

## PUBLIC PROCUREMENT AND GOOD GOVERNANCE IN CHINESE AND POLISH POST-TRANSITION EXPERIENCE

Mark Michalski

### INTRODUCTION

Many business practitioners and academic observers are in general consensus that during the recent transformation Poland and China emerged as the leading examples of successful, albeit distinctly different, economic reform paths. Both were painstakingly searching for an adequate set of policies (realizing soon that no simple, cookie-cutter approach, nor model, could be readily found). Both continued changing from a highly central, soviet-style, regulated economy to an open market economy. The transformation process quickly gained momentum and the spirit of entrepreneurship activity ensued. Thus China and Poland with their distinct reform policies provide a useful experience for comparative case study of transition economies.

Both countries, though so much different in terms of sheer geographical size, political culture and traditions, encouraged emergence of private firms and growth of small and medium enterprises (SME). These new firms were dynamic, bold, innovative, and soon achieved record rates of economic performance. At the same time, there has been a highly selective - if not an asymmetric - approach to the evolution of market economies by both countries. China has followed a more cautious, gradualist, or “dual approach,” and the country took a more selective path toward the entry of competitive enterprises run by local governments. Poland, on the other hand, has embraced the “big bang” approach, often called “shock therapy,” for its sharp and painful (economic) treatment, which also became known as the Balcerowicz Plan.<sup>1</sup>

### BIG BANG VERSUS GRADUAL APPROACH

Professor Jeffrey Sachs, who has analyzed both China and Poland and officially advised the Solidarity Government, actively encouraged Poles to make a bold leap into a market system<sup>2</sup>. The phrase, often repeated, that “the abyss could be crossed with only one jump” figuratively justified favoring radical transformation. Such a rapid transition would be difficult, no doubt, and even painful, but Poles could succeed, if extensive reforms would be accompanied by the right mix of policy, prudent sequencing of reforms, high investment inflow with international financial institutions’ assistance and/or surveillance. Many countries that endeavored to implement a Balcerowicz-style plan experienced instability and crushing poverty before they could

---

Mark Michalski is completing PhD work in public policy and is the World Bank Consultant specialized in procurement training and project implementation. He has taught management and procurement courses at the Jagiellonian University in Krakow, during the 1990s, Poland’s transition period. He has contributed chapters in several books and published in journals in Polish and in English.

<sup>1</sup> There is an extensive literature in both English and Polish on Big Bang and Balcerowicz Plan. See for example [www.worldbank.org/transition](http://www.worldbank.org/transition). Named for its author, the Polish minister and economist Leszek Balcerowicz, the plan was adopted in Poland in 1989. The Balcerowicz Plan, also termed “shock therapy” was a method for rapidly transitioning from a communist economy, based on state ownership and central planning, to a capitalist market economy. Years later, Balcerowicz admitted that he neglected to consider the element of human motivation in his calculations.

<sup>2</sup> See his: *Poland's Jump to the Market Economy*, MIT Press, 1993. Also, Sachs Jeffrey and Bloom David, *Emerging Asia: Changes and Challenges*, Asian Development Bank, 1997.

experience economic growth. In Poland implementation of that policy was carried out relatively quickly with soon noticeable results.<sup>3</sup>

In contrast, the Chinese gradual approach was to a large extent the result of a political compromise between the broad range of political and economic reformers and a lack of overall vision, or consensus, about the society's destination. Analyzing reforms in China, Sachs observed that it succeeded in producing a steady, continuous and phenomenal growth, whereas many countries of the former Soviet Union have typically seen a sharp initial economic downturn, accompanied by a significant rise in inflation, inequality and unemployment. "The undoubted Chinese success story led many economists to urge adopting the Chinese dual-track approach. Soon, however, this dual-track approach basically was rejected by Poland and numerous East European fast-reforming countries.. Their initial downturn has been followed by rapid growth. Poland's per capita GDP growth was around 6 percent by 1995, around the levels of the East Asian tigers".<sup>4</sup>

