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**TOWARDS REGIONAL DEVELOPMENT  
IN CENTRAL AND EASTERN EUROPE**

Workshop on Regional Development Corporations in  
Central and Eastern Europe  
Radziejowice, Poland, 10-12 June 1991

Organized by UNIDO in cooperation with the Polish Government through  
the European Institute for Regional and Local Development, University of Warsaw

This report was prepared by the Regional and Country Studies Branch, Industrial Policy and Perspectives Division.

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## FOREWORD

A key issue in Poland's transformation into a market economy is decentralization and increased local autonomy, in particular with regard to development initiatives. A critical element in the decentralization process will be the establishment of a supporting institutional framework for local sectors, and especially entrepreneurs. Such a framework can serve as a focus for local and regional development initiatives and for co-operation with other regions in the country, elsewhere in Eastern Europe and in the developed market economies.

In this connection, the Polish Government requested the United Nations Industrial Development Organization (UNIDO) to hold a workshop on Regional Development Corporations (RDCs) in Central and Eastern Europe under its auspices. This workshop was jointly organized by the Polish Government through the European Institute for Regional and Local Development of the University of Warsaw and UNIDO. It was held at Radziejowice near Warsaw from 10-12 June 1991 and was attended by over 40 participants from Poland, other European countries, the USA and international organizations.

The main objective of the workshop was to develop the RDC concept launched by Prof. Antoni Kuklinski of the University of Warsaw and to elaborate the modalities for such corporations. This is to lead to the establishment of pilot corporations in collaboration with the concerned international organizations and with financial backing from the IBRD, IFC, UNDP, UNIDO and other bilateral funds. The activities of these corporations will be monitored both by Polish authorities and other interested organizations. The experience obtained from this experiment would then be shared with other Central and Eastern European countries as well as interested developing countries. An evaluation of the pilot projects is to be made in 1992.

It was felt that a wide distribution of the proceedings of the workshop would stimulate the discussion about regional development. The present publication presents its analyses, conclusions and recommendations in a revised form. It was prepared by Prof. Jan Woroniecki, University of Warsaw, and the UNIDO Secretariat. Paul Hesp, UNIDO consultant and Agnieszka Mync co-ordinated the preparation of the original contributions to the workshop.

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**REGIONAL DEVELOPMENT -  
A SUMMARY OF THE WORKSHOP CONTRIBUTIONS AND DISCUSSIONS\*/**

**1. Introducing the issue**

National policy-makers in Central and Eastern Europe currently face a difficult question of how to determine the new orientation and the scope of economic policy.

In principle, the range of options is as follows:

(i) Full liberalization (i.e. entirely relying on market forces); (ii) trying to cope with problems by recurring to new centralized decision-making; or (iii) a policy mix of specific government measures and industrial policies - chiefly in the form of indirect influence on the behaviour of regions, economic sectors, enterprises and households.

The "laissez faire" formula has received ample attention, but it is increasingly being realized that, in the particular situation of Central and Eastern Europe, its extreme forms can work neither in terms of social development nor in terms of building up new sustainable growth of the economy. The latter, for example, requires a modernization and expansion programme for transport and communications; the establishment of a sound financial services infrastructure; the adaptation of the educational and training system to the requirements of the modern market economy; the tackling of environmental issues (which are increasingly acknowledged to be detrimental not only to public health, but also to long-term economic development); etc. Such tasks cannot be left to private enterprise - they require a national or global approach.

Moreover, although private industry is grosso modo more efficient than state or more generally public industry, it is dangerous to suggest that an enterprise is automatically inefficient because it is owned by the state. There are numerous examples of efficiently managed public enterprises, established in the legitimate interests of society and the national economy. Wholesale privatization is therefore not necessarily rational. It should be founded on a long-term approach, taking into account national interests and the positive experience of state enterprises in such countries as France and Italy.

While it seems clear that government action has an important role to play in the transition process of the Central and Eastern European economies, this role can no longer be that of centralized control and decision-making. As a counterweight to the globalizing trends in the world economy, the potential for local and regional contributions to economic growth has been rediscovered in developed market economies and its development is being encouraged.

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\*/ Apart from summarizing the following chapters, this chapter also draws on the papers presented at the Workshop by Marian Geldner/Jan Woroniecki, Oliver Freeman (b) and Antoni Kuklinski (c); the summary and conclusions of the Workshop and the concluding remarks presented by Tadeusz Markowski/Ryszard Piasecki and Leo van der Meer; and the aide mémoire presented by UNIDO. (For full references to the papers, see Annex B.)



Regionalization is stimulated by the liberalization of economic legislation and decentralization of policy making, by the decreasing role of central government: which can be discerned in most developed countries. Another stimulating factor is that "density of interaction" (between entrepreneurs, between industrial enterprises and support institutions, between enterprises and markets) which is a prerequisite for progress and innovation<sup>1/</sup> is no longer a prerogative of metropolitan areas, thanks to the development of transport networks and - especially - communications. Intensive face-to-face contacts, however, have remained important - this is one reason why regionalization does not mean a complete dispersion of new activities; rather, they are likely to be concentrated in the larger urban centres in the region, which may again serve as catalysts for their "catchment area", and thus help to diffuse development. The larger urban centres would also be the locus of the more specialized training and education establishments, which play an essential role in industrial development in an era where skills and know-how are rapidly replacing cheap labour as an investment factor.

Another important factor is that the international restructuring trend is towards high-quality, customized batch production. In other words, the vast basic industry complexes which characterized industrial growth in an earlier era are no longer the driving force in the industrial development process. Medium- and small-scale operations are often more appropriate for enterprises forming the vanguard and mainstream of today's manufacturing, and while these can be (and often are) part of larger business conglomerates, they can be dispersed to regional locations. External forces, such as new technologies, will continue to provide the essential stimuli in many cases, but the possibilities for regions to use such stimuli to their advantage have risen.<sup>2/</sup>

There are good reasons for stimulating the emergence of local and regional development potential in Central and Eastern Europe. Central and Eastern Europe is deeply differentiated, not only in international but also in interregional and interlocal dimensions. The bankruptcy of the old and the emergence of the new economic system is also a deeply differentiated process. In some countries there are regions which could definitely play a role in the integrated European economy. Therefore, the structural change in Central and Eastern Europe should be seen not only as a general problem of the given national economy but as a set of specific regional problems characteristic of the different parts of the country. Exploiting the regional development potential would also act as a brake on migration through the local creation of employment.

More power should therefore be shifted to the individual regions and their authorities and institutions so as to enable them to decide about their own development and to create propitious conditions. External aid (especially technical assistance) should also be channelled to the "end-users" in the regions to a greater extent than so far.

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1/ See a.o. H. Muegge, W.B. Stöhr, P. Hesp and B. Stuckey, International Economic Restructuring and the Regional Community, Aldershot/Brookfield, 1987, p. 174-175.

2/ See, e.g., J.C. Perrin "Local dynamics, the international division of labour and the Third Industrial Revolution", in Muegge/Stöhr/Hesp/Stuckey, op. cit., p. 294-313.

What has been said also applies to Poland. The Polish economy is at present in a phase of transition and restructuring within the overall context of a major shift in industrial strategy and policies. The economic reform programme is aimed at increasing the reliance on market forces; promoting private industries; enhancing the flexibility of the economic system; adjusting the economic structure to better utilize the country's comparative advantages; increasing exports, particularly convertible currency exports; attracting foreign capital as an instrument for technological upgrading and increased competitiveness; and achieving a greater decentralization of resource allocation and economic decision-making.

Given the strong differences in potential among Polish regions, and the absence, under the old economic system, of any serious attempts to exploit this potential in a coherent fashion, regional development policies will be a major dimension of the industrial restructuring and regeneration process in Poland. Structural crises and the potential for growth in individual regions need to be examined and dealt with at the level of the region itself within a new framework of overall policies.

This programme of regional development will have to rely basically on private initiative and enterprise. The great flexibility of and low entrance barriers to small- and medium-scale enterprise make it likely that the regional restructuring and modernization process will be characterized by this type of business. In order to provide essential stimuli with regard to new technologies, production processes, management and marketing, the participation of foreign enterprise on an equal footing with domestic enterprise should be encouraged.

To facilitate the regional development restructuring process, an institutional support infrastructure is needed. Apart from specific producer services such as technical consultancy, the present "pioneering stage" of regional development would make it necessary to establish institutions which coordinate domestic and foreign investment project preparation and appraisal, training and technical support, the collection and diffusion of information, the activities of private and public actors in the regional development processes, etc. The type of institution charged with these crucial support functions will be referred to as Regional Development Corporation (RDCs) in this publication.

RDCs would provide the means for key decision-makers and actors in industrial restructuring in Poland to be in a better and more informed position to conceptualize and launch industrial restructuring at the regional level. They will be acquainted with the key determinants, constraints and prospects which have a bearing on their industrial development efforts and will be able to realistically assess the challenges ahead and the available and suitable policy responses at their disposal. Most importantly, RDCs could be used to develop new structures "from below" and strengthen entrepreneurship at the local level in key regions in Poland and eventually in other countries of Central and Eastern Europe. Finally, RDCs could provide the means for regions to generate their own financial resources. They would thus be a key institutional mechanism to initiate dynamic development.

## 2. Key findings

The following chapters of this publication are devoted to a more detailed discussion of the issues above. Part I surveys the international context, focussing in particular on key trends in both Western and Eastern Europe. At

the end of the 20th century, two major tendencies can be discerned in economic development: globalization and regionalization. There is increasing interdependence of economies worldwide; on the other hand, there is a growing regionalization. The term regionalization covers two different but related trends: at the supra-national level, it refers to the emergence of trading blocs of which the EC is a major example. But there is also a regionalization trend at the national level, partly a reaction against the globalizing tendencies which dominate the world economy. In a growing number of countries, the dormant local and regional development potential is being rediscovered. This is the regionalization which is at the core of the present discussion.

In Western Europe, regional policies have needed some time to adapt to the new trends in economic developments. In the past, a "top-down" approach was very much in evidence, and the central government played a strong redistributive role. In the 1980s, liberalization and decentralization have led to a reduction of interventionist policies. In the EC, regional policy (whether national or communal) is now conducted in a framework of promoting free and open competition. Instead of subsidizing outdated activities, the focus is on restructuring of regions by stimulating investment in new activities. Not all regions, however, are equally well equipped to deal with new trends and an aggravation of regional disparities can be witnessed now. If the cohesion of the Community is not to be endangered, new ways will have to be found to counterbalance this trend. This is a field where national and local authorities would play a crucial catalyzing role.

The need for institutions to guide the regional development process is enhanced by the increasing role of producer services in the present-day global economy. Rapid technological change, internationalization and intensifying competition have stimulated the demand for information, marketing and transport services, consultancy and financial, technological and organizational issues, etc. Specialized training services are also increasingly used to supplement education provided by the central authorities - for knowledge has become a major economic resource.

Producer services have a tendency to concentrate in or around the larger urban centres, which have a well-developed physical and educational infrastructure, and allow easy face-to-face contacts. To stimulate a further diffusion of services at the regional level, expansion of the transport, communications and educational infrastructure will often be needed. Regional authorities can also stimulate the services sector through purchases of local services, financial support or credit guarantees, etc. Often, an efficient way of providing various related services will be the establishment of business service centres (as e.g. in France). Those involved in establishing such services in the emerging market economies in Central and Eastern Europe should carefully study the experience of these existing institutions.

Part I goes on to show that Eastern Europe has in the past followed a development path with characteristics that differ radically from those described in the paragraphs above. Central planning was centred on the rapid expansion of heavy industry. The role of producer services was limited. Markets were controlled, technological innovation was centralized and with few exceptions its pace was far slower than in market economies. The very nature of the industrialization process, relying on concentrations of large-scale industry and a narrow range of branches, was not conducive to the diffusion of industrial development throughout the regions of individual countries. These heavy industry complexes are on the whole outdated, and productivity is low.

Technologies they use are not only obsolete and unable to ensure a modern and high quality product, they are - as a rule - extremely energy-, raw materials- and labour-intensive, and therefore inefficient and wasteful. Their continued existence under the free market conditions now emerging in most Central and Eastern European countries is often doubtful. Moreover, they have often caused very serious pollution.<sup>3/</sup> There is thus an urgent need for industrial restructuring in these countries. This presents both opportunities for and a challenge to development initiatives based on local and regional potential.

In initiating regional development, the countries in Central and Eastern Europe face several obstacles. Scarce budgetary resources imply that only limited funds are available for financial support and the improvement of physical infrastructure. For the urgently needed producer services, only a very limited number of qualified specialists is available at the moment. There is also the complex issue of bureaucratic habits and lack of individual initiative which have characterized society for decades. While local potential should not be underestimated, it is evident that in many ways external stimuli are needed for the process of regional development. These may take the form of development assistance or foreign investment. Section 3 of this chapter will discuss the issue of international cooperation in more detail.

Part II focusses on institutional support to regional structural change in market economies. This usually takes the form of a mix of public and private organizations, including academic research institutions, regional development corporations and chambers of industry and commerce. Tasks range from assessing local potential and needs to various forms of assistance to regional/local enterprises and coordination of the activities of the parties involved. A more general type of regional development organization may serve as an umbrella for entities serving a specific purpose, such as economic development zones which provide the physical infrastructure (utilities, buildings, etc.) needed to attract new investment and will also help new enterprises to get started by providing assistance in acquiring the necessary permits, etc. Often, former industrial areas can be converted into economic development zones with relatively little cost. This presents an option for regional development in Eastern Europe, where restructuring is likely to make a large number of industrial sites available for redevelopment. Given the former development priorities, however, not all of these would be optimally located for regional development.

Part II also gives examples of regional development initiatives in two market economies: Ireland and Switzerland. The Irish Industrial Development Authority (IDA) provides a range of financial support, industrial estates and consultancy services for both domestic and foreign enterprises. Most of its funds are provided by the government and the EC, but IDA also charges fees for certain services. This keeps subsidies down, and ensures that only seriously interested entrepreneurs will use its services. IDA has been successful in

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<sup>3/</sup> The wood processing industry in Central Europe, e.g., is facing serious obstacles to future development as a consequence of increasing forest degeneration. See, a.o. J. Alamco, R. Shaw and L. Hardyk (eds.) - The RAINS model of acidification - Science and strategies in Europe, IIASA Executive Report, 18 January 1991.

stimulating new industries and diversifying foreign investment (industry used to be heavily dependent on British investment). Crucial for IDA's success is the provision of "tailor-made non-bureaucratic" services to its various groups of clients by a highly specialized staff.

The Swiss case study concerns the canton of Neuchâtel. Here the need to tailor a service package to an investor's needs is stressed again, as well as the importance of a rapid, non-bureaucratic handling of requests for assistance and investment proposals. Quality of services offered is an extremely important "sales point" of a region in a situation where many regions are competing for the same type of investment. The central concept in this case is the "marketing mix" of the region, composed of product (type of services offered, other advantages of the region), price (subsidies, tax exemptions), communications (personal contacts, seminars, mailing etc.) and promotion channels (institutional infrastructure) characteristics. In Neuchâtel, additional receipts due to the promotion activities far outweigh their costs. Both case studies show that funding an effective development institution is a form of investment for long-term growth.

Part III focusses on regional development in Poland, and the required institutional framework, the Regional Development Corporations (RDCs). Poland's industrial sector has all the characteristics of central planning discussed above: its production is highly concentrated in a few areas (more than 50 per cent of all industrial goods sold in 1988 was produced in nine out of 49 voivodships or provinces), it is structurally backward, the environmental damage is described as "catastrophic" in some areas and the institutional framework is inadequate for dealing with the new liberalization and decentralization tendencies, especially at the local and regional level.

In the former socialist countries liberalization and decentralization issues differ in character from those in developed market economies since economic development has been treated largely as an administrative question. Introduction of market economy in Poland, when considered in a regional perspective, calls for an assessment of the importance of private and public sector positions, and a reorganization of territory capable of ensuring optimal distribution of welfare without hindering development initiatives. In Poland, like in other Central and East European countries, this is probably the main challenge that faces society: excessive regulation of social behaviour during the communist period has shaped attitudes of passivity. In the past, the benefits of development came "trickling down". It must now be understood that development can only be ensured if initiatives come "bubbling up".

There is an understanding among policy-makers of the need to stimulate regional development and a new administrative subdivision of Poland is being discussed which would favour regional development, granting greater autonomy to the regions, grouping the present voivodships to pool the available organizational and financial resources, and simplifying the administration. Territorial reorganization is favoured more by the relatively prosperous areas than by the poorer areas whose resources even if combined would not reach the "critical mass" needed for a higher degree of autonomous development.

This points to a shortcoming in the present regionalization debate in Poland: delimitation of new boundaries is often regarded as the major issue, whereas the focus should be on the economic implications of spatial and administrative reorganization; an assessment of these should be the basis for the establishment of new regional entities. Deep-rooted historical factors

also contribute to great differences in the regional basis for autonomous development initiatives. As pointed out in Chapter 1 of Part III:

"The varying level of local and regional investments inherited from the partition (i.e. pre-independence) and communist periods entails different financial requirements; regions have different economic functions and there are different levels of urbanization as well as other factors. The change from a centralized economy to a free market economy, from an economy based on heavy industry to one of higher technological and service standards, the shock therapy through which Polish agriculture will inevitably have to go through, and the possible development of new industries like tourism, are all elements which should be addressed by a regional economic policy capable of ensuring equal access of regions to public services enabling autonomous economic development."

As domestic financial resources are limited, foreign investment will be needed. This again calls not only for an appropriate legal framework,<sup>4/</sup> but also for an adequate institutional infrastructure to create favourable conditions for new investment (foreign as well as domestic) in the regions.

It is at this point that RDCs acquire special interest. Chapter 2 of Part III describes their characteristics:

"Such institutions would pool the resources, activities and motivation of various "agents of growth", i.e. representatives of authorities, enterprises and their associations, foreign investors and their organizations, NGOs and IGOs, independent economists and policy-makers. The basic goal of such institutions would consist in promoting economic activity by bringing together domestic and foreign entities. The duties of the corporation would consequently focus on the identification and presentation of development opportunities in the region."

In the present period of transition and adjustment, RDCs could fulfill additional tasks. Local and regional authorities are so swamped by their current tasks that they have little time to work out new longer-term development concepts or strategies, or a coordinated approach to ongoing economic activities. Such functions could temporarily be taken over by the RDCs; as the RDCs gather experience with the functioning of the new laws and measures with regard to regional/local development, their feedback would also help to refine the regulatory framework for the emerging, decentralized market economy system.

RDCs being a completely new phenomenon in Poland, the discussion then turns to their character and tasks.

Of key importance is the type of participant in an RDC. It can be argued that a clean break with the past should be made, and that (e.g.) the old voivodship planning offices should not be involved in the RDCs. On the other hand, the shortage of staff may necessitate a reliance on qualified personnel of these offices willing to make the effort of helping to achieve a breakthrough to a development model with a solid local and regional basis. An inventory of those old institutions could be made; whatever is still useful

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<sup>4/</sup> An overview of the relevant Polish legislation with regard to foreign investment is given in Annex A.

could be adapted for a role in the new regional development structure. Participants in RDCs could also include representatives of other local and central government bodies, enterprises, business associations, foreign investors and their organizations, NGOs, leading economists and politicians and foreign consultants (there are very few qualified local consultants as yet).

The exact composition of an RDC's membership would depend on the type of activities undertaken, and it is unlikely that all the potential parties listed above would be involved. What would the objectives and activities of an RDC be?

Its main objective would be to promote investment by foreign, domestic and local entrepreneurs, and of joint ventures. Another major objective, closely related to the previous one, would be an assessment of the region's potential and the obstacles to future development; on the basis of such an assessment, the RDC could draw up regional restructuring programmes, defining development priorities, and the means to realize these priorities. Concrete activities in the field of investment promotion would include, among others, the preparation of feasibility studies, consultancy, negotiating the establishment of new ventures, serving as a focal point for information and financial support programmes, and promoting the development of regional producer services (the RDC should not be an end in itself, but act as a catalyst).

To finance its activities, an RDC would initially at least partly have to rely on central government funds and/or foreign aid, in the absence of other sources of finance, especially at the outset. Sources of finance, in the longer run, would include local/regional taxes, fees charged for services, stock issued by the RDC itself and contributions by the RDC partners. The examples of Ireland and Switzerland in Part II show that a well-run, successful RDC can help to generate contributions to the national economy that are multiple of the funds spent on its establishment and operations.

Before RDCs are established in Polish regions, the concept should be tested. Putting the concept successfully into practice depends very much on the choice of a proper region (regions) that would serve as a testing ground. The most likely type of region would be one where the basic conditions show sufficient potential for dynamic development in the short to medium term.

Part IV, finally, gives an overview of the development potential of selected Polish regions, and examples of action taken to explore local/regional development potentials. There is the case of the Malbork macaroni plant, taken over by a Polish emigrant with foreign financial and technical support. Restructuring the plant did not only save jobs; it also created new ones. Existing local know-how was important in this case. The importance of entrepreneurship potential among the many Polish emigrants is also highlighted. Another initiative was the competition "Municipality 2000", aiming at increasing the ability of local authorities to "speak the market language" by asking them to submit profiles of their municipalities which might serve to attract foreign investors. No less than 300 such profiles were submitted. These showed that, while there is a rich potential for investment in the great diversity of human and material factors, much additional work is needed to improve the skills of local authorities in attracting investment.

Part IV concludes with a presentation of five Polish regions/voivodships: Wielkopolska, Lodz, Lower Silesia, Elblag and Northeastern Poland. Lower Silesia and Lodz are old manufacturing centres characterized, respectively, by

heavy industries and textiles. Both are in need of drastic restructuring. In Lower Silesia, steps have been taken to set up the required institutional infrastructure and links with foreign (US) expertise have been created. For environmental reasons alone, the existing heavy industries will have to make way for other activities. There is already a basis for the electrical machinery industry on which future restructuring efforts could build. Lodz has not made as much progress yet, and an initiative to create a "sister city programme" with Baltimore, USA, was shelved. On the positive side, the voivodship benefits from a strategic location on North-South and East-West transportation axes; a future shift to transport activities is expected.

Strong locational advantages also characterize the Wielkopolska region in Western Poland. While some of the larger urban centres are heavily industrialized, agriculture also plays a major role, and a shift towards food processing could characterize the restructuring process. A beginning has been made with the creation of the required institutions, including an innovation centre.

The Elblag and Northeastern regions are far more rural than the others, and the major potential is in agriculture and tourism rather than industry, although there is some growth potential for industries related to these dominant economic activities (food processing, construction). The favourable location of these regions vis-à-vis the new Baltic countries and the Kaliningrad region is an advantage for future development. These areas have not been confronted with urgent restructuring problems, and new institution building has not made much progress yet.

Together, these regions would seem to give a good cross-section of the Polish economy, with their predominant activities ranging from heavy industries to traditional agriculture. It is obvious that in such a diverse economic landscape, RDCs will face a varying range of tasks of varying difficulty. This stresses the importance of mobilizing local and regional forces for the RDCs - a centralized approach is bound to fail.

### 3. International cooperation and the RDCs

As RDCs may become the key instruments in fostering local and regional economic activity, it would be worthwhile to build up interregional links through RDCs. This could help to strengthen the ties between Central and Eastern European regions, between these regions and their Western counterparts, and could also be of interest to developing countries. Prima facie at least two situations seem to favour such interregional ties: (a) when regions encounter similar problems, have comparable industrial structures and - although mutually competitive - wish to share experience, and (b) when regions have a dissimilar yet complementary economic structure and wish to expand trade.

International cooperation could help the emerging RDCs in building up such contacts. The EC, UNDP, World Bank, IFC and UNIDO could play an important role, especially in the initial stages. An organization like UNIDO could, for example, play a key role in further developing the RDC concept and implementing it on a pilot basis. Organizations like UNCTC, ECE, IFC and IBRD have also shown an interest in the issue. Support could take various forms: finance, operational expertise, analysis of a region's strength and weaknesses. The participation of such organizations will also strengthen the position of RDCs vis-à-vis authorities. Existing assistance programmes of international organizations - UNIDO's Investment Promotion Service in Warsaw,



UNDP's project "Poles for Poland" mobilizing the transfer of expertise of expatriates, the Business Advisory Service just established in Warsaw - could be integrated in or linked with the assistance given to RDCs. With regard to the role expatriates could play, it would be very desirable to find ways of establishing contacts between RDCs and Poles residing abroad but interested in investing in Poland perhaps in the region they originated from.

Direct cooperation between countries would also have an important role to play. Some successful and less successful examples have already been quoted above, such as the cooperation of institutions in Lower Silesia with US universities and the "sister city" programme involving Lodz and Baltimore. Such initiatives could be expanded, probably involving two basic types of regions and their institutions:

- Those which are executing restructuring strategies which might serve as examples for Poland (the mining heavy industry areas in Northern France come to mind);
- Those which would have a special interest in cooperating with Polish regions (a UNIDO-supported precedent is the cooperation agreement between the Swedish city of Malmö and the Mexican province of Yucatan).

At the central government level, the office of the Polish Government Commissioner for European Integration and External Assistance could become of great value for supporting regional development efforts. For a start, it could play a crucial role in providing actors in the regional development process in Poland with relevant information on EC policies and measures and their effects on regional development. The terms of reference of this unit could moreover be expanded to cover the issue of regional entrepreneurship promotion through European cooperation. One could even think of the establishment of an External Assistance Council (or a Poland Development Corporation - which could have foreign partners) to advise the Commissioner. Given the difficulties in coordinating foreign aid flows to Poland in 1989-1990, the establishment of such a special agency would be justified. Through the agency and the Commissioner's office, relevant foreign entities could be identified and contacted which could support and cooperate with the RDCs.

Before effective international cooperation on RDCs and related issues can be initiated, more in-depth analyses of Polish regions will be needed. There is, at present, a severe lack of relevant information. As pointed out above, Polish towns and regions have as yet to acquire the expertise in collecting the relevant information and presenting it to foreign entrepreneurs and agencies which are potential partners in the restructuring process. The US Peace Corps is providing assistance to Northeastern Poland on this issue. An international organization like UNIDO could provide further assistance in the establishment of the required information base.

#### 4. Main conclusions and recommendations of the Workshop

Development initiatives of individual regions are becoming increasingly important in European countries. Essential elements of the new trend to regional development are:

- Industrial restructuring on the basis of decentralized decision-making;

- The establishment of structures which will allow regions to be competitive in the global economy;
- Cooperation between public and private actors on general economic, technological and industrial issues.

