ACTIVITIES OF SMALL AND MEDIUM ENTERPRISES IN WARMIA AND MAZURY SPECIAL ECONOMIC ZONE

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Special economic zones are a special instrument of regional and economic policy of the State. Their concept in highly developed countries is a subject of numerous arguments. The opponents draw attention to examples of ineffectiveness of government regulations and interventions related to that instrument of regional policy. In the developing countries, the zones are to serve economic development of the country while support to the regional development is usually of secondary importance.

Considering the influence on the labor market, it is more beneficial to address the program of special economic zones to the small and medium enterprises. The study presented in the paper aimed at determining the specific features of enterprises operating in the Warmia and Mazury Special Economic Zone (W-MSEZ). The research covered 12 of 13 enterprises, which signed the contracts about the leadership of activity in the zone. The method of direct interview was used to the assemble information. The investigated enterprises in W-MSEZ were mainly employing up to 50 persons (82%). To avoid the development of an enclave attempts should be taken to integrate the enterprises operating in the zone with the region and the national economy. During the study no cases of establishing cooperation relations among the studied enterprises were recorded. Enterprises representing traditional industries carried their activities in the special economic zone.

Classification code: L25 – Firm Size and Performance, R58 – Regional Development Policy
Key words: special economic zones, small and medium enterprises, regional development policy.

Introduction

At the verge of social and economic system transformation that took place in Poland during the late 1980s rapid changes took place in all sectors of the economy. They were particularly painful in the sector of agriculture where the decrease in production was accompanied by a significant increase of unemployment consequential to collapse of many state-owned farms. The intervention policy of the State became necessary. Special Economic Zones were one of the tools aimed at limiting the negative consequences of the transformations.

Because of the complexity of the problem and immense individualism of the functioning special economic zones, it is hard to give a clear evaluation of whether the idea to establish them was right or not. Not always appropriate adjustment of the zone to the specifics of the region and excessively shallow analysis of the project frequently lead to failure of the activities taken. However, there are still some examples of a positive influence of the operation of a zone upon the economy of the region.

Conditions of operation of special economic zones

Establishment of special economic zones, a special instrument of regional and economic policy of the State, has a long tradition. The special status, represented by exemption from charges (mainly customs duties and taxes) and exemption from regulations effective outside their areas was officially granted to certain seaports first (e.g. the Italian port of Reggio in 1547). In those ports there were special areas where the goods were stocked free off customs duty. At the same time production activities were banned and the main focus was on storage and distribution of goods (Durski 1991).

Puerto Rico zone, established in 1951, was the first duty free zone possessing the production character. Shannon in Ireland, established in 1959, is another better-
known example of an industrial duty free zone. Zones of that type started appearing rapidly during 1970s, mainly in the developing countries (Taiwan, Korea, Malaysia, the Philippines, etc.). During the later years they were subject to numerous transformations (Benko 1993).

According to the International Labor Organization estimates, in 1997 there were 850 special economic zones worldwide employing roughly 27 million people (Labour… 1998). Comparing that to the World Bank data for 1992, according to which there were 86 zones worldwide employing roughly 350,000 people, (World Bank 1992) it can be stated that a dynamic increase in the number of the zones and employment in them occurred.

The term “special economic zone” encompasses different areas where the state offers conditions stimulating and shaping the growth of economic activity within a certain area according to different patterns. The special economic zone is a notion that functions in different forms all over the world. Depending on the type of preferences and incentives for investments offered, the areas assigned within the area of a given country can function as, besides special economic zones, duty free storage areas, duty or tax free commercial areas, free insurance or banking zones or export focused production zones (Kisiel, Iwankiewicz 2003).

