

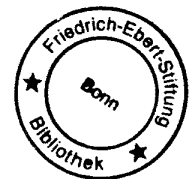
# Regional Development in Poland under Transformation

by

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Poland's regional pattern has been changing in the period of transition since 1989, with regions becoming increasingly differentiated to produce in effect a new pattern of weak and strong regions. Geopolitical changes that took place early in the 1990s have produced consequences as well as possibilities to Poland's regions. In a concluding part, Poland's regional development is discussed against the backdrop of theory and macroeconomic indicators. An extensive literature along with detailed maps illustrating different effects of the transformation on Poland's 49 provinces are supplied.

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## INTRODUCTION

*The political and economic changes that swept Central and Eastern Europe in the late 1980s and early 1990s have confronted Poland's macroeconomic policy makers with a singular challenge. In a changing world, regional development is one prominent area of state interventionism that needs to be geared to the new reality.*

*From the perspective of Poland's regional policy, the most important political and economic changes include local government reform, political changes at regional level, a move away from central planning, and new legislation on regional development.*

*The momentous reforms have ushered in a new political and economic environment and promoted a host of previously unknown phenomena. The most important processes determining Poland's regional structure involve changes in the labor market (including unemployment), changes in the ownership structure of the economy (including privatization), foreign investment, and the creation of a business environment. The substantial regional diversity of these processes is leading to a situation where the hierarchy of strong and weak regions is steadily changing.*

*With the new processes under way, a virtually new regional geography of Poland is emerging. Individual regions are adjusting themselves to the new situation in a number of different ways. In some regions, adjustment is smooth and spontaneous, while other regions are running into all kinds of problems. In extreme cases, these disturbances lead to the appearance of what are called trouble spots on the map of Poland.*

*In recent years, the international conditions of Poland's regional policy have changed completely. This primarily includes the collapse of the communist system, the dismantling of Comecon, the signing of an association agreement between Poland and the European Community, the emergence of the Visegrad Group (composed of Poland, the Czech Republic, Slovakia and Hungary), and a new type of cooperation in the Baltic Sea region. The most important geopolitical changes in Europe that directly influence Poland's situation include the reunification of Germany, the breakup of the Soviet Union with the subsequent emergence of new*

independent states behind Poland's eastern border, and the splitting of Czechoslovakia into two separate states.

In connection with these events and other changes in the international socioeconomic environment, Poland's regional policy needs to be brought in line with market economy standards. This applies to both national and regional programs, with regard to their targets, goals and instruments. To this end, it is necessary to solve various problems, including regionalization, the creation of modern infrastructure for regional policy, and the development of appropriate regional policy mechanisms, both at the central level and in local areas.

## I

### THE REGIONAL STRUCTURE AND ITS DEVELOPMENT

#### I.1.

##### The legacy of communism in the area of regional structures

The problems of Poland's regional development under communism were tackled by many researchers in the 1970s and 1980s. The most valuable studies in this area were created as part of a major project to diagnose the condition of Poland's regional development. This project was carried out by the Regional Development Committee of the Polish Academy of Sciences (PAN) in the late 1970s and early 1980s<sup>1</sup>.

After World War II, a communist system modeled after the Soviet system was introduced in Central and Eastern Europe. On the macroeconomic scale, this system led to the elimination of the market and competition, and it also deformed costs, prices and the overall trade structure. Additionally, the communist practice promoted negative structural adjustments in individual sectors and regions, bringing about the immobility of manufacturing potential and the labor force. It also caused an atrophy of initiative and entrepreneurial spirit and promoted a survival-oriented mentality and passivity. This led to deformed economic choices with consequences both on the national and regional scale.

<sup>1</sup> The problems of regional planning under communism were best characterized by A. Kukliński in a study of the condition of Poland's regional development carried out as part of the Regional Development Committee (KPZK) of the Polish Academy of Sciences (PAN). See for example:

Kukliński A. (ed.), 1983, *Diagnoza stanu gospodarki przestrzennej Polski. Wstępne wyniki badań* (Diagnosis of the state of regional planning in Poland: preliminary research results), *Biuletyn KPZK PAN*, No. 123, PWN, Warsaw;

Kukliński A. (ed.), 1984, *Gospodarka przestrzenna Polski. Diagnoza - rekonstrukcja - prognoza* (Regional planning in Poland: diagnosis, reconstruction, prognosis), *Biuletyn KPZK PAN*, No. 125, PWN, Warsaw;

Kotodziejki J., 1987, *Diagnoza stanu gospodarki przestrzennej Polski. Raport końcowy*, (Diagnosis of the state of Poland's regional planning: final report), *Studia KPZK PAN*, No. 42, PWE, Warsaw.

This list is presented here not to detail the deficiencies of the previous system but to document the influence of communism on the development of Poland's regional structure and policies under economic and political reform.

In terms of regional development, the basic features of the communist economy included:

1. Preference to mass production in individual sectors of the economy.

This primarily applied to industry and resulted from a deformed calculation of costs and profits that overestimated the benefits of concentration and failed to take into account external benefits and costs. This resulted in an inordinately high share of industrial behemoths and large factories in production, much greater than in market economy countries. The faulty sector concentration led to the deformation of regional structures. In many cities and regions in this part of Europe, labor markets are monopolized by big state enterprises and heavily depend on a single sector. Problems afflicting such sectors and big state-run businesses immediately provoke disturbances in the development of whole cities and regions.

2. The treatment of regions and local areas as the domain of central administration, coupled with the absence of local decision making and initiative.

This led to the breakup of local communities, the erosion of local economic structures, underdevelopment of the service sector and infrastructure, a deepening shortage of apartments, and neglect for the existing housing potential. As a result, it was virtually impossible to follow a full-fledged intra-regional policy. With regional and local authorities equipped with inadequate powers, another indirect consequence was the fluidity of territorial divisions, a feature shared by all former communist countries.

3. Autocratically imposed specialties of production in former Comecon countries, leading to a number of negative consequences on the macroeconomic scale.

In the area of regional development, this resulted in a limited number of links with neighboring countries, ineffective cooperation and trade (chiefly based on natural resources), and the excessive development of heavy industry and the military-industrial complex. The importance of international economic relations was underestimated. Foreign trade was hampered by a small number of border crossings and their insufficient capacity. The transportation infrastructure of individual countries was developed in isolation from the systems built by neighboring countries. Cross-border cooperation was superficial and contributed little to a real rapprochement between these countries.

4. The unprecedented degradation of the natural environment for European standards, a feature shared by all former communist countries.

This was due to a distorted economic calculation and the treatment of natural resources as spare potential without a price tag. This explains why regions rich in natural resources were vulnerable to a grand theft, which was especially painful in the case of minerals. Regions relying on energy-intensive and traditional industries saw an unprecedented devastation of the natural environment. As a result of this, all postcommunist countries alike are currently haunted by environmental problems that betray big regional-policy mistakes made in the past.

5. The relatively low regional diversity of former communist countries compared to market-economy countries at a similar stage of development.

One of the features of the communist system was the considerable transfer of resources from rich regions to poor regions, with the state economic policy oriented toward the unification of regional structures. This was linked to the political priorities at the time, leading to an ineffective spending policy in the case of regional development. As a result of this policy, differences between regions steadily narrowed throughout the postwar period. In communist Poland, the geography of strong and weak regions evolved under the influence of historic factors and regional economic structures created after the war. Generally, highly industrialized regions, especially those with a well-developed means of production sector, were given preferential treatment.

## 1.2.

### The most important changes in the development of regional structures between 1989 and 1993

The political and economic changes initiated in 1989 put an end to an economy marred by ubiquitous shortages (as described by J. Kornai).<sup>1</sup> The momentous reforms in Central and Eastern Europe generated enormous interest around the world. This is shown by the extensive literature on Central and Eastern European economic reform created in both Poland and elsewhere in the early 1990s.<sup>2</sup> These

<sup>1</sup> Kornai J., 1985, *Niedobór w gospodarce* (Economics of shortage), PWE, Warsaw.

<sup>2</sup> The problems of economic transformation attract the interest of many researchers, institutions and international organizations (including the relevant agencies of the United Nations, the European Community and the OECD). See for example:

Kołodko G., 1992, *Transformacja polskiej gospodarki: sukces czy porażka* (Transformation of the Polish economy: success or failure?), BGW, Warsaw;

Kornai J., 1991, *Droga do wolnej gospodarki* (The road to a free economy), Fundacja Pracy Polska, Warsaw;

Rollo J. (et al.), 1990, *The New Eastern Europe: Western Responses*, The Royal Institute of International Affairs, London;

Thurco L., 1992, *Head to Head: The Coming Economic Battle Among Japan, Europe and America*, William Morrow & Co., New York, pp. 85-111;

Zon van H., 1992, *Alternative Scenarios for Central Europe (Poland, Czechoslovakia, Hungary)*, Commission of the European Communities, Brussels-Luxembourg.

problems were also tackled at different levels by all important institutions and international organizations.

On the macroeconomic level, the processes of transformation resulted in the appearance of new phenomena and processes determining Poland's regional structure. The most important processes have involved changes in the labor market, including unemployment, changes in the ownership structure of the economy, including privatization (the most important manifestation of these changes), foreign investment, and the creation of favorable conditions for the operation of businesses. These new phenomena reveal strong regional differences.

Under the influence of political and economic changes, the regional distribution of different phenomena and processes has changed in former communist countries. Among other factors, it seems necessary to examine environmental changes in different regions, important from the point of view of the states policy.

Between 1989 and 1993, the regional structure of the Polish economy underwent major changes. The hierarchy of individual regions, in terms of their importance for the state, is being redefined. Still, statistical measurements in this area are likely to be imperfect because it is impossible to record and interpret the changes of individual provinces in the country's GDP. The latest available data come from 1986 and 1992 and are not perfectly comparable.<sup>1</sup> For this reason, structural changes in the economy can only be illustrated indirectly, for example by pointing to changes in the sector structure of employment and in the regional structure of industrial production. The scope and ways of collecting and preparing statistical data on regional processes are determined by analyses made at provincial level. At the same time, a lot of statistical data for provincial cross-section is missing, which limits the possibility of drawing conclusions from the regional aspects of the reform process.

The basic space-economic features are presented in the pattern of Poland's 49 voivodships (provinces).

<sup>1</sup> See *Dochód narodowy Polski według województw* (Poland's GDP by province), 1989, Department of Statistical and Economic Research of the Central Statistical Office (GUS) and The Polish Academy of Sciences (PAN), Warsaw; and Ziencowski L. (ed.), 1989, *Problemy i źródła dochodu narodowego Polski według województw* (Issues and differences in Poland's GDP by province), GUS Department of Statistical and Economic Research and The Polish Academy of Sciences, Warsaw.

Ziencowski L. (ed.), 1994, *Produkt krajowy brutto: dochody ludności według województw w 1992 roku* (GDP: personal income by province, 1992), GUS Department of Statistical and Economic Research and The Polish Academy of Sciences, Warsaw.

### 1.3.

#### Changes in the labor market, including unemployment

Along with the Polish economic transformation significant changes are taking place in the labour market. The number of people in employment economy-wide has been falling systematically in the past four years as employment has been shrinking dramatically in the public sector while not growing at the same rate in the private sector. The relative proportions of the different sectors in terms of employment kept changing very fast in the early 1990s. While employment plummeted by a dramatic 22 percent in industry, and by 12 percent in construction, in distribution it soared by a hefty 24 percent.

Between the end of 1989 and the end of 1992, total employment shrank 11.8 percent in the Polish economy. The drop occurred in all 49 provinces, even though at different rates, ranging from 20 percent in Elbląg, Koszalin, Łódź or Suwałki provinces to 5-6 percent in Bydgoszcz, Legnica or Poznań provinces. The last three-named provinces came off relatively well in comparison to the other ones because at the same time they achieved exceptionally high employment growth rates in distribution (by 46.4 percent, 60.9 percent and 70.8 percent, respectively). Moreover, industrial employment dropped by a small 1.2 percent in Bydgoszcz province, a record low figure for all of Poland. Legnica province, for its part, saw construction employment grow significantly (by 9.9 percent).

The worst drop of total employment in 1990-92 was reported from Łódź province, with 20.7 percent. Industry and construction (35.1 percent and 32.4 percent, respectively) accounted for the bulk of the drop, ranging second and third on the provinces scale. The relatively strong growth of employment in the distribution sector (23.4 percent) was not sharp enough to make good the dramatic slide in those two sectors. The downward tendency of employment at large was strongest in the northern provinces: Elbląg, Koszalin, Olsztyn, Piła, Słupsk and Suwałki, mainly as a result of the collapse of state farms, but also in connection with the slump in construction. All provinces, except Słupsk, are among the top ten provinces with the strongest drops of employment in construction, with Suwałki and Koszalin (at 44.4 percent and 33.5 percent, respectively) topping the list. Słupsk was the site of the strongest cutback of distribution employment in Poland (by 11.7 percent). Total employment also fell significantly in four provinces in the south-west: Jelenia Góra, Wałbrzych, Wrocław and Zielona Góra, and in Warsaw province. The situation there was determined mainly by sharp drops of industrial employment (except Zielona Góra) and flagging business prospects in construction (except Jelenia Góra). Warsaw province suffered the highest industrial employment cutback of all, by 37.6 percent, which gives an idea perhaps of the huge scale of

restructuring processes there. One worrying development is the fall of employment in distribution in three provinces in 1990-92, namely in Łomża and Zamość, in addition to the above-mentioned Suwałki, and its stabilization in Kielce province.

Unemployment is a new phenomenon in the Polish labor market. It came as a shock and systematically grew throughout 1990, 1991, 1992 and 1993, reaching 16.4 percent in December 1993. This is much more than the average unemployment rate registered in EC countries. The EC average was about 8.5 percent in the early 1990s, and it then rose to 10.0 percent in January 1993 as a result of some unfavorable conditions.

Unemployment in Poland varies considerably from one region to the next. In December 1993, it ranged from 7.6 percent in Warsaw province to 30.3 percent in Suwałki province. The extreme unemployment rates are steadily growing. The lowest unemployment rate, about 10 percent, is recorded in provinces based on large urban centers with rich and internally differentiated economic structures like Warsaw, Kraków, Poznań, Bielsko-Biała, and Wrocław. The highest unemployment rate is noted in agricultural provinces in northern and northeastern Poland, notably Elbląg, Koszalin, Olsztyn, Słupsk and Suwałki.

The situation of old industrial regions varies. Most of these regions are dominated by single economic sectors and badly need restructuring. The Wałbrzych province, for example, ranks sixth on the list of provinces in terms of unemployment. Unemployment in Łódź province is also above the national average (18.9 percent). The situation of Katowice province, on the other hand, with its unemployment rate of 10.1 percent, does not look critical. But it is likely to deteriorate soon due to major structural problems haunting this region.

Another alarming phenomenon is the considerable erosion of the non-agricultural labor market in many agricultural provinces. While among people working outside private farming, nationwide unemployment reached 25.9 percent in December 1993, in provinces like Suwałki or Ciechanów this rate exceeded 60 percent.

Surveys conducted in 355 labour markets across Poland show that in June 1993 in as many as 17 regions, unemployment was more than twice as high as the national average. These included areas in provinces such as Olsztyn (6), Koszalin (4), Suwałki (3), Słupsk (2) and Szczecin and Zielona Góra (one each). All these provinces are located in the northern part of the country. Only in 12 areas unemployment did not exceed 8.2 percent, meaning it was more than 50 percent under the national average. Most such areas were reported for provinces such as Katowice (3), Kraków (2) and Szczecin (2).

In December 1992, unemployment in six provinces shot up past the 20 percent mark, a rate usually considered disastrous. Yet that seems to have been due largely

to the situation in the market at the time rather than a result of structural factors. By December 1993, a further 10 provinces had reached that level. In the coming years, in many parts of the country unemployment may grow fast, even if the economic situation in Poland is improving faster than predicted.

Areas especially at risk for escalating unemployment include:

- north-east Poland, characterized by a considerable underdevelopment of the non-agricultural sector

- some regions in south-east Poland, characterized by a large number of centers with labor markets monopolized by big industrial plants in the process of laying off workers

- the Łódź and Wałbrzych provinces, as well as the Katowice province in the long term, all of them characterized by the dominance of traditional declining industries

- north-west Poland, dominated by non-private farming whose reconstruction is impossible in the short term.

One major factor influencing unemployment in different regions of the country is the inadequate mobility of the population. There is every indication that in the coming years disproportions in the availability of jobs in different areas of the country will deepen. In the next few years, no considerable increase in the mobility of the population is likely, whether in international or interregional terms. Migration will only slightly reduce the disproportions in unemployment between different regions. As a result, in many cases, the dilemma of whether to help people or regions will inevitably have to be settled at the expense of efficiency.

#### I.4.

##### Changes in the ownership structure of the Polish economy, including privatization

The ownership structure of the Polish economy is rapidly changing. The most important result of this process is the fast growth of the private sector. Between December 1989 and December 1992, the number of private businesses increased from 846,000 to 1,631,000. In 1993, this number dropped by 5,000, or a tiny 0.3%. In December 1993, private businesses employed a work force of about 3 million.

Most privately-run businesses, and consequently most private-sector employees, are clearly concentrated in provinces based on large urban centers. In December 1993, close to 19 percent of private businesses were located in provinces

such as Katowice and Warsaw, and another 24 percent in Poznań, Łódź, Gdańsk, Kraków, Wrocław and Szczecin provinces. In December 1992, employment in private business firms was above the 100,000 mark in eight voivodships, namely Warsaw, Bydgoszcz, Gdańsk, Katowice, Kraków, Łódź, Poznań and Wrocław, accounting for 46.5% of the total national figure.

Ownership changes are one of the most important processes determining the course of Polish economic reform. Until the end of December 1993, ownership changes covered 2,521 state businesses, or 30 percent of all state enterprises in Poland. Ciechanów, Częstochowa, Gorzów Wielkopolski, Olsztyn and Suwałki provinces had the largest number of state enterprises affected by ownership changes. The smallest numbers were reported from Elbląg, Jelenia Góra, Legnica, Radom and Zamość provinces.

Among privatization tracks available at the end of December 1993, liquidation due to bankruptcy clearly dominated (1,082 enterprises), followed by liquidation for privatization (917 enterprises). Capital-track privatization, involving the conversion of enterprises into State Treasury companies, was less common (522 enterprises). Liquidation as a privatization method dominated in all provinces. Liquidation due to the poor financial condition of an enterprise was the most common cause in 15 low-industrialized provinces in the north, south-east and central parts, especially Elbląg, Koszalin and Krosno.

No clear territorial pattern was discernible for privatizations through liquidation.

A look at the space-economic pattern of capital-track transformation reveals the following facts: first, no such transformation at all took place in two underdeveloped eastern voivodships: Białą Podlaską and Łomża; secondly, that kind of transformation accounted for less than 10% in total transformation in eight voivodships; and, thirdly, three voivodships, Bielsko-Biała, Jelenia Góra and Kalisz, had markedly high shares of capital-track transformation (over one-third of all).

By the end of December 1993, privatization had been completed in 98 Treasury companies, partly via shares flotation. The highest number of such businesses operate in Warsaw (10), Bydgoszcz (9), Katowice (9), Poznań (8), Opole (7), Kraków (6), Bielsko-Biała (6), Łódź (5), Wrocław (3) and Zielona Góra (3) provinces. In 16 provinces each there is only one such business, and in 15 provinces there are none.

Those in employment in the public sector between December 31, 1989, and December 31, 1992, shrank by 43.6% nationally, while growing by 51.9% in the private sector at the same time. The drop of public sector employment along with the growth in the private sector was universal, yet the extent of those processes

varied from voivodship to voivodship. Public sector employment shrank by between 56.1% (Ciechanów) and 33.0% (Katowice). Employment dropped least in Legnica and Tarnobrzeg voivodships, and most strongly in Białą Podlaską, Elbląg, Łomża, Nowy Sącz, Ostrołęka, Piła, Sieradz, Skierniewice and Suwałki. The scale of the public sector's shrinkage is clear evidence of the high rate of structural change and restructuring processes in the studied period. Private sector employment dynamics grew more than twice in Bydgoszcz, Katowice, Legnica and Szczecin voivodships, and nearly redoubled in Poznań and Gdańsk voivodships; and least in the eastern voivodships and in Nowy Sącz, Piotrków, Płock and Sieradz.

Those working in the nonagricultural private sector accounted for 41.7% of total employment in Warsaw voivodship to 14.4% in Zamość voivodship, with the national average being at 28.5%. Top shares of nonagricultural private sector employment were also reported for Łódź (40.8%), Poznań (40.4%), Gdańsk (38.2%) and Bydgoszcz (36.0%). Shares under 20% were reported for Chełm, Kielce, Łomża, Suwałki, Tarnobrzeg and Zamość voivodships.

Similar disparities were reported for those working in private business firms per 1,000 population in June 1993: between 63.5 persons in Poznań and 12.1 persons in Białą Podlaską voivodships, with the national average being at 35.9 persons. Top indicators were found in big urban centres: apart from the above-mentioned Poznań, also in Łódź (58.1), Bydgoszcz (57.6), Warsaw (57.0) and Wrocław (53.3). Relatively fewer people worked in private firms in the eastern voivodships: Białą Podlaską, Białystok, Kielce, Krosno, Łomża, Ostrołęka, Rzeszów, Tarnobrzeg and Zamość.

## 1.5.

### Foreign investment

Despite signs of revival in the economy, especially visible from the latter half of 1992 onwards, the inflow of foreign capital is still small compared to need and expectations in this area. Since 1990, the number of businesses with foreign involvement has considerably increased. The number of businesses privatized with the participation of foreign investors is also growing. In recent years, many multinational concerns have appeared in Poland, including Alcatel, Asea-Brown-Boveri, AT&T, Benckiser, Coca Cola, Colgate, Curtis, Fiat, Ford, Gerber, Gillette, Henkel, Hewlett-Packard, International Paper, IKEA, ITI, Levi Strauss, Marriott, PepsiCo, Peugeot, Philips, Reynolds, Siemens, Thomson, Unilever, and Volkswagen. In their investment decisions, investors are primarily guided by



the attractiveness of plants available for sale rather than by the characteristics of individual regions. Still, it is obvious that the involvement of multinational concerns in specific provinces will favorably influence the economic situation of these regions. Some of these concerns prefer to build their own factories from scratch rather than start production in postcommunist industrial plants. In such a case, large urban centers and areas in their immediate vicinity are clearly preferred.

The distribution of new businesses, primarily joint ventures, revealed the regional preferences of investors. On end-1993, a total 15,169 joint ventures operated in Poland. Back in December 1992, Poland had only 10,010 companies with foreign participation, so that points to a very sharp rise in those companies during 1993. Rather unfortunately, though, most of these companies had brought only small capital with them. The foreign contribution to a joint venture was under US\$ 100,000 on average.

Foreign operators investment activity evidently fits a strongly diversified regional pattern. The Warsaw metropolitan area is definitely in the lead. A clear 35.4% of all companies with foreign participation were localized in Warsaw at the end of 1993. On April 18, 1994, the Warsaw province accounted for about 41 percent of all foreign capital invested in Poland. During the last three years, Warsaw province has kept a stable share both in terms of capital and the number of businesses in operation. But this particular region accounts for only 13 percent of all those working for joint ventures across the country. This seems to point to a widespread phenomenon whereby companies are only formally registered in the Warsaw province, or only have their headquarters here, while the bulk of day-to-day business is done in other regions of the country.

Many joint ventures have also opened in other provinces with large urban areas. Provinces like Poznań, Katowice, Szczecin, Gdańsk, Kraków, Łódź and Wrocław accounted for about 37.5 percent of all businesses of this type nationwide. Bielsko-Biała voivodship concentrated 28%, with three voivodships: Katowice, Poznań and Tarnobrzeg, concentrating more than 10% of all investment capital. These figures confirm the view about the higher concentration of capital than of the number of foreign companies. Somewhat unexpectedly perhaps, foreign businesses usually did not often choose to settle in areas around the country's biggest urban centers. Only provinces like Bielsko-Biała, Radom and Siedlce, which are located in the immediate vicinity of Katowice and Warsaw, the two largest urban centers in Poland, were an exception to this rule.

In many provinces, joint-venture companies accounted for a marginal percentage of the market, representing under 0.2 percent of all joint ventures in Poland and attracting a comparable percentage of foreign capital. These were mainly provinces in the eastern part of the country. The lowest number of

companies with foreign participation, under 30, was registered in provinces such as Białą Podlaską, Chełm, Krosno, Łomża, Ostrołęka, Przemyśl, Tarnobrzeg and Zamość. The ranking of provinces according to foreign capital invested looks similar, except that this list additionally includes Ciechanów, Konin, Leszno, Piotrków, Sieradz, Skierniewice, Słupsk, Suwałki, and Włocławek, but not Chełm or Tarnobrzeg provinces.

Especially interesting data was obtained in a comparison of the regional distribution of foreign capital and its country of origin. The analysis concerned the territorial dispersal of foreign investment from countries that dominated the geographic structure (i.e., countries of origin): Italy (32.2%), the United States (23.4%), Germany (8.6%), the Netherlands (8.4%), and the United Kingdom (3.9%). Between them those countries accounted for 76.5% of the entire invested capital.

Italian capital was definitely the leader among foreign investments in joint ventures in Poland. It owed that position mainly to Fiat's large-scale commitments in passenger car production at Bielsko-Białas FSM auto works. Fiat has already committed, or vouched to do so in the future, a total of more than 2,000 billion U.S. dollars. In April 1994, Italian investments were localized in 41 provinces. Its distribution pattern can be said to have the following characteristic features:

A vast concentration in one province: 87% of the total value of Italian investments was localized in Bielsko-Biała province, specifically in the FSM automotive works.

The only other major concentration of Italian investments was in Warsaw (9 percent), in where the Lucchini Group had become involved in Huta Warszawa steelworks.

Italian investment nearly totally eclipsed the value of other foreign investment in Bielsko-Biała claiming an overwhelming 99% there. In two provinces, Białą Podlaską and Ciechanów, Italians also contributed more than 50% of total foreign investment in both, tiny figures in both provinces though.

The size of Italian investments commitment per company is illustrated by the following extreme values: from zł 434,158 million in Bielsko-Biała to a minuscule zł 25 million in Koszalin or zł 28 million in Słupsk.

American investors saw their relative share in foreign investment value drop between March 1933 and April 1994 from 37.5 percent to 23.4 percent, respectively. As in the previous year, US investments were localized nearly in all provinces (but two: Białą Podlaską and Gorzów). Also, as in the year before, its dispersal pattern was characterized by the following features:

High concentration in Warsaw, with 80.4 percent being found there. Another major cluster of U.S. investments was in Rzeszów province (Gerber foods investment in Alima Rzeszów).

Companies had a totally dominant position among foreign companies in Rzeszów province, with a nearly 97 percent share. Warsaw province, too, had a powerful American representation, at nearly 50 percent.

Investment per company was on average only one half of the Italian figure, ranging between zł 56,148 million in Rzeszów province and zł 11,100 million in Warsaw province to zł 20 million in Ciechanów and zł 33 million in Przemyśl.

German investments, which accounted for 8.6 percent of the studied foreign investment value in April 1994 (down from 15% the year before), was localized in all provinces. Next to Dutch investments, German investments are the most evenly distributed of the five national investments across Poland. Its characteristic features:

It concentrates in provinces dominated by large urban centers: Warsaw, where 20.3% of total German capital is concentrated; Szczecin, Poznań, Katowice and Wrocław (12.6, 8.5, 8.4 and 8.0 percent, respectively).

