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## Regional Decline and Restructuring in Ostrava Agglomeration and Katowice Conurbation

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# **Regional Decline and Restructuring in Ostrava Agglomeration and Katowice Conurbation**

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**Abstract:** Regions of traditional industry are often perceived as doomed to economic decline. Old industrial regions in transitional countries constitute entirely new category of problem regions since their economic decay differs from their western counterparts substantially both in terms the origin and the character of their troubles. In the early 1990s these regions suddenly faced the double shock in the form of severe international competition and rather painful inner restructuring. Restructuring of old industrial areas in Central East Europe thus represents a truly topical problem not only for the sake of its unprecedented character but also with regard to its socio-economic impacts.

Some of these regions suffer from serious socio-economic problems just according to the initial gloomy prognoses on the one hand but the group of temporary winners emerged on the other hand. It is argued that differentiated transformational trajectories of old industrial regions in transitional countries cannot be satisfactorily explained by traditional theories. However, institutional approaches combined with hermeneutical methods bring acceptable clarification of the diverse development of such kind of regions in Central East Europe.

The paper is devoted to the comparison of restructuring in Ostrava agglomeration (Czech Republic) and Katowice conurbation (Poland) from institutional-hermeneutical perspective. While in case of Ostrava region this restructuring turned out to be far from perfect, in Katowice area, on the contrary, pessimistic scenario did not materialise. The different course of restructuring in afore-mentioned regions will be analysed from both rank-territorial (national and regional) and functional (restructuring of traditional industries, development of new activities and communication level of restructuring) perspectives.

**Keywords:** old industrial regions, regional decline, restructuring, Ostrava agglomeration, Katowice conurbation

**JEL codes:** R19, R59

## 1. Introduction

In contemporary socio-economic conditions, the regions of traditional industry are often compelled to cope with numerous problems. Industrial monostructure, lack of innovative milieu, culture of dependency, rigid institutions, shrinking traditional industries as well as limited social and environmental attractiveness to new investors constitute a real bane for their development (see for instance Sadler, 1992 or Hudson, 1994). Economic decline, unemployment or social tension represent just a sample of issues, which are closely interconnected with aforementioned unfavourable characteristics.

In the long run, regions of ‘smoking chimneys’ enjoyed an economic growth. However, 1960-ies and 1970-ies can be perceived as turning points in the history of these regions. Technological changes and subsequent process of globalisation uncovered the vulnerability of the monostructure of their economies. Sharpened competition in the world markets connected with the move from Fordist ‘industrial economy’ towards Post-fordist ‘informational economy’ induced the necessity of the restructuring of traditional industrial regions. Not surprisingly, numerous theories are devoted to the problems of old industrial regions.

Massey (1984) focuses on so-called new spatial divisions of labour. She asserts that management and R&D functions tend to concentrate mostly into metropolitan territories while the other – mainly old industrial or underdeveloped regions – are ‘sentenced’ to manufacturing functions. It is claimed that spatial distribution of new investments is rather a selective one. Theories of flexible specialisation and flexible accumulation (Piore and Sabel, 1984), Californian school (Storper and Walker, 1989) or conception of learning regions (Lundwall, 1992), prove that new, innovative types of production are located out of traditional industrial regions.

These theories represent a natural continuation of traditional approaches, such as Kondratieff’s long-wave theory (Kondratieff, 1935) or Berry’s three-sector theory (Berry, 1974). Kondratieff shows that territories that acted as propulsive regions of one wave of economic development can lose their positions in the course of the next wave of economic development. Berry concentrates on decreasing employment in primary and secondary economic sectors.

In contrast to developed countries, traditional industrial regions in post-communist states underwent the economic decline after 1990. However, transformational<sup>1</sup> experiences of

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<sup>1</sup> The transformation of the old industrial regions should be generally perceived as a long-term process of the alteration of economic, social, institutional and environmental settings of the region, which aims at reaching the goals, such as regional economic development, augmentation of its competitiveness, improvement of its

their western predecessors were applicable only partly, just for the sake of origin and character of their troubles. Unfavourable heritage of centrally planned economy manifested itself in the form of vulnerability of Central East European industrial regions vis-a-vis new international competition (Gorzelać, 1998). In that sense, the transformation of industrial regions in transitional countries can be perceived as a return to their natural developmental track (Domanski, 2002).

The main aim of this paper consists in the comparison of restructuring in Ostrava agglomeration (Czech Republic) and Katowice conurbation (Poland) from institutional-hermeneutical perspective. It was often claimed that complex socio-economic sensitiveness of these old industrial areas constitute only hardly solvable task. According to Gorzelać (1998) these two neighbouring regions even form the biggest regional problem in Europe. Finally, in case of Ostrava region the restructuring proved to be far from perfect, in Katowice area, on the contrary, pessimistic scenario did not materialise.

## **2. Chosen Aspects of the Decline and Transformation of Old Industrial Regions in Transitional Countries**

The societies of Central East Europe undergo the multiple transformation. The specific processes of transformation from totalitarian to democratic political system and from centrally planned to market economy took place at the beginning. At the same time the impacts of universal phenomena, such as globalisation, dis-industrialisation, changes of location criteria and decentralisation are becoming manifest. The outcome of those processes is visible among others in the form of growing spatial socio-economic differentiation in transitional countries. The most significant general patterns of regional reaction to the new economic, social and political circumstances are summarised in a simplified manner in the table 1.

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environmental and socio-cultural qualities, cultivation of life-style and many others (Tkocz, 2001). These aims are usually further specified by particular regional developmental strategies. Restructuring – or economic dimension of the regional transformation – plays an important role in the framework of the overall regional transformation, since it determines possibilities and limitations for the other levels of transformation. According to Szczepanski and Cybula (1998), in successful examples of restructuring in Europe and all over the world, three basic variants (ideal versions) of the process can be identified:

- Restructuring through definitive and planned liquidation of certain traditional industries (e.g. mining, metallurgy) and development of alternative, promising industries, particularly in the service sector.
- Restructuring through modernisation of certain traditional industries and their adaptation to world market conditions.
- Restructuring through partial liquidation of traditional industries, partial modernisation, and the development of alternative and promising sectors of the economy, especially the service sector and innovative industries.

It is easy to agree with Gorzelak (2000) that economic decline of industrial regions in post-communistic countries differs from their western counterparts substantially both in terms of the origin and the character of their troubles. Domanski (2002) underlines the specific legacy of socialist mining and manufacturing that brakes the transformation of these regions. It includes dependence on resource-based industries, steel and heavy engineering, considerable monopolisation in many sectors, dominance of huge plants and lack of small enterprises, technological and organisational gap, inadequate or non-existent financial and producer services as well as environmental disaster.

