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A STRATEGIC SHIFT IN EXPORT TRADE

The initial years of Poland's transition from a centrally-planned socialist economy to a market-based system saw export trends drastically inconsistent with overall economic performance (see Tables 1 and 2). It should be noted that the relatively positive situation in export trade prevailed despite a radical change in the direction of the exports. Until the end of the 1980s, over 40% of Polish exports went to European members of the Council for Mutual Economic Assistance. By 1992 the share of exports received by these countries dropped to approximately 15% and in 1994 to ca. 13%.

Table 1

Export value and volume for Poland in 1990 - 1994 (previous year = 100)

Years	Value	Volume
1990	698.6	113.7
1991	112.5	98.6
1992	127.4	96.5
1993	143.3	97.6
1994	–	117.8

Sources: Polski handel zagraniczny w 1991 r. Raport roczny IKiCHZ, Warszawa 1992, Handel Zagraniczny 1992, GUS, Warszawa 1993, Polski handel zagraniczny w 1993 r., Raport roczny, IKiCHZ, Warszawa 1994 and Rzeczpospolita nr 34/1995.

The purpose of this paper is to attempt to determine the extent to which the success of foreign trade can be attributed to:

1) a favorable international situation,
2) the government's economic policy,
3) adaptive behavior by enterprises.

Table 2

Poland's Gross National Product and industrial output, 1990 - 1994 (previous year = 100)

Years	Gross national product	Industrial output	Unemployment rate
1990	88.4	78.0	6.3
1991	92.4	82.9	11.8
1992	101.0	102.0	13.6
1993	103.8	106.2	16.4
1994	104.5	111.9	17.0

Source: Polski handel zagraniczny w 1992 r., Raport roczny IKiCHZ, Warszawa 1993; Gospodarka światowa i gospodarka polska w 1994 r. i 1995 r., IKiCHZ, Warszawa 1995, Rzeczpospolita nr 34/1995.

1. The starting point – a legacy of socialism

Poland's positive export trends are particularly intriguing in light of the handicapping legacy of the centrally planned economy. The key elements of this legacy are:

1) the depreciated role of export,
2) an economic policy unfavorable to export,
3) the unfortunate geographical and commodity structure,
4) a lack of export orientation at the firm level,
5) negative social attitudes towards export.

Export trade in a socialist economy was little more than a way to obtain foreign currency to pay for imports. In a traditional model of a socialist economy, export and import programs were secondary to the national economic plan based on quantitative balances of goods. A shortage in the supply of a given good, signalled a need to increase imports. Export surplus was diagnosed in a similar way. Another characteristic result of planning decisions was a negative price elasticity of export supply. As many goods were exported as were needed to pay for necessary imports: when export prices increased with unchanged prices of imports, export volumes could be reduced. Import demand too was characterized by low price elasticity. When the prices of imported goods rose the burden of compensating for the rise fell, to a certain extent, on export. Despite the evident domestic demand for certain products, they were declared by central planners as non-priority[1].

[1] **J. Winiecki,** Orientacja proeksportowa w gospodarce centralnie planowanej. Kilka uwag teoretycznych, Ekonomista 1983, iss. 3 - 4.

Under these circumstances, it was impossible to gauge the actual performance of foreign trade. Consequently, it could no longer play the role of a generator of wealth. Despite reforms aimed at improving the central management system in the following years, there was still no basis for reliable economic measurements in the field of foreign trade.

The "loan trap" Poland fell into in the '70s gave export a new role as procuror of hard currency for payment of the country's foreign debt. By the end of 1989, the debt amounted to $ 40.6 bln.

In the second half of the 1980s, the economic policy towards foreign trade encompassed a relatively complex system of incentives designed to promote exports including currency exchange rates (differentiated and deformed for different foreign currency areas and varied methods of payment), foreign exchange retention accounts (a device enabling exporters to use a portion of hard currency earned to finance exports), and income tax allowances for both average and high income tax brackets on money earned from exports.

Imports were far easier to control, at least as long as centrally distributed hard currency remained the main source of financing. In the second half of the 1980s, however, a number of alternative ways of financing imports emerged, among them foreign exchange retention accounts, currency exchanges and currency credits. Although these decentralized forms of obtaining currency continued to gain significance, central distribution remained the dominant form of dispensing foreign currency. In 1988, central distribution accounted for 61.2% of total imports from the hard currency area. In 1989, the figure was down to 50%. Imports financed from companys' own sources of finance constituted 28.1% of total imports from that area in 1988 and 34.8% by 1989. In 1989, currency exchanges assisted in selling in excess of $ 1 bln., an equivalent of 13% of imports from the hard currency area. Currency credits granted in 1989 accounted for less than 6% of hard currency imports; the figure dropped to 4.3% in 1988[2].

The limited liberalization of foreign trade led to a significant increase in the number of entities engaged in international trade. The consequence was a slight decrease in the role of large specialized foreign trade organizations played in this area. While in 1980 there were approximately 70 foreign trade organizations, as many as 281 companies held trade licenses and conducted foreign trade by 1988[3]. At the beginning of 1989, the license requirement was waved for most commodities. Yet, as of 1988, 19 specialized state-owned foreign trade com-

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[2] Figures presented regarding sources of financing in currency-free import in 1988 - 1989 were based on Gospodarka światowa i gospodarka polska w 1989, Instytut Gospodarki Światowej, SGPIS, Warszawa 1989, pp. 111 - 112.

