ACTA UNIVERSITATIS LODZIENSIS
FOLIA OECONOMICA 230, 2009

Agnieszka Dorożyńska

THE PLACE AND ROLE OF EXPORT-PROMOTING POLICY IN THE CONCEPTS OF FOREIGN ECONOMIC POLICY

Introduction

In the world economy since the mid-last century there has been observed very fast growth of trade turnover. The high dynamics of the foreign trade is one of the most important features of the global economy. As it results from the following table the growth of the world trade is bigger than the economic growth in the world. It was in 1990s when the remarkable growth of the world trade occurred, and its index is 2.5 times higher than the index of the world GDP.

Table 1.1

The growth of the world trade (average annual accumulated growth indexes in %)

Indicators	1960s	1970s	1980s	1990s
The growth of the world GDP	5.5	3.7	3.0	2.6
The growth of the world trade	7.9	5.7	4.9	6.6
Developing countries				
Export growth	6.1	5.2	5.2	7.4
Import growth	6.4	7.7	1.6	5.3
Highly developed countries				
Export growth	8.3	6.3	5.0	6.6
Import growth	8.7	4.9	5.3	6.8

Source: *Economic Growth in the 1990s. Learning from a Decade of Reform*, World Bank 2005, p. 63.

A characteristic feature is a fact that, until 1970s, in the developing countries there was observed a fast growth of import, in contrast to the developer countries where there was a remarkable fall of this index (from 8.7% in 1960s to 4.9% in 1970s). The breakthrough period was 1980s when there was a change in the form of a sudden fall of the growth index for the developing countries (from 7.7% in 1970s to 1.6% in 1980s). Additionally in 1990s the export visibly increased, and was higher than the export growth index for the developed countries[1].

Foreign economic policy play a significant role in the growth of GDP, it is understood as a policy of shaping economic relations in the country and abroad, which consists among others from export-promoting policy. Export perceived as an impulse in the acceleration of economic growth enables obtaining fixed structural benefits and improves the competitive position of the domestic producers in the international market[2]. The aim of the herein paper is to present the export-promoting policy in the light of the concept of the foreign economic policy, and also an assessment of its effectiveness from the theoretical and empiric point of view.

1.1. The Concept of the Foreign Economic Policy

The concept of foreign economic policy is understood as a deliberate impact of a country on the foreign exchange. The degree to which a country is involved in the process of shaping economic foreign relations in the range of goals specification as well as application of a proper instruments is determined by both internal and external conditions. Foreign economic policy is a part of the entire economic policy of any country, that is why the economic model of a country determines the range of the country's entitlements. As far as external determinants are concerned we can distinguish autonomous policy, enabling the country to freely shape the economic foreign relations and the contractual policy, which means defining of the mutual connections as part of the worked out agreements[3].

The aims of the foreign economic policy may be divided into the main and partial ones, which is illustrated in the table 1.2.

---

[1] *Economic Growth in the 1990s. Learning from a Decade of Reform*, World Bank 2005, p. 63.

[2] S. Pangsy-Kania, *Polityka proeksportowa wobec wzrostu innowacyjności polskiej gospodarki*, [in:] *Problemy regionalne i globalne w gospodarce światowej*, red. J. Rymarczyk, W. Michalczyk, Akademia Ekonomiczna im. Oskara Langego we Wrocławiu, t. 2, Wrocław 2005, p. 69.

[3] P. Bożyk, *Zagraniczna i międzynarodowa polityka ekonomiczna*, PWE, Warszawa 2004, p. 11–12.

Table 1.2

The aims of foreign economic policy

Aim	Aim of the foreign economic policy of mid-term and long-term nature
Main	1. Favours the achievement of the highest possible level of the society's prosperity
Partial (internal)	1. Achievement of the highest possible level of employment 2. Providing high economic growth 3. Providing of the prices stability 4. Providing a fair division of national revenue 5. Providing stability of the exchange rate
Partial (external)	1. Aiming at the achievement of balance in the foreign economic exchange
	Aim of the foreign economic policy of a short-term nature
Partial (internal)	1. Regulating of the short-term credits amount and granting
Partial (external)	1. Changes in the level of import, export 2. Affecting the demand in the range of particular goods

Source: author's study on the basis of J. Misala, *Współczesne teorie wymiany międzynarodowej i zagranicznej polityki ekonomicznej*, SGH, Warsaw 2003, p. 258–259.

The goals of the foreign economic policy are mutually linked and the realization of one of them determines the achievement of the other. However not always are they in agreement with one another. The contradictions may concern the realization of short-term goals, long-term goals as well as external and internal partial goals. For example, aiming at the improvement of the situation in the balance of payments, in the case of difficulties in the export expansion, may evoke tendencies to reduce import, which leads as a result to the diminishing of a given country's participation in the international distribution of work and the benefits connected with it.

The occuring conflicts in the golas of foreign economic policy cause that a country must specify the prior goals and focus its attention on those[4]. In a situation if there is a harmony between particular goals, then the country ascribes various significance to various goals depending on the economic conditions.

To achieve the specified goals of foreign economic policy, the country affects the economy through the available direct and indirect instruments. The use

---

[4] J. Misala, *Współczesne teorie wymiany międzynarodowej i zagranicznej polityki ekonomicznej*, SGH, Warszawa 2003, p. 290.

of various types of instruments aims at the change of effects of market forces, which means evoking certain distortions in the market of products and production elements or in foreign currency markets.

In the range of the direct influence, the country sets the goals of foreign economic policy and the means to realize those goals. The indirect way of the country's impact on the foreign economic policy lies in the supporting of economic subjects participating in the foreign exchange by means of the available financial means.

Summing up, the role of a country in the range of the specification of goals of foreign economic policy lies in the choice or ascribing the significance to certain goals, among many listed in the table 1.2, as part of the changing conditions of management. The use of means of foreign economic policy should be of temporary nature and it should lead to the increase of income from the foreign exchange, due to the increase of the capacity of that exchange and the improvement of its effectiveness[5].

1.2. Classic Doctrines of Foreign Trade

In the evolution of foreign economic policy, there may be distinguished two opposite trends: the policy of free trade and the protectionism policy. None of the main concepts of foreign economic policy is realized in the so called pure form. The theory of the international trade assumes that countries can achieve the maximum level of benefits from the exchange, if the governments do not interfere with the course of it, so if the condition of free trade is fulfilled, allowing for the increase of management effectiveness. Although on the basis of theoretical analyses what is recommended is managing a liberal trade policy and being guided by one's own comparative advantages at the exchange of goods and services, in practice in most of the countries there is the governments' interference with international trade due to its influence on the country's prosperity[6]. Therefore the theoretical dissertations concerning the benefits resulting from the free trade policy realization as well as arguments confirming the rightness of the protectionism policy, will allow to indicate a place for the export-promoting policy in the presented concepts.

---

[5] P. B o ż y k, *op. cit.*, p. 39–40.

[6] B. H o e k m a n, M. M. K o s t e c k i, *Ekonomia światowego systemu handlu. WTO: Zasady i mechanizmy negocjacji*, Wrocław 2002, p. 23.

1.2.1. Free Trade Policy

Free trade policy in its pure form lies in the country's refraining from the use of any barriers reducing access of foreign goods and enterprises to national market and also in the resignation from the means for supporting own export[7]. It can also be defined as a country's aiming at the maintaining or regaining of the state of the entire openness of the national economy on the foreign trade exchange regardless of the trade policy used by other countries[8].

The free trade policy also called liberal doctrine assumes that the automatism of the market mechanism provides global balance in the long term, which means the growth of national income in the conditions of the entire use of production factors and it guarantees the maximization of benefits from the foreign trade exchange.

The benefits of the free trade have been defined and described by A. Smith in the work *Bogactwo narodów (The Wealth of Countries)*. Smith's justification, indicating the benefits of trade achieved due to specialization corresponding to the work division, was according to J. N. Bhagwati the right one and it hit the heart of the matter[9].

The basic argument in favour of the free trade is economic effectiveness. The international trade theories indicate the existence of benefits from the range of effectiveness which are visible in the transition from autarky to free trade. Among the benefits occurring in the conditions of free trade. M. Bijak-Kaszuba distinguishes the following types[10]:

– **consumption benefits**, coming from the exchange. They indicate the growth of consumption above the possibility of national production. The economy obtains them at a given production structure only as a result of the change of the relative prices of the national and foreign goods;

– **production benefits**, coming from the specialization which enables more effective use of resources, production growth and lower prices, increasing the prosperity of individual countries as well as the entire global economy. Those benefits result from the reaction of the economy to the change of the relative prices, which is relocation of resources and adjusting of the production structure to the free trade conditions.

---

[7] J. Rymarczyk, *Protekcjonistyczne i liberalne tendencje w polityce handlowej Wspólnoty Europejskiej*, Akademia Ekonomiczna we Wrocławiu, Wrocław 1996, p. 9.

[8] M. Bijak-Kaszuba, *Regionalna liberalizacja handlu międzynarodowego a zmiany strukturalne zagranicznych obrotów towarowych kraju uczestniczącego (na przykładzie Polski)*, Wydawnictwo UŁ, Łódź 2003, p. 11.

[9] J. Bhagwati, *Wolny handel dziś. Ekonomiczne idee na Nowe Millenium – Free Trade Today*, CeDeWu 2003, p. 9–10.

[10] M. Bijak-Kaszuba, *op. cit.*, p. 12.

The listed benefits indicate that the freedom of competition as a rule of the free trade favours the tendency to unify the level of prices of production factors and products in the international scale and to achieve the balance in the balance of payments. Due to the fact that free trade enables effective use of national production factors, one may list additional benefits lying at the foundations of the free trade policy. Firstly free trade influences the increase of the market capacity and allows for the most beneficial allocation of resources in the scale of global economy. Secondly, it favours the development of international transfer of technical knowledge, influencing the acceleration of technical and technological progress and the innovation in economy.

The economists name also the benefits of the free trade, which are not considered in the conventional analysis, especially in reference to the small developing countries. These are as follows[11]:

– benefits from the scale of production which appear if the average firm's costs are lowered as the production is expanded,

– broadening of possibilities of knowledge and innovation due to making the entrepreneurs look for new markets or new possibilities of successful competition with import. Introducing innovations which is possible due to the occurrence of free competition, influences the economic growth.

In fact however, not many countries entirely apply the rules of free trade policy. It seems that the realized trade policy is of protective nature (in a larger or smaller degree). However the formulated theory of free trade by A. Smith is defined as an ideal which the trade policy should aim at. The contemporary theory of free trade also assumes the classics' argumentation almost in its entire expression. According to this theory, it is the free trade that allows to avoid losses in efficiency connected with protectionism[12]. The confirmation of the thesis about the advantage of free trade over the protectionism policy is an analysis of a situation of a small country, having no influence on the global price, one presented by P. R. Krugman and M. Obstfeld.

According to the presented graph, the introduction of customs duty has caused an increase of price of the imported goods (from P to P'). The higher price has influenced the reduction of demand and import of given goods (from Q_2 to Q'_2) and on the other hand it has increased national production (from Q_1 to Q'_1). The introduction of customs duty contributed to the appearance of disruptions in the consumption and production, which is illustrated on the areas of triangles (A and B) on the graph 1.1. The size of disruptions depends on the

[11] P. R. Krugman, M. Obstfeld, *Międzynadorowe stosunki gospodarcze*, tłum. i adapt. S. Ładyka, t. 1, PWN, Warszawa 1993, p. 147.

[12] *Ibidem*, p. 145.

