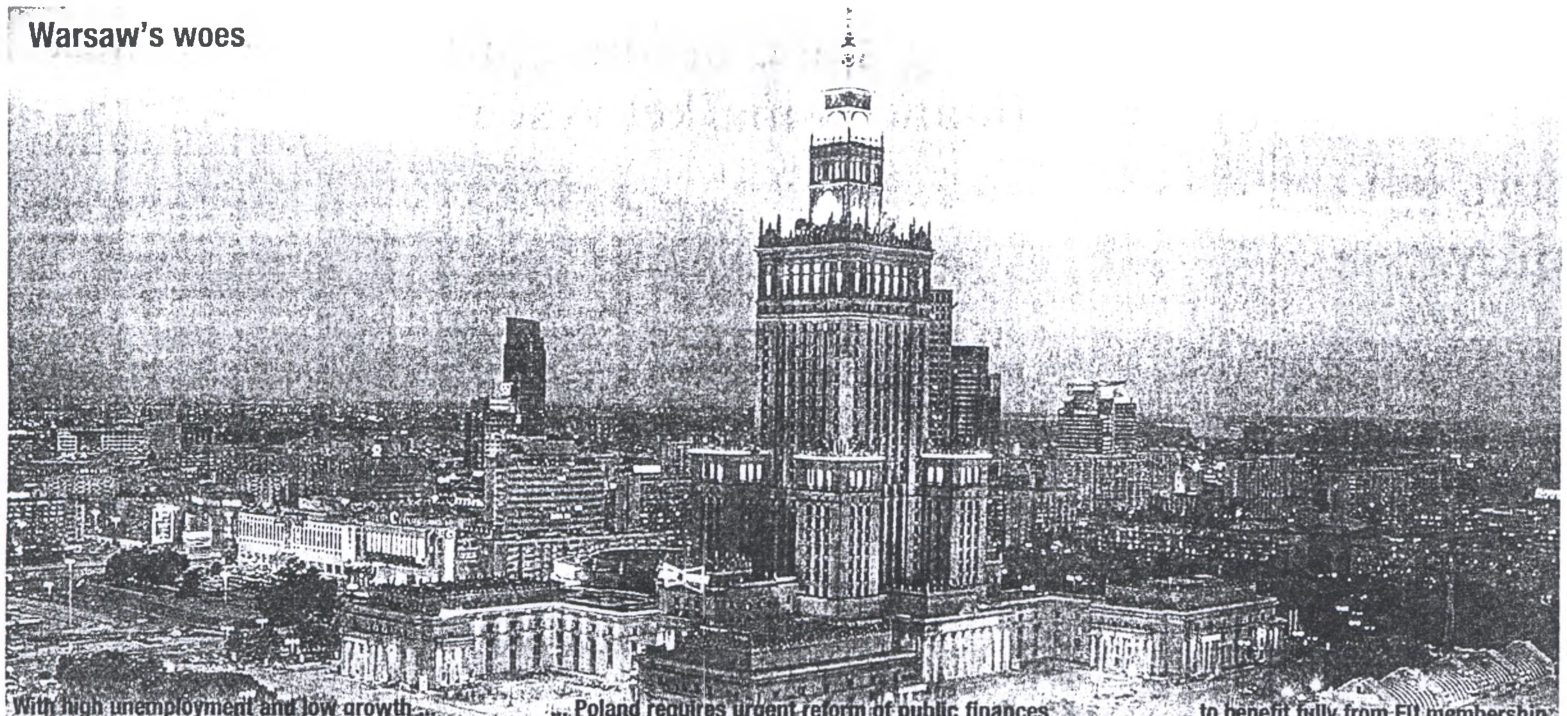
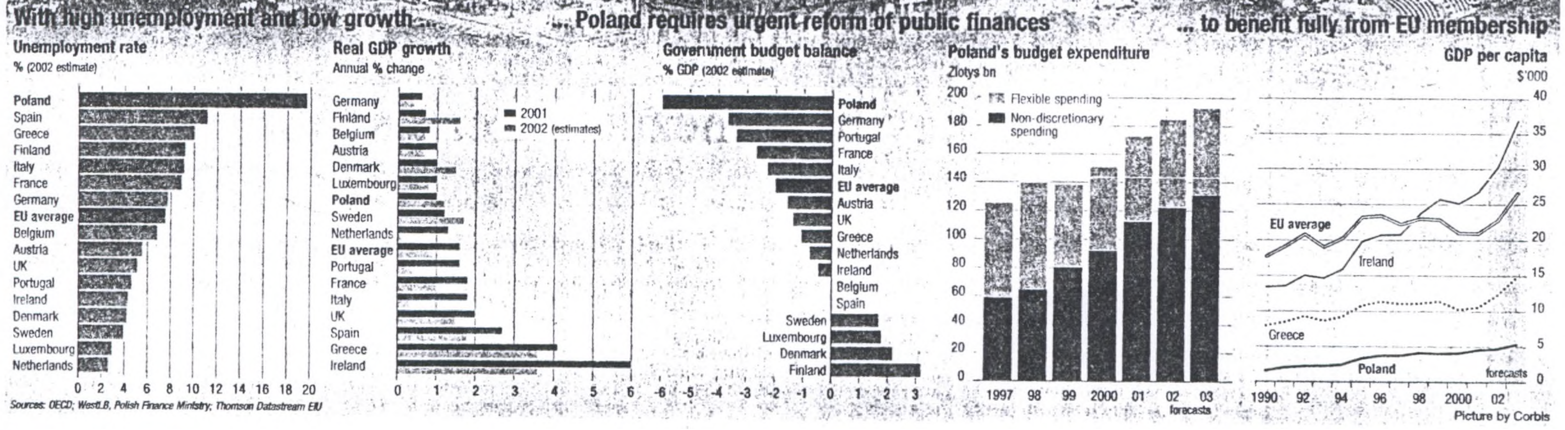
X

