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Poland facing development challenges

When talking about development challenges of Poland, in fact, we are talking about threats, which we would like to avoid. The challenges are serious, as the threats are grave. A threat may be a low growth rate, as it can result in pushing our country away from the centre of socio-economic development of Europe to its periphery. We are a country that stands out from the average EU level, which poses a risk of an outflow of young and talented people to significantly richer countries. As a consequence, the balance of labour supply may deteriorate and the difficulties related to financing the ageing society may increase.

The development challenge is not so much the short-term dynamics, but maintaining it at the level that is at least 2 percentage points higher than in Western Europe for the period of 15-20 years, so maintaining the growth based on durable and strong foundations. Permanent growth foundations must be driven by investments and productivity. The growth built based on the increase in consumption and debt may be illusive and temporary. Generally speaking, growth dynamics depends on the sum of the rate of employment growth and the pace of workforce productivity growth. If demographic barriers prevent the increase in the rate of employment, then, in fact, the growth may be achieved only by the growth in the workforce productivity, and this requires a sufficiently high growth in investments and their efficiency, for there

may be some kind of substitutions made between work, capital and efficiency in terms of creating growth. The bad demographic situation, withdrawal of the reform extending the working age, and insufficient opening to immigration, is a requirement for an additional increase in capital expenditures, if we want to achieve a sufficiently high economic growth. The increase in capital expenditures requires a sufficiently high rate of domestic savings. In Poland, we have a low level of household savings and a high level of negative savings connected with the public finance deficit, as a consequence of which – whether we like it or not – the possibility of high growth substantially depends on the inflow of foreign capital. The inflow of this capital becomes all the more important the more reduced the EU funds will be after 2020. This, in turn, requires the creation of favourable political and economic conditions, as predictability, which again depends on the financial situation of the country and the sense of stability, is important to the foreign capital.

In my opinion, a condition for a long-term growth (within 4-4.5% of the GDP) are investments at the level of approx. 25-30% of the GDP. Meanwhile, in 2016, this share was about 18.5%, as the investments significantly dropped compared to 2015. The share of 25% of the GDP means the level of investing higher by around PLN 100 billion than it is today. Reducing the requirement in the scope of a serious increase in the share of investments in the GDP could be effected only by reducing the shortage of the labour

factor and significantly increasing the efficiency as a result of product, technological and organizational innovation, which could lead to a decrease in incremental capital intensity.

Recently, in Poland we enjoy a drop in the unemployment rate to the level which has not been recorded for many years. But – together with the gradual opening of the EU countries to the inflow of Ukrainians and a greater retirement rate as a result of the withdrawal of the reform – it signals growing problems with a shortage of labour factors. Therefore, a pressure on wage growth can be expected, which may cause inflation to rise. In March 2017, the inflation increased to 2.5 percent. The increase in inflation should be counteracted at an early stage by launching instruments of fiscal and monetary policies. The effect of increasing interest rates will be the reduction of profitability of undertaken investments. On the other hand, avoiding such actions poses a threat of continuation of the inflation phenomenon, and, consequently, even a collapse of the Polish zloty. A higher level of inflation in the country than in other economies must lead to such a depreciation of the zloty.

In turn, the weakening of the zloty means increasing the costs of debt servicing. I agree with Jerzy Osiatyński [2017] that we will start to come out of debt when the GDP growth rate becomes higher than the interest rates on treasury bonds. Debt ceases to grow when state revenues cover current expenses along with the interest rates on the debt. The higher the interest rates, the more difficult it is to halt debt growth. I disagree only with the claim that it is about getting a higher growth of not the GDP but the GNP from the interest rates on treasury bonds. GDP is a measure of the efficiency of the economy in the form of production of final goods and services, expressing the effect of production factors located on the territory of a given country. GNP is the

same measure, but applies to the effects achieved by the citizens of a given country, no matter where they are created. In Poland, the GDP is higher by several percentage points than the GNP. If the GDP growth rate is lower than 3 percent, the GNP does not grow [Szymański, 2015].

