International business in transition

edited by
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Contents

Introduction and overview

The present book refers to, and in a way is an extension of my previous book, "Studia nad transformacją i internacjonalizacją gospodarki polskiej" ("Studies on the transformation and internationalisation of the Polish economy"), published in the year 2007 which recorded my 20 years of cooperation with the journal EKONOMISTA. It contained articles published by myself or together with my colleagues in Polish in this periodical during the years 1988–2007. The book besides transition problems investigated as well the issue of internationalisation of the Polish economy.

After this publication I reflected that problems of international business in transition, widely discussed in publications written on my own or together with my colleagues, also deserve to be published in the form of a book covering nearly twenty-years of research. In the present book the key criterion for selecting a particular article was its previous publication in a reputable periodical or in the form of a book chapter. It is worth noting that two of the seventeen presented articles were published in journals listed in the ISI Master Journal List (the 2nd and the 16th article).

The present book covers a wide range of issues and approaches. Some contributions assume a macroeconomic perspective others a company specific, branch specific or region specific focus. Analysis covers economic policy and company strategy, problems of international trade and foreign direct investment, includes insights on issues of competitiveness at company and country levels.

Articles included in the book also offer a wide scope of methodological approaches. Some have a mainly theoretical focus, others include results of conducted empirical research. In some a diagnostic, descriptive and explanatory thrust is prevalent, in others a normative approach dominates, including frequently a prognostic thread.

The first article (**Strategic shift in export trade,** 1995) presents and attempts to analyze changes in the volume and structure of Polish exports recorded during the initial four years of transition (1990–1994). In this paper the authors undertake the task of determining to what extent the success of foreign trade can be attributed to: a favorable international situation, government economic policy and an adaptive company behavior.

The second text (**The Polish Economy`s International Competitiveness and Economic Policy**, 1998) is devoted to relations between economic policy and international competitiveness of the economy. The article sets out two propositions:

- Government economic policy should assist firms in achieving competitiveness.
- Economic policy should facilitate the creation of competitive abilities in an integral manner, that is, by supporting the competitive position of exporters in foreign markets as well as the competitiveness of domestic producers in an open home market.

Both, the third (**Foreign Direct Investment and Competition Strategies of Domestic Firms in Poland**, 2000) and the fourth article (**Internationalisation of a Post-Communist Economy – Opportunities and Threats: The Case of Poland,** 2002), focus on the specific nature of the internationalisation process in transition economies. The third study elaborates on the contribution of foreign firms to the development of the Polish economy and influence of such firms on the competitiveness of Polish companies. The fourth raises such issues as: premises for deeper internationalisation of competitive relations, crucial problems of development of Polish foreign trade in the period of market transition of the economy, and main aspects of foreign direct investment in Poland.

The following text (**Internationalisation of Economy versus Economic Policy under Integration and Globalisation,** 2002) presents a set of recommendations for economic policy. In the article the author argues that economic success measured by the growth of welfare will be a result of the impact of three interrelated categories: competitiveness, internationalisation and effectiveness.

The Participation of Transitional Economy in Globalisation – The Case of Poland (2002) aims to determine whether the rate of integration of the Polish economy with the international environment keeps pace with the general rate of globalisation in the world. Moreover, the authors attempt to delineate some policy implications from the analyzed situation.

In the seventh contribution (**National Differences in Technology Transfers in East European Transition Economies,** 2002) the authors try to understand the reasons for the limited impact of external knowledge adoption through the process of technology transfers in East European transition economies. Analysis is supplemented by examples from Croatia, Hungary and Poland.

The following article (**Polish Firms in the European Union. Their Internationalisation Projections and Perspectives**, 2003) discusses possible projections and perspectives for the internationalisation process of Polish firms in the context of Poland's accession as full member of the European Union. In the paper the authors highlight the importance of competitiveness upgrading and advancing the internationalisation of Polish companies.

The ninth and tenth articles (**On the Path of Poland's Globalisation,** 2003; **Globalisation of a Transitional Economy: The Experience of Poland,** 2003) examine Poland's integration with the global economy over the last decade. The authors use international trade and foreign direct investment as the dimensions of this integration. Both studies point out that in the years 1990–2000, the Polish economy was rapidly integrating with the world economy, however, Poland's participation in the globalisation process was somewhat unbalanced.

The eleventh article (**Competitiveness of Polish Firms and the European Union Enlargement,** 2004) discusses a three-dimensional concept of competitiveness of the enterprise (its competitive position, competitive potential and competitive strategy). Furthermore, it presents the results of empirical studies on the competitiveness of Polish firms in comparison with European Union firms in the light of Poland's anticipated entry into the EU.

The next contribution (**Competitiveness of firms from Ziemia Lubuska and Poland's accession to the European Union,** 2005) also explores the competitiveness issue. It focuses on the competitive strategy of Polish firms located in Lubuskie Province bordering with Germany. The article also discusses the theoretical concept of enterprise competitiveness and competitive gap and presents results of empirical research.

The thirteenth article included in this book (**Co-operation strategies of Polish companies as a response to foreign investor's expansion into the Polish market,** 2005) focuses primarily on the forms of co-operation between Polish and foreign companies – those which have subsidiaries or branches in the Polish market as well as those which enter the market through other forms of internationalisation. Once again theoretical discussion is exemplified with the results of empirical research.

The fourteenth paper (**Motives and Modes of FDI, Firm Characteristics and Performance: Case Studies of Foreign Subsidiaries in Poland,** 2005) is of exploratory character and it attempts to determine and interpret the interdependencies between the motives and modes of setting up subsidiaries by foreign investors in Poland, and the main characteristics and performance of these subsidiaries. It is worth mentioning that this article received the Best Paper Award at the IMDA Thirteenth Annual World Business Congress in 2004.

Polish Economic Policy, Internationalisation and Globalisation (2006) identifies the three most important factors which determine the Polish economy's position in its international environment. These factors are: completion of the transformation process, integration with the EU and globalisation/internationalisation. In the study the author identifies determinants of and recommendations for required economic policy.

The next text (**Poland and Its Investment Development Path,** 2007) attempts to explore the concept of the investment development path (IDP) and its key component, the net outward investment position, as applied to Poland. It analyzes the available macroeconomic data identifying the IDP for Poland and formulating the reasons for, and consequences of, the country's current IDP position.

In the last article (**Multinational Enterprises and the Competitiveness of Transitional Host Economies: The Case of Poland**, 2007) the authors analyze Poland's export competitiveness and link it to multinational enterprise (MNE) subsidiaries export propensity and innovativeness. The paper re-examines the hypothesis that MNE subsidiaries in Poland make a significant contribution to host country competitiveness by raising overall export performance.

Handing this book over to the reader, I would like to thank my colleagues for their effort, perseverance and commitment to scholarship. Without their research and contributions this book would not be possible. I hope that this publication will be positively received by a wide range of readers interested in international business in transition economies and will enhance the level of discussion on this pertinent set of issues.

Marian Gorynia

1

A strategic shift in export trade

Marian Gorynia, Wiesław Otta

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; "Rzeczpospolita", no. 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

Sources: *Polski handel zagraniczny w 1992 r.*, Raport roczny IKiCHZ, Warszawa 1993; *Gospodarka swiatowa i gospodarka polska w 1994 r. i 1995 r.*, IKiCHZ, Warszawa 1995; "Rzeczpospolita", no. 34/1995.

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:

- the depreciated role of export,
- an economic policy unfavorable to export,
- the unfortunate geographical and commodity structure,
- a lack of export orientation at the firm level,
- 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 (Winiecki 1983).

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 (Instytut Gospodarki Światowej 1989, pp. 111–112).

The limited liberalisation 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 organisations played in this area. While in 1980 there were approximately 70 foreign trade organisations, as many as 281 companies held trade licenses and conducted foreign trade by 1988 (IKiCHZ 1991, pp. 32–33). At the beginning of 1989, the license requirement was waved for most commodities. Yet, as of 1988, 19 specialized state-owned foreign trade companies subsidized by the state budget controlled 87% of Poland's total exports and 88% of the country's total imports[1] (IKiCHZ 1991, pp. 32).

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 deter-

[1] Foreign trade licenses were introduced on a wider scale in 1982.

mined 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. 15, 16).

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 (Otta 1988). 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.

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.

Source: 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.

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 (GUS 1991), 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 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% (GUS 1992, p. 2). 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 (Rynkiewicz 1992).

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% (Berg, Sachs 1992).

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 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 liberalisation schedule – the EEC committed itself to lift tariffs on Polish commodities before Poland removes tariffs on EEC merchandise.

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.

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 liberalisation 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 (IKiCHZ 1993). 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

Sources: *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.

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 organisations. Cooperation with the International Monetary Fund, which approved the currency stabilisation project launched in 1990, was quite successful. The approval meant a $1 bln Stabilisation Fund could be created in January 1990 from donations ($300 mln) and loans ($700 mln) (World Economy Research Institute 1990, p. 57). 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 (World Economy Research Institute 1990, p. 157).

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 (IKiCHZ 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.

The economic policy

The 1990–1994 economic policy incorporated four principle goals:

1) fiscal and monetary stabilisation,
2) liberalisation 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 stabilisation 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 stabilisation 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 liberalisation 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 liberalisation 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 liberalisation 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 demonopolisation 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 (IKiCHZ 1991, p. 154). 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% (IKiCHZ 1993, p. 25).

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 (IKiCHZ 1993, p. 177). 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 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 (IKiCHZ 1993, p. 30 and 32).

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 (IKiCHZ 1993, p. 42). 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 organisations. 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 stabilisation 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 stabilisation 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 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 (Schaffer 1992). 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 stabilisation and slight decrease of real income and a stabilisation of the reserves (Calvo, Coricelli 1992). 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[2].

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

[2] 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.

designed for the CMEA (Pinto, Belka, Krajewski 1993). The transition period was evidently 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 (IRiSS 1992).

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 (IRiSS 1993).

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 (Pinto, Belka, Krajewski 1993),
- delays in tax payments (Pinto, Belka, Krajewski 1993),
- 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 privatisation were not conducive to rapid institutional and structural changes in enterprises. Enterprises were being privatized without prior restructuring[3]. 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 privatisation. 12 of them sold shares on the stock market. 553 enterprises were leased out, mainly to employee companies (Karpińska-Mizielińska, Smaga 1993).

Most privatisation methods employed in enterprises are not conducive to creating a uniform group of managers. This results in the slowing down of the ad-

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

justment 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.

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 (Gorynia, Otta 1992).

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) (GUS 1993). The figures prompted opinions that the economic revival was only temporary and was in its final stages (Bińczak 1993). 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.

Conclusions

The growth and the strategic shift in export trade appear 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.

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 stabilisation 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 (Hausner 1992).

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 stabilisation policy. Efforts should be stepped up to further institutional transformation on the macro-level, in particular through modifying the laws, promoting privatisation, 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.

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:
   - privatisation (including commercialisation),
   - 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. reprivatisation 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:[4]
    - 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 anexport guarantee and insurance system, etc.,
    - 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.

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

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, ack^{p}f 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 organisations).

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 stabilisation, liberalisation 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.

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2

The Polish Economy's International Competitiveness and Economic Policy

Marian Gorynia

One of the consequences of the economic transformation carried out in Poland during the period 1990–1995 is an opening up of the country's economy. Integration with the European Communities, membership in the World Trade Organisation, and other similar factors suggest that the process of the internationalisation 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 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.

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 (Porter 1991). 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:

- factor endowment,
- demand conditions,
- the emergence of the required industry structure (supporting and related industries), and
- conditions for new business creation, organisation, 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 inter-dependencies.

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. Globalisation, 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.

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 (Lubiński 1994).

In the economics literature we can also find the concept of foreign economic policy (Płowiec 1994). 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 (Okólski 1994, p. 224). 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.

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 (Gorynia, Otta 1994).

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 (Gorynia 1995). 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:

- development-oriented policy,
- competitiveness policy,
- privatisation policy,
- 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 organisation of economic self-governing institutions, such as industry chambers performing mostly public-administration functions, industry organisations, 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 (Gorynia 1994):

- market failures,
- occurrence of so-called second-best situations,
- 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[1]. 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[2]. 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 (Lipkowski 1995): 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 liberalisation. 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.

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 (Schmitz, Hewitt 1991, p. 173–196).

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) (Gorynia, Otta 1995). This last requirement corresponds to the need to de-

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1 See: R. Kaplinsky, *Industrialization in Botswana: How Getting the Prices Right Helped the Wrong People*, [in:] Colclough C., Manor J. (Eds), *States or Markets*, Clarendon Press, Oxford 1991, p. 148.

2 For example, B. Balassa believes that the rate of protection should not exceed 20 per cent for the first five to eight years and 10 per cent thereafter. See B. Balassa et al., *Development Strategies in Semi-Industrial Countries*, John Hopkins University Press, Baltimore 1982, p. 69.

velop 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".

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" (Lipkowski 1991).

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 (Sadowski 1993), "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". 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 (Lipkowski 1994). 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 modernisation, 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 (Jakóbik 1992), "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".

Many studies have documented and analyzed a long list of doubts concerning the feasibility of developing and implementing a selective industrial policy[3]. 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 (Karpiński 1993):

- 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 (OECD 1992.

[3] For example, Gorynia, *Teoria i polityka regulacji mezosystemów gospodarczych*.

Debates around the intersection of an export-oriented policy with a selective industrial policy have spawned the idea of strategic trade policy (Brander, Spencer 1985; Ikanowicz 1991). 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 (Hübner 1994):

- 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 (Hübner 1994, p. 344), "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".

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 (Yarrow 1985; Ikanowicz 1991). 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 (Brander, Spencer 1985). International noncooperative equilibrium involves provision of export subsidies by individual producing countries, even if its outcome is sub-optimal 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 Organisation introduces a relatively precise and expanded definition of subsidies. Export subsidies are among the prohibited forms of subsidisation.

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 (Hare 1991) 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 (Brocka-Palacz 1992):

- the scale of required changes given the necessary structural reconstruction and modernisation of the Polish economy, and
- previous experience during the three-year period of managing a market economy.

In turn, R. Prudhomme wrote (Prudhomme 1991), "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".

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

Foreign Direct Investment and Competition Strategies of Domestic Firms in Poland

Marian Gorynia, Radosław Wolniak

Until 1990, when the construction of a market economy began, the Polish economy had been to a large extent been cut off from the outside world. Developments that took place in Poland after the Second World War were in many respects autarkic in character. Economic cooperation with other countries was not used to accelerate economic growth and increase economic effectiveness. Potential advantages arising from the international division of labour were not properly exploited. Poland's share of world exports and imports was very low. The structure of foreign trade was distorted. Exports from Poland and other CEEC to the OECD were far below levels that might be expected purely on economic grounds, while exports to the CMEA countries were much higher.

The rise of a market-led system in 1990 brought a marked opening-up of the Polish economy. This in turn brought about an accelerated development of new economic ties with foreign partners, aided by FDI inflows in particular. While the opening of the economy can be seen to have brought numerous advantages to Poland, it has also exposed it to various threats and challenges, which, if unresolved, might undermine or even destroy the advantages. FDI became one of the main features of the internationalisation of the Polish economy and its participation in the globalisation process. Poland's participation in this process is predominantly that of a host country.

In the post-communist countries the processes of internationalisation are of a specific nature. They occur in conditions of very deep restructuring of the internal system of regulation, transforming it from an administrative-bureaucratic system to a market oriented-system. In this context the following problems come into focus:

- a basis for deeper internationalisation of competitive relationships,
- evolution of the legal-institutional conditions for the inflow of foreign capital,
- Polish firms' FDI strategies,
- effects of competition between foreign-owned and domestic firms,

- policy directions for the regulatory authorities.

The internationalisation of the Polish economy during transformation: FDI in context

Admittedly, Polish firms did not entirely escape the internationalisation process after the Second World War during the decades of a centrally planned economy when foreign trade was a state monopoly. However, the transformation of the Polish economy into a Western market-led system at the beginning of the 1990s created a much wider scope of opportunity for the broadening and intensification of the internationalisation process. It should also be noted that this process took place in the context of similar developments in most post-socialist states where programmes of fiscal and monetary stability were implemented concurrently, leading to a far-reaching liberalisation of foreign trade and investment policy.

The internationalisation of competition was enhanced by the abolition of the CMEA. This organisation, dominated by the former Soviet Union, represented an enclave of non-free market behaviour in international business throughout CEE. Although, on the one hand, it gave firms in the member states the opportunity of access to "secure" markets and cheap resources, it offered on the other hand no incentives to innovate and upgrade their competitive position, or to improve quality and services. At the same time, the rules of international exchange in such a system (e.g. procedures for determining commodity lists, annual protocols, price determination, exchange rate determination) led to a complete obscuring of the effectiveness of such exchange. Thus the abolition of the CMEA also contributed to more market-oriented, competitive economic relations between firms in CEE.

The internationalisation of competition in Poland received a significant boost with the decision to seek membership of the EU. It is clear that EU membership will ensure a faster and deeper opening-up of the economy for EU partners. The effects of membership have already begun to be felt as Poland harmonises its own systems and institutions to the point of EU convergence. However, opportunities for Polish firms are also accompanied by threats. From a formal point of view their access to the huge EU market becomes much easier. Nevertheless, the abolition of administrative processes, customs and other barriers does not on its own guarantee success. Other factors contributing to success lie in the hands of the firms themselves. They have to prove and demonstrate their competitive advantage on a day-to-day basis. The threats facing Polish firms in this context are above all connected with the removal of protection for domestic producers (most of whom had treated this as a permanent right) and exposure to direct competition with EU member states.

The internationalisation of competition is linked to the ongoing and intensifying process of globalisation. The implementation of global strategies by individual firms changes the conditions of international competition and leads to fierce competitive conditions (Gorynia, Otta 1989). One of the premisses of globalisation is the idea of a “world product” – an emerging uniformity of needs across national borders (Levitt 1983). The standardised product brings about economies of scale. Other factors fostering globalisation include the necessity of high R&D outlays and low transport costs (Hout, Porter, Rudden 1982). Global strategy is often defined as one that allows a multinational company to gain competitive advantage either through concentrated configuration (location of the company’s various activities) or coordination (internationally of similar or interlinked operations of the company), or by applying both methods simultaneously (Porter 1986).

Internationalisation of competition has also been enhanced by the regulatory activity of GATT (Uruguay Round) and the work continued in the framework of WTO (Kaczurba, Kawecka-Wyrzykowska 1995). The aim of these developments is the complete liberalisation of international economic and, especially, trade cooperation. The removal of trade barriers should thus lead to a wider and more intensified process of the internationalisation of competition.

FDI inflow into Poland, especially through multinational firms, has accelerated the entry of the Polish economy into the globalisation process. The introduction of the market-led system not only opened Poland up to international competition, but revealed at the same time the low level of competitiveness of previously protected domestic industries and forced these industries to seek new sources of finance for their restructuring and growth. Facing a lack of domestic capital and a rising demand for such capital, FDI proved to be a desirable source of financing the development of the Polish economy. FDI filled the gap in the country’s internal capital accumulation and stimulated industries that had hitherto been underdeveloped. Moreover, for the first time it exerted on Polish firms the pressure needed to upgrade through competition.

Evolution of the legal and institutional conditions for the inflow of foreign capital

A significant feature of the Polish economy in the 1990s was its systematic opening-up to FDI. The following factors exerted the most powerful influence in this context (Kubielas, Markowski, Jackson 1996):

- liberalisation of legal regulations on FDI inflow,
- liberalisation of trade and currency convertibility,
- privatisation of state-owned enterprises.

Before the beginning of market transformation in Poland, there existed the so-called enclave FDI model in which foreign investment was treated differently from other parts of the economy (Samonis 1992). The legal and institutional changes in the conditions for the inflow of foreign capital led to the abandoning of this model in favour of treating foreign investment in the same way as domestic investment (national treatment principle).

The 1991 Act on the operation of economic entities holding foreign capital contributed significantly to the establishment of national treatment of foreign companies operating in Poland. The most important features of the Act's regulations concerning foreign investment were as follows:

- No restrictions to be placed on the transfer of profits and start-up capital.
- Requirement to obtain official permits from the government authorities necessary only when the property of state-legal persons was to be made available to companies holding foreign capital. This referred to permission to obtain shares in an FDI-supported company by the state-legal person or to leasing or purchasing the property of a state-legal person by an FDI supported company. Permits were granted by the Minister of Finance in response to an application from an economic entity.
- Abolition of the privilege of automatic three-year tax holidays.
- Full guarantee of compensation in case of expropriation.
- Foreign entities to operate in two forms only: limited liability companies, and joint stock companies (this was an exception to the principle of national treatment, approved by the OECD).
- Foreign investment to be forbidden in lottery and gambling businesses.
- Other restrictions in observing the national treatment principle applied to the maximum share of foreign capital allowed in the start-up capital of a company in certain strategic sectors: e.g. in telecommunication services the maximum foreign share was 49%, in communications 33%, and in radio and television also 33%.

Strategies of domestically-owned Polish firms towards FDI

Not surprisingly, domestic Polish firms view foreign-owned entrants with apprehension. Their apprehension springs from the foreigners' stronger competitive position irrespective of whether this is real or perceived. According to received theory the threat of foreign competitors is usually associated separately or jointly with the following factors:

- Economic power associated with size and scope of (often global) activities which surpasses many times the potential of even the largest local competitors and leads to monopolistic behaviour on local markets[1].

[1] This notion of economic power is congruent with the early Hymer/Kindleberger approach.

- Ownership and internalisation advantages arising from access to superior products and/or technologies, superior know-how in management and/or marketing systems, and the ability (inherent to multinational firms) to operate efficiently in many national markets and environments[2].
- Most domestically-owned firms' lack of experience of competing in the tough conditions of a market-led system. This factor is compounded by the necessity to change the attitudes and ethos of the local management and workforce. Since this process, viewed from a psychological and sociological perspective, is prone to intense perceptual and cognitive barriers, its time frame is estimated as being medium rather than short term, especially in existing or recently privatised state enterprises.

Thus domestic firms were forced to compete, and usually adopted one of the strategies set out below.

The first strategy

The first on the list of strategies adopted to counter the entry of a foreign-owned firm is based on the promotion of the "national champion" idea. This can be seen in industries where the existing market structure has either enjoyed a national oligopoly or where the initial demonopolisation of state-owned entities (banks are a case in point here) has led, after a few years, to a reverse tendency – to consolidate by mergers, creating holding companies or strategic alliances. The "national champion" case is best exemplified by the petroleum industry which has formed one holding company (Nafta Polska SA) from the major domestic producers and distributors. This strategy is being followed in strategic sectors of the Polish economy. In all its known occurrences, it has had the tacit blessing of government. It has the character of being a "grass roots" movement initiated by company managers and guided by their experience in operating in a market which is undergoing gradual deregulation.

Maintaining and strengthening the national oligopoly in the case of the Polish petroleum industry bears some resemblance to the situation in France in the 1960s when the expansion of United States firms into the French market raised widespread fears that the control of French industry was falling into foreign (i.e. US) hands. The French government reacted with a policy of promoting the "national champion" idea, proposing concrete measures to support national firms so that they could effectively counter foreign competition. Amalgamations were encouraged and financial support offered to introduce new technologies and products.

Although it has the benefit of protection from FDI in manufacturing, the Polish petroleum industry has received political support in its efforts to consolidate

[2] These advantages are viewed along the lines of J.H. Dunning's classic eclectic paradigm of international production.

and invest in order to modernise and expand output capacity[3]. The state-owned petroleum firms and Polish industrial policy-makers are both well aware that they have very little time left to improve their competitive position in the face of foreign multinational competitors who are already expanding their distribution networks on the Polish market, having gained a total market share of 7.8%[4]. A similar approach has also been observed in the banking sector where on 16 September 1996, with much more explicit government support, the first Polish banking group was formed with the bank PeKaO SA acting as the leader and dominant partner. The group consists of three state-owned banks: Powszechny Bank Gospodarczy (Lódź), Bank Depozytowo-Kredytowy (Lublin), and Pomorski Bank Kredytowy (Szczecin). The group is considered as the strongest banking entity functioning in Poland, controlling almost one quarter of the assets of the whole banking sector and 24% of all banking outlets in Poland (Ignatowicz 1996).

Because it encompasses sectors of strategic importance in the national economy, this competitive strategy is very prone to government pressure and intervention. In this context the advocates of a liberal approach to a market economy in Poland point out the cost and efficiency advantages of privately-owned Polish companies' consolidating and restructuring these sectors without government interference. Perhaps government actions should be more directed at facilitating such moves by the private sector in the form of financial and tax incentives or modification of the anti-monopoly legislation.

The second strategy

The second strategy, followed by Polish firms already faced with FDI-led competition in the Polish market, is one of aggressive response. It is interesting to observe how many Polish firms of all sizes have adopted as their priority the improvement of the quality of their products. Salient evidence of this trend is seen in the growing number of domestic firms applying for and receiving the ISO 9000 quality benchmark certificates. Furthermore, the marketing strategies of other domestic firms have also been undergoing a process of accelerated adjustment to meet the standards of their foreign competitors. This has been especially visible in the improvement of their promotional activities with a considerable increase, for example, in advertising, modernisation of packaging and expansion of distribution networks.

The principal barrier here is the obvious lack of adequate resources, experience and expertise which has placed Polish firms in a much weaker competitive position than their foreign counterparts. However, there are a few examples of

[3] Western multinational oil firms have been allowed to invest in marketing their end products and organising distribution systems, mostly in the form of petrol station networks.

[4] A salient example is offered by the tobacco industry.

firms that have succeeded in overcoming those deficiencies and increased their sales and market shares. Elektrim is a case in point. A former state-owned foreign trade enterprise, Elektrim was privatised, bought many of the firms for which it had been a trade intermediary in the previous system, and finally undertook a strategy of conglomerate diversification.

The third strategy

The third strategy is the acceptance of the idea that if you cannot effectively compete with foreign firms, then it is best to join forces with them – even if this means relegation to a minority shareholding position and/or playing a marginal role in corporate governance, or even being deprived of it completely. This approach can be observed in the majority of manufacturing and chemical industries.

Within this strategy, various structural forms may be employed. We can thus have a straightforward acquisition/take-over operation whereby the domestically owned/managed firm ceases to exist and becomes a wholly owned subsidiary or branch of a foreign parent. The second possibility is that of a foreign firm merging with a Polish counterpart, leaving the former sole Polish owners with a minority share. These two forms are predominantly characteristic of the transformation of large- and medium-sized state enterprises with considerable fixed assets that are often mismanaged and/or are obsolete. It is interesting here to note that in most cases after take-overs of Polish state-owned firms with well established brand names in the consumer goods sector, the new foreign owners usually maintain these old brands and pour considerable resources into improving them[5].

The third structural form of joining forces with foreign firms is evident in different contractual arrangements, which are closer to alliances and coalitions rather than to joint ventures and mergers. These arrangements are usually of a non-equity character (i.e. the foreign participant is not required to provide financial capital as his input into the whole operation). The Polish side in the arrangement overall forms its core and determines strategic development. It is thus perceived as the initiator and leader of such an arrangement. Foreign firms may be tapped for their particular firm-specific or industry-specific competencies or inputs such as new products, technologies, management, marketing know-how, and expertise.

Polish firms in this category are mostly newly formed and generally small- to medium-sized, indicating that they are only in their initial stages of the firm's life cycle. A case in point is firms in the computer and data processing industry which draw heavily on and cooperate with their Western multinational counterparts. The principal question here is whether the Polish firms are strong enough to maintain their identity, and whether, or how quickly, they will be bought out or

[5] A salient example is offered by the tobacco industry.

taken over by their foreign partners or coowners. At best, this is essentially a survival strategy which has at most a medium-term life span unless at some (rather early) point it is supplemented and eventually superseded by a version of the second strategy. The other limiting factor is of course the power and long-term strategy of the foreign competitor.

The fourth strategy

The fourth strategy aims at keeping foreign competition out of the country or at reducing its competitive impact for so long as possible. This requires direct or indirect actions by Polish firms (through political parties and other pressure groups) aimed at creating new and maintaining old tariff and non-tariff barriers. This is evident especially in sectors which have a fragmented market structure (e.g. agriculture) or where the capital, managerial and technological gap separating domestic from foreign competitors has been particularly wide (e.g. insurance business). Under pressure, for example, from Polish oil refineries, the Polish government applied successfully to the EC for the right to extend the period of protection for these refineries against foreign competition until the end of 2000 (Alterman 1996).

The somewhat illusory nature of such a strategy stems from the fact that for large multinational firms FDI has always been a favourite device for the circumvention of trade barriers. Once inside a foreign market, these multinationals behaved like purely domestic firms, demanding continued tariffs and non-tariff protection. A pertinent example in Poland was the GM Opel Co. with its joint venture with FSO (once the largest Polish car producer). Once GM began to assemble cars in Poland, it lobbied the government not to abandon or reduce the existing level of tariff protection ahead of the schedule agreed upon with the EU. Ameritech, the strategic shareholder in Poland's first mobile telephone network, was so upset by the government's refusal to keep its promise of granting the United States firm a licence to operate a more modern GSM cellular phone system without going through the usual tender procedures, that it went to court on the issue. Thus it seems that only the existence of political barriers (in the form of political instability and marked disequilibria) as well as administrative and legal impediments are able to keep foreign competition out of the country if the economic aspects of entering its markets are favourable.

The effects of competition between foreign-owned and domestic firms

The four "model" strategies outlined above should not be viewed as being hermetic or unconnected alternatives. Their practical application always creates room for overlapping or combining (e.g. two strategies). It is obvious that the "national champion" strategy will not work unless it is accompanied by a strategy of actively competing with foreign companies in the domestic as well as foreign markets (unless the government creates strong protectionist barriers and grants extensive privileges to domestic firms only).

The general scale of the process whereby Polish firms meet the competitive challenge of foreign entrants has so far been relatively small in size because the still modest FDI inflow (compared with actual possibilities and expectations) through direct investment. In many cases, exposure to foreign competition in the local market has certainly produced positive effects, spurring domestically-owned firms to restructure, adjust and modernise.

However, the more typical case is the take-over of Polish firms and whole sectors coming under the control of foreign firms. This indicates that in this "battle" the competitive advantage usually lies with the foreign-owned companies. The sectors where Polish firms have "lost" have usually been those where the foreign entrants have been large multinational corporations. Domestic firms have been unable to compete primarily because of their wholly domestic nature. The ownership, internalisation and location advantages (as in the Dunning tradition) together with relationship marketing and network creation with suppliers and buyers (as in the Kotler approach) have led to the creation of a system which is beyond the reach of Polish firms, or at least impossible for them to emulate in a short- to medium-time span. In sectors which have not so far been penetrated by multinational firms, the Polish domestic firms have not been able to raise effective economic barriers (as perceived by M. Porter) to the entry of foreign competitors.

The long-term solution to this asymmetry depends on the Polish companies embarking on the path of growth and evolution experienced by transitional companies (i.e. consolidating and internationalising their operations). It must be stressed here that exporting alone is not enough. The key to success lies in FDI. Some Polish companies have already started to expand along this path, mostly into the neighbouring countries of EE. Many, unfortunately, still think that exporting alone will be enough to maintain their competitive positions (even in such a market as Russia). Exploiting the continuing expansion of the Polish economy, as evidenced by the rate of GDP growth, they should strive to gain a firm foothold in these markets and then selectively expand their market shares. It is much more in the EE transforming economies than in the highly developed regions of the world that Polish firms are likely to gain sizeable or dominant shares in local markets. They should seize this unique opportunity. If they lack resources for expanding individually, they should consider the formation of strategic alliances with other Polish or even Western firms.

It is worth noting here that collaboration with strong Western firms through alliances does not always imply a weaker, subservient position for the Polish partners. Indeed, the experience of Japanese and South Korean firms shows that by the development of learning processes they were able to evolve from the weaker to the dominant partner in their alliances with United States and European companies[6]. It took two decades for such an evolution to occur. It is an open question whether this is a relatively long or short time. The main lesson for Polish firms is to develop their core competencies which, embedded in new products and technologies, can form a solid base for gaining competitive advantage. None of this precludes the necessity of maintaining a presence and investing in other regions of the world, especially in the EU and in the developing countries where exports have made Polish brand names familiar.

Polish firms following a strategy of intensive competition with their foreign-owned counterparts will find that concentration on quality alone will not assure long-term market share and profit performance. Their priorities should also include such internationally acknowledged determinants as customer services, product differentiation and innovation. Dependence on low prices and traditional brand names coupled with high quality will never be enough to form firm specific core competence[7].

Polish firms should also remember not to withdraw too rapidly from mass markets when invaded by a foreign entrant, but to retreat and concentrate on specialised, high-value niches of these markets. This lesson has been learnt many times by United States and United Kingdom firms competing on their home markets with Japanese producers. In such cases the foreign (Japanese) firm usually establishes a firm foothold in these volume markets, then acquires a dominant position and sufficient experience, cash flow and distribution capabilities to attack and eliminate the domestic firms in their niches (Doyle, Saunders, Wong 1995).

Policy prescriptions for the Polish regulatory authorities

The implications of the competitive strategies adopted by domestic Polish firms pose serious problems in decision-making for Polish policy-making and regulatory authorities. First, they must take into account the fact, as outlined

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[6] In the early 1960s NEC's computer business was one-quarter the size of Honeywell's, its primary foreign partner. It took only two decades for NEC to outgrow Honeywell, which eventually sold its computer operations to an alliance of NEC and Group Bull of France (Hamel, Doz, Prahalad 1995, p. 152).

[7] This proposition has received ample confirmation in the markets of countries much more developed than Poland's. A comparative study of United States, Japanese and United Kingdom firms revealed that the British most frequently mentioned competitive advantage in having a low price, a traditional brand name and simply being British. Less than half of the United Kingdom firms in the study had any advantages in quality, service, product range or product innovation. That is why they lost ground to their Japanese competitors (Doyle, Saunders, Wong 1995, p. 365).

above, that there has been a definite trend in the Polish legal and regulatory system towards national treatment of foreign-owned enterprises, thus eliminating their favoured position in certain fields. But, second, there remains the predominant concern of how to maintain the increased and uninterrupted flow of FDI into the Polish economy.

With this requirement in mind the Polish authorities are faced with the following dilemma, should they favour and stimulate FDI inflow, even to the point of offering tariff and non-tariff protection to foreign entrants acquiring strategic positions in key industries? Or should they concentrate their efforts and financial resources to consolidate and thereafter expand rapidly large Polish firms which could effectively compete in domestic and foreign markets. The right solution seems to lie somewhere in between. It also seems to be at odds with the national treatment trend for foreign investors. In those circumstances a rational course of action should include:

- Creating sound macroeconomic conditions: i.e. maintaining economic growth, fighting inflation and controlling currency stability. These factors form the best medium-term incentive for FDI inflow.
- Maintaining the process of privatisation of state enterprises as a necessary prerequisite for attracting both foreign and domestic investors.
- Refraining from granting special and far-reaching concessions or privileges to large foreign firms as a prerequisite for investing in Poland. In this context the recent EU demand to abolish Poland's special economic zones is a case in point, ironically advocated by an organisation representing the home countries of many of the foreign firms operating in Poland.
- Eliminating all remaining measures and regulations which discriminate against foreign firms wanting to operate in Poland, maintaining barriers only in certain defence industries and, possibly, telecommunications.
- Offering maximum support to domestically-owned medium to large Polish firms embarking on a programme of concentrating production, introducing modern technologies and undertaking direct investment abroad. In such instances the operations of those firms should be exempted from existing anti-monopoly legislation. Support should include medium-term tax relief and preferential long-term investment credit.
- Offering support for ecological-friendly investment undertaken by domestic as well as foreign firms.

External limitations imposed on these suggestions are connected with, or may arise from, Poland's access to OECD and future access to full EU membership. Since Poland's core foreign economic policy is focused on these two organisations, their opposition to or concern about any moves that would create a competitive environment overwhelmingly biased in favour of Polish domestic firms and restrictive and harmful to foreign entrants, would have to be given serious consideration by the Polish regulatory authorities.

Efforts to influence and shape the competitive positions of foreign versus domestic firms by Polish government policy is also subject to pressure from various political and economic groups. As mentioned above, certain right-wing and nationalist parties demand the imposition of strict controls on FDI inflow. Small- to medium-size retailers, for example, have protested against the rapid expansion of large foreign (mainly French and German) supermarket chains, which pose a growing threat to their existence. Appeals have been made to government and parliament for the imposition of a ban on all foreign entries into this sector.

On the other hand, multinational corporations have also used their economic power to extract concessions from government in allocating their investments. A recent example is that of Adam Opel AG’s greenfield investment in Poland’s southern industrial region (Gliwice). On completion of a car manufacturing plant, it will enjoy a ten-year corporate income tax holiday and a 50% reduction of the tax burden for a further ten years. Daewoo, at present the largest foreign car producer in Poland, persuaded the government not to impose customs duties on imported parts which would have made their cars uncompetitive.

The existing lack of support in government regulatory policy for the competitive positions of domestic Polish firms is compounded by a critical economic factor. This is the extremely shallow internal capital market which limits the potential of Polish firms wanting to purchase state-owned enterprises or seeking to expand and modernise their output capacity and distribution and marketing systems. The general policy of the government and other state regulatory bodies should be clearly defined in a medium-to long-term framework. A general policy of this kind should consist of two strategic strands: guidelines for foreign firms, and measures designed to maintain some degree of effective competition by domestic firms. Existing and frequent recourse to ad hoc solutions and case-specific regulations is liable to create myopia, produce conflicting decisions, and finally a general lack of direction in the overall competition policy.

Conclusions

The challenges of competing with foreign-owned firms in Poland should not obscure the unquestionable contribution of foreign firms to the development of the Polish economy. Foreign capital has been the principal agent of involving and thrusting Poland deeper into the globalisation process. In the context of this process, in which domestic Polish firms have to react, foreign entrants and investors have released new layers of competitiveness in their local counterparts. Foreign entrants and investors have broken competitive barriers inherent in the old economic system. They have given local partners access to their international distribution networks, and introduced (besides capital input) new technologies, skills, modern management and marketing know-how, and expertise. In essence, they have made a salient contribution by raising the competitiveness of the Polish economy and thus making it more receptive to meeting successfully the present and future challenges of globalisation.

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4

Internationalisation of a Post-Communist Economy – Opportunities and Threats: The Case of Poland

Marian Gorynia

Introduction

Until 1990 when the transition towards market orientation began, the Polish economy had been to a large extent closed as regards to its ties with the external environment. Development processes occurring in Poland after World War II bore many signs of autarchy. Economic cooperation with foreign countries outside the Council for Mutual Economic Assistance (CMEA) was very limited and unsatisfactorily used to accelerate the economic growth and increase economic effectiveness. Potential advantages from the international division of labor were not used properly. Poland's share in the world exports and imports was very low. The structure of foreign trade was distorted. The exports of Poland and other Central and Eastern European (CEE) countries to the OECD were much below the level determined by economic factors, while the exports to the CMEA countries were much higher.

One of the characteristic features of the market transformations of the Polish economy is the fact that it is becoming more and more open, i.e., the economic ties with foreign partners are being developed very quickly. There are many forms of internationalisation of the Polish economy. Two of them deserve particular attention: trade exchange and foreign direct investment (FDI). Their dynamic development offers many advantages to the Polish economy. At the same time, however, there exist certain threats that, in extreme case, may undermine or destroy the advantages coming from the open economy.

In the post-communist countries the processes of internationalisation are of specific nature as they occur in the conditions of very deep restructuring of the internal system of regulation from the administrative-bureaucratic to market oriented. The following problems are touched upon in this chapter:

- Premises for deeper internationalisation of competitive relations.

- Most important problems of the development of Polish foreign trade in the period of market transformation of the economy.
- Main aspects of FDI in Poland.

Internationalisation of Competition versus Transformation of a Post-Communist Economy

Internationalisation of competition is not a new process. One can say that it begins when enterprises traditionally functioning on the internal markets in their home countries start economic operations (trade, production) abroad. These processes began to appear on a larger scale in this century. Internationalisation of competition also embraced, although for obvious reasons to a limited extent, the Polish enterprises operating in the whole post-war period when foreign trade was a state monopoly. From the viewpoint of the Polish enterprises the beginning of market transformation of the Polish economy resulted in much wider and more extensive processes of internationalisation of competition. In the above-mentioned context one may ask a question – what kind of premises influence the range and acceleration of internationalisation of competitive behavior of Polish enterprises. It seems that these premises belong to two categories: the premises of specific character for Poland and other post-communist countries, and non-specific premises, generally pertaining to the evolution of international economic relations on a global scale. Specific premises of internationalisation are as follows: opening of the post-communist economies, liquidation of the CMEA, and tendencies towards economic integration with Western industrialized countries. The second group of premises covers various aspects of the progressive globalisation of economic activities and attempts of a more liberal organisation of economic relations between all the countries in the world.

The concept of opening of the economy is being implemented in most post-communist countries. The programs of fiscal and monetary stabilisation are carried out along with liberalisation of a broadly defined foreign policy. The main measures in this field include: introduction of (limited) convertibility of the national currency, introduction of relatively liberal customs tariffs, abolishment (to a considerable extent) of non-tariff instruments of exports and imports regulation, demonopolisation of foreign trade, implementation of the principle of economic freedom in the sphere of economic relations across national borders (Gorynia and Otta 1995a; Gorynia and Otta 1995b).

Abandoning the instruments of central regulation, a typical characteristic of command economies, resulted in the fact that home exporters and importers “got closer” to the foreign markets. For the exporters this meant above all full self-financing with no possibility of subsidies. On the other hand, imports became a real threat for the home producers who frequently lost their share in the home market because of the free access to convertible currencies for financing imports.

Moreover, the liquidation of CMEA contributed to the internationalisation of competition of formerly existing and new businesses. CMEA can be defined as an enclave of non-market behaviors of supranational scale. On the one hand, CMEA brought to member countries among other benefits access to massive, secure markets, and access to "cheap" raw materials. On the other hand, there was no motivation to introduce innovation, to develop new products, and improve their quality. At the same time the binding principles of exchange (procedure of determining the lists of commodities, yearly protocols, way of establishing prices, exchange rates, etc.) led to a completely blurred calculation of effectiveness of the economic ties between member countries. Thus, one can state that the liquidation of CMEA facilitated the transition to market orientation and the introduction of competitive economic relations by firms in the former communist countries.

A very significant premise for the internationalisation of competition of post-communist enterprises is the attempt for economic integration with the European Union (EU). This integration means a quicker and more complete opening of the national CEE economies towards EU partners. It creates both great opportunities and immense threats for the enterprises in the countries that strive for this integration. Some of these opportunities are already experienced by Polish enterprises. Hypothetically, the access to the immense EU market should be easy. However, the abolishment of administrative barriers and customs barriers does not necessarily guarantee success. The rest belongs to the enterprises themselves. They have to develop and rely on their competitive advantage. Threats stem from the resignation of the protection of home producers and their exposure to a direct rivalry with EU competitors. The effects of such a procedure will probably be of twofold. The new competitive challenges will enforce some Polish companies to become more competitive. Others will not be able to cope with the strong competitive pressures that will not positively affect their international competitiveness.

As mentioned above, the general non-specific premises for the internationalisation of competition are, among others, connected with progressive and more intensive globalisation processes. Globalisation of markets results from the fact that some firms, operating on an international scale, carry out global strategies the implementation of which is a result of the changing conditions of international competition leading to a fiercer competitive struggle (Gorynia, Otta 1989). Globalisation is basically connected with demand premises. The main premise of this kind is an idea of "the global product" according to which, at least in economic sectors, we deal with the uniformity of needs on the international scale (Levitt 1983). The uniformity of needs creates the grounds for the uniformity of product that in turn provides an opportunity to achieve advantages of scale. In this way the demand premises of globalisation are linked with the premises of effectiveness. The following factors are most frequently mentioned among those that favor globalisation: the possibility of advantages of scale, necessity to allocate large outlays for research and development and low costs of transport (Hout, Porter, Rudden 1982). The global strategy is defined as a strategy thanks to which a firm operating internationally tries to achieve competitive advantage either through concentrated configuration (distribution, location of particular kinds of the firm's economic activity) or coordination (a way of coordination of similar or related types of the firm activity). Both ways may be applied simultaneously (Porter 1986).

Internationalisation of competition has been and will be favored by the regulations of international economic relations determined by the General Agreement on Tariffs and Trade (GATT) at the Uruguay Round and recently by the World Trade Organisation (WTO) (Kaczurba, Kawecka-Wyrzykowska 1995). Their aim is a full liberalisation of the international economic and trade cooperation. Successive lifting of barriers in the turnover will result in a wider range and more intensified processes of the internationalisation of competition.

Foreign Trade in the Polish Economy under Transformation

Sphere of Regulation

Until recently Poland's foreign economic policy, and more specifically foreign trade policy, has been linked to the program of stabilisation. The main aim of the stabilisation program was to curb inflation.

The aim of the changes introduced in the sphere of regulations in the years 1989–1997 was to transform the Polish economy from a basically closed one into an open one.

The foreign trade policy in the above-mentioned period was not uniform. The following stages can be identified (Płowiec 1997):

- Stage I (from the beginning of 1990 until August 1991) was characterized by liberalisation of commodity prices, lifting of subventions (including export subventions), strong devaluation of the zloty, introduction of its external convertibility and a wide liberalisation of imports.
- Stage II (from September 1991 until the end of 1993) when adjustment to be associated with the EU was commenced, despite the lack of positive changes in the structure and volume of the existing production capacities.
- Stage III (commenced in 1994) is marked by a clearly more active trade policy and the stimulation of restructuring of production and exports.

In the economic policy carried out in the years 1990–1997 four main trends can be differentiated (Otta, Gorynia 1993):

- fiscal and monetary stabilisation,
- liberalisation of trade,
- institutional transformation,
- restructuring.

The most significant changes in the sphere of foreign trade regulations are enumerated below in chronological order:

- Liberalisation of most prices, elimination of subventions (1990).
- Substantial devaluation of the zloty and introduction of its internal convertibility (1990).
- Extreme liberalisation of imports (1990).
- Introduction of a new customs tariff based on terminology used by the EU (1991).
- Introduction of the principle of crawling devaluation of the zloty (1991) and simultaneous jumping devaluations (1991–1993).
- Implementation of transition agreement with the EU on the creation of free trade zones concerning industrial goods (1992). This agreement anticipated that the process of reduction of customs rates on industrial goods would last 10 years. The agreement contained an asymmetric schedule of the reduction of customs rates favorable for Poland.
- Implementation of other agreements similar to that with the EU with EFTA and CEFTA countries (1993).
- Replacing the turnover tax imposed, among others, on imported goods with VAT (1993); the basic rate of this tax amounts to 22% and the preferential rate – to 7%.
- From the beginning of 1993, due to difficulties with the balance of payments, temporary introduction of 6% import tax was agreed on with GATT (this tax was lifted at the beginning of 1997).
- In order to facilitate the restructuring of industry, from the year 1993 the suspension of duties and customs quotas (particularly for raw materials) was applied.
- Introduction of incentives for investment – a possibility to deduct part of investment outlays from taxable income (1994).
- Systematic slowdown in the rate of devaluation of the zloty (1994–1998).
- Poland has gained the status of a market economy country and starts participating in the process of reduction of customs and non-customs barriers in trade relations with WTO member countries.
- February 1, 1994 – Implementation (after a two-year period of ratification) of the European Agreement determining the principles of Poland's association with the EU; unilateral protective clauses for Poland as a weaker partner deserve attention. They include: the clause of the restructuring of industry, a protective clause as regards the establishment of EU enterprises in Poland and the clause enabling Poland to apply restrictions in hard currency turnover until the Polish currency is fully convertible.

- Liberalisation of the import of goods caused by a simultaneous implementation of the resolutions of the Final Act of the Uruguay Round, European Agreement, agreements with CEFTA and EFTA (in the period 1995–1998).
- Liberalisation of hard currency turnover including, among others, the introduction of convertibility of the zloty (June 1995) according to the standard of the article eight of the IMF Statutes and abandoning of the obligatory reselling of hard currency to banks by the exporters (1995) as well as liberalisation of the export of capital from Poland.
- Application of export supporting instruments, such as export credits and insurance of export credits (the range of application of these tools is very narrow).
- Flexibility of the exchange rate policy, i.e., replacing the official exchange rate with the central exchange rate that fulfills the function of a preferential rate while determining the limits of fluctuations (1995).
- Poland's membership in the OECD thanks to which the conditions of access of foreign capital to the Polish market were eased (1996).

Generally, the stated changes in the sphere of regulation should be evaluated as positive. These changes created a basis for Poland's larger participation in the international division of labor. Polish economy became more open to international economic cooperation. This creates many opportunities for Polish companies simultaneously posing some threats.

Dynamics of Turnover against the Background of the Economic Situation

Table 1 presents the indicators of the dynamics of exports, imports, GDP, industrial production and unemployment in the years 1990–1997. In this period exports (after a considerable initial growth in 1990) declined in the years 1991–1993 by 2.5% annually. However, from the beginning of 1994 the indicators of export dynamics were already positive.

Throughout the whole analyzed period imports grew dynamically. It should also be underlined that in the period 1995–1997 the turnover of the Polish foreign trade increased much quicker than the turnover of the world economy or of the EU.

Geographical Structure of Trade Exchange

Table 2 presents the geographical structure of Poland's foreign trade turnover in 1989–1997.

A characteristic feature of the Polish foreign trade in the 1990s was a strong reorientation of trade from East to West. In 1988 exports to CEE countries constituted about 40% of the total exports, and in 1993 – only 13%. From 1994 this share was steadily growing and amounted to 24% in 1997. In 1988 the share of exports to the EU countries amounted to approximately 28% and in 1993 it reached over 63%. In 1995 these exports amounted to as much as 70% and afterwards they started to decline. It is also easy to notice a steady declining tendency in the share of the developing countries in the Polish exports.

As regards imports, there was a visible growth trend in the share of imports from EU countries in the total imports. This tendency broke down in 1996. On the other hand, the share of CEE countries in Polish imports was declining until 1993 and afterwards it began to increase.

Table 1. Dynamics of the volume of Polish exports and imports, GDP and industrial production (previous year = 100), and unemployment rates (in %)

Specification	1990	1991	1992	1993	1994	1995	1996	1997
Exports	113.7	97.6	97.4	98.9	118.3	116.7	109.7	113.7
Imports	101.5	137.8	113.9	118.5	113.4	120.5	128.0	122.0
GDP	92.9	93.0	102.6	103.8	105.2	107.0	106.1	106.9
Industrial production	76.8	92.0	102.8	106.4	112.1	109.7	108.3	110.8
Unemployment rate	6.5	12.2	14.3	16.4	16.0	14.9	13.2	10.5

Source: Assessment of social-economic situation in 1997 along with elements of the forecast for 1998, Government Center for Strategic Studies, Warsaw, February 1998; Polish foreign trade in 1997, Annual Report, Foreign Trade Research Institute, Warsaw 1998.

Table 2. Geographical structure of Poland's foreign trade turnover in the years 1989–1997 (calculated on the basis of current prices expressed in zlotys, shares in %)

Specification	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total exports	94.7*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highly developed countries:	49.1	67.1	73.8	71.9	75.1	75.4	75.0	71.7	69.0
• EU countries	32.1	45.6	55.7	58.0	60.2	62.7	70.0	66.4	64.0
• EFTA countries	10.9	16.8	14.1	10.3	7.9	8.2	1.6	2.2	1.5
Developing countries	10.3	10.6	9.4	12.7	11.6	10.1	7.7	7.8	6.6
CEE countries and ex-USSR	35.1	22.3	16.8	15.4	13.3	14.5	17.3	20.5	24.4
• including CEFTA	7.1	5.1	5.3	5.1	4.8	4.8	5.4	6.1	6.8
Total imports	92.7*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highly developed countries:	53.0	65.3	68.4	72.4	76.2	75.1	74.3	73.6	73.5
• EU countries	33.8	47.2	49.7	53.2	57.2	57.5	64.6	63.9	63.8
• EFTA countries	14.7	13.8	14.8	12.9	11.2	11,2	3.1	2.5	2.5
Developing countries	6.9	13.3	12.3	11.3	10.3	10,6	10.3	10.9	11.6
CEE countries and ex-USSR	32.7	21.4	19.3	16.3	13.5	14.3	15.4	15.5	14.9
• including CEFTA	7.3	4.5	4.0	4.1	3.6	4.3	5.6	5.8	6.3

* Excluding the former communist countries.

Sources: Perczyński 1997; Statistical Yearbooks of the Central Statistical Office.

Numerous articles referring to the so-called gravitation model indicated the necessity for a strategic turn in the Polish foreign trade (reorientation from East to West). Political factors were responsible for the fact that the volume of Polish trade with CMEA countries before 1990 was too large, while that with the OECD countries was too small as compared with the level determined by economic factors (Winters, Wang 1994).

It must be underlined that the gravitation model makes it possible to measure only distortions in the geographical structure of foreign trade. This model, however, gives no suggestions about the extent of the inherited deformations in the commodity structure of trade exchange with foreign countries.

Commodity Structure of Trade Exchange

Table 3 presents the structure of Polish exports and imports in terms of economic sectors. However, the data of such a high level of aggregation are difficult to interpret.

More detailed articles on the changes in commodity structure of the Polish foreign trade in the years 1990–1997 indicate two main factors (Płowiec 1997):

- Primitive character of the commodity structure of exports.
- Growth of import penetration in certain groups of commodities.

The phenomenon of the so-called backwardness of the structure of exports is obvious. It means that the significance of highly processed export goods and the share of added value were lower in comparison to the value of material and energy intensive export products of relatively low technological level (Perczyński 1997).

According to the most recent data the share of electromechanical goods in Polish total exports declined to 22.4% in 1997. In the same year growth dynamics higher than the average for all Polish exports were reached in the groups of agricultural-food products, furniture, wood and wood products as well as chemical and metallurgical products (Piotrowski 1998).

Moreover, some attention should be paid to a positive phenomenon in the structure of imports. Recent years have witnessed a high dynamics of growth in investment import. In the structure of imports according to ways of their use the share of investment import went up from 13.0% in 1995 to 15.3% in 1997.

Trade Balance

Table 4 presents the development of Polish trade balance and the relations between repayment of debts and revenues from the export of commodities in the period 1990–1997.

Table 3. Structure of exports and imports according to branches in current prices in the years 1989–1997

Specification		1989	1990	1993	1994	1995	1996	1997
Fuels and power	I	12.4	20.7	12.6	10.5	9.2	9.2	8.8
	E	9.6	10.1	9.5	8.9	8.0	6.7	6.5
Metallurgical industry	I	8.8	6.9	4.6	4.9	5.8	5.1	5.0
	E	10.5	14.6	14.6	13.8	12.2	10.4	10.9
Electromechanical industry	I	36.3	39.8	34.4	33.8	35.1	38.2	41.6
	E	38.4	29.3	25.8	25.8	27.6	29.6	27.7
Chemical industry	I	15.2	11.6	17.5	19.2	19.2	18.0	18.0
	E	10.5	12.0	9.8	10.0	11.4	11.4	11.6
Extractive industry	I	1.3	1.3	2.1	2.4	2.6	2.5	2.6
	E	1.3	1.7	3.3	3.4	3.2	3.3	3.1
Wood and paper industry	I	1.9	1.6	3.6	3.9	4.7	4.4	4.5
	E	2.9	4.1	8.3	9.9	11.3	11.4	12.1
Light industry	I	7.6	6.1	10.0	10.6	10.0	8.6	7.9
	E	5.5	6.4	15.3	14.8	14.1	14.0	12.9
Food industry	I	9.5	7.8	7.7	7.8	6.8	6.6	6.1
	E	9.6	10.0	9.1	9.7	8.5	9.6	11.3
Other branches of industry	I	1.7	2.1	3.0	3.0	2.7	2.6	2.5
	E	0.6	0.6	0.8	0.8	0.9	1.2	1.2
Agricultural products	I	4.9	2.0	4.2	3.3	3.5	4.2	2.7
	E	4.1	5.4	3.0	2.5	2.5	1.9	1.7

Sources: Statistical Yearbook of Foreign Trade 1997, Warsaw, 1997; Statistical Yearbook of Foreign Trade 1998, Warsaw 1998.

The trade deficit, worsening from year to year, has been the main factor influencing the balance of current turnover. In 1997 this balance amounted to US$ –4.3 billion that constituted 3.2% of the GDP. The factor which smoothes the effect of high deficit in the trade exchange, is the revenues from the so-called cross-border trade.

Negative trade exchange balance is created mainly through the exchange with the EU countries. According to customs statistics, which register the flow of goods, not the actually made payments, the deficit in trade with the EU increased from US$ –7.3 billion in 1996 to US$ –10.5 billion in 1997. It should also be underlined that a significant factor influencing the Polish trade exchange balance is the balance of exchange of FDI in Poland with export activities. In the period 1994–1997 it amounted to US$ –2.8 billion in 1994, US$ –3.9 billion in 1995, US$ –7.4 billion in 1996, and US$ –10.0 billion in 1997. Substantial import requirements of the firms with foreign capital result from modernisation of their production potential (investment import) and a high demand for the import of materials (Durka 1998).

The high and still worsening deficit in the balance of current turnover is the biggest threat for the further steady economic development of Poland. Official publications show that the countries which opened their economies and joined the European Union (Spain, Portugal, and Greece) also noted a considerable worsening of their current trade balance. Similarly, they have also financed the current balance deficit with the surplus of the capital balance (Nowicki 1997). Implementation of an appropriate macroeconomic policy is necessary in such a situation to prevent overheating of the economy and inflation related tensions.

Table 4. Commodity payments and relation between debt repayment and export revenues in the years 1990–1997

Specification	1990	1991	1992	1993	1994	1995	1996	1997
Commodity payments in billion USD								
• Exports revenues	10,863	12,760	13,997	13,585	16,950	22,878	24,420	27,233
• Payments for imports	8,649	12,709	13,485	15,878	17,786	24,705	32,574	38,522
• Balance	2,214	51	512	-2,293	-836	-1.827	-8,154	-11,289
Relation between debt repayment and export revenues in %	6.8	10.5	11.0	13.2	8.7	9.0	10.2	8.3

Sources: Statistical Yearbook of Foreign Trade 1997, Warsaw, 1997; Statistical Yearbook of Foreigin Trade 1998, Warsaw 1998.

Foreign Direct Investment – Regulations, Inflow, Effects

Evolution of the Legal Institutional Conditions for the Inflow of Foreign Capital

A major feature of the Polish economic transition is the systematic opening of the economy to foreign investment. This is favored by the changes in regulations on this sphere of economic cooperation with foreign countries.

The following factors had the most powerful influence on the opening of the country to inflows of foreign capital in the form of FDI (Kubielas, Monkowski, Jackson 1996):

- Liberalisation of legal regulations concerning the inflow of FDI.
- Liberalisation of international trade exchanges and of the principles of currency convertibility.
- Privatisation of state-owned enterprises.

Before the beginning of Polish transition to market, there existed a so-called enclave model concerning FDI's preferential treatment vis-à-vis the other types of investment (Samonis 1992). The legal-institutional changes in the conditions for the inflow of foreign capital meant abandoning this model in favor of treating FDI in the same way as the domestic investments.

