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Globalisation of the Economy and Its Impact on Change in the Economic Policy Model

1. Introduction

The industrial policy pursued by developed countries in the 1970s had a sectoral character. Irrespective of the degree of state interventionism characteristic of each industrialised country in the 1970s, a common feature of their industrial policies was a considerable aid of the state for the so-called declining (traditional) industries and branches loosing their competitive position, such as ship-building, steel, clothing, coal-mining. The first oil shock accelerated the loss of their position in international markets. The state's aid for these industries concentrated on direct support primarily in the form of subsidies and on indirect support in the form of accelerated depreciation, tax exemptions and reductions. Assistance for declining industries also took the form of protection of domestic markets from foreign competition. Producers from highly developed countries were protected not only by means of customs but also primarily by means of non-tariff instruments (e.g. the so-called voluntary restrictions in exports).

The process of globalisation of the economy is treated as a factor having an impact on change in the model of economic policy. The goal of this paper is to present the definition of globalisation, factors causing this process and the most important tendencies in international trade and capital flows as forms of globalisation. The Uruguay Round of GATT concluded in 1993 was of particular importance for the globalisation process and that is why the impact of this round will also be analysed in the paper. Lastly, the impact of globalisation on changes in the model of industrial policy will be presented.

2. Globalisation - its definition and factors shaping it

In the respective literature there is no unequivocal definition of globalisation. Globalisation can be understood as a process of operation of many firms within the global territory and treating the world as a single market[1]. W. Dziemianowicz points out that globalisation caused

[1] W.Dziemianowicz, Foreign Capital and the Regional and Local Development in Poland, Studia Regionalne i Lokalne, no, 54, 1997, p. 26.

initially by competing firms in international markets is at present for many firms the only way to survive the competitive struggle. By becoming global, firms take advantage of the good points of the globalisation process, such as e.g. a reduction of costs, improvement in product quality, a strengthening of the consumer's preferences, growth of competitiveness. These benefits are achieved thanks to locating the particular elements of the production process in different countries and organising a single advertising campaign for all markets in which the product is sold.

According to W.S. Milberg[2] globalisation means the emergence of a new division of labour with a grater geographical dispersal of economic activity.

A. Zaorska notes that globalisation is a more advanced and more complex form of internationalisation of economic activity. With reference to the world economy, it means a tightening of mutual trade, investment and contractual ties between different countries[3].

Globalisation is manifested first of all in the form of foreign direct investment, international trade and international co-operation between enterprises[4]. C. Oman underlines that globalisation is an centrifugal process led by actions of economic units such as enterprises, banks and individuals in order to achieve profits and meet competition[5]. A central role in the globalisation process is played by firms[6]. Private enterprises aim their activities at reaching profits and that is why movement of capital across borders in search for profits is an inseparable element of firms' development strategy. Economic activity would not have a global character without enterprises' ability to act simultaneously in more than one country. Such activity is undertaken by transnational enterprises which become the main actors shaping the contemporary economic relations[7]. The centrifugal forces directing the globalisation have thus a micro-economic character. However, economic units' actions can be stimulated by governments, international organisations and technological changes.

The globalisation process is the result of technological progress first of all in telecommunications, computer science, transport[8]. Technological progress makes it possible for firms to locate production and particular stages of production in different regions and countries. The spread of digital recording of information in conjunction with the development of technology of fast switching of packages allows economic units to communicate over considerable distances and in short time. Progress in road, sea and air transport facilitates international trade - it increases the speed of flow of products and decreases costs of this flow. Rising costs of R&D force firms to conduct their activity in more than one industrialised region or country and also to increase their

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[2] W.S.Milberg, Globalisation and its Limits in R.Kozul-Wright, R.Rowthorn (eds.) Transnational Corporations and the Global Economy, London: Macmillan Press, 1998, p. 69.

[3] A.Zaorska, Globalisation of the Competitiveness of Transnational Corporations and its Implications for Poland, Warsaw: IRiSS, 1995, p. 5.

