A COMPARATIVE STUDY OF POLISH AND BELARUSIAN ACCESSION TO BROADER INTEGRATION PROCESSES: A REGIONAL PERSPECTIVE

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Poland and Belarus are bordering countries that participate in two divergent integration processes: Poland joins the European Union, while Belarus integrates with the Russian Federation. These integration processes have had varied impacts on the development of the regions in the two countries. Polish regions differ a lot in their inner potential, internal and external factors that have been facilitating or impeding the adjustment to new circumstances. Accession to the EU would bring further challenges to regional economic performance. The impacts of the EU enlargement and the integration with Russia have not been even in Belarusian regions as well. This study presents the comparative analysis of the impact of the broader integration process on the development of regions in Poland and Belarus.

Regional development in Poland

Poland has 16 regions that correspond to the EU NUTS II level. In terms of territory the largest are Mazowieckie, Wielkopolskie and Zachodniopomorskie. First in terms of population are Mazowieckie (the capital region, 5.1 million inhabitants) and Slaskie (Poland's biggest concentration of old industries, 4.9 million inhabitants). The smallest in terms of population is the western region, Lubuskie (1 mln. inhabitants). Decentralization reform in 1999 gave regional self-governments full responsibility for economic development of the regions.

Figure 1. Administrative map of Poland

Table 1. GDP per capita by region in 2000 as percentage of the average.

REGION	GDP per capita, %
POLAND	**100**
DOLNOŚLĄSKIE	103.4
KUJAWSKO-POMORSKIE	89.7
LUBELSKIE	68.5
LUBUSKIE	89.7
ŁÓDZKIE	88.7
MAŁOPOLSKIE	89.3
MAZOWIECKIE	151.6
OPOLSKIE	85.5
PODKARPACKIE	71.1
PODLASKIE	74.3
POMORSKIE	100.6
ŚLĄSKIE	110.1
ŚWIĘTOKRZYSKIE	78.2
WARMIŃSKO-MAZURSKIE	74.5
WIELKOPOLSKIE	106.6
ZACHODNIOPOMORSKIE	98.7

Source: Modified from Statistical Yearbook (1)

Along with economic transformation and growth during the 1990s, regional and social disparities in Poland became increasingly evident (Table 1). As can be seen from the table, in economic-statistical terms regional differentiation in Poland is relatively weak: the ratio of GDP per inhabitant of the poorest (Lubielskie) and the richest (Mazowieckie) region is approximately 1:2.2, which is much less than in countries such as Italy or Spain. The poorest regions in Poland are situated in the eastern part of the country: Lubielskie, Podkarpackie, Podlaskie, Warmino-Mazurskie and Swietokrzyskie. Gorzelak (1994, 1999b) identified certain groups of relatively advantaged or disadvantaged regions in Poland:

(a) *leaders:* regions that display positive continuity: big urban centers, regions with tourist potential;

(b) *winners*: regions that were able to achieve positive discontinuity and left the position of laggers to move into fast growth: the western regions that took advantage of the new markets in Germany and Austria;

(c) *losers*: regions of negative discontinuity which were not able to sustain their traditional leading position: the concentrations of old, obsolete industries;

(d) *laggers*: regions of negative continuity, which could not overcome their backwardness and peripheral location, mostly located in the eastern parts of the country.

The ability of individual regions to adapt to fundamental changes in economic environment rests on a range of issues including their socio-economic structure, level of initial development and proximity to capital and innovation as well as the way in which they are affected by national policy decisions (Gorzelak, 1994, 1999b).

Leaders

In Poland, as in each of the six candidate countries with more than one NUTS II region, the capital region (Mazowieckie) is the wealthiest in the country. This is a general pattern for Central and Eastern Europe when significant concentration of economic activity occurs in the political centre of the country. Slaskie and Wielkopolskie are the only regions, apart from Mazowieckie, which are clearly above their respective national average.

Winners

After 1989, western regions such as Welkopolskie, Zachodnio-Pomorzskie, Dolnoslaskie and Lubuskie started to benefit from their position within a new European political and economic geography. Proximity to the EU, relatively developed infrastructure and low labour costs combined with labor force skills all contributed to stimulate markets and encourage investment in western border regions (Gorzelak, 1999a, 2000). Historically, these regions were always relatively more developed and during the transformation they displayed better adaptability to the open competitive economy. Their wealthier and more modern economic structure, better qualifications of the labor force, and better equipment with high-quality institutional and material infrastructure made them more attractive to domestic and foreign investors. As a result, structural changes have been deeper in these regions and the dynamics of transformation greater.

