The Participation of Transitional Economy in Globalization – 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 globalization in the world. Subsequently the paper attempts to delineate some policy implications of the analysed situation.

INTRODUCTION

Globalization 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 globalization 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 internationalization 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 **[1, 2, 3, 4]**. 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 her economy is becoming more and more open and economic ties with foreign partners are being developed at an accelerated pace. Many forms of such co-operation 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 **[5]**.

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).

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.

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, Warszawa 2000.

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 Table1

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 2612USD 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.

Table 3. Inflow and outflow of foreign direct investments on the global scale in the year 1990-1999 (in bil. 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 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

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.

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

Year	Total investment	
	Given year	Cumulated value
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.

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 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.

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.

Table 5. Current account and commodity payments in the year 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 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 bill. USD which constituted 3.0% of the GDP, in 1998 it amounted to 6.9 bill. USD (4.4% of the GDP), whereas in 1999 it amounted to 11.6 bill. 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 ex. 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.

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 bill. 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 **[6]**.

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 **[7]**. 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 her 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 her international environment brings into focus certain economic policy measures which seem indispensable if the Polish economy is to engage successfully in the globalization 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 internationalization 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 **[8, 9]**.

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 organizations. 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 **[10, 11]**.

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 **[12]**. 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 globalization makes it necessary to improve competitiveness in the dimension specified earlier. One of the key methods of assimilating globalization 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 internationalization. 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 internationalization 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 her 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 **[13]**.

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 **[14]**. 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 **[15]**.

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 **[16]**. 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 privatization 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 internationalization 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 privatization 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 internationalization and interfacing with the globalize economic system.

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