# Globalization of a Transitional Economy: The Experience of Poland

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**ABSTRACT.** The paper examines Poland's integration with the global economy over the last decade, using international trade and foreign direct investment (FDI) as the dimensions of this integration. First, the authors focus on the evolution of world trade and assess Poland's position in that trade. Then, they examine world-wide trends in FDI and compare FDI inflows into Poland with those into major country groups, including Central and Eastern Europe. The subsequent section of the paper investigates Poland's external economic equilibrium. The main conclusion of the paper is that between 1990 and 2000, the Polish economy was rapidly integrating with the world economy. However, Poland's participation in the globalization process was somewhat unbalanced, with imports and FDI inflows growing much faster than exports. Consequently, the policy implications and recommendations put forward in the last part of the paper concentrate on the issue of improving the competitive potential and export performance of Polish industries and firms. 

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## *INTRODUCTION*

Globalization is not a precise term that can be easily and consistently defined (Brown, 1992; Dicken, 1992; Ohmae, 1995; Parker, 1998). In fact, the literature supplies a variety of definitions of globalization. In his recent book on globalization, Streeten (2001) provides a sample of 35 different definitions of the term. Nevertheless, for the purpose of this paper, globalization will be defined as a world-wide integration of societal and economic activity leading to an increased interdependence between countries and regions. Such a process is usually characterized by intensification of cross-border trade and capital flows, driven largely by liberalization of trade and investment regimes and by advances in information and communication technologies. This, in turn, leads to a greater integration of national economic systems within the world economy.

The scope of these phenomena is reflected in an economy's share of world trade and foreign investment. A recent publication of the World Bank (2001) even reduces globalization to only one of these two dimensions, measuring the progress in globalization by a change in the ratio of trade to national income. However, looking at both dimensions–international trade and foreign direct investment–provides a more balanced picture of a country's level of (economic) globalization.

Since 1990, Poland has been going through the process of systemic transformation. As part of that process, Poland has sought to integrate itself with the world economy. Through its closer integration with the world economy, the country has been trying to accelerate GNP growth and to reduce the economic gap separating it from the European Union (EU), which Poland is scheduled to join in 2004.

Before 1990, Poland was a much less open economy and missed out on many of the benefits of globalization. After the transition process was initiated, the country faced the challenge of how to take advantage of globalization to accelerate the introduction of the necessary changes. It liberalized prices and market regimes, privatized most of the state-owned enterprises, re-directed its trade from the former COMECON trading bloc towards the EU and opened up its markets to foreign investment (Ali, Nowak & Pöschl, 2001).

The purpose of this paper is two-fold: to determine the trends of Poland's integration with the world economy in comparison with the corresponding world-wide trends; and to identify policy implications and suggest policy models to be considered in relation to the observed trends. Analysis is confined to world trade and foreign direct investment, which are of critical importance as far as Poland's participation in the global economy is concerned. In a wider context, the role of foreign capital and the country's share in international trade have always been the key development issues for all the transition economies of Central and Eastern Europe (CEE).

The analysis first focuses on the evolution of world trade over the decade of 1990-2000. Then, Poland's share in world trade over the same period is assessed, using both per capita and total trade volume data, as well as trade to GDP ratios. Thereafter, the analysis moves to foreign direct investment. FDI trends are investigated in the context of different country groups and Poland itself. One of the analytical instruments used in that context is the transnationality index developed by the United Nations Conference on Trade and Development (UNCTAD). The subsequent section investigates Poland's external equilibrium. Economic policy implications stemming from the observed trends in foreign trade and FDI constitute the last section of the paper.

## *GROWTH TRENDS IN WORLD TRADE*

The impressive trade growth of the last decade has undoubtedly fuelled the globalization of economic activity. Table 1 shows the growth of world merchandise exports and imports in comparison to the growth of GDP during the 1990-2000 period. The export volume grew by 96%, whereas real GDP growth over the same period was only 25%. In other words, exports increased almost four times as much as the GDP.