Losers

Old-industrial regions in Central and Eastern Europe are probably the regions that have been most adversely affected by the process of economic transition. In Poland there is one region that is most often referred to as an old industrial 'loser' - Slaskie. During the socialist period, this region specialized in coal and steel production and was thus the focus of planned development and, to a large extent, the driver of economic activity (Gorzelak, 2000). During the transformation period, the region was severely affected by the reorientation of trade from formerly secure markets and by the reduction of subsidies. The decline in socialist-style heavy industry in particular has played a significant part in widening regional disparities in Poland (Gorzelak, 2000).

Apart from restructuring problems, the region faces severe degeneration of the environment in terms of air, water and soil pollution often associated with the scale and poor technology of former industrial production. Major environmental problems still persist, which will add to the cost of further restructuring and may well act as a disincentive to progress and investment (Gorzelak, 2000). Economic reform has not led to quality investment and the development of new products and production methods. Since 1992 this region has been supported by subsidies, which would not be easy to do within the EU. Restructuring of Slaskie has been very expensive and politically difficult; the region has not yet shown any significant ability for independent sustainable development (Tarkowski, 2003). The region is often defined as a stumbling block in the accession process; scholars in the European Commission as well as in Poland point out that restructuring Slaskie is one of the primary concerns of the Polish government on the way towards accession to the European Union.

<u>Laggers</u>

The most economically disadvantaged regions in Poland are located at the eastern periphery of the country (Podlaskie, Lubelskie, Podkarpackie). The comparatively unfavourable geographical location of those regions (proximity to economically less developed Belarus, Ukraine and Russia) limits the opportunities for fruitful trans-border co-operation and joint economic initiatives (Sadowska-Snarska, 2002). The second factor affecting the economic position of the peripheral areas is the predominance of agriculture in the regional economy. Overall, as the European Commission points out, agriculture in Poland is still in need of urgent structural reform to meet the current and future competitive environment (European Commission, 2001).

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.

Cross-border cooperation

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.

Regional development in Belarus

The Republic of Belarus consists of six regions. The smallest in territory is the Grodno region (25 thousand sq. km) and the largest is the Gomel region (40.4 thousand sq. km). The difference in population is not very large. Gomel has 1,527,500 inhabitants, while the Mogilev region, the smallest in population, has 1,191,800 people.

Figure 3. Administrative map of Belarus

Table 4 . Employment by major sectors of economy in Belarusian regions in 2001, %[1].

Regions / Sectors of economy	Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
Industry	24.2	26.5	28.8	25.3	27.4	29.5
Agriculture	18.8	14.4	13.1	19.9	19.3	13.9
Trade and public catering	10.5	10.0	10.7	10.0	9.7	9.7
Transport	7.3	6.2	6.1	4.5	3.7	5.6
Construction	6.3	7.0	7.1	6.4	7.1	6.0

Source: Modified from Statistical Yearbook (2)

[1] To have more precise results here and later, the capital city, Minsk, is excluded from the statistical analysis.

The Belarusian regions are very similar in economic structure (Table 4). As shown in the table, the biggest part of the labor force in all regions is employed in industrial production. Agriculture accounts for between 13 and 20 % of the employed. This more or less equal structure of the economy in all the regions appeared during the Soviet period when the industrial production was centrally planned. Factories were located in various regions according to strategic and geopolitical but not economic reasons. In the 1970s to '80s Belarus became the "assembly workshop" of the USSR. Many giant factories were built in the regions to serve the needs of the whole country. The break-up of the Soviet Union had severe consequences for the Belarusian economy because most of the former industrial connections were broken and those giants had to work at half or even a third of their original capacity. This was one of the motives of re-integration with the Russian Federation in the mid-1990s (Tarasevich and Lobatch, 2001).

Unlike in Poland, the Belarusian regions have a smaller share of employment in agriculture. The agricultural sector is almost 100% state owned and the old Soviet-style collective farms have been preserved. For the last ten years, the efficiency of Belarusian agriculture has been continuously declining, which has led to a situation where 80% of the farms appeared to have enormous debts. The government has been heavily subsidizing the agricultural sector, but no reforms have yet been introduced. As a result, the costs of agricultural production–of foodstuffs in particular–have increased to a level higher than that in Russia, the Ukraine or Lithuania. In many cases, foodstuffs imported from those latter countries are cheaper and of better quality than the local products. Such a situation had never happened before. During the last eight years, most of the rural population has been living in poverty and, therefore, the outflow of the labor force to the urban centers has been very intense (Statistical Yearbook (2)).

Traditionally, the western regions of Grodno and Brest had a much more efficient agricultural sector. The volume of agricultural production per capita has always been bigger in the western than in the eastern regions (Statistical Yearbook (2)).

Table 5. Main branches of industry in Belarusian regions, share in total volume of production in 2001 (%)[2].

Brest	**Vitebsk**	**Gomel**	**Grodno**	**Minsk**	**Mogilev**
Food (30.9)	Fuel (21.3)	Fuel (21.0)	Food (28.2)	Chemicals and petrochemicals (32.2)	Chemicals and petrochemicals (29.0)

[2] Branches of industry are defined according to Belarusian statistics. The table contains only those branches that have more than 10% in total regional production.