The enclave model functioning in Poland had the following characteristics:

- Participation of foreign capital was permitted only for small foreign businesses or in larger joint venture companies with a minority share of foreign capital in the ownership structure.
- Complicated procedure of granting licenses.
- Wide range of sectors where the penetration of foreign capital was forbidden or restricted.
- Obligation to resell foreign currency revenues from exports to hard currency banks.
- Restrictions on foreign profit repatriation.
- Restrictions in the purchase of real estate.
- Tax holidays in terms of income tax.

The 1991 Act on the activities of economic entities with foreign capital created identical treatment of FDI companies and firms with domestic capital. The most important features of the Act regulating foreign investments are as follows:

- No restrictions to the amount of invested capital and the transfer of profit.
- Necessity to obtain licenses from the state when the property of state owned legal entities is made available to companies with FDI. Licenses are granted by the minister of State Treasury in response to the application of an economic entity.
- Abandoning of the principle of automatic three-year tax holidays.
- Full guarantee of compensation in case of expropriation.
- Foreign entities can start their activity in two major forms: limited liability companies and joint stock companies (this is an exception to the principle of national treatment approved by the OECD).
- In the field of lotteries and betting FDI is impossible.
- Other restrictions in observing the national treatment principle refer to the maximum share of foreign capital in the initial capital of the company, for example in telecommunication services the limit is up to 49%, in other communications – up to 33%, and in radio and television industries – up to 33%.

Volume and Structure of Foreign Direct Investments

The data on the value of FDI in Poland are presented in Table 5. These data show that in the first half of the 1990s the volume of investment in Poland was by no means impressive.

Table 5. Stock of FDI in Poland in 1989–1997 (in US$ million)

Year	Investment above 1 million US$	Investment below 1 million US$	Joint investment
1989	8	1	9
1990	105	15	120
1991	324	45	369
1992	1,408	197	1,605
1993	2,828	396	3,224
1994	4,321	605	4,926
1995	6,832	956	7,788
1996	12,028	1,999	14,027
1997	17,705	2,882	20,587

Source: Olesiński and Pac-Pomarnacki (1998).

Recently Poland has become a leader among the countries of Central and Eastern Europe in terms of the FDI inflow and stock, overtaking Hungary (see Table 6). However, it must be kept in mind that in the calculation of the value of foreign investment per capita, Hungary, Slovenia and the Czech Republic rank before Poland.

Table 6. Inflow of foreign direct investment in the chosen countries of CEE in the years 1993–1996 (in US$ million)

Country	1993	1994	1995	1996
CEE	6,287	5,882	14,317	12,261
Albania	58	53	70	72
Belarus	10	15	7	18
Bulgaria	55	105	90	150
Czech R.	654	878	2,568	1,200
Estonia	162	215	202	138
Lithuania	30	31	73	152
Latvia	45	214	180	152
Moldova	14	12	67	292
Poland	1,715	1,875	3,659	5,196
Russia	700	638	2,017	1,800
Romania	94	341	410	624
Slovakia	199	203	183	150
Ukraine	200	159	267	440
Hungary	2,350	1,144	4,519	1,982

Source: Olesiński and Pac-Pomarnacki 1998.

Table 7. Entities with the share of foreign capital against the total number of entities registered in the REGON system in the years 1991–1997 (the state as of December 31)

Year	Number of entities with foreign capital*	Share in total number of national economy entities (%)
1991	5,583	4.1
1992	10,817	6.9
1993	15,814	8.6
1994	20,324	10.4
1995	24,635	11.7
1996	29,157	12.2
1997	33,459	12.8

* Includes commercial law firms with foreign capital and foreign small businesses.

Source: Chojna (1998).

According to the data from the end of 1997 in the recording system REGON, there were jointly registered 33,459 entities with FDI, of which 32,941 were commercial law companies and 518 were small foreign businesses (Chojna 1998). The FDI entities constituted 12.8% of the total number of the registered businesses in the national economy (excluding investments made by individuals and civil associations), against 12.2% in the end of 1996, 10.4% in the end of 1994 and merely 4.1% in the end of 1991 (see Table 7). However, it must be underlined that the very fact of registering the company in the REGON system does not mean engaging in a sustained economic activity. A part of the registered entities have not undertaken any economic operations, others have suspended their activities, while some have been liquidated or gone bankrupt. Foreign investors who have put in capital of at least US$ 1 million have been monitored by the State Agency for Foreign Investment (PAIZ). Table 8 presents the number of investors originating from a country that has made more than ten investments in Poland. The table shows that the investors from Germany, the USA, France, and Italy occupy the leading positions.

Table 8. The number of largest foreign investors in Poland in the years 1993–1997 (the state for the end of the year)

Countries	1993	1994	1995	1996	1997
1	2	3	4	5	6
USA	45	53	62	77	91
Germany	34	53	79	113	134
International concerns	8	11	14	15	15

1	2	3	4	5	6
Italy	3	6	17	29	44
France	19	20	29	42	51
Holland	9	11	13	32	34
Great Britain	12	15	21	21	26
Austria	10	18	23	30	34
Sweden	8	9	16	30	36
Denmark	5	10	13	16	22
Finland	4	5	6	9	11
Belgium	0	11	13	14	15
Canada	12	13	18	19	19

Source: Olesiński and Pac-Pomarnacki (1998).

When considering the value of the capital invested by the end of 1997, the list of foreign investors with at least US$ 1 million invested capital is dominated by US firms, followed by German and multinational corporations (Table 9).

Table 9. List of the largest foreign investors in Poland in the period 1993–1997 considering the actual investments made – as of year end status

Countries	1993	1994	1995	1996	1997
USA	1,028.00	1,413.70	1,698.00	2,965.60	3,981.80
Germany	212.00	386.40	683.00	1,524.40	2,104.90
Multinationals concerns	290.00	808.30	1,101.00	1,493.00	1,654.00
Italy	270.00	365.80	495.00	1,223.80	1,636.30
France	177.00	268.10	574.00	899.90	1,616.40
Holland	233.00	240.40	408.00	9,512.70	1,213.60
South Korea	5.00	5.00	69.00	184.50	1,077.80
Great Britain	68.00	112.20	368.00	509.00	1,002.00
Austria	195.00	159.70	248.00	315.30	660.30
Sweden	71.00	86.70	179.00	361.30	565.80
Switzerland	51.00	112.00	196.00	357.70	445.30
Australia	5.00	6.30	298.00	328.10	354.10
Denmark	24.00	60.20	124.00	238.20	306.80
Norway	42.00	46.90	29.00	80.10	240.00
Ireland	7.00	7.00	47.00	105.70	191.20

Source: Olesiński and Pac-Pomarnacki (1998).

The list of most significant foreign investors is presented in Table 10. It must be underlined that from 1994 the first ten most important investors have not changed. FIAT, EBOR, Polish/American Entrepreneurship Fund, IPC, Coca-Cola and ABB are undisputed leaders. The new firms on the list are Daewoo, PepsiCo, ING Group and Philip Morris.

Table 10. The largest foreign investors in Poland – actual investments made by the end of 1997

Investor	US$ Million	Branch
FIAT	1,141.9	Car industry
Daewoo	1,011.3	Car industry
EBOR	616.5	Banking
PepsiCo	412.0	Food industry
IPC	370.0	Paper industry
ING Group	350.0	Banking
Coca-Cola	285.0	Food industry
ABB	282.0	Engineering industry
Philip Morris	282.0	Tobacco industry
IFC	277.3	Financial intermediation
Nestle	248.0	Food industry

Source: Raport o inwestycjach zagranicznych w Polsce, "Rzeczpospolita" nr 157, 07.07.1997.

In terms of economic sectors the structure of foreign investment in Poland looks interesting. At the end of 1997 there were three dominating sectors: manufacturing, financial intermediaries and services (see Table 11).

Significance and Effects of Foreign Direct Investment

The role of foreign direct investment can be defined through:

- The share of these investments in the GDP and the total number of investments.
- Creation of new jobs and labor productivity.
- The share of entities with foreign capital in Polish foreign trade.
- Comparison of invested capital in FDI companies with the investment volume in other enterprises.
- Comparison of the financial performance of FDI entities vis-à-vis other entities.
- Contribution of FDI to the privatisation of the Polish economy.

Table 11. Foreign investment in economic sectors as of the end of 1997 (in US$ million)

Economic sectors	Investments	Investment plans
Manufacturing including:	11,042.0	5,782.6
• Food products, beverages, tobacco	3,276.9	1,109.4
• Means of transport	2,510.5	1,969.5
• Paper, publishing and printing activity	1,158.4	293.3
• Chemicals, chemical products	1,087.4	518.0
• Other non-metallic raw materials	971.4	864.5
• Optical and electrical appliances	667.4	260.8
• Metals and processed metallic products	375.3	184.3
Financial intermediation	3,130.4	422.0
Trade and repairs	1,408.5	2,033.8
Transport, storage and telecommunications	734.5	299.4
Construction	554.9	511.8
Service and municipal activity	354.6	232.0
Hotels and restaurants	305.5	431.0
Electricity, gas and water supply	96.5	1,040.0
Real estate servicing	38.3	24.5
Mining and extraction	16.2	0.0
Agriculture and fisheries	15.0	0.0
Total	**17,705.4**	**10,777.1**

Source: Olesiński and Pac-Pomarnacki (1998).

The share of foreign direct investments in the GDP and in the total number of investments is presented in Table 12. In the period 1994–1996 this share constantly increased and in 1997 started stabilizing.

Table 12. Relations between the inflow of FDI[a] in the GDP value and the total investment made in the period 1994–1997 (in %)

Specification	1994	1995	1996	1997[b]	1994–1997 average
FDI/GDP	1.6	2.1	3.9	4.2	3.1
FDI/total investments	10.9	12.9	21.3	20.6	17.2

[a] Include foreign direct investments exceeding the value of 1 million USD.
[b] Estimates.

Source: Chojna (1998).

The data on employment in the companies with foreign capital (Table 13) show that the share of these entities in the overall employment is not high although it is steadily increasing. This may mean a much better utilisation of labor resources in the FDI companies.

Firms with FDI have a clear advantage over other companies in terms of labor productivity measured by revenues calculated per one employee. In 1996 labor productivity in the firms with foreign capital was twice as high as the average in the total number of entities in the Polish economy.

It should be stated that the contribution of FDI companies to the revenues from all economic entities in Poland is steadily increasing. In 1996 this share amounted to approximately 20% of the revenues of all the entities that submitted their statistical annual reports. In the period 1994–1995 this index amounted to 12.4% and 16.6% respectively.

FDI companies are more likely to export their produce than firms with domestic capital. In 1996 the share of export revenues of FDI companies amounted to 13.9% from their total revenue, whereas the one for companies with domestic capital was 8.8%. However, it should be mentioned that in the period 1994–1996 the foreign revenue of FDI companies showed a slightly declining trend from 15.6% to 13.9%.

The share of firms with foreign capital in the total Polish exports in 1997 amounted to 43.0%. In terms of import the share was 49.9% (Durka, Chojna 1998).

Intense international trade activities of FDI companies resulted in a negative trade balance on company level. This negative value was steadily growing from US$ – 2.8 billion in 1994 to US$ – 10.0 billion in 1997.

Table 13. Employment in FDI companies in the period 1991–1996 in relation to total employment in the Polish economy[a] as of December 31

Year	Number of employees (in 1000s)	Share in total employment (in percentages)
1991	117.6	1.3
1992	230.0	2.0
1993	310.2	2.8
1994	373.9	3.3
1995	495.3	4.4
1996	525.9	4.6

[a] Excluding individual firms, national defense and internal affairs sectors.

Source: Chojna (1998).

The share of imported elements of the supply chain (raw materials, parts and components) in the total imports of FDI firms amounted to approximately 60% of all inputs while the same in the firms with Polish capital was approximately 70% in 1997.

Companies with FDI are characterized by high investment activities. The contribution of FDI companies to the overall volume of investment increased from 11.6% in 1994 to 20.1% in 1996.

When considering the financial results of FDI companies, a positive trend can be observed. In the period 1994–1997 profitability rates were considerably improved and from negative indicators in 1994 they became positive. It should be emphasized that in companies with FDI the profitability indicators look particularly good compared with those of domestic companies.

The share of foreign capital in the privatisation of the Polish economy also deserves attention. Out of 203 companies that underwent FDI privatisation in 1990–1997, 104 strategic investors who purchased their shares were Polish and 83 were foreign investors, whereas in 16 companies the shares were bought by foreign and Polish investors (Włodarczyk 1998). In the course of direct privatisation of small and medium sized enterprises (the so-called selling path) 80 enterprises were sold to foreign investors. Under the Program of the National Investment Funds, out of 93 portfolio companies 32 were sold to foreign entities.

Opportunities and Threats of Internationalisation

International trade and the inflow of FDI are considered to be the two most important forms of internationalisation of the Polish economy. The extension of both forms of international economic ties offers a number of advantages and creates many opportunities. However, one must not overlook the threats related to the progressive internationalisation.

Internationalisation opportunities and advantages have been well identified by the theories of international trade and the theories of foreign direct investment. Here, we shall only indicate these factors that are particularly significant in the case of Poland.

The opportunities and advantages resulting from the development of international trade in the period of transformation are as follows:

- Export is one of the significant factors stimulating the economic growth. Achieving a much higher increase of the GDP is a condition for the overcoming of the so-called product gap that separates Poland from highly developed countries.
- Revenues from export are an important source of the financing of foreign purchases.

- Exports make it possible for the enterprises to achieve advantages of scale against limited extent and demand on the domestic market.
- Exports force the producers to improve the quality of production to meet the high quality expectations of foreign markets.
- Thanks to imports the economy has an access to modern machines and equipment as well as to high quality materials. This is particularly important during a period of rapid economic growth which is expressed in the high rate of GDP growth and the high rate of investment.
- Making part of import purchases on credit increases the country's accumulation capacities that are insufficient to finance the high rate of economic growth.
- Import discipline home producers in terms of pricing and quality assurance and is also the means of diffusion of foreign investments in the Polish economy.
- Imports facilitate the maintenance of equilibrium on the home market.

A rapid growth of foreign trade in the period of transformation is also a source of the following threats:

- Persistence and worsening of foreign trade deficit which in the long run may break down the balance of payments.
- "Backwardness" of the structure of exports – smaller importance of the high-tech products and the smaller share of the so-called added value in favor of material- and energy-intensive products of relatively low technological level.
- There are no good prospects for development of external demand in the economic sectors where Polish export capacities are most important and in which the development is most dynamic, whereas in the economic sectors where growth of foreign demand is expected Poland has limited possibilities to increase supply.
- Trespassing in some economic sectors, particularly the most technologically advanced, the critical threshold of the penetration of imports in relation to the home production that leads to elimination of certain fields from the Polish industry.

The positive effects of FDI inflow into the Polish economy are unquestioned. They provide Poland with an opportunity to bridge the civilisation gap separating the country from the highly developed economies relatively quickly. Advantages resulting from the inflow of foreign investments can be listed as follows:

- Increased accumulation of capital and opportunities for new investments.
- Modernizing and restructuring the industry through the transfer of modern technologies, know-how, and management methods.
- Improved quality of products made by FDI and domestic companies – pressure on the local suppliers for new quality standards of products, materials, components and servicing.
- Creating demand for new products.
- Access to organized networks of sales in the foreign markets.

- Acceleration of privatisation processes.
- Creating new jobs and increasing employees' qualifications.

Experiences of the countries that receive foreign investments on a wide scale also show some threats:

- Locating environmentally unfriendly production in the host country.
- Use of obsolete production technologies in the host country.
- Transfer of incomes in the form of transfer prices.
- Limitation of investment duration – an attitude to "skim the cream" in a short period of time, not re-investing the profits followed by a rapid divestment.
- Investments "blocking" the local competitors in order to increase import penetration on the market of the host country.

In the context of the opportunities and threats connected with a wider opening of the transformed Polish economy to internationalisation, a question is raised about the appropriate economic policy that should be adopted.

Maintaining the high rate of economic growth and also the necessity to service a considerable foreign debt are responsible for the fact that rapid development of export is a must for the development of the Polish economy. Therefore, a pro-export policy is a high priority for the national economy. Such a policy should be a part of the overall economic policy, non-contradictory and coherent with all state economic activities. The fact that Polish exports must grow is generally unquestioned. This, however, does not mean that the export sector should be a kind of enclave strongly subsidized by the non-export sector. This kind of solution was frequently tested in the period of communist economy and its results were unsatisfactory.

The pro-export policy should not be of segmental character. The best pro-export policy is a comprehensive economic policy oriented towards the improvement of effectiveness, efficiency, and growth of international competitiveness of the Polish economy. The economic policy, which concentrates on stabilisation measures, is not sufficient to achieve this objective. It should be supplemented with the policy of institutional transformation and restructuring.

In the present reality of Poland and its external environment, the growth of competitive production of goods and services marketable both on internal and external markets is the fundamental strategic problem (Płowiec 1997).

Thus, two general recommendations to economic policy makers can be made (Gorynia 1996):

- The state's economic policy should support competitiveness of enterprises.
- The economic policy should favor competitiveness in an integral way, i.e., it should not differentiate in an unjust way the instruments that favor competitiveness in two "dimensions" competitiveness of exporters to foreign markets and competitiveness of producers in the home market.

The above-mentioned criteria are fulfilled by the concept of liberal-institutional industrial policy (Gorynia 1995). The essence of the liberal-institutional industrial policy is in promoting a widely understood growth and entrepreneurship. Four main trends can be distinguished in the liberal-institutional policy:

- The policy promoting development.
- The policy of supporting competition.
- The policy of privatisation.
- The policy of promoting economic self-governance.

The following groups of activities can exemplify the policy of promoting development:

- Promotion of investment.
- Promotion of innovation, research and development.
- Supporting education and training.
- Distribution of economic risk.
- Supporting the construction of the systems of information and its diffusion.

The above-mentioned main directions of the impact of economic policy, defined as the liberal-institutional industrial policy, are characterized by a general, universal approach, which basically does not provide for individualisation of the policy measures according to particular economic mezzo systems. However, it seems that in some cases selective application of the chosen instruments can be admissible (Gorynia 1995). Such cases can be listed as follows:

- Market failure.
- Occurrence of the second-best situation.
- Protection of infant industries.

Some concepts of the economic policy identify the pro-export policy with a selective industrial policy. Some economists put forward a concept of deliberate construction of comparative advantages in the chosen fields of advanced technology and strategic integration with the world market, not the integration with the world market based on the current premises which are unreliable while making decisions of strategic character (Hübner 1994).

In the discussions concerning the borderline of the pro-export policy and the selective industrial policy there appears the concept of the so-called strategic trade policy (Brander, Spencer 1985). According to this concept export subsidies may seem to be an attractive measure of the policy because they improve a relative position of home producers in non-cooperative competition with foreign firms, thus enabling them to get a bigger share of the market and to increase profits. The subsidies change the initial conditions of competition. The terms of trade in the subsidizing country get worse but their welfare can increase because under imperfect competition the price exceeds extreme costs.

Numerous arguments can be listed against the strategic trade policy understood in the above-mentioned way. The most important arguments are as follows:

- The governments of rival countries may also start subsidizing. “The war of subsidies” will result in the decline of prices in the international market and may lead to a decline of welfare in the countries using subsidies.
- A target country of the subsidized exports can take up some retaliation measures (customs, compensation charges, quotas, embargoes, etc.).
- Subsidies granted simultaneously in several countries can lead to overinvestment in the subsidized economic sectors.
- Low prices of the subsidized goods on the international market can be a false signal for the potential investors from third countries.
- Ensuring means for the subsidies is an essential problem for the countries with an unbalanced budget.
- According to the binding international agreements export subsidies are forbidden. Such is the attitude of the Code on Subsidies of the GATT Tokyo Round. Agreement on Subsidies and Compensative Duties from the Final Act of the Uruguay Round binding under the WTO introduces quite a precise and extended definition of subsidies.

The Polish policy of foreign trade should, therefore, develop in the following directions (Płowiec 1997):

- Lifting barriers for exports development: barriers related to the quality of production, barriers related to the terms of payment offered (export credits, insurance of export transactions), barriers of infrastructural character.
- Development of non-tariff forms of the protection of producers against dishonest competition or against excessive imports.

The economic policy should also concentrate on creating the economic climate that attracts foreign investors. Foreign direct investments should prove particularly useful in the development of managerial staff and operational personnel; improvement of the professional level of management; transfer of production and marketing technologies as well as management techniques; introduction of energy and material-saving technologies, friendly to the natural environment; further privatisation of the economy and in the long run they should also improve the balance of trade.

Those policies to international trade and FDI into Poland will increase the degree of internationalisation of the Polish economy and its competitiveness in the international marketplace.

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5

Internationalisation of economy versus economic policy under integration and globalisation

Marian Gorynia

Abstract: The article presents a set of recommendations for the economic policy. These recommendations take into account three most important circumstances under which the Polish economy will be functioning in the next few years: completion of the systemic transformation, membership in the EU and globalisation.

The author argues that economic success measured by the growth of welfare will be a resultant of the impact of three interrelated categories: competitiveness – internationalisation – effectiveness. The recommendations for the economic policy are presented in two groups: positive recommendations – which activities should belong to the scope of the economic policy; negative recommendations – which activities the economic policy should not deal with.

Keywords: economic policy, competitiveness, internationalisation, globalisation, integration.

JEL Codes: F13, F15, L52.

Introduction

The aim of the article is to present guidelines for the economic policy taking into account three most significant conditions on which the prospects of the Polish economy depend. These conditions are as follows:

- completion of the transformation – the significance of this condition will diminish in the course of time,
- integration with the European Union – this condition is particularly meaningful due to the fact that the relations between the Polish economy and the EU are of great significance,
- globalisation – this factor will decide about Poland's position in the world economy; it creates many opportunities and threats for the economy of an emerging country such as Poland.

The main thesis of the paper can be formulated in the following way:
A long-term success of the Polish economy, reflected in a significant growth of welfare, depends on the combination of many factors, out of which three determinants in the form of catchwords seem to be crucial. These are: competitiveness – internationalisation – effectiveness.

Triptych: competitiveness – internationalisation – effectiveness

A still unfinished period of transformation of the Polish economy, convergent in time with more and more intensive attempts to enter the EU as well as with a rapid process of globalisation, poses many dilemmas for the economic policy of the country whose market economy is considered not yet to be fully developed. The above-mentioned challenges acquire even more significance due to a considerable slowdown of the economic growth. The main problems include the rate, equilibrium and permanent character of the economic growth, potentially full utilisation of the productive capacities of the economy (including labour force), inflation, state of public finances, external balance, and the like. A common denominator combining the above-mentioned problems is ensuring the long-term competitiveness of the economy, as only the competitive economy can effectively participate in the international division of labour, i.e. become internationalised. Internationalisation seems to be one of the main conditions to achieve better economic effectiveness which, in turn, is the sine qua non condition to raise the level of welfare. Therefore, it seems justified to suggest the following triptych of dependencies: competitiveness – internationalisation – effectiveness of the economy. As it is shown by the experience of the majority of developed countries, one of the best recipes to achieve the welfare state is to open the economy in order to ensure its strong and multilateral ties with the world economy, in other words – to integrate a given economy with the world economy. Foreign trade and foreign direct investments constitute the two main aspects of this integration. One can also assume that foreign trade and foreign direct investments are the two most significant symptoms of internationalisation of the economy, understood as a development of economic ties with foreign countries. In order to clarify the problem of definitions it can be assumed that active internationalisation is exports of goods and services as well as export of capital (in the form of foreign direct investments flowing out of the country), whereas passive internationalisation means imports of goods and services to a given country and inflow of foreign direct investments to this country. Both sides of the process of internationalisation are important, however, as regards relatively underdeveloped countries which require modernisation, an asymmetry can frequently be observed: in medium term, or even in a long-term period, imports exceed exports and the inflow of foreign direct investments is larger than their outflow.

There are many concepts of an economic policy which would favour high competitiveness of the national economy. Recommendations resulting from those concepts are frequently mutually exclusive.

The recommendations for the economic policy presented in this paper are formulated in a selective way. The author restricts himself to the presentation of those areas and problems which – in his opinion – are relevant to the economic policy and its implementation. The author deliberately resigns from outlining those areas and questions in which the economic policy should not interfere.

Models of economic policy oriented towards higher competitiveness

An indispensable element of the economic policy of each state is a uniform, traditional macroeconomic policy including such main kinds of policies as: fiscal policy, monetary policy, price policy, income policy, employment policy, and the like (Karpiński 1992, pp. 90–93)[1]. This paper does not intend to give a set of instructions for this policy. However, it seems justified to consider the problem whether economic policy of the state should be restricted to the traditional macroeconomic policy or whether it should also include elements and tools which are usually outside its interests. Both theoretical arguments (Hirst, Zeitlin 1989, pp. 1–15), Timlinson (1989, pp. 248–252) and, above all, economic practice of most countries indicate that it is justified to supplement traditional measures of the economic policy (budget, taxes, monetary policy, exchange rate policy, and the like) with other instruments whose common aim is most frequently to raise the competitiveness of a given economy. The argument of international competitiveness is often raised also as regards the Polish economy. In the Polish enterprises one can observe a competitive gap (Gorynia 2002). At the microeconomic level this gap translates itself into certain threats of macroeconomic character. The process of integration of the transformed Polish economy with its international environment has led to some threats for its stability and for the opportunities of further growth:

- export capacities of the economy are not satisfactory as regards maintaining the equilibrium of the trade balance; despite progressive modernisation of the economy those capacities do not grow fast enough,

[1] A. Karpiński treats the following types of policies as traditional macroeconomic policies: fiscal, monetary, customs, price, income, employment, social, regional and investment policy. Among modern macroeconomic policies he lists the following ones: scientific-technological and innovative, structural adjustments, restructuring and ecological. The same author classifies the following policies as branch economic policies: industrial policy (with its variations such as energy, raw materials), agricultural, transport and trade policy.

- demand for imports in itself is not very high; it is significant that the rate of growth of imports was very high and the volume of imports was not adjusted to the financial capabilities of the economy,
- maladjustment between the value of exports and imports has led to a considerable deficit in the trade balance,
- deficit in the trade balance was financed mainly with the means from the inflow of foreign direct investments, however, it is rather impossible to maintain this situation in the long run due to a threat of a financial crisis (Gorynia 2000)[2].

In the context of what has been said so far a question arises: what measures of the economic policy should be applied in order to counteract the negative aspects of Poland's integration with the world economy and, in particular, to ensure such a level of its competitiveness which would make further integration of the Polish economy with its international environment possible.

Two general concepts of the economic policy can be distinguished. They supplement a traditional economic policy and their aim is to increase economic competitiveness:

- the concept of increasing competitiveness of the Polish exports on the foreign markets (enclave model),
- the concept of increasing competitiveness of the economy as a whole (integral model).

In our opinion there are numerous arguments against the use of the enclave model.

The integral model highlights the increase of the competitiveness of the whole economy and not only its export sector. The current reality of Poland and its external environment shows that the main strategic problem is to develop the competitive production of goods and services to be sold both on the home market and on the foreign markets (Płowiec 1997).

Therefore, one can formulate two general recommendations for the economic policy (Gorynia 1996, 1998):

- economic policy should support the development of competitiveness of enterprises,
- economic policy should treat its support for the development of competitiveness in an integral way, i.e. it should not make any unjustified differentiation of the instruments supporting competitiveness on two levels – competitiveness of exporters on foreign markets and competitiveness of manufacturers on the open home market.

[2] The above-mentioned threats are related to insufficient competitiveness of the Polish economy. See: Jakóbik 2001.

The above-mentioned criteria are fulfilled by a concept of the liberal-institutional industrial policy[3]. The liberal-institutional industrial policy in its essence promotes a widely understood growth and entrepreneurship. This policy applies mainly the instruments of universal character. Although those instruments exceed the areas which are the subject of interest of a traditional macroeconomic policy, their common feature is undifferentiated, uniform character. The whole economy, its all sectors, branches, sections and similar mezosystems are treated virtually in the same way.

Four main directions can be differentiated within the liberal-institutional industrial policy:

- growth supporting policy,
- competition supporting policy,
- privatisation policy,
- economic self-government policy.

For example, within the framework of the growth supporting policy, the following groups of activities deserve special attention:

- supporting investments,
- supporting innovations, research and development,
- supporting education and training,
- distribution of economic risk,
- supporting the construction of information systems and promoting information diffusion.

The Polish foreign trade policy, which is a component of the liberal-institutional industrial policy, should take the following directions (Płowiec 1997):

- elimination of barriers for the development of exports: barriers related to product quality, barriers related to the terms of payment for exports (export credits, insurance of export transactions), barriers of infrastructural character,
- development of non-tariff forms of protecting the manufacturers against dishonest competition or excessive imports.

The economic policy should also concentrate on the creation of economic climate which would attract foreign investors. Foreign direct investments should prove particularly useful in:[4]

- development of managerial staff and operational personnel,
- raising the professional level of management,
- transfer of production technologies, marketing and management technologies,
- introduction of eco-friendly, energy-saving and material-saving technologies,
- further privatisation of the economy,

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[3] This idea was discussed in detail in the paper: Gorynia (1995).

[4] It should be indicated that the expectations are not always sufficiently fulfilled. Kotowicz-Jawor (2001), pays attention to the threats connected with the existing branch structure of foreign in vestments in Poland, and in particular with the so-called process of servicisation.

- in the long-run foreign direct investments should contribute to the improvement of the trade balance[5].

Here we should quote the opinion of M.E. Porter (also shared by the author of this paper) concerning the role of the economic policy in building up and maintaining the national competitive advantage (Porter 1990). There are four basic determinants of the international competitiveness of a branch:

- factor conditions,
- demand conditions,
- related and supporting branches,
- corporate strategy and structure, level of competition.

Porter refuses to acknowledge the role of the fifth determinant in the economic policy. The government influences the national competitive advantage indirectly through its impact on the four above-mentioned factors. The government has an influence on the determinants and the determinants influence the government's activities. The government plays an important role in the development of advantage but this is a partial role as other factors are of greater significance. The repertoire of the government's influence on particular determinants analysed by Porter is very wide and instructive (Porter 1990). The impact of the government on factor conditions concerns such fields as: education and training, science and technology, infrastructure, capital, information and direct subsidies. The impact of the government on demand conditions concerns such areas as: government purchases, regulation of products and processes, influence on the structure of branches-buyers, stimulation of early and sophisticated demand, information for the purchaser, technological standards as well as assistance for foreign countries and political connections. The influence on the related and supporting branches includes conducting a proper mass media policy, influence on the formation of branch bundles – centres. The influence on corporate strategy, structure and competition refers to promoting internationalisation, stimulating the selection of appropriate individual and company objectives, promoting internal competition, stimulating new entries, implementing a proper trade policy and influencing foreign investments.

[5] In the related literature it is underlined that a limited export propensity of firms with foreign capital located in Poland can result from the fact that (due to a large domestic market) their sale strategy is oriented towards the Polish market. U. Kopeć writes on this subject: "In the case of Poland the motive of a large domestic market dominated whereas a considerably lesser absorption of the Hungarian and Czech markets determined the possibilities of export activity in the strategy of foreign investors" See: Kopeć (2000, p. 189).

Economic policy versus integration

In the context of the above-mentioned remarks a question arises: how the fact that Poland participates simultaneously in two important economic processes – integration with the EU on the one hand, and on the other hand attempts to join the system of the world economy through its growing involvement in international trade and foreign direct investments flows – can influence the economic policy applied. An additional factor which must be considered here is transformation. One should at least partially agree with K. Ohmae's thesis that the sovereignty of the nation state is subject to erosion which is also reflected in the limited freedom as regards economic policy (Ohmae 1995)[6]. Poland's membership in such organisations as WTO, OECD, CEFTA, membership in the International Monetary Fund, the future membership in the EU – all those circumstances mean a deliberate and voluntary resignation from some prerogatives traditionally attributed to the nation state. This resignation, however, is subordinate to the objective which is raising the level of social welfare – no other better way to attain this objective has been invented yet in the world than participation of a given economy in the world economy and a wide integration with it.

Therefore, the Polish economic policy must take into account the conditions resulting from integration with the European Union and from globalisation. It seems that in the short and medium-term period priority will be given to the question of membership in the EU and in the long-term period globalisation-related problems will become most important.

Membership in the European Union means the necessity to adjust the Polish economic policy to the Union's standards. The EU policy includes many areas. Z. Wysokińska and J. Witkowska mention and provide a competent analysis of the following areas: trade policy, agricultural policy, energy policy, policy supporting research and technological progress, competition policy, environment protection policy, consumer protection policy, transport policy, regional policy, social policy, policy towards small and medium-size enterprises (Wysokińska, Witkowska 1999)[7]. Solutions which are significant for the competitiveness of the EU economies can be found virtually in each of those areas. It should be underlined that the "degree of pro-competitiveness" of regulations approved in the EU differs according to sectors. Thus, a uniform pattern of supporting competitiveness in all the sectors existing within the Union is out of the question. Agriculture is an example of the sector where competitiveness, i.e. effectiveness aspects play a small role. It is difficult to say whether another solution can be applied but for

[6] Limitations connected with the cooccurrence of transformation and globalisation are pointed out by Kołodko (1999, pp. 309–310).

[7] The aspect of competitiveness is also extremely important as regards regions and regional policy. See: Domański (1999).

Poland following the Union's pattern of competitiveness support in agriculture is risky in the long run. Will the Union's agricultural market be separated from its international environment in the long period of time? If not, restructuring the Polish agriculture according to the Union's pattern is irrational in the long run – the potential integration of this sector with the international market will require further intensive adjustment in the long period of time.

In non-agricultural sectors the Union's policy of competitiveness support aims at achieving high competitiveness by promoting competition. This was presented in a synthetic way in the European Union Treaty (which reformed the treaties establishing the Communities) in the form of an entry about creating the conditions necessary to ensure competitiveness of the common industry, both by the European Community and its member countries. In order to achieve this, some activities convergent with the open markets' system are to be undertaken. Those activities should take into account (Consolidated Version of the Treaty Establishing the European Community, article 157):

- accelerating adaptation to changes in industry,
- creating conditions for the initiatives and development of enterprises, particularly small and medium size firms,
- creating a favourable climate for the cooperation between enterprises,
- stimulating a better use of the industrial potential in the innovative, research and technological policy.

The "Communique on the policy of competitiveness in industry for the European Union", presented by the European Commission to the EU Council in September 1994, was significant for determining the Union's policy of supporting competitiveness. This document concentrates on four issues (Consolidated Version of the Treaty Establishing the European Community):

- promotion of intangible investments, i.e. investments in R&D, intellectual property, education and training,
- development of industrial cooperation (above all identification and elimination of barriers hindering cooperation both within the Union and with foreign partners),
- protection of honest competition both internal and external (in particular restricting the role of the state, better concentration on the horizontal support rather than the sector one),
- change in the role of public administration (simplifying legislation and administrative procedures, particularly for SMEs, proper use of structural funds earmarked for the support of competitive sectors of industry with regard to the situation in particular regions).

The basic principles of the EU approach to competitiveness support by the economic policy, outlined briefly, can result in two remarks:

- the concept of liberal-institutional industrial policy mentioned earlier is convergent with those principles,
- the principles presented are simply guidelines which leave the national institutions much freedom in working out detailed solutions of the economic policy.

However, attention must be paid to the fact that the Union's official opinions and reports are not always shared by the researchers. Opinions of a group of academics from the EU countries as regards its industrial policy (Cowling 1999) will be presented below. Their approach can be summarised in a few points:

- in the 1980s the industrial policy in Europe was dominated by privatisation and deregulation; there were no discussions on a positive industrial policy,
- in the 1990s the discussion was resumed by the publication of Competitiveness White Papers,
- in 1990s the new industrial policy, i.e. the policy of competitiveness, assumed reorientation – abandoning sector undertakings (sector privileges) due to the problems with picking winners for horizontal industrial policies,
- analysis of the policies actually conducted indicates that sector policies are not completely abandoned and the horizontal policies declared turn out to be sector policies in major part,
- in practice the implementation of horizontal policies must include sector elements – sector instruments are mixed with the horizontal ones,
- one can observe a tendency towards increased significance of ad hoc interventions addressed to individual enterprises,
- despite declarations about abandoning the policy of picking winners, many sectors in the EU countries remain under a surprisingly strong impact of "national champions".

However, the authors of the quoted paper are not in favour of the necessity to come back to the policy of picking winners by bureaucrats according to the new improved methods. Their postulates take a completely unexpected direction. In their opinion the fact that the state does not carry out a sector-oriented intervention (as it is not competent to do so) is also a kind of intervention. There emerges a free untouched field where transnational corporations can enter – the selection of branches does not take place at the level of the state (as is the case of sector policies) but at the level of corporate management. Elite boards of corporations – plan the directions of expansion: in the heart of the economy, called the market economy, important decisions assume the character of long-term plans constituting a transnational corporate strategy. Decision-making in corporations is not democratic – it frequently leads to options which are not beneficial for the society due to strategic failures which can occur in them. Implementation of another way of selecting branches or types of activity should be a remedy for the previously mentioned shortcomings. The choice should be made in the process of democratic selection – identification and acceptance of sectors to be developed should be made by the largest possible groups of people with an aim to serve them in the best possible way. The responsibility of decision-making, to be exact the assessment of the suggestions made by corporations, should be passed on to local communities. According to the authors of this proposal, two initiatives of the European Union are convergent with their way of thinking: Regional Innovation and Technology Transfer Programme and Regional Innovation and Strategy Programme. Both programmes are oriented towards encouraging growth and raising the standard of living in underdeveloped regions of Europe through stimulating the transfer of technologies and innovation activity.

Economic policy versus globalisation

As regards consequences resulting from globalisation for the Polish economic policy, one can quote (after J. Dunning) the most important dilemmas connected with the role of the nation state in the face of globalisation (Dunning 1999):

- what is the influence exerted by a greater and greater structural interdependence of particular elements of the world economy on the possibility to carry out traditional regulatory activities by the nation states?
- how does the growing mobility of intangible, immaterial resources created by man (such as knowledge and information) influence the possibilities of nation states as regards regulation of those processes?
- what can and what should the national governments do in order to ensure appropriate quality of the resources linked with the place of their jurisdiction, so that it is possible to attract and retain in a given country the resources belonging to transnational corporations which, in turn, is a prerequisite to attain economic and social objectives of a given country?
- which kinds of policy require reassessment so that they could serve as competitive tools to attract mobile resources of transnational corporations to a given country?
- do liberalisation and globalisation weaken or change the role of a nation state?
- what tasks performed well by the state before globalisation are solved better by the markets?
- to what extent is it justified to perceive the role of the state in terms of supplementing the market rather than in terms of its substitute?
- do the transborder networks of economic activity require a more systemic and transnational approach to regulation?
- how do globalisation forces change the optimum size of a national government?

According to Dunning, traditional ways of perceiving the role of state in the economy should be thoroughly reassessed due to the processes of globalisation. This concerns four aspects of this role (Dunning 1999, p. 3):

- differentiation between a systemic and an operational role of the state in the economy,
- factors specific for a given country and influencing the role of the state in the economy,
- ways of the governments' responses to globalisation,
- appropriate territorial jurisdiction of the governments.

In a traditional approach this role is reduced to the opposition between a systemic role and an operational role. The above-mentioned author puts forwards a thesis that globalisation forces the growth of the systemic role, its far reaching reassessment and decline in the significance of the operational functions of the state. Traditionally, the systemic role of the state was reduced to creating the conditions for economic activity, so that non-market costs of coordination and transaction costs of economic activity could be minimised. When the economic activity becomes more complex, specialised and interdependent, when the markets become uncertain or remain under the influence of external effects, asymmetry of information and opportunism – the state has additional institutional and supervisory responsibility. The economy where a significant role is played by information and innovation requires (by definition) a wide share of non-market factors for its smooth functioning, which is connected with the necessity to ensure respect for the law and order, ownership rights, execution of contracts and solution of conflicts. Dunning puts forward a thesis that globalisation causes far reaching changes in the systemic role of the state. This is connected with the necessity to work out rights and regulations on the international scale (e.g. intellectual property rights), ensuring that institutional standards and systems of regulation in a given country do not put the firms and citizens of that country in a worse situation than that in other countries (e.g. regulations concerning the protection of environment, competition policy, taxation systems etc.), lifting of barriers in international trade, fight with discriminating procurement policies, technical standards, problems on the borders, and the like. Dunning is of the opinion that the systemic role of the state must be subjected to the process of continuous creative destruction.

The postulate of creative destruction is valid also, or even the more so, in relation to the operative role of the state. If the systemic functions are an inherent role of the state, its direct involvement in the functioning of an economic system (operational function) should depend on the difference between the costs of this activity and the costs of other institutional solutions. The situation in this field is subject to constant evolution – there are cases when state interventionism, due to very high transaction costs of pure market regulation is justified. This happens when we deal with idiosyncratic (specific) investments or when some capital goods assume the features of public goods and require incurring immense fixed costs. Examples of this are projects of infrastructural character with great external effects which lead to a considerable divergence of private and social advantages.

According to Dunning the operational intervention of the government (of discriminating nature) in the functioning of the markets may be justified only when international markets' distortions are bigger than those of the home markets – when economic entities from a given country have to deal with the foreign risk of non-trade character, asymmetry of information and opportunism. These imperfections of the market most frequently concern small and medium size enterprises. If this happens, the government can provide information on the foreign markets, insure firms against a political risk and negotiate lifting or reducing trade and investment barriers with foreign governments.

Worth mentioning is the opinion of Dunning and co-authors that there is no one, best recipe for how the particular governments should respond to globalisation. This depends on numerous specific conditions: the institutional and economic infrastructure and also the social and cultural structure of particular countries.

One of basic approaches of each national administration to the question of globalisation is the governmental policy as regards foreign direct investments. Dunning and co-authors express a very important, for some people controversial, view: globalisation is responsible for the fact that activities taken up by national administrations should be independent of the owner of the firms subject to their jurisdiction.

As regards the spatial aspect of the changing involvement of the state related to the processes of globalisation, it is possible to differentiate three levels of spatial regulation: micro-regional or sub-national, national and macro-regional or transnational. According to Dunning and co-authors, globalisation influences the relative significance of those levels in such a way that the role of the first and the third level shows a growing tendency and the role of the national level declines; however, of primary importance here are qualitative factors (the change in the function of the nation state) and not the proportions of the state's involvement at particular levels which are hard to measure.

It seems that as regards the policy of supporting competitiveness of the economy, the concept put forward by Dunning and co-workers is a modern, progressive concept which can be also applied in Poland. The innovative character of this concept consists in a different distribution of accents than that in other approaches. It has numerous links with the achievements of the new institutional economy, neo-institutional economy, Schumpeterian economy, evolutionary economy and the economy basing upon resources, particularly upon knowledge. This concept approaches the question of competitiveness in a holistic way (systemic competitiveness) and at the same time makes notice of and develops the aspect of competitiveness (neglected in other approaches) connected with transaction costs which should be reduced if institutions function properly (institutional competitiveness)[8]. Global capitalism in which Poland participates to a wider and wider extent requires attaching more importance to human assets, knowledge and creativity. The sector of services and infrastructure plays an extremely significant role there[9]. Under such conditions the promotion of international competitiveness of the state should take the following directions:

- ensuring adequate quantity and quality of resources (resource creator and improver) – high quality of human capital (among others education), high propensity to innovation, efficient financial market, and the like,
- favouring the lowering of transaction costs – a good legal system (execution of contracts), proper infrastructure, liquidation of the asymmetry of information, restriction of risk (insurance systems), counteracting discrimination of entities from a given country, concluding international economic agreements, and the like[10],
- creating a favourable climate for investments and influencing the economic ethos.

Interesting views concerning the role of the state in creating the competitiveness of a nation can be found in the concept of creating the welfare state (Kotler, Jutusripitak, Maesincee 1997). This concept assumes that a nation can be treated in the same way as an enterprise and, therefore, it is assumed that it can take advantage of strategic market management. The procedure of working out a strategy to achieve welfare refers to the accomplishments of strategic corporate management. Firstly, the strategic lever of a nation should be determined – evaluation of the current competitive environment of the nation and determination of objectives on the basis of the features of this environment. The strategic lever of the nation must be further translated into pragmatic, concrete guidelines which help to determine the spheres of the public policy whose aim is to improve competitiveness (both micro-competitiveness and macro-competitiveness). In order to strengthen its competitiveness, a country must use two types of a public policy. Firstly, this is the basic policy concerning investments, strategy of the development of industry and trade. If the basic policy is to be effective it should carry out some defined types of the support policy. Secondly, the country should carry out the support policy which will include macroeconomic policy, development of national infrastructure and development of institutional frameworks. The last stage is strategic implementation of the worked out concepts. Evaluating the above-mentioned con-

[8] The interdependence between entrepreneurship and the institutional structure of markets is undrelined by Noga (2001).

[9] Compare: Dołęgowski (2000).

[10] Social capital, responsible for generating social confidence can contribute to the reduction of transaction costs. See: Matysiak (1999).

cept it should be noted that its innovative character concerns mainly terminology whereas the contents are similar to Dunning and his co-workers' approach.

Conclusion

The selection of the model of policy to influence competitiveness of the Polish economy will be of key importance for the improvement of welfare as only higher competitiveness can lead to higher effectiveness which means the growth of welfare. Competitiveness should be raised by means of the possibilities provided by internationalisation. Therefore, intensification of internationalisation processes seems indispensable and unquestionable. Under integration and globalisation internationalisation multiplies opportunities and threats as well. The economic policy should favour taking advantage of the former and avoiding the latter.

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6

The Participation of Transitional Economy in Globalisation – The Case of Poland

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Abstract: For the last eleven years the Polish economy has been undergoing systemic transformation. At the same time in its external environment there were radical processes of change taking place with globalisation as the dominating element. The specificity of countries which transform their economies from the centrally planned to the market led system lies in the fact that after a few decades of relative economic autarchy they try to integrate with the rapidly changing outside world and participate in the globalisation process.

The aim of the paper is to determine whether the rate of integration of the Polish economy with the international environment keeps pace with the general rate of globalisation in the world. Subsequently the paper attempts to delineate some policy implications of the analysed situation.

Introduction

Globalisation covers not only the real sphere of the world economy but the regulatory sphere as well, the analysis is limited to the former one. It is assumed that efforts aiming at liberalisation of trade and flow of direct investments, deregulatory moves, privatisation, etc. in consequence lead to changes in the real sphere (volume and structure of international trade, volume of inward foreign direct investment). The paper reduces globalisation to two dimensions – world trade and foreign direct investment.

One characteristic feature of the market transformation is that the Polish economy is forging economic ties with foreign partners at an accelerated pace. Two forms of such ties are of critical importance as far as Poland's participation in globalisation is concerned: foreign trade and inward foreign direct investment. The role of foreign capital as the growth factor and the country's share in international trade have always been the key development issues for the transition economies of Eastern Europe.

All the above challenges bring into focus economic policy measures, which seem indispensable if the Polish economy is to engage successfully in the globalisation process. The underlying aim of all such measures is to improve/increase the country's overall competitiveness. In this context three basic policy approaches are discussed:

1) The enclave model concentrating on the concept of stimulating exports alone in selected industries.
2) The integral model, which assumes developing and upgrading the competitiveness of all industries and sectors, both export and domestic market focused.
3) The ethnocentric model with its focus on stimulating and assisting growth, development and internationalisation of Polish owned firms alone.

Up to 1990, when the construction of market economy began, the Polish economy had been to a large extent closed as regards its ties with the external environment. Development processes occurring in Poland after the Second World War bore many signs of autarchy. However, for the last ten years Poland as well as other countries of Eastern Europe have been going through a turbulent at times and difficult process of systemic transformation to a market led system. At the same time their external environment was changing radically as well due to the intensifying process of globalisation, which as such is not a very precise term (Brown 1992; Dicken 1992; Ohmae 1995; Parker 1998). The specificity of countries which have embarked on the path of transforming their economies from the centrally planned to the market oriented lies in the fact that after decades of relative economic autarchy they have been attempting to interface and integrate with the rapidly changing international environment in which the process of globalisation has become a major determining factor.

The aim of the paper is to determine whether the pace of integration of the Polish economy with the international environment is comparable with the development and evolution of the globalisation processes in the world. The subsequent part investigates economic policy implications and options as the result of the country's interaction with its international environment.

The paper contains far-reaching simplifications. Being aware that globalisation processes cover not only the real sphere of the world economy but the regulatory one as well, the analysis is limited to the former. It is assumed that efforts aiming at liberalisation of trade and flow of direct investment, all deregulation activity, privatisation, etc. in consequence lead to changes in the real sphere (volume and structure of international trade, volume of foreign direct investment). In the paper globalisation is reduced to two dimensions – world trade and foreign direct investment.

One characteristic feature of the transition process in Poland, initiated in 1989, is that its economy is becoming more and more open and economic ties with foreign partners are being developed at an accelerated pace. Many forms of such cooperation with foreign countries are emerging. Two appear to be quite important as far as Poland's participation in globalisation is concerned and deserve particular attention: foreign trade and inward foreign direct investment. Both of them will be investigated in more detail. The role of foreign capital as the growth factor and the country's share in international trade are two key issues not only for transition economies but also for a wider group of countries defined as emerging nations (Contractor 1998).

World trade as an element of globalisation

Table 1 presents the values of world exports and imports in the last decade (the nineties of the 20th century).

Table 1. World exports and imports (current prices)

Year	Imports			Exports		
	in billion USD (current prices)	previous year = 100 (constant prices)	per capita USD	in billion USD (current prices)	previous year = 100 (constant prices)	per capita USD
1990	3556.1	104[a]	673	3430.9	105[a]	650
1991	3606.4	104	682	3485.6	105	660
1992	3792.2	107	692	3651.1	105	666
1993	3706.8	104	669	3632.4	105	655
1994	4236.4	110	752	4145.5	108	736
1995	5066.9	109	876	4973.9	108	861
1996	5300.1	104	919	5160.7	105	895
1997	5230.7	106	894	5168.8	108	884
1998	5346.2	105	902	5080.0	106	857
1999	5525.9	–	924	5359.5	–	897

[a] The world (excluding Central and Eastern Europe and former USSR).

Source: Statistical Yearbooks of the Republic of Poland – Central Statistical Office, Warsaw 2000.

The data presented in Table 1 indicate that the ratio of the value of world imports in 1999 to the value of world imports in 1990 in current prices amounted to 155.4%. The ratio of the value of imports per 1 inhabitant in USD in 1999 to the value of imports per capita in 1990 amounted to 137.3%. The ratio between the value of world exports in 1999 and the value of world exports in 1990 in current prices amounted to 156.2%. The relation between the value of exports per 1 inhabitant in USD in 1999 and the value of exports per capita in 1990 amounted to 138.0%. Thus the dynamics of world export and import data in the analysed decade were generally equivalent in both the absolute and per capita profiles.

Poland's position in world trade

Table 2 presents data on the role of the Polish economy in the world trade.

Table 2. Poland's gross domestic product, imports and exports (current prices)

Years	GDP		Imports			Exports			
	in mln USD[a]	per capita in USD[a]	in mln USD	per capita in USD	in % of the world	in mln USD	per capita in USD	in % of the world	exports/ GDP ratio
1990	58976	1547	9528	250	0.3	14322	376	0.4	28.6
1991	72924	1998	15522	406	0.4	14903	390	0.4	24.1
1992	84326	2198	15913	415	0.4	13187	344	0.4	18.4
1993	85853	2232	18834	490	0.5	14143	368	0.4	22.9
1994	117978	3057	21569	559	0.5	17240	447	0.4	24.0
1995	126348	3086	29050	753	0.6	22895	593	0.5	25.9
1996	134550	3484	37137	962	0.7	24440	633	0.5	24.4
1997	143066	3702	42308	1094	0.7	25751	666	0.5	25.7
1998	157274	4068	47054	1217	0.9	28229	730	0.6	25.7
1999	155151	4014	45911	1188	0.8	27407	709	0.5	26.1

[a] According to official exchange rate

Source: as in Table 1.

The following conclusions can be derived from the above data:

- Relations between the values of GDP, imports and exports (in current prices) in 1999 and the values in 1990 amounted to 263.1%, 481.9% and 191.4% respectively. The rate of growth in the value of imports was 1.83 times bigger than the growth rate of the GDP and as much as 2.52 times bigger than the rate of growth of exports. Therefore, there was a significant disproportion in the dynamics of the analysed magnitudes.
- Relations between the values of GDP, imports and exports (in current prices) per 1 inhabitant in the same period were as follows: 259.5%, 475.2% and 188.6% respectively. Disproportion in the rate of growth of those values was similar to that for the total values of GDP, imports and exports.

The comparison of data from Tables 1 and 2 leads to the following conclusions:

- The indicator of the rate of growth of world imports in current prices in the years 1990–1999 amounted to 155.4% and that of Poland's imports – to 481.9%. Thus a disproportion occurred – from the viewpoint of growth in the value of imports the Polish economy was integrating much more rapidly with its international environment.

- The indicator of the rate of growth of world exports in current prices in the years 1990–1999 amounted to 156.2% and that of Poland's exports to 191.4%. Thus also from the viewpoint of growth in the value of exports Poland's economy was integrating relatively quickly with its international environment, however much more slowly than in the case of imports.
- Participation of Poland's economy in world imports and exports in the years 1990–1999 increased from 0.3% to 0.8% and from 0.4% to 0.5% respectively. These figures confirm the tendencies observed in the previous two points.
- The value of imports per 1 inhabitant in 1999 in the world amounted to 924 USD and in Poland – to 1188 USD, whereas for exports those figures amounted to 897 USD and 709 USD respectively.

However, it would be unjustified to formulate a general conclusion about the seemingly excessive import intensity of the Polish economy. The fundamental problem of the Polish economy did not lie in excessive imports but in insufficient exports. In 1999 the values of imports per capita in the Czech and Hungarian economies for example amounted to 2803 USD and 2782 USD respectively. For exports per capita these figures were 2612 USD and 2484 USD. It is therefore evident that the issue of insufficient exports was not unique to Poland but applied as well to the other 2 key East European economies. However, it must also be noted that exports per capita were 3.7 times higher for the Czech Republic and 3.5 times higher for Hungary compared with Poland. Similar comparison for imports per capita shows that the Czech Republic had a ratio that was 2.4 times higher than in Poland and Hungary had a ratio 2.3 times higher than in Poland. One implication of those comparisons is that the relative gap in export performance was much more acute in the case of Poland than in the other two transition economies.

Foreign direct investment as an element of globalisation

The data concerning inflow and outflow of foreign direct investments on the global scale in the years 1990–1999 are presented in Table 3.

The values of the inflow of foreign direct investment in 1999 as compared with 1990 for particular groups of countries amounted to:

- 424.7% for all countries,
- 374.8% for developed countries,
- 616.0% for developing countries,
- 7140.0% for the countries of Central and Eastern Europe.

Table 3. Inflow and outflow of foreign direct investments on the global scale in the years 1990–1999 (in bln 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	0.30	0.04	203.8	240.3
1991	114.0	201.9	41.3	8.9	2.45.	0.04	157.8	210.8
1992	114.0	181.4	50.4	21.0	3.77	0.10	168.2	202.5
1993	129.3	192.4	73.1	33.0	5.59	0.20	208.0	225.6
1994	132.8	190.9	87.0	38.6	5.89	0.55	225.7	230.1
1995	203.2	270.5	99.7	47.0	12.08	0.30	315.0	317.8
1996	211.1	320.0	135.3	58.9	12.57	1.14	359.0	380.0
1997	273.3	406.6	172.1	65.1	18.56	3.33	464.0	475.0
1998	460.5	594.6	166.2	52.6	17.39	1.95	644.1	649.1
1999	636.5	731.8	207.6	65.6	21.42	2.53	865.5	799.9

Source: UNCTAD, World Investment Report 1999, Table I.2, p. 9 and I.3, p. 20, 1996, Table I.1, p. 4, 1992, Table I.1, p. 14, 2000 Annex, Table B1, p. 283, Table B2, p. 289.

The value of this indicator for the countries of Central and Eastern Europe exceeds many times its value for the remaining group of countries. Despite such a high dynamics indicator the share of the inflow of foreign direct investment to Central and Eastern Europe in the total share of the inflow of foreign direct investment in 1999 amounted to merely 2.5%.

Polish economy and foreign direct investment

The data concerning the value of the inflow of foreign direct investment to Poland are presented in Table 4. These data show that in the first half of the nineties 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.

The comparison of data from Table 4 and Table 3 leads to a conclusion that the indicator of the growth of value of the inflow of foreign direct investment on the global scale in the years 1990–1999 was lower (424.7%) than the same indicator for Poland (8,261.41%). Such a significant progress in the dynamics of the inflow of foreign direct investment to Poland was, above all, possible due to the very low initial values at the beginning of the nineties. Poland's share in the world foreign direct investment inflow in 1990 amounted to 0.03% and in 1999 to 0.84%. It should be noted that in 1999 that indicator exceeded the indicators of Poland's share in the world exports and imports.

Table 4. Annual value of the inflow of foreign direct investment to Poland in the years 1990–1999 (in mln USD)

Year	Total investment	
	given year	cumulated year
1990	88	88
1991	359	447
1992	678	1125
1993	1715	2840
1994	1875	4715
1995	3659	8374
1996	4498	12872
1997	4908	17780
1998	6365	24145
1999	7270	31415

Source: National Bank of Poland (2000).

Globalisation and Poland's external equilibrium

The rapid integration of the Polish economy with the world economy has not been free from threats and challenges. A basic difficulty was encountered in attempts to maintain external economic equilibrium. Table 5 presents Poland's current account and balance of trade turnover in the years 1990–1999.

The foreign trade deficit aggravating from year to year was the main factor influencing the current account balance. In 1997 the deficit on the current account amounted to 4.3 bln USD which constituted 3.0% of the GDP, in 1998 it amounted to 6.9 bln USD (4.4% of the GDP), whereas in 1999 it amounted to 11.6 bln USD (7.5% of the GDP). A factor which smoothed out the influence of the high deficit in foreign trade balance were revenues from the so-called cross-border trade which, per se however, were decreasing.

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) coming to Polish cities close to the border and buying cheaper food products and manufactured goods (gasoline, for example, on the western border). The observed decrease in the volume of such transactions was mainly due to administrative restrictions (stringent visa requirements) introduced by Polish authorities and designed to curb the illegal flow of immigrants seeking employment in Poland and subsequently in the countries of Western Europe.

Table 5. Current account and commodity payments in the years 1991–1999 (in million USD)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999
1. Current account	-2596	-1515	-2868	677	5310	-1371	-4312	-6858	-11569
2. Commodity payments									
Revenues from exports	13355	14039	13598	17024	22878	24453	27229	30122	26347
Payments for imports	13077	13573	16080	17919	24709	32632	38549	43842	40727
3. Balance	278	466	-2482	-895	-1912	-8179	-11320	-13720	-14380

Source: Yearbook of Foreign Trade Statistics, Central Statistical Office, Warsaw 2000.

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 in turnover 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. 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 modernisation of their production potential (investment imports) and from a high demand for supply imports (Durka, Chojna 1998).

A high and aggravating deficit on the current account created a serious threat for further stable economic growth of Poland. The related literature shows 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 has been necessary to implement an appropriate macroeconomic policy in order to prevent overheating of the economy and increased inflationary tensions.