**Table 1: Typology of Central East European Regions Under Transformation**

		Post-socialist transformation	
		<i>Positive</i>	<i>Negative</i>
<b>Position of the region in the former socialist economy</b>	<i>Good position</i>	Positive continuity <i>(e.g. large urban agglomerations)</i>	Negative discontinuity <i>(e.g. old industrial regions)</i>
	<i>Poor position</i>	Positive discontinuity <i>(e.g. western regions)</i>	Negative continuity <i>(e.g. eastern regions)</i>

Source: Gorzelak (1998)

In spite of initial gloomy forecasts about the inevitability of the decay of old industrial areas, surprising and rather different developments took place in many cases (Domanski, 2002). Relatively large scale of responses to the global and transitional stimuli was determined not only by the character of system changes at the national level, but by locally and regionally specific processes and conditions and spatially rather differentiated institutional environment (Sucháček, 2004).

It is worth to notice that course of the transformation of traditional industrial regions in transitional countries turns out to be so peculiar and bears so extraordinary features that it is only hardly interpretable and explainable by traditional approaches towards the transformation of old industrial regions in advanced countries. One may notice a distinct gap in the interpretation and explanation of the processes that occurred in the regions of traditional industry in post-communistic countries.

With regard to the existing knowledge in this sphere, institutional-hermeneutical approaches appear to be very promising tool for interpretation and explanation of aforementioned processes in transitional countries. Rather than for general explanation, institutional-hermeneutical theories strive for the disclosure of the constellation of factors that

caused the particular development of concrete region. In this context, every region is grasped as specific entity. Moreover, institutional-hermeneutical approaches currently constitute the most dynamic stream of regional science (Lee and Wills, 1997).

### **3. Outer Homogeneity and Inner Heterogeneity of Institutional Features in Transitional Countries**

At the beginning of the restructuring, both regions suffered from relatively similar economic problems and their sector structures were also rather kin. The different course of their restructuring can be satisfactorily accounted for by their institutional differences. While from the outer perspective the informal institutions seem to resemble each other, inner and more detailed analysis discloses their real heterogeneity. The Inglehart Values Map provides us with the basic overview of values in different cultures (see also Figure 1)<sup>2</sup>.

The dissimilarity of informal institutions in Poland and the Czech Republic is apparent. In the Czech Republic, the secular-rational values are prevailing to the detriment of traditional ones. It is caused among others by the traditional institution of belief that survived in Poland during the whole totalitarian period. In 1999, 55% of Poles depicted themselves as strong believers, while in the Czech Republic this was mere 14% of inhabitants. Czechs also tend to be more individual and less trustful than Poles. Continuity of institutions in Poland and less intense influence of communist regime in general evoked more gradual and prudent pace of system transformation than in the Czech Republic, where ‘shock therapy’ took place.

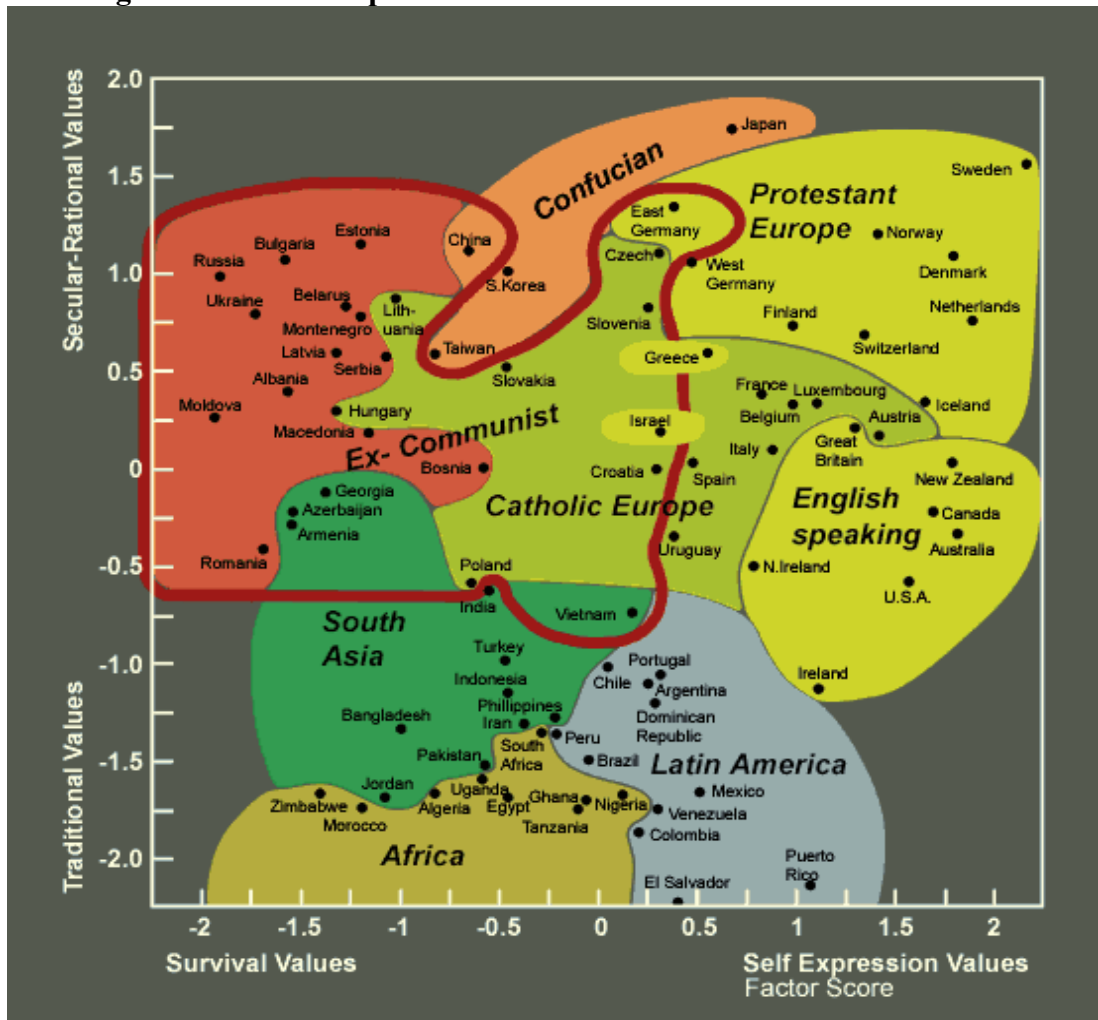
Table 2 provides an overview of territorial identities in the Czech Republic and Poland. We can find an intriguing discrepancy between national and local identity in the Czech Republic. During the socialistic era, regional or local problems were silently swept under the carpet. After 1990, when strong centralization of public administration afflicted virtually all spheres of life, the discourses concerning local or regional development were artificially suppressed either by the governing bureaucracy or by media. National identity consequently

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<sup>2</sup> Inglehart carried out four surveys between 1981 and 2002 in the framework of the World Values Surveys that were designed to provide a comprehensive measurement of all major areas of human concern, from religion to politics or economic and social life. They represent over 85 percent of the world’s population in 81 societies. The results are compressed into the picture with two dimensions: traditional/secular-rational and survival/self-expression values. The traditional/secular-rational values dimension reflects the contrast between societies in which religion is very important and those in which it is not. Societies with traditional values have also high levels of national pride, and a nationalistic outlook. The second major dimension of cross-cultural variation is linked with the transition from industrial society to post-industrial societies, when an increasing share of the population in rich societies has grown up taking survival for granted. Thus, priorities have shifted from an overwhelming emphasis on economic and physical security toward an increasing emphasis on self-expression and individualisation.

served as a certain substitute of suppressed local and regional identities<sup>3</sup>. This resulted in the fact that the weakest local identity in all transitional countries was found just in the Czech Republic.