Engineering, machine-building and metal working (22.4)	Electric power (18.9)	Ferrous metallurgy (16.9)	Chemicals (23.6)	Food (23.1)	Engineering, machine-building and metal working (16.3)
Light industry (14.5)	Food (15.9)	Engineering, machine-building and metal working (15.0)	Engineering, machine-building and metal working (13.1)	Engineering, machine-building and metal working (21.0)	Food (15.6)
Woodworking, pulp and paper (10.9)	Light industry (12.3)	Food (14.7)			Electric power (10.7)
	Chemicals and petrochemicals (12.1)				Light industry (10.5)

Source: Modified from Statistical Yearbook (2)

Although the economic structure of the Belarusian regions is quite similar, the structure of the industry is somewhat different. As shown in Table 5, the fuel, chemical and petrochemical, and food industries occupy the biggest shares of production in the regions. Although machine-building and metal working have a relatively big share of the total production of the regions, the economic situation in this sub-sector resembles the situation in Slaskie in Poland. Most of the companies are inefficient, the equipment is 80% worn out, and no reforms, including privatization, have been introduced. The longer these companies stay in the property of the state, the fewer chances there would be to attract investors. A big share of this sub-sector of the regional economy is rather a potential burden than an advantage.

The chemical, petrochemical and fuel industries are the only ones that maintain relatively high levels of efficiency. The companies are quite attractive for Russian investors, and the process of privatization in these sub-sectors has been commenced recently.

Unlike in Poland, regional disparities in Belarus, according to the official statistics, are extremely small. Average incomes and GDP per capita are almost equal in all the regions. Excessive intervention of the state into the economy and the extremely low share of the private sector (less than 5% of the country's GDP) distorts the real state of affairs. Many state owned companies and agricultural farms have been heavily subsidized from the state budget which has kept them away from inevitable bankruptcy. One of the indicators that may show the potential disparities in the Belarusian regions is the number of the loss-making enterprises (Table 6).

Table 6. Share of loss-making companies in all sectors of the economy of the regions in 2001 (%).

Brest	**Vitebsk**	**Gomel**	**Grodno**	**Minsk**	**Mogilev**
28.9	45.4	41.5	32.3	37.1	47.1

Source: Statistical Yearbook (2)

In the western regions, Grodno and Brest, the share of loss-making companies in all sectors of the economy has been the smallest. Traditionally, most subsidies from the state budget have been directed to the Gomel and Mogilev regions. This may indicate that the western regions are comparatively more developed. The share of direct foreign investment in total investments in those regions has also been comparatively higher. It comprised 2.5% in Grodno and 2.3% in Brest, while the share of FDI in eastern regions such as Vitebsk and Mogilev was just 0.8% and 0.2% respectively (Statistical Yearbook (2)). In general, Belarusian officials and scholars state that the Belarusian economy suffers an investment crisis. The total flow of FDI in recent years has been extremely small, and even the free economic zones that were created in every region did not help to attract more investment (Zaiko, 2003).

The structure of foreign trade in the Belarusian regions is also similar: 50% or more is done with Russia. The share of the EU in total Belarusian trade in 2001 was 12%; five percent of the total turnover was with Germany. The candidate countries embraced 11.8% of total foreign trade in 2001. The biggest partners among the candidates were Poland (3% of total turnover), Latvia (3%) and Lithuania (2.5%) (Statistical Yearbook (2)).

Table 7. Cross-border trade of Belarusian regions in 2001, %.

Regions / Neighbouring states	Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
Russian Federation						
turnover	52,93	55,12	49,60	49,66	44,88	73,67
exports	72,22	47,39	39,43	51,90	39,02	75,83
imports	30,77	64,65	63,78	46,81	53,95	70,94
Ukraine						
turnover	4,25	6,26	7,81	6,00	4,17	3,57
exports	4,28	8,05	9,09	4,30	3,86	3,67
imports	4,21	4,06	6,03	8,15	4,64	3,44
Poland						
turnover	6,63	1,71	5,38	9,03	3,62	1,47
exports	1,53	2,20	7,66	11,57	3,97	1,84
imports	12,50	1,11	2,20	5,80	3,08	1,01
Lithuania						
turnover	1,48	5,76	1,14	6,98	2,25	1,37
exports	1,71	8,97	1,60	11,25	1,82	1,61
imports	1,23	1,81	0,51	1,56	2,91	1,07
Latvia						
turnover	0,62	9,47	2,75	2,31	0,56	0,50
exports	0,72	16,69	4,60	3,68	0,66	0,73
imports	0,51	0,58	0,17	0,57	0,40	0,21

Source: Modified from Statistical Yearbook (2)

The Mogilev region (Table 7) has the biggest share of trade with Russia (74%). The western regions, Grodno in particular, have the biggest share of trade with the neighboring candidate countries. As shown in the table, Vitebsk and Gomel have a relatively big share of exports to Poland, Latvia and Lithuania. The major export to these countries is oil-based products (Statistical Yearbook (2)). Therefore, the volume of exports from these regions is very fragile as they depend on oil prices fixed by Russia. If for any reason Russia raises the oil prices for Belarus, Vitebsk and Gomel exports to the candidates would drop.