[4] Globalisation of Industry. Overview and Sector Reports 1996, OECD, Paris, 1996, p. 19.

[5] C.Oman, Globalisation and Regionalisation in the 1980s and 1990s, M.Svetlicic, H.W.Singer (eds.) The World Economy. Challenges of Globalisation and Regionalisation, Basingstoke: Macmillan, 1996, p. 141.

[6] W.S.Milberg, op.cit., p. 77.

[7] A.Armstrong, Globalisation and the Social State. Review of International Studies no. 4, 1998, p. 463.

[8] A.Prakash, J.A.Hart, Globalisation and Governance: an Introduction in A.Prakash, J.A.Hart (eds.) Globalisation and Governance, London-New York: Routlage, 1999, p. 5.

shares in the international market and in this way to safeguard the minimal, economically effective economies of scale compensating for the outlays on research and development[9].

R.G. Lipsey[10] treats the change made by governments of developing countries in their development strategy (from inward orientation based on import substitution and reluctant to foreign direct investment to outward orientation based on export promotion and favouring foreign direct investment) as an essential factor speeding up the process of globalisation of the world economy. Also W.S. Milberg[11] sees the change in developing countries' economic policy as a significant factor conducive to globalisation. The wave of liberalisation of international trade flows occurred in the countries of Latin America and Southeast Asia in the early 1980s. Even earlier, i.e. in the late 1970s, developing countries made considerable efforts to liberalise their policies towards the inflowing foreign direct investment of the so-called greenfield type. The liberalisation policy was accompanied by stimuli (economic incentives) attracting investment by transnational corporations. The governments reduced restrictions on foreign capital's share in total capital stock of firms, reduced control over transfers of profits, ensured considerable reductions of taxes and charges guaranteeing custom-free imports, creating special export zones and reduced requirements regarding the use of domestic products and production factors, reduced foreign exchange limitations, lifted control over domestic prices and other administrative obstacles[12]. Developing countries also initiated their policy of deregulation of markets in the 1980s, which deepened the processes of globalisation.

The systemic transformation of the countries of Central and Eastern Europe from centrally planned economies into market economies was of special importance for the globalisation process. These countries not only rejected their hitherto economic and social system but also effected a considerable degree of trade and capital liberalisation. Privatisation undertaken in that region at the beginning of the 1990s deepened the integration of the Central and East European countries into the global production system by stimulating the capital flows and taking over of state-owned enterprises by foreign capital.

The development strategy model of highly developed countries has also changed, resulting in a change in the character of industrial policy - from a sectoral, highly protectionist one towards countries of producers into a more horizontal, competition-promoting one.

Since the early 1980s, both highly developed and developing countries have been resigning from the interventionist development model and replacing it with a more market-oriented model[13]. The change of the development model (and therefore change of the character of industrial policy) results in part from the failure suffered in practice by considerable economic intervention of governments in the market mechanism and in part it is caused by the globalisation process itself (globalisation makes inward-looking policy more and more costly). Thus there occurs a kind of feedback between globalisation and the change in the economic development model - one of the factors shaping globalisation is a new development model which simultaneously is the effect of - inter alia - the advancing globalisation of the world economy.

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9 Ibid., p. 6.

10 R.G.Lipsey, Globalisation and National Government Policies, in J.H.Dunning (ed.) Governments, Globalisation and International Business, Oxford: Oxford University Press, 19, p. 79.

11 W.S.Milberg, op. cit., p. 77.

12 Ibidem.

13 R.G.Lipsey, op.cit., p. 79.

3. Forms of globalisation: international trade and capital flows

The contemporary division of labour is characterised by deepened specialisation of industrial production in the framework of which the role of inter-industry specialisation diminishes and the role of intra-industry specialisation grows[14]. As a result intra-industry trade whose essence is parallel export and import between countries within the specific branches of industry begins to play a bigger and bigger role in world trade turnover[15]. A high and rising share of intra-industry trade is characteristic of trade between developed countries and between developed and newly industrialised countries, which results from diversification on the side of supply and demand and from similarity of buyers' preferences in these countries (with a simultaneous, relatively high average level of buyers' incomes)[16].