**Figure 1: Inglehart Values Map**



Source: <http://www.mindspring.com/~dbholzel/maps.html>

On the other hand, Poles expressed much stronger local identity than Czechs. In Poland, much higher attention is paid to the local and regional development. In contrast to the Czech Republic, the discussions devoted to local and regional development were never entirely suppressed or ignored. From the spatial point of view, in the Czech Republic the strong centralization of the capital city to the detriment of the rest of the country is prevailing. In Poland, one can contemplate a certain modification of well-known German spatial model of

<sup>3</sup> Logically, promotion of national identity and weakening the local and regional identities principally advances the centralisation of the state and is supported by the central government. Thus, the introduction of self-governing regions was postponed many times in the Czech Republic. It was argued that self-government endangers the national unity.

decentralized concentration, when the capital Warsaw is surrounded by the network of relatively strong regional metropolises.

**Table 2: Local and National Territorial Identity in the Czech Republic and Poland<sup>4</sup>**

Country\Region	Local Identity	National Identity
Czech Republic	2,21	1,11
Poland	1,53	1,16

Source: [http://www.soc.cas.cz/projekty/ewelcome/pdf/PP\\_nat\\_ident\\_WA\\_02.pdf](http://www.soc.cas.cz/projekty/ewelcome/pdf/PP_nat_ident_WA_02.pdf)

In every nation, national pride is related to the national achievements and failures. In Poland the national pride reached 1,58 while in the Czech Republic 1,92<sup>5</sup>. The survey showed that Czechs belong among those nations in Central East Europe, who express the lowest national pride and Poles, on the contrary, turned out to be proud of their nationality. Apparently, when regional and local problems bother the people, they can be only hardly satisfied with the state of the whole country.

#### **4. Moravian-Silesian Region in 1990s**

The region is situated in northeast part of the Czech Republic. It borders with Poland and Slovakia. This region covers an area of 5555 sq. km. With the population of 1.3 million it is currently the most intensely populated region in the Czech Republic. The core of Moravian-Silesian region lies in Ostrava agglomeration. The overall economic character of the region is determined by the gravity into Ostrava, which is the industrial heart of the whole region. The complementary character of Moravian-Silesian Region (industrial areas versus recreational or rural agricultural spots) ensures an intense integration of the relations in the framework of the whole territory.

Ostrava agglomeration constitutes a typical old industrial region. Its trajectory started to ascend concurrently with the growth of coal mining and steel production. In contrast to the industrial regions in Western Europe, Moravian-Silesian region had not undergone relevant changes after World War II, since its economic and spatial structure had been petrified by the socialist economic policy.

At the beginning of the restructuring in 1989, the region provided some 86% of Czechoslovak coal mining, 82% of coke production and 70% of steel production.

<sup>4</sup> Categories that expressed the intensity of particular territorial identity were as follows: 1 – yes, definitely, ..., 4 – no, definitely not.

<sup>5</sup> The national pride was measured generally by the agreement with the statement: ‘I am proud to be [country nationality]’. Categories were set as follows: 1 – agree strongly, ..., 5 – disagree strongly.



Approximately 52% of inhabitants worked in the secondary economic sector, 7% in the primary sector and mere 41% in the tertiary sector.

## **5. Rank-Territorial Perspective of Restructuring in Ostrava Agglomeration**

### ***5.1. National Level of Restructuring in Ostrava Agglomeration***

As mentioned, at the beginning of 1990-ies, the shock therapy of system changes took place in the Czech Republic. By 1990, the new post-communist government sharply reduced subsidies for coal mines and steel works and announced to the new enterprise managements that they are responsible for the further development of their companies. All large companies in Moravian-Silesian region were badly hit by a dramatic reduction of demand in their traditional markets. The same applied to the domestic demand that shrank as a consequence of economic recession (Nešporová, 1998).

On the other hand, the strong currency devaluation in the same year created a barrier against imports of coal and steel from neighbouring countries. This gave them some time to adjust to the new situation and to look for new markets. The rate of unemployment remained on the negligible level just for the sake of the quick small privatisation and the restitution of previously nationalised smaller production and service units.

The government of the country did not pay sufficient attention to gradually accumulating regional problems and did not launch any relevant regional policy. From the wider perspective, the central government largely omitted not only regional policy, but also housing policy and physical planning. Consequently, any spatial policies were characterised by the preference of ad hoc political decisions to the detriment of long-term strategic visions. In this situation short-sighted approaches have developed, with local governments applying their own strategies, often incorporating elements from before 1989.

Immediately in 1990, higher territorial-administrative structures that corresponded to NUTS II level were abolished. Self-government existed only at the municipal level and was curbed or practically oppressed by the excessive power and influence of the state administration (Agenda 2000 or Sucháček, 2004)<sup>6</sup>. Succinctly, state administration and self-administration found themselves in a state of sharp imbalance.

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<sup>6</sup> There are only little doubts that structure and the way of performance of territorial public administration defines the possibilities and constraints of the other local/regional transformational processes. In case that self-government suffers from the lack of competences and financial resources, local/regional transformation based on inner, endogenous potential can be only hardly successful. In the Czech Republic the excessive influence of state administration to the detriment of the self-government manifested itself as one of the most important factors of the increase in interregional disparities.

Ministries that are responsible primarily for the management of the state affairs at that time absurdly tackled the regional matters as well. This only reflected the excessive influence of the state administration. After certain time, the ministries were even compelled to establish their branches in regions that symptomatically copied the territories of the former regions. So-called District Offices that covered approximately NUTS IV areas were directly subordinated to the Ministry of Interior and their departments to other ministries. The role of District Offices in the local development was limited to management of public facilities, which have not been transferred to municipalities. They functioned as an extended hand of the state and to certain extent created ‘small state kingdoms’ that performed all their activities in compliance with the will of the central power<sup>7</sup>.