The level of economic development of the country plays an important role in specifying the goals that establishment of a special economic zone should serve. In the developing countries, the zones are to serve economic development of the country while support to the regional development is usually of secondary importance. On the other hand, in the developed countries the zones contribute to achievement of specific goals, e.g. support to specific regions of the country or development of technologically advanced industries. In the developing countries the model of a special economic zone functioning as an enclave is most frequently implemented. The companies operating within the zone rarely establish cooperation links with enterprises operating outside the zone (Export… 1992). The level of development of a given country also differentiates the type of economic activity in the zone. As a consequence, in some countries the zones become modern industrial complexes while in the other they form enclaves of traditional monocultures. In economically developed countries the choice of the model for special economic zone is highly influenced by attempts at minimizing the risk of creating the enclave effect. Efforts are taken to integrate companies operating in the zone with the region and the national economy. Numerous supplementary activities (programs of regional infrastructure development, training programs for the unemployed, establishment of business incubation centers) are often offered in the surroundings of the zone. All those activities lead to a significant acceleration of development in the given region.

The concept of special economic zones in highly developed countries is a subject of numerous arguments. The opponents draw attention to examples of ineffectiveness of government regulations and interventions related to that instrument of regional policy. Among them they point out, e.g. that the economic zone attracts mainly large companies with capital-intensive operations. Considering the labor market, it is more beneficial to address the program of special economic zones to small and medium enterprises (Kundera 1996).

The classic factors that determine appropriate or inappropriate operation of special economic zones include the location. Positioning a zone in a poorly developed region with bad transport infrastructure often results in failure of the project. Appropriate arrangement of relations and dependences between zone management and government administration, which should support and coordinate the development of a given zone is another crucial factor (Korenik 1998, Labour… 1991, Lizińska et al. 2003).

In Poland the economic situation that developed after 1989 gave the impulse for establishment of special economic zones. General deregulation of the economic system and consequences of long recession created the necessity to initiate stabilizing activities without which introduction of new mechanisms of market economy would rather be unrealistic. That was expressed by enactment, on 20 October 1994, of the Act on special economic zones, which offered the possibility of applying that form for economic stimulation of a region. The first special economic zone was established in Poland already in 1995 and during the following years other zones followed. After introduction of the new administrative division of Poland, special economic zones were located in 11 provinces (Table 1). The major concentration of zones was recorded in provinces of: Dolnośląskie and Podkarpackie (3 zones in each) and Pomorskie and Warmińsko-Mazurskie (2 zones in each). Only in 5 provinces no special economic zones were established.

The established zones may be divided into five groups on the basis of purpose for which they were established. They function as:

- tools of restructuring of old industrial centers,
- instruments for activation of regions representing low level of economic development,
- form of making use of the scientific and research facilities,
- tool for limiting a high rate of structural unemployment,
- form of making use of location in a border region.

Warmińsko-Mazurska Special Economic Zone (WM SSE) is considered an instrument for activation of a region representing low level of economic development. Low level of interest of both domestic and foreign investors in that region is the main cause for the situation.
The European Union policy concerning special economic zones

The initiative of establishing special economic zones in highly developed countries is a subject of numerous controversies. The EU countries generally believe in the need to create equal conditions for operation of enterprises within the entire area of the Union. That applies in particular to companies operating at the same time in a number of the EU countries. The main aim here is to implement the principles of competition policy that include (Kisiel, Iwankiewicz 2002, Mika 1997, Noga 1993):

─ preventing application by enterprises of barriers in trade between member countries causing the same effects as customs borders,
─ preventing application by enterprises of practices harmful for consumers and competitors,
─ preventing limitations and distortions of competition as a consequence of public aid for enterprises or sectors.

The principles of public aid in the European Union are based to a large extent on provisions of art. 92 of the Rome Treaty, which states that any aid of the state that distorts or might distort the competition by favoring certain enterprises or production of certain goods is in a violation of the principles of the common market. Not only subsidies or loans offered on particularly favorable terms and conditions but also other types of intervention, e.g. exemption from taxes and charges, supply of goods and services on preferential terms and conditions, etc. are treated as public aid.