Table 1 shows the share of intra-industry trade in internal trade between the EU countries (trade inside the EU) in 1994[17]. In 1994, the biggest share of intra-industry trade in European trade was recorded by France and it was followed by Germany and Belgium/Luxembourg. Apart from the enumerated countries, the group of countries with an over 50% share of intra-industry trade in their trade with the EU included the UK, the Netherlands, Spain and Italy (cf. Table 1). The second group includes countries in which inter-industry trade prevails (intra-industry trade constitutes less then 50% of total trade): Ireland, Denmark, Portugal and Greece.

Table 1. Share of intra-industry trade in internal EU trade in 1994 in %

Country	Intra-industry trade	Intra-industry trade in		Share of intra-industry trade
		Similar products	Differentiated prod	
France	68.4	24.1	44.3	31.6
Germany	67.4	20.5	46.9	32.6
Belgium/ Luxembourg	65.2	23.2	42.0	34.8
UK	64.4	16.5	47.9	35.6
Holland	60.8	18.9	41.9	39.3
Spain	54.1	18.9	35.2	45.9
Italy	53.1	16.2	36.9	46.9
Ireland	42.3	7.9	34.4	57.7
Denmark	40.0	8.1	31.9	60.0
Portugal	31.4	7.5	23.9	68.6
Greece	14.0	3.7	10.3	86.0

Source: Trade and FDI Specialisation effects of the single market programme, European Economy, no. 4, 1996, p. 70; quoted after Z. Wysokińska, J. Witkowska, European Integration. Development of Markets, Łódź: Łódź University Press.

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[14] A.B.Kisiel-Łowczyc (ed.), Contemporary World Economy, 1997, Gdańsk: Gdańsk University Press.

[15] Z.Wysokińska, Dynamic Interdependences of Central and East European Trade in the Light of the Theory of Integration and International Exchange, Łódź: Łódź University Press, 1995, p. 43.

[16] Ibid., p. 55.

[17] Z.Wysokińska, J.Witkowska, European Integration. Development of Markets, 1999, Warsaw-Łódź: PWN, p. 77.

International trade flows are stimulated by transnational corporations' trading activity. It is estimated that trade within transnational corporation (the-so-called trade inside the firms and transnational corporations' arm's length trade) accounts for two-thirds to three-fifths of world trade. Trade between parent enterprises and their branches constitutes over one-third of world trade. It is also estimated that foreign branches of transnational corporations account for over a fifth of world exports and simultaneously for a third of exports by developing countries[18].

International capital flows begin to be a dominant form of international economic ties and in the contemporary economy they are characterised by greater dynamics than trade flows. Since the early 1980s, an intensive growth has been observed in flows of international foreign investments made by transnational corporations. An annual stream of FDI flowing out of all countries rose from USD 88 billion in 1986 to USD 948.9 billion in 1998 and the stream of inflowing FDI rose respectively from USD 78 billion to USD 643.9 billion[19] (cf. Table 2).

Table 2. Annual flows of FDI in the world economy, 1986-1998 (USD billion)