[3] Polityka ekonomiczna i handlowa Polski w 1990 r. IKiCHZ, Warszawa 1991, pp. 32 - 33.

panies subsidized by the state budget controlled 87% of Poland's total exports and 88% of the country's total imports[4].

Another issue worth noting is the problem of prices in foreign trade payments and their relation to the structure of domestic prices. In a traditional socialist economy, prices were isolated from the influence of the world market. A principle adopted in 1982 in order to more closely tie domestic and foreign prices provided that official book prices on staple resources and materials be determined based on prices charged and paid in Poland's foreign trade transactions. The principle was never fully enforced and as a remedy to the persistent discrepancies between the level of domestic and world prices, compensation payments (where officially imposed rather than actual transaction prices were used for certain commodities) remained a common practice until the end of the 1980s. Surcharges and compensation charges were used if transaction prices differed from those quoted officially. In time, the list of commodities subject to these rules grew shorter, and an attempt was made in 1988 to move away from arbitrary compensation pricing and towards performance-based prices.

Another key element in describing the initial situation was the geographical and commodity make-up of Poland's foreign trade (see Tables 3 and 4, pp. 126, 127).

Tables 3 and 4 do not fully reflect the key differences in the commodity structure with regard to export destinations and import sources. Traditionally, exports to the first area had been dominated by products of the electromechanical industry (throughout most of the 1980s they constituted over 60% of total exports). The low quality of these products barred most of them from markets other than the CMEA. The same applied to some chemical and light industry products exported to CMEA markets.

Heavy industry products headed the list of Poland's imports from the CMEA, while fuel and energy assumed a close second position.

An important element of the initial situation were some companys' policies, particularly the strategies adopted by exporters. Surveys conducted in 1988 revealed several regularities, significant[5]. The majority of the enterprises surveyed chose to target markets of single areas. 44% of the companies sent 2/3 of their exports to the hard currency area. Similarly, 45% of companies chose the rubel area as the destination for 2/3 of their exported products. On the other hand, only 10 to 20% of producers/exporters never ventured into markets competing with those of the hard currency area. The moderate interest in foreign trade on the part of manufacturers was reflected in the small percentage of their total output which was exported, the lack of commitment to developing distribution networks, and little interest in obtaining foreign trade licenses.

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[4] Ibidem, p. 32. Foreign trade licenses were introduced on a wider scale in 1982.

[5] Strategia eksportowa producentów regionu pomorsko-kujawskiego. Raport z badań **W. J. Otta** (ed.), Toruń 1988.

Morevoer, export companies were notorious for looking to and pressurizing the administration to adjust currency exchange rates rather than trimming company expenditures and adding a competitive edge to their operations.

Table 3

The geographical structure of the export and import trade (based on current prices) (%)

Years/Countries	Export	Import
1981		
EEC*	23	20
European CMEA**	45	51
Other	32	29
1985		
EEC	23	20
European CMEA	48	54
Other	29	26
1987		
EEC	26	25
European CMEA	41	46
Other	33	29
1989		
EEC	32	34
European CMEA	35	32
Other	33	34

* EEC – European Economic Community, ** CMEA – Council for Mutual Economic Assistance.

Sources: Authors' calculations based on Handel Zagraniczny 1991, GUS, Warszawa 1992.

Finally, among factors affecting the initial picture was a general public disapproval of export trade. This attitude, rooted in the society's poor economic education, came from the popular belief that export trade drew goods out of the unbalanced shortage-ridden domestic market and even drained state revenues. Only few social groups benefited from the gap between the official and black market exchange rates of the dollar. For some people, business trips abroad were a substantial source of extra income. In relations between foreign trade companies and industries, control over such business trips often became an effective instrument in subjecting the latter to the former, at times bordering on corruption.

Table 4

The commodity structure of Poland's export and import trade (based on current prices) (%)

Item	Import			Export		
	1981	1985	1989	1981	1985	1989
Fuel and energy	16.6	21.5	12.4	10.4	15.6	9.6
Metalurgical industry	9.1	9.3	8.8	8.9	8.9	10.5
Electromechanical industry	29.3	32.8	36.3	45.2	39.4	38.4
Chemical industry	11.8	13.5	15.2	9.6	10.4	10.5
Mineral industry	1.3	1.5	1.3	1.0	1.0	1.3
Wood and paper industry	1.7	1.5	1.9	2.4	2.0	2.9
Light industry	3.9	5.2	7.6	8.6	5.9	5.5
Food industry	12.0	7.2	9.5	5.1	6.6	9.6
Other industries	0.9	1.2	1.7	0.6	0.5	0.6
Construction	0.2	0.0	0.0	5.4	5.3	5.9
Agricultural products	13.1	4.9	4.9	2.0	3.2	4.1
Forestry products	0.1	0.1	0.1	0.6	0.7	0.3
Other	0.0	0.3	0.3	0.2	0.8	0.8

Source: Handel Zagraniczny 1991.

2. External factors

The principle external factor affecting the Polish economy in 1990 - 1991 was the breakup of the CMEA. In 1990, the old method of payment was still maintained, which seems to have had the effect of slowing down the disintegration of mutual trade contacts.

In 1990, Poland's exports to the rubel area made up 89.6% of total 1989 exports[6], while import trade suffered a most dramatic collapse with the dynamics indicator of 66.3%. The combined shifts in the levels of export and import helped to generate a positive balance in trade with the rubel area with a total value of 4,787 mln transfer rubles.