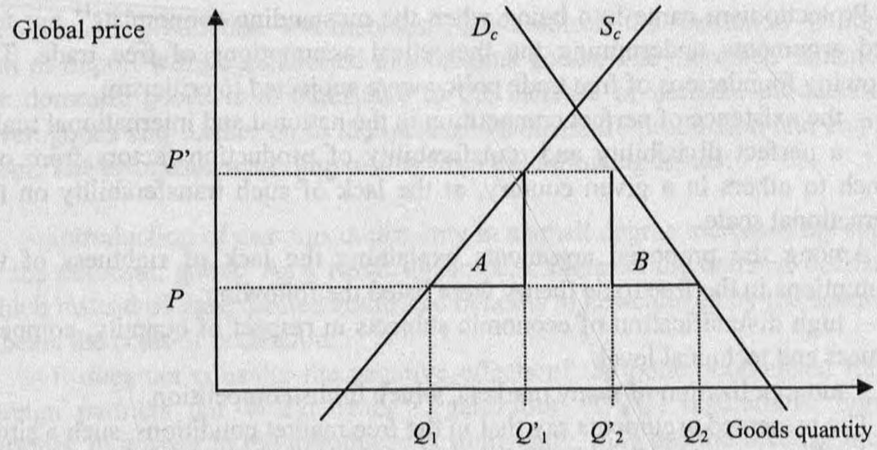

Fig. 1.1. Efficiency as an argument in favour of free trade

P – global price, *P'* – global price + customs duty, *Q* – quantity of goods, *Dc* – price flexibility of demand, *Sc* – price flexibility of supply, Triangle *A* – disruption of production, Triangle *B* – disruption of consumption.

Source: own study on the basis of P. R. Krugman, M. Obstfeld, *Międzynarodowe stosunki gospodarcze*, tłum. i adapt. S. Ładyka, t. 1, PWN, Warszawa 1993, p. 146.

difference in price flexibility of demand D_c and supply S_c. The realization of free trade policy eliminates the mentioned disruptions and contributes to the increase of the country's prosperity. The benefits are on the part of the consumers who pay a lower price for goods and the producers who use the production resources in the more effective way.

Theoretical disputes indicate the benefits of the free trade policy realization. However on the other hand, for 200 years there have appeared opinions among economists that the free trade policy does not have to be the best solution and there are numerous arguments formulated in favour of protectionism.

1.2.2. Protectionism Policy

The protectionism is meant to be an active, often direct interference of a country in the shaping of economic relations of the country with foreign countries. To realize these goals, a broad range of available economic and administrative instruments is used. Protectionism in the foreign trade is a derivative of the policy of national interventionism in economy[13].

[13] P. Bożyk, *op. cit.*, p. 23.

Protectionism came into being when the outstanding economists[14] put forward arguments undermining the theoretical assumptions of free trade. The following foundations of free trade policy were subjected to criticism:

– the existence of perfect competition in the national and international scale,

– a perfect divisibility and transferability of production factors from one branch to others in a given country, at the lack of such transferability on the international scale.

Among the proposed arguments explaining the lack of rightness of the assumptions in the free trade theory were listed the following:

– high diversification of economic subjects in respect of quantity, competitiveness and technical level,

– monopolization of many markets, which limits competition.

The presented arguments say that in the free market conditions, such a situation leads to an unjustified rise in prices, lack of stimuli for the improvement of quality and implementation of new technological solutions, unemployment and inflation[15].

As it results from the analysis of the point 1.1.1, the country's use of limitations restricting the world export and import, occurring in the form of tariff barriers and beyond-tariff barriers in the majority of cases leads to the occurrence of costs in economies which introduced them. In fact, as the economists prove, free trade is a policy that is economically effective and various deviations negatively influence the country's prosperity.

The types and range of the applied trade restrictions differs among countries and it may result from e.g. the general economic policy of a country, as well as from the need to balance the balance of payments or enforce national export, meaning the protection of national producers against the competition in the foreign markets.

The presentation of argumentation of protectionism advocates, which is correct in a smaller or larger degree from the point of view of economic justification, shall allow to understand the appropriateness of the use of interventionism.

Among the inappropriate arguments in favour of protectionism there are[16]:

– increase of production, employment and incomes,

– increase of national security,

– influence on the policy of other countries,

– improvement of the trade balance.

One of the most often quoted arguments whose aim is to justify the use of protectionist instruments is an assumption that they will allow to increase the

---

[14] F. List, R. Prebish, H. Singer, R. Nurks.

[15] *Ibidem*, p. 23.

[16] J. Świerkocki, *Zarys międzynarodowych stosunków gospodarczych*, PWE, Warszawa 2004, p. 143.

employment, production and incomes. As a result of the restriction of import, part of import will be transferred into national goods. The increased demand for the domestic goods is to contribute to the increase of national production of given goods and further on to the increase of the entire production and employment. The erroneous reasoning results from the following issues:

– introduction of customs duties only in a small degree increases the supply of the domestic goods. As a result of the prise increase the demand decreases, which instead of the expected additional benefits to be achieved by the economy, it bears the costs of protection;

– it does not consider the negative effects of the policy conducted for the foreign partners nor World Trade Organization (WTO) regulations. Foreign partners, in answer to the introduced customs duty, may use the revenge means. The impeded access to the market also weakens their economic activity and in connection with the decrease of export competitiveness may in consequence lead to the drop in production and employment in the country introducing the customs duty.

The increase of national security, according to J. Świerkocki[17], is also a proposed argument justifying the introduction of limitations in the free trade. It indicates that supporting of industry may appear necessary due to the elimination or restriction of foreign competition. It refers to the industry branches in which the large or exclusive participation of foreign demand, in fulfilling the domestic needs, may face various types of danger. There are however fears of expanding of the types of production and services, ones belonging to the branches of industry subject to protection[18]. If, however we consider the economic calculus and the fact that self-sufficiency and lack of competition are both ineffective solutions, then what is recommended is the international cooperation in one or another branch.

Another argument explaining the necessity to use protectionism is influencing the policy of other countries. Using the protectionist means, ones meant to protect the internalmarket or support the domestic subjects in the markets of the third countries, may be used in order to force the partners to perform certain behavior (e.g. opening of the market, observance of international agreements or the hindering of excessive use of means restricting the international exchange). According to this argument, the use of export subsidies (e.g. insurances guarantees of export credits) on one hand aims at the providing of safety of the realized

[17] *Ibidem*, p. 144.

[18] A. Budnikowski, *Międzynarodowe stosunki gospodarcze*, PWE, Warszawa 2003, p. 222–223.

transaction and on the other hand at enabling the domestic exporters to face the competition from foreign subjects. However it may entail the increasing protectionism scale. Such a situation took place in 1970s when in fight for the new markets, the toughening competition between exporters caused that what was used in bigger and bigger extent were the means supporting the domestic exporters.

The improvement of trade balance is the last argument having no theoretical confirmation in the range of conducting the protective policy. The essence of this argument is very simple. In fact, in the case of occurrence of trade deficit, the introduction of trade restrictions should diminish the size of import and therefore the balance in the trade balance[19] will be regained. The following issues prove such reasoning to be inappropriate[20]:

– use of trade policy means in order to limit trade deficit would mean avoidance of the existing benefits for this country, resulting from the participation in international trade,

– restricting of import through the protectionist means does not bring the expected results, just the other way round, such actions may have opposite effect. Similar to the case of the increase of employment, production or incomes, the limitation of export may lead to the worsening of economic situation in other countries,

– actions aiming at import limitation have negative influence on the supply of goods (half-finished products) used for production in a given country. Such a situation usually leads to the increase of prices of those goods, influencing at the same time, the weakening of the economic activity and export competitiveness. What can be expected is the negative influence on the trade balance, which is the effect opposite to the expected one.

Another group of arguments in favour of protectionism may be on the whole called the right arguments at the assumption of certain conditions. They are in some extent justified theoretically. The country interfering in the range of international exchange may increase the entire social welfare[21]. Such argumentation may be divided into two categories.

Arguments of the type "first best", when the introduction of the trade policy means constitutes the best solution for the realization of this goal.

Arguments of the other type defined as "second bes" is a suboptimal solution because there are other more directly working means[22].

---

[19] *Ibidem*, p. 216–217.
[20] *Ibidem*.
[21] J. Świerkocki, *op. cit.*, p. 146.
[22] M. Bijak-Kaszuba, *op. cit.*, p. 16.

To the first group of arguments of the type "first best" against the free trade, there belongs the improvement of the **terms of trade**. Obtaining of that improvement terms of trade is possible when the customs duty or another trade policy means is introduced by a big country, that is such a country which has a significant participation in the world trade and its operations may lead to the change of prices in the global market. Customs duty lowers import prices and generates the benefit from the terms of trade. Optimization of benefits from the introduction of customs duty is possible due to the optimal duty[23], which provides measurable benefits for a big country, which constitutes a theoretical argument for the use of protection by this country.

An argument against the free trade, which results from the improvement of terms of trade evokes however some reservations. The first restriction results from the fact that the introduction of customs duty is justified only for a big country. Therefore it does not concern the majority of countries. And the use of trade policy means in order to achieve benefits by this country is a factor hindering the international specialization and limiting the possibility to increase prosperity in the global economy. Additionally, assuming that if a country subject to introduction of optimal customs duty is also a big one, it can use the revenge means, e.g. also in the form of optimal customs duty. In consequence, there exists a possibility to balance the initially obtained benefits by the country introducing customs duty[24].

Summing up, the use of optimal customs duty has little practical value, however from theoretical point of view it is a justification on the part of protectionism on condition that it is used by a big country and other countries (also big ones and subject to the introduction of customs duty) do not use the revenge means.

The other group of arguments of the type "second after the best" includes the imperfections of the domestic market. The issues of domestic market imperfections will be broader presented in the point 1.3.1. However an exceptional case of the quoted argument is a protection of infant industries. It is the oldest argument, presented in 1848 by J. S. Mill, explaining the need to abandon the free trade and to introduce trade policy means in order to correct the impediments[25].

In the literature of the subject, there are identified two totalny different fenomena, which justify that kind of protectionism, namely: capital – market imperfections) and external economies. Referring to the former phenomenon, the capital market imperfection is manifested by hardly developed structure

[23] P. R. Krugman, M. Obstfeld, *op. cit.*, p. 149.

[24] A. Budnikowski, *op. cit.*, p. 218.

[25] W. M. Corden, *The Costs and Consequences of Protection: A Survey of Empirical Work*, [in:] *International Trade and Finance*, ed. P. B. Kenen, Cambridge University Press 1975, p. 78.

of financial institutions, which is reflected by the lack of access to attractive credit conditions and asymmetry of information. A company entering a new market in longer perspective may bring benefits from learning through actions in the form of dynamic benefits of scale and lowering of the production costs. However in the initial phase, the low, (or also negative) profit rate will be a barrier in the realization of the investment operations. That is why, in the situation of a lack of effectively functioning capital market, a temporary government interventionism is justified in the form of trade preferences – export subsidies, as a solution "second after the best". It will enable the company to survive in the initial years. An alternative argument of the protection of industry, an export-oriented one in the early phase of its development is based on the occurrence of external benefits. They cause a diversification of social and private benefits and costs. The companies which, as pioneer subjects, function in the new markets, create particular benefits (e.g. knowledge, information, national attribute), therefore they are the first ones to be prone to bearing costs connected with gaining new market shares and raising the competitive position in the international market. The majority of specific benefits generated by pioneer companies in an obvious way is subject to redistribution and fall to the competitive companies, imitative ones, which follow the pioneer companies, not bearing the costs mentioned.

The awareness of this fact becomes a barrier for private entrepreneurs, restricting them in their tendency to take action in the initial phase of exploration of new export markets, without the protectionist support from the government[26]. Additionally the need for protection, or support of the newly arising industry branches in order to achieve future benefits, is sought in the lack of possibility to face the foreign competition. It results first of all from the features characterizing the enterprises which only begin their operations. They are as follows:

- lack of experience,
- slight production potential,
- insufficient capital,
- lack or an initial chase of modern technologies implementation,
- the need for improvement and search for qualified staff.

