



**Volume 2**

**EIBA**

EUROPEAN INTERNATIONAL  
BUSINESS ASSOCIATION

# INTERNATIONAL BUSINESS AND EUROPE AFTER 1992

Edited by Vitor Corado Simões  
CEDE - Instituto Superior de Economia e Gestão

**PROCEEDINGS OF THE 19<sup>th</sup> ANNUAL CONFERENCE**

**LISBOA, DECEMBER 12 - 14, 1993**



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CENTRO DE ESTUDOS E DOCUMENTAÇÃO EUROPEIA (CEDE)  
INSTITUTO SUPERIOR DE ECONOMIA E GESTÃO

INTERNATIONAL BUSINESS AND EUROPE AFTER 1992

VOLUME 2

Title: *INTERNATIONAL BUSINESS AND EUROPE AFTER 1992*  
(Proceedings of the 19th Annual Conference of EIBA - Volume 2)

Editor: *Vítor Corado Simões*

Published by Centro de Estudos e Documentação Europeia (CEDE)

Printed and bound in Portugal by *Agir - Produções Gráficas, Lda.*

ISBN 972 - 95944 - 1 - 4

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EUROPEAN INTERNATIONAL BUSINESS ASSOCIATION (EIBA)

19th ANNUAL CONFERENCE

LISBOA, DECEMBER 1993

**EXPORT TURNAROUND —  
SWITCHING FROM THE CMEA  
TO COMPETITIVE MARKETS \***

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This paper is a result of the research project ECONOMIC ADJUSTMENT POLICY AT THE SECTORAL AND SUB-NATIONAL LEVEL. A COMPARATIVE STUDY OF POLAND, EASTERN GERMANY, PORTUGAL AND BRITAIN funded through a research grant under the ACE program of the EC, grant number ERB 4012PL910356



## INTRODUCTION

During the first years of the transition from an administered socialist economy to a market one export performance differed substantially from the general economic results - see Tables 1 and 2. It should be added that a relatively positive situation in exports was achieved despite of a radical change in its directions. Almost till the end of the eighties more than 40% of Polish exports went to European members of the CMEA. In 1992 the share of those countries fell down to 15%.

**TABLE 1**

**Value and volume of Polish exports 1990-1992 (last year = 100)**

Years	Value (current prices)	Volume
1990	698,6	113,7
1991	112,5	98,6
1992	127,4	96,5

Source: "Polski Handel Zagraniczny w 1991 roku. Raport roczny"  
"Polski Handel Zagraniczny w 1992 roku. Raport roczny"

**TABLE 2**

**Dynamics of GDP, industrial production and unemployment in Poland 1990-1992**

Years	GDP (last year = 100)	Industrial production (last year = 100)	Rate of unemployment
1990	88,4	78,0	6,3
1991	92,4	82,9	11,8
1992	101,0	102,0	13,6

The paper tries to find an answer to the following question - how much of the positive export performance can be attributed to:

1. favorable international environment,
2. economic policy of the government,
3. adjustment behaviors of exporting firms?

## THE STARTING POINT - THE SOCIALIST LEGACY

The positive situation in exports is especially worth of an analysis in the context of the burden of the legacy of the administered socialist economy. The most important elements of this legacy are as follows:



1. a depreciated role of exports,
2. non-supporting economic policy,
3. unfavorable geographical and commodity structures,
4. a lack of export orientation at the firm level,
5. negative social attitudes against exports.

The role of exports in a typical socialist economy was reduced to providing foreign currency to cover import expenses. Export and import plans were secondary to a national economic plan, based on quantitative material balances. A shortage in a material balance meant a need for imports. In similar way export surpluses were identified. At the same time the central planner decisions were characterized by a negative price elasticity of the export supply. Exports should have covered only the indispensable imports. When the export prices rose and import prices were stable - the volume of export could be reduced. Similarly low was the price elasticity of the import demand. The adjustment to growing import prices was done - to a large extent - by exports, that "pulled out" non-priority goods (from the point of view of the central planner) despite of a domestic demand (Winiecki 1983).

In such situation determining the real effects of the foreign exchange was impossible. The foreign trade could not be seen as a wealth creation factor. Further developments in the central management methods (so called parametric system) did not create a reliable economic calculus for the foreign exchange.

When Poland had fallen into a debt trap another role of exports grew in importance - providing foreign currency for servicing the foreign debt. At the end of 1989 the foreign debt amounted to 40,6 bil. USD.

