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The Polish Economy's International Competitiveness and Economic Policy

One of the consequences of the economic transformation carried out in Poland during the period 1990–95 is an opening up of the country's economy. Integration with the European Communities, membership in the World Trade Organization, and other similar factors suggest that the process of the internationalization of the Polish economy will continue in the future. The results of this increasingly extensive integration of the country with the world economy will be conditioned, to a large extent, by the competitive position of the Polish economy. Competition with other economies occurs on at least two dimensions: Polish exporters compete on international markets, and Polish producers compete against imports on the domestic market.

The argument of this article can be stated as follows:

1. Government economic policy should assist firms in achieving competitiveness.

2. Economic policy should facilitate the creation of competitive abilities in an integral manner, that is, by supporting competitiveness

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on both above-mentioned dimensions: the competitive position of exporters in foreign markets and competitiveness of domestic producers in an open home market.

In this article we describe:

—the prerequisites for the economy's international competitiveness;

—orientations of traditional foreign-trade policy (foreign economic policy);

—premises of a government policy designed to improve the international competitiveness of companies adopted in post-communist countries (the concept of a liberal-institutional industrial policy); and

—interdependencies between export-enhancing policy and industrial policy.

1. Determinants of International Competitive Advantage

Prior to developing an economic policy intended to support the country's international competitiveness, one should give careful consideration to factors that determine the achievement of international competitive advantage.

Although firms are primary beneficiaries of the economic success deriving from competitive advantage, the potential for this success is codetermined by the economic environment in which these firms operate. It is firms, and not states or nations, that compete on international markets. Further examination reveals, however, that states and nations may provide the environment facilitating, to a greater or lesser extent, the attainment of competitive advantage by companies. Thus, development of competitive advantage can be discussed on two levels: that of the firm and that of the country (state). The competitive advantage enjoyed by a firm is primary. National competitive advantage is a secondary factor that significantly modifies competitive advantage at the company level. Studies of the formation of international advantage attempt to show how some national

economies succeed in creating an environment that induces domestic firms to upgrade their operations, to adopt innovations, and so forth, and to do so more rapidly and profitably than their foreign rivals.

We are indebted to M.E. Porter for the precise distinction between competitive advantage of the firm and that of the country.[1] Porter's contribution involves the transfer of concepts, methodologies, and theories from the enterprise level to the level of a national economy. Porter distinguishes four determinants of national competitive advantage:

(a) factor endowment;

(b) demand conditions;

(c) the emergence of the required industry structure (supporting and related industries); and

(d) conditions for new business creation, organization, and management.

It should be emphasized that sources of competitive advantage are identified not at the level of a national economy as a whole but at the level of individual industries. Whenever we refer to the competitive advantage of a country, we always mean specific industries. No national economy has succeeded in gaining competitive advantage relative to other economies in all economic sectors. Some countries win competitive rivalry in specific industries while not being similarly successful in other areas of the economy. Moreover, in most cases competitive advantage is not revealed in individual, isolated industries but pertains to groups of industries that are linked through horizontal or vertical interdependencies.

These four determinants of international advantage are known as Porter's "diamond." The four determinants should be treated as a system: it is not the individual effect of each factor in isolation that is important but the combination of their joint effects. International-advantage determinants can either reinforce or weaken each other's influence. In optimal circumstances, all these factors codetermine jointly the emergence of international competitiveness. However, there are also situations in which

national advantage is a product of one or two of these determinants. In that case an achieved advantage frequently erodes and is difficult to sustain.

Porter emphasizes that the "diamond" concept does not provide an exhaustive explanation of the sources generating a national competitive advantage. Two more factors need to be taken into account to complete his theory. The first, called a "chance event," denotes a favorable circumstance, a fortunate accident, the emergence of an opportunity. Examples of such events are scientific discoveries, inventions, technological breakthroughs, and sudden, large fluctuations in world demand. The second factor is government economic policy, which influences all of the four determinants comprising the "diamond."

A country's factor endowment includes human resources, physical assets, knowledge and capital resources, and infrastructure. Proportions in which these factors are employed differ markedly across industries. As technology changes, the mix of factors whose deployment assures the achievement of technological advantage also changes. Globalization, however, frequently makes local access to specific factors less essential. At present, human-resource, knowledge, and capital factors are to a great extent mobile, since they can be shifted across boundaries. There is a specific hierarchy of importance among the productive factors being discussed. From this standpoint, we distinguish basic and advanced factors. The former include natural resources, climate, location, unskilled and semiskilled labor forces, and capital. Advanced factors cover modern communications infrastructure and highly educated personnel.

