https://doi.org/10.18778/1508-2008.9.12

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Improving Business Environment in CEE Countries as a Factor of Their Membership in the European Union. Comparative Aspects between Poland, Czech Republic, Slovakia and Hungary

Abstract

The chapter focuses on the comparison of the most important macro- and micro- determinants shaping the business environment in CEE countries in the period before the membership in the EU. The paper will examine and compare the most important effects of the internalization and modernization processes in the analyzed countries with special reference to:

- *structural changes in foreign trade, FDI and GDP formation, indices of competitiveness on the European internal market in relation to the EU market openness (reduction of tariffs barriers and quantitative restrictions for industrial products) and to their adaptation to external tariffs level and EU common trade policy,*
- *macro-economic stability -adaptation to Economic and Monetary Union convergence criteria,*
- *changes in the level of enterpreneurship measured by the activity of SME's enterprises,*
- *changes in the level of innovativeness of SME's,*
- *main demand's and supply's barriers in the SME's activity,*
- *barriers and stimulators in the creation of innovation in SME's,*
- *adaptation of SME's to international norms and standards quality and ecological).*

Introduction

The aim of the paper is to compare the most important macro- and micro-determinants shaping the business environment in CEE countries in the period before the membership in the EU. The paper will examine and compare the most important effects of the internalization and modernization processes in the analyzed countries with special reference to:

- structural changes in foreign trade, FDI and GDP formation, indices of competitiveness on the European internal market in relation to the EU market openness (reduction of tariffs barriers and quantitative restrictions for industrial products) and to their adaptation to external tariffs level and EU common trade policy;
- macro-economic stability -adaptation to Economic and Monetary Union convergence criteria;
- changes in the level of enterpreneurship measured by the activity of SME's enterprises;
- changes in the level of innovativeness of SME's;
- main demand's and supply's barriers in the SME's activity;
- barriers and stimulators in the creation of innovation in SME's;
- adaptation of SME's to international norms and standards quality and ecological).

As a result of the twin processes of economic transformation and integration with the Western European structures, the CEE countries analyzed herein have already:

- almost totally opened their economies to the flow of manufactured goods and products, (free trade area has been established finally in 2002year);
- are significantly advanced in the step-by-step process of opening the foreign trade market to agricultural products in accordance with the CEFTA and Association Agreements. With regard to the services market the mandated liberalization process required;
- fully opened the capital market for FDI, portfolio investment flows and short term capital flows, nearly fully opened to flows of services, (the immediate introduction of a *national treatment clause* applicable to construction, consulting, and transportation (road transportation, with the exception of cabotage between the CEE and EU countries) and financial (banking and insurance) services, as well as the conclusion of liberalization of the telecommunications industry and in transactions involving the delivery of high-tension electricity and natural gas.

THEORETICAL FRAMEWORK

Assessment of the economic effects of European integration concerns the study of the impact of individual phases of the integration process on the behaviour of companies and the degree of their reaction to the reduction of the extent of national regulations and the emergence of the new extent of supra-national regulations such as the common level of protection of the integrated market, common rules of differentiating the degree of preference in access to the common market assigned to companies from third countries, the common technical, ecological, quality, veterinary, sanitary, goods safety norms and standards and the common rules of recognising goods on a uniform market, common competition rules including common uniform opportunities of using the financial resources and funds supporting business activity (especially the activity of small and medium enterprises regarding their investment activity). Investments which are important from the point of view of the entire organisation play an important role in this area, such as pro-ecological investments or investments in the development of the scientific, research domain, facilitating the improvement of the innovation of the companies and the economy of the entire organisation.

Micro-economic effects disclose themselves in individual phases of the integration processes, i.e. during the phase of creating a free trade area and customs union, the common market phase and during the process of implementing economic and currency union (Molle W., 1995).

