Government Failure vs Foreign Trade Problems

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Abstract
The article describes, from a theoretical point of view, how government failure contributes to the loss of efficiency of foreign trade. It draws attention to the multidimensional nature of the problem which is linked to the need to take account of both domestic and foreign factors, and also points out that part of the failure is due to the fact that businesses, for various reasons, do not make use of the instruments offered by state institutions.

Keywords — *foreign trade, government failure, trade barriers, weaknesses of market economy, Poland*
JEL classification: F15, F43, G38, L51

I. INTRODUCTION

Regardless of its definition and changing role, the state plays a very important role in the economic policy. The question of how much state influence and how much free market operation should there be in economy has been discussed by economists for many years and has not been resolved unequivocally. The 20th century and its complex problems, whether of an economic, political or social nature, have led to many countries beginning to restrict economic freedom, while increased government expenditure has contributed to an increase in the state's share of national income.

Weaknesses of market economy were revealed by the Great Depression of 1929-1935 when the notion of market failure (or its inefficiency or defects), which was introduced by C. Launhardt at the end of the 19th century [33], and the proposals of mercantilists regarding protection of their own markets from foreign competition as well as support of industrialization by the state, became the focus of public debate [6].

The increase in state interventionism had its theoretical basis - works by J. M. Keynes who believed that the government's task was primarily to alleviate crises in free market economy - the goal that can be achieved by transforming the state into an active entity - an investor. Government programmes were only meant to be an ad hoc measure, covering areas where private companies were reluctant to engage. These views were also accepted after the war when macroeconomic policy, referred to as "fine tuning", was given an ability to support the market mechanism [6], {47], although there are economists who claim that Keynes was in fact opposed to " fine tuning" the economy. More on the subject in [45].

There were also other arguments for increasing state intervention, such as: demands to protect workers' rights, increase social security, limit negative external effects (mainly in order to protect the natural environment) and protect against the emergence of monopolies [37].

The activities of the state were also to have an impact on foreign trade. Although the mercantilist views were abandoned, at least officially, a return to protectionism has been observed in recent years (a more detailed description of these activities can be found in [39]), which means that entrepreneurs operating on foreign markets are demanding state aid. Economic reality is the trade conditions created not by free market but by international contracts that set out these conditions as well as an increasing influence of international corporations that exert pressure on individual countries and thus provoke protests from smaller market players. Unfortunately, the state does not always take these demands into account and sometimes the effects of its actions are completely below expectations.

The aim of this paper is to show, with the help of an analysis of professional literature, how the government failure contributes to a loss of foreign trade efficiency despite the interventions carried out in response to market failure, occurring both at the national and international level.

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II. HISTORICAL BACKGROUND

State activities in the area of foreign trade have already been discussed by A. Smith. He believed that protectionism did not bring any benefits because it resulted in economic inefficiency and reduction or even loss of competitiveness of national enterprises protected by the state [23]. It is difficult not to notice that this statement is still valid today. A. Smith stated, however, that in some cases the state may interfere in this area. He accepted countervailing, repressive and fiscal duties, taking into account a threat to defence, domestic production and jobs posed by foreign entities.

Publication of J.M. Keynes's "The General Theory of Employment, Interest and Money" in 1936 can be considered the beginning of macroeconomic analysis of market failure. It indicated the main signs of this phenomenon, i.e. inflation and unemployment. Since they exist, it is therefore necessary to set limits to the use of the market mechanism and to seek for solutions to limit the negative effects of its imperfections.

Interventionism had had a positive impact until the end of the 1960s. The first oil crisis in 1972 undermined the conviction that the state was fully effective as an entity capable of eliminating or at least mitigating disturbances. The occurrence of stagflation and slumpflation, which it could not cope with, resulted in the revival of neoliberal concepts. It is worth quoting the opinion of M. Friedman who said that "all economists - monetarists, Keynesians and all others - recognize that there is such a thing as market imperfections" [35]. Therefore, even his criticism of state intervention as a threat to individual freedom did not mean negation of the phenomenon, but demanded limitation of the role of the government, which was to result in a higher economic growth and stabilization of the economy, although he warned that state intervention could not be justified only by a need to eliminate market errors, particularly that the policy, especially fiscal policy, is not very effective due to, on the one hand, a short period of operation and, on the other hand, the occurrence of the crowding-out effect. He was aware that the actions of the state could be wrong so he suggested that all decisions should be preceded by a thorough analysis of their future economic effects [23]. A similar view was expressed by representatives of the neoclassical school who demanded a conscious self-limitation of the state's activities in economic life. However, this view was rejected by F. Modigliani as being detached from reality [6].