Another potential danger lies in the loss of confidence of foreign firms undertaking direct investment in Poland due to the perceived as excessive deficit on the said current account. Just at what point in relationship to the country's GDP can such deficit be considered as being excessive is another issue but once it is reached it is very difficult to redress the situation by moving the current account balance into surplus alone.

The process of integrating Poland's transforming economy with its international environment can be summarised in the following points:

- Export capacity of the economy is not satisfactory and sufficient to maintain equilibrium in the trade balance. Despite continued modernisation of the economy, this capacity has not increased sufficiently.
- Demand for imports has not been very high in itself; of more importance is the fact that the rate of imports growth was very high and the volume of imports was not adjusted to the financial capability of the economy.
- A considerable trade deficit occurred leading to an overall deficit on the current account which carries possible far reaching negative macroeconomic consequences for the whole economy.
- The trade deficit was financed mainly by the inflow of foreign direct investment.

Policy implications

Considering all the above-mentioned challenges and consequences that Poland faces on the path of integrating with its international environment brings into focus certain economic policy measures which seem indispensable if the Polish economy is to engage successfully in the globalisation process. The underlying aim of all such measures is to improve/increase the country's overall competitiveness which in essence can be perceived more as being the competitiveness of products produced in Poland and/or exported or manufactured abroad by firms considering Poland as their home country. In this context three basic policy approaches can be identified:

1) The enclave model concentrating on the concept of stimulating exports alone in selected industries.
2) The integral model, which assumes developing and upgrading the competitiveness of all industries and sectors, both export and domestic market focused.
3) The ethnocentric model with its focus on stimulating and assisting growth, development and internationalisation of Polish owned firms alone.

The Enclave Model

The enclave model assumes that export oriented firms should be treated on a preferential basis. Measures stimulating exports are treated as a relatively autonomous segment of economic policy. Moreover, special treatment of exports is usually accomplished at the cost of abandoning or limiting support for the non-export sectors.

The following concepts and policy instruments can be employed in the enclave model:

1) Financial instruments supporting exports such as guarantees and export insurance schemes, then direct financing in the form of loans, credit lines and

grants, then subsidizing interest rates on export credits and finally tax relief on investments made by exporters.

2) The concept of strategic trade policy creating comparative advantage in selected industries, usually those with advanced technologies and already in the course of advanced integration with the world markets. Attempts at such integration made on the basis of current or ad hoc motives usually prove to be unsuccessful when making long term and strategic decisions (Brander, Spencer 1985; Hübner 1994).

In the framework of this concept one can introduce, for example, export subsidies but the use of this instrument is regarded as unfair by foreign competitors, their governments and international trade organisations. Thus if indeed export subsidies are used one has to be prepared for the possibility of being forced into "subsidy wars" with retaliating countries. Other negative effects might include over investment in the subsidized industries, false investment signals based on low price levels of the subsidized products and difficulties in securing the necessary subsidy funds from the state budget (Gorynia 1996; Gorynia 1998).

A more viable alternative in this respect seems to be to induce foreign firms to invest in those selected industries by offering them preferential treatment through tax holidays or tax reductions and/or support through state funding of investments in elements of local material and social infrastructure which are considered as essential and indispensable by foreign investors.

However, there are two pitfalls inherent in this approach. Firstly, the days of preferential tax treatment of foreign firms seem to be coming to an end with the authorities of both the EU and the WTO advocating uniform and undiscriminating approach in this respect of both domestic and foreign owned companies. Secondly, from empirical evidence provided by survey data of foreign investment motives as well as from historical perspective there is ample proof that big multinational corporations (MNC's) have never treated tax incentives offered by host countries as the main determinant of entering foreign markets. This has been due of course to the MNC's multiple possibilities and sophisticated expertise in "optimizing" tax payments. A better way of solving this issue or at least minimizing the undesirable consequences of those pitfalls is to offer low taxes to everyone concerned.

Thus extending the proposed preferences also to local, domestic-owned companies or applying a uniform low corporate income tax allows economic policy to become absolved of being accused of favoring foreign firms only, which does not in itself, as practice has shown, eliminate the most probable outcome that foreign investors will still be in the lead and command a major share of the export business. There is numerous evidence that, generally, foreign firms with manufacturing facilities in Poland have consistently demonstrated better export performance and allocated more of their output for export than domestic competitors. 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 the value of exports by foreign entrants in the total value of Polish exports rose from 25% in 1994 to 43% in 1997. Their similar share for imports was however higher and also rose from 32.9% in 1994 to 49.9% in 1997 (Durka, Chojna 1998). Thus as indicated earlier as well, as a side effect the relative contribution of foreign firms was more towards foreign trade deficit than surplus.

A critical view of the enclave model points to its projected outcomes being limited to a part of the country's economic potential, allocating selectively resources in the export oriented industries alone to the detriment of domestic focused firms. This underlines perhaps the emerging demise of economic policy measures designed to stimulate economic agents on a selective basis and heralding the rationality of a more uniform, equal and undifferentiated approach.

This dilemma brings into focus the fundamental problem of optimal allocation of a country's limited resources. In the case of Poland as well as the other transitional economies the process of globalisation makes it necessary to improve competitiveness in the dimension specified earlier. One of the key methods of assimilating globalisation and upgrading competitiveness seems to lie in internationalizing the scope and scale of operations of domestic focused and domestic owned firms. Moreover, one cannot neglect in this respect the competitive factor of speed in implementing internationalisation. If it is assumed that exporting is usually the first step in internationalizing company operations then is it not logical and rational to stimulate and develop those industries and firms that have the largest export potential? If allocation of resources and effort is made in an undifferentiated fashion then companies may find themselves acquired or eliminated from the market by foreign entrants who have taken advantage of export support offered by their home countries at some stage of their internationalisation process.

The Integral Model

In the integral model the general aim is to improve the level of competitiveness of all industries and sectors, not just those select that constitute the preferred export sector. It is stressed by some experts that in the current economic situation of Poland and in the context of its international environment the principal strategic issue that has to be addressed is the production of competitive goods and services that will find buyers on both the domestic as well as foreign markets (Płowiec 1997).

According to this approach economic policy should develop competitiveness in a complex and integral fashion, i.e. it should not differentiate the instruments used for improving the performance of exporters from those designed for stimulating competitiveness of producers on the open domestic market. This coincides with the concept of a liberal-institutional industrial policy approach (Gorynia

1995). The essence of such policy lies in promoting widely conceived development and entrepreneurship. Policy instruments used here are usually of a universal and undifferentiated character.

In the framework of enhancing competitiveness according to the liberal-institutional industrial policy concept the following types of activities can be identified:

- supporting investment,
- supporting innovations, research and development,
- supporting education and training,
- diversifying business risk,
- supporting creation of information systems,
- stimulating diffusion of information.

Instruments of the integral model remain undifferentiated also as to what kind of companies registered in Poland can take advantage of them, i.e. they do not distinguish between those that are Polish and foreign owned. However, it is worth stressing here that most such measures are not necessary and of little interest to foreign, especially big MNC's. Foreign entrants usually already have the competitive advantage, which these measures are designed to achieve. The only dimension important for most foreign firms is the improvement of general infrastructure of doing business in Poland which once achieved can definitely lead to a better rating of the country's attractiveness to foreign investors. Survey data show that 44.4% of foreign owned firms indicated the lack of sufficient infrastructure as an important and very important barrier in establishing operations in Poland (Wolniak 1998).

Therefore in reality the focus of the said measures is on domestic companies that need to boost up their competitiveness to be able to compete with foreign entrants on the domestic market. But these domestic Polish firms will be fighting a loosing battle if they do not engage in entering foreign markets themselves. The first and obvious stage in getting to those markets is by exporting. But the management of many Polish firms is guilty here of short sightedness. It believes that success achieved through exports should be cultivated and maintained by concentrating on further export development. It is not aware or does not have the resources or the will to move into further stages of foreign presence, especially into foreign production through direct investment. There is one factor however that shows those firms very vividly the effects and advantages of foreign direct investment: it is the presence and expansion of MNC's in Poland which are gaining substantial market shares and control over an increasing number of key sectors of the Polish economy.

The Ethnocentric Model

According to this model the principal aim of economic policy measures is to stimulate and upgrade the competitive potential and position of Polish owned firms in all sectors of the economy. This specific approach is based on the premise that foreign entrants do not need direct or indirect state support or measures designed to boost their competitiveness as they already have an effective competitive advantage upon deciding to enter the Polish market. This is of course much more visible in the case of big MNC's and is evidenced by the fact that their main motive of expanding into Poland remains the size and potential of the domestic market and/or low labor costs coupled with relatively high labor skills (Wolniak 1998). If host country policy measures are available to foreign investors and may contribute significantly to their success on the local market they will most certainly take advantage of such instruments, thereby further improving their competitive position vis-à-vis the usually much weaker (from the start) domestic Polish competitors.

In view of the tendencies identified above economic policy should concentrate on supporting and assisting Polish owned firms in their efforts to stay competitive on both the domestic and foreign markets. On the domestic (Polish) market the aim of economic policy measures should be to create conditions conducive to consolidation and then accelerated growth of small and medium sized domestic firms into bigger entities. More support is needed for mergers and acquisitions as well as for all kinds of business alliances. Fiscal instruments and relaxation of antimonopoly legislation are also necessary in this context. Expansion on foreign markets should be supported by an educational campaign showing the rationale and benefits of moving beyond the export stage into more sophisticated forms like foreign manufacture. Financial assistance in this area would also be necessary. For transitional economies like Poland a promotional campaign is also needed to offset the negative country of origin and country of manufacture effect encountered in marketing products in more developed markets.

There is also 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 maintaining their competitive advantage on both the domestic and foreign markets.

All that has been said in favor of the ethnocentric model does not at all mean that transitional economies should turn away from attempts to attract inward foreign direct investment especially by large MNC's. In this endeavor, however, the main inducements should come from the following moves:

1) Creating appropriate macroeconomic conditions conducive to general economic growth, limiting inflation and maintaining currency stability. Those

factors constitute in the mid term the best motive for continuous presence and inflow of foreign capital.

2) Continuing the privatisation process of state owned firms as an attractive investment option for both Polish owned and foreign companies. This activity, at least in Poland, seems to be coming to its natural end since in the next few years all the available state owned property would have been privatized.
3) Restricting inward foreign direct investment by foreign owned firms only to an absolute minimum comprising of the military sector and/or other national security sensitive sectors like airports.

It should be noted here that if no preferences are created either for foreign or domestic firms those foreign owned will usually have more resources, offer better bids and win. It is possible to conceive that the competitive power relationship might later on eventually turn in favor of the new, big, private Polish owned companies but most probably at that time there will be no more state property to be privatized.

Discussion

The choice of the enclave or the ethnocentric model as the conceptual base for actual economic policy measures is always vulnerable to the objection of being biased, one sided and favoring a partisan approach with a discriminating slant towards the uninvolved part of the country's economy. In the enclave model only those industries and firms destined or presently engaged in exporting benefit from the program that stimulates competitiveness. Another objection arises from the fact that although this approach facilitates the country's entry into the globalize system of interdependencies it carries little or no explicit encouragement to proceed further on the path of internationalisation of business, especially to move beyond exports into foreign or international production.

In the ethnocentric model similar benefits are limited to companies chosen on the basis of the nationality factor in their ownership structure. All foreign owned firms are left out in this case. This fact brings into focus the potential danger, mentioned earlier, of a negative effect on the country's attractiveness rating to foreign investors since foreign and especially direct inward investment continues to be considered as a key element in developing and transforming the transitional economies and thus ushering them into the globalize economic system.

There remains of course the second approach, the integral model, as perhaps the best platform for measures enhancing the transitional economy's competitiveness because of its declared neutral, non-discriminating and universal character. Such a liberal stance in economic policy is however much more appropriate for highly developed, industrialized countries than for transitional economies in Eastern Europe. Transition into a market led system and subsequent growth and development requires considerable material, financial and intangible resources. And although Poland is considered as one of the more advanced transitional economies of Eastern Europe it still suffers from an inadequate level of and/or inefficient use of such resources. One source of the low competitiveness of Polish companies lies in the inherent weakness of the country's domestic capital market. Its still shallow character limits the expansion and investment potential of domestic firms thus making it difficult for them to participate in the privatisation process, to innovate, upgrade and develop their output capacity, technological capability and marketing skills.

With limited resources transitional economies are forced into making choices and allocating them to those sectors/industries and firms that will use them most effectively and consequently raise the country's overall competitiveness. Allocation combined with stimulation without any rational preference is likely to breed ad hoc or case by case solutions which will shape or influence competitiveness of firms in a sub-optimal fashion. This unfortunately has been happening in Poland since the beginning of the systemic transition process.

The best solution in making policy choices therefore seems to lie in combining instruments derived from each of the three described models although upon closer examination the choice in most cases will be between the enclave and the ethnocentric models, with elements of the integral model applied to maintain the contribution and participation of foreign inward investment (because for foreign firms non discrimination upon entry and further expansion is of critical importance). The optimal combination of such instruments will vary for each transitional economy, according to its level of development, stage in the transition to a market led system and finally according to the degree of internationalisation and interfacing with the globalize economic system.

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7

National Differences in Technology Transfer in East European Transition Economies

Marian Gorynia, Marina Dabic, Bernard Haudeville

During the first decade of transition, attention was mainly focused on macroeconomic issues and the most important structural reforms. Macroeconomic stabilisation and international opening were among the major goals. They have been achieved in many countries after years of running inflation and economic instability. On the other side, major structural transformations including enterprises reshaping and massive property transfers, factors and product markets deregulation have been carried out.

Comparatively much less attention has been paid to the problems of efficiency in the production process and to the international competitiveness of domestic firms in transition economies. Implicit was the assumption that a rational price system and a free market system would be able to induce rapid efficiency gains at the firm level.

To a large extent, it can be demonstrated that the disappointing results of transition, to say the least, in almost every country in terms of growth and per capita income are rooted in the weak international competitiveness of these economies. They have proven unable to supply on the world market, with their own resources, the high value added, highly skilled labour and technology content products that would allow an increasing per capita output and real income. In many transition economies, economic growth is limited by the foreign account deficit. As a result, some countries turned to massive exports of raw materials and semi finished goods in a regressive specialisation process. Others have sold out the best companies to foreign investors. In fact, all the countries under review have used both strategies with different proportions (Haudeville 2003).

Moving to more innovative and technology advanced, better quality productions based on local capacities has been surprisingly weak. Countries with large scientific and technical capacities like Russia did not succeed in turning these assets into commercial outcome. To some extent it is due to the backward nature of the said capacities, but in many occasions it comes from the inefficient use of the available resources. This situation leaves great opportunities for a better allocation of scientific and technical resources and a better economic result. Technology transfer can be a master piece of such a process by the adoption of new successful research and development processes, the mobilisation of resources on more efficient programs as well as the implementation of more efficient program management methods. In this respect, the situation of transition economies contrasts sharply with that of developing countries where scientific and technical resources are in short supply and where the knowledge gap is wide and makes it uneasy to adopt external knowledge (Cohen, Levinthall 1990).

Given the level of achievement in science and technology, the importance which was devoted to technical progress in the former socialist systems, the adoption of external knowledge through the process of technology transfers among others, should be rather easy and efficient. On the contrary, it appears surprisingly weak and of limited impact in almost all the transition economies.

In this paper we shall try to understand the reasons of this limited impact in East European transition economies. There is no unique explanation and we shall give three selected examples that focus on the importance of the institutional framework in the success of technology transfers.

The paper is organised as follows: in the first section we shall explain why technical capacities have been somewhat overstated in transition economies and how they have been shrinking during the first years of transition. This will provide a more realistic assessment of the potential for technology transfers in all the economies under review. In the second section we shall analyse a first example, Croatia, where the limited local capacities have been even more limited by the administrative nature of the regime and the weight of political factors. The third section will discuss the situation of Hungary, with completely different institutional responses and a marked development of new technologies and new high value added productions. The last section will deal with the case of Poland.

From a low efficiency to a financial depression of the scientific and technical system

All the economies considered in this paper have in common a rather important development of the scientific and technical activities. Some of them like Hungary and Poland have long lasting traditions of scientific excellence and technical outcome. They also share a rather similar model of organisation of science and technology, due to the very nature of the economic system and the necessity to implement the domination of central planning on the economy. This model is to a great extent very similar to the one existing in the former Soviet Union.

In the socialist era, science and technology were organised along a three-part scheme.

At the top echelon was a council or commission[1] in charge of the medium and long term planning of the scientific and technical activities for the design and selection of programs to be included in the 5 and 15-year plans.

At the executive level, the main body was the National Academy of Sciences and its network of research institutes working mostly on basic and applied research. In close cooperation with the Academy but with a lower status was the University and its numerous institutes and research centers also active in basic and applied research. Both institutions were organized along disciplinary fields. The third part, the most important by the number of people employed as well as by the amount of financial resources, was under the authority of the technical or branch ministries. This part was mostly concerned with developments of new products and new technologies in response to the demands of the ministries, not of the companies. At this point, it is important to underline that apart from some exceptions like the Scientific and Production Association, NPO, in the USSR (Couderc, Franceschi 1998), or some selected companies in the European countries, there were no direct links between the technical institutes and the (state) companies that would be the ultimate beneficiaries of the innovations. In such a system, it is easy to understand why the economic returns of the important amount of resources devoted to science and technology were so weak. Moreover, on many occasions it could be argued that technical advance, far from being an opportunity, was a burden for the production organisation. In the socialist system, there is little reward for improved efficiency in the enterprise while the whole cost of transformation of the production processes, of reallocation of the work force or new training has to be fully supported! Therefore, it should come as no surprise if scientific achievement could go along with technical backwardness, low quality goods and inefficient processes.

Within this general framework, the situation of the different member states shows various degrees of scientific and technical achievement, despite a rather active network of exchange and cooperation between countries, but they share the same kind of organisation and of incentive problems.

Until the mid-nineties, few changes affected the scientific and technical system. The main change came from the more or less important reduction of budgets in response to the growing scarcity of public money. The strengthening of the budget constraint of the state and the many new emergencies that were created by the economic situation resulted in a reduced priority of research and development on the political agenda. As the organisation of the sector was, almost all the funds came from the public budgets. Private funding from companies was very small and by and large unable to offset the decline of public funding. As a result, the level of activity declined. Research staff left for better paying jobs in a process

[1] On the model of GKNT in USSR.

of “internal migration”. Some looked for new positions abroad in the West or in some developing countries. So the system continued to work on the old scheme but with lower and lower means, out of a limited number of strategic complexes which could be preserved.

With all the relevant restrictions concerning the patent as an indicator of innovative activity, this decline can be seen on the data for patents granted in the United States where the number of patents issued to inventors from Hungary, for example, was divided by more than 3 between 1987 and 2000.

In the second half of the decade, some structural transformations were implemented in order to improve or create relations between now private companies and the science and technology system, and to improve also the organisation of the system itself. The selection of programs to be supported and the allocation of funds as well as the assessment of research centers and research staff were among the objectives. A good example is provided by the reform that took place in Poland with the creation of the KBN. The State Committee for Scientific Research plays the role of a Ministry of Science and Technology. The Chairman of the Committee is the Minister of Science and its Secretary has a cabinet position. All the members of the scientific community holding a doctoral degree take part in the election of the 12 representative members of the KBN. Each of the elected members takes the lead of one scientific department, designed along disciplinary fields. Among the elected members, two are appointed as deputy chairman of the KBN. Five Ministers or heads of central administrations are also appointed by the Prime Minister as members of the Committee.

The Committee channels the funds to the institutes and research centers, mostly from public budgets, in order to provide a minimum of resources allowing the fixed costs and some investments. Other financing is allocated according to the research programs through a peer review process conducted by the disciplinary units. It is therefore rather similar, in this respect, to Western institutions like the NSF (National Science Foundation) in the US or the CNRS (Centre National de la Recherche Scientifique) in France.

The reform of the science and technology system in Poland looks radical and impressive. However, this reform does not seem to have reached impressive results since its implementation. First of all, money is still very limited. But the dominant influence given to the scientific community may also contribute to some allocation problems in favouring academic or upstream type of projects to the detriment of more applied, market oriented developments. Even in the scientific complex, it is estimated that up to 40% of the funds are allocated to units that can be regarded as relics of the real socialism era. It did even increase in the recent years. The general evaluation of the different units does not seem effective yet.

At the same time some privatisations of institutes and research units have taken place in Poland.

Among the solutions that began to be adopted in the different countries are the privatisation of some research centers on their capacity to sell services to the private sector, the sale of technical institutes to big firms as a core of research division[2], the short listing of limited centers of excellence in strategic fields with a secured financing.

In this situation, Foreign Direct Investment (FDI), joint ventures, licensing agreements, strategic alliances seem instrumental to industrial success in transition economies.

There is a number of reasons why the economic success of companies in European transition economies is closely tied to the successful transfer of appropriate modern western technology. One is the limited amount of resources that could be spent in the recent period and the limited ability to transform scientific and technical advance into market oriented products as was explained above. It goes with the legacy of old programs oriented toward defense or state activity and without any economic potential impact. Another one is the necessity to renew the existing production equipments. The privatisation process has failed to trigger new productive investments and many equipments are obsolete or in poor conditions. Also the consumers in transition economies are now increasingly demanding better quality products, which is not possible to supply with outdated technologies and equipments. Finally, new demands like environment protection do not meet any available local technology in many situations.

Technology transfer has been defined as the transmission of know-how to suit local conditions with effective absorption and diffusion both within, and from, one country to another (Kaynak 1985, pp. 155–156). Technology transfers have two parts of connectivity: physical and social. Physical is the transfer of hardware and software. Social connectivity is related to the use by the members of the host country. It requests active participation of both the provider and the receiver if it is to function well.

The technology transfer follows a process which can be affected by four kinds of factors:

1) The willingness and capabilities of the sender including the limitations or incentives that can be established by his government.
2) The nature of the technology, the kind of channel used, the speed of the transfer itself.
3) The willingness and capabilities of the receiver, including the inhibiting factors and the limitations or incentives coming from the host government.
4) The feedback and reverse flows that can follow the adaptation and modification of the transferred technology.

[2] It must be reminded that the state enterprises are generally only production units and do not have any research activity (or financial or marketing...).

As is widely known, the technical capacity of the receiver and the institutional environment play a crucial role in the final outcome. In this respect, governments must implement legal guidelines to protect the technology and the intellectual property rights of the sender. It must also create conditions that will make attractive the transfer for both parties involved. Legal and regulatory framework is part of the latter. Given its very nature and its relation with the investment process, technology transfer needs to be part of a rather long term project. It therefore needs some kind of institutional stability.

On these different factors affecting technology transfers, the experience of the European transition economies appears to be quite diversified. We shall look at three examples: Croatia, Hungary and Poland.

Croatia: looking for new incentives with limited resources

The situation of Croatia regarding technology transfers can be summarised by the importance of administrative controls and the limitation of local capacities in science and technology. In this context the authorities are addressing the problem by improving the system of incentives for the potential technology senders, specially in the case of transfers accompanying direct investments. Among the former Yugoslav Republics, Croatia was one of the less liberalised, at least until the death of F. Tudjman and the election of S. Mesic in January 2000. Since the declaration of independence, the regime established by F. Tudjman proved nationalistic but very similar to the former Yugoslavia as concerns the organisation of the economy. According to a survey of studies made by Koyama (2001), at the end of 1999, the share of the private sector was still well under 50% and some 80% of the companies were still under state control. With a very limited financial market, most of the privatisations that were undertaken went to the political friends of the ruling party. Research and development remained weak. Foreign investment was not attracted by the institutional framework and the volume of domestic capital remained very limited. In this situation, the country experienced a sharp decline in GNP until 1994, increased by the destructions of the civil war and the breaking out of the former trade relations with the rest of the federation.

Concerning technology transfers, a questionnaire study based on face to face interviews clearly shows the gap between the expectations and what is offered in four categories of services including technology, finance and other kinds of services to enterprises. Most industrial sectors in Croatia suffer from obsolescence of large parts of the capital stock inherited from the past period. Some companies enjoyed pre-war exports and international reputation and are now trying to recover from market losses during the war.

Table 1. Technology transfers in Croatia

Case number	Industry of transferor	Size of transferor	Industry and country of trans-feree	Size and type of recipient firm	Organization of transfer
1. Hartmann Bilokalnik	Paper	Medium (> 100 < 500 employees)	Paper Denmark	Medium sized state firm	Initially Joint venture than wholly-owned subsidiary
2. Slavonija Slad	Food	Small < 100 employees	Food Belgium	Small state firm	FDI
3. Ericsson – Nikola Tesla	Telecom equipment	Very large (> 10 000 employees)	Sweden Telecom.equipment	Very large (> 1 000 employees)	Acquisition
4. Siemens	Electronics and others	Very large (> 10 000 employees)	Germany Telecom.equipment, electronical utility	Very large (> 1 000 employees)	Acquisition
5. Podravka	Food, beverages	Very large (> 10 000 employees)	Food Denmark	Very large (> 10 000 employees)	Joint venture
6. DINA	Chemistry	Very large (> 10 000 employees)	Chemistry USA	Very large (> 10 000 employees)	Technology agreement
7. Billa	Distribution – Shopping	Very large (> 10 000 employees)	Distribution Austria	Very large (> 10 000 employees)	FDI
8. Pliva	Pharmaceutical	Very large (> 10 000 employees)	Pharmaceutical – USA	Very large (> 10 000 employees)	Technology agreement
9. Mijo Veeners	Machinery	Medium (> 100 < 500 employees)	Wood Belgium	Medium (> 100 < 500 employees)	Joint venture

The technological advantages of Croatian firms are rooted in their past successes and are predominantly located in pharmaceutical and food technologies, while absolute and relative activity in electronics, as measured by the patenting level, remains marginal. Many firms are involved in the shift from survival and passive adjustment to a more active restructuring, including the research and development sector.

The table 1 gives a list of some recent technology transfers in Croatia.

Numerous examples exist in Croatia to illustrate situations where innovation is constrained by the lack of physical capital despite the relative supply of human capital. The general level of education is good and resources in skilled labour are available even for highly skilled engineers. Due to the limited number of foreign investments, they lack on the job training in new technologies or experience in international cooperation. So it is likely that the main limiting factor in the case of Croatia is the low level of productive investment and more specifically, of foreign investment.

To address this problem, Croatia passed in July 2000 a new investment promotion law. This law regulates the promotion of investments of Croatians as well as of foreign physical or institutional investors with the aim to stimulate investment and economic growth in the Republic of Croatia. The law creates new incentives if they contribute to the environment protection or meet one or more of the following criteria:

- introduction of new equipment and modern technology,
- introduction of new production processes and new products,
- development of employment and education of manpower,
- modernisation and improvement of business,
- development of production with higher degree processing,
- increase of economic activities in the parts of the Republic of Croatia where economic growth and employment fall behind the state average,
- development of new services,
- saving of energy,
- improvement of information activities, cooperation with foreign financial institutions,
- adjustment of Croatian economy to European standards.

For the investments exceeding the amount of 10 million kunas (1 US$ is about 8 kunas), profit tax rate will be at 7% during the first 10 years of activity, under the condition that not less than 30 persons have been employed since the beginning of the operation.

For the investments of more than 20 million kunas, the tax rate will stand at 3% under the condition of a minimum employment of 50. For the same amount of investment, the tax rate is reduced to 0% during 20 years if the number of employees is more than 75 since the first year of operations.

In addition to these fiscal advantages the protection of intellectual property rights has been reinforced.

Croatia is part of the World Intellectual Property Organisation. The duration of the protection for patents is 20 years starting from the date of filing the application. Micro organisms and microbiological processes are patentable under the Croatian law. But Croatia also intends to join the Hague agreement on industrial design in the near future.

The protection of trade marks is also granted on the basis of the Industrial Property Law, regulations of the procedure for the grant of trademarks rights. The acquisition of trademarks rights is based on registration, by filling an application with the state Intellectual Property Office. The duration of the protection is ten years starting from the day of application.

So, the experience of Croatia underlines the importance of a stable and incentive institutional framework to build on a limited technological capacity and a good potential of adoption of foreign technology. The next example shows how successful this orientation can be, at least in the short term.

Hungary: transfers by selling out

As compared to the other transition economies, Hungary is the only one that has been able to markedly improve the quality and diversity of its supply. New companies, joint ventures, licensing agreements, have been successfully established in dynamic parts of the industrial and service sectors in motor vehicles, pharmaceuticals, electronics, telecoms, banking etc...

While most of the transition economies experience a regressive specialisation process, Hungary, on the contrary, improves its specialisation toward production incorporating more skilled labour and technology.

This result has been achieved through the selling out of the best enterprises to foreign investors and a marked priority to foreign investment. Hungary is the only transition economy of our panel that did not implement a mass privatisation program. So the numerous privatisations did only take place by the sale of enterprises to potential investors. Needless to say that the financial capacity of domestic investors did limit their bids to small privatisations, in many cases.

The big enterprises, some of them among the best performing of the former CAEM thanks to the long lasting reform process introduced in the country since 1968, were available to foreign investors. In this highly incentive environment, other direct investments, greenfield investments, followed. As a result, massive inflows of technology as well as capital reached Hungary[3] and made it possible to rapidly upgrade its technological capacities. Associated with the important

[3] According to the last report of the EBRD, the total of direct investments received by Hungary from 1989 to 1998 amounts to 16.45 billions dollars or 1627 dollars per capita.

wage differential existing between Hungary and, say, European Union countries, it makes profitable the production of many new goods and services that are now on the export list of Hungary.

Even more interesting, foreign companies are now investing in research and development in Hungary. Some are developing pre-existing activities inherited during the privatisation, other are implementing completely new fields for research and development. Such well known companies like Nokia, General Electric are already active in research in Hungary. But the trend seems to increase its speed as can be seen in everyday news. A few months ago, the American drug company Abbott Laboratories bought Biorex RT, a Hungarian biotechnology firm and is going to develop new lines of products from its subsidiary researches[4]. In the same time, private investors are going to invest 4.5 billion forints (about 15 million dollars) in creating an innovation center devoted to information technologies and biotechnologies in the town of Szeged[5].

On the other hand, recent data show that 75% of Hungarian exports are made by foreign firms or firms with foreign capital. For industrial production, it is estimated that some 60% of products are turned out in the same kind of companies (Freudenberg, Lemoine 1999). In some selected industries, generally the most dynamics segments of industries, the figures are even higher.

This raises the difficult question of what Hungarian economy is today. It looks like the best and bigger companies are under the control of foreign interests. As such, they are submitted to the strategies of foreign decision centers that elaborate private strategies concerning the choice of product lines and the location of their different activities. Many of these strategies are world strategies reflecting the situation of competition between world oligopolies (Humbert 1993) on the global market. The development of research and production in Hungary shows that for the time being, Hungary has some advantages concerning the location of some selected activities. But it can be changed if the economic situation changes anywhere out of Hungary, or if the strategy of some MNC changes. In a recent paper, we examined the case of Hungarian Telecoms (Haudeville, Legman 2001), which appears to be quite successful. The state monopoly was sold to a consortium of Deutsch Telecom and AMERITECH. AMERITECH already sold its participation to its German associate. The later can sell it tomorrow in exchange for a better bargain in Russia or China…[6] or to make cash.

In the case of Hungary, and in this case only to the best of our knowledge, it is possible to speak of success in technology transfers with all the benefits which

[4] Budapest Business Journal, 30/07/2001.

[5] Id.

[6] It may not be a danger for the present time. According to private information, Hungarian telecom rates would rank among the highest in Europe and one fourth of the profit of the giant Deutsch Telecom should come from MATAV (Magyar Tavkozlesi RT) alone.

are following it in terms of specialisation and competitiveness. However, this success is met at the potential cost of a destructuration of the economic system and a subordinate status for domestic companies vis-à-vis their foreign stake holders.

Poland in search of technological dynamism

One of the characteristic features in the transformation of the Polish economy is its opening to cooperation with external environment. One of the aims of this openness is to raise economic effectiveness, among others, through improving the technological level of the products. To achieve this, it is necessary to transfer technologies from abroad because the possibilities to create and implement new technologies at home are insufficient. A widely understood transfer of technology into the Polish economy undergoing transformation takes different forms: imports of commodities, foreign direct investments, relocation of people with certain qualifications, purchase of licences, exchange of documentation not included in the licence purchasing agreements, providing all kinds of technical services, managerial contracts, consulting, leasing, franchising, personnel training by foreign specialists, personal contacts with foreign specialists. Although it would be difficult to empirically define which of those forms is of greatest significance in the case of technology transfer into Poland, foreign direct investments seem to play the most important role (Starzyk 1998, p. 258).

The necessity to transfer technologies to Poland should be linked, among others, with an insufficient level of innovation in the Polish economy which can be improved through this transfer. Characteristic features of innovativeness of the Polish economy are presented in table 2.

Table 2. Innovativeness of the Polish economy in the years 1989–1998

No.	Specification	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1.	Submission of domestic patents	-	4105	3389	2896	2658	2676	2595	2411	2399	2407
2.	Patents granted for domestic inventions	2854	3242	3418	3443	2641	1825	1619	1405	1179	1174
3.	Polish inventions patented abroad	190	146	150	101	93	119	65	43	-	-
4.	Share of new and modernized products in industrial production sold (in %)	5.3	3.0	3.3	3.4	4.8	6.9	5.4	8.4	7.9	8.2
5.	Share of advanced technology products in industrial production sold (in %)	10.3	8.5	-	7.8	8.4	8.2	8.7	9.7	10.4	11.0
6.	Share of advanced technology products in total exports (in %)	-	-	-	-	3.4	3.4	3.6	4.3	4.6	2.4

Source: Jasiński (2001, p. 8).

The following observations may be formulated on the basis of the data from table 2:

- the number of domestic patents submitted was continually decreasing,
- the number of domestic patents granted was falling,
- the number of Polish inventions patented abroad was going down,
- the share of new and modernised products in the industrial production sold was relatively low (as compared with the developed countries) and it did not grow too rapidly,
- a weak growth tendency in the share of advanced technology products in the industrial production sold could be observed,
- the share of high technology products in exports was relatively low.

The reason why foreign technologies should be transferred to Poland may also be connected with the fact that the financial contribution of the state in this field is limited. As was explained in Section I, expenditures from the state budget to finance outlays for research and development are insufficient. The relevant data are presented in table 3.

Table 3. Outlays for R&D in Poland in the years 1989–1998

No.	Specification	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1.	Share of outlays for R&D in GDP (in %)	0.90	0.96	0.81	0.81	0.86	0.82	0.70	0.76	0.72	0.71
2.	Budgetary means for R&D as a per cent of GDP	-	-	0.76	0.64	0.57	0.55	0.47	0.48	0.47	0.41
3.	Share of outlays for R&D in state budget (in %)	3.6	2.5	2.5	1.9	1.8	1.7	1.6	1.7	1.7	1.7
4.	Share of budget in outlays for R&D (in %)	-	-	-	-	-	57.3	60.2	57.8	61.6	59.0

Source: Jasiński (2001, p. 12).

Another argument justifying technology transfer to Poland is a rather passive attitude of domestic firms to the question of technological progress. Studies carried out among the Polish industrial enterprises reveal the following features of their behaviour as regards innovation (Jasiński 2001):

- Polish enterprises show a small interest in technology transfer.
- Licences purchased abroad play a very small role.
- The share of Polish enterprises in international transfer of technology is modest.
- Polish firms are more oriented towards purchasing, not selling the new technological thought.

Other studies conducted in Poland on a sample of 68 enterprises prove that, according to the high level managerial staff, the quality of R&D personnel and outlays for R&D were perceived as relatively insignificant factors of the competitive potential (Gorynia 2000; Gorynia, Wolniak 2001).

Therefore, the three factors presented above (the low innovativeness of the Polish economy, limited financial efforts of the state in the sphere of outlays for research and development, passive attitude of the Polish firms to technology transfer) indicate that it is justified to use all possible forms of technology transfer which lead to improvement of technological level and modernisation of the economy. As was pointed out, the main channel of technology transfer into Poland is foreign direct investments.

In the period of transformation the significance of foreign investments in the Polish economy was continually increasing (Durka 2000). In 1991 the share of firms with foreign capital in total sales amounted to 2.8%, their share in the Polish exports amounted to 4.2% and in employment to 1.3%. The total value of foreign investments made in Poland in 1990's equalled approximately 45.7 billion USD, with a vast majority of outlays falling on the second half of the 90s. In 1998 the share of firms with foreign capital in the revenues of all the economic entities amounted to 27% and their share in employment equalled 23%. In 1999 the firms with foreign capital accounted for approximately 51% of the total Polish exports. In 1998 investment outlays of the companies with foreign capital constituted 53% of the total investment outlays. From the beginning of the inflow of foreign investments to Poland, the sector of production activity had the major part of the capital and enjoyed the greatest interest of the investors. At the end of 1999 the value of capital invested in this sphere amounted to 17.3 billion USD, which constituted 49% of all foreign investments. The value of investments made in the sector of financial intermediary amounted to 7.9 billion USD and in the wholesale trade, retail trade and after sales service to 3.4 billion USD. In the field of production activity most investment was directed to: production of foodstuffs, beverages and tobacco, manufacturing of transport equipment, production of goods from the remaining non-metallic raw materials, production of paper for the publishing and printing industry, production of chemicals and chemical articles and manufacturing of electrical and optical equipment.

Foreign direct investment exerts a positive influence on innovativeness of the Polish firms. This thesis is confirmed by both the aggregated data of the Central Statistical Office and by the conducted surveys. The surveys, carried out on a sample of 291 enterprises (126 firms with foreign capital, 165 firms with Polish capital) proved that the firms with foreign capital were more willing to introduce new technological solutions than the domestic firms, although discrepancy between the results for both groups was relatively small – 6 percentage points (Weresa 2001). Access to the results of studies on R&D and the use of new ideas implemented in the mother firm is the most significant source of innovations for the enterprises with foreign capital. The domestic firms, on the other hand, are relatively more active in conducting their own R&D activities and they more frequently make use of creativity of the personnel employed.

International corporations which invested in Poland also initiated (although on a limited scale) the establishment of scientific research centres. The following examples may be quoted: in Bydgoszcz, at telecommunications works belonging to Lucent Technologies (the former Telfa), a prestigious Laboratory Bella was set up; in Cracow one of the eight in the world and the only one in Central Europe research centre of ABB was established; Delphi Automotive Systems are setting up a scientific research centre in Cracow; Philips Works in Piła are making significant investments in development and research on energy-saving bulbs, Ericsson is planning to build a research centre, the so-called software house.

Studies conducted by Marketing Research Centre INDICATOR at the request of the State Agency for Foreign Investments show that the level of modernisation of production in the companies with foreign capital is rising. Most of the companies with foreign capital apply technologies not older than one year (63.4%). In 1997 the newest technologies were applied by 55.6% of the reviewed companies. At the same time the number of companies using technologies older than ten years fell down from 20.3% in 1997 to 11.2% in the year 2000. The companies with foreign capital are also making use of more and more modern machinery and equipment. Although in the years 1997 and 2000 the same number of these companies used one-year old machinery and equipment (62.0% and 63.6% respectively), at present a smaller number of them are making use of equipment older than 5 years (in 1997 – 64.2%, in 2000 – 57.6%) and older than 10 years (22.9% and 13.0% respectively). One third (32.3%) of the companies with foreign capital use normalisation standards and quality procedures. ISO 9001 (22.1% of this group of companies) and ISO 9002 (17.1%) are most frequently used.

The situation in Poland shows a third kind of problem with a low level of technical achievement and a limited interest in innovation from domestic firms. In comparison, firms with foreign capital figure the most dynamic part of the economy but meet difficulties in improving rapidly the situation of the Polish economy because of its size. Competitiveness is still low and trade deficit is growing.

Concluding remarks

We have reviewed three different kinds of situations that can be considered as proper illustrations of the problems met by European transition economies. Of course, it is not exhaustive and many other problems may arise.

In none of these three cases, the situation regarding the efficiency of technology transfers, its appropriation by the transferee, its future contribution to the building of technological capacities can be seen as satisfactory.

This raises the question of the advantage of a prior existing potential, scientific and technological capacities, skilled manpower etc... in a framework of rapid and important transformations. In this respect, the situation of transition economies does not seem much better than the situation of dynamic LDCs.

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8

Polish firms in the European Union. Their internationalisation projections and perspectives

Marian Gorynia, Radosław Wolniak

Introduction

The aim of this paper is to delineate the possible projections and perspectives for the internationalisation process of Polish firms in the context of Poland's accession as full member of the European Union. The following basic assumptions are made at the outset:

1) Polish firms are understood here to be economic entities that are domestically owned and controlled, i.e. they do not have any participation in their ownership structures of foreign capital or there is a minority share of foreign equity which does not give the foreign co-owners any real influence in the operations and control functions of the enterprise. Thus foreign owned firms operating and/or registered in Poland are not included in this category and in fact can be considered as the main but not exclusive component of the competitive environment of the said Polish firms.
2) Company internationalisation is conceived in its most common and obvious dimensions and scope as an active process of firm expansion into foreign markets according to a certain sequence as to time, area and most important of all form or method. This complex and usually time consuming process can proceed by external or internal expansion. The former may occur through mergers, acquisitions or takeovers of firms operating on foreign markets, *i.e.* markets outside the traditionally defined domestic, national, or home country market. The latter kind of expansion takes place when a firm, due to endogenous growth and accumulation of capital, extends its own operations into foreign markets by for ex. exporting, licensing and undertaking greenfield type foreign direct investment (FDI).

The state and pace of the internationalisation process of Polish firms on the one hand and the looming perspective of Poland's entry into the integrated internal market of the European Union (EU) on the other, allows for the formulation of certain hypotheses concerning the interaction of those two factors.

Hypothesis 1. The full integration of Poland with the EU will most certainly create for Polish firms new and unprecedented opportunities of expansion on the internal EU megamarket. This seems to be the single, most important positive outcome and challenge for those companies. But at the same time one cannot ignore the negative aspects of such challenge inherent in this outstanding chance and opportunity. Full membership in the EU also signifies the opening up of the still in many cases constrained or protected domestic sectoral markets in Poland to foreign competitors. And this in turn unfortunately creates a serious threat to the competitive positions and market share of most Polish firms. The following projections can be made from the interfacing of such opportunities and threats:

A. In the process of assimilating Polish (domestic) industry markets with those of the UE through various liberalisation measures, competition between existing companies will likely intensify. This dimension applies to existing Polish and foreign firms that have so far been present on the Polish market and will be now trying to gain sales volume and increase market share. The means to achieve those aims will continue to focus on improving product quality, introducing innovations, developing more effective distribution and communications systems and strategies for existing and new market segments and sub-segments (niches) as well as improving management systems and modifying organisational structures.
B. There will be a substantial increase of new entrants into the "Polish" segment of the UE market, most of them with a competitive potential and advantages that will be impossible or difficult to be matched by existing Polish firms.
C. Substitute products will pose an increased competitive threat.
D. Those Polish firms that have become suppliers or subcontractors to industrial customers from the EU will gradually find their competitive strengths diminishing especially in the face of continued globalisation the EU buyers. Also much bigger and stronger international suppliers will increase their presence on the Polish market taking over market shares in the supply business from their much smaller and weaker Polish counterparts.

Hypothesis 2. Internationalisation of the Polish economy and of Polish firms will continue at an accelerated pace although the speed of the former will be considerably greater than that of the latter. The rate of growth of those two processes will also differ according to the nature, size and technological change in different industries and sectors. It must be stressed that the initial degree of internationalisation of most Polish firms is absolutely and relatively low *vis à vis* their EU competitors. The same sad observation applies to the level of knowledge and expertise in internationalisation demonstrated by the management of Polish firms. This implies that internationalisation will be based for prolonged periods on its most simple and basic forms, *i.e.* on indirect and direct exporting. Once management absorbs the necessary knowledge and acquires expertise, often by "trial and error", will other more advanced forms of the internationalisation process be considered. An accelerating factor in this respect might be the pressure of competitors who have chosen to proceed with more sophisticated forms of foreign expansion (such as undertaking foreign production).

Hypothesis 3. Poland's entry into the EU is likely to raise the average size of Polish firms. If such a tendency does occur it should have a significant influence on their internationalisation process and strategies. Usually the size of a firm is positively correlated with the degree of internationalisation of its activities. Moreover, larger enterprises demonstrate a greater propensity to use more advanced forms of internationalisation. However, those projections are made assuming that the external stimulus of joining the EU market will generate a reaction to the qualitative and quantitative leap in competitive pressure exerted on existing Polish firms through their intense restructuring, consolidation and concentration (using mergers, takeovers and formation of strategic alliances). As the countdown to Poland's entry continues there is still very little evidence of such restructuring taking place. Indeed on the part of consecutive governments in power there have been signs that it was more important to them to maintain a competitive (which in reality meant fragmented) market structure than to undertake a long term strategy designed to strengthen domestic Polish firms. What the Polish economy is witnessing in fact are those same processes but being undertaken by foreign competitors. Subsidiaries of large multinational corporations (MNC's) are systematically buying out and/or eliminating from the key sectors of the Polish market domestic Polish companies. The issue in this analysis is not whether this is good or bad for Poland because there is ample evidence that although there are many negative effects in the economic and social dimension of MNC activities in Poland their overall net effect has so far been overwhelmingly positive. But this dominating trend to eliminate or diminish the role (market share) of Polish firms is expected to continue and intensify once the Polish market becomes fully embraced by that of the EU and all the remaining restrictions on existing and potential foreign competitors are lifted. This in turn will create a barrier to the growth possibilities for those Polish firms that manage to survive. A much more probable scenario is that of Polish firms being pushed out into insignificant market niches where their small to medium size will be appropriate to the necessary scale of operations. The size of the Polish firms will be much smaller than that of their EU (foreign) counterparts and this will correspond to Polish competitors' marginal share of the market.

Hypothesis 4. As an extension of hypothesis 3. the strategic response of Polish firms is projected to lead to more focus on their core competencies and skills. This in turn signifies that they will be less inclined to diversify.

The state of internationalisation of Polish firms

The current state of internationalisation of Polish firms is characterized by:

1) The domination of its passive over active forms.
2) The focus on exporting as the most successful internationalisation strategy.
3) The marked absence and apprehension to more advanced forms of expansion into foreign markets.

Ad. 1) The state of the foreign trade balance attests to the domination of the passive forms of internationalisation. During the years 1990–2000 the value of Polish exports, measured in constant prices, increased by 127% but the corresponding value for imports grew by 426%. The share of Poland in world exports increased during the same period from 0.4% to 0.5% but the share in world imports grew from 0.3% to 0.7%. The value of exports per capita increased from 376 USD in 1990 to 820 USD in the year 2000. For imports the increase was from 250 USD to 1268 USD (GUS). Such value of exports per capita places Poland somewhat below the world average but for imports this value greatly exceeds the world average.

In this context it is interesting to compare the Polish data with those for the Czech Republic and Hungary. In 1999 the value of imports per capita in those countries was 2,803 USD and 2,782 USD respectively. For exports per capita the corresponding values were 2,612 USD and 2,484 USD. They indicate that in the Czech Republic as in Hungary there was a surplus of imports over exports. At the same time the value of exports per capita was 3 times higher in the Czech Republic than in Poland and 3.5 times higher in Hungary than in Poland. Imports per capita were 2.4 times higher in the Czech Republic than in Poland and 2.3 times higher in Hungary. Altogether Poland demonstrated a clear asymmetry in its trade balance which was negative and rose from 2,482 mln USD in 1993 to 13,168 mln USD in the year 2000 (according to data from the National Bank of Poland).

The observed gap between passive and active internationalisation is even more acute in the field of FDI. Again passive internationalisation dominates: the stock of FDI in Poland far exceeds FDI undertaken by Polish firms. The cumulative value of incoming FDI for Poland at the end of the year 2000 was equal to 40,757 mln USD whereas the stock of outward Polish FDI was estimated at approx. 1 200 mln USD at the end of 1999 (Durka 2001, p. 161).

A marked asymmetry occurred also in license exchange and other forms of technology and know-how transfer. There were 1524 foreign innovations and patents registered in Poland in 2000 and only 110 Polish innovations and patents registered outside the country in 1998. In the year 2000 there were 238 active foreign licenses and only 7 active Polish licenses sold abroad. The net balance in Poland's technology and know-how transfer was thus drastically negative and equal to – 1,886.9 mln PLN (revenues = 103.4 mln PLN, expenditures = 1,990.3 mln PLN).

Industry cross section of competition

Every firm competes in a given industry environment. According to Porter's 5 forces model it is subjected to the following competitive factors: rivalry between existing firms, threat of new entrants, threat posed by substitutes, power of suppliers and finally power of customers (Porter 1992). When the firm and its environment are subjected to the process of internationalisation and globalisation the globalising potential of a given industry or sector is determined according to the Yip model also by 5 groups of factors: those connected with the market, costs, government, competition and supplementary factors (Yip 1996).

The projections concerning the effects of Poland joining the EU on the functioning of competition on the industry level can be outlined by applying the Yip model to the factors analysed by Porter in his model. The following outcomes of this matching or overlap process can be identified:

1) As Polish sectoral markets become assimilated by their EU counterparts competition will intensify since the existing players will be defending their positions so far attained and some of them (the strongest) will try to expand into unexplored parts of those wider EU markets. In the extended EU competition will become more fierce on the once Polish industry markets than on the remaining components of the EU market consisting of today's 15 members.
2) This higher level of competitive threat will extract on existing players and new entrants an upgrading of management competence and skills leading also to improvement of quality in present and new product offerings as well as to the introduction of innovative promotion and distribution strategies and techniques. The risk of identifying and exploiting any weak points in such activities by competitors will thus also increase.
3) The number of new entrants, especially but not uniquely from the other member countries of the EU, will increase as entry barriers will disappear or will be considerably lowered. Thus to a much wider extent the conditions of contestable markets may be fulfilled.
4) The growing degree of industry internationalisation will increase the potential or real threat of competitive pressure from substitutes since the geographical scope from where they might be introduced will grow.
5) The internationalisation of customers of a firm (especially in business to business marketing) will strengthen their bargaining positions, also *vis à vis* the firm's competitors. Likewise the internationalisation of the firm's com-

petitors in a given industry will weaken the bargaining power of its existing client base. But, most probably, both trends will occur more or less simultaneously, leading to the domination of global firms with global customers.

6) The internationalisation of suppliers of a firm will increase their bargaining power *vis à vis* its competitors in a given industry and the internationalisation of such competitors will weaken the position of their suppliers. Again the emerging outcome is one of global competitors with global supplier networks. Many MNC's as they enter Poland bring along their own suppliers from abroad who in turn aquire their local competitors thus often putting the Polish customers of those acquired domestic suppliers in a situation of competitive disadvantage (Gorynia, Wolniak 2001).

According to Porter (Porter 1992) firms in a closed economy, in a given industry, compete by seeking weak competitors and weak clients. In an open economy, however, competition moves to face the strongest rivals and cooperate with the most demanding customers in order to reach a higher level of international competitiveness (Porter 1990). In Poland, with its economy still in transition from a centrally planned to a market led system, the situation presently resembles more the first of the two above mentioned scenarios. This portents that with the entrance into the EU and the full introduction of the rules of an open economy the second scenario will be implemented with one unfortunate, distinct feature: there will be few or no strong Polish firms to compete with. The biggest and most powerful players on the Polish segment of the EU sectoral markets will be subsidiaries of non-Polish MNC's (from the EU or the other Triad countries). Principal business customers will be demanding but also of non-Polish ownership.

Increased competition on the industry or sector level will have a marked influence on the basic characteristics of such industries. The mutual relationships in this context are outlined in Exhibit 1. This exhibit leads to the following implications for the strategies of Polish firms:

1) The necessity to cut costs through economies of scale that can be achieved by internationalisation and through the learning process and upgrading of and changes in management as such.
2) The necessity to undertake and/or continue firm restructuring.
3) Focus on innovations, especially in niche markets.

The mix of those implications in different industries will of course vary. Among its many determinants are the present stage in the given industry's life cycle, its growth rate and the industry's initial market structure.

A model path of internationalisation for Polish firms

What should the preferred path of internationalisation of Polish firms on the EU market be? A useful theoretical approach for firms from markets such as that of Poland is based on the Uppsala model (Johanson, Wiedersheim-Paul 1975; Johanson, Vahlne 1977). Its starting point is based on the observation that in the case of many Swedish firms as well as those from other countries with relatively small domestic markets, the expansion into foreign markets is sequential and divided into stages of engagement in foreign business activity. The following factors are stressed in the whole process:

1) Expansion abroad is preceeded by successful operation on the domestic market. It is assumed that the Uppsala model accepts the perspective of the behavioral theory of the firm (Ghauri 2000, p. 142).
2) The foreign expansion process usually starts with entry into markets of neighbouring countries where the real and psychic distance is usually small, and only afterwards are more distant markets targeted.
3) The initial foreign market entry is through indirect and direct exporting, and then after a certain period of time are other forms of foreign market presence adopted.

This evolutionary and sequential process of internationalisation is often subject to certain barriers, limitations or conditions such as:

- lack of sufficient knowledge about foreign markets,
- lack sufficient resources for foreign expansion,
- high risk of entering foreign markets,
- high psychic distance between the home country market and the foreign target market,
- high transport costs, tariff and non-tariff barriers.

The Uppsala model distinguishes 4 stages of internationalisation (Johanson, Wiedersheim-Paul 1975):

1) irregular export activity or sporadic exporting,
2) exports through independent intermediaries (agents),
3) creation of a sales subsidiary,
4) creation of a manufacturing subsidiary.

Although the Uppsala model contains many assumptions that were subject to criticism in the past, its observations and conclusions have found their confirmation in the process of internationalisation of Polish firms. Being more specific the following elements should be stressed:

- Most Polish firms are only in the initial stages of their internationalisation process, i.e. in the various forms of exporting. This is evident in the fact that there are but a few Polish owned companies that can be classified as multinational in the sense of having invested in foreign production in many foreign markets (Gorynia, Wolniak 2001).

Figure 1.

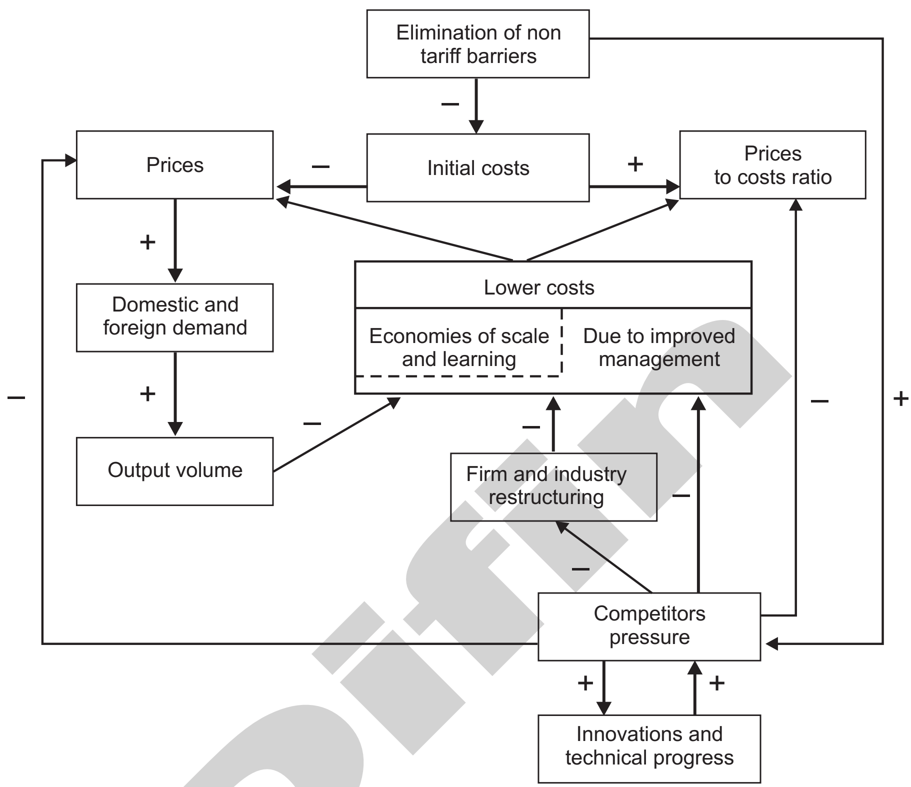

Exhibit 1. The effects of integration on demand, supply, costs and prices.

Source: *Commission of the European Communities, The Economics of 1992,* "European Economy" No. 35.

- Existing and new export activity is directed mainly towards neighbouring markets.
- Success in exporting has left a conviction that this strategy should be continued and it is seen as a long term engagement for most Polish firms.
- In many industries and/or for many small firms successful exporting is still perceived as a very difficult stage to reach. For numerous Polish products meeting accepted international quality standards is a problem and even if it manages to be eventually solved there still lingers the negative country of origin or country of manufacture effect, which in order to be eliminated, requires massive advertising or other forms of promotion. In this sphere government funding of campaigns promoting Polish products is grossly inadequate or only in its infancy stage.

- Other more advanced forms of internationalisation are considered very rarely and thus the probability of their adoption is likely to increase only in a long term perspective. This brings the risk that after such a long period of time the subsequent stages might not be implemented simply because Polish firms will be ousted from the market by stronger foreign competitors who have been quicker in moving into foreign production. The relative absence of outward FDI by Polish firms is less due to insufficient perception of how foreign competitors have been entering and operating on the Polish market and much more to the consequences of insufficient material, financial and intangible assets.

Further evidence of the feasibility of Polish firms moving ahead in their internationalisation beyond exporting on the EU market is presented by a survey conducted in the year 2000 on a group of 28 firms (Gorynia (Ed.) 2002, p. 135). One of the questions concerned the possibility of expansion into the EU market in a form other than exporting (through joint-ventures, FDI, license agreements, franchises and strategic alliances). The results (see Table 1) indicate that the preferred form of internationalisation remains exporting. The more advanced forms have drawn little interest from the respondents.

Table 1. Polish firm attitudes towards entering the EU market (number of firms responding)

Firm attitudes	Joint venture in the EU	FDI	Licencing	Franchising	Strategic alliance in the EU
1. We did not consider this matter	43	52	53	55	30
2. We did give this issue some consideration	14	3	5	3	24
3. We are in the course of making a decision	3	2	1	0	2
4. We have made a decision to enter	0	0	0	1	2
5. We are currently expanding in the EU	1	0	0	0	6
6. Total number of firms	61	57	59	59	64

Source: Own survey data.

The sequence of internationalisation stages described as the establishment chain in the Uppsala model (Johanson, Wiedersheim-Paul 1975) does not mean that an enterprise will always follow all of them in the proposed order. Short cuts and/or divergence from the model are likely to occur when:

- firms have access to large resources (especially financial) and the consequences of possible failure on a foreign market would be relatively unimportant,
- the conditions on a given foreign market are very stable and acquiring the necessary information about them does not have to be based on experience alone,

- firms have accumulated already sufficient experience and expertise from activities on markets similar to the new foreign target market,
- the limited potential of the foreign market may prevent the firm from considering moving into FDI.

In the case of the majority of Polish firms trying to enter the EU market the first three conditions do not apply, at least in a short to medium time period.

