The Małopolskie Economic Region[1]

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[1] This case study is written in the context and according to the guidelines of the EU-financed Eurocap project (www.uni-bamberg.de/sowi/europastudien/eurocap.htm). The second Polish case is the region of Lower Silesia (Wrocław); therefore, some tables and figures refer to these two regions. The design of the empirical research, the data collection and the empirical field work has been initially coordinated by Vedrana Miljak. Many thanks also to Dominik Syga, who assisted us in this field work and who translated and transcribed the interviews.

1. Introduction

Like all countries in Central and Eastern Europe, Poland has faced a period of intense changes since the end of communism and the beginning of a far-reaching transition period since the early 1990s. One result of the political change was the establishment of a new system of regions. In this paper we will focus on the so called Lesser Poland region (in Polish: "Małopolskie"), one of the newly established Polish voivodeships, which is located in the South of the country. We will analyse the current socio-economic situation and the renewal of regional capabilities. While presenting the main assets of the region in order to participate in the global competition of business locations, we will focus on the question, how the region has renewed its technological, organisational and economic competencies so far in order to increase its potential for future economic growth.

This paper is a result of the research project "Social dialogue, employment and territories" (EUROCAP) funded by the European Commission. As empirical basis of this paper the historic and the current economic development, the labour market and the employment structure of the Małopolskie region were analysed. Like it is also the case with the second Polish region, the Lower Silesian region, which was also analysed in this project, this region is a good example of a traditional industrial region confronted with the challenges of the postsocialist transition and the European integration processes. In addition to the use of openly available statistical and qualitative information on this region, interviews with regional experts from science, politics and administration[2] have been conducted in September and October 2004, in order to analyse the regional development perspectives and respective strategies.

The capabilities of a region depend on the regional companies and their networks as well as on the public and private educational institutions, the research, development and technology transfer facilities and the employee's, employers', professional and trade associations. One of the peculiarities of the Małopolskie region is its rich cultural tradition with a variety of well-known educational institutions. Above all, the region's metropolitan capital city Kraków is considered as the cultural and scientific centre number one in Poland accommodating six universities with more than 100.000 students a variety research & development institutions. Especially in and around Kraków highly specialised services and research-intensive industries

[2] We conducted six interviews. Our interviewees belonged to the following organizations: the administration of the Voivodeship of Małopolskie, the Kraków city administration, the Kraków office of the Solidarity Trade Union, the Technology Park Kraków, the Centre for Transfer of Technology of the Technical University in Kraków, the Chamber of Commerce in Kraków

have emerged. Besides the favourable conditions for knowledge-based production in urban centres the region's main competitive advantage is its huge attractiveness for tourism due to the existence of a manifold of different cultural and natural tourist sites no matter which season it is. However, like all other regions in Central and Eastern Europe the region was confronted with the challenge of restructuring right after the fall of communism and the threat of rising unemployment. During the period of transformation the region was doing relatively well for a long time, since the unemployment rate used to be one of the lowest in Poland. But it has increased in recent years, what indicates that the region has not overcome the period of drastic restructuring, yet. The main challenge of the region is the difficult situation in rural areas and the huge discrepancy of economic development within the region respectively. While Kraków is a dynamic, competitive growth pole, the rural areas are mainly shaped be outdated and unproductive agriculture. The question is, therefore, whether the region is capable of carrying out a conducive regional governance, which might further promote the reinforcement of regional capabilities but at the same time balance drastic interregional disparities.

In the following, the emergence of new regional capabilities in the Polish Voivodeship of Małopolskie is going to be analysed. At first, we will introduce the concept of regional capabilities (2). Then we will briefly present the history of Małopolska, the historic origin of the present equally named voivodeship, and the social construction of the Małopolskie region with the revival of a particular regional tradition and identity (3). Subsequently we will analyse the processes of rebuilding the industrial capabilities of the region (4). Finally we will analyse the institutional conditions for the further developing the Małopolskie region (5).

2. Economic Region. The theoretical approach

An economic region can be analysed as a societal field which is shaped by the regional companies, regional institutions and identities and individual actors.[3] The capabilities of a region are anchored in its organizational capabilities (in its companies, its industrial structure and its patterns of specialisation) and in its institutional structure.[4] These structures are the „memory" of a region, the result of path-dependent experiences of cooperation and conflict. These institutional structures have been described by Salais/Storper (1997) as regional orders, as conventions, as "taken-for-granted mutually coherent expectations, routines, and practices". These institutions (or governance structures, conventions or regional orders) are produced or re-produced in an open, but path-dependent way a) by the transaction-cost-minimising network strategies of enterprises, b) by regional public authorities (especially in federal states) and c) by non-governmental actors (for example trade unions, professional and business associations, NGOs or sometimes even individual actors).[5] The regional governance structures are crucial for the innovative potential of regions and regional firms, because they are regulating the organizational patterns of work, management and innovation, because they are shaping the inter-organisational patterns of cooperation and competition and because they are regulating the relationships between businesses, science, technology, education and politics.

In the following, we will analyse the impact of companies, public authorities and associations on the governance structure of the Lower Silesian region because it can be assumed that these structures will have a major impact on the competitive strength of this region.

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[3] "In their most generic guise, such fields are composed of (1) organizations seeking to structure their environments, (2) preexisting rules (i.e., existing institutions) that operate to constrain and enable actors in the arena, and (3) skilled strategic actors who work within organizations to help attain cooperation among disparate groups and interests." (Fligstein/Stone Sweet 2002: 1211).

[4] This refers to the concepts of regional innovation systems which has been defined as follows: "Regional innovation system denotes regional clusters surrounded by 'supporting' organisations. Basically, regional innovation system consists of two main types of actors and the interaction between them (…). The first actors are the firms in the main industrial cluster in a region including their support industries. Secondly, an institutional infrastructure must be present, i.e., research and higher education institutes, technology transfer agencies, vocational training organisations, business associations, finance institutions etc., which hold important competence to support regional innovation." (Asheim/Isaksen 2002: 83) In contrast to the cluster concept – which has been defined as "geographically proximate firms in vertical and horizontal relationships involving a localized enterprise support infrastructure with a shared developmental vision for business growth, based on competition and cooperation in a specific market field" (Cooke 2002: 121) – the relative importance of supporting institutional structures is estimated to be higher.

[5] In an ideal-typical way, Cooke (1998) has opposed these different forms of coordination as grassroots, network and dirigiste structures of governance (Cooke 1998).

3. Małopolskie – a region of rich cultural tradition

3.1 History

The Lesser Poland or Little Poland Voivodeship (in Polish *województwo małopolskie*) is one of sixteen new established administrative regions of the Republic of Poland located in the Vistula river catchment area in the south of the country. While the region was fragmented or non-existent for a long time throughout the last century, it nowadays contains core areas of the former historical and geographical region of *Małopolska* (Lesser Poland) again, which together with *Wielkopolska* (Greater Poland) and *Śląsk* (Silesia) initially formed the medieval Polish state. However, the area associated with the historical name "Małopolska" was more than three times larger than the present shape of the voivodeship. Likewise its political, economic and cultural significance was higher considerably in medieval times, since Kraków (Cracow), the historical capital of Małopolska, which was originally founded by the Slavic Vistulan tribe around 700 AD, used to be the ancient capital of the Polish kingdom for centuries accommodating the royal residence on the Wawel hill. Małopolska was absolutely predominant in political, economic and cultural terms mainly after the formation of the first Polish state under the Jagiellonian monarchy in the early 14th century and until the end 16th century. Kraków, the former centre of politics and commerce, and all other larger settlements of Małopolska were experiencing a prosperous period with flourishing international commerce and magnificent renaissance arts. In this context, it can be highlighted as well that Kraków also accommodated one of the first universities in Europe: the Jagiellonian University, which was founded in 1364 already. Not surprisingly this university and the rich cultural heritage has been the pride of the Cracowian citizens until today and due to its rich cultural heritage the city is commonly considered the intellectual, academic, and artistic capital of Poland.

However, the political significance of Kraków and of the Małopolska area went down at the latest in the early 17th century, as the residence of the king was moved to Warsaw and, hence, Kraków lost its status of being the capital of Poland. Within two centuries Małopolska was ruined by incessant wars and natural calamities. During the three partitions of Poland in 1791, 1793 and 1795 the historical area of Małopolska was annexed to the Austrian Habsburg Empire and it was, since then, not referred to as Małopolska anymore, but as a part of *Galizien* (Galicia), the Eastern boderland of the Habsburg Empire. Throughout the 19th century the former glorious Małopolska region was considered as one of the least developed and poorest regions at the Eastern border of the Habsburg Empire. However, during the time of Polish partition and foreign hegemony the glorification of the cultural richness of the city of Kraków and of the former prosperous times of the Małopolska region became one of the main elements of national romanticism of the suppressed Polish people. The preservation of Polish culture and tradition was made possible to a certain extent, since Kraków became a free city again according to agreements of the Congress of Vienna in 1815 and the area surrounding Kraków received considerable autonomy in the years 1867-1873. While officially called *województwo krakówskie* (Cracow Voivodeship) Cracow and its surroundings became part of the new-established Polish state again in 1918. After the Second World War the borders of this voivodeship, which contained core areas of the historical Voivodeship of Małopolska, were only slightly changed. In 1975 the Cracow Voivodeship was dissolved and divided into smaller non-historical units due to the preconditions of a major administrative reform. Since 1999, the recent administrative reform brought back the original name of the area with the shape of the former Cracow Voivodeship of 1918. In this sense, the main historical connection of the present Małopolskie administrative region must be rather drawn to the shape of the former Kraków Voivodeship, which existed until 1975, and not back to the "golden ages" of the region. However, the identity of Małopolskie voivodeship and, above all, of its outstanding capital Kraków is to a large extent based on the particular historic cultural heritage. The city of Kraków was added to the UNESCO list of World Class Landmarks of Cultural and Natural Heritage, which definitely helped the city to become the Polish tourist attraction number one.

The political climate of the city has always been very special. During the famous Polish Solidarity mobilisation in 1980/81 Kraków and the whole region was one of the strongholds of the democratic movement and the Solidarity trade union. On the one hand Kraków's industrial district Nowa Huta, which was specially set up in the post-war period by the socialist party in order to reinforce the matters of the working class people in the city with strong bourgeois traditions, became one of the outstanding centres of the independent trade union organisation. On the other hand Kraków's particular academic milieu and independent students´ organisation displayed a crucial role in the whole region and formed a highly politicised and politically integrated counter-elite. The marked culture of self-determination manifested in strong reservations with regard to the central government in Warsaw - the "wrong" Polish capital. These strong reservations and the feeling of being superior in terms of civic tradition and culture are still deeply embedded in the regional pride and identity of the Cracowians and the people of Małopolskie Voivodship.