The collapse of finances may lead not only to the increase in the interest rates on treasury bonds that finance debt service, but also to an exchange rate crisis and a deep economic crisis.

Demographic challenges

Earlier, I stated that the Polish economy requires to quickly make up the distance to the EU average, which in turn requires the economic growth that is at least 2% higher than in the countries of Western Europe for 15-20 years. It results from the fact that the possibility of overlapping of the decrease in labour supply due to demographic reasons with the outflow of young and talented people to the significantly richer EU countries poses a major threat. Almost all EU countries are experiencing a demographic crisis.

However, it should be remembered that demographic ageing in a rich country is something different than in a country that is behind the European leaders in terms of development. Ageing is a different issue for a country such as Germany compared to a country that “is making its way”, such as Poland. The GDP per capita of Germany, calculated according to purchasing power, is two times higher, and the hourly wage calculated in the euro is four times higher. A rich country has a high capacity of attracting young and talented people from outside. Thus, the demographic crisis in Poland is much more dangerous because it goes hand in hand with the demographic crisis of many European countries at a higher level of development. The forecasts show that the number of Poles in the country in 2050 will fall to 30 million, and the potential of labour resources even

to 9 million [Strzelecki, 2012]. The Ministry of Development assessed that in 2050, there will be 5.3 million fewer working people in Poland.

Our country faces not only and not so much another necessary projects to increase fertility rates, but also the requirements of keeping the young and talented in the country. To prevent overlapping of these two phenomena in the future, it becomes necessary to reduce the differences between Poland the average EU level as soon as possible. The next 15-20 years will decide whether Poland will be in the economic centre of Europe, as it will overcome the demographic crisis, or it will be on the periphery, which would mean economic and social degradation to the older generation.

A policy ruthlessly seeking to quickly equalize the level of development to the EU average in the long run is important not only in terms of keeping the young and talented in the country, but also in terms of attracting young and talented from other countries. Only the lack of imagination and foresight can explain the irresponsible favouring of anti-immigration mentality by politicians. And yet, in the future, immigration can be the main rescue for the country from being pushed away to the peripheries. In the future, the level and structure of immigration will depend on the place of Poland on the economic map of Europe. Currently, we do not use even the simplest method which is the repatriation of Poles from the East.

The demographic crisis absolutely forces economic self-defence of the country, which is to quickly make up the distance to the EU average. It can be honestly recognized as the economic and social national interest.

Unfortunately, not only is there no public awareness of these challenges, but also there is no such awareness among political elites. The best example is another lowering of the retirement age in

the name of ad hoc political goals. This not only means an increase in the annual burden on ZUS, the Polish Social Insurance Institution, by PLN 10-20 billion, or an additional drop in labour supply, but in perspective, a greater burden on the young people with supporting pensioners. And this will be an additional factor increasing “pushing out” of young people to considerably richer countries.

Currently, when analysing our demographic problems, we focus ourselves on young people, on their low sense of security, on the great range of uncertainty, which significantly reduces the fertility rate. The “500 plus” programme somewhat improved the situation. It should be remembered, though, that in the long term, the consequences of the demographic crisis will be borne not so much by young people entering their activity age in 15-20 years, but by people who will enter the retirement age, so the people who are presently in their forties and fifties. The young will have the choice to make: whether to stay or to seek happiness elsewhere. The pensioners will not have such a choice. So, the consequences of the demographic crisis will be borne by people who are now in their middle age, so those, who today are in control of their country. They can not only suffer the consequences of this crisis, but also can and should influence decisions that intensify activities which can neutralize its effects.

Challenges posed by finances

The growth tasks referred to above will essentially be determined by the financial situation of the country. In the context of globalisation, the role of national finances is growing rapidly, which is understandable if we remember that the freely moving capital is particularly sensitive to the financial situation of individual markets and countries, and the speculative potential is very large. A key determinant of socio-economic changes of the present

times is a marked increase in instability, uncertainty, and the instability is mostly and most apparently expressed by the threats in the financial sphere.

