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POLISH SPECIAL ECONOMIC ZONES AS AN INSTRUMENT OF REGIONAL AND INDUSTRIAL POLICY

The paper undertakes a detailed examination of the special economic zone programme in Poland in the field of regional and industrial policy. The programme was implemented in 1995-1997 and nowadays in Poland operate 14 special economic zones established in the purpose of acceleration economic development in chosen regions. The main method for attracting capital and technology is the preferential tax policy (long term income tax exemptions) for specific domains of economic activity. The research allowed to evaluate results of zones activity especially related to the regional development and industrial restructuring process. There are clear evidence of both positive (development of modern industry branches) and negative effects (economic activity substitution) of special economic zone programme in Poland. Attention then turns to the Polish integration with the European Union in the field of competitiveness policy, where several problems related to special economic zones had occurred.

Introduction

The idea of privileged area called Free Trade Zone, Export Processing Zone or Special Economic Zone¹ was very popular in the world from the 1970's to 1990's. According to the International Labour Organisation 850 zones were in operation around the world and total employment exceeded of 27 million workers in 1997 (ILO 1997). In comparison to data of World Bank from 1990, when 86 zones existed and employment was less than 0,5 mln workers (World Bank 1992), it means rapid spread of the instrument in the world, especially in developing countries. Not surprisingly, the idea found supporters in Central and Eastern European Countries (UNCTC, 1991), although some evidence of negative aspects of zones functioning were known (Barry, Craig 1992; World Bank 1992) and the European Union gradually increased impact on Member States to close such to avoid distortion in economic competition (Munko, 1998). At the same time the transformation of the Polish political system in 1989, started the process of adjustment of social and economical structures to the principles of the market economy. The effectiveness of transformation process was characterised by a significant spatial differentiation (Domanski, 1998). Some regions adjusted to the new economic conditions without noticeable difficulties, but in others the concentration of negative effects occurred. The scale of the problem made it impossible for the local authorities to find a solution, therefore some assistance from the state turned out to be necessary, expressed among others things through the Special Economic Zones Act passed by Parliament on October 20, 1994.

¹ The terminology is extraordinarily diverse. There are currently at least 20 different terms to describe privileged areas. The archetype of export processing zones is the Shannon Free Zone established in 1959 in Ireland. The original concept of export processing zone was a territorial enclave in which foreign investors benefiting from special incentives and privileges, produce industrial goods for export (UNCTC 1991). Gradually, the above mentioned restriction was lessened: domestic investors might run a business in zones, export of goods is not obligatory and other types of economic activities are allowed (Bazydło, Smętkowski 2000B).

1. Description of the instrument

According to the Polish Special Economic Zone Act a zone is a separate and not inhabited part of Polish territory, where firms, after obtaining a licence (permission), can settle their business, and after fulfilling the criteria mentioned in the Act, receive full or part income tax exemptions. The purpose of the establishment of a special economic zone is to accelerate economic development in a part of the country (mainly owing to external strategic investors) particularly by the realisation one of the following:

- development of a certain field of economic activity,
- development of new technological solutions and their use in national economy,
- development of export,
- increasing competitiveness of production and services,
- making use of already existing industrial and economic infrastructure,
- creating new jobs,
- making use of natural resources with respect to natural environment.

The formulation of special economic zones' objectives suggested that the zones should be, on the one hand, an instrument of industrial policy and, on the other hand, a significant instrument of regional policy. The main objectives of the zones are to restructure the old industrial regions, to activate lagging regions, to do productive research and scientific potential and to make use of already existing industrial infrastructure.

Incentives

The main incentive to run business activity in zones is tax relief. Originally income of enterprises which operate in zones was exempt of income tax within a half period of the zone's activity and than in part not over 50% (zones were initially established for the period of 20 years with the exception of technoparks where the entire period is 12 years). After latest amendments of the Act, tax exemptions cannot exceed 50% of invested capital or 65% in case of SME². All kinds of tax relief are made dependent upon the defined amount of the capital invested or upon the number of jobs created (both values are mentioned in the decree establishing the zone³). In case of companies which are not allowed to benefit from income tax exemptions the preferences consist of the possibility to account capital investments to the cost of earning income and the possibility to increase the fixed assets depreciation. Besides, the procedures concerning building permission and acquiring of real property by foreign investors were simplified.