The economic policy concerning the foreign trade sector was characterized in the eighties by a rather complicated system of export incentives. The system comprised:

- currency exchange rates (differentiated and distorted due to different foreign currency areas and different ways of international settlements),
- foreign exchange retention accounts (RODs) in which exporters could retain a part of their export income (the retention rates were also differentiated),
- tax exemptions and reductions (corporate tax and tax on excessive wages) in reference to exports,
- export growth awards granted by the minister of foreign trade.

The changes in the system occurred frequently. In the late eighties it seemed that the foreign trade authorities had lost control over the system. It became unmanageable.

The import side was more strictly controlled - at least till the moment when centrally distributed foreign currencies were the main source of this financing.

In the second half of the eighties alternative sources of import financing appeared - RODs, currency auctions, foreign currency credits. The role of so called decentralized financing was growing systematically, but for the whole period the central distribution dominated. In 1988 centrally distributed finance covered 61,2% of imports from the hard currency area and in 1989 - 50%. Enterprises financed from their own sources (RODs) 28,1% of total imports in 1988 and 34,8% in 1989. In 1989 more than 1 bil. USD were sold in currency auctions - i.e. about 13% of imports from the dollar area. Foreign currency credits financed in 1988 4,3% of hard currency imports and in 1989 - 6%. (1)

The decentralization in the foreign trade sector resulted also in an increase of the number of organizations directly engaged in the foreign trade. But the role of foreign trade companies remained strong. In 1980 only 70 foreign trade companies and licensed firms were allowed to conclude contracts with foreign partners. By the end of 1988 there were 2821 licensed firms. In 1989 almost all commodities were out of the licence system. But in 1988 19 foreign trade companies had 87% share in the total exports and 88% share in imports. (2)

Price regulation in the foreign trade sector was another important element of the economic policy. Prices in a traditional socialist economy were isolated from international markets. In 1982 the government decided to base the prices of raw materials and basic materials on prices of Polish exports and imports. The system was never fully implemented. A compensatory fund existed for the whole period - paying subsidies and imposing equalizing charges. It should be mentioned however that the role of the compensatory fund was gradually reduced. In 1988 a "parametrization" effort (establishing strict rules of subsidizing) was taken.

Geographical and commodity structures of the Polish foreign trade were also an important feature of the starting point situation - see Table 3 and Table 4. It should be noticed that exports to the rubel area were traditionally dominated by products of electro-mechanical industries (about 60% of total exports). To a large extent those were non-tradeables not meeting quality requirements of the Western markets. The same could be said about a part of light and chemical industries exports.

Electro-mechanical products had the greatest share, also in imports. Fuel and energy were on the second place.

Behaviors of firms - especially of the exporting ones were another element of the starting point situation. A research done in 1988 revealed some interesting patterns (Otta 1988). (3) An area specialization (hard currency vs. rubel) could be seen in market portfolios of the most of the exporting firms. In 44% of the questioned enterprises exports to the hard currency area represented more than two-thirds of their total exports. In 45% of the enterprises the share of exports to the rubel area (mainly the CMEA) was also higher than two-thirds of their total exports. But it should be mentioned that only several percent of exporting manufacturers had no experience in servicing competitive markets.

**TABLE 3**  
**Geographical structure of Polish foreign trade (current prices)**

Years Markets	Exports	Imports
1981		
EEC	23	20
CMEA - Europe	45	51
Other	32	29
1985		
EEC	23	20
CMEA - Europe	48	54
Other	29	26
1987		
EEC	26	25
CMEA - Europe	41	46
Other	33	29
1989		
EEC	32	34
CMEA - Europe	35	32
Other	33	34

Source: Calculated from data in "Handel Zagraniczny 1991"

The export orientation in the sample was rather moderate:

- for only 3% of the total number of the exporting manufacturers export represented more than 75% of their sale,
- 13% of the enterprises exported 50-75% of their production,
- 22% of the enterprises sold 25-49% of their production for export,
- 29% of the sample exported 10-24% of their production,
- for 33% of the enterprises the export share was less than 10%.

The low export orientation was also manifested by:

- underdeveloped sales networks in foreign markets,
- a low number of firms having foreign trade licences and a small number of applications for such licences,
- limited number of export marketing activities performed or controlled by the manufacturers.