Looking at the threats coming from the financial sphere, from the point of view of particular countries, it can be said that their situation will depend substantially on whether the capital will want to come and stay there, or on the contrary – it will want to leave them. It is important that also the domestic capital may flow away.

Many economists are now afraid of increasing the outflow of domestic capital as a result of overly rigorous solutions for combating tax evasion. An example of this may be the introduced principle that if the case goes to court, the property in dispute is frozen. Jerzy Hausner says: *Large organized investment banks – such as Swiss ones – have never had so many Polish customers, who wanted to entrust them their assets, which means that they withdraw them from the Polish economic circulation* [Hausner, 2016].

Long-term threats arise from the lack of conditions encouraging investments, which in turn limits the ability to finance investments. Short-term threats, however, are the result of dangerous effects of a sudden capital flight. In the worst case, such movements lead to an exchange rate and economic crisis. It should be remembered that capital often flows in when it is least needed, and flows away, when it is needed most.

Today, these threats cannot be separated from the general situation that occurs on the global capital and financial market. A chimeric, predatory, and speculative nature of financial markets increases the importance of stable national finances. What proves the qualitative change in global finances, among others, is the total debt of households, businesses, and governments, which together increased from just a little over 100% of the GDP on a global scale, to the current 350% [Orłowski, 2016].

And the value of derivatives increased between 1990 and 2014 from 100% of the global GDP to 1,000%, that is ten times the global GDP. The instability of world finances is also the result of the so-called monetary loosening, from injecting additional money to the world economy to sustain prosperity. Countries having world money have already pumped in additionally over USD 2 trillion annually in recent years. Much of the money did not create a real demand, but only increased the reserve of circulating money.

The financial situation of Poland is difficult and complex not so much because of the level of the public debt in relation to the GDP, which amounts to 52-54% and which was reduced by PLN 150 billion in 2014 by the use of the funds from OFE (open pension funds). The difficult situation of the national finances results mostly from the weaknesses in the number of fields, which in adverse conditions may combine into a dangerous overall effect. The multiplicity of adverse phenomena of different nature makes individual weaknesses to be not as much dangerous, as their sum and the possibility to accumulate in situations that are economically difficult.

We have a structural deficit in public finances of almost 3% of the GDP. Such a high deficit with a high GDP growth, close to 4%, indicates its structural nature, as it can cause its rapid increase along with the collapse of the GDP dynamics. This limits the possibility of using fiscal policy in a situation of economic downturn, and there is a risk of another entrance of Poland to the EU over-indebtedness procedure with the whole set of restrictions. The excessive deficit procedure was in force for six years, it derived from the deficit growth during the struggle with the effects of the crisis in the years 2008-2010 and was completed in May 2015. Between 2010-2014, expenditures were reduced by 3.8 percentage points of the GDP. This scale of expenditure reduction was possi-

ble, among others, due to the expenditure discipline rule in force since 2011, limiting the growth rate of fixed expenditures to 1% real per year [Raport Ministerstwo Gospodarki, 2015]. The current pressure on expenditures is a risk that the effects of disciplining finances may be wasted.

The nature of our debt, according to the division used by the renowned expert on the financial crisis, Hyman Minsky, is not a secured indebtedness, nor speculative indebtedness, but an indebtedness of the nature of a financial pyramid scheme. It means that after covering the current expenditures, current income (not always) does not cover interest rates on the debt and repayment of instalments. As a result, it forces the sale of bonds not only covering the interest rates, but also the debt roll-over, which is borrowing to repay credit instalments. The problem becomes complex, when the share of short-term loans and the share of foreign capital in the financing of debt-servicing are high, and this is the situation of Poland.