German investments account for relatively large proportions of foreign interest in joint ventures especially in western and northern provinces:

- over 80% in Jelenia Góra province,
- 50-80% in Koszalin, Szczecin, Wałbrzych provinces,
- 30-50% in Olsztyn, Piła and Wrocław,

as well as in Kalisz, Konin, Krosno, Radom and Toruń provinces.

German investments share per company in joint ventures with its participation was smaller than that of any of the studied five national investments and at the same time least widely distributed of all: ranging from zł 2,646 million in Toruń province and zł 45 million in Łomża province.

Dutch investments was the fourth biggest of the five in April 1994 (down from the third place the year before), at 8.4%. As in 1993, no Dutch investments were localized in as many as nine provinces. Its characteristic features:

Its highest concentration was in Tarnobrzeg province (38.2%, but all of it was from one company), and in provinces around major urban centers: Bydgoszcz, Katowice, Poznań and Warsaw.

Dutch investment vastly dominated foreign investment in Tarnobrzeg province (accounting for nearly 90%), and had high shares in Białystok, Płock and Legnica provinces (66.1, 60.0, and 41.1%, respectively).

Dutch investments dispersal indicator per company is very high ranging between zł 751,380 million and zł 30 million in Rzeszów province.

British investments share of foreign interest in joint ventures fell from 4.5% in March 1993 to 3.9% in April 1994; it was localized in 29 provinces. Its characteristic features:

Its concentration in Warsaw province was bigger than in 1993 (as much as 64.6% of total UK investment value was localized in Warsaw province). Gorzów (11.5%) and Wrocław (7.7%) provinces had major shares of UK investment in Poland.

British investment accounted for nearly two-thirds of foreign investment value in Gorzów province, and precisely for one-third (33.3%) in Olsztyn province.

British investments share per company is slightly under the average foreign investment value per company with foreign participation in Poland. The top indicator, reported from Gorzów province, is 15 times higher than the national average, while the bottom one, from Płock province, amounts to just 2% of the national average.

The information now at hand is not sufficient to draw any reliable conclusions regarding the territorial pattern of foreign investment location by countries of origin. It does seem, however, that allocation decisions are rarely influenced by the particular regions specific features. Foreign investment seems to be attracted above all by such and no other enterprises operating in any area. Foreign investments dispersal pattern may in fact be quite random, determined as it may be, for instance, by the fact that foreign investors have pumped their money into regions that had previously attracted hardly any foreign investment (for example, the fact that in Białystok province Dutch money accounts for nearly 70% of total foreign investment there is by itself no proof at all of Dutch capitalists any special interest in that particular region). Nor does a strong commitment of relatively large capital to any single enterprise (the case of Fiats involvement in the FSM of Bielsko-Biała, for example) prove the existence of any preferences for that particular region; if that proves anything at all, then only somebodys interest in a particular line of production, as of cars in the mentioned case. In fact, it is only in the case of German capital that there can be talk of any territorial preferences at all, for it seems to tend to localize in western, north-western and northern provinces. That may have to do with those regions relative proximity to the German border, the Germans better familiarity and special interest in areas that used to be German right to the end of World War 2.

## The creation of a business environment

Under communism, no institutions were available to support public administration in its efforts to stimulate regional development. In market economy conditions, such institutions normally form what is called business environment. A business environment exerts major influence on the investment decisions and behavior of businesses. Often, the existence of a business environment is a precondition for the attracting of foreign investors and for the efficient use of the endogenous potential of individual regions.

The creation of a business environment is registered by statisticians far less precisely than the other phenomena discussed above. Business environment institutions include banks, venture capital lenders, regional development agencies, socioeconomic initiative foundations, business promotion centers, enterprise incubators, economic societies and various exchanges. A business environment is also created by various consulting firms offering services in areas such as business activity, law, marketing, accounting and management.

Following the development of a business environment is no simple matter because some of the components of this sector resist statistical effort. Obtaining data characterizing the activities of the banking system, for example, is virtually impossible due to the organizational structure of banks and the fact that a lot of data is classified and a bank secret.

The still unstable macroeconomic situation of the country leads to an acute shortage of venture capital. Venture capital makes it possible to finance high-risk investment projects. Actually, in Poland, venture capital exists mostly in the shadow economy.

The operation of the other institutions listed can only be analyzed quantitatively. The activities of any two institutions with the same name can vary considerably.

Keeping in mind all these caveats, it is necessary to say that the process of creating a business environment in Poland strongly varies from one region to the next.

The predominant role of banks in this process is undebatable. Banks have the greatest possibility of accumulating and allocating funds. In Polish banking, important economic and organizational changes have taken place in recent years, including the privatization of state-run banks, the emergence of private banks, and the development of a network of bank branches and subsidiaries.

Among the 75 state and private banks operating in December 1992, 35 are headquartered in Warsaw, nine in Poznań, six in Katowice and five in Wrocław. The structure of branches and subsidiaries operated by these banks does not reveal any special regional concentration. Most bank branches and subsidiaries are located in provinces like Katowice (110), Warsaw (77), Poznań (61), Szczecin (52), Gdańsk (51) and Opole (49) and Lublin (49). Overall, it is possible to say that in Poland, bank subsidiaries and branches are fairly evenly distributed around the country.

Regional development agencies are a new component of the economy, especially important from the point of view of regional policy. At the beginning of 1993, there were 21 such agencies in the following cities: Bełchatów, Bielsko Biala, Bydgoszcz, Częstochowa, Elbląg, Gdańsk, Gorzów Wielkopolski, Konin, Koszalin, Legnica, Leszno, Łódź, Mielec, Nowa Ruda, Opole, Ostrołęka, Radom, Suwałki, Wałbrzych and Włocławek.<sup>1</sup> By June 1994, the number of regional development agencies and foundations had grown to 47, in 39 provinces. No such institutions had been founded in some underdeveloped provinces in central and southern Poland. Remarkably, though, as well-developed provinces as Warsaw, Wrocław or Bydgoszcz had no such institutions, either.

On the one hand, the activities of regional development agencies aim to support the restructuring of state enterprises, and on the other hand, these agencies try to support the development of new economic structures in individual regions through efforts such as the establishment of business incubators, the support of small and medium-sized businesses with the help of investment loans, the development of activities designed to create new jobs, the organization of data bases for businesses in the region, the preparation of various types of training courses, the providing of organizational, legal and accounting advice, and the providing of funds to substitute non-existent venture capital. In 1992, individual regional development agencies held capital ranging from 230 million zlotys to 19.7 billion zlotys. Even though these agencies did not have any major funds (in all about 300 billion zlotys in December 1993), they turned out to be a useful partner for the state administration and local authorities in the promotion of regional development.

Interesting findings are yielded by a comparison of data on the existence/absence in individual provinces of nine different types of business environment institutions. In an analysis carried out on the basis of data for the second half of 1992, the following criteria were taken into consideration: membership in the Council of Economic Societies, membership in the National

<sup>1</sup> The operation of regional development agencies was discussed in detail in a study called *Agencje rozwoju regionalnego. Kierunki, strategia* (Regional Development Agencies: directions and strategy), 1992, Ministry of Industry and Trade and The Industrial Development Agency, Warsaw.

Chamber of Commerce (KIG), regional development agencies, exchanges, local initiative foundations and agencies, training and consulting foundations, business and management schools, business incubators, centers for the supporting of business activities, and small business institutes. The largest number of such institutions is recorded in provinces such as Gdańsk (9), Warsaw (7), Katowice (6), Poznań (6), Białystok (6), Kielce (5), Kraków (5), Łódź (5), Radom (5), Szczecin (5) and Toruń (5). Most likely, some of these institutions, especially those located in economically stronger regions, also cover neighboring provinces.

Business environment institutions were absent from eight provinces, including Ciechanów, Jelenia Góra, Kalisz, Krosno, Piła, Przemyśl, Tarnobrzeg and Zamość. Characteristically, in many regions, efforts to create business environment institutions have gained momentum in recent months.

One of the phenomena accompanying the creation of a business environment is the fast increase in the number of people working in the finance and insurance sector. In December 1992, those working in this sector represented 1.35 percent of the national work force (up from only 1.14 percent in December 1991). The highest percentages were recorded in provinces like Warsaw (3.14 percent) Poznań (1.97 percent), Łódź (1.87 percent), Zielona Góra (1.61 percent), Gorzów Wielkopolski (1.59 percent), and Wrocław (1.59 percent). Western provinces were generally better-off. In provinces with large urban centers, percentages above the national average were registered. The only exception is the Katowice province where the figure was 0.95 percent. This points to a considerable delay in structural changes in this region but also documents the scope of opportunities for structural change there. Indicators under 1 percent of those working in that sector were also reported from 12 provinces mainly in south-eastern and central Poland.

Of considerable importance is also the regional breakdown of those working in science and the technological development sector. In December 1992, these employees represented 0.45 percent of the total number of people working in the Polish economy. Above-average indicators were reported from 9 provinces only, namely Warsaw (2.78 percent), Kraków (1.06 percent), Łódź (0.96 percent), Poznań (0.96 percent), Skierniewice (0.76 percent), Wrocław (0.64 percent), Katowice (0.55 percent), Gdańsk (0.47 percent), and Rzeszów (0.46 percent).

## 1.7.

### Changes in the condition of the natural environment

As has already been mentioned, the communist era marked an alarming devastation of the natural environment in Eastern Europe. After 40 years of a centrally planned economy, the condition of the natural environment in this part of the world is disastrous. This also applies to Poland.

The situation inside the country varies from region to region. There are environmentally devastated regions, but there are also regions in which the environment suffered relatively little. The situation is especially alarming in what are called environmental-risk areas. In Poland, 27 such areas have been singled out. Occupying 11 percent of the country's area, they are home to about 35 percent of Poland's population.<sup>1</sup> Environmental-risk areas are located in almost all parts of the country, but they are especially numerous in southern Poland, which accounts for 14 such areas. In central districts, there are 11 environmental-risk areas. In northern Poland, Gdańsk and Szczecin, the two leading port centers, are classified as environmental-risk areas. Northeastern Poland, and several provinces in the northern and central parts of Poland, are generally free from environmental risk. The enormous regional diversification of the country in terms of environmental damage—which in some regions borders on ecological disaster—is the reason why the problems of environmental protection have been treated as an inextricable part of regional policy in Poland.

As a result of political and economic changes that began in Poland in 1989, a fast decrease in the emission of pollutants has been noted, much faster than the fall of gross domestic product. The situation has been improving fastest in regions with low and average emissions. As a result, statistically speaking, the concentration of pollution in regions worst hit ecologically has been growing. Between 1989 and 1991, this rule was especially visible in the case of untreated sewage and solid waste. For untreated sewage, the Lorentz concentration indicator grew dramatically during this time from 0.49 in 1989 to 0.68 in 1991. For solid waste, the indicator increased from 0.77 in 1989 to 0.82 in 1991. The Lorentz indicators for particulates and gases were 0.58 and 0.64 to 0.65, respectively.

The dumping of untreated sewage fell from 2000.4 hm<sup>3</sup> in 1985 to 1549.6 hm<sup>3</sup> in 1989, 1342.6 hm<sup>3</sup> in 1990 and 1133.6 hm<sup>3</sup> in 1991, 994.9 hm<sup>3</sup> in 1992, and

<sup>1</sup>Kassenberg A., Rolewicz C., 1985, *Przestrzenna diagnoza ochrony środowiska w Polsce* (Regional diagnosis of environmental protection in Poland), *Studia KPZK PAN*, Volume 89, PWE, Warsaw.

843.9 hm<sup>3</sup> in 1993. This means that in 1990, untreated sewage dumping fell by 13.4 percent from the previous year. The corresponding figures for 1991, 1992 and 1993 were even higher: 15.6, 12.2 and 15.2 percent, respectively. This points to increasingly successful results in limiting sewage dumping compared to the previous years. In 1991, the ratio between the decrease in untreated sewage to the decrease in gross domestic product increased from 1.15 to more than 2.

TABLE 1:

Sewage dumping in 1989 and 1992 by province  
(the first six provinces on the list)

Province	1989			1992		
	hm <sup>3</sup>	rating	percentage	hm <sup>3</sup>	rating	percentage
Warsaw	348.5	1	22.5	221.5	1	22.3
Katowice	326.2	2	21.0	191.1	2	19.2
Łódź	149.8	3	9.7	113.9	3	11.5
Bydgoszcz	95.2	4	6.1	62.5	4	6.3
Kraków	72.7	5	4.7	-	-	-
Szczecin	53.4	6	3.4	41.6	5	4.2
Toruń	-	-	-	40.1	6	4.0
Total for provinces ranking 1st through 6th	67.4			67.5		

Source: Prepared on the basis of The Statistical Yearbook 1990, GUS, Warsaw, pp. 20-21, and The Statistical Yearbook 1993, GUS, Warsaw, pp. 21-22.

Poland's natural environment is strongly affected by polluters dumping sewage directly into water reservoirs. Sewage dumping is worst in regions with large urban centers. Three provinces, Warsaw, Katowice and Łódź, account for more than 50 percent of all untreated sewage dumped in the country. Twenty five provinces with the lowest dumping level accounted for 5.4 percent of all sewage dumped in 1989 and 1991, and 5.2 % in 1992.

As for air pollution, a major improvement was noted between 1989 and 1993. Particulates emission fell from 1,788,000 mt in 1985 to 1,513,000 mt in 1989, 1,163,000 mt in 1990, 923,000 mt in 1991, 684,000 mt in 1992, and 599,000 mt in 1993. This means that by 1990 this type of pollution had dropped by 23.1 percent

from 1989, and by 1991 by 20.6 percent from 1990. The indicators for 1992 and 1993 are 25.9 and 12.4 %, respectively.

So from 1989 to 1991 particulates emission was shrinking at more than twice the rate of GDP decline.

Particulates emission displayed a high level of regional concentration. The first seven provinces accounted for more than half the national emission figure, while 25 provinces in the best situation accounted for less than 10 percent of the national emission figures in 1989 and for 11.4 percent in 1992.

TABLE 2:

Particulates emission in 1989 and 1992 by province  
(the six first provinces on the list)

Province	1989			1992		
	,000 mt	rating	%	,000 mt	rating	%
Katowice	305	1	20.1	127	1	18.6
Jelenia Góra	98	2	6.5	58	2	8.5
Kraków	96	3	6.3	34	4	5.0
Warsaw	71	4	4.7	-	-	-
Konin	70	5	4.6	49	3	7.2
Opole	66	6	4.4	32	6	4.7
Szczecin	-	-	-	33	5	4.8
Total for provinces ranking 1st through 6th	46.6			48.6		

Source: Prepared on the basis of The Statistical Yearbook 1990, GUS, Warsaw, p.27, and The Statistical Yearbook 1993, GUS, Warsaw, p. 30.

Similar trends were observed for gas pollution between 1989 and 1992. In 1985, gas emission stood at 4,932,000 mt. In 1989, the figure increased to 5,113,000 mt, but it subsequently fell in the following years to 4,115,000 mt, 3,552,000 mt, 3,155,000 mt, and 3,001,000 mt, respectively. This means that in 1990 to 1993 gas pollution fell by 19.5, 13.7, 11.2, and 4.9 percent, respectively, from the previous years. The ratio between changes in gas pollution and changes in GDP was around 2:1 in 1990-1991. The greatest progress during 1989-1992 was achieved in limiting carbon monoxide emissions (down by 49.4 percent). A far smaller though also considerable progress was noted for sulfur dioxide (down by 34.2 percent).

The high regional concentration of gas pollution is reflected by the fact that both in 1989 and 1992 the first four provinces on the blacklist accounted approximately for 50 percent of total emission. Twenty-five regions in the best situation accounted for only 8.0 percent of gas pollution in 1989, 8.5 percent in 1991, and 8.7 % in 1992.

TABLE 3:

**Gas emission in 1989 and 1992 by province  
(the first six provinces on the list)**

Province	1989			1992		
	,000 mt	rating	%	,000 mt	rating	%
Katowice	1309	1	25.6	738	1	23.4
Kraków	576	2	11.3	210	3	6.6
Piotrków Trybunalski	509	3	10.0	389	2	12.3
Jelenia Góra	247	4	4.8	203	4	6.4
Tarnobrzeg	214	5	4.2	-		
Legnica	193	6	3.8	-		
Konin	-			171	5	5.4
Szczecin	-			119	6	3.8
Total for provinces ranking 1st through 6th			59.7	57.9		

Source: Prepared on the basis of The Statistical Yearbook 1990, GUS, Warsaw, p. 27, and The Statistical Yearbook 1993, GUS, Warsaw, p. 30.

For solid waste, the smallest progress was recorded in 1990 and 1991. In 1985, 84,838,000 mt of solid waste were produced and dumped. In 1989, the figure was 73,204,000 mt, in 1990 66,492,000 mt, in 1991 62,276,000 mt, in 1992 57,128,000 mt, and in 1993 55,550,000 mt. In 1990, a 9.5-percent drop was noted from the previous year, and in 1991 the decrease was 6.3 percent. Solid waste dumping is thus seen to have decreased at a slightly slower rate than GDP. Over the following two years, solid waste generation and dumping continued to fall slightly, by 8.3 and 2.8 %, respectively.

Solid waste dumping reveals the highest and fastest-growing level of regional concentration. The two notorious provinces, Katowice and Legnica, accounted for 56.1 percent of all solid waste dumped in 1989 and for as much as 64 percent in 1991 and 66.4 % in 1992. This was linked to a rapid deterioration in the

neutralized-to-dumped waste ratio in the Katowice province. In 1989, dumped waste in this province represented 26 percent of the total amount of waste produced, and in 1992 the figure was a strong 28 percent. Twenty-five regions with the least solid waste pollution accounted for only 1.7 percent of total solid waste dumped in 1989, for as little as 1.1 percent in 1991, and for 1.4 % in 1992.

TABLE 4:

**Solid industrial waste produced and dumped in 1989 and 1991  
by province (the first six provinces on the list)**

Province	1989			1992		
	,000 mt	rating	%	,000 mt	rating	%
Katowice	22,471	1	30.7	21,616	1	37.8
Legnica	17,879	2	24.4	16,324	2	28.6
Szczecin	4,693	3	6.4	2,376	5	4.2
Wałbrzych	3,552	4	4.9	1,551	6	2.7
Jelenia Góra	3,235	5	4.4	2,517	4	4.4
Piotrków Trybunalski	3,225	6	4.4	2,890	3	5.1
Total for provinces ranking 1st through 6th			75.2			82.8

Source: Calculated on the basis of The Statistical Yearbook for Provinces 1990, GUS, Warsaw, p.14, and The Statistical Yearbook 1993, GUS, Warsaw, p. 19-20.

The improvement in the situation for all types of pollution between 1989 and 1993 marks a reversal of unfavorable trends noted in the previous years. Still, this phenomenon should be interpreted with considerable caution. Environmental damage in Poland is so vast that it may take many years of consistent pro-ecological policy of the state to repair it.

A number of different reasons account for the ecological improvement. Undoubtedly, the most important factor is the 33-percent decrease in industrial production in the years 1989-1991. But pollution continued to drop significantly as industry kept growing fast in 1992-93. So it can be said the structural changes taking place in the Polish economy are another important factor. These are macroeconomic changes intended to redefine the role of individual sectors of the economy. In industry, some relationships are changing. One prominent example is the relationship between mining and processing. No less important changes are taking place on the microeconomic scale. These include energy saving, a more efficient use of raw materials, efforts to reduce the transport-intensiveness of

production, and more efficient management in individual businesses. Also important are the results of some major investment projects started in the second half of the 1980s. Most likely, another factor is the increased inflow of foreign funds (during these two years, foreign aid accounted for five percent of total environmental protection investment in Poland). One final factor is the accelerated transfer of foreign know-how.

Alarming phenomena include the high regional concentration of pollution. This concentration considerably rose between 1989 and 1992, especially in the case of particulates and solid waste emission. Among hardest hit areas are a number of provinces in southern Poland which top the blacklist. These include Jelenia Góra, Katowice, Kraków and Legnica. The Katowice province accounts for more than 18 percent of each of the analyzed types of pollution. This confirms the previously drawn conclusion about the regional dimension of environmental devastation in Poland.

## 1.8

### Gross Domestic Product

For the years of communist Poland no national income reporting in a regional breakdown are available that would be compatible with the UN-recommended System of National Accounts commonly used in market economies. But thanks to L. Zienkowski of the Central Statistical Offices Statistical Economic Research Department has undertaken the laborious task of reappraising the national income figures in a regional breakdown for the years 1986 and 1992.

The data Zienkowski provided has made it possible to analyse and study regional patterns of gross domestic product behaviour as the Polish economy was being transformed. At the same time, even though the figures for the years 1986 and 1992 were not perfectly comparable with each other, GDP changes provoked by the transformation could be studied meaningfully for a first time. 1986 was of course one of the last years of centrally-planned economy in Poland.

Zienkowski attached several methodological constraints on his figures which make one treat the figures for voivodships with utmost caution. Moreover, his estimates did not comprise the shadow economy, which is probably strongly differentiated regionally. Since unreported services are a most substantial economic factor in big urban centres, that is probably where the picture is more twisted than for other regions. Another paradox is the last but one place of Nowy Sącz province, which is way ahead of other provinces in making profit on tourism, in the per capita

GDP ranking scale. But tourist services obviously go largely unreported. All that goes to show not so much that Zienkowski's figures are unreliable but only that caution is recommended when interpreting figures.

Per capita GDP figures were strongly differentiated in 1992, ranging from 158.1 % of the national average in Warsaw to 64.5 % in Suwałki province. Only 14 provinces were above the national average, most of them around big urban centres and a few provinces in the west and in the heartland of Poland. Eight provinces in the east and two in central Poland were at the bottom of the per capita GDP scale. They were mainly agricultural regions with underdeveloped nonagricultural sectors. Warsaw province, with its 11.9 % share of financial and insurance services (compared with the 4.2% national average), had perhaps the most Western per capita GDP pattern.

The GDP territorial pattern was a highly concentrated one in 1992. Twelve top provinces accounted for 51.8 % of the national figure, compared with the twelve bottom provinces only 8.8 %. Provinces where Poland's biggest urban centres are situated are pivotal for GDP generation.

The figures on GDP changes in 1986-92, as mentioned before, must be viewed with great caution because of important differences of method. Yet they indicate that regional differences had remained largely unchanged, which probably has to do with the Polish regional economic orders relative immobility.

## 1.9.

### Income, wages and migration

Personal income has become strongly differentiated interregionally in recent years. Households per capita disposable income ranged in 1992 from 131.2 % in Warsaw to 79.5 % in Suwałki province around the national average of 100 %. Only twelve provinces, mostly in the west or those with Poland's biggest urban centres, reported above-average per capita income figures. Households lowest income figures were reported from the east and central-eastern provinces.

In 1992, personal income was highly concentrated across the regions. Twelve top provinces with the biggest urban centers concentrated 51.5 % of the entire Polish per capita personal income, compared with only 10.7 % in the bottom twelve.

Comparison of the figures for 1986 and 1992 points to a certain drop of interregional differentiation of households income distribution in those years.

The data below shows the average monthly income in the national economy. This data seems to be useful for regional analyses, even though it obviously does not cover the gray zone, which plays a considerable role in the economy but defies statistical penetration.

Income generated in the shadow economy probably concentrates in the biggest urban centers and in provinces along the western border. The fact that 30.7 million Germans crossed the border into Poland in 1992 is indirect evidence of that. Most of them came to Poland for brief stopovers, remaining in the border regions, on what can be described as shopping tourism. German institutes estimate that every German spent on average 70 Deutsch Mark during such trips, which is perhaps an indicator of the amount of funds Poland's western regions could earn on account of such tourism.

In most provinces, the average monthly wage was lower than the national average. In 1989, incomes above the national average were registered in seven provinces, in 1990 in six provinces, in 1991 in nine provinces and in 1992 in six provinces. Invariably, these were the following provinces: Gdańsk, Katowice, Legnica, Szczecin and Warsaw. The general tendency is a relative deterioration in the situation of regions based on mining and raw materials. The Katowice and Legnica provinces remain second and fourth on the list, respectively, on the wages scale, but in both these provinces wages decreased by seven and eleven points on average. The situation of provinces with large urban centers relying on different industries clearly improved. This chiefly applies to Warsaw, where wages grew by 14 points, Gdańsk (more than five points), Kraków (three points), Poznań (two points), and Szczecin (one point). Warsaw superseded Katowice at the top of the provinces on the wages scale, for a first time in more than forty years, in 1992.

Throughout the communist period, the lowest average monthly income was noted in poorly industrialized regions, chiefly those dominated by farming. In 1991-92, this hierarchy underwent slight alterations. Today, farming regions share the bottom of the pay list with average-industrialized provinces experiencing major problems in connection with economic reform. Zamość, Nowy Sącz, Przemyśl, Rzeszów and Włocławek provinces occupied the bottom five places.

TABLE 5:

Provinces with wage levels above the national average,  
1989-1992 (Poland=100)

Province	1989 level rating		1990 level rating		1991 level rating		1992 level rating	
Katowice	128.5	1	122.7	1	123.4	1	121.8	2
Legnica	115.2	2	117.1	2	110.6	3	104.4	4
Warsaw	108.3	3	103.1	5	118.8	2	122.0	1
Wałbrzych	105.2	4	-	-	-	-	-	-
Szczecin	102.3	5	103.4	4	104.0	5	102.9	5
Konin	100.6	6	-	-	101.9	7	101.1	6
Gdańsk	100.4	7	106.4	3	106.9	4	105.2	3
Tarnobrzeg	-	-	102.3	6	-	-	-	-
Płock	-	-	-	-	102.9	6	-	-
Poznań	-	-	-	-	100.9	8	-	-
Kraków	-	-	-	-	100.3	9	-	-

Source: Prepared on the basis of the Statistical Yearbook for Provinces 1992, GUS, Warsaw, pp. 54-55, and the Statistical Yearbook for Provinces 1993, GUS, Warsaw, pp. 50-51.

Note: The 1989 data applies only to the public sector.

In the current situation, the number of passenger cars per 1,000 residents seems to be the most representative indicator of the affluence of people living in individual provinces. A car is still a quasi-luxury product in Poland, and at the same time it is widely available in the postcommunist market. For various reasons, indicators such as apartments, furniture, telephones, television sets and other durable goods cannot be considered representative.

Between 1989 and 1992, the number of passenger cars per 1,000 people increased from 125 to 169 in Poland. Interregional differences widened during this period. In 1989, the figure ranged from 210 to 75, and in 1992 from 312 to 107 (in extreme cases). In a stable pattern, the list was topped by provinces with the country's largest urban centers, including the Wielkopolska region.



TABLE 6:

The number of passenger cars per 1,000 population  
between 1989 and 1992 (the first 10 provinces)

Province	1989		1992	
	level	rating	level	rating
Warsaw	210	1	312	1
Poznań	179	2	238	2
Leszno	159	3	208	3
Katowice	158	4	189	8
Kraków	149	5	184	9
Wrocław	141	6	195	5
Łódź	397	1	179	10
Częstochowa	131	8	-	-
Kalisz	130	9	192	6
Bielsko Biala	129	10	202	4
Płock	-	-	190	7
Poland	125		169	

Source: Prepared on the basis of the Statistical Yearbook for Provinces 1990, GUS, Warsaw, p. 243, and the Statistical Yearbook for Provinces 1993, GUS, Warsaw, p. 218.

