

EFFECTS OF OPERATION OF WARMIA AND MAZURY SPECIAL ECONOMIC ZONE

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Abstract

The paper is an attempt at determining the development of investment projects and creation of new jobs as an effect of operation of Warmia and Mazury Special Economic Zone. The analysis also covered the motivations that influenced the entrepreneurs in choosing the zone and their influence on the local environment. The Investment projects and jobs created in the zone show an increasing trend. Considering investments planned for 2005 it should be pointed out that they rank the zone in the first place among investments of the other zones in Poland. All entrepreneurs took their decisions concerning positioning their investment projects in the zone mainly as a consequence of tax deductions offered. As a result of establishing enterprises within the zone small local service companies established cooperation with them; beside that new companies are also established in the municipalities where the zone is situated or in the neighboring municipalities aimed at establishing cooperation with companies positioned within the zone.

EFEKTY FUNKCJONOWANIA WARMIŃSKO-MAZURSKIEJ SPECJALNEJ STREFY EKONOMICZNEJ

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Słowa kluczowe: specjalne strefy ekonomiczne, rozwój regionalny, przedsiębiorczość.

Abstrakt

W pracy podjęto próbę określenia rozwoju inwestycji i powstawania nowych miejsc pracy jako efektów funkcjonowania Warmińsko-Mazurskiej Specjalnej Strefy Ekonomicznej. Analizie poddano również motywy, jakimi kierowali się przedsiębiorcy, wybierając tę strefę, oraz ich wpływ na lokalne otoczenie. Podejmowane inwestycje i powstające miejsca pracy w strefie mają trend wzrostowy. Biorąc pod uwagę inwestycje zaplanowane na 2005 r., należy wskazać, że plasują one strefę na pierwszym miejscu wśród inwestycji pozostałych stref w Polsce. Wszyscy przedsiębiorcy decydują o ulokowaniu inwestycji w strefie podjęli głównie ze względu

na oferowane ulgi podatkowe. Małe lokalne firmy usługowe nawiązały z przedsiębiorstwami powstałymi na terenie strefy kooperację, ponadto powstają również nowe firmy w gminach, w których jest zlokalizowana strefa, lub w gminach ościennych w celu podjęcia współpracy z przedsiębiorstwami ze strefy.

Introduction

Special economic zones (SEZ) are areas with strictly defined borders within which special legal regulations are in force aiming at creating attractive conditions for conducting business activities. The zones are to contribute mainly to development of small enterprises and a variety of services and, as a consequence, to limiting unemployment. Besides creating new jobs, the additional benefit is the inflow of new technologies together with the investments as well as the offer of investors for cooperation, which creates possibilities of improving own technologies. The task of the zones is to bring in the capital and investments offering stimuli for development of business activities in local and regional scale (KISIEL, IWANKIEWICZ 2002, p. 58, LIZIŃSKA, KISIEL 2005, p. 127, MRÓZ 2000, p. 160).

Operation of the zones was to be a factor supportive for acceleration of economic development in regions where the processes of industry restructuring required additional support. The conditions for operating business activity within a SEZ form a motivation for positioning investment projects in a given area. The SEZ played a particularly important role in the regions previously dominated by sectors of economy maladjusted to the market and requiring global restructuring (GROSSE 2004, p. 7, BRĘCZEWSKA 1997, p. 160-161).

On the other hand a question can be asked - is economic activation a consequence of the zone influence only? Three practically possible consequences could be analyzed here. The first, of neutral nature, was called the neutral run. It occurs when the required changes, i.e. the growth, would appear independent of existence of the zone. It can be concluded that in that case establishment of the zone was a redundant element of regional policy. On the other hand, the consequences of establishment of a zone could be negative for the economy of the region. That happens in case when the effects of dislodging and substitution appear. The effect of substitution occurs when as a result of commencement of operation of an entity in the zone its liquidation or limitation of its operations in another location takes place. The problem appears when the operational costs outside the zone are higher than those incurred by the entity in the zone maintaining the same level of business activity. The effect of dislodging takes place when lower operational costs in the zone allow achieving the competitive advantage, which leads to dislodging from the market companies representing a similar character of activity but operating outside the zone (BAZYDŁO, SMĘTKOWSKI 2000, p. 52).

Objective and methodology of studies

An attempt at determining the changes in the level of investments and their industry structure in Warmia and Mazury Special Economic Zone was the main objective of the study based on secondary data. The direct studies attempted at determining: the factors that determined the decisions of entrepreneurs concerning positioning of investment projects in that zone, the level of use of licenses granted for conducting business in the zone, changes that take place in enterprises resulting from business operated and influence on the local environment of enterprises. The questionnaire and managed interview were the primary source of data. The questionnaire was targeted at companies operating within the Warmia and Mazury Special Economic Zone and completed by applying the method of direct interview (11 companies participated in the study). The managed interview was conducted in 45 companies selected at random conducting their operations within municipalities where the Special Economic Zone was established and municipalities in their immediate vicinity.

