

Competitiveness Policy in Poland in the Face of EU Membership

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INTRODUCTION: Competitiveness Policy in Poland - A Way of Approaching the Issue

Economic literature and politicians have not yet given full conceptual clarity to the notion of competitiveness policy. Nevertheless, recent discussions revealed a remarkable degree of convergence concerning policy objectives and measures. In general, competitiveness policy is perceived as a form of government action in market economy aimed at "maximising the productivity, wealth and growth performance of the national and international economic system" (OECD 1996a, p.13). In specific terms and on the basis of various studies and country programmes the OECD Secretariat in its report of 1996 suggested the following definition of the policy: "supporting the ability of companies, industries, regions or supra-national regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels". A similar approach can be found in the European Union documents that set out the agenda for Community actions to make European industry more competitive (Comm. 1991, 1993, 1994, 1996). These

documents underline the fact that

"the primary responsibility for ensuring that enterprises remain competitive lies with firms themselves. (...) Public authorities sustain competitiveness by putting in place the appropriate framework conditions under which enterprises operate. This takes the form of providing necessary infrastructure, putting in place an appropriate regulatory environment and specific initiatives, particularly in the area of innovation, quality, the business environment for small and medium sized enterprises and economic cohesion" (Comm. 1996).

Both the OECD and EU concepts shed light on the importance of policy approaches focused on *help industry to help itself* by a range of instruments and actions, and a re-statement of government programmes towards market reforms.

The convergence in policy issues among the OECD and EU countries reflects a growing scope of common concern that is taking place in the conditions of the globalisation of product markets, capital markets, and technical know-how. Nevertheless, common concern does not exclude some disparity of viewpoints as to the factors considered to be critical for competitiveness in particular countries. This disparity can lead to various policy responses and differentiated prioritisation in national policy-making. From an international perspective, the main question is whether policy diversity is conflictual in effect.

In this context, three issues deserve attention when reviewing competitiveness policy in a given country:

- *identification of factors that are critical for competitiveness
- *selection of the bench-mark for actions taken by national policy-makers,
- *analysis of a general policy approach with particular attention paid to extent of consistency or contradiction with the bench-mark.

All the above considerations are pertinent to policy formulation in Poland. In making such as assessment of Polish policy it is necessary to review the country's specific situation that is likely to affect competitiveness issues and necessitates long-term and integrated policy approach. Factors critical for competitiveness are examined in Section One. Section Two looks at global (multilateral) and regional bench-marks for the policy-setting, and special emphasis is given to WTO driven liberalisation of trade and investment, as well as to the regional agenda related to the EU competitiveness policy and Poland-Union cooperation. The benchmarking attempts to build an integrated competitiveness strategy in Poland are presented in Section Three.

1.FACTORS CRITICAL FOR COMPETITIVENESS - A Challenge to Policy Making in Poland

The competitive performance of Polish economy is relatively poor in spite of the rapid economic growth and remarkable success in transitions to a market economy since 1989. The Polish economy is still facing serious economic and social problems that may well become serious challenges to policy makers concerned about increasing the competitiveness of the economy.

Several issues can be identified as the basic problems:

- * maintaining a functional market economy;
- *transforming the present dynamic economic recovery into sustainable development (environment-friendly);
- *macroeconomic stability;
- *privatization and growth of the private sector;
- *restructuring of sectors and firms;
- *removing regional disparities;
- *balance of payments disequilibrium;

A **functional market economy** is an economy that is capable of high efficiency on product and factor markets open to international competition. The drive for productivity must come primarily from businesses, which in turn can expect that public authorities will create the appropriate framework conditions and a favourable business environment. Poland is an emerging market economy that has established fundamentals of open and competitive markets over the last several years and is now reaching a turning point which will drive her into a mature modern economy liberated from the communist heritage. In this context Polish authorities are confronted with a need for permanently maintaining of market structures and operations. To achieve this goal, the following actions seem to be of high relevance:

- strengthening market forces by means of further demonopolisation and exposing firms and sectors to domestic and international competition (e.g. by means of stronger competition policy). It is also essential to support the banking sector and other financial services branches whose efficiency levels are critical for competitiveness of the whole economy. A modern market economy requires a high degree of business engagement in regulatory process; non-governmental organizations, industrial chambers, business federations

can serve as a basic means;

- continuation of regulatory reform. Enterprises need a favourable business environment to sustain them. This means transparent legal and administrative rules which are supportive of businesses; the simplification of laws, including taxation; the reform and reinforcement of administration; the introduction of a new efficient social security system;

- supporting business cooperation links and the overall activity of small and medium-sized enterprises;

- ensuring a high degree of labour market flexibility in order to combat growing unemployment and job-losses.

Transforming high rates of economic recovery into **sustainable development** is a crucial objective of economic policy. Sustainable development must be based on monetary stability and a sound financial policy. It is pulled by demand and pushed by productive capacity. Sustainable development is also built upon lasting non-inflationary growth, high level of employment as well as high degree of environmental protection. Meeting these objectives will require maintaining a stabilizing monetary policy, consolidating public finances and reinforcing appropriate structural reform in both the goods and services markets. In such a context, the medium-term macroeconomic and microeconomic policy mix is essential. This means a combination of demand-side and pro-supply policy objectives focused on the creation of lasting structural sources of economic growth rather than tackling the problem of cyclical processes. Macroeconomic stability is a prerequisite of this process; a high rate of inflation and a delay in fiscal reform are critical factors that will likely hamper transition to sustainable development.