TABLE 4

## Commodity structure of Polish foreign trade (current prices)

	Fuel Energy	Industrial products							Construction	Agri- culture	Forestry	Other	
		Metalurgy	Electro Mechanical	Chemistry	Minerals	Wood Paper	Light	Food					Other
Imports													
1981	16,6	9,1	29,3	11,8	1,3	1,7	3,9	12,0	0,9	0,2	13,1	0,1	0,0
1985	21,5	9,3	32,8	13,5	1,5	1,5	5,2	7,2	1,2	0,0	4,9	0,1	0,3
1989	12,4	8,8	36,3	15,2	1,3	1,9	7,6	9,5	1,7	0,0	4,9	0,1	0,3
Exports													
1981	10,4	8,9	45,2	9,6	1,0	2,4	8,6	5,1	0,6	5,4	2,0	0,6	0,2
1985	15,6	8,6	39,4	10,4	1,0	2,0	5,9	6,6	0,5	5,3	3,2	0,7	0,8
1989	9,6	10,5	38,4	10,5	1,3	2,9	5,5	9,6	0,6	5,9	4,1	0,3	0,8

Source: "Handel Zagraniczny 1991"

It should be also noticed that majority of the enterprises tended rather to complain "too low" foreign currency exchange rates than to take cost reductions efforts.

At last generally negative social attitudes towards exports were important element of the picture of the starting point situation. Export was treated as a factor responsible for deepening shortages in domestic markets and some times as a route for an outflow of the national product. Only small social groups benefited from the differences between official and black market (or parallel market) rates of exchange. Service trips created a considerable source of income for foreign trade personnel and were used to corrupt managers in manufacturing firms.

Generally speaking the inherited situation was not very favorable for export activization. However it should be admitted that some positive steps were taken - especially in the end of the past decade.

## INTERNATIONAL ENVIRONMENT

A totally new external situation was created by the collapse of the CMEA at the beginning of the present decade. In 1990 the old system of bilateral rubel exchange was preserved. Most probably it slowed down the decrease in inter-Comecon trade. In 1990 the volume of Polish exports to the rubel area represented 89,6% of 1989 volume. Imports fell more sharply - to the level of 66,3% of 1989 volume. In consequence a positive trade balance of 4787 mil. transfer rubels emerged.<sup>(4)</sup>

In 1991 the dynamics of exports to the former CMEA was even worse. The real sales fell down by 41,8% in relation to 1989. Imports in 1991 represented 66,4% of 1989 volume. Especially high decrease in sales to the CMEA hapened in engineering and precision instruments industries. It seems that the sharp decrease in exports was mainly caused by a shift to dollar payments in trade relations.

The most painful for Poland was the collapse in trade with the Soviet Union and the countries that emerged from the SU. Between 1950 and 1989 the Soviet Union was the greatest commercial partner - both in exports and in imports. The share of the Soviet trade was all the time higher than 20% (in some years it reached even 35%). Only in 1989 the share fell down to 18,1% in imports and 20,8% in exports. In 1990 the Soviet Union was replaced by Germany. In that year the share of Soviet Union in Polish exports was 15,3% and in imports 19,8%. In 1991 exports to the countries of the former Soviet Union represented 11% of total exports and in imports - 14,1%.

In 1992 Russia had a 10,8% share in Polish foreign trade. There was a 0,64 bil. USD in the trade balance.

In 1993 fall in Polish - former SU trade has been continuing. In the first four months of the present year Poland exported to the former SU products and ser-

VICES for 180 mil. USD. The value of imports was 225 mil. USD. A part of the trade was done on barter basis - 20% of exports and 10% of imports. (5)

It is estimated that the collapse in East trade was the main reason for the decrease of the GDP. According to Berg and Sachs Poland (1992) had to spend about 3,2 bil. USD to compensate imports from the SU. That resulted in 1990 in a 4% decrease in the GDP, while the general decrease was estimated for 4,9-8,7 bil. USD (according to GUS - 12%).

Generally the role of former partners from the CMEA shrank sharply - both in exports and in imports (Table 5). That trend has not been stopped yet.

**TABLE 5**

**The share of the former CMEA countries in Polish foreign trade (current prices)**

	1990	1991	1992
<i>Exports</i>	21,4	16,9	15,4
<i>Imports</i>	21,9	20,0	16,3

Source: "Polski Handel Zagraniczny w 1991 roku. Raport Roczny" and calculation from data in "Handel Zagraniczny Styczen -Grudzien 1992"

Economic relations with the EEC constituted the next essential component of the external situation. Strong integration aspirations were manifested by Poland, but they were met with a reserve. Nevertheless in 1989 an agreement on trade and commercial and economic co-operation was signed. It was a first step to more formal relations. In December 1991 an Association Treaty was signed. According to the Treaty a full membership of Poland in the EEC is the final goal. The 10-year transition period is divided into two stages during which an adjustment to West European political and economic systems should take place.

