

Functioning of special economic zones in Poland and their role in activating regional economy

EUGENIUSZ RYDZ

Instytut Geografii Pomorskiej Akademii Pedagogicznej w Słupsku, Poland

Abstract

First special economic zones were established in Poland in 1995. The zones were established in order to activate and develop economy, implement new technologies and technical solutions and what is most important to create new jobs on the labor market. Establishing SSE (special economic zones) in Poland, the government had to create a proper strategy that would attract investors. A system of economic and tax relieves was supposed to be one of the most important factors attracting new investors. The present paper is an attempt to evaluate the operations performed within SSE structures in recent eight years. The paper also presents the role the zones played in activating economy in chosen regions. Most operative zones are the zones in Katowice, Mielec and Wałbrzych. According to the research results the zones are important factors improving the situation on the local labor markets. The established projects implement and make use of modern and advanced technological solutions. The only disadvantage is the fact that the companies established within the SSE project perform scientific research on a very small scale and seldom co-operate with Polish scientific research centers.

Key words: economic zone, economic initiative, sub-zones, foreign investment, branch structure

1. Introduction

The concept of an economic zone is not definite. According to Korenik (1998) a special economic zone is an enclave in a territory of a country, where the general laws regulating the national economic performances are not in use. The zones are specific political and economic structures, which thanks to favorable regulations, provide attractive conditions to develop and establish different forms of ventures. The government issues laws and rules, which regulate and facilitate performing trade and/or production by national and foreign companies in a selected region. It might be considered a form of support provided by the state in order to activate and develop not only the companies but also the whole regions. The zone influences the general performances and condition of the local and regional structure. The economic zone should be also considered an important element of the world's economy, which is supposed to establish mechanisms of connections on the international market by creating a system of economic and financial stimulants.

The first duty-free zone was the zone established in Puerto Rico in 1951, however more popular example is the zone established in Shannon, Ireland in 1959. The zones

became popular in the 70-ties, especially in the developing countries of Asia, Africa and South America. According to information by International Labor Organization in 1997 there were about 850 special economic zones and the companies established within their structures provided jobs for almost 27 billion of people (Kryńska 2000).

The present paper is an attempt to present the results of scientific research concerning analysis and effects of functioning of special economic zones in Poland. The paper also attempts to answer a question if the zones are effective instruments of regional politics and what is their role in activating regional economy.

2. The rules of functioning of special economic zones and tendencies of their changes

Begun after 1989 transformation of social-economic system in Poland caused significant changes to general performances and development of our country. Evolutions of the market revealed strong need to adjust economic structures to the new situation created by the recently conceived competition. The effectiveness of those changes was different in individual parts of Poland. The various regions of Poland witnessed concentration of the negative results of reforms. A decrease in production, increasing levels of unemployment and unconsumed production resources effected in conspicuous changes of economic structure registered in numerous regions.

Various problems made it impossible to solve them by the local authorities. It was obvious the government had to take some steps in order to improve the situation. One of them was a law dated October, 20th 1994, establishing the special economic zones (SSE)¹. According to the mentioned law, the state establishes a special economic zone in order to activate the region economy by:

- developing specific spheres of economic performances
- developing and implementing new technical and technological solutions
- increasing export
- making good use of developed facilities
- creating new jobs
- making good use of natural resources

Those aims suggest the zones should become an instrument of implementing industrial politics within the structures of specific branches, transferring advanced technologies, supporting pro-export production and finally developing regional politics.

The Cabinet is an administrative organ granting the rights to establish the special economic zones. When the Ministry of Economy makes a motion (after consulting the local authorities), the Cabinet issues a directive regulating the range of activities and location of a new zone.

Special economic zones used to be established for a period of 20 years². During first 10 years an investor does not pay income tax, next 10 years he pays only 50% of income tax.

¹ Dz. U. z 1994 r., nr 123, Art. 5 ustawy o specjalnych strefach ekonomicznych.