Reflections on the state's inefficiency were initiated by G. Stigler at the turn of the 1960s and 1970s, creating a theory of regulation [12]. It was developed within the framework of the new institutional economics trend which was based on the assumption that persons performing public functions are not only guided by the public welfare but also by their own interests, for example by substitution of the market with bureaucratic institutions, pursuit of their own goals and misallocation of resources. However, the government failure is not a sufficient reason to completely reject its interference in economic processes as modern economies do not have the appropriate mechanisms to automatically bring them into equilibrium.

It is worth quoting the research of [26] who identified four areas in which the state can, to varying degrees and depending on its needs, intervene without infringing market rules. They include:
a) regulation of global demand (short- or long-term),
b) the sphere of the natural environment of man,
c) antitrust policy implemented with a view to promote and expand internal competition,
d) industrial policy where the objective is to strengthen the competitive position of the economy on the world market.

Proponents of the active role of the state claim that its interventions are necessary despite the fact that there are many imperfect government programmes. Reference [3] noted that the scope of state competence should include functions that only the government can perform (e.g. taking care of domestic money or stabilizing the economy) as well as activities that bring greater benefits to the entire society than to those directly concerned. Since interventionism can now be considered a permanent feature of modern market economies [28], correcting the operation of the market mechanism requires wise and effective economic policy rather than abandoning it altogether [25]. The theoretical discussion therefore revolves around how many interventions are best for the economy, taking into account both their costs and benefits.

III. GOVERNMENT FAILURE - OUTLINE OF THE PROBLEM

Government failure can be defined as taking actions that weaken the market's ability to effectively allocate resources and achieve a state of equilibrium in individual markets, which means that government failures are the source of market failures [14] that are forced in a way which, in turn, may have a reverse impact on the governance sphere through broadly defined political processes. This definition neglects the classic macroeconomic policy of the state (e.g. monetary or fiscal) and broadly-defined structural policy, i.e. pro-growth impact on the economy, paying attention to aspects outside the mainstream of state influence.

According to the economic theory of regulation, the errors of the state include [14]:
a) inability to identify the main groups of entities bearing certain costs of regulatory solutions and deriving certain benefits from such regulations (broadly defined),
b) inability to predict and estimate the costs and benefits of regulation and their distribution among groups, considering different time perspectives for their emergence,
c) inability of the state to provide regulatory solutions acceptable to all major stakeholder groups,
d) failure to establish regulatory regimes that prevent excessive concentration of the benefits of such regulations on a single group of entities,
e) failure to resolve and mitigate conflicts that may arise between legislative bodies and agencies responsible for enforcement of regulations,
f) making regulatory decisions on the basis of conditions of the political cycle or overtly ideological

considerations rather than on the basis of a fair cost-benefit analysis of specific arrangements [2], [46], [48].

There are three main types of relations between internal and external structures that contribute to government failures in economy. These are: markets, connections and mutual influences [36]. The first one concerns the activities and influence of international markets (and transnational corporations) which, on the one hand, impose their conditions and, on the other hand, create new opportunities within which the state must operate. The second underlines the economic, political and ideological relationships between the main domestic groups and strong foreign (broadly-defined) entities. The third focuses on a strong relationship between these entities and national governments. Activities and policies regarding economy (and not only) of the state are often a result of these factors and therefore they cannot fully create solutions that contribute to the development of foreign trade.

IV. GOVERNMENT FAILURE AREAS

Government failures result from a number of specific characteristics outside the market. The most general division was presented by [10]. According to him, regulations introduced by the government may be:

(a) too specific,
(b) too broad,
(c) arbitrary,
(d) contrary to what was previously introduced.

The result of these errors is ineffectiveness and sometimes even harmfulness of the introduced regulations. Too detailed rules make it impossible to respond flexibly to a changing situation in the economy, too broad rules allow for such interpretations which may turn out to be harmful, and arbitrary rules increase economic uncertainty as a result of limiting people's rights to make independent decisions in the face of the situation which may be particularly acute in foreign trade conditions.