It should be remembered that the financial markets today can bring most of the countries to their knees, especially when they start to speculate on a larger scale with derivatives in the form of insurance policies, the so-called CDS, which are used to transfer risk. By most often artificial raising of CDS, which is to mean the increase in the risk of the bonds of a given country, they affect the growth of their interest rates. With the high level of bonds financing the debt-servicing of a given country, it is easy to lead to a rapid increase in debt and insolvency.

A specific problem of Poland in the financial sphere is one of the world's highest deficits in the international investment position, which shows how much of the national wealth is net financed by foreign capital. The larger the deficit, the more mobile capital in the form of foreign gains and dividends there is. And only a good will and interest of foreign owners decide

whether these dividends will be invested in the country or will flow away abroad. Then, the potential range of capital is also increased, which under unfavourable conditions will want to leave the country. A large share of the foreign capital in the financing of domestic assets is at the same time a requirement for distinguishing in economic analyses the businesses in the country from the Polish businesses.

What is important for the evaluation of the country's finances is the extensive use of transaction prices by transnational corporations operating in Poland and so the use of prices between associated businesses to avoid taxation, by escaping to tax havens. After the scandal of 2014, in which it was proved that Luxembourg attracted 340 largest holding companies, the European Commission calculated that by the use of transaction prices, the countries of the European Union lost EUR 300 billion in unpaid profit taxes, including Poland around EUR 46 billion [Gajewski, 2017].

All the above remarks on the finances of Poland confirm a great dependence of our economy on foreign capital and its movements. At the same time, it should be remembered that so far, a serious, informal, but real insurance of our financial situation are substantial European funds, the inflow of which not only significantly improves financial resources, but also strengthens the financial balance of the country, important to the evaluation by financial markets of its stability and the risk level.

There is a high probability that after 2020, the level of European funds will be considerably lower, which should be treated as a serious challenge to finances. It is because not only the free, external financial resources will decrease, but also an important pillar of financial stability of the country will be limited.

The accumulation of many difficult phenomena from the sphere of finances,

with the view of a significant fall in EU funds in three years requires anticipatory actions. Thus, it requires a proper preparation of measures that will neutralise the objective deterioration of the situation after 2020, especially because Poland will face serious investment tasks necessary for the economy making up the distance to the average EU level.

The investment tasks are extensive, and the national savings are small, considering the public finance deficit as negative savings, that is dissavings. Domestic savings vary within a range of 15-16% of the GDP, and an absolute requirement for making up the development gap to the EU average is the requirement of at least 25% of the investments in the GDP. Without such an investment level and relying only on national savings would negate the high level of growth and would pose a risk of peripheralization of the country, as a result of overlapping of low and already foregone in the next 20 years supply of labour resources due to demographic reasons, with a rapid outflow of the young and talented people to the significantly richer countries. In this situation we will have to rely on foreign investments, so on the inflow of capital for a long time. Without financial stability and political predictability, it will not be possible.

However, the greatest threat is a possible sudden and rapid outflow of capital caused by some bad internal or external situation. With a significant share of mobile capital in the form of dividends from foreign capital of around PLN 90 billion and the size of the portfolio capital of PLN 601 billion, a sudden outflow of capital creates a risk of a domino effect and a serious exchange rate and economic crisis.

Europe and the euro as a challenge for Poland

The previous considerations show that the finances are a serious barrier for the

absolute requirement which is a high and durable dynamics in order to make up the distance to the average EU level, and the preparation of the economy to a kind of shock, which may be a significant reduction of European funds after 2020, poses a great challenge. Even more challenging is the requirement to change the way of thinking about European integration and, above all, how important the integration is together with the adoption of the euro to mitigate the threats that finances entail.

While assessing the integration, there are many who think that there are limits of integration and that it should be reduced to a customs union. They make the mistake of ahistoricism, as in the 21st century, in the time of processes caused by globalisation, they want to act in the scope of integration as the conditions of the mid-20th century indicated. It can be said that the current process of globalisation led to a substantial decline in the state sovereignty in relation to capital and financial markets. The state lost what formerly characterised it most, that is “the power and politics” it had, and now the power has gone to capital markets, which directly affects the quality and effectiveness of politics.