² Już od początku powołanie specjalnych stref ekonomicznych w Polsce wzbudzało wiele emocji. Szczególne niezadowolenie z ich utworzenia wyraża Unia Europejska, która w ich funkcjonowaniu widzi podstawy nierównej konkurencji, tym samym jawnie informując o konieczności dokonania pewnych korekt w tym zakresie. Obowiązujące w Unii Europejskiej prawo zakłada, iż pomoc udzielana przedsiębiorstwom przez państwo jest niedopuszczalna, jeżeli narusza zasady konkurencji na wspólnym rynku.

Polish system of public support provided in SSE was different from the rules accepted in UE countries and the European Treaty signed by Poland in 1992. The most important differences were: various levels of support provided to investors, providing "operational support", unlimited support provided to vulnerable sectors (motor transport, synthetic fiber production, ship building, metallurgy), questionable and controvertible rules concerning tax relieves (concerning most important investors).

In order to fight the competition, the European Commission demanded to adjust the Polish regulations to the European ones (Korycińska 2000). On the 1st of January 2001 Polish authorities issued a law regulating conditions of providing public support. According to the mentioned law support might be provided only in case of establishing new investments or creating new jobs connected with new investments. Additional directives of the mentioned law regulate the exceptions to the rule. The law generally differentiates regional, sector and horizontal support.

Regional support is an instrument promoting regional development. It should help to decrease differences in social-economic development between various regions in a country. Providing this kind of support is allowed in poorly developed regions. The aim of regional support is activating long-term economic development.

Sector support is aimed to companies, which belong to "vulnerable sectors" characterized by surplus of production capability, high level of employment and decrease of demand. It is also provided to the companies, which need additional support to activate the pace of their development. At the present time, according to the European Commission regulations the vulnerable sectors are: coal mining, metallurgy, motor transport, and ship building.

Horizontal support is provided to all investors regardless the sector or region. The law allows to provide this kind of support to develop restructure process, scientific research, creating new jobs, developing small and medium size business, ecology and pro-ecological investments, developing technical infrastructure, physiotherapy, creating new jobs for the handicapped and training programs.

Establishing the special economic zones in Poland the government had to create a strategy, which would help to attract investors. The state created a system of tax relieve, which were important factors attracting the future investors. According to the regulations, which were in effect till the end of December 2000 an investor who was granted a permission to develop the activities within a structure of the zone did not pay income tax in a period of first 10 years and only 50% of the tax until the year 2017³.

From the 1st of January 2001 the government introduced new rules concerning the general performances within structures of the zones. The Minister of Economy grants a permission to establish a company in a zone by tender or negotiations resulting from public invitation. The permission defines the subject of activities and conditions: value of investment (minimum 100,000 EUR), level of employment and time of performing the business (minimum 5 years). An investor, who fulfills the conditions, will be able to take back the investment by income tax relieve considering the specific economic

³ Ustawa z dnia 30 czerwca 2000 r. o warunkach dopuszczalności i nadzorowaniu pomocy publicznej dla przedsiębiorstw. Dz. U. nr 60, poz. 704

conditions of the region, however the amount cannot be higher than 50% of the initial investment. The only exceptions are investments in Krakowski Park Technologiczny (support up to 40%). Another advantage is income tax relief on gross salaries according to the figures stated on the permission. Additionally the investors are offered local reliefs by the local or regional authorities.