Temporary support, granted by the government to the newly created industries, will enable the producers to achieve an appropriate production scale and level of development and the country will realize the possessing advantage and will increase its prosperity. It will also positively influence the remaining participants of the global economy. In fact in the long run, the protection

[26] A. Panagariya, *Evaluating the Case for Export Subsidies*, "The World Bank Development Research Group Trade", January 2000.

improves allocation of production factors in all the countries, which allows the growth of production and incomes[27].

An argument **infant industry**, is known in the literature as a dogma of Milla-Bastable. It has been created in order to explain the protection of selected sectors by means of the customs protection. An alternative may be subsidizing of the branches in the form of subsidies to the production or scientific-development works. It must be underlined, however, that it is a suboptimal solution. Internal interventions are more beneficial, because they do not disrupt international competition[28].

The argument infant industry was broadly used in the countries such as the USA, Germany, as early as in 19[th] century. Nowadays it is popular in the developing countries, which, to face the competition from the developed countries, in the initial stage of the industrialization process, take decisions about the protection of some industry branches. Although the argument about the temporary protection of the newly created industries, was theoretically justified, and also accepted by GATT/WTO (those GATT/WTO regulations allow for the use of this argument to introduce the means of trade policy towards the developed countries), it still arouses some reservations among economists.

The first charge concerns the accuracy of selecting the right branch or industry branch, which are to be protected. The choice made by the country may appear wrong, and then the industry will not achieve the expected profitability, bringing only costs charging the government budget. Another question arousing doubts is a fact that the protection of industry against foreign producers limits the competitive capacity of enterprises embraced by the government's support. The enterprises do not have a stimulus to lower the costs, introduce innovations or take care of the quality of goods. Their actions focus on the extension of the period of the granted protection. Additionally this argument is criticized when the protective customs duties are applied and the market is functioning well, i.e. there is no difference between the private and the social evaluation of costs and benefits. In such a case, the proper way to allocate investments is free competition[29].

A justified exception from the free trade policy, a solution of the "second best" type, is also counteracting unfair competition. Introduction of such means of the trade policy as anti-dumping customs duties, export subsidies results from the need to take revenge steps or ones equalizing the competition conditions in a situation where abroad – there are various forms used to influence the trade

[27] J. Ś w i e r k o c k i, *op. cit.*, p. 146.

[28] A. Z i e l i ń s k a-G ł ę b o c k a, *Wprowadzenie do ekonomii międzynarodowej*, Uniwersytet Gdański, Gdańsk1997, p. 189.

[29] M. B i j a k-K a s z u b a, *op. cit.*, p. 19.

streams leading to unjustified growth of competition of the products offered[30]. It may be claimed that they improve the situation of a country using a given solution however they worsen the situation of the country towards which they are used.

1.3. New Concepts of Foreign Economic Policy

As it results from the previous dissertations, in a situation when all the assumptions concerning the free trade are fulfilled, the best solution from the point of view of prosperity maximization is the lack of barriers or government intervention in the sphere of international exchange. In the classic models what was assumed was the lack of mobility of the work factor and capital factor in the international scale, fixed scale incomes, technological factor as an exogenic factor and the comparative advantage was grasped in a static way[31]. However the development of the global economy and the deepening process of international work division were accompanied by gradual withdrawing from the assumptions of the free trade theory.

Therefore, according to J. Misala, what was more and more often assumed in both the theories of international exchange and in the theories of foreign economic policy, were the assumptions of imperfect competition. Theoretical bases of imperfect competition were introduced to the theory of economy by E. H. Chamberlin in 1934 and by J. Robinson in 1973.

It was a turning point in the field of explaining of protectionist movements of economic decision-makers in the broadly understood imperfect competition[32].

The occurrence of imperfect competition constituted also a theoretical basis for disputes, justifying intervention government policy in the sectors defined as strategic ones. The concept of strategic trade policy appeared in 1980s of the 19[th] century. Thus the contemporary arguments in favour of protectionism are derived from the theory of disruptions.

The key element which contributed to the intensiveness of the protectionist tendencies was the occurrence of "market distortions". The terminology was introduced only in 1960s by J. N. Bhagwati. The occurrence of market distortions meant that the Smith's "invisible market hand" did not provide an effective allocation of resources.

---

[30] P. B o ż y k, *op. cit.*, p. 27.

[31] T. R y n a r z e w s k i, *Teoretyczne aspekty polityki handlu międzynarodowego*, [in:] *Teoretyczne i empiryczne aspekty współczesnych międzynarodowych stosunków gospodarczych*, red. T. Rynarzewski, Zeszyty naukowe nr 8, Akademia Ekonomiczna w Poznaniu, Poznań 2001, p. 72–73.

[32] J. M i s a l a, *op. cit.*, p. 332

1.3.1. Theory of Market Disruptions

Theoretical foundations of the theory of market disruptions have been formulated and next developed by such authors as: J. E. Meade in 1955, W. M. Corden in 1955 and 1974 , J. N. Bhagwati i Romsawani in 1963, J. N. Bhagwati in 1971, J. Johanson in 1966 and 1971. In theory of disruptions it is assumed that the free trade is obviously the best in the conditions of perfect competition. However, as it was previously mentioned, there occur disruptions of various types in the market, ones impeding the functioning of the market in the conditions of free competition.

On the basis of theoretical analyses, J. N. Bhagwati formulated two basic conclusions concerning the theory of disruptions. They are as follows[33]:

Conclusion 1 says that if there occur market disruptions, then the policy of free foreign trade is not necessarily the best one.

The disruption of the market means the appearance of the difference in the evaluation of social and private benefits and costs. Social optimum is achieved only through market adjustments of the private subjects. However, if there are distortions of internal and external nature, then the authors of that theory claim that they may be removed through intervention actions taken by the government. Due to the fact that market imperfections are a part of the functioning economies, the country seeks for the solutions that will neutralize or diminish those distortions.

In the field of the choice of an intervention method, the country has a possibility to use the solutions of the type "the best of all" (optimal solution) or "the second best" (suboptimal solution).

Conclusion 2 consists of two subsections:

a) if the distortion occurs in the domestic market, then what must be applied is the internal policy (taxes and subsidies) that would balance those, and then the best policy of the foreign trade will be free trade;

b) if the distortion occurs in the external market, one must resign from the free trade in favour of the proper trade policy aiming at the equalization of that distortion.

There exists certain dependence, which entails that if a distortion is of external nature, then the intervention in trade is justified as an optimal solution. However if we have to do with a distortion of internal nature, then the use of means of trade policy is a suboptimal solution[34]. The fact that it is the "second best" solution results from two weak sides of this argument. Firstly it is difficult

[33] J. N. B h a g w a t i, *Wolny handel...*, p. 18–34.

[34] A. Z i e l i ń s k a-G ł ę b o c k a, *op. cit.*, p. 184–185.

to precisely define a market imperfection, thus an intervention method may be chosen inappropriately. Secondly the directing of policy into a trail other than the one in which there is a source of disruption, leads to the occurrence of disruptions in this sector[35].

There are distinguished the following groups of distortions[36]:

– international and national ones;

– economic and beyond-economic ones.

Among the reasons for domestic distortions one can indicate:

a) functioning of the internal market and its weak development. Most of domestic distortions come from market deficiencies, production factors (i.e. job market or capital market). The job resources or capital resources are not able to provide an effective resource allocation, which may mean a growth of costs of purchase of those factors;

b) the country's policy. An example may be the customs duty policy, which will offer more beneficial conditions for producers operating in the domestic market rather than in the foreign market. A similar effect may be evoked by the taxing policy, which through increasing fiscal incidences for producers, producing for foreign markets, will weaken their competitive position in relation to the producers targeting their production at the domestic market.

International distortions[37] result from the functioning of the global market, which in fact is characterized by numerous restrictions and disturbances of the market mechanism operation. The departures from the system of perfect competition, in the form of a lack of price flexibility, perfect transferability and divisibility of resources and an access to information may also be an effect of conducting of a certain policy by particular countries which have influence on the conditions of international competition. It results from the interrelation of economic processes in the international scale. Therefore the equalization of the competitive position of the domestic subjects in the international market lays the foundations for taking intervention actions.

Both the domestic and international distortions may have economic and beyond-economic nature. A factor of distortions of economic nature may be the creation of barriers for firms beginning or finishing the activity or also a high inflation[38]. However the factor of distortions of beyond-economic nature may be e.g. introduction of sanctions resulting from the political or social reasons.

---

[35] M. Bijak-Kaszuba, *op. cit.*, p. 18.

[36] A. Wziątek-Kubiak, *Kontrowersje wokół proeksportowej strategii rozwoju*, Poltex, Warszawa 1996, p. 42.

[37] T. Bednarczyk, *Instrumenty wspierania eksportu. Kredyty i ubezpieczenia*, PWN, Warszawa 2000, p. 22.

[38] A. Wziątek-Kubiak, *op. cit.* p. 45–46.

Introduction of sanctions towards a certain country worsens the conditions of operations of its traditional partners.

In 1950s and 1970s, the criticism of free trade resulted from the distortions of market of production factors and it was a pretext for the protectionism policy of the developing countries. In 1980s the distortions of the market of products were considered and they were used in order to use the means of the trade policy by the developed countries. However through all these years, the criticism of the free trade lay in the completion of this theory with an analysis of the effects of imperfect competition.

1.3.2. Theory of a Strategic Trade Policy

The theory of the strategic trade policy was developed in 1980s. Its creators J. Brander i B. Spencer, P. Krugman, J. Eaton i G. Grossman[39] rejected the assumptions about the perfect competition and they considered a possibility to support enterprises by a state, both the ones operating in the domestic and international markets. Subsidizing of their own producers is the role of a state at the specified structure of the world market. It assumes that if in some industries, in which due to the internal production scale benefits, only a few enterprises fulfill the global demand and the reason for international specialization becomes not the relative advantage of the country, but the entrance of the enterprises on the market before the competitors, then there exists an issue to take intervention actions[40]. The motives for the support of the strategic fields of activity appear as a result of international and national disruptions on the producers' markets. In the literature there are distinguished criteria for the isolation of sectors defined as strategic ones. Among those sectors there are listed[41]:

– branches of high technologies. They guarantee a high speed of production growth, efficiency at work and profitability, they also bring external benefits in the form of the progress of knowledge and possibilities of implementing new technologies by other sectors;

– branches, generating for the needs of environment protection. They form a rent in the form of external benefits, favourable for the quality of natural environment;

---

[39] J. Brander, B. Spencer, *Export Subsidies and International Market Share Rivalry*, "Journal of International Economics" 1985, no 18; P. Krugman, *Strategic trade Policy and the new International Economics*, MIT Press, Cambidge 1987; J. Eaton, G. Grossman, *Optimal Trade Policy and Industrial Under Oligopoly*, "Quarterly Journal of Economics" 1986, vol. 101.

[40] J. Świerkocki, *op. cit.*, p. 147–148.

[41] A. Zielińska-Głębocka, *op. cit.*, p. 190–191.

– branches producing half-finished products for a big group of sectors, producing ready-made capital and consumer goods (e.g. petrochemical industry, steel industry, biotechnologies etc.). There are rents created as a result of spreading of benefits in connection with the providing of support for given branches;

– armaments sector, gives benefits in the form of national safety;

– branches of a high concentration degree. They create in the international scale strong oligopolistic markets, bringing high monopolist profits. Government interventions lie in the movement of additional profits occurring in the international markets, to the domestic firms, at the cost of foreign firms.

The critics of the strategic trade policy indicate that in practice it is difficult to accurately choose a strategic sector which will be embraced by the support from the country. Secondly there exists a likelihood that the pressure of the expansion of the supportive period will intensify, since in the later period (without support) the adjustment process to the market conditions is hindered, similar to the case of protection of the newly created branches of industry. The critics emphasize also the possibility to use the revenge means by other countries, as a result of the diversification of the competitive position in individual countries, due to the granted preferences.