Privatisation and growth of the private sector is a key factor of economic transformation. It should be tackled with more determination than is presently the case if Poland is to improve its competitiveness in the near future. The delay in the privatisation process in the last three years is to great extent responsible for a failure to accelerate industrial restructuring. This is particularly true for industry where the share of the private sector in total production is still relatively small (44.0% in 1995) compared with retail trade (92.0%), agriculture (90.0%) and construction (87.0%). Out of 2794 state-owned enterprises operating in industry in 1990, more than 900 have been privatized and 417 prepared for so-called mass

privatisation within the National Investment Funds Programme (15 funds). There are 910 state enterprises that have entered the first phase of restructuring by means of transformation into joint-stock companies wholly owned by the state and these companies are waiting for real privatization. Privatization should be combined with modernization of public services available to businesses. This will require intensive training programmes for public administration in order to adapt them to the needs of a market economy.

Restructuring of sectors and firms will be critical for industrial competitiveness in the face of global competition. Firms have to adapt their strategies to the conditions of open and competitive markets. To achieve this, they need a favourable business climate, as well as a stable and transparent administrative environment. This is true for both private and public firms, large and small ones.

Industrial restructuring on the basis of comparative and competitive advantages is also essential in this respect. A sectoral analysis of Polish industry points to a large excess of productive capacities in traditional industries that are the sensitive sectors in the European Community, such as the steel industry, coal mining and agricultural products. Poland is also a big producer of traditional low-technology products that meet weak demand on international markets (textiles and clothing, food products, furniture, footwear, paper and wood products, metal products, non-metallic mineral goods). The share of all low-technology industries in total industrial production amounts to 63%, while the share of high technology products (including the chemicals and motorcar industry) is very small and accounts for only about 15 per cent¹.

Some of traditional sectors perform quite well and in fact might become a source of comparative advantages in trade with the EU. These industries include paper products, wood products, food and beverages, basic chemicals, rubber and plastics, metal products, tobacco and non-metallic mineral goods. All these industries are subject to a relatively advanced privatization processes, which in many cases engage foreign capital (the examples are the paper industry, the wood industry, mineral products, the cosmetics industry and the tobacco industry). The slow pace of the restructuring processes in such industries as textiles, leather products, motorcar industry or other transport equipment industry has been responsible for

¹Report on the State of Polish Industry in 1995. Ministry of Industry and Trade. Warsaw 1996

their poor financial performance and a deterioration of competitive position in the last years. For example, in the textile industry a dominant role is still played by large state enterprises. In the clothing industry small private firms are not well adjusted to the subcontracting system which is of primary importance in the EU. Moreover, the heavily protected motorcar industry is still at the stage of preparing for big foreign take-overs.

Economic conditions in high and medium technology industries in terms of production costs and profitability are not satisfactory (the exemption is the chemical industry). Nevertheless, the situation has improved remarkably in the last two years (particularly in the communication equipment industry) and this may suggest that some advanced sectors are probably destined to act as accelerators of industrial competitiveness and growth.

In Poland **regional disparities** are related on the one hand to a wide development gap between urban and rural regions, and on the other hand to a high degree of industrial concentration in a small number of urban centres which are adversely affected by social and environmental problems. In many rural regions the standard of living is abnormally low and there is serious underemployment and rates of unemployment exceeding 30 per cent. In turn, highly industrialized regions of the south, in particular Upper Silesia, belong to old industrial regions that are in decline and need conversion and restructuring. Dominated by the coal mining and steel plants, these regions must search for a new development path based on crucial re-allocation of resources and new job opportunities for their abundant labour force. In this context, competitiveness and regional cohesion issues are strongly interlinked.

In macroeconomic terms, competitiveness is often defined as an ability of a national economy to maintain high economic growth without producing large **balance of payments deficits**. In an emerging economy at the stage of take-off into modern development this criterion must be relaxed because of the specific role played by imports as a supplier of capital goods. In Poland almost 70% of total imports account for capital and producer goods. With a high marginal propensity to import an economy in transition is following a path of import-led growth which may result in balance of payments deficits. Inflows of foreign capital and appreciation of national currency are likely to deepen the problem. In this light, public authorities are confronted with a need for an appropriate combination of macroeconomic and competitiveness policies. In the recent transition years Poland has been challenged by a huge trade balance deficit and a rapid growth of imports accompanied by a moderate growth of exports. Since 1995 the gap between import growth and export growth has been dramatically

widening and has become a major concern of public authorities. There has been a dramatic fall in exports which was caused by a number of factors, including a deceleration of structural change, appreciation of Polish zloty and a decrease in trans-border trade. Nevertheless, some authors argue that official balance of payments statistics should be treated with caution, because they omit frontier trade between individuals, particularly on German-Polish and Czech-Polish borders. Adding frontier trade numbers to official statistics would improve a picture of overall trade performance.