Reference [38] claims that there are four main causes of failure. These are:

a) a limited amount of information provided by the state,
b) incomplete control over the operation of private markets,
c) limited control over the bureaucracy system,
d) political constraints, i.e. ones whose implementation depends on political decisions.

The author draws attention to the key role of the influence of information limitations on the decisions taken by the state, which results in their low effectiveness. Reference [30] further analysed this issue by studying the problem of information economics. Incomplete access to information about the creation of the social and economic reality, which should be public knowledge, shows that the state is failing, consciously or not [34]. It is worth mentioning development of technology that has enabled broader and cheaper access to information, which may translate into improved efficiency of state actions. However, taking into account the unequal opportunities of entities (especially households) to access it, the state faces a new challenge - creating conditions to eliminate the effects of new negative processes arising from this exclusion. This means that each solved problem resulting from one of the imperfections is replaced by several others, for example connected to the quality of information and the costs of its selection.

Reference [49] distinguished five main sources of failures:

a) a difference between costs and revenues of the state - growing and unnecessary costs.

In the case of state economic activities, the relationship between a price and costs is often distorted because state revenues are generated mainly by taxes and other sources unrelated to the economic activity of the entity, such as customs duties or payments from the NBP profit. This means that resources are often misallocated and that this is an increasing trend, which is reflected in a lack of financial resources in areas that could contribute to faster economic growth.

The source of this government failure lies in its social activities which consume large amounts of money and are difficult to reduce. Some measures may be taken, such as shortening the duration of studies or reducing the duration of unemployment benefits, but they are not very effective, and activities aimed at introducing sustainability measures require time and a change in social mentality, the latter being impossible.

b) internationalisation and organisational objectives.

For state agencies, in order to carry out their activities effectively, certain standards must be fulfilled. Their requirements are growing mainly due to internal problems connected with everyday functioning: management, evaluation of employees, promotion, activities of subordinate units. Development of new standards takes time, which in a rapidly changing reality can be difficult, and new solutions are not always adequate to emerging problems. Besides, they are expensive. As mentioned above, the state may often lack the resources to implement them, which means further delays in economic growth, also in the development of foreign trade.

c) development of specialised agencies.

This element is influenced by several factors, including those related to cost increases. Firstly, it sometimes seems that it is necessary to create new, specialised units, even within existing organisations, which means that their financial resources need to be increased. As this money comes from the state budget, in simple terms, it involves transfer of funds that could be allocated to activities that directly translate into economic development. This does not mean, of course, that any such action is bad - many of them have positive effects, but in the long run. Secondly, technological progress should not be forgotten. The introduction of new technologies, apart from accounting costs, is also connected with delays linked to the initial unreliability of newly introduced systems as well as to problems of users who are not always able to use them properly from the very beginning. This leads to errors and sometimes results in a need to complete documents several times, which means delays for entrepreneurs. Thirdly, acquisition and control of information is particularly important for foreign policy agencies, because the existing restrictions in this area already reduce the possibility of any reductions in, for example, budget expenditure or delay technological change.

d) external factors

State interventionism, aiming at correcting market failures, can have unforeseen external effects, often in areas distant from those affected by the measure. They are also difficult to predict because the consequences of a policy may not necessarily manifest themselves in the country. An example is reduced emission of carbon dioxide, the effects of which are felt on a global scale. The lack of compliance of other countries does not have any negative consequences for them as there is no appropriate means of exerting pressure but in the long term, this has an effect on the health of the global population. Countries that have adopted such regulations are not protected against the consequences of the lack of similar measures in other countries, and for manufacturers of products adapted to new technologies, this means higher costs and less competitiveness on foreign markets.

e) inequality of broadly-defined distribution.

It results from the fact that the activities connected with distribution are performed by many people and it is impossible to respond the same way in every situation. It depends on the interpretation of legal regulations, administrative procedures, flow of information and activities of other institutions. Centralising these activities would mean a huge increase in response time and, in practice, paralysis of a given administrative unit, which would also translate into lower economic development.