In course of the development of economies of individual countries, processes taking place in the global economy (globalization, liberalization process, etc.) and working out of mutual agreements, as part of international cooperation, specifying the range of the use of the protection policy instruments, the significance and the degree of using arguments of advocates in favour of protectionism is changing. As a summary of the previous disputes concerning the traditional and new arguments towards the departure from the free trade policy, the significance of those arguments should be presented, illustrated in the table 1.3.

Table 1.3

Significance of arguments in favour of protectionism

Argument	Significance	Side effects
Improvement of *terms of trade*	Big	Small
Income division	Small	Possibility of abuse
Protection of balance of payments	Argument may be rationalized	Threat to disturb the internal stability
Protection of the domestic employment	None	Disturbance of the internal stability

T a b l e 1.3 (contd.)

Argument	Significance	Side effects
Newly created branches	Relatively big	A possibility of abuse – a risk of trans forming the temporary protection into the permanent protection
Protection of the fair trade	Big	Possibility of abuse
Strategic trade policy	Relatively big	Threat to deform global competition through technological interventionism and support of national leaders

S o u r c e: A. Z i e l i ń s k a-G ł ę b o c k a, *Wprowadzenie do ekonomii międzynarodowej*, Uniwersytet Gdański, Gdańsk 1997, p. 196.

From the presented table 1.3 it results that the majority of the listed arguments in favour of protectionism is essential, with an exception of an argument about the increase of income. What must be considered is the possibility of side effects occurring due to the application of means of trade policy.

Summing up, since the times of A. Smith, the advocates of the free trade and also its opponents are seeking for arguments confirming the rightness of their own concepts. A. Zielińska-Głębocka[42] has distinguished four stages of development of arguments in favour of protectionism. The first stage is connected with the appearance of exceptions from the classic theory of free trade, which include the protection of newly created branches of industry and the improvement of terms of trade. The period is connected with the second half of 19th century and the beginning of 20th century. The next stage falls on the post-war years, when in 1950s there appeared theoretical assumptions of the theory of domestic disruptions. The papers concerning the disruptions of the market were continued also in 1980s (the theory considers also the disturbances in the products markets), contributing to the formulation of assumptions of the strategic trade policy and the development of a new theory of international trade. The third stage, it is 1980s and 1990s when the set of arguments justifying the departure from free trade has been expanded by a protection of fair trade. The appearance of a new motif favours the increasing harmonization of rules and principles of supporting the domestic subjects in defence against foreign competition. According to this concept, the undertaken government interventions aim at the equalization of conditions of competition in the international market, which favors the creation of conditions for the realization of the free trade.

[42] *Ibidem*, p. 176–178.

1.4. Export-promoting Policy and the Concepts of Foreign Economic Policy

The presentation of rules and benefits that underlie free trade and indicating arguments in favour of protectionism constitutes a benchmark for further analysis, specifying the place of export-promoting policy in the main concepts of foreign economic policy.

The dissertations have been divided into two parts. The first one refers to the concept of export-promoting policy in the traditional two-way currents of foreign economic policy. The permanent confrontation of two opposite currents of foreign economic policy has contributed to denotion of the direction of the specialization, possibilities to gain benefits and raising the prosperity in the conditions of goods diversification, scale benefits, technological competition and market imperfections. The other part explains the essence of export-promoting policy on the grounds of new concepts of foreign economic policy. Contemporary theory allows for an interpretation of an idea of free trade and also looks for sources and justification of protectionism. The attempts to build theoretical concepts of exceptions or departures from the freedom of exchange result from, according to A. Wziątek-Kubiak[43], the conviction about the advantage of free trade over protectionism.

1.4.1. The Concept of Export-promoting Policy

Export-promoting policy is understood as a sequence of actions taken by a country in order to obtain maximum benefits because of the country's participation in international work division. It is commonly treated as a method of supporting export through the government's influence on its directions, size and structure. Export-promoting policy is connected (in a smaller or bigger extent) with the government's interference. As the country's intervention in the field of international exchange it is a part of trade policy. Export-promoting policy is a dynamic concept and its superior aim is to achieve a permanent economic development and obtain additional benefits by a country through export development. The support of export aims at the broader involvement of an economy of a given country in the international work division, improvement of international economic competition, improvement of the situation in the balance of payments etc.[44]

---

[43] A. Wziątek-Kubiak, *op. cit.*, p. 178.

[44] T. H. Bednarczyk, *Miejsce i rola polityki proeksportowej w warunkach liberalizacji handlu międzynarodowego*, [in:] *Jaka polityka gospodarcza dla Polski*, t. II, red. U. Płowiec, Bellona, Warszawa 2004, p. 361.

In the literature of the subject there is to be found many definitions explaining the essence of export-promoting policy. D. Rosati defines it as "acceleration of the balanced economic development through export development [...], change of economic policy, not only trade policy". This way defined export-promoting policy is approaching the one that defines a strategy of open economy as part of development economics, based on export expansion, playing a role of the main "growth motor"[45]. Therefore it results that export-promoting policy has two-fold conception range: narrower and broader one. The first one is "evoking of current adjustments in favour of export growth and the rise of the prosperity level"[46]. The other one is "a policy of long-term structural transformations which determine both the character and the pace of the country's development, and also the power and range of the long-lasting connections with the global economy"[47].

In theory there are two terms used, connected with export-promoting quality of development, and their range corresponds to the narrower and broader concept of export-promoting policy presented by D. Rosati. They are: export-promoting strategy (broader concept) and export-promoting policy (narrower concept). The first concept has a character of long-term operations connected with structural and institutional adjustments and also initiating of mechanisms enabling opening of the economy. However the other concept (export-promoting policy), has a nature of short-term operations for the improvement of the conditions of export development.

According to the introduced concepts, export-promoting policy is a policy aiming at the leveling of conditions of national exporters' operations in the international market. However the export-promoting strategy is a method of development through the deepening of connections between national economy with the global economy[48].

The introduction in the herein paper of the distinction between the concepts of export-promoting policy and strategy is for cognitive purposes. It will enable to define the place of export-promoting policy in the presented concepts of foreign economic policy. In fact in the literature concerning the research from the range of export supporting by the newly industrialized countries of Eastern Asia the authors use the term "export-promoting strategy". It is important to notice that the two concepts are joined by the fact of perceiving the role of export as a factor influencing the economic growth. The realization of export-promoting strategy (as a broader category) requires the realization of export-

[45] D. R o s a t i, *Polityka proeksportowa*, PWE, Warszawa 1990, p. 17–18.
[46] *Ibidem*, p. 18.
[47] *Ibidem*, p. 18.
[48] A. W z i ą t e k-K u b i a k, *op. cit.*, p. 38.

promoting policy. There does not exist any reverse relation, because the developed countries which do not realize the export-promoting strategy run an active export-promoting policy.

1.4.2. The Place of Export-promoting Policy in the Trend of Liberal and Protective Policy

Since the time of classic economics there has been a dispute among the economists, concerning the recognition of liberal or protective policy as the best solution from the point of view of providing benefits for the economy. The history points at the dominance and a broad recognition of protectionist ideas, which is identified with anti-import tendencies in the trade policy and an aspiration to support and develop export. What is more, in the historical development of international economic relations a dominant position was occupied by anti-import tendencies over the export-promoting ones. The decisions of individual governments as part of foreign economic policy were heading towards the protection of national production, and not the free trade policy whose advocates were academic economists and few spokesmen of the exchange liberalization[49].

The beginning of protectionism is connected with mercantilism. Then in the hierarchy of economic goals, a special place was occupied by export. In this doctrine it was attempted to directly favour and support the export development through the use of tax reliefs and surcharges. The development of classic economy which was mostly worked out as a reaction to the thought and practice of mercantilism, led to the undermining of its assumptions, which meant that the import and export rights were made equal.

The free trade doctrine formulated on the basis of the classic theory of exchange, quickly gained advocates and it was realized in Europe and in North America, contributing substantially to the liberalization of international trade in 19th century. The development of the global economy was accompanied by numerous difficulties resulting from the difference in the levels of development of countries participating in the international exchange. Such a situation favoured the development expansion of the better developed countries, bringing them bigger benefits from the exchange. The countries that were weaker economically were in a more difficult situation, they were not able to face the foreign competition and they aimed at the protection of their own markets.

Practical verification of the assumptions of the liberal trade policy has not managed to convince the protectionism advocates about the rightness of the

[49] D. R o s a t i, *Polityka proeksportowa*, p. 18.

development of this trend. Export was perceived only as a means of payment for the essential import. No recognition for the role of export as a source of benefits strengthened the disproportions in the significance of export and import for the development of economy and it intensified anti-import tendencies in the trade policy.

In the breakthrough of 19th and 20th centuries, due to the severe competition between the capitalistic countries, deepening of the differences in the development levels and the outbreak of the I World War and next the global economic crisis, there was a remarkable strengthening of arguments in favour of the departure from the free trade. In an aspiration to the protection of production and employment, the trade policy means have been noticeably expanded. Capitalistic countries turned to protection, limiting import, they supported the policy of export expansion in a smaller extent. It may be said that since the crisis of 1929–1933 there are protectionist doctrines triumphing over the free trade doctrine and they constitute the basic trend in the global economic policy until the end of 1970s of the 20th century. In 1950s and 1960s the protectionist policy, which meant mainly the limiting of import, was mostly applied by the less developed countries aiming at the industrialization and acceleration of their development. It is worth emphasizing that after the II World War in the foreign economic policy there began a process of trade liberalization. There came a reduction of tariff barriers and protectionism was moderated in course of the successive negotiating rounds as part of GATT/WTO.

Export was granted with a due place in the hierarchy of the economic goals, and therefore also the export-promoting policy (although not for long) in the period of energetic-resources crisis in 1973–1974. The crisis drew attention to the problem of export and the necessity to "open" towards the international markets[50]. The aim of the paper is not to verify the hypothesis about the role of export as a factor of economic growth, it is however worth strengthening that many arguments in favour of the conduct of export-promoting policy are provided by economic history. The countries such as Japan, Germany, Holland or Switzerland have achieved a faster economic growth in 1970th due to simultaneous realization of actions focusing on an expansion on the new markets and avoiding the means protecting the internal market against the foreign competition[51].

From the previous dissertations it comes out that export-promoting policy was combined with the process of opening economies and the policy of the trade liberalization. It was not referred to the protectionist policy that was regarded as the policy of limiting import. A similar conclusion may be drawn after a broader

[50] *Ibidem*, p. 26.

[51] M. Domiter, *Miejsce eksportu w teorii i polityce handlowej*, [in]: *Procesy integracyjne w gospodarce światowej. Polska w Unii Europejskiej*, 2003, p. 458.

view on the process of evolution of traditional trade strategies. Until the mid 1970s what was assumed was a dichotomous conception of the development strategies opposing to the strategies of import substitution (IS) and export promotion (EP). Export promotion was a synonym for the outward-orientation, understood as "open economy", whose essence is based on the assumptions of the free trade doctrine. However the import substitution strategy was identified with inward-orientation of the development. An essential effect of the realization of this strategy was intensification of protectionist tendencies.