2. General effects of SEZs in Poland

Localisation

The first Polish special economic zone was established in September 1995 in Mielec (Euro-Park Mielec)⁴. In 1996 next two zones were established in Katowice and

² The amendments was required by other act that determine rules and conditions of public support passed by Parliament on June 30, 2000.

³ In majority of Polish special economic zones to receive full tax exemptions it is necessary to invest over 2 mln EURO or to create at least 100 new jobs

⁴ Euro-Park Mielec followed the example of the first special economic zone in Europe – Irish Shannon Free Zone established in 1959 r.

Suwalki. The process became more dynamic in 1997 when 3 zones were established in April and 9 zones and 2 science parks in autumn. Total area of the zones is over 6 000 hectares. Nevertheless because of legal status ambiguity and lack of investors 2 zones (Mazowiecka and Czestochowska) were closed in 2001 and Tczewska and Zarnowiecka were united in one - Pomorska SSE. Currently, after the new administrative division of the country, special economic zones are situated in ten of sixteen new voivodships (provinces). The highest concentration of the zones can be found in: dolnoslaskie voivodship (3 zones) and pomorskie, podkarpackie, swietokrzyskie and warminsko-mazurskie (2 zones in each).

Fig. 1 Location of special economic zones in Poland



Anticipated and real effects

In the assumptions to the Polish special economic zone programme it was stated that all zones, in the area of over 6 000 hectares (which is about 2% of Polish industrial area), will create a total of 175 000 jobs – that correspond with about 5% of all industrial workers in Poland. The plan should be realised in a long-term (10-15 years) perspective. Table 1 presents the realisation of assumptions in December 2001, after 5 years of establishment the first zone and 4 years of majority of rest.

Till December 2001, all existing zones are operating. About 685 licences have been issued to companies starting economic activity within zones. The declared investment reached the level of 10,2 billion PLN (c.a. 2,8 bln EURO). Investors have also declared to create almost 57 500 new job. The expenditures relevant with job creation are about 178 000 PLN (c.a. 50 000 EURO) per one place of employment. Up to now, only 32 % of total area of the zones was developed and that gives an

average level of investment per every hectare of about 5,3 mln PLN (1,5 mln EURO)⁵.

Table 1. Effects of zones activities from the year 1996 to 2001

Indicator	1996	1997	1998	1999	2000	2001
Number of existing zones	3	17	17	17	17	14
Number of active zones	3	5	13	15	15	14
Number of investors	18	74	175	247	715	685
Capital declared (in mln PLN)	1 295	2 588	5 682	6 703	10 694	10 246
Capital invested (in mln PLN)	-	-	-	3 972*	6 567	11 123
Number of jobs declared	3 675	10 239	26 156	33 936	61 093	57 467
Number of jobs created	-	-	-	11 622*	28 608	47 075
Expenditure on creation 1 place of employment (in thousand PLN)	353	253	217	197	175	178
Land development of zones (in hectare) (% of total area)	93,7 (4,97%)	303,70 (4,76%)	698,45 (10,94%)	895,02 (17,9%)	1078 (21,6%)	1910 (32,0%)
Capital investment per 1 hectare	13,8	8,5	8,1	7,5	6,5	5,3

*30 June 1999

1 EURO = c.a. 3,6 PLN

Source: Ministry of Economy

Till December 2001, about 11 billion PLN (3 billion EURO)⁶ was invested in zones and over 47 075 jobs were created. It should be underlined that the effects of zones activities are not uniform. There is a group of zones in which both the declared and real effects are much higher than in the remaining ones. The first group consists of eight zones: mielecka, katowicka, suwalska, legnicka, lodzka, walbrzyska, pomorska and tarnobrzaska⁷. To the second group belong the rest of zones, the outputs of which were much lower.