The commercial part of the Treaty was enacted on the basis of an Interim Agreement on March 1, 1992. The most important provisions of the treaty concerning trade relations stipulated:

- creation of a free trade zone between the parties after the 10-year period (excluding agricultural products),
- removal of all import quotas from the enactment of the Interim Agreement,
- assymetric liberalization of tariffs in time - the liberalization process on the EEC side should be faster.

The Association Treaty foresaw situations in which parties had right to restore import restrictions or to establish new ones. For example so called general clause enables an introduction of higher tariffs when an increase in imports

results in a material harm to domestic industry of any party of the Treaty. The restructuring clause entitles Poland to impose protective tariffs to support infant industries or restructuring processes. The Treaty provides also anti-dumping clauses and clauses preventing disturbances in agricultural markets. In the last case the discretion of the parties is especially high.

There is no doubt that the Association Treaty creates opportunities for the development of economic relations with the EEC. Potential gains for Poland are - scale economies, trade creation and trade diversion effects, growing attractiveness of Poland for foreign investors, etc. Potential effects of the Treaty should not be overestimated however. The level of protection in the EEC is generally low (3-5% for the most of commodity markets). Additionally in the areas with relatively high Polish comparative advantage (agricultural products, textiles) a lot of non-tariff restrictions exists and the planned liberalization is very selective (farm products) or long-lasting (textiles).

The economic situation in the EEC - our dominating commercial partner (see Table 6) - has been worsening since the beginning of the present decade.

**TABLE 6**  
**The share of the EEC countries in Polish foreign trade (current prices)**

	1990	1991	1992
<i>Exports</i>	47,2	54,7	58,0
<i>Imports</i>	45,8	48,4	53,1

Source: As in Table 5

1990 was the last year of general economic growth. However already in the second half of that year recession symptoms appeared in the British economy. In 1991 in the rest of EEC the growth rates were low. The most spectacular slow-down could be observed in Germany (problems with the absorption of the GDR). The rate of economic growth decreased in Germany from 3,2% in 1991 to 1,1% on 1992.

The recession in the most of the EEC countries gave a strong impetus to protection practices. In 1993 Spring a ban on import of livestock was introduced. In the Summer minimal prices for imported cherries were imposed.

Economic trends in the global economy (the role of other countries - except the EEC and the former CMEA - is shown in table 7) were not favorable either. The growth rate of the global product decreased in 1990 and 1991 - 2% and 1% respectively.

TABLE 7

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

	1990	1991	1992
<i>Exports</i>	31,4	28,4	26,6
<i>Imports</i>	32,3	31,6	30,6

Source: As in Table 5

In the second half of 1990 symptoms of recession could be seen in the American economy. In 1991 the GDP decreased by 0,5%.

In 1992 there was a slight growth of GDR (2%).

The recession resulted in stronger protectionist tendencies. For example in 1992 the USA imposed import restrictions on steel.

The external situation cannot be fully characterized without any description of the relations with international economic organizations. The relations with the IMF were generally positive. Polish stabilization program was accepted. That opened the way to an establishment of the stabilization fund since January 1990. The stabilization fund was composed of 700 mil. USD credit and gifts of 300 mil. USD. Co-operation with the World Bank has been running relatively smoothly. Also several foreign governments granted credits for Poland. It is estimated that in the beginning of 1991 6 926 mil. USD of credits delivered by international economic organizations (IMF, World Bank, EIB, IFC, EBRD) or guaranteed by governments were placed at Polish disposal. Some absorption problems emerged however. Till the beginning of 1993 only less than 30% of disposable credits were used.

It should be mentioned that negotiations concerning debt reductions have succeeded too. The Paris Club (credits guaranteed by governments) reduced by 50% of net present value of the debt from April 1, 1991. Private creditors (London Club) are more reluctant in reducing Polish liabilities.

Generally speaking the external environment was rather friendly at the beginning of the market reform in Poland. The main components of the supporting environment were:

- a political sympathy to Polish reforms,
- relatively good economic situation in Western countries.

Further developments were rather unfavorable however. Economic situation in the West has been deteriorating. The number of political clients has risen considerably.