In this situation, one of the most important activities is to undertake projects, which at least partly, may restore this lost power in relation to capital markets. Integration is one of the most important undertakings for this purpose. The European Union, especially the monetary union, in relation to capital markets, is a much greater force than the powers of individual countries. The real struggle of the country for sovereignty today is the struggle for sovereignty in relation to the strength of capital and financial markets. The threats presented above on the part of finances for Poland and its perspective, in a situation of rejecting the euro and agreeing to be pushed away to the peripheries of the EU, would definitely be intensified.

I believe that an effective remedy for the above threats would be the accession and vigorous preparation to the entry to the euro area. Simultaneously, entering the euro area would be an effective neutraliser of the shock, which is possible in the financial and economic sphere, after a significant decline in the level of EU funds after 2020. The entry to the euro area would have the following positive economic consequences:

- the threat of the exchange rate crisis would be eliminated. This threat in Poland is not only possible, but due to the large share of external capital in the financing of the economy, it would have profound crisis effects,
- the level of security for the domestic and foreign capital would considerably increase, which is highly important for Poland facing the development and investment tasks;
- the transaction costs would be reduced significantly and the lending and bond costs would be lowered,
- the country would still have extraordinary extra funds at its disposal in the form of EUR 105 billion in reserves (PLN 450 billion), which after the entry into the euro area would be unnecessary and could serve as a so much needed support of tasks in terms of making up the distance.

These benefits of entering the euro area for Poland are far greater than the costs, mostly due to the complex tasks assumed and the magnitude of the threats the country is facing. The costs include the resignation from own resources in the form of money and the currency exchange rate, for supporting itself with the inflation tax and price competitiveness. Any good economist knows that it is only a short-term support.

An often-heard argument about the bad experiences of the countries of Southern Europe, the so-called PIGS, is beside

the point, as the euro is blamed and not the wrong economic policies of these countries. They forgot that a cheap credit and easy access to capital cannot be used to obtain a higher revenue growth than it is allowed by the productivity growth. For this is when the competitiveness decreases and the country cannot support itself with lowering its own currency exchange rate, as it is gone. Whoever wants to join the euro area cannot afford to make such mistakes.

The arguments presented above are economic arguments for joining the euro area, but the political arguments are no less important because they derive from the geopolitical national interest. Their importance is growing, as there are more and more signals indicating that the real EU will be created by those who will enter the euro area. In Poland, increasingly worrying is the anti-European language and many activities of the authorities, which make our EU partners see Poland as unpredictable and rejecting the values based on which the EU was built.

The fall of the EU would be much more dangerous for Poland than for other countries because we are making our way up and we need the protective umbrella against the aggressive capital markets and a solidarity financial assistance more than others. At the same time, we are on the eastern frontiers of the Union, which are most vulnerable to geopolitical shocks. There is a high probability that the fall of the euro area would be tantamount to the fall of the EU as such. In this situation, Poland's accession into the euro area should also be treated as an action aimed to protect the Union itself from disintegration. After the victory of Emmanuel Macron in France, the Weimar system is created, crippled by falling out of Poland. Macron chose Germany, and Germany waiting for the change of the Polish position for a long time, is forced to choose France without Poland. It should be re-

membered that due to the scope of economic cooperation and the importance of stability in the Central Europe, Germany treated the common policy with Poland as a necessary reinforcement of the impact on the entire EU. The scenario of a deeper euro area integration, a creation of the area's budget and a military pact, is born in front of our eyes. Everything indicates that, at its own will, Poland will be outside this zone, and so to some extent, the realised scenario will be against us. By resigning from the accession to the euro area, we condemn ourselves to peripheralization in the EU, and this may play a decisive role in condemning ourselves to socio-economic periphery. Ahistorical thinking about sovereignty and the lack of understanding of the importance of sovereignty towards capital and financial markets may ruin our long-term development aspirations.