3. Development of special economic zones in Poland

The first special economic zone was established in Mielec in autumn 1995. Next two were established in Katowice and Suwałki in 1996. The information concerning developing this economic project soon reached important investors from the USA, Germany, France, the Great Britain and became a real "attention getter" attracting foreign and local investors⁴. Most of the regions suffering from structural unemployment demanded establishing the zones considering them an instrument of economic activation. Thanks to efforts of the local authorities the state established additional 17 special economic zones by 1999, including two technoparks: Krakowski Park Technologiczny and Technopark Modlin. After introduction of new administrative structure in Poland the special economic zones are located in 10 provinces (Fig. 1). After few year performance and implementing new legal regulations the authorities verified decisions allowing future investments and developments within a structure of the zones. In 2001 the Cabinet decided to liquidate a Special Economic Zone in Częstochowa and a Technopark in Modlin⁵. The mentioned zones were established without providing proper conditions and in an unnecessary haste during the parliament elections in 1997. In case of Częstochowa SSE the local authorities did not take care of property rights of the area. There were also lots of doubts about a statute of a managing company. As for Technopark in Modlin it did not attract a satisfactory number of investors willing to invest their capital in a transcontinental airport or fast railway to 40 km remote Warsaw⁶.

In 2001 the zones in Tczew and Żarnowiec combined one administrative body – Pomeranian Special Economic Zone. This solution was meant to simplify an organization structure, limit the costs and increase marketing position of the zone. At the present moment the economic initiatives are performed in 14 special economic zones (Fig. 1).

Analyzing the regions and the special economic zones located there we can clearly specify the purpose they were established for (Kryńska 2000). The zones are usually used as an instrument to restructure former industrial centers:

- restructuring coal mining and engineering industry (Katowice and Wałbrzych SSE);
- diversifying economic structure of region – monoculture of industry connected with sulphur processing (Tarnobrzeg SSE);
- restructuring copper mining industry (Legnica SSE);

⁴ "Plaster na rany". Polityka z 9.03.1996 r., nr 10, s. 64–65

⁵ Rozporządzenie Rady Ministrów z dnia 13 marca 2001 r. w sprawie zniesienia Mazowieckiej Specjalnej Strefy Ekonomicznej (Dz. U. 30/01, poz. 341) i Specjalnej Strefy Ekonomicznej w Częstochowie (Dz. U. 30/01, poz. 340)

⁶ Specjalne strefy ekonomiczne – kłopoty czy korzyści". Gazeta Prawna, nr 46 z 2000 r., s. 17



Fig. 1 Location of special economic zones in Poland in 2002

- restructuring Transport and Motor Industry PZL Mielec (Mielec SSE);
 - restructuring clothing industry (Łódź SSE);
 - restructuring Staropolski Okręg Przemysłowy (Starachowice SSE).
- Other purposes of establishing the special economic zones were:
- activating economic development in poorly developed regions (Śląsk SSE, Suwałki SSE, Warmińsko-Mazurska SSE);
 - limiting high level of structural unemployment (Kamiennogórska SSE, Tczew SSE, Częstochowa SSE)
 - making a good use of the location close to the border (Kostrzyńsko-Słubicka SSE);
 - making a good use of scientific subsidiaries (Krakowski Park Technologiczny, Technopark Modlin).

According to estimations the special economic zones that covered an area of over 6,000 ha (what is about 2% of industrial area in Poland) should provide jobs for 132,000 people what is about 3.5% of total amount of people employed in different branches of industry. Implementing of this project was expected to last 10–15 years (Tab. 1). The present research results show that the most favorable situation is registered in a special economic zone in Mielec (125% of planned employment) and Wałbrzych (96.2%). Most difficult situation is recorded in regions, which are not regarded attractive due to their geographical location and infrastructure facilities (Kostrzyńsko-Słubicka SSE, Warmińsko-Mazurska SSE and Kamiennogórska SSE).

Tab. 1 Level of employment in special economic zones in Poland (registered on 30. 09. 2002 r.)