3.2 The making of Małopolskie region

Without the preceding historical background the character of the current Małopolskie region and its specific cultural identity can hardly be understood. In the following chapter some main features of the Małopolskie region are provided in order get a first overview of the current economic situation and recent developments. Furthermore, it will be pointed out that the Małopolskie region, as it exists today, has to be regarded as a rather different social area, since it has only recently been constructed as a new intermediate administrative unit – namely in the light of EU accession. However, the huge efforts to build up decentralised regional and local governance structures and a full range of regionally based institutions might be an evidence for the emergence of an economic region as it has been previously defined (see chapter 2).

Figure 1: The Małopolskie Voivodship

Source: www.małopolskie.pl

The Voivodeship of Małopolskie (województwo małopolskie) is located in the Southern part of Poland bordering to Slovakia in the Tatra mountains. It occupies 4,8% of Poland's total area with an amount of 15.144km^2 and is inhabited by 3,2 million people. Thus, it ranges on place four of all 16 Polish voivodeships in terms of population with a share of 8,4% of Poland's total amount.

A voivodship (województwo) is Poland's largest administrative unit and the seat of the regional government. The regional government, officially constituted by the regional assembly, is elected in direct elections each four years. Its responsibilities include legislative and control functions as well as the public administrative tasks at the regional level. The main political responsibilities are assigned to the province executive board, which is nominated by the regional assembly and chaired by the province's chief executive officer, the "*marszałek*". However, the central government is not represented by the Marshall of the Province, but, in fact, by the province's governor, the "*wojewoda*", who has to make sure that all decisions made at all regional levels are in accordance with the national legislation and who has to supervise the tasks of central government institutions, such as police, sanitary, epidemiological inspection departments and so forth. By definition the *marszałek* and the *wojwoda* are completely independent from one another and both have their distinct fields of responsibility, which they have to take care of. According to an interviewee of a regional development agency, however, this clear-cut division of competences hasn't fully been implemented, yet. The *wojwoda,* the representative of the central government in the region, who is just supposed to have a kind of controlling function, still holds some competences in sensitive policy areas. Although most of the executive competences are in the hands of the *marszałek*, at present, some legislative and institutional weaknesses may still cause ambiguities and dispensable troubles at the top level of regional governance due to interference of both departments.

The Małopolskie Voivodeship is divided into 22 counties (powiaty) and 182 communes (gminy). It includes 57 cities or towns and 2630 villages. The *gmina* is the basic administrative division unit in which the respective tasks and functions are carried out by the commune council and its executive officer. Depending on the size of a commune, the executive officer is called *prezydent* (in larger cities), *burmistrz* (in smaller towns) or *wójt* (in villages). The *powiat* is the second level of the administrative division, after all, being responsible for all public administration activities that are outside of the scope of the communes' authority, such as education, public transport, economic policies etc.

About 23% of the region's population live in Kraków the capital of Małopolskie, which is, with an amount of about 745.200 inhabitants by far the biggest city of the region and the only real urban centre. The other major cities of the region are Tarnów with 121.500 inhabitants, Nowy Sacz (82.000), Oświęcim (44.400), Nowy Targ (34.000), Gorlice (30.200), Zakopane (30.000), Bochnia (29.600), Skawina (24.100) and Andrychow (23.100). There are another eleven towns consisting of less than 20.000 inhabitants. This adds up to about 50% of the region's population living in cities or towns. This is significantly lower than the national average of 61,8%. However, Małopolska is one of the most densely populated voivodeships in Poland with about 212 inhabitants per square kilometre. This is due to the dominance of the regional urban centre Kraków, of course, but also due to a high population density in rural areas, since Małopolskie has the highest population density in rural areas of Poland with an amount of 119 persons per square kilometre.

Figure 2: Major cities in Małopolska

Source: www..malopolskie.pl

While discussing the current administrative structure and social dispersion of Małopolskie, it is important to notice that the present shape of the voivodeship is only existent since the introduction of the major regional administrative reform in January 1999. Before that time there was almost no such official regional division and organisation in post-war Poland (s. Bachtler et. al, 1999). The notion of a regional government, as an intermediate level of governance and planning between local (municipal) and national levels, has been known in Poland only since shortly before World War II. In the post-war period regions were of little importance due to the highly centralised state management under communism:

> "As a result, the notion of regional identity among the people was weak and survived in only a few parts of the country. Regions had little importance then because of the centralized concept of state management. There were fourteen and later seventeen regions. Regional authorities were visible in the administrative system, although they were not democratic, due to the relatively large size of regions and because of the political power of regional leaders. However, only the Communist Party had any decisive power, whereas administration played mainly an executive role. The life of society was organized around the place of work rather than around the place of living; hence the increasing importance of industrial sectors relative to regions of the country" (Głowacki, 2002, p. 105).

In the course of the administrative reform in 1975 the regionalism in Poland collapsed completely, when the former seventeen regions were dissolved and sliced up into 49 smaller units with an average of about 690.000 people each (Figure 3a): "The dissolution of the traditional regions and the formation of new units stemmed from the desire of the central party leadership to curb the local party elites' efforts at gaining greater regional independence" (Wollmann/Lankina, 2003, p. 101). In fact, representatives of the central government headed these units, but they had little executive power to manage specific regional tasks and problems. After the fall of communism in 1989 the radical change to democracy and market economy was primarily focused and implemented on the national level. The territorial and institutional reform was blocked in the political centre. Thus, the intermediate level as well as the degree of state de-centralisation remained quite weak in post-communist Poland. At the beginning of the transformation period there was an introduction of democratic regional governments only on the very local level. However, the establishment of regional governments and the new administrative division was introduced on January the 1st 1999 after long and heated political debates concerning different concepts of administrative reform. This reform resulted in the creation of the 16 voivodeships, which are to certain extent based on regional traditions and historic distinctions, but also on arbitrary construction (Figure 3b).

Figure 3a: Territorial organization after 1975 **Figure 3b: Territorial organization after 1999**

Source: http://econ.worldbank.org/docs/1212.pdf

Source: Gorzelak, 2000

The administrative reforms were essentially based on two main principles: First, the guarantee of a high level of autonomy for regional authorities within a unitary state - consequently, no federal concepts have ever been taken into consideration. Second, the reference to the European regionalism to enable an international collaboration between regions (Regulski, 2003). Thereby the EU accession process, which strongly intensified during the second half of the 1990s, must be considered as the main driving force of administrative de-centralisation and regionalisation in Poland (Gorzelak, 2000). The creation of a new regional administrative structure on the meso-level was prompted by the fact that the existing regional structure was not sufficient enough to absorb the funds provided by the European Union - although the existence of a strong regional government was not an essential condition for the EU accession.

Since the beginning of the transformation process, Poland has received financial assistance from the EU. This was mainly provided in the institutional framework of the PHARE program, which officially means ‘Poland and Hungary Action for Restructuring Economies’, because it was first established in 1989 to support particularly the transformation economies of Poland and Hungary. During its first phase (1989-91) it was designed only for pure humanitarian aid, including food and medicine. Due to its success, the program was quickly enlarged to all accession countries from Central and Eastern Europe. After it was being established, the PHARE program remained the EU’s central financial tool of financial support with regards to the Eastern und Central European transformation countries. But its main focus was changed for several times and during 1993-97 explicitly dedicated to regional and sectoral investments. Głowacki, (2002, p. 106f) highlighted, however, that Poland had used only seventeen percent of the PHARE funds allocated for inter-regional cooperation in 1997. Furthermore, the inefficiency of the Polish administration in preparing the planning and programming documents necessary for PHARE assistance had turned out to be very acute in 1998, when the PHARE budget allocated for Poland was reduced by EUR 34 million due to poorly prepared projects. Obviously, there was a strong need to rearrange and rationalize the administrative structure in order to be actually able to receive the EU structural funds after the accession to the EU. In this sense, one can say that the EU accession process served as one of the main incentives to undertake fundamental structural administrative reforms, which finally defined the shape of today's Małopolskie Voivoidship and the 15 other Polish voivodships.

As it can be seen above from the Figures 3a and 3b, the Małopolskie Voivodship consists of districts and communes that belonged to the following seven former voivodeships: Krosno, Nowy Sącz, Kielce, Bielsko-Biała, Katowice, Kraków, and Tarnów. Due to the old administrative division, which had been in place from 1975 until the latest change in 1999, there are still many constraints to the coherence and integration of the region and cleavages between the different areas of the region. Accordingly, Małopolskie in its present administrative shape is described as a mixture of many different sub-regional identities (Bukowski, 2004: 120). Moreover, there is a marked North-East divide with a huge discrepancy in terms of economic development. Obviously, most of the potential for economic innovation is concentrated in Kraków, the urban growth pole of the region, and with some restrictions in the other two bigger cities Tarnów and Nowy Sącz as well. In statistical terms it can be said that the economic potential of Kraków adds up to 30 per cent of the entire regional potential.

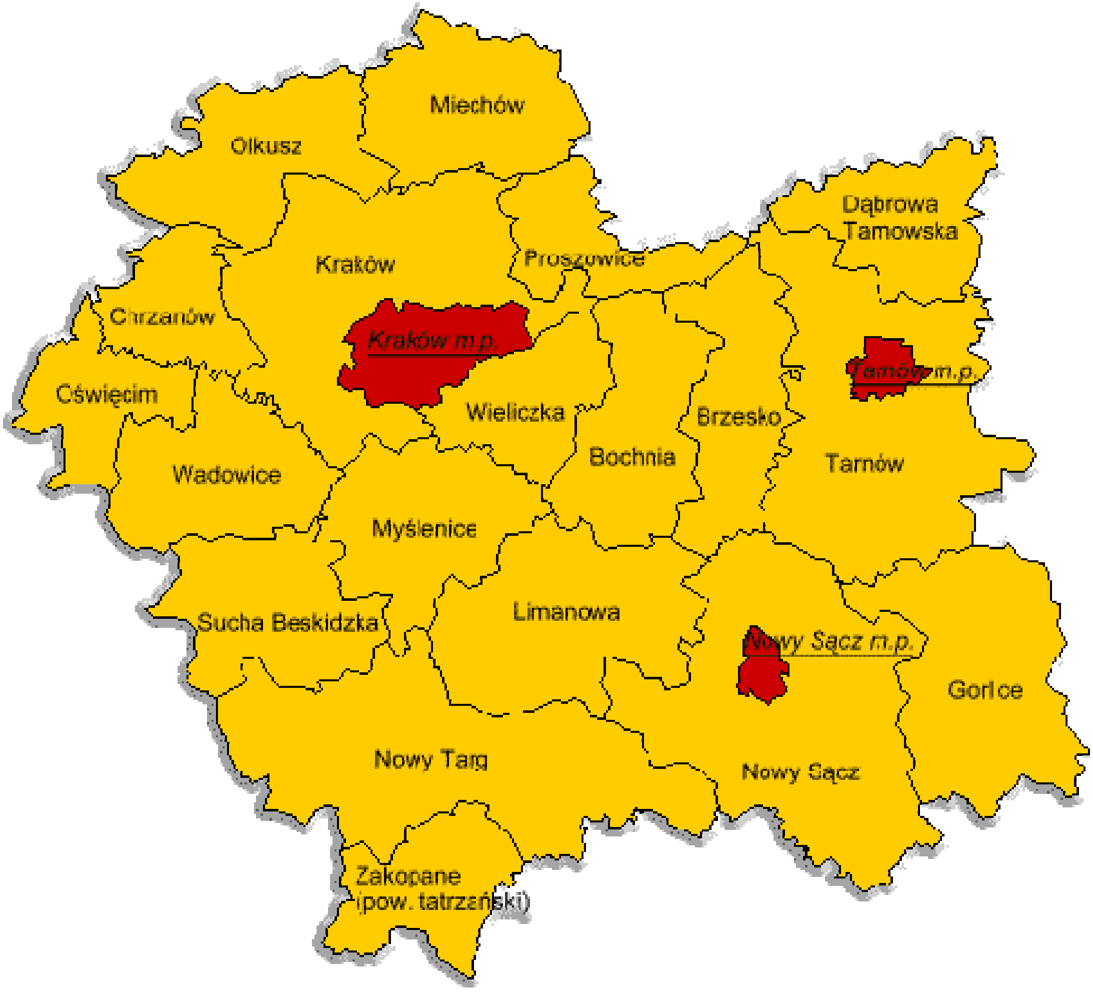
Nevertheless, it must admitted as well that the Małopolskie Voivodship cannot only be described as an incoherent social entity, which was just artificially constructed by a top-down approach. As Tatur (2004a; 2004b) pointed out a strong development of bottom-up institution-building had already been taking place far before the restructuring of the Polish voivodships: "Within the opportunities provided by a democratic macropolitical framework allowing for association and organisation on a contractual basis, it was the challenge of economic restructuring that motivated actors to deal with pressing problems and in doing so to create a "region" (Tatur, 2004b: 360). A regional governance structure was already being institutionalised by local, regional and central actors and a complex set of regional policy organisations and informal networks of professionals was being put into play. Thereby, not only the professionals at the top level of government, but local and regional elites and the representatives of the local governments as well played an active role in preparing the regional government reform. With regard to the "construction" of the present administrative shape of Małopolskie Tatur analysed that the new reform elites of the local, the regional and the national level were integrating on the basis of networks and shared political values and visions in order to further the process of regionalisation. Most interestingly the "making" of the Małopolskie region was accompanied by the construction of a particular regional identity with selective references to the regions' history:

