Political Economy of Special Economic Zones Location in Poland

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Abstract

In this paper we study the role of political and economic factors affecting the location of Special Economic Zones (SEZs) that were established in the second half of the 1990s in Poland with the aim of promoting long-run economic development of the lagging behind regions. The obtained empirical results indicate that SEZs were not necessarily established in the poor regions but rather in regions with a higher bargaining power of the ruling political party, having controlled for a number of other regional characteristics. Therefore, it can be argued that the SEZs became a subject of political lobbying and instead of becoming an important component of a regional policy aimed at providing solid foundations for a long-run development of lagging behind regions, in accordance with the principles World Trade Organization and European Union, they were rather treated as a short-run instrument of reaping political gains in regions that were undergoing industrial restructuring and were badly affected by high unemployment at the beginning of the transition in Poland. This means that in contrast to its original aim that the SEZ Program of the 1990s in fact contributed to widening the economic disparities between particular regions of Poland instead of reducing them.

Key words: political economy, Poland, Special Economic Zones

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Introduction

- Transition from to the market economy to different extent affected various regions of Poland. As a result the government was expected to remedy negative effects of economic transition.

- The elections held in Poland on September 19, 1993 brought to power Democratic Left Alliance (*Sojusz Lewicy Demokratycznej*). To satisfy these demands DLA politicians came up with the idea of creating a number of Special Economic Zones (SEZ) located in selected regions of Poland.

- This idea materialized in the legal act of October 20, 1994 which along with its subsequent amendments constituted the legal basis for the creation of SEZs in Poland. The act specified the general principles of creating SEZs but did not specify any formal criteria regarding the localization of SEZs.

- According to the act SEZ were to be created in order to promote economic development of selected regions of the country.

Political economy literature

Researchers often argue that political representation matters for spatial distribution of regional aid.

- Persson and Tabellini (2000) argue that poor regions have a natural set of reasons to be politically powerful and sometimes because of their relatively small size.

- Robert-Nicoud and Sbergami (2004) emphasize political homogeneity of rural regions. In a nutshell their line of reasoning asserts that rural populations are more homogenous politically.

- Other potential explanations in the theoretical literature include legislative overrepresentation and legislative bargaining.

Goal and Structure

The main goal of the study is to evaluate empirically the significance of political and economic factors that determined the spatial location of SEZ in Poland.

The structure is as follows:

- provide a brief overview of the program of SEZ in Poland during the 1995-1997 period under the rule of DLA.
- discuss the WTO and EU criteria for the admissibility of regional aid and investigate whether the location of the SEZ was in line with them.
- describe research methodology and statistical data
- verify empirically the significance of political and economic factors in the location of SEZs in particular regions of Poland.
- discuss our estimation results obtained from the probit regression.
- summarize and conclude.

Overview of the history of the SEZ Program in Poland

The first ever established SEZ in Poland was EURO-PARK Mielec created by the regulation of the Council of Ministers on September 5, 1995. This zone was created primarily with the aim of attracting foreign investors to it, with particular emphasis placed on the restructuring of the WSK-PZL Mielec, although preferential treatment was also applied equally to domestic investors. Two other zones were created in 1996: Katowicka SEZ on June 18 and Suwalska SEZ on June 25. The program of creating SEZ in Poland reached its peak in 1997, when 14 new zones were created. In the first half of 1997 years three zones were set up: Legnicka, Łódzka and Wałbrzyska on April 15. In fall 1997 11 additional zones were created: Częstochowska, Kamiennogórska, Kostrzyńsko-Słubicka, Starachowicka, Słupska, Tarnobrzeska, Tczewska, Warmińsko-Mazurska and Żarnowiecka on September 9, and Krakowska and Mazowiecka on October 14. The history of the SEZ Program is summarized in Table 1 while the spatial location of currently operating SEZ in Poland is shown in Map 1.

Table 1. Location of SEZ in Poland.

