

# ***A Comparative Study of the Change of the Economic Model of Poland after 1989 and China's Reform and Opening up***

**Jerry Haotian Chen<sup>1,a,\*</sup>, Mingjun Song<sup>2,b</sup>, Guangqian Tang<sup>3,c</sup>, and Hongzhe Zhu<sup>4,d</sup>**

<sup>1</sup>*Shenzhen College of International Education, Shenzhen, 518043, China*

<sup>2</sup>*The High School Affiliated to Renmin University of China, Beijing, 100080, China*

<sup>3</sup>*Guangdong Country Garden School, Foshan, 528312, China*

<sup>4</sup>*Suzhou Dulwich International High School, Suzhou, 215021, China*

*a. s23750.Chen@stu.scie.com.cn, b. songmj0218@163.com,*

*c. 2119605392@qq.com, d. augus\_zhu@pushsoft.cn*

*\*corresponding author*

**Abstract:** The former socialist countries of the Cold War have undergone a transition from planned economies to market economies in the context of economic globalization. This is a significant phenomenon that deserves scholarly attention. The paper focuses on Poland and China as two examples of different reform models, paths, and ideologies. A comparative analysis based on factual data is conducted to explore their transition process and outcomes. The results show that the path of transition each country has chosen has both similarities and differences. Both countries have faced various difficulties and opportunities in their reforms, and have adopted different policy measures to improve their domestic development. The conclusion suggests that there is no single optimal model for economic transition, but rather a diversity of choices and trade-offs that depend on the historical, cultural, and political factors of each country. In conclusion, Poland and China are two examples of countries that have undergone significant economic transitions in the past four decades. They have similarities and differences in their economic structure before the transition, their process of the transition, their growth in the past four decades, and their political and systematic factors in the transition. Their experiences provide valuable lessons for other countries that seek to achieve economic development.

**Keywords:** China, Poland, economic transition, reform and opening up

## **1. Introduction**

The transitions from planned economies to free market economies have led to significant economic achievements in both Poland and China. This paper aims to explore and compare the economic transformation of these two countries.

Currently, China and Poland have experienced huge successes in the development of their economy which GDP has increased 50 times and 10.5 times respectively, from 1990 to 2022. While Romania increased 7.5 times, Russia only increased 4.2 times, and Germany merely increased 2.3 times in this period [1]. Furthermore, Poland had an unemployment rate of 3.3% in 2019 which was a relatively low number compared to 4.6% in Russia, and 3.9% in Romania; on the other hand, China has constructed a complete industrial system including some high-end semiconductor industry [1].

Moreover, Poland's and China's HDI have increased from 0.716 to 0.876, 0.484 to 0.768 respectively, during this period [1]. Those data indicate that China and Poland are obviously successful in turning the planned economy into a free market economy. Based on the aforementioned information, it is important to help employers and some Trans-national Cooperations (TNCs) to understand the differences in policies and economic development models between Poland and China, since these two countries are still tempting to foreign companies via their rapid development. It is also beneficial for economic globalization and local economic development as well, by doing these.

In terms of the research completed currently, those papers have revealed the reformation of education system in both Poland and China: both Poland and China have carried out educational system reforms after their economic reform, which improve the quality of education and promote innovation; the change in the economic development models of two country: Poland has adopted a free market economy to stimulate the development of Polish enterprises, while China opened up policies to attract foreign capital which came with their high-end technology; the gap between urban and rural area in both country: both Poland and China have experienced economic growth during the reform process, but there is still a problem of urban-rural development gap, and China's gap is more significant than Poland's [2].

When it comes to the research significance, this paper should enable readers to know how Poland and China transit their economic structure, and a brief history of the economic development of these two countries in the period of 1980 to 2020; plus, it should also compare Poland's and China's economic development model, and define which one is more successful. To do these, this paper would be a comparative study between Poland's and China's economic development and society after the cold war, and the research approaches in this research are analyzing and comparing the economic transformations of Poland and China after the end of the Cold War, and it would use literature survey and case study.

This research, generally, would compare the economic development and societal changes in Poland and China by the end of the cold war and after the cold war. Furthermore, the research would highlight the differences between Poland's and China's economic development models and assess the performance of their economies in the present day.