It should be noted that the western regions have unregistered (or "gray") flows of imports from Poland. These mainly consist of light industry products, clothing and footwear in particular. Private traders simply carry those in bags through the border to avoid very high customs duties. This sort of trade became a popular source of income for many inhabitants in Grodno and Brest as well as a significant part of the economy in those regions (Zaiko, 2003).

Impact of the integration processes in Europe on Belarusian regions

In general, the position of Belarus within the integration processes in Europe is quite peculiar. It is schematically shown in the figure below:

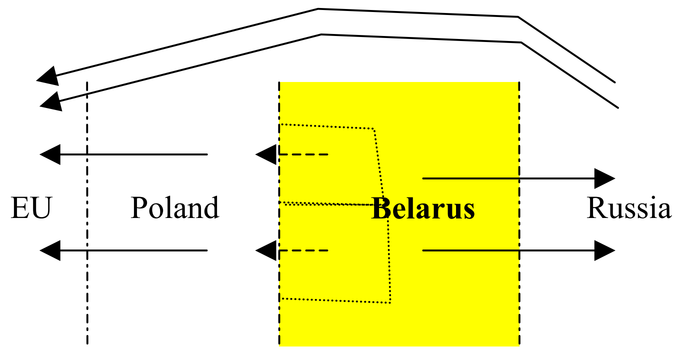

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Figure 4. Belarus in European integration process

Belarus is affected by the two major integration processes: one is the enlargement of the EU, the other integration with the Russian Federation. Economic and political forces in Poland, the western neighbor of Belarus, are directed westwards, to the EU. The forces in Russia, the eastern neighbor, are also largely directed towards closer integration with Western Europe. Recent events and agreements (the Kaliningrad question, energy supplies, trade issues, etc.) show that Russian leadership has been very successful in building fruitful collaboration with the EU. Unlike its neighbors, Belarusian political and economic forces are directed eastwards. Only two western regions that culturally have more in common with Western Europe (Poland in particular) than with Russia have some forces that push the country towards the west. The position of Belarus therefore contradicts the on-going processes in Europe.

<u>The impact of EU enlargement on the Belarusian regions</u>

Trade and investment flows show that economic interdependence between the Belarusian regions and the candidate countries is quite weak. Therefore, the accession of Poland, Lithuania and Latvia to the European Union would hardly make a significant impact on the Belarusian economy in general, although, as Belarusian experts claim, some strategic markets for certain major Belarusian exports would probably be lost. Nitric and potash fertilizers that are now exported to Poland may be faced with the EU antidumping duties upon accession (Rudenkov, 2003). Belarusian trucks that are currently widely purchased by Latvian companies most probably would not meet EU standards and would have to leave this market as well (Bogdankevich, 2002).

The EU enlargement may significantly affect only the western regions, Grodno and Brest, because they have stronger ties with the candidates (Poland in particular). The impact of the EU enlargement in the western regions would be defined by the following factors:

1. Introduction of Schengen visas to enter Poland.
2. Development of border infrastructure; modernization of old border crossings and the building of new ones.
3. Activities related to the EU regional policy in north-east Poland; investments from the Structural Funds.
4. Development of trans-border co-operation in the "Bug" and "Neman" euroregions.
5. New neighborhood policy of the EU.

Introduction of Schengen visas

The introduction of Schengen visas to enter Poland is often said to be the first negative factor of EU enlargement. This measure would mainly affect the western Belarusian and the eastern Polish regions. As mentioned above, many Belarusians who live in the border regions have been involved in cross-border trade, and many small businesses in eastern Poland have been serving those trade flows. During the last ten years, the cross-border trade became one of the significant sources of income for certain companies in Poland, and, to a much larger extent, in Belarus. Therefore, the planned introduction of visas aroused many fears among the population in border regions of the two countries.

Analysis of this issue shows that the impact of the new border-crossing procedures on the economies of the Polish and Belarusian regions is very difficult to estimate. Currently it is agreed that the single entry visas to Poland (and, accordingly, to Belarus) will cost E10, and the multiple entry visas valid for one year E50. It should be said that the Polish government suggested mutually issuing visas free of charge but the Belarusian government refused this (Romanchuk, 2003) . In any case, the cost of a visa would not become a serious obstacle for Belarusians if they decide to travel to Poland. As for regular visitors such as private traders, E50 a year would be insignificant among other expenses.