2. BENCHMARKING COMPETITIVENESS POLICY IN POLAND - the multilateral and regional experience

Introduction

In global- and trade-exposed markets competitive advantage is the key source of economic performance. Therefore, the role of governments in enhancing competitiveness is necessarily growing. Governments are motivated to assess the best world-wide practice with regard to framework conditions for both firms and sectors and must monitor the domestic situation on an on-going basis. An approach based on an idea of benchmarking can constitute an instrument of competitiveness policy for governments and international institutions. A benchmarking approach to competitiveness policy is suggested by the European Commission in its 1996 Communication (Eur.Com.1996). The Commission emphasizes that

"benchmarking goes beyond competitive analysis by providing an understanding of the processes that create superior performance. It first identifies the key areas that need to be benchmarked and the appropriate criteria on which to evaluate that area".

The benchmarking type of analysis must be supplemented by a consideration of global and national sources of efficiency, as well as the path of dependency of competitive behaviour of differentiated firms, sectors and national economies (OECD 1996). It cannot also ignore the critical competitiveness factors which are characteristic of a given country and which must become specific priority areas for policy-making.

In the case of Poland, the bench-mark for competitiveness policy should be a combination of global and regional experience attributed to WTO and OECD on the global side, and to the European Union from the regional perspective. In the path-dependency analysis various cooperation networks between Poland and the EU resulting from the Europe Agreement and

Pre-accession strategy should be taken into account. However, the best global and European practices for bench-marking must be adapted to specific Polish conditions determined as factors critical for competitiveness as was mentioned in the first section of this paper. The final governmental approach has to facilitate the diffusion of best European and international practice while solving specific Polish problems in the most efficient way.

The global perspective

In the global perspective benchmarking can be applied to enterprises, economic sectors and the framework conditions of a national economy. Enterprise and sector benchmarking is mainly related to globalisation of markets, firms and competition, whereas benchmarking of framework conditions can be applied to multilateral liberalization of trade and investment within the WTO and OECD. Globalisation has many dimensions, the OECD STI Directorate defines it as "widening and deepening of the operations of firms to produce and sell goods in more markets. These operations are more complex and pervasive than traditional arms-length trade and earlier international investment" (OECD 1993). Bressand (1992) refers to globalisation as a set of conditions in which an increasing fraction of value and wealth is produced and distributed world-wide within a system of interlinking firm networks. Dunning (1994) considers international sourcing, strategic alliances, foreign direct investment and intra-firm trade as the main characteristics of globalisation. Globalisation is a result of a wide variety of factors, including new technologies, deregulation and demonopolisation, particularly of public enterprises and the services sectors, as well as multilateral liberalization of trade and investment, and international linkages of capital markets.

The globalisation process affects the behaviour of individual enterprises, both large (national and transnational) and small and medium sized. It promotes international business cooperation and networking and creates new practices in the sphere of production and distribution. From a sectoral perspective globalisation exerts a strong impact on ability of various industries to respond to international competition and technological progress.

Under the imperative of global competition there is also a need for benchmarking framework conditions of a national economy. To a great extent these conditions are determined by the multilateral process of the WTO and OECD. Poland has signed the Protocol of the Uruguay Round and become a member of the WTO. In Autumn 1996 it became a member of the

OECD. In light of these agreements, the multilateral agenda of the WTO and OECD must become a bench-mark for Poland's policy-making.

More than ten years have passed since the beginning of the Uruguay Round, and three years since its completion in Marrakesh. Those years have seen a world-wide push towards the liberalization of trade and investment regimes in industrialized and developing countries. The number of countries ready to implement global trade arrangements has considerably increased. About 120 countries signed the Final Act of the Uruguay Round and entered the WTO. These countries are obliged to comply with the complex commitments arising out of the agreements concluded during the Round. Specific obligations include reduction of customs duties, withdrawal of the grey area safeguards, such as VERs, liberalisation of trade in services under the GATS, as well as trade-related aspects of intellectual property and investment measures (TRIPs and TRIMs). Trade liberalization has contributed to the process of a gradual globalisation of both markets and firms.

The degree of liberalization achieved during the Uruguay Round and the challenge of globalisation form the basis for the new trade agenda of the WTO put forth for the members' attention by the Ministerial Conference and the WTO secretariat. The list of topics likely to become the subject of future negotiations includes:

- * trade and investment
- * trade and competition
- * trade and environment
- * trade and labour standards
- * trade and bribery

These topics are new dimensions of *market access* and *market presence* in a global economy which is considerably open to international competition. A broader understanding of the concept of market access requires new measures and new policies that protect international competition from distortions and impediments (Johnston, 1996). In essence globalisation is changing the nature of trade. The new trade agenda must go beyond the traditional issues of domestic commercial policies focused on national interests and demands. It should meet the demands of globalising markets and firms. In this respect two issues deserve particular attention: further liberalization of investment and a new approach to competition policy.