Faster growth of world exports compared to world GDP is not a new phenomenon. In fact, the last 50 years have seen trade expand faster than output by a significant margin, increasing the degree to which national economies rely on international trade (WTO, 1998, p. 33). However, one can observe some acceleration of export growth in recent years. For example, in 2000, exports grew by 12%, which is a substantially higher growth rate than the average for the whole decade. In terms of current prices, the value of world exports amounted to 6,364 billion USD in 2000, as compared to 3,442 billion USD recorded at the begin-

TABLE 1. Growth of World Merchandise Exports, Imports and GDP, 1990-2000

| Year | Exports | | | Imports | | GDP (real) index |
|---|---|---|---|---|---|---|
| | In bln USD (current prices) | Volume index (constant prices) | Per capita USD | In bln USD (current prices) | Per capita USD | |
| 1990 | 3,442 | 100 | 650 | 3,542 | 673 | 100 |
| 1991 | 3,509 | 104 | 660 | 3,626 | 682 | 101 |
| 1992 | 3,759 | 109 | 666 | 3,880 | 692 | 102 |
| 1993 | 3,747 | 113 | 655 | 3,859 | 669 | 103 |
| 1994 | 4,244 | 124 | 736 | 4,369 | 752 | 105 |
| 1995 | 5,079 | 136 | 861 | 5,218 | 876 | 107 |
| 1996 | 5,347 | 143 | 895 | 5,525 | 919 | 110 |
| 1997 | 5,537 | 158 | 884 | 5,720 | 894 | 114 |
| 1998 | 5,447 | 166 | 857 | 5,667 | 902 | 117 |
| 1999 | 5,662 | 175 | 897 | 5,899 | 924 | 120 |
| 2000 | 6,364 | 196 | 1,051 | 6,669 | 1,101 | 125 |

Per capita figures: own calculations based on population data derived from the World Bank's World Development Indicators databases.
Source: WTO, 2001 (various pages).

ning of the decade. The figures for imports are 6,669 and 3,542 billion USD, respectively.

When exports of goods are combined with those of services (the latter are estimated to be worth 1,435.4 billion USD), the ratio of world trade to world GDP amounts to 29% in 2000. Since 1990, this ratio has increased by 10 percentage points, more than in the two preceding decades combined (WTO, 2001). This represents a further indication of the strengthening of global economic integration in the last decade.

## *POLAND'S POSITION IN WORLD TRADE*

A significant sign of Poland's progressing openness to the world after 1989 was a dramatic increase in her foreign trade activity. As Table 2 indicates, exports from Poland grew by an impressive 127% between 1990 and 2000 (in real terms). Imports grew even more dramatically (by 426%), leading to serious foreign-trade imbalances, compensated, however, by substantial capital inflows. The growth of exports and, to a

TABLE 2. Volume Indices of Imports and Exports for Poland, 1990-2000

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Previous year = 100 | | | | | | | | | | | 1990 = 100 |
| Exports | 100 | 98 | 98 | 99 | 118 | 117 | 110 | 114 | 109 | 102 | 125 | 227 |
| Imports | 100 | 138 | 114 | 119 | 113 | 121 | 128 | 122 | 115 | 104 | 111 | 526 |
| Terms of Trade | 100 | 91 | 110 | 108 | 101 | 102 | 97 | 99 | 104 | 101 | 96 | 108 |

Calculated on the basis of data expressed in Polish zlotys in constant prices.
Source: Central Statistical Office (Poland), 2000a and 2001a.

smaller degree, imports fluctuated from one year to another. For example, exports grew by more than 25% in 2000, but only by 2% in 1999.

Terms of trade were, for the most part of the decade, favorable for Poland, with the index of 108 for 2000 (as compared to the base year 1990), indicating that the prices of exported goods grew more than those of imported goods.

In reference to the trends in world trade described in the previous section, Poland's share in world exports increased by only 0.1 percentage point from 0.4% in 1990 to 0.5% in 2000. This seemingly insignificant increase translates, however, into a 25% improvement in Poland's position in world trade on the export side. On the import side, the change was much more dramatic. Poland's share increased from 0.3% in 1990 to 0.7% in 2000. Parallel to that was an increase in the value of exports and imports per capita. The value of exports per capita increased from 376 USD in 1990 to 820 USD in 2000, and that of imports grew from 250 USD to 1268 USD, respectively (see Table 3). In terms of exports per capita, Poland was slightly below the world average, but its imports per capita exceed the world average (see Table 1).