> "[T]he shift in regional identity discourses can be interpreted as a reaction by local and regional actors dealing with new opportunities and constraints. Reinterpretation was related to new challenges of regional integration. It became possible with the institutionalisation of democratic procedures embodying the region's 'historical' identity" (Tatur, 2004b: 392).

The particular regional identity discourse in Małopolskie is related to both the common legacies of the past and the new opportunities potentially deriving from the construction of a new administrative district. It can be said, in this respect, that the most integrating factor of the present Małopolskie Voivodship is the cult of tradition, indeed, which is seen as the core of continuity, coherence and stability in contrast to the ever-changing external forces of history. However, another tendency has occurred in the regional identity discourse leaving the reference to tradition behind and mainly pointing to the functional role of the new-established administrative structures of the Małopolskie Voivodship in order to integrate different regional interests and to manage common regional challenges. According to these views internal integration should be brought about by a strong socio-economic cohesion, mainly through the reduction of regional disparities. Therefore the implementation of a common regional governance strategy is seen as one of the major attempts of regional integration as one of the interviewees of a regional development agency explained: "In Cracow the technological standards are relatively high due to the existence of universities and research institutes. The more one goes to the south the worse the situations looks like. The common regional strategy is supposed to enhance the innovation potential of the entire region."

This description above clearly indicates that the current economic and social situation in Małopolskie is to a large extent associated with its particular historic tradition. In addition, the emergence of regional institutions and policy networks has further strengthened the making of a distinct "region". Therefore the concept of "region" can fully be applied to the new established Małopolskie Voivodship. In the following the emphasis will be placed on describing Małopolskie as an "economic region". Hence, in the following chapter the main socio-economic features and economic indicators will be highlighted.

4. The industrial and economic structure

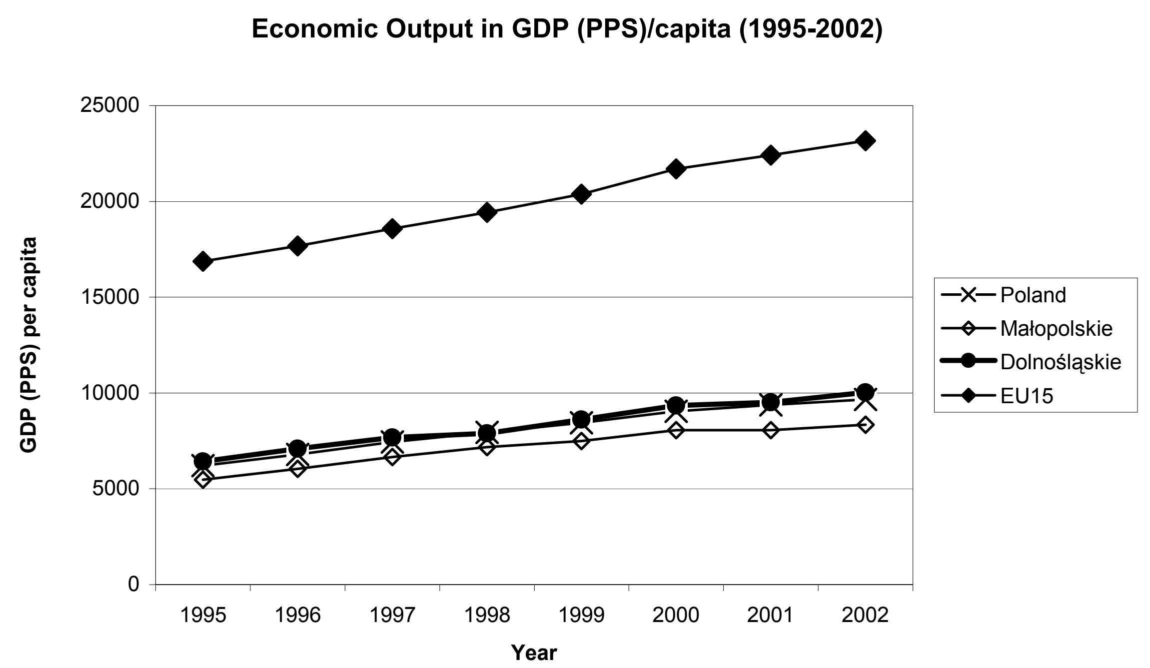


4.1 Basic facts and developments

The Małopolskie Voivodship has been one of Poland's fastest developing economic regions during the period of transformation. In fact, a long term view on the region's economic development shows that the average annual growth rate of the regional GDP ranks amongst the highest in Poland with 6,2 per cent between 1995 and 2001 (s. Table 1). Due to the dynamics of an emerging market economy the average growth rate is by far higher than the rate of the former fifteen EU Member States. Nevertheless, it must be admitted that this region is - like all regions in Central and Eastern Europe - still at the beginning or perhaps in the middle of a huge process of economic restructuring. This can easily be confirmed by one glance at the current overall economic output, which indicates that the Polish regions – as well as the Małopolskie voivodship in particular - are still far away from the economic output of the former EU-15 (Figure 5). However, the output of Małopolskie is with an amount of 8.350 GDP per capita in terms of purchasing power parities (PPS) in 2002 even significantly lower than the output of the leading three Polish regions: namely Mazowieckie with an amount of 14.713 EUR in 2002 containing Warsaw City, the country's outstanding political and economic centre, the old industrial district in Śląskie (10.700 EUR) and the Western border region Dolnosląskie (10.022 EUR).[6] Moreover, it is even lower than the national average rate of 9.661 EUR. Thus, the GDP per capita in PPS of Małopolskie ranks just in the back midfield on the 10th place in the ranking of all 16 Polish regions.

This adds up to a mixed picture of the economic performance of the present-day Małopolskie region. On the one hand it is one of the most successful regions having demonstrated a quick adaptation to new economic rules with a high potential for economic upswing. On the other hand it is characterised by a high degree of marked uneven development within the region. There is a tremendous intellectual and cultural potential in the urban areas that spawns entrepreneurship and attracts investors. But at the same time there still exists a partly devastated urban infrastructure with weak industries as well as an excess of unprofitable agricultural production in the rural areas. Hence, both the strengths and weaknesses of the region, which are to a large extent inherited from the past, are equally influential these days, but they have been revealed more recklessly since the introduction of the market economy in 1990 for the better and the worse at the same time.

Figure 5: Regional Economic Output in Comparison to EU-15



Source: EUROSTAT Online-Database

[6] According to EUROSTAT online-database, last accessed in February 2004

Table 1: Main regional indicators in Poland and EU

	GDP per capita (PPS 2001, EU25=100)	GDP growth (annual average % change), 1995-2001	Employment by sector (% of total), 2002			Employment rate (ages 15-64 as % of pop. aged 15-64), 2002	Unemployment rate (%)			Education (educational attainment of persons aged 25-64, % of total), 2002		
			Agriculture	Industry	Services		Total, 2002	Long term unemployed, (% of total umepl.), 2002	Young, 2002	Low	Medium	High
EU15	**109,7**	**2,5**	**4,0**	**28,2**	**67,7**	**64,2**	**7,8**	**40,2**	**15,2**	**35,4**	**42,9**	**21,8**
N10	50,5	4,8	13,2	32,1	54,7	55,9	14,9	54,5	32,4	18,9	66,3	14,8
EU25	100	2,6	5,4	28,8	65,8	62,8	9,0	44,3	18,1	32,6	46,7	20,6
Poland	**44,9**	**6,3**	**19,3**	**28,6**	**52,0**	**51,5**	**19,9**	**54,8**	**42,5**	**19,1**	**68,3**	**12,5**
Dolnośląskie	45,6	5,8	9,5	32,4	58,2	47,6	26,1	52,7	50,2	17,8	69,6	12,6
Kujawsko-Pomorskie	40,6	4,7	19,1	29,4	51,4	50,6	21,5	53,3	43,2	19,8	69,8	10,4
Lubelskie	31,4	4,5	39,4	18,1	42,5	56,1	16,6	46,7	37,8	22,4	63,9	13,8
Lubuskie	39,9	4,7	10,2	31,3	58,8	45,9	26,3	47,7	50,1	16,7	72,7	10,5
Łódzkie (Lodz)	40,5	5,8	19,8	30,6	49,7	52,8	20,3	62,5	42,1	23,0	64,0	13,0
Małopolskie (Cracow)	**38,8**	**6,2**	**23,7**	**27,0**	**49,3**	**54,6**	**16,2**	**58,6**	**37,5**	**16,8**	**69,2**	**14,0**
Mazowieckie (Warsaw)	69,9	10,4	20,4	21,6	58,0	57,1	17,0	56,0	36,9	18,2	65,2	16,6
Opolskie	36,4	2,7	18,5	32,9	48,7	50,3	19,7	53,0	45,3	19,0	69,3	11,7
Podkarpackie	32,0	5,1	30,8	28,2	41,1	53,2	18,2	67,5	45,7	20,0	68,8	11,1
Podlaskie	34,0	6,3	36,5	18,6	45,0	54,8	16,8	58,0	37,9	23,9	62,4	13,6
Pomorskie	44,6	6,5	9,5	31,1	59,4	50,2	21,5	39,5	45,1	19,4	67,5	13,1
Śląskie	49,0	3,9	4,1	39,5	56,4	46,9	20,1	62,3	42,0	15,0	74,4	10,6
Świętokrzyskie	34,3	5,5	31,0	24,9	44,2	50,3	18,8	53,9	48,7	20,2	67,1	12,6
Warmińsko-Mazurskie	32,5	4,8	17,9	28,1	54,0	46,0	25,9	59,2	52,2	25,9	63,2	10,9
Wielkopolskie (Poznan)	47,6	7,8	20,3	32,7	47,0	52,9	18,2	45,3	38,0	17,9	71,5	10,6
Zachodniopomorskie	44,5	5,8	8,3	29,6	62,2	45,8	26,0	52,7	54,6	20,7	68,0	11,3