Migration is an important indirect indicator of the socioeconomic situation in individual regions. In the 1980s, Poland was marred by a low regional mobility of the population, in comparison to Western Europe. In recent years, annual interregional migration has declined further: from 932,000 people between 1976 and 1980 on average to 650,000 in 1985, 597,000 in 1989, 530,000 in 1990, 505,000 in 1991, and 494,000 in 1992. The migration to towns balance had dropped similarly from 210,000 on average a year in 1976-80 to 86,000 in 1992.

In 1992, 17 provinces reported a positive balance of domestic migration. For all these provinces, the positive balance was 24,730 people. The Katowice province alone attracted 50 percent of all domestic migrants in 1991 and 32.6 % in 1992. The next five regions on the list accounted for 53 % (from 36 percent the year before). Those were mainly provinces with the largest urban centers.

Alarming phenomena include the large scale of migration to the Katowice province, which is the nations notorious problem spot. This shows that households continue to receive improper economic signals from the perspective of the long-term regional policies of the state. These signals paradoxically generate

migration to a region which is bound to experience the worst economic setback over structural problems.

This picture changes only slightly after considering external migration. Only twelve provinces report positive domestic and foreign migration balances, with the Warsaw province accounting for more than 50 percent of the total positive balance.

In 1992, the highest adverse migration balances were registered in Kielce, Łomża, Przemyśl, Siedlce, Sieradz, Wałbrzych, Włocławek and Zamość.

TABLE 7:

Provinces with positive migration balances in 1992  
(,000 population)

Province	Domestic migration balance		Domestic and foreign migration balance	
	level	rating	level	rating
Katowice	8.1	1	2.0	3
Warsaw	5.9	2	6.9	1
Poznań	2.3	3	2.4	2
Kraków	2.0	4	1.5	4
Gdańsk	1.8	5	0.3	8
Opole	1.0	6	-	-
Bielsko-Biala	0.9	7	0.7	5
Łódź	0.7	8	0.5	6
Bydgoszcz	0.4	9	-	-
Legnica	0.4	10	0.3	9
Rzeszów	0.4	11	0.4	7
Szczecin	0.4	12	-	-
Wrocław	0.2	13	0.1	13
Białystok	0.1	14	0.1	10
Gorzów	0.1	15	0.0	14
Lublin	0.1	16	0.1	11
Skiermiewice	0.1	17	0.1	12
Total	24.9		15.4	

Source: Prepared on the basis of The Statistical Yearbook for Provinces 1993, GUS, Warsaw, p. 48.

Between 1989 and 1992, only three provinces reported a population decrease. In Katowice, the population shrank by 15,300; in Łódź by 12,000; in Warsaw by 10,000. The greatest increase in the number of residents, on the other hand, was noted in Nowy Sącz (24,000), Rzeszów (17,900), Tarnów (17,400), Bydgoszcz

(16,400), Gdańsk (14,400), Szczecin (14,100), and Olsztyn (14,000). Wiodące pozycje zajmują regiony Polski Południowo-Wschodniej oraz Północnej, gdzie ma miejsce najwyższa dynamika przyrostu naturalnego.

TABLE 8:

Sector Two employment by province, 1989 and 1992

Percentage	Number of provinces	
	1989	1992
More than 50 percent	2	1
40 to 50 percent	5	3
30 to 40 percent	17	16
20 to 30 percent	22	21
10 to 20 percent	3	8

Source: Prepared on the basis of the Statistical Yearbooks for Provinces: 1990 and 1993, GUS, Warsaw.

Significant changes have been under way in the services sector. Between 1990 and 1992 the share of services employment rose from 35.4 % to 38.4 %, with Gdańsk, Koszalin, Kraków, Łódź, Olsztyn, Poznań, Szczecin, Warsaw and Wrocław reporting the strongest increases, in excess of 44 % everywhere. Those are mostly provinces connected with Poland's biggest urban centers. During those three-year period, the biggest increases were reported from Warsaw (by 8.3 points), Łódź (8.2 points), Gorzów (5.7 point), Wałbrzych and Jelenia Góra (5.6 points each), and Kraków and Poznań (5.1 point each). A next seven provinces, Elbląg, Katowice, Koszalin, Legnica, Olsztyn, Słupsk and Zielona Góra, saw services employment grow by between 4.1 and 4.8 points. One welcome development is that services employment is growing in old industrial provinces with unbalanced economic structure, notably Katowice, Legnica, Łódź and Wałbrzych. Exactly the opposite is true of the tendency in regions with the smallest relative shares of services in total employment. During the three-year period, the number of regions with services (Sector Three) in total employment above 40 % increased from eight to sixteen, while that of regions with under 30 % shares decreasing from 15 in 1989 to 12 in 1992. This last-named class of included mostly provinces in the central and eastern parts of Poland, namely Łomża, Siedlce and Tarnobrzeg, where services accounted for less than 25 % in 1992.

I.10.

Changes in the socioeconomic structure of provinces

The sector structure of employment pattern changed dramatically between 1989 and 1992. During that period, employment in what is called Sector Two, namely industry and construction, shrank by 3.2 percentage points, which pushed up the share of services employment (by 3.0 points) and agriculture (by 0.2 points). Those changes differed widely from region to region. In 1990-92, most provinces (43) saw Sector Two employment fall by different degrees. Łódź witnessed the strongest drop in that sector (by 9.1 points), followed by Warsaw (8.5 points), Wałbrzych (5.3 points), Skierniewice (5.1 points), and Kraków ad Radom (5 points each). In the next eight provinces the drop was between 4 and 4.4 points. Three provinces connected with the old industrial regions, that is, Katowice, Łódź and Wałbrzych, were in that class. Only those three provinces and Legnica province had Sector Two shares in total employment above 40 % in 1992: 54.0 % in Katowice, 42.6 % in Łódź, 41.4 % in Legnica, and 40.6 % in Wałbrzych.

The drop in Sector Two employment in 1990-92 was significant also in several underdeveloped provinces, certainly an upsetting development. The worst-affected provinces were Ostrołęka (where the share dropped from 22.0 % to 17.0 %), Ciechanów (17.3 % from 21.3 %), Zamość (12.2 % from 15.7 %), Łomża (12.5 % from 15.4 %), and Suwałki (19.9 % from 22.5 %). The ongoing decay of industries in those provinces undoubtedly is having a pauperizing effect on economic structures of the regions.

TABLE 9:

**Employment in the services sector by province,  
1989 and 1992**

Percentage	Number of provinces	
	1989	1992
above 50 percent	1	2
40-50 percent	7	14
30-40 percent	26	21
20-30 percent	15	12

Source: Prepared on the basis of The Statistical Yearbooks for Provinces: 1990 and 1993, GUS, Warsaw.

The above-described developments combined to cut Poland roughly into two parts as far as changes in employment structure are concerned. In the more advanced and more urbanized regions, the drop in Sector Two employment and with the rise in Sector Three were mutually complementary. Many of the less developed, agricultural, regions, on the other hand, saw strong drops in industrial employment compensated by significant employment increases in agriculture and insignificant increases in the services. That happened mainly in central and eastern Poland, especially in Łomża, Kielce, Płock, Radom and Zamość provinces. Employment structures can thus be said to have become more anachronistic than before in several provinces, with agriculture performing a role of waiting-room for the labour resources. In 1992, the shares of agriculture in total employment in Łomża and Zamość provinces were 63.0 % and 62.4 %, respectively (up by more than 3 points from the 1989 figures).

To register changes in this area, the sold industrial-production index was also used, since industry accounts for about 40 percent of Poland's GDP. The data for 1989 and 1992 is of incomplete cognitive value because it describes industrial production according to prices at a given time. The statistical data for 1989 applies only to the public sector. An additional difficulty is that in 1989, many prices were not determined by the market. That's why the results must be interpreted with utmost caution.

With all these reservations, it is nevertheless possible to say that industrial production in Poland during this time showed a high and growing level of regional concentration. In 1989, 12 provinces with the highest share accounted for 58 percent of all industrial production sold, while in 1992 the figure was 62.5 percent.

The list was stable because it only included 13 provinces (11 provinces appeared on the list for all four years, while the Legnica province joined the list only in 1990 and 1991, and the Szczecin province in 1989 and 1992).

TABLE 10:

**Structure of sold industrial production by province,  
current prices, 1989 and 1992**

Province	1989	1990	1991	1992
1. Katowice	15.5	16.9	17.8	17.3
2. Warsaw	7.8	7.8	7.8	9.3
3. Łódź	4.3	3.7	3.4	2.9
4. Kraków	3.9	4.2	3.9	4.1
5. Gdańsk	3.8	3.9	4.3	5.0
6. Poznań	3.7	3.9	4.4	4.4
7. Bielsko Biala	3.5	3.2	3.1	3.3
8. Wrocław	3.4	3.1	3.0	2.6
9. Płock	3.2	3.7	3.6	4.9
10. Bydgoszcz	3.2	3.0	3.3	3.4
11. Szczecin	2.9	2.8	2.6	3.1
12. Opole	2.8	2.9	2.8	2.2
13. Legnica	2.7	3.6	3.1	2.1
Total for provinces ranking 1st through 12th	58.0	59.9	60.5	62.5
Provinces ranking 13th through 37th combined	36.4	34.5	33.8	32.2
Provinces ranking 38th through 49th combined	5.6	5.6	5.7	5.3

Source: The Statistical Yearbooks for Provinces: 1990, 1991 and 1992, GUS, Warsaw, and the GUS Statistical Bulletin, January 1993, GUS, Warsaw.

Note: The total 1989 production applies only to the public sector.

The increase in the contribution of these 12 provinces occurred at the expense of about half the provinces in the country ranking 13th through 37th in terms of industrial production. Their relative importance steadily decreased from 36.4 percent in 1989 to 32.2 percent in 1992. The contribution of the 12 least industrialized provinces was stable throughout this period at just above five percent.

This group was subject to various trends. In the period under analysis, the concentration of industrial production steadily grew in provinces with the largest and most diverse urban centers. Between 1989 and 1992, the following provinces increased their contribution to nationwide industrial production: Warsaw from 7.8 percent to 9.3 percent, Gdańsk from 3.8 percent to 5.0 percent, Poznań from 3.7 percent to 4.4 percent, and Kraków from 3.9 percent to 4.1 percent (in the latter case, no distinct trend was noted in the successive years). The share of provinces linked to the fuel-and-power generation complex clearly increased: Katowice went up from 15.5 percent to 17.3 percent, and Płock from 3.2 percent to 4.9 percent. A clear downward trend occurred in the mono-industrial Łódź province (from 4.3 percent to 2.9 percent), and surprisingly in the Wrocław province (from 4.3 percent to 2.9 percent) and the Opole province (from 2.8 percent to 2.2 percent).

## 1.11.

### The geography of Poland four years into the reform

With market reforms under way, regions vary at a four-to-one ratio in the area of employment and the growth of the private sector. In the case of foreign investment and success in the creation of a business environment, regional differences are even deeper.

With a look back at the more than four-year experience it seems safe to say that interregional differences are steadily increasing in Poland as it moves toward a market economy. These differences continue to deepen even though Poland has reached a GDP per-capita level where interregional differences should already begin to disappear. At least this is what happens in market economy conditions.

Regional differences are growing primarily in case of the new phenomena described above. These phenomena and processes have already changed Poland's geography of strong and weak regions. Regions with a rich, internally diversified structure of the economy, and regions dominated by the service sector have proved more susceptible to economic transformations. On the other hand, monoindustrial regions dominated by traditional sectors and industries have been plagued by various problems and disturbances in the processes of transformation.

The regional diversification of these processes highlights five types of provinces distinguished from the standpoint of advancement of political and economic reform. Of those, three are problem regions.

The first group includes old industrial regions, primarily provinces like Katowice, Łódź and Wałbrzych. These regions are characterized by a dominant

industry and relatively underdeveloped services. The industrial structure of these regions is dominated by traditional sectors and raw materials. This is accompanied by a high level of environmental degradation. The situation varies but generally, in each of these three regions, the possibilities for a fast change in the economic structure are limited. So far, only the Łódź and Wałbrzych provinces have been numbered among regions with the highest level of unemployment, which is primarily the result of the market situation. Provinces like Jelenia Góra, Konin, Legnica and Tarnobrzeg also rely on raw materials and traditional industries. The presence of these industries is accompanied by environmental degradation. But the deformation of economic structures in these provinces is not as severe as in the three regions listed in the beginning.

The second group includes areas backward in terms of economic development. This primarily applies to northeastern and eastern Poland. These regions are characterized by a low level of socioeconomic development. They are dominated by agriculture and have an underdeveloped infrastructure and a relatively low-skilled work force. In the new market economy conditions, some of these areas have declined and have the country's highest unemployment rates (particularly northeastern Poland). These regions are characterized by the slowest private sector growth and the slowest development of business environment institutions. They also attract little interest among foreign investors, adding to the vicious circle of backwardness. Increasingly deeply entrenched in these regions, this phenomenon cannot be overcome without comprehensive solutions. Stimulating individual parts of the economic structure is not enough.

The third group includes provinces in northern Poland like Elbląg, Koszalin, Olsztyn, Słupsk, Gdańsk and Szczecin (with the exception of the port cities of Gdańsk and Szczecin). This part of the country is saddled with deep economic regression. At the moment, the most important problem is the collapse of state farming which used to dominate these areas. As a result of this, these provinces report the highest unemployment rates in Poland. One upsetting development is the spread of depression symptoms to neighboring provinces in central Poland, notably Ciechanów, Płock, Toruń and Włocławek, as well as to parts of Gorzów and Piła provinces in the west.

The fourth group includes regions leading the way in political and economic reform. These provinces contain the largest urban centers, primarily Warsaw, Poznań, Kraków and Wrocław, but also Bielsko-Biała, Bydgoszcz, and the seaport cities Gdańsk and Szczecin. These areas have developed extensive links with the outside world and boast a properly differentiated work force with diverse skills. They are home to entrepreneurial spirit, offering the most favorable business environment in the country. They also offer well-developed scientific and research

facilities and an academic base. With their rich and internally diversified economic structures, these areas are likely to cope best with market economy challenges. The above-mentioned cities are the most popular headquarters of multinational concerns and other foreign businesses opening operations in Poland. Along with their external zones that sometimes go far beyond the province limits, these centers easily attract foreign capital, as a result of which their labor markets are characterized by a considerable number of interesting job openings and low unemployment. The considerable activity of local entrepreneurs is conducive to quick and efficient privatization. The small and medium-sized business sectors in these regions are undergoing the most dynamic changes in the country.

Almost half the provinces in Poland can be classified in the fifth group, which includes regions based on medium-sized city centers with diverse and relatively rich economic structures, especially industries characterized by a relative underdevelopment of the service sector and infrastructure. Some cities in this group are vulnerable to various threats resulting from an excessive concentration of the labor force in a single industrial plant. Of course, within this group of provinces, there are major differences in individual phenomena and processes. Historically, the development of these regions has predominantly relied on the general economic situation of the country. This will probably continue to be the case in the future. Favorable trends in the national economy and successful transformation processes are likely to guarantee economic success for these regions.

## II.

### THE IMPLICATIONS OF EXTERNAL FACTORS FOR THE DEVELOPMENT OF POLISH REGIONS

#### II.1.

##### The communist legacy in the area of international relations

Under communism, Poland sought economic autarky, even though it was heavily dependent on the former Soviet Union and other communist countries. The splitting of Europe after World War II created a barrier in the middle of the continent, with Poland on the eastern side of this barrier.

This explains why Poland's location as a potential bridge in Europe was not taken advantage of adequately. Poland did not have an efficient infrastructure for the mass transport of people along either east-west or north-south routes. The number and capacity of Polish border crossings were too small, leading to a long wait on the border and time-consuming paperwork. Inevitably, this discouraged foreigners from transiting through Poland.

Cross-border cooperation between former communist countries was hardly successful, despite official declarations of friendship and mutual assistance. Due to the small number of cross-border links, coupled with various restrictions on the freedom of residence and travel, and the military character of some of areas, communist border zones were characterized by economic regression and outflowing population. This was also true of Poland, where the border towns of Braniewo, Gubin and Kostrzyn were the only three towns nationwide which had fewer residents in the late 1980s than in 1939. Before the war, all these towns reported a population of more than 20,000.<sup>1</sup>

<sup>1</sup>Jelonek A., 1967, *Łudność miast i osiedli typu miejskiego na ziemiach Polski od 1810 do 1960* (Population of cities and urban settlements in Poland, 1810 to 1960), Institute of Geography of the Polish Academy of Sciences (PAN), *Geographic Documentation*, No. 3/4, Warsaw.

Cooperation between Poland and the former East Germany chiefly involved the employment of workers from Polish border areas in East German enterprises. Even though the joint Polish-East German border commission suspended work in the 1980s, various forms of cooperation were developed in border towns straddling the Neisse River. Still, common efforts in areas such as environmental protection were off the mark, including a lack of progress in limiting transborder atmospheric pollution and an inadequate improvement in the quality of water in the Oder and Neisse border rivers.

On the Polish-Czechoslovak border, the Joint Commission for the Development of Border Regions was at work in the 1980s. This was an agency of the Polish-Czechoslovak Committee for Economic and Scientific and Technological Cooperation. As part of the commission, a series of valuable analyses and studies were prepared. The most important document is The Study of the Regional Development of Polish and Czechoslovak Border Areas: A Joint Document, adopted in 1985. Still, no major achievements were recorded in bilateral cooperation. The poor work between the partners was reflected by heavy transborder pollution and a number of controversial decisions, including the 1982 suspension of the small border traffic convention, and Czechoslovakias decision to build environmentally hazardous industrial facilities (for example, the Stonawa coking plant) in the immediate vicinity of the Polish border.

On the Polish-Soviet border, border cooperation structures did not exist at all. This was the result of heavily centralized decision-making in the former Soviet Union. Still, in the 1980s, a semblance of cooperation was developed between Polish border provinces and their counterparts in the former Soviet Union. The main element of this cooperation was barter trade that made it possible to extend the commercial offer on both sides of the border. But cross-border partners had limited powers and could not develop their contacts in earnest.

Despite some general similarities in the situation, Poland's border crossing network was strongly differentiated. Generally, on the Polish-East German border, one crossing accounted for 26 kilometers of the border, while on the Czechoslovak border it was 82 kilometers. On the Polish-Soviet border, one crossing covered 249 kilometers of the borderline.

## II.2.

### Changes in Europe in the early 1990s and their effects

The political changes that swept Europe in the late 1980s and early 1990s revolutionized the geopolitical situation of Poland, including a move away from the Yalta order and the end of the division of Europe into two opposing political and economic blocs. The most important changes, including the reunification of Germany, the collapse of the former Soviet Union, and the breakup of Czechoslovakia into two independent states, took place directly behind Poland's borders. These phenomena and processes completely changed the external conditions of Poland's regional policy. Thanks to the new domestic and international situation, it is possible for Poland to associate with the European Community and ultimately seek full membership in this organization. New forms of cooperation have also evolved as part of the Central European Initiative, the Visegrad Group and of the Baltic Sea network.

The reunification of Germany on October 3, 1990 changed the situation along Poland's western border, leading to the emergence of united Germany, a partner equipped with vast economic potential and interested in comprehensive bilateral cooperation, including interregional cooperation. United Germany has become Poland's leading economic partner.

In Article 12 of the June 17, 1991 treaty on good-neighborly relations and friendly cooperation, Poland and Germany promised to support friendly cooperation between regions, cities, districts and other territorial units, especially in border areas. To further this goal, the Polish-German Intergovernmental Commission for Regional and Border Development was established. As part of this commission, two committees were set up, one for Cross-Border Cooperation and the other for Interregional Cooperation. Also, Polish-German interdepartmental cooperation was started to take care of environmental protection and regional planning. Border cooperation is an important part of this project.

The potential spheres of Polish-German cooperation include:

- 1) the modernization of existing border crossings and the construction of new checkpoints
- 2) the extension and modernization of technological infrastructure furthering mutual cooperation (highways, roads, bridges, rail lines, telecommunication, power-generation systems etc.)
- 3) cooperation in the area of environmental protection, primarily water, air and forest protection

- 4) cooperation in water management
- 5) joint regional planning
- 6) the integrated development of infrastructure for tourism
- 7) mechanisms for stimulating the economic development of border zones.

As a priority, the Polish-German Intergovernmental Commission focused on the need to increase the number of border crossings and improve the capacity of the already existing checkpoints. Because the Polish-German border is delineated by the Oder and Neisse rivers, practically speaking, on every single occasion, building a new checkpoint requires the construction or modernization of a bridge. This is a major obstacle to such projects in the short term. In 1992, the commission determined the necessary scope of work on the 26 existing border crossings and a list of 14 new border crossings to be opened in the coming years.

In another important effort, the commission worked to establish a joint Society for Supporting the Economy. A Polish-German Society to Support the Economy with its seat in Gorzów Wielkopolski started to work in March 1994. Designed as a joint Polish-German partnership, the society intends to help stir economic cooperation for joint investment activities between Polish and German regions, especially along the border between the two countries. The founding shareholders on the Polish side are the province heads of Szczecin, Gorzów, Zielona Góra and Jelenia Góra, and on the German side the states of Brandenburg, Saxony, Mecklenburg-Vorpommern and Berlin.

The society's managing council is composed of the founders and Polish and German government representatives, which is proof of the importance both countries attach to that organization. The governments have pledged to support the society financially for the first three years of its work. Thereafter the society is confident to be able to make enough money on its own to keep it going.

The society intends to operate in several lines at the same time. First, it intends to engage in information and advisory services on legal, financial, tax and similar conditions to would-be investors and companies considering investing money in Poland or Germany. Promotion actions, training courses, exhibition and other services promoting investments in Poland are envisaged.

Another major line of work, and one the founding fathers are pinning great hopes on, is to set up contact to financial institutions, also in international markets, to attract them with their venture capital to Poland. To succeed in that job, the society must present persuasively the benefits of investing in that area and to provide plausible analyses of investment location variants. Given favourable economic conditions for investments in Poland, this seems to be a particularly

promising line of work, as the Polish and German government's direct commitment is certain to lend credence to the Polish-German society.

A third line of the society's work will be to assist enterprises launching restructuring programmes and to support the founding of small and medium enterprises. This seems a line of work which is particularly important and favorable to Polish industries and trade which are burgeoning in areas along the Polish-German border.

Moreover, the commission plans to promote coordinated regional and local planning in border areas. This project will be of varied territorial scope. At one level, it will involve a small border zone covering districts and border towns, while at another level it will involve four Polish border provinces and their counterparts on the German side. In 1994, the Polish land use ministry together with its German counterpart released a guideline study of development of areas along the Polish-German border, highlighting the priorities and rules of spatial development of those areas.<sup>1</sup>

On the Polish-German border, three distinct zones of cooperation are emerging. One covers the southern part of the borderland (Poland's Jelenia Góra province and Germany's Saxony). Another covers the central part of the border (the Zielona Góra and Gorzów Wielkopolski provinces on the Polish side, and Brandenburg and Berlin on the German side). The third cooperation zone is the northern zone covering Poland's Szczecin province and Germany's Mecklenburg region.

The early 1990s also saw an explosion of various forms of cooperation between provinces, cities and districts on the Polish side of the border and their counterparts in Germany. Data prepared by the Interregional Cooperation Committee<sup>2</sup> gives some idea of this cooperation. The western borders significance for Poland can be seen from the fact that most of Poland's economic ties are handled across that border. From 1990 to 1992, Germany increased its share in Poland's import value from 20.1 to 23.9 percent, and in export value from 25.1 to 31.4 percent. Poland's systematically growing trade with other EU countries mainly ships across the western border.

It was also across the western border that travel increased toughest in 1990 to 1992. At motor-road crossings, passenger, passenger car and truck traffic soared by 226.5, 342.2, and 170.8 percent, respectively. The respective growth rates for Poland were 212.7, 284.7 and 175.1 percent. In 1992, the western border accounted

<sup>1</sup> Such data is included in the *Biuletyn Informacyjny* of the Polish-German Committee for Interregional Cooperation, 1992, No. 1, Poznań.

<sup>2</sup> *Studium kierunkowe zagospodarowania obszaru wzdłuż granicy Polsko-niemieckiej*, 1994, Germany's Federal Ministry of Land Use, Construction & Town Planning, and Poland's Ministry of Land Use and Construction, Bonn-Warsaw.

for 54.6 percent of all passenger traffic, 67.5 percent of passenger car traffic and 64.9 percent of trucks. The four biggest crossings on the western border, namely Świecko, Kołbaskowo, Olszyna and Zgorzelec, accounted for most of the traffic.

The second half of the 1980s saw the economy of the former Soviet Union go down fast. This resulted in a number of setbacks in bilateral economic and commercial relations. The Soviet Union's share in Poland's foreign trade fell from 31 percent in 1985 to 19.6 percent in 1989, under 17 percent in 1990, and 12.6 percent in 1991.<sup>1</sup> The post-Soviet states accounted for under 12 percent of Polish imports and 10 percent of exports in 1992. As a result, Polish enterprises and regions specialized in exporting to communist countries, especially the Soviet Union, ran into all sorts of problems.

This especially applied to provinces relying on exports to former communist countries. In 1990, the provinces of Rzeszów, Chełm, Wałbrzych and Zielona Góra had the highest percentages of exports to these countries. In several other provinces, the share of exports to former communist countries was above the national average. These included Łódź, Gdańsk, Wrocław, Kalisz and Szczecin.<sup>2</sup> The greatest difficulties were experienced by manufacturers of capital goods and equipment as well as arms plants and light-industry plants. The magnitude of problems experienced by Polish exporters in 1990 and 1991 makes it possible to believe that these regions have already bottomed out and are now recovering from the most negative consequences of severed economic and commercial links with their former communist partners.

Following the breakup of the Soviet empire, a new geopolitical situation emerged along Poland's eastern border. Currently, Poland borders on four countries, Russia (the Kaliningrad district), Lithuania, Belarus and Ukraine. The only land routes from Belarus and the Baltic states (Lithuania, Latvia and Estonia) to Western Europe lead via Poland. But the former Soviet Union left behind a scarce network of border crossings without checkpoints on the basic routes like Elbląg-Kaliningrad, Suwałki-Kaunas (Via Baltica), and Warsaw-Lublin-Lviv. Another setback is the insufficient density of regional crossings and the complete absence of crossings with local importance.

It is necessary to upgrade the standard of existing border crossings and the quality of road connections along the most important routes. The gradual decentralization in the countries behind Poland's eastern border makes it possible to open new regional and local crossings.

In 1992, Poland signed and ratified treaties on friendly and neighborly cooperation with Belarus, Russia and Ukraine, with a similar treaty with Lithuania to follow in 1994. Each treaty includes regulations regarding the development of interregional and cross-border cooperation. These treaties state that signatory countries are interested in the development of such cooperation, including the opening of new checkpoints. The treaties have led up to the establishment of bilateral commissions on regional and cross-border cooperation.

The collapse of the Comecon and the dissolution of the Warsaw Pact have led to the atomization of relations between former communist countries.

Poland, Hungary and the former Czechoslovakia formed an alliance called the Visegrad Group, on account of their similar socioeconomic advancement, comparable political and economic changes, widespread democratization processes, and a shared geographical location. Following the breakup of Czechoslovakia, the Visegrad Triangle was extended to include four countries: Poland, the Czech Republic, Slovakia and Hungary. The European Community signed successive Europe Agreements on association with these countries. In keeping with appropriate decisions, still before these countries join the EC as full members, they will have to gradually liberalize mutual economic links within the Visegrad Group. Under an optimistic scenario, this should lead to the emergence of a free-trade zone.