Sachs further noted: "The usual argument for the superiority of China's two-track approach compared with a Polish-style 'big bang' goes something like this. Economic reform involves substantial upheaval, so it is desirable to moderate the size of the shocks that will hit the economy during the transition. Therefore, it is useful to protect the old sectors of the economy at the same time that new economic opportunities are introduced by market liberalization. Since the old sectors are inefficient, they will lose out in competition with the new sectors, but this will happen gradually as workers voluntarily flow from the old state enterprises to the new and more efficient non-state enterprises. A direct 'assault' on the existing state enterprises—by cutting subsidies, raising input prices, privatizing ownership—is both unnecessary and traumatic."<sup>5</sup>

#### WHAT IS THE DUAL-TRACK APPROACH?

The China-adopted strategy for moving from economic planning to a market system has often been described as the gradual decentralization of economic decision making that comprised a process of slow and careful liberalization of the socialist, state-run economy. The gradual, or dual-track, approach called for establishing a market-oriented system, parallel to an existing system of planning, pervasive in almost every area of economic life: sectoral reform, price deregulation, enterprise restructuring, regional development, trade promotion, foreign exchange management, central-local fiscal arrangements, and stable domestic currency. For example, Sachs noted that "the typical process of dual-price transition needed to include the following:

- Opening the free market while keeping state supply unchanged at the (lower) plan price.
- Adjusting the plan price incrementally over time to approach the market price. The supply offered at the plan prices (normally fixed by quota system)."<sup>6</sup>

---

<sup>3</sup> For detailed treatment of this point please see: "Privatization in Eastern Europe: The Case of Poland," David Lipton and Lawrence H. Summers, *Brookings Papers on Economic Activity*, 1990:2, and in *Reforming Central and Eastern European Economies*, V. Corbo, F. Coricelli, and J. Bossak (eds.), A World Bank Symposium. 1991.

<sup>4</sup> See: "China Transition Re-examined" in *Transition, The Newsletter About Reforming Economies*, Vol. 7, No. 3-4, pp. 1, 1996.

<sup>5</sup> *Ibid* p.1

<sup>6</sup> *Ibid*, p.2

## GOOD GOVERNANCE AND TRANSPARENCY

Perhaps one of the most tangible effects of carrying out reforms fast, one could argue, is that the rapid implementation process does not allow for long-term abuse of the public enterprises, or procuring of goods in the system that is being reformed, as the case of Poland has illustrated. To be sure, there were numerous irregularities in public and large commercial transactions. These were relatively quickly dealt with by establishing proper administrative and regulatory bodies, such as for example the Office of Anti-Competitive Practices and various corruption-related watchdog agencies. Emerging and establishing corporate good governance obviously requires both institutional back stopping as well as training of a new cadre of civil servants and professionals, which does take time.

When considering the transformation experience during the past decade in China and Poland it is therefore useful to bear in mind the need for institutional links between market-based economic democracy, public procurement and the practice of good governance<sup>7</sup>. If these links are weak, or diffuse, they could be seen as an influence on the ability of the country to pursue politics in a non-democratic fashion. In terms of the political system in China, the monolithic party structure has strongly impacted upon the transformation path. Constraints on democratic expressions and economic freedoms have created conditions where the state has begun to rely on performance-based legitimacy to maintain itself in power. In contrast, Poland adopted a multi-party democracy with an evolving system of transparent government, and essential features of a representation-based legitimacy.

This legitimacy is in turn furthered by open platform procurement policies with good governance, which comprises one of the critical elements required for the continuity and enhancement of a country's growth. While in Poland, governance has been improving, based on several different governance parameters (laid down by the Transparency International<sup>8</sup> and the World Bank) China seems to be still lagging behind. Good governance, it is widely accepted, leads to a more efficient, free and democratic economy and brings about a number of positive, desirable externalities. These externalities affect its citizens by providing an environment that promotes competition and social mobility and improves the quality of life and the standard of living in the country.

One of the methods to view good governance of a given country is to view it through the lens of public procurement and flow of investment, which if conducted efficaciously leads to increased welfare and when abused leads to inefficiencies, welfare loss and high transaction costs.