In 1991, the dynamics of exports to the countries of the former CMEA stood at 58.2% relative to 1989 with the export dynamics indicator being 66.4%. In practical terms, this spelled a collapse of trade with the countries of the former CMEA. An exceptionally dramatic drop in exports took place in the machine

[6] Komunikat o sytuacji gospodarczej kraju w 1990 r., Rzeczpospolita, Feb. 2, 1991.

and precision industries which employed about 12% of the total industrial workforce and accounted for 5% of sales volume in the industrial sector. Besides the real processes occurring in the CMEA countries, a factor contributing to the disintegration of foreign trade was the transfer to dollar payments.

In 1992, export transactions in dollars to the countries of Eastern Europe amounted to 81% of 1991 exports whereas the dynamics indicator for imports reached 88%.

The Polish economy suffered an especially painful blow at the decline of Poland's cooperation with the Soviet Union and subsequently, with the countries that emerged after its breakup. Between 1950 and 1989, the USSR remained Poland's principle trade partner both in terms of imports and exports – the volume never fell below the 20% benchmark (in some years the figure was as high as 35%). A change came in 1989 when imports slipped to 18.1% with export trade at 20.8%[7]. From 1990 on, Germany maintained the dominant position pushing the USSR into second place. In 1990, trade with the USSR accounted for 15.3% of Poland's exports and 19.8% of its imports; in 1991 exports from the countries of the former Soviet Union fell to 11.0% whereas imports made up 14.1% of Poland's incoming trade. 1992 saw the downward trend continue to reach 9.5% and then 11.8%. The decline in trade with countries of the former Soviet Union continued throughout 1993. To give an example, in the period between January and April of 1993, Poland sent $ 180 mln's worth of exports to Russia and received $ 225 mln's worth. A percentage of transactions were carried out on a barter basis – in 1992, these constituted about 20% of Polish export and 10% of Polish import[8].

The disintegration of trade with the East is believed to be the primary factor contributing to the fall in Gross National Product. According to Berg and Sachs, to compensate for imports from the USSR, Poland was forced to spend approximately $ 3.2 bln., bringing GNP for 1990 down 4%[9].

The changes in Poland's economic relations with the countries of the former Soviet Union contributed to a substantial decrease in Polish import and export with those countries. The trend is illustrated in Table 5.

Another prime factor was the economic relation with the EEC. In this respect, Poland sought to form closer ties with the EEC, who in turn remained reserved toward the idea of integration. Nevertheless an agreement on trade and economic cooperation between Poland and the European Economic Community was signed in 1989. The agreement laid the foundation for further economic integration. In December of 1991, the Association Treaty between

[7] Handel Zagraniczny 1992, GUS, Warszawa 1992, p. 2.

[8] **I. Rynkiewicz**, Bez pomysłu, Gazeta Bankowa 1993, Issue no 26.

[9] **A. Berg, J. Sachs**, Structural Adjustment and International Trade in Eastern Europe: the Case of Poland, Economic Policy, vol. 14, April 1992.

Table 5

Trade with CMEA countries as a percentage of Poland's total international trade (based on current prices) (%)

Item	1990	1991	1992	1993
Export	21.4	16.9	15.4	13.2
Import	21.9	20.0	16.3	13.4

Source: Polski handel zagraniczny w 1991 r., Raport roczny, IKiCHZ, Warszawa 1992, p. 14, authors' calculations based on Handel Zagraniczny, Jan./Feb. 1992, GUS, Warszawa 1993 and Polski handel zagraniczny w 1993 r., Raport roczny, IKiCHZ, Warszawa 1994.

Poland and the EEC declared Poland's membership in the EEC as the final goal. The projected 10-year transition period was divided into two phases in which Poland would convert to the Western-European economic and political systems. The trade part of the Treaty is implemented by force of the Interim Agreement of March 1992. The key resolutions with regard to trade included in the Treaty were as follows:

– the creation of a free trade zone between the contracting parties within a period of 10 years (with the exception of agricultural products),

– the abolition of most quantitative restrictions on import trade by the date the Interim Agreement would become binding,

– an assymmetrical tarifs liberalization schedule – the EEC committed itself to lift tariffs on Polish commodities before Poland removes tariffs on EEC merchandise.

The Association Treaty includes general guidelines for the implementation of free-trade principles along with definitions of the circumstances under which the contracting parties would be allowed to restore import restrictions or impose new ones. The question of import restrictions is described in what is called the *protection clause*. The *general clause*, in agreement with the articles of GATT, enables both parties to impose tariffs whenever a rise in imports causes material damage to either party's domestic industries. The restructuring clause enables Poland to impose tariffs for the purpose of protecting infant industries or industries in the process of being restructured. The agreement includes anti-dumping clauses and safeguard clauses providing protection against fluctuations of the agricultural market. The contracting parties included a clause on agricultural food products allowing them to introduce new restrictions and determine their form.

The Association Treaty with the EEC is unquestionably a landmark achievement on the road to improve Poland's international economic relations.

Its benefits for Poland lie in the possibilities of using the advantages of a scale economy, utilizing Poland's production capacity to a greater degree utilizing the trade diversion effect and the trade creation effect, increasing Poland's appeal to foreign investors, etc. The projected effects of the Treaty should not, however, be overestimated considering the fact that average duty rates in the EEC are relatively low and are estimated to range from 3% to 5% on most products. Furthermore, in areas where Poland has the biggest advantage (agricultural and textile products), non-tariff restrictions are to be used extensively while their liberalization is to be either limited to selected commodity items (the agricultural sector) or scheduled over a long time period (textile products).