Not surprisingly, the key actors in Moravian-Silesian region agreed upon the creation of informal civil association called ‘The Economic and Social Council of Ostrava-Karviná Agglomeration’. This association acted as a representative of the interests of regional institutions<sup>8</sup>. The first activities of this association consisted in research studies that outlined the future developmental possibilities of the region. On the basis of this studies the Council submitted action proposals to the government, which were accepted and reflected in the Government Decree No. 245 of 1991, Measures for the Restoration and Development of the Ostrava-Karviná Agglomeration for 1991-1992 with an outlook until 1995. The government provided CSK 200 million for the small enterprise development and the creation of new jobs in 1991 and 1992. This sum was fully at disposal of aforementioned regional District Offices. In 1992, it was put into the newly founded Czech-Moravian Guarantee and Development Bank, which provided credits and credit warranty services within a new national programme promoting small- and medium-sized enterprises (Nešporová, 1998).

The establishment of the Ministry for Regional Development turned out to be rather formal step, which was not accompanied by necessary decentralisation of decision-making.

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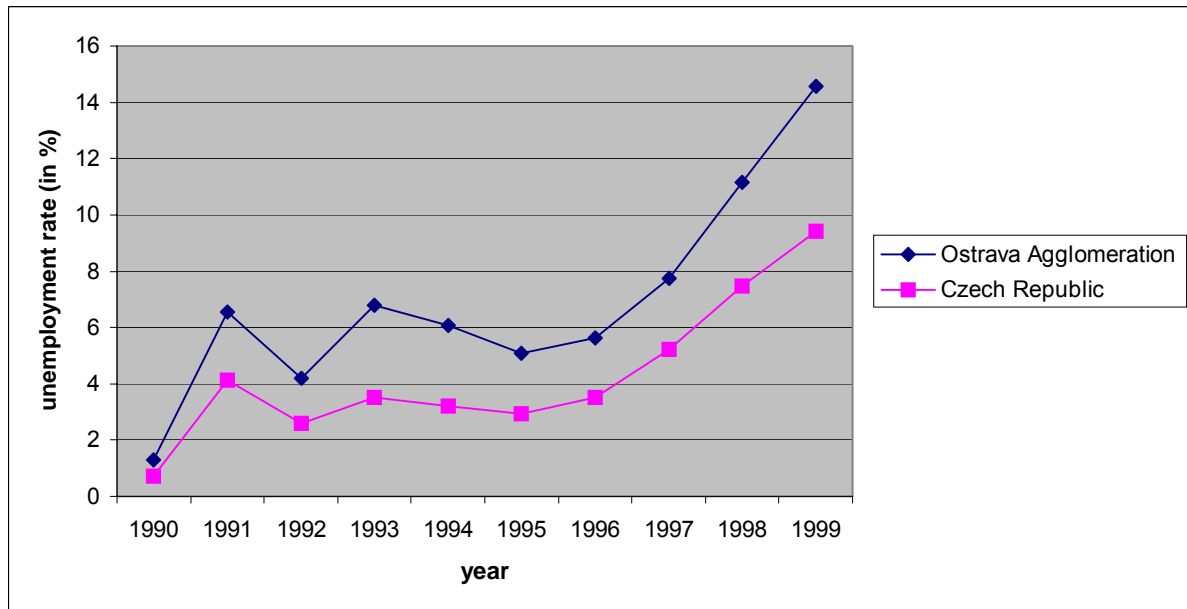
<sup>7</sup> The aforementioned structure of public administration in the Czech Republic was and still is accompanied by numerous rather absurd phenomena. Typical example is train that is called ‘Manager’. This train that goes every day is assigned to managers and officials from Moravian-Silesian region that are compelled to commute to Prague very often just for the sake of administrative and sometimes business issues. One-way travel time is almost 5 hours. It is necessary to underline that this train has mere two stops: Ostrava and Prague. Every evening, this ‘administrative train’ returns back to Ostrava. Similar managerial train exists also in Zlínský region and provides direct connection between Zlín and Prague.

Virtually all important companies are forced to establish their branch in the capital city just due to the better communication with central institutions and the proximity of information and networks. The common denominator of above-mentioned problems consists in the concentration of all decisive powers to the capital city. This phenomenon is commonly called ‘Pragocentrism’. Transaction costs of this system are undoubtedly great but can be only hardly measured.

<sup>8</sup> This body operated on a tripartite basis and represented the interests of municipalities, enterprises, trade unions, banks, labour offices as well as educational and research institutions.

Spontaneous restructuring of big enterprises in combination with already limited absorbing capacity of tertiary sector and national economic problems manifested themselves in a great rise of unemployment.

**Figure 2: Unemployment in Ostrava Agglomeration and the Czech Republic between 1990-1999.**



Source: Sucháček (2004)

The absence of the regional policy was heavily criticised not only internally (mainly by befallen regions) but at the international level too (see Agenda 2000, for instance). Long-term absence of self-government at the regional level hardly hit the whole region and substantially influenced the unsatisfactory course of its transformation. Central institutions, often enjoying competences and financial resources that should be in the responsibility of municipalities and regions proved to be too far from real life in the region.

### ***5.2 Regional Level of Restructuring in Ostrava Agglomeration***

Since the abolishment of regional government at the end of 1990, there have been selected attempts to co-ordinate some activities at the regional level of which the most important have been the establishment of Regional development agencies. These agencies essentially replaced the non-existing regions as non-adequate division of competences principally braked the activities of local and regional actors. Already mentioned Economic and Social Council of Ostrava-Karviná Agglomeration thus essentially replaced functions of non-existing self-governing regions and co-ordinated and stimulated regional developmental activities.

In 1993, Regional Development Agency, which was funded mainly by PHARE programme, was established in Ostrava. PHARE also provided funding for Regional Entrepreneurial Fund that offered venture capital to entrepreneurs with promising business plans.

At the beginning of 1995, Economic and Social Council of Ostrava-Karviná Agglomeration was transformed into the Union for the Development of Northern Moravia and Silesia that strived mainly for deeper co-ordination of its own activities with Regional Entrepreneurial Fund and Regional Development Agency. Regional Development Agency became essentially the executive institution of the regional developmental projects, which further showed the non-sustainability of the absence of the regional self-government.

In connection with rather retarded introduction of self-governing regions in 2001, the whole set of relevant documents such as Strategy of Regional Development or Common Regional Operation Programme has been hastily created. Hence the postponed and to certain extent constrained possibility of wider accomplishment of modern themes of regional development in the Czech Republic.