Poland and China's move from a totally centralized, dirigist, command-style economy to a liberalized market economy required many institutional changes with regard to investment and public procurement. During that period both countries attracted a record inflow of foreign direct investment, aggressively promoted profit driven entrepreneurship and in effect had their economies witness historically unprecedented high growth rates. Their success illustrates in

---

<sup>7</sup> **Good governance** is important for countries at all stages of development. IMF approach is to concentrate on those aspects of good governance that are most closely related to our surveillance over macroeconomic policies—namely, the transparency of government accounts, the effectiveness of public management, and the stability and transparency of the economic and regulatory environment for private sector activity. Michel Camdessus, f. MD of the IMF ([www.imf.org](http://www.imf.org))

<sup>8</sup> Transparency International, ([www.transparency.org](http://www.transparency.org)) publishes corruption perception index, CPI and many surveys, toolkits, handbooks and transparency watch with useful information and data. World Bank ([www.worldbank.org](http://www.worldbank.org)) also conducts many studies and data on good governance, transparency and methodology to fight corruption in public procurement.

stark contrast how, in the not too distant past, an inefficient, stagnant, planned economy (dubbed by Hungarian-born economist, Janos Kornai<sup>9</sup> “the economy of shortage”), can be transformed into a high-growth, open market economy by establishing a transparent, administrative and financial system with the necessary rule of law for attracting long-term foreign investment.

Poland, with its population of almost 40 million and its strategic location in central Europe, was among the most audacious in setting up private firms, achieving an average growth rate of 6% during the decade of the 1990s. China, the most inhabited economy in the world with a population of 1.3 billion and vibrant entrepreneurial activity, recorded two-digit on average, annual economic growth rate during the decade of the 1990s. (Recently, in 2006, it peaked to 11.4%, and the World Bank’s estimates for 2007 place it at 9.6%).<sup>10</sup> Pragmatic government policy in Poland created a number of new firms and unleashed a wave of dynamic and vigorous entrepreneurship activity. In less than a decade Poles privatized over 8,000 state-owned enterprises, and though there are still almost two thousand remaining, these figures are impressive. China, on the other hand, took a distinctive path with the entry of competitive enterprises run by local government with a more cautious and selective process.

## ENABLING TRANSPARENT GLOBAL PROCUREMENT

During the last decade alone, the Internet has become one of the most effective communication and information processing tools. It has become indispensable for entrepreneurs, small firms and business to business (B2B) in implementing fast, secure and efficient purchasing of goods and services. According to a report conducted by the Forrester Research in 2005, international companies purchase up to 20% of their indirect materials through the Internet<sup>11</sup>. No doubt, due to increased Internet safety and security, electronic procurement (e-procurement)<sup>12</sup> effectively transforms the traditional purchasing process for businesses. It economizes, speeds up and automates the logistics in procurement from requisition, sourcing, and approval to arrival of goods.

Typically, e-procurement Web sites allow qualified and registered users to look for buyers or sellers of goods and services. Depending on the approach, buyers or sellers may specify prices or invite bids (sometimes also called tenders). Transactions can be initiated and completed. Ongoing purchases may qualify customers for volume discounts or special offers. E-procurement software makes it possible to automate some buying and selling. Companies participating expect to be able to control parts inventories more effectively, reduce purchasing agent overhead, and improve manufacturing cycles.

---

<sup>9</sup> János Kornai is Professor of Economics Emeritus at Harvard University. This is a term he used to criticize the old centrally-planned economies of the communist states of Eastern Europe. In his article *Economics of Shortage* (1980), which is generally viewed as his most influential and best-known work, János Kornai argued that the chronic shortages seen throughout Eastern Europe in the late 1970s (and which continued during the 1980s) were not the consequences of planners’ errors or the wrong prices, but rather systemic flaws of a bankrupt soviet style regime.

<sup>10</sup> The World Bank, “China: Governance, Investment Climate and Harmonization Society: Competitiveness Enhancements for 120 Cities in China”, 2006.