What is more important is the procedure of how the visas would be granted. If Poland applies the criteria used by the current Schengen states (official invitations, proof of financial self-sufficiency, and a bureaucratic routine at the embassies that cause long queues) cross-border mobility would decrease significantly and the cross-border trade would slow down. The inability of Polish authorities to establish an efficient visa procedure was probably the reason why the introduction of visas for Belarusians was postponed until October 2003. The declarations of EU officials and representatives of the Polish government underline that visas aim at ordering the border crossing and would not impede the movement of people. If these declarations match the reality, the introduction of visas would not make any significant impact on regional dynamics either in Poland or in Belarus.

Infrastructure development

A positive trend in border-crossing issues related to the EU enlargement is the development of border infrastructure, including the modernization of old border crossings and the building of new ones. The EU finds it very important to keep its external borders transparent and efficiently managed. Therefore the Union has been financing modernization of its future borders via pre-accession aid in Poland and the TACIS program in Belarus. New terminals and infrastructure are being built, which should at least decrease the queues at the border. Supposedly, the trade flows between the two countries would become more intense, although any estimation is very hard to make as other factors (e.g. trade regime and business climate) would be crucial. Only if the Belarusian government creates the conditions by which Belarusian territory would become an efficient transit corridor for goods delivered from the EU to Russia and back, would the developed border infrastructure become a significant factor in the development of the western regions.

The EU Structural Funds in North-East Poland

It may be anticipated that activities related to the EU regional policy in north-east Poland and, in particular, investments from the Structural Funds would have spillovers to Belarusian territory. The major aim of the EU regional policy is the intensification of economic activity in regions that lag behind. This is done by investments to infrastructure development, training and re-training programs as well as the development of small businesses. It is now very hard to estimate the potential effects of the EU regional policy in Poland, because detailed programs and financial plans are still being worked out. In the optimistic scenario, the efficient actions of the Polish authorities and the EU institutions would help to induce faster growth in the eastern Polish regions, and new businesses in search of better opportunities would invest in bordering Belarusian regions. Indeed, the labor force in Belarus is relatively cheap and well trained. In the western regions people speak Polish and the free economic zones that exist in the bordering regions may become very attractive for investors. If this optimistic scenario would come to fruition in the years following 2004, the western Belarusian regions would receive a strong positive impulse caused by the EU enlargement.

Cross-border cooperation

Belarus participates in two euroregions, “Bug” (established in 1995) and “Neman” (established in 1997). Along with the two western Belarusian regions, Brest and Grodno, the euroregions encompass bordering parts of Poland, Lithuania and Ukraine. Belarusian partners have participated in a few common projects. For example, in the “Neman” euroregion these included: 1) creation and networking of the Belarusian office of the “Neman” euroregion in Grodno (common budget E196,928); 2) creation of a consulting service on small business development in Novogrudok, Belarus (common budget E239,600); 3) training program on cross-border transport management and logistics (common budget E175,200); 4) regional development and environment in the "Neman" euroregion (common budget E989,560)[3].

Officials from the Belarusian and Polish sides state that the "Bug" and "Neman" euroregions have had very low efficiency in reaching their declared aims, in particular, in development of transnational co-operation (Komornicki, 2002). One of the reasons for this is the opposing political trajectory of the Belarusian leadership. In the existing circumstances, collaboration with the western European countries is not a priority, and relations with the EU are more antagonistic than just cold. Secondly, decision-making in Belarus is very centralized so that regional and local governments are extremely limited in their actions. The majority of strategic decisions about intra-regional development have to be taken by the central government or require a long procedure of agreement with all kinds of central authorities. Such circumstances erode the initiative of the regional and local governments to carry out activities offered by the Polish and Lithuanian partners in the euroregions.

Nonetheless, the euroregions give the EU an opportunity to engage Belarusian regional elites in closer relations via cross-border cooperation initiatives. This becomes very important since the Partnership and Cooperation Agreement between Belarus and the EU was frozen in 1997**.** EU support of the cross-border initiatives would grow as both Poland and Lithuania would become eligible for INTERREG (Strand A in particular) and related programs (European Commission, 2003). Since 1994, Poland obtained E311.15 million for cross-border cooperation and after accession these funds would be increased (Sadowska-Snarska, 2002). Belarusian partners would probably not be eligible for INTERREG, but can be supported by TACIS Cross-Border Cooperation schemes.

There is a possibility that enhanced attention to the future neighbors of the EU would increase the amounts spent for cross-border co-operation as well as stimulating the Belarusians to take an active part in the projects. The major effects of collaboration within the euroregions could be:

- development of technical infrastructure, particularly in the cross-border area
- development of social infrastructure, cultural and educational exchange
- environmental safety and better spatial planning
- some growth of cross-border trade and investment
- growth of tourism

These potential effects would occur in western Belarusian regions, but the spillover to other regions would probably be minor.