The questions of the managed interview were formulated in a way allowing obtaining of opinions of entrepreneurs concerning problems such as the influence of the SEZ operation on the operations of a given enterprise, barriers to development of enterprise in the zone and mutual relations between companies situated in the zone and outside it.

Results of studies

Similar to the majority of special economic zones in Poland, also in the Warmia and Mazury Special Economic Zone (W-M SEZ) the outlays increased from year to year. The Warmia and Mazury Special Economic Zone is characterized by a relatively balanced increase of investment outlays. It should be highlighted, nevertheless, that the largest increment occurred at the turn of 2002 and 2003; that was an increase by PLN 36 million. The lowest increase of investments amounted ca. PLN 17 million during the years 2003–2004. The investment outlays in the W-M SEZ are presented in figure 1.

The structure of investments by industry in the W-M SEZ is entirely different from the structure of outlays by industry in Polish special economic zones as a whole. The data in figure 2 show the investment outlays in PLN million by industry in the W-M SEZ.

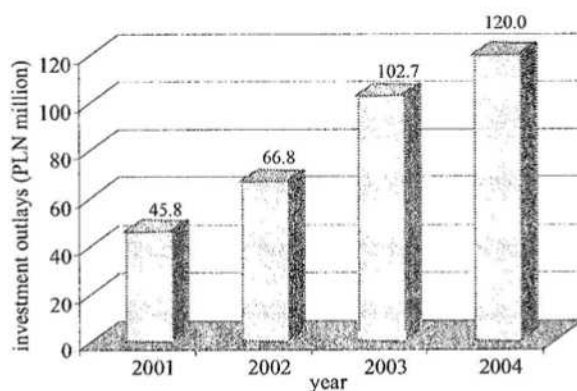


Fig. 1. Accrued investment outlays in the W-M SEZ in PLN million during the years 2001–2004

Source: Own work based on the ME&L (2005).

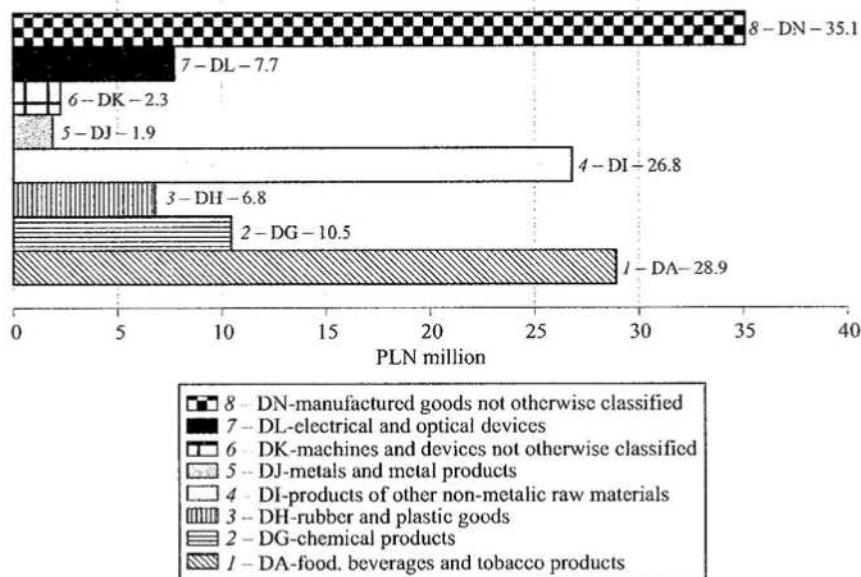


Fig. 2. Investment outlays in PLN million in W-M SEZ by industry in 2004

Source: Own work based on <http://www.mgip.gov.pl/>

The largest outlays, exceeding PLN 35 million, were made in the segment of manufactured goods not otherwise classified. Almost PLN 29 million was invested in the food, beverages and tobacco products industry. The automotive industry had the largest share in investment outlays in special economic zones in Poland treated as a whole. Around PLN 27 million

was invested in manufacturing of goods of metals and PLN 10.5 million on manufacturing of chemical products. The metal goods sector enjoyed low interest from investors in the province.

According to investments planned for 2005, the W-M SEZ won the top position in Poland. The data presented in figure 3 present the structure of investments in individual zones planned for 2005. The planned value of investments in W-M SEZ amounted PLN 1434.7 million while in one of the largest Polish zones – Katowice zone – that amount was PLN 880 million (fig. 3). The success of W-M SEZ was determined by two large projects – extension of the factory belonging to the French Michelin Group for which a sub-zone in Olsztyn was established and the project by Korean LG in Mława estimated a Euro 90 million. The zone also issued 7 licenses for commencement of operations for smaller companies. The investments will allow creating almost 3,000 jobs in the region.