To take advantage of the international trends, Poland should:

- Formulate an overall framework for regional development;
- Design region-specific institutional measures;
- Develop programmes and projects for (and with) individual regions;
- Create a positive climate for private, foreign and domestic investment in the regions.

Special attention would be given to small- and medium-scale enterprises (whether industries or support services) which are now the engine of growth in many countries, but which have so far received few stimuli in Poland. The question of the formation and establishment of RDCs in the various Polish regions was reviewed in great detail by the Workshop. International experience in this field was assessed. It was emphasized that one would need to proceed carefully in order to avoid creating yet further bureaucratic institutions; local/regional "bottom up" initiative should provide the basis for RDCs. RDCs should assume a catalytic function, serve as a promoting and coordinating entity for domestic and foreign investment and carry out various supporting activities in research and administrative infrastructure. One of the most essential features would be the setting up of a "one-stop-office" which would cater for foreign investors' information needs and above all to handle all the required administrative work. The issue of financing RDC activities, and in particular the provision of "seed money" for new enterprises was singled out as deserving special attention.

In individual Polish regions, a beginning has been made with the establishment of an institutional infrastructure that will serve as a nucleus for future development. While these initiatives are on the whole still very recent, they are an encouraging sign of a fundamental reorientation of economic development in Poland.

The international agencies represented at the Workshop, the World Bank, EC, ECE, UNDP and UNIDO, supported the new emphasis on regional development in the Polish economic transformation process. They indicated that due consideration would be given in the future programmes of these agencies to more decentralized assistance which could directly benefit individual regions in Poland.

On the basis of these observations, the following recommendations were formulated and submitted by the Workshop:

1. Three regions in Poland should be selected as pilot cases for diagnostic analysis and development approaches including the setting up of RDCs. The three regions may be those which were specifically examined during the Workshop (Elblag, the Northeast and Lower Silesia).

2. The analytical and conceptual work mentioned above should be undertaken by a team consisting of specialists from the region concerned, other Polish specialists and international experts, the latter being financed through appropriate multilateral and bilateral agencies.
3. The findings and recommendations of the team would be presented to and reviewed by the authorities concerned, academic and other institutions and commercial entities at a workshop to be held in each of the selected regions. Authorities of other voivodships should be invited to the workshop to ensure a country-wide dissemination of the experience gained.
4. On the basis of the above, a programme of development would be elaborated by each of the regions. Such programmes would specify the type of RDC to be set up, the major development projects to be pursued in the next few years and the international support required. To this end, it would be important to explore potential funding sources to back up the efforts designed to bring about the implementation of the concept of RDCs.
5. The various institutional measures that are part of these programmes should be characterized by dynamism and flexibility.
6. It should be attempted to promote the regions' international links, including foreign investment and region-to-region cooperation. To this end, contact should be sought with appropriate regions in other countries. To allow for an exchange of experience with other countries (including countries in Central and Eastern Europe, and developing countries), a programme of regular meetings and study tours should be formulated.
7. The proceedings of the Workshop and selected documents should be published and disseminated to interested parties.

**PART I. REGIONAL DEVELOPMENT: THE INTERNATIONAL CONTEXT**

## 1. REGIONAL DEVELOPMENT TRENDS IN WESTERN EUROPE AND THE EC<sup>\*</sup>/

### 1.1 Globalization versus regionalization

The last decades of the current century leave an overwhelming impression of a shrinking world and its transformation into one global economy. The ongoing internationalisation and spreading multilateralism make the economy of each country less and less independent and self-contained, and increasingly a constituent part of the global process of production and change. The shape and dynamics of this process are largely due to the strategies which the transnational corporations pursue and the international spread of technological progress.<sup>1/</sup> Pluralism and private entrepreneurship are expected to become the cornerstones of an unrestrained market.<sup>2/</sup>

The globalization of economic activities is, however, accompanied by two other trends. First, a trend is clearly manifesting itself towards the regionalization of trade, investment, and production through the emergence of major trading blocs. Thus, some 60 per cent of world trade takes place today within and almost one-fourth between the three leading blocs. Practically all significant R&D, investment and marketing programmes by the major actors in the world competitive arena respond to this economic pattern.

One of these blocs is the EC, which will be the main focus of the present chapter. In 1992 national frontiers between the 12 Member States of the European Community will partly disappear and people, goods, services and capital will move freely. This will be the result of the Single European Act which was ratified in 1987. The EC will certainly be enlarged. Austria insists already, Switzerland and the Scandinavian countries prepare themselves to join in the foreseeable future. Association agreements have recently been concluded with Poland, Hungary and Czechoslovakia.

Besides this trend to "supra-national" regionalization, there is, secondly, a move of individual countries to promote regional development within the national economy. This "internal" regional development - which is the subject of this publication - requires specific supportive policies and actions designed to activate the dormant potential of local initiative and innovative capacity in order to identify and seize existing opportunities at the level of a region.

There is a mechanism of permanent restructuring of regions in the ideal model of the market economy. Every region has a differentiated industrial and sectoral structure, and various firms and enterprises act with different

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<sup>\*</sup>/ Based on the contributions to the Workshop by: Marian Geldner/Jan Woroniecki, Georges Rencki, Ryszard Piasecki, Oliver Freeman and Antoni Kuklinski (d).

<sup>1/</sup> See The Economy in Question. Restructuring Britain, ed. John Allen and Doreen Massey. Sage Publications, London/Newbury Park, CA/New Delhi, 1988; pp. 23-26.

<sup>2/</sup> See Naisbitt, John; Aburdene, Patricia. Megatrends 2000. The New Direction: for the 1990s. William Morrow & Co., New York, 1990; pp. 13, 97-104 and 299-306.

developmental dynamics. An efficient mechanism of success and bankruptcy is the source of permanent regional restructuring. This mechanism is directly connected to processes of innovation, which are the most important driving force of progress in the world economy.

In this context three main types of regions can be distinguished.<sup>3/</sup>

(a) Innovative regions - where innovation and entrepreneurship are integrated. This leads to the creation of new technologies, new products, and new methods of organization and management. All technological and industrial revolutions have been initiated in particular regions, and in every historical period only a few regions can be labelled as innovative.

(b) Adaptive regions - regions which demonstrate the ability to adapt, at the right moment, to innovations from elsewhere, and thus create the conditions for realizing an economic, social and political potential which secures self-sustained development and a competitive position on the dynamic scene of the world economy for a long period of time.

(c) Skansen-type regions - in which the mechanisms of permanent restructuring do not function; regions which become in a specific historical period, areas of technological, economic, social and political backwardness.

Stimulating regional development helps to counterbalance the forces of internationalisation which might economically virtually subordinate governments to the supra-national agents. A selective, regionwise development or restructuring is on the agenda in many countries.

There is an additional trend which favours regional development issues. As democracy and active citizen participation grow, so does resentment against over-centralized national governments. Local communities and regions demand devolution of power so that they can deal with their problems at their level instead of leaving it to national bureaucrats who are less aware of and sensitive to, real local and regional needs and wishes. It seems that the most flexible answer to these developments is the adoption of federal solutions to accommodate them.

The departure from the centralization, to be effective, has to provide for "double" decentralization of the prerogatives to decision-making and actual decision-taking. Firstly, in favour of enterprises across ownership types and sectors; and, secondly, in favour of local organizations, which may include local enterprises and institutions carrying out economic activity of local importance including banks and other services. Which measures have been taken in Western Europe and the EC to stimulate local and regional development?

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<sup>3/</sup> See Kuklinski, A. (ed.), 1990, Globality versus Locality, University of Warsaw, Warsaw. A further examination of the concept and of empirical evidence can be found in: Kuklinski, A., 1990a, The Diamond, [in:] A. Kuklinski, B. Jalowiecki (eds.), Local Development in Europe, Warsaw; and in Porter, M.E., 1990, The Competitive Advantage of Nations, The Macmillan Press, London.

## 1.2 Western Europe: regional development policies in the past

Regional development programmes in Western Europe have taken several forms, and their emphasis has changed over the years, although the basic motivation for these policies - reducing regional disparities in terms of per capita income and halting the migration from poor to rich areas - has long remained the same.

Initially, the objective of levelling out interregional disparities was supposed to be reached by creating, at national levels, specific institutions aimed at redistributing public and financial (mainly fiscal) resources in favour of the less developed regions.<sup>4/</sup> One of the best examples is provided by the "Cassa per il Mezzogiorno" (1950) in Italy, created to subsidize the under-developed Southern part of the country.

Later, the emphasis was put on the founding of a few flexible, highly qualified central administrations units, capable of being active in every phase of the regional planning process: investigation, definition of precise objectives, implementation. The "Délégation à l'Aménagement du Territoire et à l'Action Régionale" (DATAR) created in France in 1963, provides us with a good example of such an institution. It is more an incitating than an executive body, and its field of activity is virtually global, and surely not limited to financial issues. Table 1 provides an overview of various regional policies in Western Europe during the post-war years.

The importance of the social and regional aspects of European integration was recognized from the very beginning. The Treaty of Rome which called the EEC into being (1958), committed the signatories to reduce differences between the regions of the Community. The concept of economic and social cohesion has been accepted as fundamental to all progress towards European unity.

The EC started by acting rather indirectly in the regional field, mainly through the European Investment Bank and the European Social Fund. In fact, one can speak of a "European Regional Policy" only since 1975, date of the creation of the European Fund for Regional Development, which has progressively enlarged its capacity for autonomous action. It has distributed some 25 billion ECU since its creation.

The insufficiency of local sources of finance, together with the growing recognition of central governments' responsibility for balancing living conditions from region to region and for the development of infrastructure led in most countries of Western Europe to an increase in the amount of central government aid to local and regional authorities, and in some cases to a much higher level of central government intervention in the work of these decentralized institutions. In the United Kingdom, for example, central government grants increased from 37 per cent of local authority expenditure in 1960 to 57 per cent in 1976. In Ireland they went up from 44 per cent in 1961 to 59 per cent in 1978, in Luxembourg from 31 per cent in 1960 to 52 per cent in 1976, and in France from 12 per cent in 1960 to 43 per cent in 1976.<sup>5/</sup>

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<sup>4/</sup> See Financial Appointment and Equalization, Council of Europe, Strasbourg, 1981, 95 p.

<sup>5/</sup> These figures are given by Financial Appointment and Equalisation, Council of Europe, 1981, p. 89.

**Table 1: Regional policy: first stages after World War II  
in various West European countries**

Countries	Specific instrument	Created in	objective
United Kingdom	Distribution of Industry Act	1945	Location of industry
	Town and Country Planning Act	1947	
Italy	Cassa per il Mezzogiorno	1950	Financial assistance to the less developed South (to limit migration to the North)
Germany	Action programmes	1950	Reduction of unemployment in the eastern part of the newly created West Germany
Netherlands	Various acts	early 1950s	Centre-periphery equilibrium
France	Programming regions DATAR	1955	Limitation of the exponential growth of the Paris agglomeration ("Paris and the French desert")
		1963	
Belgium	July 17th 1959 Act	1959	Financial assistance to contend, selectively, economic slowing down
Spain	"Development poles" policy	1964	Industrialization of the "hinterland" of big cities
Switzerland	Mountainous areas Act	1974	Subsidizing associations for economic development, created by municipalities in mountainous areas

There was a tendency in regional policy to support industries in structural decline (such as shipbuilding, steel and coal) by financial assistance to subsidize operational costs in order to preserve jobs for essentially social reasons. Until the beginning of the 1980s, the various instruments (see Table 2) managed to reduce or at least freeze the extension of regional disparities. But since then, they have become less efficient in the wake of the fundamental structural changes in the economic landscape. Regional disparities have grown since the beginning of the 1980s. The average job loss in the traditional industrial sector in Germany, France, the UK, Belgium and the Netherlands was some 37 per cent over the period 1974 to 1987. These traditional industries also tended to be regionally concentrated so that regional decline accompanied sectoral difficulties.



**Table 2: Regional aid in some West European countries  
at the beginning of the 1990s**

Forms of aid	Yes	No	FRG	B	DK	F	IRL	IT	NL	UK
Investment subsidies for machines and industrial buildings	8	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Factories (buildings)	8	--	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industrial development sites	5	3	No	No	Yes	Yes	Yes	Yes	No	Yes
Loans at market price	2	6	No	No	No	No	Yes	No	No	Yes
at a preferential rate	6	2	Yes	Yes	Yes	No	No	Yes	Yes	Yes
with guarantee	6	2	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Financial alleviation on:										
investment	5	3	Yes	No	No	Yes	Yes	Yes	Yes	No
profits	2	6	Yes	No	No	No	No	Yes	No	No
national and local taxes	5	3	No	Yes	No	Yes	Yes	Yes	No	Yes
Subsidies for labour costs	1	7	No	No	No	No	No	No	No	Yes
Subsidies for social security expenses	1	7	No	No	No	No	No	Yes	No	No
Subsidies for running costs	2	6	No	No	No	No	No	Yes	No	Yes
Assistance for mobility and relocation of labour	7	1	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State participation in capital	5	3	No	No	Yes	Yes	Yes	Yes	Yes	No

Source: Les politiques régionales en Europe, Lausanne, LEP, p. 318.

In the earlier period, the redistribution of wealth from rich regions to poorer ones was ensured by budget expenditures as well as by taxation. In the latter case, progressive taxation, by requiring heavier contribution per capita from rich regions, acted as an important factor in the deconcentration of economic potential. The other factor explaining the decrease in regional disparities was the movement of capital to poorer regions to benefit from the lower wages prevailing there. These two mechanisms worked most effectively in the years 1950-1980. This period was characterized by important interregional migrations, massive capital movements from one region to another, a considerable increase in compulsory taxation, strong development of spatial planning policies, and by a steady rise of the progressivity of taxation systems.

### 1.3 The shifts of the 1980s

Since the beginning of the 1980s, the two fundamental mechanisms mentioned above have stopped functioning. Migration has slowed down partly because interregional disparities have diminished, partly because social

transfers have made them more tolerable, and partly because potential migrants do not have the qualifications sought after. The same has happened to the movement of capital. Capital has in the past been directed to regions where potential profit depended mainly on the difference in salaries; it now depends more on levels of competence, creativity, and the capability to create and absorb innovation, which are generally higher in rich regions. The transformation from an economy based essentially on labour force (industrial economy) to an economy based on high technology and efficient services (service economy) obeys a number of different rules than those generally accepted in classical economies.<sup>6/</sup>

This fundamental change has been accompanied by liberalization of West European economic policies and an overall reduction of the government's role in the economy. In response to the recent world recession, and to the pressure on resources accompanying this, many European governments have sought to reduce the size of their public sector. Moreover, the progress of liberal ideology has nurtured feelings of suspicion towards interventionist policies, and expenditures on spatial planning seem more of a luxury than in the past. There is a feeling that support, if any, should go to the (potentially) strong regions characterized by a good basis for entrepreneurship and innovation.

The great movement of decentralization which has swept through most West European countries has tended to reduce the importance of central budgets compared to those of local authorities on the communal and regional levels.<sup>7/</sup> The co-financing of national investments by the government and regional/local authorities of higher education institutions, roads and other communication networks, initially meant to be exceptional, has become the rule in France for example. Therefore, richer regions or towns, with higher financial capacity, end up by monopolizing the location of extensive government investments.<sup>8/</sup> Due to changes tending to increase the share of local and regional budgets in global public expenditure, the attractiveness of big cities compared to smaller towns, of urban areas compared to peripheral regions, has increased in the past 10 years.<sup>9/</sup> The strong regions or cities are expected to take the lead as wealth-creating locomotives (poles) of growth. As a result, they are to become propulsive regions and transmit

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6/ For developments on the idea of service economy as opposed to industrial/classical economy, see Orio Giarini, et al., L'Europe et la nouvelle économie de services, Paris, PUF (Publications de l'Institut Universitaire d'Etudes Européennes de Genève), 1988, as well as Orio Giarini, et al., Dialogue sur la richesse et le bien-être. Rapport au Club de Rome.

7/ See The Financial Structure of Local and Regional Authorities in Europe. The Development of Central, Regional and Local Finance since 1950, Strasbourg, Council of Europe, 1975.

8/ Francois Leotard, "La décentralization étranglée", in Les Cahiers du Centre National de la Fonction Publique Territoriale, No. 28, July 1989, pp. 17-21.

9/ See Rémy Prud'homme, "Les tendances de développement économique spatial en Europe", in Pouvoirs locaux. Les Cahiers de la Décentralization, No. 7, December 1990, pp. 44-47.

growth impulses countrywide. In a longer term, it is assumed, a multiplier effect will increase the developmental effect not only for the economy as a whole but also for the temporarily "abandoned" regions in particular.

The liberalization trend has also come to characterize regional policy in the EC. National and community regional policy is conducted within a framework of promoting free and open competition. There are therefore exacting controls on public aid to investment in enterprise, with the exception of regional aid which is intended to counterbalance the locational disadvantages of certain regions. Such aid, which is granted by all Member States, does not distort competition. In the monitoring and control of regional aid, the Community has established upper limits on the rate of assistance which can be granted to new investment. The Commission is prepared to authorize investment aid up to 75 per cent of capital expenditure in areas with low living standards or under-employment. In practice, this level is not reached largely because of national budgetary constraints. The Commission has developed a system for measuring, on a standardized basis, the extent of assistance to investment given by Member States under various forms: grants, low-interest loans, tax breaks, etc. Regional EC policy no longer provides subsidies to operational costs in outmoded activities, which is forbidden (with only rare exceptions) under Community law, focussing instead on measures to restructure the regions and through investment in new activities. A similar orientation is increasingly discernible in the national regional policies of the Member States although in certain cases, where prospects are favourable, aid to investment for the modernization of sectors in difficulty is given.

#### 1.4 The future of regional development in the EC

The less privileged regions in the EEC now account for some 25 per cent of its population. There are two important groups of "underdeveloped" regions in the EEC:

(a) Underdeveloped rural areas like Greece, Ireland, Portugal, Spain, Southern Italy, Corsica and so on.

(b) The areas where former prosperity was founded on industries which are now in decline in countries like France, Belgium, Britain and so on.

In all progress towards European unity there has to be a trade-off between the benefits to industry and commerce of a common market and the likely disadvantages to the weaker regions or sectors in a free-for-all environment if integration is to be acceptable to the poorer countries and to the public generally.<sup>10/</sup> Obviously the removal of internal frontiers could exacerbate social and regional inequalities, placing the weaker groups of the society and the more backward regions at even greater disadvantage than before. In order to avoid such a danger, there is an urgent need to adopt parallel measures in environmental, social and regional policies. The European Community cannot allow some parts to enrich themselves at the expense of the poorer regions. Cohesive policies and solidarity must be the hallmark of progress to union, or it will never be accepted by those who feel themselves vulnerable and the Community could fall apart.

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10/ E. Wistrich, After 1992 - the United States of Europe, London 1991.

It is quite obvious that compensating measures in the regional and social spheres are essential if the differences between richer and poorer regions are not to grow. This has been explicitly recognized in the Single European Act. There is a common opinion that the achievement of a fully integrated internal market would never have been agreed without a framework of economic, regional and social policies that could guarantee its cohesion. In the Single European Act a whole section is devoted to promoting and strengthening economic and social cohesion so as to ensure the European Community's overall harmonious development. The EEC budget, however, which amounts to about 1 per cent of the European gross domestic product, is far too weak to ensure an adequate balance of per capita income from one region to another compared to the budgets of each state taken individually. While reducing disparities between the various regions of the Community and stimulating the least-favoured ones will remain a major aim of EC policy, the actual achievement of balanced regional economic development remains essentially a matter of the political and economic will of each individual state.

## 2. THE SERVICE SECTOR, ITS ROLE IN REGIONAL DEVELOPMENT AND REGIONAL POLICIES<sup>\*/</sup>

### 2.1 Introduction

The growing importance of and the employment shift towards, services in the world economy have been evident for some time. But the increased importance of services in the domestic economy still tends to be neglected by economists and policy-makers. The economic performance of many countries is judged in terms of goods producing economy. The bias in favour of goods is reflected in policies, economic research and statistical data.

The increasingly important role of services in the present world is closely related to technological change, the main source of dynamism in the economy. The emergence of microelectronic and information technologies, which have become of major importance to acquire a place in the market, has resulted in an increase in the demand for services.

Services have been considered for a long time as "improductive production" by major economic theorists such as Karl Marx and Adam Smith. The rapid growth of the tertiary sector is often perceived as a destructive process of de-industrialization. The best example of neglecting the role of services in economic development is provided by the Eastern European countries.

Service policy has received a new framework only recently. Service activities became a new policy issue following the international debate to liberalize trade in services. The new interest in services can be partly explained by the hope that the mainly labour-intensive service activities may help to overcome the unemployment problems in Europe.

### 2.2 Basic data on production and employment in services in Europe

International comparisons of sectoral shares are sometimes misleading because of big differences in price performance and conventions for measuring real output in the services sector. But in terms of its contribution to GNP and number of workers employed, the service sector is now the most important economic sector in Europe. The overall share of services in gross value added now exceeds 50 per cent - in some countries 60-70 per cent - and accounts for between 55 and 68 per cent of total employment (Tables 1, 2). We should add to this the tertiary occupations inside the secondary sector.

It should be stressed that the role of service sector in the economy of the United States is more significant than in Europe. There is some concern that services are not exhausting their potential in many European countries and there is enough evidence to suppose that the expansion of producer services is an important factor for a competitive European economy.

The importance of service sector is increasing with an estimated employment growth rate of some 15.5 per cent in the 12 European Community Member States between 1977-83, compared with a growth in total employment of 5.1 per cent.<sup>1/</sup> In most countries the fastest growing sectors have been producer services, health and educational services.

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\*/ Revised version of a contribution to the Workshop by Jolanta Swiatkowska.

1/ Howells, J. Economic, Technological and Locational Trends in European Services. Avebury, Brussels, Luxembourg, 1988, p. 4.

**Table 1: Service employment as a percentage of total employment  
in the European Community, 1981 and 1984**

Country	1981	1984
Germany, FR	50.9	54.4
France	56.2	60.6
Italy	50.4	55.5
Netherlands	62.4	66.3
Belgium	62.9	68.1
Luxembourg	57.4	58.7
UK	58.2	65.5
Ireland	49.7	54.8
Denmark	63.1	66.1
Greece	42.0	45.6
Spain	45.0	50.7
	(1979)	(1983)
Portugal	38.0	-
Europe 10 average (excluding Spain and Portugal)	54.4	-

Source: EUROSTAT - Regional Accounts and Commission Services.

**Table 2: Services as a percentage of gross value added  
in the European Community, 1978 and 1984**

Country	1978(+)	1984
Germany, FR	53	60.0
France	56 (1977)	59.4
Italy	51	55.7
Netherlands	61	61.1
Belgium	61	65.8
Luxembourg	54	61.4 (1982)
UK	57	57.5 (*)
Ireland	49 (*)	53.4
Denmark	66 (*)	75.4
Greece	52 (*)	53.0 (*)
Spain	-	59.6 (*) (1983)
Portugal	-	57.9 (*) (1981)
Europe 10 average (excluding Spain and Portugal)	55	-

(+) Figures are rounded.

(\*) Gross value added at factor cost.

Source: EUROSTAT - Regional Accounts and Commission Services.

### 2.3 Locational features of services

#### (a) Location of services and spatial imbalance

According to the central place theory and economic base model, patterns of service development and innovation diffusion are spatially unbalanced and tend to create and reinforce regional disparities. Many producer services tend to concentrate in a few core areas where headquarters of large multinational corporations and advanced production facilities are located, whereas in peripheral or declining regions the opposite occurs, contributing to widening the gap between them and core regions. Service establishments in the less developed regions become associated with less sophisticated, routine services controlled from headquarters units located in core, metropolitan regions.

Central place theory easily explains the location of most consumer services through its relative proximity to the customers. The density of population and the level of purchasing power of residents are major determinants of the spatial distribution of such services as: retailing, health, education, etc.

Producer services are strongly influenced by agglomeration tendencies because of cost advantages, quick access to information and to clients, the availability of transport and telecommunication infrastructure, flexible supply of office buildings, qualified staff and cultural/educational advantages of large cities. Producer services often require face-to-face contacts not only with customers but also with suppliers: information suppliers, subcontractors, mass media, research institutes. The costs of maintaining frequent face-to-face contacts are minimized when all the partners in the information networks agglomerate in big cities. In Europe, this concentration of service employment can be observed in several areas: the Paris region (Ile de France, Bassin Parisien) and the South in France, Greater London and the South-East in Britain, the Lombardia, Lazio Piemonte and Emilia Romagna regions on the North-West coast in Italy.

#### (b) New tendencies in location of services

The impact of new information and communication technologies allow looser provider-user connections which influences the spatial distribution of services. The advantages of agglomeration in big cities should diminish, and the possibilities of geographical decentralization increase. These new trends seem to favour areas around big cities like London, the Randstad Holland and the South of Germany and France.<sup>2/</sup> These trends can be reinforced by the availability of well-trained human resources outside the metropolitan areas, which have become a major locational determinant.

While the development of telecommunications stimulates the diffusion of standardized information services, many services remain individual and rely on dialogue between service producer and service user. Face-to-face contacts are necessary for negotiations, search for solution. Proximity to major centres of economic activities and decision-making therefore remains essential in many cases - proximity being measured in travel time rather than distances. A well-developed transportation system is essential here.

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2/ Ochel, W. and Wagner, M., Service Economies in Europe. Opportunities for Growth, Pinter Publishers, London, 1987.

Finally, one should stress that the presence of high-quality service activities in a local area forms a condition for the development of more advanced manufacturing industries. Services and manufacturing industries are now mutually dependent.

#### 2.4 The role of producer services in regional economic development

##### (a) The nature of producer services

Traditionally services have been viewed as "passive" elements within modern industrial economies, or even as "unproductive production". The traditional view of service activities treated them as non-basic, serving purely local consumer needs and having limited multiplier effects. Basic (producer) service activities have been ignored by researchers, but information and computer services and the like must now be considered leading rather than lagging elements in national and regional economic growth, often providing a substantial net balance of payments contribution to a country or an area.

The rapid expansion of producer services is evident in the last two decades. More than half of the real GDP growth of market services in the EC has been contributed by the growth of intermediate consumption by industry and services between 1975-82.<sup>3/</sup> Among producer services, communications, financial services and business services (consultancy, auditing, advertising, information technology) are the most dynamic.