The areas in which the state is not efficient have also been noticed by representatives of the new institutional economy. These are as follows [23]:

a) poor quality of institutions,
b) inefficient bureaucracy caused by officials taking more care of their own interests than the public interest,
c) asymmetry of information between politicians and officials (a problem that was already recognised in the 1970s),
d) absence of a uniform objective for the activity due to the existence of groups representing different interests and exerting pressure on the state,
e) imperfect legal regulations.

Each of these areas more or less concerns foreign trade as they affect the quality of its conditions.

It should be noted that state organisations may also be a source of resistance to change or innovation as the latter suggests that new adaptation initiatives depend heavily on an ability of state-related factors to play a central role in driving entrepreneurship [36], being able to inhibit or support it.

Other sources of inefficiency were noticed by [53]. According to them, the reasons for failure lie in the fact that the state is one of the institutions dealing with both the economy and politics. They mention the following problems:

a) the effectiveness of government intervention depends on government access to information necessary for political decision-making, but there is no guarantee that these sources of information are sufficient (and fully reliable),
b) the main triggers of tensions are spread due to transformations in measurement methods and new factors observed within the public sector (such as emerging rent-seeking [1], not previously associated with state activity),
c) pressure from organised interest groups which may undermine the effectiveness of state influence,
d) existence of specific administrative costs of government interventions which are often ignored,
e) since many forms of state intervention are based on monopoly arrangements, their effectiveness may be reduced by a lack of competition, i.e. a kind of “indolence” and not necessarily choosing the best solution,
f) although the effectiveness of state influence depends on voluntary cooperation of public entities, expectations as to their actual involvement may be the cause of weakness and government interventions may unintentionally reveal strategic responses contrary to those expected,
g) many forms of state interference, such as subsidies, support or public guarantees, require public resources, but their financial sustainability is not guaranteed and may sometimes have less or completely different effects than expected.

The list of these factors could also include corruption and specific problems in individual markets.

The above review shows that the government failure affects virtually every sphere of its activity, but this does not mean that its impact on the economy should be completely marginalised. As previously shown in the review of historical views, the total absence of active state measures may also have harmful economic effects (their detailed analysis goes beyond the scope of this paper); however, the costs of market functioning and state intervention must be examined and compared in each case since the task of the latter is not to directly control the economy but to create framework conditions for private entities to operate [6].

V. GOVERNMENT FAILURE IN THE AREA OF FOREIGN TRADE

State intervention in the area of foreign trade primarily involves a trade policy. This means exerting impact on exchange of goods in order to shape it in the most optimal way, i.e. impact on the volume and structure of imports and exports, the trade balance or efficiency. Assistance is provided to achieve partial objectives, such as: increase in export, reduction of import, balance of payments, improvement of the trade structure, increase in the share of a country in the world trade exchange, entering new markets or attracting foreign direct investments.

The European Union has a common commercial policy. Its principles are set out in Articles 206 to 207 of the Treaty on the Functioning of the European Union. The first one formulates the basic objectives of a harmonious development of the world trade and the liberalisation of international economic relations, while the latter describes the practical aspects of conducting a common commercial policy. It says that: "The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies" [43].

Trade policy instruments may be classified differently. The most commonly used classification includes tariff and non-tariff barriers with direct and indirect ones among the latter. The purpose of direct instruments is to protect the domestic market and to strengthen the position of domestic producers against foreign suppliers, both on the internal and global market, whereas indirect measures become secondary barriers to trade as a result of actions taken by the state to meet domestic needs [42].

It is worth noting that the economic collapse has caused many researchers, observing growing tendencies of individual countries to protect their own markets, to start defining protectionism in a different manner [7], [21]. It is now seen as a foreign exchange restriction, such as tariffs, quotas, import bans and export taxes. Compared to the pre-crises period, the role of these restrictions is growing when such instruments as government purchases, technical standards, public procurement and requirements for priority in domestic product purchases played a greater role [21], [13], [4].