## **2. The Economic Transition in Poland**

### **2.1. The Economic Structure of Poland Before 1989**

After World War Two, the Republic of Poland, which later developed into the Polish People's Republic in 1952, a communist regime led by the Polish United Workers' Party was formed with the aid of the Soviet Union and election manipulation to a certain degree [3]. A centralized planned economy structure was thus formed, and agricultural reform and nationalization reform were to be in the process [4]. Unlike other East European countries that conformed to the Soviet pattern constantly, Gomułka, the leader of Polska Zjednoczona Partia Robotnicza (PZPR), tried to go on a "Socialist path with Polish characteristics", including decentralization of economic power and switching its priority from heavy industry to light industry and agriculture, after the economic crisis caused by copying the Soviet Model in the mid-1950 [5]. However, this reform was ceased by the intervention of the Soviet Union in 1959, giving the state back to the Soviet Model. Despite being a satellite country of the Soviets, it was still considered to be the least socialist-like socialist country, with low collectivization in farming and a delayed nationalization [6, 7].

### **2.2. The Process of Transition**

Due to the consistency of the Marxian economy with central planning and refusal of funding from the West, Poland suffered from great inflation and financial deficit, as shown in Table 1 [8].

Table 1: Great inflation and financial deficit.

Year	Inflation Rate [% per year]	Financial Deficit [ % of GDP]
1980	88.3	7.9
1981	92.5	10.9
1982	71	10.2
1983	44	9.7
1984	17.9	7.9
1985	19.5	7.4
1986	37.9	8.5
1987	28.3	8.8
1988	62.5	9.5
1989	586	9.5

Everything in Poland was in shortage [8]. Soon public outrage increased, and Solidarity, an anti-communist trade union won the parliament election in 1989, which is considered to be the first unmanipulated election. After gaining dominance, the new Third Polish Republic started its transition, a Market-oriented one. This is considered to be gradualism, including the privatization of national firms and marketization, from 1990 to 1991, named the “Balcerowicz Plan” and almost gained all parties’ support [9]. Price liberalization, currency convertibility, and the phasing out of subsidies for public firms were imposed during this phase. Also because of that, inflation was brought under control, and the currency was stabilized [8]. The GDP of Poland raised from 66 billion to 85 billion, and people’s lives were significantly improved [8].

### 2.3. The Recession in the First Decade

However, the “Balcerowicz Plan” also led to a sharp decline in economic output. The contractionary macroeconomic policies brought up the unemployment rate and poverty rate since there were fewer investments and job opportunities on the market [10]. Due to the fall of Soviet power, the Sovét Ekonomícheskoy Vzaimopómoshchi (CEMA), where Poland could gain oil and other commodities from other communists country at a low price no longer exists. The rise in the cost of production decrease the aggregate supply and GDP fell by 12% in 1990, while unemployment rose to 12%. The deregulations and marketization as mentioned above caused a so-called, “creative destruction” of productive capacity previously employed in “value-subtracting activities” [10]. And another hidden problem is its current account balance, which shifted into deficit during 1996–1997, reaching its highest in 1997. The reason behind that was Poland’s growth patterns. It depended on export, which indicated there was a relatively small consumption. This did not work from 1996 to 1997 when the proportion of consumption increased from 4% to nearly 7% between 1995 and 1996 while that of export decreased from 34% to 6.7% [11].

### 2.4. Political and Systematic Factors in the Transition

It is obvious that the whole transition was conducted by a newly-born, anti-communist regime, and it is also sure that political and systematic factors played a vital part in the whole process. According to the opinion of Daron Acemoglu, the structure of political power determine the transition of the economic system, and the economic system would influence the distribution of political power, deciding whether it can be imposed and strengthened by itself [12]. Before the communist regime, Poland had experienced a long-term parliamentarism, plus the market-socialism attempt before the transition, so it is reasonable for Poland to transform into a parliamentary democracy. And the

democratic regime provided a stable environment for foreign investors, leading to an increase in foreign investment. The transition was strongly determined by who is in the domination of social power, which refers to political power in most case [12]. When it comes to Poland, Poland's first parliament consisted of communists and Solidarity, depending a lot on collaborations and it imposed the Balcerowicz Plan, known as "shock therapy". And between 1993 and 1995, the left-wing Sojusz Lewicy Demokratycznej (SLD) party was the majority in parliament and it took a more gradual approach to stable the establishment of market economy.