Producer service activities may be performed internally in the user firms or externally in independent service firms. There is a growing tendency of externalization. At different stages of economic development certain activities which were previously exercised within goods producing enterprises are now performed outside. Such services like data processing are more and more externalized, whereas traditional secretariat services have usually remained internalized in modern enterprises.

##### (b) The reasons for growth of producer services

The growth in producer service activities is caused mainly by the increasing internationalisation of markets and competition combined with increased specialization and product differentiation (customized goods in short series instead of mass production). To be able to compete under these circumstances firms have to increase their market research, advertising and marketing. There is also growing need for transport of increased flows of goods, persons, payment, information. In the world of technological change there is finally an increasing need for external management consultants and new organizational solutions.

Since knowledge and human capital increasingly form the main resources, good staff management is a function of growing importance. A considerable part of the labour force has to improve their qualifications in order to cope with new technologies and work organization. Most education and training is provided by public educational services but some educational services, especially for adults, are clearly directed towards staff already employed and are paid by the employers.<sup>4/</sup>

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<sup>3/</sup> Op. cit., p. 142.

<sup>4/</sup> Illeris, S. Services and Regions in Europe, Avebury, Aldershot, 1989.



Producer services have, in short, become an important determinant of productivity growth and source of innovation. They are crucial elements of competitiveness between firms and between regions. In the modern world, where knowledge substitutes capital as the primary factor of production, the quality of the service inputs and of interlinkages between service producers and users is decisive for the development of manufacturing and for the whole, modern, dynamic economy.<sup>5/</sup>

## 2.5 The regional development of services

### (a) The role of services in the regional economy

The neoclassical and Keynesian theories emphasize factor mobility. The mobility of capital and labour should prevent the development of regional disparities. Critics of these growth theories point out that this neglects scale and external economies. Because spontaneous market forces usually favour regional disparities, regional policies are needed to diminish the gaps between the developed and underdeveloped regions. In this context, a general problem of trade-off between economic efficiency and social equity arises.

The endogenous approach to regional development suggests a solution. It stresses that regional policy should aim not so much at the mobility of production factors as at the full use of local resources. The activities eligible for development should be taken on by local firms in the regions. In this context, an abundance of capital no longer plays the major role in the development of the local economies, but the capacity of the region to use its resources for new activities, increasing R&D, training and know-how.

The technological change in industrial activities implies that the growth of specialized and innovative services is also possible and successful in medium-size urban centres with skilled labour and access to information. There is moreover the possibility of services' exports. This means that the local environment should be able to cater for more than a mere local demand for services. An attractive local environment (landscape "townscape" infrastructure) may play a very important role in attracting skilled labour force and this may again stimulate economic development of a region.

### (b) Towards a regional services policy

The underdevelopment of producer services in peripheral regions is usually a result of locational patterns of production activities and the low regional level of service demand. Causes and effects then generate a vicious circle of service underdevelopment which has consequences for the overall development and competitiveness of a region's economy.

To break the vicious circle, regional policy should aim at three main targets:

- Increasing the supply of services in a region;
- Increasing the demand for services in a region;
- Improvement of links between service suppliers and service users.

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<sup>5/</sup> Op. cit., p. 57.

For the improvement of general environment of a region, it is of great importance that the local firms and business associations be involved in the development projects based on these targets, in order to better ascertain needs and problems. The issue of incentives for local entrepreneurs to create new activities is also crucial. In order to avoid the prolonged financing of ineffective initiatives, aid should be granted only for an initial period, in order to push recipient organizations towards a self-financing regime.

- Increasing the supply

The main tool for manufacturing activities are capital investment subsidies. This tool has in many cases little impact on the supply of services because in most service activities capital investments form only a small part of total costs. Capital support however could be used for instance to subsidize the salaries of qualified staff.

Support should be given to innovative initiatives (feasibility studies, product development). The financing of non-material investments often causes problems for enterprises because in many cases banks do not have experts who can estimate the risk of such investments. Local governments could grant guarantees for the financing of non-material investments.

Additionally, the supply of services in metropolitan areas could be restricted in order to attract them to the peripheral areas. One possible method is the refusal of permits to build office space in core regions.<sup>6/</sup>

- Increasing the demand

The manufacturing firms of a certain region may not be ready to receive the service and innovation support. When the industrial base of a region is lagging, the producer services and technological innovation cannot develop, as the two mutually influence each other.

One of the means of increasing the demand for services in a region can be subsidizing the purchase of services as it is done in France. One of the drawbacks of this solution is discrimination against production of services within the company. Another problem is that manufacturing firms often buy services from other regions so that the local service firms do not gain at all.<sup>7/</sup> Service purchases by public authorities can play a major role in increasing supply of services in a region.

- The role of education and training in supply and demand

A very important way of supporting both the supply of and demand for service activities in a region is the encouragement of investments in human capital, and educational and training policies, since technological advance is essentially a product of human endeavour. Much can be done in this area through the improvement of services provided by public sector, like the performance of the universities. The curriculums of higher education should be modernized to correspond better to the needs of enterprises. On the other end of the spectrum, special training can be offered to managers of especially small firms who are often unaware of the potential benefits of services.

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6/ Illeris, S., op. cit., p. 123.

7/ Ibid.

One of the policy tools in this context can be attracting suitable qualified nationals currently working abroad in order to provide staff who might start research or teach at educational institutions. To attract such people and the highly qualified labour force needed for producer services, housing policies and cultural policies will be needed to create a good environment for living.

- Improving the interaction between suppliers and users

It is evident that the development of transport and telecommunication systems improves the interaction between service providers and service users. Shortcomings in regional infrastructure will inhibit the economic development prospects of a region concerned.

There are often essential differences between regions (e.g. in the European Community) in terms of the level of their telecommunication systems. The poor nations and regions find the scale of investment which modern telecommunication system demands a major drain on their resources and balance of payments. In order to provide more equal opportunities for the diffusion of the new information technology there is a need for an adequate regional policy in this area.

Support has been very largely restricted to services with a choice of location and regionally exporting services. These types of services have the potential to maintain growth independent of a particular locality and provide significant long-term multiplier effects on a regional basis. In recent years there have been attempts to extend the eligible items of expenditure; for example in Germany, Ireland and Italy eligible expenditure includes not only fixed assets but also more intangible factors like the cost of patents and licences, and producer services which contribute to the development of exporting firms. In the context of choice of activities eligible for support, the issue of discrimination arises. This politically sensitive issue needs special attention.

Another issue meriting attention is that of local versus external ownership. The developments in telecommunications have facilitated concentrated ownership of services and the expansion of services of large companies in peripheral, less developed regions. Although this has produced additional employment and improved the quality of services available in the peripheral regions, it may have negative influence on the endogenous development of service activities.

## 2.6 Concluding remarks

The service sector has long been neglected by researchers and politicians, although its growing importance is unquestionable. The major part of GDP and total employment in the developed countries is provided by service activities.

The service sector should not be treated as homogeneous. We should distinguish between consumer (household) and producer services. The rapid expansion in the sector is closely related to the growth of producer services. The growing demand for producer services is caused by the emergence of information technology with "service-type" functions: information production and processing are becoming more and more significant compared with activities directly involving production. The increasing internationalisation of markets combined with growing specialization causes a bigger demand for marketing, information processing and legal consultancy.

It is widely agreed that the producer services are essential in the total economy and demand for them will be growing, although it is less certain if they will continue to create new jobs, as two tendencies (increased demand for producer services and office automatization) are competing with each other. No general conclusion can be drawn as to what extent the rapid growth of producer services can be ascribed to the process of externalization or to the general tendency towards a growing importance of services.

There are two ways considering the role of producer services. On the one hand they can be regarded as complementary to the production of goods and their value is directly incorporated in the value of the goods. On the other hand services can be seen as autonomous activities which may or may not be complementary to the demand for goods.<sup>8/</sup> The development of services can certainly follow its own course distinct from industry, creating new techniques and opening new markets. This stimulates production and marketing of goods. The producer services can thus be seen as equal partners of manufacturing industries. Some service firms organize the design and marketing of goods and look for manufacturing firms with required capacity.

Services, moreover, play a strategic role in the improvement of productivity in other sectors of economy. They play the role of interlinking the whole economy. This is borne out by the situation in Eastern European countries where the bottlenecks in the supply of services are a major factor in the retarded economic progress.

Recently the focus of regional policies has shifted to endogenous development rather than on the mobility of factors of production. The potential for economic development is strongly influenced by the knowledge and skills base of the region's population, largely determined by the education and training available to the workforce. Support to training for modern service occupations emphasizing the application of new technologies is therefore crucial. Educational policy should aim at a shift in the budgets of existing institutions towards the less favoured areas and the location of new institutions in these regions.<sup>9/</sup>

The development of transport and telecommunications should diminish the advantages of agglomeration and the possibilities of geographical decentralization should increase. This does not mean though that services can operate equally well everywhere: new transport and telecommunications technologies are an indispensable but not sufficient condition for locational change.

There is still a serious risk that future development will lead to an increased concentration of service activities in metropolitan regions. The substantial regional disequilibria within the European Community are unacceptable because of the under-utilization of resources and the danger of incoherence of the regional communities. As the interlinkages between producer services and production are of decisive importance for the development of the total economy, at least part of producer services should be provided locally.

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8/ Nusbaumer, J., The Service Economy: Lever to Growth, Kluwer Academic Publishers, Boston 1987, p. 3.

9/ Illeris, S., op. cit., p. 122.

Provision of infrastructural facilities should not be limited to telecommunications infrastructure. In peripheral regions local business service centres should be set up as well as data banks, libraries, computer centres, science parks, etc. Financing of producer service industries should also be improved. Credit insurance systems would help to stimulate the expansion of new service firms. Local government guarantees for the financing of non-material investments would also be needed.<sup>10/</sup>

As far as eligibility of services for support is concerned, these tend to be very much restricted to regional export-oriented activities, like tourism and R&D. The advantage of tourism for regional development lies in the fact that it does not cluster in the core regions and can be developed in relatively short time and with only moderate levels of investments. One should however take into account the opportunity cost of the development of tourism and of the alternative strategies, to avoid one-sided growth. Nor should one forget the indirect effects of basic producer services which do not export but contribute to the development of exporting firms.

One could argue that direct revenue transfer, applied for instance in Germany (the so-called "Finanzausgleich" between "Länder"), is more efficient than the abovementioned types of support in reducing the disparities between regions. French regional policy provides a different solution in the form the establishment of concentrated centres, where development of services is facilitated by the proximity of local manufacturing firms, suitable infrastructure, information networks, research institutes. It may also be advantageous in certain cases to make service investments in geographical enclaves with minimal or no regulation.<sup>11/</sup> For developed economies this could take place in the context of existing initiatives such as free ports or free trade zones.

There seems to be an urgent need for creating a larger European market for producer services, allowing the realization of economies of scale and more specialization. The regional policy on the European Community level, now very well established in basic industries such as steel, coal mining and agriculture, needs a re-evaluation in the light of the observed crisis tendencies. Contradictory sector policies often undermine potential success. It is only in recent years that a coherent common policy is being elaborated and that regional development of services and infrastructure have received more attention as being a necessary condition (although not an engine) of the economic growth of regions, in recognition of the fact that "Excellence is necessary for survival, services are necessary for excellence".<sup>12/</sup>

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<sup>10/</sup> Ochel, W. and Wagner, M., op. cit., p. 146.

<sup>11/</sup> Enderwisch, P., "The strategy and structure of service-sector. Multinationals: Implications for potential Host Regions", Regional Studies, Vol. 21, 3, 1986, p. 221.

<sup>12/</sup> Illeris, S., op. cit., p. 57.

### 3. CENTRAL AND EASTERN EUROPE: REGIONAL DEVELOPMENT ASPECTS\*/

#### 3.1 The legacy of central planning

The literature and comments on the transition from a centrally-planned to a market economy by the countries of Central and Eastern Europe have tended to focus on the changes necessary to allow the market to flourish: the creation of the necessary legal and accounting framework, as well as other conditions in the sphere of banking and finance, taxation and price formation. Fundamental changes have so far largely affected domestic trade, where privatization has particularly made progress in Hungary and Poland.

Less consideration has been given to the effects of the transition to a market economy on the regional economic balance. An appropriate industrial conversion policy for the problem regions is not necessary simply for economic reasons, to foster balanced development of the economies concerned, but also for fundamental reasons of maximizing opportunity and promoting social cohesion across the whole of the territory of these countries. Despite high labour mobility in most developed countries, human mentality seems strongly attached to the notion of locality.<sup>1/</sup> Local and regional conscience and commitment still remain surprisingly strong. This fact can be turned into a major asset in mobilizing the development potential of individual regions.

Contradictory phenomena arose as a result of the post-war changes in Eastern Europe. On the one hand, the introduction of central planning and centralized management and an accelerated expansion of heavy industry were accompanied by the declared desire to alleviate prevailing regional disparities. On the other hand, the very nature of the industrialization process (concentration and large-scale industries not being conducive to an even diffusion of economic activity regionwise) necessarily led to an aggravation of disparities.<sup>2/</sup> Selected branches - not regions - enjoyed clear preference and were thus being developed at a faster pace than others. The objective of the maximization of overall economic growth (in quantitative terms) of the country was in direct contradiction with the attainment of regionally balanced development. The central authorities proved unable to take sufficient'y into account the development needs of individual regions. In post-war Poland, branch interests always prevailed over those of the regions.<sup>3/</sup> Local and regional differentiation increased rather than decreased.

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\*/ Based on the contributions to the Workshop by: Marian Geldner/Jan Woroniecki, Bohdan Gruchman, Ryszard Piasecki, Georges Rencki.

1/ See Globality versus Locality, ed. Antoni Kuklinski. University of Warsaw, 1990; pp. 9, 18 and 13.

2/ See Mikhailovic, Kosta. Regional Development. Experiences and Prospects in Eastern Europe. Mouton, Paris/Hague, 1972; pp. 18-29, 48 and 145-151.

3/ See Polskie wojewodztwo. Doswiadczenia i perspektywy (Polish voivodship: experience and prospects), ed. A. Kuklinski, Pawel Swianiewicz, University of Warsaw, Warsaw, 1990; p. 25.

The industrial structures of the formerly centrally-planned economies are thus characterized by a concentration of employment in heavy manufacturing (shipbuilding, iron and steel, mining, engineering, chemicals) organized in large, vertically-integrated state enterprises. In Hungary, for example, more than 80 per cent of manufacturing employment is accounted for by some 1140 state-owned enterprises each with an average of over 1000 employees. Similar concentrations of employment in large state enterprises exist throughout Central and Eastern Europe. A typical region in these countries would tend to contain only a few such enterprises resulting in a profound sectoral and regional specialization and dependence. Such sectoral and regional specialization is often linked to the presence of raw materials as in the coal producing regions of southern Poland (Silesia) or the lignite (and hence electricity generating) regions of Bohemia in Czechoslovakia.

The situation in Central and Eastern Europe contrasts sharply with the West where private small and medium-sized enterprises (SMEs) occupy a central place in the economy and play an important role in manufacturing and traded services such as tourism. Defined as those with between 10 and 500 employees, SMEs make up over 99 per cent of all enterprises in the European Community. In employment terms, SMEs account for around 45 per cent of total employment. When firms employing less than 10 employees are added - the so-called micro firms - this figure rises to 72 per cent. The SME sector is virtually absent from the economies of the countries of Central and Eastern Europe. In Poland, for example, the share of total employment in firms employing under 50 people is some 10 per cent, lower than the share of total employment accounted for by micro firms in the Community.

An established feature of the industrial base of the countries of Central and Eastern Europe is low, sometimes extremely low, productivity. Physical output per worker lags considerably behind the West. Under free-market conditions, unit costs are therefore such that few of these enterprises would survive without significant increases in productivity and reductions in manpower, analogous, in fact, to the reductions experienced in the Western industry since the Second World War as a result of technological progress. This is particularly true today in the former GDR where enterprises have to face competition with western prices (and quality) as a result of union with western Germany. Along with many other factors this has contributed to the rising unemployment rate in east Germany which was approaching 45 per cent in mid-1991.

For the economies of the countries of Central and Eastern Europe, the effects of low physical productivity can be at least partly offset by exchange rate policy and physical controls on imports. This may allow some breathing space within which to restructure industry. Such policies have to be handled, however, with great care and there is always a risk that they may become a substitute for restructuring, which is an overriding necessity and which will have to take place in a relatively short period of time if these economies are not to slip further behind. Moreover, the restructuring should be managed in accordance with the aim of better utilizing regional potential and providing an acceptable regional balance.

The overall environment for the emergence of industries which have their basis in the regions is certainly a difficult one. Monetary policies with budget cuts, anti-inflationary policies and efforts to establish a uniform, realistic and stable rate of exchange of the domestic currency against convertible ones resulted in economic recession. This was characterized by a drastic fall in production and investment caused by uncertainty and high interest rates.

It proved to be more difficult than anticipated to depart from the behavioural patterns shaped by the central planning and command-distributive model enforced upon former socialist countries in the second half of the 1940s. The response to price signals by the supply side of productive sectors and in particular the creation of domestic entrepreneurship in industry has been minimal so far. Foreign investment flows did increase but stayed at a very moderate level and concentrated on joint ventures with existing, renowned enterprises rather than on creating new production units. Whereas, as a consequence of the deregulation process and the breakdown of CMEA markets, many industrial enterprises lost their competitiveness and are threatened with bankruptcy, little new industrial investment is realized which could offset the structural crisis and start a dynamic growth process. As a consequence of the regional specialization referred to above, certain regions within the countries are particularly affected by industrial unemployment.

An active regional development policy is therefore needed by which potential local initiatives and growth prospects can be mobilized to counteract the economic decline of the various regions and the national economy as a whole.

### 3.2 Stimulating regional development in the 1990s

The crucial question is how to select the regions that carry particular promise for development. Sometimes a question is also how to determine their territorial delimitation, especially in the case of an improper administrative division of the country. The regions selected should exhibit a potential for the mobilization of local entrepreneurship for investment and production, services, research, culture and education, etc. Such a selective approach would push the regional communities out of inertia,<sup>4/</sup> assuming an appropriate policy mix and support.

In this context, improvement and development of infrastructure (transport, telecommunications) and business environment constitute a special problem. These are both national concerns and obstacles to regional development in Central and Eastern Europe. The initial period after the economic "liberation" proved that owing to lack of funds and, partly, to insufficient knowledge of the specific local needs, it is neither possible nor realistic to expect that care for infrastructure and environment will be ensured by the central (or federal) government from either budgetary or external sources. Regional and local authorities will have to develop a less passive attitude with regard to this issue.

The countries of Central and Eastern Europe confront the policy dilemma of how to distribute the scarce budgetary resources available for support of the regional activity. Stringent budgetary policy implies that these may be either thinly spread over all regions or be focussed on some selected areas and activities. A choice must also be made between extrabudgetary support from the "Centre" in form of financial funds allocation (e.g. from external

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<sup>4/</sup> See Regional Dynamics of Socio-Economic Change, ed. Grzegorz Gorzelak. University of Warsaw, Warsaw, 1988; pp. 67, 131 and 136-138. Accelerated uniformization according to the communist doctrine has led in Poland to accelerated differentiation in the regional development (see "Globality versus Locality", op. cit., pp. 244-245).



assistance) or through granting of privileges (tax cuts), such support often being even more important. Whatever the solution, it is evident that in all essential domains, cost-effective approaches must be found with direct involvement (including financial) of local authorities and business; their involvement will also be essential to attract foreign investors.

Specifically, a regional development programme might consist of the following elements:

- Provision of industrial zones with new factory buildings and/or converted buildings and connections to road and telecommunications infrastructure;
- Aid regimes (grants, soft loans, etc) for the promotion of productive investment in SMEs in industry and services (the aid regimes should complement and not replace capital raised commercially through the banking system);
- Promotion of producer services (consultancy, etc.), facilitation of technology transfer (networks of Business Innovation Centres), improved access to capital markets, etc.;
- Training schemes for human resource development at all levels.

The above are the key principles upon which the new development programme co-financed by the Community in eastern Germany are based. Of particular importance is that these policies are carried out in a decentralized way. This is because of the very nature of the actions being undertaken which are aimed at the regeneration of regions and local areas, liberating their dormant potential. This cannot be successfully managed at a distance.

In the light of EC experience, a policy of restructuring in problem regions would be helped in a decisive way through the vehicle of SME. In terms of regional economic development there are a number of advantages associated with the promotion of private SMEs:

- SMEs are the main provider of new jobs in most countries with rapidly growing economies;
- SMEs tend to be more resistant to economic shocks than large enterprises and to endow the economy with greater flexibility;
- SMEs encourage local effort and local self-reliance;
- SMEs are an important source of indigenous innovation in both products and processes;
- Provision of services, including services to business, is effected through the medium of the SME (including 'micro' enterprises).
- The public expenditure cost per job created tends to be significantly lower than for large enterprise. For example, the public expenditure cost per job created in large projects, under the aid regime in Portugal co-financed with the Community, is 28,867 ECU per job; this is more than twice the average for all industrial projects.

There is an urgent need to make a serious start with new regional development initiatives in Central and Eastern Europe. The more so as, in spite of the tremendous obstacles that still exist, it must not be excluded that countries like Poland, Czechoslovakia and Hungary will join the EC before the year 2000. As pointed out in Chapter 1, regions are playing an increasingly important role in the Community. It seems clear that all the newcomers will have to accept the logic of the Single European Act of 1992, also in the field of social, regional and minority policies. The fundamental question is whether the Central European countries, after 45 years of communism, centralism, nationalism and contempt of a citizens' society, can easily follow the federalist model of development, the European Community path.

The experience gained by some of the South European member states of the EC could be of considerable importance in the present context. However, one should also take into account some interesting experiences of developing countries which could be adapted to the countries of Central and (South-)Eastern Europe. In some of them extensive experience is available with seed-money organizations (e.g. in the Dominican Republic) or financial assistance to small-scale enterprises (e.g. in Senegal). Various international agencies and NGOs could help in transferring these valuable experiences to the emerging regional development initiatives in Central and (South-)Eastern Europe.

**PART II. REGIONAL AND LOCAL DEVELOPMENT INITIATIVES:  
THE EXPERIENCE OF DEVELOPED MARKET ECONOMIES**

## 1. REGIONAL AND LOCAL DEVELOPMENT ORGANIZATIONS - THEIR ROLE IN MARKET ECONOMIES

### 1.1 Introduction and overview<sup>\*/</sup>

In the developed market economies, institutions and organizations for economic development play a major role in supporting the activities of enterprises. Their role is both a stimulating and a stabilizing one. A well-developed infrastructure of such institutions helps to create a good climate for investment and to soften the periodical downturns of the economy, through the provision of finance, advice, information, insurance, etc.

A number of these functions are also carried out by development institutions and organizations which have a spatial - local, regional or national - focus. Their number and the range of their activities depends partly on the predominant centralizing or decentralizing tendency in policy-making and the related role of public sector activities. Factors favouring the growth of the public sector are a strong overall economy, few constraints on the government budget and marginal groups/regions which are in a position to exert pressure for special assistance; economic difficulties which constrain the government's budget, a history of weak performance in the public sector and a strong political position of groups advocating the abolishment of restraints on free enterprise work to the disadvantage of the public sector.

The contemporary tendency is to decentralize the management of economic development, and to stimulate development at the local level. In the developed market economies, that tendency is reinforced by the availability of a growing number of people professionally skilled in local planning and management. To bridge the gap between local/regional and central economic development bodies until the former have adapted to the new situation and acquired sufficient skilled staff, the central government may set up temporary organizations to assist decentralization and structural change. The Quasi Autonomous Non-Governmental Organizations ("Quangos") set up by the Thatcher government in the United Kingdom are a good example of these.

The institutions and organizations serving regional or local economic development have varying status. A mixture of the following three categories is usually found in any country:

- Public organizations: these are different types of departments promoting economic development and existing within governmental and local structures, certain academic research institutes, etc.
- Semi-public organizations: financed from public and private sources, as well as from their own incomes, for example, regional development corporations, local corporations for urban development, or local economic development corporations.
- Private organizations: consulting agencies, chambers of industry and commerce, etc.

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<sup>\*/</sup> Based on the contribution to the Workshop by Tadeusz Markowski.

Their tasks can be summarized as:

- Research/identification of local needs and potential;
- Diffusion of information;
- Marketing the area to attract new investors;
- Assistance to local enterprise;
- Coordinating relevant activities, groups and institutions.

Depending on the country and the local situation, a varying combination of these tasks is possible.

In spite of the general trend towards privatization, local/regional public organizations still have a role to play in the organizational spectrum. Their access to central authorities is often better, even if bureaucracy tends to slow down their activities. They do not have to support activities that are immediately or evidently profitable. For, as US experience shows, private organizations are often only concerned with the promotion of already existing enterprises and investment opportunities associated with promising new activities. Labour and social concerns are seldom of interest to these bodies. Non-profit organizations, like public bodies, can function more effectively here. Thus, to ensure broader, long-term development, organizations which are not under pressure to be profitable are essential.

#### 1.2 Economic development zones<sup>\*/</sup>

Regional development organizations may act as an umbrella organization for other, more focussed groups which concentrate on specific projects. For instance, Economic Development Zones are a very useful mechanism to develop new business activities at specific sites in certain areas. This section will outline what EDZs are and how they function; some examples of EDZs in the United States will also be given.

An Economic Development Zone (EDZ) is a quasi-governmental entity created under the laws of the country and/or region where it is established. In this regard, an EDZ is similar to the Regional Development Corporation (RDC) which will be discussed in Part III. An EDZ differs from an RDC in that it will usually be tied to a specific geographic site and be responsible for development of new activities at that site, while an RDC will target a much larger geographical area and have a wider scope of responsibilities. For the purpose of this sector, business activities encompass everything from manufacturing, assembly, distribution, servicing, etc.

When an EDZ is established, several issues must be addressed by the governmental body that creates it. At a minimum, the following questions must be answered: who controls it, what will be its responsibilities and

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<sup>\*/</sup> Revised version of the contribution to the Workshop by Arthur R.P. Wielkoszewski.

objectives, how will its profits (if any) be distributed, how long will it exist or under what circumstances will it cease to exist. No EDZ should be set up in perpetuity; once its objectives are reached, provision must be made to phase it out of existence.

Although an EDZ can be placed under an umbrella organization, it can be run on a stand alone basis. Legislation authorizing RDCs can have provisions for RDCs to establish EDZs on their own. Putting an EDZ under the direction of an RDC makes administrative support and control easier. An RDC can easily have several EDZs within its jurisdiction, each with its own site to develop. Although an EDZ should normally be responsible for a particular site, it could be given responsibility for several sites if these are small and close to each other, or for ease of administrative control.

