Impact of the EU accession process on Polish regions

Polish economists have no doubts that accession to the EU would have varied impact on the development of regions. Some of the regions are well prepared to use the benefits and face the challenges of the EU single market, while others may continuously stay at the periphery. One of the most significant challenges for Polish regions upon accession would be the ability to withstand competitive pressure from the EU.

Based on the experience of the EU regional policy, the European Commission defined several key factors of a region's success such as the structure of economic activity (concentration of employment in market services and/or manufacturing); the skills of the work force and its educational level; regional accessibility and physical infrastructure; extent of innovative activity; and institutional capacity (European Commission, 2000a). Additionally, an important indicator for Poland could be the geography, volume and structure of regional foreign trade. It can be assumed that a region would be better placed to join the EU single market if it has a relatively big volume of exports to the EU, most of which is taken by advanced technology products. In this study, the comparative analysis of Polish regions is based on structure of economy, foreign trade, innovative activity, and institutional capacity.

Structure of economy

The structure of economic activity in Poland differs from region to region. The eastern periphery is characterized by a large share of employment in agriculture, forestry and fishing (Table 2).

Table 2. Employment in agriculture, hunting, forestry and fishing in Polish regions in 2001.

Regions	**Employment in agriculture, hunting, forestry and fishing, % of total full-time employed**
POLAND	**19**
DOLNOŚLĄSKIE	10
KUJAWSKO-POMORSKIE	19.7
LUBELSKIE	38
LUBUSKIE	10.2
ŁÓDZKIE	17.2
MAŁOPOLSKIE	24.8
MAZOWIECKIE	20.4
OPOLSKIE	20
PODKARPACKIE	30.3
PODLASKIE	36.4
POMORSKIE	8.6
ŚLĄSKIE	5.3
ŚWIĘTOKRZYSKIE	30.3
WARMIŃSKO-MAZURSKIE	14.3
WIELKOPOLSKIE	19.3
ZACHODNIOPOMORSKIE	6.3

Source: Modified from Statistical Yearbook (1)

The share of agriculture in total employment is very high indeed. While on average agriculture accounts for 19% of the labor force in Poland, in Podlaskie it is 36.4%, in Swietokrzyskie 30.3%, in

Lubelskie 38%, and in Podkarpackie 30.3%. This is one of the reasons why these regions have the lowest value added in Poland: Lubielskie 68.5%. Podkarpackie 71.1%, Podlaskie 74.3% of the Polish average (Horodenski, 2002).

Reform of agriculture in the eastern peripheral regions has been an important aspect of Polish transformation as this sector has been particularly sensitive in relation to Poland's accession to the EU. This sort of region is a typical objective of the EU regional policy. The experience of the Cohesion countries shows that it has been extremely difficult, even with the use of the EU policies, to enhance the mobility of labor and to shift the labor force from agriculture to industry or services (Armstrong, 2000). The same situation is observed in Poland (Sadowska-Snarska, 2002).

Foreign trade

Poland has a free trade regime with the EU that encompasses most industrial products. Analysis of exports shows that two western regions, Lubuskie and Wielkopolskie, are the most successful in trade with the EU. These regions have, in general, a rather large volume of exports per capita above the average in Poland. Most exports go the EU and furthermore exports contain a big share of high-tech products (Statistical Yearbook (1); Tarkowski, 2003). Pomorskie and Mazowieckie are the leaders in exports per capita and are far above the Polish average. These regions also have a big share of high-tech products in their exports, but most exports go beyond the EU (this indicator is below the Polish average) (Statistical Yearbook (1); Tarkowski, 2003).

The most disadvantaged in terms of exports is the eastern periphery: Podlaskie, Lubielskie, Podkarpackie, Malopolskie. These regions have the lowest volume of exports per capita in the country, very little of which goes to the EU (the lowest level in Poland), and the regions also have the lowest share of high-tech products in their exports (Statistical Yearbook (1); Tarkowski, 2003).