The EU market and the size of Polish firms. Internationalisation implications

As Poland advances on the path of globalisation (for in depth analysis see: Gorynia, Wolniak 2002) it is of growing importance to increase the competitiveness and size of Polish enterprises. In this context the internal market of the EU can influence company size (Hansen, Jørgensen 2000) in the following manner:

- More intense competition will lead to smaller and weaker firms being eliminated from the market by stronger and larger competitors. Those stronger competitors will predominantly be foreign firms operating on the Polish segment of the EU market. The net outcome will be the rise in the average firm size. This situation will first appear in industries and sectors with high concentration of FDI and where the minimum economies of scale are relatively high compared with the size of the Polish market as a whole.
- A counter tendency in average firm size, although of much weaker influence, will come from the lowering or elimination of part of the fixed costs due for ex. from the absence of costs of border controls. Lower fixed costs will mean lower minimum economies of scale and hence an incentive for smaller firms to enter the market lowering the said average firm size. However, this incentive will be of interest to firms of all sizes and large MNC's might take advantage of it as well thus preventing the average firm size to fall.
- Increased competitiveness will force a decrease in X inefficiency (additional costs of mismanagement). This will cause the elimination of smaller firms from the market with high costs and lead to an increase in average firm size.
- The opportunity to operate on the large internal market of the EU will be a challenge at the same time necessitating larger outlays for research and development as well as promotion (especially advertising). Those outlays can be included in the endogenous fixed costs and the rise in total fixed costs will exert a pressure for average firm size to rise as well.

From the analysis of the above observations it cannot be ascertained what will the final net outcome for the average firm size on the Polish market be after it is fully assimilated by the internal market of the EU. One can look for indications in this respect to the situation in the other EU member countries. Research conducted in 4 such countries (Germany, France, Italy, Great Britain) and covering the period from 1985 to 1992 produced the following results (Hansen, Jørgensen 2000):

- The average firm size measured by value added increased by approx. 11%, but in the case of Germany and Italy the increase was approx. 15%, in France it was 7% and in the case of Great Britain there was even a slight fall (by approx. 0.2%).
- There were no significant differences observed in the influence of the internal EU market on the average firm size in the sensitive and insensitive sectors.
- In sectors with large outlays for research and development there was no increase in average firm size. This was probably due to the fact that firms in those sectors were large already before the introduction of the internal EU market and this fact was not sufficiently motivating to lead in itself to changes in firm size.

On the basis of those trends the following implications for Polish firms may be identified:

1) The imperative will appear to reach output assuring minimum economies of scale. This can be accomplished by consolidation through mergers, acquisitions and/or the formation of strategic alliances. The other parallel strategy is to expand abroad.
2) Because of the acute lack of resources, especially financial resources, the prescription from point 1) will be open only to a very few of the existing Polish firms. Thus a large part of them will be eliminated from the market. Others will find it difficult to implement because of the high ratio of minimum economies of scale to the size of the national market and/or because of the much too long time period required to reach higher output with available resources. It may be argued that Polish firms have the advantage of better knowledge and access to information on the domestic market, including the country specific formal and, equally if not more important, informal and tacit knowledge of doing business in Poland. But this advantage is very much time constrained in that most of the foreign rivals and certainly all subsidiaries of MNC's can easily acquire, after a relatively short presence on the Polish market, the same or superior knowledge and expertise due to their larger financial resources and ability to capture prime managerial talent as well as the capacity to utilize superior support services (legal, consulting, accounting and marketing firms and agencies) (Gorynia, Wolniak 2001).
3) Eliminating some of the fixed costs (for ex. those of border controls) will improve competitiveness but this will hardly be sufficient to survive in a highly competitive marketplace.
4) There will be a strong pressure to eliminate elements of X inefficiency.
5) The perspective of operating on a much larger market will pressure firms to allocate more funds for research and development and/or promotion. This course

of action will again be only open to those of the Polish firms that manage to secure the necessary resources. Research and development outlays and the resulting product innovations are a basic source of competitive advantage. Polish firms do allocate funds for this activity. However, the absolute and relative (to total spending or to total sales) expenditures of Polish firms are considerably smaller when compared with those of foreign MNC's. It is noteworthy to observe in this context that most MNC subsidiaries in Poland spend marginal amounts on research and development since the core of this activity is carried outside Poland and the Polish market is still considered as being suitable for placing products that are relatively obsolete or in the maturity stage of their life cycles (Wolniak 1998).

Internationalisation and the specialisation – diversification dilemma

The full access for Polish firms to the internal market of the EU will signify the enlargement of their potential market without additional costs connected with barriers separating the EU from its outside environment. The influence of that development on the specialisation-diversification dilemma can be derived from the shape of the average unit cost curves in a firm producing one or two product varieties (the reasoning can be extended to a larger number of products) (Hansen, Jørgensen 2000). The said curves intersect upon reaching a certain scale of output. With output below that point of intersection it is advisable to offer a wider range of products because of scope economies. For this to be possible the market must be so small as to allow a single firm to sell each product in quantity smaller from that at which the average unit cost curves intersect. If the size of the market is larger from the quantity of output at which the said curves intersect then lower costs will be possible when a single product strategy is adopted. This stems from the fact that on a larger market competition is usually more intense and exerts a pressure to cut costs. One of the methods of lowering average unit costs is focusing attention on a limited range of products and attempting to increase market share for a limited number of product extensions. This in practice means increasing firm specialisation, which in turn allows for productivity to rise due to technological considerations as well as better management.

Thus Polish firms, when faced with the prospect of operating on a much larger market of the EU, will pressured restructure their product offerings and limit the number of product extensions or in other words adopt more specialized product strategies. If those firms will be forced by foreign competition to operate in niche markets this might act as a factor limiting their average size. The current situation is such that Polish firms have managed to stay abreast of competition in segments and/or market niches that by foreign MNC's were considered as relatively unimportant or less attractive. The inherent danger here is that if those foreign firms experience a slowdown in sales or saturation of their principal markets they will be tempted to move into these previously neglected segments and niches eroding and possibly ending the dominance of the local Polish competitors. This possibility is all the more real once the Polish market becomes fully opened to competition from the EU. Negotiated interim periods for adjustment for Polish firms will change little if there is no concerted action on the side of government policy actively enhancing their competitive potential and position. But so far there are no clear signs of this happening. Thus there are symptoms that if Polish authorities will be ready or willing to institute such measures later on they might unfortunately prove to be "too little and too late" (Gorynia, Wolniak 2001).

Another feasible and parallel option for Polish firms will be focusing on their core competence. But this approach requires having a competitive marketing strategy and efficient distribution network and not just a formal access to the EU market. This in turn generates the need to acquire the necessary resources which are attainable in limited time space only through mergers, acquisitions and/or strategic alliances. But those options are at present most easily reachable by contracting with foreign firms. The smaller size and much weaker competitive potential and position of Polish firms versus their potential foreign partners leads to a scenario in which the said Polish enterprises will be forced to play a passive role in the restructuring of Polish industries and sectors once they become embraced by the internal EU market.

Conclusion

Polish firms in order to survive and take advantage of the UE market have practically one two stage option open to them if they do not intend to loose their national identity. This option or general strategy is based on focusing on upgrading their competitiveness on the Polish market and at the same time moving ahead with their internationalisation. The key to the first part seems to lie in stimulating domestic rivalry as conceived lately by M. Porter (see: Porter, Sakakibara 2001).

Apart from the Polish firms the principal actor in this complex process is the Polish state which should allocate more attention and funds for implementing measures designed to eliminate the asymmetry between those firms and their foreign competitors. This assistance should not in any case be conceived or intended to shelter or outwardly intervene in the strategies or functioning of these Polish firms. What is advocated is more of a facilitating, guiding and stimulating role, providing them with the needed resources and showing them the methods and instruments to innovate and upgrade their competitive potential.

Economic policy measures should also focus on supporting exporting and more advanced forms of internationalisation, especially foreign direct investment by

Polish firms. This also in no small measure should include an educational campaign designed to show the rationale for and advantages of undertaking foreign production and, in order to reach this end, cooperating through the formation of business alliances.

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9

On the Path of Poland's Globalisation

Marian Gorynia, Jan Nowak, Radosław Wolniak

Introduction

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

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

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), to which Poland is applying for full membership.

Before 1990, Poland was a much less open economy and missed out on many of the benefits of globalisation. After the transition process was initiated, the country faced the challenge of how to take advantage of globalisation 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 Soviet Union-dominated former COMECON trading bloc towards the EU and opened up its market to foreign investment (Ali, Nowak and Pöschl 2001).

The purpose of this analysis is to determine whether Poland's integration with the world economy has kept pace with the general rate of globalisation during the last decade and where it currently stands. Investigation is confined to two dimensions of such integration – world trade and foreign direct investment. These two dimensions are of critical importance as far as Poland's participation in the global economy is concerned. In a wider context, the roles 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 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 globalisation 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 per cent, whereas real GDP growth over the same period was only 25 per cent. In other words, exports increased almost four times as much as the GDP. Although comparable import volume indices for the entire period under investigation are not available, the average growth rate for imports is reported to have been similar to that of exports (WTO 2001).

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). However, one can observe some acceleration of export growth in recent years. For example, in 2000 exports grew by 12 per cent, 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 US$ 6,364 billion in 2000, as compared to US$ 3,442 billion recorded at the beginning of the decade. The figures for imports are US$ 6,669 and US$ 3,542 billion, respectively.

Table 1. Growth of world merchandise exports, imports and GDP, 1990–2000

Year	Exports			Imports		
	US$ billion (Current prices)	Volume Index (Constant prices)	US$ per capita	US$ billion (Current prices)	US$ per capita	GDP (real) index
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	4244	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

Note: Per capita figures: own calculations based on population data derived from the World Bank's World Development Indicators databases.

Source: WTO, 2001 (various pages).

When exports of goods are combined with those of services (estimated at US$ 1,435.4 billion), the ratio of world trade to world GDP goes up to 29 per cent 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 increased openness to the world after 1989 was its dramatic increase in its foreign trade. As Table 2 indicates, Poland's exports grew by an impressive 127 per cent between 1990 and 2000 (in real terms). Imports grew even more dramatically (by 426 per cent), leading to serious foreign-trade imbalances, compensated for, however, by substantial capital inflows. The growth of exports and, to a smaller degree, imports fluctuated from one year to another. For example, exports grew by more than 25 per cent in 2000, but only by 2 per cent in 1999.

Table 2. Volume indices of imports and exports for Poland, 1990–2000*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2000
	Previous year = 100											1990 = 100
Export	100	98	98	99	118	117	110	114	109	102	125	227
Import	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

Note: * Calculated on the basis of data expressed in Polish zlotys in constant prices.

Source: Central Statistical Office, Poland, 2000 and 2001.

Terms of trade were, for the most part of the decade, favourable 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 per cent point from 0.4 per cent in 1990 to 0.5 per cent in 2000. This seemingly insignificant increase translates however into a 25 per cent 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 per cent in 1990 to 0.7 per cent 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 US$ 376 in 1990 to US$ 820 in 2000, and that of imports grew from US$ 250 to US$ 1268, respectively. In terms of exports per capita, Poland was slightly below the world average, but its imports per capita exceeded the world average (see Table 3).

Table 3. Poland's Gross Domestic Product (GDP), imports and exports (current prices)

Years	GDP		Imports			Exports			
	US$ mln[a]	US$ per capita[a]	US$ mln	US$ per capita	% share of world total	US$ mln	US$ per capita	% share of world total	Ratio between exports and GDP
1	2	3	4	5	6	7	8	9	10
1990	58976	1547	9528	250	0.3	14322	376	0.4	24.3
1991	72924	1998	15522	406	0.4	14903	390	0.4	20.4
1992	84326	2198	15913	415	0.4	13187	344	0.4	15.6
1993	85853	2232	18834	490	0.5	14143	368	0.4	16.5
1994	117978	3057	21569	559	0.5	17240	447	0.4	14.6
1995	126348	3086	29050	753	0.6	22895	593	0.5	18.1

1	2	3	4	5	6	7	8	9	10
1996	134550	3484	37137	962	0.7	24440	633	0.5	18.2
1997	143066	3702	42308	1094	0.7	25751	666	0.5	18.0
1998	157274	4068	47054	1217	0.9	28229	730	0.6	17.9
1999	155151	4014	45911	1188	0.8	27407	709	0.5	17.7
2000	158839	4110	48940	1268	0.7	31650	820	0.5	19.9

Note: [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.

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 US$ 2803 and US$ 2782, respectively. The respective figures for exports per capita were US$ 2612 and US$ 2484. 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 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.

Another indicator requiring comment 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 per cent until last year when it grew to almost 20 per cent, 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 globalisation process. Over the last decade the world has witnessed a tremendous growth in FDI. FDI inflows reached a record US$ 1.27 trillion level in 2000. Compared to US$ 204 billion a decade ago, it represents over 600 per cent increase 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 per cent).

FDI inflows into developing countries increased by 700 per cent and FDI into developed countries grew by almost 600 per cent. The dominance of developed countries in FDI inflows (accounting for 80 per cent of the total) has been a constant trend since the end of World War II.

Table 4. Inflows and outflows of foreign direct investment in the years 1990–2000 (in US$ billion)

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.

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 per cent. This share has been showing an overall unfavourable trend in the last years decreasing from a high of 4.3 per cent in 1995. This might be a reflection of foreign investor perception that until new factors (like the accession of some countries of the region to the EU) are activated the peak of the region's relative attractiveness for FDI has already been reached. 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 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 per cent of the total outflows. Central and Eastern Europe's outflows were only US$ 4 billion, also an insignificant 0.3 per cent 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 (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 nineties 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. In 2000, Poland attracted over US$ 9 billion in FDI, which represented 37 per cent 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 US$ 4.6 billion (UNCTAD 2001). The surge of FDI inflow into Poland in 2000 was partly associated with the US$ 4 billion purchase of a majority share in Telekomunikacja Polska S.A. by France Telecom. This purchase is regarded as the region's largest privatisation and largest FDI transaction to date.

Table 5. Inflow of foreign direct investment into Poland in the years 1990–2000 (in US$ million)

FDI Inflow	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current Year	88	359	678	1715	1875	3659	4498	4908	6365	7270	9342
Cumulative	88	447	1125	2840	4715	8374	12872	17780	24145	31415	40757

Source: National Bank of Poland, 2000 and 2001.

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 per cent 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 nineties. Poland's share in the world FDI inflow in 1990 amounted to 0.04 per cent, but by 2000 it grew to 0.74 per cent. 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 per cent 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 ones, had the index value exceeding 30 per cent. 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 per cent, 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 per cent, and in the Czech Republic and Latvia it exceeded 15 per cent, indicating a high degree of internationalisation of these economies. On the other hand, the index was below 5 per cent in one third of the region's countries.

Poland occupied the eighth position among CEE countries, with the transnationality index of about 12 per cent, 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 to 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.

Table 6. Current account and merchandise payments, 1991–2000 (in US$ million)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Current account	-2596	-1515	-2868	677	5310	-1371	-4309	-6862	-11558	-9946
2. Merchandise payments										
Revenues from exports	13355	14039	13598	17024	22878	24453	27229	30122	26347	28256
Payments for imports	13077	13573	16080	17919	24709	32632	38549	43842	40727	41424
3. Merchandise trade balance	278	466	-2482	-895	-1912	-8179	-11320	-13720	-14380	-13168

Source: Central Statistical Office, Poland, 2000 and 2001.

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

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 the current account gap in 94 per cent, as opposed to only 55 per cent in 1999 (Ali, Nowak and 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.

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 US$ 7.3 billion in 1996 to US$ 10.5 billion in 1997 and to US$ 12.9 billion in 1998. Thereafter, i.e. from 1999 to 2000, a decrease in the said deficit was observed. In 1999 it amounted to US$ 10.5 billion and in the year 2000 it went down to US$ 7.8 billion. 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. This, in turn, was due to considerable import requirements of these firms resulting from modernisation of their production capacity (investment imports) and from a high demand for supply imports (Olesiński, Pac-Pomarnacki 1998). However, between 1999 and 2000 a much faster growth of exports than imports of these firms was observed which led to a considerable decrease of their negative trade balance: from US$ –11.5 billion in 1999 to US$ –8.7 billion in 2000 (Durka, Chojna 2001).

A high deficit on the current account may have created 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 worldwide figures, thus increasing the country's level of integration with the world trade system over the last decade. However, the growth of imports substantially outstripped the growth of exports, leading to serious current account imbalances.
- FDI inflows into Poland grew by an unprecedented 10,600 per cent 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 worldwide 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 per cent in 1990 to 0.75 per cent in 2000. By 2000, Poland became the largest FDI recipient in the CEE region in absolute terms.
- 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 favour 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 problems related to the Balance of Payments 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.
- 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 globalisation process was somewhat unbalanced.

The most important policy implication stems from the last conclusion. However, opinions on this issue are not uniform. Two distinct approaches and corresponding economic policy models can be distinguished here (Gorynia 2000):

- upgrading the competitiveness of Polish exports on foreign markets (according to the enclave model),
- moving the whole economy of Poland to a higher competitive level (according to the integral model).

According to the first approach disruptions of the external equilibrium appearing in the process of integrating the Polish economy with its foreign environment justify the use of economic policy measures focused on promoting exports. This also means that the obvious focus of policy makers should be on improving the competitive potential and performance of export industries and firms.

Two basic premises seem to emerge in the context of proposing concrete and desirable policy instruments. 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 per cent, whereas for domestic firms it was only 8.8 per cent. The share of exports by foreign entrants in the value of Polish exports rose from 25 per cent in 1994 to 43 per cent in 1997 (Durka, Chojna 1998). In the following years foreign-owned firms in Poland systematically strengthened their positions in the export sectors. Their share of total Polish exports rose to 52 per cent in 1999 and 56 per cent in 2000 (Durka, Chojna 2001).

This came as no surprise. These firms tended to have better quality products, more recognizable brand names, wider access to international distribution channels as well as other advantages not possessed by most of their domestic counterparts. Therefore, foreign firms hardly needed any export-specific policy measures aimed at helping them develop export-orientated products and export markets. Instead, these foreign firms, in order to continue exporting from Poland or to be attracted to invest in Poland, need consistent improvement in the general infrastructure and conditions of doing business in this country. Survey data show that 44.4 per cent 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 be rather on domestic companies, which need to build and upgrade their competitiveness to be able to compete in both 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 into 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 can be embedded in new products and technologies and can possibly form a solid base for developing and maintaining their competitive advantage in the domestic and foreign markets.

According to the second approach identified above, the underlying aim of all policy measures in the area of international trade and investment should be to improve the country's overall international competitiveness so that Polish products can more successfully and more rapidly penetrate the export markets, especially in the European Union, which is now, and will be more so in the future, Poland's most important trade partner (Gorynia 1998). In the integral model the focus is on raising the competitiveness of the whole economy and not just the export-oriented sectors. This is in line with Poland's main strategic challenge to develop goods and services that will be effectively marketed on both the domestic as well as export markets. Thus, two general guidelines can be suggested in this context (Gorynia 1998):

- economic policy should support developing and raising company competitiveness,
- such competitiveness should be achieved integrally, i.e., without unfounded differentiation of policy measures for exporters and for those focusing their business on the open domestic market.

It is essential 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 globalisation.

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10

Globalisation 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 globalisation 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.

Keywords: Globalisation, Poland, transition, international trade, export performance, FDI, transnationality, current account and trade balance, trade and investment policy.

Introduction

Globalisation 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 globalisation. In his recent book on globalisation, Streeten (2001) provides a sample of 35 different definitions of the term. Nevertheless, for the purpose of this paper, globalisation 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 liberalisation 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 globalisation to only one of these two dimensions, measuring the progress in globalisation 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) globalisation.

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 globalisation. After the transition process was initiated, the country faced the challenge of how to take advantage of globalisation 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 worldwide 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 roles 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 globalisation 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 beginning of the decade. The figures for imports are 6,669 and 3,542 billion USD, respectively.

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).

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 its 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 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.

Table 2. Volume Indices of Imports and Exports for Poland, 1990–2000

Exports	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998	2000	1990 = 100
	Previous year = 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.

Terms of trade were, for the most part of the decade, favourable 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 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.

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.

Poland's export performance is a function of the competitiveness of its 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 and Russian Federation (in that order) absorbing twothirds of the region's total FDI inflows (UNCTAD 2001).

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.

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

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.

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 Telekomunkacja Polska S.A. by France Telecom. This purchase is regarded as the region's largest privatisation 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 internationalisation 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.

Globalisation 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 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.

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.

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 favourable 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 modernisation of their production capacity (investment imports) and from a high demand for supply imports (Olesiński, 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 substantially 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 favour 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), its 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 globalisation 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 globalisation.

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11

Competitiveness of Polish Firms and the European Union Enlargement

Marian Gorynia

Introduction

The paper has two aims. The first one is to present a three-dimensional concept of competitiveness of an enterprise. The concept of firm competitiveness discussed in the paper covers three dimensions:

- competitive position of an enterprise,
- competitive potential of an enterprise,
- competitive strategy of an enterprise.

Each of the above-mentioned dimensions was subject to operationalisation – sets of variables describing particular dimensions of firm competitiveness were suggested.

The second aim of the paper is to present the results of empirical studies on the competitiveness of Polish firms in comparison with the European Union firms in the light of Poland's anticipated entry into the EU. The research is based on the concept of firm competitiveness developed in the first part of the paper. The studies were carried out in the year 2000 and included 68 firms of the manufacturing industry registered in Poland. The results obtained indicate that according to managers from those 68 enterprises, there is a significant competitive gap between the Polish firms and their rivals from the EU. This gap concerns all the three dimensions of firm competitiveness: competitive position, competitive potential and competitive strategy.

Theoretical-conceptual basis of research into firm competitiveness

In the related literature there are many ways in which the firm competitiveness can be understood (Casson 1991; Rugman, Hodgetts 2000; Faulkner, Bowman 1995; Porter 1998; Hamel, Prahalad 1990; Stalk, Evans, Schulman 1992; Hill, Jones 1992). Some of them are fragmentary and one-sided. There is a lack of precise definitions of this notion. In the received literature it is difficult to find the concept of firm competitiveness which could be operationalized and used in the empirical research. Therefore, it is necessary to conduct further work, the aim of which is to work out a comprehensive and multi-aspect concept of firm competitiveness, reflecting the complexity of behaviour of enterprises rivalling on the competitive market.

The aim of the first part of the paper is to suggest a possible comprehensive approach to the problem of firm competitiveness. At the same time, this approach should include the most important aspects of competitive behaviour of enterprises. As a result, it should be possible to suggest such a way of evaluating firm competitiveness which would be free from the above-mentioned drawbacks (fragmentary nature and one-sidedness).

Formulating the concept of competitiveness and, later on, an analytical scheme to understand it calls for the following differentiation:

1) competitiveness ex ante versus competitiveness ex post,
2) competitiveness on the home market versus competitiveness on the foreign market.

Further on, a way of the concept's operationalisation should be suggested which would facilitate the measurement of competitiveness of real enterprises.

The author assumes that differences in competitiveness between firms may be defined as a competitive gap. For example, the statement that there exists a competitive gap between Poland's and European Union's enterprises is justified in view of Poland's entry into the Union.

Competitiveness Ex Ante and Ex Post, Competitive Position, Competitive Potential, Competitive Strategy, Competitive Gap, Competing on the Home and Foreign Markets

The following terminology is suggested:

- Competitiveness ex post is the current competitive position. The competitive position achieved is a result of the realized competitive strategy and competitive strategies of the rivals.
- Competitiveness ex ante is the future (prospective) competitive position. It is defined, among others, by the enterprise's relative (i.e. referred to its rivals' abilities) capability to compete in the future, namely through its competitive potential; in other words this is competitiveness possible to be achieved. The structure and use of competitive potential is described by a competitive strategy, planned or intended. Therefore, a firm's competitive strategy is an analytical category facilitating transition from competitive potential, i.e. potential competitiveness (ex ante) to the real competitiveness, i.e. realized (ex post). Competing strategies are used so that the firm could achieve possibly the best competitive position. If a firm wants to obtain the desired competitive position, it must have competitive advantage. Having the competitive advantage is the sine

qua non condition to achieve a good competitive position. The competitive advantage can be of cost-price or/and qualitative (differential) character. Competitive advantage results from using the set of instruments of competition which are the elements of a competitive strategy. The instruments of competition include (Haffer 1999):

- product quality,
- price,
- distinctive nature of the products offered,
- flexibility in adjusting the products to the needs of customers,
- launching of new products onto the market more often than others,
- assuring potential customers an easy access to the products (a well-developed network of distribution, information, and the like),
- wide assortment,
- advertising,
- sales promotion,
- range of pre-sales services,
- range of after-sales services,
- prices of after-sales services,
- quality of after-sales services,
- terms and period of guarantee,
- firm's image,
- product's brand,
- terms of payment,
- generating needs unknown so far (creating needs).

In the light of the above-mentioned, for the needs of this paper it is necessary to define the concepts of competitive potential and competitive position. Competitive potential of an enterprise can have a narrow and broad meaning. In the narrow meaning of the term the competitive potential is all the resources used or available to be used by an enterprise (Godziszewski 1999; Grabowski 1994). Resources can be classified into three groups (Godziszewski 1999):

1) primary resources,
2) secondary resources,
3) performance resources.

Primary resources is the entrepreneur's philosophy and the possibilities to gather in an enterprise the know-how and other resources (indispensable capital). Secondary resources include: material factors of production (fixed assets, raw materials, semi-products and exploitation means), human resources, innovations, distribution channels, enterprise organisation and information resources. Performance resources are understood as: image (particularly brand awareness), customer loyalty and customers' unwillingness to switch to other brands.

In a wider meaning of the term, the firm's competitive potential includes the following elements (Gorynia, Otta 1998):

- corporate culture,
- firm's resources (broadly understood),
- organisational structure,
- strategic vision of an enterprise,
- unique behaviour (process of creating strategy).

Corporate culture defines which forms of economic behaviour are preferred by the owners, managers and employees. In some enterprises priority is given to novelties. In others, conservative behaviour dominates. Some enterprises take risks willingly, others – extremely reluctantly. Generally speaking, corporate culture in some firms favours competitive (e.g. entrepreneurial) behaviour while in others such culture does not exist.

The firms' resources determine the scope of its activities in the economic and social environment. The volume of resources may limit the scale of operation. Their flexibility and mobility may change the firm's position in its environment. Broadly understood, a firm's resources include human resources, technological, material, and financial resources as well as intangibles (e.g. reputation). Resources available for an enterprise reduce the set of behaviours possible under given environmental conditions to the set of feasible behaviours. The volume, character, and allocation of the firm's resources also influence its possibilities to gain competitive advantage.

Organisation of an enterprise determines whose preferences will be of greater or smaller significance in the firm. The organisational structure of the firm includes: division of authority, division of labour and communication network.

Moreover, the real behaviour of an enterprise is influenced by its strategic vision (sometimes the formal strategic plan) which determines its objectives, mission and behaviour. The importance of this vision depends on whether it is clear, supported by internal and external authorities, based on experience, and possible to be implemented.

The strategy of an enterprise emerges from the strategy-creating process. It consists of two sub-processes – the process of formulating a strategic vision (plan) and the process of putting the vision (plan) into practice. Particular enterprises have their own research, planning and performance routines. External and internal factors are responsible for the fact that enterprises are more or less willing to change the set of routines used. Moreover, the external and internal factors are responsible for the fact that the firm's behaviour gets closer to the planned course (effective implementation of a clear strategic vision) or drifts away (either due to the lack of a clear strategic vision or inability to implement it).

A very complex, detailed structure of the competitive potential (competitiveness) is suggested in the studies supervised by M.J. Stankiewicz (Godziszewski

1999, pp. 79–82). Eleven functional-resource spheres and 91 elements constituting those spheres were differentiated within the competitive potential.

Competitive position of an enterprise results from the assessment of what the firm offers by the market (particularly by the buyers). The basic and synthetic measures of the competitive position of each enterprise are its share in the market and its financial situation. However, to quantify the competitive position one can use a wider set of the following measures:

- profitability (relative, i.e. compared with competitors from the same branch),
- cost level (relative),
- market share,
- features of a product (service) compared with the features of products (services) provided by competitors,
- awareness of the firm and its products' existence on the market, perception of the firm by the environment,
- customer loyalty, brand loyalty,
- costs of shifting to other suppliers,
- existence or likelihood of substitutes.

Attention should be paid to some similarity between the category of instruments of competition and the measures of competitive position – for example in both cases there appear definitions of product quality (features) and costs (prices). In both cases, however, the content of those definitions is different. For example, product quality as an instrument of competition means making attempts for the product of a given firm to be distinctive from the rival products (functional or process aspect of the concept of quality dominates here). On the other hand, product quality as a measure of competitive position, means the obtained effect of the positive differentiation between a given product and the rivals' products (the result aspect of the concept of quality dominates in this case).

For example, if by a competitive gap one understands the differences in competitiveness between the Polish and the European Union's firms, then in the light of the above-mentioned terminology, the concept of competitive gap can also be understood in the ex post sense (gap as a difference in competitive position) and in the ex ante sense (gap as a difference in competitive potential). Moreover, it is also sensible to differentiate between a competitive gap understood as a state at a given moment (static competitive gap) and a competitive gap in a dynamic approach, meaning the process of changes in the initial competitive gap, i.e. the sequence of the states of competitive gap at different moments (dynamic competitive gap).

It is also important to differentiate between competition on the home market and competition on the foreign market. The fact that some manufacturer does not export his products does not mean that he cannot compete with foreign rivals. If his domestic market is an open market, there is an opportunity to compete with foreign rivals on the home market (competing with imports on the internal market). The differentiation between competing on the home market and on the foreign market is particularly important when shaping an economic policy as there arises a question whether exports should be supported with special means of the economic policy or treated in the same way as the output meant for the home market.

In this paper, where it is justified, we shall differentiate between competition and competitiveness on the home market and on the foreign market and, respectively, between the competitive gap on the home market and the foreign market.

Analytical scheme of competitive gap

The considerations presented so far can serve as a starting point to concretise the analytical scheme of a competitive gap. Taking into account the previously established terminology, four dimensions (aspects) of a competitive gap can be differentiated:

1) Competitive gap as differences in the current competitive position of a given firm compared with its rivals; detailed variables describing the competitive gap understood in this way are the above-mentioned measures of the competitive position (market share, profitability, etc.) referred to the actual situation.
2) Competitive gap as differences in the future competitive position of a given firm as compared with its rivals; it is described by a similar set of the measures of competitive position, however, referred to some moment in the future.
3) Competitive gap as differences in the current (initial) competitive potential; the competitive potential is one of the determinants of the firm's ability to compete; it also determines the range of plausible competitive strategies; moreover, we assume that differences in the future competitive potential (referred to some moment in the future) will be significant for competing in the period after that moment.
4) Competitive gap as differences in the competition strategy within the studied period; the differences in the competition strategy can be reduced to the differences in instruments of competition which have already been mentioned.

For example, when speaking about the competitive gap between the Polish enterprises and the EU firms in the context of Poland's entry into the Union, we shall simultaneously keep in mind four of the above-mentioned dimensions of that gap. The measurement of this gap will have to include detailed variables (measures) referring to all the four dimensions. Formally the gap (CG) can be presented as a vector:

$$CG = \begin{bmatrix} DCCPS \\ DFCPS \\ DCCPL \\ DSC \end{bmatrix}$$

Where:
DCCPS – differences in current competitive position,
DFCPS – differences in future competitive position,
DCCPL – differences in current competitive potential,
DCS – differences in competitive strategy.

For the needs of the studies presented below, particular dimensions of the competitive gap were formulated as questions in the questionnaire. Operationalisation has led to determination of detailed variables which are measurable variables (see Tables 1, 2, 3).

The above concept of classifying the measures of competitiveness which are a tool to measure the competitive gap corresponds with the concept of three aspects of competitiveness suggested by Buckley, Pass and Prescott (1988). They distinguish three aspects of competitiveness or three groups of the measures of competitiveness:

- competitive performance,
- competitive potential,
- management process.

The above-mentioned three Ps describe different stages of competitive process. A starting point is the potential which is a certain input or outlay in the process of competing. An impact on the competitive potential during the management process leads to some defined results of competition. There is a feedback between the differentiated aspects of competitiveness. The competitive potential partly determines the way of management process, but the management process in turn influences the extent and quality of the competitive potential. The results achieved also influence the volume and quality of competitive potential and moreover, have an impact on the management process. These remarks once again lead to a conclusion that competitiveness and competitive gap cannot be treated as static concepts.

Further on in the paper there are three Tables where the concepts of competitive position, competitive potential and competitive strategy (instruments of competing) are operationalized. Each of those concepts is described by a set of variables which can be measured, using the suggested scales. While constructing tables-questions it was assumed that an enterprise operates on several markets and its competitive situation on particular markets can be different.

Empirical studies on competitiveness of Polish firms

Concept of research and research sample

In the middle of the year 2000 studies were carried out on the competitiveness of 68 Polish firms. Assumptions of the research were as follows:

1) studies were based on the method of direct interview – trained questioners (students) held interviews, using a special questionnaire, with representatives of top management of the studied firms (one representative from each of the studied firms),
2) studies consisted of gathering the managers' opinions as regards three aspects of competitiveness – competitive position, competitive potential, instruments of competing (competitive strategy),
3) studies covered enterprises from different branches of the manufacturing industry,
4) studies included the enterprises registered in Poland, irrespective of the origin of their capital,
5) studies concerned mainly medium-size and large enterprises,
6) main criterion of selecting the enterprises for research (apart from its size and belonging to the manufacturing industry sector) was the willingness to cooperate on the part of the firm.

Enterprises of different legal status participated in the studies: 29 limited liability companies, 27 joint stock companies, 4 civil companies, 3 one-man companies, 4 cooperatives and 1 state enterprise. Nineteen of the studied firms are enterprises with the share of foreign capital, including 5 firms with 100 per cent of foreign capital; in 12 firms foreign capital had a major share and in one firm the share of foreign capital was minor.

As concerns the number of employees in the studied firms, the situation was as follows:

- up to 50 – 4 firms,
- 50–100 – 10 firms,
- 101–500 – 38 firms,
- over 500 – 16 firms.
- In 1999 the value of sales in those firms was as follows:
- up to 5 m. PLN – 3 firms,
- 5–10 m. PLN – 9 firms,
- 10–50m. PLN – 25 firms,
- 50–100 m. PLN – 13 firms,
- over 100 m. PLN – 14 firms.

In 1999 the share of exports in total sales amounted, on average, to about 35 per cent (data were provided by 63 firms), with exports to the three largest EU markets constituting on average 26 per cent of the total sales (data provided by 46 firms). The largest EU markets for the firms under consideration were Germany, France and Holland. The firms' forecasts for the years 2000, 2003 and 2005 anticipate that the same markets will play the most important role for their export sales in the future.

Competitive position

At the beginning, the respondents expressed their views on the weights of the criteria (measures) in determining a firm's competitive position. Assessment was made according to a seven-grade scale presented below. The results are presented in Table 1. The data show that in the opinion of the firms considered, two of the listed criteria of evaluating competitive position are more or less equally important, with the financial situation being slightly more significant. This is convergent with the view that the best measures of the competitive position of a firm are profitability measures. Moreover, it seems that those opinions are sensible – a firm with a good competitive position should have a good financial situation. The research, however, made no attempt to determine which indicators – in the respondents' opinion – describe the firm's financial situation in the best way.

Further on, Table 1 presents the mean evaluations of the managers from the studied firms as regards their position on the Polish market and on the 3 largest EU markets. In the eyes of the managers their firms' competitive position on the home market is a little better than the average, both as regards market share (M = 4.03), and financial situation (M = 3.77). Those managers are optimistic about the future – they anticipate that their firms' competitive position within the coming three years will improve, both as regards the home market share (M = 4.45), and the financial situation (M = 4.26). The current competitive position on the 3 EU markets was assessed as being worse than on the home market, both as regards market share (M = 3.25), and financial situation (M = 2.73). The managers anticipate that in the future they will maintain their competitive position as regards market share and the financial situation of their firms will slightly improve.

Competitive potential

The results of studies on competitive potential are presented in Table 2. The respondents were given a set of 39 measures of the competitive potential. The highest weights were attributed to the following measures:
- knowledge of the current and future needs of the customers (M = 4.88),
- quality of the managerial staff – top management (M = 4.76),
- reputation (image, good recognition) of the firm (M = 4.70),
- importance of quality assurance (M = 4.69),
- advancement of production technology (M = 4.67).

According to the respondents, the following measures of competitive potential are of the least significance:
- quality of the research-development staff (M = 3.64),
- outlays for R&D (M = 3.67),

- level of marketing technology (M = 3.67),
- employees' attitude to changes (M = 3.69),
- employees' approval of the managerial staff (M = 3.79),
- quality of the motivating system (M = 3.79).

Generally, it may be surprising that the significance of factors from the spheres of research and development and corporate culture was estimated as relatively low. Interpretation of opinions on research and development seems to be particularly difficult. According to the respondents, this factor is not especially important and – as can be seen from the data below – the situation in this respect does not look too encouraging. Perhaps the managers who were surveyed, realizing a huge technological gap, are of the opinion that it is not the best solution to carry out research and development work on their own. Acquiring the already existing technologies through the purchase of licences, establishing joint ventures and the like seems to be better.

It is surprising that the factors relating to R&D and those relating to corporate culture were assessed as unimportant.

As regards evaluation of the current competitive potential of the studied firms on the home market, the highest measures were attributed to the following factors:

- importance of quality assurance matters (M = 4.16),
- level of quality management system (M = 4.11),
- quality of managerial staff – top management (M = 4.09).

Thus, broadly understood, quality seems to be the most important asset of the studied firms as compared with their home rivals.

On the home market basic, relative weaknesses of the studied firms include:

- outlays for R&D (M = 3.14),
- relative level of outlays for marketing (M = 3.22),
- employees' attitude to changes (M = 3.23).

It should be underlined that low competitive potential appears in those areas which were regarded by the respondents as less significant.

Attention must also be paid to the fact that the assessment of the competitive potential of the studied firms for the future (in 3 years' time) is more optimistic than the current one. This concerns all factors of the competitive potential, without any exception. It may be a sign of an active and aggressive, and at the same time optimistic approach of the studied firms to competition on the home market. Generally, it can be stated that in the opinion of the studied firms both their current and future competitive potential on the home market looks good. Each of the factors of competitive potential obtained average score above 3.00, which means that the studied firms are better from their average home rival in all respects.

The situation looks different as regards the three largest EU markets. As regards 11 out of 39 measures of the competitive potential referring to the current competitive situation, it was assessed that the Polish firms had lower competitive potential than their average rival on the EU markets (average score below 3.00). The lowest assessment concerned:

- relative level of outlays for marketing (M = 2.40),
- level of marketing technology (M = 2.48),
- outlays for R&D (M = 2.56).

It is also significant that in none of the 39 measures the mean assessment of the current situation did not exceed 4.00 which indicated a slightly higher competitive potential than that of the average rivals on the EU markets. This means that the studied Polish enterprises tend to have the competitive potential similar to the potential of their average competitors on the EU markets. The highest assessment refers to:

- quality of corporate finance management (M = 3.86),
- quality of managerial staff – top management (M = 3.61),
- importance of quality assurance (M = 3.50).

Attention should be paid to the fact that the managerial staff estimate themselves very highly. Therefore, the following hypotheses emerge here:

- this estimation may not be justified – quality of the managerial staff which is higher than that of the rivals should ensure competitive advantage, however this is not the case,
- this estimation is justified and the problems with achieving competitive advantage are also influenced by factors other than the quality of management.

Evaluations concerning the future are more optimistic. In 38 out of 39 measures these evaluations are higher for the future (in 3 years time) than for the present (the quality of corporate finance management which is quite highly assessed at present is an exception). The following measures achieved the highest score:

- reputation (image, good recognition of the firm) (M = 4.03),
- quality of managerial staff – top management (M = 4.00),
- importance of quality assurance (M = 4.00).

Instruments of competing (competitive strategy)

Evaluation of the factors describing the competitive strategy applied (instruments of competing) is presented in Table 3. The highest weights are attributed to the following instruments:

- quality (M = 5.09),
- price (M = 4.88),
- promptness of delivery (M = 4.69).

At the same time it was stated that instruments related to after-sales services (price, range and quality) seem to be the least significant for achieving success on the EU markets. It can be assumed that such low weights attributed to after-sales services may result from the fact that not all products of the analyzed firms require such services.

Evaluation of the current situation as regards the application of instruments of competing tends to be similar to assessment of the factors of competitive potential – the Polish enterprises rank as average and the mean assessment referring to all the instruments are contained in the interval 3.00–4.00. The best situation seems to be in the following areas:

- promptness of deliveries (M = 3.83),
- quality (M = 3.79),
- product brand (M = 3.52).

It must be admitted that the above-mentioned evaluation is a bit surprising. Those areas are usually regarded as weaknesses of the Polish exporters. However, it can be assumed that problems with selling the output (saturation of the home market) were responsible for the fact that those firms which managed to conclude export agreements make every effort to meet their obligations towards foreign partners.

The situation looks relatively bad as regards:

- advertising and sales promotions (M = 3.06),
- servicing (M = 3.16–3.39),
- frequency of launching new products (M = 3.21).

The analyzed firms are moderately optimistic about the future. Within three years they anticipate improvement of the situation – as compared with the present time – as regards all the instruments of competition. It is anticipated that within the area of each instrument of competition the studied firms will tend to be better than their average rival on the EU market. The most optimistic forecasts refer to:

- quality (M = 4.30),
- promptness of deliveries (M = 4.23),
- product brand (M = 4.13).

This means that the studied firms intend to continue their present competitive strategy because they currently have competitive advantage as regards the same instruments of competition.

Final remarks

Studies on the competitive gap carried out by the author at the level of a firm prove that the suggested conceptualisation and operationalisation of the idea of firm competitiveness are useful in practice. Firm competitiveness consists of three elements: competitive position, competitive potential and instruments of competition (competitive strategies).

The results of the studies confirm the existence of intuitively anticipated competitive gap between the Polish and the EU enterprises in the sphere of the three above-mentioned elements of firm competitiveness.

Bearing in mind the limitations connected with the research method applied (gathering managers' opinions on the competitiveness of their companies) it should be underlined that although the above-mentioned competitive gap exists, there also exists some premises to be optimistic, namely:

- the gap is not perceived as enormous – i.e. average competitors operating on the EU market are perceived as rivals with whom the Polish firms can compete effectively;
- forecasts concerning competitive position, competitive potential and instruments of competition indicate that the Polish enterprises assume an aggressive attitude and intend to reduce the currently existing competitive gap. If this is to be successful, it is necessary to reformulate competitive strategies of many of the analyzed firms and to obtain support from the economic policy (Gorynia 1998).

Finally, it should be underlined that aggregated studies of the situation and of the competitive gap (covering a defined population of enterprises) can merely be a starting point for the formulation of normative recommendations addressed to concrete individual enterprises. While formulating general conclusions and the more so general recommendations for enterprises, attention should be paid to the specificity of their individual situation and strategic identity. Inter-sector, sector and branch studies should be followed by precise, individualized studies of competitiveness tailored to particular enterprises. Among the premises which seem to be sufficient arguments for carrying out independent studies of competitiveness, the following ones can be mentioned:

- measurements make it possible to evaluate the significance of particular elements of the competitive potential and instruments of competition if an enterprise strives to achieve competitive advantage – to determine critical factors/spheres of success;
- this enables an enterprise to diagnose the spheres and extent of its own maladjustment, i.e. to estimate the size of a gap within particular elements of the potential and instruments of competition as well as their arrangement against the background of the rivals, and also to evaluate the significance of gaps, in particular spheres for the future of an enterprise and to assess their impact;
- measurement of the competitive position facilitates making operational and strategic decisions the aim of which is to eliminate or to limit the size of the competitive gap;
- regular studies necessitate selective corrective measures – in those areas of the gap where they are most needed;
- these studies are also a basis for regular monitoring of these problems in an enterprise, for raising the awareness of how important such monitoring is and acquiring the necessary research-analytical skills, experience indispensable for continuous purposeful creation of adequately flexible competitive poten-

tial and selection of competitive instruments which would skilfully use this potential.

It seems that the enterprises which take competition on the open EU market seriously should conduct regular and professional studies on competitiveness. This is a sine qua non condition to reducing a competitive gap separating them from other rivals who operate on this market.

Table 1. Competitive position of a firm against the rivals

Measures of competitive position	Weight of a given measure			Home market						3 largest EU markets					
				ACMP			AAMP			ACMP			AAMP		
	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD
1. Market share of the studied firm	65	4.14	0.80	54	4.03	0.97	54	4.45	0.93	43	3.25	1.53	43	3.21	0.99
2. Financial situation of the studied firm	64	4.41	0.78	50	3.77	0.86	50	4.26	0.82	41	2.73	0.84	42	3.26	0.88

NI – number of indications
M – arithmetic mean
SD – standard deviation
ACMP – assessment of our current position on the market
AAMP – assessment of our anticipated position on the market

Weight of measure:
0 – no significance
1 – very small significance
2 – small significance
3 – average significance
4 – big significance
5 – very big significance
6 – enormous significance

Scale of possibilities to assessment competitive position:
0 – we are (will be) the worst on the market (low market share, bad financial situation)
1 – we have (will have) a much worse than average competitive position
2 – we have (will have) a slightly worse than average competitive position
3 – we have (will have) average competitive position (in a given respect)
4 – we have (will have) a slightly better than average competitive position
5 – we have (will have) a much better than average competitive position
6 – we are (will be) market leader (the best)

Table 2. Competitive potential

Measures of competitive potential	Weight of a given measure			Home market						3 largest EU markets					
				ACP			AAP			ACP			AAP		
	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD
1. Possibilities of financing current activity	68	4.52	0.75	65	3.74	0.86	65	4.26	0.79	47	3.03	0.72	48	3.52	0.97
2. Possibilities of financing development from own funds	67	4.06	0.54	63	3.56	0.91	63	4.08	0.75	46	2.87	0.81	47	3.36	1.00
3. Possibilities of financing development from external means	67	3.79	0.81	63	3.57	1.11	63	4.11	0.85	44	2.80	0.92	45	3.34	0.99
4. Quality of corporate finance management	67	4.46	0.82	63	3.94	0.68	63	4.44	0.82	46	3.86	0.96	47	3.85	0.95
5. Quality of corporate finance management technology	67	4.16	0.77	63	3.84	0.75	63	4.35	0.84	46	3.17	1.00	47	3.66	1.06
6. Quality of production equipment	67	4.63	0.64	63	3.91	0.77	63	4.51	0.82	46	3.09	0.84	47	3.73	0.90
7. Advancement of production technology	67	4.67	0.81	63	3.83	0.74	63	4.38	0.78	46	3.07	0.81	47	3.70	0.86
8. Flexibility of production system	67	4.28	0.87	63	3.86	0.73	63	4.32	0.74	46	3.28	0.87	47	3.68	0.90
9. Technical culture of employees	67	4.15	0.71	63	3.74	0.72	63	4.31	0.74	46	3.20	0.85	47	3.74	0.90
10. Outlays for R&D	67	3.67	1.14	63	3.14	0.74	63	3.70	0.83	46	2.56	1.05	47	3.37	0.92
11. Quality of R&D staff	67	3.64	1.09	63	3.37	0.84	63	3.73	0.86	46	2.81	0.85	47	3.22	0.92
12. Possibilities of purchasing modern construction and technological solutions	67	4.10	0.94	63	3.50	0.88	63	4.11	0.92	46	2.89	0.92	47	3.32	1.16
13. Level of quality management system	67	4.52	0.79	63	4.11	0.78	63	4.52	0.84	46	3.38	0.94	47	3.79	0.89
14. Rank given to quality assurance problems	67	4.69	0.70	63	4.16	0.81	63	4.60	0.81	46	3.50	0.96	47	4.00	0.93
15. Access to key resources	65	4.32	0.79	61	3.82	0.76	61	4.26	0.83	45	3.12	0.88	46	3.56	0.95
16. Quality of supply – logistic staff	67	4.00	0.60	63	3.60	0.71	63	4.00	0.68	45	3.12	0.84	46	3.60	0.91
17. Knowledge of present and future needs of customers	67	4.88	0.62	63	3.90	0.67	63	4.48	0.90	45	3.29	0.84	46	3.83	0.92
18. Knowledge of competitors	67	4.46	0.91	63	3.92	0.71	63	4.47	0.82	45	3.24	0.86	46	3.89	0.89
19. Rank given to marketing activity	67	4.19	1.03	63	3.60	0.86	63	4.27	0.84	45	2.80	0.93	46	3.48	0.96
20. Rank given to expansion on foreign markets	67	4.10	0.88	61	3.86	0.80	61	4.43	0.86	46	3.25	0.81	47	3.78	1.04

21. Quality of marketing staff	66	4.17	1.04	64	3.51	0.80	63	4.13	0.74	47	3.00	0.96	47	3.55	0.98
22. Quality of export-sales staff	65	4.09	0.86	61	3.65	0.73	61	4.19	0.70	46	3.10	0.86	47	3.60	1.00
23. Relative level of outlays for marketing	67	3.82	0.83	63	3.22	0.75	63	3.89	0.77	46	2.40	1.00	47	3.25	0.91
24. Level of marketing technology	67	3.67	0.93	63	3.29	0.73	63	3.90	0.74	46	2.48	1.02	47	3.33	0.95
25. Level of operational management technology	66	4.24	0.82	62	3.54	0.69	62	4.08	0.86	45	2.96	0.56	46	3.52	0.97
26. Level of strategic management technology	66	4.14	0.90	62	3.56	0.76	62	4.14	0.81	44	3.00	0.76	45	3.50	0.93
27. Quality of motivation system	66	3.79	0.82	64	3.31	0.75	64	3.94	0.68	47	2.88	0.77	48	3.41	0.85
28. Quality of managerial staff – top management	66	4.76	0.74	62	4.09	0.62	62	4.46	0.74	45	3.61	0.84	46	4.00	0.79
29. Quality of middle management	67	4.54	0.78	63	3.89	0.70	63	4.32	0.73	45	3.38	0.96	46	3.89	0.91
30. Degree of identification of the crew with company's goals	67	3.96	0.93	63	3.58	0.75	63	4.11	0.78	45	3.14	0.86	46	3.71	0.90
31. Employees' attitude to changes	67	3.69	0.81	63	3.23	0.61	63	3.80	0.63	45	3.00	0.56	46	3.58	0.69
32. General professional level of the crew	67	4.30	0.69	63	3.65	0.63	63	4.16	0.59	45	3.24	0.71	46	3.69	0.70
33. Level of innovativeness of the crew	66	3.83	0.75	62	3.52	0.75	62	3.87	0.71	45	3.02	0.66	46	3.50	0.75
34. Willingness to improve qualifications	67	4.00	0.66	63	3.62	0.85	63	4.16	0.91	45	3.29	0.99	46	3.77	0.92
35. Employees approval of the managerial staff	67	3.79	0.79	63	3.64	0.74	63	4.10	0.75	42	3.33	0.78	43	3.91	0.74
36. Employees willingness to co-operate	67	4.05	0.69	63	3.60	0.72	63	4.07	0.70	45	3.32	0.70	46	3.77	0.69
37. Working out a clear vision of company growth	67	4.37	0.82	63	3.65	0.73	63	4.16	0.80	45	3.27	0.71	46	3.81	0.69
38. Knowledge of the firm and its products on the market	67	4.49	0.84	63	3.90	0.79	63	4.55	0.91	45	2.96	0.87	46	3.77	0.94
39. Reputation (image, good recognition) of the firm	67	4.70	0.79	63	4.03	0.76	63	4.67	0.87	44	3.32	1.07	45	4.03	1.00

NI – number of indications
M – arithmetic mean
SD – standard deviation
ACP – assessment of our current potential
AAP – assessment of our anticipated potential

Weight of factor:
0 – no significance
1 – very small significance
2 – small significance
3 – average significance
4 – big significance
5 – very big significance
6 – enormous significance

Scale of possibilities (as compared with average competitor):
0 – we are (will be) the worst
1 – we are (will be) much worse
2 – we are (will be) slightly worse
3 – we are (will be) average
4 – we are (will be) slightly better
5 – we are (will be) much better
6 – we are (will be) the best

Table 3. Situation of a firm as regards application of instruments of competition (competitive strategy)

Instruments of competition	3 largest EU markets								
	WI			ACSF			AASF		
	NI	M	SD	NI	M	SD	NI	M	SD
1. Price	56	4.88	0.63	54	3.50	0.84	54	3.74	0.95
2. Quality	56	5.09	0.55	54	3.79	0.97	54	4.30	1.02
3. Technological advancement	55	4.02	0.93	53	3.42	0.89	53	3.89	0.92
4. Complexity of offer	56	4.02	0.81	54	3.46	0.96	54	3.84	0.95
5. Packaging	55	2.96	1.18	51	3.40	0.86	51	3.87	0.87
6. Promptness of delivery	55	4.69	0.75	53	3.83	0.86	53	4.23	1.01
7. Terms of payment	55	4.06	0.84	53	3.45	0.80	53	3.90	0.93
8. Advertising and sales promotion	56	3.79	1.28	54	3.06	0.93	54	3.67	1.11
9. Frequency of launching new products	56	3.18	1.23	52	3.21	0.94	52	3.76	0.97
10. Customer-friendly distribution network	55	3.24	1.33	53	3.43	0.90	53	3.99	1.10
11. Range of services	50	2.84	1.56	45	3.16	0.91	45	3.70	1.03
12. Quality of services	50	2.92	1.51	45	3.39	0.88	45	3.80	0.92
13. Price of services	50	2.68	1.47	44	3.20	0.89	44	3.46	0.94
14. Terms of guarantee	52	3.25	1.16	48	3.45	0.80	48	3.72	0.86
15. Product brand	54	3.85	1.09	51	3.52	1.02	51	4.13	0.99

NI – number of indications
M – arithmetic mean
SD – standard deviation
WI – weight of instrument
ACSF – assessment of current situation of our firm
AASF – assessment of anticipated situation of our firm – in 3 years

Weight of instrument:
0 – no significance
1 – very small significance
2 – small significance
3 – average significance
4 – big significance
5 – very big significance
6 – enormous significance

Scale of possibilities of evaluating situation as regards application of instruments of competition (compared with average competitor):
0 – we are (will be) the worst
1 – we are (will be) much worse
2 – we are (will be) slightly worse
3 – we are (will be) average
4 – we are (will be) slightly better
5 – we are (will be) much better
6 – we are (will be) the best

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12

Competitiveness of firms from Ziemia Lubuska and Poland's accession to the European Union

Marian Gorynia

A frequently underestimated but more and more significant aspect of integration is its character and course as regards regions understood as component parts of the integrating countries. For the aims of the present research the area of interest was reduced to the competitive strategy of Polish firms located in Lubuskie Province bordering with Germany. At the beginning the concept of enterprise competitiveness and competitive gap are discussed. Later on the author tries to estimate the competitive gap as regarding to enterprises located in Ziemia Lubuska on the basis of empirical research. The basic result from the studies is the necessity to improve the strategic position of analysed firms. To reach this goal enterprises should focus their actions mainly on the process of complex development of competitive potential.

Ein häufig unterschätzter aber zunehmend wichtig werdender Aspekt der EU Integration ist die Rolle der Regionen der integrierenden Länder, also eine meso-ökonomische Perspektive. Die Studie konzentriert sich dabei auf die Wettbewerbsstrategie von polnischen Firmen aus der Lubuskie Provinz im Grenzgebiet zu Deutschland. Anfangs werden die Konzepte der Wettbewerbsfähigkeit von Firmen und der Wettbewerbslücke ("gap") diskutiert. Anschliessend versucht der Autor die Wettbewerbslücke bezüglich der Unternehmen in Ziemia Lubuska auf der Basis empirischer Forschung zu ermitteln. Das grundliegende Ergebnis der Studien ist die Notwendigkeit der Verbesserung der strategischen Position der untersuchten Firmen. Um dieses Ziel zu erreichen, sollten Unternehmen ihre Tätigkeit auf den Prozess der komplexen Entwicklung von Wettbewerbspotential konzentrieren.

Key Words: Integration/regions/competitiveness/enterprise/strategy.

Introduction – The essence of the project

The reason for taking up this research project is a general observation that international economic integration, understood as the intensification of economic ties is most frequently considered with regard to relations between the integrating countries from the macroeconomic level. The main problems analysed within this perspective include: the rate, equilibrium and permanent character of economic growth, potentially full utilisation of the productive capacities of the economy (including labour force), inflation, state of public finances, external balance, monetary integration, economic convergence and the like (Balassa 1973; De Grauve 1997; Gartner 1997; Harrop 1989; Krauss 1973; Pelkmans 1997; Tavera 1999).

However, a frequently underestimated but more and more significant aspect of integration is its character and course as regards regions understood as component parts of the integrating countries, differentiated according to a certain criterion (mesoeconomic level)[1]. Usually the studies analysing the regional aspect of integration try to define the implications of decreasing border impediments for the integration of goods and factor markets (Stiller 2004). A prediction of integration theories is that the reduction or abolition of border impediments stimulates cross-border economic relationships (Niebuhr/Stiller 2004). The problems considered are: inter- and intra-industry trade, foreign direct investment, migration, location models, gravity models, commuting and cross-border shopping. But one has to underline that in the traditional studies of the regional aspect of integration, the question of firm behaviour during the integration process is absent or underestimated.

A particular role is played here by transborder regions, i.e. located near the borders of the countries involved in integration processes. In those regions both expectations of the positive effects of integration and threats resulting from the integration process are particularly strong.

Therefore, it seems fully justified to start research, the aim of which would be to accomplish the following three objectives:
1) identification and analysis of the conditions of integration processes at the level of trans-border regions,
2) evaluation of integration processes in the border regions – trade integration (increasing trade), foreign direct investment, migration,
3) determination of the potential consequences of economic integration for the integrating regions.

This is a very broad formulation of the problem. For the aims of the present research the area of interest was reduced to the competitive strategy of Polish firms located in Lubuskie Province bordering with Germany – and more precisely with Brandenburg region. In other words in this article the mesoeconomic level is understood in a very narrow and specific way – we take into consideration a sample of firms located in a given region of Poland. The following research hypothesis was formulated:

[1] The mesoeconomic level is the level of analysis located between macro- and micro- levels. Examples of mesoeconomic level are: industries, sectors, clusters, regions (Morvan 1991, p. 33).

There is a “competitive gap” among the Polish manufacturers, actual and potential exporters to Brandenburg region. This gap is understood as a difference in widely perceived capabilities to compete on the Brandenburg market in comparison with capabilities of the rivals operating on that market (this hypothesis refers not only to the Brandenburg market but also to the German market and the EU market).

The essence of the present research project can be formulated in the following points:

- adaptation of the concept of competitive gap for the requirements of the present project,
- empirical studies, the aim of which is to identify and measure the competitive gap in a group of enterprises from Ziemia Lubuska,
- processing of the results of the empirical studies,
- conclusions for corporate strategies.

The behaviour of firms from the transborder regions plays a critical role for the effects of integration in these regions. Firms do compete, not regions, and the preliminary condition of increasing trade between regions from integrating countries is the existence and the exploitation of the competitive advantage by firms involved in trading.