## **6. Functional Dimension of Restructuring**

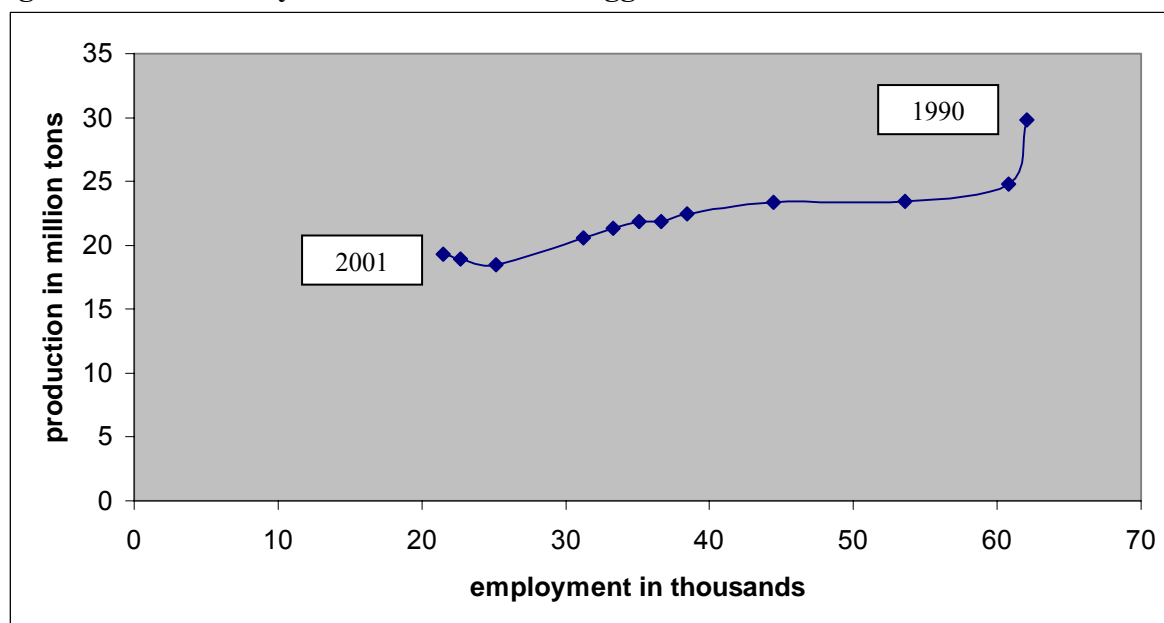
### ***6.1. Traditional Industries***

Rationalisation strategy for the mining industry was based on the closure of unprofitable pits, modernisation of profitable ones and privatisation of the majority of non-mining establishments. The Czech government agreed to bear a part of the technical and social costs associated with the closure of unprofitable collieries, while all modernisation costs for the remaining pits and any other investment activities were financed by the firm 'Ostrava-Karviná Mines' (OKD).

OKD managed to downsize its workforce principally from 62100 in 1990 to 21400 in 2001. Production in mines decreased from 29,8 m tons to 19,3 m tons. Hence, the labour productivity almost doubled from 481 tons per worker to 900 tons per worker (see also the figure 3).

Metallurgy represents the next problem area. In 1990-ies a need to curtail the production capacities appeared. Technological and environmental gaps between local and foreign producers constituted next topical problem. The privatization of the firms before their restructuring turned out to be a great mistake. Moreover, part of the metallurgical enterprises was privatized in so-called managerial way, which basically meant that state remained the principal owner of these firms, but neglected or ignored their management.

**Figure 3: Productivity of Mines in Ostrava Agglomeration between 1990-2001**



Source: Sucháček (2004)

Metallurgical industry finally survived just for the sake of extraordinarily favorable conditions on the foreign markets (Sucháček, 2004).

### 6.2. Development of New Activities

At the beginning of the restructuring, the majority of unemployment problems was solved by dynamically growing tertiary sector, so underdeveloped during socialism. National economic problems that appeared in 1997 fully disclosed chaotic, ad hoc approach towards restructuring.

**Table 3: Foreign Direct Investments per Employee between 1993-2000 according to Districts of Moravian-Silesian Region**

Investments per employee (in thousands CZK)	Overall number of districts	Districts of Moravian-Silesian region
Less than 99,9	51	Karviná, Frýdek-Místek, Opava, Bruntál
100-149,9	12	Nový Jičín, Ostrava-město
150-199,9	5	
More than 200	9	

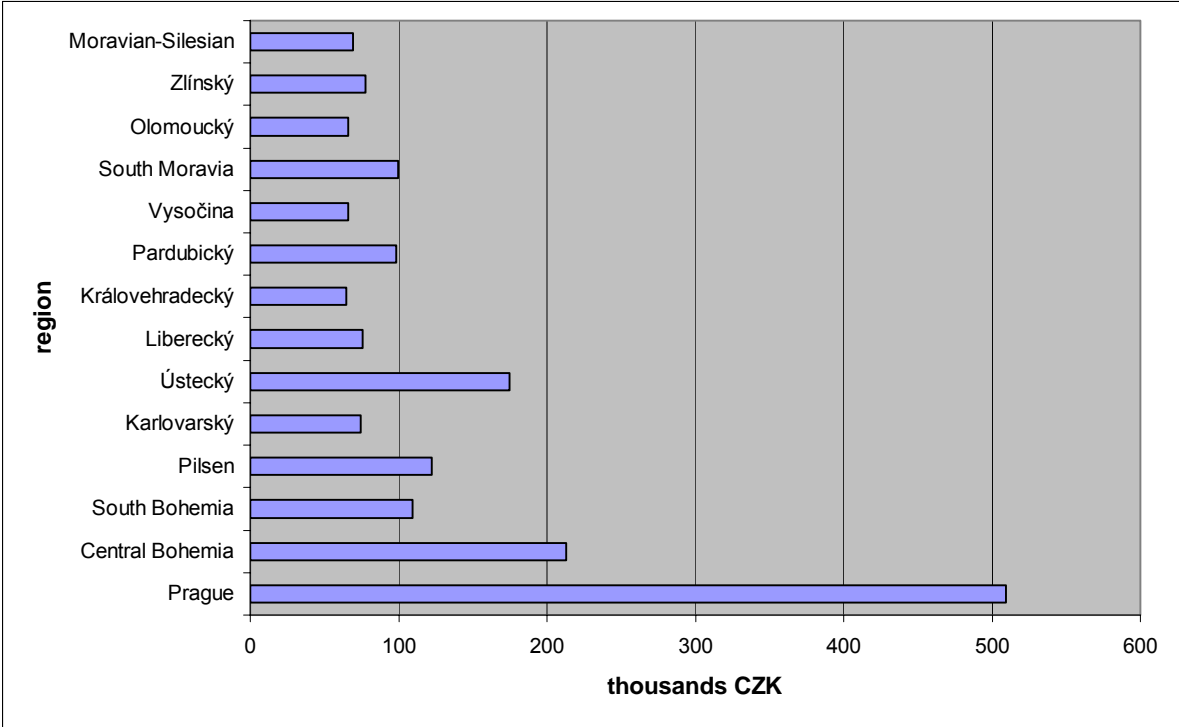
Source: Sucháček (2004)

The development of new activities in the region was based primarily on the initiative of local actors. Union for the Development of Northern Moravia and Silesia and its ancestors contributed among others to the establishment of the first duty-free zone in the country, further to the creation of regional bank (that bankrupted recently, however) as well as to the

modernization of the railway corridor that facilitates the connection with the other regions. Regional Development Agency stimulated the establishment of Technology Park, Regional Innovation Centre or Business Innovation Centre. With the support of the Ministry of Industry and Trade several smaller industrial zones have been established. Unfortunately, these zones have not attracted any major investor so far.