Foreign capital

The foreign capital, which in the assumptions should be the main addressee of the programme, was interested in special economic zones only in a small extent. The estimation shows that in the zones was invested about 3,5% of total foreign capital inflow to Poland in years 1996-1998 (Smetkowski 1999). The share was higher in case of industrial sector - about 11%, particularly in case of greenfield investment – 25%. 72 foreign investors have declared over 68% of investment value and 49% of employment of total amounts declared in Polish SEZs. Almost a half of investment come from the European Union countries.

⁵ The investment per one job created is decreasing constantly, which may mean that the focus is moving from capital demanding to workforce demanding sectors or that the investors try to economise by the increase of employment rather than the purchase of modern machine park.

⁶ It means that the value of invested capital have already exceeded the value of investor's declarations.

⁷ Where 92% of total capital and 92 % of total employment is situated.

3. SEZs as an instrument for regional policy

Case study zones

The special economic zone programme was a subject of research carried out in 1999 by a team of experts – economists and geographers from the Universities of Lodz and Warsaw (Krynska 2000). Four zones were included into the survey: Suwalska SEZ, which is situated in a lagging (agricultural) region, Katowicka SEZ which is situated in old industrial centre relevant with coal mining, Mielcka SEZ, the main objective of which was to support restructuring of a large state owned factory of air craft, and Lodzka SEZ, which is situated in a traditional textile centre. The conclusions of the survey are presented below.

Table 2. Basic facts about 4 zones in 1999

Zone	Land development in ha	Number of investors	Declaration of capital in mln PLN	Declaration of job creation
Katowicka SEZ	290	35	2 894	9910
Mielecka SEZ	112	36	1 210	4614
Suwalska SEZ	55	49	169	3174
Łódzka SEZ	30	11	288	1405

1 EURO = c.a. 3,6 PLN

Source: Ministry of Economy

According to the survey the best results were achieved by Mielecka SEZ⁸. The zone contributed to a significant reduction of unemployment level in the region and simultaneously to the activation of the local economy. The Katowicka SEZ⁹ contributed to great inflow of capital and, therefore, to creation many new jobs in the

⁸ The survey proved that the zone has a positive influence on the local labour market and contributes to decrease in unemployment level in Mielec below the national average i.e. 11,6%. Moreover, economic activity within the zone contributed to the activation of all the region, mainly due to dynamic development of the service sector: construction projects, security, staff training, finance intermediation, hotels and restaurants and others. Beside this, the zone co-operates with the local Enterprise Park (after two years, companies from the park can move to the zone). There are also strong linkages between firms from the zone and other regional firms. All this makes the zone a positive example of a favoured area.

⁹ On the basis of the survey, it is difficult to evaluate the role of the zone in economic development and structural changes of the region. The positive aspect is the creation of many new jobs, especially in comparison to the coal mines liquidation. Nevertheless, it seems that the jobs created in the zone will not attract the ex-mineworkers, steelworkers and the graduates of the professional education. For example from 1400 of General Motors employee only 20% worked before in heavy industry and in addition large part of them was administrative staff and engineers. The unemployed made only 3% of the total employee number in the General Motors factory. So the zone to significant extent, attracted human resources which could find a job outside the zone and, therefore, support process of structural changes. There was a similar situation in the field of zone's function in space. Particular subzones were situated on the outskirts of Upper Silesian Industrial District. For investors the most attractive areas of the zone were those softly touched by negative industrial effects: the subzones in Gliwice and Tychy. On the contrary, in the other two subzones, which have typical problems related to mining monoculture, investments were smaller. Although the general technological level of firms was high, the activity concerning attracting modern, competitive technology stays up to now only in plans. The problem is also the lack of wide co-operation between regional research and science institutes and firms in the zone. Creation of such linkages would provide positive effects and increase competitiveness of regional firms and, therefore, might transform the zone into an effective instrument supporting regional and local development.