COMMENT & ANALYSIS

F.T 9/12/02

Warsaw's woes





Picture by Corbis

ENLARGEMENT

Is Poland the new Greece? Why Warsaw's entry into the European Union may be rough

As this week's Copenhagen summit prepares to welcome new members into the union, concerns about corruption, economic policy and institutions persist, writes **John Reed**

At a Warsaw conference on European Union accession last month, an Irish speaker told Polish business people how accession had benefited his country: membership of the single market and eurozone had laid fertile conditions for a trade and foreign direct investment (FDI) boom, allowing Ireland to expand its gross domestic product per head to 122 per cent of the EU average, from just 60 per cent in 1973.

Others compared Poland's prospects to those of Spain, another late joiner of similar size, which had leveraged the EU's open borders and development aid into vibrant economic performance. "On the single market," said Aleksander Kwasniewski, Poland's Europhile president, "we will be active, visible, and effective – in other words competitive."

With their four-year-long EU negotiations drawing to a close, the Poles, preoccupied of late with their sluggish economy, are permitting themselves some cautious optimism. This week's Copenhagen summit is expected to bring Poland a formal invitation to join the EU as the largest of 10 new members. With membership now nearly certain, the Poles and their EU partners are focusing increasingly on how the country will perform in the single market. Mr Kwasniewski is promising Poles a "civilisational advance" from EU membership; Leszek Miller's government is staking its continued survival on a Yes vote in a referendum planned next year.

But if current trends continue, Poland's EU debut will stir memories not of Ireland or Spain but of Greece, a country that squandered its first post-accession years through poor fiscal management, corruption and political cronyism in public appointments. Poland's state and regional administration, the conduit for future aid flows, is weak and understaffed. Its justice system, the local arbiter of cross-border business, takes years to bring cases to court.

Poland has not yet begun a public finance reform needed to prepare for membership. Entire sectors, including power distribution and steel, remain unrestructured and vulnerable to a competitive shock. "This government thinks they will be saved [by EU membership]," says Jan Winiecki, a professor at Frankfurt/Oder's European University and economist with bank WestLB. "But they don't realise public money doesn't increase growth – private money does."

A bumpy start for Poland's EU membership could hamper the EU's plans for further enlargement. Planned expansion to include Romania, Bulgaria and Turkey could suffer, as would the bloc's economic competitiveness. Poland's potential problems, whether in upholding EU food safety or in weaning its industry of subsidies, will loom larger than Greece's ever did; with a population of 38m, it is nearly four times that country's size.

Anticipating trouble, the EU has tried to insure itself. At the urging of the Netherlands' rightist-controlled parliament, the EU will insert a "safeguard clause" into new members' accession treaties for the first time. This will allow it to suspend their EU privileges in certain areas should they breach the single market's rules. The EU also plans to publish an additional monitoring report on new members next November.