The economic situation of the EEC, Poland's chief partner (see Table 6) deteriorated during the 1990 - 1993 period. 1990 was the eighth and final year of economic growth and rising trends. The second half of that year brought recessionary trends to Great Britain which would linger for years to come. In 1991, other EEC countries also suffered a significant slowdown in economic growth. In 1992, Germany reported an especially severe downturn prompted by difficulties related to the absorption of East Germany. The German growth rate dropped from 3.2% in 1991 to 1.1% in 1992. The economic growth rate in France suffered a marked decline[10]. Those recessionary trends turned around in 1993. In 1994 most West-European economies achieved relatively good growth rates.

Table 6

Trade with EEC countries as a percentage of Poland's total international trade (based on current prices) (%)

Item	1990	1991	1992	1993
Export	47.2	54.7	58.0	63.3
Import	45.8	48.4	53.1	57.3

Source: Polski handel zagraniczny w 1991 r., Raport roczny, IKiCHZ, Warszawa 1992, p. 14, and authors' calculations based on Handel Zagraniczny, Jan./Dec. 1992, GUS, Warszawa 1993 and Polski handel zagraniczny w 1993 r., Raport roczny, IKiCHZ, Warszawa 1994.

In most countries of the EEC, the reduced pace of economic growth combined with recessionary trends resulted in stepped-up protectionist policies. In the spring of 1993, for instance, an administrative ban was imposed on the imports of live cattle (also from Poland); in the summer of the same year, minimum prices for cherries were instituted.

[10] Polski handel zagraniczny w 1992, Raport roczny, IKiCHZ, Warszawa 1993.

The economic situation in the rest of the world in 1990 - 1993 also showed negative trends. In 1990 and 1991, the Gross World Product growth rate declined a slowdown (by 2% and 1% respectively). The second half of 1990 brought a recession in the USA. In 1991, the country's GDP fell to 0.5%. In 1992 the United States economy succeeded in achieving a 2% GDP growth rate. This tendency was maintained in 1993 (+3.8%) and in 1994 (+4%).

In countries affected by recession an increased protectionism could be noticed. An example was the US government's decision to restrict the imports of steel.

Table 7 illustrates the dynamics of trade with other countries represented as a percentage of Poland's total international trade.

Table 7

The share of other countries in Polish foreign trade (current prices) (%)

Item	1990	1991	1992	1993
Export	31.4	28.4	26.6	23.5
Import	32.3	31.6	30.6	29.3

Source: Polski handel zagraniczny w 1991 r., Raport roczny. As above, and Polski handel zagraniczny w 1993 r., Raport roczny, Warszawa 1994.

An important external factor affecting Poland were relations with international organizations. Cooperation with the International Monetary Fund, which approved the currency stabilization project launched in 1990, was quite successful. The approval meant a $ 1 bln Stabilization Fund could be created in January 1990 from donations ($300 mln) and loans ($700 mln)[11]. The absorption of the money, however, posed some serious problems. By 1992, $ 772 mln of the credit had been used. In addition, Poland received credit from the International Monetary Fund, the European Bank of Reconstruction and Development, the European Investment Bank and the International Finance Corporation[12].

The question of reducing the Polish debt to beneficiaries officially associated in the Paris Club was resolved favorably for Poland. Seventeen members of the Paris Club approved a 50% reduction of the debt's net present value as of April 1, 1991[13].

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[11] Poland. International Economic Report 1989/90, World Economy Research Institute, Warszawa 1990, p. 57.

[12] Ibidem, p. 157.

[13] Polski handel zagraniczny w 1991 r. Raport roczny, IKiCHZ, Warszawa 1992, p. 93.

For a long time there was no agreement, on the reduction and restructuring of the debt owed to the London Club, consisting of private beneficiaries. The agreement was eventually reached, in 1994. It reduces significantly the Polish debt.

To complete the description of the external situation in 1990 - 1994, it should be noted that during the initial period, the international atmosphere was favorable for Poland, particularly among the developed countries. This position was the result of the relatively good shape of Poland's economy and popular feelings of sympathy for Poland as the first country to break away from communism. The ensuing economic difficulties that beset Poland's chief partners brought about tendencies which in effect limited the positive international attitudes to Poland's economic problems.

3. The economic policy

The 1990 - 1994 economic policy incorporated four principle goals:

1) fiscal and monetary stabilization,
2) liberalization of trade,
3) institutional transformation,
4) restructuring.

One symptom indicating the tightening of fiscal policy was the complete elimination of export subsidies. A great majority of prices were freed in 1990. The remaining subsidies cover a small and ever decreasing number of products and services (energy, transport fares, apartment rents, medications, etc.).

By and large, income and sales taxes have been kept at a relatively low level. In July of 1993, the sales tax was replaced by the Value Added Tax (with a basic rate of 22%). In order to stimulate exports, export goods were to be exempt from VAT.

As to revenue offices, however, their efficiency leaves much room for improvement. They seem unable to handle the task of enforcing and collecting taxes.

An important element of the stabilization plan was the toughening of the credit policy. The soaring inflation rate led to the introduction of volatile and very high nominal interest rates, a measure dictated by the principle of using the positive real interest rate.

Another important factor is the substantial toughening of the monetary policy. The National Bank of Poland controlling the issuing of money was made formally independent of the government. In the first phase of implementing the

Balcerowicz Plan, a significant depletion of real money reserves was followed by a cautious recovery slightly increasing the real money supply.