However, it would be unjustified to conclude about the seemingly excessive import intensity of the Polish economy. The problem seems to lie more in insufficient exports and less in excessive imports. For example, in 1999 the value of imports per capita in the Czech Republic and Hungary amounted to 2,803 USD and 2,782 USD, respectively. The respective figures for exports per capita were 2,612 USD and 2,484 USD. It is, therefore, evident that the gap between exports and imports was not unique to Poland. It also existed in the other two key Central European economies. However, it must also be noted that exports per capita were 3.7 times higher in the Czech Republic and 3.5 times higher in Hungary than they were in Poland. Similar comparisons for imports per

TABLE 3. Poland's Gross Domestic Product, Imports and Exports (Current Prices)

| Year | GDP | | Imports | | | Exports | | | |
|---|---|---|---|---|---|---|---|---|---|
| | In mln USD[a] | Per capita in USD[a] | In mln USD | Per capita in USD | % share of world total | In mln USD | Per capita in USD | % share of world total | Exports/ GDP ratio |
| 1990 | 58,976 | 1,547 | 9,528 | 250 | 0.3 | 14,322 | 376 | 0.4 | 24.3 |
| 1991 | 72,924 | 1,998 | 15,522 | 406 | 0.4 | 14,903 | 390 | 0.4 | 20.4 |
| 1992 | 84,326 | 2,198 | 15,913 | 415 | 0.4 | 13,187 | 344 | 0.4 | 15.6 |
| 1993 | 85,853 | 2,232 | 18,834 | 490 | 0.5 | 14,143 | 368 | 0.4 | 16.5 |
| 1994 | 117,978 | 3,057 | 21,569 | 559 | 0.5 | 17,240 | 447 | 0.4 | 14.6 |
| 1995 | 126,348 | 3,086 | 29,050 | 753 | 0.6 | 22,895 | 593 | 0.5 | 18.1 |
| 1996 | 134,550 | 3,484 | 37,137 | 962 | 0.7 | 24,440 | 633 | 0.5 | 18.2 |
| 1997 | 143,066 | 3,702 | 42,308 | 1,094 | 0.7 | 25,751 | 666 | 0.5 | 18.0 |
| 1998 | 157,274 | 4,068 | 47,054 | 1,217 | 0.9 | 28,229 | 730 | 0.6 | 17.9 |
| 1999 | 155,151 | 4,014 | 45,911 | 1,188 | 0.8 | 27,407 | 709 | 0.5 | 17.7 |
| 2000 | 158,839 | 4,110 | 48,940 | 1,268 | 0.7 | 31,650 | 820 | 0.5 | 19.9 |

[a] According to official exchange rate.
The exports/GDP ratio: own calculations based on the figures given in the table.
Source: Central Statistical Office (Poland), 2000 and 2001.

capita show that the Czech Republic had a ratio that was 2.4 times higher than Poland and Hungary had a ratio 2.3 times higher than Poland. One implication of these comparisons is that the relative gap in export performance was much more acute in the case of Poland than it was in the other two transition economies.

Poland's export performance is a function of the competitiveness of her products in international markets. Measured as a percentage of EU imports (the EU is the primary export market for Poland), Polish exports showed a tendency to improve in the last decade, although not consistently across various product groups. Out of the 21 product groups studied by Lipowski (2000), 15 were competitive and profitable, and 14 of the latter improved their share in the EU market over the period of 1992-1998. Most of the product groups improving their share in the EU market were manufactures, including agricultural machinery, electrical machinery, televisions and radios, and automotive parts and accessories. In general, the share of manufactures in Poland's exports to developed countries increased by 13 percentage points between 1992 and 1998 (Lipowski, 2000, p. 88-89).