In a global economy interdependence between trade and investment is systematically growing. As Johnston (1996) argues firms invest to trade and trade to invest. About one third of all

trade in goods is intra-firm trade. Global firms integrate their international operations, so they do not separate manufacture in one country from sale in another. Highly globalised operations include management, financial control, product and process R&D, production and distribution. The decision on whether to invest in a foreign market (market presence) or to export products there (market access) depends on a strategy of a global firm. As a result, trade and investment are becoming complements rather than substitutes. Falconer and Sauve (1996) write "the growing- and mutually reinforcing- links between trade and investment as means of doing business are a fundamental characteristic of globalisation". This constitutes a rationale for further liberalization of investment.

The Uruguay Round made a first step to liberalize trade aspects of investment policies on multilateral level. An additional initiative was undertaken by the OECD ministers when they decided to launch negotiations with the aim of reaching a Multilateral Agreement on Investment (MAI) by May 1997. The basic framework of the Agreement includes: definitions and scope, investment protection, the treatment of investors and investment, additional disciplines and dispute settlement ². The MAI will be a free-standing treaty open not only to the OECD members but also to interested non-Member countries.

The new trade agenda also emphasizes the importance of effective competition policy in maintaining the multilateral trading system. Very often anti-competitive activities by businesses are conducted with government involvement or support and distort market access or market presence. Such practices produce additional barriers to free movement of goods and investment in a globalising economy. In addition to traditional distortions related to anti-competitive agreements of enterprises and abuse of dominant positions there are some practices that at present are exempted from the application of competition law in most countries. This is particularly true of newer practices such as strategic alliances and technological joint ventures, as well as the operation of public monopolies and regulated sectors, and state aids. In a globalising environment the complementarity of trade and competition policy is relatively high and still growing. This produces international aspects of domestic competition laws and might constitute a rationale for multilateral discussion on the international coordination of competition values and policies. The concept of an

²W.H.Witherell, An Agreement on Investment, The OECD Observer, No. 202, October/November 1996

international framework of competition rules was on the agenda of the WTO Ministerial Conference in Singapore in December 1996.

Poland is pursuing full integration into the global economy and Polish firms and products are increasingly exposed to international competition. As a member of international organizations it must comply with the multilateral agenda on liberalization of trade and investment. Domestic businesses demand an active support of their efforts to improve competitive behaviour; they need also to be informed about the conditions of global competition. In this light, public authorities have to conduct a benchmarking of their competitiveness policy which is aimed at two objectives: **internal** (related to improvements in business environment for Polish firms), and **external** (focused on market opening and export promotion).

For the internal objective authorities have various means at their disposal:

- *monitoring global performance and best practices of firms and sectors;
- *creating information networks for firms, particularly small and medium sized enterprises;
- *promoting business cooperation and adjustment to industrial change;
- *strengthening structural adjustment and sectoral re-allocation of resources.

There are also other actions which play a specific role in implementing the external objective:

- first, there is a need for further liberalization of trade and investment by removing the existing obstacles, particularly the administrative ones;
- second, Poland has to launch a market access strategy aimed at securing a greater degree of market opening by its trading partners, as well as promoting, in an active way, the presence of Polish firms and products in foreign markets;
- third, public authorities must gradually adapt their policies to the WTO new trade agenda. This concerns mainly competition policy (including state aid control), social and environmental policy, and actions against fraud and corruption.

The regional perspective - benchmarking the EU practice

An examination of the EU best practice calls for looking at three issues: the Single Market programme, the EU approach to competitiveness policy, and the Union response to global and multilateral challenge. In turn, the interrelated path dependence analysis must be focused on general dependence of Polish economy on cooperation with the EU, as well as on

institutional and economic obligations of the Europe Agreement and pre-accession strategy.

The Single Market Programme

The Single Market Programme SMP, as set out in the Commission documents, constituted "the most ambitious and comprehensive supply-programme ever launched" (COM /96/520 final). It has brought significant economic benefits for firms, consumers and workers. Economic performance, integration, competition and restructuring have been reinforced and appropriate economic and institutional conditions maintained. The Single Market legislation provides the legal framework for achieving economic effects of the programme. It set out the principles of the market and fundamentals of the Union's legal structure. Creating and maintaining equal conditions for economic operators constitutes the most important principle and objective of the SMP.

On its way to full integration with the Union Poland has to adjust its legislation and policies to the SMP. A progressive alignment with the internal market is a prerequisite for future accession to the Union. The European Council on the meeting in Essen in December 1994 identified integration with the internal market as the most important strand of the pre-accession strategy and invited the Commission to prepare a White Paper on alignment with this market. The White Paper was submitted in April 1995 as a guide *"to assist the associated countries in preparing themselves for operating under the requirements of the European Union's internal market"*. The White Paper will help Poland prepare for future membership by formulating the conditions necessary to introduce and operate under the Community legislation. The Paper neither imposes new obligations on Poland nor establishes new institutional framework beyond the Europe Agreement. It presents the SM legislation *"in a way which shows the key measures in each sector and those measures which should be tackled first (...) It also describes in some detail the administrative and organisational structures which are required in each sector. (...) The White Paper is a general reference document which does not adjust its recommendations to the requirements of any particular country. Each CEEC will establish its own priorities and determine its own timetable in the light of its economic, social and political realities"* (Com 1995).