Many barriers are internal restraints that compromise or hinder trade. These may include technical difficulties for trade, administrative regulations on public procurement, export subsidies, sanitary and phytosanitary regulations or restrictions related to environmental activities and many others.[1]

In December 2013, WTO members adopted the so-called Bali Package, the first global agreement of the Doha Round. The commitment was made to simplify major procedures such as import processes concerning shipment by sea, introduction of electronic documentation and payments, prior transfer of ownership of goods to the customer with all the resulting burdens "to reduce the scope and impact of import, export and transit formalities and to reduce and simplify documentation requirements in these areas" [50]. All these administrative procedures generate costs and reduce the competitiveness of the products sold. Reference [16] built a model to measure losses caused by the above barriers. They took into account the preparation of documentation, customs formalities, delivery to the port and terminal and transit through the port to the destination. Their studies show that a 50% reduction in freight costs corresponds to a 9% reduction in tariff charges, which explains why trade within FTAs is greater than outside FTAs.

The financial crisis that began in 2007 brought about a collapse in world foreign trade. It has also been felt in the European Union, causing a slow decline in the competitiveness of this group of countries. In order to defend themselves against this, both the EU as a whole and some member states separately began to introduce various types of protective barriers, mainly of the non-tariff nature. These measures were the most restrictive compared to other groups such as NAFTA and the BRICS countries. The number of trade-obstructing regulations introduced between 2008 and 2013 was 292, while the number of regulations facilitating or being neutral to trade was only 49 [44]. Many of them also made intra-EU trade more difficult, affecting the EU member states most involved in trade, such as Germany, France, Belgium, the United Kingdom and Italy, which is contrary to the idea of free trade and de facto restricts the liberalisation provisions introduced previously. This means that, despite the previous arrangements, the state has no influence on other countries to provide exporters with more favourable conditions for trade.

It is worth recalling the relevant rules of the Treaty on the Functioning of the European Union [9]. Article 30 states that import and export duties or charges having equivalent effect shall be prohibited between member states and that this prohibition shall

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[1] For example, state aid, trade finance, export subsidies, investment support, local requirements and regulations, non-tariff barriers, state aid, state enterprises, migration restrictions, other service sector restrictions, state trading enterprises, import subsidies, protection of intellectual property [15]

also cover duties of a fiscal nature. The same applies to quantitative restrictions on imports and exports (Articles 34 and 35). It should be noted, however, that the next article, as it were, abolishes the previous ones, giving the possibility of introducing certain protectionist measures, stating that they do not "preclude the application of import, export or transit restrictions justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions and restrictions should not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between member states". In the years 2008-2013, as many as 289 non-tariff restrictions were introduced and only 3 tariff ones that constitute only about 1% of all the barriers [44]. This means that protectionism is increasing more or less latent, not only in intra-EU trade, but is a global trend, which will result in a further loss of competitiveness.

The state also fails to increase trade with developing countries. Exporters mainly focus on trade with highly developed countries (86.4% in exports, 67.4% in imports in 2017, most of which are trade with EU countries), while the future potential lies in trade with countries that are now developing economically [29]. There are no appropriate incentives and facilitations; many entrepreneurs are not aware of opportunities offered by the state in these areas.

The Ministry of Investment and Development is primarily responsible for the economic development and growth of foreign trade. It shall establish responsible entities or delegate appropriate tasks to those that already exist. Two groups of institutions can be distinguished here [19]. The first group consists of those whose task is to provide substantive assistance. These are:

a) Foreign Trade Offices of the Polish Investment and Trade Agency - their tasks are: to support exports and investments of Polish enterprises on foreign markets and to attract investors to Poland,

b) Sector Promotion Programmes - participation in these programmes helps entrepreneurs expand into new prospective markets outside the European Union, often distant and costly, which have not been chosen by entrepreneurs so far due to existing risk and costs. On most of them, promotional activities of Polish entrepreneurs are to be supplemented with information and media activities,

c) Foreign Trade Offices (ZBH) of the Polish Investment and Trade Agency is a network of agencies whose task is to support the export and investment of Polish companies on foreign markets and to attract investors to our country,

d) The Polish Development Fund, i.e. a group of financial and advisory institutions meant for entrepreneurs, local governments and private persons that invest in sustainable social and economic development of the country,

e) The Polish Agency for Enterprise Development which is involved in implementation of national and international projects financed with the use of structural funds, state budget and multiannual programmes of the European Commission,

f) National Centre for Research and Development where strategic research programmes are developed, serving the social and economic development of Poland,

g) Investor and Exporter Assistance Centres (COIE) that provide exporters with substantive support. There are 15 units providing free of charge information services, in various forms, to entrepreneurs,

h) The Polish Chamber of Commerce that cooperates with the government (accompanying business delegations of representatives of the Ministry of the Interior and Administration and the Ministry of Foreign Affairs) and government agencies (PAIiIZ, PARP, ARR) as part of implementation of international projects,

i) Association of Polish Exporters,

j) The Polish Chamber of Commerce of Importers, Exporters and Cooperation, representing the interests of companies operating in these areas.