This unfavourable situation was caused mainly by the less advantageous investment incentives in comparison with neighbouring Poland (and Katowice conurbation). Moreover, special economic zones were introduced even in 1998, as a consequence of growing regional disparities. Moreover, investments in the Czech Republic are not directed in compliance with the regional needs and problems, but according to the lobbying of individual regions, which often further augments regional inequalities<sup>9</sup>. Low rate of occupancy of the Moravian-Silesian economic zones thus reflects the whole set of really pressing problems.

**Figure 4: Foreign Direct Investments per Employee in Czech Regions between 1993-2000**



Source: Sucháček (2004)

<sup>9</sup> Premature economic optimism connected with the neoliberal belief in the free market describable succinctly as ‘market solves everything’ started to fade since the mid 1990-ies. The rate of economic growth slowed down substantially and reached even negative values, the rate of unemployment more than doubled between 1995 and 1998 and in several districts overcame the border of 15%. Today, there are several districts with the unemployment rate even higher than 20%.

One cannot omit the proximity of Polish Upper Silesian special economic zone that was set up already in 1995 and that attracted numerous investors due to the extraordinarily advantageous conditions and investment incentives. Obviously, enterprises that already invested in neighbouring Upper Silesian special economic zones have only little motives to invest in geographically close and functionally similar Moravian-Silesian region. Moreover, special economic zone in the Upper Silesia is the most successful in Poland, while Moravian-Silesian small economic zones are still unable to attract principal investor just for the sake of the preference of the other, better embedded Czech regions.

The development of new activities in the region was financed from both state and local budgets. Next financing was provided by the European Union and sources came from Phare (for instance pilot programme for privatisation in 1991), ECOS/OUVERTURE (for example strategy of regional development), PALMIF (employment project) or LEONARDO (educational programmes).

It is plausible to state that numerous financial resources were devoted to the restructuring of Ostrava agglomeration, however, all of these projects suffered from minimal co-ordination. This was in compliance with the chaotic restructuring of the region, heavily influenced by an ignorant attitude of central government.

### ***6.3. Communication Dimension of Restructuring***

Both material and immaterial communications play an important role in restructuring of old industrial regions. Transportation infrastructure of Ostrava agglomeration itself is on a relatively good level, but the connection with the neighbouring territories appears to be much worse. The restoration of the railway corridor speeded up the connection with Vienna and Warsaw. In spite of the socio-economic importance of the region, there is still no highway. The construction of the highway was postponed many times, which has strongly retarding effect on the development of the whole region. Odra river is not navigable, although there exists a huge potential for the building of the canal Donau – Odra – Elbe. In spite of good technical parameters of the airport in Ostrava-Mošnov, there is just one flight connection to Prague.

Immaterial dimension of the communication reflects the position of the region on the mental map. In spite of the of the gradual transformation of all principal regional socioeconomic structures and rising quality of life, the region is still perceived as the territory

of heavy industry, socio-pathological phenomena and other negatives. This bad image is very often embalmed by national media (Jurečka, 2002 or Sucháček, 2004)<sup>10</sup>.

## 7. Upper Silesian Region in 1990s

Upper Silesian industrial region is most frequently described as conurbation, i.e. polycentric and highly urbanised and industrialised entity. However, one can contemplate a certain dominance of the town of Katowice that acts as an administrative centre of this conurbation. For the purposes of this article, Upper Silesian region should be perceived as a group of 27 powiats (districts) that lie in the Southern Poland.

The region covers 6650 sq. kilometers or mere 2 % of total Polish territory. At the same time, the conurbation concentrates 3.9 million people, which is 10% of Polish population! Strong urbanisation of the territory manifests itself in the fact that 87% of the population lives in 53 towns and remaining people in 43 rural municipalities. The density of the population reaches 590 inhabitants/km<sup>2</sup>, which is four times higher than Polish national average.

According to Tkocz (2001), in 1989, 1.3 million of economically active population worked in the state sector and 265500 in the private sphere<sup>11</sup>. In 1989, 45 foreign enterprises worked in Upper Silesian conurbation. It is worth to mention that overwhelming majority of heavy industrial export firms had their seat directly in Katowice, which turned out to be essential for later intense networking with their outland partners<sup>12</sup>.

In spite of these institutional differences, it is still possible to conclude that in the years 1989-1990, Upper Silesia found itself in rather unfavourable situation. Szczepanski and Cybula (1998) characterised the region as an area of environmental catastrophe, economic and

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<sup>10</sup> The problem can be examined also from another perspective: apart from 'common' physical geographical distance it is possible to distinguish next three types of distances:

- Psychological distance that corresponds to the perception of particular places. Less developed regions are usually perceived as more remote than they really are. It leads to the creation of mental maps that reflect the image and the reputation of places.
- Economic distance, which expresses the costs necessary for surmounting the certain distance and is dependent on the physical infrastructure.
- Hierarchical distance that reflects the position of the municipality within the system of public administration, but also the socio-economic importance of the municipality. Big centre is hierarchically much closer with another big centre that lies far away than with the village in the vicinity.

These distances should be relatively (i.e. with regard to the settlement system) as small as possible, mainly if we are talking about the distance between main centres and 'common' municipalities. Apparently, built-in mechanisms of spatial development in the Czech Republic tend to prolong the above-mentioned distances.

<sup>11</sup> In Poland, the institution of private entrepreneurship sustained the press of socialist regime. In the Czech Republic, on the contrary, the private businesses could not exist in the course of socialism. This institutional difference intensely influenced the development of entrepreneurship in transitional years in both countries. While Polish entrepreneurs possessed certain know-how already at the beginning of restructuring, 'learning by doing' was typical for their Czech counterparts. Entrepreneurship in the Czech Republic thus developed rather quantitatively than qualitatively.