After it is established, an EDZ must be run as if it were a business and be independent from the governmental body that created it. An EDZ can be run as a profit-making organization, or on a non-profit basis. It is recommended that an EDZ be obliged to make profits, or at least to break even. This should ensure that it holds itself strictly accountable for its finances and maximizes its available resources, thus also setting a good business example and shielding the government from having to subsidize its activities on an ongoing basis. If an EDZ is run for profit, there must be clear instructions on how the profits are to be distributed.

Once an EDZ is established at a particular site, it and its RDC will be responsible to promote this site as a desirable place for setting up new business activities. These efforts will primarily be targeted at existing corporations, both foreign and domestic, that might want to establish or expand their activities in that region. In effect, these corporations are the EDZ's clients, and must be treated as such. Accordingly, the EDZ must provide its potential clients with a "one-stop" office to get a business started in the EDZ. This means the EDZ must coordinate and expeditiously obtain all necessary approvals required for a client to start its business. The EDZ must also eliminate all burdensome red tape and actually help the client with as much of the paperwork as possible.

An EDZ might also be charged with additional objectives. For example, an EDZ might have to develop a site's infrastructure, including streets, sewers, utilities, etc. Similarly, an EDZ might have to conduct an environmental cleanup of its site. An EDZ could also have responsibility for running existing facilities on its site for its clients, or even build new ones, whether office buildings, warehouses, manufacturing facilities, etc. In addition, an EDZ will probably have to coordinate financial support, both for its own activities (such as infrastructural support) and for its clients' needs. The latter could take the form of providing tax incentives, seed money, low interest loans, and/or establishing a Free Trade Zone, either for the entire site or for part of it. Lastly, an EDZ can also be involved in ancillary activities such as running or supporting training facilities, experimental stations, business incubators, and other similar business-governmental and business-academic activities.

Within each region, the local governmental body in conjunction with the RDC can decide where and how to focus its resources when setting up EDZs. Once a site has been picked as a potential EDZ, the RDC must ensure that a thorough business plan is developed just as if this was a private sector investment. In the business plan, the financial requirements necessary to fulfil the EDZ's objectives must be identified and carefully reviewed. To

begin its operations, an EDZ must be provided with sufficient start-up capital and have an identifiable cash flow in the future with which to pay its ongoing expenses and capital expenditures. Start-up capital usually includes the contribution of the actual site and all existing physical improvements, as well as more than enough cash to get the EDZ's operations started and sustained until its cash flow is established. Start-up funds can come from the national, regional and/or local governments in the form of a grant, loan, guaranteed bank line of credit, etc. Similarly, start-up funds could be sourced from such bodies as the World Bank, the EBRD, etc.

Once capitalized, an EDZ should never have to return to its creating governmental body for additional funding unless its objectives are changed by mutual agreement. Accordingly, an EDZ must be able to generate sufficient cash flow to sustain its activities. Typically, an EDZ's cash flow would come from renting, leasing and/or selling its assets, as well as from fees paid for the services it provides. Additional cash can come from surtaxes on the site's land and improvements, and from surcharges on usage of utilities. However, sometimes these surtaxes and surcharges might have to be waived for several years to induce new clients to set up in the EDZ and generally an EDZ should price its services and assets at levels that do not inhibit potential customers.

The site chosen for an EDZ would be one which has a proven potential but which the private sector has no interest in developing - the object, after all, should not be to compete with the private sector but to complement it. Many areas where traditional activities have experienced rapid decline - and where land and buildings are therefore relatively cheap - still offer a good infrastructure, proximity to markets and labour resources. Examples include urban renewal areas, port and airport sites, and even old, environmentally contaminated industrial areas which can be cleaned up. In other cases, a greenfield site at a promising location may be more appropriate.

At this point, it might be useful to describe how RDCs and EDZs work in the United States. In the US, an RDC might be a state or county Economic Development Office, a Port Authority, or any number of other similar quasi-governmental bodies. An EDZ could be an Economic Development Agency, an Industrial Development Authority, an Urban Renewal Board, etc. An RDC might be funded both by annual budgetary expenditures and from its own income-generating activities. An EDZ is usually given its own start-up capital as well as the site that it will develop, and then must rely on its income-generating activities to cover subsequent development, although it could be provided with some additional funding by the RDC and be allowed to raise funds by issuing bonds.

A specific example of an EDZ in the US is the former Singer Sewing Machine complex in Elizabeth, New Jersey. Some 10 years ago, Singer decided to close its Elizabeth facility. Prior to this, the Elizabeth plant had been a major production site for Singer for about 100 years. Singer evidently made this decision because the Elizabeth facility was antiquated with much out-of-date machinery. Moreover, the same products were already being produced elsewhere at a lower cost. In the management's opinion, Singer could not cost-efficiently retool this plant.

Needless to say, the closure of this plant would deliver a severe blow to the Elizabeth economy, leaving workers unemployed, shutting down local support businesses, negatively affecting Elizabeth's property tax receipts, etc. Similarly, but to a lesser extent, New Jersey's economy would also be

negatively affected by the closing: corporate and individual income taxes would drop off, as would local sales tax receipts, unemployment compensation claims would go up, etc. Additionally, closing the plant would leave an ugly eyesore, largely untended, inviting criminal activity, discouraging new business from relocating to Elizabeth and perhaps even encouraging existing business and families to relocate out of Elizabeth.

To resolve all these potential problems, the City of Elizabeth and the State of New Jersey decided to turn the site into an EDZ. The New Jersey Department of Commerce and Economic Development, a state-level RDC, and the Port Authority of New York and New Jersey, a major regional RDC, became involved. The State authorized the issuance of Industrial Revenue Bonds to provide financial support to redevelop the site. In the US, these Bonds are tax-exempt from state and federal taxes, and thus can be sold at below market interest rates. In some cases they are backed by the financial commitment of the State, but usually are issued on the merits of the individual projects they will be financing. Even when not backed by the State, the mere fact that they are issued under the State's auspices and will be closely scrutinized by State, RDC and independent auditors means that the investment community normally considers them to be "safe". Accordingly, these Bonds often attract numerous investors when issued, thus further keeping interest rates low.

Both the Port Authority and the State vigorously promoted the Elizabeth site and provided administrative support. Key individuals within these RDCs were assigned specific responsibilities in the EDZ, thus keeping the EDZ's budget to a minimum. Today, several new facilities stand on the old Singer site. Land was sold to corporations recruited to this location and new facilities were put up using the Industrial Revenue Bonds. Before the Bonds were issued, State, RDC and independent auditors reviewed the proposed developments of each of these corporations to ensure that they could generate sufficient cash flow to repay the Bonds on schedule.

Additionally, several old buildings were rehabilitated for new uses. In one very large building, numerous small companies conduct business at rents that would not be possible in new, privately constructed facilities. In summary, it appears that this EDZ has successfully accomplished its objectives. It has revitalized the economic life of this specific geographic site, provided jobs to the community, and new taxes to the City and the State. All of this has been accomplished with very little governmental funding. The profits from the sale of land, income from renting and leasing facilities, and fees from services provided probably more than adequately covered the EDZ's start-up and ongoing expenses, while the additional funding for new construction provided by the Bonds is being repaid by the new tenants over an extended period of time.

This transformation can serve as an example of how EDZs could be established in Eastern Europe and how an EDZ must harmoniously work with RDCs and governmental bodies at several levels. Throughout Eastern Europe, many "white elephant" sites exist that can be transformed using EDZs into modern industrial parks or similar facilities. Here, the term "white elephant" refers to outdated heavy industry complexes which often are notorious polluters. These complexes have an existing infrastructure, might have room for new construction, have existing buildings that could be rehabilitated, have a trained workforce living close by, include good ties to existing transportation systems, etc. In some cases, instead of completely abandoning such an industrial complex, it would only be closed temporarily as old facilities are adapted (where possible), new facilities are built, the



pollution is dealt with and new tenants move in. Other good sites for EDZs would be military facilities that are no longer needed - provided that they have favourable locational characteristics - and ports and airports, although their facilities are usually not very well developed by Western standards. While the security that employees enjoyed under the old system will be missing, the new jobs that are created will probably be better paid since the new corporate tenants would set up efficient modern operations staffed only as needed. The improved productivity would allow for higher salaries, as would the desire of the new private owners to attract the best workforce.

In conclusion, it might be useful to outline some of the steps that an East European country must take to set up EDZs. Legislation must be passed at both the national and regional levels, and if applicable at the local level, authorizing RDCs and setting up EDZs. The RDC must be staffed and funded. Then, the RDC, in conjunction with local and regional authorities, picks suitable sites for EDZs and prepares an initial analysis for each site. The best site(s) is (are) chosen and a thorough business plan developed. If the business plan is accepted, the EDZ is established and funded. Once the objectives of the EDZ are reached, it is phased out. For added efficiency, it is recommended that EDZs be set up only under the direction of an RDC and receive most, if not all, their administrative support and staffing from the RDC. In this way, local and regional governments can maximize the leverage of the resources they make available to the RDCs and at the same time eliminate potential "turf battles" between themselves, RDCs and EDZs.

## 2. REGIONAL DEVELOPMENT IN IRELAND - EXPERIENCE AND PROSPECTS<sup>\*/</sup>

### 2.1 Background

In the period following independence in 1922, Ireland adopted an economic policy of promoting and supporting home industries with high tariff barriers. During the 1950s it became apparent that the home market of about 3 million then (3.6 million today) was too small to sustain growth. In addition, the initial indications of a worldwide movement toward greater freedom of trade were becoming evident.

A new policy of export-led industrial growth was adopted and a number of specialized State Agencies were established to promote industrial growth in the private and public sectors. The principal agency is the Industrial Development Authority (IDA) which is responsible for implementing industrial policy as determined by the Minister for Industry and Commerce. The IDA promotes and assists the establishment of industries, it does not itself establish or operate industries. However, it can and does take equity in companies. The IDA has a statutory responsibility to promote regional industrial development.

### 2.2 Aid to industry/incentives

The IDA offers a package of discretionary aids for industry. These include:

- Capital grants: these can be set up to 60 per cent in Western less developed regions or 45 per in Eastern developed regions;
- Employment grants: in some cases these are alternatives to capital grants;
- Feasibility study grants: to encourage investigation into the viability of projects;
- Research and development grants: to encourage investment in industrial research and development;
- Training grants: to assist in the cost of training new employees;
- Management development grants: to improvement management in businesses;
- Industrial estates/sites/advance factories/small business buildings: for sale or lease.

### 2.3 How the IDA works

The IDA works in three business areas:

- Small Irish owned business (under 50 jobs);
- Medium/large Irish owned business (including food and agrobusiness);

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<sup>\*/</sup> Contribution to the Workshop by Dan Brennan.

- Overseas industry (including specified internationally traded services).

The IDA's package of discretionary aid are available across these three business areas for projects with development and export potential. Specialist teams of staff are allocated to each business area. The activities of each business area can be summarized as follows:

- Small business (5,500 companies employing 47,000)

Under this programme special assistance is given to small businesses, both new start-up and expansions. In addition to the standard package of assistance, additional advice and support is available to meet the extra needs of small firms. For start-up firms, simplified procedures have been put into place to minimize bureaucracy. Special promotional efforts are targeted at co-operatives, community groups and academics. The programme is implemented at local level through the IDA's network of eight Regional Offices. Small business makes a significant contribution to regional development generating one new job in three. However, more entrepreneurs with viable business ideas are needed.

- Medium-large Irish business (1,000 companies employing 72,000)

These companies are faced with increased competition as the EC progresses towards free movement after 1992. The aim is to work in a planned way with companies which have growth potential to generate larger businesses which can compete successfully with quality products on international markets. Sectors with growth potential such as Aerospace, Buildings Products, Print and Packaging are given special attention.

For the food and agrobusiness sector, a development strategy has been prepared and published. This deals with each of the main product areas - meat, dairying, fish, poultry etc. - and sets out a market-led approach aimed at higher value added. Special attention is paid to the implications of the EC Common Agricultural Policy.

The full package of assistance is available to these companies but with an increasing emphasis on repayability of assistance in the form of preference shares, royalties, etc.

- Overseas industry (1,000 companies employing 90,000)

The IDA competes for mobile overseas investment with other countries and regions in the EC through its network of 16 overseas offices. As an island economy with a small home market, Ireland has certain disadvantages. IDA has examined Ireland's strengths and weaknesses and identified the following competitive advantages:

- Young, well educated labour force;
- Free access to EC market 300 million plus;
- English speaking;
- Low corporate tax rate (10 per cent);
- Free repatriation of profits;

- Good infrastructure;
- Political stability;
- Supporting structure of banks, legal framework, consultants, universities, colleges etc.;
- Incentive package;
- Good experience of existing 1,000 overseas companies;
- Excellent quality of life for overseas executives.

Arising from these competitive advantages, a range of high quality and high technology sectors has been targeted for special promotion, i.e.:

- Electronics/engineering;
- Pharmaceuticals/health care;
- Consumer products;
- Internationally traded services.

New overseas industries make a significant contribution to regional industrial development within Ireland and additional incentives are available for firms which locate in the more remote regions.

#### 2.4 Regional industrial development

In addition to the measures already mentioned, a number of other measures are taken to promote regional industrial development. These include:

- Establishment and operation of 8 regional IDA offices;
- Development of regional universities/technical colleges;
- Development of special parks for heavy industry, technology, financial services, aerospace, food;
- Development of Free Trade Zones;
- Provision of industrial estates, advance factories;
- Development of regional airports.

Over the past 20 years, these measures have resulted in a significant growth in industry in the less developed regions.

#### 2.5 Industry in Ireland today

Manufacturing output and exports have grown by an average of over 10 per cent per annum since 1987. Exports from new sectors such as electronics (28.4 per cent) and pharmaceuticals (10.8 per cent) have contributed significantly to this growth. Dependence on the UK market for exports has fallen from 65 per cent to 33.7 per cent in 20 years and the rest of the EC has grown from 12 per cent to 41 per cent. This has resulted in a strong balance of payment position.

The Irish currency is a member of the EMS and has remained stable since early 1987. Interest rates are linked to German rates and inflation is below the EC average and substantially lower than in the UK.

Employment is growing but not as rapidly as the growth of the labour force. Unemployment rates are unacceptably high.

## 2.6 IDA resources and return to State

The IDA receives grant-in-aid from the Irish Government. The sum received in 1990 was IR 137 million (IR 1 = US\$ 1.50, 24 June 1991) and a further IR 18 million was earned from other sources (factory rents, etc.). More than 50 per cent of the State funding is recovered by the Government from the EC Structural Funds. Grants to overseas companies will total IR 55 million in 1991, while tax payments by these companies will total IR 133 million.

The average grant cost per job created and sustained 1984-1990 was IR 14,271 (1990 prices). For medium/large industry the cost was IR17,729, while for small industry the cost was IR 8,227.

Industry spends IR 10,600 million each year in Ireland creating 224,000 direct jobs and 170,000 indirect jobs.

There are 550 staff employed by IDA including approximately 100 in eight regional offices and 150 in 16 overseas offices.

## 2.7 Future prospects

Looking to the future a number of indications are apparent:

- Measures to reduce unemployment will be a continuing focus of policy;
- Competition for mobile overseas investment will intensify;
- Changes in the CAP will cause problems for agrobusiness;
- Recession in major markets and a downturn in world growth will cause problems in the early 1990s;
- The move towards an integrated Europe after 1992 will increase the importance of regional policy within the EC;
- Ireland will continue to need more entrepreneurs;
- Attraction of overseas industry to remote regions will become more difficult.

### 3. **MARKETING A REGION AS A BUSINESS CENTRE: LESSONS FROM THE INDUSTRIAL PROMOTION OF NEUCHÂTEL\***

#### 3.1 Regional marketing

Host regions competing for foreign investments increasingly make use of marketing techniques. This chapter discusses the reasons for this trend, describes the marketing mix applicable to industrial promotion, and presents the case of Neuchâtel's regional marketing scheme.

Regional marketing consists of efforts undertaken to change the behaviour of individuals and organizations towards a given region. The technique is increasingly used to promote the image of various regions as tourist areas, places of residence, or business centres. What is behind the extensive use of the techniques of marketing to attract foreign investments?

##### - Buyer's markets

Over the recent years, the number of countries, regions or cities trying to host foreign corporations exceeds the availability of foreign investors. Markets for host regions became, thus, increasingly "buyer's markets" in which the knowledge of marketing techniques constitutes a sine qua non condition of success.

The increasing competition for attractive foreign investors and the awareness that the investments were needed to ensure economic development of the region were at the origin of the economic promotion programme initiated in the late seventies by the Republic and Canton of Neuchâtel in Switzerland. Neuchâtel's main competitors included several other Swiss cantons (e.g. Sankt Gallen, Fribourg or Solothurn) as well as countries such as Ireland, Scotland, Netherlands or Luxembourg. Neuchâtel currently devotes about 1 per cent of the budget (about SFr 6 million per annum) to industrial promotion activities.

##### - Coincidence of needs

Foreign implantation in a region requires a coincidence of needs on the part of the region and of the foreign business firm concerned. The identification of coincident needs implies an important marketing effort especially with regard to the search for suitable partners ("matchmaking").

More than half of the industrial promotion budget of Neuchâtel is currently spent on the search for suitable partners and other forms of prospecting (see below).

##### - Uncertainty

This is one of the major inhibitors of foreign investments. Foreign companies are often ignorant of existing conditions in the region affecting the return on their investment, and are also likely to feel insecure concerning their ability to start up and operate in the region. Marketing

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\*/ Contribution to the Workshop by Michael M. Kostecki. The author is very grateful to Dr. Alice Enders for her useful comments on an earlier draft of this paper.

efforts are designed to address the lack of complete information, as well as to reduce the insecurity of investors concerning entry, start-up, operation and profitability.

Additional sources of uncertainty face investors in Central and Eastern Europe. These include the instability of prices, wages, the regulatory and fiscal environment, exchange rate developments, and so forth. Diminishing these sources of uncertainty is, of course, an important goal for national authorities and is an essential complement to a region's marketing effort.

Neuchâtel marketers deal with the issue in a number of ways. They (i) invest efforts in public relations with potential investors, (ii) put them in touch with foreign companies already operating in the Canton, (iii) ensure high efficiency in dealing with administrative matters related to start-up and operation of foreign companies in the region and (iv) guarantee the investors a total political consensus on the desirability of foreign investments in the region.

#### - Profitability of regional marketing efforts

While data are not generally available concerning the track record of the many regional marketing efforts currently underway, the experience of a number of regions has been very positive. Direct benefits of investment include job creation and the widening of the corporate and individual tax base; direct costs include fiscal incentives, the cost of marketing efforts and follow-through services. Of course, as jobs are added, new consumers "multiply" the effects of the original investment on the regional economy, boosting existing businesses or facilitating the attraction of new ones.

During the 1987 period, 350 foreign companies invested roughly SFr 1 billion in the Republic and Canton of Neuchâtel (an equivalent of about US\$ 0.7 billion) generating additional employment in the range of 4,000 jobs. The targeted foreign companies were largely high tech companies and service companies. The additional fiscal receipts attributed to the promotional activities (both from the operation of hosted companies and employment creation) were in the range of SFr 10 million per annum. This compares favourably with some SFr 6 million spent on the industrial promotion. These expenditures were crucial in assuring the investment flow.

### 3.2 Marketing mix of a region

Marketing mix of a region is a set of controllable variables used to attract foreign investments. The mix may be conveniently represented by the vector  $(x, p, c, d)$  where,  $x$  = product,  $p$  = price,  $c$  = communication and  $d$  = promotion channel. Let us briefly discuss the various elements of that mix.

#### - Product

The concept of product in a regional marketing mix comprises essentially elements of the region as mega product, i.e. services or advantages which might be added to the existing attributes of a region. Most characteristics of a region such as climate, market, or political stability may not be easily modified in response to the investor's preferences. Similarly, variables such as human capital, R&D capacity or transportation facilities, which may be influenced by the regional authorities are essentially considered as exogenous variables by a regional marketer. (Obviously some elements of a supportive infrastructure may be the object of negotiations.)

A regional marketer may analyse the needs of the potential investors in order to design an appropriate image strategy, and to identify the possibilities of efficiently increasing the region's offer by attaching new additional elements to it. The latter might, for example, include a special administrative service as a single-desk arrangement to deal with all administrative matters of a foreign investor, assistance in finding office space and housing, a follow-up assistance to companies already operating in the region and the like.

In Neuchâtel where regional marketing is niche marketing emphasizing investments in high technology and business services the annexed investor's services supplied by the region play an important role in industrial promotion. Neuchâtel adopted, for example, a single desk to deal with foreign investors. So-called Project Leaders (see below) have the main responsibility for day-to-day management of region-investor relations. A Project Leader remains the region's spokesman with the foreign company and deals with all public administration issues confronting the foreign investor in Neuchâtel. The single desk approach is frequently considered as one of the critical factors of Neuchâtel's success in industrial promotion. Neuchâtel managed to offer an exceptional global service to the corporations resulting in a considerable reduction of administrative burden related to the establishment of companies. It also provided a constant support in a number of other areas of newcomer's concern and gave sympathetic consideration to companies' problems at the political and administrative level by granting work permits in Switzerland, facilitating contacts with the federal authorities, responding to newcomers' demands for improvements in the support infrastructure, etc.

#### - Price

Price elements of a regional marketing mix comprise those variables which may be determined by the regional authorities in order to vary the cost of a foreign entrepreneurship in the region. It comprises tax exemptions and various forms of regional subsidies. The latter may include direct subsidies, i.e. direct payments to the foreign company conditional upon a particular performance (e.g. employment, exports) or indirect subsidies such as the supply of electricity, construction land or supportive infrastructure at subsidized prices.

The fiscal burden in Neuchâtel is heavier than in the main competing host regions in Switzerland and abroad. Important fiscal concessions or subsidies are thus needed to compensate foreign investors for that disadvantage. Neuchâtel continues to offer up to 10 years tax exemption to companies which establish manufacturing operations in the region. For many companies the fiscal element is the main motivation for choosing Neuchâtel. Neuchâtel also offers other "price concessions" in the form of subsidized construction land or industrial buildings and a range of subsidized support services (see below).

#### - Communication

A regional marketer has to know how to communicate with the potential foreign investor in order to awaken his interest and gain his confidence. A company's decision to enter a region passes by several stages such as awareness, interest, evaluation, negotiation and conclusion. Mass media communication, mailing and prospecting for potential investments are most important during the initial awareness stage. Personal relations have their greatest impact at the interest stage. Assistance in dealing with legal, fiscal and other technical issues is predominant during the evaluation stage, etc.



The principal form of communication practiced by Neuchâtel in its industrial promotion are personal contacts. Mailing, seminars for businessmen in the targeted markets, information sessions, distribution of documentation on business opportunities in the Canton and press ads are used extensively to increase the awareness and interest in the Canton. The slogan "Neuchâtel Way" headed numerous pamphlets and other publicity materials distributed to corporations across the world. The Neuchâtel communication mix varies considerably depending on the target country.

#### - Promotion channel

The regional promotion channel comprises a set of institutions which perform the activities aimed at bringing foreign investment to the region. The channels usually include several of the following elements: (a) political bodies and government bureaucracy providing the guidance and control of the industrial promotion activities, (b) authorized agents (private or public) responsible for the conduct of regional promotion and (c) a network of representatives abroad.

Moreover, the regional promotion channels comprise various facilitators both at the regional (e.g. chamber of commerce) and international level (e.g. embassy, bilateral chamber of commerce, etc.). Occasionally, major real estate developers may also be involved in a region's promotion campaign.

The regional promotion channel of Neuchâtel has three organizational components. First, a member of the local government (Minister) supervises the economic promotion activities of the Canton. Second, the Office of the Adviser for Industrial and Commercial Promotion is given the task to implement the promotion strategies. The Office is a private organization and its director has a contractual relationship with the government. (A single director and four specialized secretaries currently work at the office.) The office has at its disposal a network of representatives abroad. The mandate and the salary of foreign representatives are negotiated periodically. The representatives are typically expected to spend most of their time on developing personal contacts with potential investors following general directives given to them. Their task is to convince foreign companies that Neuchâtel should be seriously considered as an area for their geographical diversification. The main target markets include Germany and other EEC countries, United States and Japan.

### 3.3 Conclusion

The experience of Neuchâtel in successfully marketing the region to foreign investors is a case of niche marketing resulting in high returns. The mega product of the region is frequently tailored to the investor's needs. Fiscal considerations and other elements affecting after-tax profit constitute a significant "selling point" in attracting foreign investors. A light and flexible promotion chain combining public guidance and individual entrepreneurship has proven very effective in the case of Neuchâtel. A network of foreign representatives maintained by the region in major target markets contributed significantly to the success of the Neuchâtel promotion scheme. A single desk service (Project Leaders) to deal expeditiously and globally with all administrative matters concerning the entry of foreign investors was an important condition of success in Neuchâtel's industrial promotion.

At a more general level, Neuchâtel was able to combine the non-marketing attributes of its region with fiscal incentives and support services into a package that was communicated and promoted to potential foreign investors, with the result that a number of investors chose Neuchâtel over other Swiss or European localities. From the point of view of the region as a product, it is clear that a successful package is one that is designed with the merits of the region relative to other potential locations in mind. For regional marketers, however, developing the product is only a beginning, and must be followed with assiduous communication and promotion activities.

**PART III. THE ISSUE: REGIONAL DEVELOPMENT IN POLAND  
AND THE CONCEPT OF RDGS**

## 1. REGIONAL DEVELOPMENT IN POLAND: PROBLEMS AND PROSPECTS<sup>\*/</sup>

### 1.1 The problem: hyperconcentration and structural backwardness

History and physical geography do much to explain the contemporary spatial differentiation of the socio-economic structure in Poland. The economic policies of the partitionary powers that ruled Poland until it regained independence after World War I and the irregular distribution of energy resources, metallic minerals, land and other natural resources have all played a strong role in bringing about the uneven distribution of economic activity.<sup>1/</sup>

The post-World War II industrialization model, an imitation of the Soviet model, however, must be seen as the main cause of the present imbalance and stagnation. This was characterized by an excessive concentration of very large plants.<sup>2/</sup> While economic policies can accelerate restructuring and economic progress in regions when they are properly attuned to the dynamism of global changes, the imported model promoted industries and technologies which were not representative of the kind emerging in the centres of innovation of that period. The natural process of restructuring which takes place in open economies was blocked in the ensuing years as well, the end result being that many Polish regions became backward and stagnant, "Skansen regions" of the type referred to in Part I, Chapter 1. The most pathological case is Upper Silesia where structural backwardness is aggravated by catastrophic ecological conditions. Not all regions have been as badly affected. But an ill-conceived territorial restructuring in 1975 and the fact that for decades planners and managers worked largely in isolation from the leading global industry trends have put obstacles in the way of regional renewal anywhere in Poland.