The integration theory mentions the internal and external integration benefits for companies in candidate countries. Under this theory integral benefits include: (1) an increase in the size of enterprises and their expansion opportunities leading to the achievement of better negotiating positions, easier and more advantageous access to capital, the more efficient utilisation of labour resources, better opportunity of mobilising funds for innovation and the acquisition of a better position on the domestic and foreign market; (2) the opportunity of acquiring results by permanent, practical learning of producing more effectively a larger volume of more competitive products (the so called *learning by doing* effect - Molle W.,1995, Pelkmans J., 2001, pp. 68-199).

The external benefits for companies operating in the integrated area result from the inter-penetration of economic effects. When an enterprise gains a better position on the market thanks to Customs union, this positive effect is spread further on to suppliers and customers' companies co-operating with this enterprise, stimulating them to implement technological and product innovations. The integrated market also accelerates the exchange of technological '*know-how'* between companies.

The elimination of administrative, technical and fiscal barriers is characteristic for the next phase of integration, i.e. the common market. This forces changes in the behaviour of companies operating in member states of the organisation. The process of creating a common market activates the macro- and micro-economic connections in the economy, which on one hand enables benefits to be accumulated and on the other hand creates social and economic costs.

The macro-economic mechanisms set the framework, within which the enterprises function influencing their benefits and costs balance. These mechanisms operate in the following manner (Wysokińska Z, Witkowska J. 2002, p.151-152). The progress of the integration process through increased competition has an impact on the reduction of production costs and the reduction of prices. Lower prices then create an increase in the purchasing power of the population, which stimulates demand and therefore stimulates economic growth. At the same time the reduction of costs and prices enables the benefits in the area of price-cost competitiveness to be discounted and this in turn is reflected in an improved trade balance and increased gross domestic product. The liberalisation of the financial market brings about the reduction of banking costs, credits become cheaper, funds for enterprise investment increase, which through the higher dynamics of investment on a macro scale has an impact on the growth of GDP. The growth of GDP, which is a joint effect of the above mentioned connections leads to an improvement of the condition of public finances. The growth of GDP is also accompanied by the creation of new employment.

The operation of macro-economic mechanisms can be affected by the emergence of certain factors reducing the impact of the above mentioned connections. They include inflation and increased imports accompanying the growth of GDP. The other weakening factor concerns the loss of jobs as a result of the elimination of border controls and increasing labour efficiency.

EMPIRICAL ASPECT OF THE CEE COUNTRIES INTEGRATION WITH THE EUROPEAN UNION

The Candidate Countries have achieved a high degree of macro-economic stability and positive results of structural reform. This has resulted in market opening, accompanied by significant industrial and foreign trade restructuring. They have also made progress in modernizing their institutional, legal and administrative environment. A key factor in their adaptation is ensuring and maintaining high levels of investment in order to improve overall performance,

creating the conditions for economic convergence and grater cohesion. One of the most important aims of the Lisbon agenda is the promotion of entrepreneurship, knowledge industries and the diffusion of new ideas and technologies in the Candidate Countries. The most crucial aim during the accession period was the adaptation of enterprises in the CEE's to the competition in the European Internal market. Open markets and greater competition has stimulated innovation and helped business to grow.

As a result of the twin processes of economic transformation and integration with the Western European structures, the CEE countries analyzed herein have already almost totally opened their economies to the flow of manufactured goods and products, (free trade area has been established finally in 2002year), fully opened the capital market for FDI and portfolio investment flows, nearly fully opened to flows of services, and are significantly advanced in the step-by-step process of opening the foreign trade market to agricultural products in accordance with the CEFTA and Association Agreements. With regard to the services market the mandated liberalization process required the immediate introduction of a *national treatment clause* applicable to construction, consulting, and transportation (road transportation, with the exception of cabotage between the CEE and EU countries) and financial (banking and insurance) services, as well as the conclusion of liberalization of the telecommunications industry and in transactions involving the delivery of high-tension electricity and natural gas.(Wysokińska Z., Witkowska J. 2002).