Productive factors may also be classified with respect to their specificity. Thus, we distinguish generalized factors, which are relevant for many industries, and narrowly specialized factors, which can be deployed in just a single industry or in a narrow range of industries. Also important is the origin of productive factors. A country may possess some factors (natural resources, location), whereas other factors are generated by specific factor-creating

mechanisms present in the country. The paucity of some factors in the country may stimulate inventions, technical advances, and so forth, leading to the achievement of competitive advantage.

The second determinant of international advantage is domestic demand conditions. The characteristics of domestic demand may enable a firm to perceive, interpret, and satisfy customer needs correctly. From this standpoint, the most important characteristics of home-market demand are the composition of demand in terms of the share of particular segments, the level of customer expectations, and the ability to anticipate the needs of buyers from other countries. Also important for gaining competitive advantage are the following characteristics of demand: the size of home demand, the number of independent buyers, the rate of growth of domestic demand, the timing of the emergence of domestic demand for a specific product, as well as the moment when domestic demand becomes saturated (saturation of the domestic market).

The next determinant of competitive advantage is the presence of an appropriate industry configuration in the national economy. Particularly crucial is the presence of internationally competitive supplier industries. This assures rapid, reliable, and sometimes preferential access to physical resources. Location is a source of considerable benefits. Proximity of suppliers to buyer markets (not only in the geographical but also in the cultural sense) stimulates innovation processes. It should be noted that the existence of domestic supplier industries is not required for all types of resources. Some of these can be successfully sourced on international markets. For some industries, however, the availability of a competitive home supply base is critical. Similarly important is the presence in the country of an appropriate array of related industries. These can be sectors that are complementary or similar to each other and that provide the prerequisites for the emergence of synergies (in technology development, production, distribution, marketing, after-sale service, and so forth).

The fourth and final determinant of international competitive

advantage is formed by the conditions for creating, organizing, and managing new business, as well as the nature of domestic competition. In different countries enterprises pursue varied strategies and assume divergent organizational structures. There is no single, universal optimal system of management. In this area national differences are so strong that we can speak about national styles of management. Also important are propensities and abilities to learn foreign languages. Other strong differences among countries concern goals that companies set for themselves as well as the motivations of their owners, managers, and workers. The nature of rivalry on the domestic market is also an important factor affecting the attainment of competitive advantage. Recent research indicates that the capacity to succeed in international markets is highly correlated with vigorous competition on the home market. In turn, the intensity of competitive pressure from domestic rivals depends, among other factors, on the conditions for new business formation.

The impact of the determinants of international competitive advantage discussed so far is further modified by the influence of what we described above as the role of "chance" and that of the government (economic policy). Only the right confluence of all these factors can contribute to the achievement of competitive advantage on the international level. The significance of each individual factor, as well as the impact and configuration of all these factors, changes over time. Once gained, competitive advantage will erode unless it is further developed, sustained, and defended.

2. Foreign Trade Policy (Foreign Economic Policy)

The very term "foreign trade policy" implies that foreign trade is a subsystem of the national economy. It is assumed, therefore, that there exists a criterion (or criteria) on the basis of which it is possible to isolate a portion of the national economy described conventionally as the "foreign trade subsystem." Leaving aside

considerable methodological difficulties involved in an attempt to isolate such a subsystem, let us accept here that the criterion of the participation of business entities in broadly understood export and/or import transactions may be useful in the real economy. Thus, without involving ourselves in definitional controversies, we can simply state that the subsystem of foreign trade, considered from the standpoint of economic agents, comprises all those businesses that participate in export and/or import transactions.

To accept that the foreign trade subsystem can be distinguished in the real economy is not equivalent, however, to substantiating the claim that this subsystem should be singled out for special treatment in the regulatory sphere through the development and implementation of a foreign trade policy that is dominated by particularist components, different from the choices of the general economic policy. The need for a foreign trade policy in this sense is usually inferred from the assumption of the specificity, unique character, and special importance of the foreign trade sphere.