The essence of two strategies and their influence on the level of benefits from international exchange is explained on the fig. 1.2 based on the standard production and exchange model ("2x2"), which refers to two products and two production resources. We assume that a country produces and consumes two products x and y, using the restricted resources of the perfectly portable and divisible productive factors of work and capital. There is a defined function of social utility U, called the function of social prosperity, which reflects Social preferences in the consumption of the goods x and y. The curve TT' is a curve of production capacity. The axes illustrated the level of production, consumption and exchange of goods x and y. The point of balance in the closed economy is point D, and the achieved level of prosperity is U_D. In the open economy an optimal variant of production is indicated in the point A by the tangency of the curve TT' and the path of global prices P. The structure of consumption is specified by the tangency of the path P and the farthest lying curve of indifference $U_{\max,}$ it is a point B. The country is exporting a product x in an amount corresponding to the length of the section AC and is importing a product y in an amount CB. The total country's profit, measured by the difference $U_{\max} - U_D$, consists of two elements. Firstly the benefits from the exchange, $U_E - U_D$, if the country is still producing the production structure in the point D and is exporting the product x in a quantity DF and is importing in an amount of EF, rising to the higher level of prosperity $U_E > U_D$. Secondly the benefit from the specialization of production $U_{\max} - U_E$, if the country adjusts its structure of production to the prices of global market, moving to the point A and still raising the level of prosperity to $U_{\max} > U_E$[52].

The strategy of export-promoting development means the movement of resources from the branches competing with import (y) to export-promoting branches (x). In the conditions of perfect competition the market mechanism would lead the economy to the point A and would enable an achievement of the consumption level in the point B. However in the situation of occurrence of market disruptions resulting from the market structure (monopoly) or the country's intervention, there is a reason for the conduct of a specified trade

[52] D. R o s a t i, *Polityka proeksportowa*, p. 48–49.

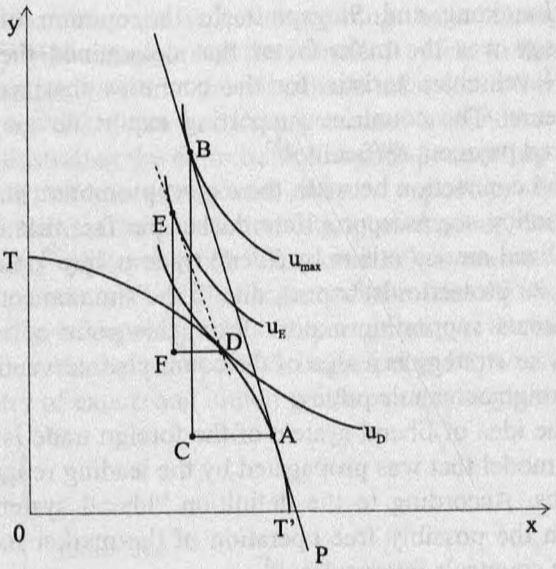

Fig. 1.2. Benefits from international exchange at the strategy of autarky economy and open economy (export-promoting).

Source: O. Havrylyshyn, D. Rosati, *Polityka rozwoju handlu zagranicznego w Polsce*, IKiCHZ, Warszawa 1990, p. 16.

policy. If in the longer period the dominant policy is the one that is increasing the relative profitability of export production, it means that the country is realizing a strategy of export-promoting development (strategy of open economy). As it results from the fig. 1.2, at the accepted assumptions, the export promotion strategy brings better effects, due to the achievement of a higher level of consumption and prosperity. That is why according to O. Havrylyshyn, D. Rosati[53], the graph also constitutes a good illustration of a thesis about the advantage of free trade over different forms of interventionism. Considering that "in the majority of cases the export-promoting policy brings larger benefits, it is advisable for the developing countries, having payment difficulties and internal instability to abandon trade barriers and liberalization of exchange rather than to make attempts to protect the internal market by means of anti-import policy"[54].

A broadly disputed among the economists and recommended method of development is export-promoting strategy and its effectiveness and advantages are illustrated on the example of newly industrialized countries of East Asia. Among countries where the export-promoting strategy was realized successfully are:

[53] O. Havrylyshyn, D. Rosati, *Polityka rozwoju handlu zagranicznego w Polsce*, IKiCHZ, Warszawa 1990, p. 17.

[54] *Ibidem*, p. 18.

South Korea, Hongkong and Singapour. In the opinion of economists the mentioned strategy was the main factor that determined the achievement of a development level characteristic for the countries that were industrialized within 20–30 years. The countries supporting export development a lot less frequently suffered payment difficulties[55].

The presented connection between the export promotion strategy and policy and the liberal policy seems appropriate due to the fact that export-promoting strategy was realized among others by liberal trade policy[56]. However one must not forget about its protectionist aspect, due to the simultaneous use of a broad scope of instruments supporting export. From this point of view, the export-promoting policy or strategy is a sign of the country's interventionism and is not part of liberal foreign economic policy.

Nowadays the idea of liberal system of the foreign trade is as if a departure from the classic model that was propagated by the leading representatives of the classic economics. According to the definition "liberal system of the foreign trade is based on the possibly free operation of the market mechanism, at the little range of the country's intervention"[57].

The liberalization of foreign trade does not mean free trade in the pure form. Therefore the disputes in the international forum concern the range of the country's interference in the sphere of economic relations, and not the rightness of the conduct of foreign trade policy by the country. Economists do not differ as for the view that the more liberal systems of trade favour the faster export expansion and the maintenance of the external balance and also as for the view of the positive correlation taking place between the rate of economic growth and the rate of export growth.

The definition of the liberalization process is completed by the World Bank with a concept of stimuli neutralization for the national and export sales. The implemented reforms which bring the system of foreign trade closer to the state providing stimuli neutralization allow for gaining more and more benefits from the trade because the fully liberal system allows the country to achieve an optimal structure of production and exchange[58]. There are differences in opinions as for the way to achieve neutralization, namely whether to lower the level of restrictions or maybe at the same time use the means of export supporting. Thus a question appears what way is the export-promoting strategy defined in the concept of the structure of the stimuli?

---

[55] A. Budnikowski, *op. cit.*, p. 386.

[56] C. F. Diaz-Alejandro, *Trade Policies and Economic Development*, [in:] *International Trade...*, p. 120–121.

[57] D. Rosati, *Polska droga do rynku*, PWE, Warszawa 1998, p. 279–280.

[58] *Ibidem*, p. 280.

There exists a controversial aspect concerning the capturing of the export-promoting strategy in the structure of the stimuli. It refers to the question of the structure neutralization towards the advantage of stimuli beneficial for the exporters. In the fig. 1.3. there has been presented a standard production and exchange model illustrating the definition of **export-promoting trade strategy, import-substituing trade strategy** and **ultra – export-promoting strategy**. The vertical axis indicates the production of imported goods, the horizontal axis – of the appropriately exported goods. The curve *AB* denotes a curve of production capacity of a country. The inclination of the line *PF* denotes the price exchangeable relation of export goods to import goods. At the assumption of the free trade conditions, the balance point is in the point *P**, where the relation of prices in the country of export and import goods equals the global price.

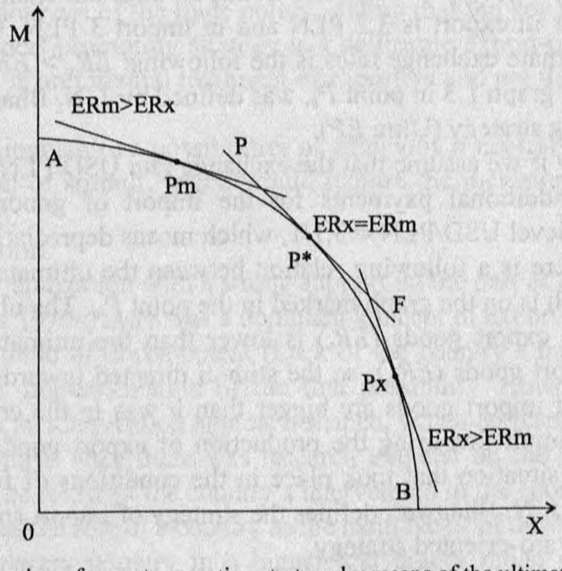

Fig. 1.3. Specification of export promoting strategy by means of the ultimate exchange rates

Source: J. N. Bhagwati, *Export-Promoting Trade Strategy. Issues and Evidence*, "Research Observer" 1988, vol. 3, no 1, p. 49.

According to J. N. Bhagwati[59] the export-promoting strategy means an assumption of such a structure of stimuli, which does not discriminate exporters in favour of producers operating for the internal market needs. Therefore the definition based on the structure of stimuli means that a country is realizing an export-promoting strategy if between the effective exchange rate for exportable

[59] J. N. Bhagwati, *Export-Promoting Trade Strategy. Issues and Evidence*, "Research Observer" 1988, vol. 3, no 1, p. 32.

goods (ER_x) and effective exchange rate for importable goods (ER_m) there is a relation: ($ER_x \geq ER_m$).

J. N. Bhagwati in order to explain the concept of export-promoting strategy has divided the relation of the exchange rates on the part of export and import. The essence of the model division on of exchange rates is a presentation that changes in exchange rates have assimetric character, that is the change of exchange rate in export does not have to entail a change in the exchange rate in import. Let's assume that the exchange rate USD/PLN = 3/1. The growth of export subsidies in Poland will influence the change of exchange rate in export, which will be shaped at the level of USD/PLN = 3.2/1, which means a realistic depreciation of the rate of PLN in relation to USD. According to the assumption, the exchange rate depreciation in export does not have to indicate depreciation of the rate in import (the exchange rate in import does not change). Therefore if a value of dollar in export is 3.2 PLN and in import 3 PLN, then the relation between the ultimate exchange rates is the following: $ER_x > ER_m$. Such relation presented on the graph 1.3 in point P_x, was defined by J. N. Bhagwati as an ultra export-promoting strategy (Ultra *EP*).

Analogically if we assume that the exchange rate USD/PLN is 3/1 and there were imposed additional payments for the import of goods, then the rate increases to the level USD/PLN = 3.1/1, which means depreciation of the rate in import. Then there is a following relation between the ultimate exchange rates $ER_x < ER_m$, which is on the graph marked in the point P_m. The ultimate exchange rate realized for export goods (ER_x) is lower than the ultimate exchange rate realized for import goods (ER_m), so the stimuli directed towards the production in the country of import goods are bigger than it was in the conditions of free trade and the stimuli favouring the production of export goods are smaller in reference to the situation that took place in the conditions of free trade ($ER_x \leq ER_m$). Therefore J. N. Bhagwati defines the strategy of import substitution or the development inward-oriented strategy.

If the value of dollar in import equals 3 PLN and the value of dollar in export equals 3 PLN, it means that a producer receives the same amount from the sales in the domestic market as then if he decided to export. We have then the following relation of the ultimate exchange rates $ER_x = ER_m$, which is defined as export-promoting strategy.

The above method of defining of development strategies evokes a certain doubt, as J. N. Bhagwati[60] writes. Namely, he wonders how to define a situation in which an ultimate exchange rate was more beneficial for the exporters than importers? Shouldn't such a relation be named EP, and not as the definition

[60] *Ibidem*, p. 32, H. G. Johnson, *Optimal Trade Intervention in the Presence of Domestic Distortions*, [in:] *International Trade: Selected Readings*, ed. J. N. Bhagwati, The MIT Press Cambridge, Massachusetts, London 1987, p. 235–260.

suggests according to the equality between the ultimate Exchange rates? However shouldn't the occurring equality be named normally as trade neutral strategy? Obviously, as the author writes, it would be an ideal solution, however the acceptance of a neutral criterion seems appropriate and it is confirmed by the economic success of the countries of the Far East which realized the approach basing on the neutrality criterion. According to A. Krueger[61] whose research confirmed the advantage of *EP* strategy over IS strategy, the definition of *EP* based on the neutral stimuli structure is not sufficient, which is reflected by the example of several countries in which the realization of development strategy according to equation $ER_x = ER_m$ did not bring expected effects. Thus the essence of *EP* is a systematic and consistent promotion of export in connection with the process of trade liberalization.

A similar conclusion was reached by A. Ocampo[62] after a thorough theoretical and empiric analysis of the trade policy, stating that the key to success in the realization of export-promoting strategy is a deliberate export-promoting policy whose reflection is preferential treatment of exporters and not the neutral system of stimuli.