A few figures can serve to demonstrate the high concentration of industrial activities.<sup>3/</sup> More than 50 per cent of all industrial goods sold by domestic firms in 1988 was produced in nine out of 49 voivodships (provinces). The Katowice voivodship in Silesia was the largest producer,

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<sup>\*/</sup> Based on contributions to the Workshop by Marian Geldner/Jan Woroniecki, Oliver Freeman (b), Bohdan Jalowiecki, Antoni Kuklinski (d), Bohdan Gruchman.

<sup>1/</sup> See Pawel Swianiewicz, "Typology of Towns and Communes in Poland", in Colloque européen sur la "Dynamique locale et sa gestion", Berne, Commission nationale suisse pour l'UNESCO, 1989, p. 105; and Krzysztof Berger, Jan Gawronski, Leszek Zienkowski, Selected Problems of Regional Distribution of Gross Domestic Product in Poland and Spain, Research Centre for Statistical and Economic Analysis of the Central Statistical Office and the Polish Academy of Sciences, 1990. For the most recent assessment of regional disparities in Poland, see Regional Policies in Poland, Central Planning Office, Warsaw, April 1991.

<sup>2/</sup> See Regional Dynamics of Socio-Economic Change, ed. Grzegorz Gorzelak. University of Warsaw, Warsaw, 1988; pp. 256-257.

<sup>3/</sup> Figures derived from UNIDO - Industrial Development Review Poland, Oxford 1991, p. 151-152.

accounting for 18.2 per cent of the total, followed by the Warsaw, Lodz and Gdansk voivodships with sales shares between 4.0 and 7.7 per cent. The difference between Katowice and the other voivodships that follow in the hierarchy is quite conspicuous. Katowice has a particularly high share in the production of fuel, power and basic/non-ferrous metals (over 45 per cent of domestic sales) - which incidentally also means that the environmental problems have reached very serious levels, with life expectancy rates below average and generally worsening conditions of life.

Katowice's present strong position is no guarantee for the future. With a backward industrial structure, the voivodship is an area in decline, like the Walbrzych voivodship, located in the neighbouring Sudeten region.<sup>4/</sup> Restructuring of Upper Silesia does not seem feasible without considerable external support. The Lodz agglomeration, almost entirely dependent on the textile industry, should also be counted among the declining regions. But the situation is less extreme than in the heavy industry regions, and restructuring may be a less daunting task.

There are some areas which are now middle-ranking industrial regions and which have major development potential. These include the Greater Poland (Wielkopolska) region centering on Poznan, and the Warsaw and Gdansk/Elblag agglomerations. The Bielsko voivodship in Silesia as well as some areas in the northeast, which have been less affected by the negative consequences of the previous industrialization model, may also be mentioned here. These regions now show the greatest growth of new investment and private sector employment. A large part of Poland occupies an intermediary position. It seems likely that, as the restructuring process gathers momentum, many of the "intermediary" regions will head in one of two directions: they will either develop a dynamism enabling them to go along with the potentially strong regions, or succumb to recessive tendencies.

To effect the transition to a dynamic market economy, it is not enough to introduce market economy principles and rules. In order to bear fruit they must operate in an appropriate institutional and organizational framework. In line with the general direction of change - towards a decentralized economy guided by market forces - a particularly important area where institution-building is of primordial significance is the regional economy.

In the past, this economy was broken up into sectoral segments, each under the separate command of a central ministry. For a long time soil had no value, and friction of space was reduced to a fraction of true costs. All this led to the reduction or entire elimination of external economies. Social, industrial and political restructuring programmes did not relate to regional issues. National economic policy was concerned with macroeconomic aspects and did not provide for the development of regions with the sole exception of focusing on regions with high ratios of unemployment growth. Central authorities did not create any regional development programmes, and still have not done so. Central Planning Agency (CUP) reports show that regional policy issues are to be resolved at voivodship, even communal level, territorial units which are too small and economically dependent to pursue regional policies on their own. Another barrier arises from the legal status of voivodships - not being autonomous entities, like for example communes,

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<sup>4/</sup> A selection of regions is discussed in more detail in Part IV.

voivodships are not free to implement policies. Furthermore, voivodships lack sufficiently experienced and educated executives and they do not have the methodological framework and the qualified planners necessary to prepare regional programmes.

For an effective regional development policy, it would be necessary to merge the present voivodships into a number of large regions which would be more likely to have the resources to deal with the new challenge. But the question is not only whether the territorial division of the State should be changed or not. The real problems are rooted much deeper. The style of thinking and acting in the spheres of fundamental issues of territorial organization of the State, society, and economy must be changed. Some of the key elements of the process of future regional development in Poland will be discussed in the next section.

## 1.2 Strengthening regional development

Initial attempts at "demonopolization from above" have failed and the expectation that the break-up of large state firms or plants would occur by itself, has not been fulfilled - except for domestic trade enterprises. Local resources and initiatives for investment and production have not yet been mobilized and the inflow of foreign investment is still relatively meagre. But there are signs that policy-makers understand how essential decentralization is. The Polish Prime Minister J.K. Bielecki emphasized (in an exposé before Parliament in early 1991) that "contemporary Europe becomes increasingly a continent of autonomous regions, not of antagonistic states" and that "communes and their unions (and as one can observe, the Government itself) realize the need to associate into larger autonomous territorial areas". He suggested a division of the Polish territory into 10 to 12 regions, and introduction of a second level of local government, similar to the powiaty which were dismembered in 1975, but with authentic self-governing powers. The Prime Minister also emphatically stressed the need to improve the investment conditions in Poland mentioning special economic zones as possible means to attract domestic and foreign investment to areas in danger of growing unemployment.<sup>5/</sup>

The concept of Poland's macrodivision into regions and their strengthening through participation in the economic and social decision-making of the country was also raised by Mr. Lech Mazewski, the President of the Gdansk section of the Liberal-Democratic Congress. Of special interest are his proposals<sup>6/</sup> that the future Polish regions establish economic links with their counterparts in Germany, the Scandinavian countries, the Baltic Republics, the Ukraine, Czechoslovakia, etc.<sup>7/</sup>

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<sup>5/</sup> See Exposé J.K. Bieleckiego w Sejmie (Prime Minister J.K. Bielecki's exposé in parliament). Rzeczpospolita daily, vol. 5 (2740), 7.I.1991; p. 3.

<sup>6/</sup> See "Pol-Landy". (Polish states). Gazeta Wyborcza daily, vol. 25(498), 4.II.1991; pp. 10-11. A. Kuklinski in "Regional Dynamics", op. cit., p. 155 and "Polskie wojewodztwo", op. cit., p. 32 suggests that seven macroregions can be identified in Poland: northern, northwestern, west-central, central, southeastern, southwestern and southern.

<sup>7/</sup> See also "Polskie wojewodztwo" op. cit., pp. 5-6 and 153-155, which inter alia, describes the roles of regions in the EEC.

As far as the status of Poland's future regions is concerned, some people support the idea of self-governing regions (like in France), whereas others are more inclined to favour autonomous regions (like in Italy or in Spain). The Polish Government has recently established a working group to formulate proposals on the territorial reorganization of the State that will eventually lead to regionalization. For a foreign observer, it is interesting to note that the most active members of this group come from cities or regions that are already very well developed compared to the Polish average. There is no doubt that the western and southwestern parts of the country, already the most developed, will benefit far more from the introduction of economic and political autonomy than the poorer eastern parts. This might explain why the more developed areas are generally more active in discussions on regionalization. On the contrary, poorer voivodships, with no hopes of becoming centres of the future regions, may resist change for fear of becoming the first victims of the increase in interregional and infra-regional disparities that regionalization could lead to.<sup>8/</sup> Even the flow of foreign aid concentrates on towns like Gdansk, Poznan, Krakow, and the Upper Silesian region, where communication networks, industrial infrastructure and above all technical know-how provide the best guarantees for quick profits.

It would appear that the debate on regionalization has so far concentrated more on formal aspects such as the delimitation of territorial boundaries than on real issues at stake in any regionalization process, i.e. the division of competences between the government and the different levels of local government, and especially the economic implications of such a process. Efficient, well-structured institutions and financial resources are essential for a modern communications and service infrastructure, the creation of a qualified workforce and for building a capacity to generate new ventures using innovative technologies and organization and management technologies. These are all basic elements in awakening the dormant growth potential (the fourth - not always applicable - being a thorough assessment of the natural resource potential). The varying level of local and regional investments inherited from the partition and communist periods entails different financial requirements; regions have different economic functions and there are different levels of urbanization as well as other factors. The change from a centralized economy to a market economy, from an economy based on heavy industry to one of higher technological and service standards, the shock therapy through which Polish agriculture will inevitably have to go through, and the possible development of new industries like tourism,<sup>9/</sup> are all elements which should be addressed by a regional economic policy capable of ensuring equal access of regions to public services enabling autonomous economic development.

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8/ A good example is given by the voivodships of Siedlce and Opole who want to preserve their status of voivodships to avoid being integrated into a larger structure. See "Uchwała Nr. V/23/91 Sejmiku Samorządowego Województwa Siedleckiego z dnia 20 lutego 1991", in Urząd Rady Ministrów, Biuletyn zespołu do opracowania koncepcji zmian w organizacji terytorialnej państwa, No. 2, April 1991, pp. 13-17.

9/ See the report published recently for the EC by a group of Irish experts under the supervision of Michael MacNulty on the potential development of the tourist industry in Poland.

The main problem is that, unlike the budget of West European states after the War, the central budget of the Polish government lacks the capacity to act as efficiently as a redistributive agent. The lower-ranking territorial units have some capacity to generate funds locally, but this will often be insufficient for the task of dynamizing the economy. A vital exogenous factor, namely foreign investment capital, is needed. Far from "foreigners buying us out", direct foreign investment in Poland (and even more portfolio investment made recently possible within the framework of privatization) has so far failed to acquire real significance either in the various branches or the regions. Promotion of foreign investment has been limited to the national scale ("invest in Poland"). Investment incentives and information on investment conditions have proved to be inadequate. Hence, the effectiveness and coverage of the promotional efforts were limited. The list of preferred branches where foreign investment was sought was almost all-embracing, including those most attractive to the foreign investor. The promotion of investment in specific branches or regions (e.g. "invest in Greater Poland") has not taken off at all, although it would undoubtedly be far more effective. As a consequence, at no place, either on the national scale or in any branch or region, have ventures with foreign capital or foreign affiliates won any real weight and had an impact on work discipline, management systems and procedures introducing technological and organizational innovations.

A general precondition which will take a long time to establish is the transformation of the mentality shaped by decades of authoritarian government and centralized decision-making. In this context it may be asked whether people identify, or have traditionally identified, with their localities and/or regions. Many scholars have pointed out that Polish society is characterized by the absence of strong foci of identification between the family circle and the Nation in its abstract meaning. Compared to other European countries, regional identity is quasi non-existent in contemporary Poland.<sup>10/</sup> This has a bearing on the two main approaches to regionalization in Poland. The first one proposes to reintroduce Poland's historical (prepartition) regions, to abolish the voivodships, and to return to the powiaty. It seems that according to adepts of this approach, the stimulation of regional identity consciousness by such a return to the past would spur local initiative because of the relationship people would see between their personal activity and the general welfare of the region they are historically attached to. The second approach considers it necessary that each future region be built around a big city, which would act as a development pole for the whole region, and provide a decision-making centre at the regional level. As recent developments have shown, the whole idea of regionalization is unevenly appreciated within the Polish political class and in society as a whole, and the process will certainly need much longer to be implemented than most people believe.

In Western Europe Poland is admired for the breathtaking pace with which it has undertaken political and economic reform. The "return to Europe" acts undisputably as a slogan in contemporary Polish society, but it does not have much more than a purely monetary and materialistic content so far. When it comes to arguments in favour of regionalization, the European model is mentioned most often without regard to its diversity and to the historical

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<sup>10/</sup> See Roman Szul, Spain-Yugoslavia-Poland. A Comparative Study of Space Economy, University of Warsaw, Institute of Space Economy, March 1987.



developments which have enabled the emergence of what is commonly called a "Europe of the regions". Regional reality in Western Europe is in fact the result of a long-lasting historical process, and the potential contribution of regionalization to overall economic prosperity in contemporary and future Poland should be carefully analysed before any irreversible decisions are taken in this field.

## 2. THE ROLE OF SOCIAL AND ECOLOGICAL CRITERIA IN REGIONAL DEVELOPMENT<sup>\*/</sup>

Regionalism (or localism) can be defined as a movement or form of action which intends to maintain the individuality of a specific area. Far from being a conservative or reactionary feature which is merely a form of opposition to the globalizing tendencies often considered "a sign of the time", they can be creative counterpart to such tendencies, mobilizing regional or local cultural, economic and political forces. An area which loses its own vitality and individuality ceases to be a "home" to which its inhabitants are emotionally tied. The implications have so far been better understood by sociologists than by economists. But a loss of local vitality may well be to the detriment of the national economy.

It is to be feared that an unfettered market economy where short-term gains are the main motivation of the actors will do great damage to the necessary conditions for a region's individuality. These include a healthy natural environment and social structure.

The problem of preserving the natural environment is a serious one in Poland, where nearly every region has suffered badly under the previous industrialization model which paid very little attention to ecological criteria. While national legislation is essential for guaranteeing overall standards with regard to environmental protection, experience in many European countries and in Northern America shows that there is an essential role for regional/local initiative here. Regional and local planning should provide a framework which can be used to prevent harmful investments (in terms of noise, waste, air pollution, etc.). Local civic action is also required - as experience elsewhere shows - to ensure that the natural environment of an area is kept healthy or restored to health.

Before the advent of the centrally planned economy, development in Poland was strongly characterized by the natural resources of the various areas. While the natural resources remained of great importance, central planning emphasized development focussing on certain branches, and reorganized regions accordingly. This has resulted in a disruption of regional economies and societies. The "fetish of production" came to dominate Polish society.

The economic liberalization with its emphasis on foreign investment may result in a similar neglect of social and environmental factors, especially in those regions which have not yet managed to replace old structures and institutions with new ones representing local and regional interests. These regions will find it very difficult to negotiate for activities that will help to initiate a broad development process, being considered as mere reservoirs of cheap labour. In these cases, the central government should at least offer some support and guidance; at present there is no selection process with regard to investment at all.

At the moment, it seems rather likely that Polish regions will attract assembly operations based on cheap labour in the electronics and mechanical industries more than industrial activities requiring well-qualified local labour and having a range of regional spin-offs. The consequence would be

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<sup>\*/</sup> Based on the contribution to the Workshop by Slawomir Gzell.

that a limited group of inhabitants would gain, in a purely financial sense only, and that the spin-off effects will be restricted to some expansion of local consumer spending (and an improvement of the local tax base if we assume that the government is serious about increasing local financial autonomy).

How can one maximize the benefits of new investments in a region? Financial benefits are of course important, but they are not enough. Here, the existence of strong institutions which can negotiate with investors on behalf of the regions acquires great importance:

- They should ensure that businesses are attracted that are willing to invest in technical infrastructure: communications and equipment to protect the environment.
- They should try to attract investors who initiate environmentally safe production processes.
- They should aim at enterprises which encourage a participatory attitude of the labour force, which take an interest in raising the skill and knowledge of their workers, and which support the local community in general. Partnership is the key word here.

In the long run, it can be argued, such investments will be more effective for the development of a region than those merely providing a number of unskilled jobs. Only if regions and investors can cooperate in this way will it be possible to attain the goal of a "polycentric territorial order" in Poland, a network made up of a variety of cultural, political and economic centres.

### 3. REGIONAL DEVELOPMENT CORPORATIONS AND THE RESTRUCTURING OF REGIONAL ECONOMIES

#### 3.1 An approach to regional development<sup>\*/</sup>

In Poland, the transition to market economy will obviously not come by itself. The main features of the market system - a multiplicity of competing economic actors, investment decisions by private entrepreneurs - entirely contradict the features established in manufacturing and services in the abandoned centralist system. In order to effectively replace the inefficient mechanisms still prevailing in actual economic practice, it is indispensable to promote local entrepreneurship and to create favourable conditions for its development. For this purpose, efficient local and regional development institutions are needed. A. Kuklinski suggests that "local development has always been an art of integrating spontaneous activity and mechanisms of guided change" and that the renaissance of locally-based development must be seen as the start of a long-term trend.<sup>1/</sup> This underlines the importance of such development institutions.

In this context, the concept of regional development corporations<sup>2/</sup> acquires special interest for a country like Poland. Such institutions would pool the resources, activities and motivation of various "agents of growth", i.e. representatives of authorities, enterprises and their associations, foreign investors and their organizations, NGOs and IGOs, independent economists and policy-makers. The basic goal of such institutions would consist in promoting economic activity by bringing together domestic and foreign entities. The duties of the corporation would consequently focus on the identification and presentation of development opportunities in the region. Their functioning might be tested first on selected territorial units - chosen, however, neither amongst those most primitive and "forgotten" regions, nor among those struggling with most severe industrial and ecological problems.

The establishment of regional development corporations could have a major impact on the transformation of production structures in Poland. These structures have not, so far, undergone significant modification despite profound systematic changes underway as of 1989. The main cause of this was the economic recession which has tended to inhibit structural adjustments, especially through new investment. Regional development corporations would be able to stimulate economic growth and thus restructuring both in terms of output mix and structure of industries and other sectors, especially services. They would also promote new ventures which would contribute to the structural change. Their importance is accentuated by the fact that restructuring of the State and transformation of the society (in Poland) into

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<sup>\*/</sup> Based on the contribution to the Workshop by Marian Geldner and Jan Woroniecki.

<sup>1/</sup> See "Globality versus Locality", op. cit., pp. 216 and 223-225.

<sup>2/</sup> See Kuklinski, Antoni. "Regional Development Corporations. An Idea for Central and Eastern Europe", *Geojournal* vol. 23, No. 3, March 1991, p.288.

a "competitive society" - as A. Kuklinski points out - is unthinkable without territorial restructuring and reverting to the big voivodships<sup>3/</sup> where new and innovative institutions will certainly be required.

### 3.2 The character, structure and tasks of Regional Development Corporations\*

For regional development corporations to operate effectively, their character and performance conditions should be clearly stated. This is an issue where there are more questions than answers. Here are some of them.

(a) First of all, there is the question of the institutional character of regional development corporations. The formal institutionalisation of RDCs is a necessary condition of their operation. It supplies the routine in economic activity authorized by law or custom and observed for fear of sanctions, also of an extra-economic nature.<sup>4/</sup> The problem is, how far legal institutionalisation should go, and whether existing rules will suffice to handle the matter. There is also a risk of "over-institutionalising" RDCs, which may restrict their operational flexibility.

(b) Of key importance is the question of who should be involved in the corporations and the kinds of activity the latter should pursue. According to Woroniecki,<sup>5/</sup> the eligible participants are: "representatives of local authorities, enterprises and their associations (including local representatives, of the National Chamber of Economy, foundations and other existing business associations), foreign investors and their organizations, foreign, home or international firms and banks, intergovernmental and non-governmental organizations, and finally, leading economists and politicians".

The proposed composition of the corporations raises the question whether it is not too broad, giving them a "syndicalist" character. In a narrower definition the subjects could primarily be enterprises, while corporations themselves would be joint stock companies. With regard to funding, a system of tax-deductible contributions could also be thought of. In a somewhat wider perspective, local authorities could think of levying a surtax designed to assist the corporation in its promotion activities. Foreign assistance funds might also be made available. Services would be rendered on a commercial basis.

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\*/ Revised version of the contribution to the Workshop by Zbyszko Chojnicki, with additional notes from the contributions by Bohdan Gruchman, Tadasz Markowski and Marian Geldner/Jan Woroniecki.

3/ See "Polskie wojewodztwo", op. cit., pp. 5-6 and 31.

4/ Balicki, W., "Liberalizacja i limitacja", (Liberalization and limitation), in: Buczkowski, P., Cichocki, R. (eds), Podmiotowosc: mozliwosc, rzeczywistosc, koniecznosc, Poznan: NAKOM, 1989, p. 301.

5/ Woroniecki, J., "O korporacjach rozwoju regionalnego" (Of regional development corporations), in: Restrukturyzacja regionow jako problem wspolpracy europejskiej, Vol. 1, Studia Regionalne i Lokalne 1 (34), 1991, Warszawa: Europejski Instytut Rozwoju Regionalnego i Lokalnego UW, p. 17.

Closely related with the issue of participation is the issue of the scope and mode of RDC operations. According to Kuklinski,<sup>6/</sup> they should engage in activities "which would integrate the operation of local and foreign firms" and "the operation of the public and private sectors, and especially the activities of regional governments". Woroniecki<sup>7/</sup> wants them to engage primarily in "the promotion of economic activity in the area within the competence of a corporation, with the participation of home, foreign and mixed-property subjects". The doubt that arises at this point is whether this scope is not too narrow, excluding RDCs from banking and conducting other economic activities (production, services) on their own account.

The modi operandi of the corporations might consist in holding regular meetings of all members, and/or of an executive committee to examine prospects and conditions for investment and business activities in the region, incoming offers and enquiries from within the region, and establishing channels of communication, business contacts including visits in and from the region in question, etc. The corporations should be entitled to seek external assistance and foreign expert advice, especially in the "probation period". Foreign volunteers serving in the corporations may be sought. Ad hoc expert groups may also prove useful, to cope with specialized tasks that the corporation may identify as worth exploring and pursuing with local and foreign businessmen or bankers.

In case of larger regions where the corporations are being formed it may be purposeful to recur to the networking principle, i.e. to select localities where local agencies may be formed drawing from the most dynamic people available who have a stake in their community's future.

(c) The next question, supplementing the previous one, concerns the role of RDCs in changing the regional economies. This restructuring role is strongly emphasized by Kuklinski,<sup>8/</sup> being a central issue in building a market economy.

When discussing this role of RDCs, we should first of all consider the ways in which they can affect the processes of restructuring. This can be done on three levels: (1) the building of regional restructuring programmes, (2) the building of confidence, especially among foreign investors, and (3) the creation of "industrial incubators". By analogy to Porter's concept of competitive advantage of nations,<sup>9/</sup> regional restructuring should be based on the analysis of the competitive advantage of regions, both at the Polish

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6/ Kuklinski, A. "Korporacje rozwoju regionalnego. Idea dla Europy Środkowo-Wschodniej" (Regional development corporations. An idea for Central-Eastern Europe), in: Restrukturyzacja regionów jako problem współpracy europejskiej, op. cit., p. 10.

7/ Woroniecki, J., op. cit., p. 17.

8/ Kuklinski, A., "Restrukturyzacja polskich regionów jako problem współpracy europejskiej" (Restructuring of Polish regions as a problem in European cooperation), in: Restrukturyzacja regionów jako problem współpracy europejskiej, op. cit., p. 325.

9/ Porter, M.E., The competitive advantage of nations, London, 1990, Macmillan.

and the European scale. The analysis should be followed by working out an appropriate strategy of the development of selected regions. The processes of economic, especially industrial, restructuring should then aim at introducing a new technological-organizational model of economic development, called post-Fordism, that is being followed in highly developed countries.<sup>10/</sup> This would allow Poland to avoid duplicating the long way that those countries have come, and to narrow the gap that divides it from them.

In this context, the RDCs may (and should be) entitled to create trust funds of members or non-members to finance promotion activities, improve and develop business infrastructure and assist new ventures in their first steps. In the field of environmental protection, corporations could serve as a focal point and finance protection measures of local entrepreneurs (perhaps with the encouragement of the central administration and the State Inspection for Environmental Control as well as local ecological NGOs). It would be the corporations' responsibility to avoid the introduction into the region of environmentally harmful activities or technologies; to this end, they may establish teams of local experts.

Gradually, the corporations may also take up forthcoming debt conversions on the regional level in particular debt-for-equity swaps as an element of privatization packages, and debt-for-infrastructure or debt-for-education (including ecological management etc.) swaps.

Finally, it should be remembered that the development dynamics of a national as well as a regional economy, depend on the expansion of the export sector and the degree of import penetration. Such interrelationships should be fully taken into account by the RDCs in pursuing the promotion of export expansion of the region.

(d) Where should the corporations be organized first? Naturally, this question defies an answer - everywhere, or wherever possible. However, putting the concept of RDCs successfully into practice depends heavily on the choice of a proper region (or regions) that would serve as a kind of testing ground. The division of regions proposed by Kuklinski<sup>11/</sup> - innovative regions, adapting regions and Skansen regions (see also Part 1, Chapter 1) - provides good criteria for the choice. Innovative regions are as yet absent in Poland (and might not need an RDC), but Wielkopolska (Poznan region) meets the conditions for adapting regions which, in the words of Kuklinski,<sup>12/</sup> "in due time are able to make use of the mechanism of innovation diffusion and create those conditions for activity and such economic, social and political potential which will secure them a long existence on the dynamic scene of the world economy".

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<sup>10/</sup> Jalcwiecki, B., "Nowe przestrzenie produkcji jako czynnik rozwoju regionalnego i lokalnego" (New production spaces as a factor in regional and local development), in: Restrukturyzacja regionow jako problem wspolpracy europejskiej, op. cit., p. 215.

<sup>11/</sup> Kuklinski, A., "Restrukturyzacja polskich regionow jako problem wspolpracy europejskiej", op. cit., p. 320.

<sup>12/</sup> Ibid., p. 321.

Would there be a case for using problem areas as a testing ground for RDCs? Their problems are not only a consequence of a backward industrial structure but also of an overlapping of competences and interests of local and regional authorities which can have a paralyzing influence in individual cases. Here, the staff of the RDC can gather valuable experience in the field of management and planning strategies with a "waste case scenario".

Once an effective basic model for RDCs in the Polish context has been established, it could be adapted to the specific needs of individual regions. In regions where institution-building is already advancing, RDCs might focus more on coordinating various activities already undertaken by different parties. Such coordination would guide efforts to areas still untouched by local initiatives (there could e.g. still be a great need to develop venture capital and seed money institutions for new start-ups). Naturally, such coordination would be entirely different in nature from that exercised by central and regional authorities in the past.