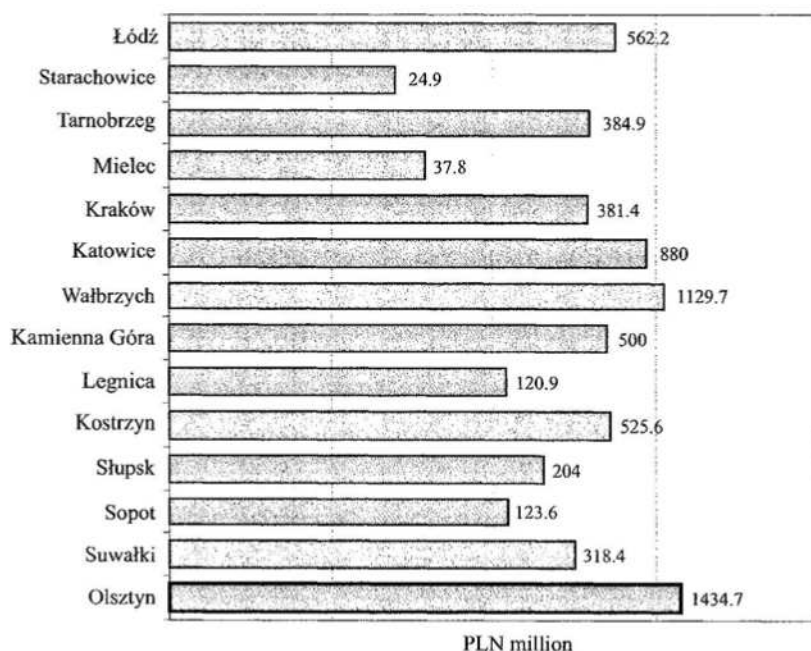


Fig. 3. Ranking of the SEZ according to investment projects planned for 2005 (PLN million)
Source: Own work based on the data of the WMSEZ (www.wmse.com.pl).

The results of own studies, however, show that establishment of the Special Economic Zones had moderate influence on development of enterprise in a given region. Despite issuance of licenses for operation in the zone not all the licensed entities have started their operations. The licenses of over 75% of companies that had obtained them had been withdrawn. That proves low attractiveness of the zones resulting from the statutory

requirement of making high levels of investment outlays that pose a real barrier for small and medium enterprises. Public aid in the form of exemption from income tax is insufficient as an instrument stimulating enterprise and motivation to commence operations in a zone. Additionally, withdrawal of municipalities from exemptions from and deductions in the real property tax limits the activity of enterprises. Since the beginning of operation of the zone only 23 entities have operated in the Warmia and Mazury Special Economic Zone although the number of licenses issued is three times higher.

Entrepreneurs have taken the decisions to position the enterprise in the Special Economic Zone mainly because of the tax deductions offered (fig. 4). Specific geographic location at the eastern border was the additional stimulus to operate in the Warmia and Mazury Special Economic zone.

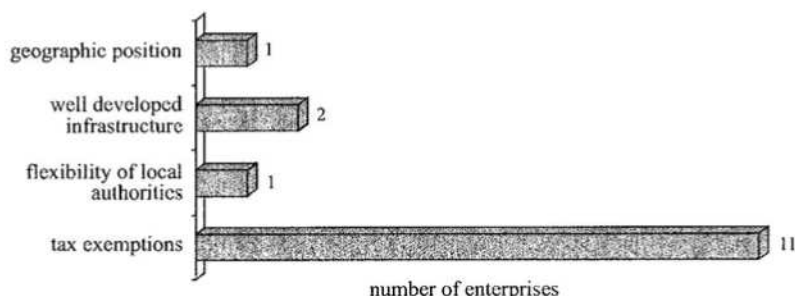


Fig. 4. Criteria of choosing the Warmia and Mazury Special Economic Zone by investigated enterprises

Source: Own studies.

The zone has no significant influence on decreasing the numbers of unemployed in the region. 2950 people employed in enterprises operating within the Warmia and Mazury Special Economic Zone represent is a small number compared to the scale of needs of the region and does not solve the problem of high unemployment in Warmia and Mazury. On the other hand, Warmia and Mazury Special Economic Zone has a significant influence on limiting unemployment in small municipalities within which it is located. Employment in the W-M SEZ increases year after year, which is related to the increasing level of investment outlays in Warmia and Mazury province as the plans of investments in the SEZ are linked to the level of employment.