Another indicator of export performance is the export/GDP ratio. The trend here is not clear. No significant increase of that ratio can be observed when both GDP and export values are expressed in current prices and when the official exchange rates are used. The ratio was the highest in 1990, it decreased substantially in 1992 and 1994 and then stabilized at around 18% until last year, when it grew to almost 20%, due to a sharp increase in the value of exports. However, the latest ratio is still far from its 1990 level. Apparently, currency exchange rate fluctuations at the beginning of the transition period played a role in shaping this unusual trend. Also, a relatively high GDP growth has prevented the ratio from increasing substantially.

In conclusion, one can state that save for the unclear picture with respect to the exports/GDP ratio, all the other indicators were pointing to Poland's continuing integration with the world trade system, after the country initiated its transition to an open market economy. However, integrating with the world economy has so far progressed much faster on the import side than on the export side. Thus there seems to be much room for improvement in the area of Poland's export performance.

## *WORLD-WIDE TRENDS IN FOREIGN DIRECT INVESTMENT*

Foreign direct investment (FDI) inflows and outflows indicate the extent of host country participation in and contribution to the globalizing world economy. Over the last decade, the world witnessed a tremendous growth in FDI. FDI inflows reached a record 1.27 trillion USD level in 2000. Compared to 204 billion USD a decade ago, this represents an increase of over 600% in the nominal value of FDI (Table 4). Of the major country groups shown in the table, Central and Eastern Europe has experienced the most dramatic increase in FDI inflows (approx. 8,500%). FDI inflows into developing countries increased by over 700% and those into developed countries grew by almost 600%. The dominance of developed countries in FDI inflows (accounting for nearly 80% of the total) has been a permanent trend since the end of World War II.

The unprecedented growth of FDI inflows into Central and Eastern Europe can be explained by the fact that these inflows were negligible at the beginning of the decade. But even after such a tremendous growth, Central and Eastern Europe's share in the total inflow of foreign direct investment in 2000 amounted to a mere 2%. It should also be noted that the inflows into Central and Eastern Europe were very unevenly distributed across the region, with three countries: Poland, the Czech Republic

TABLE 4. Inflows and Outflows of Foreign Direct Investment in the Years 1990-2000 (in Billion USD)

| Year | Developed countries | | Developing countries | | Central-Eastern Europe | | All countries | |
|---|---|---|---|---|---|---|---|---|
| | Inflow | Outflow | Inflow | Outflow | Inflow | Outflow | Inflow | Outflow |
| 1990 | 169.8 | 222.5 | 33.7 | 17.8 | 0.3 | 0.04 | 203.8 | 240.3 |
| 1991 | 114.0 | 201.9 | 41.3 | 8.9 | 2.5 | 0.04 | 157.8 | 210.8 |
| 1992 | 114.0 | 181.4 | 50.4 | 21.0 | 3.8 | 0.1 | 168.2 | 202.5 |
| 1993 | 129.3 | 192.4 | 73.1 | 33.0 | 5.6 | 0.2 | 208.0 | 225.6 |
| 1994 | 132.8 | 190.9 | 87.0 | 38.6 | 5.9 | 0.6 | 225.7 | 230.1 |
| 1995 | 203.5 | 305.8 | 113.3 | 49.0 | 14.3 | 0.5 | 331.1 | 355.3 |
| 1996 | 219.7 | 332.9 | 152.5 | 57.6 | 12.7 | 1.0 | 384.9 | 391.6 |
| 1997 | 271.4 | 396.9 | 187.4 | 65.7 | 19.2 | 3.4 | 477.9 | 466.0 |
| 1998 | 483.2 | 672.0 | 188.4 | 37.7 | 21.0 | 2.1 | 692.5 | 711.9 |
| 1999 | 829.8 | 945.7 | 222.0 | 58.0 | 23.2 | 2.1 | 1,075.0 | 1,005.8 |
| 2000 | 1,005.2 | 1,046.3 | 240.2 | 99.5 | 25.4 | 4.0 | 1,270.8 | 1,149.9 |

Source: UNCTAD, 1992, 1996, 1999 and 2001.

and Russian Federation (in that order) absorbing two-thirds of the region's total FDI inflows (UNCTAD, 2001).