Source : Commission of the European Union (2004)

4.2 Main features of the region's economic structure

The main economic trends are also reflected in the current economic structure of the region. Different from the situation in Lower Silesia for instance, the share of Małopolskie's "old" industries like coal mining, steel and chemicals is relatively low these days. The traditional industries, which are most significant and strong in Małopolskie today, are steel production, mineral and oil industry and to a large extent agriculture. However, the main problem of the industrial sector is that it is still determined by the performance of a limited number of companies. Therefore, the level of industrial production in Małopolskie is largely dependent on the biggest employer, the Tadeusz Sendzimir Steelworks (HTS) in Kraków. During the communist times up to 35.000 employees were working there; today, there are still about 15.000 employees left. Accordingly, steel works makes up to 18 per cent of industrial production in Małopolskie. In the past few years, however, the steel production of HTS has been in decline due to difficulties in the restructuring of the former socialist giant and decreasing demands of the car production market, the former main consumer of HTS's products. Therefore, new businesses and industries had to be initiated in order to substitute the loss of industrial production. In fact, the region's economic profile is more and more shaped by a growing number of both low-productive and highly specialised services (tourism, hotel and restaurant industry, medical, IT, consulting) as well as research intensive industries mainly emerging around the educational and intellectual centres. Today the share of services makes up to 62,9 per cent of the region's Gross Value Added, whereas industry (25,7 %) and construction (8,4 %) are lower considerably.

In accordance with this trend the variety of different economic activities has: Today, it ranges from a few functioning inherited "old" industries like chemical, steel, mineral and oil production or processing over new-established industries focussing on food processing, spirits and tobacco to high-tech or research intensive industries like IT, micro-electronics, robots and industrial manipulators, pharmaceuticals as well as the production of medical equipment and of equipment for environmental protection. With regard to the growing importance of the service sector the very significance and future potential of tourism and recreation, education, publishing, media and design, but also of financial services and consulting has to be highlighted, above all. Last but not least, the role of agriculture, and, more specifically, the persistence of a large share of employment in agriculture should not be disregarded in a description of the region's current economic structure, since the low competitiveness of the agricultural sector, and the social situation in rural areas respectively, is still one the main challenges of the Małopolskie Voivodeship. The official share of employment in agriculture is with 23,7 per cent disproportionately high and even higher than the national average of 19,3 per cent (s. Table 1), while agricultural production (including farming, forestry, fishery and hunting) makes only up to three per cent of the regional Gross Value Added[7].The average size of farms is with 3,6 ha the smallest all over Poland: 85 per cent of all farms in Małopolskie are between 1 and 5 ha and only 0,4 per cent are bigger than 15 ha. About 50 persons work on 100 ha of agricultural land, whereas the total Polish average is about 23 persons. In Małopolskie only 21,3 per cent of farms sell their products, whereas the national average is at 46 per cent. In this sense, the backwardness of the agrarian structure is one a major obstacles to the overall regional economic development. The social situation in rural areas is insofar difficult as over 70 per cent of farmers have no more than primary education. A radical restructuring of the agricultural sector would imply, therefore, the deprivation of living conditions of a huge amount of rural population.

Nevertheless, a relatively low share of employment in industry and the relatively high share of employment in the service sector indicate that the overall process of economic restructuring is quite successful in Małopolskie. In general, the Małopolskie Voivodship can be regarded as economically strong and capable of further development due to the success of economic restructuring and the growing variety of industrial sectors and businesses. Małopolskie accounts for 5,5 per cent of all Polish exports with Germany and other European Union Member States being the most important destinations. At present, 30 of the largest 500 Polish enterprises have their head offices in the region, amongst them five universal banks. The largest companies in terms of revenue of Małopolskie are both domestic and foreign with varying main fields of business activity as one can see in the following table:

[7] In comparison to the shares of Services (62,8%), Industry (25,7% and Construction (8,4%), according to information of the Polish Information & Foreign Investment Agency.

Table 2: Largest companies in Małopolska by revenue in 2003, EUR million

BP Polska Sp. z o.o. / Kraków	**4.749,7**	**fuels**
Tesco Grupa Kapitałowa / Kraków	**4.500,0**	**Commerce**
Philip Morris Polska S.A. / Kraków	**4.382,2**	**Tobacco**
Tele-Fonika Kable S.A. / Myślenice	**2.011,1**	**Cables**
Grupa Kapitałowa Rafineria Trzebinia S.A. / Trzebinia	**1.693,4**	**fuels**
Slovnaft Polska S.A. / Kraków	**1.420,8**	**fuels**
Zakład Energecyczmy Kraków S.A./ Kraków	**1.405,1**	**Energy supply**
Zakłady Azotowe w Tarnowie-Mościcach S.A. / Tarnów	**936,5**	**Plastics**
Grupa Kapitałowa Can Pack S.A. / Kraków	**928,9**	**Packaging**
Maspex Sp. z o.o. / Wadowice	**903,3**	**Food produces**

Source: www.małopolska.pl

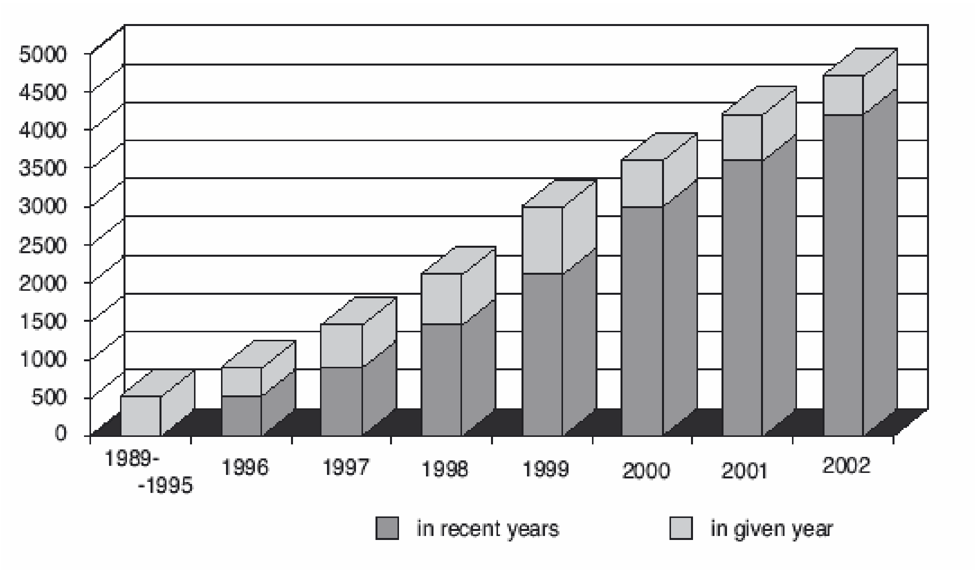
4.3 Business dynamics and foreign investments

The Małopolskie Voivodship has proven to be one of the most dynamically developing Polish regions in terms of smaller business activities and foundations of small and medium sized enterprises (SMEs). Almost 288.000 businesses are registered in the region these days and the number has risen constantly in recent years. Most of these businesses are small and often family-run. This might reflect the long tradition of entrepreneurship in the region, which could not be fully abandoned during the rule of communism. In fact, one third of total investments in Małopolskie is domestic capital accumulated by small entrepreneurs. However, as mentioned above already, there is a huge gap between the current development of rural areas and of Małopolskie's metropolitan capital, the city of Kraków. Thus, the business dynamics seem to be largely dependent on the number of inhabitants and the local conditions for entrepreneurship. The highest business dynamics can be found in Kraków city, obviously, and with a certain difference in Nowy Sącz city, Tatra district, Olkusz district and Tarnów city. The unchallenged dominance of Kraków is reflected in the fact that the city has five times more registered companies than Nowy Sącz and Tarnów together (Bukowski, 2004: 100f).

The same applies to the importance and attractiveness of Kraków to foreign investors: most of the foreign direct investments (FDIs) are concentrated in Kraków city and its surroundings.

According to official information of the Marshall's Office more than 2.400 foreign businesses have invested about six billion US dollars in Małopolskie so far, which have been constantly cumulating since the beginning of 1990s (Figure 6). However, the city of Kraków accounts for more than 75 per cent of all foreign investments and together with its surrounding, the Kraków and Wieliczka districts, it is even close to 85 per cent.

Figure 6: Cumulative value of foreign investment in Małopolska up to year 2002



Source: Polish Information & Foreign Investment Agency

Most of the foreign direct investments came from Germany (35 %), followed by the U.S. (27%) and France (9 %).[8] The contribution of industry to the total number of FDIs is in decline, whereas the trade and service sectors have been much more dynamic in recent years. The attractiveness of Małopolskie for foreign investors and of Kraków in particular can mainly be attributed to the following two factors: first, the level of wages in Małopolskie is still significantly lower than in the leading Polish region Mazowieckie (s. Figure 7), which is dominated by the huge business dynamics of the Polish economic and political centre, the city of Warsaw. Second, especially in Kraków the level of education is relatively high due to a huge variety of well know educational institutions. Hence, in a way, the foreign investors can find an equal level of qualification, there, and a comparable urban infrastructure like in Warsaw, but to a reasonably lower price.

[8] Shares of total investments according to official information provided by the Marshall's office in 2003. About one third of foreign investments stem from various different countries accounting for less than 5 per cent each.