region, but probably the results of zone activities within the context of the region restructuring, would be much lower than in the Mielecka SEZ case. Moreover, some negative consequences of zone establishment have occurred (for example attraction of high-educated staff, which is also necessary to restructure existing heavy industry and occupation of the most attractive areas of the region situated on the periphery of Upper Silesian conurbation). In case of Suwalska SEZ¹⁰, which attracts mainly small and medium size Polish firms, the survey revealed a series of negative consequences, like relocation of firms and the enclave effect, which was not compensated enough by the creation of new jobs and activation of the unemployed. Whereas, because of short period of Lodzka SEZ activity, it is too early to present conclusions related to the zone activity.

SEZs and the socio-economic situation in Polish regions

Nowadays it is possible to evaluate all existing zones more comprehensively in terms of change on regional and local labour markets and share in employment in manufacturing and capital investments in entire regions.

Voivodships	Result of SEZs functioning in 2001		Level of unemployment			Other indicators	
	Number of jobs created	Capital invested	2001	Change in % in comparison to 1998	Potential impact of SEZs	% of total employment in manufacturing in enterprise sector in 2001	% of total capital investment in industry in years 1998-2001
POLAND	47075	11123	18,5%	8,10%	-0,3%	2,2%	7,1%
Dolnoslaskie	6877	2027	21,1%	8,30%	-0,5%	4,6%	12,6%
Lubuskie	590	393	24,1%	10,90%	-0,1%	1,0%	5,8%
Lodzkie	1513	544	18,1%	6,70%	-0,1%	0,9%	4,4%
Malopolskie	620	278	14,0%	6,40%	0,0%	0,4%	2,1%
Podkarpackie*	9000	1925	17,3%	5,00%	-0,8%	7,7%	23,8%
Podlaskie*	1153	290	15,1%	4,30%	-0,2%	2,6%	6,3%
Pomorskie	4269	423	19,6%	8,60%	-0,5%	3,4%	2,7%
Slaskie	18000	5000	15,5%	8,20%	-0,9%	6,7%	17,8%
Swietokrzyskie*	3450	195	18,3%	6,20%	-0,5%	6,1%	3,3%

¹⁰ Results of the research showed negative aspects of zone's activity. Those were firm relocations and liquidations, reduction or branch changes in the previous site of production concern about 45% of the companies. Moreover, enterprises there showed not many linkages between the firms from the zone and other regional firms. The small extent of the firms from the zone use services offered by regional firms. The region was not attractive for both inputs and outputs. The consequences were that the zone became in large extent a closed enclave and not an active growth pole of regional development. It means that basic incentives to begin economic activity within the zone was the tax exemptions which compensate the difficulties in economic activity caused by weak sides of the region and higher costs of transport caused by peripheral location of the region. The positive aspect of the zone is the creation of new jobs. However, after consideration of the negative effects (e.g. substitution of economic activity) only 60% of new jobs were created owing to the special economic zone. Nevertheless the zone plays an important role in job activation of the unemployed, who count for about 50% of people employed in the zone. Besides, the zone influenced changes of regional economic structure by creation of new jobs in modern factories. It also creates an alternative to agricultural activity and it caused development of the service sector.

Warminsko-mazurskie*	1603	335	28,7%	9,00%	-0,3%	2,3%	10,0%
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*own estimations (subzones located in two different voivodships)

Source: own calculations on the basis of Ministry of Economy and Central Statistical Office

The influence of investment in special economic zones on the regional labour market will be illustrated by two indicators: share in total employment in manufacturing in particular region and influence on changes in regional unemployment level. The general assumption is that: if the zones had not been established the investors would not build industrial plants in Poland or in a particular region. Of course such an assumption is a great simplification, because we have clear evidence of the negative effects of the functioning of the special economic zones like: relocation of the plants, distortion in competitiveness led to worse conditions to firms outside the zones and others (Bazydło, Smetkowski 2000B), but the effects are very difficult to estimate. Therefore we have to accept the assumption remembering the above mentioned reservations.