As far as FDI outflows are concerned, the dominance of developed countries is even more evident. In 2000, these countries accounted for more than 90% of the total outflows. Central and Easter Europe's outflows were only 4 billion USD, an insignificant 0.3% of the total. However, it is argued that the latter figure is grossly underestimated, as much of the FDI outflow from the Russian Federation goes unreported or is reported under other elements of the BOP (UNCTAD, 2001).

## *POLISH ECONOMY AND FOREIGN DIRECT INVESTMENT*

The data concerning the value of the inflow of foreign direct investment into Poland are presented in Table 5. These data show that in the first half of the 1990s the volume of such investment in Poland was not very impressive. In recent years, however, Poland has become a leader among the countries of Central and Eastern Europe in inward foreign investment. This has been a result of an improving attractiveness of Poland to foreign investors. According to AT Kearny consultancy, Poland's attractiveness as a locale for FDI has been recently rated the

TABLE 5. Inflow of Foreign Direct Investment into Poland in the Years 1990-2000 (in mln USD)

| FDI Inflow | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Current Year | 88 | 359 | 678 | 1,715 | 1,875 | 3,659 | 4,498 | 4,908 | 6,365 | 7,270 | 9,342 |
| Cumulative | 88 | 447 | 1,125 | 2,840 | 4,715 | 8,374 | 12,872 | 17,780 | 24,145 | 31,415 | 40,757 |

Source: National Bank of Poland, 2000 and 2001.

highest in the region, followed by the Czech Republic, Hungary and Russia (Maciejewicz, 2002).

In 2000, Poland attracted over 9 billion USD in FDI, which represented 37% of all the FDI inflows into Central and Eastern Europe in that year. The second largest recipient of FDI in the region, the Czech Republic, attracted 4.6 billion USD (UNCTAD, 2001). The surge of FDI inflow into Poland in 2000 was partly associated with the 4 billion USD purchase of a majority share in Telekomunikacja Polska S.A. by France Telecom. This purchase is regarded as the region's largest privatization and largest FDI transaction to date.

The comparison of Tables 5 and 4 makes it evident that the growth rate of the FDI inflows into Poland was considerably higher than that for the global FDI inflows in the years 1990-2000. In fact, Poland's FDI growth substantially outstripped the average for Central and Eastern Europe, increasing by a whopping 10,600% over the same period. Such significant progress in the dynamics of the inflow of foreign direct investment into Poland was above all possible due to the very low initial values at the beginning of the '90s. Poland's share in the world FDI inflow in 1990 amounted to 0.03%, but by 2000 it grew to 0.75%. It should be noted that in 2000 that indicator exceeded the indicators of Poland's share in the world exports and imports. The latter observation leads to the conclusion that the Polish economy has been globalizing faster in the FDI dimension than in that of international trade.

## *POLISH ECONOMY AND THE TRANSNATIONALITY INDEX*

To gauge national economies' level of international openness, UNCTAD uses the transnationality index. The index is calculated as the average of the following four indicators: FDI inflows as a share of gross fixed capital formation; FDI inward stock as a percentage of GDP; value added of foreign affiliates as a percentage of total national value added; and employment of foreign affiliates as a percentage of total employment

(UNCTAD, 2001). The transnationality index essentially measures the relative significance of FDI in a given economy. For the 30 developing countries for which the transnationality index was calculated, it ranged between 3 and 54% in 1998, with Hong Kong, China being the most transnationalized country. Among the developed countries, New Zealand held the first position. Seven countries, two developed and five developing, had the index value exceeding 30%. In Central and Eastern Europe, for which the transnationality index (published in the 2001 World Investment Report) was calculated for the first time, the average index was slightly above 10%, lower than the averages for both developed and developing countries. However, this average conceals wide differences between CEE countries. In Estonia and Hungary, the index was close to 25%, and in the Czech Republic and Latvia, it exceeded 15%, indicating a high degree of internationalization of these economies. On the other hand, the index was below 5% in one-third of the region's countries.

Poland occupied the eighth position among CEE countries, with the transnationality index of about 12%, slightly above the regional average (UNCTAD, 2001). One of the reasons for this rather low transnationality index for Poland was the country's very low share of FDI in the gross fixed capital formation in the period for which the index was calculated.