The concept of enterprise competitiveness and competitive gap

In the related literature there is a considerable number of ways in which the competitiveness of an enterprise can be understood (Casson 1991; Faulkner, Bowman 1995; Hamel, Prahalad 1990; Hill, Jones 1992; Porter 1990; Porter 1998; Rugman, Hodgetts 2000; Rumelt 1997; Stalk, Evans, Shulman 1992). Only arbitrarily chosen aspects of competitiveness are considered, for example focus on price-cost competitiveness, no explicit definition of the notion of competitiveness. For example, according to Porter (1990), competitiveness could be treated as a synonym of productivity. This approach is very practical if we want to measure competitiveness but not very useful if want to understand the reasons or determinants of competitiveness. Porter is conscious of the limits of identifying competitiveness and productivity, and proposes and analyses a list of factors determining competitiveness.

This list contains four elements: factor conditions, demand conditions, supporting and related industries, and firm strategy. For Hamel and Prahalad (1990) the notion of competitiveness is connected with three categories: relative market position, sustainable competitive advantage and core competences of the firm. The very interesting contribution by Faulkner and Bowman (1995) makes a distinction between operational (e.g. technology, distribution) and systemic (e.g. value creation, innovation) competitiveness. In some books the category of competitiveness is largely discussed but not defined expressis verbis (Casson 1990; Casson et al. 1991).

Because of the above mentioned reasons, it is necessary to conduct further research in order to work out a holistic, multi-aspect concept of the competitiveness of an enterprise which would reflect the complexity of the behaviour of enterprises rivals on a competitive market.

A broad approach to enterprise competitiveness and competitive gap is presented in another paper (Gorynia 2002). Here we shall restrict ourselves to making the analytical scheme of competitive gap more concrete. The aim of the first part of this section is to suggest a possibly comprehensive approach to the problem of firm competitiveness. At the same time, this approach should include the most important aspects of the competitive behaviour of enterprises. As a result, it should be possible to suggest a way of evaluating firm competitiveness which would be free from the fragmentary nature and one-sidedness.

Formulating the concept of competitiveness, and later on, an analytical scheme to understand it, calls for the following distinction:

- competitiveness ex ante versus competitiveness ex post;
- competitiveness on the home market versus competitiveness on the foreign market.

Further on a way to operationalize the concept should be suggested which would facilitate the measurement of competitiveness of real enterprises.

The author assumes that differences in competitiveness between firms may be defined as a competitive gap.

The following terminology is suggested:

- competitiveness ex post is the current competitive position. The competitive position achieved is a result of the realised competitive strategy and competitive strategies of rivals;
- competitiveness ex ante is the prospective competitive position. It is defined, inter alia, by the enterprise's relative (i.e. with reference to its rivals' abilities) capability to compete in the future, namely through its competitive potential; in other words this is competitiveness that may possibly be achieved. The structure and use of competitive potential is described by a competitive strategy, planned or intended. Therefore, a firm's competitive strategy is an analytical category facilitating the transition from competitive potential, i.e. potential competitiveness (ex ante) to real competitiveness, i.e. realised (ex post). Competing strategies are used so that the firm could achieve possibly the best competitive position. If a firm wants to obtain the desired competitive position, it must have competitive advantage. Having competitive advantage is the sine qua non condition to achieve a good competitive position. Competitive advantage can be of cost-price and/or of qualitative (differential) character. Competitive advantage results from using a set of instruments of competi-

tion which are the elements of a competitive strategy. The instruments of competition include (Haffer 1999): product quality, price, distinctive nature of the products offered, flexibility in adjusting the products to the needs of customers, launching of new products onto the market more often than others, assuring potential customers an easy access to the products (a well-developed network of distribution, information, and the like), wide assortment, advertising, sales promotion, range of pre-sales services, range of after-sales services, prices of after-sales services, quality of after-sales services, terms and period of guarantee, firm's image, product brand, terms of payment, creating needs unknown so far.

In the light of the above-mentioned, for the needs of this paper it is necessary to define the concepts of competitive potential and competitive position. The competitive potential of an enterprise can have a narrow and broad meaning. In the narrow meaning of the term the competitive potential is all the resources used or available to be used by an enterprise (Grabowski 1994; Godziszewski 1999). Resources can be classified into three groups (Godziszewski 1999): primary resources, secondary resources, performance resources.

Primary resources are the entrepreneur's philosophy and the possibilities to gather in an enterprise the know-how and other resources. Secondary resources include: material factors of production (fixed assets, raw materials, semiproducts and exploitation means), human resources, innovations, distribution channels, enterprise organisation and information resources. Performance resources are understood as: image, particularly brand awareness, customer loyalty and customers' unwillingness to switch to other brands.

In a wider meaning of the term, the firm's competitive potential includes the following elements (Gorynia, Otta 1998): corporate culture, firm's resources, organisational structure, strategic vision of an enterprise and the process of creating strategy.

A very complex, detailed structure of competitiveness is suggested in the studies supervised by M.J. Stankiewicz (Godziszewski 1999, p. 79–82). Eleven functional-resource spheres and 91 elements constituting those spheres were differentiated within competitive potential.

The competitive position of an enterprise results from an assessment by the market, particularly by the buyers, of what the firm offers. The basic and synthetic measures of the competitive position of each enterprise are its share in the market and its financial situation. However, to quantify the competitive position one can use a wider set of the following measures: profitability (relative, i.e. compared with competitors from the same branch), cost level (relative), market share, features of a product or service compared with the features of products and services provided by competitors, awareness of the firm and its products' existence on the market, perception of the firm by the environment, customer loyalty, brand loyalty, costs of shifting to other suppliers, existence or likelihood of substitutes.

Attention should be paid to some similarity between the category of instruments of competition and the measures of competitive position – for example in both cases there appear definitions of product quality features and prices. In both cases, however, the content of those definitions is different. For example, product quality as an instrument of competition means making attempts to distinguish the product of a given firm to be distinctive from the rival products (functional or process aspect of the concept of quality dominates here). On the other hand, product quality as a measure of competitive position, means the obtained effect of the positive differentiation between a given product and the rivals' products the result aspect of the concept of quality dominates in this case.

For example, if by a competitive gap one understands the differences in competitiveness between Polish and German firms, then in the light of the above-mentioned terminology, the concept of competitive gap can also be understood in the ex post sense (gap as a difference in a competitive position) and in the ex ante sense (gap as a difference in competitive potential). Moreover, it is also sensible to differentiate between a competitive gap understood as a static competitive gap and a competitive gap in a dynamic approach, meaning the process of changes in the initial competitive gap, i.e. the sequence of the states of a dynamic competitive gap.

It is also important to differentiate between competition on the home market and competition on the foreign market. The fact that some manufacturer does not export his products does not mean that he cannot compete with foreign rivals. If his/her domestic market is an open market, there is an opportunity to compete with foreign rivals on the home market (competing with imports on the internal market). The differentiation between competing on the home market and on the foreign market is particularly important when shaping an economic policy as there arises a question whether exports should be supported with special means of economic policy or treated in the same way as the output meant for the home market.

In this paper, where it is justified, we shall differentiate between competition and competitiveness on the home market and on the foreign market and, respectively, between the competitive gap on the home market and the foreign market.

The considerations presented so far can serve as a starting point to concretise the analytical scheme of a competitive gap. Taking into account the previously established terminology, four aspects of a competitive gap can be distinguished:

1) competitive gap as differences between the current competitive position of a given firm and its rivals; detailed variables describing the competitive gap understood in this way are the above-mentioned measures of competitive position (market share, profitability, etc.) related to the actual situation,

2) competitive gap as differences between the future competitive position of a given firm and that of its rivals which is described by a similar set of measures of competitive position related to some moment in the future,
3) competitive gap as differences in the initial competitive potential; competitive potential is one of the measures for defining the competitive capabilities of a firm; it also defines the range of possible competitive strategies; moreover, we assume that the differences in the future competitive potential (related to some moment in the future) will be significant for competing capabilities in the period after that moment,
4) competitive gap as differences in a competing strategy within the considered period; a difference in the competing strategy can be reduced to differences in the instruments of competition.

For instance, when speaking about a competitive gap between Polish and German firms, in the context of Poland's accession to the European Union, one should simultaneously take into account four of the above-mentioned aspects of this gap. The measurement of this gap will have to include detailed variables (measures) relating to all four aspects. Formally the gap may be presented as a vector:

$$CG = \begin{bmatrix} DCCP \\ DFCC \\ DCCP' \\ DSC \end{bmatrix}$$

Where:
DCCP – differences in the current competitive position,
DFCC – differences in the future competitive position,
DCCP' – difference in the current competitive potential,
DCS – differences in the competing strategy.

The above-mentioned classification of the measures of competitiveness which are a tool to measure competitive gap corresponds with the concept of three aspects of competitiveness presented by Buckley, Pass and Prescott (1988). They differentiate three aspects of competitiveness or three groups of the measures of competitiveness:
- competitive performance,
- competitive potential,
- management process.

The above-mentioned "3 Ps" describe different stages of the competing process. A starting point is potential which is a kind of input or outlay in the competing process. Management process influences competitive potential which leads to certain effects of competition. Feedback occurs between the differentiated aspects of competitiveness. To a certain extent the competitive potential conditions the management process but, in turn, the management process influences the size and quality of the competitive potential. The results achieved are also conditioned by the size and quality of competitive potential and, moreover, they influence the management process.

In another study (Gorynia 2000) we used the concept of competitiveness and competitive gap including three dimensions: competitive position, competitive potential, competitive strategy. Each dimension has been described by a set of detailed variables: competitive position – 2 variables, competitive potential – 39 variables, instruments of competition – 15 variables.

Competitive gap as regards enterprises located in Ziemia Lubuska

Research concept and method, research sample

Studies on the competitiveness of 15 enterprises located in the area of Zielona Gora Province were carried out at the beginning of 2002.

The research covered the following aspects of the competitiveness of the studied firms: export and import activity, market attractiveness and competitive capabilities. The reason for using specific and rather limited concept of competitiveness was the very limited period of time to carry out the research and the lack of financial resources. An additional argument was the fact that the managers were not willing to be involved in long, time consuming interviews.

The research was based on the following assumptions:

1) studies were carried out by means of a direct interview method – trained interviewers (candidates for a PhD degree) conducted interviews according to a previously worked out questionnaire with top management representatives of the firms involved (one representative from each of the analysed enterprises),
2) studies consisted of collecting quantitative data and obtaining opinions (assessment) of the managers as regards the problems included in the questionnaire,
3) studies covered enterprises from different branches of manufacturing industry,
4) studies concerned the enterprises registered in the Lubuskie Province, regardless of the origin of their capital,
5) studies included above all medium-size and large enterprises (a criterion of employment exceeding 50 workers was used),
6) the main criterion of selection of the enterprises (apart from size of the firm and sector of manufacturing industry) was their willingness to cooperate.

Keeping in mind experiences from previous studies, the measurement of competitive gap was reduced to the determination of competitive potential.

At the beginning, thanks to cooperation with the Provincial Statistical Office in Zielona Gora, the population of enterprises employing above 50 workers was determined. According to data from the end of the year 2000 this population included about 300 units. Out of this group (on the basis of intentional selection) about 70 enterprises belonging to several branches were chosen. Those enterprises seemed to play a significant role in the exports of the region. Having checked whether the chosen firms really conducted export activities, the authors made a list of about 50 firms which were asked to participate in the project. The request received a positive response from 15 firms whose representatives agreed to be interviewed and to fill in the questionnaire.

Enterprises of different legal status participated in the survey: 6 limited liability companies, 4 joint stock companies, 1 civil association, 1 self-employed person and 3 state-owned enterprises. Out of the studied enterprises only two were firms with a share of foreign capital – in both cases this share amounted to 100%. One of them was a company with a 100% – share of German capital. The remaining part was firms with exclusively Polish capital.

The number of employees in the studied firms was as follows:

- up to 50 – 3 firms,
- 50–100 – 5 firms,
- 101–500 – 6 firms,
- over 500 – 1 firm.

Table 1 presents the industries to which the enterprises from the research sample belonged. The enterprises participating in the survey belonged to 8 sectors of the European Classification of Activity. The biggest number of sectors included manufacturing of machinery and equipment and a widely understood manufacturing of wood products.

Table 1. Industry structure of the research sample

Type of activity	ECA sector	Number of responses
Manufacturing of fabrics	17	1
Manufacturing of clothes and furriery	18	1
Production of wood, wood-related products, straw and wicker goods	20	5
Other goods manufactured from non-metallic raw materials	26	1
Manufacturing of machinery and equipment	29	5
Manufacturing of furniture and the remaining production activity	36	2

Source: The author's own studies.

As regards the financial situation of the studied enterprises, it should be underlined that only 5 firms had positive financial results in the year 2001; in the remaining enterprises those results were negative.

Results of the studies

Below we present some tables showing the most important aspects of the competitiveness of the analysed firms. We start with data describing the export and import activity of firms. The dynamics of exports are an important measure characterising ex post competitiveness. Later on we present the results of the evaluation of market attractiveness for the studied enterprises. Market attractiveness is seen as an important element of the strategic position of the analysed firms. Finally, the data concerning evaluation of the competitive capabilities of analysed enterprises are specified. These data describe the capabilities to compete with rivals on the markets taken under consideration. We defined competitive capabilities as the mixture of selected elements of competitive potential and competitive strategy in the sense presented in section 2.

Characteristics of export and import activity of the studied firms

Table 2 presents changes in the total value of sales in the analysed enterprises. On balance the average value of sales in the studied period declined.

Table 2. Total value of sales (in thousand PLN – current prices)

Specification	1997	1998	1999	2000	2001
Number of responses	10	10	13	15	15
Arithmetic mean arithmetic value	14263	15422	14497	13994	13598
Standard deviation	17663	18795	18531	19368	20677

Source: The author's own studies.

However, it should be pointed out that a different number of firms was analysed in particular years which was a direct reason for fluctuations in the mean value of sales.

Table 3 presents the values of total exports in the studied firms. As regards exports, the situation looked similar to that in total sales – the mean value decreased but the value of standard deviation significantly increased, which means a greater diversification within the studied population.

Throughout the analysed period the main export market (due to the number of indications) was the German market where almost all firms exported their products. The second export market was the Netherlands, followed by Belgium and France.

Table 4 shows the value of exports to the German market. The mean values of exports and standard deviations increased in particular years. It should be noted that in the year 2001 the number of firms exporting to Germany decreased by 2 as compared with the previous year.

Table 3. Total value of exports (in thousand PLN – current prices)

Specification	1997	1998	1999	2000	2001
Number of responses	8	8	13	14	13
Arithmetic mean	4945	5613	5893	6412	4795
Standard deviation	6692	8857	9847	11797	12365
3 main markets	Germany	Germany	Germany	Germany	Germany
	Holland	Holland	Holland	France	Holland
	Belgium	Belgium	France	Holland	France

Source: The author's own studies.

Table 4. Value of exports to the German market (in thousand PLN – current prices)

Specification	1997	1998	1999	2000	2001
Number of responses	9	9	13	14	12
Arithmetic mean arithmetic value	3362	3746	3488	4011	4634
Standard deviation	5015	6832	7454	9951	12365

Source: The author's own studies.

Table 5 presents the value of exports directed to recipients located in Brandenburg region. The population of enterprises from Ziemia Lubuska exporting to Brandenburg region was stable. As regards the mean value of exports, there occurred significant fluctuations in subsequent years.

Table 5. Value of exports to recipients located in Brandenburg region (in thousand PLN – current prices)

Specification	1997	1998	1999	2000	2001
Number of responses	4	4	4	5	4
Arithmetic mean	250	714	1000	678	483
Standard deviation	181	716	1326	1105	727

Source: The author's own studies.

Evaluation of market attractiveness for the studied enterprises

Whether the market is attractive for a firm or not is decided, inter alia, by the number of competitors operating on that market. Data related to this problem are presented in Table 6. Generally, the respondents are of the opinion that there is a high concentration of supply – the number of indications informing that on a given market the number of competitors did not exceed 5 was relatively high.

Table 6. Number of manufacturers – competitors on the main markets of an enterprise

Specification	Number of responses	Up to 5 (including)	6–20	21–100	Above 100
Home market	14	7	1	5	1
Union market	14	3	4	3	4
Including German market	14	6	5	2	1
Including Brandenburg region	10	6	2	1	1

Source: The author's own studies.

The enterprises were also asked to evaluate the attractiveness of the markets where they operate according to 4 criteria. Four equally important categories of the factors of attractiveness were determined:

- dynamics of demand on a given market,
- intensity of competition on a given market,
- threats posed by new entries and substitutes,
- threats posed by disasters (technological breakdown, political unrest, and the like).

A seven-degree scale of assessment was used for all the above-mentioned factors of attractiveness (appendix 1).

Table 7. Market attractiveness

Market	Dynamics of demand			Intensity of competition			Threat of new entries			Threat of disaster			General average attractiveness
	NR	AM	SD	NR	AM	SD	NR	AM	SD	NR	AM	SD	
Home market	14	2.57	2.03	15	2.27	1.75	14	2.50	1.34	15	2.40	1.45	2.43
Union market	13	3.23	1.36	14	2.00	1.36	14	3.00	1.47	14	2.57	0.94	2.70
Including German market	14	3.43	1.40	15	1.93	1.33	15	3.07	1.44	15	2.60	0.99	2.76
Including Brandenburg region	7	3.43	1.62	9	2.56	1.81	9	2.89	1.83	9	3.11	0.60	3.00

NR – Number of Responses; MA – Arithmetic Mean; SD – Standard Deviation.

Source: The author's own studies.

Table 7 presents an evaluation of market attractiveness. The Table shows that differences in the evaluation of attractiveness of particular markets are not very big as, on the scale 0–6, the interval amounts to 0.57. It is worth mentioning that the home market received the lowest grade in the evaluation of attractiveness – this may indicate export expansion, although it should be remembered that market attractiveness understood in the above-mentioned way is not the only criterion of selecting sales direction (another factor taken into account is, for example the rate of exchange). It should also be underlined that with such criteria of attractiveness, the highest attractiveness was attributed to the market of Brandenburg region.

Evaluation of competitive potential of enterprises

Another set of questions to be studied was connected with the competitive potential of the firms-respondents. The questions concerned the use of production resources, possibilities of financing growth, share of new products in the sales and assessment of the differentiated measures of competitive potential.

Table 8 presents data concerning capacity utilisation of enterprises. The data referring to this element of the competitive potential are not optimistic. In the analysed period capacity utilisation was steadily declining. This gave rise to some negative consequences for cost-price competitiveness. The lower capacity utilisation means the loss of advantages of scale and inevitably leads to increased manufacturing costs per unit (ceteris paribus).

Table 8. Capacity utilisation

Year	Number of responses	Mean	Standard deviation
1997	11	81.8	9.60
1998	11	77.6	14.29
1999	14	78.4	14.61
2000	15	72.5	18.73
2001	15	71.6	18.04

Source: The author's own studies.

Table 9 shows the opinions of the studied firms as regards the possibilities of financing their growth. The data indicate clearly a negative tendency in this sphere – according to the respondents the possibilities of financing growth were steadily decreasing. On average those possibilities were assessed as less than small.

In the studied enterprises the range of products considered from the viewpoint of the share of new and modernised products in sales was narrower in the years 1997–2000 which is convergent with a commonly shared opinion that the level of innovation in Polish enterprises decreased (see Table 10). A rapid growth of this indicator in 2001 does not contradict the above-mentioned opinion – the growth resulted from a radical improvement of the situation in 2 of the analysed enterprises while in the remaining firms no meaningful changes occurred. However, there is some optimism in the fact that the desired state significantly differs from the existing situation – this means that the respondents realise how important it is to keep on introducing new products.

Table 9. Possibilities of financing growth

Year	Number of responses	Mean	Standard deviation
1997	12	2.08	0.90
1998	12	1.83	0.94
1999	13	1.69	0.63
2000	15	1.33	0.62
2001	15	0.87	0.83

Scale: 0 – none, 1 – small, 2 – average, 3 – large.

Source: The author's own studies.

Table 11 shows the responses to the question concerning competitive capabilities (understood as a mixture of selected elements of competitive potential and competitive strategy) of the studied enterprises. This question consisted of two parts:

- first a list of 15 possible factors of competitive success was presented and the respondents were asked to evaluate the significance (weight) of these factors in the competitive game played by the enterprises,
- next the respondents were asked to evaluate the competitive capabilities of their enterprises, taking into account the suggested factors.

Table 10. New and modernised products (% of sales)

Year	Number of responses	Mean	Standard deviation
1997	7	12.14	10.64
1998	8	12.75	13.63
1999	10	8.59	8.54
2000	11	8.55	10.25
2001	12	21.95	28.35
Desired state	7	33.57	31.36

Source: The author's own studies.

The greatest weight was attributed to the following factors: reputation, product quality, terms of payment and quality of managerial staff.

The lowest importance was attached to: packaging, research and development.

It is surprising that research and development ranked so low, especially as is answering the question about the role of new and modernised products the respondents declared that it was necessary to increase their share considerably. How could it be possible without attaching more importance to research and development? At the same time it should be underlined that the results concerning the importance of research and development are convergent with those obtained from previous studies on other samples of enterprises (Gorynia 2000, p. 68; Gorynia 2002, p. 121–127).

The studied enterprises decided that their strengths (as compared with competitors on the home market) are: reputation of the firm, quality of managerial staff, complexity of an offer and product quality. Weaknesses of those enterprises on the home market are: keeping up with the demands of fashion, financial possibilities and outlays for research and development.

The assessment of competitive capabilities of the studied firms as regards the Union's market, the German market and the Brandenburg region market was similar. The firms are of the opinion that their biggest strengths when competing on those markets are promptness of deliveries and good reputation. Simultaneously, it is underlined that the weakest sides of their activity on those markets are: research and development and small financial possibilities. Worth mentioning is the fact that as in the case of the significance of competitiveness factors, the results obtained are convergent with those of other studies (Gorynia 2000, p. 168, Gorynia 2002, p. 121–127).

Conclusions for the strategy of enterprises

Basic practical conclusions resulting from the studies concern the necessity to improve the strategic position of the analysed firms. The strategic position consists of the attractiveness of the markets on which the firms operate and of the competence of those firms in the field competitive potential. Assuming that the possibilities to change the markets are rather limited, the improvement of strategic position should be oriented, above all, towards elimination of limitations which reduce the competitiveness of the studied firms in connection with their insufficient competitive potential. The studies made it possible to formulate some propositions about the competitive potential of enterprises. These propositions cover four groups of problems:

- degree of capacity utilisation of enterprises (see table 8, section 3),
- possibilities of financing the growth of enterprises (see table 9, section 3),
- share of new and modernised products in sales (see table 10, section 3),
- particular factors of competitive potential (see table 11, section 3).

An effort to raise the low and decreasing degree of capacity utilisation should be a priority – only then will it be possible to gain advantages of scale. In this sense accession to the European Union should be a factor which can increase the possibilities of implementing such a strategy. Should this prove an impossibility, then an alternative solution would be the adaptation of productive capacities (volume and structure of the resources owned) to the real sales possibilities. Excessive "organisational gap" is too big threat for the firms' effectiveness.

The very small possibilities of financing the growth of the studied enterprises will be at least partially increased if the above-mentioned problem of the low degree of capacity utilisation is solved. Chances for improvement in this field should also be seen in the functioning of the credit market in Poland – lower inflation will result in a lower interest rate on credits. Another possible solution is wider contacts with foreign partners as regards cooperation and capital.

As far as modernisation of the range of products is concerned, a positive phenomenon is the opinion that the share of new and modernised products in the structure of sales should be considerably increased. Simultaneously, however, such a factor of competitive potential as research and development was attributed a relatively low weight (the respondents are of the opinion that this is not a particularly important factor for the competitiveness of their firms); moreover, as was estimated, in this respect the position of the studied firms against their competitors is not very strong.

One can only assume that a solution to the above-mentioned contradiction could be obtaining newer technologies of production through purchasing licences or through establishing a strategic alliance with stronger partners. This problem requires further studies.

As regards particular factors of competitive potential included in the study, it may be surprising that for the major part of those factors in all four categories of the analysed markets, self-assessment was on average high – perhaps too high. Average marks above 3 points mean that the studied firms are better in some respects than their average competitors. Such marks prevail. However, most of the studied firms have negative financial results. Perhaps the respondents think that the reasons for the lack of financial success lie beyond their firms (whose competitive potential is good) and can be found in the sphere of economic policy (interest rate, exchange rate, and the like). In our opinion, if the above hypothesis proved to be true it would be rather pessimistic – in a way it illustrates a state of self-complacency which hinders the search for effectiveness reserves within the firms and blames external factors.

It should be underlined that aggregated (covering a defined population of enterprises) studies on the competitive position and competitive gap are merely a starting point for normative recommendations addressed to individual, concrete enterprises. While making general conclusions, and the more so formulating general recommendations for the enterprises, attention should be paid to their specific individual situation and strategic identity. Inter-sector, sector and branch studies should be followed by precise, individualised studies of competitiveness tailored to the needs of particular enterprises.

Table 11. Instruments of competition

Factor	Weight of factor			Mark											
				Home			Union's			German			Brandenburg Region		
	NR	AM	SD	NR	AM	SD	NR	AM	SD	NR	AM	SD	NR	AM	SD
1. Price	15	4.67	1.35	12	4.00	1.21	13	3.92	1.19	13	4.00	1.22	9	4.22	1.39
2. Quality	15	4.80	1.32	12	4.17	1.19	13	4.23	1.36	13	3.92	1.38	9	4.22	1.56
3. Modern character	14	4.14	1.10	11	3.73	1.19	12	3.58	1.16	12	3.50	1.24	8	3.88	1.36
4. Fashion	13	3.54	1.85	9	3.00	1.00	10	3.20	1.32	10	3.10	1.37	8	3.50	1.77
5. Complexity of offer	14	4.57	1.16	11	4.18	1.17	12	3.92	1.31	12	3.83	1.40	8	4.25	1.75
6. Packaging	13	2.00	1.35	9	3.33	0.50	10	3.40	0.70	10	3.30	0.82	8	3.50	1.20
7. Promptness of deliveries	14	4.71	0.73	11	4.18	0.98	12	4.33	0.89	12	4.25	1.14	8	4.88	1.13
8. Terms of payment	15	4.80	1.01	12	3.75	1.36	13	3.62	1.19	13	3.69	1.25	9	3.67	1.58
9. Technology of production	14	4.36	1.08	11	3.91	0.83	12	3.92	0.90	12	3.92	0.90	8	4.25	1.28
10. Quality of managerial staff	14	4.79	0.89	11	4.18	0.60	12	3.92	0.79	12	3.92	0.79	8	4.25	1.04
11. Quality of marketing personnel	14	3.86	1.83	11	3.91	0.94	12	3.58	1.24	12	3.58	1.24	9	3.78	1.56
12. Research and Development	13	3.31	2.14	10	3.30	1.34	11	2.82	1.66	11	2.45	1.29	8	2.88	1.81
13. Reputation of enterprise	14	4.93	1.14	11	4.45	0.93	12	4.17	1.03	12	4.17	1.03	9	4.67	1.00
14. Financial possibilities	15	4.67	1.18	12	3.25	0.75	12	2.92	1.16	12	2.92	1.16	8	3.25	1.49
15. Access to distribution channels	13	4.23	1.92	9	4.00	1.12	10	3.60	1.65	10	3.90	1.45	8	4.38	1.69

Scale of possibilites: 0 – we have no chances; 1 – we have very small chances; 2 – we have small chances; 3 – our competitiveness is average; 4 – we are more than competitive; 5 – we are very competitive; 6 – competitors have no chances.

Weight of factor: 0 – insignificant; 1 – very small significance; 2 – small significance; 3 – average significance; 4 – considerable significance; 5 – great significance; 6 – immense significance.

Appendix 1.

The subsequent degrees in the scale used were: dynamics of demand:

0 – a decrease by more than 5% yearly (in real terms)
1 – a decrease by 2–5%
2 – a decrease up to 2%
3 – stabilisation
4 – increase up to 2%
5 – increase by 2–5%
6 – increase by more than 5%

intensity of competition:

0 – immense
1 – very high
2 – high
3 – average
4 – small
5 – very small
6 – insignificant

threat posed by new entries:

1 – no barriers to entry
2 – very low barriers
3 – low barriers
4 – average barriers
5 – high barriers
6 – very high barriers
7 – insurmountable barriers

threat posed by disaster:

1 – immense
2 – very large
3 – large
4 – average
5 – small
6 – very small
7 – insignificant

Thus, the synthetic scale of evaluation of attractiveness covers seven degrees which denote:

0. negligible attractiveness (real decline in demand per year – above 5%, immense intensity of competition, no barriers to entry, immense threat of disaster),
1. very small attractiveness (decline in demand: 2–5%, very high intensity of competitiveness, very low barriers to entry, very large threat of disaster),

2. small attractiveness (decline in demand – up to 20%, high intensity of competitiveness, low barriers to entry, large threat of disaster),
3. average attractiveness (stabilised demand, average intensity of competition, average barriers to entry, average threat of disaster),
4. high attractiveness (increase in demand up to 20%, low intensity of competition, high barriers to entry, low threat of disaster),
5. very high attractiveness (increase of demand: 2–5%, very low intensity of competition, very high barriers to entry, very small threat of disaster),
6. super attractiveness (increase of demand exceeding 5%, no competition, insurmountable barriers to entry, zero probability of disaster).

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13

Cooperation strategies of Polish companies as a response to foreign investors' expansion into the Polish market

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Abstract: The issue of a company's expansion into foreign markets is extensively discussed in specialist literature. What deserves more attention, however, is the perspective of the discourse. The problems of internationalisation at the microeconomic level are usually discussed from the viewpoint of a company which is actively internationalising its activity, while issues directly concerning host-country companies (which face the consequences of such an "invasion") stay in the background. In the present paper, theoretical discussion is exemplified with the results of empirical research conducted in 2004 among 77 Polish companies. The paper focuses primarily on the forms of cooperation between Polish and foreign companies – those which have subsidiaries or branches in the Polish market as well as those which are getting into the market through other forms of internationalisation.

Keywords: cooperation, foreign direct investments, firm strategy, competitiveness, Poland.

JEL codes: D2, F2.

Introduction

The problems of internationalisation at the microeconomic level are usually discussed from the viewpoint of a company which is actively internationalising its activity, while issues directly concerning host-country companies (which face the consequences of such an "invasion") stay in the background. This is why the authors of the paper first briefly present the strategies which are available to local firms confronting foreign investors' expansion; then they focus on cooperation and its place in the strategy typologies presented.

There is no doubt that foreign companies' entry into the Polish market is viewed by domestic companies with trepidation because of the entrants' greater competitiveness, irrespective of whether the anxiety is justified or not. The threat posed by foreign competition is caused by the following factors, which are perceived either separately or in combination:

- Considerable economic strength resulting from the size and (often global) scale of operations, which far exceed the potential of even the biggest domestic competitors and lead to behaviour in the local market that is typical of an oligopoly or monopoly.
- Advantage arising from the possession of and an internalised access to better products and technologies, a better know-how in management systems and marketing, as well as the skills (inherent in transnational companies) of operating effectively and flexibly in many national markets and their environments.
- Domestic companies' general lack of experience of competing aggressively within a market-economy system. In addition, the need to change the attitude and mentality of Polish management personnel and labour force only increases the negative influence of this factor. Since this process, from the psychological and sociological perspective, comes up against formidable perceptual and cognitive barriers, its time span should be medium-term rather than short-term. This is particularly true of existing state-owned companies (including those "commercialised").

The nature of factors threatening the competitive position of local firms seems to suggest that cooperation is an appropriate strategy in the face of foreign investors' expansion and that the cooperation with other Polish companies could be the right strategy in the face of foreign rivals' invasion into the Polish market. In the present paper, theoretical discussion is exemplified with the results of empirical research conducted in 2004 among 77 Polish companies. The paper focuses primarily on the forms of cooperation between Polish and foreign companies – those which have subsidiaries or branches in the Polish market as well as those which are getting into the market through other forms of internationalisation.

Cooperation as one of local companies' strategies towards foreign investors' expansion

Local companies' response to foreign investors' expansion can be analysed using various criteria. In the authors' opinion, the following strategy typologies should facilitate this analysis:

- Dichtl and Issing's strategy classification according to the attitude to competition,
- Dawar and Frost's matrix of local companies' strategies,
- Gorynia and Wolniak's typology of local companies' behaviour,
- Cooper's concept of logistics strategies for global business.

Dichtl and Issing strategy classification according to the attitude to competition

Every company pursues some strategy towards its competitors. The strategy classification presented here does not differentiate between foreign rivals and domestic competitors, but naturally, the strategy types listed here can in particular cases refer to foreign competitors. The classification is universal in character in that the strategy types can refer both to foreign firms' expansion into the Polish market and to the local firms affected by this expansion.

Table 1. Dichtl and Issing typology of strategies

Strategy type	Description	Target company	Advantages	Disadvantages
Battle strategy	Trying to dominate market rivals – improving the competitive position or maintaining the present position (then reaching agreement with rivals)	Companies with a great competitive potential, operating in an attractive market	Opportunity to gain a leading position	High costs
Imitation strategy	Imitating selected activities of competitors (creative imitation, early imitation, flexible adaptation, imitation to order, late imitation)	Companies with a limited competitive potential, but operating in attractive industries	Reducing risk and marketing research costs. Learning from the best	Losing one's identity in the market
Market-gap strategy	Two types of market-gap strategies: imitation type - entering the segments left by innovating companies which have shifted their interest to the production of more innovative goods. The second type - innovative strategies – looking for, or even helping to create, new customer needs	Companies operating in a market with some opportunities, but having too limited resources to be competitive in it	Survival in the market place as a result of establishing a safe/ protected position in a market niche	The niche selected may turn out to be unprofitable
Strategy of withdrawal from the market	Harvest, disinvestment, leaving the industry	Companies operating in unattractive markets and having a limited competitive potential	Opportunity to recover the investment outlay – sale of the company	Closure of the business

Source: Own study, on the basis of Dichtl, Issing, 1984.

Table 1 presents the Dichtl and Issing classification (1984) of major competition strategies according to the way other firms are treated.

Dawar and Frost typology of strategies

The classification of local company strategies proposed by Dawar and Frost has diagnostic, prognostic and application qualities – on its basis one can develop specific strategies for companies.

Local firms can choose from several possible strategies towards international corporations' expansion into their markets. Dawar and Frost (1999) put forward a matrix of options available to a local firm considering ways of responding to international giants' expansion into its home market. According to Dawar and Frost, a local firm's response to the expansion of international corporations which are strong in terms of resources and expertise depends on the relationship between two variables:

- globalisation pressure within a given industry,
- suitability of the company's resources for international transfer.

Figure 1 presents four possible strategies.

Figure 1. Competitive position of local firms in countries undergoing economic transformation

Pressure for sector globalisation	Locally adjusted	Transferred abroad
Strong	**DODGER** – focuses on the local orientation of value-chain links – sets up a joint venture with the foreign company (MNC) – sells assets to the foreign company	**RIVAL** – focuses on improving its resources and potential in order to equal the global firm, often by operating in a global-market niche
Weak	**DEFENDER** – focuses on the strengthening of competitive advantages in those market segments where the foreign company is weak	**BUILDER** – develops its operation in foreign markets which are similar to the domestic one and exploits its competitive advantages there

Local company's competitive advantages

Source: Dawar, Frost (1999, p. 122).

On closer examination of the four types of strategy, it can be noticed that cooperative behaviour on the part of local companies is typical of the dodger strategy. Since a strong globalisation pressure and the local nature of resources prevent the development of a strategy restricted to the exploitation of these resources, the local company can choose to establish cooperation with an international corporation (i.e. sell the business) or to expand and achieve excellence in those value-chain links where it has a competitive advantage over international corporations which are entering its home market. An effective exploitation of the first option means that the company continues to exist, albeit in a different organisational system and sometimes under a different brand. In such a case, however, the company's activity does not stop. The other option involves selecting the local company's value-chain link or links where the company has, or can have, a competitive advantage based on its local resources. A common example of this is having a distribution or servicing network suitable for local needs. A third, supplementary, strategic option is to pursue a strategy of providing goods complementary to international corporations' offer or adapting goods to local tastes. Still another conceivable strategy for the local company is to start making components for a product manufactured by an international corporation. Each of these strategic options suggests that the local firm cooperates with foreign companies in certain areas.

Gorynia and Wolniak typology of local companies' behaviour

The results of research into Polish firms' behaviour in the face of foreign companies' entry into the Polish market have been used to develop another typology of local companies' strategies towards foreign investors' expansion. Gorynia and Wolniak (2000) suggest that in the case of Polish companies one can identify four dominant types of strategic behaviour.

Table 2. Types of local companies' behaviour according to Gorynia and Wolniak

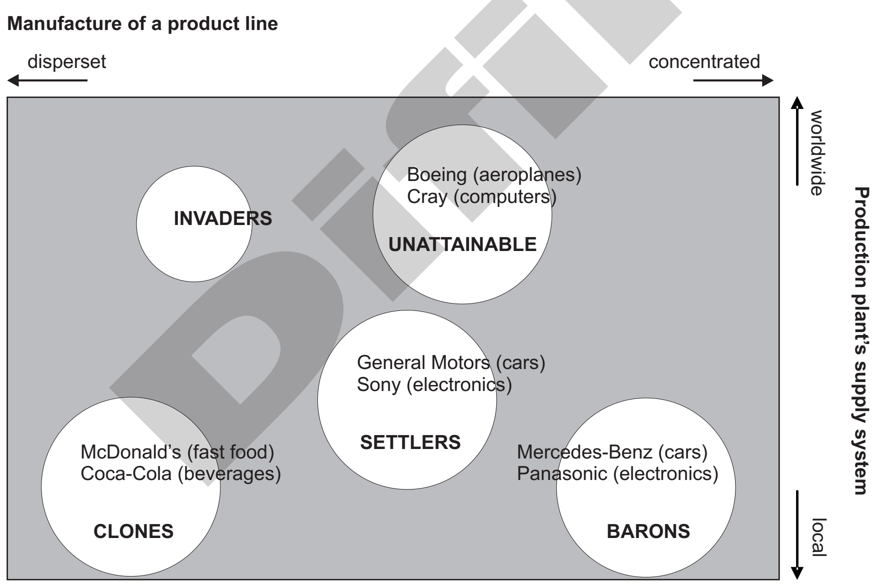
Strategy type	Target companies/Description
"National leader"	Companies operating in industries with an oligopolistic market structure (involving domestic companies) or in industries experiencing consolidations and mergers which lead to the creation of holding companies and/or strategic alliances
Aggressive defence	Aggressive battle for market share. Strategy components – improving the quality of products and services, changing domestic companies' marketing strategy in order to meet foreign competitors' standards
Cooperation (local cooperator)	Rule of conduct – when you are not able to compete effectively with foreign companies, join them, even if you keep a minority stake and play a marginal role in the company's management, or play the role of only a passive co-owner. Variants: 1. acquiring/purchasing the domestic company; 2. setting up a joint venture between the foreign firm and the Polish one, where the Polish company keeps a minority stake; 3. cooperating with foreign competitors by entering into contracts similar to alliances and coalitions rather than mergers and joint ventures
Lobbying and building non-market barriers to entry (local lobbyist)	Competition strategy of preventing foreign companies from entering the Polish market or restricting their freedom to operate in this market for as long as possible. The strategy consists in trying to exert direct or indirect pressure (through political parties and other pressure groups) in order to create new or keep the existing tariff and non-tariff barriers

Source: *Own study, on the basis of Gorynia*, Wolniak (2000).

Cooper's concept of logistics strategies for global business – the influence of international corporations' behaviour on local companies' strategies

A very important aspect of strategies adopted by local companies has been emphasised by Cooper (1993). He examines the issue of local companies' strategies from the angle of their possible participation in global supply chains, whose architects and leaders are firms pursuing global strategies. In Cooper's view, the role of local companies depends to a large extent on the way international corporations organise their production and supply systems. The options which seem available are presented in Figure 2.

Figure 2. Variants of logistics strategies for global business according to Cooper – the influence of international corporations' behaviour on local companies' strategies



Source: Cooper (1993).

Using the two criteria above, one can distinguish five types of international companies' behaviour (Table 3).

Table 3. Variants of logistics strategies for global business according to Cooper – the influence of international corporations' behaviour on local companies' strategies

Type of international corporation's (MNC's) strategy	Manufacture/Sale of a product line	Production plant's supply system	Role of local companies - local companies' strategy direction
INVADERS	dispersed/ dispersed	Worldwide	Limited role of local companies, e.g. car industry – dealers – car dealerships, providing repair, forwarding and transport services
SETTLERS	concentrated/ dispersed	Partly from abroad, partly local	Limited role of local companies – local businesses – suppliers of some components and materials for production
CLONES	dispersed/ concentrated	Concentrated	Significant role of local companies – relying on local suppliers
UNATTAINABLE	concentrated/ dispersed	Dispersed	Limited role of local companies. Local companies – suppliers of some components and materials for production; rigorous selection criteria for local firms as suppliers
BARONS	concentrated/ dispersed	Concentrated	Non-existent or extremely limited role of local companies. Local firms used as suppliers very occasionally

Source: Own study, on the basis of Cooper (1993).

Table presenting the types of local companies' behaviour in the face of foreign investors' expansion and relations within the industry being invaded

Using the conclusions formed by Dichtl and Issing, Dawar and Frost, Gorynia and Wolniak, it is possible to make an attempt to identify the connection between the strategy typologies put forward by these researchers, which would facilitate the classification of local businesses' actual behaviour towards foreign investors' entry and further expansion (Table 4).

The analysis of strategic options presented in Table 4 points to the conclusion that a cooperation strategy, which the present authors perceive as a strategic solution suitable for local companies facing foreign companies' invasion, can take various forms. It can also be named/characterised in various ways, depending on the factors which are considered the key determinants of the strategy's shape (Table 5).

However, in the Table presenting local companies' behaviour (Table 4) it is difficult to locate strategies which those firms could pursue using Cooper's conclusions. This is why this typology has been omitted. Considering the nature of particular strategic options selected by international corporations and the role local companies have to play depending on international companies' behaviour (Table 3), the local firm may see its place in the market as an international company's co-operator. The situation most conducive to the local business's cooperation with an international corporation is when the latter is pursuing the strategy referred to as "clones", then "settlers", "invaders", "inaccessible" and "barons" at the very end.

Table 4. Connection between strategy typologies and competitive relations within an industry

Type of the local company's behaviour/ type of relations within the industry	Dichtl and Issing typology	Dawar and Frost typology	Gorynia and Wolniak typology
Battle/ Confrontational relations	Battle strategy	Rival Defender Builder	National leader Aggressive defender
	Imitation strategy		
Cooperation/ Cooperative relations	Imitation strategy	Dodger	Local co-operator
	Cooperation strategy		
Evasion/ Evasive relations	Market-gap strategy	Builder	Local lobbyist
	Withdrawal		

Source: Own study.

Table 5. Potential forms of cooperation strategy of local companies

Key determinants	Form of cooperation strategy
Attitude towards competition	Capital and non-capital cooperation Imitation to order
Globalisation pressure within a given industry, suitability of the company's resources for international transfer	Dodger
Strength of competitive potential, attractiveness of the industry	Local co-operator

Source: Own study.

Cooperation as Polish firms' strategy towards foreign companies' invasion – results of empirical research

Methodology and study sample

Empirical research into Polish companies' cooperation strategies in the face of foreign investors' expansion was conducted in the first half of 2004 among Polish companies of the food, construction and automotive industries. The majority of the firms under study are based in the provinces of Wielkopolska, Zachodniopomorskie and Pomorskie. The main selection criteria for the sample were the origin of capital, which was crucial for the accomplishment of the goal set, and the willingness to participate in the research (this determines also the method of sample selection). What was most important was selecting those companies which had existed in the Polish market before foreign competitors' entry, and which were forced to adopt some strategy towards foreign rivals.

It was essential that the industries selected for the research should be those with significant foreign capital and with Polish firms displaying fairly typical strategic behaviour towards companies with foreign capital. The targeted selection of companies used in the research consisted in a relatively subjective choice of subjects for the sample in order to ensure that the data obtained was as comprehensive as possible. The method of sample selection has implications for the interpretation of research results. The sample size (77 firms) and selection method show that the representativeness of the sample is low. Hence, the research results cannot be generalised for the whole population – they illustrate only the situation of the companies under study.

Since the sample consists of companies represented by senior managers (subjects of the research), the study involved using the individual in-depth interview method, with the use of a questionnaire as a basic research tool during the interview.

The research covered 77 companies whose representatives (owners, chairmen, department heads) agreed to answer the questions. The largest groups were those consisting of construction-sector (40.26%), food-sector (31.17%) and automotive--sector (28.57%) companies. In terms of employment, the majority of the sample is small and medium-sized companies. Each of the industries is dominated by companies employing up to 100 people; these account for 54.54% of all the firms examined. The largest percentage of the sample (85.71%) constitutes private companies with no public capital. The majority of the companies are Polish firms with a 100% stake of Polish capital in the ownership structure.

Cooperation as a relationship-competition strategy of Polish companies

Cooperation as one of the options available to local firms involves collaborating with one's competitors. Foreign companies' expansion into particular industries may increase cooperation, but it should be emphasised that local companies' attitude to cooperation may vary according to the background of the other player – a potential co-operator. It does matter, therefore, whether we are dealing with a potential co-operator (another local firm or a foreign company having a branch office or subsidiary in the Polish market) or with a foreign business with no such representation. As for the industries surveyed, the research results indicate that before the appearance of foreign investors food and automotive companies preferred competition, whereas construction firms combined competition with cooperation. A comprehensive analysis of the results (see Table 6) leads to similar conclusions.

Table 6. Relations in industries before foreign investors' entry

Relations in the industry – before foreing investors appeared	Food		Construction		Automotive		Total number of subject	
	NR	%	NR	%	NR	%	NR	%
Cooperation	5	2.08	2	6.45	4	18.18	11	14.29
Competition	8	33.30	9	29.03	12	54.54	31	40.26
Evasion	2	8.33	0	0.00	1	4.54	3	9.68
Cooperation and competition	6	25.00	13	41.94	3	13.64	22	28.57
Cooperation and evasion	2	8.33	0	0.00	2	9.09	4	5.19
Cooperation, competition and evasion	1	4.16	6	19.35	0	0.00	7	22.58
No answer	0	0	1	3.22	0	0.00	1	1.30

NR – number of responses

Source: Own study, on the basis of a questionnaire.

At present, in each of the industries under study one can find cooperative, confrontational and evasive relations (see Table 7). Cooperation is established first of all with other Polish firms; competition takes place between companies irrespective of the rival's "nationality"; both Polish and foreign companies are looking for market niches, thus evading confrontation with their competitors. If we examine the research results for particular industries, we will notice the interesting nature of cooperation in the food and automotive industries. Companies of the former sector do not establish cooperative relations, while those of the latter just the opposite: they build up cooperation with other companies within the industry irrespective of their "nationality". Such an attitude is conducive to the industry's development because although cooperation with a foreign partner involves the risk of losing one's identity, it creates a good opportunity to acquire key skills and learn from the co-operator. On the other hand, the behaviour of Polish food companies seems to be a reaction to numerous acquisitions by foreign investors. Such a form of foreign companies' entry is often unwelcome by the domestic capital, so the anti-cooperative attitude may be a response to foreign companies' expansion in the form of takeovers. Lack of cooperation with Polish firms may be caused by fears that the company's strategic advantages will be exploited by the partner.

Table 7. Predominant type of relations in industries

Predominant type of relations within the industry		Food		Construction		Automotive		Total number of subject	
		NR	%	NR	%	NR	%	NR	%
Polish companies establish co-operation:	With others of the same industry, irrespective of “nationality”	4	16.67	11	35.48	10	45.45	25	32.47
	First of all with other Polish companies	7	29.17	17	54.84	3	13.64	27	35.06
	First of all with foreign companies	1	4.17	1	3.23	2	9.09	4	5.19
	No co-operation takes place	12	50.00	2	6.45	7	31.82	21	27.27
Fierce competition takes place between:	Companies irrespective of competitors’ “nationality”	18	75.00	19	61.29	16	72.73	53	68.83
	Only Polish companies	6	25.00	10	32.26	4	18.18	20	25.97
	Only foreign competitors	0	0.00	1	3.23	2	9.09	3	3.9
Searching for a market-gap and evanding competitors is characteristic of:	Only Polish companies	2	8.33	2	6.45	1	4.55	5	6.49
	Only foreign companies								
	Both Polish and foreign companies	14	58.33	19	61.29	11	50.00	44	57.14
	Companies do not evade their competitors	8	33.33	10	32.26	10	45.45	28	36.36

NR – number of responses

Source: Own study, on the basis of a questionnaire.

Managers of food and automotive companies stressed that possible changes in the type of relations within their industries were not caused by foreign companies' entry. It is difficult, however, to draw any definite conclusions concerning the construction industry (Table 8).

Table 8. Foreign investors' entry as the cause of a change in relations within the industry

Foreign investors' entry as the cause of a change in relations within the industry	Food		Construction		Automotive		Total number of subjects	
	NR	%	NR	%	NR	%	NR	%
Yes	9	37.50	15	48.39	9	40.91	33	42.86
No	14	58.33	15	48.39	13	59.10	42	54.55
No answer	1	4.17	1	3.23	0	0	2	1.30

NR – number of responses

Source: Own study, on the basis of a questionnaire.

Polish companies' cooperation strategies: reasons and forms

The companies surveyed were asked to indicate how significant particular reasons for cooperation are for their competitiveness, considering the fact that they can cooperate with domestic partners (DC), foreign companies having a subsidiary or branch in Poland (FI) or companies with no such representation in this country. The answers available were: unimportant (0), slightly important (1), moderately important (2), important (3), extremely important (4). The mean figures for all the companies combined show a small number of moderately important and important reasons for cooperation (see Table 9). As for cooperation with Polish firms, only four reasons averaged more than "2", namely:

- taking more advantage of market opportunities (2.34),
- improved competitive position (2.27),
- cost reduction (2.29),
- opportunity for companies to complement each other's activity (2.04).
- "Taking more advantage of market opportunities" and "improving one's competitive position" are given the value of more than "2" by all subject categories.

Cooperation with foreign companies present in Poland is perceived as the least important for the competitiveness of the companies surveyed. Only five of the eighteen reasons examined were valued more highly than in the case of cooperation with domestic companies. Much more favourable results can be attributed only to cooperation in the areas of improving innovativeness and increasing the product range. In the case of foreign companies not represented in our country, it is these two areas of cooperation whose mean values exceed "2".

Table 9. Selected reasons for establishing co-operation and their importance for the competitiveness of all the companies surveyed

Reasons for co-operation	DC			FI			FC		
	NR	M	SD	NR	M	SD	NR	M	SD
Taking more advantage of market opportunities	73	2.34	1.26	67	2.04	1.38	67	2.25	1.32
Improved competitive position	73	2.27	1.24	68	2.10	1.35	68	2.24	1.36
Cost reduction	73	2.29	1.31	68	1.84	1.37	68	1.91	1.37
Improved innovativeness	74	1.89	1.30	69	1.94	1.39	67	2.12	1.32
Increased product range	72	1.93	1.33	68	1.99	1.43	67	2.01	1.39
Distribution network development	68	1.51	1.41	65	1.54	1.46	65	1.71	1.47
Achieving economies of specialization	72	1.57	1.29	67	1.55	1.27	68	1.62	1.27
Improved position in relation to suppliers	73	1.64	1.21	68	1.54	1.24	69	1.75	1.25
Improved position in relation to buyers	73	1.89	1.30	68	1.69	1.42	68	1.94	1.37
Achieving economies of scale	72	1.81	1.32	67	1.60	1.35	67	1.84	1.38
Easy way of obtaining information about the co-operator – former competitor	72	1.63	1.20	67	1.55	1.28	67	1.72	1.26
Product improvement	73	1.89	1.39	69	1.94	1.44	67	1.97	1.40
Improved organization and management	73	1.73	1.40	69	1.68	1.42	67	1.78	1.40
Improved marketing effectiveness	73	1.90	1.38	68	1.84	1.42	67	1.96	1.40
Opportunity to make desirable changes to the size and quality of the company's resources	73	1.51	1.30	69	1.59	1.29	68	1.71	1.31
Chance to survive, defence against a company closure	72	1.67	1.54	68	1.57	1.58	68	1.65	1.60
Acquiring finance	72	1.71	1.36	68	1.63	1.38	68	1.81	1.41
Opportunity for companies to complement each other's activity	72	2.04	1.23	69	1.51	1.23	67	1.66	1.24

Source: Own study, based on a questionnaire.

Food and automotive companies value nearly all the reasons for cooperation more highly than construction firms do, which is reflected in the above data concerning the range of existing and planned cooperation in particular industries (see Tables 10, 11, and 12). The results obtained concern the number of responses (NR), arithmetic mean (M) and standard deviation (SD), calculated for particular industries and for the whole research population.

Of all the companies examined, the largest percentage cooperate with other domestic firms. Cooperation usually covers:

- raw material and component supply (72.22%),
- supply logistics (60.56%),
- marketing and sales (56.67%),
- distribution logistics (56.52%),
- human resources management, e.g. temporary employment, staff leasing, training (51.35%).

The percentage of cooperation agreements found in the two groups of foreign companies is similar. Also here, the highest percentage of the firms surveyed cooperate in:

- raw material and component supply (41.67% and 41.10%),
- technology development (36.23% and 37.68%),
- marketing and sales as well as distribution logistics (approximately 33%).

What is particularly valuable is cooperation in technology development because the companies under study, like the majority of Polish firms, are considerably behind in the area of research and development.

The preference for cooperation with domestic companies proves the thesis advanced by the authors at the beginning of the paper that Polish firms' attitude to foreign entrants is sceptical or even mistrustful. The companies surveyed prefer cooperating with domestic firms, which is undoubtedly caused by fears that cooperation with a foreign partner may end in acquisition by the foreign partner[1].

Cooperative behaviour found within the industries under study is not orientated towards the reduction in competition between Polish and foreign firms; on the contrary, such behaviour may escalate the confrontation between Polish firms and foreign companies operating in the Polish market.

[1] The experiences of some Polish firms show that without their active attitude an alliance often ends in the acquisition of a Polish business by its foreign partner. "Alianse strategiczne z partnerami zagranicznymi jako szansa restrukturyzacji polskich przedsiębiorstw" (*Strategic alliances with foreign partners as an opportunity for the restructuring of Polish companies*), [in:] *Strategie i konkurencyjność po dziesięciu latach transformacji*, Moszkowicz M. (Ed.), Materiały z II Ogólnopolskiej Konferencji Naukowej Polanica Zdrój 2001, part II, Politechnika Wrocławska, PAN, Wrocław.

Table 10. Selected reasons for establishing co-operation and their importance for the competitiveness of the food-industry companies surveyed

Reasons for cooperation	DC			FI			FC		
	NR	M	SD	NR	M	SD	NR	M	SD
Taking more advantage of market opportunities	24	2.38	1.31	22	2.18	1.56	22	2.27	1.42
Improved competitive position	24	2.50	1.22	23	2.39	1.37	23	2.39	1.34
Cost reduction	24	2.54	1.38	23	2.00	1.57	23	2.04	1.52
Improved innovativeness	24	2.08	1.35	23	1.96	1.40	23	2.00	1.28
Increased product range	24	2.00	1.38	23	1.78	1.44	23	1.78	1.44
Distribution network development	22	2.50	1.37	22	2.23	1.51	22	2.14	1.55
Achieving economies of specialization	24	1.58	1.35	23	1.52	1.27	23	1.43	1.31
Improved position in relation to suppliers	24	1.71	1.33	23	1.52	1.44	23	1.57	1.44
Improved position in relation to buyers	24	1.88	1.33	23	1.57	1.50	23	1.65	1.47
Achieving economies of scale	23	1.70	1.43	22	1.64	1.47	22	1.50	1.54
Easy way of obtaining information about the cooperator – former competitor	23	1.52	1.24	22	1.45	1.26	22	1.50	1.30
Product improvement	23	2.00	1.41	22	1.86	1.39	22	1.86	1.46
Improved organization and management	24	1.75	1.42	23	1.65	1.37	22	1.59	1.44
Improved marketing effectiveness	24	2.13	1.42	23	2.09	1.44	22	2.05	1.50
Opportunity to make desirable changes to the size and quality of the company's resources	24	1.71	1.49	23	1.74	1.42	23	1.65	1.47
Chance to survive, defence against a company closure	23	1.48	1.70	22	1.45	1.63	22	1.45	1.71
Acquiring finance	24	1.67	1.49	23	1.74	1.45	23	1.78	1.48
Opportunity for companies to complement each other's activity	23	1.87	1.18	23	1.26	1.29	22	1.26	1.29

Source: Own study, on the basis of a questionnaire.

Table 11. Selected reasons for establishing cooperation and their importance for the competitiveness of the construction-industry companies surveyed

Reasons for co-operation	DC			FI			FC		
	NR	M	SD	NR	M	SD	NR	M	SD
Taking more advantage of market opportunities	29	2.62	1.29	25	1.92	1.38	25	2.16	1.43
Improved competitive position	29	2.31	1.28	25	1.92	1.35	25	2.08	1.53
Cost reduction	29	2.28	1.39	25	1.84	1.46	25	1.84	1.52
Improved innovativeness	29	1.79	1.42	25	1.80	1.50	24	2.04	1.46
Increased product range	28	1.57	1.35	25	1.68	1.46	24	1.75	1.48
Distribution network development	26	0.96	1.18	23	0.96	1.26	23	1.17	1.34
Achieving economies of specialization	28	1.46	1.32	24	1.50	1.32	25	1.60	1.35
Improved position in relation to suppliers	29	1.48	1.27	25	1.36	1.22	26	1.62	1.30
Improved position in relation to buyers	29	1.83	1.42	25	1.52	1.50	25	1.84	1.49
Achieving economies of scale	29	1.72	1.39	25	1.24	1.33	25	1.72	1.43
Easy way of obtaining information about the cooperator – former competitor	29	1.76	1.24	25	1.64	1.44	25	1.84	1.37
Product improvement	29	1.76	1.43	26	1.62	1.42	25	1.64	1.38
Improved organization and management	29	1.76	1.53	26	1.58	1.50	25	1.72	1.49
Improved marketing effectiveness	29	1.72	1.31	25	1.48	1.36	25	1.76	1.39
Opportunity to make desirable changes to the size and quality of the company's resources	29	1.34	1.34	26	1.38	1.27	25	1.56	1.33
Chance to survive, defence against a company closure	29	1.62	1.52	26	1.31	1.44	26	1.42	1.50
Acquiring finance	28	1.82	1.44	25	1.60	1.47	25	1.84	1.52
Opportunity for companies to complement each other's activity	29	2.38	1.27	26	1.50	1.27	24	1.71	1.30

Source: Own study, on the basis of a questionnaire.