In 2003 the CEE candidate countries will join the customs union within the EU. It means:

- the adoption by them of all the instruments and rules of the EU common trade policy towards third countries, including especially the Common Customs, other Community instruments of regulating the trade exchange with abroad (third countries) and the developed system of agreements with trade partners. For example in the case of Poland it means the reduction of customs duties by ca 3,6%.-from 6,2% to 2,6%) after joining the EU.(Kawecka-Wyrzykowska E., 2003)[1];
- Complete liberalization of trade in agricultural products between Poland and the EU;
- Strengthening and improving the control of goods on the eastern border, which will become the external border of the EU.

[1] The average level of most-favored nation treatment rates (weighed by the structure of imports from countries which already enjoy this preferential treatment and will keep it after joining the EU.

STRUCTURAL ADJUSTMENTS IN THE CEE COUNTRIES

In the 1990's the countries of Central and Eastern Europe implemented policies of fundamental reorientation in foreign trade, shifting the direction from the East (the former Soviet Union and satellite countries) to the West (primarily the European Union). This was closely connected with the fact of signing Association Agreements between the CEFTA countries and the European Community and EFTA.

As result of both processes: economic transformation and integration with the EU it has been established the free trade areas between the Candidate countries and the EU, CEFTA and EFTA. The CEE countries also have fully opened their capital market for FDI and portfolio investment flows:

During the decade of 90 there are observed the following trends in the examined CEEs:

- the total export in Poland, Czech, Republic, Slovakia increased ca.2,5 times and in Hungary ca.3 times;
- the total import in Czech Republic, Slovakia increased ca. 3 times, in Hungary: 3,3 times and in Poland ca. 5 times;
- the share of sensitive products' export of (coal, steel, textiles and agriculture products) from the CEE countries to the EU was deeply reduced during the last decade (1990-2001):

  coal: in Poland from 8,1% to 3,8% ; in the Czech Republic and in Slovakia) from 3,2% in the former Czecholovakia to 1,0% in the Czech Republic and to 0,01 in Slovakia; in Hungary: from 0,21% to 0,0%

  steel: in Poland from 7,4% to 2,5%; in the Czech Republic and Slovakia from 13,3% in the former Czechoslovakia to 3,0% in the Czech Republic and to 5,9% in Slovakia

  textiles: in Poland from 15,9% (1992) to 9,8%; from 9,3% in the former Czechoslovakia to 6,7% in the Czech Republic and 6,1% in Slovakia; in Hungary from 13,9% (1992) to 6,1%

  agriculture products: in Poland from 18,3% to5,4%, in the former Czechoslovakia from 7,9% to 2,2 in the Czech Republic and 1,2% in Slovakia; in Hungary from 28,4% to 4,3%
- The total stock of FDI in billions of USD∗in (2001) achieved the level:

  in Poland; 41,0 in the Czech Republic 26,7; in Hungary: 22,8; in Slovakia: 4,7

- The stock of FDI (2001 *per head in Eur*) was:

the highest	in the Czech Republic and amounted to:	2 284
	in Hungary it achieved:	1 897 (2000)
	in Poland:	952
the lowest	in Slovakia and amounted to:	521

- FDI stocks as a percentage of GDP in 2001 achieved the **highest level** of **53 % in the Czech Republic;** 45% in Hungary; 26% in Poland; **the lowest level** of **23 % in Slovakia.**

The restructuring of the CEE countries' economy and its growing competitiveness, particularly observable in the operations of foreign-owned enterprises, contributed to structural changes in their foreign trade (J. Witkowska, 2001). Structural changes in the foreign trade of the CEE countries and in their export competitiveness based on calculations of the RCA index are presented in Table 1 and 2.