An entirely different task would await the RDC in regions (or subregions) without much drive towards institution-building. The main reason could well be a lack of entrepreneurial climate. In such a region RDCs would have to focus their attention on helping to develop entrepreneurship. Two lines of action would be needed: development of education and training institutions and establishment of seed-capital facilities.

To stimulate structural change and development in other countries as well and to strengthen the potential for interregional cooperation among different countries, it might be worthwhile to consider adapting the concept of regional development corporations to other European countries, in particular to other post-Communist states on their way to a market economy.



#### 4. ESTABLISHING REGIONAL DEVELOPMENT CORPORATIONS IN EAST-CENTRAL EUROPE: SOME PRACTICAL CONSIDERATIONS<sup>\*/</sup>

##### 4.1 Introduction

This chapter aims at providing a systematic overview of some of the more practical remarks made during the Workshop discussions and suggesting a few answers to the question countries of East Central Europe may face in the nearest future: what concrete steps should be taken before establishing an RDC? For analytical reasons, it seems appropriate to consider three successive phases, although it is most probable that they will intertwined when coming to actual practice. These phases are:

- Definition of a consistent regional policy;
- Definition of objectives;
- Conceptualization.

##### 4.2 Definition of a consistent regional policy

As RDCs in East Central Europe will most probably be financed - at least initially - by the central budget, it is important that decisions in this field be taken according to a clearly defined regional policy at the national level. One of the tasks ahead for Poland, and for other Eastern and Central European countries alike, is therefore to formulate an overall framework for regional development.

In countries experiencing such extensive and dramatic changes, this might not seem a priority compared to other tasks society is faced with. On the other hand, governments cannot bypass explicit formulations of their overall regional policy before allocating means to specific regions at the expense of others. Only such transparency can respond to eventual criticism of governmental favouritism or partiality which is bound to arise in countries where the State is unable to provide means to everyone. In the case of pilot corporations in Poland, it is of utmost importance that central authorities be able to give unequivocal explanations for the choice of the regions where such experimental projects will be set up.

What is even more important, and certainly more difficult, is to achieve political consensus on the general purposes and aims of regional policy. During the Workshop, two main approaches were mentioned: the global approach and the social approach.

According to the global approach, priority should be given to the development of those regions capable of being competitive on the international level. Regional policy is seen therefore as a means of promoting overall national competitiveness without taking into account the tremendous increase in interregional disparities that this may imply. In countries where democratic legitimacy is so fragile, and where societies' material aspirations have been frustrated for so long, such a Darwinist approach could eventually lead to social unrest.

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<sup>\*/</sup> Revised version of the contribution to the Workshop by Oliver Freeman.

A good example of the social approach is the Irish Regional Development Division. This governmental body designed a policy aiming at stimulating economic activity in the poorer western regions of the Republic of Ireland. In regional policies in Western Europe, the social approach has been adopted by most West European countries since the end of the war, and although its efficiency seems to be decreasing, it certainly managed to reduce interregional disparities in the past. It must be added however that this was done at a time when economic prosperity enabled governments to implement such policies without damaging too much their international competitiveness. Supranational policies, like those of the EC for example, also contributed to diminishing interregional disparities without compromising the competitiveness of Western Europe as a whole.

Contemporary Poland has neither the political means to adopt the global approach, nor the financial capacity to opt for the social approach. It must therefore design an intermediary solution capable of avoiding such staggering differences in terms of wealth as those encountered in Latin America. But at the same time, it must be able to satisfy social aspirations to welfare enhanced by daily comparisons with West European neighbouring countries. Although such questions could lead to important conflicts within the political class, they should not be underrated, as it is most often easier to solve such problems among politicians and government officials than to placate feelings of social injustice. The information gap between top and bottom, between government and society, is one of the critical problems in contemporary Poland. Providing information to potential foreign investors must therefore be accompanied by appropriate information of society as a whole.

#### 4.3 Definition of objectives

An RDC can be assigned quite a wide range of objectives. These vary according to the priorities set by the government's regional policy, the specific needs of the region concerned, and the means allocated to the corporation. Several participants in the Workshop gave examples of RDCs specially designed to fulfill precise tasks such as:

- Promotion: A good example is the Office of the Adviser for Industrial and Commercial Promotion in the canton of Neuchâtel, as discussed in Part II, Chapter 3. The success of this Office can be explained by its flexible organization and recourse to modern marketing techniques. Emphasis is placed here on a pure business relationship with potential investors. Such RDCs aim at convincing firms of the advantages of settling down in the region. The "art" of public relations, perfect knowledge of administrative matters, strong governmental backing, and finally a solid network of reliable collaborators, are the main ingredients explaining the success of such an institution.
- Feasibility studies: RDCs specializing in feasibility studies will in many cases need more technical expertise than those concentrating on promotion. Feasibility studies must analyse not only the technical and economic possibilities open to investors, but also the social and ecological consequences of proposed investments. In Western Europe, many firms, private and public alike, specialize in this second dimension, which is more and more commonly referred to as "impact analysis".
- Consulting: In Poland consulting firms are sprouting like mushrooms, and many of them are undoubtedly drawing substantial profits from the disarray of many public institutions in the face of

the tremendous changes. For a RDC to be able to compete with these private companies, it must be able to attract specialists by offering them a good basic salary, which could be partly related to performance.

In economies characterized by imperfect competition, leaving consulting work entirely in the hands of the private sector may only create new monopolies of knowledge (and consequently of power) which will lead to excessive prices for services. An RDC which would take up consulting work could help to speed up competition within the private sector itself, and accelerate transfers of information and know-how to all levels of society. It could for example provide "consultancy on consultancy" to assist potential investors in their searches. In this case it would act as an information broker, providing addresses and data on specializations, competences, and prices offered by consulting firms, research institutes, and other public and private institutions. The RDC would in no case influence the final choice of the investor, but limit its function to providing him with a real choice between different partners, and therefore let the law of supply and demand play its regulating role.

Complete isolation of such RDCs from their private counterparts should however be avoided. Too much is sometimes expected of the separation of public and private sectors in Poland. Although competition stimulates initiative and tends to lower prices, it cannot be a solution to everything. Cooperation between the sectors has been (and is) of essential importance in the developed market economies.

#### 4.4 Conceptualization

This is one of the most important phases in the setting up of a RDC. Conceptualization here means finding answers to the question: what has the region to offer to a potential investor? The general philosophy here is to consider the relationship between the region and the investor as a business relationship: a "deal" can be struck only when both partners are convinced that it is to their advantage. The RDC should therefore show a dynamic and positive attitude, and not, as happens quite often in contemporary Poland, just wait for money to "fall from heaven". Such a stance can be counter-productive. Foreign investors also require good quality guidance in their search for investment opportunities. What is most important is to prove that the guidance offered is the result of a solid preliminary assessment, and not simply deduced from superficial analyses. As we have seen during the Workshop, such preparatory work can encompass the following activities:

- Assessment of comparative advantages: Each region has a certain amount of advantages compared to others. A foreign company does not look just for any location, but for a place with specific qualities of the economic, social, political, and natural environment. To be able to market the region, it is therefore necessary to assess these advantages beforehand, so as to be able to present them, if necessary, during preliminary talks with any potential investor. The RDC should define strong and weak points, and try to identify other regions it may have to compete with. During the seminar, quite a few examples were given. A number of these Polish regions are presented in Part IV.

It should be stressed that low labour costs by themselves do not guarantee profitability. Anyway, the increasing convertibility of the zloty, and drastic changes in Polish monetary policy, are already reducing the differences in labour costs between Poland and Western Europe (through the average Polish salary is still below the equivalent of US \$200 per month). These differences will probably have a tendency even out in the future. Long-term investments and regional development projects should therefore be based on more structural factors. To be internationally competitive, it is essential that the Polish economy should substitute the approach stressing quantity inherited from the former regime with one that gives priority to the quality of the goods, labour, and services it is able to provide. As shown by the difficulties encountered by many "post-communist" firms in Poland, such a radical transformation of economic "mentality" is a slow process as it implies a complete change in the value given by society to discipline, mobility, and competition. Economic reform not only calls for institutional innovation, but also requires cultural change.

- Definition of priorities in the development of the region: Regions in Poland differ by the quality of communication networks, the level of unemployment, the access to raw materials, the proximity to international markets, etc. An RDC must therefore define the development priorities of the region it aims to work in. Transport infrastructure should have high priority. It will be difficult to attract foreign firms if the transportation system is insufficient. In such a case, the corporation should target firms for whom the comparative disadvantage due to poor communication counts less than other comparative advantages of the region, or it might target companies specializing in the development of transportation systems. Finally, the rise of unemployment in many peripheral regions of Poland pleads for a strategy aiming at securing as many jobs as possible. This means adapting education and training, and concentrating on those fields in which direct and indirect employment effects are most evident.
  
- Definition of means: An RDC should be run like a commercial venture rather than a public administration, as flexibility and adaptability are so crucial to its efficiency. Bureaucratic procedures must be avoided in all cases as they inevitably reduce performance. The objectives set by an RDC must be adapted to the means at its disposal. Public funds are limited. To attract the appropriate staff, however, salaries must be competitive with those offered in private companies. One way to solve that problem is to offer a good basic salary while the rest is related to performance like in the canton of Neuchâtel. Part of the costs can be recouped by charging a fee for services provided to enterprises. The legal status of the RDC should in short be carefully thought out so as to allow such an efficient mix of private management techniques and public funding.

The RDC should also know precisely what it is legally entitled to propose to the investor. Close cooperation with local and regional authorities is necessary when it comes, for example, to offering tax-breaks or other legal arrangements. Monitoring the decision-making process at the national level could also help forecast changes in the autonomy given to local government, and

provide information on the possible modification an investor may be interested in. The "rules of the game" should be clear to all the actors implicated in the process of regional development.

- Definition of a marketing strategy: again, a number of good points are made in the chapter on Neuchâtel. It must be stressed however that an efficient marketing strategy can be defined adequately only after the stages mentioned above have been reached. Only when an RDC fits into an overall regional policy at the national level and its priorities and objectives are clear, can one devise a appropriate marketing strategy.
- Negotiation: Although the previous stages are all very important, the negotiation phase can prove to be the most crucial, as it is precisely at that moment that an RDC meets the investor for the first time. There is no need to underline the importance first impressions always leave. Before the meeting, the RDC should try to obtain as much information as possible on the potential investor, on the questions that may arise, and on the answers to be given. Perfect knowledge of the general environment and the ability to respond very quickly to all kinds of situations will prove that the RDC is a serious partner. The "single-desk" approach, as shown in the case of Neuchâtel, enables the development of personal contacts which, although being subjective by definition, are often the trigger to an investor's choice.

#### 4.5 Conclusion

It is important to underline the fact that an RDC is only part of the multitude of various public and private institutions contributing to the economic development of a region. It has to fit into a global environment without trying to monopolize power and sources of finance. In Western Europe there are hundreds of institutions with different names which contribute to regional economic development each in a specific way and according to different institutional models. Before setting up such an institution, it is therefore important to have an exhaustive overview of the situation. To be really efficient, an RDC should avoid overlapping and concentrate on filling gaps within the already existing institutional network.

An RDC should also try to show how regional development can be stimulated not only by external transfers from the government budget or from foreign partners, but also by endogenous resource mobilization and innovation. When looking at what is happening in contemporary Poland, one has the feeling that many people rely too heavily on assistance from the government or from the West. Since the collapse of real socialism, there is no evidence that the West is prepared to develop a new Marshall plan for Eastern and Central Europe. This seems even less probable if one takes into account the recession most western economies are going through. Most governmental programmes of assistance to East and Central Europe appear in fact to be indirect subsidies to Western economies in crisis. The hopes of a "trickle-down effect" must be replaced by activation of the "bubbling-up effect".

The formidable task awaiting Polish and East European societies is not only to change radically their way of thinking - to substitute the mentality of dependence inherited from the former regime with one characterized by more confidence in the self-development of society as a whole - but also to convert Western countries' short-term views into policies more compatible with the idea of a stabilized New Europe in the year 2000.

**PART IV. REGIONAL AND LOCAL DEVELOPMENT IN POLAND:  
INITIATIVES AND POTENTIAL**

1. **NEW DIRECTIONS IN INDUSTRIAL DEVELOPMENT: THE MALBORK MACARONI PLANT CASE<sup>\*/</sup>**

1.1 Genesis of the project

(a) The entrepreneur:

- European Institute of Business Administration, MBA, ex-bank manager, industrial, audit, ministerial and international experience (France, Greece, Italy, Germany, England).
- His aim was:
  - To set up his own company;
  - To set an example of successful return to Poland of somebody who has a link with the country;
  - To implement a new venture by starting from scrap in the industrial sector where capital needs are heavy;
  - To settle in Poland.

(b) Why Poland?

- Family links;
- Historical rebirth of the country;
- Market size;
- Strong international financial support;
- Significant industrial tradition.

(c) Why macaroni?

- Good market prospects. Poor existing production. Imports cannot cover 100 per cent of the market;
- Highly mechanized production process and simple inventory management;
- No risk of raw material shortages;
- Profitability does not depend on low labour costs;
- Good local product know-how.

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<sup>\*/</sup> Revised version of the contribution to the Workshop by Michel Marbot.

## 1.2 The implementation

### (a) The strategy:

- Industrial strategy starts at a national level with a well-targeted investment plan. Develop a long-term strategy in cooperation with financial institutions and the Government. Do not rely on short-term profits in an industrial project.
- Create a corporation with its decision-making centre in Poland but with well-established long-term links with France and Italy (Carlone, leading Italian pasta producer, Veronelli, best Italian food and beverages specialist, and Credit Lyonnais joined the project). The company is thus forced to function according to international standards, and the entrepreneur, with his European experience, avoids a risk of provincialisation.

### (b) The choice of Malbork:

- The Malbork plant was visited by several potential buyers who declined due to: obsolete machinery, shortage of factory buildings and lack of product diversification. But for a new entrepreneur this rendered the acquisition possible. Moreover, the quality of the management, the size of the land (possible extension of the factory), the market share (though declining drastically), the tradition (best in Poland) provided a basis for success and the otherwise inevitable decline of the company was prevented. A new strategy could be implemented.
- The Elblag region where the plant is located is close to the port of Gdansk and well connected to Warsaw, Germany, Russia and the Baltic States.
- The deeper the roots, the stronger the position; therefore, the regional approach is logical for an entrepreneur with a long-term vision. There is a better chance to build a specific "company spirit" in a regional environment.

### (c) Result:

- Many difficulties at the preparatory stage due to lack of precedents (this was the first full privatization in Poland) and of experience among local authorities. But good sense has prevailed and the investment plan was accepted.
- The company recovered very rapidly once the privatization was completed, with a return to growth and profits despite the doubling of labour costs. An amount of US\$ 15 million was invested and 325 jobs saved. In the meantime, the first company of the city of Malbork went bankrupt.

## 1.3 Conclusion

The Malbork macaroni plant has not only saved but also created jobs. Considering the enormous needs of her market, Poland could be entering a time of full employment, like Western Europe in the 1950s and 1960s. But Polish companies will need financial and marketing expertise and new owners/managers



capable of formulating and implementing a long-term strategy. Moreover, there is a need for rapid implementation of the privatisation process, the settlement of property disputes and an application at a regional level of the state industrial strategy.

Building on dormant local traditions can help to make ventures successful. Nowadays, technology and development can spread easily. But traditions still take years to be built, and represent a reservoir of know-how and creativity which can be tapped by the right choice of activities.

Other factors needed for a successful re-orientation of Polish industry include:

- A coherent industrial strategy at the national and regional level;
- A continued, consistent privatisation policy;
- International cooperation.

A market economy does not exclude a strong state intervention through investment incentives in the frame of an industrial and regional policy. Japan and Western Europe serve as examples of efficient connections between the State, the banks and the private industry.

Privatisation and international cooperation constitute significant investment incentives for private industry at regional levels, provided the State and local authorities finance their own current budgets through a modern fiscal policy and not through the benefits derived from privatisation.

With regard to international cooperation there is a special element that should be mentioned: Poland has a diaspora of 15 million individuals, many of them highly qualified, all around the world. The return of many of these people is expected. They should be given the chance to create, at a regional level, the new international entrepreneurship Poland badly needs.

## 2. COMPETITION "MUNICIPALITY 2000": BACKGROUND, DEVELOPMENTS, PERSPECTIVES\*/

The idea of the "Municipality 2000" competition was born in 1984, in the Institute of Space Economy (now the European Institute for Regional and Local Development) at the University of Warsaw, when Professor Antoni Kuklinski first presented his seminal thesis that local communities in Poland had a "dormant potential" for development. A research project was subsequently drafted and state grants obtained to finance a series of studies known under joint title "Regional Development - Local Development - Territorial Self-Government". As a result, a wealth of interesting material was collected corroborating Kuklinski's diagnosis. After 1989, when the political transformations threw the door open to market reforms and opened the economy to Europe, Western business, finance and consulting firms began to probe for potential business deals in Poland. One serious obstacle was lack of reliable information on the conditions of doing business in the country, especially on the economic health and new laws regulating business activity of foreign agents. Efforts to provide such data are now being made, mainly by big manufacturers hoping to attract large investments, though with varying and usually rather modest success.

The new economic system in Poland offers greater opportunities for small businesses. At the same time these face the troublesome and time-consuming task of seeking and establishing business contacts. Municipalities and small towns, which have won the right to make independent economic decisions and act on their own after 1989, face a similar situation. While a situation in which independent municipalities must fend for themselves is becoming normal, it has its darker sides. One negative aspect is that in a period of economic restructuring, recession and inflation, new business opportunities are rather hard to come by. Development prospects on the home market will remain limited, at least in the short to medium term except for the most powerful part of the business community operating inside state-backed industries. Should the rest, including medium and small sized firms rely on economic "charity"?

The competition "Municipality 2000" announced at the end of 1990 is an attempt to surmount these difficulties. Its underlying idea is to promote the top and mid-range firms. The idea was to establish business contacts with foreign firms, especially in municipalities vigorously and creatively pursuing their economic visions and already boasting some success. The other group of potential participants were municipalities (with up to 50,000 inhabitants) with attractive investment potential in the form of, for example, developed real estate, surplus productive capacity etc., which is not used due to economic crisis. The third group of potential participants were the municipalities where power went to new elites full of new ideas and determined to rally their population behind their economic initiatives.

In other words, the aim of the competition was to promote among Polish local authorities the ability of "speaking the market language", a skill presently badly lacking in Poland. Moreover, it was assumed that the competition would result in an inventory of existing facilities ready to be used by foreign investors.

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\*/ Revised version of the contribution to the Workshop by Jerzy Pawel Gleorgica/Grzegorz Gorzelak.

Regrettably there are no municipalities in Poland which could be called pioneering on world scale but which are as yet unknown in international business circles. But there are municipalities representing the adaptative type; they survived communism and are no less ready to adapt to the market economy by adapting state-of-the-art technological innovations and management skills. Precisely these municipalities were targetted by the competition. It was assumed that while such municipalities would not by any means represent a majority there were enough of them to let the whole endeavour be a success, if only in the form of an encouragement. We did not use the competition to create the impression that municipalities already in decline would become the recipient of massive flows of finance. Instead we have focussed on the leading and most promising areas capable of attracting the interest of foreign capital on their own or needing only marginal support, and the winners were promised only one thing - our help in establishing foreign business contacts by slotting them into the international flow of information, publicising their investment profiles.

With such general guidelines we set about the competition itself. Our first move was to attract respected figures from the government and interested ministries, policy-makers, economists, the press and non-governmental agencies such as the Foundation in Support of Local Democracy. The Foundation has supported the competition by joining it with a programme sponsored by the Commission of the EC, "Municipal Development and Training in Poland", managed on behalf of the Polish Government by the International Union of Local Authorities in The Hague.

Information about the competition was published twice in "Gazeta i Nowoczesnosc" and invitations for participation were sent directly to those municipalities which fulfilled the conditions of the competition. The municipalities were expected to provide a description of their potential before 28 February 1991. They were asked to provide the following information:

- Population: age, education, employment structure;
- Economic structure by sector;
- Technical and social infrastructure;
- Local budget: revenues and expenditure;
- Development projections;
- Quality of environment;
- Leisure facilities;
- Attitude of local authorities towards foreign investment and provisions they are willing to make to promote small- and medium-sized business of foreign origin.

Foreign experts (a town marketing manager and a promoter of new investment) were invited to become the International Jury members. They have taken part in the following activities:

- Elaborating the evaluation criteria system;
- Evaluation of the municipalities;

- Promotion of winning contestants on foreign markets.

Additionally, invitations to participate in the competition were sent to nearly 100 municipalities which in the past won prizes in the National Competition in Economy and Management, and town authorities which had in the past been positively reviewed by the European Institute for Regional and Local Development. At the beginning of 1991, information about the competition was distributed to all other municipalities in Poland.

The response to the competition was good. Representatives from a large number of municipalities showed great interest in the conditions of the competition. The European Institute of Regional and Local Development supplied them with literature on regional aspects of economic development and also gave advice and provided additional information. The interest that the competition generated soon drained our budget and additional personnel was needed.

The following criteria were adopted for evaluating the municipalities' investment profiles:

1. Quality of presentation (up to 30 points in total, each subcategory up to 6 points):

- Comprehensiveness (does the profile cover all points specified in the competition announcement, is the information sufficient);
- Clarity and visual quality (is the presentation clear, how is the layout of the profile, does the profile contain maps and pictures);
- Credibility (is the presentation internally consistent, do the proposed investments match the features of the municipality);
- Market orientation (does the profile show an awareness of market rules and requirements);
- Responding to community needs (does the presentation contain specification of the community needs and objectives, are the proposed types of investment in congruence with these).

2. Quality of investment opportunities (up to 60 points in total, each subcategory up to 10 points):

- Labour market (quality and quantity of presently available labour potential, demographic structure and perspectives, training opportunities, price of labour, industrial disputes, stability of the labour market);
- Infrastructure (availability of technical and economic infrastructure, development perspectives);
- Accessibility (location in relation to transportation and communication networks);
- Environment (quality of natural and social environment, accessibility to cultural facilities, aesthetics of landscape);
- Investment feasibility (does the investment proposed match the local conditions, is it congruent with the market situation, is it realistic in terms of profitability);

- Local incentives (what is the municipality ready to offer to the investor - in kind, in form of commitments for infrastructural development, in form of tax exemptions or subsidies).

3. Extra premium (up to 10 points)

An extra premium was given for high quality of both the presentation and the investment suggestions.

The response from Polish municipalities was so massive that in itself this made the competition a success. Almost 300 Polish municipalities submitted investment profiles. The competition may be said to have breathed new life into local initiatives. While going through the process of drafting concrete proposals, the municipalities reviewed their stocks, resources and plans, looked into property laws and decisions and land management plans. The competition also fanned expectations. Many town mayors treated the competition very seriously indeed.

At its meeting in Poland in June 1991 the International Jury decided to nominate 17 municipalities as winners of the competition and to select an additional seven to specially be mentioned. In alphabetical order, the following municipalities were selected:

Winners

1. Dukla
2. Lesnica
3. Mikolajki
4. Minsk Mazowiecki
5. Nowy Tomysl
6. Oswiecim
7. Pultusk
8. Pyrzyce
9. Radkow
10. Sierpc
11. Skala
12. Starogard Gdanski
13. Szczytna Slaska
14. Szczytno
15. Swidnik
16. Zarow
17. Zyrardow

Honourable mention

1. Chojnice
2. Goleniow
3. Koscian
4. Lukow
5. Ropczyce
6. Wadowice
7. Zywiec

The results of the competition "Municipality 2000" were announced during a press conference held on 19 June at the University of Warsaw and were published in newspapers participating in the organization of the competition. The winning municipalities were also individually informed by official letters from the Chairman of the International Jury.

The Jury expressed the opinion that the Polish municipalities are poorly prepared for the requirements of competition on the foreign market. In particular, skills in presenting the municipal potential, awareness of foreign investors' expectations and readiness to support investment projects were seldom evident in the profiles, even in those submitted by the winning municipalities.

The Jury indicated that serious promotional activities of the winning municipalities will need additional work on the preparation of municipalities' offers addressed directly to foreign investors.

The Jury was of the opinion, however, that generally there is a rich potential for foreign investment in Poland, of both a material and a human character. This potential is restricted by the limitations of skills and knowledge mentioned above, as well as by the absence of professional consultancy services for either the municipalities or the potential foreign investors.

The Jury suggested that training could be an efficient way of enhancing foreign investment in Polish municipalities. This training should target municipal officials of the winning municipalities and should be devoted to municipal marketing, creation of effective partnerships and the use of local incentives for investment. The following topics should not be overlooked in training:

- Identification of local advantages and disadvantages, efficient exploitation of the advantages;
- Flexible, non-bureaucratic attitude to foreign investors;
- Financial management, cost-revenue accounting;
- Drawing up sound business plans.

The Jury members supported the idea of creating an agency for foreign investment in Polish municipalities. This agency should bring together foreign investors and Polish municipalities and should provide consultancy to both interested parties. The agency should receive initial support from the Polish Government.

The competition "Municipality 2000" is by no means the only way to publicize the investment potential of Polish municipalities. Many of them are trying to do the same through direct contacts and other channels. Therefore, it is not unlikely that some investment profiles may soon be withdrawn. Some municipalities withheld their presentations when they learnt that their more powerful and resourceful neighbours also planned to enter their names. In a number of cases, such self-depreciation proved totally unfounded. There are also expectations of a more traditional type. Some municipalities simply expected the competition to bring in a lot of money which could in turn be used for other purposes. Thinking strictly along "business" lines may sometimes prove quite unbusinesslike as the parties may only see their own profit, giving little if any thought to potential partners. This could explain why preliminary assessments showed a preponderance of presentations focussing on immediate financial benefits over those with a more long term perspective. There were, however, cases reconciling the two approaches.

The competition will be followed by a training programme for the winning municipalities. A first seminar was to be organized in October 1991 with participation of foreign experts of the International Jury. It was envisaged that this event would start a broader training-consultancy programme for Polish municipalities willing to cooperate with foreign investors.

The competition "Municipality 2000" will also be followed by creation of a special institution in Poland which will bring together Polish municipalities and foreign organizations and institutions, creating a "clearing-house" for foreign investors and Polish municipalities willing to accommodate small and medium-sized firms of foreign origin.

### 3. LOWER SILESIA - A FUTURE EUROPEAN MACRO-REGION<sup>\*/</sup>

#### 3.1 Characteristics of the Lower Silesian macro-region

Lower Silesia is a highly industrialized region in Southwestern Poland, bordering on the Federal Republic of Germany. It has a long industrial tradition and has attracted numerous institutions and individual entrepreneurs from the developed market economies since the liberalization of the Polish economy, offering various types of assistance and cooperation.