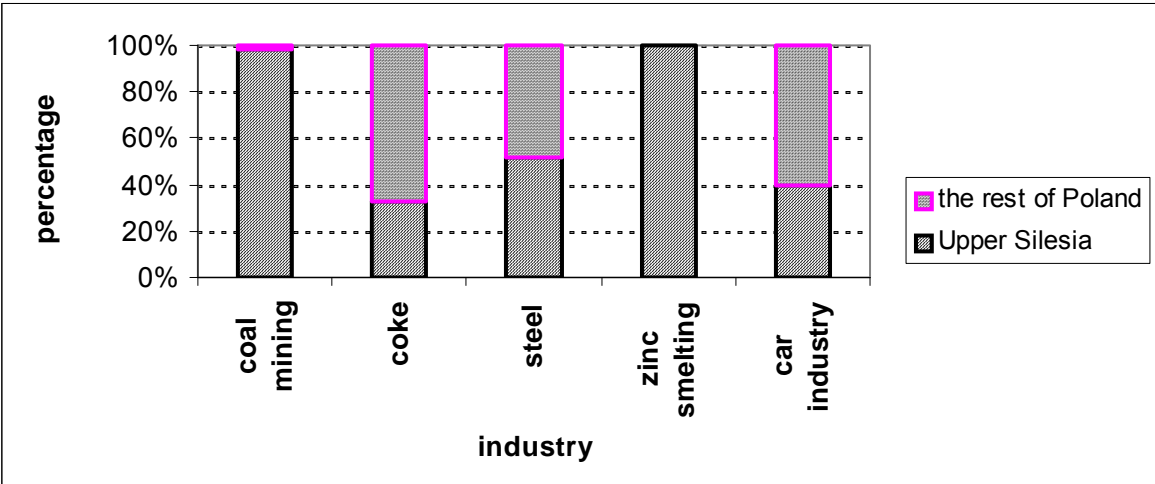
<sup>12</sup> In the Czech Republic, all export-import firms have been concentrated in the capital city in the socialist era.



institutional 'monoculture', deformed employment structure coupled with low educational capital and disintegrated regional community. These features were framed by chaotic settlement planning and architecture. So, the socio-economic position of both regions at the beginning of the restructuring appeared to be essentially the same.

However, surprisingly enough, the current transformational trajectory of the Upper Silesian industrial region cannot be satisfactorily explained by traditional theories nor by simple continuation of earlier trends. In contrast to the dusky forecasts of the early 1990s and the experience of similar regions, the economic collapse of the Upper Silesian region has not happened and unemployment remained below the national level (see Tkocz, 2001).

**Figure 5: Ratio of Upper Silesia on Polish National Industrial Production between 1980-1990**



Source: Tkocz (2001)

As it will be shown, there is a need for strategic public intervention to alter mechanisms that reproduce old economic and social structures. On the other hand, new path-dependent processes of the growth of service and non-manufacturing activities were set into motion by a specific combination of global and national processes and place-specific attributes in the early 1990s (Domanski, 2002).

**8. Rank-Territorial Perspective of Restructuring in Upper Silesian Region**

**8.1. National Level of Restructuring in Katowice Conurbation**

In contrast to Ostrava agglomeration, a relatively slow strategy of transformation got the priority in Katowice conurbation. The decline of production and employment in heavy industry was accompanied by careful creation of the new jobs in other industrial branches. Any bigger restructuring of heavy industry was put into hibernation. Central government

focused primarily on Upper Silesian conurbation, which appeared to be detrimental in relation to the other regions (Domanski, 2002).

After initial and rather careful period, several relevant transformation documents were prepared: On 6 June 1995 ‘Regional contract for Katowice voivodship’ was signed. This contract between Katowice voivodship and central Polish government exactly delimitates the activities that should be accomplished in the framework of the regional transformation not only in industry, but in education, environment and infrastructure as well. According to Szczepanski a Cybula (1998), regional contract constitutes a distinct continuation of earlier careful and discreet transformation trends.

On the other hand, the contract acted as a great bait for new investors, the quality of environment improved and the conurbation approached towards its own vision as a region based on know-how, innovation, advanced technologies and competitiveness. Eckart (2002) underlines that this contract is the most important document for the restructuring of Upper Silesia.

The main reason of the slow pace of restructuring consists in economic, social as well as political reasons. The importance of Upper Silesian industry for Polish economy is undeniable<sup>13</sup>. The territory is densely populated and local inhabitants – and from the political perspective voters - can be easily mobilised. Moreover, trade unions turned out to be both persistent and powerful.

## ***8.2. Regional Level of Restructuring in Katowice Conurbation***

The structure of the governance in the region is rather a complex one for the sake of its cultural and economic heterogeneity. Major actors, including regional authorities, local governments, NGOs, state agencies, state-owned enterprises, indigenous businesses and foreign investors, differ in their perception of the region, long-term strategies and everyday practices (Domanski, 2002)<sup>14</sup>. But in contrast to the Czech Republic, the regional level of self-government in Poland was not entirely abolished after 1990. The traditions of the autonomous Silesian voivodship of 1922-1939 constitute the part of the local pride of the population of

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<sup>13</sup> One has to reckon also with so-called ‘energy blackmail’ (Gorzalak, 2000) since more than 50 percent of Polish energy comes from black coal.

<sup>14</sup> Dornisch (1999) proposes three types of network in transitional countries and regions. Katowice conurbation draws on the horizontal type of the network that is characterised by frequent interactions, information sparing and co-operation. Frequent alliances occur between entities across governmental, non-governmental and business domains. On the contrary, Ostrava agglomeration resembles the multi-polar type of network, when the set of closely affiliated organisations develop, each simultaneously having either no substantial relations or strong conflict relations with the others. Differentiation of poles is along political, functional or property lines, some are developmental, others inertial.

Upper Silesia. In Katowice, the national state research and inspection for heavy industry can be found as well. It is worth to notice that Regional contract was the first agreement between Polish regional actors and the central government.

Apart from an economic importance of the conurbation or possible social tension, lobbyism played major role in the course of the restructuring. Traditional industry with its strong lobbying reached the very slow pace of industrial restructuring accompanied by generous financial support from the central government. The establishment of the Special economic zone or the construction of A1 and A4 highways can be seen as an outcome of the lobbying pressure from both local institutions (mainly municipalities and voivodship) and foreign investors. Regional/local subjects did not play a minor role in the course of transformation and were able to enforce their own interests. Rather than about 'top-down' approach we are entitled to speak about strong regionalism that manifested itself many times.