The influence of the zones on the pattern of unemployment level across Poland is almost imperceptible. The exceptions are Podkarpackie and Slaskie voivodships where zones led to a decrease of the level of unemployment by 1 per cent point. On the other hand the influence of the zone on local labour market might be significant. For example in Mielecka SEZ the level of employment increased only from 11,6% in 1998 to 16,1% in 2001 in comparison to national growth by 8,3 per cent point.

Zones also have a significant impact on employment in manufacturing in enterprises sector. The share of zones in total employment in manufacturing starts from 0,4% in Malopolskie to 7,7% in Podkarpackie voivodship, although in the whole country merely 2,2%. Moreover the zones attracted a huge amount of total investment in industry in Poland - almost 7,1%. The share in capital investment exceeds 10% in four voivodships: Podkarpackie, Slaskie, Dolnoslaskie, Warminsko-mazurskie.

The results of the special economic zones program in Poland are diverse in terms of regional policy. There are evidence of the zones that have significant impact on processes of regional and local development like: Mielcka SEZ, Katowicka SEZ, Walbrzyska SEZ, Legnicka SEZ, while the others did not play the role of instrument of regional development, because of the low level of investors activity. In general zones operate better in development regions with existing economic potential and infrastructure like: Dolnoslaskie, Slaskie, Podkarpackie than in more backward regions like: Podlaskie, Swietkorzyskie. It is a result of variety of zone creation purposes which has led to strong competition between special economic zones in Poland.

4. SEZs as an instrument for industrial policy

Although the instrument enable the government to decide of the strategic industry branch in each zone, such attempts have not been undertaken. Permissions are issued by the zone authorities and only large investments (over 10 mln PLN) had to be consulted with the Ministry of Economy. Therefore investors form different branches appeared in each zone, which made difficult zone transformation into industrial clusters. Although there is a lack of industrial policy, the structure of zone's

investments seemed to be favourable with significant share of modern industry branches with strong inter-industry relationships.

Structural analysis (Bazydło, Smetkowski, Wielonski 2001) unambiguously indicates that most of capital and employment were situated in “progressive and capital intensive”¹¹ branches of economic activity in Poland like first of all production of transport equipment (in case of SEZs it means only automobile industry). The concentration of investments in the sector is the result of investment of foreign transnational corporations. Among 20 of the largest foreign firms which decided to settle business in these zones, 12 were involved in car production. The largest are Opel Polska (Katowicka SSE), Lear Corporation (Mielecka SSE), Volkswagen Motor Polska (Legnicka SSE), Toyota (Walbrzyska SSE). The total amount invested in such branches exceeds 50% of the capital and 32% of total employment within the zones (1999). On the other hands the number of investors was quite low, which indicates the large scale of those investments. Moreover subcontractors of the firms also operate in the zones in such ‘progressive branches’ like: electrical machinery and apparatus; metal and metal products, both used in the car production process.

SMEs firms with domination of domestic capital have usually chosen labour - not capital - intensive branches. They may be classified to “progressive labour intensive” like: production of furniture and consumer goods, rubber and plastics, food and drinks. Expenditure on creation of 1 place of employment in such branches is low (for instance in Suwalska SEZ dominated by SMEs the average expenditure per job creation is 125 000 PLN (c.a. 35 000 EUR) in comparison to 277 000 PLN (ca. 77 000 EUR) in Katowicka SEZ. The small amounts of capital invested can be recognise as a threat in the future, because it facilitate the decision of closure or relocation of the business after expiration of tax exemptions in the zone.

It should be underlined that investors did not choose industrial branches recognised as “stable” or “regressive” in Poland. Production of machinery and equipment, chemical and chemical products and other metal goods had marginal importance. Restructurisation of these branches will proceed without a significant involvement of special economic zones.