Table 12. Selected reasons for establishing cooperation and their importance for the competitiveness of the aotomotive-industry companies surveyed

Reasons for cooperation	DC			FI			FC		
	NR	M	SD	NR	M	SD	NR	M	SD
Taking more advantage of market opportunities	20	1.90	1.07	20	2.05	1.19	20	2.35	1.09
Improved competitive position	20	1.95	1.19	20	2.00	1.34	20	2.25	1.21
Cost reduction	20	2.00	1.08	20	1.65	0.99	20	1.85	0.99
Improved innovativeness	21	1.81	1.08	21	2.10	1.30	20	2.35	1.23
Increased product range	20	2.35	1.14	20	2.60	1.23	20	2.60	1.05
Distribution network development	20	1.15	1.18	20	1.45	1.36	20	1.85	1.39
Achieving economies of specialization	20	1.70	1.22	20	1.65	1.27	20	1.85	1.14
Improved position in relation to suppliers	20	1.80	0.95	20	1.80	1.01	20	2.15	0.88
Improved position in relation to buyers	20	2.00	1.12	20	2.05	1.19	20	2.40	0.99
Achieving economies of scale	20	2.05	1.10	20	2.00	1.17	20	2.35	0.99
Easy way of obtaining information about the co-operator – former competitor	20	1.55	1.15	20	1.55	1.15	20	1.80	1.11
Product improvement	21	1.95	1.36	21	2.43	1.47	20	2.50	1.28
Improved organization and management	20	1.65	1.23	20	1.85	1.42	20	2.05	1.28
Improved marketing effectiveness	20	1.90	1.45	20	2.00	1.45	20	2.10	1.33
Opportunity to make desirable changes to the size and quality of the company's resources	20	1.50	1.00	20	1.70	1.17	20	1.95	1.10
Chance to survive, defence against a company closure	20	1.95	1.39	20	2.05	1.67	20	2.15	1.57
Acquiring finance	20	1.60	1.10	20	1.55	1.23	20	1.80	1.24
Opportunity for companies to complement each other's activity	20	1.75	1.16	20	1.80	1.11	20	2.05	1.00

Source: Own study, on the basis of a questionnaire.

Of the three industries studied here, it is automotive companies that have the highest cooperation indicators. In most cooperation areas, the diagnosed percentage of automotive companies which cooperate with domestic companies and the two groups of foreign firms under study exceeds the figures for the whole research population, in some cases by 10 or even 20 percentage points. However, the companies examined declare their intention to significantly increase the number of cooperation agreements within the next three years. Such changes will occur in twelve of the fifteen fields of potential cooperation researched here. The research results are presented in Tables 13 and 14. The answers available are: we are carrying out/planning to take/intensify such an action (I/P), we are not implementing/planning any initiatives of this kind (NI) and we are carrying out/planning to take/intensify an opposite action (OA). The other symbols used in the tables are: the number of responses (NR) and the percentage of all the responses within a given industry or responses within the whole research population (%).

The largest percentage of all the companies surveyed cooperate with other domestic companies, usually in the fields of raw material and component supply (72.22%), supply logistics (60.56%), marketing and sales (58.67%), distribution logistics (56.52%) and human resources management, e.g. temporary employment, staff leasing and training (51.35%). The percentages of cooperation agreements found among the two groups of foreign companies are similar. Also here, the highest percentage of the firms under study cooperate in the fields of raw material and component supply (41.67% and 41.10%) and technology development (36.23% and 37.68%). The next most widespread cooperation areas are marketing and sales as well as distribution logistics (approximately 33%).

By observing economic realities, we can identify particular Polish companies which try to respond to foreign companies' invasion with pro-cooperative attitudes, which implies the implementation of the DODGER strategy presented in the Dawar and Frost typology. The cases mentioned below concern companies whose behaviour is consistent with the logic of the DODGER strategy. Several years ago, WSK Rzeszów was privatised/acquired by a foreign company, namely an American aerospace concern. Now there is a talk of an "aerospace valley" forming around WSK Rzeszów with real prospects of achieving the status of a European aerospace centre. The Polish company Transsystem, by developing world-standard expertise in technology and management, has attained a strong position as a supplier to international automotive corporations. The firm has found a highly specialist niche which is automatic conveyor systems for car assembly plants. Much of Transsystem's competitive advantage comes from the relatively low cost of employing highly qualified specialists in Poland. Another company, Inter Groclin, by focussing on the production of car upholstery for international automotive corporations, has gained a 5% share of Europe's market.

Table 13. Cooperation activity planned for the next three years by all the companies under study

Activity	DC						FI						FC					
	I/P		NI		OA		I/P		NI		OA		I/P		NI		OA	
	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%
Raw material and component supply	54	73.97	19	26.03	0	0.00	35	48.61	37	51.39	0	0.00	37	51.39	35	48.61	0	0.00
Supply logistics	45	64.29	25	35.71	0	0.00	30	44.12	38	55.88	0	0.00	29	42.65	39	57.35	0	0.00
Production operations	30	43.38	37	53.62	2	2.90	18	26.47	49	72.06	1	1.47	22	32.35	45	66.18	1	1.47
We commission production under our brand/ accept a commission to produce under another company's brand	22	30.99	47	66.20	2	2.82	23	32.86	47	67.14	0	0.00	24	34.29	46	65.71	0	0.00
Technology development	37	54.41	30	44.12	1	1.47	29	42.65	39	57.35	0	0.00	29	42.65	39	57.35	0	0.00
Human resources management (e.g. temporary employment, staff leasing, training)	40	54.79	32	43.84	1	1.37	27	37.50	45	62.50	0	0.00	21	29.17	51	70.83	0	0.00
Company infrastructure / Management support systems	37	51.39	33	45.83	2	2.78	24	34.29	45	64.29	1	1.43	22	30.99	48	67.61	1	1.41
Distribution logistics	36	52.17	33	47.83	0	0.00	24	35.29	44	64.71	0	0.00	24	35.29	44	64.71	0	0.00
Marketing and sales	45	60.81	29	39.19	0	0.00	29	40.28	43	59.72	0	0.00	28	38.89	44	61.11	0	0.00
After-sales service	15	25.42	41	69.49	3	5.08	13	21.67	45	75.00	2	3.33	8	13.79	47	81.03	3	5.17
Buying / selling a licence or know-how	12	17.39	52	75.36	5	7.25	12	17.65	52	76.47	4	5.88	15	22.06	49	72.06	4	5.88
Joining / creating a franchising network	6	8.82	57	83.82	5	7.35	7	10.45	55	82.09	5	7.46	7	10.45	55	82.09	5	7.46
Strategic alliance (to carry out a project, usually without establishing a new company)	27	38.03	43	60.56	1	1.41	21	30.43	47	68.12	1	1.45	20	28.57	49	70.00	1	1.43
Joint venture (partners set up a new company)	10	14.08	56	78.87	5	7.04	13	18.31	53	74.65	5	7.04	12	16.90	54	76.06	5	7.04
Losing independence and being taken over by another company	5	6.94	57	79.17	10	13.89	6	8.45	55	77.46	10	14.08	8	11.27	53	74.65	10	14.08

Source: Own study, on the basis of a questionnaire.

Table 14. Current cooperation activity of all the companies researched

Activity	DC						FI						FC					
	I/P		NI		OA		I/P		NI		OA		I/P		NI		OA	
	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%	NR	%
Raw material and component supply	52	72.22	19	26.39	1	1.39	30	41.67	41	56.94	1	1.39	30	41.10	42	57.53	1	1.37
Supply logistics	43	60.56	28	39.44	0	0.00	23	33.82	45	66.18	0	0.00	20	28.99	49	71.01	0	0.00
Production operations	32	45.71	37	52.86	1	1.43	14	20.59	53	77.94	1	1.47	19	27.94	48	70.59	1	1.47
We commission production under our brand/ accept a commission to produce under another company's brand	17	23.61	53	73.61	2	2.78	16	22.86	53	75.71	1	1.43	13	18.31	57	80.28	1	1.41
Technology development	30	42.25	40	56.34	1	1.41	25	36.23	44	63.77	0	0.00	26	37.68	43	62.32	0	0.00
Human resources management (e.g. temporary employment, staff leasing, training)	38	51.35	36	48.65	0	0.00	18	25.00	54	75.00	0	0.00	15	20.55	58	79.45	0	0.00
Company infrastructure / Management support systems	30	41.67	40	55.56	2	2.78	14	20.00	55	78.57	1	1.43	16	22.54	54	76.06	1	1.41
Distribution logistics	39	56.52	30	43.48	0	0.00	23	33.82	45	66.18	0	0.00	23	33.33	46	66.67	0	0.00
Marketing and sales	44	58.67	31	41.33	0	0.00	24	33.33	48	66.67	0	0.00	25	34.25	48	65.75	0	0.00
After-sales service	16	26.67	41	68.33	3	5.00	9	15.52	46	79.31	3	5.17	8	13.11	50	81.97	3	4.92
Buying / selling a licence or know-how	8	11.59	57	82.61	4	5.80	6	8.96	57	85.07	4	5.97	6	8.82	58	85.29	4	5.88
Joining / creating a franchising network	3	4.35	61	88.41	5	7.25	3	4.48	59	88.06	5	7.46	2	2.99	60	89.55	5	7.46
Strategic alliance (to carry out a project, usually without establishing a new company)	21	30.00	48	68.57	1	1.43	10	14.49	58	84.06	1	1.45	12	17.39	56	81.16	1	1.45
Joint venture (partners set up a new company)	4	5.63	62	87.32	5	7.04	4	5.71	61	87.14	5	7.14	3	4.23	63	88.73	5	7.04
Losing independence and being taken over by another company	1	1.39	63	87.50	8	11.11	2	2.82	61	85.92	8	11.27	2	2.82	61	85.92	8	11.27

Source: Own study, on the basis of a questionnaire.

Likewise, PLL LOT's strategic moves show that the company has adopted the DODGER strategy. In October 2003, PLL LOT became a full member of Star Alliance, an alliance of 15 airlines whose leading carrier is Lufthansa (Romański 2003, pp. 66–67). It was also then that a contract with America's United airline and Spain's Spainair for the joint exploitation of air connections came into effect. Another firm pursuing the DODGER strategy is Polar, a Polish domestic appliance manufacturer. The first investor, who bought a majority stake in the company, was the Brand Moulinex group. At present the company is owned by Whirlpool, an international concern. Polar's brand image was so strong in the Polish and Central European markets that, although the company was acquired by foreign capital, Polar products (washing machines and refrigerators) are still present in the market. Wrozamet S.A., which sells domestic appliances under the brand of Mastercook, is developing dynamically thanks to two Spanish firms, Fagor Electrodomesticos and MCC Inversiones S. Coop, its strategic investors since 1999. The company's products (washing machines, cookers, refrigerators, ventilation hoods and dishwashers) are sold abroad under the brands of Fagor, Partick Fagor, Edesa, Aspes and Saccol, but in Poland they are sold under the brand of Mastercook (http://www.mastercook.com.pl/informacje_prasowe, 25 June 2004). Last but not least, Solaris Bus & Coach Ltd., a manufacturer of modern city buses, intercity coaches, tour coaches, trolleybuses and special buses. The origins of Solaris Bus & Coach go back to 1994, when Krzysztof Olszewski, its founder and president who for many years had worked for Neoplan's German arm, set up Neoplan Polska Sp. z o.o., a sales agency with a 100% stake owned by the Olszewski family. A successful bid for the supply of several dozen buses to the city of Poznań prompted the establishment of a bus factory in Bolechowo near Poznań. When the plant opened in the spring of 1996 the company changed the nature of its activity, becoming a manufacturer of modern city buses. Its high sales resulted in further investment and growth. The company opened its own technical office, as well as frame-construction, body-work, finish and prototype departments. In 2001, a merger of two international giants, MAN and Neoplan, created the opportunity to buy Neoplan's stake in the company. Solange and Krzysztof Olszewski made this transaction to become the owners of the firm, which changed its name into Solaris Bus & Coach Ltd. Since then, the company has been developing at an unprecedented pace. It has a 65% share of the domestic market and a nearly 5% share of the European market of low-floor buses, frequently introducing new models and winning numerous national and international awards.

Recapitulation and conclusions

The analysis of literature concerning domestic companies' behaviour in the face of foreign investors' expansion suggests that there are many possible behaviour patterns which can be classified according to three main categories: confrontation, cooperation and evasion. Cooperation strategies, although they could endanger one's identity, seem to be a crucial factor in improving Polish firms' competitiveness. This is because they provide a good opportunity to emulate the cooperator's key skills and learn from him. Recommended forms of cooperation strategy depend on a number of factors, the most important of which are: attitude to competition, globalisation pressure in a given industry, suitability of the company's resources for international transfer, strength of competitive potential and attractiveness of the industry.

The empirical research that has been carried out suggests that Polish companies covered by the research cooperate first of all with other Polish firms. The anti-cooperative attitude of some Polish companies towards foreign investors, especially common in the food sector, is probably a reaction to their expansion in the form of takeovers and results from the fear of being acquired by the foreign partner. However, if we attempt to identify the most popular areas of cooperation with foreign companies, we will find that the largest proportion of the firms under study cooperate in the fields of raw material and component supply (41.67% and 41.10%), technology development (36.23% and 37.68%), marketing and sales, as well as distribution logistics (approximately 33%). What is particularly valuable is cooperation in technology development because the companies under study, like the majority of Polish firms, are considerably behind in the area of research and development. Among the most popular cooperation areas, both for the present and for the next three years, the companies declare only a limited interest in buying/selling licences or know-how, joining/creating a franchising network, entering into a strategic alliance or setting up a joint venture. Yet it is these more advanced forms of cooperation that seem to be especially helpful in rapidly globalising competition.

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14

Motives and Modes of FDI, Firm Characteristics and Performance: Case Studies of Foreign Subsidiaries in Poland

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Abstract: In this exploratory study, the authors attempt to determine and interpret the interdependencies between the motives and modes of setting up subsidiaries by foreign investors in Poland, and the main characteristics and performance of these subsidiaries. Two modes of setting up a subsidiary are examined: green-field and acquisition. The authors use data collected from seven foreign subsidiaries operating in Poland and apply within-case and cross-case analytical approach to identify and interpret relationships between the variables under consideration. The results of the study lead to a formulation of eight hypotheses requiring further testing and research.

Keywords: FDI, multinational enterprise, subsidiary, motives for FDI, modes of FDI, green-field, acquisition, Poland, Central and Eastern Europe.

Foreign direct investment (FDI) has played a pivotal role in the transformation of post-communist economies of Central and Eastern Europe (CEE) for more than a decade. This is especially true for Poland which experienced a phenomenal growth of inward FDI and had, by the year 2000, become the largest recipient of this investment in the region. Coupled with a dynamic increase in foreign trade, FDI has led to a much greater openness of the Polish economy to the world and has facilitated Poland's imminent accession to the European Union. FDI has also had a beneficial impact on the international competitiveness of Polish industries and firms.

FDI has been mainly undertaken by multinational firms originating from such countries as France, USA, Germany, the Netherlands, Italy and UK. Through establishing their subsidiaries in the Polish market, these firms were instrumental in transforming failing state owned firms into viable operations or creating new enterprises, thus shaking, restructuring, modernising and generally changing the structure of entire industries. The investment modes used included acquisitions, green-field investments or joint venture operations. Many factors have influenced the decision to invest and the chosen mode of investment. In turn, FDI motives and modes have had important implications for the subsidiary characteristics and performance.

The present paper investigates the motives for undertaking foreign investment, modes of making this investment, as well as various subsidiary characteristics and their performance, using data collected from seven foreign subsidiaries of multinational enterprises. The purpose of the paper is to determine what motivated foreign investors to enter the Polish market, what factors determined their choice of mode of FDI, and what were the patterns in the relationships between the motives and modes, and firm characteristics and performance.

The first section of the paper provides a macroeconomic context to the main focus of the study by outlining trends in and the role of FDI in Poland's transition over the past decade. The second section provides an extensive literature review on FDI motives and modes. This literature review leads to a research methodology section where the authors describe how the data were collected and analysed. In the subsequent section, individual cases are outlined and a cross-case analysis is conducted. This is followed by discussion of results and hypotheses formulation. The paper wraps up by drawing main conclusions from the case analysis and by providing directions for future research.

FDI in Poland's transition process

Inward FDI can without doubt be considered as a salient factor contributing to Poland's transition to a market-led system and, at the same time, leading the country to participate in the ever more complex process of globalisation. The results observed and documented so far lead to one dominant conclusion: although foreign investors in Poland have often been subject to criticism from Poland's authorities, both central and local, as well as domestic business circles and other professional, political and social groups, it is clear that the net effects of FDI have been impressive, both in magnitude and scope, and overwhelmingly beneficial to Poland and its international competitiveness.

The annual inflow of FDI into Poland since the beginning of the transformation process is given in Table 1. It reveals an uninterrupted increase in the inflow until the year 2001 which witnessed the first fall in over a decade. The magnitude of this fall (–39%) calls for attention; the question is whether this is the beginning of a declining trend or just a consequence of a temporary regional slowdown of economic growth.

It is also interesting to observe the somewhat volatile nature of FDI inflow changes in the whole period of 1990–2001. A rising rate of growth in the annual value of FDI was usually followed by a smaller increase in the next year but only to give way again to a greater dynamism in the succeeding year. The reasons for such fluctuations are not clear and hard to identify. But the percentage fall in 2001 may indicate that the Polish market may have reached its saturation point for foreign investors as to its general attractiveness. It is expected however that Poland's full membership in the European Union (EU) in 2004 will generate a new rising wave of inward FDI. An additional challenge in this context is appearing in the form of more intense competition for FDI, coming from the other countries of Eastern Europe which, like Poland, have been in the forefront of the transformation process and are also, together with Poland, joining the EU.

Table 1. FDI Inflow into Poland from 1990 to 2001

Year	FDI Inflow (mln USD)	Percentage Change over Previous Year
1990	88	
1991	359	308
1992	678	89
1993	1,715	153
1994	1,875	9
1995	3,659	95
1996	4,498	23
1997	4,908	9
1998	6,365	30
1999	7,270	14
2000	9,342	29
2001	5,713	-39

Source: National Bank of Poland (2003), own calculations.

Data pertaining to the role of FDI in Poland relative to other countries in the region of Central and Eastern Europe are presented in Table 2. Poland ranks first with a 25.8% share of FDI in the said region. Next in line is the Czech Republic (16.2%), followed by Hungary (15.3%). It is worth noting that the much larger market of Russia attracted in the year 2000 only 14.8% of the region's total FDI inflow. The role and rank of Poland, however, turns out to be quite different when FDI stock per capita is considered.

The leader is the Czech Republic with 2,055 USD per capita, followed by Hungary (1,984 USD), Estonia (1,891 USD), Slovenia (1,411 USD), Croatia (1,060 USD) and Latvia (884 USD). Poland's 7th position, with 870 USD, indicates the still considerable absorption potential for foreign investment and should be treated as an important motive for intensifying policy measures to attract FDI inflows. Poland's 7th position may also be a result of the bias arising from the fact that Poland's market is much larger than those of the higher ranking countries. One should not forget that Poland's rank is still well above the average of 385 USD for the whole region of Central and Eastern Europe.

Table 3 shows the geographic origin of FDI in Poland. By mid-2002, the largest foreign investor country was France with over 11.5 billion USD invested in Poland. The next largest investor was USA with over 7.9 billion USD, followed by Germany with over 7.4 billion USD and Holland with almost 5 billion USD. Together investors from these four countries accounted for 51.8% of the total stock of 61.6 billion USD. As for the number of investing firms, the largest group (212) came from Germany, 126 were from the US, and only 89 from France and 76 from Holland. Jointly, they held a share of 54.7% of the total of 920 firms with investment over 1 mln USD.

Table 2. Per Capita FDI and FDI Percentage Spread in Central and Eastern Europe (CEE), in 2000

Regions/ countries	FDI stock per capita in USD	Percentage share in total FDI stock	Regions/ countries	FDI stock per capita in USD	Percentage share in total FDI stock
CEFTA countries:	939	70.0	European CIS countries:	118	19.1
Bulgaria	418	2.6	Belarus	124	1.0
			Moldova	103	0.3
Czech Republic	2,055	16.2	Russia	133	14.8
Poland	**870**	**25.8**	Ukraine	78	3.0
Rumania	292	5.0	Other:	296	5.5
Slovakia	683	2.8	Albania	182	0.4
Slovenia	1,411	2.2			
Hungary	1,984	15.3	Bosnia and Herzegovina	86	0.3
Baltic countries:	951	5.4	Croatia	1,060	3.8
Estonia	1,891	2.0	Yugoslavia	93	0.7
Lithuania	636	1.8	Macedonia	188	0.3
Latvia	884	1.6	==========	==========	==========
			CEE total	**385**	**100.0**

Source: Kopeć (2002), p. 170.

The sectoral spread of FDI in Poland is presented in Table 4. Manufacturing is the dominant sector accounting for 40.4% of the stock of FDI over 1 mln USD. It is followed by financial intermediation services with a 23.3% share, trade and repairs with 12.5% and transport, storage and communications with 10.2%. Within the manufacturing sector the dominant industries absorbing FDI were food processing with a 10.3% share and transport equipment with 9.6%. The service industries have overall attracted well over 50% of the total FDI stock in Poland.

Table 3. Stock of FDI in Poland by Countries of Origin as of June 30, 2002

No	Country	Capital Invested (USD million)	Investment Plans (USD million)	Number of companies
1	2	3	4	5
1	France	11,503.0	1,975.5	89
2	USA	7,985.2	2,389.0	126
3	Germany	7,444.57	1,290.86	212
4	The Netherlands	4,976.05	563.7	76
5	Italy	3,701.1	1,272.7	59
6	Great Britain	2,899.1	349.5	40
7	International	2,803.3	913.5	18
8	Sweden	2,653.7	963.8	57
9	Belgium	1,649.05	127.0	23
10	Korea	1,621.8	20.0	4
11	Denmark	1,331.0	241.5	38
12	Russia	1,286.4	301.0	2
13	Ireland	1,039.7	N/A	2
14	Cyprus	911.7	175.0	1
15	Switzerland	904.7	338.5	21
16	Austria	843.4	79.2	41
17	Norway	599.3	173.9	14
18	Japan	598.7	111.0	13
19	Spain	536.2	N/A	9
20	Greece	501.5	4.0	2
21	Portugal	493.1	66.6	4
22	Finland	424.4	122.8	19
23	Canada	205.3	241.5	14
24	Croatia	173.0	16.0	2
25	Turkey	100.1	58.0	4
26	Luxemburg	85.7	10.2	8
27	Australia	67.0	4.0	2
28	Czech Republic	60.7	N/A	4
29	Israel	55.4	120.0	4
30	China	45.0	45.0	2

1	2	3	4	5
31	South Africa	35.0	95.5	2
32	Slovenia	35.0	27.0	2
33	Liechtenstein	31.9	27.0	4
34	Taiwan	5.7	200.0	1
35	Hungary	3.5	N/A	1
Investments over USD 1 million		**57,610.3**	**12,323.3**	**920**
Estimated investments under USD 1 million		**3,990.1**		
Total		**61,600.4**		

Source: PAIZ (2003).

Table 4. Stock of FDI in Poland by Sectors and Industries as of June 30, 2002

Sectors and industries	FDI stock USD million %	Investment plans USD million
1	2	3
Manufacturing	23,300.2 40.4%	5,184.3
Food processing	5,932.7 10.3%	619.2
Transport equipment	5,517.1 9.6%	827.7
Other non-metal goods	3,241.2 5.6%	861.5
Pulp and paper and publishing and printing activities	1,667.1 2.8%	285.4
Electrical and optical machinery	1,656.5 2.8%	348.0
Chemicals and chemical products	1,613.0 2.7%	707.1
Wood and wooden products	1,296.9 2.2%	193.2
Rubber and plastics	629.1 1.0%	233.2
Metals and metal products	542.5 0.9%	691.7
Other products	502.4 0.8%	285.5
Other machinery and equipment	436.8 0.7%	84.2

1	2	3
Fabrics and textiles	250.3 0.4%	47.1
Leather and leather products	14.6 0.0%	0.5
Financial intermediation	13,442.9 23.3%	143.5
Trade and repairs	7,176.2 12.5%	1,019.8
Transport, storage and communications	5,872.0 10.2%	478.9
Construction	2,818.4 4.9%	1,062.7
Community, social and personal services	1,769.1 3.1%	586.0
Power, gas and water supply	1,663.6 2.9%	1,746.5
Real estate and business activities	707.6 1.2%	1,836.1
Hotels and restaurants	597.0 1.0%	242.2
Mining and quarrying	218.5 0.4%	7.0
Agriculture	44.8 0.1%	16.3
Investments over USD 1 million	57,610.3 100%	12,323.3
Estimated investments under 1 million USD	**3,990.1**	
Total FDI in Poland	**61,600.4**	

Source: PAIZ (2003) and authors' own calculations.

The trend to move FDI from manufacturing to the service sector has been observed since the beginning of the transition process in 1990. In 1996 FDI inflow into manufacturing still had a 53.3% share but in 2000 it dropped to a mere 22.3%. Between these two years, however, the share of transport and communications rose from 0.3% to 36.6% and the share of financial intermediation went up from 17.9% to 21.1% (Przystupa 2002). These developments have positively contributed to reinforce Poland's transition to a mature, developed economy.

Table 5 provides an interesting insight into the profiles of the 20 largest foreign investors in Poland at the end of 2001. France Telecom, a new investor dating from 2000, is ranked first with an investment far surpassing that made by the remaining firms. The country mix is varied but generally reflects the composition of the largest investor countries as seen in Table 3, i.e., France, USA and Germany. What is noteworthy though is the high 6th rank of Gazprom from Russia, portending possible further inflow of FDI from that country. Firms from four service industries are prevalent: telecommunications, banking, insurance and retail trade (hypermarket chains). The manufacturing sector is represented by car producers and a wood processing firm from Cyprus. The holding nature of the Cypriot firm coupled with the tax haven status of that country may indicate that the real origin of the investor may be different. Presently, the Daewoo investment, because of the bankruptcy of this car maker's operation in Poland, is formally absent but in reality it is fragmented into several and much smaller ventures under control of new investors.

Table 5. Largest Foreign Investors in Poland by December 31, 2001

	Investor	FDI in mln USD	Planned FDI in mln USD	Country of origin	Sector/industry
1	2	3	4	5	6
1	France Telecom	3,199.4		France	Telecommunications
2	Fiat	1,698.8		Italy	Car manufacture, banking and insurance
3	Daewoo	1,552.3		South Korea	Car manufacture, electronic equipment, construction and insurance
4	HVB	1,358.0		Germany	Banking
5	Citibank	1,300.0		USA	Banking
6	RAO Gazprom	1,283.8	301.0	Russia	Construction
7	Vivendi	1,204.2		France	Telecommunications
8	United Pan-Europe Communications	1,200.0	100.0	Holland	Mass media
9	UniCredito Italiano	1,108.5		Italy	Banking
10	Metro AG	1,000.0	71.6	Germany	Retail trade
11	EBRD	955.0		International financial institution	Banking, capital investments
12	Casino	923.0		France	Retail trade
13	Kronospan Holings Ltd.	911.7		Cyprus	Wood processing
14	General Motors Corporation	800.0		USA	Car manufacture
15	Allied Irish Bank Plc	746.7		Ireland	Banking
16	KBC Bank	704.0		Belgium	Banking, insurance

1	2	3	4	5	6
17	Carrefour	703.7	169.4	France	Retail trade
18	ING Group NV	677.0		Holland	Banking, insurance
19	Enterprise Investors	630.0		USA	Capital investments
20	Eureko BV	601.4		International	Insurance

Source: Durka (Ed.) (2002).

Motives and modes of FDI – literature review

Motives for FDI

The reasons prompting firms to undertake FDI have inspired and absorbed international business scholars for four decades now. These reasons have been part and parcel of various theories and paradigms of international production put forward by such scholars as:

- S.H. Hymer, who provided a prologue to the theory of internalisation/transaction costs, later propagated by P.J. Buckley, M.C. Casson, J.F. Hennart, A.M. Rugman, and D.J. Teece (Hymer is also known for his work on application of an industrial organisational approach to the theory of international production);
- R. Vernon, who developed the product cycle theory of foreign investment, further refined by L.T. Wells;
- R.E. Caves, T. Horst, H. Johnson, S.P. Magee, B. Swedenborg, T.A. Pugel, A.L. Calvet, R.F. Owen, S. Lall, N.S. Siddhathan and N. Kumar, who contributed to the firm specific (ownership) advantages theory;
- F.T. Knickerbocker, E.M. Graham, and E.B. Flowers, who studied extensively firm strategic responses to oligopolistic market situations; and
- J.H. Dunning, whose eclectic paradigm, also known as the OLI (ownership, location, internalisation) model, provides a holistic explanation of the foreign activities of firms, combining most of the theories and models developed by his predecessors[1].

Borrowing from an earlier taxonomy developed by Behrman (1972), Dunning (1993 and 1998) organised all the numerous motives for FDI and the respective types of MNE activity into the following four groups:

- resource seeking,

[1] A summary of the works of the authors mentioned in this paragraph, as well as a detailed description of the eclectic paradigm, are provided in Dunning (1993, Chapter 4). Other works of Dunning, where he presents the eclectic paradigm and its extensions and application, include: Dunning (1980, 1981, 1988, and 1998). Alternative reviews of the theories of FDI can be found, e.g., in Boddewyn (1985), Buckley (1993) and Hennart (2001).

- market seeking,
- efficiency seeking, and
- strategic asset seeking.

The resource-seeking firms are motivated to invest abroad to acquire specific resources at a lower cost than could be obtained in their home country, if these resources were obtainable at all. Dunning distinguishes three types of resource seekers: (a) those seeking physical resources (such as raw materials and agricultural products); (b) those seeking cheap and well motivated unskilled or semi-skilled labour: and (c) those seeking technological capacity, management or marketing expertise and organisational skills (Dunning 1993, p. 57).

The market seekers are the firms that invest in a particular country or region in order to serve markets in this country or region. Apart from market size and expected market growth, there are four main reasons for which market-seeking firms may undertake foreign investment, namely: (a) a firm's main suppliers or customers may expand overseas and in order to retain its business, the firm needs to follow them; (b) a firm may need to adapt its product to local tastes and specific market requirements, which can only be achieved through market presence in the form of FDI; (c) production and transaction costs of serving a local market from an adjacent facility may be lower than when supplying that market from a distance; and (d) a firm may consider it necessary, as part of its global strategy, to have a physical presence in the leading markets served by its competitors. Unlike other types of foreign direct investors, market-seeking firms tend to treat their foreign affiliates as self-contained business units rather than as part of an integrated chain of value adding activities (Dunning 1993, pp. 58–59).

The motivation of efficiency seeking foreign direct investors is to rationalise their production, distribution and marketing activities through common governance of and synergy-building among geographically dispersed operations. Such rationalisation essentially stems from two sources: the advantages of differences in the cost of factor endowments between countries, and the economies of scale and scope (Dunning 1993, pp. 59–60).

The strategic asset seekers are those firms which engage in FDI to promote their strategic objectives – usually that of sustaining or enhancing their international competitiveness. Similarly to the efficiency seeking firms, the strategic asset seekers aim to capitalise on the advantages of the common ownership of a network of activities and capabilities in diverse environments (Dunning 1993, p. 60).

Dunning argues that the former two motives (resource and market seeking) typically characterise initial FDI, while the latter (efficiency and strategic asset seeking) characterise sequential FDI. He also argues that [...] "as strategic asset-acquiring investment has become more important, the locational needs of corporations have shifted from those to do with access to markets, or to natural resources, to those to do with access to knowledge-intensive assets and learning experiences, which augment their existing specific advantages" (Dunning 1998, p. 54).

In contrast to an abundance of theoretical literature, there appears to be a relative paucity of empirical studies focused on the motives for FDI. During their extensive literature review, the authors of this paper were able to identify only a handful of such empirical studies. They include: Kim and Kim (1993); Tatoglu and Glaister (1998); Hussain, Ali and Nowak (2001); Ali and Mirza (1996); and Fahy, Shipley, Egan and Neale (1998). Only the last two studies specifically concern the motives for FDI in Central and Eastern Europe. It is noteworthy that none of the empirical studies reported above explicitly used the four types of FDI proposed by Dunning as a framework, although the individual motives included in these studies seem to represent at least most of the types of FDI. Also, no attempt has so far been made to link the motives to the modes of FDI or other variables, such as the completeness of the value adding chain of the affiliate. The latter seems to be worth investigating in light of Dunning's observation regarding the tendency of market seeking investors to place in their affiliates complete value-adding activities.

Modes of FDI

Although the literature on foreign market entry mode, including FDI, is vast[2], relatively few authors have specifically studied the choice between various modes of FDI. Among the latter, one can distinguish two groups of studies. The first group analyses three alternative modes of FDI-green-field investment, acquisition, and joint venture (Kogut, Singh 1988; Woodcock, Meamish and Makino 1994; Nitsch, Beamish and Makino 1996; Bruning, Turtle and Buhr 1997; Jermakowicz, Bellas 1997). The other group focuses on the dichotomous choice between green-field investment and acquisitions (Caves, Mehra 1986; Zejan 1990; Hennart, Park 1993; Padmanabhan, Cho 1995; Barkema, Vermeulen 1998; Gorg 2000). Sometimes acquisitions are combined with mergers as a distinct entry mode (e.g., Bruning, Turtle and Buhr 1997) and joint ventures are included in the green-field (start-up) investment category (Barkema, Vermeulen, 1998).

Green-field investment is typically defined as an investment of a firm that uses its funds to set up an entirely new economic entity by constructing a new facility. Instead, acquisition consists of using the firm's funds to purchase an already existing operation. This is done by acquiring the controlling equity share in a company which previously owned the operation. A joint venture consists of combin-

[2] A list of publications dealing with the choice of entry mode would be too long to present within the length limits of this paper. The most visible authors who have written on this subject matter include: S. Agrawal and S.N. Ramaswami, E. Anderson and H. Gatigon, W.C. Kim and P. Hwang, P.J. Buckley and M.C. Casson, and Brouthers et al.

ing assets in a common and separate organisation by two or more firms who share ownership and control over the use and fruits of these assets (e.g., Kogut and Singh 1988, p. 412; Buckley and Casson 1998, p. 545; Gorg 2000, p. 165).

Meyer and Estrin (1998 and 2001) distinguish a special case of acquisition which they call brown-field investment. Under brown-field investment, the foreign investor initially acquires an existing firm but then almost completely replaces plant, equipment, technology, labour, and product assortment of that firm. In this way, the acquired firm undergoes deep restructuring and becomes an almost totally new operation. These authors have found the brown-field investment construct particularly relevant to FDI in Central and Eastern Europe.

The authors who have studied determinants of the choice between green-field investment and acquisition or between green-field, acquisition and joint venture include: Caves and Mehra (1986); Zejan (1990); Hennart and Park (1993); Barkema and Vermeulen (1998); Gorg (2000); Kogut and Singh (1988); and Bruning, Turtle and Buhr (1997). These authors examine the dependence of the choice between green-field investment and acquisition on such factors as: the entrant's corporate organisation and the structural features of its product market (Caves, Mehra); host country's market size, market growth and level of development (Zejan); firm strategies and target market considerations (Hennart, Park); firm's multinational diversity (the diversity of the national markets in which the firm operates) and its product diversity (Barkema, Vermeulen); entry costs and post-entry competition (Gorg); cultural distance between home and host countries and attitudes towards uncertainty avoidance (Kogut, Singh); and firm's concern for power, required resource commitment, potential for dissemination risk, and financial concerns related to liquidity and leverage (Bruning, Turtle, Buhr).

Woodcock, Beamish and Makino (1994), and Nitsch, Beamish and Makino (1996) examine the relationship between the three FDI modes (acquisition, new venture and joint venture) and post-investment firm performance. These authors measure performance at the subsidiary level by asking the top managers to respond to a three-point scale, representing "loss", "break-even", and "gain". Both studies lead to the same conclusion that:

- the green-field mode shows the highest proportion of gains relative to losses,
- joint ventures are not far behind, and
- acquisitions show, at best, mixed performance.

Last but not least, worth reviewing are the studies that specifically address the FDI mode choice in Central and Eastern Europe.

Jermakowicz and Bellas (1997) contend that the choice between green-field investment, joint venture and acquisition depends to a large degree on the investor's motives and the industry. The link between the FDI motives and modes is noteworthy as it is hard to find in other studies. Unfortunately, the authors do not attempt to test this link nor they provide any evidence of empirical research that could shed some light on the issue. Although the study of Jermakowicz and Bellas is largely descriptive, the authors do identify a number of determinants of the FDI mode choice, referring to the work of Dunning and Rojec (1993). These determinants include:

A. The green-field mode is preferred when:
   - the production process is labour intensive (high labour intensity lowers the relative cost of a green-field venture),
   - the investor's name and products are already widely known in the local market,
   - the costs of restructuring an acquired local company could prove to be higher than the establishment of a new operation or when an unresolved ownership status could be an impediment to acquisition.

B. The joint venture mode is like to be chosen when:
   - it is uneconomical or risky for a foreign investor to make a green-field investment,
   - pooling resources and competences produces a competitive advantage.

C. The acquisition mode is favoured when:
   - the acquired enterprise is in a capital intensive industry,
   - the local producer has a large market share, strong local brand recognition, and well developed supply and distribution networks.

While drawing upon both resource-based and transaction-cost theories of FDI, Meyer and Estrin (1998) analyse the determinants of the mode choice decision with reference to the specific investment situation prevailing in Central and Eastern Europe. The authors develop a model linking four types of resources (required for the strategic objectives, held by local firms, held by the investor, and available on markets) and two types of costs (transaction costs and costs of adapting and integrating resources) to three modes of FDI (acquisition, green-field and brown-field). Based on this model, they derive a number of propositions regarding firms' expected mode choice.

The above literature review shows that the theoretical and empirical studies of FDI modes revolve around the determinants of the FDI mode choice. To a much lesser degree these studies address the relationship between the mode of FDI and the investing firm's post-entry performance and characteristics or its influence on market structure. Moreover, there's very little evidence of the investigation of the relationship between the motives for and the modes of FDI. The latter finding is surprising; the relationship between motives and modes seems to deserve more attention on the part of international business researchers.

Research methodology

Variables and Relationships Studied

The literature review provides specific guidelines as to what variables and relationships should be investigated in this paper.

Firstly, the focus of analysis is on the motives for FDI in Poland. In conformity with Dunning's types of FDI, the individual motives are divided into three groups: market seeking, efficiency seeking, and resource seeking. In order to preserve clarity and distinctiveness between the types of motives, the fourth group, strategic asset seeking, is not included because of risk of being blurred with the efficiency seeking type of FDI. Furthermore, a link is made between the FDI motives and the completeness of the value adding chain managed by the foreign subsidiary. This is in response to Dunning's hypothesis regarding that link, as referred to in the literature review.

As for the modes of FDI, the focus of the study is on the dichotomous choice between green-field investment and acquisition. This is due to the fact that practically all the firms investigated were 100% owned by foreign parents. Also, the information collected did not permit an identification of any brown-field operation in the sense that Meyer and Etrin define them. Based on the literature reviewed above, the following relationships were identified and analysed: between the mode of FDI and its determinants, between the mode of FDI and the firm performance, and between the mode of FDI and firm characteristics. The performance factor was treated as a multidimensional construct, determined by six dimensions. It was also decided to investigate the relationship between the motives for FDI and modes of FDI, the relationship that has been largely neglected in international business studies.

Sample and the Method of Data Collection

The paper uses data collected from seven cases of foreign direct investment made in Poland in the first half of the 1990s. During that period the Polish economy experienced its most dynamic stage of transformation to a market led system. All the analysed cases belong to the manufacturing industry and consist of foreign subsidiaries located in the western part of Poland. Six of the seven cases concern wholly-owned subsidiaries. One is technically a joint venture but with such an ownership structure that for all the practical purposes it could be treated as a wholly-owned subsidiary. Geographical convenience for conducting research was the main rationale for such case selection. Geographical concentration of the sample and the resultant geographical homogeneity allowed for minimisation of the influence of the regional differences on the survey responses. Financial limitations also influenced the scope of the empirical research.

The data were collected by means of personal interviews using a structured questionnaire as a data collection instrument. The interviews were carried out in the first half of the year 2002 in each subsidiary with a member of its management team.

The questionnaire consisted of seven parts. The first part included questions concerning general characteristics of a subsidiary, such as the product (group of products) manufactured by the subsidiary, the year of its establishment, value of the initial investment, structure of sales (domestic market vs. exports), sources of supplies (domestic market vs. imports) and the investor's country of origin. The second part contained a list of factors determining the choice of investment mode: green-field or acquisition. The aim of this part was to find out how important particular factors were in the mode-choice decision. The third part of the questionnaire concerned completeness of the value-adding chain covered by the subsidiary. Two possibilities were given: a subsidiary embracing the whole (or almost whole) value chain or participating in only a part (a link) of a wider value-adding chain of the parent company. The fourth part of the questionnaire sought information about the motives for making foreign direct investment by asking respondents to indicate the importance of each of the listed motives in making the investment decision. The motives were organised into three groups-market-seeking, efficiency-seeking and resource-seeking. The fifth part concerned phases of the internationalisation process of the firms in the Polish market. Two possibilities were given: setting up a subsidiary was or was not preceded by other modes of entry into the Polish market. The sixth part of the questionnaire referred to subsidiary performance assessment from the viewpoint of its management, according to the following criteria: productivity, product competitiveness, technological advantage of products, quality of subsidiary-parent company cooperation, subsidiary profitability, and subsidiary growth and expansion. Finally, the last part of the questionnaire focused on subsidiary autonomy from its parent company (headquarters) as perceived by subsidiary management. Summary characteristics of the seven cases are presented in the Appendix.

Data Analysis

Due to a small sample size, the conducted analysis could not use statistical techniques. Therefore, the research results do not provide grounds for full generalisation of conclusions. Instead, qualitative case analysis is employed in order to formulate some hypotheses. In this sense, the present research is essentially of exploratory nature.

Several approaches to case-based empirical research can be identified in related literature. Stake (1994) uses an instrumental approach, in which he describes a case in order to gain some insight into an important problem (Stake 1994, pp. 237–238). Next, he conducts the so-called collective case studies, analysing several cases simultaneously. The cases are selected in such a way that it is easier to understand the main issues and easier to create better theoretical generalisations about an even larger number of cases (Huberman, Miles 1994). Referring to another typology of case studies (Yin 1993), it can be said that in this research, exploratory cases are used in the initial phase. Its aim is a preliminary recognition of a problem and formulation of the main categories and research questions. Later on, explanatory cases are used whose aim is to find out the reasons for different phenomena observed.

More closely, however, the analysis of case data was conducted in accordance with the procedures of comparative case analysis proposed by Ragin (1994) and Eisenhart (1989). These procedures consist of three steps. First, within-case analysis is conducted for each case. The task of this analysis is to determine a direction of dependencies between the studied variables in a concrete individual case so that a comparative analysis is possible. The second step is to compare the results of individual cases in order to find cause-effect dependencies between the variables under study. Next, the results of comparisons between cases are contrasted with the results of theoretical debates, which make it possible to draw some conclusions or hypotheses. In this way, a generalised theoretical model of dependencies can be constructed. This model may later be subject to further empirical research to test its adequacy. In this sense, the results obtained are of preliminary character.

Analysis of cases

Within Case Analysis

Case 1. This subsidiary was established in 1991. It was a green-field investment. The investor was an Italian company operating in the clothing industry. The initial investment outlay was relatively low – the lowest of all the analysed cases. At the beginning, the vast majority of production (95%) was exported to the investor's country of origin. At present, the proportions between domestic and export sales are more balanced. As regards the geographical structure of the sources of supply, imports were the main source of procurement throughout the whole period under study. The most important factors that had led to the selection a green-field mode were as follows:

- green-field costs were estimated to be lower than those of acquisition, because of the possibility to adjust the scale of operation to the anticipated needs of the market,
- difficulties associated with inheriting the problems of the acquired firm could be avoided as could the risk of paying a premium for the takeover,
- possibility to freely choose the location of green-field investment,

- anticipated lower costs of production in the new plant as compared to an acquired firm.

The analysed subsidiary was a part of a wider value-adding chain of the parent company.

The most important motives for FDI were as follows:
- market-seeking motives – to access, sustain and expand markets in the host country; to overcome import barriers; to expand and improve market position,
- efficiency-seeking motives-lower costs of production and transport, economies of scale, lower wages, etc.

The establishment of this subsidiary was preceded by non-equity modes of entry into the Polish market by its parent firm. From the viewpoint of the subsidiary's management, assessment of the results of the investment was far from positive. This assessment was satisfactory in the initial period, whereas at present only the level of technological advancement of the subsidiary's products is highly valued. The subsidiary's management is of the opinion that it is not independent enough.

Case 2. This subsidiary was set up in 1991 through acquisition. Its owner is a Dutch investor operating in many sectors, including lighting equipment. In comparison to other cases, the investment outlay in this case was substantial. It was not possible to determine the structure of sales (domestic/export) and the structure of the sources of supply in the initial period of the subsidiary's operations. At present, about 75% of output is earmarked for export and a similar percentage of supplies comes from abroad. The main reason justifying acquisition was the opportunity of a quick access to the market. The subsidiary is a link in a wider value-adding chain of its parent company. The main motive for FDI was an intention to expand and improve the position in the Polish market (market seeking) as well as the possibility to cut production costs (efficiency seeking). The investment was preceded by exports to the Polish market. The subsidiary's management highly valued the results of investment in the sphere of competitiveness and technological advancement of the product offer. The quality of cooperation between the subsidiary and headquarters was rated as positive. The subsidiary's growth and expansion were deemed satisfactory as well. Its management is of the opinion that the subsidiary is sufficiently independent.

Case 3. The third of the analysed subsidiaries was established in 1992, also through acquisition. The investor is a German firm operating in the clothing industry. During the period under study, the share of exports in total sales increased significantly and, at the same time, the share of supplies from domestic sources also increased. The main motive for takeover was an opportunity to start the venture faster and a possibility to take over the assets of the acquired firm. The subsidiary itself encompasses a complete value-adding chain. The main motive for undertaking this FDI was cost efficiency. The parent company had previously exported to the Polish market. The subsidiary's management assesses its productivity very highly. At the same time, the management is of the opinion that its independence from the parent company is too low.

Case 4. The next company, and the third case of acquisition, was set up in 1992. Its owner is a German investor operating in the medical instruments sector. The structure of its sales evolved towards an increased importance of the domestic market. At the same time, the importance of domestic sources of supply gradually decreased. However, it should be pointed out that the changes in the structure of sales and sources of supply stemmed from the fact that the subsidiary was used by its parent to intensify sales of other products manufactured by foreign subsidiaries of the same corporation. The argument in favour of acquisition (versus green-field) was an intention to enter the Polish market quickly and to take possession of valuable assets of the acquired firm. The subsidiary covers the whole value-adding chain. The motives for FDI were of market and efficiency-seeking nature. The acquisition was preceded by exports to the Polish market and by establishing a joint venture. The assessment of the subsidiary's results was favourable in the areas of productivity, competitiveness and cooperation between the subsidiary and its headquarters. According to the subsidiary's management, its independence was sufficient.

Case 5. Another subsidiary under study was founded in 1992 and has been producing machinery and equipment for the glass-making industry. It was a green-field investment. In the structure of sales, there was a tendency to increase sales on the domestic market. This was associated with the fact that other subsidiaries of the same parent company were established in Poland and became recipients of the products of the analysed entity. In the period under study, the structure of the sources of supply remained more or less the same. The reasons for choosing the green-field mode were a possibility of free choice of location and anticipated lower costs of production in the new plant than in the case of acquisition. The subsidiary was part of a wider value chain network of the parent company. The main reasons for undertaking the investment were lower labour costs, the share of which in total costs is high in this type of activity (efficiency-seeking motive). The assessment of the subsidiary's performance is very high as regards all the analysed performance aspects. The management is of the opinion that the subsidiary's level of independence is appropriate.

Case 6. The sixth case is a green-field investment of a German firm making chocolate products. As for the scale of investment, it had the biggest investment outlay of all the seven cases under study. In the period under consideration, the share of export sales in total sales increased from 0 to 15%. The share of domestic procurement increased as well. The green-field investment was chosen because of anticipated lower costs of production in the new plant and because of an opportunity to freely select its location. The subsidiary controlled the complete value-adding chain. Efficiency and market-seeking motives were of similar importance when making FDI. Before the subsidiary was set up in Poland, its parent company had exported its products to the Polish market. At the beginning of the subsidiary operation, the results of this investment were assessed positively; however, they have somewhat deteriorated over time. Interestingly, the management is of the opinion that its degree of independence from the parent is too high.

Case 7. The last case under consideration is a subsidiary established in 1991 as an acquisition of a local firm by a Danish company making plastic pipes and pipe fittings. There was no change in the structure of sales of this subsidiary-sales on the Polish market definitely dominated over export sales. The structure of the sources of supply changed in favour of imports. The acquisition mode choice was determined by the opportunity to enter the market quickly and to take possession of valuable assets of the acquired firm. The subsidiary embraced an almost complete value-adding chain. The main motive for FDI was of a market-seeking character. There had been no presence of this subsidiary's parent company on the Polish market before. According to the subsidiary's managers, the results of investment were rated as highly positive. The subsidiary's independence was judged as being appropriate.

Cross Case Analysis

Motives for FDI. Only one of the seven subsidiaries studied can be clearly classified as a market seeker in making the investment. Two firms were clear efficiency seekers. Four firms assigned equally high importance to both market and efficiency factors. No firm indicated resource-seeking factors as a main motive for undertaking the investment, and only two rated these factors as being of low importance, while the other factors (market and efficiency) were given high importance.

Entry mode and its determinants. In all three cases where the chosen entry mode was *green-field* investment there was a high degree of unanimity of opinion as to the motives for such a choice. Both the chocolate and clothing manufacturers assigned high importance to the possibility of lowering initial investment outlays through the green-field approach compared with acquisition, by a better adjustment of the scale of operations and operations strategy to the requirements of the target market. The third firm, producing equipment for the glass industry, assigned only some importance to this factor. The next reasons – the desire to avoid problems associated with the acquired company and the risk of paying a takeover premium – were commonly ranked as high in importance by all three firms. The subsequent reasons investigated were the possibility of freely choosing the investment location and the expected lower manufacturing costs compared to those in the acquisition mode. Both factors were considered by all three firms as being of high importance.

The preference of Polish regulations towards green-field operations and the lack of Polish firms suitable for acquisition were ranked as being of little importance also by all three companies. The former reason was weak because there were no comprehensive government measures favouring green-field investment. The low ranking of the latter factor indicates that although there were suitable domestic firms which could be targeted for acquisition, still all three companies were firmly convinced that green-field investment was the best way to enter the Polish market.

The most important common determinant in all four cases of *acquisition* entry mode was the factor of speed in entering the new market. With the exception of the lighting products firm, the remaining three also attached high importance to the perspective of acquiring valuable assets of the local company such as brand names, distribution networks and market shares. The plastic pipes and fittings company also quoted the desire to avoid possible cultural, legal and managerial problems which might arise in the green-field mode of entry, but this motive was considered as being of lesser importance. Thus the two dominating determinants of the acquisition entry mode – time to market and acquiring valuable assets – were quite different from those leading to green-field investment.

Entry mode and firm performance. The first component of the performance construct focuses on productivity as perceived by the management of each company. It would seem logical that firms choosing the *green-field* mode would demonstrate a higher productivity level at the time of survey compared with that at the beginning of their operations. But this happened only in the glass industry firm. In the two other cases, productivity effects declined from a very significant level (being synonymous with high productivity) to an insignificant (low productivity) level at the time of questioning.

Falling productivity did not, however, have a negative effect on the competitiveness of the companies' products. In the case of the chocolate maker, a high level of products' competitiveness was maintained throughout the investigated period, while in the case of the clothing manufacturer (Italian investor), competitiveness was judged as satisfactory both upon entry into Poland and at the end of the examined period. The answer to this paradox might lie in competitiveness being associated more with the attributes of products and their fit with consumer preferences rather than in their visible cost advantage.

The next performance factor deals with the innovative aspect of the firms' products. The prevailing perception in this context is high throughout the period under study for both the chocolate and clothing firms. There is thus ground for seeking correlation with the competitiveness factor. On the other hand, in the glass industry firm, a rise in product competitiveness does not change the only satisfactory rating of company products' innovativeness.

The key performance factor is overall profitability. The natural expectation of a foreign, and in this case green-field investor, is to have an improvement in profitability over time. This was accomplished only in the case of the glass industry firm. The remaining two companies revealed a fall in profitability ratings: the chocolate maker from high to satisfactory and the clothing firm from high to poor levels. This is in line with the observed evolution in productivity and conclusions concerning costs which went up in those firms that declared falling profitability and went down in the case of the glass equipment manufacturer who declared rising productivity. Also interesting to note is the fact that falling profitability did not influence the competitiveness rating of the respective firms' products meaning that indeed the said products remained competitive due to non-cost factors. The only green-field firm that experienced a steep rise in profitability also had a moderate increase in its products' competitiveness rating. In all three cases changes in profitability were not influenced by the innovative character of the company product offer.

Company growth and expansion was rated as improving from satisfactory to higher levels only in the case of the glass equipment maker. This coincided with rising ratings of all the remaining performance factors. The other two firms declared a drastic fall in growth and expansion, from the highest to the lowest levels. This also went in line with the downward trend, in both cases, in productivity and profitability.

The last component of the performance construct deals with the evaluation of the headquarters subsidiary cooperation. At the start of operations, in all the three cases the relationship was considered as satisfactory or good. Then it improved for the glass equipment maker and deteriorated for the remaining two firms. This trend should be combined with the evaluation of the subsidiary autonomy by its management. Where the headquarters subsidiary cooperation improved, the subsidiary autonomy was rated as being just right. Where the said cooperation deteriorated, autonomy was judged as insufficient (in the case of the clothes maker) or too high (as in the case of the chocolate firm). This could signify that headquarters showed little interest and provided insufficient support which might have contributed to the clothing firm's overall failing performance. On the other hand, the chocolate firm's case could signal excessive control by headquarters, also leading to inferior performance.

The productivity factor in all the four cases where the *acquisition* entry mode was chosen showed higher ratings at the end of the period under analysis. In the case of the lighting products manufacturer, the increase was moderate, going from a poor to satisfactory rating. Product competitiveness in two cases remained unchanged at the highest rated level. The lighting equipment maker improved its competitiveness from poor to good and the clothing firm (German investor) declared no change with an overall satisfactory rating. Products improved their innovative character in two cases: less in the case of the plastic pipes and fittings firm and more in the case of the lighting equipment firm. In the other two companies, innovations remained at an unchanged satisfactory level. In two cases, there was a complete coincidence between the paths of competitiveness and innovations and in the remaining two it was less pronounced. The plastics firm had at the end of the study the same highest rating as its competitiveness but the starting point for the innovativeness factor was lower. The medical instruments firm had an unchanged satisfactory rating of its innovative character, one level below its competitiveness position.

The profitability factor showed a decline in only one case, i.e., that of the (German) clothes maker. In the medical instruments firm profitability was unchanged at a satisfactory level. The plastic pipes and fittings and lighting equipment firms both improved their profitability, the former starting from satisfactory and moving to the top level and the latter moving from weak to satisfactory rating.

Company growth and expansion remained high and unchanged for the plastics and lighting companies. The medical instruments maker exhibited moderate growth from weak to satisfactory level and the clothing producer had lowest ratings on growth and expansion throughout the period under study. In the medical and lighting equipment firms, cooperation with headquarters evolved from a satisfactory to good level, while in the plastics company it remained on a satisfactory level. The only deterioration from satisfactory level occurred in the clothing company.

Entry mode and firm characteristics. The first group of relevant firm characteristics covers the sales structure, i.e., the split between domestic sales and exports. At the time of entry into the Polish market, two of the *green-field* firms had a clear domination of export sales and the third (the chocolate maker) a full focus on the domestic market. Towards the end of the analysed period, these preferences were slightly modified in the opposite direction, i.e., the export firms shifted more sales to the domestic market and the domestic focused company began exporting.

As for the supply structure, at the beginning there was a marked focus on imports for the clothing firm and to a lesser degree for the chocolate manufacturer. Due to industry specific reasons, the glass equipment maker had a majority of domestic suppliers. At the end of the period under study, in the case of the (Italian) clothing firm the structure was identical. The chocolate maker developed ties with local suppliers reducing the import input to 50% and the glass equipment company minimally increased its small import content. Thus the observed changes were not radical and primarily industry or firm specific.

For the clothing firm (Italian investor), to some degree, the strong preference for exports and supply imports may be explained by the fact that it was treated as a module in the value adding chain of the foreign parent company. Comparable data for the glass equipment company were not available. For the chocolate maker, the value adding chain was considered as complete or almost complete and therefore from this point of view it was logical to adopt a strategy focusing on domestic sales. Moreover, before the transfer of such chain through green-field investment, the domestic market was served by exports.

The domestic-export market mix of firms that used the *acquisition* mode was quite varied. Data for the lighting equipment firm were incomplete for this analysis. The (German) clothing-making firm and the medical instruments maker showed a high preference for exports (65%) at the beginning and the plastic pipes and fittings company, on the contrary, an even greater focus on the domestic market (90%). The present situation reveals more concentration on exports for the clothing firm, a change of focus to the domestic market (71%) for the medical instruments company and an unchanged structure for the plastic pipes and fittings company.

The supply structure showed in all three cases an increased reliance on imports. It increased from 80% to 90% in the case of the clothing firm, from 15% to 45% in the case of the medical instruments maker, and from 20% to 50% in the plastics firm. Together with the partial data for the lighting equipment firm also demonstrating a high preference for imports (72%), it can be assumed that acquisitions do lead to an increased use of foreign procurement.

Participation in the value adding chain of the foreign parent company was evident only in the case of the lighting equipment firm. All the remaining firms declared controlling the full or almost full value adding chain. Furthermore, all, except the plastics company, stated that exports were used before the green-field or acquisition stage of presence on the Polish market. The medical instruments firm, additionally mentioned joint-venture as the previous form of involvement in the Polish market. In its totality then, no discernible relationship could be sensibly traced directly between the domestic market-exports sales mix and the domestic market-imports supply mix, on the one hand, and the value adding chain concept and previous forms of presence on the Polish market, on the other.

FDI motives vs. FDI modes. It is truly difficult to discern a clear and unambiguous relationship between FDI motives and the green-field investment or acquisition entry modes using the existing case material. There are, however, traces of two, to a certain degree distinct, trends. Two out of the three cases where the *green-field* mode was chosen attached high importance to the market-seeking factors defined in the survey as: getting access to new markets, sustaining and expanding market presence in the host country plus avoiding trade barriers. The second dominant group of motives were efficiency-seeking factors, i.e., lower manufacturing and transport costs, lower costs due to economies of scale plus lower labour costs. The chocolate maker mentioned, in addition, other motives such as defence of existing competitive position and creation of a cost effective supply base, but these factors carry a low importance rating.

Among the four firms that chose the *acquisition* entry mode, the only common motive were lower costs, as defined above. Three firms gave this motive a high importance rating and only the plastic pipes and fittings firm assigned a low importance mark. The second, minimally less common, factor was the offensive expansion and improvement of competitive position, falling into the market-seeking category of motives. Other factors, like securing a supply base or defending competitive position, seem to be incidental. Therefore, within the framework of the existing situation and conditions of the Polish market, the summary conclusion points to the green-field mode as being more suitable for firms which focus on market factors and, at the same time, lower costs. The acquisition mode, on the other hand, will be preferred when the investor is more inclined to act offensively, expand its competitive position, while keeping in mind the need to reduce costs.