The EU New Neighborhood Policy

[3] Data obtained from the Office of the "Neman" Euroregion in Grodno.

One of the most important factors that would define the benefits and threats of the enlargement to neighboring states would be the future EU policy towards those neighbors. The European Commission proposed a framework for the so-called “New Neighbourhood Policy”, which outlines the future relations with the new neighbors of the EU. This document underlines the importance of EU involvement in building fruitful collaboration with all neighboring countries, and, in particular, Russia, the Ukraine, Moldova and Belarus (European Commission, 2003). As stated in the document, the Union is keen to support the development of a stable market economy, the rule of law, efficient administration, a clean environment, security, and other issues. Within this policy, the EU is able to go as far as offering full participation in the single market (free movement of goods, services, capital and labor) without membership (European Commission, 2003).

The Commission stipulates that for Russia, the Ukraine, Belarus and Moldova, community, EBRD and European Investment Bank (EIB) supported initiatives should be further developed. While the central role played by the EBRD should continue to be supported, the EU could also consider the progressive and targeted increase of EIB lending to Russia, and its extension to the Ukraine, Moldova and, eventually, Belarus. In the Commission’s opinion the EU should ensure the International Financial Institutions take adequate account of the importance of spending on education, health and social safety net provisions in their policies towards the neighboring countries. It is further emphasized that Eastern neighbors should benefit from more direct grant aid and budget support for tackling poverty, social and economic inequality and exclusion to achieve greater social cohesion (European Commission, 2003).

What is important is that the Commission will consider the possibility of creating a new Neighbourhood Instrument which builds on the positive experiences of promoting cross-border cooperation within the PHARE, TACIS and INTERREG programs. According to the Commission, this instrument will focus on trans-border issues, promoting regional and sub-regional cooperation and sustainable development on the Eastern border.

The latter commitment would directly benefit the western Belarusian regions, and, in particular, the activities carried out within the two euroregions. As detailed financial plans have not yet been elaborated, it is very difficult to estimate the potential effects on the development of western regions. Most probably, the EU activities would help to induce growth in those areas, but a lot would depend on the internal economic and political situation in the country at the time when the programs would be realized.

In general, the assistance offered by the EU New Neighbourhood Policy is conditional on a country’s progress. In other words, the EU would not pay if the country ‘does not behave’. That can cause a problem for Belarus as the country’s policies usually do no comply with EU expectations. The Commission admits that relations with Belarus would not be easy:

> The EU faces a choice in Belarus: either to leave things to drift – a policy for which the people of Belarus may pay dear and one which prevents the EU from pursuing increased cooperation on issues of mutual interest - or to engage, and risk sending a signal of support for policies which do not conform to EU values (European Commission, 2003, p.15).

The impact of integration with the Russian Federation on Belarusian regions

The integration processes between Belarus and the Russian Federation started in 1995 when a customs union agreement signed by Belarus, Russia, Kazakhstan, Kyrgyzstan and Uzbekistan came into force. The customs union appeared to be a mere political declaration as every country continued to have an autonomous trade policy. This was justified when in 1998 Kyrgyzstan joined the WTO without any settlement with its partners in the customs union.

Since 1995, Belarusian leadership, unlike any other CIS country, pushed for closer integration with Russia. In 1996 the agreement on the Community of Belarus and Russia was signed; a year later, the Community was transformed into a Union of the two counties and, finally, in late 1999 the Presidents signed the agreement on the Union State of Belarus and Russia.

It has been admitted by Belarusian and Russian economists that all those actions were nothing but political declarations. The majority of the documents signed under the framework of the Union State did not contain any significant commitments. The integration rhetoric was a useful political and ideological instrument for both presidents Yeltsyn and Lukashenko. Yeltsyn wanted to keep an ally at the time when all the other former Soviet republics turned away from Russia. Lukashenko wanted cheap oil and gas, easy access to the Russian markets and, most significantly, access to the Russian political arena (Tarasevich and Lobatch, 2001).

A politically not economically based decision to eliminate borders with Russia became very harmful for the Belarusian economy in the long run. Apart from large volumes of "gray" trade that undermined the competitiveness of local production and official importers, the resulting trade diversion from more competitive markets froze the much-needed restructuring of the Belarusian state companies. Besides, this 'single vector' policy led to a situation where 56% of Belarusian foreign trade was done with Russia (100% of oil and gas imports), which made the Belarusian economy extremely sensitive to decisions taken by the Russian government (Tarasevich and Lobatch, 2001).

Under President Putin, Russian policy towards Belarus became much more pragmatic. Putin stopped all integration rhetoric by offering "the closest variant of integration" – incorporation of Belarus into the Russian Federation. Although Lukashenko held it back, economic and political dependence on Russia have been forcing Belarusian leadership to take decisions that serve exclusively Russian interests (Romanchuk, 2003).