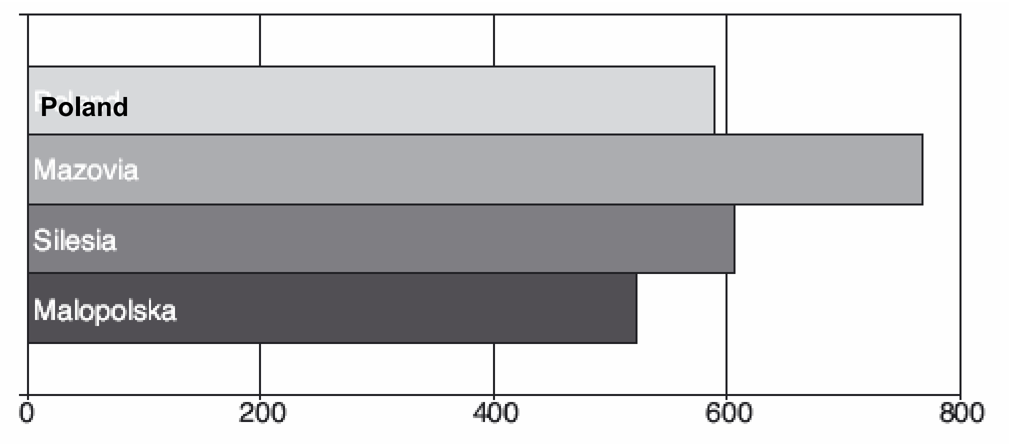
Besides the clear spatial concentration of FDIs in the capital city Kraków the second problem is that the foreign investments are rather limited to a few selected branches, like the banking sector in particular. According to information provided by the Polish Information & Foreign Investment Agency the largest foreign investors until 2002 are as listed above in Table 3:

Table 3: Largest foreign investors in Poland up to year 2002

Lp.	Investor	Country of origin	Volume (in million USD)	Activity
1	HVB Group	Germany	1,007.5	banking
2	Philip Morris	USA	473.0	tobacco
3	Pliva	Croatia	180.0	pharmaceuticals
4	Carlsberg	Denmark	112.2	brewery
5	Donnelley	USA	110.0	printing
6	Deutsche Bank	Germany	105.7	banking
7	Coca Cola	USA	104.0	soft drinks
8	Fortis Bank	Belgium	96.7	banking
9	Electricité de France	France	95.4	energy and heating
10	Carrefour	France	86.0	retail
11	F & P Holding	USA	84.0	metal containers
12	Polish-American Entreprise Fund (with connected funds)	USA	80.6	printing, banking, metal containers, hotels, construction
13	Rumeli	Turkey	79.0	cement
14	Metro	Germany	77.7	retail
15	Tesco	UK	73.0	retail
16	Bahlsen	Germany	59.0	sweets
17	Accor	France	58.3	hotels
18	Valeo	France	55.0	car parts
19	ITI Group	Luxembourg	52.0	IT and entertainment
20	Plaza Centers	Israel	50.0	real estate, entertainment

Source: Polish Information & Foreign Investment Agency

Figure 7: Average monthly gross salary in the industrial sector in August 2003 (USD)



Source: Polish Information & Foreign Investment Agency

4.4 Favourable conditions for research & development activities

The educational potential of Małopolskie is regarded as being extraordinary. The region accommodates up to 31 universities and colleges with an increasing number of private schools in recent years. The number has been growing rapidly: in the academic year 2001/2002, for instance, there were just 23 academic institutions, of which twelve were independently-run public schools and eleven were non-public schools. Since the middle of the 1990s the number of students has doubled up to more than 170.000 students in 2003/2004, about 100.000 full-time and 70.000 extramural students. However, most of the academic institutions are located in Kraków, accommodating more than 100.000 students, and only some institutions can be found in the other urban centres like Nowy Sącz, Tarnów and Chrzanów. Of course, the Jagiellonian University in Kraków is by far the most attractive academic institution of Małopolskie. It is very prestigious due to its long tradition and regarded as the best university of Poland in various rankings. With regards to private economic colleges, the Wyższa Szkoła Biznesu (College of Business) in Nowy Sącz, the Wyższa Szkoła Zarządzania i Bankowości (College of Finance and Banking) in Kraków, the Pedagogical University in Kraków and the AGH University of Science and Technology in Kraków are also considered among the best institutions of its kind in Poland.

The educational basis and intellectual capital of Kraków and the other urban centres is quite favourable for enhancing knowledge-based economic activities. Research and development expenditures are much higher in Małopolskie than the national average, reaching almost PLN 500 million in 2002, or a share of 0,87 per cent of the regional GDP (s. Table 4).

Table 4: Research & Development indicators of selected regions in Germany and Poland

	R&D expenditure (in % of GDP; 2002)	Business R&D expenditure (in % of GDP; 2002)	Governmental R&D expenditure (in % of GDP; 2002)	Higher R&D expenditure (in % of GDP; 2002)	Total R&D personnel (in % of total employment; 2002)	HRST (in % of active population; 2003)	HRSTE (in % of active population; 2003)	HRSTO (in % of active population; 2003)	HRSTC (in % of active population; 2003)
Germany	2,53	1,75	0,35	0,43	1,74	45,93	29,90	32,91	16,88
Bavaria	3,01	2,41	0,24	0,35	2,05	44,88	27,75	32,80	15,67
Central Franconia	3,20	2,62	0,18	0,43	2,41	43,23	26,61	30,74	14,13
Saxony	2,52	1,27	0,65	0,63	1,53	46,07	38,11	27,45	19,49
Leipzig	2,09	0,70	0,68	0,75	1,39	47,95	39,20	28,92	20,16
Poland	0,59	0,13	0,26	0,20	0,89	29,63	19,15	22,19	11,72
Małopolskie	0,87	0,23	0,21	0,43	1,40	29,38	19,45	22,10	12,17
Dolnoslaskie (Lower Silesia)	0,45	0,10	0,07	0,27	0,98	27,80	17,76	20,81	10,76

Human resources in science and technology — HRST

HRST and their sub-groups are measured using characteristics of educational attainment and occupation and follow the guidelines of the *Canberra Manual*.

HRSTO: **Human Resources in Science and Technology — Occupation** Individuals who are employed in a S&T occupation (ISCO '88 COM codes 2 or 3).

HRSTE: Human Resources in Science and Technology — Education Individuals who have successfully completed education at the third level in a S&T field of study (ISCED '97 version levels 5a, 5b or 6).

HRSTC: Human Resources in Science and Technology — Core Individuals who have successfully completed education at the third level in a S&T field of study (ISCED '97 version levels 5a, 5b or 6) and are employed in a S&T occupation (ISCO '88 COM codes 2 or 3).

The comparison between German and Polish regions reveals that there is still a huge difference in terms of Research & Development expenditures. The main focus of business activities is still rather labour-intensive than knowledge-based due to the considerably lower levels of wages and the challenge of radical economic restructuring. But within Poland the Małopolskie Voivodeship and especially Kraków with its surrounding is the driving force of developing a high-tech profile along with Poland's capital city Warsaw. This is remarkable, above all, when comparing the situation between Małopolskie and Dolnyśląskie, since the preconditions of Wrocław, the outstanding urban and academic centre of Dolnyśląskie, can be regarded as equal to the situation in Kraków. Hence, Małopolskie seems to be even more attractive and more suitable for the emergence of high-tech activities, which have been boosted in recent years, indeed. For instance, Poland's biggest computer producer, the fourth largest manufacturer of fibre optic cables in Europe, Motorola's research & development centre, Poland's most visited internet portals, big pharmaceutical companies or also the nations most popular radio station have been established in the region. According to official information provided by the Marshal's Office the region's authorities have consistently supported the development of advanced technologies. Especially the promotion of the IT sector, chemical and pharmaceutical industries, modern printing facilities and manufacturing of metal packaging gains special attention. Moreover, a Special Economic Zone (SEZ), the

Kraków Technological Park, was set up, particularly, in order to attract high-tech investments. Last but not least, as one can see in Table 4 governmental expenditures research & development activities in Małopolskie are absolutely comparable with the Bavarian region in Germany, whereas the governmental expenditures in Dolnyśląskie look infinitely small in direct comparison.

These findings all together are clear indications that Małopolskie economic region is in the process of transforming into a high-tech business location. However, it is not sure, yet, whether this may have a substantial effect on the labour market in the long run, since the differences in employment in research & development as well as in knowledge-based business sectors is still very significant compared to German regions.

4.5 Tourism - the driving force of economic upswing

At present, the vast majority of employment can be found in the service sector (s. Table 1). This dominance of services is more due to labour-intensive jobs in the rapidly growing tourist industry rather than activities, which require extensive research & development efforts. The Małopolskie Voivodeship embodies prime Polish tourist destinations regardless of any season and, thus, it is one of the most frequently visited regions of Poland. In 2003 almost eight million tourist travelled to Małopolskie, mostly from Germany, the U.S., Great Britain, France, Italy but also from Russia and Ukraine. The number of classified hotels doubled between 2000 and 2003. The particular advantage of Małopolskie with regard to its potential for tourism is the great variety of different attractions - be it both cultural and natural. At the first place, there is the huge attractiveness of Kraków, obviously, due to its great offer of cultural activities and its historic city centre, which is completely classified as an UNESCO World Heritage Site. But in addition, there are other four World Heritage Sites within the region as well that are in one or another way equally attractive for tourists. First, the famous salt mines in Wieliczka; second, the architectural and park landscape complex in Kalwaria Zebrzydowska; third, the wooden churches of Southern Poland (in Binarowa, Dębno, Lipnica Murowana, Sękowa); and the former Nazi-German Auschwitz-Birkenau concentration camp in Oświęcim south-west of Kraków. Year after year the region attracts also a lot of pilgrimages, e.g. to sanctuaries in Kalwaria Zebrzydowska and Kraków-Łagiewniki as well as to the house in Wadowice, where the Pope John Paul II was born. In addition, the highest mountains of Poland are located in the south of the region, the Tatras, where the city of Zakopane, Poland's skiing and hiking resort number one is very frequently visited as well.