One can distinguish two possibilities of achieving a neutral or more export-promoting system of stimuli, which would require the inclusion of economy to the global system:

1) liberalization,
2) limited liberalization with a strong support on the part of export.

Until the mid 1970s, there was a dominant koncept of export-promoting strategy as a liberal trend of development (Lack of the country's intervention in the economy) so the implementation of the first possibility. However in the later period, there was an intervention approach shaped, which corresponds to the other presented possibility. Then there was research initiated on the ways, range and effectiveness of the forms of the country's intervention in the economy. It denoted the emphasizing of the role of a country as the main factor of development.

The contemporary country in a bigger and bigger range is becoming the main initiator and promoter of actions in favour of the development of innovation and support of competitiveness of the national subjects in the international market.

In the sphere of the policy of export supporting there were distinguished features of the successful country's intervention, they are as follows[63]:

---

[61] A. O. Krueger, *Liberalization Attempts and Consequences*, [in:] *Foreign Trade Regimes and Economic Development*, "National Bureau of Economic Research" 1978, vol. X.

[62] J. A. Ocampo, *New Developments in Trade Theory and LDCs*, "Journal of Developing Economies" 1986, vol. 22, no. 1.

[63] Y. W. Rhee, *A Framework for Export Policy and Administration: Lessons from the East Asian Experience*, "World Bank Industry and Financial Series" 1984, vol. 10.

– automatism and transparency. The rules of help for the real and potential exporters must be clear, help should be provided quickly and in a non-discretional way;

– the whole exported added value must be treated equally, regardless of the fact whether it appears in the direct or indirect exporters;

– The way of applying promotions rules must prevent abuse;

– administrative competence in the sphere of promotions may be provided by delegation of entitlements to commercial banks and export associations.

Currently the policy of the country's interference in the sphere of economic relations is subject to permanent expansion both in the range of the quality and quantity of the instruments used. A characteristic tendency is a departure from the use of means and methods of the direct influence in favour of the indirect influence. The means through which the country is realizing the export-promoting policy are also a sign of protectionism policy as well as import duties are. The aim of the country's support for exporters (e.g. export subventions) is their protection against the competition in the foreign market.

An attempt to specify a place of export-promoting policy in two extreme trends of the foreign economic policy showed that the contemporary export promoting policy is a sign of protectionism. At the same time a new direction was initiated – a direction of research explaining the aim and conditions that must be fulfilled to make the export-promoting policy more beneficial for the economy not only the national economy but also for the global economy. The role of a country in the shaping of export-promoting development is not perceived homogeneously. It is assumed that there are situations in which the export-promoting government's intervention may bring additional benefits for the country from the growth of export. It must also be noticed that it can also disturb the conditions of competition in both the domestic market and in the international market.

1.4.3. Export-promoting Policy in the Light of the Theory of Market Disruption and Strategic Trade Policy

The assumed existence of imperfect competition is the basis for the explanation of export-promoting policy in new conceptions of foreign economic policy. As it follows from the theory of market disruption presented in point 1.3.1, the possibility of employing economic policy instruments may contribute to the elimination or reduction of negative influence that the distortions exert on the prosperity of the country. The process of neutralising the sources of all deformations concerning domestic and foreign market functioning is the reason for adopting active export-promoting policy. Action whose purpose is to eliminate disruptions and achieve general balance within free trade is often referred to as "first from among the best" policy[64]. However, export-promoting policy is a "second following the best" solution as it causes market disruption itself by means of which it may alleviate or eliminate completely negative influence of other distortions on the prosperity of the country.

According to the theory of international market disruptions, the purpose of export-promoting policy is to balance conditions under which domestic exporters operate on the international market. It is necessary to adhere to export-promoting policy since most countries follow it. Consequently, the greater the international market disruption and protectionist tendencies in the area of international economic relations are, the stronger export-promoting support for domestic manufacturers should be.

The theory of market disruptions justifies adopting export-promoting policy. It points out that if there are market imperfections (e.g. offering more favourable terms to manufacturers producing for the domestic market in comparison to those producing for the international market) which reduce export opportunities and which cannot be eliminated, export subsidies may redress the balance, encourage trade exchange determined by comparative advantage and contribute to prosperity enhancement.

It is essential to make a distinction between action which compensate for market imperfection and action which completely eliminates it. In theory, both interventions may be equal. However, in practice there are a few arguments in favour of eliminating the source of market imperfection[65]. It stems from the fact that, among others, undertaking action aimed at its balancing is connected with the possibility of creating new disruptions or incurring additional costs without any guarantee that the goal will be accomplished. Export subsidies as an instrument of foreign export policy may serve as example. Using them in order to compensate for market imperfections, one must take into consideration that, on one hand, the aim of export subsidies is a "neutral" system within which the manufacture obtains the same selling price on both domestic and international market. On the other hand, attaining this aim would require a complex system of diversified subsidies. Furthermore, subsidies make discriminatory practices stronger regarding non-commercial goods and may contribute to the occurrence of new, unintentional disruptions (e.g. loans granted in the phase of settlement cycle are more beneficial for investment goods than for consumer goods). What is more, introducing new disruptions will not eliminate political and economic pressure which caused the original disruptions. On the contrary, they may even increase such pressure.

---

[64] J. M i s a l a, *op. cit.*, p. 333.

[65] B. F i t z g e r a l d, T. M o n s o n, *Preferential Credit and Insurance as Means to Promote Exports*, "Research Observer" January 1989, vol. 4, no. 1, The World Bank, p. 90.

In order to avoid new disruptions, intervention action must be undertaken and aimed directly at the existing disruption. For example, credit policy should target directly the disruption existing on the market[66].

Following export-promoting policy may also be explained on the basis of the theory of strategic trade policy. This means that active export-promoting policy may be more beneficial than free trade policy under conditions of imperfect competition.

The concept of strategic trade policy is described by means of three targets. The first one concerns the best strategic employment of intervention instruments of trade policy. The second one is connected with defining the positive effects, i.e. prosperity growth resulting from employing the strategic policy. The third target embraces the analysis of the influence of foreign countries reaction, which is the employment of the strategic policy, on the established policy and prosperity.

A crucial question asked by J. Brander and B. Spencer in their study in 1985 was why governments used costly export subsidies to affect international competition. They examined the influence of export subsidies on net profits of companies and the level of prosperity of a subsidised country. The main conclusion drawn on the basis of their analysis was that export subsidies employed unilaterally which are not balanced by foreign countries are firstly beneficial to the subsidised companies. Secondly the level of national prosperity increases[67].

The key mechanism is that subsidies generate profits for domestic manufacturers. The motive of earning profits helps understand the government's involvement in export promotion. Obtaining a subsidy makes the domestic manufacturers behave like the leader in Stackelberg's model[68]. The situation will be different when two governments subsidise export, i.e. when bilateral intervention takes place. In such a case, prosperity falls below the level of prosperity achieved under conditions of free trade. Two countries incur losses when they introduce subsidies maximizing their prosperity non-cooperatively. However, they could benefit in two ways[69]:

– by refraining from intervening,
– by cooperative behaviour (e.g. cooperation within OECD Consensus).

Summing up, bilateral intervention makes prosperity decrease compared to free trade whereas the effect of unilateral intervention exerts a positive influence on prosperity.

---

[66] *Ibidem*, p. 90.

[67] L. A. Rivera-Batiz, M-A. Oliva, *International Trade. Theory, Strategies, and Evidence*, Oxford University Press, Oxford 2004, p. 216–221.

[68] In the case of duopoly when one player is a leader and the others imitate their behaviour, the situation is called Stackelberg game.

[69] L. A. Rivera-Batiz, M-A. Oliva, *op. cit.*, p. 228–229.

Conclusions drawn on the basis on the analysis by J. Brander and B. Spencer were gradually modified by authors of subsequent works. The modifications are presented in table 1.5.

Table 1.5

Various authors on the concept of strategic trade policy

Authors	The goal of a study and underlying assumptions	Conclusions
J. Eaton, G. Grossman (1986)	The analysis of conditions under which the government policy may change the balance in favour of a company and contribute to prosperity increase when the following is assumed: – oligopolistic competition, – each company manufactures goods which are perfect (or imperfect) substitute for competitor's production, – the existence of one domestic and one foreign company on the market, – the government's aim to maximise domestic income.	Using subsidies may increase the prosperity of a country if competition between two companies is quantitative. When price competition occurs, the optimal government policy requires imposing export taxes and not subsidies.
S. L. Brainard, D. Martimort (1997)	The analysis of the model by J. Brander i B. Spencer taking into account additional assumptions: – politicians are not fully-informed, – public funds used for subsidies are costly, – the government administration does not have precise information concerning production costs of a domestic company.	The government chooses between granting subsidies which increase the competitiveness of the domestic company and reducing subsidies due to lack of information on real production costs. The most common choice is to reduce subsidies. Thus, incomplete information possessed by the government may result in a non-optimal selection of instruments and, consequently, decrease prosperity.
K. Bagwell, R. Staiger (1997)	The analysis of the model by J. Brander i B. Spencer taking into account some additional assumptions: – both participants of a duopoly incur fixed and variable costs, – they adopt competitive pricing policies, – production profitability is ensured only for one company, – subsidies which are granted by the government at random affect the company decisions concerning market entry.	In the situation when the company's fixed costs are high, a subsidy affects decisions concerning market entry and increases the prosperity of importing countries. When the fixed costs are low, consumers in importing countries will achieve greater prosperity when subsidies are banned.

Source: based on J. Michałek, *Polityka handlowa. Mechanizmy ekonomiczne i regulacje międzynarodowe*, PWN, Warszawa 2002, p. 265–269.

As J. Michałek claims it is difficult to draw definite conclusions on the basis of the analysis of subsidies under conditions of imperfect competition[70]. Particular models embrace a range of rigid assumptions which make it difficult to find a common ground for comparison of the above-mentioned studies and arriving at general conclusions. In the model by J. Brander and B. Spencer, the employment of strategic subsidies and their influence on prosperity increase in the case of unilateral intervention was pointed out. In the subsequent models, which take into account the above-mentioned assumptions, it turns out that employment of subsidies does not necessarily mean prosperity increase. It may even sometimes turn out that the policy of free trade is the best solution (Brainard--Martimort)[71].

Concluding, if there are certain rents to be obtained in a given industry or sector, competent employment of export-promoting policy instruments (e.g. strategic subsidies) may provide a particular country with a larger share in the profits of more efficient industries as well as it may contribute to increased prosperity of the country[72].

The dichotomous view of foreign economic policy shows that export-promoting policy is a manifestation of protectionist policy. However, selected new concepts of foreign economic policy, such as the theory of market disruptions and strategic trade policy explain the role of export-promoting policy in supporting export in the case of the assumed existence of market distortions and imperfect competition. Strategic trade policy explains that when competition for a share in profits of the international market is getting more fierce, export subsidies, as the government support for companies operating on the home market and overseas market, become an attractive tool of strengthening the competitive position of domestic companies on the international market. The theory of market disruption supports the idea of following active export-promoting policy as it contributes to the elimination of all market distortions.

1.5. The Effectiveness of Export-promoting Policy

The analysis of the effectiveness of export-promoting policy may be based on the evaluation of instruments employed to meet its aims. Attention will be directed to export subsidies. Employing these instruments in the policy of

---

[70] J. M i c h a ł e k, *Polityka handlowa. Mechanizmy ekonomiczne i regulacje międzynarodowe*, PWN, Warszawa 2002, p. 269.

[71] *Ibidem*, p. 269.

[72] J. M i s a l a, *op. cit.*, p. 335.

supporting export may be termed export subsidising which under favourable conditions increase the country's share in international exchange. The analysis will be presented from both theoretical and empirical perspectives.