The second group consists of institutions that offer financial support and include:

a) Bank Gospodarstwa Krajowego (The Domestic Holding Bank) - a state-owned development bank which participates in financing the largest infrastructural investments and stimulates development of enterprises in Poland and on foreign markets,

b) The Export Credit Insurance Corporation (KUKE) which insures commercial transactions of Polish entrepreneurs and offers services that ensure safe trade both in Poland and abroad. It focuses on insurance of receivables from the sale of goods and services with deferred payment date as well as on granting insurance guarantees. As the only insurer in Poland, it has the right to offer export insurance guaranteed by the State Treasury which ensures security in trade on the markets of higher political risk. KUKE is the only Polish insurance company that insures long-term export investment projects financed with loans with a repayment term of two or more years,

c) Polish Development Fund (PFR), as a state capital group, mainly offers support for export and entrepreneurship as well as consultancy and promotion services for Polish companies on international markets. The main programme implemented by the PFR Group in the field of export support is the De Minimis Guarantee for small and medium-sized enterprises,

d) The Ministry of Finance which is responsible for granting government loans to finance supplies from Poland,

e) Regional Financing Institutions that are regional partners of the PARP and cooperate in implementation of programmes addressed to micro, small and medium enterprises.

On 1 January 2017, the Polish Investment and Trade Agency was established which is to combine already existing resources and pro-export, pro-investment and promotional opportunities. It is responsible for creating export and foreign investment support strategies, implementing the promotional policy of Polish economy, developing consultancy services for exporters and developing the export scale. In addition, the liquidated Trade and Investment Promotion Departments are replaced by Trade Offices whose task is to better meet the needs of exporters [17], especially on "prospective non-European markets" (such as Algeria, India, Iran, Mexico and Vietnam) to be supported by intensified promotional programmes, partly based on existing good practices (e.g. participation in Expo) [31]. Moreover, the Ministry of Investment and Development has launched (or plans to launch) promotion projects for selected 12 industries and an online information campaign devoted, among others, to promoting the Brand of the Polish Economy whose aim is to build a positive image of our country abroad [18]. All these measures will only be successful if the entrepreneurs want to take advantage of them. For many years, research conducted by the IBRKK showed, among others, little knowledge of particular support instruments, especially institutional ones. The problem of little use of available support funds by entrepreneurs is discussed in more detail in, among others, [40]. This was confirmed by studies carried out by the Poznań University of Economics. They show that about 30% of the respondents used state support instruments (although this situation is similar in other countries). Exporters relied more on their own experience, customers or information from the Internet. Many companies did not even know that the largest state institutions (Export Promotion Portal, embassies, PARP) might be helpful in their international activities [5]. This means the government failure in the field of foreign trade.

The effectiveness of newly established institutions may be limited by a number of factors, which will prevent them from effectively improving their foreign trade situation. The reasons for these limitations, most frequently occurring in many (not only Polish) institutions that promote export, are: unfavourable external conditions (the aforementioned tendencies of partners to protect their own markets), lack of information among entrepreneurs about the possibilities of benefiting from aid, too much bureaucracy, errors in management or too broad competences of institutions. There is also a lack of what can be described as economic diplomacy, i.e. a lack of understanding among politicians that they are essential for the establishment of a large part of trade relations [8].

The WTO lists more than 12 000 non-tariff barriers. These include, inter alia, import licences, quantitative restrictions, additional technical or phytosanitary requirements. As mentioned above, they are regularly used in the mutual exchange of EU member states and these restrictions are also encountered by Polish companies. One way is, for example, questioning the quality and safety of a product or conducting press campaigns against products from a given country [20]. In this case, the state is not in a position to carry out effective counteraction because such behaviours can be changed and introduced in a free and irregular manner; in the case of perishable products, such as food, it becomes difficult to prove that they are illegitimate.