Competitive challenges

Even the most effective overcoming of financial and European barriers will not be enough to count on a long-term high growth. Competitive abilities of the economy must be added to it.

Nowadays, as a result of globalisation and opening up of the markets, the economy gradually transforms from a demand economy, so the economy limited by the size of demand, into a supply economy limited by the competitive potential, hence the quality and the cost of supply. Competitiveness determines not only the ability to benefit from the global market demand, but also the ability to cope with the competition for the internal market demand in the country with companies from the outside. It is worth to remember that on the internal market in Poland over 50% of the goods are imported. In a situation, where the nature of the country's economy transforms from a demand-driven to the supply-driven one, the essence and shape of the economic in-

tervention of the state should change as well. From a demand-driven – because not only the domestic entities benefit from the domestic market demand – to a supply-driven interventionism. Such interventionism fosters the improvement of the quality of the national production resources (education, research and development facilities) and the projects aimed at increasing innovation and competitiveness of enterprises. In the past, the state could protect businesses against external competition by means of various forms of protectionism and at the same time assist them by controlling the demand. Today, companies must demonstrate their ability to cope with the increasingly open and intensifying competition of the companies in the global market, as well as in the internal market.

Poland is now facing changes in internal and external conditions that contribute to the expiration of the previous basis of competition, in which predominantly relatively low wage costs prevailed. In the case of difficult tasks, related to making up the development distance, the country cannot be allowed to be passive and count only on the grassroots activities of enterprises. For there is also a need for innovative state policy, supporting competitiveness and, above all, its qualitative changes.

We should remember that the world of developed capitalism has entered the process of stagnation with the continuous threats of crisis phenomena [Palley, 2012]. And yet, making up the distance is something different when we are dealing with prosperity and a rapid growth in demand, as was the case previously, and something quite different when making up the distance when the demand in Europe will not grow fast, and our exports in 80% goes to European countries. It is different to be competitive with the rapid growth in the general demand, and something else when the demand does not grow, and our entrepreneurs need to get it, push-

ing out others from the already existing demand. Without a proper quality of the competition it will be impossible. The non-quality competition that dominated so far, based on low prices and low wage costs, must evidently be transformed into a quality competition which depends on the product's brand and customers' trust.

A shallow competitiveness based on low wages in favourable conditions brings short-term effects because it attracts foreign capital, which comes together with the technical progress and business culture. Such a competitiveness in the longer run causes that the inflowing capital reinforces the pressure on maintaining low wages and the subcontracting nature of the Polish business entities. It is particularly disadvantageous in the long run for the development of human capital, especially intellectual capital. External capital, by creating the pressure to keep low wages and to develop the subcontracting function, creates the conditions for routine operation, and not for creative activities.

Low wages, on the one hand, mean the lack of creative involvement of entrepreneurs, and on the other, of employees. Entrepreneurs do not need to take risky innovative activities, search for new difficult solutions, as low wages guarantee that simple administration is enough, and thus the pressure for creative entrepreneurship is removed. On the other hand, employees with low wages and with the domination of routine operation, lose the incentive for professional involvement and improvement. This kills the aspirations necessary for the development of human capital. The current model, based on shallow cost competitiveness, has led to a large asymmetry between fast pursuit of the young generation to get education and qualifications, and the low level and scope of development of areas, which offer workplaces that require high qualifications. This becomes an important factor of pushing the young and talented people out to the

rich countries. Nobody was able to create the conditions to use the most valuable potential, which is the educated youth.

Eurostat data shows that the hourly wage calculated in the euro in Poland is three times lower than the average hourly wage in the EU, but in Ukraine it is almost three times lower than in Poland. Nowadays, assembly plants for the products invented by others can be easily moved to locations that are more favourable than Poland.