There are many areas of interest to regional policy makers open to Visegrad Group cooperation. These include:<sup>1</sup>

Efforts to cushion the regional effects of restructuring monopolistic sectors and big state enterprises as well as efforts to support the development of small and medium-sized businesses.

Efforts to develop local government and promote the regionalization of the country, including initiatives to further the development of regional and local economies.

Environmental protection undertakings, primarily joint projects to bar transborder pollution. Such activities should be brought in line with the strategy of sustainable development.

Joint action to eliminate infrastructural barriers and incorporate individual countries and their regions into the European system.

Moves to open regions to supranational trade and cooperation, including the development of border areas and Euroregions. With the communist system toppled,

<sup>1</sup> The Statistical Yearbook 1991, 1991, GUS, Warsaw, pp. 382, 383, and The Statistical Yearbook 1992, 1992, GUS, Warsaw, pp. 367, 369.

<sup>2</sup> *Identyfikacja regionów zagrożonych strukturalnym bezrobociem* (Identification of regions at risk for structural unemployment), 1990, Central Office of Planning (CUP), Warsaw.

<sup>1</sup> See: Klasik A., Szlachta J., 1993, *Common Problems of Regional Development of Central European Regions and Possible Forms of Cooperation Toward Their Solution*, Brno.



it is natural that individual regions in postcommunist countries are looking for partners in Western Europe. Still, as the situation in this part of Europe stabilizes, another natural phenomenon is the revival of regional cooperation between Visegrad countries.

Cooperation in developing supranational regional studies. This especially involves the existence of Visegrad Group countries on European Community maps and strategic documents such as Europe 2000. Perhaps Poland should initiate the preparation of such a study for all of the Visegrad Group. No less important would be the joint preparation of a study regarding Visegrad regions modeled after an EC document called Regions in the 1990s. This would make it possible to identify the necessary scope of standardized data, including planning and statistics, and then collect such data for all the regions.

The development of this cooperation will be of special importance to areas located along Poland's southern border. Following the establishment of a free-trade zone, borders between Visegrad countries should be reduced to lines on the map and gradually disappear. This will create favorable conditions for the tapping of the economic potential of postcommunist border areas.

A large number of local and regional links will appear. The so-called Moravian Gate, the most important zone in trade between Poland and its southern neighbors, will grow in importance. This applies to direct links between the Ostrava and Katowice regions and to infrastructural links between Poland and some countries in southern and southwestern Europe.

Opportune conditions will also appear in local centers near the border (for example Poland's Cieszyn and the Czech Republics Cesky Tesin) which will be able to take advantage of their geographical location. New transportation links (road and rail) will be opened. Tourism and environmental protection will be covered by integrated development programs. This primarily applies to the Karkonosze, Tatra and Pieniny mountain regions. Poland signed bilateral agreements on cross-border cooperation in regional development with the Czech Republic and with Slovakia in 1993-94.<sup>1</sup>

In the late 1980s and early 1990s, the geopolitical situation of the Baltic Sea basin changed in a major way following the reunification of Germany and the emergence of independent Baltic countries (Lithuania, Latvia and Estonia).

So far, cooperation in this region has focused on efforts to counteract environmental degradation. The Baltic Sea basin covers an area of 1,381,000 square kilometers, while the Baltic Sea itself occupies an area of 385,000 square kilometers. The Baltic Sea basin is characterized by an enormous concentration of industry and people, which has led to considerable water pollution and serious environmental damage. The fact that the Baltic Sea is practically landlocked and has limited access to the ocean exerts an exceptionally unfavorable influence on the condition of the natural environment in the area.

In the past, at the initiative of Scandinavian countries, various efforts were made to stop the degradation of the Baltic. These projects involved the cooperation of all Baltic states. Comprehensive efforts to help environmental protection in the Baltic Sea region began with the 1974 Helsinki Convention on the protection of the marine environment. In recent years, stepped-up efforts have gotten under way to incorporate the Baltic region into the pan-European ecodevelopment strategy. In September 1990, all the countries in the region signed the Baltic Sea Declaration in Ronneby. Among other stipulations, this declaration called for work to prepare a comprehensive program of joint activities intended to curb pollution. In April 1992, a conference of environmental protection ministers from Baltic Sea countries adopted an environmental declaration and a convention in the matter. In keeping with the environmental declaration, a Common Program will be carried out in two stages: Stage One between 1993 and 1997, and stage Two between 1998 and the year 2012. This program identifies 132 trouble spots, 47 of which will be treated as a priority. The necessary investment for the improvement of the Baltic Seas waters was specified at five billion ECU in Stage One and 13 billion ECU in Stage Two. Despite some doubts as to the possibility of obtaining funds, the program, if implemented on the planned scale, will help steadily improve the situation in the Baltic Sea basin.

In January 1993, a tentative version of the Green Lungs of Europe project was unveiled. The Green Lungs of Europe cover an area of about 760,000 square kilometers, including all of Belarus, Estonia, Lithuania and Latvia and parts of Poland, Russia and Ukraine. The decision to adopt ecodevelopment rules for this area should prove of considerable importance for the protection of Baltic waters.

Poland accounts for 22.6 percent of the Baltic Sea basin area. As much as 99.7 of Poland's area is part of the basin. Poland accounts for 21.4 percent of BOD5. It contributes 34.5 percent of the nitrogen and 42.7 percent of the phosphorus dumped into the Baltic.<sup>1</sup>

<sup>1</sup> See *Studium koordynacyjne rozwoju polsko-slowackich obszarów przygranicznych* (Coordinating study of development of Polish-Slovak border areas), 1994, Poland's Central Office of Planning with the Slovakian Center for Strategic Studies, Kraków-Bratislava; *Studium koordynacyjne rozwoju pogranicza polsko-czeskiego* (Coordinating study of development of Polish-Czech border areas), 1994, Poland's Central Office of Planning with the Czech Economics Ministry.

<sup>1</sup> *Zagrożenie środowiska przyrodniczego w Polsce. Stan i przeciwdziałania* (Threats to Poland's natural environment: The state of things now and preventive measures), 1991, Ministry of Environmental Protection, Natural Resources and Forestry, Warsaw, p.17.

In recent years, cooperation between Baltic countries was extended to include new areas. In August 1992, a conference of Baltic ministers for physical and regional planning came up with a decision to prepare a joint strategic plan for the Baltic region until the year 2010. A December 1993 conference of government ministers responsible for space planning and regional policy approved a first-stage work report called *Towards a Framework of Spatial Development in the Baltic Area*.

Geopolitical changes facilitate the development of technological infrastructure in the Baltic region. One example is the ferry network desperately in need of extension. There are also studies under way regarding the construction of missing transportation links. From the Polish point of view, of special importance is the potential construction of the so-called Via Baltica express highway connecting Tallin with Warsaw via Riga, Kaunas and Suwałki. For the time being, traffic in these areas is not too heavy and the route could go without an express highway. But sooner or later such a need will arise. Also needed is the reconstruction and reopening of the pre-World War II express highway from Elbląg to Kaliningrad.

Political changes encourage the spontaneous development of cooperation between Baltic cities and regions. To coordinate this cooperation, an organization called the Union of Baltic Cities was established, headquartered in Gdańsk. An enormous number of links have been developed in the 1990s, at various levels, between individual cities and regions in the Baltic Sea basin. Some of these links escape official statistics.

The evolution of the Kaliningrad district and its role is especially important for the future situation of the Baltic Sea basin. Currently, Kaliningrad is a major military base with a huge concentration of military potential, at least for Central European standards. If this situation is maintained, the Kaliningrad district may become a potentially destabilizing factor, complicating the situation in the Baltic region. But it is possible that Kaliningrad will follow the peaceful development scenario, taking advantage of its geographical location and eventually becoming for Russia what Hong Kong is for China. The latter scenario, in addition to threats, also carries chances for Poland's Baltic regions.

Forecasts about the development of this particular region of Europe increasingly suggest that the current bipolar structure will remain in place in the coming years. The most optimistic scenarios call for stepped-up development in the Baltic Sea basin.<sup>1</sup>

One new phenomenon is the Euroregion craze. Euroregions are planned along all of Poland's borders, modeled after Western European experience in this area.

In Western Europe, and especially in European Community countries, there are various forms of cooperation between border regions. After the World War II hiatus, cross-border cooperation was resumed in the early 1950s. The last 30 years have seen a veritable explosion of various types of cross-border links, including more than 40 Euroregions. On May 21, 1980, the European Framework Convention on Cross-Border Cooperation between the Unions and Local Authorities was signed, popularly referred to as the Madrid Convention. This convention is open to all countries belonging to the Council of Europe. The Committee of Ministers of the Council of Europe can invite, in an unanimous decision, any non-Council of Europe country in Europe to join this convention.

Under the Madrid Convention, each state joining the convention promises to facilitate and support border cooperation between the unions and local authorities of a given country and their counterparts in neighboring countries. In keeping with the Madrid Convention, border cooperation agreements must respect the rules of international relations and general policies stipulated in the internal legislation of each country. These agreements should also respect the established rules of checking and supervising unions and local authorities. The Madrid Convention countries promise to work toward solving all legal, administrative and technical problems impeding the development of successful border cooperation. The authorities of individual countries must make sure that relevant unions and local authorities are advised about the possibilities of operation provided for by the Madrid Convention. Individual countries can decide to grant the unions and local authorities participating in transborder cooperation the same opportunities as the opportunities offered by inter-state cooperation.

The Madrid Convention is accompanied by a number of minor agreements and statute and contract outlines regulating cross-border cooperation in the case of unions and local authorities. These documents are of instructive nature and do not rule out other forms of cooperation.<sup>1</sup>

Poland signed the Madrid Convention on January 19, 1993, thus creating legal foundations for the development of transborder cooperation. At the same time, Poland will have to clearly define the powers of local authorities and their unions.

In connection with the geopolitical changes unfolding behind Poland's borders in the early 1990s, various initiatives have appealed for the development of

<sup>1</sup> See: Veggeland N., 1992, *The regions of Europe: Development on the basis of concentration model or mosaic model?* OECD, Paris.

<sup>1</sup> See Europejska konwencja ramowa o współpracy transgranicznej między wspólnotami i władzami terytorialnymi (European framework convention on cross-border cooperation between the communities and local authorities), 1993, *Dziennik Ustaw* No. 61 pp. 1279-1303, Warsaw.

transborder cooperation with all nine neighbors (including Denmark and Sweden, with which Poland shares a sea border). Still, most these initiatives are concerned with the Polish-German border. The most ambitious ideas suggest the establishment of Euroregions.<sup>1</sup>

By early 1993, the Neisse, Carpathian, Spree-Neisse-Bóbr and Pro Europa Viadrina Euroregions had been established, with many other initiatives at varying stages of development, including work on the Pomerania Euroregion.

The Neisse Euroregion was formally established in December 1991. It is a tripartite, transfrontier organization covering the border areas of Poland, Germany and the Czech Republic. On the Polish side, the Neisse Euroregion includes all of the Jelenia Góra province. The main document defining the purposes, forms and rules of operation of the Euroregion is the Framework Agreement for the Neisse Euroregion. The signatories on the Polish side include the head of the Jelenia Góra province and local government officials in the province.

In February 1993, ministers from Poland, Ukraine, Hungary and Slovakia signed a declaration on cooperation in the Carpathian Euroregion. Documents on the establishment of this Euroregion were signed by province heads and representatives of local government. The Carpathian Euroregion includes two Polish provinces of Krosno and Przemyśl. The declaration is open in terms of the territory covered by this Euroregion.

The Spree-Neisse-Bóbr Euroregion was set up in September 1993 by an Association of Communes of the Republic of Poland together with its German counterpart. On the Polish side of the border, the Euroregion encompasses 18 communes in the triangle between Gubin, Zielona Góra and Żary. On the German side, the three adjoining counties and the towns Cottbus and Eisenhüttenstadt.

An agreement founding a Euroregion called Pro Europa Viadrina was signed in December 1993 by 19 communes in Gorzów province belonging to a Union of Gorzów Communes or an Association of Zielona Góra Communes. On the German side, the Euroregion spreads over four counties and the town Frankfurt-on-the-Oder, all of a Middle Oder Association.

Usually, Euroregion designers expect two basic benefits. One benefit is the possibility of coordinating various phenomena and processes taking place in the border regions of different countries. In most cases, potential cooperation covers a long list of areas, including regional planning and development, urban planning, transport, communications, power generation, environmental protection, education,

<sup>1</sup> See Barcz J., 1991, *Współpraca regionów przygranicznych na przykładzie RFN. Wnioski dla polsko-niemieckiej współpracy regionów przygranicznych* (Cooperation between border regions as exemplified by Germany: implications for Polish-German border cooperation), *Studia i Materiały PISM*, Polish Institute for International Affairs, Warsaw.

research, health care, culture, sports, tourism, small border traffic, industrial and commercial projects and promotional programs. This coordination makes it possible to limit the negative influence of one country on the border region of another country, and at the same time it makes it possible to take advantage of the possibilities offered by border cooperation and achieve a host of other goals.

Another reason behind the establishment of Euroregions is the possibility of gaining financial support from European institutions, primarily the European Community, for investment projects undertaken in a given area. Projects in this area are modeled after various border-zone programs and initiatives started by the EC.

From this perspective, Euroregions created along Poland's western border are in the most advantageous situation. This border marks the eastern border of the EC. Unfortunately, so far, the legal regulations of the European Community have effectively limited the spending of structural funds outside the EC. This indicates that the amount of external funding intended to support the development of Polish border areas will probably be limited until Poland becomes a full member of the EC. At the same time, German border regions are getting considerable support from the EC, much like all of the former East Germany. One positive phenomenon is that programs currently under way, like Interreg, call for the possibility of spending funds outside the EC if there are transborder benefits for the Community.

The deepening chasms between regions and the impossibility of meeting everybody's expectations are likely to result in social frustration and a situation where the Euroregion concept may be called into question. That's why areas predominantly expecting the first type of benefit seem to offer healthier foundations for the creation of Euroregions, which, however, does not rule out efforts to obtain external funding.

### II.3.

#### The importance of association with the European Community

On October 3, 1990, following the reunification of Germany, Poland found itself bordering on the European Community. In 1992, in what is one of the most important signs of economic and political reform in this part of Europe, Poland, the former Czechoslovakia and Hungary signed their respective association agreements with the European Community.

Poland's association with the EC means accelerated qualitative changes in all spheres of state economic policy. Regional policy too must be geared to EC standards. In the future, Poland's full membership in the European Community will

be based on a decisive prevalence of regional benefits over negative phenomena. This stems from the importance of regional development in the EC economic agenda indicated, for example, by the existence of Directorate General XVI which takes care of regional development. Another proof is the important role of the Regional Fund, the largest and fastest-growing structural fund of the EC.

Poland's association agreement with the EC includes the following stipulations with regard to regional cooperation (Article 86):

1. The parties shall strengthen mutual cooperation for regional development and land use planning.

2. To this end, the following activities are planned:

- to provide information to state, regional and local authorities regarding regional policy and land management, and in justified cases, to provide assistance in the preparation of such a policy;

- to stimulate joint efforts between regional and local authorities in the area of economic development;

- to analyze the coordination of activities concerned with the development of border areas of Poland and the EC;

- to exchange visits designed to examine the possibilities of cooperation and assistance;

- to exchange state officials;

- to provide technological assistance with special emphasis on poorly developed areas;

- to create programs to help exchange information and experience, including the organization of seminars.<sup>1</sup>

Other sections of the agreement also refer to regional problems. Article 80, which is dedicated to the natural environment, states for example that cooperation will focus on combatting air and water pollution with regional and international (transborder) character. Article 81, which is concerned with transport, says that this cooperation especially includes the modernization of road infrastructure, inland navigation routes, rail, ports, air routes of mutual interest, and other trans-European connections. Article 87, which is dedicated to cooperation in the social sphere, says that cooperation between countries in the area of employment will focus on planning and carrying out regional restructuring programs. Article 91, devoted to

customs duties, says that cooperation will include the modernization and extension of shared border infrastructure.<sup>1</sup>

Analysis of the provisions of Poland's association agreement with the EC makes it possible to say that this agreement offers extensive opportunities for what are called soft regional policies. This primarily includes the EC co-financing of the preparation of various expert analyses, studies and programs of interest to regional development policy makers. The considerable EC support in this area creates possibilities for a relatively quick adjustment of Polish regional policy standards at both central and regional levels. Still, such regional programs do not make it possible to finance specific investment projects outside the EC.

In order to fully adjust Poland's regional policy to EC standards, it is necessary to lay the groundwork for what are called hard regional policies by the time Poland obtains full membership in the European Community. This job is based on the co-financing of specific investment projects in a way compatible with the rules of EC regional policies. It should be believed that a quasi-regional fund functioning in compliance with the rules of the European Community Regional Fund will be established as Poland aspires toward full EC membership. The purpose of the fund will be to support structural development in select regions. This should primarily include assistance to small and medium-sized businesses, support for the development of local infrastructure, money for the training of labor force, and activities making it possible to create a business environment. EC assistance in the transfer of know-how should make it possible to properly manage these funds at both national and regional levels.

Due to the limited availability of EC funds, the criteria for singling out areas eligible for such assistance will be very stringent. The selection procedure should take into consideration two types of areas meeting Objective 1 and Objective 2 of the ECs regional policy: poorly developed areas requiring stimulation, and old industrial regions in need of restructuring. At the same time it seems necessary to launch appropriate domestic funds (some of them provided by the state) to supplement outside funding.

In 1991, the EC launched a program called Overture. The purpose of this program is to support and facilitate cooperation between EC regions and cities, on the one hand, and regions and cities in Central and Eastern Europe, on the other hand. Cooperation is stimulated through the support of regional development, an inflow of technology and know-how, economic cooperation, and trade. On every occasion, cooperation should involve at least two EC regions or cities and one

<sup>1</sup>European Treaty, op. cit., pp. 40, 41, 43 and 45

<sup>1</sup>The Europe Agreement on association between the Republic of Poland and the European Community and its member countries. 1991. Ministry of Foreign Affairs, Warsaw, p. 43.

Central and Eastern European region. EC funds should represent up to 50 percent of the value of the project and no more than 75 percent of the costs. Cooperation should be comprehensive and involve different participants, including regional authorities, local government's, the small business sector, the banking sector etc.

Despite the small amount of funds available (six million ECU for the 1991-1993 period), this program is of paramount importance in the transfer of modern know-how on regional and local development from EC countries to Central and Eastern Europe. Especially noteworthy is the decentralized character of this program and the expected multiplication effect.

As said before, in order to adapt its regional policy step by step to EU standards Poland must create financing mechanisms for specific undertakings in keeping with EU regional policy rules even in the stage of association. The setting up of a programme called PHARE-STRUDER in 1993 served that end. The new assistance line, initially set at a total of ECU 60 million, soon had to be raised to ECU 76.7 million.

One major issue to address in the programme was to set its territorial span. All Polish regions actually meet requirements for EU regional policy assistance. But because of limited funds for what was basically a pilot undertaking, the programme had necessarily to be limited to a few provinces only. Moreover, it was required that the regions on the programme would have to be different from one another to ensure that experiences to be gained in the course of its implementation could be widely utilized and disseminated. As a result of those requirements, the following provinces were put on the programme:

Katowice, Łódź and Wałbrzych provinces as old industrial regions in need of restructuring, meeting EU regional policy Objective 2 requirements,

Olsztyn and Suwałki provinces as backward regions meeting EU regional policy Objective 1 requirements,

Rzeszów province as a region where big industrial establishments monopolize local labour resources, which is a specific feature of many Central and Eastern European regions.

It was believed that PHARE-STRUDER, as an entirely new programme, could hardly be implemented in reliance on existing regional policy institutions. That was why a Polish Regional Development Agency (PARR) was founded in 1993 as a public foundation with a controlling interest of the state. In the above-mentioned provinces themselves, the programme is being implemented by regional development agencies.

PARRs strategy sets forth the following three main objectives:

- to promote initiatives designed to stir economic growth in economically weak regions, in regions in need of structural transformation, or in regions plagued already by or soon to face structural unemployment,

- to support the development of information and advisory services, training programmes, scientific and technological research into regional growth methods and forms,

- to create, and contribute to the creation of, financial institutions promoting regional growth.

The relevant initiatives success or failure will depend largely on their capacity to encourage regional initiatives in new sectors, in particular through the establishment of small and medium enterprises.

Within the framework of PHARE-STRUDER programme, the PARR is implementing the following undertakings:

- a guarantee scheme,

- a regional investment fund,

- small infrastructure projects,

- training and advice offered to first-time founders of business firms and jobless individuals,

- support for regional structures and operations.

The PHARE-STRUDER programme is likely to spread across further regions of Poland and experiences gained in the course of its implementation will be taken advantage of to provide the infrastructure for modern regional policy in Poland.

One important element of Poland's cooperation with the EU in regional policy is PHARE-CROSSBORDER, a new programme taking off in 1994 to co-finance investments cross-border investments on the Polish side.

Another major regional policy tool of the EU is its programme called INTERREG, which helps finance development projects in internal and external border areas. The catch is none of those funds may be used outside EU borders. So in 1994 a decision was made to launch a new assistance line to a total ECU 150 million to help finance cross-border undertakings on the outside of EU borders.

Poland received in that year ECU 55 million for investments along its border to Germany and another ECU 2 million for its border to Denmark, which is practically the Baltic coastline. As agreed in mutual talks, those funds shall be used first of all to expand border crossings, to expand the communications infrastructure, to improve the quality of the environment, and to back small and medium enterprises. All those undertakings should produce beneficial effects to the EU and Poland alike. It is also important that neighbouring countries should cooperate with each other. In

the future, PHARE-CROSSBORDER funds should be integrated with INTERREG resources.

The guiding rule for the first stage of implementing the programme in Poland was that funds should concentrate in large investment undertakings. That implies first of all building and expanding border crossings on the border to Germany, and expanding environmental amenities and tourist services in the Baltic coast.

One major problem are changes in the regional structures of Poland as it strives toward integration with the EC. The gradual removal of customs barriers and trade limitations will eventually bring about the emergence of a free-trade zone.

In keeping with the association agreement, business activity in Poland has been classified into four groups:

- the processing industry, including the fuel and power-generation sectors, the steel industry, electrical engineering, means of transportation, chemicals, building materials, wood and paper, textiles, leather and clothing, food processing and construction;

- mining, metal and precious-stone processing, the production of explosives, ammunition and arms, pharmaceuticals, the production of toxic substances, the production of distilled alcohol, and the service sector, not including financial services, transaction services and agency services in the trade of real estate and natural resources as well as legal services;

- financial services, meaning all kinds of insurance and insurance-related services, as well as banking and related services;

- the purchase of state property as part of the privatization process, the ownership, use and sale of real estate; transaction operations and agency services in the trade of real estate and natural resources; legal services; high-voltage transmission lines and pipeline transport.<sup>1</sup>

The regional distribution of these four sectors is strongly differentiated, leading to differences in the situation of individual regions in the context of the free-trade zone plan.

The association agreement provides for a transitional period of up to 10 years, divided into two stages, each basically spanning five years. In keeping with the decisions made, Poland will strive to create congenial conditions for EC businesses and individuals wanting to start operations in Poland.

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<sup>1</sup>European Treaty, op. cit., p. 24, and Annexes XIIa, XIIb, XIIc and XIIId, pp. 118-122.

In the case of the first group of sectors, immediately after the implementation of the agreement, Poland will guarantee a no less favorable treatment than the treatment of its own citizens and businesses. In the case of the second group, this will be done gradually though no later than the end of the first stage. In the case of the third and fourth groups--gradually but no later than the end of the transitional period.

The agreement allows Poland to repeal these provisions in reference to sectors undergoing restructuring, sectors facing major difficulties, particularly important social problems, sectors in which Polish businesses are on the brink of dropping out of the market or suffering from a drastic reduction in their market share, and sectors which are newly created industrial sectors in the Polish economy. Still, such limitations can only be temporary and must be cleared with the EC Council. They can only be introduced in exceptional situations.<sup>1</sup>

Thus, as a result of the agreement, most Polish processors and constructors are bound to face competition from foreign businesses already today. Mining, the remaining processing industries, and basic services will be threatened by foreign competitors around 1997, and specialist services around the year 2002. It is difficult to predict the regional preferences of foreign businesses in Poland. It should be expected that in the case of projects not bound by geographical reasons, already developed areas will be preferred, because they offer deeper markets, a better industrial climate and more comprehensive services for the business community. This is confirmed by the experience of the last several years. Thanks to the association agreement, foreign investment in Poland will probably gain momentum, except in areas where domestic businesses drop out of the market and are not replaced by foreign businesses hesitant to build their facilities there. This situation may result in a considerable decrease in GDP and in the inadequate supply of jobs in these regions.

## II.4.

### The implications of Poland's economic opening for the development of the national transportation infrastructure

With a new situation at home and a changing world abroad, Poland needs to bring its transportation infrastructure in line with Western European standards. As a priority, this applies to the construction of new highways and expressways. In the

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<sup>1</sup>European Treaty, op. cit., p. 24.

early 1990s, work started to revise the prospective arrangement of highways and expressways in Poland. The fall of communism gave Poland new possibilities to meet its role as a bridge between the North and South and between the East and West. A market economy promotes the growth of vehicle transport.

In every country, the network of highways and expressways is considered a strategic factor of regional planning. The planned arrangement of Polish highways was approved by the Council of Ministers in 1993. This network covers about 2,500 kilometers of highways and about 3,000 kilometers of expressways.

This arrangement includes three main highways serving the basic socioeconomic links inside the country and catering to the new international arrangement. These three highways should be built as a priority:

- the A-1 North-South (N-S) highway from Gdańsk to Ostrava via Toruń, Łódź, and Katowice;
- two West-East (W-E) highways: the A2 highway from Słubice to Terespol via Poznań, Łódź and Warsaw, and the A4 highway from Zgorzelec to Medyka via Wrocław, Katowice, Kraków and Rzeszów.

The western sections of the West-East highways are planned in the coming years.

In the subsequent years, another two highways are planned:

- the A3 highway from Szczecin to Lubawka via Zielona Góra and Legnica,
- a highway from Wrocław to Łódź.

Construction of the A3 highway is not certain because there are competitive German highways nearby. Still, the new Polish highway could take over some of the excess traffic on the German highways. But it must be kept in mind that the German highways are free and more convenient for drivers headed for Prague, for example. Besides, drivers might prefer German highways for one other reason: They will have one border less to cross. But regardless of these reservations, it seems necessary to incorporate Szczecin into the nationwide expressway network. The highway from Wrocław to Łódź is not debatable in the new external and internal conditions.

It is also necessary to analyze the possible construction of a highway connecting Finland and the Baltic states with Western Europe via Poland (called Via Baltica). Under one scenario, this highway would run from Suwałki to Warsaw, while another scenario suggests it could run from Elbląg to Szczecin via Gdańsk. In the foreseeable future, the relatively modest human and economic potential of these four countries (plus the Kaliningrad region) is unlikely to generate heavy traffic justifying the construction of a highway or expressway. Still, political reasons will

probably necessitate the construction of such roads sooner or later, probably earlier than suggested by mere economic considerations.