The Single Market Programme constitutes a type of bench-mark for Polish public authorities in the implementation of the final objective of full integration with the Union. However, in the light of the White Paper, Poland will have some room to manoeuvre in prioritisation of

its policy objectives. Implementation of the programme will be also affected by the Union's efforts to remove the remaining obstacles to the functioning of the single market and completion of the programme within the proposed "renewed commitment to the single market" as set out in the Commission report (COM /96/520).

Competitiveness policy for the European Union

A benchmarking-type of analysis cannot omit the Community's approach to competitiveness policy which is based on an idea of an open and competitive environment. Four assumptions underlie this idea:

Firstly, the internal market facilitates liberalization and structural change aiming at level-playing field of start-up conditions for businesses operating there regardless their origin. Making the most of the internal market is one of the keys to making the European economy more competitive. The single market is dynamic in the sense that it should develop to meet new needs and launch new initiatives: Providing a more favourable environment for business by means of increased competition, protection of intellectual property, standardization policy, appropriate measures to assist small and medium-sized enterprises and liberalization of the regulated sectors is an important element of the single market dynamics. European firms and their foreign competitors can benefit from the liberalization of the internal market. Free market access to this market should be matched by increased EU business opportunities in third country markets. Thus, opening the internal market requires a parallel world-wide liberalization that is based on multilateral and bilateral arrangements,

Secondly, maintaining efficient and fair competition on the internal market and on international markets should become a priority for the Community competitiveness and market access policy. Within the Union, the priority is given to a more rigorous application of the rules on competition and strengthening of the competition policy towards state aids and mergers. In implementing the objectives of an open and competitive environment European competition policy must be more consistent with other policies, particularly, industrial policy, commercial policy and internal market policies,

Thirdly, implementing a positive approach to adjustment is the key way to improve industrial competitiveness of European firms and products. This implies a recourse to a policy which rejects a defensive approach of a protectionist nature and applies a positive stance aimed at building a favourable environment for private initiative and investment. A positive approach

was adopted in the European industrial policy for the 1990s. It is focused on improvements in economic climate and level-playing conditions for various actors operating on the internal market. The horizontal actions such as support for: technological research and development, business cooperation, SMEs, environmental protection, human resources and trans-European networks are given particular attention. Sectoral policies have to be reshaped and adjust to a positive approach,

Fourthly, there is a need for a coherent strategy aimed at improving European competitiveness on the internal market and world-wide. This requires a consistency between the Common Commercial Policy, competition policy, industrial policy and the single market actions. The Community is confronted with the importance of promoting principles of free trade and fair competition both internally and externally. It has to develop a broader concept of market access based on the achievements of the internal market and the Uruguay Round. The chief focus of this concept is maintaining a favourable business environment and combating anti-competitive practices - private and public- that distort the openness of markets to competition.

On the basis of the above assumptions the Commission has set out four basic priorities for a competitiveness policy for the European Union (Com 1994). These are:

- *to promote intangible investment;
- *to develop industrial cooperation;
- *to ensure fair competition;
- *to modernize the role of the public authorities.

The Commission has also identified the action on these priorities to be taken by public authorities in line with the subsidiarity principle. The bench-mark for this action is the Commission's White Paper on growth, competitiveness, employment as well as the 1990 "Industrial policy in an open and competitive environment".

General directions of the EU competitiveness policy may be gradually followed by the Polish policy makers. Steps to be taken include:

- the implementation of a comprehensive and complex competitiveness strategy;
- the shift of policy emphasis from sectoral to horizontal measures;
- the improvement of level-playing field conditions for business;
- the promotion of intangible investment in human capital

- the promotion of business cooperation;
- the modernization of the role of public authorities by means of deregulation, administrative simplification, and redefinition of public service objectives.

The EU response to global and multilateral agenda

The European Union has effectively contributed to the Uruguay Round and its agreements and is ready to cooperate internationally to build the WTO into a strong, objective and decisive body (COM/95/ 411). The European economy is open to international competition based on multilateral rules and trading systems. Open markets worldwide are considered to be the keys to higher growth and employment in Europe. During the course of the Uruguay Round and now in the WTO, the Union demanded more symmetry in market access and market presence from the trading partners. At present, there still exist strong market access asymmetries caused by differences in regulatory measures and policies of particular countries, as well as by limited implementation of the WTO obligations by certain partners. This results in the absence of a more balanced approach to multilateral disciplines worldwide. In order to introduce more discipline into its trade relations with the third partners on the basis of the multilateral agenda, the Union launched in February 1996 a proposal of A Market Access Strategy for the European Union (COM/96/53 final). This strategy is a response to the global challenge of international trade and new trade rules agreed upon by the WTO Members. It sets out the objectives and policy instruments aimed at securing a greater degree of market opening of the Community's trading partners. The strategy emphasizes that "the Community must strive to achieve improved market access in third countries in parallel to the continued opening of its own market both by ensuring the full implementation by its partners of their Uruguay Round obligations and through other market access actions". The Union will demand more symmetrical relations with individual third countries and regional groupings. With respect to Poland and other Central and Eastern European countries the Union will pay more attention to improved market access for European products and firms on these countries' markets. For this aim the Europe Agreements and other actions facilitating CEECs accession to the Union will be fully implemented. The demand for more symmetry in trade with CEECs necessitates a new step in mutual relations. The Europe Agreement was initially based on a built-in asymmetry in favour of the associated countries. The asymmetrical provisions were extended during the