Basing the competitiveness on low wages in the long run makes the economy less stable, as it increases the factors susceptible to change regardless of what happens in the country, and the stabilizing factors, that is domestic consumption, are reduced. Limiting the revenue growth adversely affects the growth in the domestic savings. In this way, a shortage of one's own capital is created together with the need to replace it with the foreign capital. In turn, the foreign capital forces low wages, low savings and the need to rely excessively on its resources and principles. It also imposes the sub-supplying and sub-contracting nature of the economy.

According to Eurostat, in Poland, the share of wages in the GDP is several percentage points lower than in Western European countries. Simultaneously, the biggest drop of this share occurred, except from Romania. This drop, compared to 2000 amounted to 9.5 percentage points to 46% of the GDP in 2014.

It is important to realize that we cannot simply move away from the competition based on low wages, without creating the conditions and spheres of quality competition. The criticism of the competition model based on low wages cannot in any case trigger the pressure to raise them. In such a case, without any foundations for quality competition, also the cost competition would be eliminated carrying disastrous consequences to the economy. It must be remembered that you should not

pour away dirty water when there is no chance to get clean one.

While analysing the competitiveness and the nature of the activities, enterprises operating in Poland should be separated from the Polish enterprises. Foreign enterprises in Poland and the enterprises with a dominant share of external capital have a much larger range of companies ordering and using Polish subcontractors. At the same time, Polish subcontractors are used by enterprises from other countries. The consequences include all the weaknesses arising from the ordered subcontracting activity. In the modern global market, there is not only a significant economic advantage of the customers, which additionally rapidly increases. Sub-suppliers are easily replaceable and, as a consequence, submissive to the power of customers. For example, there are cars produced in Poland, but inventing their designs, together with distribution and marketing are in the hands of foreign capital. The idea, concept and design as well as marketing and sales are the most profitable phases, but only the manufacturing and assembly of components, based on foreign projects, are in the Polish hands. The latter phases are characterised not only by a low return on investment, but also the subcontracting nature, easily replaceable, which reduces the bargaining power in relation to the customer.

How to change the nature of Polish companies in order to transform them from passive contractors into strong customers is the most important and at the same time the most difficult economic issue and task.

The customers can be divided into two groups. The first one includes the strongest companies, which build their basis of orders on the technological advantage and high capacity to create widely understood prototypes. Such companies see innovation and related with it high level of expenditures on R&D as their foundation

of wealth. The second group are those who rely on the use of economic arbitration, i.e. diversification of the market, so they rely on the knowledge of the market which is greater than that of their competitors.

In the modern world, innovations require large expenditures on research and development, as the larger the expenditures, the greater the chances of success are. With increasing the expenditures for research, the risk in searching product and technological innovation drops. Polish companies are small and they can afford less while competing for prototyping. To a greater extent, they need to search for the possibilities related to science. The state can create various incentives to develop cooperation between science and practice. Actions must definitely be aimed at the development of innovation, but the effects in this scope probably will not be revealed quickly and in accordance with the needs of development. In this situation, one should count on larger and faster results in using the economic arbitration on the global market.

Requirement to use global market

Poland faces the task of the long-term high growth, without significant savings and with large financial barriers. Thus, the country faces, on the one hand, the requirement of qualitative changes in competitiveness, and, on the other, the requirement of capital-saving changes. I believe that these difficult tasks can be easiest accomplished when the state and enterprises focus their activities on winning the advantage in recognizing and using the global market. Every economist knows that the condition to use the market is the previously gained knowledge about it. Whoever gets such an advantage, as a consequence, wins the advantage in using it. Currently, the advantage of knowing the global market gives the best chances.

By opening the global market, the globalisation process reveals massive differences in the costs, wages, prices, exchange rates, taxes, so it reveals opportunities for those who can make use of it, which means that the competitive opportunities focus on economic arbitration.

In recent decades, the use of economic arbitration has been the easiest and the most widely used way of a rapid enrichment of transnational corporations. It was also an effective way of gaining competitive advantages.

Other opportunities resulting from the process of globalisation concern the use of development differences between the countries in the scope of technological progress and business culture. The countries that are at a higher level of development and their companies can transfer technological, institutional and organizational solutions that are no longer innovative to them, to the countries with a lower level of development and sell them as real innovations.