<sup>11</sup> See: [www.forrester.com](http://www.forrester.com)

<sup>12</sup> There are several types of e-procurement, such as for example: 1) Web-based ERP (Electronic Resource Planning): Creating and approving purchasing requisitions, placing purchase orders and receiving goods and services by using a software system based on Internet technology. 2) e-MRO (Maintenance, Repair and Operating): The same as web-based ERP except that the goods and services ordered are non-product related MRO supplies. 3) e-sourcing: Identifying new suppliers for a specific category of purchasing requirements using Internet technology. 4) e-tendering: Sending requests for information and prices to suppliers and receiving the responses of suppliers using Internet.

Many companies working in China, Poland and elsewhere enjoy the efficiency gains, shorter cycle time and procurement cost savings. Other benefits from e-procurement arise from better collaboration with suppliers, employees, franchisees and customers. Through better communication, improved transaction and automation between those partners, firms are able to reduce cost and strengthen supplier relationship. E-procurement is being integrated with computerized supply chain management.

Supply chain management<sup>13</sup> (SCM) is regarded as an important task for most business organizations to improve relationship with their suppliers, manufacturers, wholesalers and distributors. SCM essentially means satisfying the customers' needs in the most efficient and effective way. Two factors contribute to its pervasiveness: emerging new technology and the Internet. SCM covers all activities from sourcing and procurement to conversion and logistics management. It also includes co-operation and collaboration with other companies, which can be suppliers, third-party service providers or customers.

### WHY E-PROCURE?

Expenditure on electronic commerce (e-commerce) is growing rapidly despite global economic uncertainty. E-procurement represents a significant proportion in the view that it benefits users in achieving a certain extent of supply chain efficiency. Electronic commerce refers to any electronic communication that facilitates the exchange of goods, services or other assets between buyers and suppliers. It includes activities such as e-procurement, e-marketplace, e-customer service, e-transportation/logistics and e-payment. Managers realize the significant cost and process savings by e-procurement through automating and streamlining the acquisition of goods and services.

E-procurement, in the simplest form, is the use of the Internet to access and exchange large volume of data for business-to-business transactions between buyers and suppliers. It can help business organizations to improve processes, increase productivity, lower costs and thus enhancing supply chain management.

Some basic benefits from e-procurement include:

- lowered procurement administration through streamlining and automation;
- improved data gathering and reporting on company expenditures;
- improved compliance with corporate contracts;
- shortened requisition and order cycles;
- enhanced negotiations power with suppliers;
- enabling professionals to focus on more strategic tasks.<sup>14</sup>

---

<sup>13</sup> The term supply chain management was coined by Keith Oliver, of Booz Allen Hamilton in early 1980s. Some distinguish supply chain management and logistics management, while others consider the terms to be interchangeable. From the point of view of procurement, the scope of supply chain management is usually bounded on the supply side by your supplier's suppliers and on the customer side by your customer's customers.

<sup>14</sup> See: Report from Aberdeen Group, Inc., "E-Procurement: Finally Ready for Prime Time", Market Viewpoint, 14:2. 2005.

Poland and China are members of the World Trade Organization<sup>15</sup> (WTO). The WTO is actively advocating public tendering to promote fairer trade among member countries. E-procurement is becoming one of the best services to use electronic tendering on large scale purchases for the receipt of tender bids as well as for the distribution of tender documentation. It encourages the widest possible competitive trading environment and hence fosters economic growth. E-procurement transformed the traditional paper-based tendering process to a robust and highly secured B2B and government-to-business (G2B) e-commerce application platform. This will have a strong impact on other business organizations and the commercial sector to follow suit and enhance e-commerce adoption, particularly in the electronic procurement and supply chain management areas.

### GOOD GOVERNANCE STIMULATES INFLOW OF INVESTMENT

No foreign firms would wish to invest in societies where there is an unpredictable or high level of taxation. International companies, too, by illegal acts (i.e., offering bribes) to secure business, undercut legitimate economic competition, distort economic growth and reinforce inequalities. In many societies widespread public suspicion that such acts are committed in both the private and public spheres undercuts government legitimacy and undermines the rule of law. One of the reasons that these two countries have been so successful is due to significant inflow of foreign direct investment<sup>16</sup> (FDI).