Table 1. Structural adjustment according to factors endowment in CEE countries 1995-2000 in %

	1995				2000			
	Import		Export		Import		Export	
	Total	From EU	Total	To EU	Total	From EU	Total	To EU
POLAND								
Total in %/	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
resource intensive commodities	22,14	11,72	22,53	19,22	19,44	8,31	15,61	13,99
labor intensive commodities	24,72	29,03	35,67	41,46	21,72	25,82	33,98	36,46
capital intensive commodities	14,00	16,19	19,59	19,45	16,71	20,17	20,83	21,05
technology intensive commodities easy to imitate	17,39	16,83	6,31	5,18	19,00	19,66	7,69	7,04
technology intensive commodities difficult to imitate	21,42	26,02	15,86	14,64	22,98	25,92	21,87	21,44
CZECH REPUBLIC								
Total in %/	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
resource intensive commodities	17,12	8,35	14,03	13,30	16,32	4,41	8,05	4,52
labor intensive commodities	21,45	23,82	32,07	36,16	21,35	14,38	26,62	18,81
capital intensive commodities	17,85	17,95	21,83	19,38	18,28	12,66	23,30	15,95
technology intensive commodities easy to imitate	16,20	15,71	8,72	7,88	16,43	10,71	8,18	5,10
technology intensive commodities difficult to imitate	26,20	33,38	21,71	22,46	27,59	19,75	23,87	17,35
SLOVAKIA								
Total in %/	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
resource intensive commodities	24,10	11,05	14,94	11,14	10,16	1,41	4,72	1,59
labor intensive commodities	16,00	17,06	28,51	38,27	7,55	4,36	9,16	5,80
capital intensive commodities	16,59	16,84	28,45	23,48	7,49	4,63	12,99	8,42
technology intensive commodities easy to imitate	16,49	21,44	11,29	9,24	5,31	2,80	3,44	1,58
technology intensive commodities difficult to imitate	19,78	32,73	14,43	15,60	8,79	6,02	6,29	4,25

Table 1. Structural adjustment according to factors endowment in CEE countries 1995-2000 in % – continuation

	1995				2000			
	Import		Export		Import		Export	
	Total	From EU	Total	To EU	Total	From EU	Total	To EU
HUNGARY								
Total in %/	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
resource intensive commodities	20,12	7,44	26,34	21,93	12,53	2,51	9,03	4,64
labor intensive commodities	24,40	31,19	24,95	30,55	18,98	13,52	15,12	11,52
capital intensive commodities	16,56	15,87	15,80	12,77	14,92	9,84	12,11	9,43
technology intensive commodities easy to imitate	17,54	18,54	15,18	14,22	20,46	11,86	26,64	19,05
technology intensive commodities difficult to imitate	21,36	26,94	17,69	20,48	32,59	20,45	24,19	20,83

Source: Own calculations based on UN-COMTRADE-database. Technical remarks: I resource intensive commodities=0+(2-26)+(3-35)+4+56; II labor intensive commodities =26+[6-(62+67+68)]+[8-(87+88)]; III capital intensive commodities=1+35+53+55+(62+67+68)+78; IV technology intensive commodities easy to mitate=51+52+54+57+58+(59-593)+(75+76); V technology intensive commodities difficult to imitate =593+[7-(75+76+78)]+(87+88).

Table 2. Competitiveness index of 5 groups of products calculated by factors endowment in foreign trade of Vishehrad countries with the EU