While not undermining the validity of the transnationality index, one cannot help noticing that it is sensitive to the size of the economy. As a rule, although there are exceptions from this rule, smaller countries tend to have higher transnationality indices and bigger ones tend to occupy the bottom of the list. The United States, for example, has the third lowest transnationality index among developed countries. It seems that adjusting the index for the size of the economy could have produced less biased results.

## *GLOBALIZATION AND POLAND'S EXTERNAL EQUILIBRIUM*

Poland's rapid integration with the world economy has not been free from macroeconomic management challenges. One such challenge was to maintain external economic equilibrium. This becomes evident in Table 6, which presents Poland's current account and trade balance in the years 1990-2000.

The foreign trade deficit was the main factor influencing the current account balance. In 1997, the deficit on the current account amounted to

TABLE 6. Current Account and Merchandise Payments, 1991-2000 (in Million USD)

| Specification | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Current account | −2,596 | −1,515 | −2,868 | 677 | 5,310 | −1,371 | −4,309 | −6,862 | −11,558 | −9,946 |
| 2. Merchandise Payments | | | | | | | | | | |
| Revenues from exports | 13,355 | 14,039 | 13,598 | 17,024 | 22,878 | 24,453 | 27,229 | 30,122 | 26,347 | 28,256 |
| Payments for imports | 13,077 | 13,573 | 16,080 | 17,919 | 24,709 | 32,632 | 38,549 | 43,842 | 40,727 | 41,424 |
| 3. Merchandise trade balance | 278 | 466 | −2,482 | −895 | −1,912 | −8,179 | −11,320 | −13,720 | −14,380 | −13,168 |

Source: Central Statistical Office (Poland), 2000b and 2001b.

4.3 billion USD, which constituted 3.0% of the GDP, in 1998 it amounted to 6.9 billion USD (4.4% of the GDP), whereas in 1999, it increased to 11.6 billion USD (7.5% of the GDP). In 2000, the deficit eased somewhat, amounting to 6.3% of the GDP.

Compared to other countries of Central and Eastern Europe leading in the transformation process to a market economy, the ratio of Poland's deficit on the current account to its GDP (−6.3%) was the highest in 2000. Hungary was in the most favorable situation, with a deficit of −3.3%, followed by Slovakia (−3.6%) and the Czech Republic (−4.5%). Thus, according to this criterion, Poland's external equilibrium was relatively weak (*Emerging Europe Monitor*, 2002).

Factors that tended to neutralize the influence of the high deficit in foreign trade balance were FDI inflows and revenues from the so-called cross-border trade. In spite of a high current account deficit, the balance of payments was positive during most of the decade under consideration.

The phenomenon of cross-border trade consisted of foreigners (mostly Germans on Poland's western border and Russians, Ukrainians and Byelorussians on Poland's eastern border) visiting Polish cities close to the border and buying cheaper food products and manufactured goods. However, there has been a decrease in the volume of such transactions in recent years, mainly due to administrative restrictions (stringent visa requirements) introduced by Polish authorities and designed to curb the illegal influx of immigrants seeking employment in Poland and subsequently in the countries of Western Europe.

As the role of cross-border trade in compensating for the current account deficit tended to diminish towards the end of the decade, the slack was being picked-up by the FDI inflows. In 2000, the FDI filled in the current account gap 94%, as opposed to only 55% in 1999 (Ali, Nowak & Pöschl, 2001). FDI inflows can also have an indirect compensating effect on the current account deficit by stimulating exports in the long run through helping to upgrade the country's international competitiveness (ibid.).