Discussion of results and hypotheses

The findings regarding the FDI motives are only partially consistent with the previous empirical studies referred to in the literature review, where market factors assumed higher prominence than efficiency factors. However, these findings are consistent with expectations and observations found in the descriptive and qualitative literature dealing with FDI motives in Central and Eastern Europe (CEE), where the cost-efficiency benefits are pointed out as often as market attractiveness of the region (e.g., Hardy 1994). Almost a total lack of resource-seeking motives can be, at least partially, explained by the sample composition (only manufacturing companies were studied). The inclusion of companies from the extractive sector, for example, would have probably led to different results in this respect. Clearly there is an urgent need for more empirical studies, based on sufficiently large samples of foreign subsidiaries, focused on motives for FDI in CEE. Dunning's classification of FDI motives, as described above, could be used as an organising framework for such studies.

In the relationship between green-field investment or acquisition and the determinants of their choice, the following preferences were identified. The choice of the green-field investment mode was much more consistently determined across firms than that of acquisition. The general motives for undertaking FDI in the form of green-field investment were focused on: (a) market-seeking factors perceived as accessing new markets and then sustaining and/or expanding market presence; and (b) efficiency-seeking factors, i.e., lowering costs. Factors affecting acquisition mode demonstrated more variation. Among the many motives quoted for undertaking FDI only two were common: pursuit of lower costs and offensive expansion and improvement of competitive position. These in turn coincided with and reinforced the two main acquisition determinants: the speed of market entry and acquisition of valuable assets such as brands and distribution networks plus market shares. Viewed as a summary construct, they came closest to the concept of market and resource seekers with more focus being placed on the second category.

The analysis of the performance construct leads to the conclusion that green-field investment did not guarantee success in the Polish market. This is in contrast to the results of research by Woodcock, Beamish and Makino (1994), and Nitsch, Beamish and Makino (1996) who found that green-field investment should demonstrate better performance than acquisition. Only in one out of the three green-field cases examined were almost all the measures of performance better at the end of the analysed time span than at the beginning. This success was achieved in the investment goods sector (glass industry equipment). The other two firms where most of the performance ratings deteriorated over time were operating in the consumer goods sector.

The overall influence of the acquisition mode on performance is, on the contrary, quite positive. The performance criterion clearly points to acquisition as being more beneficial than green-field investment. The only negative evolution of performance attributes were observed in the clothing firm (German investor) case. A possible explanation of this phenomenon lies in excessive (from the subsidiary point of view) transfer of profits abroad through transfer pricing. This could have prevented the subsidiary's full profitability from surfacing, have led to worse cooperation with headquarters (subsidiary being antagonised) and the resulting stagnant growth. Further evidence of this being the case is provided by the low autonomy rating of the subsidiary management, signalling high headquarters centralisation and control. In all the other three acquisition cases, subsidiary autonomy was rated as being just right.

It was much more difficult to establish a pattern between the two FDI modes under investigation and selected firm characteristics. The domestic-export sales structure which was more export-market oriented favoured green-field investment. With more operating experience on the Polish market, there was some shift observed towards a slightly larger share of domestic sales. Acquisitions tended to stimulate an evolution from the dominance of export sales in the first years of operation to a major share of the domestic market observed currently. Both modes therefore encouraged a shift of focus with the green-field option remaining more export oriented.

As for the supply structure, acquisitions clearly favoured imports. The observed evolution simply reinforced that trend. The preference for supply imports in the case of green-field investment was also evident but it was much less pronounced with a counter trend appearing at the end of the studied time period.

The relationships between the two FDI modes and subsidiary role in the value adding chain as well as previous forms of presence on the Polish market were more complex and obscured. For green-field operations there was a direct link but only between the domestic-export sales mix and the value adding chain concept. Thus more export orientation of the green-field investments also indicated a partial participation in the value adding chain. The trend of green-field investment being preferred by market seekers seemed to contradict J.H. Dunning's observation (1993, p. 59) that such market seekers transferred to their foreign subsidiaries the complete value adding chain. In the Polish market, acquisition appeared to be the mode associated with preference for total control of the value adding chain and entry through exports prior to moving into FDI.

The findings and their discussion presented above lead to the following research hypotheses that could be tested in future studies of FDI in Poland and other CEE countries.

- H1: The main motives for undertaking FDI fall into the market-seeking and efficiency-seeking categories.
- H2: Factors that determine the choice of green-field investment are more consistent across firms than those that determine the choice of acquisition.
- H3: The green-field mode is preferred mostly because of the possibility to adjust the scale of operations and strategy to the requirements of the target market.
- H4: The acquisition mode is chosen mostly because of the desired speed of market entry.
- H5: Acquisition compared with green-field investment leads to superior performance.
- H6: Green-field investment is more export oriented than acquisition.
- H7: Acquisitions rely on supply imports to a greater degree than green-field investors.
- H8: There is no statistically significant correlation between the mode of FDI and the completeness of the value adding chain under subsidiary control.

Conclusions and directions for future research

Both within-case and cross-case analyses provide important insights into the ways the seven foreign affiliates were established and how they subsequently operated in the Polish market. The studied firms, although concentrated in one region of Poland, represented a broad spectrum of manufacturers, from clothing to medical instruments to glass making equipment. Three of them entered the Polish market through green-field investment and four through acquisition. Most of the investing firms were both market and efficiency seekers. No firm entered the market mainly to seek resources.

Due to the small sample of firms studied and the resultant absence of statistical rigour in the data analysis, the present study could only provide insights into a number of important relationships between the variables under consideration and lead to a statement of pertinent research hypotheses. These hypotheses are expected to help direct future research, which should be based on larger and more representative samples of subsidiaries, thus allowing for statistical analysis and more conclusive results. The present study does, however, provide guidance for questionnaire design and directions as to what relationships deserve to be further investigated. It also provides a wide range of references to the pertinent literature.

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Appendix

Summary Characteristics of Case

Feature	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7
1. Product line	Clothes	Lighting equipment	Light clothes	Surgical and dental instrument	Machinery and equipment for glass-making industry	Chocolate products	Plastic pipes and pipe fittings
2. Year of inception	1991	1991	1992	1992	1992	1995	1991
3. Initial investment outlay (mln USD)	0.2	23.0	3.6	3.4	7.0	29.0	6.0
4. Initial sales, domestic/exports (%)	5/95	–	35/65	35/65	10/90	100/0	90/10
5. Present sales, domestic/exports (%)	40/60	27/73	20/80	71/29	35/65	85/15	90/10
6. Initial sources of supply, domestic/ imports (%)	10/90	–	20/80	85/15	95/5	30/70	80/20
7. Present sources of supply, domestic/ imports (%)	10/90	28/72	10/90	55/45	90/10	50/50	50/50
9. Investor's country of origin	Italy	Holland	Germany	Germany	Germany	Germany	Denmark
10. Entry mode	Green-field	Acquisition	Acquisition	Acquisition	Green-field	Green-field	Acquisition
11. Main motives for FDI	Market and efficiency-seeking	Market and efficiency-seeking	Efficiency-seeking	Market and efficiency-seeking	Efficiency-seeking	Market and efficiency-seeking	Market-seeking

15

Polish Economic Policy, Internationalisation and Globalisation

Marian Gorynia

Abstract: The purpose of this paper is to present the determinants of and recommendations for economic policy. The present author has identified three most important factors which determine the Polish economy's position in its international environment. The three factors are: completion of transformation, integration with the EU and globalisation/internationalisation.

What needs explaining is why only the last of these three factors is included in the title of the present article. The answer seems to be that, in the long run, this factor is dominant and most important.

It seems that the significance of the factor referred to as transformation will be decreasing with time. This factor was a dominant one in the 1990s, especially in the first half of the decade.

In the long- and the mid-term view, the most important determinant seems to be EU membership, which is a great civilisational chance. It offers the Polish economy excellent development opportunities. It provides the chance to make better use of available resources and facilitates companies expansion into EU markets. In spite of many reservations, EU membership also implies an improvement in the quality of the regulation system.

In the long run, however, it is not EU membership that will be most significant. Integration with the European Union is a process which is part of a larger whole: an evolution of the world's economic system. Consolidating the present "monoculture" of economic relations with the European Union would be inadvisable. There is every indication that the new, future "growth poles" of the world economy will be situated outside Europe.

The recommendations with regard to economic policy which are presented here have been restricted to those areas and issues which – in the author's opinion – should become the focus of attention and action on the part of economic policy. What is not discussed is those areas and issues where economic policy interference should be rejected or discontinued.

Introduction

After fifteen years of transformation, which started in 1990, the Polish economy is at a point which encourages careful reflection on the directions and priorities of the economic system's evolution. The transformation process has fundamentally restructured the economy, both its regulatory and real spheres. The numerous achievements of the period of economic restructuring are undeniable. At the same time, however, we cannot ignore all the missed opportunities and problems that are still awaiting solution. This brings up the question about the hierarchy of factors that will determine further stages of the transformation. In 2004, the still unfinished transformation of Poland's economy was accompanied by the country's accession to the European Union and the continuous process of globalisation – a fact which creates many dilemmas for Poland's economic policy. The main problems concern the pace, sustainability and stability of economic growth, the possibility of making full use of available factors of production (especially human resources), inflation, the state of public finance, external equilibrium, the capability to absorb aid funds provided by the European Union, etc. The internationalisation of national economies, which leads to the globalisation of the world economy, provokes questions about the place we can hold and will hold in the international division of labour. This is what the society's level of prosperity will depend on. The common denominator of the problems above is ensuring the economy's long-term competitiveness. There are many conceptions of economic policy that would be conducive to achieving a high competitiveness of the national economy. Very often, recommendations based on these conceptions are mutually contradictory. Sometimes these contradictions are fundamental, sometimes they result from different approaches to problem solving in a long-term and a short-term perspective.

The purpose of this article is to present the determinants of and recommendations for economic policy. The present author has identified three most important factors which determine the Polish economy's position in its international environment and – connected with this – the possibility of benefiting from the international division of labour and – consequently – the possibility of increasing prosperity. The three factors are:

- completion of transformation – the significance of this determinant will decrease with time,
- integration with the European Union – this determinant is especially important because of the great significance of relations with the EU for the Polish economy,
- globalisation/internationalisation – this factor will determine Poland's place in the world economy; it creates many opportunities for, but also threats to, the Polish economy.

What needs explaining is why only the last of these three factors is included in the title of the present article. The answer seems to be that, in the long run, as is demonstrated below, this factor is dominant and most important.

An important comment should be made at this point. Because of the Polish economy's character (a liberal and open market economy fully cooperating with the international environment), the recommendations formulated here will focus not so much on how economic policy should help domestic firms (which are exposed to competition from foreign companies, including foreign direct investors) as on how to create business-friendly conditions in Poland. The convention adopted here can be described as a "cosmopolitan approach to capital" – what is really important is not the source of capital but the effects in the form of new jobs created, taxes paid, production technology and management ideas transferred, etc. To put it another way, what counts is increased prosperity and affluence; their sources are a secondary and instrumental matter. In fact, the perspective adopted here calls into question the need to use different economic policy instruments in relation to companies which are domestic or foreign in terms of the source of capital. Such a perspective is consistent with a general trend observed in the world economy (at least in its liberal part), open to international cooperation. The trend is to introduce regulations which treat businesses operating in the territory of a given state on an equal basis, irrespective of the source of capital.

It seems that the significance of the factor referred to as transformation will be decreasing with time. This factor was a dominant one in the 1990s, especially in the first half of the decade. Paradoxically, as the transformation was progressing, the role of the factor was less and less important. It is obvious that areas with a "post-communist legacy" must undergo further and consistent transformation.

In the long- and the mid-term view, the most important determinant seems to be EU membership, which is a great civilisational chance. First of all, it offers the Polish economy excellent development opportunities. It provides the chance to make better use of available resources and facilitates companies' expansion into EU markets. In spite of many reservations, EU membership also implies an improvement in the quality of the regulation system.

In the long run, however, it is not EU membership that will be most significant. Integration with the European Union is a process which is part of a larger whole: an evolution of the world's economic system. Consolidating the present "monoculture" of economic relations with the European Union would be inadvisable. There is every indication that the new, future "growth poles" of the world economy will be situated outside Europe. It is imperative, therefore, to take advantage of the opportunities offered by European integration but, at the same time, try to become an inherent part of the world's larger "economic landscape". In this case, we can talk of a recommendation of sorts for a "diversification of economic relations" that would serve Poland's long-term economic benefits and economic security.

The recommendations with regard to economic policy which are presented here have been restricted to those areas and issues which – in the author's opinion – should become the focus of attention and action on the part of economic policy. What is not discussed is those areas and issues where economic policy interference should be rejected or discontinued.

Economic policy – building the economy's long-term competitiveness

An essential element of every country's economic policy is a uniform, traditional macroeconomic policy, which embraces such major types of policy as fiscal policy, monetary policy, price policy, income policy, employment policy, etc.[1] In this study, we are not suggesting recommendations for this policy. However, it is justified to consider the question if the state's economic policy should be restricted to traditional macroeconomic policy or if it should also embrace elements and instruments that go beyond the policy's usual scope. Theoretical arguments (Hirst, Zeitlin (Eds) 1989, p. 1–15; Timlinson 1989, p. 248–253), but above all most countries' economic policy practice, suggest the advisability of supplementing traditional economic policy instruments with other tools, whose common declared purpose is most often to increase the competitiveness of a given economy. The competitiveness argument is often used with reference to the Polish economy.

The question that appears in this context is about the kind of economic policy instruments that should be used to counteract the negative aspects of Poland's integration with the world economy and, in particular, to ensure the level of competitiveness that will facilitate the Polish economy's further integration with its international environment.

We can distinguish two general conceptions of economic policy that supplement traditional economic policy with a view to increasing the economy's competitiveness:

1) conception of increasing the competitiveness of Polish exports in foreign markets (enclave model),
2) increasing the competitiveness of the economy as a whole (integral model).

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[1] A. Karpiński sees fiscal, monetary, customs, price, employment, social, regional, and investment policies as traditional macroeconomic policies. Scientific/technological and innovation policy, structural adjustment policy, restructuring policy and environmental policy are, in his view, modern macroeconomic policies. According to the same author, economic policies of particular industries include: industrial policy with its numerous varieties, such as energy and raw material policies, as well as agricultural, transport and trade policies (Karpiński 1992, p. 90–103).

In the present author's opinion, there are many arguments suggesting that the enclave model should not, or even must not, be used. Within the enclave model, export and/or investment receive special treatment[2].

The integral model emphasises increasing the competitiveness of the whole economy, not just the export sector. In the present situation of Poland and its environment, the basic strategic problem is developing a competitive production of goods and services sold in both domestic and foreign markets (Płowiec 1997).

Two general recommendations for economic policy could thus be formulated (Gorynia 1996):

1) economic policy should support the development of company competitiveness,
2) economic policy should approach this support in an integral way, i.e. it should not make an unfounded distinction between instruments supporting competitiveness in two dimensions – exporters' competitiveness in foreign markets and producers' competitiveness in the open domestic market.

The above criteria are met by the conception of a liberal and institutional industrial policy (Gorynia 1995). The essence of a liberal and institutional industrial policy is to promote broadly understood development and entrepreneurship. This policy uses mainly instruments that are universal in character. Although these instruments go beyond the focus of a traditional macroeconomic policy, their common feature is the uniform character of all their aspects. The whole economy, all sectors, branches, industries, sections and other mesosystems are in principle treated in the same way.

Four main directions can be distinguished within a liberal and institutional industrial policy:

- policy of development support,
- policy of competition support,
- policy of privatisation,
- policy of economic self-government support.

For example, within the policy of development support, the following actions should be mentioned:

- supporting investment,
- supporting innovation, research and development,
- supporting education and training,
- spreading business risk,
- supporting the development of information systems and the diffusion of information.

[2] Using the term enclave model with reference to special treatment of the export sector is analogous to favouring the enclave model as a way of treating foreign direct investment in central European countries. In the case of foreign investment, the enclave model implies a different treatment of foreign and domestic investors. The opposite of the enclave model is treating foreign direct investment on an equal basis with local investment (national treatment), Samonis (1992, p. 101–112).

Polish foreign trade policy, an element of a liberal and institutional industrial policy, should take the following directions (Płowiec 1977):

- lifting barriers to export development: barriers connected with production quality, barriers connected with the offered conditions of payment for exports (export credits, insurance of export transactions), infrastructural barriers,
- developing non-tariff forms of protecting producers from unfair competition or from excessive imports.

Economic policy should also focus on creating a business climate which would attract foreign investors. Foreign direct investment should prove particularly useful in[3]:

- developing management staff and operations personnel,
- raising the professional level of management,
- transferring production and marketing technology as well as management technology,
- introducing technologies that are energy-saving, material-saving, and environmentally friendly.
- privatising the economy further,
- in the long run, they should help improve the trade balance[4].

At this point, it is good to present M.E. Porter's view (to which the present author subscribes) on the role of economic policy in creating and sustaining a competitive advantage (Porter 1990). There are four basic determinants of an industry's international competitiveness:

1) factor conditions,
2) demand conditions,
3) related and supporting industries,
4) corporate strategy, structure and level of rivalry.

Porter refuses to recognise the role of economic policy as a fifth determinant. The government has an indirect effect on national competitive advantage by influencing the four determinants. The government influences the determinants, and the determinants affect the government's behaviour. The government plays an important role in creating advantage, but this role is a partial one because it is other factors that are significant. The repertoire of instruments which are used by

[3] It should be pointed out that these expectations are not always sufficiently realised. The threats connected with the branch structure of foreign investment in Poland, particularly with the process of "servicisation" are highlighted by J. Kotowicz-Jawor (2001).

[4] It is emphasised in the related literature that a limited export propensity of Poland-based companies with foreign capital may result from the fact that, owing to a large domestic market, their sales strategy is oriented towards the Polish market. U. Kopeć writes: "In the case of Poland, the motive of a large domestic market generally prevailed. On the other hand, because of a significantly smaller absorption of the Hungarian and Czech markets, foreign investors' strategy was to consider the possibility of undertaking export activity" (Kopeć 2000, p. 189).

the government to influence specific determinants and which Porter analyses is very wide but also highly instructive (Porter 1990). The government's influence on factor conditions concerns such fields as education and training, science and technology, infrastructure, capital, information and direct subsidies. The government's influence on demand conditions concerns such fields as government purchases, product and process regulation, influence on industries-purchasers, early and sophisticated demand stimulation, information for the purchaser, technical standards, assistance for foreign countries and political connections. The influence on related and supporting industries involves implementing the right policy towards the media and influencing the formation of industry bundles-centres. The influence on corporate strategy, structure and competition means supporting internationalisation, stimulating the right choice of individual and corporate goals, promoting internal competition, encouraging new entries, pursuing the right trade policy and influencing foreign investment.

In the context of the comments above, the following question appears: how does the fact that Poland is participating simultaneously in two important economic processes – integrating with the European Union on the one hand and, on the other, joining the world economy system through an increased participation in international trade and foreign direct investment flows – how does this fact determine Poland's economic policy? An additional factor that has to be taken into account is transformation. We should, at least partly, agree with K. Ohmae's (1995) thesis about the continuing erosion of the nation-state's sovereignty, reflected in the restricted freedom of economic policy[5]. Poland's membership of such organisations as the WTO, OECD, CEFTA, the International Monetary Fund and the European Union means that some of the prerogatives traditionally enjoyed by the nation-state are being deliberately and voluntarily given up. This process, however, serves the purpose of increasing society's prosperity – no one in the world has ever invented a better way of achieving this aim than participation of an economy in the world economy and its wide integration with it.

However, Lipsey (1999, p. 93) points out that we should talk of alterations of power in nation-states rather than of its loss, because the decreasing significance of states refers only to macroeconomic policies, such as tariffs, exchange rates or tax instruments of stabilisation policy. Additionally, Lipsey (1999, p. 93–94) shows the reallocation of national government power to supranational bodies (upwards) and to local governments (downwards).

There is an interesting idea concerning the relationship between the degree of an economy's openness and the government's size in terms of the share of budget spending in the GDP (Streeten 2001, p. 61–63). Most economists would

[5] Restrictions connected with the co-occurrence of transformation and globalisation are pointed out by G.W. Kołodko (1999, p. 309–310). See also: Gray (1988).

expect globalisation to reduce the government's size, which should be an effect of a liberal trade policy and a lower effectiveness of national monetary and fiscal policies. It turns out, however, that in the case of small and open economies, such as those of Sweden, Austria, Switzerland, Belgium, Luxembourg and the Netherlands, the relationship is quite the reverse. In these countries, budget spending is a relatively large share of the GDP. Rodrik (1996) suggests that underlying this phenomenon can be the fact that, in the case of these economies, the government's important role results from its being an absorber of external shocks, which can be very harmful to small economies.

It should be emphasised, however, that the impact of internationalisation and globalisation on the role of nation-states is not unambiguous. Undoubtedly, rather than eliminate the significance of national governments, these processes modify the scope and instruments of their policy (Milward 2003, p. 146). Sometimes it is argued that in the present situation the role of a nation-state is greater than in the past, especially in European Union countries (Chesnais, et al. 2000).

Polish economic policy should therefore take into consideration the determinants resulting from EU integration and globalisation. As has been underlined, it also seems that, in the short- and mid-term view, issues connected with EU membership will take precedence, while in the long run globalisation problems will be most important.

EU membership means having to adjust Polish economic policy to what is called EU standards. EU policy covers many areas. Z. Wysokińska and J. Witkowska (1999) list the following areas: trade policy, agricultural policy, energy policy, policy of supporting research and technological development, competition policy, environmental protection policy, consumer protection policy, transport policy, regional policy, social policy as well as policy towards small and medium-sized enterprises[6]. In virtually each of these areas there are solutions affecting the competitiveness of EU economies. It should be emphasised that the "pro-competitiveness level" of EU regulations varies across sectors. Therefore, we cannot talk of a uniform pattern of supporting competitiveness in all sectors within the EU. An example of a sector where competition, i.e. effectiveness, considerations have a less important role to play is agriculture. It is difficult to say if it is possible to use a different solution, but emulating EU models of competitiveness support in Poland is risky in the long run. In the long run, will the EU's agricultural market be separated from the international environment? If not, then, in the long run, building Poland's agriculture according to the EU model is unreasonable – this sector's likely long-term integration with the international market will require further intensive adjustment processes. Using substan-

[6] The aspect of competitiveness is also extremely important with reference to regions and regional policy, see Domański (Ed.) (1999).

tial domestic funds to increase (supplement) EU funds allocated for farming subsidies may be imprudent in the long run, because it may lead to the phenomenon of "artificial competitiveness", which is not based on real cost and/or quality advantages. Strengthening competitiveness patterns based on state interventionism is harmful. Liberalisation processes in international food trade, inevitable in the long run, will give rise to restructuring processes in the sector. The greater the state's involvement, the more painful these processes will be.

One of the features of the EU's policy of competitiveness support in non-farming sectors is trying to achieve high competitiveness through competition promotion. This was synthetically formulated in the European Union Treaty, which reformed founding treaties of the Communities, as an entry on creating conditions necessary to ensure competitiveness of the common industry by both the European Community and its member states. Action taken to achieve this should be in accordance with the system of open markets and should take into account (Wysokińska, Witkowska 1999, p. 205):

- accelerating adaptation to changes in industry,
- creating conditions for the initiatives and development of companies, particularly small and medium-sized ones,
- creating a climate conducive to companies' cooperation,
- encouraging better use of industrial potential in innovation, research and technological policies.

An important factor shaping the EU's policy of competitiveness support was also the "Communique on industrial competitiveness policy for the European Union", presented by the European Commission to the EU Council in September 1994. The document focuses on four issues (Wysokińska, Witkowska 1999, p. 205–206):

- promotion of intangible investments, i.e. investments in research and development, intellectual property, education and training,
- development of industrial cooperation (first of all identifying and removing barriers to cooperation within the Union and with its foreign partners),
- protection of fair competition, both internal and external (in particular reducing the role of the state and concentrating on horizontal support at the expense of sectoral support),
- change in the role of public authorities (simplifying legislation and administrative procedures, especially for small and medium-sized enterprises, properly using structural funds to support the development of competitive sectors of industry with regard to the situation of particular regions).

This brief outline of the basic principles of the EU's approach to economic policy's support for competitiveness leads to two observations:

1) these principles are consistent with the liberal and institutional industrial policy mentioned earlier,

2) the principles presented are only guidelines; they give national institutions considerable freedom in determining the details of economic policy.

It should be noted, however, that the European Union's official views and reports are not always shared by researchers. The following is a presentation of views held by a group of academics from EU countries on the Union's industrial policy (Cowling (Ed.) 1999). Their position could be summarised in several points:

- in the 1980s, economic policy in Europe was dominated by privatisation and deregulation; there was no discussion about a positive economic policy,
- in the 1990s, discussion was resumed with the publication of Competitiveness White Papers,
- in the 1990s, a new economic policy, namely the policy of competitiveness, involved reorientation – abandoning sectoral undertakings (sector privileges) owing to difficulty in picking winners for horizontal industrial policies,
- analysis of policies actually implemented suggests that departing from sectoral policies is not complete, and the horizontal policies declared turn out to be largely sectoral,
- in practice, the implementation of horizontal policies has to contain sectoral elements – sectoral instruments are mixed with horizontal ones,
- there is a visible trend towards the growing significance of ad hoc interventions targeted at individual companies,
- despite declarations of the departure from the policy of picking winners, many sectors in EU countries remain under a surprisingly strong influence of "national champions".

However, the authors of the work quoted here do not advocate the need to return to the policy of bureaucrats who pick winners using new, improved methods. Their suggestions seem to be going in a somewhat surprising direction. In their opinion, the fact that the state refrains from sector-oriented intervention (because it is not competent enough to do otherwise) is also a kind of intervention This creates an empty, undeveloped field, which is taken by transnational corporations – industries are selected not at the state level (as in the case of sectoral policies), but at the level of corporation boards. Elitist corporation boards plan the directions of expansion – at the heart of what is called market economy, major decisions are like long-term plans constituting a transnational corporation strategy. In corporations, decision-making is not democratic – it often means making choices which are not socially beneficial. There occur "strategic failures".

A remedy for the irregularities identified should be to introduce a different method of choosing industries or types of activity. This choice should be made in a process of democratic selection – development sectors should be identified and accepted by the largest possible number of people so that the sectors (types of activity) will be of the greatest possible benefit to them. The burden of decision-making, or in fact evaluating the proposals put forward by corporations, should be moved to the local community level. According to the authors of this proposal, two initiatives of the European Union are convergent with their way of thinking: the Regional Innovation and Technology Transfer Programme and the Regional Innovation and Strategy Programme. Both these programmes are orientated towards stimulating growth and raising the standards of living in Europe's underdeveloped regions through stimulating technology transfer and innovation activity.

What should also be mentioned at this point is the Lisbon Strategy, a programme to increase the competitiveness of the European Union by 2010 in the goods and services market. The purpose of the Lisbon Strategy, which was adopted in 2000, was to make the European economy more competitive, especially in relation to the United States. The strategy involved restructuring the socio-economic system with a view to achieving higher competitiveness. It was aimed especially at building a "*European economy based on:*

- *knowledge, i.e. the development of the information society, research and innovation, and the opportunity to acquire appropriate qualifications and skills,*
- *the implementation of the principles of sustainable development and environmental protection, including the preservation of human resources, use of renewable energy sources, prevention of unfavourable climate change caused by global warming,*
- *the liberalisation and integration of network industry markets (power industry, telecommunications and post, transport, fuel sector) and the financial services market,*
- *the development of entrepreneurship based on deregulation, elimination of administrative and bureaucratic barriers, better access to capital and technologies, creation of the same competition rules for companies operating in a uniform domestic market,*
- *higher employment, a changed social model and the ability to meet the challenge connected with the ageing of societies (increased professional activity, increased flexibility of the labour market, improved education, modernised social security system, reduced poverty and what is known as social exclusion)"* (Wysokińska, Witkowska 2004, p. 23).

It seems significant what priorities result for Poland from the Lisbon Strategy. The strategy reduces the role of the state, or the "public hand", to three kinds of activity:

1) providing support with public (domestic and EU) money, i.e. expenses approach,
2) liberalising EU markets, i.e. regulatory changes,
3) internal reforms in particular countries, i.e. institutional and regulatory changes (Szomburg 2004, p. 45).

One has to agree with Szomburg (2004, p. 45) that the priorities should be to focus on the system, or the economy's institutional and regulatory framework, and to complete structural reforms.

As for the implications of globalisation for Polish economic policy, one can quote J. Dunning, who lists the most important dilemmas connected with the role of the nation-state in the face of globalisation:

- how does the growing structural interdependence of particular components of the world economy affect nation-states' ability to conduct a traditional regulatory activity?
- how does the growing mobility of man-made invisible, intangible resources such as knowledge and information affect the nation-state's ability to regulate these processes?
- what can and what should national governments do to ensure adequate quality of resources connected with the place of their jurisdiction so that it will be possible to attract and retain in a given country resources owned by transnational corporations, which in turn is a condition for achieving the country's economic and social aims?
- which types of policy require reassessment so that they can serve as competing instruments for attracting mobile resources of international corporations to a given country?
- do liberalisation and globalisation weaken or change the nation-state's role?
- which of the tasks that the state performed properly before globalisation are carried out better by the markets?
- how justified is perceiving the state's role in terms of supplementing rather than substituting the market?
- does the occurrence of transborder networks of business activity require a more systemic and transnational approach to regulation?
- how do globalisation forces change the optimum size of a national government? (Dunning (Ed.) 1999).

According to Dunning, owing to continuous globalisation processes. common perceptions of the state's role in the economy should be totally redefined. This applies to four aspects of the role:

1) distinguishing between the state's systemic and operational role in the economy,
2) factors unique to a given country and influencing the state's role in the economy,
3) the ways governments respond to globalisation,
4) governments' appropriate territorial jurisdiction.

In the traditional approach, this role is reduced to the opposition between the systemic and the operational role. Dunning advances the thesis that globalisation not only increases the systemic role, but also fundamentally redefines it and decreases the significance of the state's operational functions. Traditionally, the state's systemic role was reduced to creating conditions for economic activity in order to minimise non-market costs of coordination and transaction costs of economic activity. When economic activity becomes more complex, specialised and interdependent, when the markets become uncertain or are affected by external effects, information asymmetry and opportunism, the state assumes additional institutional and supervisory responsibility. To function properly, an economy in which information and innovation have a major role to play by definition requires broad participation of non-market institutions. This implies the need to ensure that the law is obeyed, order is maintained, property rights are respected, contracts are executed and conflicts resolved. Dunning advances the thesis that globalisation brings about far-reaching changes in the state's systemic role. This is connected with the necessity to create laws and regulations on an international scale (e.g. intellectual property law), to ensure that the institutional norms and regulation systems of a given country do not put its companies and citizens in a worse situation than those from other countries (e.g. regulations concerning environmental protection, competition policy, tax systems, etc), to lift international trade barriers, to fight discriminatory procurement policy, technical standards, problems on the border, etc. Dunning believes that the state's systemic role has to undergo constant creative destruction.

With regard to the state's operational role, equally or even more relevant is the creative destruction postulate. While systemic functions are an inherent role of the state, its direct involvement in the functioning of an economic system (operational function) should depend on a comparative analysis of the cost of this action and the costs of other institutional solutions. The situation in this field is evolving continuously – there are cases where state interventionism is justified by extremely high transaction costs of pure market regulation. This is what happens when we deal with idiosyncratic (specific) investments or when some capital goods take on features of public goods and generate enormous fixed costs. Examples include infrastructure projects with major external effects which lead to significant divergence of private and social benefits.

It should be emphasised at this point that the ideas developed in the 1970s and 1980s by proponents of what is called "new market-failure theories", such as Joseph Stiglitz, George Akerlof, Oliver Williamson and Paul David, seem to be losing ground (Cowen, Crampton 2002, p. 3–25). One can even come across the opinion that new market-failure theories overestimate relative imperfections of the market economy. In many cases, theoretical justifications of market imperfections are implausible (Cowen, Crampton 2002, p. 24). It is stressed that the term "market failure" itself contains an unfounded prejudice – one cannot talk of the fallibility of the market before the latter is analysed. Instead of the term "market-failure theory", Tabarrok (2002) offers the concept of "market challenge theory”. The debate suggests that one should not expect a major revival of the state’s operational role that would invoke arguments put forward by the authors of new market-failure theories.

According to Dunning, the government’s operational intervention in the functioning of markets can be justified when distortions of international markets are greater than those of domestic markets – when business entities from a given country face foreign risk of a non-commercial character, information asymmetry or opportunism. These market imperfections most often apply to small and medium-sized companies. In such cases, the government can provide information on foreign markets, insure companies against political risk and negotiate the lifting or lowering of trade barriers with foreign governments, etc. It is worth emphasising that, according to Dunning and co-authors, there is no single, best recipe for how particular governments should respond to globalisation. This depends on numerous, specific determinants: institutional and economic infrastructure but also the social and cultural structure of particular countries.

One of the basic indicators of each national administration’s stance on the globalisation issue is government policy towards foreign direct investment. Dunning and co-authors put forward a very important and, to some, controversial view on the issue: because of globalisation, action taken by national administrations should not depend on who owns the firms under their jurisdiction. Therefore, government policies towards foreign direct investment should not focus on attracting or accepting the “proper” investments. Policies towards investment should leave aside the issue of ownership of companies, which operate within the jurisdiction of particular governments.

As for the spatial aspect of the state’s changing involvement, which is an effect of globalisation processes, one can distinguish three levels of spatial regulation: microregional or subnational, national, and macroregional or supranational. According to Dunning and co-authors, globalisation affects the relative importance of these levels in such a way that the role of the first and the third levels tends to grow, while the role of the national level is decreasing. However, of utmost significance here are qualitative factors (changing function of the nation-state) rather than difficult-to-measure proportions of the state’s involvement at particular levels.

With regard to the policy of supporting the economy’s competitiveness, it seems that the conception promoted by Dunning and co-authors is a modern and progressive conception which can be applied also in Poland. Its innovativeness lies in a distribution of emphasis that is different from that of other approaches. The conception draws heavily on the achievements of new institutional economics, neoinstitutional economics. Schumpeterian economics, evolutionary economics and resource (especially knowledge) based economics. The conception approaches the issue of competitiveness holistically (systemic competitiveness), but it also takes into account and develops the aspect of competitiveness – neglected in other approaches – connected with the level of transaction costs, which should be reduced thanks to properly working institutions (institutional competitiveness)[7]. Global capitalism, in which also Poland increasingly participates, requires focusing on human capital, knowledge and creativity. An extremely important role in it is played by the services sector and infrastructure (Dołęgowski 2000). In these conditions, the basic directions of promoting the state's international competitiveness should be:

- to ensure an adequate quantity and quality of resources (resource creator and improver) – high quality of human capital (e.g. education), high propensity to innovate, efficient financial market, etc,
- to promote transaction cost reduction – good legal system (contract execution), adequate infrastructure, eliminating information asymmetry, risk reduction (insurance systems), preventing discrimination against businesses from a given country, concluding international economic agreements, etc[8],
- to create an investment-friendly climate and to exert influence on the economic ethos.

The most important, critical role of modern democratic governments in the economy is to create and maintain an effective economic system (Porter 1990; Dunning 1994). According to Dunning, this role can be reduced to five issues:

1) governments should create and present to their voters a distinct and challenging vision of the country's economy,
2) governments should ensure that institutions responsible for changing the vision into reality are ready and able to adapt to requirements of an economy based on knowledge and innovation,
3) governments are responsible for making the accessibility, quality and cost effectiveness of general and universal resources comparable to those in other countries (transport infrastructure, public services, education infrastructure, telecommunication infrastructure),
4) governments should create and maintain an institutional framework and ethos which facilitate ongoing improvement in the resources and skills under their jurisdiction,
5) governments should make every effort to promote the creation and development of microregional clusters, because it is increasingly evident that the competitiveness of domestic industries depends not only on the efforts of firms that make them up but also on their interaction with suppliers, customers and rivals (Dunning 1999, p. 119–120).

[7] The relationship between entrepreneurship and the institutional structure of markets is discussed by Noga (2001).

[8] Transaction costs can also be reduced thanks to social capital, which is responsible for generating social confidence. See: Matysiak (1999).

It should also be noted that, with reference to the last of the points above, Dunning questions the economic justification for widespread regional policies aiming to reduce income differences and the pace of economic development (Dunning 1999, p. 120–121). Solutions adopted by the European Union often hinder the creation of microregional clusters. Dunning is even convinced that governments can contribute to the most effective allocation (distribution) of activity within their countries by avoiding the wrong policies rather than by taking positive action. It seems that the ideas deserve especially thorough consideration in Poland, where the level of the state's interference in regional policies is still not very high. It may be possible to avoid the mistakes made earlier in other countries, where the governments determinedly pursued the policies of bridging regional differences.

Interesting views on the state's role in creating a nation's competitiveness can be found in the idea of building a nation's wealth (Kotler, Jatusripitak 1997). According to this conception, a nation can be treated in the same way as a company, which implies that it can derive benefit from the application of strategic market management. Methodologically, the procedure of creating a wealth building strategy draws on the ideas of strategic corporate management. First of all, one should determine a nation's strategic lever: assess the nation's current competitive environment and determine its goals and aims on the basis of the environment's features. The nation's strategic lever should then be translated into pragmatic and specific guidelines that will determine areas of public policy, whose aim is to improve competitiveness (both microcompetitiveness and macrocompetitiveness). To increase competitiveness, a country has to use two types of public policy. Firstly, this is a basic policy on investment and industry and trade building strategies. A sine qua non for an effective basic policy is pursuing specific types of support policy. Secondly, what is needed, therefore, is a support policy embracing macroeconomic policy, national infrastructure development and institutional framework development. The last stage is the strategic implementation of the conceptions that have been developed. Assessing the conception under discussion, it should be noted that its innovative character is mostly a matter of language – its content is similar to the approach of Dunning and co-authors.

While considering the impact of globalisation on particular countries' economic policies, we should also note the approach suggested by Lipsey (1999, p. 73–113). The author appreciates the great role of globalisation in changing today's world economy, but at the same time he observes that globalisation is only an element of a larger process, which is a set of structural adjustments that take place in the world economy and are an effect of the information and communication technology revolution. According to Lipsey, the main, long-term cause of globalisation is technological change.

Another important aspect of the relationship between globalisation processes and the economic policy carried out is the awareness of the ethical and moral determinants of globalisation, which – as one might expect – should also be reflected in the economic policy implemented. This is an extremely broad issue, which does not arouse particular interest, probably because Poland is a minor player on the economic map of the world. Nevertheless, the issue should be mentioned in order to emphasise its significance. Dunning (2003, p. 1) has put forward a very interesting view on the matter:

"...if global capitalism – arguably the most efficient wealth creating system currently known to man – is to be both economically viable and socially acceptable, then each of its four constituent institutions (viz. markets, governments, supra-national agencies, and civil society) *must be not only entrepreneurial and technically competent, but buttressed and challenged by a strong and appropriate moral ecology*".

Directions and forms of supporting the competitiveness of Polish companies and products in the Single European Market*

Contrary to some expectations, in this part of the article this author does not recommend any other new, numerous, complicated, specialised, partial and fragmented instruments for supporting Polish companies' competitiveness. In his opinion, the state's present role should not evolve towards a full imitation of solutions adopted in other EU countries or multiplication of additional instruments for supporting competitiveness. Naturally, one should draw conclusions from positive experiences and consider using them, but this cannot be considered an imperative.

To begin with, a few introductory assumptions, which – although they seem obvious to some – are not always accepted by everybody. The assumptions are as follows:

- There should not be many instruments supporting competitiveness, the instruments should not be complicated, instrument "management" should not be difficult or expensive (either at the level of the regulation centre or in companies at which the instruments are targeted). There should be no "regulation jungle", which is difficult to understand, monitor and apply in firms, and which makes it difficult, or even impossible, to diagnose the effects of particular policy measures.

* This section of the text is based on an expert analysis commissioned by the Prime Minister's Socio-Economic Strategy Council (Rada Strategii Społeczno-Gospodarczej przy Prezesie Rady Ministrów).

- The instruments should not be too numerous, they should be simple, easy to understand and cheap to operate. It should also be added that the instruments should be realistically constructed and have good sources of finance (some instruments, perceived by companies as attractive, were not used because of the scarcity of budget funds, although, under existing regulations, companies were entitled to them).
- The basic form of competitiveness support is economic freedom, i.e. lack of the state's interference except when it is really necessary. The state's role should be to provide an efficient framework for economic activity, which comes down to building broadly understood institutions, and ensuring the existence of proper infrastructure. Everything that goes beyond the role thus defined is supplementary, additional and, in the long run, less important, without considerable influence on competitiveness.
- One has to accept the fact that there are no easy, simple, spectacular or miraculous recipes for improving international competitiveness. Competitiveness building takes time and effort. Using temporary macroeconomic policy measures or what is called "pro-export policy" does not solve the problem. In an open economy, focusing on pro-export policy is an illusory solution, because competition takes place not only, and not predominantly, in foreign markets (where exporters compete with foreign rivals), but also, and predominantly, in the domestic market (where Polish firms compete with import suppliers).
- Instruments to support competitiveness should be horizontal, not vertical (although, as many studies show, there are considerable departures from this rule in many EU countries, despite declarations that this is a "sacred rule").

If we accept the last statement, it turns out that, to improve Polish companies' competitiveness, it is not so crucial to create an extensive arsenal of additional, partial and specialised instruments. It is essential to solve really significant and quite obvious problems which, apart from being extremely important for competitiveness, will not cause protests from our EU partners (unlike, for example, some suggested forms of public aid for companies) but will gain their full approval and, at the same time, encourage them to invest and do business in Poland. For one could ask the following question: does it really matter that the manufacturer of a product to be exported has received an export subsidy, i.e. the simplest form of financial support (another question is whether this is permitted by the international obligations which Poland has assumed), if his product cannot reach the customer on time because of the disastrous state of Polish roads and, as a result, the manufacturer will have to pay a contractual penalty for not meeting the delivery deadline? With budget funds being dramatically limited, is it better to pay subsidies to fortune's darlings (the concepts of rent-seeking and lobbying suggest that they are not merely fortune's darlings) or to build roads which everybody can use to deliver goods to foreign customers efficiently and on schedule? One could continue: does it really matter that an exporting manufacturer received money (or rather its part) for goods exported because he insured the transaction with the Export Credit Insurance Corporation, if most of his products are sold in the domestic market (which is typical of the majority of Polish firms) and a large proportion of domestic customers do not pay him on time, which causes serious difficulties for liquidity, including its loss and, as a result, the manufacturer's bankruptcy? Again: does it matter that a company had anti-dumping tariffs introduced on goods imported to Poland if, at the same time, some of these products are smuggled into Poland? There is no end to such questions. In a situation where many restrictions and impediments of major and universal significance (because they affect everybody) cannot be removed, building specialised and refined instruments seems unjustified.

The best and most desirable form of competitiveness support is eliminating infrastructure problems as well as numerous irregularities and absurdities of the tax and legal systems. Economic policy makers' attention should focus on those issues which are priorities in what is called evolutionary and institutional economics: building good and efficient institutions, education (including studies and work placements on a much larger scale than at present), infrastructure, etc. In other words, the priority should be to build an environment conducive to starting and conducting business activity.

One should list at this point several crucial issues:

- Pro-competitive policy requires that money should not be drained from companies by the tax system. Companies should keep the money to finance investment, innovations, new products and other factors which are the essence of competitiveness through diversification.
- To be competitive, companies must find some basic economic logic in their environment – this logic is defined by an extremely complex system of concessions, permissions, licences and restrictions accompanied by heavy charges paid to the state for its authorisation of some forms of business activity.
- The competitiveness of companies and products is determined not only by production costs but also by what is called transaction costs. Transaction costs depend on the level of trade security (e.g. slow and incompetent business courts only raise the level of these costs), creditors' rights in relation to debtors, and the efficiency of debt collection, bankruptcy proceedings, the land register system, etc.
- Companies' competitiveness is greatly affected by the labour market's quality, especially by the level of its flexibility, liberalisation and labour force mobility.

If one realises the extent of neglect, irregularities and delays found in the important areas listed above, it turns out that to compensate for them at least partially, one would need a system of powerful specialised instruments for supporting competitiveness. It is also necessary to consider the fact that overcoming these limitations to Polish companies' competitiveness meets the requirement for a horizontal character of the action taken. On the other hand, while resorting to more refined instruments for supporting competitiveness, one is tempted to give them a more vertical character, which in practice is unavoidable and which would be a breach of Polish regulations.

One could therefore pose the fundamental question: where should economic policy makers' attention be directed if they are to improve Polish companies' competitiveness in the face of serious budget cuts (which each of them has to take into account anyway)? The shortest answer is: their attention should focus on overcoming the problems of greatest significance and horizontal character, and only additionally on more specialised instruments. There are no convincing arguments or, more importantly, no money for multiplying new instruments or extending those that exist already. What needs to be done is reviewing the instruments currently in use, modifying some of them and eliminating others. What follows is a discussion of the most important issues.

In industrial policy, the idea of shifting from selective to horizontal policy is as valid as it is unrealistic with reference to some fields. It is necessary at this point to make a distinction between an industrial policy targeted at "decadent" industries and a policy oriented towards the development of promising "growth" industries. As for the former, the sectoral programmes under way (e.g. mining, metallurgy) should be continued and completed. Giving them up is impossible for various reasons. On the other hand, according to the philosophy of horizontal policy, the very act of selecting "growth" industries is preposterous because instruments of this policy should not make a distinction between some industries and others. What is acceptable is supporting entrepreneurship, competition and innovativeness in general, irrespective of the industry. It turns out, however, that in the European Union itself horizontal instruments are often used half-heartedly and the policy measures adopted are to a large extent selective. From this point of view, therefore, our partners' behaviour is troublesome – Poland's willingness to abide by existing rules involves the risk that if the partners do not follow the rules, Polish firms will find themselves in a more difficult situation than their foreign competitors.

As for support for small and medium-sized business provided in combination with active labour market instruments and regional development policy, one should note an extensive offer of fragmented and specialised instruments available in Poland. One may doubt if it is justified and effective to disperse to such an extent funds and decision-making centres with various forms of support. The consequence of such a situation is, first of all, the interested party's poor knowledge of the regulations and high costs of using the instruments in relation to the value of the support provided. Restricting some programmes to certain selected provinces (voivodships) does not seem logical. This is an instance of a selective policy in its regional version. What should be recommended here is consolidated action accompanied by information support.

In foreign economic policy, there is rather little room for manoeuvre. First, free trade agreements signed in the past decade and other international accords (especially WTO regulations) drastically limit the freedom to carry out customs policy. Tins policy can be, and in fact is, reduced to suspending or reducing automatically tariffs on some goods and to increasing tariffs as part of the use of protection clauses, which give the right to raise the degree of domestic market protection in strictly specified situations. Here, it is recommended that the number of trade partners with whom we have signed free trade agreements should be increased systematically. This is one of the factors that improve Polish exporters' access to foreign markets. Second, the use of trade instruments permitted by laws protecting against increased or dishonest export is not very extensive; what is more, it causes great controversy. What can be recommended here is improving Polish companies' ability to use this kind of regulations, although this does not seem to be a very promising instrument for improving their condition. Third, more attention should be directed to the policy of export support and promotion. Poland is often criticised for not having an effective pro-export policy and consequently advised to create such a policy. One can accept this opinion only partly. It is doubtful whether a special pro-export policy should be created which would single out export activity from other business activity. What Poland needs is not so much pro-export policy as a policy to boost entrepreneurship, supply, competition and development. If one agrees with the opinion that what needs to be done is giving the economy a horizontal character, one should note that a special treatment of export (through the use of special instruments) is at odds with this opinion. The only justification for using special instruments in export is the intention to prevent market inefficiency (distortion), which may be caused, for example, by other states' interventionism. Then the argument for state assistance for companies is creating equal opportunities, which, however, usually results in the occurrence of new distortions. It should also be noted that recognising the legitimacy of implementing pro-export policy on the basis of the conception of market distortions leads straight to the rejection of the idea of the horizontal character of policy. This is because distortions are different for different goods and geographical markets, which would require the diversification of policy instruments on these planes. It is clear, therefore, that the theoretical basis of implementing a pro-export policy, diversified in terms of goods and geography, is hard to accept. If we add to this high administrative costs of pursuing such a policy and the scarcity of budget funds, it is easier to understand scepticism towards this kind of state activity. Poland uses in practice quite many instruments to support export financially (e.g. export insurance and guarantees, export credit interest subsidies, guarantees for financing export undertakings, government loans for financing the import of Polish goods and services by developing countries). They are characterised by highly changeable regulations, dispersed and limited budget funds, and little interest from exporting companies. In other words, their use and effectiveness are limited. It would be advisable to give up the instruments which are not used anyway and concentrate on two or three most important measures (e.g. the Export Credit Insurance Corporation, although not without some reservations). It is not a good strategy to multiply initiatives and programmes which only disperse attention and funds among fragmented and partial activities. Paradoxically then, it is not pro-export policy but a holistic economic policy that should be responsible for the development of export in Poland – first of all, a monetary policy to ensure stability and equilibrium, and a fiscal policy which will allow companies to keep more funds for development.

The comments above could end with the following conclusion. The fewer economic policy instruments, and the more simple and unambiguous the instruments, the greater their effectiveness, the lower their costs, and the greater the chance that the attempts which politicians and officials make to "privatise" these instruments (corruption, lobbying, rent-seeking) will fail. In the case of Poland, this relationship seems to be particularly strong.

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16

Poland and Its Investment Development Path

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Abstract: This paper attempts to explore the concept of an investment development path (IDP) and its key component, the net outward investment position, as applied to Poland, treated here as a transitional economy. The point of departure for data analysis is the beginning of Poland's transition to a market-based system in 1990. The paper analyzes the available macroeconomic data identifying the IDP path for Poland and formulating the reasons for, and consequences of, the country's current IDP position. The role of government regulations and policies affecting foreign direct investment (FDI) is also investigated. Poland is at the end of the second stage of its IDP and behind the position that its gross domestic product would justify. This is mainly due to the pull of the large internal market, the still weak competitiveness of domestic firms in international markets, and government reluctance to adopt more active, firm-specific ownership advantage stimulating policies toward outward FDI.

The notions of country competitiveness, growth and development, and foreign direct investment (FDI) have always been at the forefront of international business research. In this context, this paper explores the concept of the investment development path (IDP) as applied to a transitional economy – Poland. The point of departure for data analysis is the beginning of Poland's transition process to a market-led economic system in 1990. The IDP approach seems to be appropriate, in that it tries to combine the effects of inward and outward FDI on the country's growth and development patterns, exerting a major influence on the extent and speed of the transition process.

Literature Review

The IDP concept was introduced by Dunning (1981; 1986). Dunning and Narula (1996) refined the concept and Dunning et al. (2001) extended it to incorporate trade.

According to the concept's basic proposition, the inward and outward investment positions of a country are tied to the country's economic development. Changes in the volume and structure of FDI lead to different values in the country's net outward investment (NOI) position, defined as the difference between the gross outward direct investment stock and the gross inward direct investment stock. The changing NOI position passes through five stages intrinsically related to the country's economic development (Dunning, Narula 1996).

In Stage 1 of the IDP, the NOI position is negative and its negative value increases due to growth in inward FDI, flowing mostly to take advantage of the country's natural assets. Outward FDI is negligible or nonexistent, as foreign firms prefer to export and import as well as conclude nonequity relationships with local firms. Stage 2 is characterized by an increased inflow of FDI. Outward FDI remains low, but there is more than in the previous stage. The NOI position decreases, but at a slower rate. Countries in Stage 3 are said to exhibit a growing NOI position due to an increased rate of growth of outward FDI and a gradual slowdown in inward FDI, geared in this case more toward efficiency-seeking motives. In Stage 4, outward FDI stock continues to rise faster than does inward FDI and the country's NOI position crosses the 0 level and becomes positive. Country-location advantages are now mostly derived from created assets. This stage, as well as the fifth and final stage, is typical of the most developed countries. In Stage 5, the NOI position first falls and thereafter tends to fluctuate around the 0 level, but usually both inward and outward FDI increase. Multinational corporations (MNCs), as agents of FDI, become more global and contribute to blurring national borders.

Based on a study of Korea and Taiwan, the IDP concept has been extended further by Dunning et al. (2001). They argue that there is an interface between trade and FDI and introduce the parallel concept of the trade development path (TDP). They find that the growth of trade and FDI are positively correlated with both gross national product per capita and created assets intensity. In other words, as economic development progresses, both outward investment and exports increasingly come from created asset-intensive sectors and the proportion of intra-industry trade and FDI to total trade and investment increases.

Because development is a macroeconomic concern, it is the principal domain of government responsibility, and thus, the scope and nature of government policy in this area is a key influence in explaining country patterns of IDP. However, FDI arises out of decisions made by MNCs, and in this sense it has a microeconomic focus, albeit with macroeconomic consequences related to development. The strategies of MNCs can then be considered as the principal determinant of the pattern of NOI.

Research on the IDP concept as applied to different countries encompasses many additional factors. In looking at the case of the United Kingdom, Clegg (1996) frames his analysis in the context of country competitiveness. He draws attention to technological factors that influence competitiveness besides FDI and government policy, and extends the investigation of the UK IDP to bilateral components according to region and country as well as to the sectoral destination of FDI. Graham (1996) explores the U.S. IDP using data beginning with 1950 and questions the original model's assumption that, in the fifth and final stage, the NOI position tends to fluctuate around the 0 level. Ozawa's (1996) analysis of the Japanese experience stresses the effects of restrictions placed on inward FDI and introduces the technology development path as a surrogate for the IDP concept.

The IDP in the Spanish economy is of special interest to the present study because the development trajectories of Spain and Poland resemble each other, albeit separated by a considerable time gap (eighteen years if access to the European Union is considered as the base). Campa and Guillen (1996) extensively present the Spanish case, concluding that Spain has difficulty moving out of Stage 2 of the IDP model, not because of a deficiency in ownership or internalisation advantages of Spanish firms, but because of the continuing attractiveness of location advantages in the Spanish market.

Lall (1996) offers a synthetic evaluation of the IDP concept, as evidenced in developed as well as developing and newly industrialized countries. He maintains that structural changes in ownership and location factors influence trends in international capital flows, corporate behaviour, and government policy. According to one of his suggestions, the IDP could be better measured by the international transfer of intangible assets instead of relying only on FDI. His main observation is that countries exhibit long-term deviations from the IDP model, caused mainly by the nature and efficacy of government policy. This might necessitate extending and modifying the model to encompass all of the identified subpatterns. As for the role of government policy in the said model, Lall identifies three main types: a passive approach to FDI and technology upgrading; a proactive approach to "attract and guide FDI to activities that most benefit local development" (Lall 1996, p. 440); and a selective approach to FDI, using it to acquire foreign-created assets and at the same time, developing the potential and especially the technological base for local firms.

Buckley and Castro (1998) look at the IDP of Portugal, pointing out some key weaknesses of the IDP concept. They question the IDP's predictive capacity, given the unpredictable character of economic and noneconomic factors. Among the noneconomic factors, they cite political events such as Portugal's entry into the European Free Trade Association (EFTA) and the European Economic Community (EEC), the 1974 revolution, and the transformation in Central and Eastern Europe.

Bellak (2001) analyzes the Austrian IDP, stressing the usefulness of distinguishing an IDP approach for small countries and focusing on bilateral and sectoral analysis similar to that of Clegg (1996). Bellak (2001) argues that, on the basis of collected empirical evidence and taking the level of development as the main criterion, Austria may be classified as being in Stage 4 or 5 of its IDP. If, however, its constantly deteriorating NOI position is considered, the country falls into the category of Stage 2.

Austria's inconsistency with the ideal IDP model may be explained by its extensive use of exporting as an alternative to outward FDI: Austrian firms' weak technological base led to their low capacity to generate firm-specific advantages and inward FDI increased after Austria entered the European Union in 1995. Much of the outward Austrian FDI is undertaken by foreign subsidiaries of MNCs resident in Austria, and therefore, any ownership advantages should be de facto attributable to the parent company from the relevant home country.

Barry et al. (2003) find support for the IDP model in their study of Ireland. The IDP concept is also positively verified in a bilateral U.S.-Irish framework, because the United States is the largest source of incoming FDI, as well as the principal destination of outward FDI from Ireland. Outward FDI is mainly oriented toward nontraded products, such as construction materials, paper, and packaging, and the ownership advantages of Irish MNCs tend to be based on management and experience.

A complex evaluation of the IDP concept and its shortcomings, and suggestions for modifying it, are found in Durán and Ubeda (2001). Calling for a new approach to the IDP, they draw attention to such methodological problems as the incompleteness of the concept of NOI position as an indicator for analyzing the effects of structural changes on inward and outward FDI, and the insufficiency of gross domestic product (GDP) per capita to indicate a country's level of economic development.

The first dilemma appears in countries in which hardly any inward and outward FDI is made and which are classified as being in Stage 1 of the IDP. Their NOI position will be close to zero, similar to developed countries in Stage 5 of their IDPs. To solve this paradox, Durán and Ubeda (2001) propose to look at inward and outward FDI in absolute and relative terms. Suggestions to deal with the second issue revolve around including structural variables that reflect not only the degree of economic development, but also each country's peculiarities and the nature of its international trade.

Another of Durán and Ubeda's (2001) significant contributions to the debate around the IDP concept concerns their redefinition of the fourth stage. Their amended version includes developed countries that have a structural gap due to fewer endowments of created assets; the same levels of inward FDI but lower levels of outward FDI compared to countries in Stage 5; and a positive or negative NOI position, but in all cases, lower than that of countries in Stage 5. All of the proposed modifications depend on the availability of additional or more detailed data and offer much wider analytical possibilities.

A growing amount of research on IDP relates to the transition economies of Central and Eastern Europe. Kubielas (1996) invokes the early version of the IDP in his analysis of the role of technology transfer and FDI in restructuring the Polish economy during the first five years of transformation to a market-based system. The first stage of the IDP is driven by basic production factors, which are abundant and relatively inexpensive. The next two stages fall into the investment-driven category, in which inward FDI is focused on standardized products and then on export-oriented mass production of medium-technology products that generate economies of scale. Finally, there is the innovation-driven (fourth) stage, in which technology is not only imported, appropriated, and improved, but also generated domestically. Inward FDI is now of the strategic asset-seeking type.

A comprehensive and insightful analysis of outward and inward investment in selected Central and East European countries is conducted in a study edited by Svetlicic and Rojec (2003). One of its principal recurring themes states that the IDP concept is useful to understand and explain the outward internationalisation process of transition economies. Within the same study, Rosati and Wiliński (2003) investigate how the IDP concept fits with FDI in Poland. They find that the limited extent of outward FDI from Poland is due to factors such as a large and growing domestic market, low savings rate, and a still-low degree of openness in the economy. The outward FDI is mostly market seeking, focused on the markets of Europe.