Competitiveness index for 5 groups of products in foreign trade of Vishehrad countries with the EU Bilateral Exports of separate CEE country with the EU		POLAND		CZECH REPUBLIC		SLOVAKIA		HUNGARY	
	Commodi-ties' groups	1995	2000	1995	2000	1995	2000	1995	2000
$P_{ik}=e_{ik}/e_i - e_{ik}^j/e_i^j$	I	3,30	1,63	0,73	1,62	3,80	5,55	4,41	3,27
	II	-5,79	-2,49	-4,09	-0,89	-9,76	-1,77	-5,60	-0,23
	III	0,14	-0,22	2,45	0,04	4,98	-3,41	3,03	-0,50
	IV	1,13	0,65	0,83	0,83	2,05	2,11	0,96	1,49
	V	1,22	0,43	-0,75	-1,60	-1,17	-2,48	-2,79	-4,03
$RCA = \frac{X_{ij}}{\sum_{i=1}^{n} X_{ij}} : \frac{X_{ij}}{\sum_{i=1}^{n} X_{mw}}$									
	I-	0,76	0,61	0,53	0,32	0,44	0,32	0,87	0,31
	II	1,93	1,93	1,68	1,61	1,78	1,42	1,42	0,93
	III	1,99	2,34	1,98	2,87	2,40	4,32	1,31	1,60
	IV	0,39	0,48	0,60	0,57	0,70	0,50	1,08	2,00
	V	0,69	0,86	1,06	1,13	0,74	0,79	0,97	1,28

I - resource intensive products,
II - labour-intensive products,
III - capital-intensive products,
IV - technology-intensive products easy to imitate,
V - technology -intensive products difficult to imitate.

Source: own calculations based on UN-COMTRADE database.

Analysis presented in Table 1 and 2 shows that export restructuring that occurred in the CEE countries in the 1990s should be evaluated on the whole as positive. The reduced participation of raw material-intensive industries and sectors, typical of underdeveloped economies, aimed to retain a relatively high share of labour-intensive sectors due to CEEs comparative advantage resulting from labour costs lower than in the developed countries. Yet, in 1998 that share contracted which proved a gradual loss of the competitive advantage of labour intensive goods exported to industrialised countries under the so-called outside processing (with special reference to Hungary and in Poland because of growing additional costs of labour).

A more detailed analysis of changes in the pattern of the RCAs in the CEEs export to the EU during 1995-2000 leads to the following conclusions:

- in Poland and Slovakia we can observe an increase in the index of investment-based capital-intensive products with special reference to FDI;
- only in Hungary and the Czech Republic a positive increase in RCA in technology intensive products can be observed (level >1 in the year 2000);
- all of the three researched countries (Poland, Czech Republic and Slovakia are still high labour –intensive, but in Hungary RCA is declining in this group and increasing in technology-intensive products) (see Table 2).

Comparison of macroeconomic stability indices n Poland, Czech Republic, Slovakia and Hungary in the pre-accession period

The comparison of macroeconomic indicators for the years 2000-2001 provide following conclusions:

- The most successful in reducing the inflation rate were Poland and the Czech Republic (about 5.0%);
- The lowest budget deficit as a % of GDP were achieved by Slovakia (-2.8%) and the Czech Republic (-3.1%);
- The highest gross foreign debt of the whole economy (as a percent of the export of goods and services) could be found in Poland (79.2%) and in Hungary (72.5%);
- The highest GDP growth in real terms experienced Hungary, the Czech Republic, the lowest was in Poland (especially in the year 2001 - ca 1%);
- The highest level of the GDP/*per capita* (PPP) in the year 2001 was achieved by the Czech Republic (over 14 000 USD) and Hungary (13 000 USD plus) as well as Slovakia (over 12 000 USD), the lowest could be found Poland (more than 10 000 USD);
- The unemployment rate was the lowest in Hungary (ca 6%) and the highest in Poland (ca.18%).