The zloty was made partially convertible (for current transactions only). Enterprises were to move away from two-currency deposits – all export revenues were to be fully exchanged into zlotys to comply with a mandatory ruling designed to prevent businesses from holding foreign currency accounts.

The stabilization plan comprised two nominal anchors – fixed exchange rates (in force until May, 1991) and an extra high penalty tax on high pays (exceeding the standard salary was taxable by amounts equal to 200% to 500% of the "excessive pay", depending on how much the norm was exceeded).

A devaluation jump of the zloty relative to the dollar by 31.6% (from 5235.5 zl in December, 1989 to 9500.0 zl in January 1990) occured on the 1st of January, 1990. The rate remained unchanged until another 17% devaluation in May, 1991. Meanwhile, a new method was adopted for determining currency exchange rates – the rate of the zloty would be tied to the performance of a variety of currencies rather than just the dollar. The crawling devaluation of the zloty (the currency basket value rising by about 1.8% per month) was adopted effective November, 1991. February, 1992 brought another devaluation jump of the zloty by 12%, followed by yet another this time by 8%, in August, 1993. Another important occurrence in the initial phase of the transformation was the change of the exchange rate of the transfer ruble against the dollar from 2.97RT for 1USD in 1989 to 4.52RT for 1USD in 1990.

The liberalization of internal trade involved, most importantly, the freeing of prices on most products. In 1990, 7% of prices remained controlled. Later, as a concession to pressure groups, a certain degree of state interference into price setting was reinstated, e.g. with regard to determining minimum prices for purchasing selected agricultural products by the Agricultural Market Agency.

One form of liberalization of foreign trade was the move away from most non-tariff instruments for regulating exports and imports. A radical reduction took place in the number of the so called internal quotas, or quantitative restrictions on trade volumes introduced unilaterally by Poland. The customs tariff introduced in 1989 was quite liberal and by eliminating quantitative restrictions, opened the borders to foreign commodities, although the average level of protection (7.7% in 1990) still exceeded that in EEC countries. In time, the liberal importing policy was somewhat tightened. Pressures from the agricultural lobby brought about a raise in customs rates for agricultural food products. In order to protect domestic producers and because of certain fiscal considerations, prices were raised and quota limitations imposed on other commodity categories. A typical example is the intensified protection of the domestic auto industry strongly supported by potential foreign investors. The so called "auto clause" included in the Interim Agreement between Poland and the EEC spelled out resolutions regarding the timetable for reducing (by 35%) high duty rates on cars imported into Poland and establishing duty exemption quotas, to be increased on a yearly basis, on imports of cars and trucks from the EEC to Poland.

All in all, the initially radical policy of liberalization of international trade was replaced in 1991 by a general increase in protectionism to the level of 19% (including import taxes) and a reinstatement of non-tariff regulatory instruments.

In the area of institutional adjustment, a measure worth mentioning was the demonopolization of foreign trade, as had been the case during the period of communist rule. The legal restrictions on granting licenses for export/import activities were lifted (with the exception of licenses on trading in selected commodities). In consequence, by the end of 1990, some 100,000 businesses applied to the International Trade Information Bank for a registration number, a prerequisite for starting a foreign trade operation[14]. Nevertheless, about 75% of foreign trade in 1990 was carried out by specialized foreign trade companies. In the ensuing years, the role of foreign trade companies in both Poland's export and import diminished.

Meanwhile, the private sector continued to gain significance.

In 1992, the private sector accounted for 47.2% of foreign trade in commodities, that is 38.4% of exports and 54.5% of imports. In 1991, the figures were respectively 32.9%, 19.8% and 46.1%[15].

An important element of the institutional adjustment program was allowing foreign investment into Poland. The first attempts at letting in foreign capital date back to the 1970s. In 1989, 949 out of 1700 foreign companies permitted to enter Poland actually started their operations[16]. In 1991, a new Foreign Capital Companies Act was passed. The Act incorporated changes designed to bring Polish regulations closer to the legal systems found in countries with market-oriented economies.

Administrative requirements were relaxed with regard to opening businesses and conducting business activities; the start-up capital requirement (in the amount of $50 thousand) was lifted, the right to full transfer of profits was granted, although the three-year tax exemption period was revoked. At that time, the Agency for Foreign Investment underwent a considerable profile change from merely supervisory functions actually promoting investment in Poland. By July, 1991, the Agency issued a total of 4917 permits for conducting business activities. Foreign investors entered Poland in 1992, an event particularly crucial for the Polish economy. By the end of 1992, the value of capital

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[14] Polityka ekonomiczna i handlowa Polski w 1990 r., IKiCHZ, Warszawa 1991, p. 154.

[15] Polski handel zagraniczny w 1992 r., Raport roczny, IKiCHZ, Warszawa 1993, p. 25.

[16] Ibidem, p. 177.

invested in companies registered in Poland had been estimated to have exceeded \$1.5 bln (the incoming capital alone amounted to \$1.1 bln in 1992). Foreign investors committed themselves to invest over \$3.5 bln. in the newly-created companies[17].

Institutional transformation also reached the banking sector. The reformation of the Polish banking system started in the second half of the 1980s. The most spectacular sign of the development of the banking sector in the '90s was the rapid increase in the number of banks. In the third quarter of 1990, 67 banks operated in Poland, of which 20 were in the initial stages of development[18]. Only very few banks were authorized to deal in foreign currencies abroad. By 1993, the number of banks exceeded 90, of which over 20 held foreign currency authorizations.