Boudier-Bensebaa (2004) undertakes a synthetic and comparative approach, applying the IDP concept to the entire region of Central and Eastern Europe, including Russia and the former republics of the Soviet Union, and to the fifteen members of the European Union. The Eastern countries concerned are classified into four distinct groups according to their per-capita level of GDP and NOI position. The NOI position of the Eastern countries places them in Stage 1 or 2 of the IDP, while the NOI position of the EU countries suggests Stage 4 or 5. The first and most advanced group of the Eastern countries consists of Czech Republic, Estonia, Slovenia, Hungary, Slovakia, Poland, Latvia, Lithuania, and Croatia. The group is identified as moving toward the end of Stage 2 of their IDP, or even toward the beginning of Stage 3. The NOI positions of the Eastern country groups and subgroups reveal a tendency to converge. But as far as income levels are concerned, no convergence is found either inside the Eastern countries or between them and the European Union. Finally, the author posits that data on FDI stocks and GDP do not cover all of the factors affecting FDI and development. In the FDI sphere, nonequity forms of investment are left out. As for the effect on FDI, besides GDP, elements such as EU accession, globalisation, and the transformation process per se should also be taken into account.

Poland's Position on the IDP

Evolution of the Legal-Institutional Conditions for the Inflow and Outflow of Foreign Capital

In establishing Poland's position on the IDP, it must not be forgotten that the economic system that existed until 1989 created serious distortions in the natural or ideal evolution of the country's NOI position according to the original model of Dunning (1981; 1986). The system based on central planning had a natural proclivity to a high degree of economic autarky, manifest in the relatively low importance of international trade and even lower significance and attention given to FDI. The institutional framework of a centrally planned economy also contributed to the very marginal role assigned to FDI. According to the classification of Ozawa (1992), the orientation of the pre-1990 Polish economy could be identified as inward looking and import substituting (IL-IS), as opposed to outward looking and export oriented (OL-EO).

In the context of development, 1990 was a year of radical, institutional change that activated evolutionary adjustments in the Polish economy to meet the challenges of the international environment. Before embarking on the analysis of data on the Polish IDP, it is worth considering the main characteristics of the evolution of the legal and institutional conditions for the inflow and outflow of foreign capital to and from Poland.

A significant feature of the Polish transformation, initiated in 1990, was the systematic opening of the economy to FDI. This was facilitated by changes in the existing regulatory framework. The following factors had the most powerful influence on the opening of the country to the inflow of foreign capital in the form of direct investment (Kubielas et al. 1996, p. 428):

- liberalisation of legal regulations concerning FDI inflow,
- liberalisation of foreign trade and principles of currency convertibility,
- privatisation of state-owned enterprises.

From a policy perspective, before the beginning of transformation in Poland, FDI was regulated by the enclave model, which treated FDI in a special way compared with the remaining part of the economy (Samonis 1992, pp. 101–112). The enclave model functioning in Poland had the following characteristics:

- FDI was allowed only in so-called small foreign business operations, or in joint-venture companies with a minor share of foreign capital.
- Foreign investors had to obtain permits through a complicated procedure.
- A wide range of sectors were out of bounds for FDI, either forbidden or rationed.

- There was an obligation to resell foreign currency revenues from exports to domestic banks.
- There were restrictions on the transfer of profits abroad and on the purchase of real estate.
- FDI could benefit from tax holidays on corporate income tax.

With transformation under way, the legal and institutional changes in the conditions for the inflow of foreign capital made it necessary to change the model in favour of treating FDI on par with domestic investment. This was, in other words, the application of the principle of national treatment. The 1991 act on the operation of economic entities with a share of foreign capital contributed significantly to the national treatment of FDI. Its most important features concerning foreign investment included the following:

- No restrictions on the transfer abroad of profits and initial capital.
- Necessity of foreign investors to obtain permits issued by the state administration only in cases of buying equity, or leasing or purchasing assets of state-owned firms.
- Abandoning the principle of automatic three-year corporate income-tax holidays.
- Full guarantee of compensation in the unlikely case of expropriation.
- Ability of foreign entities to start their activity in two forms exclusively: limited liability companies and joint-stock companies; this was an exception to the principle of national treatment, approved by the Organisation for Economic Cooperation and Development (OECD).

The present situation in Poland for regulations concerning FDI is similar to the situation in developed countries. Considerable progress has been made in adjusting Polish law to EU and OECD standards and in consistently implementing the national treatment rule – that is, treating foreign investors on equal terms and conditions as domestic entities. Poland's accession to the European Union required changes in the principles of granting state aid to investors, including foreign firms (Durka, Chojna 2004). These rules were adjusted to those applicable in the European Union.

Poland's Investment Development Path: Empirical Evidence

To identify Poland's IDP, three tables (Tables 1–3) containing data on the country's development as it relates to inward and outward FDI have been analyzed.

The three key indicators of Poland's IDP-FDI inward stock, FDI outward stock, and NOI – were derived from the tables. Figure 1 presents them in graphical form. The analysis that follows below, using Figure 1 as a synthetic expression of Poland's IDP and the point of departure, interprets detailed information from Tables 1, 2, and 3 to enrich and expand on the traditional approach to studying IDPs.

Table 1 shows inward and outward FDI flows, as well as relative inward FDI stock. Inward FDI flows at the beginning of the transformation period in 1990 were minimal and reflected the still smaller amounts that were registered in the previous economic system in Poland. FDI outflows were practically nonexistent, and the significance of inward FDI as a share of Poland's GDP in 1990 was also minute (0.2 per cent). Starting in 1991, FDI inflows rose continually until 2000, falling thereafter for the next two years and then tending to rise slightly again. Throughout the thirteen years of transition, inflows exhibited a stunning growth of 4,747 per cent. In the same period, FDI outflows showed an increase of 2,413 per cent. In 1991 and 2001, disinvestment by Polish firms abroad was observed. The role of inward FDI in the entire economy (as a percentage of GDP) increased most spectacularly, achieving a growth index of 12,450 per cent and reaching a share of almost 25 per cent of the Polish GDP in 2003.

Table 1. FDI Inflows and Outflows from Poland and Relative Inward FDI Stock Between 1990 and 2003

	FDI inflows (mln USD)	FDI outflows (mln USD)	Inward FDI stock as a percentage of GDP
1990	89	16	0.2
1991	291	-7	0.6
1992	678	13	1.6
1993	1,715	18	3.0
1994	1,875	29	3.8
1995	3,659	42	5.8
1996	4,498	53	7.5
1997	4,908	45	9.5
1998	6,365	316	13.3
1999	7,270	31	15.9
2000	9,341	17	20.6
2001	5,713	-90	22.2
2002	4,131	230	25
2003	4,225	386	24.9

Source: UNCTAD and Statistical Yearbook of the Republic of Poland (2000, 2001, 2002, 2003, 2004).

What do the figures reveal? First, they indicate a growing, albeit fluctuating, absorptive potential of the Polish economy for FDI. This potential was due to the location advantages of the Polish marketplace. The size of the national market is the foremost factor in this respect, but other factors have been at work as well, such as low labour costs, well-developed labour skills, and foreign-firm strategies to use Poland to acquire knowledge and expertise in doing business in the environment of Eastern Europe, especially in the markets of the former Soviet Union (Wolniak 1998, pp. 130–131). The end result has been a significant role attributed to foreign investors as evidenced by the share of inward FDI stock in the country's GDP.

Second, the very weak performance in outward FDI was due to domestic firms' lack of ownership advantages, and the corresponding relative paucity of created assets to support foreign expansion. Moreover, in the said outward FDI, there was practically no investment undertaken by Polish subsidiaries of MNCs because of their focus on exploiting the internal market or engaging in cross-border transfer of final products or supplies inside the MNCs. The lack of ownership advantages sufficient to motivate and lead domestic firms to expand through FDI was due not so much to the lack of new products or technologies as to the underlying financial weakness and relatively small size of such firms (Gorynia and Wolniak 2001a, pp. 89–94).

Table 2. FDI Inward and Outward Stock, and GDP of Poland in 1990–2003

Year	FDI inward stock (mln USD)	FDI inward stock (previous year= 100)	FDI outward stock (mln USD)	FDI outward stock (previous year= 100)	GDP* (mln USD, at current prices)	GDP (previous year = 100)
1990	109		95		58,976	
1991	425	390	88	92	72,924	124
1992	1,370	322	101	115	84,326	116
1993	2,621	191	198	196	85,853	102
1994	3,789	145	461	233	117,978	137
1995	7,843	207	539	117	126,348	107
1996	11,463	146	735	136	134,550	106
1997	14,587	127	678	92	143,066	107
1998	22,479	154	1,165	172	157,274	110
1999	26,074	116	1,024	88	155,151	99
2000	34,227	131	1,024	100	158,839	102
2001	41,247	121	1,156	113	183,400	115
2002	47,900	116	1,453	126	189,000	103
2003	52,125	109	1,839	127	209,600	111

* According to official exchange rate.

Source: UNCTAD and *Statistical Yearbook of the Republic of Poland* (2000, 2001, 2002, 2003, 2004).

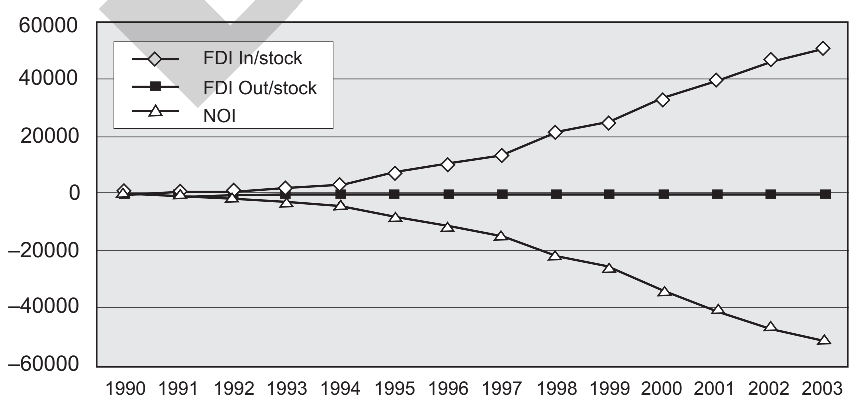
Table 3. GDP and NOI Position of Poland in 1990–2003

Year	NOI position	GDP* (mln USD)	NOI/GDP	NOI per capita in USD	GDP* (per capita, in USD)	NOI per capita (previous year = 100)	GDP per capita (previous year = 100)
1990	-14	58,976	-0.02	-0.37	1,547		
1991	-337	72,924	-0.46	-8.85	1,998	2,391	129
1992	-1,269	84,326	-1.50	-33.31	2,198	376	110
1993	-2,423	85,853	2.82	-63.59	2,232	191	102
1994	-3,328	117,978	-2.82	-87.34	3,057	137	134
1995	-7,304	126,348	-5.78	-191.71	3,086	219	101
1996	-10,728	134,550	-7.97	-281.57	3,484	147	113
1997	-13,909	143,066	-9.72	-365.07	3,702	130	106
1998	-21,314	157,274	-13.55	-559.42	4,068	153	110
1999	-25,050	155,151	-16.14	-657.48	4,014	118	99
2000	-33,202	158,839	-20.90	-871.44	4,110	133	102
2001	-40,091	183,400	-21.86	-1,049.50	4,746	121	115
2002	-46,447	189,000	-24.58	-1,215.89	4,944	116	104
2003	-50,286	209,600	-23.99	-1,316.39	5,486	108	118

* According to official exchange rate.

Source: UNCTAD and *Statistical Yearbook of the Republic of Poland* (2000, 2001, 2002, 2003, 2004).

Figure 1. FDI Inflow and Outflow Stocks and Poland's NOI, 1990–2003



Much of the explanation concerning outward FDI also rests with government economic policy. Throughout the transformation period since 1990, successive governments paid only lip service to the pressing need to stimulate and support the internationalisation of domestic Polish firms. The prevailing policy was closest to a passive, liberal, laissez faire approach without elements of guidance or support, especially in providing or guaranteeing funds for outward expansion. Only in the last two years were fragmentary government programs introduced, designed to promote Poland and Polish products in international markets, and thus, attempt to reduce the negative country-of-origin effect afflicting many product categories, especially high-technology manufactured products and services.

Figure 1 depicts changes in the FDI inward and outward stock; Table 2 details the same for Poland's GDP growth. In looking at the data for inward FDI stock, it should be remembered that Poland accounts for the largest part of the total FDI stock invested in the entire Central and East European region. In 2000, Poland's share was over 25 per cent of the said total (Kopeć 2002). More important, however, is the evolution of inward FDI stock dynamics. The second and third year of the transition process witnessed an initial surge of FDI due to the opening up of the Polish economy after abandoning central planning. Thereafter, changes fluctuated until 1999, with annual increases ranging from 27 per cent to 107 per cent. From 2000 on, a clear slowing-down tendency emerged, from 31 per cent in 2000 to only 9 per cent in 2003. This has been attributed to the ending of the privatisation process in Poland, as the pool of state-owned companies available for acquisition and attractive for foreign investors was considerably diminished; a general slowdown in business activity in the developed countries; and MNCs seeking lower labor costs and efficiency beginning to look at other locations. A time period of only three years is short, however, and a reversal is possible, for example, due to Poland's EU accession in 2004.

The situation is somewhat different for outward FDI stock. Until 1999, fluctuating changes are observed. Starting in 2000, the growth rate of outward FDI consistently rises, coinciding with a growth in absolute terms of GDP in the same period. This seems to be a very positive and promising sign. It can be interpreted to indicate that with overall economic development, Polish firms are beginning to internationalize more aggressively through FDI. Their expansion is mainly of the market-seeking type and geographically focused in two areas: the European Union and the markets of less-developed Central and East European countries. In the latter, Polish firms also tend to exploit ownership advantages stemming from possessing proprietary assets, such as unique technologies, products, and know-how[1].

[1] For more analysis on the international expansion of Polish firms, see Gorynia et al. (2005).

Figure 1 and Table 3 present data on the NOI position of Poland in relation to the country's GDP statistics and identify the stages of development that have been reached so far according to the IDP model. Regarding the evolution of the NOI position and GDP in both absolute and per-capita terms, the NOI position deteriorates throughout the studied period. This is accompanied by a systematic rise in GDP, which may suggest that with the development and transition process of Poland thus far, the increasingly negative NOI position indicates that the country has gone through Stage 1 and is currently in Stage 2 of the IDP model. This is consistent with research carried out by Rosati and Wiliński (2003), as well as Boudier-Bensebaa (2004). Antalóczy and Éltető (2002) found a similar position on the IDP path for Hungary. The importance of this similarity arises from the fact that Poland and Hungary are widely perceived as being in the same group of countries that have most transformed their economies to a market-led system.

Proceeding now to a joint analysis of the data assembled in all of the tables, the following observations can be made:

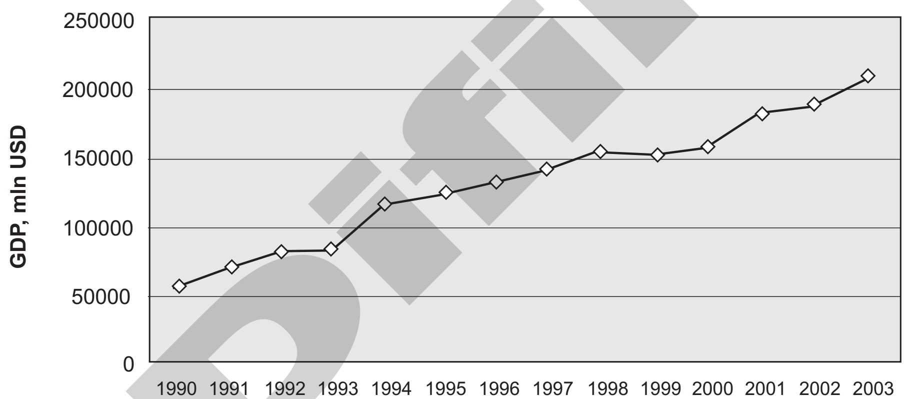
1) In every year of the studied time period, FDI inflows were greater than FDI outflows. The ratio of inward FDI stock in 2003 to inward FDI stock in 1990 was 478.2, whereas the ratio of outward FDI stock in 2003 to outward FDI stock in 1990 was only 19.4.
2) As a result of 1, a gradual deterioration of the country's NOI position occurred, dropping in nominal terms from –\$14 million in 1990 to –\$50.286 billion in 2003.
3) Nevertheless, the NOI per capita dynamics, calculated as the ratio of NOI per capita in a given year to the previous years – taken as 100 – showed a tendency to decrease, falling in the studied period from 2,391 in 1990 to only 108 in 2003.
4) Comparing the dynamics of change in the NOI per capita with the changes in GDP per capita, it appears that every year, the change in NOI per capita was substantially greater than the change in GDP per capita. This also reinforced the worsening of the NOI position for Poland. A departure from this pattern occurred only in 1994, when the dynamics of GDP per capita and NOI per capita were practically identical, and in 2003, when the growth rate in GDP per capita was greater than the negative growth rate in NOI per capita.
5) In the context of 4, the difference in the absolute values of changes in the NOI per capita and GDP per capita was falling. In 1991, the difference was 2,262. In 1998, it was 43, and in 2003, it amounted to only 10, but with a minus sign for the first time, indicating the aforementioned change in the identified trend.
6) From 1990 to 2002, there was a clear growth trend in the absolute value of the NOI/GDP ratio. In 1990, its value was 0.02, and in 2002, it went up to 24.58. In 2003, an absolute decrease was observed to the value of 23.99. The

change of trend in the evolution of the NOI/GDP ratio can be interpreted as a weak signal of the beginning of the expected transition from Stage 2 of the IDP to Stage 3. Of course, this conclusion requires appropriate verification and testing in the future.

Poland's Investment Development Path: Interpretation of Empirical Evidence

Attempting to answer through which stages of the IDP Poland passed from 1990 to 2003 poses some problems. A formal analysis of the available data indicates that Poland has so far gone through only Stages 1 and 2 of the Dunning (1981; 1986) model. This is also illustrated in Figures 2, 3, and 4.

Figure 2. Growth of GDP in Poland, 1990–2003



In the first years of the investigated time period – it is difficult to pinpoint the end year exactly – Poland's development showed the following signs typical of Stage 1:

1) A relatively small inflow and outflow of FDI. It seems that a turnaround to a certain degree occurred in 1995 and 1996.
2) Low per-capita GDP, but with a considerable growth potential.
3) The need to solve transition adjustment problems in education, training, and motivation of the labour force.
4) Inadequate infrastructure for the needs of foreign investors, especially regarding transportation and communication facilities.
5) Export to and import from Poland as the preferred forms of foreign-firm activity.

6) The economic policy of government directed, but to an unsatisfactory extent, toward eliminating problems and upgrading created assets (material and human infrastructure).

Figure 3. Growth of GDP Per Capita in Poland, 1990–2003

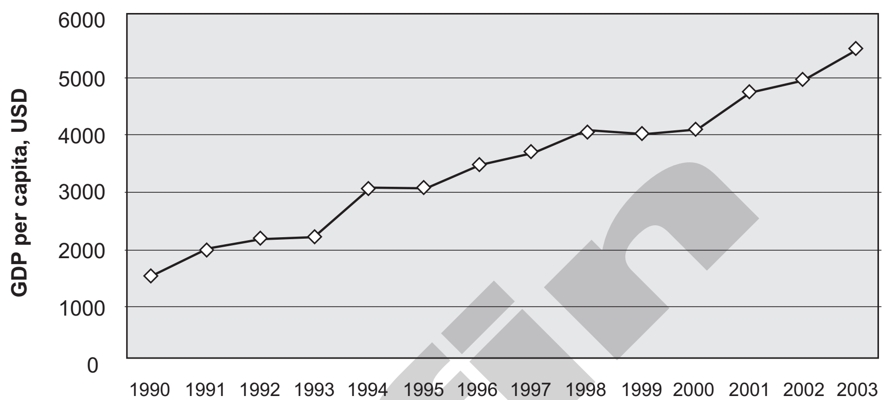
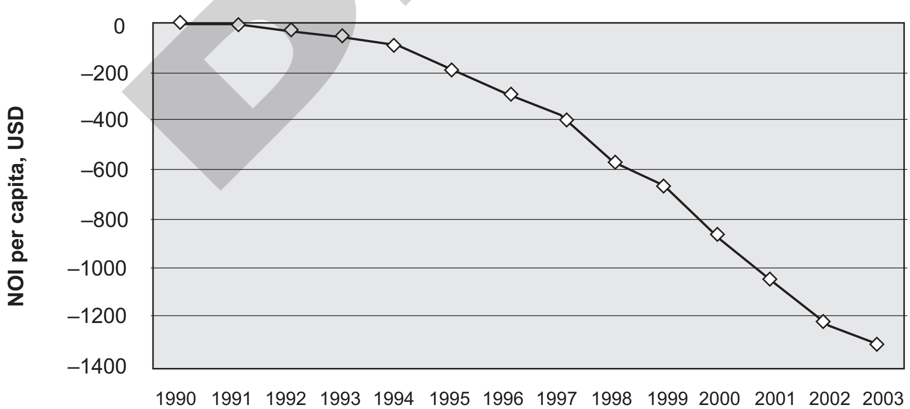


Figure 4. Changes of Poland's NOI Per Capita, 1990–2003



The assertion that Poland has been in Stage 2 since 1995 can be based on the following factors. First, the growth rate of inward FDI started to increase substantially from 1995. At the same time, outward FDI has remained quite low, though the last two years of the studied period produced some signs attesting to the growing importance of such investment. Third, the net effect of the two trends was the already stated continuing fall in Poland's NOI position.

In Stage 2, according to the ideal IDP, at least in its second half, there should be a visible trend for the growth rate of the negative NOI position to decrease. This is, in fact, what has been observed in Poland, suggesting that Poland may be entering Stage 3 of its IDP. Some authors, such as Durán and Ubeda (2001), straightforwardly assert that Poland, together with such countries as Greece, Portugal, and Hungary, should be classified as being already in Stage 3. Many authors position the same country differently. Campa and Guillen (1996) maintain that Spain is in Stage 2, whereas Durán and Ubeda classify it as being in Stage 4.

The authors of the present study conclude that Poland, in 2003, was close to the border between Stages 2 and 3 of its IDP. One of the major factors keeping Poland's NOI position in Stage 2 is the continuing pull of the large internal market. However, this and other factors in that market are becoming more correlated with strategic assets and efficiency, which are gradually supplanting sheer market size and growth potential. Also of importance is the propensity to expand into foreign markets by other means than FDI. In the case of small- and medium-sized Polish firms, the alternative method is mainly through exporting. The rising growth rate of outward FDI stock, observed since 2000, also points to expected movement to Stage 3. It might be construed as a paradox of the most developed transition economies that Poland's and, for that matter, Hungary's IDP show that their NOI positions are lower than the values that would fit and be commensurate with their level of development. A specific IDP gap thus arises, which might be perceived as a characteristic trait in the IDP of transition economies. But this and other related issues need more testing and research.

Conclusion and Policy Implications

The findings of this study indicate that Poland is at the end of Stage 2 of its IDP, which it entered in the mid-1990s. These findings are consistent with earlier studies conducted on Poland and other Central and East European countries, especially those at a similar level of economic development, such as Hungary. At the same time, one can conclude that Poland's current IDP position is behind the position that its GDP would justify. This is mainly due to the pull of the large internal market, the still-weak competitiveness of domestic firms in international markets, and government reluctance to adopt more active, firm-specific ownership advantages to stimulate policies toward outward FDI.

According to received theory, economic policy bears the main responsibility for moving a country ahead on its IDP. What should the strategic policy options for Poland be? In making policy recommendations for Poland, two models of economic policy could be used: the ethnocentric model, with policies aimed at increasing competitiveness selectively – that is, of Polish-owned firms, but in all sectors of the economy – and the integral model, with policies aimed at increasing the competitiveness of the country's economy as a whole, without differentiating among the identities and ownership of firms, or the nature and locus of their operations. Using both models does not have to be contradictory or lead to conflict, because their application can be framed as a two-phase process.

In line with this approach, support should be offered according to the guidelines of the integral model. There should be no distinction between instruments supporting Polish-owned firms and foreign-owned companies. This criterion is consistent with the notion of a liberal and institutional industrial policy, designed to promote broadly understood development and entrepreneurship (Gorynia 1995). The policy mainly uses instruments that are universal in character and uniform (i.e., nondiscriminating) in all of their aspects, but go beyond the focus of traditional macroeconomic policy. The whole economy, all sectors and industries, are in principle treated alike.

If such economic policy measures were implemented in Stage 1 of the IDP, they could have led to a continuing and unimpeded inflow of FDI and the creation of a sound domestic base of firms competing on the domestic Polish market irrespective of their national provenance.

Nonetheless, the envisaged economic policy should focus on creating a business climate that could attract foreign investors. FDI could prove particularly useful in:

- developing management staff and operations personnel,
- raising the professional level of management,
- transferring production and marketing expertise as well as management know-how,
- introducing technologies that save energy and materials and are environmentally friendly,
- continuing the privatisation of the economy,
- improving the country's trade balance in the long run.

One of the basic indicators of each country's approach to the globalisation issue has been government policy toward FDI. Dunning and coauthors put forward a very important and, to some, controversial view on the issue: Because of globalisation, action taken by national administrations should not depend on who owns the firms under their jurisdiction (Dunning 1999). Government policies toward FDI should therefore leave aside the issue of ownership of companies operating on or from the Polish market.

Still, with respect to the domestic market, the aim of economic policy measures should be to create conditions conducive to consolidation and then the accelerated growth of small- and medium-sized domestic firms into larger entities.

More support should be given for mergers and acquisitions, as well as business alliances. Measures used in this context should include fiscal instruments and a relaxation of antimonopoly legislation (Gorynia, Wolniak 2001b).

Building the international competitiveness of Poland as a host country for FDI requires attaching more importance to human capital, knowledge, and creativity. The sector of services and infrastructure plays a significant role in this context. Under such conditions, the international promotion of country competitiveness should take into account the following factors:

- Ensuring adequate quantity and quality of resources (acting as resource creator and improver), resulting in a higher quality of human capital (through education), high propensity to innovate, and efficient financial markets.
- Lowering transaction costs – creating an efficient legal system (especially in the sphere of contract execution), creating an adequate infrastructure, eliminating asymmetry of information, reducing risk (through insurance systems), counteracting discrimination of firms from a given country, and concluding international economic agreements[2].
- Establishing a favourable climate for investments and an entrepreneurial economic ethos (see Dunning 1999).

Once the domestic market has been covered, the focus of economic policy should shift to support the competitiveness of firms located in Poland and entering and expanding their operations into foreign markets. This second stage calls for measures in the form of direct and indirect financial support that would stimulate firms located in Poland to innovate and develop their core competencies, which, embedded in new products and technologies, would provide them with firm-specific ownership advantages in international markets. International expansion should also be supported by an educational campaign showing the rationale and benefits of not only exporting, but also moving beyond the export stage into more sophisticated activities, such as foreign production. Financial assistance in this area would also be advised.

The above considerations suggest that economic policy, in stimulating and promoting development, should support and be geared toward the development of company competitiveness. The expected medium-term effect of such a strategic aim should be to create a solid base allowing Polish firms – that is, firms located in Poland – to invest, expand, and compete successfully in both developed- and developing-country markets, moving Poland, as a result, firmly into Stage 3 of its IDP.

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[2] Social capital responsible for generating social confidence can help reduce transaction costs. See Matysiak (1999).

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17

Multinational Enterprises and the Competitiveness of Transitional Host Economies: The Case of Poland

Marian Gorynia, Jan Nowak, Radosław Wolniak

Abstract: The paper re-examines a hypothesis that multinational enterprise (MNE) subsidiaries in Poland make a significant contribution to host country competitiveness by raising overall export performance. Multiple indicators based on UNCTAD methodology are used by the authors to analyze Poland's export competitiveness and link this competitiveness to MNE subsidiaries export propensity and innovativeness. They find a confirmation of the positive impact of MNEs on the Polish export sector that has substantially strengthened the country's capacity to compete in world markets and speeded up the transition process to the market-led system.

Keywords: Multinational enterprises, FDI, competitiveness, export performance, transitional economies, Poland.

Most Central and East European (CEE) transitional economies perceive inward foreign direct investment (FDI) by multinational enterprises (MNEs) as an important source of improving their country competitiveness. Poland, as a major CEE market, is no different in this respect. The specific nature of Poland as a host country to MNE operations lies in the relatively open and liberal attitude of the state towards FDI inflows and, at the same time, unfortunately, in the continuing absence of a clear and coherent strategy of steering MNEs towards export-oriented and research – and technology – intensive industries which stimulate economic growth and contribute to the desired upgrading of country competitiveness.

The purpose of this study is to reexamine a simple hypothesis that MNE subsidiaries in Poland make a significant contribution to host country competitiveness by raising overall export proficiency and performance. The authors use a theoretical framework derived from the literature review that guides them in measuring Poland's export competitiveness and linking this competitiveness to MNE subsidiaries operations in Poland. Export competitiveness is analyzed by using such variables as export growth rates, export/GDP ratios, export market shares and commodity structure of exports. Export performance of MNEs is compared with those of domestic exporters, and the role of MNEs in technology transfer and upgrading of the host country's technological level is qualitatively examined. Statistical data sets, covering practically the whole transformation period to a market-led economy, that is, the years 1990–2004, are derived from both international (UNCTAD and WTO) and Polish (Central Statistical Office and relevant journal) sources.

Literature review and conceptual framework

The export-enhancing role of MNEs in host countries has been the subject of numerous studies for several decades now[1]. Many of these studies have focused on determining the relationship between MNE activities and export performance, behaviour or competitiveness of host countries, host country industries and domestic firms. The terms "export performance", "export behaviour" and "export competitiveness" are usually used interchangeably in these studies and are operationalized, as dependent variables, through such constructs as "export intensity" or "export propensity". Both constructs are similarly measured as either the ratio of exports to total sales (Kumar, Pradhan 2003; Aggarwal 2001; Kumar, Siddharthan 1993; Rojec, Damijan and Majcen 2001), the proportion of production exported (Greenaway, Sousa and Wakelin 2001), the ratio of exports to net production (Andersson, Fredriksson 1996), exports as percentage of total production (Tavares and Young 2002), or volume of exports (Bedi, Cieślik 2000). In addition to the proportion of production exported, Greenaway, Sousa and Wakelin (2001) use "the decision to export" as a dichotomous dependent variable of export propensity.

Usually export competitiveness/performance of foreign subsidiaries of MNEs and that of domestic firms are analyzed comparatively. One stream of such studies focuses on analyzing and measuring the impact of MNEs activity on export competitiveness/performance of domestic firms, or the spillover effects of the former (e.g., Greenaway, Sousa and Wakelin 2001; Bedi, Cieślik 2000; Blomstrom, Kokko 1998; Aiken, Hanson and Harrison 1997).

Virtually all studies of the impact of MNEs on host country export competitiveness or performance hypothesize that MNEs activity should enhance export competitiveness of host countries and industries. By the same token, foreign subsidiaries of MNEs are expected to perform better, that is, show higher export intensity or propensity, or generally be more competitive in export markets, than their domestic counterparts. The reasons for the above expectations include the following arguments:

[1] This review concentrates on the literature appearing 1990 onwards. An insightful survey of earlier studies can be found in Dunning (1993, pp. 404–408).

- MNEs have better access to information about, and greater experience in, global markets, which are usually combined with their propensity to engage in cross-border intra-firm product or process specialisation between subsidiaries or between parent company and subsidiaries (Dunning 1993).
- MNEs have better access to proprietary and non-proprietary assets, including technology, brand names, skills, managerial know-how, marketing, distribution networks, finance, and intermediate inputs, which provide them with competitive advantage over local firms (Greenaway, Sousa and Wakelin 2001; Aggarwal 2001; Kumar, Pradhan 2003).
- MNEs benefit from location-specific advantages, endowments of host countries and strategies to deploy and integrate their assets (Aggarwal 2001).
- MNEs exhibit a natural strategic inclination to export from their host countries (Kumar, Siddharhan 1993).
- MNEs enjoy superior productivity stemming from such factors as transfer of assets to and from subsidiaries, participation in multinational networks, corporate governance systems, "frontier" technology, input intensity per worker and the tendency of foreign investors to acquire "the winners" (Pfaffermayr, Bellak 2000).

Most empirical studies, especially the more recent ones, confirm the above expectations, proving that MNE affiliates generally have a higher propensity to export than indigenous firms. There are of course some research results that are either inconclusive or "prove" otherwise. For example, the earlier studies by Kumar (1990) and Kumar and Siddharthan (1993) did not find any significant difference in the export performance of foreign-controlled and local firms in India. A more recent study by Aggarwal (2001) provides a relatively weak support to the hypothesis that MNE affiliates in India perform distinctly better than their local counterparts in export markets. However, the most recent study on India (Kumar, Pradhan 2003) paints a different picture: Foreign subsidiaries in Indian manufacturing are found to achieve higher export performance than domestic firms. The explanation of this change of export performance of foreign subsidiaries vis-à-vis domestic firms in India over the last decade lies in India's reforms undertaken in the early 1990s that have led to the country's greater openness and attracted more efficiency-seeking foreign investors as opposed to market-seeking MNEs that dominated the Indian inward FDI in the past.

The few studies that investigated the spillover effects of MNEs in the export sector generally confirm the positive impact of MNE subsidiaries on domestic firms' export capabilities. Greenaway, Sousa and Wakelin's (2001) results confirm positive spillover effects from MNEs on the decision to export of UK-owned firms, as well as on their export propensity. Similarly, Aitken et al. (1997), who analyzed extensive panel data on Mexican manufacturing plants, found export spillovers from MNEs to be significant. Also the results of a study by Bedi and

Cieślik (2000) on Poland are consistent with the notion of beneficial spillovers from foreign firms and suggest that domestic firms operating in regions/industries with a higher concentration of MNE export activity achieve higher export volumes.

There are two common features of the studies referred to earlier. First, they treat export competitiveness or export performance as a unidi-mensional construct, typically measured as export intensity or export propensity. Second, they (especially the empirical studies) essentially take a microeconomic perspective, analyzing export competitiveness, performance or behaviour of groups of firms (foreign owned and/or domestic) and sometimes also of industries or specific sectors thereof.

A different approach is followed by UNCTAD in its 2002 World Investment Report. UNCTAD is concerned with export competitiveness of countries, especially developing and transitional ones, through export competitiveness of their firms, and adopts a policy-maker perspective. The report notes that "Competitive exports allow countries to earn more foreign exchange, and so to import the products, services and technologies they need to raise productivity and living standards" (UNCTAD 2002, p. 117). The report also recognizes the crucial role MNEs play in helping developing countries and economies in transition raise their export competitiveness, stating, *inter alia,* that "MNEs tend to be the leaders in export-oriented production and marketing, especially for the most dynamic products, for which linking up to marketing and distribution networks is crucial" (UNCTAD 2002, p. 152).

While starting with world export market share gains as a reflection of increasing export competitiveness of countries, UNCTAD's methodology goes beyond that measure. Other factors used as indicators of country export competitiveness include:

- diversification of the export basket,
- sustainability of high rates of export growth over time,
- technological level and skill content of export activity,
- expansion of the base of domestic firms able to compete internationally so that competitiveness becomes sustainable.

According to the above-mentioned approach, a country's export competitiveness increases when its exports gain world market share, become more diversified, can sustain high growth rates for a long time, move up the skill and technological ladder, which are essential for increasing local value added and for rising wages, and involve more and more domestic firms, which in turn benefit from spillover effects from export-oriented MNEs.

Poland's export performance and export market shares

As a result of Poland's progressing openness to world markets after 1989, its export activity has increased quite dramatically. As shown in Table 1, exports from Poland increased from around US$ 14 billion in 1990 to more than US$70 billion in 2004. In real terms, exports grew by an impressive 192 per cent between 1990 and 2004. However, the growth of exports fluctuated from one year to another. For example, in 2004 the rate of growth was 38 per cent, whereas in 1999 it was only 2 per cent.

Table 1. Poland's Gross Domestic Product and Exports, 1990–2004

Years	GDP		Exports		Volume Index (Previous Year = 100)	Exports/GDP Ratio
	in million USD[a]	per capita in USD[a]	in million USD (current prices)	per capita in USD		
1990	58976	1547	14322	376	114	24.3
1991	72924	1998	14903	390	98	20.4
1992	84326	2198	13187	344	97	15.6
1993	85853	2232	14143	368	99	16.5
1994	117978	3057	17240	447	118	14.6
1995	126348	3086	22895	593	117	18.1
1996	134550	3484	24440	633	110	18.2
1997	143066	3702	25751	666	114	18.0
1998	157274	4068	28229	730	109	17.9
1999	155151	4014	27407	709	102	17.7
2000	171300	4110	31650	820	125	18.5
2001	183000	4737	36092	934	112	19.7
2002	189000	4944	41010	1073	108	21.7
2003	209600	5486	53577	1403	131	25.6
2004	252400	6610	73781	1932	138	29.2

[a] According to official exchange rate.

The exports/GDP ratio: Own calculations based on the figures given in the table.

Source: Author compiled table from data obtained from: Statistical Yearbook of the Republic of Poland (2000, 2001, 2002, 2003, 2004 and 2005).

Another indicator of export performance is the export/GDP ratio. After its initial decrease during the first years of the 1990s, the ratio stabilized at around 18 per cent between 1995 and 1999 and started to grow thereafter, accelerating in the last two years of the studied period. In 2004, it amounted to 29.2 per cent as compared with 14.6 per cent in 1994. The reasons for this rather unusual trend in the exports/GDP ratio lie mostly in the movements of the value of Polish zloty vis-à-vis the US dollar. The zloty appreciated considerably between 1990 and 1994, "boosting" the GDP value expressed in US dollars and making the value of exports relatively lower. The value of exports declined sharply in 1992 and only slightly recovered in 1993. The zloty's appreciation played also a minor role in keeping the exports/GDP ratio at roughly the same level in the subsequent years of the last decade in spite of the significant growth of export volume. Moreover, the relatively high GDP growth rates experienced by the Polish economy in the second half of the decade prevented the export/GDP ratio from increasing substantially.

The value of exports per capita has been growing steadily since 1992 when it showed the lowest level in the period under study. In 2004, the per capita value of exports amounted to US$ 1,932. This figure was considerably higher than the world average (US$ 1,332) (Central Statistical Office 2005).

The share of Polish exports in world exports increased from 0.42 per cent in 1990 to 0.82 per cent in 2004 (own calculations based on UNCTAD 2002 and WTO 2005). This seemingly insignificant increase translates into an almost 100 per cent improvement in Poland's share of world export markets over the studied period. In fact, UNCTAD (2002) placed Poland among the 20 winner economies, based on export market share gains between 1985 and 2000. In addition to Poland, two other transitional economies of CEE-Hungary and the Czech Republic – were among the biggest world market-share gainers. Since 2000, Poland's export share in world exports has increased even more dramatically than during the period covered by the cited UNCTAD study. In 2004, Poland exported more than any other new member of the European Union (WTO 2005).

In this context, it is worth noting that Poland, Hungary and the Czech Republic have also been the largest FDI recipients in Central and Eastern Europe. In 2004, the three countries jointly attracted around US$ 15 billion in FDI and were placed by UNCTAD in the same FDI range as Canada, Japan and Ireland (UNCTAD 2005). This fact reflects a positive link between inward FDI and export performance.

Commodity structure of exports

The structure of Poland's exports by sections according to Standard International Trade Classification (SITC) is shown in Table 2. It should be noted in this context that data at such high level of aggregation are difficult to interpret.

The data indicate that although certain commodity groups of unprocessed or semi-processed nature (notably food and live animals) have retained their significance in Poland's exports, there is a noticeable general trend towards "modernisation" of Polish exports. Machinery and transport equipment, in particular, has shown a substantial increase in its share, from 26.2 in 1990 and 19.8 in 1994 to 38.8 in 2004. Manufactured goods taken together represented 77% of Polish exports in 2004, as opposed to 57% in 1990. However, this general trend conceals some differing changes taking place during the analyzed period. Two subperiods can be distinguished in this respect: 1990–1997 and 1998–2004.

Table 2. Structure of Exports by Sections According to SITC in Current Prices in the Years 1990–2004

Specification		1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Food and live animals	E	10.9	10.2	10.1	9.2	10.1	11.8	10.1	8.5	7.5	7.4	7.2	7.6	7.7
Beverages and tobacco	E	0.5	1.0	1.4	0.7	0.5	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.5
Crude materials, inedible, except fuels	E	6.8	5.5	4.7	4.5	3.4	3.2	2.9	3.0	2.8	2.5	2.5	2.6	2.6
Mineral fuels, lubricants, and related materials	E	10.7	9.7	9.1	8.2	6.9	6.7	5.5	5.0	5.1	5.6	5.0	4.3	5.4
Animal and vegetable oils, fats and waxes	E	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.0	0.0	0.1
Chemicals and related products	E	9.2	6.8	6.7	*7.1*	7.7	7.9	6.7	6.2	6.8	6.3	6.4	6.5	6.4
Manufactured goods classified chiefly by material input	E	23.0	26.4	27.5	27.5	25.8	26.5	25.2	25.5	24.8	23.9	23.8	23.7	23.4
Machinery and transport equipment	E	26.2	20.9	19.8	21.1	23.4	21.6	28.4	30.3	34.2	36.2	37.6	37.8	38.8
Miscellaneous manufactured articles	E	7.5	19.4	20.5	20.9	22.0	21.7	20.8	20.9	18.3	17.6	17.2	17.1	15.1
Commodities and transactions not classified elsewhere in SITC	E	5.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Author compiled table from data obtained from: Yearbook of Foreign Trade Statistics (1998, 2002, 2003, 2004 and 2005).

More detailed analyses of changes in Polish foreign trade in the years 1990–1997 indicate a rather unsophisticated character of the structure (Płowiec 1997, p. 231). Furthermore a phenomenon of apparent backwardness of the export structure may be observed whereby in exports the significance of highly processed goods and the share of value added decrease in favour of material and energy intensive products of relatively low technological level (Perczyński 1997, p. 273).

According to the data presented in Table 2, the share of machinery and transport equipment in Poland's total exports declined from 26.2 in 1990 to 21.6 per cent in 1997. In that same year above average growth in total Polish exports was reached by the group of agriculture and food products, furniture, wood and wood products as well as chemical and metallurgical products (Piotrowski 1998, p. 9). It is worth noting that with the exception of agriculture, the penetration of these industries by MNEs was most intensive.

However, since 1998 the share of machinery and transport equipment in the export structure was continuously growing. One of the most important factors behind this trend was FDI by MNEs in the motor industry such as Fiat, GM and Daewoo.

The European Union has become the most important export market for Poland, accounting for around 70 per cent of Polish exports. Mroczek (2003) makes the following observations regarding the patterns in the Polish export structure in relation to the EU markets:

- the role of highly processed goods was rising, leading to a gradual assimilation of the internal trade structure of the EU,
- the most important Polish export category, machinery and appliances, accounted for almost 25 per cent of total exports to the EU in 2002,
- transport equipment accounted for approximately 17 per cent of exports to the EU in 2002,
- decreasing importance of product groups, which used to play the most important part in Polish exports, such as metallurgical products, wood products, fabrics, clothes and chemicals (in 1994 accounting for 45 per cent of sales to the EU),
- systematic growth of the role of furniture industry,
- rapid increase of the value and role of the paper industry (dominated by one US MNE: International Paper).

A more detailed analysis of the changes in Polish exports to the EU and Polish exports in general, leads to the same conclusion that changes in the importance of particular groups of products were strongly tied to the expansion of foreign investors. Rising shares in Polish exports characterized these branches which received a relatively high inflow of FDI.

The role of multinational enterprises in Polish exports

It is unfortunate that no detailed statistics exist concerning export engagement in Poland by subsidiaries of MNEs. The available data cover export activity of all companies with the foreign participation in general. Data collection is conducted by the Polish Central Statistical Office and is based on balance of payment statements. However, for the purpose of this study it is quite realistic and legitimate to assume that in Poland, within the population of firms with foreign equity participation, the dominating position is certainly held by subsidiaries of large MNEs.

Statistics confirm a much higher export intensity of companies with foreign participation, measured by their share in the country's total foreign trade turnover, compared with enterprises with exclusively Polish equity. The export-oriented approach of firms with foreign participation (notably MNEs) is related to the higher quality and higher level of international competitiveness of products manufactured by these enterprises and to their access to global distribution channels and state-of-the-art marketing expertise.

The share of enterprises with foreign participation in Polish exports is presented in Table 3. It is clearly visible that the share was increasing in almost every year of the studied period. Exceptions are the years 2001 and 2004, when the share declined.

Table 3. The Percentage Share of Enterprises with Foreign Participation in Polish Exports in the Years 1994–2004

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
25.0	30.0	33.8	43.0	47.9	51.6	56.2	53.6	54.5	57.6	56.7

Source: Own calculations based on: Durka (Ed.) (1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2005).

More detailed data on exports of firms with foreign participation are shown in Table 4. The analysis that follows is based on that table and the annual reports edited by B. Durka and published by the Polish *Instytut Koniunktur i Cen Handlu Zagranicznego*.

In 1996, the total value of exports by companies with foreign participation amounted to US$8.3 billion, compared with US$6.8 billion in 1995. This increase of 17.4 per cent was twice faster than that for total exports (6.7 per cent). Even more symptomatic are comparisons of the growth rate of exports by firms with foreign participation with the growth rate in exports by companies with exclusively Polish equity (17.4 per cent and 1.1 per cent). The above data point to the crucial role performed by foreign firms in the overall increase in Polish exports in 1995. Consequently, the share of companies with foreign participation in Polish exports rose from 30.0 per cent in 1995 to 33.8 per cent in 1996 (see Table 3 and Durka (Ed.) 1997).

In 1997, the total value of exports by companies with foreign participation amounted to US$ 11.0 billion, compared with US$ 8.3 billion in 1996, providing an increase of 34 per cent. Thereby the growth rate of these firms was significantly higher than that recorded a year earlier (20.3 per cent, Durka (Ed.) 1998). In 1998, the total value of exports by companies with foreign participation exceeded US$ 13.5 billion, compared with US$ 11.0 billion in 1997, generating this time an increase of 22.1 per cent. Although the growth rate of exports by these enterprises slowed down following the 34 per cent rise recorded in 1997, it still had a decisive effect on the overall growth rate of Polish exports of 9.6 per cent in 1998. After a decline by 9.3 per cent in 1997, exports by enterprises with exclusively Polish equity practically stagnated in 1998, rising by only 0.1 per cent (Durka (Ed.) 1999).

Table 4. Exports by Companies with Foreign Participation and Polish-Owned Firms in the Years 1994–2004

Specification	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Export value (in million USD)											
Companies with foreign participation	4303.0	6871.2	8267.7	11077.4	13527.9	14134.0	17777.0	19327.8	22341.2	30871.5	41849.0
Polish owned firms	12937.1	16023.7	16172.1	14673.9	14701.0	13273.4	13874.2	16764.4	18668.5	22705.4	31932.2
Poland's total exports	17240.1	22894.9	24439.8	25751.3	28229.9	27407.4	31651.2	36092.2	41009.8	53576.0	73781.2
Change on the previous year (in million USD)											
Companies with foreign participation		2568.2	1396.5	2809.7	2450.5	606.1	3643.0	2815.1	3013.4	7917.8	10977.5
Polish owned firms		3086.6	148.4	-1498.2	27.1	-1427.6	600.8	1625.9	1902.4	4649.3	9226.3
Poland's total exports		5654.8	1544.9	1311.5	2477.6	-821.5	4243.8	4440.9	4917.6	12567.1	20204.3
Change on the previous year (%)											
Companies with foreign participation		59.7	20.3	33.9	22.1	4.5	25.8	17.0	15.6	34.5	35.6
Polish owned firms		23.9	0.9	-9.3	0.1	-9.7	4.5	10.7	11.4	25.7	40.6
Poland's total exports		32.8	6.7	5.4	9.6	-2.9	15.5	14.0	13.6	30.6	37.7
Percentage shares in Poland's exports											
Companies with foreign participation	25.0	30.0	33.8	43.0	47.9	51.6	56.2	53.6	54.5	57.6	56.7
Polish owned firms	75.0	70.0	66.2	57.0	52.1	48.4	43.8	46.4	45.5	42.3	43.4
Poland's total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Author compiled table from data obtained from: Durka (Ed.) (1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2005).

Looking at the trends in foreign trade of foreign-owned firms operating in Poland it should be emphasized that both their exports and imports went up. In 1999, the total value of exports by companies with foreign participation amounted to US$ 14.1 billion compared with US$ 13.5 billion in 1998, giving an increase of 4.5 per cent. Thus the growth rate of exports by these enterprises slowed down dramatically in comparison to 1998 or 1997. This indicated that firms with foreign participation operating in Poland had also suffered from deteriorating sales effectiveness in foreign markets and the dire consequences of the Russian crisis. Nevertheless, these firms recorded a faster growth rate in exports than Polish-owned companies. This reconfirmed the higher quality and higher level of international competitiveness of foreign MNEs, which was already apparent in the previous years. The use of foreign distribution channels and state-of-the-art marketing techniques also influenced this trend (Durka (Ed.) 2000).

In the following period firms with foreign participation consolidated their position in Poland's exports. Their share rose from 51.6 per cent in 1999 to 56.2 per cent in 2000 and their export volume in 2000 went up as well. The growth rate of exports outpaced almost eightfold that of imports. In 2000, the total value of exports by companies with foreign participation amounted to US$ 17.8 billion, compared with US$ 14.1 billion in 1999, which gave an increase of 25.8 per cent. The growth rate of exports by these firms approached the high figures recorded in 1998 (22.1 per cent) or in 1997 (39.0 per cent). This trend brought into focus the question whether these firms were entering the anticipated "export harvest" period. It seems that to some extent this increase was an indication of growing specialisation of these entities and of enhanced stimulation of exports through intra firm cooperation with other MNE subsidiaries. On the other hand, the increase in exports by foreign firms was also attributable to the declining growth rate of domestic demand in Poland. As in previous years, in 2000, foreign firms recorded a faster growth rate in exports than domestic Polish companies (Durka (Ed.) 2001).

In 2001, foreign-owned firms exported commodities worth US$ 19.3 billion, thus reaching a 53.5 per cent share of Polish exports in general. In comparison to the year 2000 their export rate increased by 18.2 per cent, compared with 9.8 per cent for Polish-owned firms. This proves that foreign firms played a leading role in the process of export acceleration. The significant share of companies with foreign participation in Polish exports confirms the higher level of international competitiveness of those companies and their products, observed already in the previous years (Durka (Ed.) 2002).

In 2002, foreign firms exported commodities worth US$22.3 billion, 15.6 per cent more than the previous year. For domestic Polish firms the growth rate was 11.4 per cent. This in turn led to an increase in the foreign firms share in Polish exports, reaching a level of 54.5 per cent (Durka (Ed.) 2003).

In 2003, another increase in MNEs exports was witnessed. The value of almost US$31 billion represented an almost 35 per cent growth over the previous year's value of exports. At the same time, Polish-owned firms' exports grew by around 25%. As a result, MNEs further strengthened their position as the dominant export earner, with the share of 57.6% of total exports.

The last year of the studied period, 2004, showed also a dramatic increase in exports by MNEs (almost 36%). However, Polish-owned firms' export performance was even more stellar. They generated close to US$32 billion in export earnings, increasing these earnings by more than 40% on the previous year. During the period of study, 2004 was the first year when Polish firms' share in total exports did not decline. It stood at 43.3% compared with 42.3% in the previous year. This may be an indication of a change in the long ascent of MNEs as export earners in Poland or/and a sign of the strengthening competitive position of indigenous firms.

The superior export performance of MNE subsidiaries compared with that of Polish-owned firms has had one drawback relating to the net effect on Poland's trade balance. The said MNE subsidiaries showed a much higher import propensity than local firms. This import was predominantly supply-oriented and contributed to the increase of the perennial deficit in the country's trade balance. This negative trend was in part a reflection of the insufficient competitiveness of domestic Polish suppliers and subcontractors. Even if those local suppliers were in a position to make an offering compatible with MNE standards (especially in the quality area) and expectations or marginally better, they still ran a high risk of being rejected simply because MNEs maintained a strategic preference for their proven home country partners. This approach and preference was also a powerful demonstration of increasing MNE reliance on the conventional principles of relationship marketing.

Multinational enterprises and technology transfer

Growing links with the external environment have constituted one of the salient features of the transformation process of the Polish economy. One of the aims of an open approach adopted by the state in this field was to raise economic effectiveness by improving the technological level of the products available to the Polish consumers. To achieve this, it was necessary to allow for the transfer of technologies from abroad since the possibilities of generating and implementing new technologies and innovations at home had proved to be inadequate.

Thus a very widely conceived transfer of technology into the Polish economy was encouraged in the form of simple imports of commodities, FDI, relocation of highly qualified personnel, license purchase, exchange of documentation not included in the license agreements, provision of technical services, managerial contracts, consulting, leasing, franchising, personnel training by foreign specialists and personal contacts with foreign specialists. Although it would be difficult to define empirically which of these forms has been of greatest significance, FDI appears to have played the most important role (Starzyk 1998, p. 258).

At the beginning of this decade, the technology and innovation gap that separated Poland from the highly industrialized countries was evidenced by the following factors (Jasiński 2001, p. 8):

- the number of domestic patents submitted was continually decreasing,
- the number of domestic patents granted was falling,
- the number of Polish inventions patented abroad was falling as well,
- the share of new and/or technologically advanced products in the industrial output was relatively low (as compared with developed countries) and showed a weak growth tendency,
- the share of high technology products in exports was relatively low as well.

Another factor contributing to the need for stimulating technology transfer was the feeble financial support of the state in technology creation and generally limited and insufficient state expenditures for research and development (Jasiński 2001, p. 12). A further argument justifying technology transfer to Poland emerged from a rather passive attitude of domestic firms to the issue of technological progress. Studies carried out on Polish industrial enterprises revealed the following features of their behaviour regarding innovation (Jasiński 2000):

- Polish enterprises generally showed a small interest in technology transfer,
- licenses purchased abroad played a very small role,
- the share of Polish enterprises in international transfer of technology was very modest,
- Polish firms were oriented towards purchasing, not selling new technologies and products.

Other studies conducted in Poland on the sample of 68 enterprises proved that, according to company executives, the quality of R&D personnel and outlays for R&D were perceived as relatively insignificant factors of the company's competitive potential (Gorynia 2000; Gorynia, Wolniak 2001).

Therefore, the three factors presented above (low innovativeness of the Polish economy, limited financial support of the state for research and development, and a passive attitude of Polish firms to technology transfer) provided sufficient justification to use all possible forms of technology transfer for improving the technological level and technology-based competitiveness of the economy as such. In those circumstances FDI by MNEs became the main channel of technology transfer into Poland.

The hypothesis that MNE's FDI exerts a positive influence on the innovativeness of Polish firms is confirmed by both the aggregate data of the Central Statistical Office and by survey evidence. The surveys, carried out on a sample of

291 enterprises (126 firms with foreign capital, 165 firms with Polish capital) proved that firms with foreign capital were more willing to introduce new technological solutions than the domestic firms, although the discrepancy between the results for both groups was relatively small – 6 percentage points (Weresa 2001). Access to the results of R&D and the use of new ideas implemented in the parent firm were identified as the most significant source of innovations for the foreign firms whereas domestic firms could only rely on whatever R&D they carried out themselves.

A new positive factor in the technology and R&D contribution of MNEs to the competitiveness of their host countries has been the establishment of company research centres in Poland. The following examples may be quoted in this context: In Bydgoszcz, at the telecommunications plant belonging to Lucent Technologies, the prestigious Bell Laboratory was established; in Cracow, ABB set up its research centre for the whole of Central Europe (and one of eight in the world); Delphi Automotive Systems was establishing a scientific research centre in Cracow; Siemens employed 500 telecom-software and systems-software engineers in its Wrocław R&D centre; Philips' subsidiary in Piła was making significant investments in development and research on energy-saving bulbs; Ericsson was planning to build in Poland a research centre in Cracow, focused on systems and security management (Special Report: Central Europe 2005).

Furthermore, studies conducted by the Marketing Research Centre INDICATOR at the request of the Polish State Agency for Foreign Investments showed that the technology input in products manufactured by foreign firms was increasing. Majority of companies with foreign capital applied technologies not older than one year (63.4 per cent). In 1997, the newest technologies were applied by 55.6 per cent of the studied companies. At the same time the number of companies using technologies older than 10 years decreased from 20.3 per cent in 1997 to 11.2 per cent in the year 2000.

Foreign firms also made use of more modern machinery and equipment. Although in the years 1997 and 2000 almost the same number of these companies used one-year-old machinery and equipment (62.0 per cent and 63.6 per cent), currently a smaller number of them have been making use of equipment older than 5 years (in 1997 – 64.2 per cent, in 2000 – 57.6 per cent) and older than 10 years (22.9 per cent and 13.0 per cent). One-third (32.3 per cent) of the companies with foreign capital also used various quality standards and procedures such as ISO 9001 (22.1 per cent of this group of firms) and ISO 9002 (17.1 per cent).

Conclusions

The present study attempted to combine both the micro- and macroeconomic perspectives, investigating Poland's export competitiveness as well as competitiveness of exporting firms: foreign-owned versus domestic. It generally followed the UNCTAD approach with respect to the multidimensional treatment of the "export competitiveness" construct, analyzing a range of competitiveness indicators. At the same time, it combined the typical approach identified in the literature review of comparatively analyzing export propensity of MNE subsidiaries and domestic firms.

The study also tried to demonstrate that Poland's export performance, as measured by international market-share gains and the export/GDP ratio, improved substantially throughout the period under consideration (since 1995). On the other hand, positive changes in commodity structure of exports could only be observed during the last seven years of that period, with the increasing share of machinery and transport equipment in total exports being the most significant evidence of those positive changes. This upgraded performance of Polish exports is linked to MNE activity. First, growing export market-shares are observed mostly in sectors which received a relatively high inflow of FDI (e.g., automobile and related industries). Second, available statistics clearly demonstrate a much higher export intensity of companies with foreign participation as compared with Polish-owned enterprises. Moreover, foreign subsidiaries of MNEs show higher innovativeness, achieved mostly through technology transfer from their parent companies, leading to a significant upgrading of the host country's technological level. Thus, one can conclude that in line with most of previous research, this study confirms a substantial part of received theory that FDI undertaken by MNEs strengthens the competitive position of the host country in which it is made.

In this context, therefore, it appears that MNEs deserve praise and appreciation. However, the superior export performance of MNE subsidiaries has not succeeded in erasing a negative side effect on the balance of payments due to a higher import propensity of these subsidiaries as compared with Polish-owned firms. This problem is in part a reflection of the thus far insufficient competitiveness of Polish suppliers and subcontractors and is expected to be alleviated only in the long run once Polish firms' competitiveness in general is strengthened and becomes sustainable. Operations of MNEs have created problems and conflicts in other functional areas as well, but these usually complex and often controversial issues fall beyond the scope of the present study. One factor remains constant and should not be underestimated or omitted: MNEs will always care and provide for their own competitive position first and foremost and only thereafter "think" about the competitiveness of the host countries where they operate. This dual perspective and its implications for all concerned create a vast area for further research and scrutiny, especially in the CEE transitional economies.

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