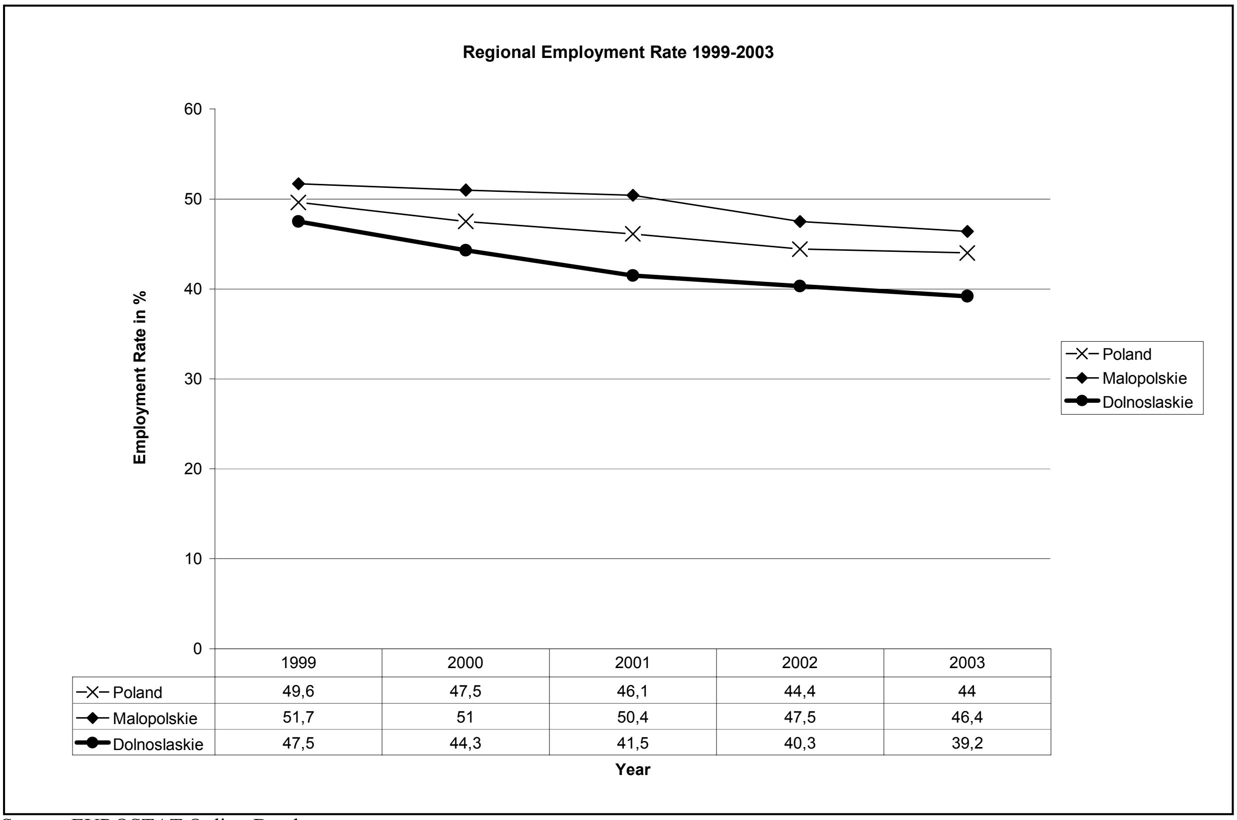
Futhermore, due to Małopolskie's abundant mineral-water and thermal springs up to nine health resorts have been established or renewed in recent years.

This short enumeration of a huge variety of tourist attractions spread all over Małopolskie may well illustrate the high potential for tourism in the region. It seems that there are many opportunities of further strengthening and developing the tourist profile of the region. Therefore, the development of leisure facilities as well as the construction and modernisation of sports facilities have received considerable financial support from the regional government. The further expansion of tourism may act as the driving force of enhancing the regional coherence and economic development, since it is one of the few fields that is not mainly dependent on the business attractiveness of an urban centre. Thus, tourism can be regarded as one of the future sheet anchors of the declining agricultural sector. For instance, agrotourism and efforts of preserving the naturalness of small farm units have become more important in rural areas. Communities in rural areas of Małopolskie are even considered the most active rural communities all over Poland. In this context, above all, the stimulation of tourism and measures of improving the natural environment plays a vital role.

4.6 The labour market

The employment situation in the Małopolskie Voivodeship is amongst the most favourable of all Polish regions as it is indicated by the level of employment in the productive age group (s. Table 1), which represents more than 60 per cent of the region's total population. While slightly decreasing the employment rate has been constantly above the national average in the past few years (s. Figure 8). Mainly due to the specific role of Kraków being the metropolitan and educational centre of the region the labour force is younger than in other parts of Poland. Obviously, the significant increase of service sector activities and the relatively high level of entrepreneurship have contributed to counterbalance the negative effects of economic restructuring of traditional industries and agriculture in Małopolskie. Most notably, thanks to the large number of people coming to the region's capital city Kraków, Małopolskie is one of the few regions with a positive migration balance (s. Figure 9). Therefore, the relatively high employment rate is even more noteworthy.

Figure 8: Employment in Poland 1999-2003



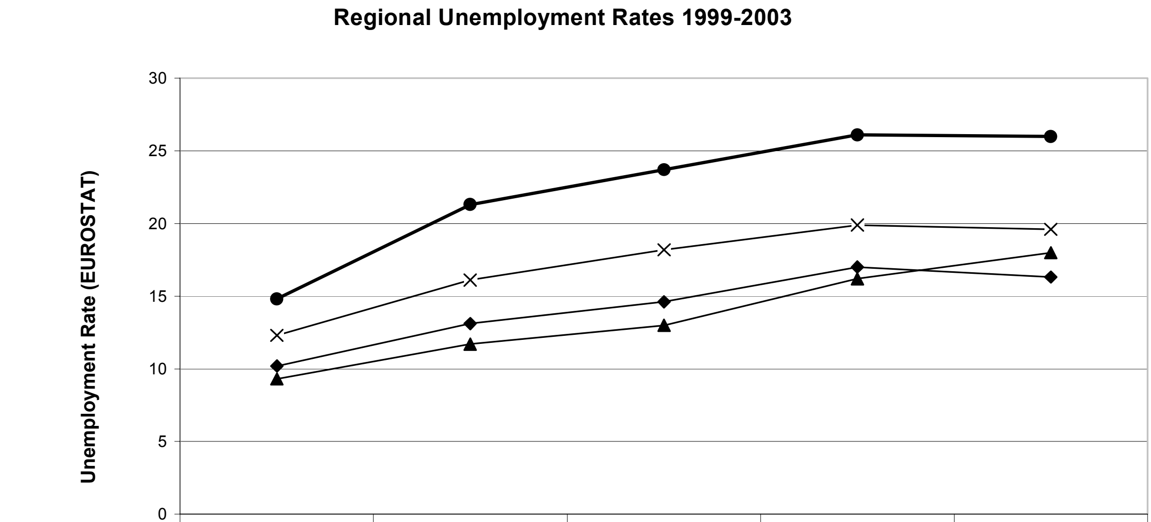
Source: EUROSTAT Online-Database

Table 5: Net migration by region, 2002, per 1000 inhabitants

Mazowieckie (Warsaw)								**2,4**	
Małopolskie (Cracow)						**1,0**			
Wielkopolskie (Poznan)						**0,6**			
Pomorskie						**0,3**			
Łódzkie (Lodz)					**-0,6**				
Dolnośląskie					**-0,7**				
Kujawsko-Pomorskie					**-0,7**				
Zachodniopomorskie					**-0,8**				
Lubuskie					**-1,0**				
Podkarpackie				**-1,4**					
Podlaskie				**-1,5**					
Lubelskie				**-1,8**					
Świętokrzyskie				**-1,9**					
Śląskie			**-2,1**						
Warmińsko-Mazurskie			**-2,1**						
Opolskie	**-4,3**								
Poland					**-0,5**				

Source: www.małopolska.pl

Figure 9: Unemployment in Poland 1999-2003



	1999	2000	2001	2002	2003
Poland	12,3	16,1	18,2	19,9	19,6
Mazowieckie	10,2	13,1	14,6	17	16,3
Malopolskie	9,3	11,7	13	16,2	18
Dolnoslaskie	14,8	21,3	23,7	26,1	26

Source: EUROSTAT Online-Database

Although the employment rate has been relatively high and unemployment has been one of the lowest in Poland, accordingly, the unemployment rate has increased significantly in recent years (Figure 9). On the one hand, the unemployment situation has worsened in accordance with the overall national trend of a reduction of economic growth at the end of 1990s. On the other hand, the significant increase between 2001 and 2003 can also be explained with a sudden growth of unemployment registrations due to changes of laws and rules of reporting. Furthermore, two other explanations for the marked increase of unemployment can be given as well: First, there has been a considerable intensification of economic privatisation and restructuring since the end of 1990s and the beginning of the new century. The traditional industries, which were rather protected during the first phase of transformation have more and more experienced growing threat by the rules of market competition and, thus, more people have been dismissed since then. Second, the competitiveness and investment attractiveness of other regions, such as the neighbouring Voivodeship of Silesia with its huge old industrial district Katowice, has increased in the past few years. Right after the beginning of transformation, when old industrial districts like Katowice faced huge difficulties, Kraków has already been one of the few attractive investment destinations in Poland. Nowadays the situation in other regions has improved. Hence, the highly qualified labour force more and more tends to migrate from Kraków to other innovative centres with more favourable working conditions and future perspectives. Nevertheless, all in all the employment situation in Małopolskie has not changed dramatically, since the overall unemployment level is still lower than the national average and far away from the unemployment situation in other Polish regions with an unemployment rate of more than 25 per cent.

However, the official regional statistics and overall reports of the region's economic development are always distorted in a way by the extraordinary favourable economic development of the region's capital city. The real unemployment situation is much more difficult than one might expect while just looking at the region as a whole. In fact, there is a huge variation within the region. According to official information, the unemployment rate in Nowy Sącz, the worst district in terms of unemployment, has been above 19 per cent at the end of 2000 already. In comparison, the unemployment rate of Kraków was only about six per cent at the same point of time.

This clearly indicates that one of the main challenges of the region's further development is the lack of regional coherence which also implies a huge potential for interregional conflicts. As it can be drawn from the description above, there is enough potential for future economic growth and development within the region, indeed, with favourable conditions for the expansion of post-industrial business sectors such as tourism and knowledge-based industries. Most ironically, this is mainly due to the role and attractiveness of the region's metropolitan capital city. Especially in and around Kraków the region concentrates on highly specialised services and the development of research intensive industries. Therefore, it is hardly imaginable how the overall situation of the Małopolskie region as a whole would look like, if the rich cultural tradition of Kraków did not revive again during the period of transformation. However, certain steps of spreading the economic dynamics of the capital over the whole region have to be undertaken in order to reinforce regional coherence.

5. The institutionalisation of the economic region

As mentioned before, the economic region is still in the process of “making” and restructuring like all other Polish regions, although Małopolskie has undergone a relatively positive development during the period of transformation. The main aim of the EUROCAP-project is to analyse a region’s assets and institutional competencies in order to transform itself into an innovation-centred knowledge based society and to assert its position in the global competition of business locations. With regards to recent trends in regional governance and regional development studies in many West European regions a cluster policy approach has been chosen. This was based on the assumption that regions were more and more capable of fostering a unique economic development, today, through the re-definition of a few promising fields of certain regional (entrepreneurial, organisational, technological or scientific) core competencies and their integration into coherent economic clusters. However, this cannot be applied to the new Central and Eastern European economic regions. Due to their difficult task of societal and economic restructuring and the lack of regional governance structures until recently, an explicit cluster strategy has not been implemented so far.

Nevertheless, a range of different regional development approaches can yet be found in Małopolskie. The most important ones are (1) the formulation and implementation of a major regional development strategy, (2) the foundation of a Technology Park in terms of a Special Economic Zone and (3) the institutionalisation of an independent but influential regional development agency. These three main approaches will be presented more detailed in the following paragraph. Furthermore, a region’s performance and competitiveness depends on the existence and interplay of many different regional actors and institutions. This is true, for instance, for the regional companies and their networks, the employees and employers as well as a variety of public and private educational institutions and research, development and technology transfer facilities and, professional and trade associations etc. These different actors and institutions all together represent the new regional governance structure. Hence, a brief introduction some main non-governmental regional governance actors will be subject of the last section.