### **3. The Economic Transition in China**

This section focuses on the political economy of China in the late 1980s and early 1990s. At that time, China was facing the second major economic crisis after the reform and opening up, and some imported contradictions caused by the international situation. Therefore, the task of this part is to focus on the problems China faced during this period and the reforms it made to explore the opportunities and changes as a socialist bloc country under the tide of that era.

#### **3.1. Crisis and Monetary Policy after Reform and Opening up**

From the end of the 1980s, the economic crisis that started in 1988 to be precise was actually the second economic crisis after the reform and opening up. At that time, China's urban economy had completed the original industrial capital accumulation under the perennial influence of the planned economy, and gradually entered the stage of capital expansion dominated by industrial capital after the reform and opening up. On the other hand, the stagflation-type economic crisis was brought about by the substantial increase in investment brought about by the rapid expansion of industrial capital, and the inflation crisis was marked by the rapid rise of prices after the "price reform".

From an economic point of view, China's economic growth rate dropped from 11.6 percent in 1987 to 4.1 percent in 1989.

In terms of the price level, the price increase in January 1988 was 9.5 percent, and then increased month after month. The reform measures of "price breaking through the customs", caused a lot of contradictions, and concentrated on reflecting two prominent problems in the price system at that time: first, the management system was rigid, and the price could not flexibly reflect the market changes; the second is a distorted price structure, caused by years of anti-market policies [13].

From the perspective of monetary supply structure, since the early 1980s, the government implemented the fiscal and financial separation reform. After 1986, the economy overheated, and investment and consumption demand experienced rapid growth. Figure 1 shows that the growth rate of M0's supply in 1988 was as high as 47%, but the growth rate of M1 and M2 was significantly lower than that of M0 during the same period. This meant that some of the money added in 1988 did not enter production and circulation, and with the increase in demand, the inflation crisis became more and more serious.

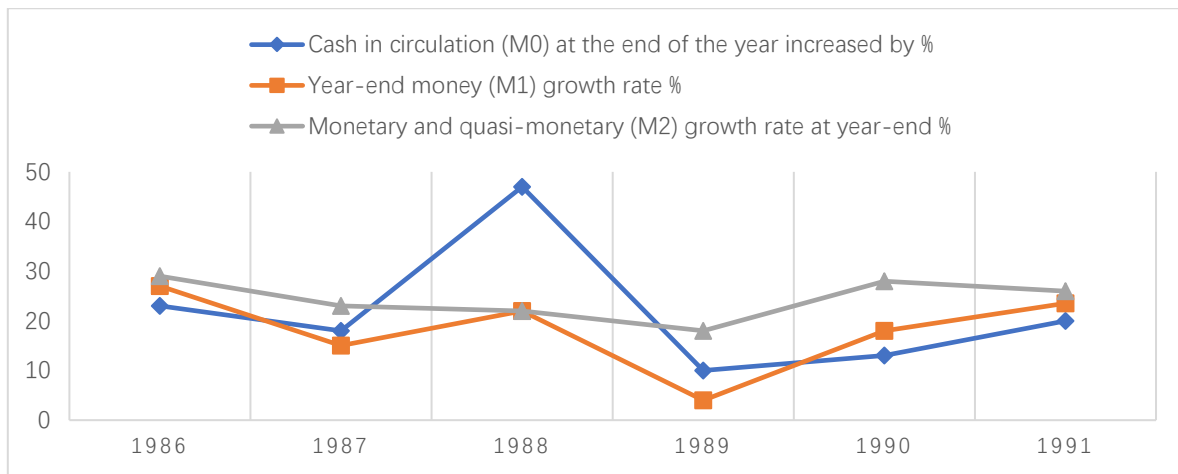


Figure 1: The growth rate of M1 and M0 money supply at the end of 1986-1991 [14].

### 3.2. Transfer of Economic Crisis from Reform and Opening up to Agriculture, Rural Areas, and Farmers

During the period of rapid expansion of industrial capital, the inflation crisis accompanied by it naturally broke out in the urban areas where industrial capital was concentrated. The Chinese government chose to transfer the institutional cost to the “agriculture, rural areas, and farmers” to drive economic growth through the consumption and demand of the rural population, which accounted for the absolute majority of China, which also increased China’s dependence on the export-oriented economy.