FDI is an international capital movement with the investment companies retaining control over the use of the resources involved. The operational definition, though, varies from one country to another due to different assessments of effective control. During the last decade there has been a rise of FDI in the world, where considerable interest has focused on the decisions, motives and reasons why multinational corporations want to invest abroad. Globally FDI has grown dramatically since the 1980s. FDI to the world has been growing at an annual rate of 12 percent, from \$28 billion in 1980 to \$228 billion in 1990 and reaching over \$1 trillion in 2000. Just in the last decade growth in FDI reached an impressive 400 percent increase.<sup>17</sup>

### FOREIGN INVESTMENT IN CHINA AND IN POLAND

By 2000, accumulated FDI in China was \$450 billion, making China the third largest FDI recipient in the world, surpassed only by the United States and the United Kingdom. In 2000, FDI to Central and Eastern Europe increased for the fourth consecutive year and Poland is by far the leading recipient inflow of FDI.

---

<sup>15</sup> The WTO is an international, multilateral organization, which sets the rules for the global trading system and resolves disputes between its member states; all of whom are signatories to its approximately 30 agreements. WTO aims are to increase international trade by promoting lower trade barriers and providing a platform for the negotiation of trade and to their business.

<sup>16</sup> FDI is defined as a long term investment by a *foreign direct investor* in an enterprise resident in an economy other than that in which the foreign direct investor is based. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a *transnational corporation (TNC)*. In order to qualify as FDI the investment must afford the parent enterprise *control* over its foreign affiliate. The UN defines control in this case as owning 10% or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

<sup>17</sup> See: UNCTAD for FDI on world data. Polish Foreign Investment Agency [PAIZ] also collects FDI data using similar methodology as UNCTAD. Polish economy continues to be an attractive destination for worldwide foreign direct investment inflows—although at somewhat of a slower pace than during the peak years of 1998-2001.

China is presently the fourth largest trade partner of the United States while the United States ranks second amongst China's trade partners. Also, regarding the importance of China's role in global commerce, it is now difficult to identify major technical products that do not contain at least one component from China. The United States, however, considering its size and market potential, is relatively small investor to China with about \$2 billion direct investment in 2000, or 6 per cent of the total. As one of the first emerging markets, China has gained a long experience in dealing with western multinationals, in promoting direct transfer of know-how to domestic enterprises - mainly through contractual and equity joint venture - and in channeling advanced western technologies and managerial expertise into specific regions and industries. Most consumer and capital sectors have been systematically developed and modernized through targeted FDI policies, which lay emphasis less on money or capital transfers than on durable learning effects on local managers and engineers. During the 1980s, numerous new production sites and plants were built or revamped with foreign financial support.

Profound institutional, economic and technological changes have occurred in the Polish economy since the launching of the radical economic program in 1990. The utilization of foreign financial capital has become one of the important dimensions of Poland's contact with foreign countries in materials, technological exchange and economic cooperation. Poland desired to stimulate economic development through promoting a more liberalized investment framework and through economic market reforms. As a result, Poland has achieved dynamic economic growth and has become an attractive open market economy, strongly linked to the advanced economies, enjoying memberships in the OECD, the EU and the NATO alliance.

According to a recent survey by Ernst & Young (2005), Poland is the fifth most attractive country in the world for FDI – trailing only the US, China, Germany and India. International business has pumped US\$84 billion into the Poland since the early 1990s, with 2000 being the year when most investment arrived – US\$10 billion.<sup>18</sup>

In contrast to China, Poland's initial geopolitical and economic structure created a different approach to economic reform. The Balcerowicz Plan launched a radical, comprehensive liberalization program, freeing 90 per cent of prices, eliminating most trade barriers, abolishing state trading monopolies and making its currency convertible for current transactions. While the "big bang" approach created controversy and negative economic growth during the early stages of transition, Poland now has a solid base to build on the substantial achievements of the past reforms. There are still structural adjustment problems, including the need to speed up the privatization program (especially the privatization of large industrial State Owned Enterprises), to control inflation as well as further cut and restructure of the government.