## THE ECONOMIC POLICY

Four main elements can be distinguished in Polish economic policy during the period 1990-1993:

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

One of the most characteristic features of the restrictive fiscal policy was a complete removal of export subsidies. Most of the prices were released. Subsidies concern a small and gradually diminishing group of products and services (energy, transport, housing rents, medical services and drugs, etc.).

The level of corporate and income taxes (marginal rate - 40%) is generally assessed as a moderate one. In July 1993 turnover taxes were replaced by the VAT (the basic rate - 22%). The effectiveness of tax collection is unsatisfactory however. The shadow economy plays meaningful role.

Another element of the stabilization program was sharpening the credit policy. Fluctuating interest rates were introduced. Preserving the positive real interest rate was the underlying principle in the policy of the National Bank.

A strict monetary policy should be also mentioned. The policy was controlled by the National Bank of Poland, that became formally independent on the government. At the beginning of the market reform the supply of money (in real terms) was reduced. Later on a slight growth of the real supply of money could be observed.

Already at the beginning of 1990 internal convertibility of zloty was introduced (convertibility on the current account). Foreign currency accounts for enterprises were gradually liquidated.

The stabilization program comprised two nominal anchors - fixed exchange rate to dollar and penalizing taxation of excessive wage growth. The fixed exchange rate was in force till May 1991. Penalties for exceeding wage limits (in state-owned enterprises) were put at the level of 200-500% of the exceeding.

On January 1, 1990 radical devaluation of zloty took place - 31,6% (from 5235,5 PLZ for 1 USD to 9500 PLZ for 1 USD). In May 1991 zloty was devaluated by 17%. The exchange rate was set in relation to a currency basket (based on the currency structure of the Polish foreign trade). In October 1991 so called crawling devaluation policy was introduced (zloty was devaluated monthly by 1,8% in relation to the currency basket. In February 1992 another devaluation jump took place. The last devaluation took place in July 1993 - devaluation jump amounted to 8%.

An important role, especially in the first year of the transition played the change of exchange rates of transfer rubel to dollar - from 2,97 TR for 1 USD in 1989 to 4,52 TR for 1 USD in 1990.

Liberalization of the home trade consisted in relaxing of majority of prices. Only 7% of prices remained under state control in 1990. Later on, under the pressure of political lobbies, some reversal tendencies could be observed - e.g. introduction of minimal prices for some farm products.

Liberalization of the foreign trade was mainly connected with the removal of non-tariff barriers and administrative instruments of export and import regulation. Most of the import quotas were removed. The new customs tariff was rather liberal. The mean level of protection (in 1990 - 7,7%) was slightly higher than in the EEC. Later on a partial abandonment of the liberal policy occurred - mainly because of political and economic pressures. Farmers lobby forced the government to increase tariffs for agricultural products and processed food. A rise of tariffs in automotive industry was mainly due to pressures exerted by potential foreign investors.

In general after initial radical liberalization of the foreign trade some protectionist tendencies have emerged. The general level of protection rose in 1991 to 19% (including import tax). Non-tariff instruments have been used to a greater extent.

An important feature of the institutional transformation in the foreign trade sector was the demonopolization. It was started already during communist rules. Foreign trade licences were generally removed. Only few products and services are licensed. Till the end of 1990 about 100.000 firms applied for foreign trade statistical numbers - the only requirement to run professional trade with foreign partners.<sup>(6)</sup> But in 1990 still about 75% of Polish export and imports went through foreign trade companies. In the next years the role of FTCs has been diminishing gradually.

The role of the private sector in Polish foreign trade was growing. The share of private sector in Polish exports rose from 19.8% in 1991 to 38.4% in 1992. The share in imports grew from 46.1% in 1991 to 54.5% in 1992.

Enabling foreign capital entries was also an important part of the institutional transformation. First foreign firms were installed in Poland in the seventies. In 1989 1700 foreign firms were registered. 949 of them were economically active.<sup>(7)</sup> A new law on foreign investments was introduced in 1991. Initial administrative burdens were removed. Minimal quotas for capital investments were taken off (formerly there was a 50.000 USD limit). Transfer of profits was made possible. But at the same time automatic three-year tax holidays were suspended. A shift in the functions of the Foreign Investments Agency took place too - from a controlling and approving agency to a promotional institution responsible for informing and attracting foreign investors. A remarkable inflow of foreign capital started only in 1992.

At the end of 1992 the value of foreign investments in Poland was estimated as 1.5 bil. USD, but the inflow in 1992 was about 1.1 bil. USD. Promised, future investments amounted to 3.5 bil. USD.