Table 3. Main Economic Indicators for Vishehrad CEE countries

	Czech Republic			Slovakia			Hungary			Poland		
	1997	2000	2001	1997	2000	2001	1997	2000	2001	1997	2000	2001
Real GDP growth rate/%	-1,0	3,2	3,3	5,6	2,2	3,3	4,6	5,2	3,8	6,8	4,0	0,9
GDP/per capita/ in US$	5147	5085	4859	3616	4342	3871	4475	5230	4961	3510	4577	4153
GDP/per capita(ppp) in US$		14331	14845		16400	12390		12507	13283		9685	10269
Inflation rate (annual average) %	7,2	3,9	5,2	6,6	6,2	5,4	18,3	10,0	8,9	14,0	10,1	5,3
Interest rate (average) in the banking sector	13,2	7,2		18,7	14,9		21,8	12,0		25,0	20,0	
Unemployment rate (%)	4,8	8,8	8,1	10,9	18,6	19,2	8,7	6,4	5,7	10,3	15,1	17,4
General government budget balance -% of GDP	-0,9	-2,4	-3,1	-4,3	-3,0	-2,8	-4,5	-3,5	-5,4	-1,3	-2,1	-4,3
Gross foreign debt of the whole economy Percent of exports of goods and services) Gross foreign debt of the whole economy/GDP(%)	42,5	38,1	26,5	53,7	45,6	33,4	116,3	72,5		110,7	79,2	
FDI inflow (balance of payments data) in billion EUR	2,5	9,8	8,7	0,15	2,3	1,4	4,8	3,6	4,7	3,4	5,9	3,2
Stock of FDI in billions of USD*			26,7			4,7			22,8			41,0
Stock of FDI per head in EUR			2 284			521			1897 (a)		952	

(a) –data refer to 1999.

*CANSTAT, Statistical Bulletin 2002/3,GUS/2001, p.37.

LEVEL OF INTERNALISATION AND INNOVATIVENESS OF SMES

Poland, Czech Republic; Slovakia and Hugary has made the substantial progress in strengthening the institutional and administrative framework for support to the SMEs sector (Regular Reports for Poland, Czech, Republic, Slovakia and Hungary) - http://europa.eu.int/comm/enlargement/report2002/.

As at the end of 2001 there were almost 3.4 million enterprises registered in Poland, of which 99.8% were SMEs. According to estimates about 1.8 million of enterprises, out of the total number, are in fact conducting their business activity.

In comparison with 1990 the number of SMEs increased by almost 330%. Now the SMEs sector employs about 66.4% of the total labour in the national economy (except for agriculture, forestry and fisheries).

Research conducted in Poland by the Central Statistical Office shows that the level of innovativeness in industrial organizations declined regularly in the second half of the 1990s (from 37.6% in the years 1994-96 to 28.9% in 1997-98, but in the period 1998-2000 only to 16.9%). This highly unfavorable trend gives rise to doubts, whether the enterprises will be able to compete on the European Single Market. For the sake of comparison, the level of innovativeness in the EU countries is significantly higher, being on average ca 51%, and characterized by a substantial spread: from 26% in Portugal to 74% in Ireland.[2]

An export-based assessment of SMEs' internationalisation shows that SMEs operate mainly in local markets. Only about 14 thousand firms are involved in exports (0.7%.of the total number of Polish SMEs). At the same time, an increase in their activities in foreign markets has been noted in recent years. Export of goods in the SMEs sector in 1993-2000 increased over USD 3 billion, up to about USD 14.6 billion, and import from USD 6.7 billion to over USD 30 billion. The highest level of turnover was achieved in markets of the developed countries. Despite positive results the share of the SMEs sector in total export decreased from 47.7% in 1999 to 46.1% in 2000, and regarding import it decreased from 65.4% to about 61.3% over the same period. The drop of the sector's share in total export was mainly caused by increased exports of large enterprises (Report by the Ministry of Economy, Labour and Social Policy in Poland, 2002).

Main barriers to the access of export to the European Internal Market of SMEs in the CEE countries:[3]

[2] Based on materials developed by the Ministry of Economy, www.mg.gov.pl.

[3] Based on: Enterprises created in five countries of first pre-accession group: GUS, Warsaw, 2001.

Demand-related:

- Insufficient amount of start-up capital: Poland – 57.3%, Czech Republic – 71.9%, Hungary: 32.7%;
- strong market competition: Poland 79.0%; Czech Republic: 53.2%; Hungary: 59.9%;
- underdeveloped management of marketing: Poland 21.7%, Czech Republic: 25.3%, Hungary 5.5%.