The final elements of the institutional transformation which are included in this paper are changes in the profile of economic self-government. Generally, the efficiency of economic self-government has to be evaluated as poor. One important factor that has contributed to this condition was the split of the self-government movement resulting in a great number of self-government units and the lack of a solid financial base for the functioning of self-government organizations. The promotional and informational activities of the Polish Foreign Trade Chamber were rendered useless. Adding the Polish Foreign Trade Chamber to the structures of the National Chamber of Commerce was not the most fortunate decision.

Another area of economic policy was the restructuring of the Polish system of promoting exports. Upon introducing the stabilization plan, the financial instruments for stimulating exports were practically abandoned. No economic development plans fostering exports were prepared or implemented. Still, there have recently been half-hearted attempts aimed at boosting the Polish economy. An example is a promotional campaign dubbed "Poland Now" which involves awarding the "Poland Now" mark to exceptional Polish products and partially financing the advertising campaigns of the thus distinguished enterpreneurs. However, the process of developing an infrastructure to support foreign trade such as a telecommunications system, a transportation infrastructure, border crossings, ect. has been insufficient.

In evaluating the effect economic policy has had on stimulating exports, we should stress that what stood behind the relative success of Polish export trade in the initial phase of the stabilization program was the powerful "push-out effect". The "push-out effect" was produced by three phenomena. One was a sudden drop in national demand resulting from the application of a shock--treatment therapy. The absorptivity of the Polish market was diminished by the

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[17] Polski handel zagraniczny w 1992 r., As above, p. 30 and 32.

[18] Polityka ekonomiczna..., As above, p. 42.

fall in real income. Another factor was the utilization of stock reserves from previous periods perceived by bookkeepers as an increase in efficiency because the prices of materials were calculated based on the much lower historical prices[19]. The main reason, however, for the "pushing out" was the extensive devaluation of the zloty against the dollar in the beginning of 1990 which produced an artificially low rate of the zloty relative to its purchasing power. The simultaneously executed devaluation of the transfer ruble benefited the exports of products requiring big amounts of raw materials from Poland.

The second half of 1990 brought an easing of the "push-out effect". The immediate cause of this phenomenon was the stabilization and slight decrease of real income and a stabilization of the reserves[20]. Another important factor was an inflation rate which exeeded the devaluation rate. The fact that the creeping devaluation had been logging behind inflation necessitated devaluation jumps (in February, 1992 and August, 1993). The gap between the inflation and devaluation rates influenced the profitability of export and contributed to a shaky trade balance. In 1993 (the first half), the discrepancy exeeded $1 bln[21].

4. The business adjustment strategy

Due to the limited amount of research work devoted to adjustment strategies, it is difficult to estimate the actual impact of adjustment efforts on exports. Numerous indicators, however, point to the fact that adjustment processes are still in their infancy.

First of all, the switch to trading on competitive markets and an increase in exports occurred within a very short period of time. A World Bank study showed that in 20 metallurgical and chemical plants surveyed. 89% of the CMEA's export commodities were withdrown and transferred to Western markets before 1990. As much as 91%, however, of products sold were still identical to those designed for the CMEA[22]. The transition period was evidently

[19] Cf. **M. E. Schaffer**, The Polish State-Owned Enterprise Sector and the Recession in 1990, CEP Working Paper, No. 191, London School of Economics, 1992.

[20] Cf. **G. A. Calvo, F. Coricelli**, Stabilizing a Previously Centrally-Planned Economy: Poland 1990. Economic Policy, vol. 14, Apr. 1992.

[21] There are wide discrepancies between the estimates of trade imbalance offered by the NBP (based on payments and foreign currency revenues) and GUS, based on outbound commodity flows.

[22] **B. Pinto, M. Belka, S. Krajewski**, Transforming State Enterprises in Poland. Microeconomic Evidence on Adjustment Policy, Research Working Paper WPS 1101. The World Bank, Feb. 1993.

too short to allow for far-reaching institutional and structural readjustments in enterprises.

Secondly, average export profitability ratios in industry (net profitability) fell below the profitability ratios for domestic sales. According to an IRiSS report, domestic profitability was generally higher than that of export sales: by 6.2 percentage points in the 4th quarter of 1990, by 12 percentage points in the 1st quarter of 1991, by 5.5 percentage points in the 1st quarter of 1991, and by 8.2 percentage points in the 3rd quarter of 1991[23].

Thirdly, as indicated in questionnaires on factors determining the profitability of export, the common view among enterprises was that the impact of external (uncontrollable) factors such as currency exchange rates and market prices was much stronger than that of internal factors such as reduction of company costs or modification of products offered[24].

Fourthly, some symptoms of "circumventing" efficiency requirements by enterprises and of restoring the "soft" financing could be seen e.g.:

– an increased volume of mutual loans between enterprises[25],
– delays in tax payments[26],
– a high level of "bad debts" in banks.

"Soft" financial management allows for the artificial maintainance of exports despite the lack of profitability.

Fifth, until the middle of 1992, the drop in industrial output had exceeded the drop in employment rates. This led to a decrease in work efficiency. It was not until the middle of 1993 that industrial output started growing, although employment continued to decline.

Sixth, the concepts and policy of privatization were not conducive to rapid institutional and structural changes in enterprises. Enterprises were being privatized without prior restructuring[27]. By the end of 1992, ownership transitions took place in 2052 enterprises (27.9% of all state-owned companies). These included 484 commercialized enterprises – one-person limited liability companies. 53 enterprises underwent capital privatization. 12 of them sold shares on

[23] Procesy dostosowawcze przedsiębiorstw przemysłowych do mechanizmu rynkowego – 1991 rok, IRiSS Report, Gospodarka Narodowa 1992, Iss. 3.