In these circumstances Belarus is being forced to privatize the biggest and the most efficient state-owned enterprises in the chemical, petrochemical and fuel industries and to invite investors only from Russia. The chemical and petrochemical industry in Belarus represents an interest for the Russian investors. The equipment in those companies is not worn out compared to other Belarusian industries; the companies are profitable and have potential for growth. Only big Russian oil and gas companies (Gazprom, Lukoil, Itera, Surgutneftegaz, TNK) expressed an interest in buying those companies. According to Belarusian and Russian experts, it is now a good time to buy cheaply the best pieces of Belarusian state property (Grib, 2003). Belarus needs investments badly; it unlikely that foreign companies would participate in tenders (the business climate in the country is ranked very low, and important foreign investors, such as Ford, Ikea, and MAN already left the country). Belarus is dependent on Russia and therefore Russian investors would have a priority in any case. Big Russian oil companies have direct access both to Kremlin and Lukashenko, therefore they are quite sure that their interests in Belarus would be protected. To date, Russian companies have not acquired any shares of Belarusian property as they found the conditions set by the Belarusian government to be not acceptable. Belarus has put itself in the situation where Russian companies basically dictate the conditions for privatization. Now potential investors wait until the Belarusian government suggests a better price for the property.

Big Russian companies choose certain factories for investment and the regional dimension has never been present in the decision-making. Small and medium businesses do not find Belarus attractive for investment; therefore, the regional factors for Russian investment in Belarus have not yet appeared.

The currency union, which is being created, again, on the conditions of the Russian Federation would de facto seal the incorporation of Belarus into the Russian Federation (Tereschenko, 2002). Substitution of the Belarusian ruble with the Russian currency would create more threats than opportunities. Belarus would lose its own monetary policy that used to be much softer than that in Russia and would have to adjust to stricter rules. The Belarusian economy is not yet ready to refuse devaluation as one of the most popular monetary policies. Introduction of Russian ruble would probably create a shock that would drastically decrease the competitiveness of Belarusian products in Russian markets and lead to severe economic and social consequences (Bogdankevich, 2002).

Following the logic of international experience, <u>eastern</u> Belarusian regions should have gained a lot from the integration processes with the Russian Federation. In Poland, the western regions that were closer to the EU took the largest benefits out of the accession process. Contradicting the Polish experience, Belarusian statistics show that economies in the eastern Belarusian regions did not get any significant impulse for growth. The number of loss-making companies increased, investments from Russia have been very low, and migration of labor has not been intensified. Open Russian markets did not bring significant advantage to the eastern regions as the companies were not able to use the economies of scale and to earn money for reconstruction. The turnover with Russia in those regions has not been stable, exports during the last few years have decreased and prospects for the future are not optimistic at all as Russian products become more and more competitive even within Belarus.

The price/quality ratio for most Belarusian products becomes less and less attractive for Russian consumers. Modernized private companies in Russia start producing similar products at a better price. Chinese and Korean exports to Russia of electrical devices in particular, put extra competitive pressure on Belarusian goods sold in Russia. Belarusian products lose competitiveness at Russian markets because of growing inefficiency of the state-owned enterprises and the inadequate economic policy of the government[4]. Privatization was frozen in Belarus in the early 1990s, and the old industrial state-owned giants have seen very little modernization since then. The socially-minded policy of the government obliged owners to keep all the workers in the companies even though their duties were not needed any more. Loss-making production could not be closed; instead, the companies strived for the state subsidies. The unfair tax system redistributed profits from the companies that have been doing relatively well to those that were in continuous loss. The procedure of bankruptcy has never been initiated. Such a policy led to the situation where the companies could not save money to change obsolete equipment and introduce new, more efficient technologies. Foreign investors have been reluctant to participate in the state-owned businesses. In these circumstances, the costs of production have been rising continuously but quality has not improved since the mid-1990s. The economic policy of the government, the state regulation of prices in particular, created a situation when even Belarusian beer makers (all of them are still state owned) started to quickly loose markets to Russian and Ukrainian brands within Belarus (Romanchuk, 2003). In some towns that are located close to the Russian border, small traders import bread, which is less expensive and of much better quality than that baked at the state-owned factories in Belarus.

In general, it appears like the western Belarusian regions gained more out of the eastward integration process then the eastern regions. The number of loss-making companies in western Belarus has been much smaller, and exports to Russia during the last five years have been more stable (Statistical Yearbook (2)). Actually, the western Belarusian regions lost more than they gained from the relations between Belarus and Russia. An economic policy that was declared to serve the interests of Russia discouraged Polish and Lithuanian companies from investing in Grodno and Brest. These two regions have much in common with the two countries due to cultural and historic reasons. Grondo and Brest were Polish territory before 1939; people there can speak Polish, most of them regularly visit Poland and used to visit Lithuania before the country introduced visas. Despite this, Polish and Lithuanian investors did not show any serious interest even in the free economic zones created over the border in Brest (1996) and Grodno (2001).