5.1 Regional development approaches

5.1.1 The regional development strategy

In 2000 the “Małopolskie Voivodeship Development Strategy” was drafted and officially approved by the regional government, the Sejmik of Małopolskie for the years 2001 – 2006, that is both the pre-accession period and the period after the accession of Poland to the European Union (http://www.małopolskie.pl). The strategy was prepared by the Department of Strategy Development in the Marshal‘s Office of Małopolskie in Krakow with the cooperation of the Agency for the Development of the Krakow district. In the mission of the strategy it is stated that it is mainly aimed at making Małopolskie a „region of opportunities for universal development of people and modern economy (...) drawing from the heritage of the past and maintaining its identity in the integrating Europe“. In particular, the strategy is aiming at the planning of own activities for local authorities, winning support of the central government and the European Union for future development projects and organising joint endeavours of all parties involved in the development of the region. Drawing from the main aims, the strategy can be seen as the starting point for the drafting of financial and material plans or, more specifically, the decisions concerning the targets of the public expenditure of the voivodeship authorities, and the amounts allocated to these targets. Furthermore, the strategy is the basis for the preparation of the voivodeship‘s spatial management plan. According to official statements this document imposes an obligation on the authorities of the voivodeship and reinforces the mutual adjustment of actions of independent regional entities and groups, since it makes everyone aware of the key challenges of the region and the necessary steps to meet these challenges. Besides that, this document also forms the basis for the negotiation of the voivodeship with external actors, such as the central government or the European Union.

The strategy paper was drafted in different steps of basic analysis, expert consultation and analysis, consultation with important social groups and the synthesis of the results to clear principles of the strategy’s implementation. The paper as such comprises of a detailed diagnosis of the region’s social and economic situation and of clear indications for possible directions of shaping the region’s future development. The formulation of the strategy was based on the following methodological premises:

A) an integrated (and not sector) approach to the development processes within the given area

B) a relatively simple and clear structure of the development strategy encompassing:

- four so-called STRATEGY FIELDS perceived as basic fields of activity, crucial for development: 1) RESIDENTS – attitudes, qualifications, activities
  2) SCENERY – environment and landscape
  3) ECONOMY – capital, innovativeness, technologies
  4) LINKS – communication and cooperation
- three so-called CONTEXTS perceived as the most important conditions and structures for the evaluation of the efficiency of strategy execution.
  CONTEXT 1: Regional integration
  CONTEXT 2: Cooperation between regions
  CONTEXT 3: European Integration

Most interesting to our analysis is the Strategic Field 3 "Economy - Capital, Innovativeness, Technologies", which is presented here as an example of the structure of the region's strategy, but also as additional input with regard to the efforts being undertaken in order to enhance economic development and innovativeness. The highest-rank goal of this strategic field is the creation of a long-lasting economic development. In order to achieve the overall highest-rank goal, six main strategic goals concerning the given economic structure and future development perspectives are determined. For each strategic goal main suggestions of solutions and the main priorities of action and implementation are presented. This provides the regional actors and outside observers with a clear picture of the official concept of future economic developments and prospects, indeed (s. Table 6). As it is explained with regard to the strategic goal C.3. "Innovative companies" the regional authorities are fully aware of the importance of innovative industries for the future development of Małopolskie. They identified unquestionable assets in the region for the reinforcement of innovativeness: these are the developed higher education, the scientific potential and the relatively high financial expenditures in research & development. However, it is pointed out that this strong internal "supply" of innovation has not yet been accompanied by an equally powerful "demand" on innovation. The actual level of innovativeness of the Małoposkie economy is still regarded as low and the infrastracture of innovation support and transfer of technologies as poorly developed, since the existing institutions do not cooperate within a coherent framework. Therefore, it is suggested to create so called "regional innovation systems" starting with the establishment of a Council for Transfer of Technologies and a Network of Innovation and Technology Transfer Centres. One of the main fields for the implementation of scientific thought with future potential is seen in methods of environment-friendly agriculture.

Table 6: The Economic Development Strategy of Małopolskie

Strategic goal:	**Solutions:**	**Priorities:**
C.1. Restructuring and increasing competitiveness of traditional industries	1) Supporting adjustment of companies operating in traditional industries to market requirements 2) Acceleration of privatisation of state firms and some firms owned by local authorities	- *Concentration of special programmes for the labour market and the areas of communes affected with restructuring processes.*
C.2. Competitive market agriculture	1) Supporting modernisation of farmsteads and standardisation of agricultural production especially in horticulture and market gardening 2) Increasing quality of agricultural production 3) Development of agricultural market institutions and organisations 4) Development of environment-friendly agriculture	- *Programme supporting agricultural producer groups.* - *Development of mass agricultural markets.* - *Creation of a regional specialist system of Centres of Agricultural Counselling.*
C.3. Innovative companies	1) Regional partnership for innovation 2) Supporting the development of scientific and research potential of the region 3) Supporting of development and establishment of innovative and technologically advanced enterprises	- *Establishment of Małopolska Council for Transfer of Technologies and a network of innovation and technology transfer centres.*
C.4. Developed „regional opportunity“ industries	1) Supporting development of the high technologies sector 2) Supporting the „leisure industry“ development 3) Supporting of the „culture industry“ 4) Supporting spa and resort development	- *Establishment of Małopolska Tourist Organisation.* - *Creation of a fair in the field of culture industry.* - *Construction of congress and concert centre in Kraków.* - *Development of sports centres.*
C.5. Developed business support	1) Supporting the development of SMEs 2) Development of agriculture support institutions and firms 3) Supporting development of financial and consulting services 4) Development of fair and exchange centres	- *Creation of a system of guarantee and loan funds.* - *Creation of a network of local business support.*
C.6. High investment level	1) Effective system for acquisition of commercial investors 2) Acquisition of public investments for the region 3) Improvement of capacity of technical infrastructure systems	- *Creation of industrial and technological parks.* - *Development of the regional Centre for Investor Care.*

Source: Małopolskie Voivodeship Development Strategy

After looking at Table 6 it can be highlighted in this context as well that according to strategic goal C.4. “Developed ‘regional opportunity’ industries” the regional authorities are aiming at strengthening businesses, which are seen as most favourable for future economic development of the region. Not surprisingly that is, above all, the promotion of high tech industries and the promotion of the tourist industry by supporting the development of the leisure and culture sector as well as the development of spas and resorts.

5.1.2 Special Economic Zones, Technology Parks, Transfer of Technology

There are two Special Economic Zones (SEZs) in Małopolskie: one is located in Kraków, the SEZ Kraków Technology Park, having three sub-zones in Kraków and one in Tarnów, another SEZ is located in Gorlice, the SEZ Euro-Park Mielec (s. Table 7). The main idea behind the concept of SEZs is to attract investments in order to boost economic growth by granting benefits to specific investors, for example income tax exemptions, public funds, simplified administrative procedures, but also simple organisational support during the preparation and realisation of an investment. The initial motivation to offer potential investors these kinds of special incentives was to activate the region, fight unemployment and accelerate socio-economic development. However, the present concept of the Special Economic Zones is put into question by the European Union. The former concept of SEZs had to be changed, because the regulations of the European Union don’t allow for extensive subsidies or illicit restrictions of free competition within the Common European Market. This will definitely change the approaches and measures of local governance in order to enhance economic growth, since new strategies have to be applied.

Therefore, the concept of Industrial or Technology Parks and of Economic activity zones has become more attractive in recent years. Industrial and Technology Parks are modern regional development instruments for the promotion of innovativeness and technological improvements. The main idea is to provide potential investments in innovative with the most favourable infrastructure possible by establishing institutions and networks of agents of innovation, such as university institutes, research centres, financial institutions etc. The economic activity zones are particularly designated areas prepared for the requirements of potential investors mostly created by local authorities. Today, the importance of economic activity zones is widely recognised in Małopolskie, since each district or town tries to improve its attractiveness for investors and develop entrepreneurship by offering its own activity zone.

Table 7: Special Economic Zones (SEZs)

Zone	Sub-zone	Location	Total area (in ha)	Available area (in ha)	Investment possibilities
The Special Economic Zone in Kraków – Kraków Technology Park	Technology Park of the Sendzimir Steelworks	The area is located in the eastern part of Kraków, in the district of Nowa Huta (Branice)	35	17	Industry
	Technology Park of the Jagiellonian University	The area is located in the south-western part of Kraków; it is a part of the development ment project of the new campus of Jagiellonian University in Pychowice	36.42	19	Public services area – laboratory and research activity
	Technology Park of Kraków – University of Technology in Czyżyny	The property is located in the eastern part of Kraków, between Śródmieście and Nowa Huta	29.53	15	Public services area – laboratory and research activity
	Tarnów Industrial Cluster Technology Park	The area is located in eastern Małopolska, in the north-western part of Tarnów, in the vicinity of the so-called "northern ring" road of Tarnów, which is a part of the Kraków-Kielce state road.	21.4	5	Industry and storage activity
Special Economic Zone Euro-Park Mielec	Industrial Complex Gorlice	The Industrial Complex Gorlice is located in the south -eastern part of Mało-polska, in the district of Gorlice - Glinik Mariampolski, on both sides of the state road Wadowice – Nowy Sącz – Krosno – Przemyśl	30	20	Industry and storage activity

Source: Polish Information & Foreign Investment Agency

Last but not least, one can find a few institutions for technology transfer as well. Up till now they only can be described as first small attempts of networking between scientific research and business practice. They don't cooperate with one another and a coherent regional innovation system incorporating these institutions is not existent so far. The existing institutions for transfer of technology in Małopolskie are as follows: First, the Centre for Andvanced Technology located in the Kraków Technological Park and working on behalf of the Polish Ministry of Economy aiming at the promotion of operations based on modern technologies. Second, the Innovation Relay Centre, which is active in the Kraków Technological University along with some regional contact points, providing with information on EU funds allocation for research, technological developments and innovations as well as supporting activities of regional companies with regard to transfer of technology. Third, the Partnership for Environment, a foundation mostly focusing on the development of SMEs. Fourth, the Progress and Business Foundations, established by Kraków academic schools in order to support enterprises in the field of advanced technology and enhance the commercialisation of results of scientific research.

5.1.3 The Regional Development Agencies

Besides the official governmental institutions, such as the Marshal's Office of the region or the institutions set up by the central government, regional development agencies play a vital role with regard to the further economic development and promotion of the different Polish regions. All regional development agencies carry out many different tasks and, thereby, act as the main catalyst of the region's social and economic re-animation. The regional development agencies are mainly organised as non-governmental organisations or as private enterprises respectively, although they were initially set up by governmental representatives. Because they are independent from governmental institutions, they have to work efficiently and also conduct their own businesses in order to be able to finance themselves.