The banking sector was also comprised by the institutional transformation. A fast grow in the number of banks occurred. At the end of 1990 there were 67 banks. Only few of them were entitled to service foreign transactions. Now there are about 100 banks.

Changes in selfgovernment institutions should be also mentioned. Generally speaking the selfgovernment plays nowadays minor role. Partly it is a consequence of atomization of the selfgovernment movement - a lot of small chambers of commerce have emerged. Most of them have a very weak financial background. Polish Chamber of Foreign Trade has lost its quasi - governmental status, was incorporated to the National Chamber of Commerce and lost most of its funding.

The last of the initially mentioned fields of the economic policy was export restructuring. Financial measures for export support were removed due to the stabilization policy. No extensive programs of export development have been prepared. Only recently some weak promotional efforts have been started. A promotional campaign "Poland Now" have been launched. Promotional marks are awarded to outstanding export products. A part of promotional expenses is funded by the government.

An important role in the restructuring processes should be played by the developments in foreign trade infrastructure (telecommunications, customs terminals, transportation network etc.). It is generally admitted that the progress in those fields is unsatisfactory.

It seems that the relatively good situation in Polish exports at the beginning of the market-oriented reform was caused mainly by a strong "push out" effect. Three factors contributed to that effect. First was a radical and immediate fall in the domestic demand. Secondly large inventories were promptly dishoarded while the costs of materials and semiproducts were calculated on historical prices basis. The profitability of production was unrealistically high (Schaffer 1992). However the main cause of the "push out" effect was the deep devaluation of zloty at the beginning of 1990. The devaluation of the transfer rubel in relation to the dollar fostered additionally exports of material intensive products.

Already in the second half of 1990 the "push out" effect started to weaken gradually. The level of the real incomes was stabilized (with some minor decreases later on). The same happened to inventories (Calvo, Coricelli 1992). Exchange rate was fixed till May 1991 despite lower but still remarkable inflation. The crawling devaluation rate was also lower than the rate of inflation. In consequence devaluation jumps were needed and fluctuations in the trade balance could be observed. In the first half of 1993 the negative trade balance surpassed 1 bil. USD. <sup>(8)</sup>

## ADJUSTMENT STRATEGY AT THE MICRO LEVEL

It is difficult to estimate the influence of adjustment actions taken by industrial firms on the general export performance. There are only few empirical studies focused on adjustment strategies. There are several premises however that suggest that adjustment processes are not very advanced.

First - the growth of exports and switching to competitive markets occurred in a very short time. A World Bank study showed that 20 analyzed metallurgical and chemical enterprises switched 89% of their exports from the CMEA to Western markets already in 1990 and 91% of the sold products were the same that were previously exported to the CMEA (Pinto, Belka, Krajewski 1993). The switching period was too short to allow for essential institutional and structural changes in the enterprises.

Second - mean profitability ratios for exports were in the whole industrial production lower than the profitability of domestic sales. According to the IRiSS (Institute of Development and Strategic Studies) report mean net profit sales ratios were in domestic sales higher than in export sales - 6,2 percentage points in the fourth quarter of 1990, 12 points in the first quarter of 1991, 5,5 points in the second quarter of 1991 and 8,2 point in the third quarter of 1991.<sup>(9)</sup>

Third - responses of enterprises (the next year IRiSS research project) pointing at factors determining the profitability of exports showed that the enterprises regarded influence of external factors (exchange rates, market prices) as much more stronger than the influence of internal factors - level of costs, changes in product market portfolios.<sup>(10)</sup>

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

- a rapid growth of mutual indebtedness of enterprises (Pinto et al 1993),
- tax arrears (Pinto et al. 1993),
- growing bad debt in banks.

Soft financing enables for artificial maintaining of exports despite its unprofitability.

Fifth - till the mid of 1992 the decrease in industrial output was higher than the decrease in employment. That meant a decreasing productivity of labor. Only from the second half of the past year a growth in industrial production accompanied by growing unemployment rate could be noticed.

Sixth - adopted concepts and policy of privatization did not foster quick institutional and structural changes in enterprises. Enterprises have been privatized without prior restructuring.<sup>(11)</sup> Till the end of 1992 ownership changes touched on 2052 enterprises (27,9% of total number of state-owned firms). There were 484 commercialized companies in that number. Commercialization meant changing state-owned enterprises into single-shareholder companies with the

Treasury as the shareholder. 53 enterprises were privatized via public offer of shares. 12 of them are registered in the stock exchange. 553 enterprises were leased, mainly by employees.<sup>(12)</sup>

A great part of the privatization methods did not support the creation of unified and powerful management centers in firms. Adjustment processes were slowed-down. Often the privatization was not followed by essential changes in management methods and structures.