Construction of these highways was until now financed by the state. But the difficult budgetary situation of Poland is the reason why the construction project is losing momentum. In the last several years, under 10 kilometers of highway a year have been built. As a result, only a small section of the network has been completed: some 300 kilometers of highways, including road sections once built by the Germans and some kilometers of expressways.

The highway construction project should be accelerated against all odds. When completed, the highway network will help both the economy and society. This primarily applies to:

- the anti-recessionary influence of construction work;
  - accelerated integration between Poland and the EC and as part of the Visegrad Group. Poland could finally take good advantage of its geographical location as a bridge between Western and Eastern Europe;
  - the stimulation of entrepreneurship in individual regions through efficient transportation,
  - the multiplication effect for the economy.
- The most important reasons behind the still-slow pace of construction include:
- budgetary limitations making it impossible to allocate sufficient funds to highway construction,
  - comparatively small traffic, too small to justify the construction of expressways and unlikely to grow as long as recession holds on in many regions.

Still, all around the world newly built highways usually generate traffic with time. This even applies to highways built to cater for areas initially without heavy traffic. At the same time, putting off highway projects leads to the construction of substitute substandard roads failing to solve the problem of an efficient road infrastructure. This jacks up the costs of building highways in large urban centers like Katowice, Warsaw and Poznań.

That the construction of highways ground to a halt in 1990 and 1991 points to the need for comprehensive financing solutions. Trying to build the planned network of highways solely on the basis of budget funds would mean freezing the existing network for years. The historic changes taking place in Europe make it possible to use external sources for financing highways in the form of government-guaranteed credits and commercial loans. In order to obtain foreign loans, the state must commit budgetary funds covering at least a quarter of the costs of the construction project. This financing would come in the form of

non-refundable subsidies for the purchase of land for construction sites and for the preparation of investment.

Air infrastructure is another key component of the national transportation system, one with substantial international importance. In 1990, following the removal of subsidies to plane tickets on flights between former communist countries, the number of passengers flown fell by 429,000 for the first time in eight years. In 1991, the number fell by another 550,000. In 1992, the number of passengers again started to grow. In Poland, Warsaw accounts for about 95 percent of all passengers taking international flights. The airports of Gdańsk and Kraków, which account each for two to three percent of passengers, are likely to grow systematically to several more percent of the traffic.

**Passengers on international flights  
(in thousands)**

TABLE 11:

Year	1985	1988	1989	1990	1991	1992
Poland	1,587	2,273	2,883	2,454	1,904	1,944
including Warsaw	1,512	2,162	2,714	2,359	1,821	1,805
percentage of passengers	95.3	95.1	94.1	96.1	95.6	92.8

Source: The Statistical Yearbook 1991, 1991, GUS, Warsaw, p. 368, Statistical Yearbook 1992, 1992, GUS, Warsaw, p. 353, and The Statistical Yearbook 1993, 1993, GUS, Warsaw, p. 367.

One interesting phenomenon is the new situation of Berlin following the reunification of the two German states. In 1989, Berlin's two airports, Tegel and Schoenefeld, served a combined nine million passengers. It is estimated that, in the next 10 to 15 years, the opening of the airspace above Berlin and the increase in the number of flights taken by former East Germans will boost demand for air transportation in this part of Germany to 20 to 30 million passengers annually.<sup>1</sup> The planned construction of a new airport south of Berlin, fit to accept up to 30 million passengers a year, will considerably influence the situation of other airports in

Central and Eastern Europe. Residents in western Poland (including cities such as Szczecin, Wrocław and Poznań) will increasingly fly out of Berlin rather than Warsaw. Other important changes involve the situation of sea ports. In analyses carried out in the 1970s and 1980s, an increase in the importance of the port centers of Gdańsk and Szczecin was projected in connection with the opening of the Polish economy and reorientation of economic links toward countries with well-developed market economies.

In the late 1980s and early 1990s, following the introduction of the internal convertibility of the zloty and a move to realistic costs and prices, the transit route through Polish ports ceased to be financially attractive. As a result, Polish ports have lost out in competition with Western European ports which offer better services. Transit cargo handling fell from 9.0 million tons in 1988 to 6.1 million tons in 1989, 5.0 million tons in 1990, and 2.5 million tons in 1991. That tendency was reversed in the following years as servicing quality improved, and transit value increased to 3.7 million mt in 1992 and 5.9 million mt in 1993. Admittedly, Poland's trade is rapidly growing all the time, chiefly in the case of EC countries, but this primarily with the use of land connections.<sup>1</sup> In the coming years, cargo handling is unlikely to grow fast. Polish transit services may increase in the future as a result of demand from landlocked Belarus. Still, Belarus, a country with about 10 million residents, has a vast economic potential and the possibility of using ports in other countries. Probably, Belorussian orders will generate only limited transit through Polish ports.

**Cargo handling in Polish commercial sea ports  
(in millions of tons a year)**

TABLE 12:

Cargo handling	1980	1985	1989	1990	1991	1992	1993
Total	61.5	50.1	48.0	47.0	41.8	44.3	50.5
including							
Gdańsk	23.1	18.1	18.9	18.6	17.0	20.5	23.3
Gdynia	13.2	10.7	9.5	10.0	7.3	6.3	7.8
Szczecin	24.7	21.0	19.3	18.0	17.2	17.5	19.3

Source: The Statistical Yearbook 1991, 1991, GUS, Warsaw, p. 371, and the Statistical Yearbook 1992, 1992, GUS, Warsaw, p. 356, and the Statistical Yearbook 1994, 1994, GUS, Warsaw, p. 266.

<sup>1</sup>Szwankowski N., 1992 Rola portów morskich w światowym systemie transportowym (The role of seaports in the world transport system), the state Regional Development Council, Warsaw, pp. 5-15.

<sup>1</sup>Berlin: Regional development in the Berlin region. The foundations of planning, 1991, Senate of Berlin, p. 24.



## II.5.

### Transborder pollution

The communist era marked a disastrous degradation of the natural environment in Central and Eastern Europe. The communist economy, regardless of official declarations about the importance of environmental protection, offered opportune conditions for businesses to abuse natural resources at the expense of society and the future generations. One consequence of this approach was major transborder pollution, which testified to the negative influence of the communist economies on neighboring countries. This especially applied to air and water pollution.

With westerly winds dominant in Europe and the small area of individual countries, air pollution easily moves eastward. Poland used to share its western border with East Germany, which emitted the most air pollution in Europe, both in terms of the number of residents and area. As a result, Poland was especially vulnerable to transborder air pollution. But on the other hand, in the 1980s, Poland was the leading exporter of air pollution to the former Soviet Union.

TABLE 13:

Transborder SO<sub>2</sub> air pollution for Poland, Czechoslovakia, East Germany and Hungary in 1988 (,000 mt a year)

importb	Poland	Czechoslovakia	East	Hungary	Total
			Germany		
export					
Poland	-	63	18	18	99
Czechoslovakia	123	-	56	26	206
East Germany	243	116	-	17	376
Hungary	27	38	1	-	66
Total	393	217	75	61	746

Sources: Prepared on the basis of *Sustainable Development*, 1990, United Nations, Economic and Social Council, Economic Commission for Europe, Geneva, Table III, p. 20.

The economic and political reforms in Central and Eastern Europe have put an end to the unrestricted wastage of energy and raw materials. All these countries have considerably cut hazardous emissions. At the same time, recession in the economy has helped reduce environmental pollution as a result of lower production.<sup>1</sup> Structural changes have also begun to produce first positive effects. As has already been mentioned, in 1993, dust dumping in Poland dropped by 60 percent from 1989, and gas dumping fell by 41 percent, including 37 percent for sulfur dioxide. For carbon monoxide and nitrogen oxides, drops of 49 and 30 percent, respectively, were reported. Of all Central and Eastern European countries, the former East Germany is undergoing the fastest economic and technological changes, ahead of the Visegrad Group (Poland, the Czech Republic, Slovakia and Hungary). No data is as yet available on transborder air pollution in the early 1990s. Comparing transborder sulfur dioxide and nitrogen oxide pollution for these four countries between 1980 and 1990 confirms that Poland's situation was decidedly the least favorable in terms of air pollution (both in the case of imports and exports), while the situation of the former East Germany was the best. The fast economic and political changes designed to gear these countries toward market economy standards, especially visible in the former East Germany, should eventually lead to a major improvement in the situation of all Central and Eastern European countries, and particularly Poland. Subsequently, the situation should improve in the countries born out of the former Soviet Union, including Ukraine and Belarus.

In Poland, lower transborder air pollution will especially help the southwestern part of the country (primarily the Jelenia Góra and Wałbrzych provinces). Subsequently, the situation will improve in southern Poland, affected by pollution entering Poland through the Moravian Gate. This primarily applies to the Katowice province. These areas are characterized by a high level of atmospheric pollution, meaning reduced air pollution imports there are especially important.

The data for water pollution is slightly different, though equally unfavorable. The Vistula River basin, which covers an area of 194,400 square kilometers, spans four countries: Poland with 168,700 square kilometers, Ukraine and Belarus with 23,800 square kilometers, and Slovakia with 1,900 square kilometers. The Oder River basin, which covers 118,900 square kilometers, includes Poland, with 106,100 square kilometers, the Czech Republic with 7,400 square kilometers, and

<sup>1</sup> The further development of the situation in environmental protection is examined by many researchers and institutions, including the OECD and the relevant agencies of the United Nations. According to some sources, the condition of Poland's natural environment will take decades to improve, while other sources suggest that this will not last long.

See for example Hughes G., *Are the Costs of Cleaning up Eastern Europe Exaggerated?*, *Economic Reform and the Environment*, Centre for Economic Policy Research, Discussion Paper No. 482, London; and

Adler U., Sprenger R., Wackerbauer J., 1991, *Alternative Views on Cost of Pollution Control Policies during the Transition*, IFO Institute, Munich.

Germany with 5,400 square kilometers. Even though only some rivers feeding into the Vistula and Oder start outside Poland's borders (representing about 12.3 percent of the basins area), these rivers negatively influence the purity of water in Poland. All the important rivers flowing through Poland (Oder, Neisse, Poprad and Bug) carry waters that defy classification. Border rivers like Bug, Neisse, Oder and Olza are also heavily polluted. Little has been done to improve the quality of water carried by transborder and borderline rivers.

TABLE 14:

**Transborder nitrogen oxide pollution in Poland, Czechoslovakia, East Germany and Hungary in 1985 (000 mt a year)**

Import	Export	Poland	Czechoslovakia	East Germany	Hungary	Total
Poland	-	175	63	59	297	
Czechoslovakia	231	-	115	72	418	
East Germany	244	139	-	32	415	
Hungary	33	41	4	-	78	
Total		508	355	182	163	1,208

Source: Prepared on the basis of *Sustainable Development*, United Nations, Economic and Social Council, Economic Commission for Europe, Geneva, Table IV, p. 21.

The political and economic changes taking place in this part of Europe are conducive to the reduction of water pollution. But efforts to curb water pollution have been less successful than efforts to limit air pollution. This is due to water polluters. In 1985, 2000.4 hm<sup>3</sup> of untreated sewage was dumped in Poland. In 1989, the figure was 1,549.6 hm<sup>3</sup>, in 1990 1,342.6 hm<sup>3</sup>, in 1991 1,133.6 hm<sup>3</sup>, in 1992 994.5 hm<sup>3</sup>, and in 1993 843.9 hm<sup>3</sup>. This means that 1993 saw a 45.5-percent decrease in water pollution compared to 1989. Even though relatively small, the progress in this area is much greater than in previous years.

Resultantly, there is every indication that, with time, transborder water pollution will finally be reduced, though more slowly than in the case of air pollution. This will be accompanied by an improved quality of water in border rivers, with an important effect on the purity of water in the Baltic Sea.

In the 1980s, Poland ranked second among Baltic countries in terms of biogenic substance dumping. But in per-capita terms, Poland dumped much less pollutants than other Baltic states. Poland, the former East Germany and Soviet Union accounted for 52.5 percent of BOD5. They dumped a combined 55.4 percent of nitrogen and 55.0 percent of phosphorus into the Baltic. It should be expected that the fast political and economic changes in the former East Germany, Poland and the Baltic states (Lithuania, Latvia and Estonia) will eventually lead to a major reduction in Baltic Sea pollution in the coming years.

TABLE 15:

**Biogenic substances annually dumped into the Baltic Sea by Baltic countries on a per-capita basis in the 1980s**

Country	BOD5 ,000 mtkg/		Nitrogen M,000 mtkg/		Phosphorus M,000 mtkg/M	
Denmark	159.7	39.5	69.1	17.1	9.5	2.35
Finland	249.8	55.4	69.5	15.4	4.4	0.98
East Germany	13.3	6.4	3.6	1.7	0.4	0.19
West Germany	22.7	20.6	16.4	14.9	2.4	2.18
Poland	358.4	9.0	220.0	5.5	22.0	0.55
Sweden	361.6	50.2	129.5	18.0	6.9	0.96
Soviet Union	504.7	25.9	130.3	6.7	5.9	0.30
Total	1,670.2	21.3	638.4	8.2	51.5	0.66

Source: Prepared on the basis of independent data and *Zagrożenia środowiska przyrodniczego w Polsce. Stan i przeciwdziałania* (Threats to Poland's natural environment: The state of affairs and preventive measures), 1991, Ministry of Environmental Protection, Natural Resources and Forestry, Warsaw, Table 4, p. 17.

The new geopolitical situation in Europe is favorable to pan-European initiatives designed to avert environmental degradation. Pan-European conferences with the participation of environmental protection ministers organized in Bergen (May 1990), Dublin (June 1990) and Dobris (June 1991) produced moderate results. Some progress has been made following the Earth Summit in Rio de Janeiro organized in June 1992. Another important event was the April 1993 conference of

the environmental protection ministers of all European countries and representatives from major international organizations (including the relevant agencies of the United Nation, the European Community, and the OECD) in Lucerne. The conference was headlined Environment for Europe. The basic conference document was the Environmental Action Program for Central and Eastern Europe.

The long-term results of the Lucerne conference will probably include:

- an increased transfer of environmental protection funds to Central and Eastern European countries (ultimately up to 10 percent of total environmental spending in these countries)

- a political declaration accepting the rules governing the international trade of waste in Europe, resulting from the common responsibility of all European countries for the condition of the natural environment

- the establishment of an institution equipped with Western European funds to help identify and develop specific investment projects and prepare financial solutions to combat environmental pollution in Central and Eastern Europe, in cooperation with banks and donor countries

- an upgraded transfer of environment-friendly technology.

The research and studies under way are based on the concentration of efforts, funds and attention on environmental trouble spots. A detailed list of these places has been compiled in terms of different types of pollution. This should help gradually relieve the environment in ecological-risk areas. An especially quick progress should be made in those Central and Eastern European countries which have carried out basic market-oriented reforms. Currently, this primarily applies to the Visegrad Group.

### III.

#### POLAND'S REGIONAL DEVELOPMENT POLICY UNDER REFORM

##### III.1.

##### State interventionism in regional development according to the neo-Keynesian and neo-Liberal doctrines

Regional policy is one staple of the states interventionism in a market economy. Most countries allocate a small part of the state budget to state interventionism in the strict sense of the word: from 0.15 percent to 1.5 percent.<sup>1</sup> But, in all, this adds up to major sums. At the same time, the states activity in other areas has an indirect effect on regional development. This particularly goes for agricultural policies and national defense. Regional development spending is governed by one important rule: It is higher in countries following the neo-Keynesian doctrine, while it decreases under the influence of the neo-Liberal doctrine.

It is necessary to examine the reasons for the existence of a regional policy in market economy countries.<sup>2</sup> In these countries, socioeconomic development usually varies from one region to another, including economic, social, cultural and environmental differences. Those propounding these two theories agree that, in the initial stage, the capitalist system leads to increased regional differences. Both theories differ in their assessment of the purposefulness and ways of fighting this phenomenon.<sup>3</sup>

<sup>1</sup> Weaver C., 1984, *Regional development and the local community: planning, politics and social context*, John Wiley, New York.

<sup>2</sup>See, e.g., *Public policy and regional economic development, the experience of nine Western countries*, 1974, Ballinger, Cambridge; *Regional problems and policies in Turkey*, 1988, OECD, Paris; *Regional policies in Germany*, 1989, OECD, Paris; *Regional problems and policies in Switzerland*, 1991, OECD, Paris.

<sup>3</sup>Richardson H., 1985, *Regional Development Theories*, in Richardson H., Turk J., (ed.), *Economic prospects for the Northeast*, Temple University, Philadelphia, pp. 8-27.

The neo-Liberal doctrine holds that excessive regional differences will disappear sooner or later, thanks to market mechanisms. Economic and social degradation in some areas means a reduced price of different resources available in these regions. Lower production costs in such regions make it possible to overcome this unfavorable situation in a natural way. At the same time, the high mobility, including regional mobility, of the population in highly developed capitalist countries makes it possible to move labor force from backward regions to developed regions offering a better climate for business people.

Therefore, adopting the Orthodox liberal doctrine would mean eliminating state regional policy. It is necessary to keep in mind that this particular doctrine makes it possible for the state to get rid of a number of problems and spheres of endeavor. A classic work by Milton Friedman lists state activities undertaken in various periods of time in the United States, contrary to the liberal doctrine.<sup>1</sup> These include for example programs to maintain prices in agriculture, import tariffs and export restrictions, state controls on the size of production, controls on apartment rent and council housing, minimum wage and maximum price controls, detailed legal regulations regarding sectors such as transport, the banking system, obligatory pension programs, professional licenses (for example for doctors), national park management, state monopoly on postal services, the public management of toll roads, and state controls on medicines available in the market.

This list is incomplete and is only presented here to illustrate the problem. In Friedman, the welfare state doctrine is subject to special criticism. Liberals say that this doctrine introduces socialism into a market economy through the back door, directly leading to the degeneration of the system.

For this reason, each instance of state interventionism in the socioeconomic sphere distorts the natural business conditions. Against this background, any greater involvement of the state in regional development is criticized. Critics quote the ineffective spending of public funds, the ballooning bureaucracy needed to supervise this activity, the consolidation of overheated economic structures, and the introduction of regulations hampering free enterprise. Possible benefits of state interventionism do not justify the need to spend public funds.<sup>2</sup>

The neo-Keynesian doctrine holds that inefficient market mechanisms lead to the poor use of resources, both in individual regions and nationwide.<sup>3</sup> Consequently,

this doctrine calls for far-reaching state interventionism in the socioeconomic sphere. As has been mentioned, state interventionism is justified by the imperfections of market mechanisms. Choices made solely on the basis of pure market premises often lead to negative social and ecological consequences. Benefits achieved by individual businesses can lead to disadvantages on the global scale. In another economic argument, assessment of the effectiveness of individual projects according to pure market criteria is imperfect because it involves too short a period of time. This results in an inefficient use of resources in the national economy.

The states influence focuses on economic trouble spots and sectors in need of intervention.<sup>4</sup> Trouble spots include:

- poorly developed (economically backward) regions. These are generally regions dominated by Sector One and peripheral in terms of natural conditions, geographical location and historic background. The basic problem is to initiate development processes and overcome the backwardness of these regions;
  - old industrial regions. These are already industrialized areas dominated by one or two sectors of the economy. With technological progress, these sectors have ceased to be the driving force of the economy and began to experience various kinds of problems. The top priority is the introduction of new activities to diversify the economic potential of these regions. This especially applies to the high-technology sector, in addition to traditional sectors, which is the driving force of structural change;
  - large urban centers. The regional concentration of the population and businesses has helped achieve a number of positive results but also led to negative social, ecological and economic consequences. The domination of big urban centers has negatively influenced some of the remaining areas of the country. The state promotes a sustained socioeconomic development and more balanced regional structures.
- The main reasons for interventionism:
- unfavorable processes in the labor market, including unemployment as their most prominent consequence;
  - low incomes of the population;
  - underdeveloped infrastructure, including the transport system, limiting investors access to regions;
  - environmental degradation posing a major barrier to economic development.

<sup>1</sup>Friedman M., 1962, *Capitalism and freedom*, The University of Chicago, Chicago-London.

<sup>2</sup>Friedman M. and R., 1979, *Free to choose*, Avon Books, New York.

<sup>3</sup>Chinitz B., 1971, *National Policy for Regional Development*, in: *Essays in Regional Economics*, Harvard University, Cambridge, pp. 21-39.

<sup>4</sup>Wadley D., 1986, *Restructuring the regions: Analysis, policy model and prognosis*, OECD, Paris.

Specialized funds launched by relevant state agencies have become the single most important instrument for regional policy makers.

In recent years, supranational interventionism in the area of regional planning has become an important novelty.<sup>1</sup> This type of intervention is primarily recorded in the EC, but it can also be observed in some non-EC countries. Interventionism in the EC primarily applies to the trouble spots of individual countries, border areas, and shared infrastructure. These activities are designed to narrow interregional differences and further regional integration within the EC.

Researchers and politicians supporting either doctrine claim that the gradual disappearance of interregional differences in developed market-economy countries provides empirical evidence for the correctness of their respective doctrines.<sup>2</sup> Neo-Liberals say that the developed market systems in these countries have made it possible to narrow differences in a natural way. They additionally associate this phenomenon with the return of liberal policies in recent years. Those following the neo-Keynesian doctrine, on the other hand, say that the differences have been narrowed as a result of many years of state interventionism rather than due to market mechanisms. Neo-Keynesians say that it is natural that regional development efforts produce deferred results.

During the last 50 years, regional policies in developed capitalist countries have been influenced by both these doctrines.<sup>3</sup> In Western Europe, the influence of the Keynesian doctrine was stronger, while in developed capitalist countries outside Europe the liberal doctrine prevailed. In recent years, regional policy makers have been increasingly attracted to the tenets of the neo-Liberal doctrine. This is due to the small efficiency of the neo-Keynesian doctrine on the macroeconomic scale, especially in solving problems such as inflation, unemployment and budget deficit.<sup>11</sup>

Analyzing the current regional policies in developed capitalist countries, it is possible to identify the following basic features of these policies:

They are oriented toward regional rather than sector assistance, contrary to the traditional arrangement.

Generally, modern sectors of the economy are supported at the expense of traditional industries.

The importance of promoting not just industry but also services is acknowledged. Previously, industry accounted for most of the funding and effort.

These policies are primarily oriented toward small and medium-sized businesses. Previously, attention focused on big firms and facilities.

Indigenous development is promoted, based on regions own resources and predispositions. Previously, development strategies were oriented toward attracting funds from the outside as a basis for expansion.

Assistance is almost exclusively based on economic premises. Previously, social factors were often considered, treated as no less important than economic factors. This means that today the state does not generally subsidize the day-to-day costs of businesses.

Attention focuses on local initiatives and agencies. Previously, most regional programs were administered centrally.

Efforts and funds concentrate in several areas of the country where the need is relatively the greatest. Previously, regions were practically eligible for indiscriminate funding, which resulted in their fragmentation and prevented satisfactory results.

The development of infrastructure receives much stronger support because infrastructure is designed to create a business environment in regions.

The privatization of the public sector and joint projects between private and public investors are promoted. Previously, public investment dominated.

The political and economic changes sweeping Poland call for an enquiry into the possibilities of using the two above-mentioned doctrines by the state to follow a modern regional policy. It seems that the states activity in the area of regional development will be pragmatic and based on both these doctrines. It must be kept in mind that the decision to use either doctrine must take into account the current stage of Poland's development and the fact that it is economically behind developed capitalist countries. The infamous legacy of many years of a centrally planned economy is another factor to consider.

<sup>1</sup>Guide to the reform of the Community Structural Funds, 1989, Commission of the European Communities, Brussels-Luxembourg.

<sup>9</sup>Williamson J., 1980, Unbalanced Growth, Inequality and Regional Development: Some Lessons from U.S. History, in Arnold V. (ed.), *Alternatives to confrontation: A national policy toward regional change*, Lexington, pp. 3-62.

<sup>2</sup>Rostow W., 1977, Regional change in the Fifth Kondratieff Upswing, in: Perry D., Watkins A., (ed.), *The rise of the Sunbelt Cities*, Sage Publications, Beverly Hills, pp. 83-103.

<sup>3</sup> See for example *The welfare state in crisis*, 1981, OECD, Paris, and also Thurow L., 1980, *The zero-sum society: distribution and the possibilities for economic change*, Basic Books, New York.

## III.2.

### **The influence of macroeconomic factors on regional policies in the late 1980s and early 1990s**

The macroeconomic policies of the former communist countries and the ways in which these policies were implemented led to a number of negative phenomena and processes widely described in available literature on the subject. J. Kornai, for example, referred to the communist system as a shortage economy.

Different features of the economies of the former communist countries determined these countries' positions at the start of economic and political reform. In the case of Poland, the positive features of the communist economy included:

*A relatively extensive private sector.* In what was an unprecedented phenomenon in this region, the Polish private sector dominated in agriculture, providing 87 percent of its production in 1989. The importance of private ownership in other sectors of the national economy was also considerable. In 1989, as many as 1,780 people worked in the private sector not including agriculture. That year, the private sector accounted for 17 percent of all those employed in national industry, 31 percent of those employed in construction, almost 10 percent of the work force in trade, and 26 percent of the work force in municipal management.

*A less marked influence of the state on the course of economic processes, compared with other communist countries.* In the 1980s, central investment represented about 15 percent of all investment spending in Poland. At the end of the past decade, this share fell below 10 percent, helping limit the problems involved in the continuation of abortive central investment projects after 1989. To a lesser extent, this was also true of other spheres of macroeconomic planning.

*A relatively large shadow economy.* In addition to many negative consequences known from the experience of other countries, the existence of this sector was in fact favorable to the survival of what is popularly called entrepreneurial spirit. After the start of political and economic reform, many home-bred entrepreneurs started doing legal business, contributing to the fast growth of the private sector after 1989.

These phenomena had their geography, which was one of the main factors behind the appearance of regional differences in the course of the transformation process.

Compared to other former communist countries, the negative features of the Polish economy in 1989 included:

- a completely deregulated macroeconomic planning leading to problems such as a three-digit inflation

- a huge foreign debt

- an antiquated structure of the economy, heavily dependent on agriculture and mining and more obsolete than in other Central European countries.

Only the last-named feature had any significant influence on regional development.

With the start of political and economic reform in 1989, the macroeconomic conditions of regional planning changed completely. An economic equilibrium, even at the expense of a periodic regression in the economy, became the top priority of the states' economic program.

As early as 1990, the consistent policy of the state helped remove shortages and build foundations for a market economy. One of the achievements of the economic policy pursued between 1989 and 1993 was that it made it possible to bring down inflation from a mind-boggling 586 percent in 1990 to 70 percent in 1991, 43 percent in 1992, and 35 percent in 1993. Beginning January 1990, the zloty was made internally convertible helping gradually stabilize the money market. Revenues from exports increased from 7.5 billion dollars in 1989 to 14 billion dollars in 1992. In 1993, they dropped 2.9 percent, to 13.6 billion dollars. At the same time, foreign trade was successfully reoriented. It no longer relied solely on former Comecon markets but was geared to cater for market-economy countries, primarily the European Union. The EU accounted for 53.2 percent of Polish imports and 58 percent of exports in 1992. During this period, major structural changes took place in the Polish economy. The private sector grew rapidly. At the end of 1992, 57.4 percent of the national work force worked in the private sector. Until the end of 1993, about 30 percent of all state enterprises were privatized. Between 1989 and 1992, the percentage of those employed in Sector Two (covering industry and construction) fell by 3.2 points.