[24] Warunki pobudzania mechanizmów podażowych w przedsiębiorstwach przemysłowych w 1992 roku, IRiSS Report, Gospodarka Narodowa 1993, Iss. 56.

[25] Cf. **B. Pinto, M. Belka, S. Krajewski**, op. cit.

[26] Ibidem.

[27] The principles of the previous restructuring were applied to a great part of enterprises privatized in the former East Germany. Cf. **H. Siebert**, German Reunification: The Economics of Transition. Economic Policy, vol. 13, Oct. 1991 1991, and **W. Carlin, C. Mayer**, Restructuring Enterprises in Eastern Europe, Economic Policy, vol. 15, Oct. 1992.

the stock market. 553 enterprises were leased out, mainly to employee companies[28].

Most privatization methods employed in enterprises are not conducive to creating a uniform group of managers. This results in the slowing down of the adjustment process. In many enterprises, restructuring brought no significant changes in structure or management methods.

Seventh, the State Enterprises Act giving much power to employees' councils remains unchanged. The provisions of this Act have contributed to the creation in state-owned enterprises (not privatized) of a power structure referred to as the "Bermuda Triangle". The three chief decision-making bodies in such an arrangement are the management, an employee self-government and trade unions. In most cases, all three are powerful enough to obstruct the decisions of the others. The position of management is weakened by the lack of support from the state economic administration which is withheld despite the fact that the state is the legal proprietor of the enterprises.

Eighth, Poland's economic policy towards enterprises is based on a punishment rather than reward system. The signals coming from the external environment project high standards and often hostility. There has been no organized effort to support enterprises in the adjustment process (through information assistance, creating support institutions, extending aid to economic self-government, etc.). Moreover, the state is insufficiently committed to creating institutions and structures facilitating the efficient functioning of the market – a uniform telecommunications system, a network of easily accessible data banks, etc.

Ninth, the hostility and lack of security projected from the economic environment are reinforced by certain cultural factors, such as:

– the lack of a tradition of working in an unregulated market,

– perceiving the market economy to be a lawless jungle – i.e. lacking legal and ethical constraints,

– ingrained habits of mafia-style law evasion developed over years of functioning in the black and gray markets.

Tenth, the state institutions responsible for maintaining economic law and order fall short of counteracting the destructive and insecurity-fostering phenomena in the business and social worlds. The illegal trade in certain commodities has reached alarming proportions. There are many economic scandals happening, many of them unresolved. Unfair competition is not being efficiently eliminated. As a result, enterprises abiding by the law are automatically put at a disadvantage.

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[28] Cf. **W. Karpińska-Mizielińska, T. Smaga**, Wpływ prywatyzacji na funkcjonowanie przedsiębiorstw, Gospodarka Narodowa 1993, Iss. 7.

And finally, eleventh, it is crucial to take notice of the qualification shortage constituting an important barrier to the adjustment process. Especially painful is the lack of qualified executive and financial managers, as well as market and financial analysts. The educational system is slow in living up to the new requirements. The reforms of the economic educational system are not supported by the state[29].

The progress in the adjustment process on a micro-level is confirmed by the rise in the industrial output sold. The rise was recorded for a period before the middle of 1992. Poor financial results in enterprises, however, seem to contradict the thesis. In the first five months of 1993, 18,463 enterprises surveyed by GUS incurred a collective net loss. 56.7% of the enterprises in the group operated at a profit. The percentage of profitable enterprises in the total number of enterprises surveyed remains unchanged at the 1992 level (in 1992, 55.1% turned out profitable)[30]. The figures prompted opinions that the economic revival was only temporary and was in its final stages[31]. Those opinions seem to be to pesimistic. The economic growth was continued in 1994. Nevertheless a great share of non-profitable firms (more than 40% in 1994) threatens the prospects of long-run economic development.

All in all, it appears that many enterprises have not yet switched to a more effective mode of operation. Their position in the international market has not been established. Considering the global economic slow-down and growing competition, it will be quite difficult to maintain the present level of export in a long run, let alone increase it.

5. Conclusions

The growth and the strategic shift in export trade appears to have been the result of three converging factors:

1) the macroeconomic policy causing a strong "push-out effect",

2) the predominantly favorable international political and economic situation,

3) the relatively favorable public opinion which made possible the acceptance of a drastically lowered standard of living.

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[29] Cf. **M. Gorynia, W. J. Otta**, The Business Education Industry in Poland. Current Trends and Challenges. European Business Education, vol. 2, Iss. 1 (Dec. 1992).

[30] Cf. Sytuacja społeczno-gospodarcza w I połowie 1993 r., Statystyka Polski 1993, Iss. 7, Rzeczpospolita, Aug. 7, 1993).

[31] E.g. **H. Bińczak**, Przemysłowe wygasanie, Gazeta Bankowa, 1993, Iss. 35.

Unfortunately, the success in the area of export cannot be attributed to the adjustment of enterprises or an improvement in their international competitiveness. The signs of successful adjustment on the micro-level are too elusive to be considered a solid base for export expansion.

In time, restrictive macro-economic policies lose their capacity for stimulating exports. This does not mean, however, that the stabilization policy should be abandoned. Continuing the policy seems critical to maintaining the processes of institutional transformation and restructuring (the only argument being as to the extent to which the policy should be implemented).