Rapid economic growth and continuous economic reforms maintain interest and create new opportunities for foreign investors. There is also a strong influence on the business environment, which has led the Polish government to introduce liberal investment policies in accordance with the EU rules. Real GDP growth during the decade of 1990 has been averaging about 6%, twice as fast as the OECD average. The strength of the expansion resulted from rapid integration with Western Europe, as witnessed by upsurge in exports and imports currently standing at about 15% of the GDP.

---

<sup>18</sup> See: Ernst & Young, "Spotlight on China" ([www.ey.com](http://www.ey.com)) With its escalating consumer demand, outstanding economic growth and increasing foreign direct investment opportunities, the China market has taken off. In 2005, US\$31.5 billion total deal value represented an impressive 22% increase in volume over the prior year.

In the 1990s, the Polish Government began to encourage FDI in high tech industries: however, even as absolute quantity increased. FDI accounted for a lower percent of GDP and FDI inflows really took off in the second half of 1990s. Rapid growth in private sector employment and increase in self-employment initially characterized Poland economic transformation. The share of the private sector employment was about 73% in 2000 (22% of them are self employed) but the public sector was still a very large employer, accounting 50.1% of total salaried workers particularly those in highly skilled, managerial and professional positions.

## GOVERNMENT PROCUREMENT IN POLAND AND CHINA

Public procurement process in Poland was in the past beset by many common, transition related problems. Many foreign firms have complained about the lack of transparency in the process and some have voiced concerns about the heavy burden of bureaucracy. Changes in Polish public procurement law that make it easier for international firms to compete for contracts took effect when Poland joined the EU on May 1, 2004. The procurement law that was initially drafted and approved in 1994 had numerous inconsistencies and flaws, but these were rectified over the next ten years.<sup>19</sup> The changes included abolition of preferences for domestic bidders and domestic content. Until then, Poland's procurement law did not cover most purchases by state-owned enterprises (SOE), which play a significant role in the nation's economy. The domestic performance section of the state-owned enterprise law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Polish companies with foreign participation may qualify for "domestic" status. There is also a protest/appeals process for tenders thought to be unfairly awarded.

Some politically powerful state-owned enterprises continue to receive direct or indirect production subsidies to lower export prices. In 2004 and 2005, Poland amended laws and regulations governing export promotion to improve Poland's export performance to comply with EU regulations and practices in OECD countries. Polish export promotion policy has numerous tools and increasing resources at its disposal. Still, the lack of effective export credit and export promotion poses a continuing institutional weakness. The government's export stimulation efforts have not been very effective due to the low utilization of export support instruments by Polish enterprises and a lack of symmetry between the direct export support policy and the export development policy. Despite new measures and a sharp rise in funding, the volume of Polish exports covered by government-backed risk insurance remains limited. Additionally, programs aimed at reviving exports to East European and particularly the Russian market through strengthening its insurance protection have not yet produced significant results.

One of the great challenges facing Poland is adapting the infrastructure to European standards. Poland received access to the largest amount of EU funds from all member states. In the financial perspective for the years 2007-2013 Poland will be able to obtain more than €90 billion for the development of infrastructure and human resources projects.

China's foreign reserves amount to nearly US\$1 trillion.<sup>20</sup> China also faces huge internal and external challenges. One of the key questions is to rebalance the economy. The World

---

<sup>19</sup> See: World Bank Country Procurement Assessment Report, Vol. 1, Final, 2000.

<sup>20</sup> See: Jonathan Anderson, January 2006, "How to Spend a Trillion", UBS Investment Research.



Bank's recently published China Quarterly Update (2006) states that "policymakers remain understandably concerned about overinvestment, but China's main macro-imbalance is an external one: the surging trade surplus". While last year's (October 2005) amendment of China's company law made new business registration more flexible and less costly, additional licensing requirements are still burdensome and quite complex. In addition to company registration some dozen additional procedures are required for starting a business in China. The Bank concluded that half of those procedures were not required in most countries around the world.