Although the EU regulations significantly limit the possibilities of applying any preferences to domestic producers or products, the Member States were offered a whole range of community instruments that may be used in justified cases. According to those principles public aid is possible in certain circumstances:

─ to regions characterized by low living standards of the residents and a high unemployment rate,
─ for implementation of certain projects important for the entire Community leading to solving serious economic problems of the Member State,
─ to facilitate development of certain industries, sectors or regions on condition, however, that the aid does not distort the conditions of competition and trade.

Considering the fact that Poland, as of 1 May 2003, became a full member of the European Union, existence of special economic zones in its area was questioned.

Methodology of study

The study presented in the paper aimed at determining the specific features of enterprises operating in the W-MSSE. The influence of location of the studied enterprises in the zone on involvement in cooperation and development of cooperation links between enterprises were also analyzed.

From 51 enterprises, which signed the contracts about the leadership of activity in the zone, only 13 functioned in the year of study. Twelve of them that were under research may be considered as a fully representative group. The obtained data led to the general conclusions. The data was obtained through a questionnaire (11 enter-

### Table 1. Special economic zones in Poland according to the location and purpose of operation

<table>
<thead>
<tr>
<th>Province</th>
<th>Name of the zone</th>
<th>Purpose for establishment of the zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dolnośląskie</td>
<td>Kamiennogórska</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td></td>
<td>Walbrzyska SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td></td>
<td>Legnicka SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td>Podkarpackie</td>
<td>SSE Euro-Park Mielec</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td></td>
<td>Tarnobrzeska SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td></td>
<td>Zarnowiecka SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td>Pomorskie</td>
<td>Śląska SSE</td>
<td>Activation of regions at low level of economic development</td>
</tr>
<tr>
<td></td>
<td>Tczewska SSE</td>
<td>Limiting the level of structural unemployment</td>
</tr>
<tr>
<td>Warmińsko-mazurskie</td>
<td>Warmińsko-Mazurska SSE</td>
<td>Activation of regions at low level of economic development</td>
</tr>
<tr>
<td>Podlaskie</td>
<td>Suwalska SSE</td>
<td>Use of border region location</td>
</tr>
<tr>
<td>Śląskie</td>
<td>Katowicka SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td></td>
<td>Częstochowska SSE</td>
<td>Limiting the level of structural unemployment</td>
</tr>
<tr>
<td>Lubuskie</td>
<td>Kostrzyńsko-Śluśicka SSE</td>
<td>Use of border region location</td>
</tr>
<tr>
<td>Lódzkie</td>
<td>Łódzka SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
<tr>
<td>Mazowieckie</td>
<td>Technopark-Modlin</td>
<td>Use of scientific and research potential</td>
</tr>
<tr>
<td>Małopolskie</td>
<td>Kraków Technology Park SSE</td>
<td>Use of scientific and research potential</td>
</tr>
<tr>
<td>Świętokrzyskie</td>
<td>Starachowicka SSE</td>
<td>Restructuring of old industrial centers</td>
</tr>
</tbody>
</table>

Source: own studies   SSE – special economic zone
prises answered the questions of the questionnaire) and on the basis of analysis of the information obtained from official sources and scientific publications.

Results and discussion

Establishment of formal-legal and organizational conditions and completion of basic infrastructure investments resulted in the situation that positioning of the initial investors in the zone became possible already in 1998. In performance of the basic purpose, the zone issued the total of 51 permits for economic activity in the zone to new investors during the period of 1997-2002. Those investors declared creating 2,960 new jobs by 2008.

The development strategy and purposes for establishment of the special economic zone determine the basic directions of promotional activities aiming at acquiring domestic and foreign investors. The following categories of investors were planned for the zone:

- strategic investors who would secure a large volume of investment capital and significant number of jobs for employees,
- small and medium investors establishing new enterprises through direct investments,
- service enterprises working for the entrepreneurs operating in the zone – in case of such operations special permits would not be required.