Innovative activity

As mentioned, innovative activity is quite an important indicator to estimate a region's competitive ability because the generation and adoption of innovations is one of the major factors that stimulate economic growth. In statistical terms, innovative activity may be estimated by two main indicators: R&D expenditure per capita and the share of employment in the R&D sector in total employment. Of course, these indicators do not give a full picture of the relative innovative potential of the regions, but they may give an idea of how different regions treat innovations. According to Tarkowski (2003) and Statistical Yearbook (1), the largest R&D expenditure per capita is in Mazowieckie, the capital region. Relatively high indicators are in Lodzskie, Malopolskie, Dolnoslaskie, and Pomorskie. The lowest levels of R&D expenditure are in the interior and the eastern periphery: Opolskie, Swietokrzyskie, Podlaskie, Lubelskie and Podkarpackie (Statistical Yearbook (1); Tarkowski, 2003). The following table shows the relative employment in the R&D sector by region:

Table 3. Regional R&D employment in 2001 as percentage of total employment

REGION	R&D EMPLOYMENT
POLAND	**0.88**
DOLNOŚLĄSKIE	1.01
KUJAWSKO-POMORSKIE	0.60
LUBELSKIE	0.74
LUBUSKIE	0.39
ŁÓDZKIE	0.77
MAŁOPOLSKIE	1.16
MAZOWIECKIE	1.69
OPOLSKIE	0.48
PODKARPACKIE	0.53
PODLASKIE	0.51
POMORSKIE	0.83
ŚLĄSKIE	0.76
ŚWIĘTOKRZYSKIE	0.24
WARMIŃSKO-MAZURSKIE	0.45
WIELKOPOLSKIE	0.92
ZACHODNIOPOMORSKIE	0.62

Source: Statistical Yearbook (1)

As can be seen in the table, the eastern regions have very low levels of R&D employment. This group of regions extends to the western region, Lubuskie, that has one of the lowest indicators in the country, and the south-central region, Opolskie.

Institutional capacity

Tarkowski (2003) made a synthetic estimation of the institutional capacity of Polish regions. It has been recognized by academics and policy-makers, supported by EU evidence and economic theories, that institutional capacity has been one of the most important intangible factors that define the absorptive capacity of the economy, as well as the efficiency of the Structural Fund allocations in general. For example, the implementation of the EU regional projects in Greece was always stumbling over an extremely inefficient bureaucratic system within which the money did not target the most needed areas (Financial Times Surveys, 2000). The highest institutional capacity, according to Polish scholars, exists in the following regions: Zachodnio-Pomorskie, Lubuskie (western Poland), Opolskie and Slaskie (south-western Poland). The lowest institutional capacity is in the eastern part of the country (Podlaskie, Lubelskie, Warminsko-Mazurskie) and in some central regions (Lodzkie and Swietokrzyskie).

In addition to the above indicators, attraction of investments may give another picture of regional performance. In general, FDI has been one of the most important factors of accelerated economic growth in Polish regions. According to Statistical Yearbook (1), the western regions (Lubuskie, Zachodnio-Pomorskie, Wielkopolskie, Dolnoslaskie and Pomorskie) and central regions (Mazowieckie and Warminsko-Mazurskie) have the biggest share of FDI in the regional economy. The lowest levels of FDI are in Podlaskie region; the lowest levels of FDI from the EU are again in the Polish east – Lubielskie and Podkarpackie.

Polish researchers rank the investment attractiveness of the regions as follows:

Region	Comparative investment rank
Mazowieckie, Śląskie	**A**
Wielkopolskie, Pomorskie, Dolnośląskie, Zachodniopomorskie	**B**
Małopolskie, Lubuskie, Łódzkie, Kujawsko-Pomorskie, Opolskie	**C**
Warmińsko-Mazurskie, Podkarpackie, Podlaskie, Lubelskie, Świętokrzyskie	**D**

Source: Tarkowski, 2003

The most attractive for FDI in Poland are the capital region and the western regions. Slaskie has not benefited from significant FDI inflows yet, but may become attractive for investments as it has a developed (though old) infrastructure, a relatively high concentration of labor, and many old factory premises. The eastern periphery has the lowest comparative attractiveness for potential investors.

As the above analysis shows, Poland has regions that are relatively better prepared for the accession and would probably obtain bigger benefits from joining the single market, as well as regions that would probably have more challenges than advantages. The western and southwestern regions along with the capital region have shown the fastest pace of transformation and economic growth. The eastern periphery, Warminsko-Mazurskie, Podlaskie, Lubelskie, Podkarpackie and the central periphery, Swietokrzyskie, may well have difficulties in adapting to the new circumstances of the enlarged EU. These regions have relatively high share of employment in agriculture at the expense of industry and services, the lowest GDP and value added per capita, the lowest levels of trade with the EU, little direct foreign investment (and the lowest investment attractiveness), the smallest share of high-tech exports and R&D expenditure, and the lowest institutional capacity.