Year	Developed economies		Developing economies		Central and East European economies		Total	
	Inflowing FDI	Outflowing FDI	Inflowing FDI	Outflowing FDI	Inflowing FDI	Outflowing FDI	Inflowing FDI	Outflowing FDI
1986	64.0	86.0	14.0	86.0	-	86.0	78.0	86.0
1987	108.0	135.0	25.0	2.0	-	-	133.0	137.0
1988	131.0	162.0	28.0	6.0	0.015	0.02	159.0	168.0
1989	172.0	202.0	29.0	15.0	0.30	0.02	201.0	218.0
1990	169.8	222.5	33.7	17.8	0.30	0.04	203.8	240.3
1991	114.8	189.8	41.7	8.3	2.45	0.04	158.9	198.1
1992	119.7	179.7	49.6	21.7	4.44	0.10	173.8	201.1
1993	138.8	204.8	73.0	34.1	6.29	0.21	218.1	239.1
1994	142.4	209.7	96.3	40.7	5.89	0.68	238.7	251.1
1995	205.9	291.3	128.7	47.0	14.32	0.42	316.5	338.7
1996	211.1	319.8	135.3	58.9	12.4	1.10	358.9	379.8
1997	273.3	406.7	172.5	65.0	18.5	3.42	464.3	475.12
1998	460.4	594.7	165.9	52.3	17.5	1.90	643.9	648.92

Source: Z. Wysokińska, J. Witkowska, Tendencies of Demand in Selected Foreign Markets. Export Chances of Polish Enterprise as a Condition for Regional Restructuring, 1998, Łódź: Łódź University Press, p. 252 and World Investment Report. Foreign Direct Investment and the Challenge of Development 1999, UN, New York, Geneva, 1999.

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18 World Investment Report. Foreign Direct Investment and the Challenge of Development 1999, UN, New York, Geneva, 1999, p. 232.

19 Z.Wysokińska, J.Witkowska, Tendencies of Demand in Selected Foreign Markets. Export Chances of Polish Enterprise as a Condition for Regional Restructuring, 1998, Łódź: Łódź University Press, p. 252.

It was only in 1991 that there was a reverse in the tendency towards annual increments in FDI flows – the value of inflowing FDI decreased from USD 203.8 billion in 1990 to USD 158.9 billion in 1991. The decrease in the annual streams of FDI in the world economy in 1991 is accounted for by the recession in the biggest developed economies[20]. In the period 1986- 1998, the biggest annual flow of FDI occurred in 1998. Such a considerable increase in FDI resulted to a large degree from a rapidly intensified process of international fusions and take-overs of enterprises[21].

The sources of outward FDI are mainly economically developed countries – the share of these countries in total outflowing investment in 1998 amounted to 91.6% while a mere 8% of total investment located abroad came from developing countries. Central and East European countries are still insignificantly involved in export of capital in the form of FDI – in 1998 their share in world outflowing FDI amounted to 0.7%. Developed countries are not only the most important source of FDI but they simultaneously remain the most important place of location of FDI. In 1998, 71.5% of total FDI located abroad flew into highly developed countries, 25.7% to developing countries and 2.7% to Central and East European countries. The above data may prove that we are dealing with the so-called criss-crossing investments in the world economy (flowing mainly between highly developed countries[22]).

4. Role of the Uruguay Round of GATT in liberalisation of trade capital flows

Many scientific studies[23] were devoted to the Uruguay Round of GATT, its decisions and implications for trade and industrial policies.

The General Agreement on Tariff and Trade arose from initiatives aimed at stabilisation of the post-war world economy and international trade[24]. In the framework of multilateral negotiations, the GATT member countries gradually reduced customs rates on many commodity groups and increased the freedom of flow of products across national borders. However, many areas of production remained strongly protected from foreign competition (first of all, the agricultural sector and the so-called declining industries among others textiles, clothing and manufacture of steel). The oil crisis of the mid-seventies accelerating the loss of competitive

[20] J.Witkowska, Foreign Direct Investment in Central and Eastern Europe. An Attempt at Interpretation of Investment on the Ground of the Theory of Foreign Direct Investment and the Theory of Integration, 1996, Łódź: Łódź University Press, p. 17.

[21] World Investment Report, op.cit., p. 11.

[22] J.Witkowska, op.cit., p. 17.

