping cloth”, now might have finally found its position and direction and is playing a more and more important role in the European Union—with an eternal vigilance against Russia.

IV. Enlightenment from Poland's experience

China can learn from Poland in the following aspects:

Firstly, the orientation of economic system reform should be marketization, while government's effective “visible hand” should play an important role. Three aspects have been carried out simultaneously during Polish social transition: liberalization and stabilization policy, reconstruction of micro-mechanism and system construction. Transition includes not only liberalization and capitalization, but also system construction, which means new rules must be set up and followed by both the government and the market based on sound systems.

Marketization reform is by no means only about deregulation. It is more about the reconstruction of regulation, some outdated systems to be abolished and new replacement to be established—including property system innovation, economic opening up, allowing free capital flow and free trade, in order to promote entrepreneurship. It should be noted that the introduction of new regulation could be overdone, which might restrain entrepreneurship, and people's will and confidence on investment and saving. The essence of institutional transition lies in the balance of “reforming regulation pattern” and “avoiding over-regulation”.

Secondly, the government plays a leading role in solving unemployment and creating jobs. We can learn from Poland's transition that, in most cases, massive unemployment would arise after the introduction of liberalization and stabilization policy, reconstruction of micro-mechanism and system construction. Some of the business needs to be shut down during transition, workers shifting to new industries. Besides, enterprises may need fewer and fewer workers with the improvement of technology, management and worker's labor productivity.

By experience, if Poland's GDP growth rate is below 4 percent, its unemployment rate will increase. Unemployment is not only an economic problem, but also a social one. Poland's strategy is to make use of policy rather than the market to tackle with employment and unemployment. On this issue, the government's leading role should not be questioned but strengthened.

Thirdly, reform of the political system is the optimal and fundamental guarantee for the reform of economic system. Unlike Poland, China has

carried out its economic reform ahead of political reform, and such in-depth, large-scale and productive economic reform is rarely seen in the world. But somehow the political reform has been lagging behind, the result of which is that some stakeholders have secured a lot of personal gain in the name of “reform”, while the mass was deprived of part of the bonus of economic system reform. In that sense, the political system reform is urgent and necessary. China’s political transformation is a complicated and systematic reform with multiple risks and challenges. The success and effectiveness of political transformation largely rely on the proper resolution of economic issues, change and balance of interests of all classes, ethnic and religious problems and diplomatic issues. The ideal is to achieve benign interaction of all aspects.

For China, the key to realize political transformation lies in the proper handling of the relations between the central and the local, the city and township, the government and the intellectual. Of course, the performance of economic governance ultimately decides the result of the political transformation.

Fourthly, the influence of the mainstream ideology must be upheld and spread, while Chinese nation’s overall sense of identity must be enhanced. On one hand, the destruction of the Communist Party of Poland is, to some extent, caused by the long-standing collapse of communist and socialist ideology. It is Polish Communist Party’s long-term tolerance that leads to the rampant spread of bourgeois liberalization, which we should reflect on and take as a grave warning. But unlike Poland, China does not have an ideology comparable to the Catholic Church in Poland. Therefore, the socialist culture with Chinese characteristics boasts vast survival soil and development space, a fact that requires a unified understanding and great attention from the whole Party. On the other hand, Poland and Ukraine have showed from opposite direction that national identity is one of the prerequisites for the development of a country. In present times, culturally we must respect and protect the uniqueness of all ethnic minorities, but politically we must uphold the integral view of the Chinese nation as a whole. We must unite 1,400 million Chinese people with the hope of China’s great development and prosperity and make joint contribution for it.

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