In conclusion it seems that the special economic zones will lead to strengthening of the positive structural changes in Polish industry by development of modern industry branches which may be classified as “progressive capital intensive” though not high-

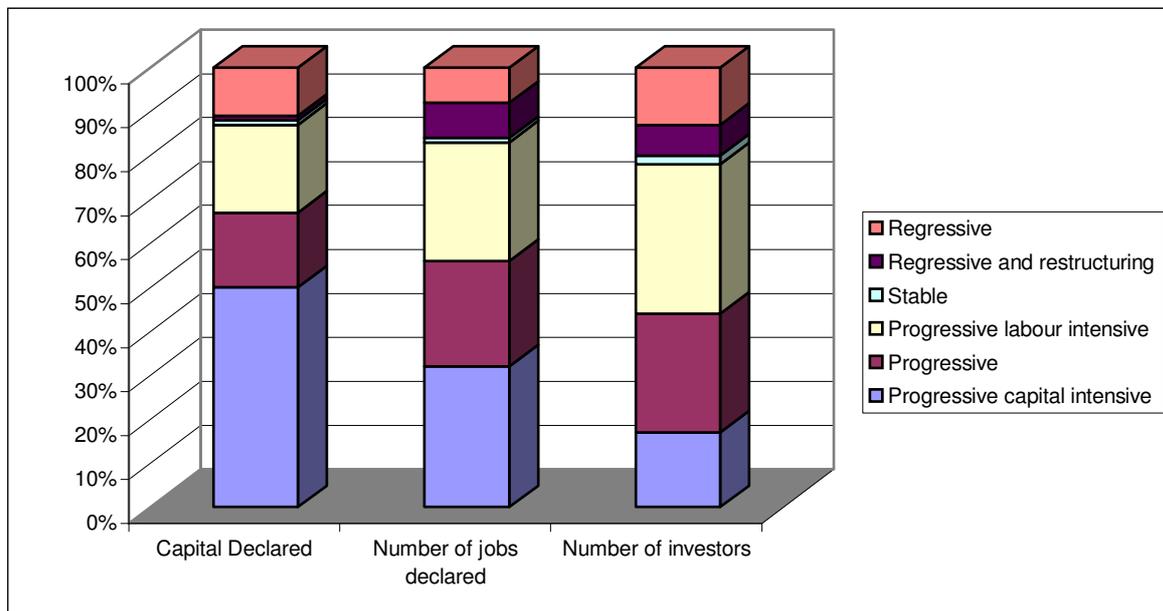
¹¹ Industry branches were divided into 9 types of industries. The classification took into consideration two factors: change in employment and change in production efficiency (measured by value of production per worker) in comparison to national average. Therefore the types of industry are the following:

Branch	Employment „+”	Employment „=”	Employment „-”
Efficiency „+”	Progressive capital intensive	Capital intensive	Regressive and restructuring
Efficiency „=”*	Progressive	Stable	Regressive
Efficiency „-”*	Progressive labour intensive	Labour intensive	Regressive and descendent

Signs „+”, „=” and „-” means change in comparison to national average

tech industries.

Fig. 2 The industry branches in Polish SEZ in 1998.



Source: own estimations

5. SEZs in the perspective of accession to the European Union

In the context of Polish integration with the European Union, one problem relevant to special economic zones seems extremely important - the cohesion of Polish legal regulations related to special economic zones and the EU standards (Smetkowski 2000). In the field of competition policy in the European Union, in force is notation of article 87 (ex Article 92) of the EC Treaty. According to the Article, State aid can not adversely affect trade between Member States. Compatible with the common market are: aid having a social character (granted to individual consumers), aid to make good the damage caused by natural disaster or exceptional occurrences and aid granted to the economy of East Germany. Another four types of aid may be consider to be compatible with the common market:

- aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment,
- aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State,
- aid to facilitate the development of certain economic activities or certain economic areas,
- aid to promote culture and heritage conservation.