Foreign trade policy may, therefore, approximate general economic policy to a greater or lesser extent. A measure of this similarity may be provided by the number of foreign trade–specific instruments as compared to the measures used in general economic policy. From this perspective, we can distinguish two categories of foreign trade policy tools:

(1) economic-policy instruments that by definition belong exclusively to foreign trade policy:

—trade-policy tools, such as tariffs, import levies, quotas, licenses, permits, and so forth;

—currency and foreign-exchange policy tools, such as exchange rates, exchange controls, international credit policies, and so forth;

(2) measures falling under general economic policy, which include special provisions for businesses participating in export and/or import transactions:

—taxation policy measures, such as income tax credits for

export-enhancing investment projects, reductions in the so-called "*popiwek*," the excess wage tax (in the past), and so forth;

—credit policy measures, such as preferential interest rates for credit, access to credit guarantee facilities on special, privileged terms, and so forth.

Both categories of economic-policy instruments help to imbue, to various degrees, the foreign trade subsystem with the character of an enclave operating under principles that are distinct from the rest of the economy. By definition, economic-policy tools that comprise a foreign trade policy include, as indicated previously, instruments of trade policy as well as of currency and foreign-exchange policies. The higher the tariffs and import levies, the greater the differentiation of their rates, the more numerous the quotas, and the more numerous the commodities that require licenses and permits, the more foreign trade comes to resemble a unique type of economic enclave. The character of the foreign trade subsystem is affected in a similar way by the use of non-market methods for setting currency exchange rates, the practice of establishing differentiated exchange rates, the deployment of currency controls, and the adoption of restrictions on borrowing and lending in international transactions.

Preferential tax and credit provisions for businesses participating in foreign trade (especially for exporters) also contribute to separating the foreign trade subsystem from the rest of the economy. In addition to general, systemic export support efforts (which do not discriminate on the basis of enterprise category or commodity type) through preferential tax, credit, and other treatments, such preferential measures are sometimes recommended for specific industries. Export-oriented policy then becomes largely indistinguishable from an industrial policy.[2]

In the economics literature we can also find the concept of foreign economic policy.[3] According to U. Płowiec, foreign economic policy should aim primarily to improve the international competitive position of the entire economy and to protect it from excessive levels of imports and unfair competition. With respect to exports, that author argues that Poland's foreign

economic policy should be at least twofold. It is necessary to increase the supply of competitive products and to improve the access of these goods to convertible-currency markets. The second objective of economic policy is to protect the economy from undesirable imports.

One contentious issue that is frequently raised in the debates over foreign trade policy is whether or not export-promotion policy is preferable to import-substitution policy. Most arguments presented in the literature support the superiority of export-promotion efforts. Studies also show that export-enhancing policy is more difficult to implement in practice and that it is effective only in the long term. Some authors claim that maintaining an appropriate level of the currency exchange rate is not sufficient in this case and that an industrial policy based on precisely defined criteria may also be helpful.[4] They argue that, when supporting a sector of the economy is warranted on particularly important grounds, industrial policy, involving a transfer of funds to that sector, represents a "lesser evil" compared to a protectionist trade policy. However, the selection of proper criteria may prove difficult in practice.

The discussion so far has demonstrated that traditional conceptions of foreign trade policy fail to address the determinants of national competitive advantage we described earlier as a system of factors determining this advantage. Such concepts of foreign trade policy assume a selective manipulation of some of these determinants while disregarding other factors.

3. International Competitiveness Policy in Postsocialist Countries: Liberal-Institutional Industrial Policy

Government policy toward generating the competitiveness of firms in postsocialist countries should aim to increase the supply of goods and services that are competitive in quality and price and that could be successfully marketed on the domestic and foreign markets. In this article our main focus is, obviously, the

ability to compete internationally. It should be noted, however, that, as economies become more open, the differences between competing on international markets and on the domestic market will diminish. It appears that the point of departure for an economic policy should be the objective of a general upgrading of competitive capabilities of domestic enterprises. Improved competitive ability allows firms to gain international advantage relative to foreign rivals and to compete successfully against them on world markets. It follows that a policy designed to shape the international competitiveness of companies should not treat foreign trade as a subsystem detached from the rest of the economy.[5]

The concept of a liberal-institutional industrial policy seems to satisfy the requirements for policy toward enterprise competitiveness in the postsocialist countries we have identified.[6] The crux of this policy involves government promotion of broadly understood economic development and entrepreneurial dynamism. Most of its tools are universal in application. Although these instruments cross into areas outside the purview of traditional macroeconomic policy, their common feature is the absence of any kind of differentiation across sectors and a uniform character.

Four main policy orientations can be distinguished within the liberal-institutional industrial-policy program:

(1) development-oriented policy;
(2) competitiveness policy;
(3) privatization policy;
(4) policy supporting self-governing economic bodies.