No.	Zone	Planned level of employment according to plans of development	Level of employment according to granted permissions	Employment (30. 09. 2002)	Accomplished level of employment according to granted permissions in % (4:3)	Accomplished level of planned employment in % (5:3)	Level of achieved permissions in % (5:4)
1.	Katowicka SSE	25 000	15 694	11 504	62.8	46.0	73.3
2.	SSE EURO-PARK Mielec	7 000	5 721	8 597	82.0	125.0	161.5
3.	Legnicka SSE	15 000	4 336	2 709	29.0	18.1	62.5
4.	Wałbrzyska SSE	6 000	6 147	5 777	102.4	96.2	94.0
5.	Suwalska SSE	15 000	4 368	2 597	29.0	18.6	62.0
6.	Łódzka SSE	7 000	2 696	1 831	38.5	26.2	67.9
7.	Tarnobrzeska SSE	11 000	3 796	2 978	35.0	27.1	78.5
8.	Kostrzyńsko-Słubicka SSE	9 000	2 351	583	26.0	6.5	24.8
9.	Pomorska SSE	8 000	5 815	2 306	72.7	28.8	39.7
10.	SSE Starachowice	4 500	2 452	1 350	55.0	30.0	55.1
11.	Warmińsko-Mazurska SSE	11 000	1 609	523	15.0	4.7	32.5
12.	Słupska SSE	5 000	1 382	715	28.0	14.3	51.7
13.	Kamiennogórska SSE	4 500	1 543	417	34.2	9.3	27.0
14.	Krakowski Park Technologiczny	4 000	3 183	852	79.6	21.3	26.8
	Total	132 000	61 093	42 739	46.3	32.5	70.2

Source: Unpublished data provided by the Ministry of Economy, Warszawa 2003

4. Special economic zones and their influence on economic development

For almost eight years the special economic zones have been supporting development of local economy and labor markets in a very positive and versatile aspects.

Every year area of the zones changes. In 2001 when the authorities liquidated Częstochowa and Mazowiecka SSE the situation became more problematic. Nevertheless Poland took an obligation not to increase the total area of the zones, the authorities take several attempts to change the area structure of the zones. Thanks to that it is possible to exclude the area not useful for investment purposes and create new, more attractive sub-zones. In autumn 2001 the government changed the area structure of 13 zones. The only exception was a special economic zone in Suwałki, which remained unchanged. A classical example is a special economic zone in Mielec, which area was increased with districts located in Chełm (located 200 km from the central division), Gorlice, Debica and Sanok (Fig. 2).



Fig. 2 Special economic zone Euro-Park in Mielec

Katowice special economic zone is the biggest and busiest zone in Poland. This is the location of the biggest investment of motor and transport industry – General Motors OPEL automobile factory with its principal place of business in Gliwice. Another important investment is: Japanese Isuzu Motors – production of new generation engines and components for automobile industry. Jastrzębsko-Żorska sub-zone thanks to the investment located there is also regarded as one of the most important places of Katowice SSE. The cities of Żory, Jastrzębie Zdrój, Bielsko-Biała and Rybnik combine the mentioned sub-zone. Other important element of Katowice SSE is Sosnowiecko-Dąbrowska sub-zone with Huta Katowice (steelworks).

Tarnobrzaska SSE covers the biggest area and it can boast with best management of its territory (Fig. 3). It is combined of a north part of Podkarpackie Province and a south part of Świętokrzyskie Province. There are 6 sub-zones with strongly developed chemical industry centers (Tarnobrzeg, Staszów, Jasło), metallurgy centers (Stalowa Wola, Radom, Nowa Dęba) and motor industry centers (Radom, Nowa Dęba).

Łódź special economic zone plays a very important and special role due to its central location, over 3 billion market of consumers, high qualified workers, well developed infrastructure and industrial traditions. The zone is combined of 10 sub-zones located in Łódź, Ksawerowo, Zgierz, Ozorków, Tomaszów Mazowiecki, Kutno, Rawa Mazowiecka, Łęczyca, Radomsko and Sieradz.