Seventh - the law on state-owned enterprises giving extremely extensive decision rights to employees' councils has not been changed yet. Due to the provisions of that law a specific power structure called "Bermuda triangle" has emerged in state-owned enterprises. There are three main power centers in those enterprises - the management, employees' council and trade unions. Usually they have enough power to block each other but too little to force any constructive action. Many times managers are in the weakest position. Generally they are not given any support by the state administration - legal owner of the enterprises.

Eighth - it seems that the economic policy toward enterprises confines only to negative stimuli. The created economic environment is highly requiring and mostly hostile. Till now no broader actions supporting adjustment processes at the firm level have been taken. The government is not very active, in creating institutions and structures supporting market mechanism either.

Ninth - the hostility and uncertainty of the economic environment is further amplified by some cultural factors - e.g.:

- a lack of tradition of acting in free market conditions,
- identifying the market rules with the "law of the jungle" - with no legal and ethical constraints on economic actions,
- tradition of underground and circumventing behaviour developed by grey and black market practices.

Tenth -destructive and uncertainty - generating phenomena are not effectively fought by state authorities. In some markets the role of smuggling is pervasive. The number of unexplained corruption scandals is high. Unfair competition is not eliminated effectively. In consequence legally acting firms are seriously handicapped.

Eleventh - the skill gap should be noticed. The most important shortages of qualified personnel concern strategic level managers, financial managers, marketing and financial analysis. The pace of adjustment in the education system is slow. Changes in that system are not actively supported by the state (Gorynia, Otta 1992).

Some progress in adjustment processes could be inferred from the growth of industrial output observed since the mid of 1992. That thesis is not supported however by continuously bad financial performance of industrial enterprises. In the first half of 1993 the population of 18463 analyzed by GUS (Central

Statistical Office) gave a net loss. Profitable units were only 56,7% of the sample. The share of profitable enterprises did not change very much. In the same period of 1992 55,1% of the analyzed firms showed net profits.<sup>(13)</sup> The situation inclines some authors to advance the thesis that the economic uplift was temporary and the recession process has already begun (Binczak 1993).

One can say in conclusion that it seems that enterprises have not switched to more efficient way of operations yet. Their international competitive position is still weak. In conditions of general recession and growing international competition there will be a problem of maintaining the level of exports.

## CONCLUDING REMARKS

It seems that the growth and turnaround in Polish exports have resulted from parallel influence of three factors:

1. macroeconomic policy provoking a strong "push out" effect,
2. generally favorable political and economic situation (despite the collapse of the CMEA),
3. relatively favorable social attitudes (social acceptance of a radical fall in living standards).

We are afraid that one cannot say that the export success was generated due to the adjustment of enterprises and due to their improved international competitiveness. Symptoms of the adjustment at the micro level are too weak to be recognized as a stable basis for export expansion.

As the time passes the stimulating capabilities of the restrictive macroeconomic policy diminish. That does not mean that the stabilization policy should be abandoned. It seems that maintaining that policy (it is disputable to which extent) is an essential condition for continuing processes of institutional transformation and of restructuring.

The discussion in one of the above paragraphs pointed at a deteriorating international situation. Negative tendencies seem to be long-lasting. It means that the international competition will be growing. One can also expect growing protectionist movements.

Some discouraging phenomena can be seen also in the social and political scene. Social response and support has been drifting toward parties and groups heralding populist solutions and requiring a radical change in the economic policy. Postulates of stronger state intervention and of "active industrial policy" are put forward. Maybe those are only temporary disturbances, connected with parliamentary elections campaign (the elections to the Sejm and Senat will take place on September 19). However some authors consider populism as one of the main threats to the process of transition from the administered economy to a market one (Hausner 1992).

Many critical remarks pointing out at too passive behaviour of the government in the institutional transformation and restructuring processes have been put forward in this paper. However it seems that proponents of active industrial policy go rather towards preserving and maintaining unefficient industries and not towards the reconstruction of the economic structure to improve the international competitiveness of the Polish economy.