Such distinctions have only analytical significance. In practice, instruments deployed under the above-listed policy alternatives completely or partially overlap.

The following clusters of policy actions are especially important in the context of a development-promoting policy:

—stimulation of capital investment;
—stimulation of infrastructure investment;
—stimulation of innovations, research, and development;

—support for education and training;
—the spreading of economic risk;
—stimulation of the development of information systems and support for dissemination of information.

Two directions can be distinguished in the competition-promoting policy. The objective of the first policy orientation is to prevent the emergence of anticompetitive market structures and to deter anticompetitive behavior by firms operating in the domestic market (preventive orientation). The focus of the second policy direction is on the restoration of competitive conditions where these have been disrupted (repressive orientation). The main task of competition policy can be described as the creation and preservation of sound industrial structures in the given economy.

An appropriate ownership structure in the economy is a necessary precondition for an efficient and effective liberal-institutional industrial policy. Only an economy with a sufficiently high level of private-sector participation will satisfactorily respond to the tools of development-promoting and rivalry-enhancing policies.

A broadly conceived liberal-institutional industrial policy should also pay due attention to initiating, stimulating, and sustaining nonmarket linkages among market participants. We refer here to connections outside market interactions that supplement and are not contradictory to the operation of market forces. It seems that some neocorporativist proposals could be utilized for this purpose. The proposed measures may be useful, first of all, in achieving a proper organization of economic self-governing institutions, such as industry chambers performing mostly public-administration functions, industry organizations, trade unions, and various associations created under generally applicable principles. A minimum requirement for government policy is to create a transparent legal framework for the functioning of economic self-governing bodies.

As outlined here, the main directions of the economic policy called "liberal-institutional industrial policy" are characterized by

a general, uniform approach that, in principle, does not entail individualized interventions at lower levels of the economic system. It seems, however, that selective use of particular policy instruments should be allowed in warranted cases. The list of such cases is as follows:[7]

(1) market failures;

(2) occurrence of so-called second-best situations;

(3) protection of infant industries.

Given the substantive focus of this article, the proposed protection of infant industries deserves the greatest attention. Even neoliberals accept the need to protect nascent industries, although concern for the possible abuse of this argument causes them to restrict their approval only to genuine infant industries or industries that are actually in the initial stages of development.[8] However, such industries may receive protection on the condition that it will be provided on a temporary basis within a precisely defined time frame and that assistance received will not be excessive.[9] The principal justification for the use of a selective assistance policy toward infant industries is that firms operating in nascent industries may face initially high production costs, which will subsequently decline as a result of economies of scale and accumulated experience. After a period under protection, industries become competitive and assistance is no longer needed.

Expressing considerable skepticism, A. Lipowski writes:

> In most countries this policy concept was implemented in a very truncated form, which was reduced in practice to the introduction of protective tariffs and/or quantitative bans or restrictions regarding specific industries, without specifying in advance, however, when such barriers would be removed. The lack of provisions for a phaseout of such measures hardly needs mentioning. These barriers remain in place until the economy enters the phase of a general liberalization. Thus, one can argue that, in view of long-term international experience, the infant industry idea is difficult and perhaps even impossible to apply in practice in the context of protection policy.[10]

Since we recognize the potentially enormous difficulties related to the implementation of the infant-industry concept in a thorough manner but also wish to avoid the trap of neoliberal dogmatism, we find it helpful to invoke cases of the successful implementation of that policy. H. Schmitz and T. Hewitt provided a detailed case study of the Brazilian computer industry.[11]

The key components of the economic-policy scheme being discussed are proactive measures designed to promote development and entrepreneurial dynamism, which are expected to lead to the achievement of competitive advantage over foreign rivals. Defensive measures also have a role under this policy, which is to inhibit access to the domestic market in warranted circumstances. The deployment of industry-differentiated tools of protection policy should not, however, result in shielding domestic monopolists and should have a transitional character (time limits ought to be specified before protective measures take effect).[12] This last requirement corresponds to the need to develop a policy to sustain competitive advantage in the future, after the period of protection has ended.

The government's role under the economic-policy concept outlined here is very specific. The effect of the economic policy should be to provide an environment enabling firms to establish competitive advantage. Hence, the government's role is indirect. Government policy is not a main or independent source for achieving competitive advantage. It can serve only as a supportive factor facilitating the creation of advantage. The actual role of the government consists, therefore, in the effect it has on the four principal competitive-advantage determinants comprising Porter's "diamond."