The research results show that the management of the special economic zones considering their territory might be considered quite satisfactory (about 31.0% of total territory). The best situation is recorded in Katowice SSE where 43% of its territory is used for industrial purposes, in Tarnobrzeg SSE (39%), Legnica SSE (36%) and Krakowski Park Technologiczny (37%). The least favorable conditions are recorded in Starachowice SSE, Warmińsko-Mazurska SSE and Pomorska SSE (Fig. 3).

Analyzing the general performance of special economic zones in Poland it must be stated that they influence regional markets in a very positive way. The effects (new jobs, investments) speak for themselves. The zones play a key role in activating regional markets. The situation is improved not only by creating new jobs that decrease the level of unemployment (Tab. 2) but also by making a good use of industrial facilities and equipment and implementing new technological and technical solutions.

Tab. 2 New jobs created in special economic zones in Poland between 1998–2002 (concerns all permissions)

No.	Zone	Number of new jobs created in zones				
		31. 12. 1998	31. 12. 1999	31. 12. 2000	30. 09. 2001	30. 09. 2002
1.	Katowicka SSE	2 532	5 477	9 944	10 393	11 504
2.	SSE EURO-PARK Mielec	2 740	4 081	7 344	8 282	8 597
3.	Legnicka SSE	b.d.	907	1 482	1 898	2 709
4.	Wałbrzyska SSE	210	2 586	3 499	4 300	5 777
5.	Suwalska SSE	730	1 460	1 567	2 103	2 597
6.	Łódzka SSE	b.d.	296	602	1 278	1 831
7.	Tarnobrzaska SSE	180	987	1 328	2 303	2 978
8.	Kostrzyńsko-Słubicka SSE	0	34	244	536	583
9.	SSE Tczew	b.d.	146	901	2 290*	2 306*
10.	SSE Żarnowiec	–	119	208		
11.	SSE Starachowice	33	298	312	733	1 350
12.	Warmińsko-Mazurska SSE	b.d.	57	217	429	523
13.	Słupska SSE	44	83	300	414	715
14.	Kamiennogórska SSE	b.d.	50	310	369	417
15.	Krakowski Park Technologiczny	–	0	350	536	852
	Total	6 469	16 491	28 608	35 865	42 739

* Tczewska and Żarnowiecka SSE (special economic zone) as newly established Special Economic Zone
 Source: Unpublished data provided by the Ministry of Economy, Warszawa 2003

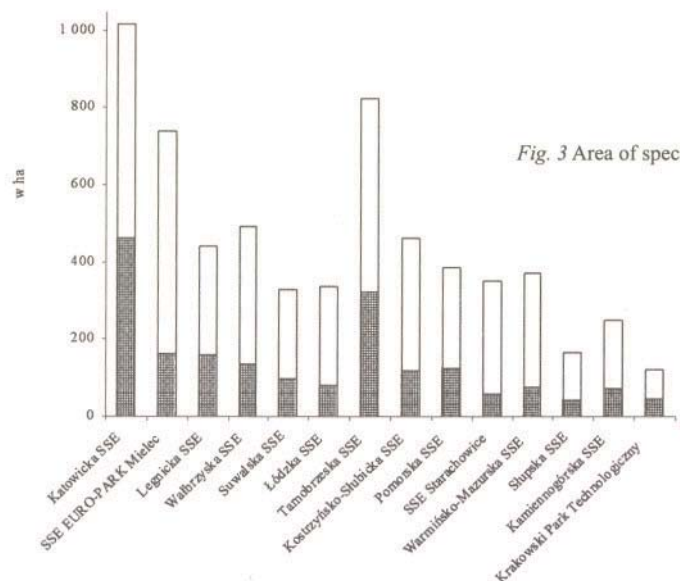
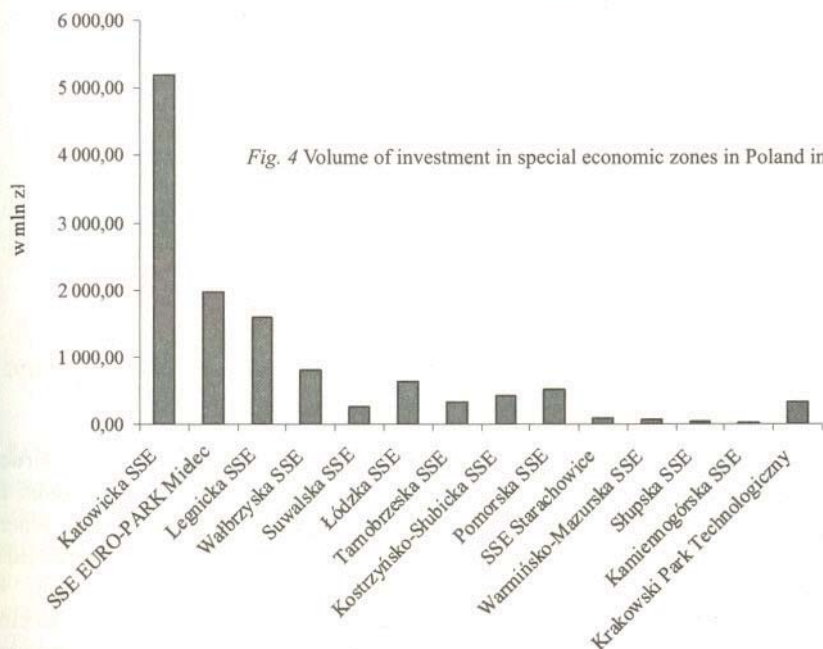