Zone	Location		Year of	
	Former voivodship	Current voivodship	creation	liquidation
Mielecka	Rzeszowskie	Podkarpackie	1995	functioning
Katowicka	Katowickie	Śląskie	1996	Functioning
Suwalska	Suwalskie	Podlaskie	1996	Functioning
Legnicka	Legnickie	Dolnośląskie	1997	Functioning
Wałbrzyska	Wałbrzyskie	Dolnośląskie	1997	Functioning
Łódzka	Łódzkie	Łódzkie	1997	Functioning
Kamiennogórska	Jeleniogórskie	Dolnośląskie	1997	Functioning
Kostrzyńsko-słubicka	Gorzowskie	Lubuskie	1997	Functioning
Słupska	Słupskie	Pomorskie	1997	Functioning
Starachowicka	Kieleckie	Świętokrzyskie	1997	Functioning
Tarnobrzeska	tarnobrzeskie	Podkarpackie	1997	Functioning
Tczewska	Gdańskie	Pomorskie	1997	Functioning as Pomorska SEZ since 2001
Warmińsko-mazurska	olsztyńskie	Warmińsko-mazurskie	1997	Functioning
Żarnowiecka	Gdańskie	Pomorskie	1997	Functioning as Pomorska SEZ since 2001
Krakowska	krakowskie	Małopolskie	1997	Functioning
Częstochowska	częstochowskie	Śląskie	1997	2001
Mazowiecka	warszawskie	Mazowieckie	1997	2001

Map 1. Location of currently existing SEZ and their subzones in Poland.

WTO Criteria for admissibility of regional aid and location of SEZ in Poland

- A few months before the establishment of the first SEZ, Poland has become the member of the World Trade Organization (WTO).

- By adopting the provisions of the Agreement establishing the WTO made 15 April 1994, Poland made the commitment to respect the rules on subsidies and countervailing measures.

- This agreement was ratified by Poland and entered into force on 1 July 1995 (Dz. U. No. 98, 1995).

- In light of the above provisions, SEZs could be treated as areas of subsidies that are not subject to sanctions if they are located in underdeveloped areas.

- In accordance with Article 8 (2) (b) at least one of two criteria must be fulfilled for the region to be considered an economically underdeveloped area: GDP per capita does not exceed 85% of the national average and/or the unemployment rate in the region must be at least 110% of the national average.

EU Criteria for admissibility of regional aid and location of SEZ in Poland

- Poland was also bound by the EU rules that were adopted as the result of the so-called Europe Agreement signed by Poland on 16 December 1991, which entered into force on 1 February 1994 (OJ no. 60, 1992).

- Article 63 (1) (iii) of the Europe Agreement stated that all public aid which distorts or threatens to distort competition by favoring certain undertakings and the production of certain products was regarded not compatible with the proper functioning of the Agreement as long as this aid exerted a negative impact on trade relations between Poland and the EU.

- Any conduct that was inconsistent with this Article was to be assessed on the basis of the provisions regarding the control of subsidies that had been included in the Treaty of Rome in 1957 establishing the European Economic Community, and then repeated in the Treaty on the European Union in 1993.

Table 2. Evaluation of SEZ location against the EU and WTO criteria for state aid

Former voivodship	GDP per capita in relation to national average 3 years before establishment of SEZ	Unemployment rate in relation to national average 3 years before establishment of SEZ	GDP per capita below 85 % of national average	Unemployment rate above 110 % of national average
rzeszowskie	87.0	109.4	No	No
katowickie	113.8	62.6	No	No
suwalskie	68.7	182.0	Yes	Yes
legnickie	115.4	126.4	No	Yes
wałbrzyskie	73.4	167.4	Yes	Yes
łódzkie	105.1	122.0	No	Yes
jeleniogórskie	86.9	130.2	No	Yes
gorzowskie	86.7	133.9	No	Yes
słupskie	72.3	190.5	Yes	Yes
kieleckie	73.6	114.2	Yes	Yes
tarnobrzeskie	76.3	99.9	Yes	No
gdańskie	106.7	86.5	No	No
olsztyńskie	79.8	174.4	Yes	Yes
krakowskie	110.2	50.8	No	No
częstochowskie	82.5	89.9	Yes	No
warszawskie	186.3	36.0	No	No

Table 3. SEZ main indicators as of December 31, 2013

Group/Zone	Area (ha)	Investment (PLN millions)	Employment
Group I			
Mielecka	1 299.4	6059.0	23 562
Katowicka	2 004.8	21109.5	52 575
Pomorska	1 380.6	7862.2	15 394
Krakowska	628.5	1964.4	16 779
Total	**5313.3**	**36995.1**	**108310**
Group II			
Legnicka	1 059.3	6302.4	10 237
Kostrzyńsko-słubicka	1 563.9	5312.1	22 630
Łódzka	1 290.8	10815.5	28 882
Kamiennogórska	367.1	1909.1	4 864
Total	**4281.1**	**24339.1**	**66613**
Group III			
Wałbrzyska	2 212.2	16342.8	36 164
Starachowicka	612.9	1744.8	6 380
Tarnobrzeska	1 632.3	7575.5	27 230
Suwalska	342.8	1608.2	5 425
Warmińsko-mazurska	984.8	3303.8	13 063
Słupska	824.4	1231.9	3 515
Total	**6609.4**	**31807**	**91777**
Grand Total	**16 203.8**	**93141.2**	**266 700**

Source: Ministry of Economy.