4. Export-Enhancing Policy and Industrial Policy

Foreign trade policy and liberal-institutional industrial policy are based on different views of the suitability of economic-policy

instruments that belong to the second category of foreign trade policy tools, that is, those measures of a general economic policy that are tailored to the needs of firms participating in foreign trade. These instruments are designed, among other goals, to create conditions in which exporting is more profitable than domestic production. This type of foreign trade policy (an export-enhancing policy) cannot be effective since it forces the non-export sector to subsidize the growth of the export sector. As a way of addressing the difficulties in servicing foreign debt, this policy approach was a characteristic feature of "real socialism."[13]

We have stated that some conceptions of economic policy identify export-enhancing policy with selective industrial policy. It should be emphasized that the arguments and proposals offered by exponents of selective industrial policy stand in stark contradiction to the above-described conception of liberal-institutional industrial policy. Advocates of selective industrial policy claim that there are sound reasons to differentiate economic policy targeted toward individual industries, as well as effective tools permitting us to do so. They argue that it is necessary to identify favored industries characterized by future potential, which would then be given individualized, special attention under economic policy. On this, Z. Sadowski writes, "The fact that the government has a clear, long-term strategy that is officially adopted and publicly announced and that defines the areas being supported as well as the methods of such assistance has a crucial and still underappreciated role in creating a stable environment for foreign capital; this statement represents a declaration of intent that fosters confidence."[14] The experience of countries in which tools of direct industrial policy differentiated by industry have been applied on a relatively large scale does not provide an unambiguous verdict.[15] There is no doubt, however, that this policy concept remains very controversial. A view that is apparently becoming increasingly dominant in recent years is that a short-term policy of support for specific industries is detrimental to their long-run competitive position since it dampens the propensity to innovate, prevents modernization, and so forth.

At this point we should bring up once more the argument concerning the meager informational basis for developing a selective industrial policy. W. Jakóbik writes, "In pursuing an industrial policy, the administration is obligated to make structural decisions on the basis of an alternative benefit calculation. However, the necessary economic information on, for example, forecasts of changes in domestic demand is subject to error in the conditions of systemic transformation, which makes it less probable that this method will bring a successful upgrading of industrial efficiency."[16]

Many studies have documented and analyzed a long list of doubts concerning the feasibility of developing and implementing a selective industrial policy.[17] Here we confine ourselves to more recent arguments that are mentioned relatively less frequently in the literature.

A considerable risk entailed by targeting specific industries for preferential treatment relates to the tendency of most governments to use similar, traditional methods that are grounded principally in considerations of the country's factor endowment or in the economies-of-scale argument. In contrast, recommended methods for selecting industrial-policy target areas focus on:[18]

—the analysis of a prospective and current market position;
—the analysis of the projected growth of demand;
—competitive analysis based on comparative cost calculations;
—industry ranking by efficiency indicators.

We should point out that a lack of or incomplete knowledge about policy actions of other governments limits the accuracy of predictions obtained by these methods. The presence of similar resource endowments and the use of similar selection methods in different countries increases the risk that policy decisions taken in several countries will be much the same, which could lead to overproduction in a specific industry and a fall in prices. Obviously, private entrepreneurs also run the risk of making wrong choices, but they are accountable for their errors in a very different way than are governments.

Moreover, once direct industry-specific preferential measures have been launched, they are very difficult to abandon. Finally, we should underline that even those countries that are considered to be model examples of the application of instruments of direct, selective industrial policies are gradually moving away from vertical-type policy interventions toward horizontal policy alternatives.[19]

Debates around the intersection of an export-oriented policy with a selective industrial policy have spawned the idea of strategic trade policy.[20] D. Hübner made a similar suggestion with respect to Polish economic policy during the transformation period in arguing for a selective targeting of investment, which, in her view, is important for the following two reasons:[21]

—achievement of economies of scale through integration with the world economy; and

—acquisition of capabilities required to create competitive advantage.