In 1975, the region was subdivided in four voivodships: Jelenia Gora, Legnica, Walbrzych and Wroclaw, the capital of the latter voivodship being the major city in the region as well as the most important industrial centre. It is likely that the present division of Poland in voivodships will be replaced by one of 10-12 macro-regions. Wroclaw will definitely be the capital of one of these, with Lower Silesia at its heart.

The Lower Silesian area belongs to the most highly urbanized and industrialized regions of the country, although the intensive agriculture found in rural areas should also be mentioned. The industrial potential of the region amounts to about 10 per cent of the country's overall industrial resources. The number of industrial workers in Lower Silesia - about 450,000 - constitutes 42.6 per cent of the total employment in the region and 8.9 per cent of industrial employment throughout the country. Several industrial branches in the region have a country-wide significance. These include primarily copper processing, the production of transport equipment and electronics. Public industrial enterprises predominate (over 80 per cent of the potential). These are typified by a considerable technical and technological backwardness and a decapitalization of fixed assets reaching an average of 65 per cent.

The weakness of public-sector industries is not yet compensated by a strong increase in the production potential of the private sector. Although over 40,000 private enterprises were established in 1990 and 24,000 in 1989, only about 20,000 are engaged in production (and another 8,000 in services). Most of these are micro-firms employing only a few individuals and producing moderate amounts of goods. The development of these enterprises - as of the public establishments - has been hindered by a shortage of finance, particularly for the purchase of up-to-date technologies, machinery and facilities.

Lower Silesia is suffering badly from environmental problems. Apart from Wroclaw, which is discussed separately, at least three of the major cities are subject to very serious pollution:

- Legnica may be termed an "ecological disaster area" due to the emissions from copper smelting. This activity may have to be terminated even before the local copper ore reserves are exhausted;

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<sup>\*/</sup> Based on the contribution to the Workshop by Tomasz Winnicki. The author is grateful to the Lower Silesian Economic Society and the Office of the Voivode of Wroclaw for inspiring discussions and the statistical data.



- Walbrzych is a mining centre badly polluted by emissions from cokeries. The pollution and land usage problems as well as the increasing difficulty of finding economically attractive coal reserves in the area will undoubtedly lead to an end of mining and related activities;
- Jelenia Gora is a chemical industries centre. Located in a valley, it faces almost permanent inversion, trapping the polluted air. Some production facilities have meanwhile been closed down (rayon and cellulose production), another chemical factory is awaiting restructuring proposals.

The overall characteristics and tendencies also apply to the Wroclaw voivodship which belongs to the highest developed districts in this macro-region. Industry - employing about 105,000 persons in over 1,000 public enterprises and independent establishments - is one of the basic economic features characterizing the Wroclaw voivodship. The industry of the voivodship comprises nearly all relevant branches with a prevalence of electromachinery (37 per cent of the potential), food industry (23 per cent), chemical industry (15 per cent) and light industry (7 per cent). As regards certain goods, the plants have a country-wide production monopoly.

Only 10 per cent of the industrial production of the voivodship is exported - half of this goes to Western countries. Predominant in the range of exports are products of the electromachinery industry (POLAR, ELWRO, JELCZ, FADROMA, DOLMEL, FAT, PZL-HYDRAL), the chemical industry (ROKITA) and light industry (INTERMODA, ODRA). The small export share of manufactured goods is due to their low standard, falling short of world norms. This results from the insufficient means devoted to technological progress.

The principal industrial and scientific centre of the voivodship is Wroclaw city, comprising 57 per cent of the population and 67 per cent of the industrial potential. Like other cities in the region, Wroclaw suffers from serious pollution which would require a complete overhaul or even closure of several factories. A non-ferrous metal smelter has already been closed to reduce air and drinking water pollution.

There are 12 university-level establishments in Wroclaw including Wroclaw University, the Technical University and the Academies of Medicine, Agriculture and Economy. There are, moreover, 89 secondary and basic professional schools educating students for the requirements of regional industry. Out of the overall number of workers, 7.5 per cent have university education, 27 per cent secondary education and 32 per cent a basic professional education. Numerous scientific institutes and branch research and development centres of a regional and country-wide importance are active in Wroclaw as well.

The presence of a good educational, training and R&D infrastructure creates great possibilities for the progress of industry in the Wroclaw voivodship, especially by private enterprise in its various forms. The city has an educated cadre of potential businessmen and managers. There exists, moreover, a qualified executive potential in almost all professional specializations. Skilled labour is also plentiful. By May 1991 over 27,000 unemployed from various professions were registered in the voivodship, and further reductions in the sector might increase their number.

Industrial development would benefit from cooperation (of particular enterprises) with foreign capital. Hundreds of enterprises (including private firms) have expressed their readiness for joint ventures, and this has already resulted in establishment of about 100 such ventures in the Wroclaw voivodship.

To get an impression of the potential of a future Lower Silesian macro-region, the figures on qualified staff available in Wroclaw should be multiplied by two or three, and the production potential by four or five. The exact magnitudes would depend on the area that would be covered by the macro-region. With regard to qualified labour, for example, the branches of Wroclaw University in the three other voivodship capitals would have to be taken into account, as well as the Engineering College at Zielona Gora and the Teachers' Training College at Opole. Additionally, there are several scientific and engineering associations in other towns.

### 3.2 The Lower Silesian Foundation for Regional Development

Despite financial difficulties private enterprise is gaining impetus. There are now examples of emerging dynamic, private firms. Many potential entrepreneurs are deterred from ventures simply by difficulties resulting from the shortage of services such as expert bookkeeping and legal services. A management centre rendering services to new enterprises should therefore be established. Such an institution would find a favourable climate and support in Wroclaw.

There is however a much wider range of problems to be tackled. The old economic system has been formally abolished, but the transition to a new system - for which there are no precedents - will be a long and complicated one. There are many obstacles to be surmounted: environmental destruction, inefficient production technologies, top-heavy bureaucracies, lack of properly trained managerial staff, a badly motivated labour force, lack of foreign exchange and investment capital, etc.

To deal with these complex problems in a coordinated fashion and with other important, issues such as unemployment, retraining, restructuring and the proper channelling of foreign assistance and investment, it was decided to set up a regional development institution, the Lower Silesian Foundation for Regional Development (LSFRD). LSFRD was established in 1990 by the following parties:

- The Lower Silesian branch of the independent trade union "Solidarity";
- The Board of Rectors (presidents) of the Wroclaw universities;
- The Lower Silesian Economic Society;
- The University of California at Berkeley.

Any other domestic or foreign party can join the LSFRD as a member or a donor.

The principal objectives of the LSFRD have been defined as follows:

- To create and implement co-operative programmes of institutions, organizations and individuals of Polish, foreign and international origin;

- To carry out research and use its results in the form of managerial, technological, manufacturing and trading activities;
- To carry out, mainly on the territory of Lower Silesia, some demonstration projects on solutions for crucial problems of regional development involving ecological, cultural, social, managerial, scientific and economic issues;
- To provide managerial and financial support for undertakings presented in items 1 to 3;
- To accumulate financial resources for the above described programme, including own economic activities.

The LSFRD may thus be said to have been designed to serve as a managerial, financial and conceptual framework for future development. It has also been decided to create, within the Foundation, an International Institute for Regional Development (IIRD) to become its brain trust.

The IIRD should group eminent individuals - sociologists and economists, financiers and businessmen, state and municipal authority leaders and members; all connected with science and/or practice - representing a Member of or a Donor to the LSFRD, or any other party.

The main task of the IIRD would be to single out the most important regional problems from the numerous project proposals presented to the LSFRD. Thereafter, it would create a team which would elaborate proposals in the form of a feasibility study justifying either financing by LSFRD resources or an application to a potential external sponsor.

Over 70 project proposals have already been identified during and after the first LSFRD Conference: "Regional Development - Lower Silesia - University of California, Berkeley", held in Wroclaw on 3-7 July 1990 and the second Conference in this series held at Berkeley on 5-14 November 1990. The task is now to assign priorities to these projects, and to identify and select new proposals.

Numerous LSFRD initiatives and projects are of an international dimension, such as:

- MAD0 (Interregional Agency for the Oder River Basin), initiated by the LSFRD is already on its way to becoming an independent organization, dealing with the revitalization of Danube-Oder-Baltic waterway connexion route project, as well as a programme for quality control of the Oder river basin waters;
- The Air Pollution Control Authority, organized to deal with international problems of the alarming pollution by lignite-fuelled power plants in the Polish/German/Czech border zone;
- The trans-Poland railroad project, important for the activation of both the Lower Silesian Economic Zone and several large state-owned enterprises building or having built locomotives, cars, engines and other railway-related equipment;
- Wroclaw Central European International Port (air, land, water) and Free Trade Zone - a project to activate manufacturing, trade and tourism in the large area of Lower Silesia and the neighbouring areas of Eastern Germany and Bohemia;

- The International Centre for Studies on Higher Education - an initiative of University of California at Berkeley to adjust the Lower Silesian universities to teaching and research systems and standards of leading academic centres abroad.

The LSFRD took an active role in organizing the first regional School of Business, established by the Central Connecticut State University (CCSU) of New Britain, USA and the Technical University of Wroclaw, as well as a second, promoted by the dynamic Swedish-Polish enterprise "Mercuria". The CCSU will soon be the second American member of the LSFRD. Further expansion of the various forms of international cooperation is seen as essential for achieving the objectives of LSFRD and IIRD.

#### 4. ECONOMIC RESTRUCTURING AND INSTITUTION-BUILDING IN THE LODZ VOIVODSHIP<sup>\*/</sup>

##### 4.1 Characteristics of the Lodz voivodship

The Lodz agglomeration is one of the major examples in Central and Eastern Europe of an industrial centre based on a single industry - textiles. It grew very rapidly during the 19th century, the textile boom attracting additional investment in activities dependent on the textile industry and a large number of immigrants. The basis for the textile boom, however, was laid solely by local entrepreneurs who eventually also invested in industries as far away as the Caucasus and Egypt. The textile industry is responsible for the fact that the Lodz voivodship is also the largest centres of light industry in Poland, products from Lodz accounting for 19.4 per cent of all domestic sales by the sector.

During the period of central planning, the textile industry was quite heavily dependent on East European markets, particularly that of the USSR. The radical changes in Eastern Europe have led to a serious decline in exports. A reorientation to Western markets will be necessary, but the problem is that Polish textiles have to face heavy competition from exports from developing countries. Polish exports moreover face import quotas in a number of developed market economies; the recently granted improved access for Polish garments to EC markets certainly offers new opportunities, but Polish garment producers will have to do much to become or remain competitive with developing country suppliers of these goods.

A restructuring of the textile industry, in Lodz and elsewhere, seems inevitable. In Lodz the restructuring process may be complicated by ownership issues: most of the large factories were foreign-owned and nationalised after World War II. Unless the legal issues have been cleared, investors may be hesitant to become involved in the local textile sector. Ways will also have to be found to reduce the voivodship's heavy dependence on a single industry.

A major asset of Lodz is its location in the Polish heartland, on the intersection of the North-South and East-West transportation axes. Transportation along these axes is likely to be improved in the future by an expansion of the motorway network and an upgrading/expansion of the railway network. Lodz may thus become the largest "dry port" in Poland.

Other assets include:

- Extensive expertise with regard to textiles and clothing based on a century or more of textile manufacturing;
- A well-developed R&D infrastructure;
- A qualified workforce, with education provided up to and including university levels;
- A tradition of clothing and textile fairs;

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<sup>\*/</sup> Based on the contributions to the Workshop by Bohdan Jalowiecki and Tadeusz Markowski.

- A well-developed wholesale system;
- Tourism potential, with 19th century industry and housing complexes, mansions etc. which have changed little over time and are now unique in Europe.

#### 4.2 A new institutional framework

To facilitate the difficult task of restructuring the industrial sector in Lodz, a new institutional framework would be needed. The establishment of a development corporation will not be an easy task. The present administrative structure of the country has resulted in a number of social, politico-administrative and economic barriers to efficient cooperation between the parties involved in the process of industrial development. A thorough assessment of these is needed, and ways must be identified to eliminate the worst obstacles, before decisions are taken on the establishment of a development corporation, and on its tasks and structure. Experience shows, e.g., that there is little cooperation between the communes (local governments) and the voivodship authorities. Even if these authorities would recognize the need for a development corporation, support - financial or otherwise - may not be forthcoming at the initial stage. The development corporation will probably have to depend on central government support in its pioneering stage. Once its usefulness is clear to the parties involved in the restructuring process, it should start charging a fee for its services and become independent from the authorities.

One obstacle to the creation of an efficient development corporation is the shortage of qualified professionals. The existing local and voivodship administrations as well as private consulting agencies are already in heavy competition for this scarce resource. A possible way out is cooperation with similar development corporations in developed market economies: these could train young, promising people for, say, a year, after which these could apply the lessons they learned in Lodz.

Attention must also be paid to the fact that there is a tendency among the authorities - including those now democratically elected - to retain the "old habit" of controlling economic development by administrative measures. In combination with the shortage of funds for outside expertise, this will encourage the authorities to create their own local development departments. This will strengthen the bureaucracy; it is unlikely to strengthen the local economy.

Given the shortage of funds and the present lack of cooperation among the region's authorities, it might be better to start with a local development corporation in Lodz, which is after all the hub of economic life in the voivodship. Outside support would still be needed. Unfortunately, an attempt to start a "sister city programme" with Baltimore in the USA (an initiative resulting from a cooperation agreement between the State of Maryland and Lodz voivodship) was shelved for lack of support from other authorities. This initiative foresaw the establishment of a development corporation on the pattern used in Baltimore. It would be worthwhile to take up that idea again, and to convince the central government of its usefulness. With its strong ties to the local community, a development corporation in Lodz city could do much to speed up structural change of its economy.

## 5. WIELKOPOLSKA - A MACRO-REGION AND ITS INSTITUTIONS\*/

### 5.1 Major characteristics of the region

The Wielkopolska region is situated in the west-central part of the country. Narrowly defined, the region covers five voivodships: Poznan, Leszno, Kalisz, Konin and Pila. They are inhabited by 3.4 million people, i.e. some 10 per cent of the total population of the country, covering also 10 per cent of its area. Broader delimitations include also the voivodships of Gorzow and Zielona Gora from the West and Bydgoszcz from the north-east. Altogether the larger Wielkopolska region has almost six million inhabitants, i.e. 15 per cent of total population of Poland while covering approximately one-fifth of the country's total area. The capital is Poznan with 600,000 inhabitants. The region is characterized by a dense network of small towns with up to 5,000 inhabitants.

Development in the area has historically been influenced by shifting borders between Germany, Russia and Poland. The influence of the shifts in sovereignty is still noticeable in varying densities of the railway network and a higher than average productivity of the agricultural sector in most of the voivodships, where Polish farmers had to compete with German settlers. From an international perspective, the region is favourably located astride the Berlin-Warsaw-Moscow transport axis. There are also fairly good rail connections with the Polish ports of Szczecin-Swinoujscie and Gdansk; from these, there are shipping routes to the Scandinavian countries.

The Poznan voivodship is the economic centre of the region, fixed asset values showing higher than Polish average figures in a number of key activities: industry, agriculture, transport and communications, other services, and science, technology and education. The region as a whole, however, shows a different picture, agriculture being clearly the dominant activity, other activities contributing less than average to the domestic economy. Industry, trade and services are concentrated in the 56 county capitals, with major concentrations in and around Poznan, Bydgoszcz and Torun.

Favourable factors for future growth would be:

- A strong agricultural base, supported by research institutes;
- A wide range of other raw materials;
- A relatively modern industrial structure;
- A range of scientific and research centres;
- Favourable location and good communications;
- A disciplined hard-working population;
- Attractive landscapes and towns.

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\*/ Based on the contribution to the Workshop by Bohdan Gruchman, with additional information from an essay by Bohdan Kacprzynski: "Globality-locality relation in the case of Wielkopolska (Greater Poland)", in Développement local en l'Europe - l'expérience et l'avenir/Local development in Europe - experience and prospects, Regional and Local Studies, University of Warsaw, No. 5, p. 151-189.

Apart from a skill and knowledge profile of the workforce that does not quite fit present-day requirements, environmental problems seem the major obstacle to future growth. The region has limited water resources, and these are both overexploited and (often) heavily polluted. There is moreover heavy air pollution in part of the region.

Given the fact that much of the region's comparative advantage would seem to be in its relatively advanced agriculture, the regional economy would benefit much from clean and better managed water resources and clean air - this would allow production to focus on high quality and special products (e.g. health food).

It would also stimulate the region's food processing industry which, however, is in need of restructuring, as present production capacity is ill-adapted to available raw material resources. A stronger food processing industry might also help to reduce the region's dependence on large-scale heavy industry. This dependence could be further reduced if the region's former capacity to attract innovate industries (the Poznan Fair used to play a major role in this respect) is restored. Now that the selection of investment projects can take place on strictly economic grounds again, the way is open for economic revival.

## 5.2 Wielkopolska's institutions

To serve the transformation process of the regional economy, a number of institutions and organizations have been established since 1989 or expanded the scope of their activities. Among them are the following:

(a) Regional Chambers of Commerce and Industry: These include Chambers incorporating newly established private companies; the Chamber of Industry "Poznan", whose members are existing state enterprises but also co-operative and private ones; of Agriculture and Food Processing with chambers in several rural areas; and the Chamber of Commerce incorporating private trade. All these chambers together with the Chamber of Crafts, which has existed for 70 years, promote economic activities in their respective areas of interest and initiate international cooperation.

(b) New banks: A considerable number of new private banks has been established. Particularly noteworthy among them are:

- The Gospodarczy Bank Wielkopolski - a regional bank established as a stock company by some 300 small rural co-operative banks of the region;
- The Market Bank organized by several Chambers of Crafts and small-scale enterprises. Both banks have a local capital base and help small-scale enterprises, farmers and commerce to expand their activities. The recently organized Wielkopolska Investment Corporation has a similar task.

(c) Wielkopolskie Centrum Innowacji i Przedsiębiorczosci (WIP): A joint stock company established in 1990 by the governors of Poznan, Konin, Zielona Gora and Kalisz. Its aim is to promote new economic activities through training, technical advice and economic information. It has already done advance work on a science park and business incubators.



(d) New training institutions focussing particularly on small- and medium-scale business. They offer short-term courses and workshops on practical topics of particular interest. Among them is the Wielkopolska Business School organized by a special foundation established jointly by the Poznan Academy of Economics, the governor of the voivodship, the Chamber of Commerce and Industry and the regional chamber of "Solidarity".

(e) Numerous consulting and marketing firms, trade and stock exchange companies, market research units, the Regional Development Centre (joint establishment of local authorities and the Academy of Economics) and a number of other units.

## 6. THE ELBLAG REGION AS A POTENTIAL LOCATION FOR FOREIGN INVESTMENT<sup>\*/</sup>

### 6.1 Basic facts

#### (a) Area, population

The Elblag voivodship (i.e. the administrative region with a capital in the city of Elblag) is located in the North-Eastern part of the country. The voivodship comprises two geographically different parts: Zulawy Wislane (the Vistula Lowlands) and Nizina Staropruska (the Oldprussia Plain). The lowlands have excellent soils but they require efficient dewatering systems. The Staropruska Plain located in the east part of the region has a picturesque hilly relief, making it attractive for tourism. Unfortunately, the natural environment has become badly polluted in many places, as elsewhere in Poland.

The voivodship's population is 476,500, and the population density low: 78 persons per square km. More than half of the population (61 per cent) lives in the cities. The four largest towns in the region are: Elblag (125,000 inhabitants), Malbork (38,000), Kwidzyn (36,000) and Braniewo (17,000). With 6.7 per cent, unemployment is above the Polish average and this is an additional spur for new development initiatives.

#### 6.2 Location, communications

Elblag is located some 60 km from Gdansk-Gdynia seaports and ca 300 km from the national capital, Warsaw. It has a common border with the Soviet Union and also borders on the Baltic Sea. The road and rail connections should be regarded as satisfactory and will even be improved after construction of the North-South trans-European highway as well as a highway connecting Berlin with Kaliningrad in the Soviet Union, which will pass through Elblag. A frontier crossing to the Soviet Union on this highway will be opened in the near future. The nearest international airport is located at Gdansk.

The maritime location of the region is currently not fully exploited. The waterway through the Vistula bay, with the mouth located within the Soviet territory, does not play an important role. It is envisaged, however, that after establishing more active cooperation with the Kaliningrad region, Elblag will become once again a maritime town with a well-developed port.

At the moment, international exchange (commercial and personal) with the Soviet Union does not play an important role in the region's economy. It is projected, however, that the renaissance of the economic potential of the Baltic Republics and the Kaliningrad District will place the Elblag region at the heart of economic, social and cultural cooperation in the East Baltic, for which this region is well endowed with natural and human resources.

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<sup>\*/</sup> Revised version of a report on the project "Elblag Region as a Potential Location of Foreign Investment" presented at the Workshop. The original report was prepared by: Grzegorz Gorzelak, Miroslaw Grochowski, Agnieszka Mync, Hanna Libura, Wojciech Pomianowski, Elzbieta Zak-Rosiak of The European Institute for Regional and Local Development, University of Warsaw.

### 6.3 Industry

Elblag town is the largest industrial centre of the region. The most important is the electro-engineering industry producing power turbines, screw propellers and ship shafts (the "Zamech" factory in which ABB has recently heavily invested). Other industries include plastic, clothing and furniture. In other towns of the region the most important industries are: pulp and paper (Kwidzyn) and engineering (Malbork, Orneta and Paslek). The food industry, based on local agricultural products, is of special importance for the region's economic structure. The major branches are: dairying, cereal, fruit and vegetable and fish processing as well as flax processing (Kwidzyn, Tolkmicko, Elblag, Nowy Dwor).

#### (b) Agriculture

The mild, maritime climate and very good soils in the lowlands are conducive to agriculture. Arable land comprises 66 per cent of the voivodship. Wheat, barley and sugar beets are grown in the Zulawy region. In the Braniewo-Paslek area, where the worst soils prevail, potatoes and rye are grown. Meadows and pastures form an important part of total agricultural land, creating opportunities for the development of cattle breeding.

#### (c) Tourist services and recreation

Tourist services have always been an important branch of the region's economy, and they are conceived as one of the most important factors of local development by the local authorities. The region has favourable natural conditions to develop this kind of activity: a long open sea coast with sandy beaches, forests, lakes, historical sites of unique quality, including one of the largest medieval castles in Europe.

#### (d) Foreign investments

The new economic policy in Poland has mainly led to the creation of new enterprises, joint ventures and other firms in major cities and traditional industrial centres. However, important recent political changes in Western and Eastern Europe (the unification of Germany; the independence of the Baltic Republics) have provided significant development opportunities to regions perceived as peripheral so far. They could become dynamic frontier regions in the near future. Elblag Voivodship is one of them.

So far, five new enterprises were set up in the region. Both the State and private owners are involved in these. Two new firms emerged in Elblag: "Marcam Containers S.A." and "Plastyk". In Malbork one firm based on foreign capital was created. The others are located in close vicinity to the border with the Soviet Union. Foreign capital investment invested in Elblag region so far originates from Germany, Switzerland, Liechtenstein and the USA.

The range of activity of the new firms is very wide. It encompasses the production of building materials, construction of industrial plants and apartments, production of equipment for protection of the natural environment, production of furniture, livestock breeding, trade, recreation and tourism.

### 6.4 Development potential

A beginning has been made with the opening up of the region's economy. But the region's administration would like to see a stronger role of foreign capital in the development of the Elblag region. The attitude of the local

authorities is very positive and the administration is willing to cooperate with foreign investors advancing serious economic projects.

The present economic structure of the region indicates that the following sectors are probably the most promising for potential foreign participation:

(a) Agriculture and food processing

The recession of the Polish economy resulted in shrinking demand for some agricultural products of the Elblag region. The overall domestic demand for processed food seems smaller than the production potential of agriculture, but the demand for special, high quality food products would allow an expansion of production. The existing potential of the food processing industry can be expanded in the form of direct foreign investment or joint ventures with domestic capital of private or public origin.

(b) Tourist services

The natural conditions and the cultural heritage of the region are extremely favourable for developing tourist services. The activities of foreign capital should be directed to: expansion of lodging and catering services (hotels to be built in four towns, tourist complexes to be constructed in several locations), adaptation of numerous palaces and manors for tourist services and establishing several spas.

(c) Other industries and construction

Existing industrial establishments outside the food industry, with their rich experience and skilled manpower, also seek technological advancement and modernization in cooperation with foreign investors.

Construction firms are also looking for orders from investors. These orders may come from abroad, from domestic clients, from domestic enterprises cooperating with foreign partners or from foreign enterprises operating in Poland. The expansion of tourism facilities, a.o., should provide stimuli to the region's construction enterprises.

For the sake of the population's health in general and to ensure the development of tourism and high-quality agricultural production, the region's environment must be cleaned up. Participation of foreign investors in environmental protection projects would in several cases allow the latest methods and technologies to be applied to the more complex problems.

## 7. NORTHEASTERN POLAND: PRESENT CONDITIONS, FUTURE OPPORTUNITIES<sup>\*/</sup>

### 7.1 General overview

Northeastern Poland comprises the voivodships of Bialystok, Lomza and Suwalki. It has a total area of 27,000 sq. km. and, with 1.7 million inhabitants, it is sparsely populated. The largest urban centre is Bialystok, with 270,000 inhabitants. The region borders on Lithuania and on the USSR (Belarus and the Kaliningrad district). The nearest major metropolitan area in Poland is the Warsaw voivodship.

Some parts of Northeastern Poland are among the least developed in the country. On the positive side, the natural environment is on the whole in far better shape than is the case elsewhere, Northeastern Poland being known as the "Green Lungs of Poland". The region has many nature reserves, among them Bialowieza National Park which is on UNESCO's list of biosphere reservations. Apart from a clean and attractive environment (lakes, hot springs, numerous rivers, unique flora and fauna), the region also has a richly varied traditional culture, which is the result of the colonization by diverse ethnic groups and is reflected in among others a large number of historical buildings.