Fig. 3 Area of special economic zones in Poland

Thanks to intense marketing initiatives, tax relieve and local tax relieve system the authorities granted 680 permissions to establish new enterprises within the project of special economic zones in Poland by the end of December 2002. The highest capital was invested in Katowice SSE, over 5.1 million zł., what is almost 43% of total general investment located in all zones in Poland. General Motors invested in Gliwice SSE over one million zł. Euro-Park Mielec, the oldest special economic zone in Poland, is located on a second position with almost 2.0 million zł invested capital. Wałbrzych SSE and Legnica SSE are also classified on very good positions. In December 2000 four most prominent zones concentrated over 78% of total investments in Poland (Fig. 4).



The range of investments and number of people employed in different branches of industry are strongly connected and influence the economic situation on the regional markets (Fig. 5). Limiting options on the labor market and high level of people reaching their production age are crucial for creating new jobs. According to the research between 1998–2002 with five-time increase of investment (from 2,333,000 zł to 12,185,000 zł) the number of jobs created in the zones increased over six times (from 6,500 to 48,800).

Analyzing influence of the special economic zones on local labor markets we have to consider three positive aspects.

Firstly, modernizing production processes and implementing new technologies demand different attitude towards work, better discipline and effectiveness.

Secondly, new challenges make people search for new solutions and knowledge. They make effort to adjust to new tasks and advanced technological solutions. They become more flexible and open to learn new things.

Thirdly, increase of economic initiatives activates labor market and demand for work if the zone is not a hermetic enclave.