However, the Polish reform produced some negative effects as well. For example, it led to a 11.6-percent reduction in GDP in 1990 compared to 1989, and a 7.6-percent drop in 1991 compared to 1990. GDP increased by 1.5 percent in 1992, and by 3.8 percent in the following year. In all, the 1993 GDP represented about 86 percent of the 1989 figure.

Unemployment is another negative phenomenon inseparably linked with the introduction of a market economy. Unemployment steadily grew from 6.3 percent in late 1990 to 11.8 percent in late 1991 and 16.4 percent at the end of 1993. No less important is the steady deterioration in public finance due to dwindling state revenues. At the same time, new items on the state spending list have appeared, all of them characteristic of a market economy. As a result, the structural budget deficit represented 3.8 percent of Poland's GDP in 1991. In the following year, the figure increased to six percent. In 1993, the deficit dropped to 2.8 percent of GDP.

Four macroeconomic factors adversely affected the states regional policy between 1989 and 1993:

*Low per-capita GDP.* Poland's per capita GDP was close to 2,200 U.S. dollars in 1992, even though estimates by different international institutions, made on the basis of the purchasing-power parity factor, speak of almost 5,000 U.S. dollars on a per capita basis. But even adopting the optimistic version, the gulf between Poland and Western Europe is enormous in this area. This greatly hampers the possibility of following an active regional policy in Poland.

*Public finance crisis.* In 1991, a structural budget deficit appeared in Poland. Increasing expenses must be made to guarantee the functioning of the state. This means a need for deep savings as part of the state budget and calls for spending cuts in all other areas. At the same time, in addition of the external debt of the state, an internal public debt is beginning to snowball. This makes it impossible to put aside sufficient public funds for regional development.

*The aims and priorities of the states macroeconomic policy.* The move to a market economy required concerted action to attain a macroeconomic equilibrium. The problems of economic growth and the social consequences of reform were put to the back burner. This explains why, in its stabilization policy, the state overlooked active regional planning, limiting itself to the monitoring of reform processes in local areas. An additional reason behind this particular approach was the relatively small scale of regional differences inherited from the communist economy.

*The political and economic changes in the financing of state administration in local areas.* In 1990, a historic project got under way, aimed to establish local government's in cities and districts (gmina), the basic administrative units in Poland. This reform was of paramount importance for the reconstruction of local government, including the restoration of powers to cities and districts, while regions remained under state administrative control. These reforms were accompanied by changes in the organization of public finance, based on moves such as the liquidation of provincial budgets beginning in 1991. This restricted provinces possibilities to follow an intraregional policy.

A look at the macroeconomic conditions determining Poland's regional policy under reform prompts the following conclusions:

With deep recession and the adopted macroeconomic priorities of the state, a regional policy could only cover protective measures in areas especially hit by reform. These include areas in which regional and local economic and social structures have a hard time adapting to the new political and economic conditions.

Attempts to revive the economy made in such regions could not produce the desired results, because signs of revival appeared only in regions leading the way in transformation and with the most favorable conditions toward overcoming recession. Only exceptionally strong stimuli are likely to encourage investors, including private entrepreneurs, to become involved in problem regions. Thus, the growing polarity of regions according to their ability to adapt to the new conditions, is unavoidable. At this stage of reform, a regional policy can only offset the consequences of this process and cushion especially negative social results.

### III.3.

#### **Poland's regional development policy between 1989 and 1994**

The regional policy followed in Poland throughout the postwar period was strictly linked to the socioeconomic doctrine at the time. The states policy toward regions was generally a long-term policy, which set it apart from other economic programs. But despite this positive feature, regional policy makers followed the basic concepts underlying the previous command system and central planning stereotypes. Within this framework, hierarchic plans were created for regions, with funds redistributed from rich regions to poor provinces, frequently in disregard of economic rationality. Poorly developed regions were stimulated by central investment projects with dubious economic efficiency. Direct state investment involved not only infrastructure but also the material production sector.

Regardless of the assessment of the communist policy, the rules and instruments of the current policy vis-a-vis regions are hardly compatible with the rules of political and economic transformation. Most specialists agree that during the last several years regional development has run into a major crisis. Extreme views hold that regional policy has actually atrophied in Poland. Apart from the above-mentioned macroeconomic causes, there are two other factors obstructing a full-fledged regional policy in Poland.

The first factor is the inadequate development of the theoretical background for regional development. Theories in this area are virtually a case of shooting from the hip. They draw from just about anything, from historic patterns, including the Polish regional development theory under communism, to the experience of market economy countries.

The other factor is the virtual disappearance of regional policy makers. There are usually two basic regional policy makers around the world: the state, which follows an interregional policy, and the regional authorities, represented by both the

state and various forms of local government, which jointly create an intraregional dimension of this policy. In Poland, both these dimensions have been suspended in a way.

Recently, views calling for the rejuvenation of Polish regional policy have been increasingly common. A number of arguments are quoted to support this appeal:

Growing interregional differences. As has already been mentioned, communism left behind a relatively small scale of regional differences in Poland. But with the current political and economic changes in the country, these differences have been growing, even though judging by Poland's GDP, they should steadily begin to narrow, at least when applying market economic standards. This was described in the first part of this work. Quite a few academics and politicians hold that regional differences in Poland have reached a point where they pose a threat to the course of political reform. At the same time, social and economic criteria justify an active regional policy.

New international conditions. These problems were characterized in detail in the second part of this work. With Poland now associated with the EC and seeking full membership in the Community, its regional policy standards need to be gradually adjusted toward EC requirements. To this end, it is necessary to gear the rules, instruments and institutions used by Polish regional policy makers to the regional policy models in the EC and affiliated countries.

No less important is the new geopolitical situation of Poland. Currently, Poland shares a border with the EC and has a land border with seven (instead of three) countries, and a sea border with two countries. Another new factor is the far-reaching regional cooperation with Baltic Sea countries, within the Central European Initiative and the Visegrad Group.

The states policy vis-a-vis regions should make it possible to positively respond toward these challenges, creating a chance to develop modern regional infrastructure and take good advantage of Poland's favorable location as a bridge in Europe.

iii) The new internal conditions creating a chance for the emergence of a civic society.

The communist period taught people to make demands and expect things from the state. This resulted in a deformed social perception of the problems of regional and local development. The basic mode of behavior among local and regional communities was to address the central authorities to solve the problems of individual regions and cities. In many localities, this habit has left people passively waiting for the central authorities to prepare restructuring programs for their regions and then implement them by means of centrally imposed decisions.

It is necessary to overcome the malaise and helplessness of local and regional communities and to develop state mechanisms for the support of local initiative.

One sign of the new thinking in the postcommunist era was the governments decision to deal with regional policy problems in documents laying down the state economic policy for 1992, 1993 and 1994.

The 1992 socioeconomic policy guidelines adopted by the Council of Ministers include an item concerned with regional planning (Item 10.8 of Chapter 10, Necessary Structural Transformations). This item reads as follows:

"Regional policy will aim to equalize the chances of development for individual regions, which means that the government, in its interventionist programs, will devote special attention to industrial regions especially at risk for unemployment and to agricultural regions with low income.

Infrastructural investment projects will make it possible to incorporate these regions into an extensive transport network. Modernization will get under way in big industrial enterprises if clearly shown profitable by restructuring programs. These undertakings should primarily be financed from international credits.

At the same time, using European Community aid as part of the PHARE fund (Poland-Hungary Agreement on Restructuring Economies), which is specially adapted to these purposes, a program for local development will be launched, based on the mobilization of local capital and human potential and on supporting the creation and development of small and medium-sized businesses through considerable investment assistance, whether in the form of subsidies or special preferential credits.

The program will be implemented through a system of regional development agencies operating in conjunction with local authorities and organizations, especially in the creation of the necessary infrastructure for investors in local areas. Another sphere of this endeavor is co-financing the training and retraining of workers.<sup>1</sup>

In the 1993 socioeconomic policy guidelines adopted by the Sejm on October 17, 1992, Chapter 8 is dedicated to regional policy:

50. Regional policy currently focuses on the effects of transformation especially acute in regions subject to economic restructuring and threatened by high structural unemployment. Another sphere of endeavor is based on economic and

<sup>1</sup>Socioeconomic Policy Guidelines for 1992, 1992, the Council of Ministers, Warsaw.



cultural cooperation with neighboring countries. The third type of activity involves efforts to develop various policy making institutions at local and regional levels.

51. In the Katowice, Łódź and Wałbrzych provinces as well as in regions in northeastern Poland and in some regions in southeastern Poland dominated by large state plants, work will continue to create solutions and institutions making it possible to efficiently influence restructuring processes. This calls for active and efficient administrative operations in the area of legislative, organizational, institutional and technical solutions. In this way, the government will create opportune conditions for local government bodies and non-public entities involved in the development and restructuring of regions. This primarily applies to the establishment of foundations to raise funds for regional development and the establishment of regional committees to manage these foundations. These committees will group together representatives of the business community as well as other members of the local population, including public workers and administration.

Other plans for these regions call for:

- the gradual removal of barriers and legislative gaps occurring in the restructuring process (as exemplified by the restructuring project in the Wałbrzych province);
- the creation of special economic solutions promoting the development of small enterprises (business incubators, schemes involving the leasing of machines and equipment, easier access to land, the use of some state enterprise holdings).

52. In 1993, economic support for regions threatened by high structural unemployment will be provided through:

1) a better use of the existing instruments, including accelerated amortization, subsidies to infrastructural investment, corporate income tax exemptions for companies with foreign involvement exceeding two million ECU, special schemes for businesses paying taxes with the use of the so-called Tax Card to allow them to employ more people, income tax breaks for employers providing training to workers.

2) the introduction of new solutions such as:

- temporary income tax reliefs for domestic investors creating new jobs in these regions;
- preferential credits for small business investors, provided foreign aid is obtained for this purpose;
- credit guarantees for small and medium-sized enterprises granted by the nascent Credit Guarantees Fund;

- subsidies to investment projects concerned with infrastructure instead of subsidies for the creation of new jobs introduced in 1992. This will help link infrastructure projects with public works financed from the Labor Fund, thus upgrading the spending policy.

53. In 1993, efforts will be made to accelerate the creation of modern regional-development institutions geared to EC standards. This scheme will be furthered by the STRUDER program for structural development in selected regions, financed from EC funds. This program will be used to support the development of new components of the economic structures of select regions rather than reconstruct the old parts of these structures. STRUDER funds will primarily be used to support investment projects creating new jobs in the small business sector. Some of this money will also go to develop local infrastructure and to promote and retrain the work force.

In 1993, the STRUDER program will probably cover five provinces: Łódź, Wałbrzych, Suwałki, Olsztyn and Rzeszów. In these provinces, new institutions (agencies, foundations, and funds) will be established to absorb and effectively allocate money intended for regional development. Or else, the already existing institutions will be adapted to the new needs. At the same time, the creation of similar structures in other provinces will be supported to make it possible to extend the scope of foreign-relief programs in the following years.

54. Of special importance will be the implementation of bilaterally coordinated projects in regions on the Polish-German border. Border cooperation will also be initiated with the Czech Republic, Slovakia, Ukraine, Lithuania, Belarus and Russias Kaliningrad region. One priority for the state in 1993 will be to modernize the existing border crossings and open new ones, primarily on the western and eastern borders. Also, cooperation with Baltic states will be developed with a view to prepare a strategic regional plan for the Baltic zone.

55. Market-oriented adjustments will be monitored in individual regions in the following areas: changes in the labor market, changes in the ownership structure of the economy (including privatization), foreign investment, and the creation of business environment, especially in regions where transformation and restructuring face the most problems. This will make it possible for decision-making centers to quickly and more flexibly respond to the most serious threats.<sup>1</sup>

In its Socioeconomic Policy Guidelines for 1994 (*Założenia polityki społeczno-gospodarczej na 1994 rok*, 1993, Rada Ministrów, Warszawa) approved

<sup>1</sup> Socioeconomic Policy Guidelines for 1993, 1992, the Council of Ministers, Warsaw

on August 17, 1993, the Council of Ministers addressed regional policy in articles 18 and 19 in chapter 3 on Actions in Support of Economic Development. Here is the relevant passage:

"18. Regional policy is specially important among pro-development actions, especially those programmes that support economically depressed regions. A Polish Regional Development Agency is starting operation in 1994, to finance implementation of minor infrastructure investments and the development of small and medium enterprises in five regions (Suwałki, Olsztyn, Łódź, Wałbrzych and Rzeszów). The respective programmes will be financed together with PHARE-STRUDER. Establishment of a special economic zone in Mielec commune is a outstandingly important element of those programmes.

In 1994, talks will be held with the EEC to increase funding of a restructuring programme for Katowice province. Cross-border regional cooperation programmes will be launched taking advantage of experiences of existing Euroregions - Carpathians and Neisse. A Society to Support the Economy (TWG) will be founded still in 1993. Its job will be to finance local cooperation projects at the Polish-German border. The TWG will be supplied with funds by the two governments as well as local communities on both sides of the border. Poland will have to allocate 150 billion zlotys in even tranches over the next three years.

The main issue in the implementation of regional policy is the establishment of organizations consolidating local initiatives and creating the financial foundation for them (among other things, taking advantage of existing funds now at disposal of different government departments and agencies and nongovernmental organizations) with a view to implementing programmes designed and realized by local communities. The government's role in those actions will be to supply expert advice and removing obstacles to fund consolidation.

19. Efforts will continue on setting up poviats, selfgoverning intermediary administrative units that will take over powers and responsibilities now vested in local administration offices of general and special nature. The devolution of jobs and powers will be accompanied by a turnover of financial resources and the relevant property. In 1994, a pilot programme will be started in 46 towns that are already capable of taking over jobs and powers to be vested in poviats.<sup>1</sup>

In April 1992, the Council of Ministers adopted a medium-term document covering the years 1992-1994 and entitled The Socioeconomic Policy Guidelines until 1994. In this document, Chapter 7 is dedicated to regional policy:

<sup>1</sup>Socioeconomic Policy Guidelines for 1994, 1993, the Council of Ministers, Warsaw

"1. The main government intervention goals in regional development until 1994 include:

- to support imminent and desired changes leading to the emergence of effective economic structures in regions;
- to prevent the occurrence of, or at least offset, the most drastic social effects of transformation processes.

The preconditions for the successful implementation of these goals include a further decentralization in the organization of the state and the creation of institutional conditions for regional and local business initiatives. Another precondition is improved efficiency of government interventionism.

2. In regions where economic transformation faces special problems and leads to the most painful social consequences, special institutions will be established to effectively control the processes of restructuring and regional development. The establishment of Regional Development Funds is planned. These funds will be managed by Regional Committees composed of representatives from local government administration, local authorities and business and social communities. Regional Development Agencies, appropriately transformed and strengthened to operate along strictly commercial rules, will take care of the executive functions.

The emergence of these institutions will be an important factor for the decentralization and regionalization of the anti-recession program. They will also promote a more efficient use of funds directed for the restructuring and reviving of regional economies. Under a general rule, most centralized public funds (including foreign aid) will be directed to be managed by these institutions. The role of the central authorities will be limited to creating proper political and economic conditions for these institutions, and to supporting and monitoring the spending of public funds. Such organizational structures will be first of all created in provinces such as Łódź and Wałbrzych, which badly need deep economic restructuring.

3. State interventionism will primarily focus on areas classified as threatened by high structural unemployment. The list of these areas will be extended following a government resolution, with the use of stringent criteria, so that the ultimate number of such areas does not exceed 20 to 25 percent of the total number of districts (gmina). This is necessary to guarantee successful implementation.

Greater state economic assistance to these areas will require a number of different measures, including:

- the separation of funds to continue the capital participation of the state in the implementation of infrastructural projects as part of the economic restructuring of regions. This policy was started in 1991;

- a decision about the channeling of some privatization revenue and funds obtained from the liquidation of state enterprises as a State Treasury capital contribution to regional development funds;

- new effective incentives for people to start business activities and create new jobs, including jobs for disabled people. In addition to the currently available incentives, income tax breaks will be introduced for investors creating new jobs, and there are also plans to more strongly support local initiatives designed to create special economic zones, especially in the small business sector.

4. The monitoring of socioeconomic transformation in regions will be continued and upgraded. For example, this monitoring will involve a periodically revised list of areas especially at risk for high structural unemployment. It will also help reach conclusions regarding economic incentives.

5. The long-term regional policy goals include measures to further the socioeconomic restructuring of Upper Silesia and of ecodevelopment in northeastern provinces. Efforts will be made to enlist foreign aid and investor involvement to support these projects.

6. As Poland will be edging closer to EU countries and organizations it will be finding it increasingly easy to adjust Polish regional-policy institutions and instruments to European standards. That will make it possible to more widely and effectively use foreign aid for the needs of regional development. Also developed will be cooperation between the border regions of Poland and Germany, and efforts will be made to stimulate similar cooperation with the border regions of the Czech Republic, Slovakia, Ukraine, Belarus, Lithuania and the Kaliningrad district. The government will support the initiatives of Polish coastal provinces in the area of cooperation with other Baltic regions.<sup>1</sup>

An economic development programme for 1994-97 called Strategy for Poland the Council of Ministers approved in June 1994 does not highlight regional policy among its 10 top socioeconomic policy goals. In a way, that is not surprising at all in a paper that focuses on macroeconomic strategic goals. Only in one of the ten key issues, on fighting unemployment, it was acknowledged that unemployment in Poland displays a differentiated territorial pattern and postulated that a whole array of active measures must be applied to fight unemployment, above all in areas with high unemployment figures. The authors of the paper identified measures likely to increase manpower mobility, of employees and jobless people alike, and to give preference to labor-intensive industries in areas of structural unemployment.

<sup>1</sup> *Directions of Socioeconomic Policy till 1994, 1992, the Council of Ministers, Warsaw.*

The authors then expressed the view that fighting unemployment will largely be a job for regional policy makers, and that tougher requirements will be applied for regions to be classed with areas deserving special programmes. For those areas, the government promised to apply a variety of tax and credit policies effectively increasing employment. Because regions differ widely from one another as far as conditions and causes of high unemployment are concerned, the argument went, it was necessary to launch whole packages of measures adjusted to specific features of each problem area. The government will rely on such packages as its main body of policy tools.

Elsewhere in the same programme the government acknowledged the need to set up special economic zones in selected regions.

The government also appended an internal document supplementary to the relevant measures provided for in the Strategy for Poland and spelling out regularities of regional development, in chapter 2 called "Conditions of economic development." Regional policy regulations were spelled out in chapter 10, on "Measures to promote development in selected areas." Here are the provisions in their original wording:

"12. Economic transformation involves different processes that are differentiated territorially. Many regions saw their respective socio-economic positions change significantly during the more than four-year-old period of development of a new economy. Previous interregional differences have become even bigger, as a new tendency to pauperization has emerged in many regions. That tendency may dangerously stretch the bounds of socio-political safety in some regions.

A look at the spatial pattern of transformation processes will show that the economic and social situation can meaningfully be described as serious in many areas. This holds especially for regions whose economic base has broken down or "backward" regions incapable of holding out on their own in the merciless conditions of market economy.

They all fall in the category of so-called "traditional agricultural regions" or regions where the breakdown followed the fall of the previously dominant state farms (liquidation of the PGRs). The last-named processes is aggravated by the collapse and liquidation of many enterprises immediately connected with agriculture.

The critical situation of those regions shows in their alarming unemployment rates. Two regions are in a particularly hazardous situation:

provinces in the north, namely Suwałki, Elbląg, Koszalin, Słupsk, as well as Gdańsk and Szczecin yet apart from the seaport areas in the last two. The share of

jobless people in the nonagricultural workforce is usually above 45 percent in those regions (indeed even over 50 % in a number of communes). One alarming development observed now is that signs of depression are spilling over to neighbouring provinces, namely Gorzów, Piła, Toruń, but also Włocławek, Płock and Ciechanów,

provinces in the east, specifically Ostrołęka, Łomża, Białystok, Siedlce, Biała Podlaska, Chełm and Zamość. Those are all weakly urbanized areas, underdeveloped infrastructure facilities, and poor manpower qualifications, apart from lagging behind all other Polish regions as far as the development of nonagricultural sector is concerned. The share of jobless people in the nonagricultural workforce is from 28 % to almost 55 percent in some communes.

### G. Regional policy

1. The transformation as it has unfolded to date displays strong differences from region to region. This is especially true of the social effects those processes have triggered. That has been due, first, to certain inherited historical features of socio-economic structures in the regions concerned, but also to certain contingent factors recently. That tendency towards regional polarization is likely to hold on for the next several years, and so its adverse consequences may significantly threaten processes of systemic transformation and socio-economic development.

This implies the necessity to take into consideration in socio-economic policy regional differences in interdependencies and factors of development, but also of regional communities' interests, priorities and aspirations. In view of those conditions, regional policy as an inseparable element of national development policy will be concentrated in 1994-97 mainly on the following activities:

- assisting regions to overcome recession and holding back their socio-economic degradation wherever regions lack the adequate means to do that on their own,

- setting legal and material conditions for the management of regional policy at the regional level.

2. The means to support development and restructuring projects in regions will be provided from the national budget, designated government funds, and foreign assistance sources. All funds will be directed to provinces threatened by recession and socio-economic degradation and incapable of recovery solely on their own. Those provinces include mainly the following:

- old industrial districts badly in need of radical restructuring (Katowice, Łódź and Wałbrzych provinces),

- agricultural areas chronically in recession and facing social degradation, previously dominated by inefficient state farming (Elbląg, Koszalin, Olsztyn, Sułsk, Suwałki),

- backward agricultural regions in eastern and partly in central Poland (all provinces along Poland's eastern border as well as Łomża, Ostrołęka, and Ciechanów),

- towns and subregions dominated by big and inefficient state enterprises now threatened by bankruptcy.

The way the central government funds will be used in each case will depend on the problems spelled out in the respective regional programmes. Assistance to restructuring and regional development programmes will be granted on the following conditions:

- a restructuring programme including investment programmes is at hand for each province,

- release of assistance funds will further be made contingent on the regional authorities and communities meeting a number of requirements guaranteeing their real participation in financing and implementing the programmes.

3. The financing of the above undertakings and jobs and application of instruments to support the development and restructuring of regions will be focused on efforts to modernize and develop small and medium enterprises.

In regions threatened by particularly bad unemployment, assistance will be granted to support financially the regional policy institutions being created there (funds, foundations, consortiums, agencies) in the form of donations, grants, subsidies, or equity shares. Special investment programmes will be designed to be linked to public works, which will stir business activity in the region concerned.

Preference will be given to programmes that are likely to make the region more attractive by improving

- transport and telecommunication links,

- the quality of environment,

- water supplies,

- and energy supplies.

4. Budget spending on regional policy measures will be increased systematically, to reach eventually the share of such spending in European Union countries. This is a precondition for the EU to release in future funds from its Regional Fund

to Polish undertakings. EU Regional Fund resources are as a matter of principle released to co-finance regional programmes rather than pay the whole bill.

The efficiency of the actions actually taken will be made more efficient by linking funds assigned to sectoral programmes with regional programmes. The particular sectoral policies, especially those for agriculture and industry, will all be adjusted to Poland's specific territorial pattern. They will comprise strongly concentrated industries (coal, nonferrous metals, steel, textiles, shipyards). Differentiation of agricultural policy will take account of the share of state property as well as natural and economic features.

5. For the purpose of increasing efficiency and effectiveness of public fund expenditure on regional policy measures till 1997 the following measures are necessary:

- government departments and central offices must coordinate their activities in the course of implementing the state's regional policy programme; and

- an efficient decentralized institutional structure responsible for regional policy must be established at provincial level, by devolving the relevant powers and material means from central government offices to voivods (heads of provinces).

6. Adaptation of regional policy instruments and institutions to European Union standards will open a possibility to tap EU assistance funds even prior to Poland getting member status. A capital management institution that can live up to requirements of EU partners will be set up at central government level. A decision if that function will be attributed to the existing Polish Agency for Regional Development - a Treasury Foundation - or to another, newly founded institution, will be made in 1994.

7. Analyses and diagnoses of interregional differences will make possible the identification of areas calling for interventionist measures. The effectiveness and efficiency of the state's regional policy, its goals, instruments and institutions, will be studied closely. The government Minister in charge of the Central Office of Planning (CUP) will be obligated to submit regional policy reports on an annual basis.

8. Voivods will get their functions, powers and responsibilities expanded significantly. Voivods will have greater coordination authority over local branches of central administration offices. That will change the status of voivods, to make them real representatives of the government in their provinces, rather than merely one more administrative body.

Voivods will be granted in particular the following responsibilities:

- inspiring and supporting the development of institutions making up the regional development infrastructure (foundations, designated funds, consortiums, agencies),

- representing the Treasury in institutions taking advantage of central government support for regional development programmes,

- preparing studies of regional differentiation of provinces,

- conducting information and promotion services.

9. Legislative, financial and technical conditions will be improved to ease local and regional cooperation programmes across the border, as a motive force of development in border provinces. Pursuant to the Madrid Convention on cross-border cooperation Poland acceded to in 1993, any remaining barriers to cooperation will be removed. Poland will offer all neighbouring countries the establishment of cross-border and regional cooperation commissions such as an already existing Polish-German intergovernmental commission. Budget funds will be assigned to the modernization and expansion of border crossings and the transport infrastructure, and to creating institutions supporting regional development capable of effective international cooperation. A Cross-Border Cooperation programme within the PHARE framework is due to be launched already in 1994, with a total ECU 57 million to be released to support that kind of projects in areas along the western border. Implementation of that programme is expected to give Poland access to further assistance funds for that goal."

Analysis of the provisions of this document makes it possible to trace the evolution of Poland's regional policy. This yields a number of important conclusions:

1. Regional policy stipulations in official documents detailing the socio-economic targets of the state become more comprehensive and precise with time. This clearly confirms the growing scope and importance of regional policy. Unfortunately, the available tools for the implementation of most of these goals remain limited. Regional planning is hampered by an extreme shortage of funds, which must be compensated for by organizational and legal solutions as well as efforts to enlist external funding. As a result, Poland's regional development agenda is chiefly based on what are called soft regional policies, even though some hard regional policy features can also be noticed.

2. Poland's regional policy, under the pressure of day-to-day challenges, focuses on what are called problem areas. Such areas are the traditional focus of a regional policy in the strict sense of the word. No significant relationship exists between an ordinary regional policy and a broad regional policy covering regional industrial, agricultural, and environmental programs. This basically means an

efficient influence of the state on the course of socioeconomic processes in regional areas.

3. The states regional policy priorities especially include old industrial regions. This is partly understandable because a vast majority of these regions, strong under communism, have now weakened as a result of economic transformation. These regions concentrate a major potential which could be tapped more effectively. At the same time, these regions were hardest hit by the social consequences of economic restructuring. In the economic structure of these regions, big industrial plants are of special importance. This resulted in a strong political pressure from the trade unions, primarily Solidarity.

4. In different sectors, combatting unemployment is becoming the basic priority. Even though this problem is chiefly the domain of macroeconomic and social policy makers, unemployment should be also dealt with at regional policy level. This is due to the considerable scale of regional differences in this area, with experts suggesting that in the near future these differences will continue to grow due to ballooning structural unemployment in many areas currently in the worst situation. Declarations and intentions are accompanied by a fairly rich economic instrumentation aimed to stop further deterioration in areas with the highest structural unemployment.