A limited liability company was the most frequent organizational-legal form of enterprises in the zone (8 companies. Polish enterprises were the main investors in the W-MSSE. Foreign investors had a share in two enterprises only).

The enterprises that started operations in the zone were small and medium enterprises. Until November 2002 employment in an enterprise exceeded 200 persons. The studied group was dominated by small enterprises employing up to 50 persons – 9 companies. Only two enterprises employed over 100 persons. Almost 50% of employees in the zone were found through the employment offices operating in the area of the zone operation.

The zone development strategy pointed at preferences for the following types of economic activity:

- agricultural-food industry and processing of industrial plants to improve sales of forest and agricultural raw materials produced in the region;
- electro-chemical, electronic and machine industry to employ the engineering and technical staff available in sub-zones;
- timber industry as a consequence of ease of obtaining the raw materials;
- light industry, to decrease unemployment among women;
- production of machines and devices for agriculture and agricultural services;
- production and export of consumer goods to the Russian market.

The industry profile of enterprises operating or planning to operate in the W-MSSE was differentiated (Fig. 1). The strongest represented industry (24% of enterprises) was the plastics and construction materials industry. The other typical industries included food industry (20% of enterprises) and timber and paper industry (14%).

Their positioning in the zone should be explained by easy access to raw materials and semi-finished goods originating from the region or from across the eastern border and the traditions of development of those industries in the area of operation of the W-MSSE. More technologically advanced industries – computer and electronic industries, represented 16% of companies operating or planning to build a plant in the zone. The structure is completed by four clothing and textile enterprises and two printing enterprises as well as individual companies representing other industries: production of toys, air conditioning and ventilation equipment and production of fodders and fertilizers.

No cases of establishing cooperation between enterprises operating in the zone were recorded among the studied enterprises. Additionally, enterprises from the zone, with few exceptions, did not establish cooperation relations with enterprises operating in the region and they used services offered by regional enterprises to a limited extent only. According to the enterprises the region was not interesting for extension and establishment of new cooperation.

As a consequence, the Warmińsko-Mazurska Special Economic Zone instead of transforming into a nucleus of regional development is becoming a closed economic enclave. The enterprises operating in the zone are supplied with raw materials, semi-finished goods and components necessary for production and the finished products are sold outside the regional markets. That means that the basic incentive for selecting the location in the zone was given by highly favorable tax exemptions that compensate for both the difficulties in operation resulting from the weaknesses of the region and the increased costs of operation resulting from peripheral location.

The results of the studies confirmed the legitimacy of the thesis that the location of the special economic zone in poorly developed region can contribute to the failure of the undertaking. Moreover, the research results suggest that the local development policy should be focused on other means rather than the special economic zones. It may also be advisable to introduce the changes in the specifics of zone activity.
Summary and conclusions

The low share of Warmia and Mazury province in GDP, concentration of the development potential in two cities in the province (Olsztyn and Elbląg), the highest unemployment in the country, particularly structural one, the necessity of deep restructuring in agriculture as a consequence of the EU membership are the major problems for solution of which the W-MSSE is one of the major systemic tools. Unfortunately, late establishment of the zone and introduction of less favorable legal changes for operation of the zone cause that achievement of the main assumed goal of the zone is extremely difficult.

Conclusions:

1. Until the end of 2002, establishment of the W-MSSE did not bring major investments, either domestic or international, into the region. The investors were small and medium enterprises, some of which had earlier operated in the region.

2. The zone enjoyed interest mainly among entrepreneurs representing traditional industries. Such selection of industries coupled with lack of major outlays. This research and development allow assuming that the zone will not become the center for spreading innovation across the region.

3. The scope of cooperation between economic entities operating in the zone was very limited. If such cooperation occurred, it would generally cover provision of various services by companies possessing no licenses to operate in the zone.

References