Copenhagen meeting of the European Council in June 1993. The provisions on EU trade concessions that were approved reflect the initial concept that the main concern of both partners is improved access of CEECs to the internal market. The EU Market Access Strategy introduces a new approach based on requirements of greater market opening of the CEECs for European firms and products. In consequence the associated countries will be obliged to undertake further market opening actions and introduce more discipline into their trade policies. They can also expect more aggressive Community actions to promote European trade and support European business operating on their markets. Tolerance for asymmetry characteristic of the first step will gradually come to an end and will be replaced by the principle of full reciprocity.

In the new Strategy the Union also expressed a will to work on a new trade agenda with the WTO partners. This concerns both further market opening actions, such as liberalization of financial services and telecommunications, and new areas of liberalization, including competition rules, foreign investment and environmental and social standards. The Union opts for introducing international rules on competition. Its proposals in this respect are presented in the Commission Communication "Towards an International Framework of Competition Rules" prepared for the Singapore WTO meeting (COM/96/284 final). The possible elements of an international framework could include an agreement on common rules on the basis of stable domestic competition structures, establishment of cooperation instruments between competition authorities, and dispute settlements. From the Community's point of view the need for multilateral rules on competition is justified by its high share in world trade and investment. Within the internal market effective competition is protected by the application of European law. The competition provisions of the Treaty guarantee the integrity of the single market by eliminating anti-competitive practices of enterprises and governments. However, the lack of internationally-approved rules may put European firms in a disadvantage if they have to compete on world markets with producers from countries that have less restrictive competition policies. In a globalising economy the Community will seek "the same commitment to competition enforcement from its partners in their markets as it applies to operators, irrespective of their origin, on its own".

Poland-EU - path dependence

The concept of Poland-EU path dependence integrates economic and institutional linkages

which have been created between Poland and the Union since 1989. Poland has undergone major structural transformations over the last six years. It has dramatically changed regional directions of trade and economic cooperation. Trade diversion from the CMEA to the EU and EFTA was the most striking feature of the transition. The Union became the leading trading partner of Poland; at present it accounts for about 60% of total Polish trade. It also performs a role of being the *centre of gravity* in economic, social and political terms. The major function of the Union is to provide common rules and coordinate policy efforts. The Europe Agreement is the basic legal instrument for creating stable and lasting interdependence. The Agreement provides the framework for liberalization and approximation of laws based on the EU *acquis communautaire*. This framework is to secure a high degree of homogeneity with regard to liberalization measures, technical rules and standards and legal systems. In spite of the voluntary nature of harmonization as provided for in Article 68 of the Agreement Poland is ready to follow the EU rules of conduct while moving towards full integration with Europe.

The Europe Agreement is in effect, and the European Council at the meeting in Copenhagen in June 1993 made a political decision on Poland's membership in the Union. As a consequence, the pre-accession strategy was adopted by the Essen European Council in December 1994. The general conditions of accession remain as set out by the European Council in Copenhagen. The Copenhagen criteria are based on the Council declaration: "membership requires that the candidate country has achieved:

- *stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;

- * the existence of a functioning market economy,

- * the capacity to cope with competitive pressure and market forces within the Union,

Membership presupposes the candidate's ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union".

The provisions and obligations of the Europe Agreement create a general legal and institutional framework for liberalization of trade, capital movements and establishments between Poland and the Community. Also set out in the Agreement is the scope of approximation of laws and spheres of cooperation. Application of the Community competition law is a key element of the whole adjustment process because it safeguards market-driven

integration and transformation in Poland.

The Copenhagen criteria and the Essen Pre-accession strategy go much further than the Europe Agreement but they have no legal effect. They set out the general conditions of accession and recommend a sequence in which the approximation of laws should be done. In particular, the White Paper is designed to help Poland prepare for future membership by formulating the conditions necessary to introduce and operate the Community legislation. In turn, the Copenhagen criteria are set out in a very broad meaning which calls for further clarification and definition in the negotiation process. They leave some room for consensus-seeking between the partners within the general framework of pre-accession obligations. The most important economic criteria on the functioning market economy and ability to cope with market forces on the internal market can be interpreted as **minimal requirements** in terms of market mechanisms, and economic competitiveness. The definition of what is minimal or essential is always very flexible, and depends on interpretation. In spite of the absence of a precise definition, the minimal requirements call for acceleration of the market-oriented transformation in Poland. This concerns mainly privatisation, restructuring and modernisation of industrial and agricultural activity, reinforcing the capital market and the banking sector, deregulation and demonopolisation of state-owned enterprises and industries, etc. These objectives comply with the general pre-accession obligations but are based on voluntary adaptations rather than formal agreements. Nevertheless, they will be the basis of the assessment of the degree of Poland's preparation for the accession undertaken by the Community before initiating the negotiation process. The more advanced the preparation process, the higher probability of a positive decision taken by the Community.