[23] Cf. in Polish literature: J.Kaczurba, E.Kawecka-Wyrzykowska (eds.) From GATT to WTO. Effects of the Uruguay Round for Poland, Warsaw, 1995; R.Ludwikowski, Regulations of International Trade and Business, ABC Publishers, 1996, and in foreign literature: J.J.Schott, J.Buurnam, The Uruguay Round.. An Assessment, Institute for International Economics, Washington, DC 1994; Guide to the Uruguay Round Agreement, The WTO Secretariat, Kluwer Law International, Hague 1999; H. Sander and A. Inotai (eds.) World Trade after the Uruguay Round. Prospects and Policy Options for the Twenty-first Century, London-New York: Routledge, 1996.

[24] R.Ludwikowski, op.cit., p. 71.

advantages of many areas of production in developed countries (not only in the typically labour-intensive textile and clothing industry but also in capital intensive industries: shipbuilding, steel and science-intensive ones, e.g. the auto industry) with a simultaneous growth of opportunities of industrial exports from the so-called fast industrialising countries (chiefly Asian ones) intensified the protectionist tendencies in international trade and decelerated the process of liberalisation of that trade. In the 1970s, governments of developed countries - for fear of high unemployment and under pressure of domestic producers threatened by competition of cheaper foreign products - resorted to the instruments of trade policy which were formally not prohibited by the GATT (the so-called grey (shadow) measures - typical and most frequently applied instruments of this type were the so-called voluntary restrictions on exports and their variants) but in reality inconsistent with the goal of the GATT - liberalisation of trade. In the case of textiles and clothing, a formal agreement (Multifibre Agreement) sanctioning voluntary restrictions on exports of these products was concluded under the auspices of GATT in 1974. The Multifibre Agreement was an attempt to restrict textile and clothing imports from developing countries to developed countries.

The last round of international trade negotiations, the Uruguay Round - started in September 1986 and concluded in Marrakech in December 1993 - had the greatest importance of all the hitherto negotiation rounds of the GATT for the process of liberalisation of international trade. As a result of the agreements of the Uruguay Round, customs on imported industrial products were considerably reduced, on average by 39% in developed countries. A gradual tariff reduction in 5 equal annual instalments was assumed[25]. The tariff reduction process began in 1995, when the World Trade Organisation Agreement came into life.

The customs reductions in the framework of the Uruguay Round are very differentiated in the particular groups of products. Products with a high degree of intra-industry trade were covered with a higher reduction of customs rates than products being the object of inter-industry trade[26]. Customs protecting the textile and clothing industry were reduced to a small degree. However, it should be borne in mind that these branches of production are among the particularly sensitive ones protected from foreign competition and never before had a customs reduction been a subject of such wide, multilateral international negotiations.

The decisions of the Uruguay Round brought liberalisation of international trade not only thanks to tariff reductions but primarily thanks to restriction on application of para-tariff measures (first of all subsidies) and non-tariff ones (chiefly quantitative restrictions in different forms). Restrictions of this type were used to the highest degree in trade in textiles and clothing. The Textile and Clothing Agreement concluded under the Uruguay Round includes gradually trade regulated by the Multifibre Agreement into the GATT rules, which means that within 10 years of the entry into force of the WTO Agreement the largest forum for introducing voluntary export restrictions will cease to function.

Subsidies are a special instrument of trade policy as they distort the conditions of free trade. The Uruguay Round did not bring about a full prohibition on subsidies but yielded a universal prohibition on export subsidies to all industrial products (the earlier Tokyo Round banned only the introduction of subsidies other than those to raw materials and basic products) and subsidies granted on condition that domestic products are used instead of imported products. Export subsidies were defined as subsidies dependent on results of exports. The prohibition covered not only direct governmental subsidies to enterprises or to an industry dependent on results of exports but also subsidies in the form of foreign exchange write-offs, tax exemptions and

25 E.Kawecka-Wyrzykowska, op. cit., p. 54.

26 W.S.Milberg, op.cit., p. 83.

reductions for exporters, preferential government credits (at an interest rate below the rates paid by the government for using the funds). The stipulations of the Uruguay Round retained the possibility of using subsidies other than export subsidies justified by social or development reasons.