5. Also important is the international dimension of regional policy making. This dimension clearly appeared in connection with Poland's association with the European Community and as a result of cross-border and regional cooperation, which were one of the main reasons behind the need to revive a comprehensive regional policy in Poland. Simply, quite apart from domestic considerations, the new challenges abroad necessitated an active response from the Poles.

### III.4

#### Challenges to regional policy making in the 1990s

This study does not aspire to offer a complete picture of regional policy problems likely to be faced by Poland in the coming years. Rather, this is an attempt to identify the most important challenges in this area and determine the most important gaps in knowledge, pointing to problems that need to be scrutinized in the short term.

Regionalization is one of the most important challenges facing Polish authorities in the coming years. Under communism, local areas were based on a

uniform network of state power. This led to the atrophy of local and regional authority and resulted in an unstable territorial arrangement in all former communist countries alike. In Poland, the most important change in the administrative division was made in 1975 when the number of provinces was increased from 17 to 49.

During the last three years, various analyses and studies have aimed to work out ways to delegate powers to regions and local areas. Of special importance is the constitutional framework and political and financial factors. To make this happen, a regional level must emerge with features such as elected authorities, independent budget and specific regional-policy powers. All this is necessary in order to take good advantage of the possibilities offered by regional policy making.

Against this background, various suggestions regarding the administrative division of the state have appeared. For example, there are increasingly frequent appeals to restore counties (powiat) in Poland. Probably, anywhere between 300 and 350 counties would be established in an important move straightening out Poland's provincial geography. There are also many suggestions regarding a change in the arrangement of provinces. Different sources suggest a reduction in the number of provinces to 35, 25, 17, and even 12. Finally, one other territorial scenario calls for the maintaining of the current network based on 49 provinces.

Still, it must be stressed that an efficient intraregional development depends to a greater extent on the powers held by regions than on the actual territorial arrangement of the country. In order to properly devise the new administrative division, historical and cultural factors have been analyzed, in addition to the European dimension of regionalization, the economic and human potential of individual provinces, and their role on the national scale.

The results of these far-reaching studies reveal that it is virtually impossible to create an optimal network of administrative units when taking into consideration a number of different criteria. This applies to the number of provinces, their seats, and first of all to their area. At the same time, the actual regional organization of the state seems to be chiefly a political decision, and that's why scientific considerations will probably play a lesser role in the identification and delineation of provinces.

From the point of view of regional development, two reflections seem to be especially important:

1. Someday, it will be necessary to stabilize the regional division of the state, because the experience of most democratic states in Europe shows that this is a value in its own right. This explains why the regional arrangement of the state should take into consideration future needs rather than the previously existing networks.

2. Dividing the country into too few provinces would imply additional central functions for the largest urban centers which already have major potential for internal development. This would lead to a further concentration of the population and socioeconomic potential in the largest cities. Therefore, scenarios suggesting the establishment of a large number of provinces seem more proper, because they favor polycentrism in the area of regional development.

Stimulating regional and local development has become a global challenge to regional policy makers. In countries with developed market economies, local and regional development has gained a new dimension in the past 20 years. Local institutions and people have become the architects of development strategies designed to stimulate economic development in regions and other local areas.<sup>1</sup>

These efforts have been aimed to create and tap the endogenous potential of regions and localities, thus enabling a healthy development of the national economy. Specific projects included moves to differentiate and extend the economic potential of regions, develop the small and medium-sized businesses sectors, create a business environment, and promote a positive image of individual regions.

In former communist countries, a uniform system of power and administration was created in local areas, leading to the virtual disappearance of independent decision-making at regional and local levels. All decisions on regional and local development were centralized.

With economic transformation in progress, one of the basic purposes of regional policy makers is to stimulate regional and local development. This requires the delegation of authority to regions and local areas<sup>2</sup>, a necessary condition to overcome some of the bad habits inherited from the communist system. Under communism, local and regional entities were accustomed to addressing central authorities to remedy local development problems. In a situation where the management of funds was centralized, this was usually the best way to solve the problems of a city or region. As has been mentioned, in the new political situation, local people often try to continue in this behavior, waiting for the central authorities to prepare development strategies for their regions and implement these strategies on the basis of central funds. Attitudes are changing slowly, even though some local bodies are showing signs of a positive adjustment to the challenges facing local and regional communities.

<sup>1</sup> See materials from an interesting OECD conference held on May 3-4, 1993 in Paris and dedicated to *Local development and structural change: A new perspective on adjustment and reform*.

<sup>2</sup> See Martinos H. 1993, Central and Eastern Europe: A different challenge, *Leda Magazine*, No. 7, Commission of the European Communities, Brussels-Luxembourg.

It is necessary to take action to consistently develop local and regional initiative through a gradual increase in the scope of powers and funds held by local government's. For example, public administration should support activities designed to develop regional and local management and to help local leaders gain the necessary skills. Public administration should also support the creation of a business environment and promote stable rules for the functioning of local and regional entities. The state should finance regional development only in the case of projects where local funds are also engaged. Central funds can only play a supplementary role as matching funds.

These efforts will be successful when most development processes in local areas become automatic and when funds put aside for regional development are used more effectively.

The need to create a modern regional infrastructure is one of the effects of political and economic reform. Institutions, policies, central and regional decision making, and the public, para-public and private sectors all need to be adjusted to market economy conditions. The communist economy was deprived of both central and regional institutions to stimulate development in local areas. Currently, many such institutions are emerging. In some regions, this process is spontaneous, while in others it should be stimulated by the state. The regional policy instruments used at the end of the 1980s proved completely useless in the new political and economic conditions. The development of new methods is hampered by the ubiquitous shortage of public funds and the lack of experience. It seems that economic instruments should gradually prevail. Such instruments are most often introduced by means of a trial and error approach due to the lack of expertise. This explains why businesses often fail to positively react to weak regional policy stimuli. It has not been clearly determined, for example, which method is more successful: non-refundable subsidies or what are called soft credits (meaning loans with a low interest rate).

One of the basic challenges for Poland's regional policy makers is to narrow the differences between the regional structures of Poland and EC countries.<sup>1</sup>

Every country, regardless of its area and economic and political system, is internally differentiated in regional terms. There are different criteria and yardsticks used in the assessment of these differences. The issue at stake is to narrow differences between the regional structures of Poland and EC countries, which is

<sup>1</sup> See an excellent report by S.M. Zawadzki entitled *Różnice struktur regionalnych Polski i krajów EWG* (Differences in regional structures of Poland and EC countries), *Biuletyn KPZK PAN* No. 164, PWN 1993, prepared as part of a group project by Kłasiak A., Szlachta J., Zawadzki S.M. entitled *Polityka regionalna w warunkach stowarzyszenia i integracji ze Wspólnotą Europejską* (Regional policy in the conditions of association and integration with the European Community).

important from the point of view of integration. The most important differences involve: the agrarian structure, regional infrastructure, the situation of border regions, the territorial mobility of the population, and the policy toward investors.

In each EC country, regions differ from each other in terms of their agrarian structure. But the situation of Poland is absolutely exceptional in this respect. In Poland, the agrarian structure has for years determined the regional structure of the country. This will probably continue to be the case in the years to come. The Polish agrarian structure reveals considerable territorial differences in rural ownership, differences in the development and cultural advancement of rural areas, and qualitative and quantitative differences in agricultural production. In none of the EC countries do farms vary to such a great extent in terms of their area from one region to the next. In Poland, these differences primarily stem from the fact that in some regions state-owned farms dominate, while in other regions privately-run farms prevail. One important feature of the Polish agrarian structure is the fragmentation of private farms (with the average farm occupying about six hectares), leading to a dense network of villages located next to each other. The average village has an area of six square kilometers and is inhabited by 250 people.

Thus, Poland's adjustment to EC standards in this area necessitates efforts to change the national agrarian structure and overcome the vast regional differences (which are only marginally determined by natural farming conditions). Due to historic, legislative and economic factors, in agriculture, this process will last much longer than in other segments of the economy. This is one of the reasons why medium- and long-term agrarian policies must be regionally differentiated.

EC regions are not identical in terms of their infrastructure, either. There are both quantitative and qualitative differences between them. But, compared to Poland, in most EC regions the existing infrastructure satisfies the minimum needs of the population.

Generally, the condition of Polish infrastructure leaves much to be desired. Domestic needs are properly satisfied only by power-generation and transport infrastructure, with a major hiatus between Poland and EC countries in this area. Similar gaps exist between on the regional scale, including major differences in available facilities and institutions. Differences in the regional structures of Poland and EC countries are additionally based on the fact that in some regions in Poland the elementary needs of the population are either inadequately satisfied or not satisfied at all. This especially includes telecommunication, banking, and farming services.

Consequently, in order to bridge the infrastructural gap between Poland and the EC, it is necessary to narrow the regional gaps. This means that regional development priorities must be subordinated to the internal needs of the country.

This approach will help bring regional structures closer to each other. Still, in some regions, investment in infrastructure, particularly transport and telecommunication, should be accelerated in order to adjust the existing equipment and facilities to European requirements.

All EC countries except Germany, Greece and Italy border on market-economy countries with largely uniform economic and legal systems. So the flow of goods and people through the border does not pose a problem there. Major differences in the development of individual EC border regions are noted in isolated cases. Poland's borders are still not open wide enough, even though Poland is farthest along the road among postcommunist countries carrying out market-oriented reforms. This applies to all of Poland's borders. Between Polish and German border regions, for example, there are major differences in entrepreneurship, the condition of infrastructure, the land ownership structure, and the production potential.

That is why, as Poland strives toward full integration with the EC, its regional policy should involve both uni- and bilateral projects to upgrade the economies of western regions and take advantage of existing development opportunities in cooperation with the eastern regions of Germany. Such a project has already gotten under way. From the point of view of integration, the policy vis-a-vis regions along the remaining borders is also important.

The ability of regions to absorb migrants is an important feature of the regional structures of EC countries. Practically speaking, all EC regions are able to accept newcomers, though their attractiveness varies (it is chiefly determined by the possibilities of finding work, especially well-paid jobs, and the natural and social environments). Sometimes, incoming population becomes an important region-creative factor.

In Poland, interregional migration was considerable for most of the post-World War II period. In recent years, the ability of regions to absorb newcomers has radically diminished as a result of high unemployment and an acute shortage of housing, which severely limit the territorial mobility of the population.

Restoring the absorptive capacity of regions will be a long process. It will depend on success in overcoming recession and on economic growth. But the tricky part is that the territorial relocation of the labor force is one of the preconditions for economic growth. (It is necessary to find jobs for people who until now worked in declining regions without the possibility of employment in other professions. Another problem is the need to find people to work in attractive regions where the existing manpower proves insufficient due to the fast development of these regions). The slow improvement of the regional mobility of the Polish population will be an impediment to the country's integration with the European Community.



So far, Polish regions have tremendously differed in terms of investment conditions and the inflow of capital. In every country, investors choose the most favorable regions suiting their own goals. Countries and local and regional authorities use different incentives to attract capital. It is important to avoid the Third World scenario where capital is concentrated in several areas, with the remainder of the country trailing far behind in terms of both investment and development. Thus, it should be expected that in the years ahead Poland's regional development will be increasingly determined by the attractiveness of individual regions to investors.

Therefore, creating congenial conditions to attract capital, at first in a selective manner, becomes one of the most important targets for regional policy makers.

It should be believed that in the coming years Poland's macroeconomic policies will be based on various forms of state interventionism. Undoubtedly, regional planning will be one of the prominent spheres influenced by the state. The extreme neo-Liberal orientation is a hypothetical solution, even though it can be used as a stopgap scheme due to the unstable political situation in the country. The absence or failure of regional policy making would spell serious threats to the state, including:

- snowballing regional differences, likely to jeopardize political and economic reforms.

Of course, it is difficult to predict just how big regional differences are still safe, both socially and politically. The experience of countries based on developed market economies cannot help much in this area because there are major social, economic, political and historic differences between Poland and these countries;

- ii) the inability of most Polish regions to follow modern regional policies meeting EC standards; Among other consequences, this would leave Poland unprepared to take advantage of EC structural funds, including the Regional Fund, after gaining full membership in the Community.

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Zon van H., 1992, *Alternative Scenarios for Central Europe* (Poland, Czechoslovakia, Hungary), Commission of the European Communities, Brussels-Luxembourg.

#### MAP:

Map 1: Employment in the national economy, Dec. 12, 1989 to Dec. 31, 1992

Map 2: Unemployment in provinces, December 31, 1993

Map 3: Private businesses per 1,000 population at the end of 1993

Map 4: Privatization of state enterprises by the end of 1993

Map 5: Enterprises transformed through capitalisation as percentage of total enterprises in transformation, as of Dec. 31, 1993

Map 6: Proportion of national labor force in the private sector (not including agriculture) at the end of 1992

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Map 9: Italian investments in Poland, as of Apr. 18, 1994 Territorial pattern Share in foreign capital of joint ventures

Map 10: U.S. investments in Poland, as of Apr. 18, 1994 Territorial pattern Share in foreign capital of joint ventures

Map 11: German investments in Poland, as of Apr. 18, 1994 Territorial pattern Share in foreign capital of joint ventures

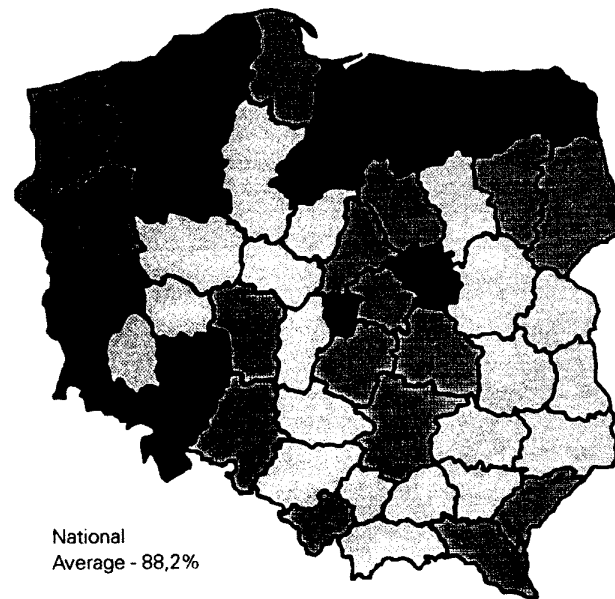
Map 12: UK investments in Poland, as of Apr. 18, 1994 Territorial pattern Share in foreign capital of joint ventures

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Map 14: Major types of business environment institutions in the latter half of 1992

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**MAP 1. Employment in the national economy,  
 Dec. 12, 1989 to Dec. 31, 1992**

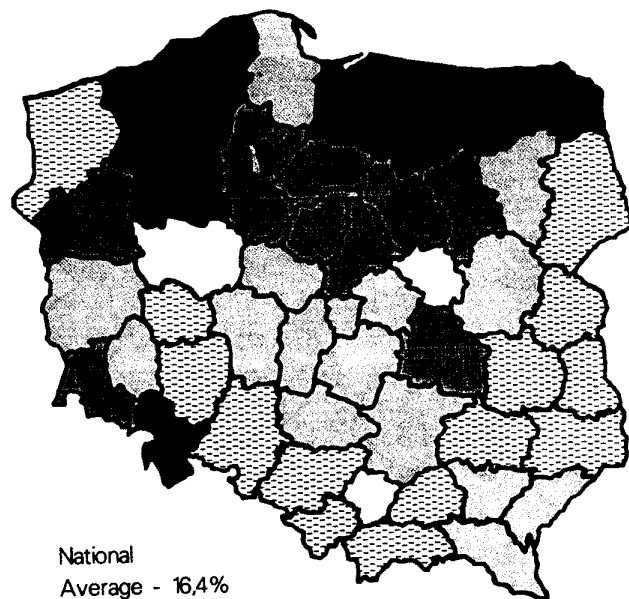


National  
 Average - 88,2%

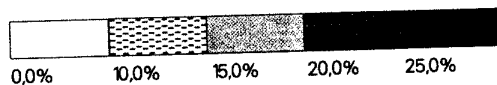
Legend



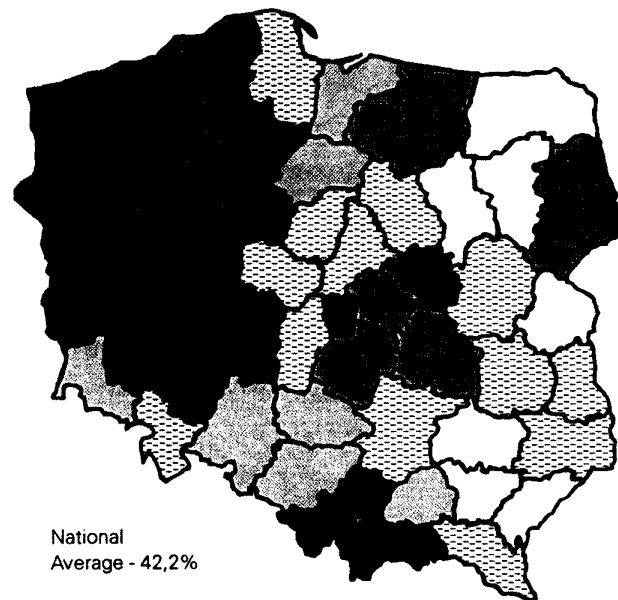
MAP 2. Unemployment in provinces, December 37, 1993



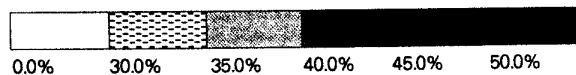
Legend



MAP 3. Private businesses per 1000 residents  
at the end of 1993

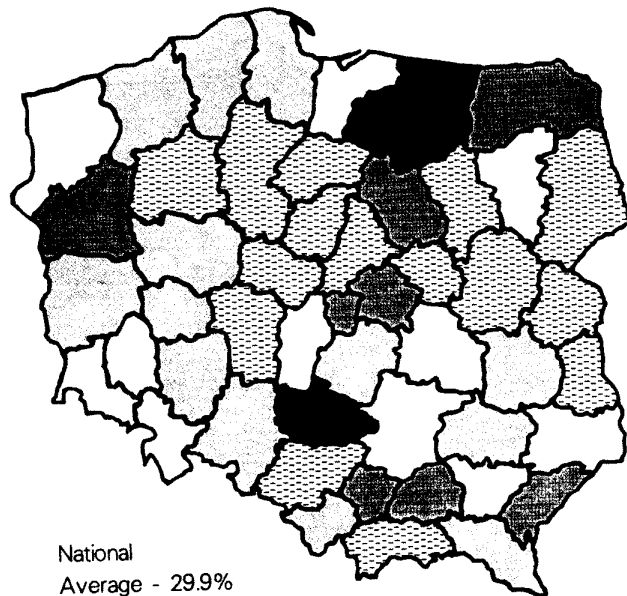


Legend

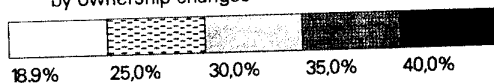




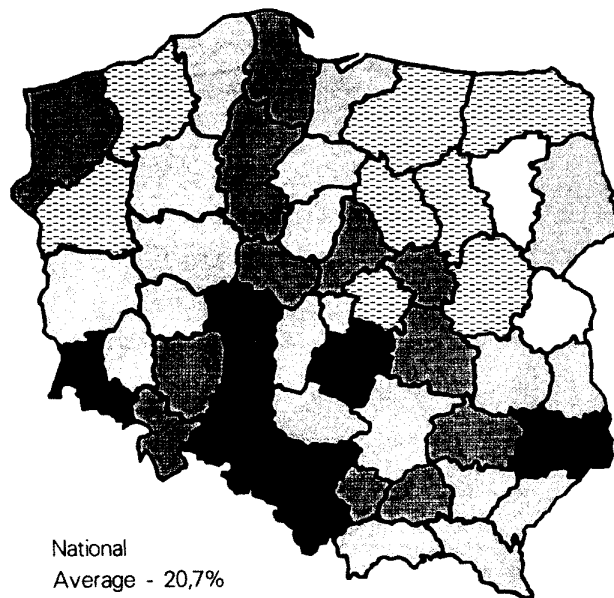
MAP 4. Privatization of state enterprises  
by the end of 1993



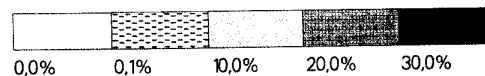
Legend: Percentage of enterprises covered  
by ownership changes



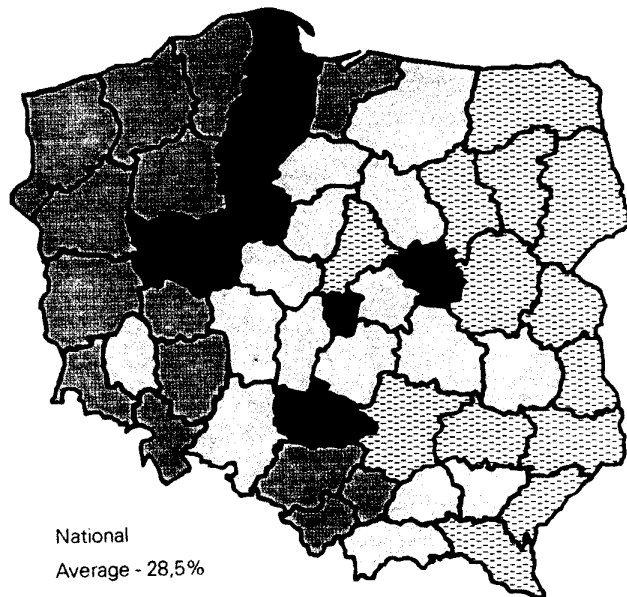
MAP 5. Enterprises transformed through capitalisation  
as percentage of total enterprises in transformation,  
as of Dec. 31, 1993



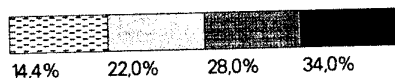
Legend



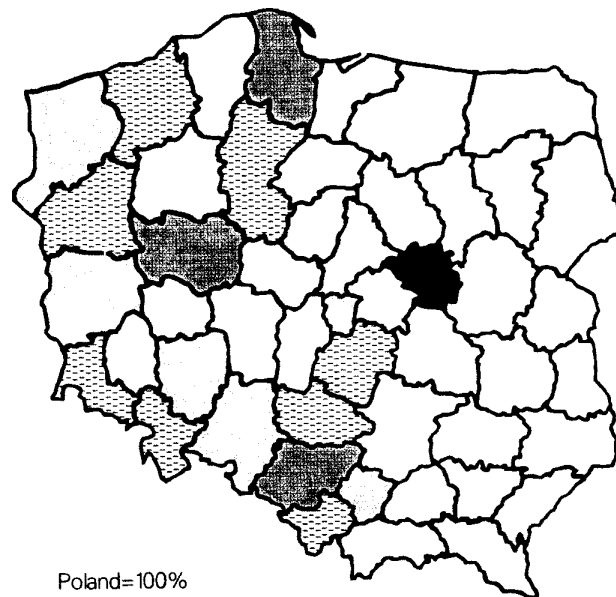
MAP 6. Proportion of national labor force  
in the private sector (not including agriculture)  
at the end of 1992



Legend



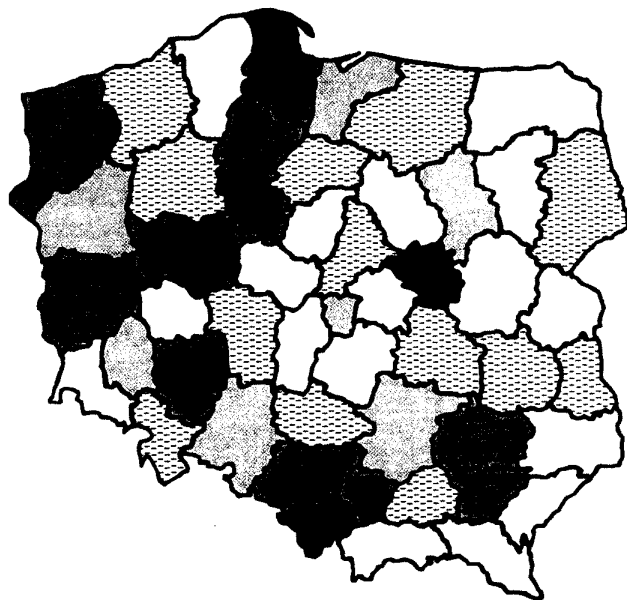
MAP 7. Shares of individual provinces in total number  
of commercial companies with foreign participation,  
December 31, 1993



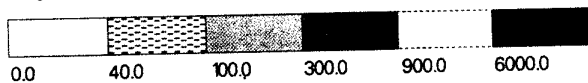
Legend



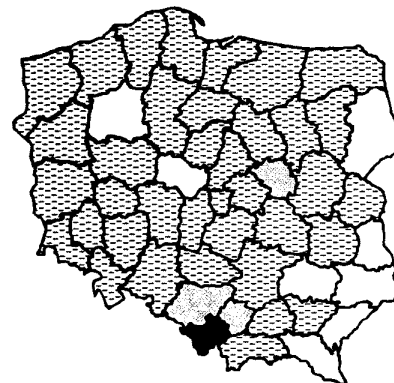
MAP 8. Foreign involvement in joint-venture companies,  
billions of zloty, by Apr. 18, 1994



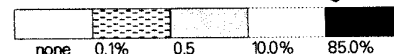
Legend



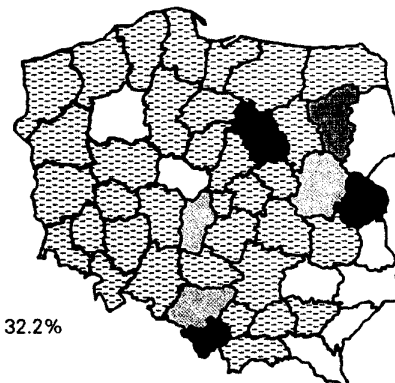
MAP 9. Italian investments in Poland,  
as of Apr. 18, 1994  
Territorial pattern