Shifting institutional costs to “agriculture, rural areas, and farmers” is not a new way to save the crisis, which the Chinese government had already implemented in the early crisis of reform and opening up in the early 1980s. However, different from that time, the economic crisis in the late 1980s received some different challenges when transferring costs to “agriculture, rural areas, and farmers”, that is, the development predicament of China’s local township enterprises was the main constraint. These problems are mainly reflected in three aspects. The policies of foreign trade system reform are not matched and lack coordination. Blind development and the same industrial structure. Township enterprises have backward technology and equipment and low labor productivity [15].

After the government issued the policy of “allowing farmers to take care of their food and rations to work in cities for business” in 1985, with more and more government policies on rural labor mobility further liberalized, more and more rural labor entered cities to find jobs, and finally evolved into the phenomenon of “migrant worker wave” in the early 1990s [16]. In 1993, the rural labor force that went out for work increased to more than 40 million, which also directly made up for the lack of labor force in township enterprises.

Moreover, in December 1987, the Central Committee of the Communist Party of China further pointed out that in the future, China will rely on low-wage cheap labor as the main form of symbolic enterprises to produce labor-intensive exports, so that China will completely enter the export-oriented economy. The foreign trade strategy continuously promoted by the government is accompanied by large-scale foreign investment, and a large number of overseas capital, technology, and equipment flow into China (see Figure 2), which makes up for China’s backward industrial structure, low labor production efficiency and shortage of technology and production equipment.

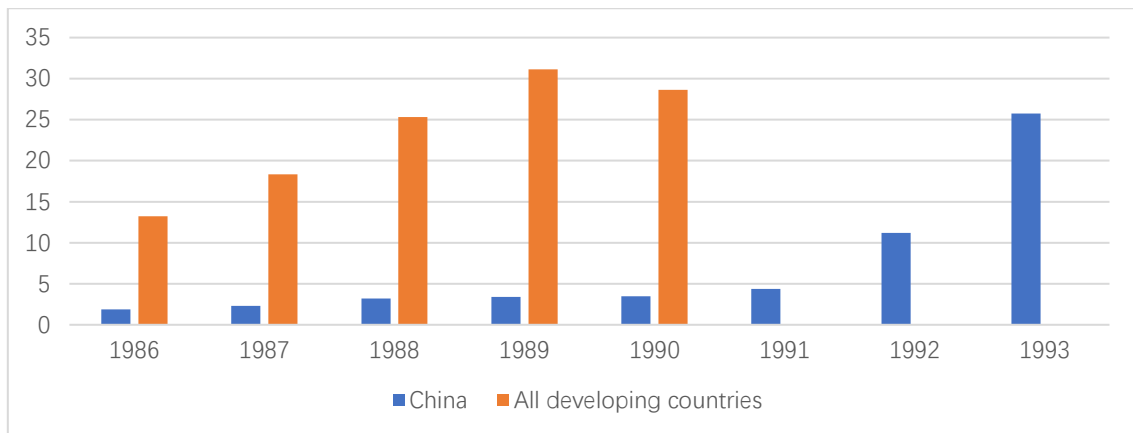


Figure 2: FDI directly available to China, 1986-1993, billion USD [17] (Source: Balance of Payment Statistics Yearbook).

### 3.3. The Export-oriented Strategic Adjustment after Reform and Opening up

In 1987, the 13th National People's Congress of the Communist Party of China decided to focus on the development of an export-oriented economy with special economic zones, open cities, and open areas. In addition, with the "Coastal Economic Development Strategy" formally proposed at the meeting of the Political Bureau of the Central Committee of China in February 1988, the use of the trade advantages of China's coastal areas, coupled with the huge resources of the mainland support, so that China can develop an export-oriented economy, go to the international market, and participate in the tide of globalization.

Since the "coastal economic development strategy", the coastal areas have played the advantages of rich labor resources and flexible coastal enterprise mechanisms into the international cycle, through the development of labor-intensive products export, on the one hand, to solve the way out of rural surplus labor, on the other hand, to exchange foreign exchange in the international market with export as the main way. To go through the international cycle to the road of an export-oriented economy mainly needs to go through three stages of development: 1. Concentrate on the development of light industry, such as labor-intensive exports, at the expense of some heavy industry; 2. Mainland products to the international market, export to earn foreign exchange; 3. Focus on supporting the development of value-added heavy industry with mixed foreign exchange, and start to enter the international market with technology-intensive products [18].