The Uruguay Round brought about not only liberalisation of international trade but also contributed to liberalisation of capital flows (under the Agreement on Trade-Related Investment Measures - TRIMs,). The goal of the TRIMs is not only to promote liberalisation of world trade but also to facilitate the flow of international foreign investment[27]. In the preamble, it is stated that some instruments of investment policy may restrict international trade and interfere with it (may have a restrictive impact on it)[28]. The extent of the Agreement, in accordance with its Article 1, is confined to measures of investment policy applicable only to trade in products. Certain measures of investment policy applied to enterprises are considered by the Agreement to be incompatible with the GATT. It is incompatible with the GATT: a) to demand that the foreign enterprise buy or use products and production factors of domestic origin, b) to restrict the purchase or use by a foreign enterprise of imported products to a size connected with the quantity or value of local products exported by this enterprise (demand of balancing trade), c) restrict imports of products by an enterprise by means of foreign exchange restrictions, d) restrict exports by an enterprise (restriction expressed quantitatively or in relation to the value of local production).

5. Industrial policy and globalisation

The effect of globalisation is a decrease of the "economic distance" between countries, regions and economic units themselves and thereby growth of economic interdependence between these units and - in C. Oman's view - a decrease of economic sovereignty of governments[29]. R.G. Lipsey also points out to the limitation of economic sovereignty of national governments[30]. Globalisation means that all national interventions in industry exert a direct or indirect impact on the structure of international division of labour, direct investment, operation strategies of transnational firms and general conditions of functioning of international markets[31]. That is why globalisation requires many problems concerning trade and investment to be controlled and co-ordinated at the international level. In this way national governments lose their competences (power) in economic matters and some of these competences are handed over to international organisations such as the WTO (successor to the GATT) or the European Union.

The stipulations of the Uruguay Round and the establishment of the WTO as well as the proceeding liberalisation of international trade restricted the possibility for countries to pursue a protectionist industrial policy. Such a policy becomes more and more difficult to pursue; only few countries (e.g. China) have sufficiently sizeable markets to wield a real bargaining power in

[27] World Trade Organisation. Annual Report 1996, WTO, 1996, p. 72.

[28] Trade and Development report, 1994 (Supplement), New York, 1994, p. 144.

[29] C.Oman, op. cit., p. 141.

[30] R.G.Lipsey, op. cit., p. 93.

[31] A.Zielińska-Głębocka, European Industrial Policy - Basic Directions and Assumptions in A.Zielińska-Głębocka (ed.) Evolution of Economic Integration in the European Union. Challenges for Poland. Gdańsk University Press, Gdańsk, 1997, p. 91.

international trade negotiations and protect their markets[32]. The Uruguay Round also had an impact on a change in direction of pro-export policy of developed and developing economies. The ban on using export subsidies to industrial products decreased the possibilities of increasing the price competitiveness of exports directly. However, developing countries retained the possibility of using this instrument for a maximum of 8 years within the date of entry into force of the WTO agreement, countries in transition for 7 years of the entry into force of the WTO agreement[33].

Moreover, under conditions of big mobility of international capital, instruments of trade policy exert a bigger and bigger direct impact on the volume and directions of investment flow. Any trade restrictions - tariffs, quotas, non-tariff barriers, measures of the so-called grey sphere, voluntary export restrictions aimed at protection of domestic markets from competition - can induce foreign enterprises to bypass these barriers by replacing trade with direct foreign investment. Accordingly it becomes more and more difficult to protect and promote domestic producers by means of traditional measures of trade policy[34].

One of the effects of globalisation is a total change of the character of competition in the markets for goods and services[35]. Liberalisation of international trade in products and capital flows made markets more competitive in recent years. Liberalisation of trade increased exporters' access to many markets and thereby increased the sources of competition in these markets. Similarly, liberalisation of international flows of capital increased enterprises' possibilities of setting up their subsidiaries abroad. The sharpening of competition in international markets decreases the protectionist effectiveness of industrial policy towards domestic producers, for such a policy does not protect uncompetitive domestic enterprises from the unavoidable confrontation with global competitors and thereby delays the indispensable structural adjustments.