The region has, in short, a considerable potential for the development of tourism and preserving the fragile ecosystems deserves the greatest priority. Northeastern Poland, however, has more to offer. There is a well-trained labour force with among others a large number of engineers and electronics specialists. University-level training is provided by the Warsaw University Branch at Bialystok and by the Bialystok University of Technology. The region has no heavy industry, the industrial structure being based on wood and food processing, textiles and building materials. Industry was not strongly developed in the past; the advantage of this is that pollution levels are low and restructuring problems manageable - some of the industries, such as electromechanical equipment, are in fact among the more advanced in Poland.

Agriculture is dominated by private farming, and soils are of excellent quality. The natural environment provides a good basis for high-quality dairying and meat production and for the production of special products such as health food (low use of pesticides and chemical fertilizers). This could again provide new stimuli to the food processing industry. The building industry could benefit from an expansion/modernization of tourist facilities, including hotels, spas, etc., and improvements in transport infrastructure.

While the region is relatively favourably located, just north of the Berlin-Warsaw-Moscow axis the transportation system as well as the communication system are not fully adequate yet. Improvements in the road and rail systems however have been planned; these would, among others, greatly facilitate connections with the emerging markets of the Baltic States.

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<sup>\*/</sup> Based on the contribution to the Workshop by Ryszard Kowalczyk and Donald Abbott, summarizing the results of a project initiated by Prof. Antoni Kuklinski and prepared in collaboration with Prof. Maciej Nowakowski (Technical University in Bialystok) and Regional Development Departments of Voivodship Offices in Bialystok, Lomza, Suwalki, and the following Peace Corps Volunteers: Don Abbott, Monki; Diana Hugins, Goldap; Deborah Ryan, Hajnowka; Kate Kablesman, Sokolka.

The following sections will highlight the major characteristics, problems and prospects of the individual voivodships, mainly focussing on industry-related activities.

## 7.2 Bialystok voivodship

The Bialystok voivodship is the most heavily urbanized in the region, and the city of Bialystok is its only large urban centre. Apart from academic institutions - the most important of which were already referred to - the voivodship also has an extensive network of secondary and vocational schools. Approximately 1,200 students graduate yearly from the combined university-level institutions. The manufacturing sector employs some 50,000 persons, and accounts for 1.6 per cent of total output in the country. Bialystok city is the main industrial centre; other centres include Hajnowka, Bielsk Podlaski, Siemiatycze and Sokolka. There is a fairly heavy reliance on large enterprises, which employ over 50 per cent of the labour force while accounting for only 3.5 per cent of the number of enterprises. The major branches are agro-processing, electrical and mechanical goods, textiles and wood processing. The wood and agro-processing industries rely heavily on local raw materials. Generally speaking, the industrial sector needs to be modernized and expanded, in particular the agro-processing industry which has too little capacity to process all the available local raw materials even though the available arable land is underutilized. These raw materials include various cereals, meat and milk. Bialystok is one of Poland's larger milk producers, and the largest producer of potatoes.

The key development issues in the Bialystok voivodship can be summarized as follows:

- Development of the border region's agriculture, focussing on health food products (including the provision of infrastructure and the investment in small-scale processing facilities);
- Improved preservation of the natural environment (waste treatment, and effluent control as an integral part of all investment projects);
- Developing the tourist infrastructure.

Foreign investment could play a role in all of these, especially in the tourist industry and agro-processing. The voivodship has prepared a series of investment profiles of the various activities targetted for foreign investment. There is moreover a Free Trade Zone at Sokolka (total area: 43.9 ha) near the border crossing to the USSR, and therefore close to the markets of the Baltic States and the Soviet Union. The FTZ has good interregional and international rail and road connections.

## 7.3 Lomza voivodship

The capital of this voivodship, Lomza, has some 58,000 inhabitants and is economically largely dependent on industry (food, furniture, textiles). Smaller towns also serving as industrial centres of varying importance include Zambrow, Kolno, Wysokie Mazowieckie, Grajewo and Sniadowo. Zambrow has a modest electronics industry. Otherwise the voivodship is largely agricultural, with private small farms predominating. The main products are potatoes, cereals, white beets, rapeseed and agrimony. The clean environment favours the growing of health food.

The main potential for development would seem to be in special agricultural products, food processing based on these products and tourism; a modest expansion of the building materials industry (based on local sand, gravel and clay resources) could also be envisaged.

The voivodship administration has prepared a series of investment profiles for projects considered essential for future economic growth. Co-operation with foreign entrepreneurs is mainly sought for the modernization of the voivodship's industrial base. Apart from the textiles, food processing and building material industries, repair services and production of agricultural machinery and transport equipment also need to be modernized in the context of the overall development of the voivodship. New investment is mainly sought in food processing and recreational facilities.

#### 7.4 Suwalki voivodship

The Suwalki voivodship is the northernmost part of the region, and has a great tourist potential, some 40 per cent of the area consisting of forests, lakes and rivers. The voivodship contains three national parks. Apart from a considerable agricultural potential, the voivodship also has unexplored mineral water, ceramic raw materials and iron ore reserves. Exploitation of the latter two, if economically feasible, will have to take account of the fact that an unspoiled environment is the voivodship's greatest natural asset. It is understood by the administration that considerable efforts are needed to preserve the natural environment. Recent development plans (focussing on the development of tourism and recreation) take account of the environmental side effects. Implementation has been delayed by the lack of funds. More specifically, development programmes emphasize:

- Legal protection measures for the environment and installation of waste and water/sewage treatment facilities;
- Improvements of physical infrastructure, including energy and water supply, development and modernization of the interregional and international transport network (an expansion of the number of border crossings is foreseen), and development and modernization of telecommunications.

The largest urban centre is the capital Suwalki (60,000 inhabitants). This is also the main industrial centre. Agro-processing is the major manufacturing activity, followed by wood processing. There is a variety of less important industries: machinery, electromechanics, textiles and clothing, building materials. The raw material base for agro-processing is good. Plans for the expansion of agricultural production now focus on appetizing health foods with high nutritional value and good storage characteristics. Apart from a clean environment, a favourable structure of landownership and a system of mixed production (which reduces the need for chemicals) create the preconditions for this type of agricultural development. Products include a wide range of livestock, fish, game, vegetables, fruit, cereals and potatoes.

It is realized by the voivodship administration that cooperation with foreign investors is essential for the development process. It has prepared a range of investment profiles which include tourist/recreational facilities and agricultural modernization. But the bulk of the projects would be in industry. This includes agro-processing, agricultural machinery (including repair services), textiles, beverages, wood products and building materials.

#### 7.5 Concluding remark: creating an institutional framework

Northeastern Poland being a largely "untapped resource", there are good opportunities for new development (unburdened by the need for costly restructuring); at the same time there is a need to provide a framework which can guide and stimulate such development. A Regional Development Corporation could help to enhance the cooperation between local government, existing enterprises and potential investors, whether local or international. Such an institution could also help to market the region. The human resources to start an RDC are already available: the professional staff of the Bialystok Branch of Warsaw University and of the Technical University of Bialystok have already been deeply involved in assessing the region's potential as summarized in the present chapter.



## ANNEX A

CHARACTERISTICS OF THE MAJOR POLISH LAWS REGARDING  
GLOBAL AND REGIONAL ECONOMIC ACTIVITY WITH FOREIGN PARTICIPATION<sup>\*/</sup>1. Introduction: legal autonomy at the local level

The road to local autonomy in Poland was long and arduous. The 1950 legislation introduced the principle of the uniformity of state authority. The 1950 Act on local government abolished local self-government and defined a new role for "elected" authorities, namely to represent state power in their area. The introduction of that principle resulted in the forfeiture of legal status (within administrative law) by urban and rural communes. "It had many far-reaching consequences: no right to take up bank credits, no right to direct international and intergovernmental contacts and cooperation, no property rights, etc. Centrally set state policies did not consider local interests, needs and priorities."<sup>1/</sup>

This system came to an end in 1990 with the free elections for municipal councils in May. New legislation was already in place, namely, the Local Government Act of 8 March 1990.<sup>2/</sup> This Act introduced a totally new system of local government in Poland. The hierarchy of elected and executive bodies has been removed, together with the central government's supervision of local decisions and activities. Municipalities now come under scrutiny for legality of their actions only. What is essential for possible cooperation with other regions abroad is that the ownership rights of the municipalities over property such as land, buildings, enterprises, stocks, etc. was restored, creating a large source of municipality income along with sources such as local taxes and shares in state taxes, local fees and charges, rents, loans, profits from own enterprises, grants, etc.

Legislation allows local authorities to conduct all types of income-generating activity as long as these activities correspond to real social needs which are not met by other legal or juridical persons. These needs relate in particular to the following areas: land development and planning, environmental protection, roads, bridges, traffic control, supply of gas, electricity and water along with waste removal, public transportation, health care and related social services, housing, education and cultural life, public order, etc.<sup>3/</sup> All these activities require substantial investments. Some of them could be easily profitable if proper technology and managerial skills were transplanted from other regions where experience with these issues already exists.

The decision to enter into any type of cooperation rests with the municipality itself. Decision making is concentrated in the executive body of the local council, the Board. It is composed of the Mayor, as its Chairman,

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<sup>\*/</sup> Revised version of the contribution to the Workshop by Lucjan Lukasik.

<sup>1/</sup> "From communism towards democracy: Local government reform in Poland" by Jerzy Regulski and Włodzimierz Kocon.

<sup>2/</sup> Journal of Laws, No. 16 of 1990.

<sup>3/</sup> Art. 7.1.

his deputies and Council members. The Board implements the Council's decisions, manages its property, controls the budget and performs other tasks delegated to it. Responsibility for organizing the work of the Board and for day-to-day administration rests with the Mayor, who is also the chief executive of the Municipal Office. De facto any decision concerning economic or other cooperation is approved by the Mayor himself.

Foreseeing the need for broader interregional cooperation, the Act of 1990 includes very important provisions allowing municipalities to organize various kinds of inter-municipal associations in order to perform certain activities jointly.<sup>4/</sup> There are three categories of these structures: goal-oriented units established to jointly perform certain activities or to run joint programmes; nation-wide associations representing local government interests or certain kinds of municipalities at the national level (or cities); and regional inter-municipal associations.<sup>5/</sup>

All these reforms created favourable conditions for the participation of different regions in economic activity in accordance with the new legal system, created to transform Poland into a genuine market economy. While this legal system is subject to constant changes resulting from the search for best options, it seems useful to describe the most significant Acts which are having an impact on economic cooperation on both global and regional levels.

## 2. The 1988 Act on Economic Activity

The 23 December 1988 Act on Economic Activity<sup>6/</sup> restored freedom of industry and trade in Poland. It did so by instituting three fundamental principles governing any economic activity: freedom for everyone to conduct business, equality of all economic entities and the subjection of all economic activities to the existing legal order (principle of legality). Thus Art. 1 of the Act stipulates that undertaking and managing an economic activity is open to all on the same legal basis.

The new law ended the preferential treatment of state-owned economic entities by subjecting all entities - private, state-owned, co-operative and others - to the same taxes and granting them the same access to credit and supplies of raw materials. New economic entities can start operating upon mere notification to the registration office. Certain activities of particular importance to the State however (such as mining; manufacturing of and trading in explosives, medicines, alcohol; maritime and land transportation, etc.) require a licence.

The Act paved the way for legal services in the field of economic activity. Such services can now be provided by private companies employing attorneys and legal counsels.

What was of particular importance at the time of introduction of the law was the principle that any activity which is not prohibited by law is permissible. This principle is being fully observed only now.

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<sup>4/</sup> See Chapters 7, 8 and 9 of the Act.

<sup>5/</sup> J. Regulski and W. Kocon, op. cit.

<sup>6/</sup> Journal of Laws No. 41 of 1988.

### 3. The re-introduction of the Commercial Code

In which form may companies operate in Poland? This question is particularly significant in a time of basic transformation from a centrally planned economy, based on a state-owned enterprise to a market economy.

The resistance of peasants to collectivisation, resulting in private land ownership and the incredible vitality of small Polish businessmen and craftsmen led to the revival of the 1934 Commercial Code (introduced by Presidential Decree of 27 June 1990).<sup>1/</sup> The Code establishes three types of commercial companies: the partnership, the limited liability company and the joint stock company. Although these are widely known in the legal systems of other democratic societies, it may be useful to briefly describe them.

A partnership does not enjoy legal personality. Each partner is personally liable for the partnership's obligations. Its role is small and diminishing, no doubt because partners are reluctant to risk their personal capital in case of bankruptcy or other financial demands from third parties.

A limited liability company can be established by one or more partners. The initial capital may be provided either in cash or in kind and should not be lower than 10 million zlotys. The company is established by a contract concluded between the partners in the form of a notarial deed. The company's capital may be divided into equal or unequal shares. A limited liability company does not exist legally before its governing bodies have been established. These are: the board which manages the company, a supervisory board and an audit body (the latter two are not compulsory) and the assembly of the partners - the company's highest authority.

A joint stock company can be established by at least three persons. As in the case of the limited liability company they may contribute in cash or in kind. Stock capital should not be less than 25 million zlotys. Shares must be equal in nominal value. The company must have a statute. Upon registration in the commercial register it acquires legal personality. The company is run by a board which represents it in court and elsewhere. Members of the board, elected by the general meeting of shareholders, are personally liable to the company for damage resulting from acts or omissions contrary to the law or provisions of the statute. Unlike the previous type of company, the joint stock company must establish either a supervisory board or an audit commission. Profits are shared by shareholders according to their capital shares unless the statute stipulates otherwise.

Liquidation of both limited liability and joint stock companies can be based on reasons envisaged in the statute, a resolution by a general meeting of the partners, a declaration of bankruptcy or other reasons provided by law.

The Commercial Code allows the transformation of one of the abovementioned company types into other without affecting the rights and duties of third parties.

At the moment a foreign company can operate in Poland either through its own representation or by entering into a joint venture with Polish entity. Questions related to the representation of foreign companies in Poland are

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<sup>1/</sup> Journal of Laws No. 57 of 1934, No. 57 of 1946, No. 34 of 1950, No. 41 of 1988 and No. 17 of 1990.

regulated by the Council of Ministers' decision of 2 February 1976 on the conditions, procedures and institutions concerning the right of foreign natural and juridical persons to establish representations on the territory of Poland for the purpose of conducting economic activities.<sup>8/</sup> According to these regulations a foreign company can open a subsidiary in Poland for the purpose of conducting economic activity within the scope of normal activity of such a company. Activity shall be limited to such branches of economy as foreign trade, transport, tourism and cultural services.

Subsidiaries can be established in three forms: branch or agency, technical information office and supervising office. They require a permit issued by the Ministry of Foreign Economic Relations. The size of the company's turnover with the Polish partners or cooperation contacts must justify such permission. The practice of the Ministry is much more liberal at the moment.

Established subsidiaries have the right to negotiate contracts and to sign them on behalf of their parent company. The branch or agency may operate consignment stores and offer technical services to Polish enterprises or institutions. All commercial activities of subsidiaries are subject to taxation.

A technical information office is only entitled to conduct promotion activities and collect scientific and technical information on products and services offered by the parent company. It does not have the rights granted to a branch or agency in respect of commercial activities and contracts.

For the purposes of monitoring the implementation of the contract signed between a foreign company and the Polish partner, a supervisory office can be established. In certain cases no permit is required for setting up such an office, as in the case of a contract between a Polish foreign trade company and a foreign company.

The establishment of a subsidiary for conducting economic activities in Poland is subject to a fee of 10 million zlotys collected before issuance of the permit. Supervisory offices are exempt from paying the fee.

#### 4. The Foreign Investment Law

The above legal regulations failed to stimulate foreign investments. Sweeping law reforms were necessary to attract foreign investors. A result of this was the Law on economic activity with the participation of foreign parties was enacted on 23 December 1988.<sup>9/</sup> It was subsequently amended on 28 December 1989.<sup>10/</sup> On 14 June 1991 a new Law on companies with foreign participation was enacted,<sup>11/</sup> which substituted for these two Acts, known as "The Polish Foreign Investment Act". The new Law set forth the conditions for the admission of foreign parties to participate in revenues from operating in the territory of Poland.

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<sup>8/</sup> Journal of Laws No. 11 of 1976; and No. 26 of 1984.

<sup>9/</sup> Journal of Laws No. 41 of 1988.

<sup>10/</sup> Journal of Laws No. 74 of 1989.

<sup>11/</sup> Journal of Laws No. 60 of 1991.

In order to operate such enterprise a foreign entity (either a legal or natural person) must establish either a limited liability company or a joint stock company having their registered office in Poland or acquire shares in companies which own such enterprise.

Economic activity of such a limited liability company or a joint stock company can include the production of goods, construction, trade and services of all kinds. The foreign partner can hold as much as 100 per cent of shares in the joint venture's initial capital. The foreign contribution can be made both in money and in kind.

Except for a few cases, no permit is required to set up a company with foreign participation. These cases relate to the following:

1. If the activity of the company covers at least one of the following
  - (a) operating of a sea and/or air-port;
  - (b) dealing in real estate or running a real estate agency;
  - (c) defence industry which is not covered by licence requirements;
  - (d) wholesale of imported consumer goods;
  - (e) legal services.
2. If one partner to the company is a state-owned legal person (excluding Treasury) and such person contributes to the initial capital in kind in form of real-estate, enterprise or part of it.

The permit mentioned above is issued by Minister of Ownership Transformation.

The company may be exempted by Minister for Finance from income tax if:

1. the contribution of foreign partner to the initial (share) capital exceeds the equivalent of two million ECU's;
2. the economic activity of the company
  - (a) is carried on in the region endangered by high unemployment
  - (b) ensures application of the new technological solutions
  - (c) sales of goods and services for export exceed 20 per cent.

A very important development in the Polish legal system relating to foreign companies in Poland, is that under new Law a foreign partner, after payment of taxes, has a right to transfer the remaining income abroad without a separate foreign exchange permit. This right is subject to certain currency limitations imposed by the foreign exchange Law.

The tax and custom privileges granted under previous Law shall remain in force for the period specified in the permit.

##### 5. The Act on the Privatisation of State-Owned Enterprises

The most important law for the transformation of the Polish economy into genuine market economy was enacted by Parliament on 13 July 1990. This was an Act on the Privatisation of State-Owned Enterprises.<sup>12/</sup> By this law, Poland

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<sup>12/</sup> Journal of Laws No. 51 of 1990.

introduced a programme of a range and scale unknown in any other country. It means a basic change in the economic and political system of the country, leading to the re-establishment of a genuine class of private owners, which disappeared in Poland after the Second World War.

The Act regulates two types of privatisation: privatisation of large-scale enterprises and so-called small privatisation of small- and medium-size enterprises as well as of trade and services.

In accordance with the provisions of Article 1 of the Law, privatisation is based on offering to third parties shares, stocks or assets of a state-owned enterprise or the enterprise as a whole.

A state-owned enterprise can be transformed into a private company or wound up on the basis of this Act. The first way of privatisation under Article 1 applies mainly to large and rather efficient state-owned enterprises. As this paper deals with regional economic cooperation, a discussion is not called for.

The second way, however, asset liquidation, relates to small and medium enterprises, very often established by local authorities. According to Article 37 of the Act, a Founding Body (Minister or one of the voivods) after obtaining the consent of the Minister of Ownership Changes, may rule that a state-owned enterprise be wound up in order to: (1) sell its assets, or integrated parts of the enterprise's assets; (2) use the enterprise's assets or integrated parts of the assets as a contribution to a company; (3) allow the enterprise's assets or integrated parts of its assets to be let, against payment, for a specific time.

The decision to liquidate is made by the Founding Body on its own initiative or at the request of the Employee Council of the enterprise. The Employee Council and the Executive Director of the enterprise have the right to challenge the decision of the Founding Body in accordance with the provisions of the Act on state-owned enterprises.<sup>13/</sup>

The enterprise may be wound up in order to allow its assets to be let, against payment, if: (1) a motion for liquidation and to allow the assets to be let, against payment, is adopted by the general assembly of the employees; (2) the permission to let these assets is to the benefit of a company; (3) a majority of the employees of the liquidated enterprise join the company; (4) only natural persons are partners in this company, unless the Minister of Ownership Changes determines otherwise; (5) the amount of share capital or equity capital of the company shall not be less than 20 per cent of the joint value of the founding fund and the fund of the liquidated enterprise.

The letting of assets against payment shall be based on a contract concluded in the name of the Treasury by the Founding Body. In such a contract it can be determined that the user has the right to purchase those assets which he is using.

On the basis of an auction, public offer or negotiations after a public invitation, the Founding Body can conduct the sale, or allow them to be let against payment.

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<sup>13/</sup> Journal of Laws No. 35 of 1987, No. 10 and No. 20 of 1989 and No. 17 of 1990.

In order to assure that the assets of the enterprise will be managed better after privatisation than before and will be used more effectively, the Founding Body before making the decision on privatisation by means of asset liquidation shall appoint a team of experts for the purpose of preparing a financial analysis of the enterprise, a legal analysis of the enterprise's assets and an evaluation of the assets.

Article 45 of the Act is of particular relevance to the present discussion. It stipulates that the provisions of the Act apply, to the extent relevant, to the privatisation of municipal enterprises, subject to the following provisions:

- The powers of the Minister of Ownership Changes, as well as of the Founding Body, prescribed in the Act, shall be exercised in respect of municipal enterprises by the Municipal Council or the Council of the Association of Municipalities;
- On the basis of an agreement with the Minister of Ownership Changes, the Municipality or the Association of Municipalities may transfer the implementation of all activities associated with privatisation of municipal enterprises to the Minister. The conclusion of their agreement requires a resolution of the municipal representatives or the representatives of the Association of Municipalities.

In the interest of the national economy, and to make privatisation more attractive, especially to foreign investors, the Minister of Finance, at the request of the Minister of Ownership Changes, may exempt a company from income tax and tax on wage increases for a period of three years from the date a foreign party acquires shares belonging to the Treasury, or acquires shares issued by a company owned exclusively by the Treasury.

#### **6. The Polish tax system**

Taxes are subject to several legal regulations. There are a number of taxes related to economic activity. The simplest form of taxation is that of the natural person engaged directly in economic activity. It is the so-called "tax card" and comprises both turnover and income taxes. The rate varies from locality to locality and depends on the kind of business and number of employees (with a maximum of five).

Corporate taxpayers are subject to corporate income tax, assessed on the basis of the company's income during the year subject to taxation. It equals 40 per cent of the tax assessment basis. It is possible to reduce the tax assessment basis and therefore the tax for certain investments or charity itself.

Turnover tax is collected on every product and on services and trade. The rate of the tax is 20 per cent in case of production and in other cases 5 per cent of the assessment basis, which is the business turnover based on invoices. The Council of Ministers may introduce different rates for specific commodities: export commodities, e.g., are free of tax.

Wage tax is paid by every company. Similarly, a tax on wage increase is paid by every company which does not apply anti-inflationary wage policy. It is collected for excessive wages. Foreigners and companies with foreign participation are not subject to such taxation.

Agricultural tax (farming tax) is collected from the owners of farming land. It depends on the size of the land and the quality of the soil. It can not exceed 40 per cent of the farmer's income.

There are also a number of other, local taxes and duties, such as real estate tax, road tax, etc. which depend on the location of the company.

To simplify the existing tax rules and to guarantee an equal treatment for all tax payers, a reform of the existing tax system was planned in 1991. The proposed regulations are similar to those existing in market economy countries.

Until the universal tax on goods and services (VAT tax) is introduced, the turnover tax exists in a modified form.

Imported goods are charged with this tax at the border by the customs office. All importers will have to pay it, with the exception of the socialized economic units. The rates of the turnover tax are the same as for domestic production. The modified rules of the turnover tax collection are uniform for all sectors: private, state and co-operative.

In the first half of 1992 a tax on goods and services will be introduced which will replace the turnover tax. The idea behind this tax is a uniform and universal taxation of sales and imports of goods and services. Different tax rates will be applied:

- 18 per cent - standard rate,
- 5 per cent for processed foodstuffs, medicines, books, magazines and house building,
- zero rate for some means of production for agriculture (artificial fertilizers, pesticides, industrial pasture).

Exported goods will be exempted from this tax.



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**2. LIST OF PAPERS PRESENTED AT THE WORKSHOP**

Antoni Kuklinski (a), Regional Development Corporations. An Idea for Central and Eastern Europe.

Marian Geldner, Jan Woroniecki, "Promoting Regional Development in Central and Eastern Europe".

Bohdan Gruchman, Comments on the Paper: "Promoting Regional Development in Central and Eastern Europe".

Zbyszko Chojnicki, "Regional Development Corporations and the Restructuring of Regional Economies".

Tadeusz Markowski, "A Few Remarks on Promotion of Regional and Local Corporations Based on International Experience".

Ronald S. Ross, "Secrets of Performance at the Grassroot Level".

Antoni Kuklinski (b), "New Europe - Images and Realities", International Research Programme.

Ryszard Piasecki, "Regional Policy - European Perspective".

Georges Rencki, "European Regional Development Policy. Some Lessons for Central and Eastern Europe".

Antoni Kuklinski (c), "A New Industrial Policy for Post-Communist Countries" (A note for discussion).

Arthur R.P. Wielkoszewski, "Economic Development Zones".

Oliver Freeman (a), "Establishing Regional Development Corporations in East-Central Europe. Some Practical Considerations".

Slawomir Gzell, "Limits of Regional Development: A Tool of Environmental Planning".

Jolanta Swiatkowska, "The Service Sector, its Role in Regional Development and Regional Policies".

Antoni Kuklinski (d), "Restructuring of Polish Regions as a Problem of European Co-operation".

Bohdan Jalowiecki, "Regional Restructuring as an European Co-operation Issue".

Oliver Freeman (b), "Political Stimulation to Economic Regional Development in Western Europe: A Model or a Lure for Contemporary Poland?".

Michel M. Kostecki, "Marketing a Region as a Business Centre: Lessons from the Industrial Promotion of Neuchâtel".

Dan Brennan, "Regional Development in Ireland - Experience and Prospects".

Elblag Region as a Potential Location of Foreign Investment.

Michel Marbot, "RDCs and the Development of Poland: The Malbork Makarony Plant Case".

Ryszard Kowalczyk, Donald Abbott, "North-Eastern Region of Poland Voivodships Bialystok, Lomza, Suwalki as a Possible Site for the Creation of a Regional Development Corporation".

Tomasz Winnicki, "Lower Silesia - Potential Macrcregion of European Dimension".

Jerzy Pawel, Gierogica, Grzegorz Gorzelak, "Competition "Municipality 2000": Background, Developments, Perspectives".

Lucjan Lukasik, "Characteristics of the Major Polish Legislations Related to the Global and Regional Economic Activity with Foreign Participation".