On the road to the development of China's export-oriented economy, to meet the requirements of economic development, China has continued to open up the market, provided more and more policy support for the introduction of foreign investment and export of foreign exchange, and gradually deepened market-oriented reform and monetization. Moreover, in 1994, China's import and export trade turned from deficit to surplus, and thereafter the trade surplus also increased year after year, and the foreign exchange reserves also gradually increased (see Figure 3). The export-oriented economic strategy began to bear fruit, coupled with the expansion of international financial capital and the upgrading of industrial structure in the late 1990s, in just a few years, China's economy began to improve. The pattern of China's foreign trade has undergone earth-shaking changes.



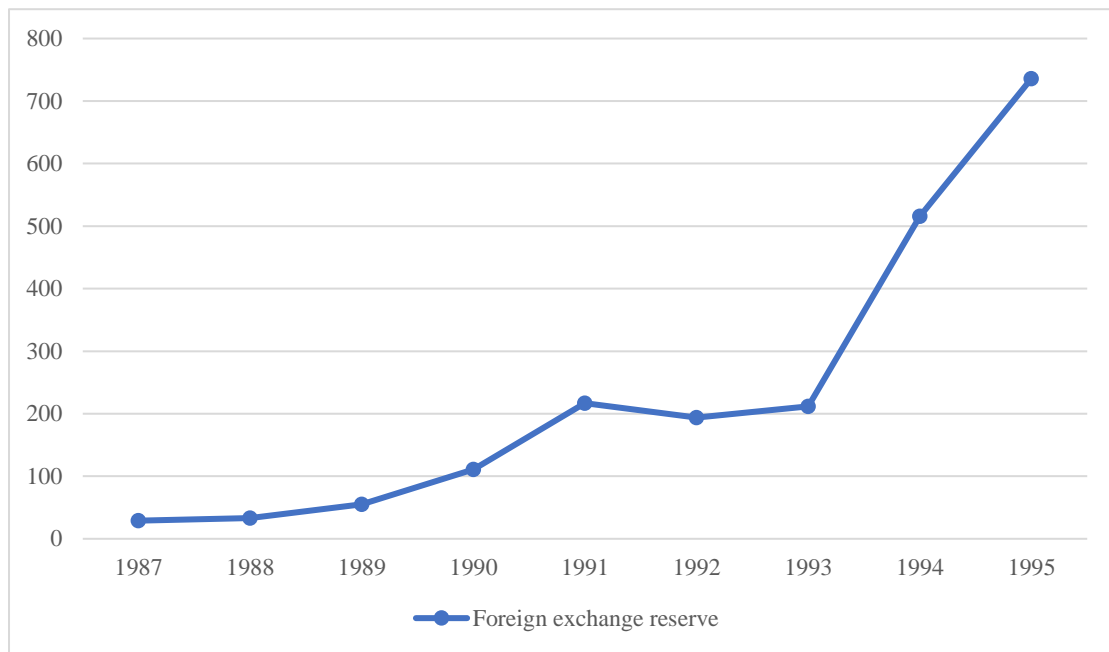


Figure 3 China's annual foreign exchange reserves USD billion [19].

#### 4. The Compare and Contrast of the Change in Poland's Economic Model after 1989 and China's Reform and Opening up

Poland and China, two nations that have experienced significant economic transformations in the last forty years, will be compared and contrasted in terms of their economic structure, process, growth, and factors during their transitions. Before these transitions, both countries faced similar issues in their planned economies, such as low efficiency, inflexibility, and a lack of competitiveness.

Poland heavily relied on the Soviet Union and its allies, leading to chronic shortages, inflation, and debt. China's economy was insular and lagged in technology, productivity, and living standards. According to the World Bank (2021), Poland's GDP per capita in 1989 stood at only \$2,038 (in current US dollars), ranking it 69th globally [20]. In comparison, China's GDP per capita in 1978 was a mere \$156 (in current US dollars), placing it 128th worldwide. Both nations recognized the necessity of implementing economic reform to overcome their challenges and bridge the gap with global development.

##### 4.1. Differences in Strategies for Economic Reform of Poland and China

The transition process differed for each country as they pursued distinct strategies for economic reform.

In 1989, following a series of political changes that brought an end to communist rule, Poland embarked on its transition. The nation opted for a "shock therapy" approach involving rapid stabilization measures such as price liberalization, subsidies reduction privatization of state-owned enterprises (SOEs), trade liberalization, and introduction of a new currency. These measures aimed at swiftly converting Poland's economy from a centrally planned system to a market-oriented one.