Polish SEZs might be considered as aid formulated in point a) and c). In the first case, special economic zone could be established in regions, where GDP per capital is lower than 75% of the average GDP in the European Union. Taking into account general low level of development in Poland (about 40% of European Union average), all Polish zones might be accepted by European Commission. In the second case, a

zone could be established in the region where income per inhabitant is lower than 85% of national average or level of unemployment is higher than the 110% national average. Nevertheless, in the framework of above derogation, there are strict rules of State aid. Therefore the European Union Commission has many objections to the Polish special economic zones programme and demands the liquidation of the zones. The basic argument against the Polish zones are:

- Lack of strictly defined support limits for firms operating within the zones. In Member States, aid depends on the map of regional support. Dependent on the level of economic development, strictly defined levels of support are allowed. Nevertheless, in any case level of State aid could not exceed 75% of the investment value. In Polish SEZs it is impossible to predict final level of State aid, because the level depends on firms profitability i.e. the amount of income tax exemptions;
- Possibilities of operational aid, which does not reflect amount of investment in fixed assets.
- Lack of regulations related to support for firms from sensitive sectors. There are special regulations concerning support for sensitive sectors i.e. metallurgy, coal mining, shipyard, synthetic fibre industry and motor vehicle in EU law. In case of Polish SEZs particularly important is State aid for motor vehicle industry. In the European Union such aid had to be accepted by Commission and investors, among others, are obliged to prove that there were some other alternative sites of location of the factory which was the reason why the support in that place was necessary. Additionally large part of automotive concern production in Polish SEZs is directed for export, mainly the EU markets.
- Possibilities of combining different types of State aid. In case of Polish SEZs there are no regulations related to such practices.
- Possibilities of export-oriented aid. In the EU, export support to other Member States is definitely forbidden. Such an aid was possible only in Mielcka SEZ. Nowadays, it is not possible to receive such support, but there are still four companies, which are temporarily the beneficiaries of the export-oriented aid.

The Polish Government, considering the above mentioned arguments, decided not to establish new special economic zones and not to expand existing zones. The new Act of public aid passed by Parliament on 30 June, 2000 established new rules of state support for entrepreneurs. The difference are the limit in the level of support which may not exceed 50% in majority of Polish NUTS 3 with the possibility of increasing by 15% in the case of small and medium enterprises and differentiation of the aid depending on the branch of activity. Moreover according to the project of the Act regarding investment incentive scheme all investors which realise new investment projects or create a certain amount of jobs might be entitled to state aid no matter of the industry plant localisation¹². In the light of the new act the only advantage of special economic zones are an easier and automatic way of obtaining tax exemptions and possibility of taking advantage of the existing zone's infrastructure.

Nevertheless the investors that received a license to operate in zones before 2000 are still an obstacle in Polish negotiation with the EU. The latest proposition of Polish

¹² Till May 2002 the investment scheme have not been prepared yet.

government is to pay a compensation for large investors from SEZ and negotiate with UE transition period for the rest of the SMEs till 2017. Otherwise investors could sue Government in Courts demanding high compensations.

Summary

The Polish special economic zone programme was not, as it seemed, an expression of long-term regional and industrial policy, but rather a temporary instrument to support selected regions with particular problems caused by economic transformation. The survey proved that the programme brings different results depending on the zone examined, in general better in regions with existing economic development potential than in more backward regions. Moreover only in a few voivodships the zones have a significant share in labour market and capital investment. In the others their influence are limited to the local economic systems. On the other hand, although lack of industrial policy concerned the instrument, zones supported a positive propensity in restructurisation of Polish industry by development of modern capital intensive industry branches. And finally it should be underlined that during the preparation of the programme, the cohesion with the European Union standards in the field of competitive policy was not considered. Currently, despite of amendments in the special economic zones Act, in order to achieve cohesion with the European Union law, special economic zones are still an obstacle in Polish negotiation with the EU in the field of competitiveness policy, because of previous tax exemptions for investors.

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