The old industrial region, Slaskie, is still not well placed to face the competition from the

EU. Although the major indicators show a rather favorable position in comparison to the other regions, serious structural problems still persist. This region has been acquiring the largest amounts of subsidies in Poland, which helped to slightly increase exports, investment and income levels in recent years (Kozak, 2000). The major exporters are still traditional industries, coal mining and steel production in particular, which would hardly have any significant growth potential after the accession. Polish scholars state that many companies are on the brink of bankruptcy and the privatization process has been very slow (Tarkowski, 2003). It has been a big problem for the government to sell old worn-out factories. A positive trend have nevertheless appeared: a few machine-making investors established their factories in the region and added modern machinery to the traditional structure of exports (Kozak, 2000). Only if this trend is strengthened after the accession, would the region have chances to participate successfully in the EU single market.

In total, the backward regions in Poland comprise around 30% of the country's territory and 34.1% of the population. Widening regional disparities in Poland are an unavoidable consequence of the process of transformation and economic growth. Theories of regional development argue that polarization of economic activity is an inevitable process and convergence in terms of GDP per capita, even if it occurs automatically, would be extremely slow. Krugman's core-periphery concept (Krugman, 1991) and the evidence from the EU member states suggest that inter-regional disparities within the single market have a strong tendency to grow, and Poland would probably be affected by this process as well. In general, the EU accession process has been quite beneficial to the whole country. Until 2002, economic growth occurred in all Polish regions, although its intensity varied from region to region. The difference in pace of economic development was the main reason for widening disparities in the 1990s, although these have not yet become enormous. Accession to the EU would place a strong competitive pressure on the country's economy, and peripheral regions would probably face many more difficulties than before. The competitive capacity of a region would largely define its future economic growth. Polish scholars and policy-makers agree that joining the single market may leave backward regions even more worse off, and a *backwash* effect is more likely to happen after accession than a *spread* effect (Banski, 2002). This means that the periphery would continue to be drained of the most skilled labor force and capital and would therefore permanently lag behind. Given these circumstances, it is still admitted that after joining the EU Poland would have to focus on catching up with the EU member states rather than on combating regional disparities inside the country.

Potential challenges of the EU regional policy

Membership in the European Union will bring Poland one of the most attractive benefits: eligibility for the EU regional policy. The policy is expected to combat growing regional disparities. The structural funds that would be allocated in Poland might amount up to 4% of the country's GDP. The EU money has both economic and political weight and needs to be spent wisely in order to produce positive economic and social effects.

The EU experience shows that the regional policy has been very far from being a perfect weapon against regional inequality. Paradoxically, even though the regional policy by now has a history of 26 years, its rationale and efficiency are still not clear and are always questioned by scholars. Only one thing is apparent: the EU regional policy does not bring any radical changes in the pattern of regional economic growth (Dunford, 2000; Allen, 2000). In addition to ambiguous economic effects, the policy has a strong political content in relations among the member states, between the European Commission and the member states, as well as among the regions within the member states (Allen, 2000). As it appears, the Commission does not have enough power to enforce effective implementation of the regional policy. Latest statistics from the regions shows that two opposite processes have been happening in the last nine years: *convergence* in GDP per capita among the member states and *divergence* in GDP per capita among the regions in the EU (Dunford, 2000). Therefore, the policy has been continuously questioned by some scholars as to whether it should be considered as an economic instrument at all. The experience of the Cohesion countries, Ireland and Greece in particular, shows that the EU structural funds may become merely a catalyst of domestic macroeconomic policies (Financial Times Surveys, 2000; Barry, 2000).

The basic framework of the regional policy cycle in the EU is quite complicated, but in reality it becomes even more confusing. Gradually the linkages and interlacing between three different levels of policy-making (EU, national and regional) increase. As, for example, the Spanish experience shows, this leads to two sets of negative consequences. The first one is quite apparent: non-transparency of decision-making, the resulting lack of political accountability, and corruption. The second consequence is much less evident but very bitter - *the threat of political deadlock* (Amodia et al, 2001).

The principle of partnership, which is one of the rules of the EU regional policy, would bring to the decision-making process the European Commission, the central government, the regions, and municipalities. In these negotiations each group of regions would probably have its own economic reasoning: the fast-growing regions would support the direction of funds into the most productive areas and block allocation of transfers to the 'lazy' east (Podlaskie, Lubelskie, Podkarpackie) or inefficient southeast (Slaskie). The poor regions would obviously strive for funds for the simple reason that they are poor and need support. These sorts of contradictory arguments known as the equity-efficiency dilemma exist today, only a few years after the decentralization reform (Banski, 2002). The multiple negotiations consisting of the Commission, central government, regions and, possibly, municipalities may cause a "joint decision trap" which might block the efficient allocation of funds when the recipients of the money finally become rich individuals in poor regions – a phenomenon known in the EU (Amodia et al, 2001). Bringing cities and municipalities to the negotiation table, according to the partnership principle, improves the quality of the regional policy because of better targeting. But again, as the EU experience shows, this can make the decision-making process even more difficult and enhance the threat of a political deadlock.