On this issue, Hübner writes, "Assisting domestic producers in their rivalry with foreign producers and suppliers, despite relatively higher domestic costs, may increase output to the level at which returns to scale and import transaction costs enable home producers to become competitive without further assistance from the state. The key point is to reach a situation in which state assistance can be discontinued. Only then does such a policy make good sense."[22]

It seems that the suggestion put forward by Hübner should encourage a renewed debate over the concept of strategic trade policy. This policy concept pertains to sectors with imperfect competition. In such sectors the impact of economies of scale frequently limits the number of profitable producers to only a few. In these circumstances, it is argued, government industrial policy takes on a strategic function. Using the available instruments of economic policy, economic decision makers may assist a particular firm (firms) in selecting and implementing a strategy that the firm would not be capable of undertaking independently. Government intervention could tip the balance of international

market preferences in favor of the domestic firm, contributing to its success in gaining a larger market or profit share. Provided that it satisfies specific requirements, intervention policy actions may bring additional profits that are sufficient to justify the use of subsidies or other policy tools and raise overall domestic welfare.[23] Export subsidies may appear as attractive policy tools because they improve the relative position of domestic producers in their noncooperative rivalries with foreign firms, making it possible for them to gain a larger market share and improve profitability. Subsidies change the initial conditions of the competitive game. They cause the terms of trade to move against the subsidizing country, but the country's welfare may actually increase because, under imperfect competition, price exceeds the marginal cost.[24] International noncooperative equilibrium involves provision of export subsidies by individual producing countries, even if its outcome is suboptimal from the standpoint of the joint interest of the countries affected.

Nevertheless, there are numerous arguments against strategic trade policy defined in this manner. The most important of these are the following:

1. The governments of rival firms may also begin to subsidize exports. A "subsidy war" would cause international prices to slide, leading to a decline of welfare in subsidizing countries.
2. The country targeted for subsidized exports may retaliate (tariffs, countervailing charges, quotas, and so forth).
3. Subsidies provided simultaneously in several countries may result in excessive investment in subsidized industries.
4. Low international prices of subsidized goods may send a misleading signal to potential third-country investors.
5. In countries where state budgets are in disequilibrium, raising funds for subsidies represents a significant challenge.
6. Export subsidies are prohibited under international agreements in force. Such a provision is found in the Subsidy Code of the Tokyo Round of the GATT. The Agreement on Subsidies and Countervailing Duties included in the Final Act of the

Uruguay Round and enforced under the World Trade Organization introduces a relatively precise and expanded definition of subsidies. Export subsidies are among the prohibited forms of subsidization.

In discussing the putative justifications for a selective industrial policy, it should be noted that some of the arguments used by the proponents of their use in Poland during the transition have already lost their force either in part or entirely. P.G. Hare argued that it would be a serious mistake to rely exclusively on a conventional macroeconomic policy in order to achieve structural changes in Poland[25] because:

—despite a rapid development of the private sector, output responsiveness to market signals remains weak;

—an underdeveloped banking sector hinders the selection of most profitable investments; and

—as a result of falling demand, some enterprises that might otherwise be capable of operating effectively are forced into bankruptcy, given the lack of state intervention.

Others also wrote in a somewhat similar vein. B. Brocka-Palacz pointed out the presence of two fundamental premises for industrial policy:[26]

—the scale of required changes given the necessary structural reconstruction and modernization of the Polish economy; and

—previous experience during the three-year period of managing a market economy.

In turn, R. Prudhomme wrote, "Recession in the conditions of an immature market does not provide a sufficiently strong incentive for economic restructuring. During the difficult period of introducing new economic rules both inside the enterprise and in its external environment there was a lack of will to address the need for a reasonable enterprise growth strategy and industrial policy."[27]

It seems that the development of the Polish economy from 1993 to 1995 at least partially undermines the validity of arguments in favor of the adoption of a selective industrial policy.

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Economic policy toward enterprises should be cognizant of the need to improve their overall competitiveness and thus to facilitate the upgrading of their competitive capabilities. The state itself does not create the factors determining the success of competing firms but can provide the conditions stimulating the development of such factors. Economic-policy actions shaping the competitiveness of firms should focus in equal measure on both exporters and producers selling their output on the domestic market since the latter face competition from foreign exporters.

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3. U. Płowiec, "Zagraniczna polityka gospodarcza Polski" (Poland's foreign economic policy), *Ekonomista*, 1994, no. 4.
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7. M. Gorynia, "Polska polityka przystosowawcza w latach 1990–1993" (Polish adjustment policy in 1990–93), *Gospodarka Narodowa*, 1994, no. 2.
8. See R. Kaplinsky, "Industrialization in Botswana: How Getting the Prices Right Helped the Wrong People," in *States or Markets*, ed. C. Colclough and J. Manor (Oxford, 1991), p. 148.
9. For example, B. Balassa believes that the rate of protection should not exceed 20 percent for the first five to eight years and 10 percent thereafter. See B. Balassa et al., *Development Strategies in Semi-Industrial Countries* (Baltimore, 1982), p. 69.
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