China commenced its reform known as "reform and opening up" in 1978; this initiative carries on today under his successors' guidance. China adopted a "gradualist" approach, which consisted of incremental marketization and opening up measures, such as introducing a household responsibility system in agriculture, establishing special economic zones, allowing foreign direct investment,

reforming SOEs, developing the private sector, and joining international organizations. These measures aimed to gradually introduce market mechanisms and foreign competition into China's economy while maintaining the socialist system.

#### **4.2. Differences in Outcomes for Economic Reform of Poland and China**

Over the past 40 years, both Poland and China have experienced significant growth, albeit at different levels of economic success. Poland has achieved remarkable strides since its transition period, with its GDP increasing nearly fivefold and its per capita GDP expanding by roughly four times between 1989 and 2019. According to the World Bank (2021), Poland's GDP in 2019 amounted to \$595 billion (in current US dollars), earning it the 21st spot on the global scale. Additionally, Poland has made notable progress in various social indicators, such as poverty reduction, improved life expectancy, and advancements in education.

China's growth story is equally astounding after undergoing reform and embracing a more open economy starting from as early as 1978. During this transformative period lasting over four decades up until the year of Covid-19, 2019 AD, the country experienced exponential expansion across various economic facets; China's GDP surged roughly forty-two times while their per capita GDP multiplied about twenty-five times over. The World Bank (2021) reveals that China consequently rose to become the world's second-largest economy come year-end at \$14.3 trillion (current US dollars). However impressive this economic stature is, China's GDP per capita is positioned at 58th place on the global scene, with a value of \$10,262 (current US dollars). China's achievements also include eradicating poverty for a significant number of people, undertaking large-scale national infrastructure projects, and establishing itself as a prominent global leader in terms of innovation.

#### **4.3. Differences in Political and Systematic Factors in the Transition of Poland and China**

The political and systematic factors in the transition were different for both countries, as they reflected different social demands and consensus. Poland's transition was driven by the democratization movement and the Solidarity trade union, which represented the widespread aspirations and agreement of the society. Poland also underwent a political transition in 1989, ending the People's Republic of Poland and establishing a democratic government, known as the Third Polish Republic [21]. Poland joined the Organization for Economic Co-operation and Development (OECD) in 1996, (North Atlantic Treaty Organization) NATO in 1998, and the (European Union) EU in 2004, achieving integration with the Western world.

China's reform and opening up was a great awakening of the Communist Party of China (CPC) and a great leap forward toward socialism with Chinese characteristics. It reflected the broad consensus within and outside the party and the strong desire of the people. It was a great revolution led by Deng Xiaoping and his successors as the core of the second generation of the central leadership of the CPC. China also maintained its political system as a socialist country under the leadership of the CPC. China joined the World Bank in 1980, applied to join the (World Trade Organization) WTO in 1986, and formally became a member of the WTO in 2001, achieving alignment with the international market.

### **5. Conclusion**

From the known comparison of Poland and China, the path of transition each country has chosen has both similarities and differences. They all chose marketization as a solution in economic solutions, but different paths in political factors. Poland had its government changed several times and changed to capitalism, however, China renewed its existing political party and stick with socialism. Eventually, these two countries both get better off despite different paths. From that, it may be concluded that



different countries have their ways of developing, despite the possible setbacks on the road ahead. And the country's paths chosen should be based on its national conditions Poland chose to rely on its parliament, for it has had a long time of parliamentarism since the 18th century, and China on the other side has always been a centralization, so it continued its tradition. This research has described and analyzed the transition of two different states, Poland and China, comparing clearly the outcomes of each method and suggesting how to achieve sustainable development for different countries. The research provided a way or idea for smaller countries to choose when dealing with their economic crisis or transition, and covered up the blank of the existing papers, providing a great reference for future researchers to look at. Still, limitations occur as the researchers fail to look deeper into the existing papers and historical documents, and the comparison between countries is not detailed and considerate. Future studies on the same area will cover these aspects and present a more well-organized analysis. The two countries, Poland and China have both experienced great economic growth and are expected to continue this growth in the near future. While the difference between different paths may be enlarged, the bright future will stay constant. In the era of globalization, development, and peace have become the main theme of the whole world. The whole world should learn a lesson from the past countries and move on to a better world.

### Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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