Research methodology

To test empirical hypothesis that the location of SEZs in Poland was also determined by the political factor we use a simple probit regression of the following form:

$$\Pr(SSE_i = 1) = F(\alpha PR_i, X_i\gamma_i),$$

where:

$SSE_i = 1$ if in i-th region SEZ was created during the period 1995-1997 for $i = 1, ..., 49$, otherwise $SSE_i = 0$;

PR_i is the measure of political representation of i-th region, α is the parameter on the measure of political representation that needs to be estimated, X_i is the vector of control variables describing economic and social characteristics of i-th region, and γ_i is the accompanying vector of the parameters that needs to be estimated.

Statistical data

The main explanatory variable:

The measure of political representation in a specific region. This variable is defined as the number of politicians from the ruling party DLA that were elected from the region in parliamentary elections that took place on September 19, 1993. As a result of these elections a total of 460 members of Sejm were elected of which 391 were elected in 52 election districts and 69 were elected from 15 election lists covering the entire country. These 52 districts were assigned to 49 previous voivodships. This meant that in the case of Warsaw voivodship DLA politicians elected in districts Warsaw 1 and Warsaw 2 were added up. Similarly, in the case of Katowice voivodship DLA politicians elected in districts Sosnowiec 15, Katowice 16 and Gliwice 17 were added up. In addition, 26 DLA politicians elected from the list covering the entire country were assigned to specific regions. The data on the results of parliamentary elections were obtained from *Monitor Polski Dziennik Urzędowy Rzeczypospolitej Polskiej nr 50*, October 4, 1993.

Statistical data

Control variables:

Regional characteristics that include: regional GDP per capita, regional unemployment rate, the rate of regional employment growth, employment rate, population density, urbanization, the number of crimes, the share of industry and agriculture in total employment, the secondary school attainment index and the number of students. These characteristics were included in the previous study by Cieślik (2003) but the majority of them turned out not to be statistically significant.

Data concerning the regional characteristics come from Regional Statistical Yearbooks (Rocznik Statystyczny Województw) published on the annual basis by the Central Statistical Office in Warsaw. Definitions of particular explanatory variables and their summary statistics are reported in Table 4.

Table 4. Explanatory variables and their summary statistics

Variable	Measure	Average value	Standard deviation	Min value	Max value
PR	Number of DLA politicians elected in 1993 elections	3.4	3.4	1	20
GDPpercapita	Average for 3 years prior to establishment of SEZ expressed in PLN constant 1997 prices	8488	2551.4	5814.2	20560.1
Unemployment rate	Average for 3 years prior to establishment of SEZ expressed in %	17	5.1	5.3	29.3
Employment growth	Average for 3 years prior to establishment of SEZ expressed in %	-0.7	2.5	-5.0	6.8

Estimation results

Table 5. Estimation results (z-stats)

variable	(1)	(2)	(3)
PR	0.083***	0.107***	0.099***
	(2.59)	(2.90)	(2.62)
unemployment		0.052*	0.075**
		(1.87)	(2.42)
GDPpercapita		-0.000	-0.000
		(1.41)	(1.08)
Employmentgrowth			0.196***
			(3.31)
Constant	-1.423***	1.676**	-2.233***
	(7.67)	(2.33)	(3.31)
Pseudo R2	0.057	0.100	0.199

Note: *** denotes statistical significance at the 1 per cent level, ** denotes statistical significance at the 5 per cent level, * denotes statistical significance at the 5 per cent level.

Conclusions

- The political representation variable was an important determinant of the location of the SEZ in Poland.

- The empirical results also indicate that SEZs were located in regions with a high rate of unemployment, but which experienced high growth of employment prior to their creation.

- The GDP per capita variable was not statistically significant.

- The SEZs became an instrument of industrial restructuring in regions badly affected by high unemployment at the beginning of economic transition, instead of becoming a component of a regional policy aimed at providing foundations for a long-term development of economically underdeveloped regions, in accordance with the World Trade Organization and the EU principles.