Introduction of new barriers is becoming more and more frequent. WTO data show that between mid-October 2017 and mid-May 2018, the G20 countries introduced 39 new trade restrictions, twice as many as in the previous corresponding period, and this was not the end of such practices [51]. Other countries can counteract this in a similar way, but in the long run, it can lead to trade wars and it is not in the interests of most countries to do so. There is also no answer to the question of how one can effectively defend one's own economic entities against the effects of similar actions.

The frequent dependence of a given country on the exchange with one dominant partner (in the case of Poland, it is Germany) is also worth noting. It is not bad in itself, but problems can arise when the main partner is in crisis or makes regulations that restrict trade. As far as Poland is concerned, the problem is becoming more and more real. The importance of Germany is growing – the export to this country accounted for 27.5% of total sales in 2017, with 23.1% regarding import [11]. If there are difficulties on that side, this will mean serious problems for our country's trade balance and economy.

However, as mentioned above, a state is not in a position to force exporters and importers to change this situation. Incentives to diversify trade are not coercive measures. It is also not surprising that companies themselves do not take on more risk while looking for partners in markets other than the closest and proven markets. The state cannot (and it would not make sense to) oppose trade-worthy factors such as cultural and geographical proximity.

However, other factors are also at stake, such as the exchange rate and the competitiveness of Polish products. A detailed analysis of this issue would go beyond the scope of this paper, but it should be mentioned that the Polish economy is characterised by high cost-price competitiveness and low non-price competitiveness. This means a strong concentration on the nearest markets and relatively low flexibility of Polish exports in relation to geographical distance [24]. Theoretically, the state could help exporters by introducing a fixed exchange rate that would benefit them but this, in turn, would have much broader consequences for the whole economy which are not the subject of this paper.

The above considerations show that the state's support for economic development through the increase of exports encounters many difficulties. These are due to several factors. Firstly, an increase in exports requires activation of systemic incentives such as subsidies for which funds from the state budget are needed. This is not always a sufficient amount. Secondly, as has already been mentioned, this could be retaliated against by foreign partners. Thirdly, export support can be perceived as a dependence of the economy on foreign markets [27]. It is difficult to agree with the latter factor - today there are few countries that could run an autarkic economy, although there are periods of time, especially while implementing intensive changes, when such dependence is even a typical stage of development. The price is the growing sensitivity to changes in the global market situation and frequent dependence on external capital injections. However, an exchange, to a greater or lesser extent, is now necessary. In addition, there are small economies, such as Iceland and Malta, for which foreign trade, and especially the export of services, is a necessity for them to develop and, thereby, to obtain funds to cover the growing imports. However, a discussion on the topic extends the scope of this paper.

Forms of financial support for enterprises may be various types of reliefs and fiscal facilitations. On the one hand, they are beneficial to specific entities, but on the other hand, in the short term, they reduce budget revenues and thus reduce the financial potential for other forms of support. There's a vicious circle.

An example of an agreement, whose potential effects are assessed in two ways, is the TFA agreement which entered into force in 2017. It aims to simplify and clarify international import and export procedures, customs formalities and transit requirements. On the one hand, this is to facilitate trade, but on the other hand, it is pointed out that poor countries tend to need to stabilise local markets so that they can develop. However, this agreement also allows countries such as Chad to export products, thereby earning and creating new jobs, but it should not be forgotten that these facilities will benefit multinational corporations in particular and their profits will be the greatest [32]. Therefore, on the one hand, signing such an agreement will make things easier for businesses, but on the other hand, it will increase competition from the giants which the state cannot prevent without imposing additional restrictions and this creates another vicious circle.

Reference [41] writes: "There is much empirical evidence to suggest that a large part of public expenditure "supports" the middle class. At the same time, the middle class also accounts for a large part of the tax "burden" imposed by the state. In other words, the state taxes the middle class with one hand and subsidises it with the other. Thus, it becomes a classical intermediary. The consequence of such a fiscal "idle run" is not only the creation of negative incentives on the taxation and expenditure side but also a significant reduction in economic freedom of the affected citizens and - most likely - a slowdown in economic growth in the long run".