The Polish regions' relative autonomy, which is considered to be so positive now, has already led to differences in the quality of management, use of regional potential, and general economic development. As a result, some regions became more influential than others. Currently, Polish regional policy is not explicitly shaped. It is still a debate on equity-efficiency dilemma; the policy is balanced between a liberal approach, i.e. minimum government intervention and decentralization of responsibility for economic development on the one side, and government interventions primarily by means of subsidies and state aids on the other (Gorzelak, 2000; Swiatek, 2002). *It is a question how these relations will work when the central government would need to distribute the money from the EU Structural Funds. Would not this regional autonomy generate severe bottlenecks and block efficient allocation of the EU transfers? The situation would become even more tricky because probably all Polish regions would be qualified as Objective 1 status and therefore be eligible for equal funding regardless of inter-regional disparities.*

The money that the country would finally get could be allocated in three main different ways: it could be equally distributed among the regions (if all of them will qualify for Objective 1 status), it could be directed to poor regions, or it could be invested in the richest, most productive regions. All of these strategy options have their pluses and minuses, and the definition of an optimal policy that satisfies all economic, political and social considerations remains a difficult task. The most difficult decision in this respect would be the balance between the *equity* and *efficiency* principles of the structural funds allocations.

Political and social considerations, as well as the current practice of the EU would be in favor of equity - allocation of funds to the backward regions as a policy of social solidarity. On the other hand, economic rationale, which is backed by theories and the EU evidence, would be in favor of efficiency - allocation of funds to the advanced, most productive regions. In this case, the well-performing regions may become locomotives of growth and simply continuously pull the lagging regions behind. The EU evidence suggests that allocation of money to poor regions does not bring any significant catch-up effect and that the money is usually wasted. While academics promote the efficiency approach, the Polish government would probably try to find a balance between the two options and the final strategy would not be clear-cut. Analysis of the theory and practice in the EU suggests that the best policy is the policy of not relying on the structural funds at all. The government should not strive for the maximum amount of the EU money but rather attract investments and pursue tight fiscal discipline.

The major lesson for Poland is that any redefinition of regional policy towards greater targeting could be expected to meet resistance, and would therefore be incremental and difficult. Whether the Polish government will opt to monitor the whole process of the structural funds allocations or will leave it to political bargaining depends completely on the country's choice. But if the country is simply aware of all major political problems accompanying the EU's regional policy and of the fact that the EU's involvement in combating regional disparities may actually increase them, the country would treat the Union's participation very cautiously and provide its own efforts to solve these problems.

<u>Cross-border cooperation</u>

Apart from the Structural Funds, eastern Polish peripheral regions may obtain EU support for cross-border activities. Since 1991, Poland has created ten euroregions with the neighboring countries (Figure 2). Euroregions are defined as transnational formations consisting of bordering regions of neighboring states. They have been one of the most important instruments of the integration process in Europe. The European experience shows that euroregions can become an efficient mechanism to intensify cross-border cooperation. The major task of the euroregions is the coordination of activities to solve problems of multilateral concern to the participating countries. Usually euroregions help to facilitate cross-border trade and cultural exchange, prevent environmental problems, increase tourism, and develop cross-border infrastructure. One of the biggest motives for regional administrations is the availability of EU funds to co-finance activities that involve partners within a euroregion.

Figure 2. Map of euroregions on the borders of Poland

Polish cross-border partners in the east are the neighboring regions of Belarus, Lithuania and the Ukraine. Regional administrations in eastern Poland have been seriously considering the opportunities arising from the euroregions as they helped to attract the EU funds (PHARE CBC in particular) for various initiatives (Horodzenski, 2002). Analysis done by Polish economists (e.g., Komornicki, 2002) shows that the eastern euroregions have not yet helped to increase the volume of cross-border trade. Nevertheless, the projects carried out in the euroregions helped to improve the tourist potential in some places. Most probably, after accession, the EU would increase the funds for cross-border cooperation since the Polish border would become the border of the EU. This could be one of the other benefits which the eastern regions may obtain upon accession that may soften the consequences of the growing interregional gap.