R.G. Lipsey[36] claims that in the time of globalisation of the world economy it is not possible to ensure development only and exclusively within the national economy alone. To sustain a durable economic growth, the national economy must be a part of the world economy and needs the presence of transnational companies. In effect, most of the developed and developing countries compete with each other to attract foreign direct investment to their national economies. Transnational corporations show an ability to reallocate their activity in the search for a better investment climate[37] and in this way they force governments to make their policies towards FDI more uniform and also to liberalise these policies.

In many cases there are no longer any special procedures restricting the flow of FDI. Foreign investments by firms begin to be treated in the same was as domestic investment, which finds its expression in equal access of domestic and foreign investments to general incentives,

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[32]M.Storper, Industrial Policy for Latecomers. Products, Conventions and Learning in M.Storper, S.B.Thomadakis, L.J.Tsipuuri (eds.) Latecomers in the Global Economy, 1998, London: Routledge, p. 13.

[33] S.Laird, Export policy and the WTO, The Journal of International Trade and Economic Development, 1999, no.8, p. 77.

[34] Globalisation of Industry. Overview and Sector Report, op.cit., p. 61.

[35] P.J.Lloyd, Globalisation and Competition Policies, Weltwirtschftliches Archiv, 1998, vol. 134 (2), p. 161.

[36] R.G.Lipsey, op. cit., p. 101.

[37] H.Chang, Transnational Corporations and Strategic Industrial Policy in R.Kozul-Wright, R.Rowthorn (eds.)Transnational Corporations and the Global Economy, London: Macmillan Press, 1998, p. 233.

economic stimuli offered by the government such as financial support for research and development. It becomes essential to ensure investments of appropriate quality so that on the one hand they might have a positive influence on the national economy and on the other hand might remain an effective part of global strategies of investing firms. This means that domestic economic infrastructure and economic environment (human capital, domestic institutions, domestic firms co-operating with foreign firms) have to be conducive to the inflowing FDI and provide international firms with local advantages. On the other hand, foreign firms encounter pressure for decentralisation and transferring to the host country activity with a high value added and with a big input of know-how and technology and for building closer relations with the local economy[38].

The special significance of transnational corporations in raising productivity in developing countries by transfer of technology, modern management methods and highly qualified labour from parent subsidiaries of firms is underlined[39]. That is why developing countries use economic instruments attracting foreign investment: tax incentives (including depreciation, tax reductions), loan guarantees, preferential interest rates on credits, preferential treatment of some costs of trade transactions, special training programmes for employees and ensurance of business support services.

The attitude of highly industrialised countries to outflowing investment underwent a change. In the past outward investment was treated as a decrease in the possibility of creating domestic workplaces. At present FDI are perceived as an important step towards transformation of producers competitive in the home market into global competitors. In Porter's opinion, FDI should be regarded as a measure of international competitiveness of the country from which they flow[40]. He thinks that a given country's competitiveness in a given industry is expressed in the fact that this country becomes a basis for leading transnational enterprises and not merely a basis for domestic firms exporting their products to foreign markets. That is why a more and more liberal approach to "outflowing" FDI is observed especially in OECD countries[41].

A. Zielińska-Głębocka[42] underlines the fact that under globalisation of the economy, there is an increase in the demand for opened markets, strengthened competition, deregulation and reform of governmental institutions. There also emerges a tendency towards a stronger co-operation between the government and the business sector in solving industrial problems on the rule that public authorities should only support business so that "it might help itself". In consequence, sectoral policies are being abandoned in favour of general policies aimed at creation and maintenance of a competitive environment in which enterprises are functioning. Such policies should be based on relatively neutral instruments having a horizontal character and lead to [43]:

1. Improvement in infrastructure and economic environment for economic operations (improvements in quality and extent of the service, communications and trade infrastructure)

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[38] In spite of locating their production activity in different countries, transnational corporations are still closely connected with their mother countries (countries from which investments flow) by concentrating R&D and management activities in them (cf. H. Chang, op. cit. p. 229.)