The World Bank considers that China would clearly gain from the following reforms:<sup>21</sup>

- Simplification of licensing and other procedures to start a business;
- Greater transparency and simplification of approvals of permits;
- Elimination of tax preferences, for foreign investors;
- Adoption of best-practice customs clearance procedures at many inland posts;
- Completing the ownership transformation of small/medium state-owned enterprises (SOE) that are viable; liquidating non-viable SOE; and improving governance at large;
- Providing additional legal/regulatory protection for lenders, encouraging more widespread credit reporting, and making it easier for small and medium enterprises (SME) to use assets other than real estate as collateral; and
- Encouraging wider use, by local banks, of international best-practices in SME lending.<sup>22</sup>

### CONCLUSION: NEED FOR FURTHER REFORMS

China and Poland have both made significant strides to become open-market economies. Both enjoy a high level of foreign investment inflow into their economies, which should encourage the use of internationally accepted rules and standards and foster good governance, transparency and openness. A lot remains to be done, however, particularly in the abovementioned areas. China still remains predominantly an autocratic country with a centralized political structure, though with a highly open economy. The country has a large private sector, but with many prices kept artificially low or fixed. This encourages waste and causes problems in the supply chain (i.e., with oil and gas, water resources and other essential inputs). China however increasingly appreciates the benefits of a democratic, open-market economic system.

---

<sup>21</sup> See: Report No. 37759-CN, China: "Governance, Investment Climate and Harmonious Society", October 2006, p.6.

<sup>22</sup> Ibid. This Report presents the findings of a new survey of 12,400 firms in 120 cities across China and explores the relationship between local governance, the investment climate and progress toward a harmonious society. The report emphasizes the benefits of simple and transparent procedures for starting a business; tax administration and administrative fees.

During their initial transition period, Poland and China were among the most successful, accelerating the process from a central regulated economy to a market economy and the process has encouraged the spirit of entrepreneurship, fostering a record rate of economic growth among the highest in the world. There has been a significant and quite different approach to transition to market economies by both countries: Poland has embraced the “big bang” approach, while China has followed the gradualist approach and the country took a more distinctive path with entry of competitive enterprises run by local governments.

The case of the Polish “big bang” approach illustrates not only that it can be an effective and quick way to introduce necessary, even if at times painful, changes. Looking at the recent Polish and East European transition experience one could almost venture that the higher the initial socio-economic level of development at the beginning of reforms, the “easier” it is to make a leap toward the market style economy. Also, as the experience of Poland has shown, society can endure short-term acute hardship in anticipation of long-term gains, whereas slow pace reforms might not restrain the impatience of a society expecting quick results in the form of higher standards of living.

The benefits of a gradualist approach, on the other hand, seem to point out that a country starting at a relatively low level of initial economic development can easier accept relatively slow, gradual improvements, and better assimilate to economic challenges, which include not only acute poverty alleviation, health, education improvement, in addition to essential institutional, administrative and financial reforms. One is reminded of the World Bank’s account of some 150 million people in China living on less than a dollar per day. Since China was only very lightly industrialized, it might benefit more by taking its transition slowly. It seems that the society that is preoccupied with addressing basic needs may enjoy even relatively small economic improvements and is also willing to subsequently build gradually democratic, social and economic institutions.

The recent experience of the last decade seems to confirm that there is no single, simple model for a grand transformation that might fit all countries attempting to move from a socialist economy to a market style economy. Rather, one might infer that, like China, the poorer the country at the beginning stages of transition toward an open market economy, the more preferable the gradual approach with its prudent liberalization of the economy. Perhaps with Poland’s relatively high initial GDP per capita and more advanced socio-economic infrastructure (and long-discredited, bankrupt socialist dogma) it seemed logical to make a single leap, jump over the abyss, from plan to market.

Both countries however will need to further improve the governance practices and reform their public procurement procedures to be more transparent and thus reduce – and ideally eradicate - the “cancer of corruption” - to use the phrase of the former World Bank president, James Wolfensohn, still pervasive in many public procurement transactions.