But Poland itself stands to lose the most from poor preparation. Billions of euros in EU structural and farm aid are at stake, their availability depending on Poland's ability to prepare viable projects and muster matching funds. Polish companies will either flourish or flounder on entry to the single market.

With the first stage of accession unlikely to be smooth, public disenchantment with the EU could easily translate into an ugly political backlash. A year and a half before Poland's planned accession, Eurosceptic and anti-EU voices are already on the rise. "We could end up with a coalition headed by radicals, which would be a danger not just for Poland but the entire EU," says Marek Sarjusz-Wolski, editor-in-chief of Unia & Polska, a Warsaw magazine on Polish-EU affairs.

In fairness to the Miller government it is paying in part for the deficiencies of its rightist predecessor. Jerzy Buzek's government, which left office in October 2001, paid obsessive attention to Poland's joining date but neglected pre-accession homework. Mr Miller's cabinet has accelerated preparations despite a state budget squeezed by an appreciating currency and a slow economy.

The government is finishing a plan, originally scheduled for completion by end-2001, aimed at setting priorities for public projects that will tap EU aid. It is increasing staff in important ministries, border control and Poland's 16 regions, which will bear the heaviest burden of preparing projects to tap EU structural funds. Use of pre-access[illegible] aid under the EU's Phare progra[illegible] has risen to an impressive 95 per [illegible]. "There are no problems we don't want to or can't handle," insists Danuta Hübner, Poland's respected minister for European affairs.

Polish officials also point out that as the biggest candidate, the country's problems are bound to get the most attention. In October's annual report, the Commission – alongside its criticism of Poland's widespread corruption, weak judiciary and administration – also chided other candidates, including Latvia and Slovakia, for similar shortcomings. Poles bristle at being lumped with smaller countries such as Estonia, whose population is smaller than Warsaw's. "Why don't people compare Luxembourg with Germany or Belgium with France?" asks Ms Hübner. "We are a big country and by the nature of things have different problems [from those of] smaller countries."

The observation does not free Poland from the hard work ahead. Nor does it obscure the fact that Poland is the only one of the 10 new members big enough to make much impact on the EU. Chief among its problems preoccupying Brussels is Poland's deficient "administrative capacity" – the institutions and people needed to implement the single market's rules.

In fishing, Poland needs more inspectors to help manage EU quotas in the Baltic. In agriculture, the Rural Modernisation and Development Agency is several months late in setting up an EU-standard livestock and farm register. Failure of the system could jeopardise EU animal-tracking and food safety. Crucially for Poland, it could also threaten subsidies from the EU's common agricultural policy, the future level of which its negotiators are now debating with Brussels.

Perhaps not coincidentally, the agency recently faced claims that it doled out dozens of jobs based on affiliation with one of Poland's two ruling parties rather than on merit. After an uproar in the Polish press and inquiries from Brussels, Mr Miller ordered agency employees to pass a test. The move did not quiet many Poles' perceptions that core EU related functions are being reserved for party stalwarts.


Hopeful: Leszek Miller Reuters

Polish elections traditionally bring a restocking of administrative jobs as political spoils; since last year, Mr Miller's leftist-agrarian coalition has done so with unusual zeal. The economy ministry official handling restructuring of Poland's ailing steel sector – a sticking-point in its final EU negotiations – is a powerful leftist party member from the Silesia region, site of the biggest mill. The head of its widely criticised EU public information campaign is a former communist official who has admitted to collaborating with pre-1989 secret services.

Poland has suspended elements of its civil service law to allow political appointments, which the European Commission called a "backward step" in its October report. Warsaw's National School of Public Administration, modelled on Britain's Civil Service College and France's Ecole Nationale d'Administration, struggled to find jobs for nearly a quarter of its graduates this year, despite Poland's need for multilingual civil servants.

Poland's weak economic management is a potentially bigger worry. The Miller government promised an overhaul of the central budget, weighed down by costly social entitlements, when it took office. Spending needs to be pared back to make room for Poland's contributions to the EU budget and jointly financed projects and to maintain its ambitious goal of eurozone entry in 2006-7. The belt tightening is doubly important, as the new EU aid flowing into Poland will go directly to regional governments and projects, not the central budget.

Yet the government has made little visible progress on reforming public finance. Non-discretionary spending, for example on public sector wages, pensions and child allowances, accounts for nearly 70 per cent of total outlay. Some spending remains off-budget in state funds and agencies, where it is difficult to control.