Legend

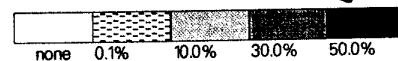


Share in foreign capital of joint ventures



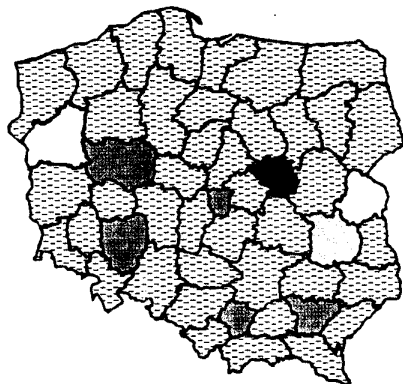
National  
Average - 32.2%

Legend

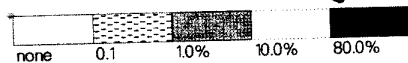


MAP 10. U.S. investments in Poland, as of Apr. 18, 1994

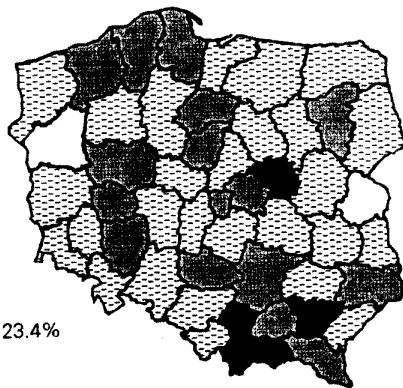
Territorial pattern



Legend

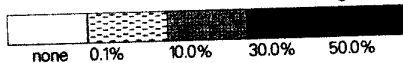


Share in foreign capital of joint ventures



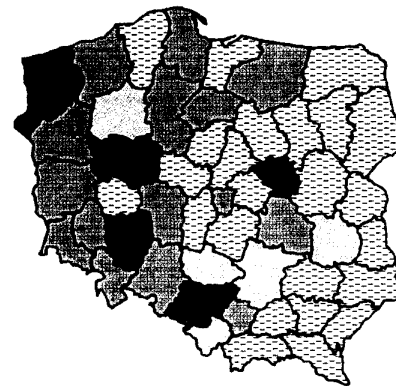
National  
Average - 23.4%

Legend

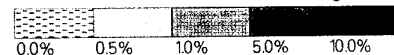


MAP 11. German investments in Poland, as of Apr. 18, 1994

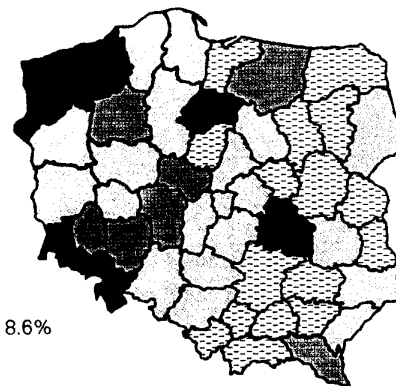
Territorial pattern



Legend

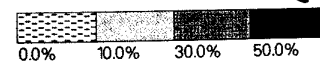


Share in foreign capital of joint ventures



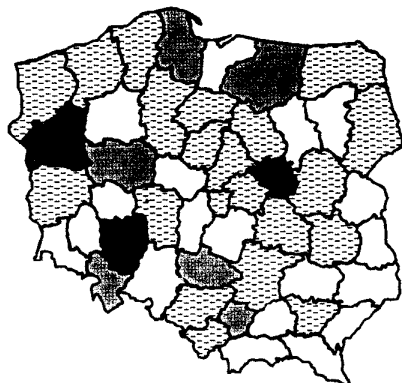
National  
Average - 8.6%

Legend

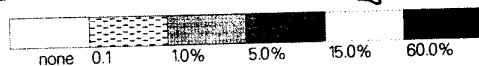


MAP 12. UK investments in Poland, as of Apr. 18, 1994

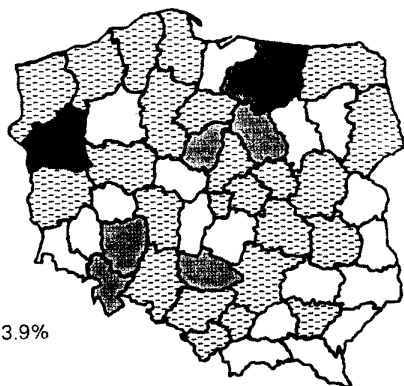
Territorial pattern



Legend

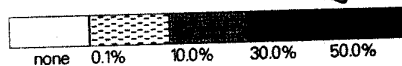


Share in foreign capital of joint ventures



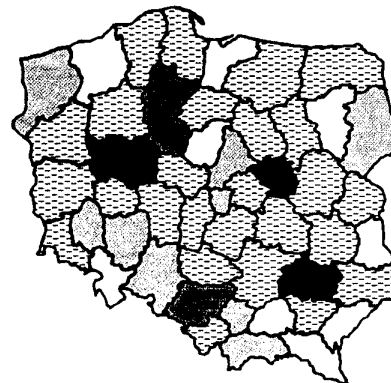
National  
Average - 3.9%

Legend

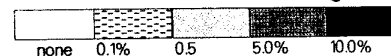


MAP 13. Dutch investments in Poland, as of Apr. 18, 1994

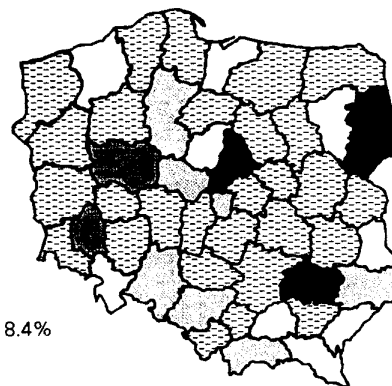
Territorial pattern



Legend

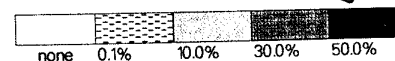


Share in foreign capital of joint ventures

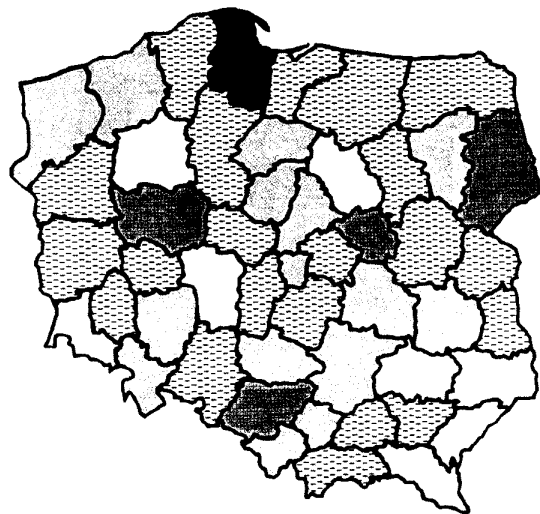


National  
Average - 8.4%

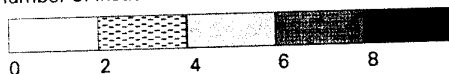
Legend



MAP 14. Major types of business environment institutions  
in the latter half of 1992



Legend: number of institutions



Types of institutions:

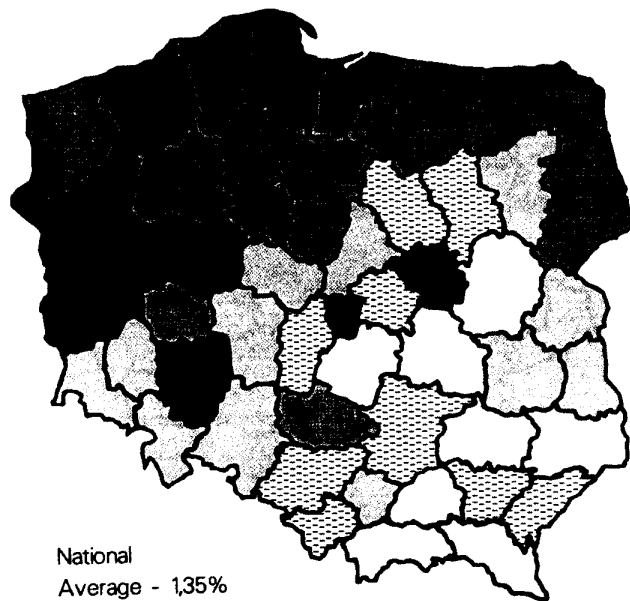
- National Chamber of Economic Societies (members)
- National Chamber of Commerce (members)
- Regional Development Agencies
- Exchanges
- Foundation for Socioeconomic Initiatives (Agency for local Initiatives)
- training and consulting foundations
- management and business schools and schools for managers
- enterprise incubators and business support centers
- small business institutes

MAP 15. Regional development agencies and foundations

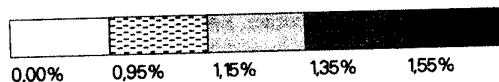


Legend: squares stand for 3 institutions, triangles for 2, circles  
for 1 institution per province

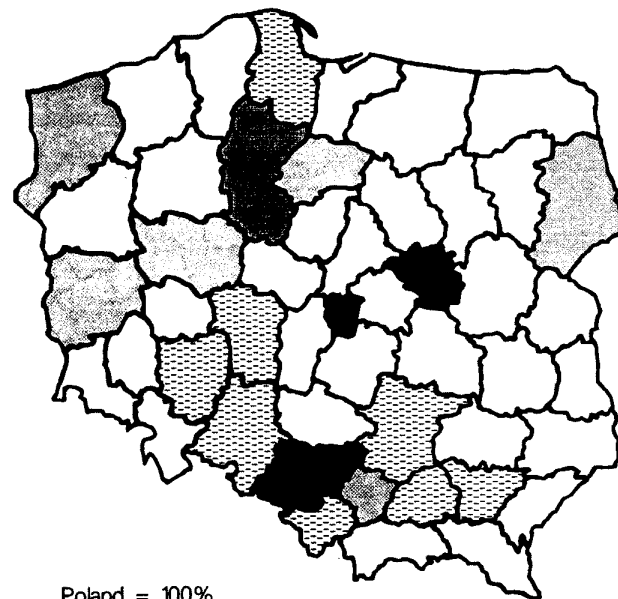
MAP 16. Proportion of finance and insurance  
in total employment, end-1992



Legend

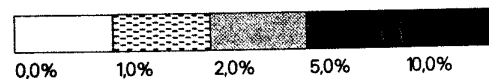


MAP 17. Proportion of provinces in total amount of industrial  
and municipal waste discharged yet left untreated, 1992

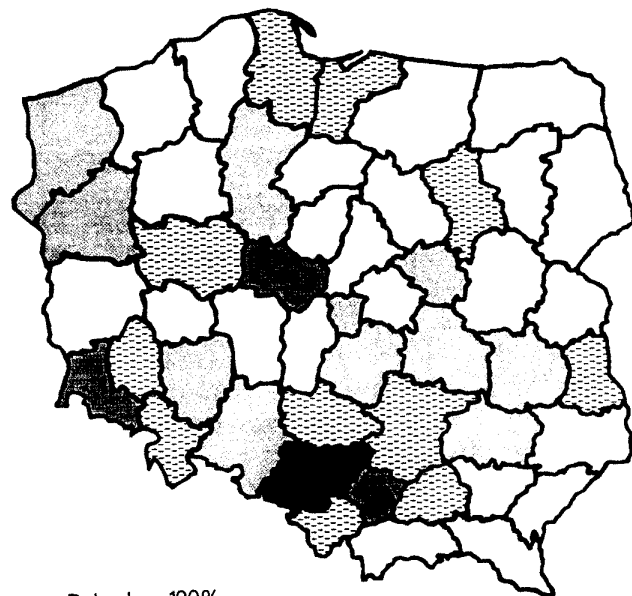


Poland = 100%

Legend

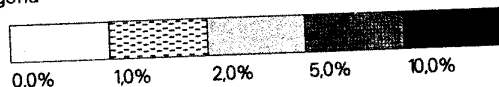


MAP 18. Contribution of individual provinces to total air pollution.  
Particulates emission by especially hazardous plants, 1992

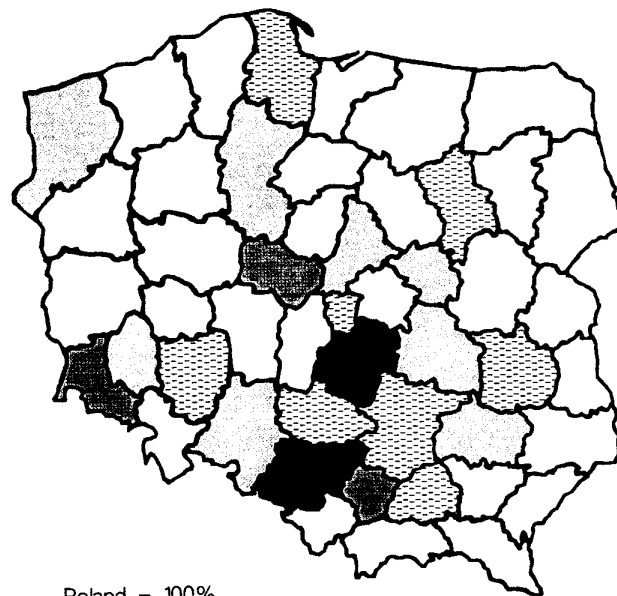


Poland = 100%

Legend

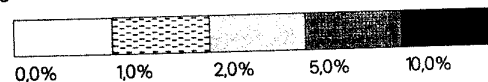


MAP 19. Contribution of individual provinces to total air pollution.  
Gaseous emissions by especially hazardous plants, 1992



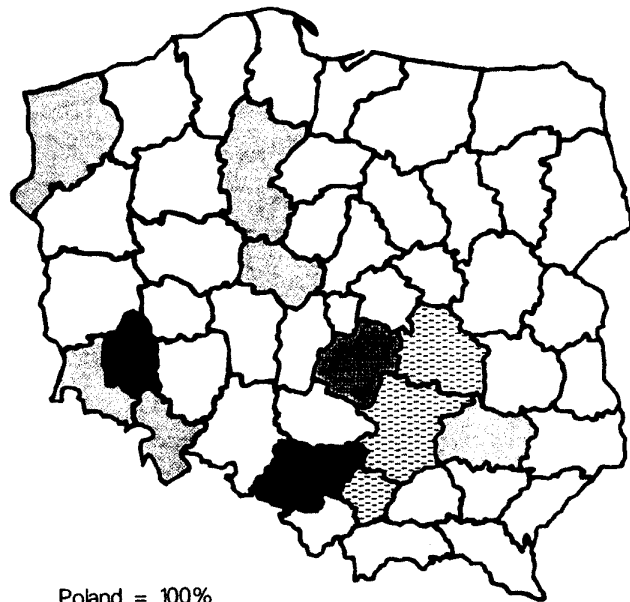
Poland = 100%

Legend

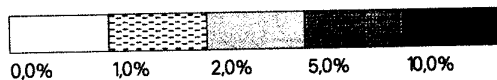




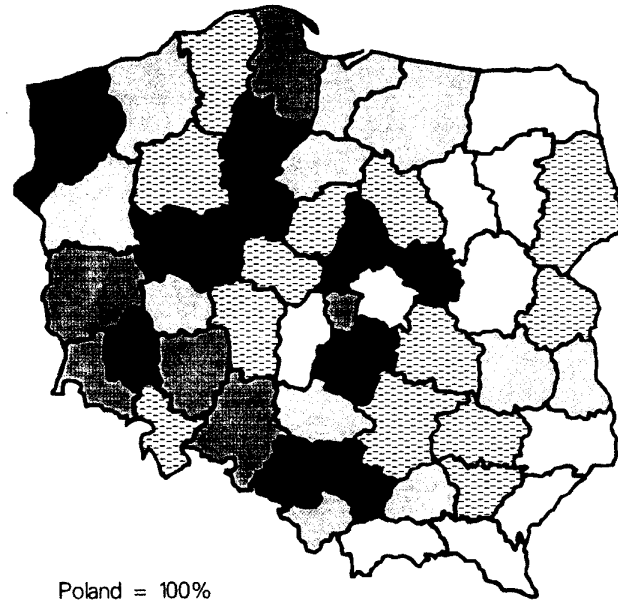
MAP 20. Contribution of individual provinces to total industrial waste dumping, 1992



Legend



MAP 21. GDP per capita, 1992

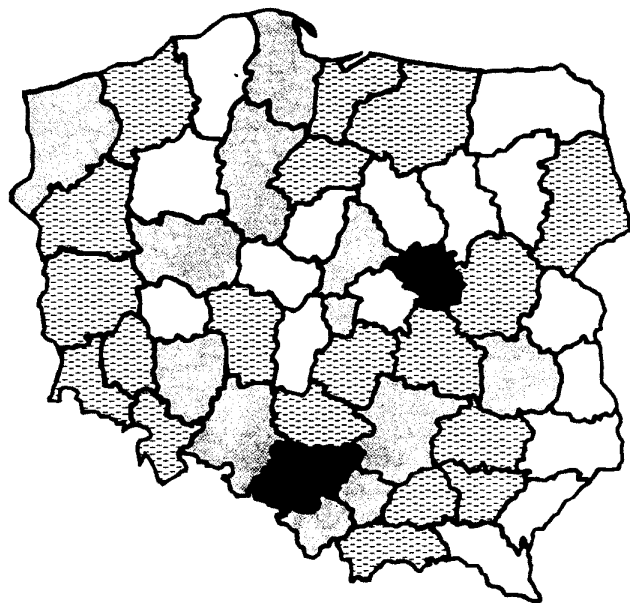


Poland = 100%

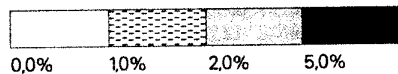
Legend



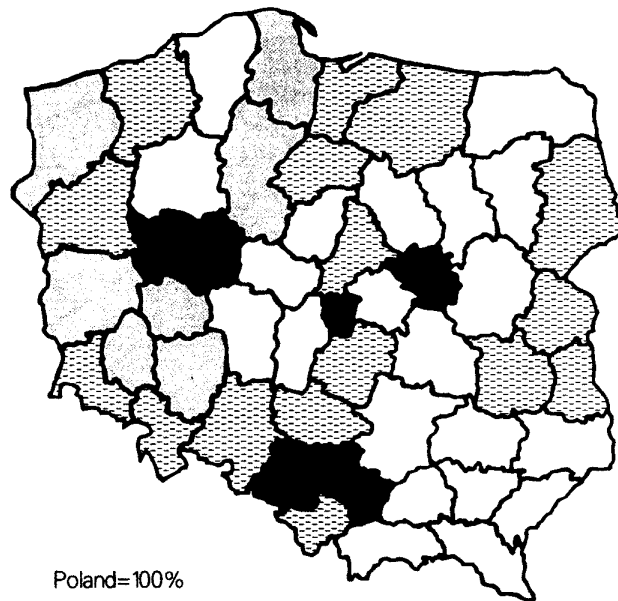
MAP 22. Provinces share in GDP, 1992



Legend

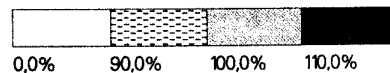


MAP 23. Household income per person in relation to national average, 1992

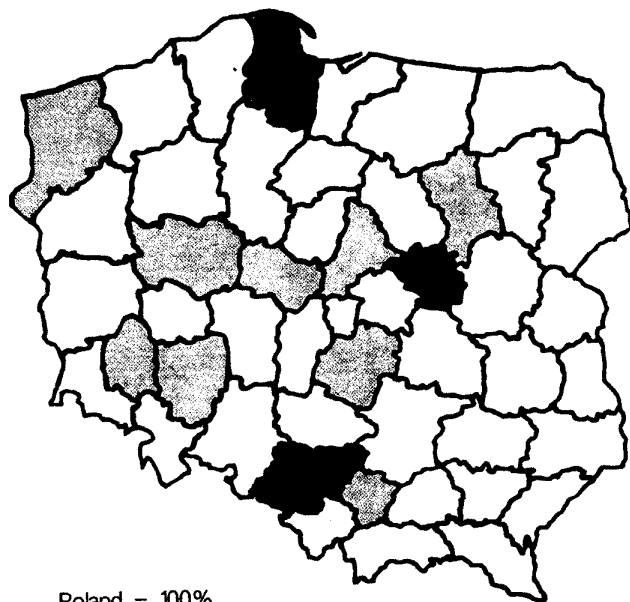


Poland=100%

Legend

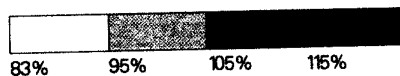


MAP 24. Average monthly wage in 1992

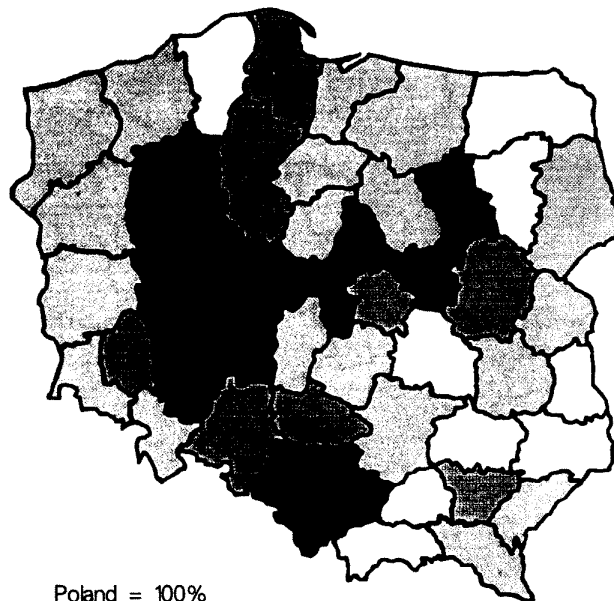


Poland = 100%

Legend: Provincial average in relation to the national average



MAP 25. Passenger cars per 1,000 population, end - 1992

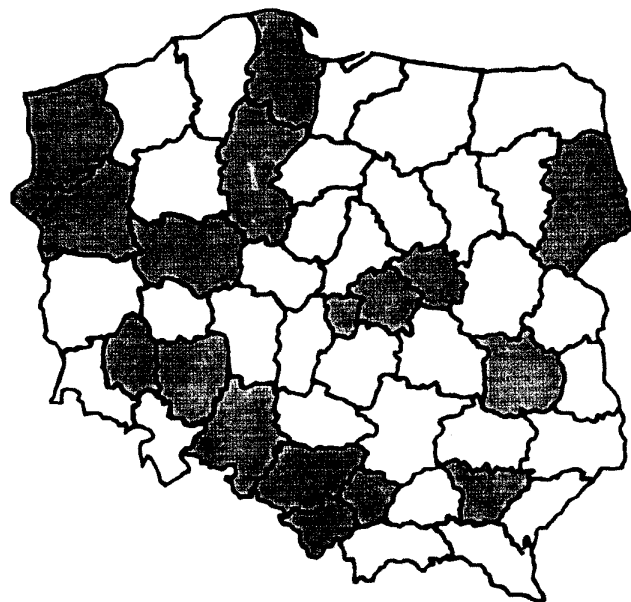


Poland = 100%

Legend: Provincial average in relation to the national average



MAP 26. Provinces with a negative and positive balance of domestic migration, 1992



Legend

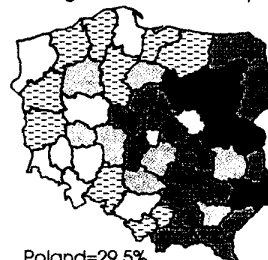


Provinces with a negative balance of domestic migration      Provinces with a positive balance of domestic migration

MAP 27. Sector structure of the work force, 1992, and its changes from 1989 to 1992

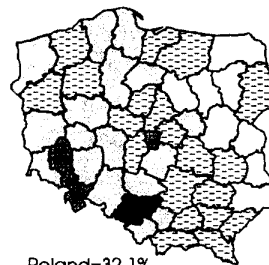
The sector structure of the national work force in 1992

I. Agriculture and forestry



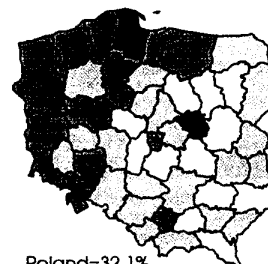
Poland=29.5%

II. Industry and construction



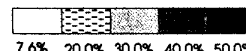
Poland=32.1%

III. Other sectors of the nat.econ.



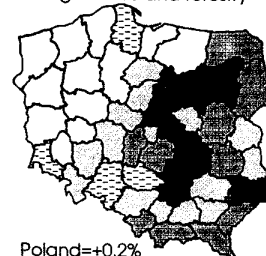
Poland=32.1%

Legend



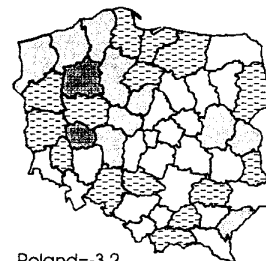
Changes (+/-) in the sector structure of the national work force between 1989 and 1992 (in percentage points)

I. Agriculture and forestry



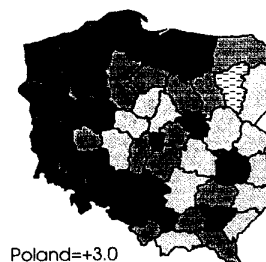
Poland=+0.2%

II. Industry and construction



Poland=-3.2

III. Other sectors of the nat.econ.

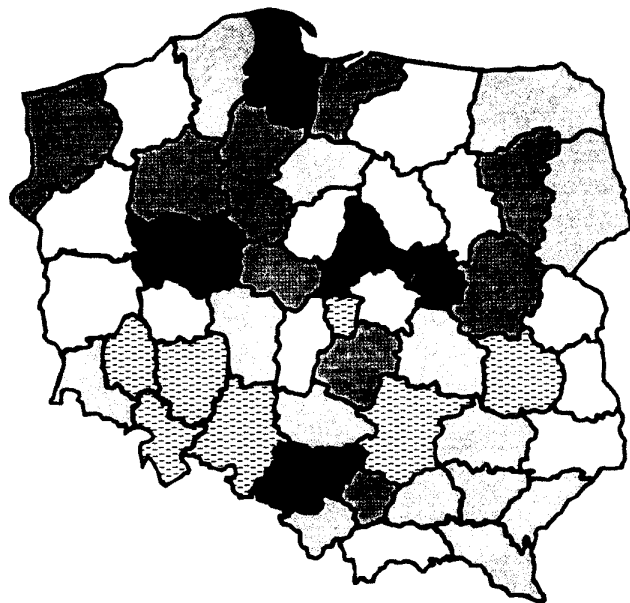


Poland=+3.0

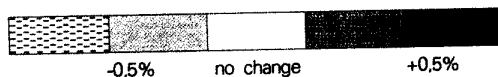
Legend



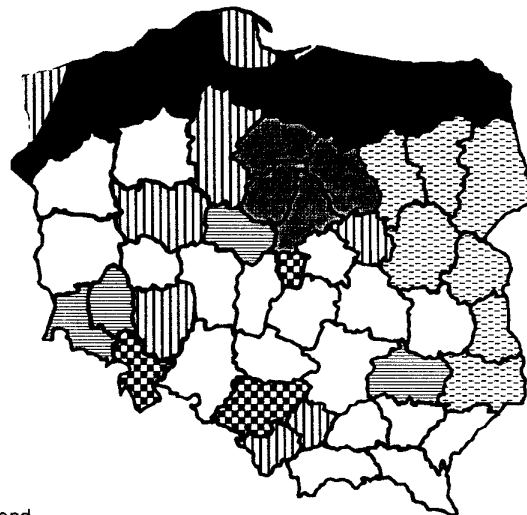
MAP 28. Changing contributions of provinces to industrial production, 1989 to 1992



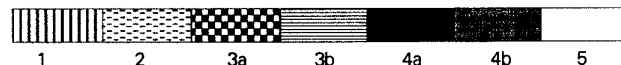
Legend



MAP 29. Preliminary typology of regions four years into the reform



Legend



- 1 - regions leading the way in transformation
- 2 - poorly developed regions
- 3 - regions with raw materials and traditional industries
  - 3a - regions dominated by these industries
  - 3b - regions with a major share of these industries
- 4 - regions saddled with depression
  - 4a - deep depression
  - 4b - symptoms of depression
- 5 - Other regions

The Friedrich Ebert Foundation in its work in Poland seeks to contribute actively to the changes under way in this country at national, regional and local levels. Four focal areas are addressed in particular:

- restructuring the national economy and transforming the social framework
- reforming political institutions and the administration,
- developing union work in a democracy with a market economy, and
- media development.

The Friedrich Ebert Foundation organizes conferences, training courses, consulting services and field trips, supports studies and research projects, and sponsors publications.

The Friedrich Ebert Foundation is a German non-profit institution financed with public funds. It works in over 75 countries. In Poland, it began to work in 1990 through its Warsaw office. It also runs an office in Silesia which deals primarily with specific issues faced in the region.