Subsidies are support of all kinds offered to domestic business entities by the government. Export subsides may be divided into direct and indirect ones. Their types and their roles are presented in table 1.6.

The aim of the employed direct and indirect export subsidies is to lower production costs and, consequently, export prices without the necessity to reduce profits. The analysis of the mechanism and the effects of export subsidies employment will be focused on indirect subsidies as a method of strengthening the position of the domestic exporter when competing with foreign suppliers of the same goods x which are, simultaneously, a concealed form of supporting exporters by the state.

Table 1.6

Types and forms of export subsidies

Types of subsidies	The form of subsidies
Direct subsidies	They are granted by the government to exporters directly and they include: – paying of defined sums of money depending on volume or value of export (so-called quantitative export bonus), – reimbursement of the difference between domestic and world prices, – direct financing of some expenses connected with export operation (e.g. money for foreign market research, promotion, canvassing or transport).
Indirect subsidies	They are a more or less concealed form of supporting exporters by the state and they include: – tax reliefs and fiscal facilitation, – reliefs and facilitation concerning financial credit instruments.

Source: based on J. Misala, *op.cit.*, p. 290.

On the left-hand side of fig. 1.1, there are a demand curve which reflects demand for exported goods x (D_x) of country A and a supply curve which presents the same goods, exclusively with the supply for export (S_x). On the right-hand side, there are a demand curve concerning foreign demand for the goods (Im_x) and a real export curve reflecting export of goods x to surrounding countries (Ex_x) respectively.

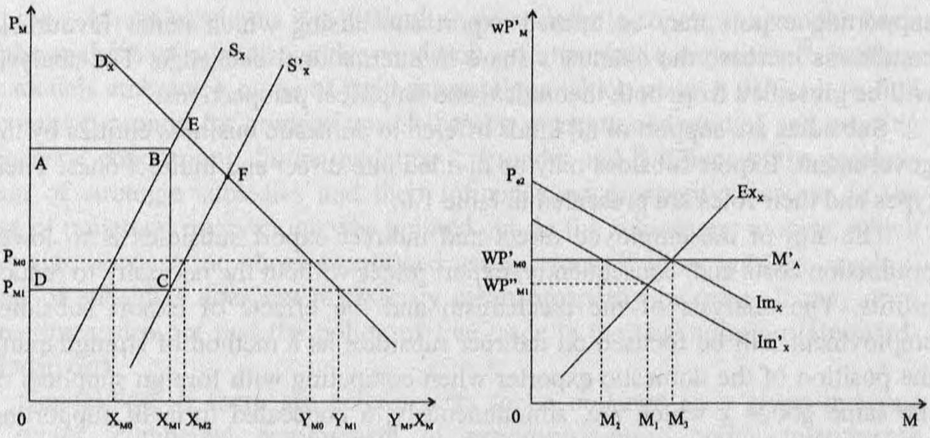

Fig. 1.1. Mechanism and effects of employing indirect subsidies

S o u r c e: J. M i s a l a, *Współczesne teorie wymiany międzynarodowej i zagranicznej polityki ekonomicznej*, SGH, Warszawa 2003, p. 293.

Introducing an indirect subsidy, as illustrated by fig. 1.1, results in lowering export costs and is equal to segment *BC*. It brings about the following effects in country A[73]:

1) price effect, lowering the level of a domestic price of goods x from P_{MO} to P_{M1}, which is connected with downward movement of supply curve S_x, i.e. arising of new supply curve S'_x which intersects the domestic demand curve in new point F;

2) production effect, the increase of production volume of goods x which country A has the opportunity to offer at price P_{MO}, i.e. at the price before introducing a subsidy or, in other words, under conditions of free trade;

3) consumption effect, decrease in foreign demand for goods x which is shown by the movement of curve Im_x to position Im'_x on the right-hand side of the picture; it is accompanied by (assuming a fixed rate w and high price flexibility of surrounding countries demand) decrease in the international price of goods x to the level $wP'_{M1} = P_{M1}$ and simultaneous increase in domestic demand for these and other goods to Y_{M1};

4) trade effect, decrease in the import volume of goods competing with domestic production to M_1;

5) balance of payments effect, improvement of the situation concerning trade balance and balance of payments as a result of decreased import volume and value when export volume does not change;

[73] *Ibidem*, p. 293–294.

6) terms of trade effect, improvement of terms of trade for country *A* which leads to improved current turnover and balance of payments depending on the level of price flexibility of demand and supply;

7) budget effect, increase in budget expenses of country *A* by a quantity equal to quadrilateral *ABCD*;

8) increase in rents of manufacturers who use a subsidy despite lowering the level of domestic price of goods *x*, which is accompanied by increase in rents of domestic consumers whose demand may be met at lower prices.

The above-mentioned effects of using an indirect subsidy show that it contributes to lowering the level of domestic prices which results in the increase in demand of country *A* for imported goods and goods competing with import. Hence, consumers' rate increases. Producers' rents increase, too and they may raise production volume of goods *x* at price P_{MO}, i.e. at the price under conditions of free trade. Improvement of terms of trade of country *A* depending on the levels of price flexibility of demand and supply leads to improved current turnover balance but the granted subsidy is a burden to the budget. The positive effects, i.e. increasing producers' and consumers' rents may be a reason for using indirect export subsidies. It is worth mentioning some other reasons for subsiding export. If attention is paid to economic reasons, the reasons may be described as follows:

1) using export subsidies may stem from the state's struggle to sell off surplus production. In developed countries, they are a popular method of offloading of produce overproduction. They are also instruments which support farmers' income and competitiveness of this sector on the international market;

2) the need to subsidise export by some governments may result from the state struggle to redress equilibrium in balance of payments[74];

3) a high level of foreign debt of the country and problems connected with the ability to service it may contribute to subsidising export by the government;

4) the result of following domestic trade policy, whose aim is to protect domestic industry, is imposing a range of import restrictions; this leads to creating a difference between the world price and the domestic price of particular goods (the domestic price of particular goods increases and there is simultaneous decrease in its foreign (international) price calculated in the currency of the surrounding countries – appreciation of a domestic currency) which makes export production less appealing compared to production aimed at the domestic market. Thus, export subsidies may offset the effects of the policy of reducing import adopted by the state;

---

[74] J. Sołdaczuk, Z. Kamecki, P. Bożyk, *Międzynarodowe stosunki ekonomiczne. Teoria i polityka*, PWE, Warszawa 1987, p. 229.

5) the justification of employing export subsidies is based on the concept of strategic trade policy[75];

6) the justification (put forward especially in the situation of permanent unemployment or general economic recession) of employing export subsidies is based on additional employment of unused resources (capital, labour). Reducing the level of unused resources in particular sectors (subsidized sectors) may generate more profits compared to their alternative cost, i.e. lost profits that they would gain in other sectors of the economy[76];

7) subsidising export may stem from the fact that trade partner's government subsidises export. The argument is sound on accepting some assumptions only for a large country. The fact of introducing a customs tariff by a trade partner is not a reason for imposing customs in case of a small country. Therefore, following the analogous line of thought, export subsidies granted in one country are not a reason for a similar action in another country (a small country).

8) the justification of subsidizing export results also from the infant industry argument which concerns protecting export-oriented industry at the early stage of its development;

9) employing export subsidies was also justified by K. Bagwell and R. W. Staiger[77] who explained the subsidy role in a situation when foreign product quality is initially unknown to domestic consumers and they learn about product quality only by means of consumption. The information asymmetry concerning product quality is a well-known barrier to market entry. This thesis was first put forward by J. Bain in 1956 and it was subsequently confirmed in many various models by R. Schamalenesee, K. Bagwell, J. Farrell. In their model, K. Bagwell and R. W. Staiger proved that entry barrier caused by being unfamiliar with a product had been eliminated and prosperity had increased due to export subsidies.

The reasons for employing export subsidies may be termed short-term and mid-term aims of trade policy. Their employment in the form of temporary intervention may exert a positive influence on building a permanent (long-term) export-promoting structure of economy. However, it should be emphasised that when there is no market imperfection, employing export subsidies is not beneficial to an exporting country. Therefore, as it appears from a theoretical

[75] A. Brander, B. J. Spencer, *Export Subsidies and International Market Share Rivalry*, NBER Working Paper Series No. 1464, 1984. To analyse the employment of export subsidies, it is assumed that there are only two companies (a domestic and a foreign one) manufacturing an identical product for the international market. There is no consumption of particular goods in countries of origin.

[76] *Competition and Trade Policies. Their interaction*, OECD, 1984, p. 93.

[77] K. Bagwell, R. W. Staiger, *The Role of Export Subsidies when Product Quality Is Unknown*, "Journal of International Economics" 1989, no 27, p. 69–70, 87.

analysis carried out by U. Fleising, C. E. Hill, B. Fitzgerald, T. Monson[78], there are doubts concerning the rationale for employment of export subsidies.

The analysis of using export subsides presented above is theoretical and serves as an introduction to the empirical evaluation of export-promoting policy efficiency. The evaluation takes into consideration research by the World Bank and by numerous economists. The research findings are divided into two groups. The first group embraces a presentation of general conclusions without referring to statistical data confirming the efficiency of using instruments (export subsidies) of export policy. The group includes, among others, research by the World Bank which claims that export-promoting policy pursued in Eastern Asian economies enabled companies to follow best international practices which translated into a higher rate of total productivity growth. D. Rodrik disagrees with a thesis pointed out by the World Bank[79] according to which export-promoting policy was the basic stimulus for economic growth whereas pro-investment policy did not affect the growth significantly. He claims that it was investment increase which resulted in a higher rate of growth whereas export-promoting policy did not increase significantly initiatives concerning export. The observed increase in export to GDP ratio was the result of increase in investments[80]. Then, J. Mazumdar[81] in the study in 1999 claimed that export-promoting policy, including using export subsidies in particular, allows for economic growth in developing countries due to an increasing rate of return on investment.

Furthermore, in 1986 R. Feenstra[82] proved that subsidising export of some sectors may stimulate demand for export of complementary goods and lowering prices of subsided goods may improve domestic terms of trade by means of increasing demand for other products. Similarly, in 1987 M. Itoh i K. Kiyono[83] presented how selective subsidies aimed at a given group of goods in Ricard's model may improve domestic terms of trade by means of salary increase. They also pointed out what the role of export subsidies is. Firstly, they increase export volume of goods that could be exported even under conditions of free trade.

---

[78] B. Fitzgerald, T. Monson, *Preferential Credit and Insurance as Means to Promote Exports*, "World Bank Research Observer", January 1989, no 1, p. 90.

[79] J. Mazumdar, *Export Subsidies, Balance of Payments and Growth – The case for export promotion policies*, Department of Economics Emory University Atlanta, USA, August 1999, p. 3.

[80] D. Rodrik, *Getting Interventions Right: How South Korea and Taiwan Grew Rich*, „Economic Policy", April 1995, p. 3–4.

[81] More: J. Mazumdar, *op. cit.*

[82] R. Feenstra, *Trade Policy with Several Goods and "Market Linkages"*, "Journal of International Economics" no 20, p. 249–267.

[83] M. Itoh, K. Kiyono, *Welfare-Enhancing Export Subsidies*, "Journal of Political Economy", February 1987, vol. 95, no 11, p. 115–133.

Secondly, extend a range of export goods. A complement to the first group of research is an analysis by D. Greenway and Nam[84] carried out in 1988 and confirming that following a export-promoting strategy contributes to economic growth more significantly than following a strategy of subsidising import. Concluding, one may say that most newly-industrialized countries succeeded in making their development dynamic by means of a export-promoting policy due to multiplication of export volume for the markets of highly industrialized countries, mainly USA, Western Europe and Japan[85].