Leszek Balcerowicz, central bank governor, points out that Poland's indicators for inflation, debt and the budget deficit outclass those of Spain, Greece or Portugal at an analogous stage before their eurozone entry. But economists dismiss the comparison, noting that those countries were already EU members, shouldering the financial burdens of membership. "They already had an EU fund[illegible]history," says Krzysztof Rybinsk[illegible], [illegible]ef economist with bank BPH-PBK. "In Poland, this big hit lies ahead of us."

A post-accession competitive jolt also looks likely for many big enterprises. Nearly 2,000 Polish companies, generating about a fourth of employment and GDP, remain in state hands. Politically driven appointments are the norm at many state-controlled companies and some of the state's political appointees have been mediocre or worse. Privatisation has slowed sharply under the Miller government, owing to bad market conditions and growing hostility to foreign capital.

Some unrestructured sectors, notably power generation, are likely to face tough competition after opening to the single market. But this year's only big potential investment, the planned sale of Warsaw's Stoen generator to Germany's RWE, is tied down in red tape after an uproar from populist MPs.

Poland's private companies remain a bright spot, showing productivity gains and resourcefulness on tough markets. Many are already exporting to the EU and stand to benefit from further trade liberalisation and Poland's adoption of EU rules and norms. "I think there will be more rational conditions for business than [have] existed so far," says Henryka Bochniarz, head of the Polish Confederation of Private Employers, a leading private sector lobby. "We should not be afraid."

But, she adds, the Miller government has been "going backwards" as regards improving Poland's overall business climate. Businesses face intrusive tax audits and ruling officials have lashed out at rich Poles and Poland's foreign-owned banks. Current conditions do not bode well for a Spanish- or Irish-style boom in FDI after accession.

In fact, some economists predict a political crisis in 2004, when Poland's government will have to enact politically sensitive budget cuts or an economically risky fiscal loosening. If so, parliament's two anti-EU parties, the leftist-demagogic Self-Defence and extreme nationalist League of Polish Families, will aim to profit. For Polish Europhiles – and nervous Eurocrats – a nightmare scenario would see one or more of these parties take power in 2005's national elections, if not sooner.

Poland is among its own toughest critics and Ms Hübner's office is working overtime to close some of the gaps in preparation. And the European Commission, to its credit, has learnt the negative lessons from Greece's accession. It is putting tighter checks on Poland's and other candidates' behaviour and preparing itself for what is likely to be a bumpy ride.

"The first four to five years will be difficult for the whole EU," a Commission official admits. "You can't change the culture overnight. It will be difficult. However, we know that. And they know that."

Athens: 'It could take another 10 years to get up to speed'

The showpiece building on Syngrou Avenue in central Athens, built with funds from the European Commission's first aid package for Mediterranean members, was intended to house an international conference centre. But a wealthy Greek shipping group diverted the European Union grant to build one of the capital's hottest night spots instead.

That was in the mid-1980s, when Greece was an uncooperative new arrival in the then-European Community, with a weakening economy and a deeply inefficient public administration. Although the European Commission's recommendation on Greece's membership application had been negative, European leaders overrode it, citing political and historical reasons for allowing accession talks to go ahead. "We were admitted because classical Greece was central to the idea of Europe, because membership would help boost political stability and because the Commission thought the economy was too small to have much impact," says Panayotis Ioachimides, head of the Athens think-tank Ekem and a government adviser on EU affairs. "But we were totally unprepared."

Greece, nicknamed the "black sheep" by frustrated Commission officials, was threatened with expulsion from the European club in 1990 unless the government moved to reduce inflation running at almost four times the EU average and a fiscal deficit worth more than 12 per cent of gross domestic product. Recalling attitudes in Brussels at that time, Vasso Papandreou, then Greece's EU commissioner, says: "Things were so bad, everyone around the table would take off their earphones when the Greek minister started speaking."

Greece is no longer an example to be avoided by EU candidates. As Greece prepares to take over the EU's rotating presidency in January, Costas Simitis, prime minister, can point to economic growth of 3.8 per cent of GDP, the second highest in the eurozone, and a projected deficit of just 1.1 per cent of GDP. Mr Simitis expects his country to be trusted with a bigger role on regional issues, such as easing Turkey's path to accession talks.