Supply-related:

- Technological: Poland – 7.6%; Czech Republic – 5.3%; Hungary – 5.6%;
- Scarcity of financial sources: Poland: 71.7%; Czech Republic: 69.1; Hungary: 78.5%;
- Limited availability of loans: Poland – 33.3%; Czech Republic – 27.4%; Hungary – 16.8%;
- Limited availability of well-skilled staff: Poland – 10.8%; Czech Republic – 11.8%; Hungary – 7.0%.

Quality and environmental norms and standards as barriers to the adjustment of SMEs exports to the European Internal Market are also important. In Poland the number of ISO certificates is still relatively low compared with the EU Member States. For the total number of 3.4 million registered companies only 2,854 have been awarded ISO 9000 or ISO 14000 certificates, whereas in Germany there are 45,000 companies that hold such certificates, and the UK has 70,000 companies with ISO certificates (as of the end of 2001).

Among Polish companies holding ISO 9000 or ISO 14000 certificates 6.8% are small firms and 14.1% are medium-sized. Respectively, 8.2% and 6.1% of those companies are planning to apply for the certificates. It is worth noting that in Poland emphasis is placed on ISO 9000 certificate relating to product quality, disregarding the value of environment management certificates. Enterprises make much less effort to introduce integrated management systems, i.e. management of quality, environment and work safety (Strategic Operational Program- 2002).

During the period of 1995- 2000, the number of ISO standards in Poland increased from 130 to 2,075, but in the same period Czech entrepreneurs were granted 3,855 ISO 9000 certificates and in Hungary-4672 (M. Moszkowicz, 2002, T. Żylicz, 2003).

The reduced share of resource- and material-intensive goods in relation to overall exports was also connected with the application of international and EU environmental norms and standards to such products. For example, the share of

goods classified as posing "environmental hazards" in Poland's overall export fell from 50% in 1992 to 44% in 1999, in the Czech Republic from 52% to 48% and in Hungary from 32% to 25%, as a result of increasing compliance with EU standards (Z. Wysokińska, 2001).

Financial results of the above firms give rise to fears, whether the majority of firms, especially the small and medium-sized, will be able to stand up to competition in the Single Market. After Poland has joined the EU customs zone, some firms, mainly those threatened by imports of products from the third countries, will have to be more dedicated to restructuring in order to match the building up competition. Those that import their components from the third countries will be able to pay more competitive prices, thus improving their price competitiveness. In the process of gearing up for competition in the Single Market, enterprises should make another significant restructuring effort to reduce costs of production and to upgrade it, as well as adjust themselves to EU and international norms and standards (ISO). Macro economic research shows that although the number of 139 ISO 9000 certificates issued in Poland in 1995 grew to 2,075 in 2000, in the same year the Czechs held 3,855 certificates and the Hungarians – 4,672 (M. Moszkowicz, 2002). Polish firms meeting European standards will be able to expand their sales in the Member States and to keep their slice of the domestic market that will become part of the Single European Market. This will allow them to enlarge their volumes of production and to reduce unit costs even more. Those organisations that will fall short of the requirements will run the risk of liquidation. Polish enterprises should also focus their actions and efforts on seeking market niches and establishing co-operation with EU firms as suppliers and co-operating organisations, which might enhance development of the intra-industry trade.

CONCLUSIONS

- The four Candidate Countries have achieved relatively high degree of macro-economic stability and positive results of structural reform.
- This has resulted in market opening, accompanied by significant industrial and foreign trade restructuring.
- A key factor in their adaptation is ensuring and maintaining high levels of investment in order to improve overall performance, creating the conditions for economic convergence and grater cohesion.
- The most important task during the pre-accession period is the adaptation of SMEs in CEE' countries to the competition in the European internal market.

A big number of them are characterized by rather very small level of internalisation, innovativeness and adaptation to the international and EU norms and standards and it gives rise to doubts, whether the SMEs will be able to compete on the European Single Market.

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