The negative trade balance was generated mainly by exchange with the countries of the European Union. According to customs statistics, registering the flow of commodities and not payments actually made, the deficit of trade with the EU increased from −7.3 billion USD in 1996 to −10.5 billion USD in 1997 and to −12.9 billion USD in 1998. However, in the last two years of the decade, the deficit shrank to −10.5 billion USD in 1999 and to −7.8 billion USD in 2000. It should also be noted that a significant factor influencing Poland's trade balance was foreign trade conducted by foreign-owned firms operating in Poland. In the years 1994-1998, the deficit in the latter amounted to −2.8 billion USD, −3.9 billion USD, −7.4 billion USD, −10.0 billion USD and −11.6 billion USD, respectively. This, in turn, was due to considerable import requirements of these firms resulting from modernization of their production capacity (investment imports) and from a high demand for supply imports (Olesinski & Pac-Pomarnacki, 1998). In contrast, in 1999-2000, foreign-owned firms' exports grew faster than imports, resulting in a decreasing negative trade balance of these firms, from −11.5 billion USD in 1999 and to −8.7 billion USD in 2002 (Durka & Chojna, 2001).

A high deficit on the current account may create a serious threat to a further stable economic growth of Poland. There is much evidence in related literature that countries, which opened their economies and joined the then-existing EEC (Spain, Portugal and Greece) also experienced considerable worsening of the current account balance but they financed it with a surplus on the capital account (Nowicki, 1997). In such a situation, it was necessary to implement an appropriate macroeconomic policy in order to prevent overheating of the economy and increased inflationary pressures.

Another potential danger lies in the loss of confidence of foreign firms undertaking direct investment in Poland due to the perceived excessive deficit on the said current account. Just at what point in relation to the country's GDP can such deficit be considered as being excessive is another issue, but once it is reached it may be very difficult to redress the situation, since foreign firms may begin to pull out of the country in increasing numbers.

## *CONCLUSIONS AND POLICY IMPLICATIONS*

The process of integrating Poland's transforming economy with the world economic system can be summarized by the following points:

- Poland took advantage of its opening to the world after 1989 by both increasing its participation in world trade and world FDI.
- Both the value of exports from Poland and imports into Poland grew faster than the corresponding world-wide figures, thus increasing the country's level of integration with the world trade system over the last decade. However, the growth of imports sub-

stantially outstripped that of exports, leading to serious current account imbalances.

- FDI inflows into Poland grew by an unprecedented 10,600% between 1990 and 2000, with the bulk of this growth occurring in the second part of the decade. This phenomenal growth in FDI was not only faster than the world-wide trend, but also substantially outstripped the average growth of FDI inflows into the Central and Eastern Europe. As a result, Poland's share in world FDI increased dramatically, from 0.03% in 1990 to 0.75% in 2000. By 2000, Poland became the largest FDI recipient in the CEE region.
- The transnationality index, calculated by UNCAD for 1998, which measures the relative significance of FDI in an economy, does not, however, attest to Poland's strong position in world FDI. The index shows that the country is only slightly above the regional average in terms of its transnationality. One explanation of the discrepancy between the phenomenal growth in FDI inflows into Poland and the country's rather low transnationality index is that the index has a bias in favor of smaller economies. It should also be noted that the growth of FDI inflows started in Poland from a very low level and, in spite of the very high rate of that growth in the last decade, Poland still has a long way to go until it can achieve the transnationality index values comparable to those of the most internationalized economies in the world.
- The much faster growth of imports than exports in the past decade was accompanied by a growing current account deficit that threatens Poland's macroeconomic equilibrium and future growth. So far, the deficit has been financed mainly by FDI inflows and cross-border trade, with the former playing an increasing role over time. As a result, no serious balance-of-payments problems have been experienced yet. However, should FDI inflows slow down, the BOP problems may become acute. To prevent that from happening, Poland must boost exports and balance its current account. The general problem lies also in finding effective methods of sustaining the growth of FDI.
- Although Poland's competitive position within the region varied depending on the criteria used (the ratio of exports to GDP, the transnationality index, or the current account deficit), her overall attractiveness to foreign investors was rated higher than that of the Czech Republic, Hungary and Russia. The expected admission of Poland to the European Union in 2004 is also a factor contributing

to the country's strengthening position among transitional economies of Central and Eastern Europe.

- The overall conclusion is that over the last decade, the Polish economy was rapidly integrating with the world economy, especially on the import and FDI fronts. The growth in exports, although substantially higher than the world average, did not keep pace with the growth in imports and FDI. In this respect, Poland's participation in the globalization process was somewhat unbalanced.