The other group of empirical studies is characterised by the analysis of a large group of countries. The results of the conducted research which are chronological and which embrace the period from the 50s of the 20^{th} century to 1997 will be presented as well. An analysis introduced by some authors are often subsequently continued and modified by other researches, which allows for verification of previously demonstrated theses.

A substantial influence of a export-promoting policy on the economy which is measured by the improvement of the economic growth rate may be noticed in the research by M. Michaely[86]. He investigated 41 countries making use of data concerning the average level of export against GDP in the years 1950–1973. The aim of the analysis was to prove that countries which pursue export-promoting policy manifest faster economic growth (i.e. faster export increase ensures faster economic growth). Seven countries whose economies developed at the fastest pace (Greece, Taiwan, Portugal, Spain, Israel, Yugoslavia and Korea) confirmed the hypothesis which is noticeable in the data presented in table 1.7. Only the case of Portugal did not confirm that GDP growth is correlated with fast-growing export. On the other hand, only one country (Ethiopia), as one of the eight countries with the highest export rate, was not placed at the top of the ranking of countries with high economic growth rate. It is worth mentioning that a positive correlation between economic growth and export increase was stronger among developed countries and not always existed among least developed countries[87].

---

84 The research concerned 41 countries in the years 1963–1973 and 1977–1983; D. Greenway, G. Reed, *Empirical Evidence on Trade Orientation and Economic Performance in Developing Countries*, [in:] *Export Promotion Strategies. Theory and Evidence from Developing Countries*, Harvester Wheatsheat, London 1988, p. 63.

85 Z. Wysokińska, J. Witkowska, *Tendencje popytu na wybranych rynkach zagranicznych. Szanse eksportowe polskich przedsiębiorstw jako warunek restrukturyzacji regionalnej*, Wydawnictwo UŁ, Łódź 1998, p. 128.

86 M. Michaely, *Exports and Growth. An Empirical Investigation*, "Journal of Development Economics", October 1976.

87 *Ibidem*, p. 50–52.

Table 1.7

Export versus economic growth in the years 1950–1973 (in %)

Country	The average level of export versus GDP	Mid-annual changes in export share against GDP	Mid-annual changes in GDP
Greece	10.8	4.6	6.42
Taiwan	19.3	7.31	6.07
Portugal	20.5	1.82	6.02
Spain	10.8	9.02	5.45
Israel	18.1	7.13	5.29
Yugoslavia	15.4	4.71	5.25
Korea	7.4	15.05	5.04
Ethiopia	9.0	6.16	2.35

Source: selected countries form research by M. Michaely, *Exports and Growth. An Empirical Investigation*, "Journal of Development Economics", October 1976, p. 51.

Similar research was continued by, among others, B. Balassa. The investigation embraced 43 countries in the years 1973–1979. The results confirmed the thesis that export is a significant factor in economic growth of developing countries. Furthermore, the analysis proved that following export policy significantly affected the economic growth rate[88]. The study by D. Michalopoulos i K. Jay added a new statistic formula to this approach. They investigated 31 countries and claimed that export is not a factor which contributed to national income. However, neither the work by M. Michaely nor by D. Michalopoulos – K. Jay were directly related to the question if export-promoting policy is a factor generating economic growth[89].

In 1970 I. M. D. Little, T. Scitovsky i M. F. Scott[90] investigated 7 countries: Argentina, Brasil, India, Mexico, Pakistan, the Philippines, Taiwan. They pointed out that these countries should change their development strategy and switch from import substitution IS to export promotion EP. Moreover, the investigation of 4 countries: Brazil, Columbia, South Korea and Tunisia for 23 years proved that countries changing their trade strategy from IS to EP observed higher economic growth. Economy growth in Brazil in mid seventies was twice as high compared to the 50s and the beginning of the 60s. Similar changes were observed in South Korea, Tunisia and Columbia, which is presented in table 1.8.

[88] D. Greenway, G. Reed, *op. cit.*, p. 74.

[89] J. N. Bhagwati, *Export Promoting Trade Strategy...*, p. 35.

[90] T. N. Srinivasan, *Trade, Development, and Growth*, Yale University Economy Growth Center, Yale 2002, p. 15.

Table 1.8

Economic growth in countries following strategies IS and EP

Country	Years	Foreign trade strategy	Economic growth rate
Brazil	1955–1960	IS	6.9
	1960–1965	IS	4.2
	1965–1970	EP	7.6
	1970–1976	EP	10.6
Columbia	1955–1960	IS	4.6
	1960–1965	IS	1.9
	1970–1976	EP	6.5
South Korea	1953–1960	IS	5.2
	1960–1965	EP	6.5
	1970–1976	EP	10.3
Tunisia	1960–1970	IS	4.6
	1970–1976	EP	9.4

Source: K. M. Eyob, *Korea's Successful Export Promotion Strategy: A Lesson to Eritrea?*, KDI School of Public Policy and Management, 2003, p. 22.

Due to the selective nature of export-promoting policy, the action it entails targets specific economy branches which stimulates the development of specialisation of a given country and is an expression of its struggle to join international placement[91]. On the other hand, one should notice that this results in creating a problem concerning the selection of industries which will be subsidised. The choice of an industry or a company is risky and poses a serious problem, especially in countries contending with budget difficulties. There are two opposing approaches to this issue. The first approach is focused on the selection of particular industries and companies. It was followed in Korea in the 60s. Industries and local companies were subsided depending on their export performance. The research by D. Dollar and Sofoloff in 1990 and the research by Pack in 2000 showed that in Korea total factor productivity increased fast in many sectors, including the sectors promoted in 60s and 70s. However, the effect of promoting export should not be exaggerated as the rate of productivity increased faster in sectors which were not included into active export-promoting policy. The other approach consists in promoting export in a way which is not discriminatory. This means that the accepted policy of supporting export does not target selected sectors or companies. This system of promotion was followed in Taiwan in mid 50s[92].

[91] M. Wachowska, *Bodźce eksportowe w polityce państwa w dobie liberalizacji handlu*, [in:] *Problemy globalizacji, regionalizacji i transformacji dekady lat dziewięćdziesiątych*, red. L. Olszewski, Uniwersytet Wrocławski, Wrocław 1999, p. 63.

[92] L. A. Rivera-Batiz, M-A. Oliva, *op. cit.*, p. 237–238.

The efficiency of export-promoting policy in Latin America was analysed by J. J. Nogues in 1990. Most countries in this region subsidised their export. However, Brazil, which actively promoted and subsidised export, was the only country where the success of export-promoting policy pursued in 70s and 80s was confirmed. At the same time, the struggle to support export in Argentina was not successful, among others, due to compensation action by the USA. In the 80s Mexico diversified its export but it did not carry out the scheme of subsidising it. The comparative analysis by D. Rodrik confirmed the heterogeneity of results of following export-promoting policy. He juxtaposed the successful export subsidising in Korea and Brazil with situations in Kenya and Bolivia where export-promoting policy did not produce the expected effects. He also indicated the case of Turkey and India as examples of combined effects (both positive and negative ones) of subsidising export. On the other hand, the analysis of India by A. Panagariya did not confirm Rodrik's findings. He emphasized that the export-promoting policy which was followed embraced using the mechanism of guarantees and insurance as well as subsidising interest rates of export loans. Despite promotional efforts the export rate against GDP was low and amounted to 5%. By 1997 the rate increased to 10% but, as the author pointed out, to a large extent it was the effect of the liberalisation process, exchange rate policy and other initiatives rather than of export-promoting policy.

Evaluations of effects of following export-promoting policy which are made for particular countries cannot be extended automatically to other countries. There is a number of factors which affect the efficiency of the policy which is followed. These are, among others: peculiarity of a country, peculiarity of industry, beneficiaries who have an opportunity to conclude transactions on favourable terms. An analysis of the mentioned factors allows for assessment whether active export promotion is an appropriate goal and what the best way to meet the set targets is. Furthermore, it is essential to distinguish between the influence of various policies and alternative forms of promoting export, such as subsidizing loans and insurance, free trade areas and improving the institutional environment.

According to D. Rodrik, case studies show that two factors determine the efficiency of export-promoting policy[93]:

1) considerable autonomy of a country, first of all concerning the elimination of bureaucracy, and of the influence of the private sector on decisions taken by the government,

2) policy consistence which consists in clear and fixed targets which are not intrinsically contradictory.

[93] *Ibidem*, p. 240–241.

According to R. Baldwin the key prerequisite for adhering to export-promoting policy is exporters' access to appropriate and preferential markets. Taking into consideration the criterion of time in the assessment of economic effects of following export-promoting policy, it is possible to indicate beneficial, tangible effects produced by long-term supporting of export. Export, by means of so-called a "multiplier effect", makes the whole economy dynamic. Long-term reduction in import may deteriorate its competitiveness[94].

1.6. Conclusions

The relation between interventionism and liberalism is dichotomous only in terms of concepts and the economic history shows that both tendencies constantly interweave, complement or, in turn, dominate the economic policy of particular countries[95]. The theory has not determined which tendency in the foreign economic policy should be followed. Hence, I agree with L. Ciamaga's opinion that "as long as there are differences in the economic development of countries and regions, there will be space for trade policy, free trade, interventionism, protectionism"[96]. Thus, there is also space for export-promoting policy which allows for expanding markets or improving the competitiveness of exporters on the international markets.

Using export subsidies is connected with following protectionist trade policy which stems from, among others, the theory of market disruptions or strategic trade policy towards its export-promoting policy. Concerning the role of export subsidies in contemporary economy, it is widely thought that export subsidies disrupt international competition and have a negative effect on functioning of the mechanism of optimal resources allocation. A pejorative evaluation of the results of introducing export subsidies does not mean that they are not employed in foreign trade policy. There is some empirical research which shows that countries subsidised domestic export to a large extent. The studies also demonstrate that there is a positive correlation between export-promoting policy and economic growth. However, the acceptability of employing export subsidies is regulated by an agreement concerning subsidies

---

[94] T. H. Bednarczyk, *Miejsce i rola polityki proeksportowej w warunkach liberalizacji handlu międzynarodowego*, [in:] *Jaka polityka gospodarcza dla Polski*, t. 2, red. U. Płowiec, Bellona, Warszawa 2001, p. 367.

[95] M. Perczyński, *Rola państwa i rynku w rozwoju gospodarczym*, „Gospodarka Narodowa" 1995, nr 4.

[96] L. Ciamaga, *Zagraniczna polityka gospodarcza Polski w teorii i praktyce dostosowań do Unii Europejskiej*, SGH, Elipsa, Warszawa 1997, p. 36.

and balancing measures defined during multilateral negotiations carried out within WTO.

Export-promoting policy should be perceived as an element of adjustment to changes taking place in the field of trade policy and a collection of its tools and methods as instruments which are just temporary. Therefore, relying on numerous arguments justifying government interventions, one supports the concept of employing instruments of export-promoting policy. D. Hűbner[97] is right to point out that the understood dynamic trade benefits may not occur at all without state intervention. However, the process of the economy joining multilateral and bilateral international, institutional connections will limit the opportunity and the acceptability of interventionist action.

Concluding, active export-promoting policy may be perceived as:

1) a form of a strategic trade policy on the oligopoly market,

2) a reaction to the occurrence of imperfect market,

3) an economic, political and social reaction to significant fluctuations of terms of trade caused by the lack of product diversification.

Agnieszka Dorożyńska

MIEJSCE POLITYKI PROEKSPORTOWEJ W KONCEPCJACH ZAGRANICZNEJ POLITYKI EKONOMICZNEJ

Celem niniejszego artykułu jest przedstawienie polityki proeksportowej w świetle koncepcji zagranicznej polityki ekonomicznej, a także ocena jej efektywności z teoretycznego i empirycznego punktu widzenia.

[97] D. H ü b n e r, *Strategia rozwoju przez eksport: Czy wystarczy niewidzialna ręka rynku*, IRiSS, nr 9, Warszawa 1992, p. 5–7.