Greece has achieved its remarkable turnround since the mid-1990s, when the Socialist government at last launched a realistic convergence programme that resulted in a smooth landing in the eurozone in 2001. As the poorest member, Greece has received more than €35bn ($35bn) from Brussels since accession. Per capita GDP has risen from 51 per cent to 68 per cent of the EU average.

The weakness of Greece's public administration has been the biggest obstacle to building relationships with the Commission and using EU funds effectively, says Prof Ioachimides. Twenty-one years later, "we still have trouble co-ordinating across ministries and we lack a critical mass of high-quality civil servants with a European outlook," he says. "It could take another 5-10 years to get up to speed."

Yannos Papantoniou, who as finance minister steered Greece into the eurozone, says he overcame the administrative problem by putting political appointees into important posts. "We had to appoint competent people quickly to handle critical tasks – first fiscal consolidation and then the convergence programme," he says. "But it wasn't the best possible option because we weren't able to ensure continuity."

Greece still faces problems similar to those of the 10 current eastern European candidates for EU membership. The government's reluctance to cede control of vital economic sectors, together with the weakness of civil institutions, has slowed progress towards real convergence. Greece lags behind its western partners in environmental and competition policy and consumer protection. Transparency International this year ranked Greece the worst among EU member-states in its annual corruption report.

"We've established fiscal discipline and overcome the budget deficit problem," says Yannis Stournaras, an economist who represented Greece on the EU's monetary committee during the convergence effort. "But there's another deficit in values and attitudes that has still to be tackled."

In his current post as defence minister, Mr Papantoniou plans spending cuts and warns of the need to maintain fiscal discipline. "To establish credibility with the [Union's] big players, you have to be totally consistent on economic policy, especially on fiscal policy," he says.

Kerin Hope

F.T 9/12/02

DIVIDED ISLAND TURKISH AND GREEK LEADERS UNDER PRESSURE AHEAD OF COPENHAGEN MEETING ON EU ENLARGEMENT

Deadline to reach Cyprus deal nears

By Judy Dempsey in Brussels

Greek and Turkish Cypriot leaders are coming under immense diplomatic pressure to reach a deal over the divided island ahead of this week's historic summit of European Union leaders in Copenhagen.

Ten countries, including Cyprus, are expected to wrap up accession negotiations, paving the way for May 2004 when the largest expansion of the EU since its establishment over half a century ago will take place.

But while enlargement is almost a done deal, barring last minute haggling over the costs, particularly by Poland and Germany, Cyprus is not.

Diplomats yesterday were working around the clock to bridge the gaps between the Greek and Turkish Cypriot leaders over the United Nations plan drawn up last month by Kofi Annan, UN secretary general.

In Cyprus, Alfaro de Soto, Mr Annan's special envoy, met Rauf Denktash, Turkish Cypriot leader, for the first time in several weeks. Mr Denktash returned home at the weekend from New York, where he was recovering from heart surgery.

On his arrival in the northern part of the island, recognised as an independent republic only by Turkey, Mr Denktash said he had become "disenchanted" with the UN plan. "But we will continue to fight for our cause through negotiations," he added.

Mr Denktash had missed the UN's December 5 deadline to submit comments or reservations on the detailed 154-page plan. Glafcos Clerides, Greek Cypriot leader, had handed over his 30-page letter to the UN on time, only to take it back when he heard Mr Denktash had failed to respond.

With enormous cajoling from the UN and officials from Turkey's governing Justice and Development party, Mr Denktash last Thursday submitted a short letter. The following day, he took a flight to Ankara.

Diplomats said Turkey has a huge interest in clinching a deal over Cyprus this week. A deal could persuade EU leaders to give the pro-reform Justice and Development government a date for starting accession talks.

On the island, both sides have objections to a plan proposing a highly decentralised structure of power with a common government and two "equal component states".

The Greek Cypriots say the plan does go far enough in allowing the return of property seized in 1974 when the Turkish military invaded the north after an attempt by the then Greek junta to take over the island.

They also object to the rotating presidency and to the transition period, when the leaders of both sides will become co-presidents of Cyprus for three years. "The transition period is too long. It should be about one year," said George Vassiliou, Cyprus's EU negotiator and prominent political figure.

The Turkish Cypriots, or at least Mr Denktash's entourage, dislike the deal because it fails to give them what they have campaigned for since 1974: international recognition of two equal, but separate states, as well as resolving some issues over land.