3. CONSIDERATIONS ON AN INTEGRATED APPROACH TO COMPETITIVENESS POLICY IN POLAND

In order to develop a modern policy for Poland based on benchmarking one must:

- identify the national interest and extent of common interests with foreign partners,
- define a degree of applicability in Poland for various actions taken at multilateral and European level,
- find areas of potential conflict with the bench-marks.

The notion of national interest is very complex and ambiguous, but as the purpose of this

analysis one can accept a "working definition" that national interest is a reflection of:

- the relative situation of a national economy,
- factors critical for its competitiveness
- path dependence on international and regional cooperation.

In turn, the sphere of common interests with external partners is created by interdependence in economic and non-economic matters. The direction of economic gravitation is also essential in this respect. Poland gravitates much more towards the EU than towards America and Asia, and thus, the extent of common interests with the Union is relatively bigger. Since the Polish economy is still rather traditional, hardly having been touched by the wave of globalisation, several practices and policy actions relative to global operations are considered to be less relevant to Poland. This holds true for strategic alliances or economic performance of global industries. Nevertheless, there is some overlap between national and international interests in such areas as liberalisation and market opening, discipline of competition rules, protection of environment and labour standards, deregulation and creation of appropriate business climate. National interests interweave much more clearly with the EU interests which lead to a relatively high degree of relevance of Community action in Poland.

Table 1 shows actions identified in the preceding section as the bench-mark at global and EU level and defines a degree of applicability in Poland as high, medium and low.

Table 1

The bench-mark for Poland's competitiveness policy

Action	Bench-mark G-global EU-European Union	Degree of applicability in Poland
1.Liberalization of trade	G, EU	high
2.Liberalization of investment and provision of services	G, EU	high
3.Policy towards strategic alliances	G	low
4.Harmonization of competition rules	EU	high
5.Harmonization of labour standards	EU	medium
6.Environmental protection	EU	high
7.Action against fraud and bribery	G, EU	high
8.Market access strategy	EU	low
9.Monitoring global performance	G, EU	medium
10.Improving functioning of markets	EU	high
11.Creating information networks for firms	EU	high
12.Actions for SMEs	EU	high
13.Actions for business cooperation	EU	high
14.Framework conditions	G, EU	high
15.Level-playing field operations	G, EU	medium
16.Promotion of intangible investment	EU	medium
17.Deregulation, regulatory reform	G, EU	high
18.Administrative simplification	EU	high

In most cases a relatively high degree of convergence can be found. This is a reflection of a growing convergence of Polish policy with the best external practice.

In some cases the bench-mark does not cover specific factors which are considered to be critical for competitiveness in Poland. Such a situation then calls for national prioritization and specific policy actions. There are also cases in which Polish policy makers may undertake actions which modify relevant bench-mark criteria but which are better adjusted to domestic needs. This situation can pave the way to the implementation of the second-best solutions.

Table 2 presents factors specific for Polish transformation which might affect an approach to competitiveness policy. The factors are justified on the grounds of potential consequences specified as:

- possibility of abuse leading to conflicts with external partners;
- possibility of rational use leading to a remarkable degree of consistency with the benchmark.

Table 2

Actions specific for competitiveness policy in Poland

Action	Possibility of abuse	Possibility of rational use
Privatization	weak	strong
Industrial targeting	strong	weak
Sectoral restructuring, of which:	moderate	moderate
-traditional sensitive sectors	strong	moderate
-high-chance sectors	weak	moderate
Restructuring of firms	weak	strong
State aid to public enterprises	strong	weak
Import protection	strong	moderate
Export promotion	weak	strong
Regional programmes of which:	weak	strong
-conversion of old industrial areas	moderate	moderate
-development plans for rural regions	weak	strong
Restrictions to free provision of services by foreign firms	moderate	moderate
Macroeconomic price stability	weak	strong
Budgetary reform	weak	strong

Examination of Table 2 suggests that four types of action are characterized by a strong possibility of abuse: industrial targeting, restructuring of traditional sectors, state aid and import protection. They are likely to produce threats to and conflicts with foreign partners.

One should stress that temporary conflicts are unavoidable in the transition to a democracy-driven market economy. Nevertheless, the range and intensity of conflicting actions must be rationalized.

Recent experience provides some evidence for such conflicts, particularly in relations with the EU. This holds mostly for measures applied for the objectives of trade policy, industrial policy and competition policy.

In recent years trade policy in Poland has been characterized by a relatively narrow concept of market openness which can be described as follows: "as much liberalization as legally needed, and as much protectionism as possible". This approach is advocated by the present ruling coalition composed of the post-communist parties.

