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# Prospects for EU-US relationship: Talking points

For Poland, the economic and trade implications of EU-US relations are obviously related to their potential impact on the speed, scope and modalities of the country's future membership in the European Union.

This aspect is, in turn, linked to Poland's quest for a closer involvement in the global economy and its major underlying developments. Such linkages are determined by global economic dominance of US and EU and by intense competition between the two partners. It appears, that attitudes towards EU enlargement in EU member states will be – to a considerable degree - influenced by public perception of how much, and in what way, new members may affect EU strength in the interplay between the two majors. As the largest economy among the candidates, Poland is likely to receive particularly close attention in this respect.

A leader of transition, Poland had recognised quite early that the prospects of closer involvement of transition economies into the global industrial processes are determined by three major factors: the quality of systemic reforms and structural policies; success in attracting foreign capital; and the ability to pursue open and liberal interface with the external world. This recognition, clearly visible in the pattern of Poland's transition, has been greatly enhanced during the present accession negotiations and is generally well reflected in current and prospective public policies.

In her efforts to get closer to global industrial trends Poland, like other transition economies, faces an impressive range of challenges. Average industrial factor productivity still equals only about 40 per cent of the prevailing OECD levels. R&D spending per capita is twice as low as in Spain and eight times lower than in France or Germany. The technological life cycle of domestically produced manufactures is four times longer than the EU average. Foreign trade and current account imbalances put strain on monetary policies and external equilibrium. Resource intensive industries, originally developed to support an introvert economic environment, still represent excessively high opportunity cost, diverting scarce domestic resources away from more efficient applications.

Such problems are, by no means, specific to Poland alone. In fact, they may look even more seriously in some other countries of the region. Trade performance appears to be a convenient and valid indicator of competitive position of the region vis-à-vis global environment. From this perspective, the distance, which still separates transition economies of the region from prevailing international structures of output and trade in manufactures in industrially advanced countries, is enormous. In fact, the total value of such exports recorded by all transition economies combined, was in 1998 lower than the corresponding figure for just Belgium and Luxembourg alone.

These facts notwithstanding, substantial progress has been made in recent years in product composition and technological sophistication of industrial output by the leading candidates for EU membership. Similarly positive developments have occurred also in the services sector. This phenomenon should be attributed, first and foremost, to a closer interaction with the European market, both in trade and in direct investment.

As trade is becoming an increasingly important factor for new market economies of Central and Eastern Europe, these countries identify more clearly their stakes in the credibility and effectiveness of the multilateral trading system embodied in the WTO. For them, the multilateral framework provides a much needed sense of increased security against uncertainties caused by globalization processes, in which they are only marginal players. The failure of the Seattle ministerial was a painful demonstration of the vulnerabilities faced by the system.

Such vulnerabilities seem to have their most important roots in conflicting interests and approaches separating US from EU in the WTO. The impression one may get from a series of developments since the Uruguay Round is that US attitudes towards the multilateral trade framework have become less engaged. Also certain well known aspects of EU economic and trade regime are causing friction. In balance, however, EU position in favour of a comprehensive approach to the WTO negotiating agenda has been closer to the hearts and minds of CEE candidates for EU membership. The prospects of being drawn into EU-US controversies over commercial policies in the pre-accession stage cause concern in these countries.

Searching for their improved place in the world economy, Poland and other CEE candidates for EU membership are also faced by important bilateral considerations. They have to recognise, that in the pre-accession period, the United States, Japan and other most-favoured-nation trading partners may feel increasingly insecure about the worsening of their competitive position relative to more favourable conditions of entry for EU and other preferential suppliers.

One should admit, at this juncture, that the EU partners do not seem to have ever encouraged CEE countries to maintain differentials between their national levels of trade protection and generally lower external Community border measures. In fact, the alignment in import policies after accession will be beneficial for the United States and other external suppliers.

General trade orientation of CEE economies, may therefore be recognised as perhaps excessively focused on Europe, at the expense of overseas partners. Such, at least, is a conclusion, that may be drawn from the Polish experience.

Another dilemma facing CEE economies relates to the sourcing of foreign direct investment. So far, the prime consideration was to obtain the largest possible inflow of resources. US investors have taken top positions among foreign investment partners in most of these countries. Now, however, recipient countries have to see this process also in the light of future EU enlargement. This does not imply discrimination against non-European investors, which would be obviously inconsistent with WTO and OECD commitments, and also incompatible with EU practice. Nevertheless, in their own and autonomous decisions, local businesses in CEE countries are likely to be increasingly oriented towards closer investment relationships with EU-based multinationals, as the most effective way to get closer involved in the global economy.