The above analysis points to the possible deterioration of the international economic situation. The negative trends seem to establish themselves, leading to a stronger competition for a share of the international market most likely followed by an escalation in protectionism.

Some alarming phenomena can be observed in the social and political scenes. Parties and social movements spreading catchy slogans and postulating a radical shift in economic policy succeed in gaining popular support. This may be a passing phenomenon. Some researchers, however, take the populist threat very seriously believing it to be one of the potentially biggest barriers to the process of transition from a state-run to a market economy[32].

The mounting social and political pressures increasingly induce postulates to revise the existing economic policy by increasing state interference and adopting a hands-on industrial policy.

The paper has offered some theoretical observations pointing to passivity on the part of the central administration in the area of institutional transformation and restructuring. On the other hand, the postulates advanced by the advocates of the industrial policy seem to maintain and support the ineffectual industries rather than advocate a thorough modification of economic structures designed to increase the competitiveness of Polish business in international markets.

It is the belief of the authors of this paper that one should consider limiting the restrictive effect of the stabilization policy. Efforts should be stepped up to further institutional transformation on the macro-level, in particular through modifying the laws, promoting privatization, eliminating monopolies and supporting institutions which maintain and enforce the law. It seems that the state should assume a more active role in the macro-level restructuring and focus in particular on:

- stimulating reductions in energy consumption,
- promoting an orientation to export,
- supporting technological progress,
- protecting the environment,
- developing the technological infrastructure of the market.

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[32] Cf. **J. Hausner**, Populistyczne zagrożenie w procesie transformacji społeczeństwa socjalistycznego, The Friederich Ebert Foundation in Poland, Warszawa 1992.

The foremost priority of the new economic policy should be to support institutional and structural transformation in enterprise. Such support should incorporate:

1) Promoting the creation of central executive bodies in enterprises, through:
   - privatization (including commercialization),
   - drafting a new act on state enterprises,
   - creating institutions functioning as proprietors of state enterprises and enterprises with "scattered" ownership (such as investment funds).
   - a wider use of managerial contracts.

2) Ensuring a proper selection of managers – through e.g. instituting qualification tests (with uniform nation-wide standards) for candidates for managerial positions in state enterprises and scattered ownership enterprises. The test would serve to complement the old procedure of contests where the criteria have been arbitrary and far from uniform.

3) Facilitating the flow of the factors of production through:
   - increasing the efficiency of the markets for used machines and equipment and for the available production capacities through among others creating easily accessible information systems,
   - increasing the efficiency of the real property market by resolving the pending ownership controversies (through e.g. reprivatization which would not necessarily involve the actual returning of facilities),
   - accelerating bankruptcy procedures and increasing their efficiency.

4) Facilitating the flow of capital through e.g. increasing the efficiency of payment procedures, facilitating the issuing of stocks and bonds by enterprises, etc.

5) Resolving the indebtness problem of state enterprises – e.g. by writing off of a portion of the debt owed to the state budget, promoting the creation of settlement houses, factoring, etc.

6) Supporting the development of enterprises by focusing on:
   - technological progress – e.g. through additional investment and research and development allowances, creating a technological information network, etc.,
   - promoting the improvement of qualifications through tax allowances for personnel training, systematic broadcasting of educational courses on state television, etc.

7) Stimulating the restructuring of enterprises[33]:
   - promoting export (through e.g. participating in international fairs and exhibitions, an across-the-board promotion of Polish products, creating information networks on international markets, developing an export guarantee and insurance system, etc.

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[33] We support comprehensive, as opposed to differentiated by branch, restructuring programs.

– promoting energy-efficient technologies e.g. through tax allowances,
– promoting environment-friendly technologies and eliminating the polluting ones e.g. through tax allowances and penalty taxes.

8) Supporting the development of economic self-governments and authorizing them to perform certain regulatory functions (such as economic mediation, enforcing the principles of fair competition, etc.).

9) Attracting foreign investors. Direct foreign investments may turn out particularly helpful in:

– improving the qualifications of executive board members and other personnel,
– raising the level of professionalism in the area of management,
– transferring production, marketing and management know-how,
– introducing environment-friendly and energy and material-efficient technologies.

SUMMARY

The paper presents and attempts to analyze the changes in volume and structure of Polish exports recorded during the initial four years of transition from a socialist state-controlled economy to a market-oriented economy (1990 - 1994). The authors undertake the task of determining to what extent the success of foreign trade can be attributed to:

1) a favorable international situation,
2) the government's economic policy,
3) adaptive behavior by enterprises.

Part 1 of the paper provides an analysis of the legacy of socialism which explains the depreciated role of export, the economic policy which was unfavorable to export trade, the unfortunate geographical and commodity structure, the ,ackʳf an orientation toward on the export part of enterprises, and the negative social attitudes towards export.

Part 2 offers an analysis of the external situation in 1990 - 1994 (the break-up of the CMEA, Poland's economic relations with the EEC and other important economic partners, as well as cooperation with international organizations).

Part 3 has been devoted to the impact of Polish economic policy on export trade conducted between 1990 and 1994. It discusses the following areas of the economic policy: fiscal and monetary stabilization, liberalization of trade, institutional transformation, and restructuring.

Part 4 focuses on business adjustment strategies. It presents a list of indicators showing that adjustment processes in enterprises involved in export trade are still in their infancy.

The final part offers the authors' suggestions designed to reinforce the proexport character of the country's economic policy.