Poland has respected the binding rules of the Europe Agreement and Uruguay Round and reduced customs tariffs in accordance with the envisaged schedules. In trade with the EU the asymmetrical concessions have been used which resulted in full liberalization of the EU imports as of 1 January 1995 (with exception for textiles and steel products) and crucial liberalization of Polish imports with a margin of tariff protection by 1999 (2002 for motor cars). In the years 1992-96 Poland has applied various protective clauses provided for in the Europe Agreement. General safeguards have been used for the balance of payments purposes (six per cent import tax imposed in 1993 and reduced to 3% in 1996, and to be phase out in 1997) and for protection from the excessive imports in the case of motor vehicles older than three years (imposed in 1994). Poland made also use of exceptional measures : in 1994 it imposed extra tariffs on telecommunications equipment on the basis of the infant industry argument, and in 1996 it applied protective measures for imports of petrochemical products on the basis of restructuring clause. The last case was questioned by the European Commission as an abuse of exceptional measures. The Commission correctly argued that the petrochemical industry is not undergoing the restructuring process and protection is used to maintain state monopoly. In response to the EU objections government liberalized prices for petrol and oils in 1997. Poland also applied export restrictions for raw iron and non-ferrous metals and in 1994 imposed an export ban on raw leather. The recent protectionist practices are a matter of conflict between the Polish government and the EU Commission. If Poland intends to accelerate the negotiation process with the Union, it must reshape its trade policy towards a more open concept consistent with the present trends in international economy.

In the first programme of industrial policy in 1993 the focus was a sectoral approach based partly on defending selected industries and partly on promoting restructuring. A shift in emphasis from a defensive to a more offensive approach was characteristic of the recent programme for the years 1995-97. In this programme structural interventions are directed towards the so-called "high-opportunity industries" which are ranked by public authorities as primary targets. Among 18 selected industries are: production of electronic equipment, the lighting equipment, motor car parts and accessories, pharmaceuticals, cosmetics, plastic products, engines, cables and wires. Targeted sectors will receive state aid for restructuring and modernization. Targeting still plays an important role in industrial policy in Poland. This gives rise to arbitrary decisions about allocation of resources that may hinder market-driven adjustment. Nevertheless, state aid to the high-ranked industries was linked to the reduction of excessive capacity and improvements in competitiveness, and as such could improve general conditions of Polish industry as required by the Copenhagen criteria. Poland makes little use of horizontal measures which are a core of European industrial strategy. Poland is still lagging behind OECD countries in this respect. A recourse to a broad concept of industrial policy is necessary if Poland is to be fully integrated with the Union and the world economy.

The communist economy was governed by a central plan not by market forces. In consequence, there was no need of competition rules and policies. The initial version of anti-trust law was introduced in 1990, followed by the 1992 law on unfair business and commercial practices. These bills formed the domestic dimension of competition policy. In the light of the Europe Agreement effective competition policy cannot be formulated exclusively on domestic grounds. In order to adjust Polish law to the Community legislation, in February 1995 the Parliament amended the 1990 anti-trust law by introducing efficient control of mergers and concentrations with full convergence to the EU Council Merger Regulation of 1989. The Anti-monopoly office continues its work on guidelines for state aid. An efficient control of state aid is required by Europe Agreement. It is also necessary for implementation of the modern concept of industrial policy recommended by the OECD and the Union. Poland does not have rules on anti-dumping and anti-subsidy procedures which are an important instrument of the Community commercial policy. A lot still must be also done with respect to the WTO new trade agenda which will govern the multilateral trading system in the future. Poland's

competition policy is adequately interlinked neither with industrial policy nor trade policy. The complex strategy which has to be built as soon as possible should put more emphasis on policy consistency. An active competition policy should become an effective measure of industrial policy. The aims and methods of competition policy and industrial policy can coincide. In the light of the new multilateral trade agenda the role of competition policy in the modern approach to market access is systematically growing. As a result, the coincidence between competition policy and trade policy becomes basically clear.

Table 2 also highlights policy areas that may be rationally used in a drive towards best practice. They are: privatization, restructuring of firms, export promotion, regional conversion and macroeconomic stability (price and budgetary). Prioritization based on these areas can ensure improvement in competitiveness linked to firms, sectors and a national economy. The above objectives are important elements of the recently adopted governmental programmes: "Strategy for Poland" issued by the Ministry of Finance in 1994, "Industrial policy for 1995-1997" presented by Ministry of Industry and Trade in 1995, as well as National Strategy for Integration prepared by the Committee for European Integration in 1997.

The programme "Industrial policy for 1995-1997" has direct reference to competitiveness. It combined a general approach with sectoral and regional objectives. Policy objectives are centred on three priorities: export promotion, technological policy and acceleration of structural change within enterprises, sectors and regions. More attention is paid to general objectives. The instruments of competitiveness policy fall within responsibility of a large number of ministries and departments. An effective implementation of competitiveness goals requires better coordination between various government institutions and various action programmes.

Three final conclusions can be drawn for future policy-making in Poland:

- * first, government departments and economic agents must systematically monitor progress in best practice world-wide and within the European Union,
- * second, public authorities must learn from past experience and steadily adjust their policies to the new conditions of global and European competition. To this end, Poland should make use of the existing institutional and legal framework which has been created at regional and world level in recent years (WTO membership, OECD membership,

Europe Agreement),

* third, a gradual drive towards imitating the best practice is needed. This holds true particularly for the formulation of a long-term and integrated policy approach based on strong links between various types of policies. In this context, a coherent policy mix built on the grounds of interrelationship between macro- and microeconomic reforms is of particular importance. Similarly, a high degree of coherence between industrial policy, trade policy, competition policy and other structural and regional interventions is fairly required.

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