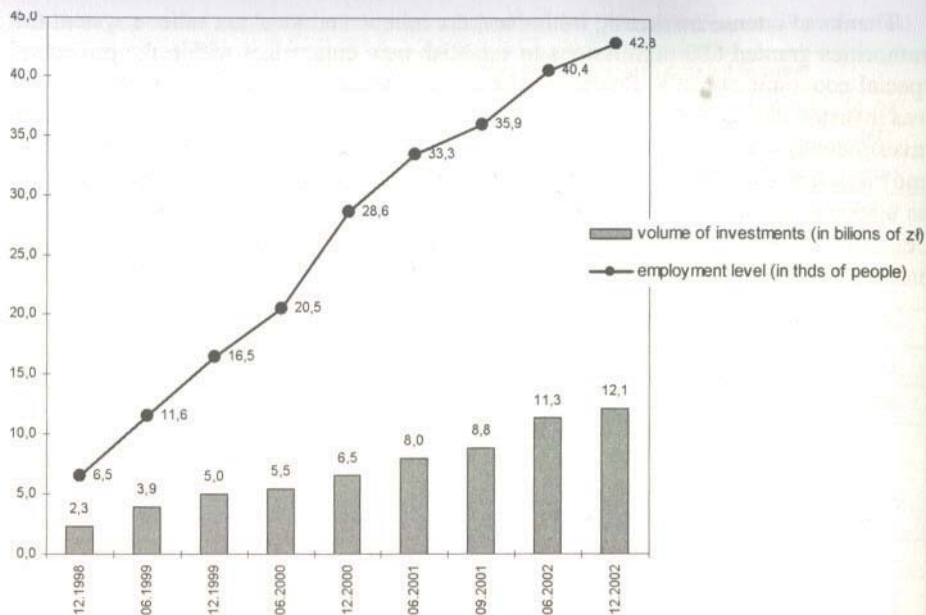


Fig. 5 Volume of investment and employment level in special economic zones in Poland in 1998–2002

Considering the volume of investment in the special economic zones and structure of invested capital it is worth noticing that almost 63% of investment comes from foreign investors and only 37% of means is provided by the local investors. Generally local investors perform their activities in smaller economic zones (they demand less capital) for example in Suwałki, Słupsk, Pomorska and Kamieniogórska zones.

Analyzing branch structure of invested capital it is obvious that best developed branch is motor and transport industry (Tab. 3). This kind of investment is usually capital consuming initiative (e.g. General Motors, Fiat Auto Poland, F.A. Powertrain (Katowice SSE), Japanese concerns of Toyota, NSK, French Faurencja, and also their partners such as Perti Polska, Grossan Polska and BRT Automobile (Wałbrzych SSE). Katowice SSE and Wałbrzych SSE are the centers of motor and transport industry. The motor industry is also located in Mielec SSE represented by United Technologies Automative, automobile engine manufacturers and Melex, manufacturer of injection equipment. The other branches are not as well supported with capital as the motor industry however the volume of investment is quite comparable to constructing, electronics, artificial fiber, food processing or metallurgy industries. Some disadvantage is the fact that mediocre investment was engaged in wood processing and electromechanical industry that used to be well developed and supported in former system.

Tab. 3 Branch structure of capital declared by investors with granted permissions to perform economic initiatives in economic zones in Poland (registered in July 2001)

Branch	Volume of investment	Percentage share
Motor transport	3 428.7	26.2
Construction supplies	780.1	5.9
Electronics	738.0	5.6
Artificial fabrics	719.2	5.5
Food processing	695.8	5.3
Metallurgy	683.5	5.2
Electromechanics	580.6	4.4
Wood processing	554.0	4.3
Paper	406.0	3.2
Chemistry	180.0	1.4
Others	4 300.3	32.9
Total	13 065.7	100.0

Source: "Efekty funkcjonowania specjalnych stref ekonomicznych oraz propozycje zmian obszarów". Ministry of Economy, Warszawa, 2001

Final remarks

According to the research and the results it might be stated that special economic zones improve the situation on local labor markets. The companies, which perform their activities within the structure of economic zones create new jobs and thanks to that it is possible to fight the level of unemployment. Developed enterprises are characterized by high level of advanced technologies used in the production processes such as automatic or computer programmed production lines.

The idea of establishing special economic zones is to provide more favorable conditions in order to activate economic initiatives within a specified territory. SSE (special economic zones) are meant to attract both foreign and local investors. Stimulant and motivating factors are tax relieve systems and other forms of regional support.

In my opinion the only disadvantage is the fact that the companies established within the structures of economic zones did not provide satisfactory financial support to develop scientific research and did not co-operate with Polish scientists and scientific centers. At the present moment only few zones (Mielec SSE, Katowice SSE) evolved in the right direction and became local centers of development.

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