[39] Transnational Corporation and World Development, UNCTAD, New York, 1996, p. 182.

[40] M.Porter, The Competitive Advantage of Nations, London, 1994, p. 18.

[41] Globalisation of Industry. Overview and Sector Report, op.cit., p. 62.

[42] A.Zielińska-Głębocka, op. cit. P. 98.

[43] Globalisation of Industry. Overview and Sector Report, op.cit., p. 56.

2. Extension of markets by removing the technical barriers segmenting the markets, improvement in access to international markets by liberalisation of trade and investments.
3. Improvement in the conditions of concluded transactions and the supply conditions in markets (by removing the market imperfections in the supply of factors of productions, liberalisation of the markets for products and for production factors, removing the barriers to entry into the market), which determines a reduction in production costs and prices.

J.H. Dunning also points to improvement in the supply conditions with reference to the market for production factors[44]. He notes that the domestic resource of production factors generating wealth in most of the industrialised countries is not composed of "ordinary" factors such e.g. land and unskilled labour but rather of a cumulative capital in the form of assets, human knowledge and experience. In the market economy driven by innovations, the resources should not only be created but also permanently improved so that they could meet the rising demand on the part of the global economy. This means that if national governments do not ensure optimal usage and qualitative improvement of the material and human resources located in these countries, their firms will not be competitive in the global market.

6. Summing up

Globalisation is a more advanced and more complex form of internationalisation of economic activity. Its manifestation is intensification of international trade and capital flows. Globalisation is primarily a centrifugal process led by activities of such economic units as enterprises, banks and people to achieve profits and meet competition. A central role in the globalisation process is played by transnational corporations. The centrifugal forces directing the globalisation process have thus a microeconomic character. However, this process is shaped also by activities of governments, international organisations and technological changes (first of all in telecommunications, computer science, and transport). Technological progress permits firms to locate production and particular stages of production in different regions and countries and increases the speed of flow of products (lower costs of flow of products).

The change by government of developing countries of development strategy (from inward import-substitution orientation reluctant to foreign direct investment into a strategy oriented at export promotion and favouring foreign direct investment) and the change of the development strategy of developed economies (the effect of which is a change in the character of industrial policy - from a sectoral, highly protectionist towards domestic producers to a more horizontal, competition-promoting one) are also treated as an important factor accelerating the process of economic globalisation. However, it should be remembered that the change in the development model of highly industrialised countries (including a changed character of industrial policy) resulted partly from the failure in practice in the 1970s of considerable intervention of governments in the market mechanism and in part was caused by the globalisation process itself. Thus a kind of feedback occurs between globalisation and the change in the model of industrial policy - one of the factors shaping globalisation is a new model of industrial policy which is the effect among others of the proceeding globalisation of the world economy.

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[44] J.H.Dunning, The Global Economy, National Governments and Supranational Economic Regimes in P.K.M. Tharacan, D. Van Den Bulcke, International Trade, Foreign Direct Investment and the Economic Environment, London: Routledge, 1997, p. 121.

The acceleration of the process of globalisation of the economy was largely the effect of the stipulations of Uruguay Round of GATT. This Round brought not only further liberalisation of international trade but also facilitated the flow of international investments (under the Agreement on Trade Aspects of Investment Policy).

It is believed that in the conditions of globalisation of the economy, the demand is growing for opening the markets, strengthening competition, deregulating and reforming the governmental institutions. In effect sectoral policies are being abandoned in favour of general policies which are oriented at creating and sustaining a competitive environment in which enterprises function and which use relatively neutral and horizontal instruments.

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