Globalisation has accelerated the change in the transaction cost realisation in the formula of R.H. Coase. There is a growing awareness that the costs of the same activity in the company are higher than the costs of ordering them outside (transaction costs). The analysis of consequences of changes in the relations of the transaction costs, in practice, became an essential way of improving the competitive position. It cannot come as a surprise, as such an analysis shows the benefits that can be obtained from using sub-suppliers and sub-contractors of the global market.

To become the customer and use the magnitude of sub-suppliers of the global market it is not necessary to have huge capital expenditures. To win the information advantage on the global market, intellectual capital in the country can be used to become a coordinator of the network of sub-suppliers.

The volatility and instability of the modern market enforce increasing the

flexibility of enterprises. One way to be flexible is to outsource the production, so use sub-suppliers and sub-contractors. Companies are forced to look for the ways to reduce fixed costs. In order to take advantage of the global market conditions, and also to pass the fixed costs to others, it is best, from the business point of view, to use sub-suppliers and sub-contractors distributed on the global market, which is to put on contract outsourcing. Then we use the means of production and the capital of sub-suppliers. The company can be flexible, as it does not have to pay the fixed costs and the costs of destroying the former, and is not blocked by the former decisions and former investments. By using the production assets of sub-suppliers and sub-contractors, leading companies pass on these technical and structural costs of changes resulting from the introduction of new solutions onto them. First of all, it is important that the leading company does not build the strategy under the pressure of knowing that it must use its own production resources, but starts from what the global market customers expect. And this is quite a leap in the ability to adapt to market requirements, and at the same time an increase in flexibility, which is nothing else than the ability to adjust to market changes.

Using a vast mass of sub-suppliers of the global market is taking advantage of the fact that the costs of contracts are lower than the costs of the activity itself in the company. Thus, networks of independently owned entities with an initiator and coordinator of hundreds or even thousands of independently owned sub-suppliers, with whom the coordinator enters into a contractual agreement are created. The leadership is based on the common interest, partnership and conscious cooperation.

An example of such a network is the Li&Fung company from Hong Kong, which does not own any factories. In

2006, it coordinated the operation of the network of 8,300 suppliers, supported by more than 70 offices deployed in over 40 countries. The company indirectly employed more than 2 million people in the network of suppliers, but did not employ any production workers at all. It supplied the market with consumer goods to the amount of USD 8 billion. The profitability of its assets exceeded 38% [Fung, Wind, 2008].

For several years, I have been postulating that intelligent businesses should be created in Poland by organizing special incubators for their formation [Szymański, 2011]. These are companies similar to the previously mentioned Li&Fung, which by developing the outsourcing process, get closer to the models of an empty company. Such a company actually does not produce anything, as in its entirety it relies on external sources of supply of semi-finished products, assembly and services. It functions at a minimum internal organisation, based on an excellent IT infrastructure and qualified workforce investigating the global market and managing the network of contacts.

Such companies arise spontaneously, as an initiative of some global entrepreneurs. Proposals to create incubators

would be a form of public innovation, giving large-scale results. The state support should be present in three areas. The first area is supporting IT and institutional infrastructure, which is a condition for these companies to have advantage in gaining knowledge on the global market; it would require quantitative and qualitative transformation of information and economic units in diplomatic establishments. The second area is initiating the creation of incubators for such companies. Selection of talented young people, instilling the idea and knowledge about the global market and the chances of intelligent businesses in them. The third area of support, important in the initial phase of the development of intelligent businesses, is the creation of an appropriate guarantee and insurance system by the state and state banks. The beginning of such a company is difficult, because it is unknown, and it could not have created the basis of trust through the history of its actions.

Globalisation has resulted in the possibility to win the world market for the first time on such a scale, without a large capital, without domestic demand, without production competences. The way to achieve this is the knowledge of the global market and contract outsourcing.

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