In our opinion a release in the restrictive stabilization policy should be considered. Efforts of institutional transformation should be intensified at the macro level - first of all in creation of the new economic law, privatization, demonopolization, strengthening of institutions protecting and executing the law. It seems too that the government could be more active in macrorestructuring - e.g. in:

- stimulating decrease in energy consumption,
- developing the export orientation of the economy,
- supporting technological progress,
- protecting the natural environment,
- developing of the market infrastructure,
- attracting foreign investors.

Supporting of the institutional transformation and structural changes at the micro level should be the main direction of the modified economic policy. The main elements of the supporting policy are as follows:

1. stimulating the emergence of management centers in enterprises, mainly via:
  - privatization (commercialization included),
  - changing the law on the state-owned enterprises,
  - founding institutions playing the owners role for state-owned enterprises and enterprises with atomized shareholders (except the shares of the Treasury),
  - a broader use of management contracts.
2. securing adequate managerial nominations - e.g. via state examinations required at promotions to managerial posts in state-owned firms. They will supplement present managerial contests in which selection criteria are vague and differentiated.
3. facilitating the flow of production factors:
  - improving the market for second-hand machinery and unused production capabilities - e.g. via information systems with public access,
  - improving the real estate market - via clarifying the ownership problems (eg. via reprivatization but not necessarily through physical returning of the nationalized property),
  - accelerating and facilitating of bankruptcy procedures,
4. facilitating the exchange of property and the flow of capital - e.g. via improving conciliatory procedures, facilitating emission of shares and bonds by enterprises, etc.,

5. solving the debt problem of state-owned enterprises - via canceling part of the debt to the state budget, supporting creation of clearing houses and factoring services, etc.,

6. supporting developmental processes in enterprises:

- the technological progress - e.g. tax reductions connected with R and D expenses, tax reductions for investment spendings, developing technical information systems, etc.,

- the development of skills - via tax reductions for professional training, running systematic courses in media (in state-owned television), etc.,

7. stimulating restructuring processes in enterprises: <sup>(14)</sup>

- stimulating export orientation (e.g. financing participation in international fairs and exhibitions, general promotion of Polish products, developing information systems on foreign markets, developing export guarantee and insurance systems, etc.),

- fostering introduction of energy saving technologies - e.g. via tax reductions,

supporting introduction of environment-friendly technologies, elimination of "dirty"

- processes - via tax charges and reductions,

8. supporting the economic selfgovernment institutions and allowing them to take over a part of regulation functions - e.g. economic arbitration, controlling and eliminating unfair competition, etc.

9. attracting foreign investors. Direct foreign investment could be very helpful in:

- developing skills of managerial, analytical and operational personnel,

- improving the quality of management,

- transferring production, marketing and management technologies,

- introducing material, energy saving and environment-friendly technologies.

## NOTES

(1) Data concerning the financing of imports in 1988 and 1989 are based on: "Gospodarka Swiatowa i Gospodarka Polska w 1989 roku".

(2) Foreign trade licences were introduced on a larger scale in 1982 - see "Polityka Ekonomiczna i Handlowa Polski w 1990 roku".

(3) The research project comprised 135 exporting manufacturers from Bydgoszcz, Torun and Wloclawek voivodeships.

(4) Data concerning external economic situation are based on: "Polski Handel Zagraniczny w 1991", "Polski Handel Zagraniczny w 1992 roku" and "Handel Zagraniczny: Styczen -Grudzien 1992".



- (5) The problems of the barter trade are discussed in Ryniewicz 1993.
- (6) See: "Polityka Ekonomiczna i Handlowa Polski w 1990 roku".
- (7) ibidem
- (8) There are considerable differences in trade balances reported by the NBD - National Bank of Poland (based on currency incomes and payments) and by GUS - Central Statistical Office (based on registered commodity flows).
- (9) See: "Procesy Dostosowawcze Przedsiębiorstw Przemysłowych do Mechanizmu Rynkowego - 1991 . Raport IRiSS".
- (10) See: "Warunki pobudzania mechanizmów podażowych w przedsiębiorstwach przemysłowych w 1992 roku. Raport IRiSS".
- (11) Prior restructuring was taken as a rule in privatizing big enterprises in the former GDR - see Siebert (1991). About benefits and cost of prior restructuring - see Carlin, Mayer (1992).
- (12) The problem of the influence of privatization on functioning of enterprises is discussed by Karpinska-Mizielinska and Smuga (1993).
- (13) See: "Sytuacja społeczno-gospodarcza w I półroczu 1993 roku".
- (14) We declare ourselves in favor of general (not differentiated in particular industries) restructuring programs.

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