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[4] Problems of Belarusian exports to Russia have been extensively discussed in Belarusskaja Gazeta (Belarusian Newspaper) and Belarusskij Rynok (Belarusian Maket) from 1999 – 2003.

Closer integration with Russia and the freeze of the Partnership and Cooperation Agreement with the EU created trade diversion from Central and Western Europe to Russia. This had a harmful impact on western Belarusian regions, because it undermined their economic potential. Companies in Grodno and Brest were discouraged from keeping and extending their share in the more competitive, but very promising Polish and Lithuanian markets. Exports to Poland and Lithuania demand higher standards and give more stimulus for technological innovations. In the late 1990s Polish producers started to use western European technologies, and if trade flows between neighboring Polish and Belarusian regions were developing, those technologies would have spilled over to Belarusia. Russian technologies are not that advanced and therefore trade with Russia did not enrich Belarusian companies with innovations. The open borders with Russia created an artificial situation where the necessary macro- and microeconomic reforms in Belarus have been postponed (Zaiko, 2003). It can be said that "easy" exports to Russia largely absorbed the inevitable consequences of the unreformed state owned economy.

The eastward policy of Belarus and disregard for Poland as an important trading partner resulted in a rather protectionist trade regime on the Belarusian-Polish border. For example, the citizens of Belarus (if they are not registered entrepreneurs) can import no more than 50 kilos of "manufactured goods" and 10 kilos of foodstuffs duty free. Each excessive kilo is due E2 euro of customs duty. This means that a washing machine or a refrigerator becomes almost twice as expensive in Belarus. As an outcome, a significant share of Polish imports slid to a "gray" sector. It is quite astonishing that the share of Poland in the total official trade of the Brest region in 2000-2001 was merely 6.2 % and that of Lithuania only 1.4%. For the Grodno region the share of trade with Poland and Lithuania during the same years was 9.2% and 6.7% respectively. For comparison, the share of Poland and Lithuania in total Belarusian foreign trade is respectively 3.2% and 2.3% (Table 7). These quantities are clearly too low for neighboring states.

The disadvantages of the western Belarusian regions also arise from another factor. The greater the dependence of Belarus on Russia, the more decision-making on internal Belarusian issues is done in Moscow. In these circumstances the EU-Belarus policy becomes largely a part of the EU-Russia policy, which may disregard the specific problems of Belarus and undermine the efficiency of the EU assistance. The potential inadequacies would mostly affect the western Belarusian regions because their relations with the enlarged EU, both cultural and economic, are the strongest in comparison to other Belarusian regions.

Closer integration with Russia would lead to a situation where exports of the eastern regions to the enlarged EU would drop almost to zero. In other words, the way the integration with Russia has been implemented facilitated the deterioration of the Belarusian economy. In Poland, on the contrary, enhanced integration with the EU induced additional impulses for economic growth.

Conclusions

Regions in Poland as well as in Belarus have been responding differently to the opportunities and challenges that arose from the wider integration processes in Europe. Integration with the EU has been generally beneficial to the whole Polish economy and was a stimulus for faster economic growth in all the regions. Accession to the Union would probably increase the interregional disparities because the peripheral regions, located in the eastern part of the country, have not enough potential to catch up with the leaders. Also, those regions are not prepared to face increased competition in the EU Single market. The EU regional policy would not become a remedy for growing regional disparities. The equity-efficiency dilemma and contradictory political and economic considerations may impede the efficient allocation of EU money. In the optimistic scenario, the EU policies backed by the rational actions of the Polish government may soften the accession shock for the Polish periphery, but real convergence would be unlikely.

The impact of the EU enlargement on Belarusian regions would probably not be significant. Economic interdependence between regions in Belarus and the candidate countries is quite weak. Only the western regions that have closer links with Poland would be affected by the enlargement. This impact would be driven by the EU New Neighbourhood Policy, cross-border cooperation within euroregions, spillover from the Structural Funds allocations in north-east Poland, and the development of the cross-border infrastructure.

Belarus-Russia integration, unlike that of Poland and the EU, has been driven predominantly by political considerations. In general, integration with Russia has not produced any significant positive impact on Belarusian regions. Open borders with Russia brought about disadvantages for economic development in Belarus because they created trade diversion from more competitive and technologically advanced markets in Western Europe to the less competitive and less demanding Russian markets. “Easy” exports to Russia postponed the necessary structural reforms in the state-owned Belarusian companies. Excessive participation of the state in the economy, including large subsidies and cross-subsidies to various industries, distort the concrete benefits and losses for the regions that resulted from the integration processes with the Russian Federation. Nonetheless, some indicators point out that the western Belarusian regions are better prepared to participate in European integration processes. If state intervention in Belarus decreases, those regions would have closer integration with the enlarged EU.

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