The above reasoning can be applied to enterprises active in the field of foreign trade. It means additional delays in their development and slower GDP growth. Even when the state creates opportunities for some form of aid (subsidies, grants or tax reductions for exporters), this causes additional difficulties and delays which can, in extreme cases, lead to abandonment or reduction of export activity. Therefore, we can fully agree with the proposals of the new institutional economy which suggests that the role of the state should be to reduce uncertainty, risk and transaction costs incurred by entities operating in the economy, i.e. to create conditions for stability in the broad sense of the term.

There are several problems here. First of all, the state should pursue a good economic policy, favouring a change in the structure of production to a more modern one. This should apply not only to companies that are focused on exporting their goods but to all areas[2]. Secondly, there is often no or insufficiently developed infrastructure. This causes, for example, delays and difficulties in transport, which is also a disincentive. The third problem refers to external conditions such as the lack of a clear export support policy. The fourth problem is a frequently low awareness of exporters themselves who do not know certain market mechanisms, such as the existence of exchange rate risk. The state could help by setting up appropriate information websites on the Internet or organising training courses.

VI. CONCLUSIONS

Several conclusions can be drawn from the above analysis. The first thing that comes to mind while reading theoretical materials is that they mainly focus on the effects of government failure within the country without an analysis on a wider, international scale. Only by looking at selected types of research will it be possible to extend research to international areas, as in the case, for example, of foreign trade. Therefore, it seems that in the conditions of increasing globalisation and interdependence of individual economies, it would be worthwhile to

[2] This raises the wider problem of under-financing of research and low cooperation between research institutions and businesses which also lack financial capacity.

develop research on the types and effects of state failure on an international scale.

The second conclusion concerns the use of existing state aid instruments. Research in this field shows that, even if it triggers some form of support (particularly institutional support), many companies do not use it for various reasons, often relying on informal and occasional methods of collecting market information, which affects effective delivery. Over 71% of respondents surveyed by Bibby Financial Services search for detailed data on the Internet on their own and only 20% gain information through direct meetings at trade fairs. Slightly fewer responsents, i.e. 19%, obtain data thanks to the activity of local industry chambers and associations and over 17% respondents use local business intelligence services [52].

The state's imperfection also results from the lack of a uniform objective of its functioning as a regulator of economic behaviour as there are various possibilities of exerting pressure on the achievement of certain regulatory objectives, in particular due to unequal access to information and its asymmetry in the system: state authorities and private economic operators. Public regulation is aimed at improving functioning of the economy. Unfortunately, there is often no coordination between economic policy and export development strategy where too much bureaucracy can be seen and elements of official pragmatism dominate instead of a business approach. An important factor here would be a greater impact of the business environment on functioning of agencies that support development of foreign trade.

Other failings also arise due to impossibility of forcing companies to diversify their trade, as mentioned while discussing the exchange problem with Germany. Although differentiation would be desirable, it is impossible and pointless to break the ties between the closest partners for fear of possible future crises. The only possibility here remains indirect impact by creating wider incentives to diversify exchanges, but it is uncertain whether this will be effective.

The Export Credit Insurance Corporation (KUKE), which supports export expansion, points out that Asian markets, where sales are constantly growing, offer a great potential. However, the available opportunities are still not being fully utilized - according to KUKE estimates, the share of this region in the value of Polish exports was about 5.7% in 2017 [22]. Therefore, a series of educational conferences was launched to present opportunities for expansion and instruments that support export undertakings.

Inappropriate allocation of funds may also result in postponement of regulations contributing to economic development. If the government has no money to support pro-export activity (for example by providing cheaper loans to enable companies to develop such activity), this means that the development of this area of the economy will be delayed and GDP will grow more slowly.

The existence of government failure does not mean that its foreign trade activities should be abandoned altogether; it also plays a very useful role in negotiating and establishing general conditions at state levels which could not be negotiated by individual companies or even their groups.

Unfortunately, it is impossible to solve all the problems - eliminated ones are replaced by new ones resulting from social and technological development, hence the difficulties of the state in offering assistance to entrepreneurs who encounter such barriers in the countries to which they intend to sell their goods, or when a given country, in which export activity is already carried out, introduces new restrictions. However, it is worth trying to keep the level of failure as low as possible.

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