The Warmia and Mazury Special Economic Zone, despite a relatively low proportion of enterprises using the licenses granted to them for commencement of operations supports inflow of investments as a consequence of the level of outlays required to start operations. The positive effect of existence of the zone also is that 7 respondent companies expanded their activities. Expanding the operations in the zone did not involve a change of the profile of operations of any respondent company. It resulted from increase in investments leading to an increase in production and employment.

In four respondent companies relocation of production to the zone resulted in development of those companies.

Existence of the Special Economic Zone influences development of municipalities within which the zone functions, indifferent of the size of the municipality, however, in the sub-zones concentrating a larger number of companies (Szczytno, Dobrze Miasto) those effects are more visible. Companies positioning their investments in the zone mainly increase the dynamics of their social and economic development, although not always; as a consequence of the policy of the SEZ managing body that is mainly achieved through tax revenues.

Some companies from outside the zone and the local community also benefit from existence of the Special Economic Zone. As a consequence of establishment of companies in the zone small local service companies acquire new cooperation partners and that type of cooperation relations is the main relation type between companies operating within and outside the zone. Some new companies are also established in the municipalities where the zone is located and in the neighboring municipalities to embark on cooperation with companies operating within the zone.

Sixteen respondent companies operating outside the zone expressed negative opinions concerning establishment of the zone in the municipality, 17 companies did not experience any effect of the zone and only 12 expressed positive opinions. The respondents based their negative and neutral opinions on the fact that their companies did not achieve any benefits from establishment of the zone in their municipality. In some cases the companies from the zone entered the sales markets of companies from outside the zone. The investigated entities were small companies and they were unable to compete with companies from the zones. The positive opinions on the other hand were based on the existing cooperation between companies from the zone and outside it. That cooperation involved providing services for business entities positioned in the zone (fig. 5).

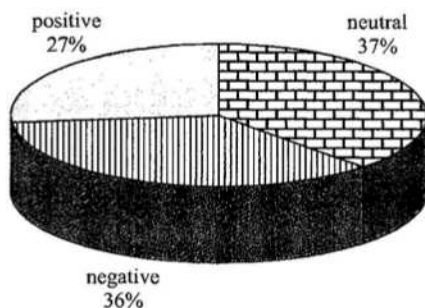


Fig. 5. Influence of the Warmia and Mazury Special Economic Zone on operation of companies from outside the zone

Source: Own studies

According to the respondents, establishment of the Warmia and Mazury Special Economic Zone gave more benefits to the residents of the municipalities than the companies. Those benefits had direct and indirect influence on the residents. Direct as some of the unemployed found employment in newly established companies. Indirect, as towns and municipalities where the zone operates changes their looks. Many streets have been repaired, new sidewalks were made for use by the local population; public utility buildings and premises are refurbished.

Summary and conclusions

The process of social and economic system transformation in Poland and introduction of the market economy revealed many problems inherited from the former system, including the scale of hidden unemployment. The necessity to close the key employer enterprises accelerated the steps taken by the government aiming at stimulation of economies and establishment of new jobs. Special Economic Zones play an important role in that process. Their goal was to stimulate economic activities in some regions through restructuring with participation of public institutions and funds. Involvement of external strategic investors, their capital and technologies also played an important role in the process. The main idea for establishment of Special Economic Zones was to mitigate the structural unemployment in selected regions of the country by placing new investment projects there using the package of financial incentives as motivation.

On the basis of analyses of secondary and primary data the following conclusions have been formulated:

1. In Warmia and Mazury Special Economic Zone a low level of use of the licenses for operation in the zone has been recorded (23 companies while the number of licenses issued was almost three times larger). Despite that the trend of increasing the level of investments (from PLN 45.8 million in 2001 to PLN 1434.7 million in 2005) and number of jobs should be noticed. Considering the investment projects planned for 2005 the W-M SEZ reached the top position in the ranking of SEZ in Poland according to the level of investments acquired.
2. Although public aid in the form of exemption from income tax is not the only and sufficient instrument stimulating enterprise in the zone it should be noticed that the decisions on positioning enterprises in the Warmia and Mazury Special Economic Zone were taken by all respondent entrepreneurs (11) mainly for the tax deductions offered.
3. W-M SEZ influences development of all municipalities within which it operates, although according to the respondents the effects of zone operations are best experienced in sub-zones Szczytno and Dobrze Miasto, where the largest numbers of companies are positioned.

4. Some companies from outside the zone and the local community also benefit from existence of the Special Economic Zone. As a consequence of establishment of companies in the zone small local service companies acquire new cooperation partners and that type of cooperation relations is the main relation type between companies operating within and outside the zone. Some new companies are also established in the municipalities where the zone is located and in the neighboring municipalities to embark on cooperation with companies operating within the zone.

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