The most important policy implication stems from the last conclusion and boils down to the following question: What measures should policy makers use in order to eliminate the existing imbalance between the growth of exports and that of imports? There are two competing policy models that can be used as frameworks or guidelines in developing such policy measures. The first one can be called an "enclave model." According to the enclave model, the imbalance between the growth of exports and imports can be best dealt with by using policy measures specifically targeted at the export sector with the aim of boosting the sector's performance. According to the other model, termed an "integral model," the best way to eliminate the imbalance is to improve competitiveness of the whole economy (Gorynia, 2000).

Adoption of the enclave model leads to the obvious focus of policy makers on improving the competitive potential and performance of export industries and firms. Two basic premises seem to emerge in the context of desirable policy approaches and measures.

Premise number one is that foreign-owned firms do not need direct or indirect support measures designed to boost their competitiveness, as they already have an effective competitive advantage upon deciding to enter the Polish market. At the same time, they play an important, and growing, role in providing export earnings for Poland. Research shows that foreign firms operating in Poland demonstrate better export performance and direct more of their output towards export markets than their domestic counterparts. In 1996, the share of exports in total sales of foreign-owned companies was 13.9%, whereas for domestic firms it was only 8.8%. The share of exports by foreign entrants in the value of Polish exports rose from 25% in 1994 to 43% in 1997 (Durka & Chojna, 1998). In the subsequent years, foreign firms even strengthened their position in Poland's export; their share in total exports increased to 52% in 1999 and to 55% in 2000 (Durka & Chojna, 2001). This should come as no surprise. These firms tend to have better quality products with more recognized brand names, access to international distribution channels, and other advantages not possessed by most of the domestic firms. Therefore, foreign firms hardly need any export-specific policy measures aimed at helping them develop export-oriented products and export markets. Instead, these foreign firms, in order to continue exporting from Poland or to be attracted to invest in Poland, need an improvement in general infrastructure and conditions of doing business in this country. Survey data show that 44.4% of foreign-owned firms indicated lack of sufficient infrastructure as an "important" and "very important" barrier to establishing successful operations in Poland (Wolniak, 1998).

The second premise, which follows from the first one, is that the focus of export-specific policy measures should rather be on domestic companies, which need to build and upgrade their competitiveness to be able to compete in both the domestic and international markets. Expansion of these firms into foreign markets should be supported by education and training, demonstrating the rationale and benefits of exporting and the benefits of engaging in more advanced forms of international business once the export stage is mastered. This training should also show the ways in which export or international business plans can be developed and implemented. Being usually small and medium-sized entities, these firms often do not have sufficient knowledge and research capabilities to collect foreign market information on their own. Therefore, government support is needed in this area as well in the form of financing foreign market intelligence gathering and dissemination. The government should also co-finance the country-image boosting campaigns in order to offset the possible negative country-of-origin effects. Finally, there is a pressing need for measures, again in the form of direct and indirect financial support, that would stimulate Polish-owned firms to innovate and develop their core competencies which–embedded in new products and technologies–could form a solid base for developing and maintaining their competitive advantage in both the domestic and foreign markets.

According to the integral model, the underlying aim of all policy measures in the area of international trade and investment should be to improve the country's international competitiveness. The proponents of this model argue that economic policy shaping the competitiveness of firms should not discriminate between exporters and firms producing for the domestic market only. After all, in an open market, the domestic firms face competition from foreign firms (Gorynia, 1998). One can assume that the more competitive the domestic products are the less demanded the imported products will be, and the situation will lead to an improvement of the country's trade balance.

Policy recommendations stemming from the integral model boil down to the following:

- the primary objective of economic policy should be to support building competitiveness of firms; and
- this economic policy should not discriminate between producers selling in export markets and those operating in the domestic market only.

In the end, it is imperative to stress that the policy implications outlined above only "scratch the surface" of these important and complex issues. Further research is needed into various policy models, approaches and instruments that might be applicable to the specific situation of Poland and other transition economies as they attempt to embrace and absorb the complex process of globalization.

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