In contrast to the situation in Lower Silesia, where one can find five different and independent regional development agencies, there is only one in Małopolskie organised as a private corporation, the Małopolska Agency for Regional Development S.A. (MARR). However, the MARR S.A. is of central importance to the regional governance of economic restructuring and further development of the whole region and not only Kraków and its surrounding, as one glance at the manifold of the MARR's activities shows. According to official information the activities mainly include the following: Co-operation with local governments, advisory services and training; services to investors; Regional Financing Institution; implementation of programmes supporting SMEs; capital projects; implementation of projects under assistance programmes; credit guarantees/sureties for SMEs; developing the network of Local Business Centres in Małopolska region; organisation of business oriented meetings; promotion of the Małopolska region in Poland and abroad; international co-operation. The MARR S.A. is also dealing with real estate management and investment projects. In order to carry out this huge variety of activities it is divided into different departments and subdivision. Besides the *Legal Department*, the *Financial and Accounting Department* and the *Office of the Board* there is the:

- *Regional Investment Service Centre*, which offers support services for investors, produces databases of offered real estate and carries out investment projects as well as information and promotion campaigns.
- *Regional Financing Institution*, mainly dealing with the administration and co-ordination, of instruments supporting SMEs, which are financed by funds of the PHARE 2000 programme of the European Union and the funds from the Ministry of Economy.
- *Section of Programmes for Small and Medium-Sized Enterprises*, which is concerned with the implementation of support programmes by providing advise, training and information services, and organising seminars and workshops.
- *Małopolska Credit Guarantee/Surety Fund*, which provides guarantees/sureties to SMEs for bank loans for loans from commercial banks for setting up, pursuing or developing business activities.
- *Department of Advisory Services and Assistance Programmes*, which co-operates with the voivodeship local government and other levels of local government with regard to the programming of development strategies, the promotion of the region, the establishment of international contacts, the promotion investments, consulting and the organisation of workshops and training sessions.
- *Antwerp Contact Point*, which initiates, develops and promotes economic links between Małopolska and the Antwerp Province and organises economic missions, direct contacts between enterprises and study visits.
- *Department of Marketing and Promotion*, which is mainly dealing with the outside promotion of the region by publications and other provision of information on the region and international co-operation by organising events promoting the region on international scale, participation in conferences, training sessions and seminars organised abroad and developing contacts with business and development oriented institutions.

As it can be drawn from the main activities, the MARR S.A. mainly focuses on activities within the region, with regard to the regional government or to outside contacts. Without any doubt the MARR S.A. can be seen as the central link and the driving force of the region's self-governance. But there is almost no indication of contacts with the central governments or other bodies of the central government noticeable. Therefore, it has to be pointed out, here, that the possibilities of regional development agencies, such as the MARR S.A, to co-ordinate and influence all developments in the region are not unlimited. The central government level still has a lot of influence on the development of regions, since the competencies of self-governance are transferred rather slowly. For instance, the allocation of the main EU funds is still carried out at the national level. However, up till now, there is no institution, which officially co-ordinates the different regional policies on the national government level. The only important institutions mainly dealing with regional policy issues on the central level is the Polish Agency for Regional Development ("Polska Agencja Rozwoju Regionalnego"). Other than that regional issues are subject to different policies of each ministry.

5.2 Important interest groups

Until recently in Poland the institutional base of local economies and regional governance used to be rather weak and underdeveloped in comparison to Western European countries. Private businesses, participatory regional government and a range of intermediate and civil society institutions – such as chambers of commerce, regional development agencies, business support centres or consultancies – did non exist in Poland before (Gorzelak, 2000). However, this has changed remarkably fast in a few years time. The regional government level step-by-step gains more independence and under the coordinatorship of the Marshall's office a huge variety of different development approaches has been carried out in recent years. Many different actors and interest groups appeared on the intermediate level in order to play out their agendas but also to co-operate with regional and local administration.

One of the main actors on the intermediate level are private interests groups. In Poland, the chambers of commerce are organised according to the Anglo-Saxon system. This means that - differently to the situation like, for instance, in Germany - a membership in the chamber of commerce is not obligatory for all local entrepreneurs and companies. Furthermore, it is possible to have more chambers in the same region, which compete with one another for membership support on an equal basis but also with other interests groups. In addition to regionally structured chambers it is also possible to have chambers according to different business sectors. A representative of the Chamber of Commerce in Kraków explained that many companies join as many chambers as possible in order to gain influence. But in some regions the situation may become confusing and the competition of different chambers may also imply disadvantages for its members. In Małopolskie, however, the situation with different chambers of commerce is not extraordinary difficult. In fact, there are various chambers in different areas of the region, like for instance in Kraków in the north or Zakopane in the south, competing with each other for potential members and investors. But in general, there is a common sense of cooperation amongst the different chambers rather than ruthless competition. The vast majority of the members of the chambers are SMEs, but there is also membership of some larger companies from traditional industries but also from the new emerging banking sector. In general, the companies prefer to join the chambers in order to gain important business contacts and valid information about new developments in their branches or business environment.

But Małopolskie's chambers of commerce are not only active with regard to existing businesses and potent investors. According to an interviewee from the Chamber of Commerce in Kraków the fields of activity are extended to the support and empowerment of unemployed persons, who are willing to open up an own business, but neither have enough venture capital nor competencies in running a business. The chambers do not provide with credits or loans, but with respective information and contacts. Thus, through organising workshops and training sessions as well as providing information and contacts the Chambers of Commerce are about to play a vital role in the regional governance of tackling the challenge of unemployment.

Another significant group of actors on the intermediate level in Małopolskie are the trade unions. But the very significance of trade unions to the regional governance structure is often doubted in Poland. The trade unions are considered rather weak, since they are not organised according to professions or business sectors and, hence, fractured in many different groups which compete with each other in one company or in each locality. Another reason is that nowadays many employees in Poland don't organise themselves collectively, or join one of the existing trade unions. Nevertheless, the level of membership in trade unions in Małopolskie is the second largest of all Polish regions. Accordingly, the trade unions are traditionally strong in the region and they still have a significant voice, there. The most significant trade union is the Solidarity ("Solidarność"). The Solidarity Union is considered as an exceptional type of trade union due to its traditionally strong impact on politics. The original Solidarity Movement, founded after the huge Polish worker's protests in 1980, was one of the main political forces of the Polish political revolution and one part of the movement transformed into the first leading party right after the downfall of communism. Today the Solidarity Union represents about 7.5 per cent of the total Polish work force. It has a territorial branch structure and there are Solidarity members in each kind of industry and business sector. In Małopolskie many of the leading forces in the local or the regional governments are connected in one or another way with the Solidarity Movement or the present union. Therefore, the relationships between the government and the Solidarity Union are still regarded as extraordinary well.

The strongest groups of Solidarity members in Małopolskie are employed in one of the traditional formerly state-owned companies, the Sedzimir metallurgical plant in Kraków and the chemical plant in Tarnów. However, the union is open to each kind of business sector and employee, because - at least according to statements provided by an interviewee of the Solidarity office in Kraków - the union does not and cannot afford to prefer any group of employees. The industrial structure of Małopolskie's economy is too diverse to allow for preferences or privileges for certain groups. Like the chambers of commerce the trade unions do not only take care of the group of employed persons, but also engage in the fight against unemployment and even provide with financial support to long-term unemployed people by means of a particular solidarity fund. The contacts between employers and trade unions are regarded as being relatively well, at least according to the interviews conducted in the region. The interviewee of the Solidarity office in Kraków officially claimed that the union is open to innovative business solutions as long as they guarantee employment. Therefore, the approach of the union is rather to cooperate with the employer's side and search for common solutions by exchanging ideas and expertise as long as it seems appropriate than just ritually opposing each business decision. However, it was pointed out that most problematic is not the relationship between the trade unions and foreign investors, but with the Polish representatives of foreign investors, as it was the case, above all, during the establishment of the huge branches of Western supermarkets.

Looking at the structure of interest groups and taking their official statements into account the impression arises that, besides the usual competition and fragmentation, there is a general level of mutual understanding and cooperation on the intermediate level in Małopolskie. The intermediate sector is considered as one of the most active and vivid in Poland. Hence, the preconditions of developing a coherent regional governance seem to be quite favourable.

6. Conclusion

In the preceding chapters the particular history, the current economic profile, the different approaches of regional development and the emergence of different private, intermediate and public regional governance institutions of the Małopolskie region was presented. One of the main targets of the analysis was to explore the particular prerequisites - the regional capabilities - of transforming from a traditional, resource-based industrial region into a modern, internationally integrated, knowledge- and service-based economic region.

The regional capabilities of Małopolskie of enhancing economic growth and reinforcing a vivid social life were identified as being rather favourable, since the region‘s social structure is based on a deeply embedded bourgeois tradition and rich cultural heritage, which could not be abandoned during the period of communism. Accordingly, the level of entrepreneurship and the number of SMEs are considered amongst the highest all over Poland. Due to the manifold of attractive cultural and natural tourist destination, the region has a huge potential for developing a substantial service sector and profitable leisure and cultural industries. Above all, the role of Kraków, the metropolitan capital city of Małopolskie, cannot be overrated enough with regard to the economic development of the region. It is the growth pole of the region, containing the most important educational and research institutions of the region. Therefore, the region’s professional expertise and most of the knowledge-based production and services requiring highly skilled labour force is concentrated, there. Not surprisingly, Kraków has attracted a huge amount of foreign investments during the past years. The importance and dominance of „old“ industries have decreased significantly in recent years. Although the unemployment rate has grown in recent years like in other Polish regions, too, due to the effects of economic restructuring and stronger economic competition, the unemployment can still be tamed by the creation of new jobs and businesses.

The analyses of the governance of regional development revealed a dynamic development of the regional development approaches and its institutional environment. The actors of regional governance have already started to develop their own vision of regional social and economic development. The most important approaches are (1) the formulation and implementation of a major regional development strategy, (2) the foundation of Special Economic Zones, or rather Technology Parks and Economic Activity Zones, as well as institutions for transfer of technology (3) the establishment of an independent profit-oriented regional development agency with a manifold of different tasks. This has been accompanied by the emergence of a variety of intermediate associations which have mainly been created in the past 15 years in order to represent particular interests within the regional context and its institutional framework. Most notably, the different intermediate institutions are regarded as being rather cooperative than conflictual, what may contribute to the enhancement of regional capabilities and the competitiveness of the region as whole.

However, it has to be admitted that the Małopolskie economic region is just in the process of making and restructuring. The region's coherence is strongly threatened by uneven development and huge interregional economic discrepancies. While the economic structure of the regional growth pole Kraków was successfully transformed, the large rural areas of the region are still amongst the least progressive and least productive areas in Poland. In this sense, the big advantage of the region, the dynamic economic development of Kraków may turn into an obstacle of overall economic regional revival as long as all investments, efforts and concentration is limited to Kraków and its surrounding. However, the prospect of the Małopolskie's future development can definitely be drawn optimistically, since the conditions for further expanding tourism all over the whole region and increasing knowledge-based industries in the urban centres is more likely than anywhere else in Poland.

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