## **9. Functional Dimension of Restructuring**

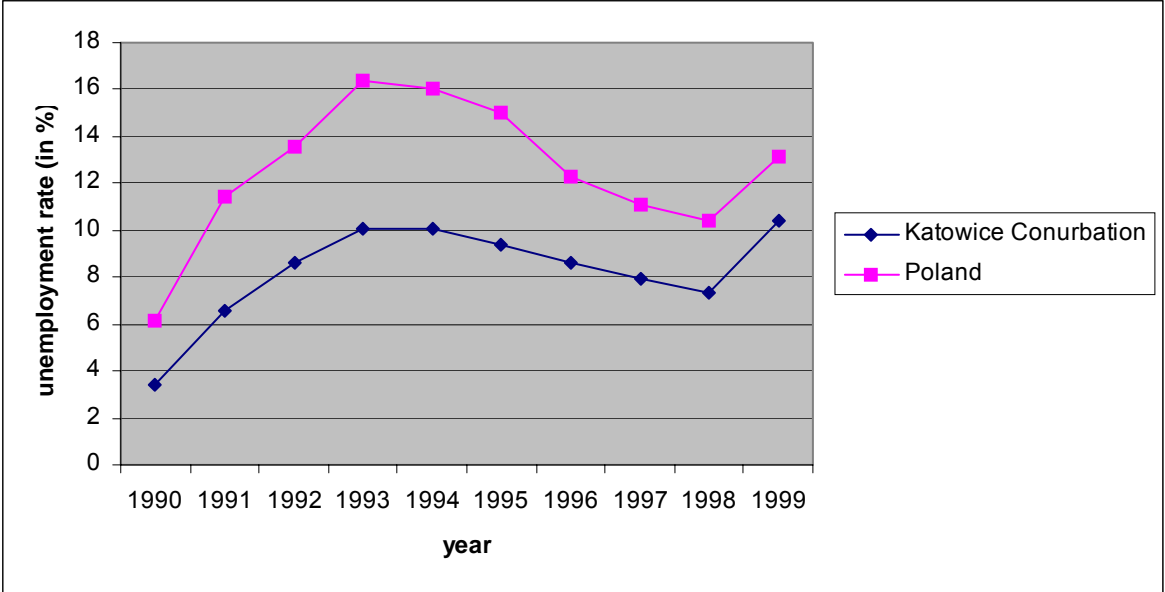
### ***9.1. Restructuring of Old Industries***

Until the mid 90-ies the heavy industry remained mostly in state ownership. Production in heavy industry declined during the initial 'shocking phase' between 1989 and 1995 by 32 percent, an employment by 15 percent. This was caused primarily by both regular and early retirements. The other dismissed workers were retrained. The issue of unemployment remained on practically negligible degree since virtually all dismissed workers were absorbed by dynamically growing service sector and numerous firms that invested in special economic zone (Eckart, 2002, Domanski, 2002).

The basic difference between the rates of unemployment in Ostrava agglomeration and Katowice conurbation in 1989-1999 is succinctly describable as follows: The unemployment in Ostrava agglomeration was all the time higher than the same indicator at the national average and vice versa: the rate of unemployment in Katowice conurbation never reached the average rate of unemployment in Poland.

Metallurgical and mining enterprises got generous bank loans mainly for the sake of the political pressure. Incidentally, the debts of all mines in Upper Silesia reached some 8 billions zloty by the end of 1995. The benevolence of central institutions in relation to the traditional enterprises of heavy industry was tangible mainly in the question of the payment of taxes. It is worth to notice that every minister of industry between 1989 and 1999 came from Katowice voivodship and was professional in heavy industry (Tkocz, 2001).

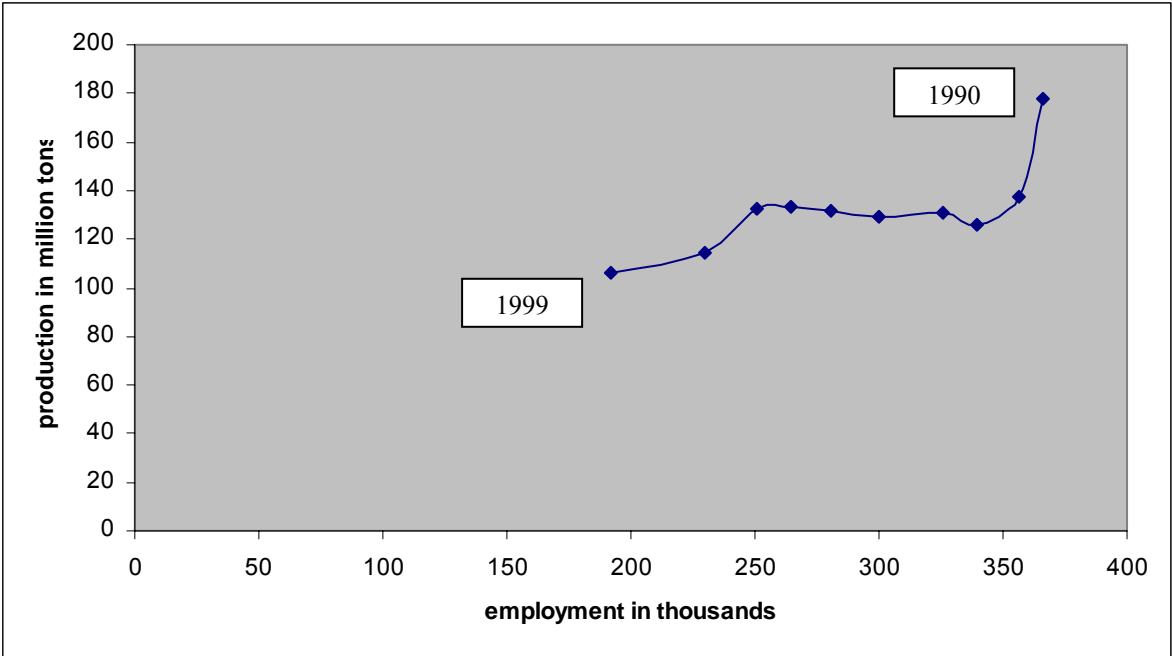
**Figure 6: Unemployment in Katowice Conurbation and Poland between 1990-1999**



Source: Eckart (2002), Tkocz (2001)

Since 1990 the old power arrangements have been reproduced into powerful coal mining lobby within social and political networks of major parties and trade unions. Their efforts to preserve status quo have prevented the decline of the importance of coal institutions and people. This was in sharp discordance with their descending market role. Despite the fast

**Figure 7: Productivity of Mines in Katowice Conurbation between 1990-1999**



Source: Tkocz (2001)

decrease in coal production (177.4 m tons in 1990 and 106 m tons in 1999), mounting debt and dramatic labour force reduction (from 366500 in 1989 to 191.600 in 1999), the planned

closure of state-owned collieries has been slowed down (Domanski, 2002). Labour productivity augmented from 484 tons per worker to 554 tons per worker. But in comparison with the improvement of the productivity in coal mines of Ostrava agglomeration that was almost twofold, the number is not so impressive.

In comparison with mining industry, state interventions in metallurgy were a bit smaller. Nevertheless, their size was large enough to improve the environment and to set the protective tariffs and social programmes as well. However, the restructuring of metallurgy ran rather quickly with regard to production, market expansion and proprietary relations. Part of steelworks was privatised into both Polish and foreign hands, the number of employees shrank by 50 percent between 1989 and 1999 (Tkocz, 2001, Domanski, 2002).

## 9.2. Development of New Activities

When evaluating the restructuring of Upper Silesia the positive influence of special economic zone is often mentioned (Domanski, 2002, Tkocz, 2001). The law on special economic zones in Poland was approved in 1994. Katowice special economic zone was established as the second in the country. It consists of four sub-zones that were established on 18 June 1996 and covers the total area of 827 hectares. These zones offered 10 years tax exemption and lessening the taxes by 50% in the next ten years.

**Table 4: Investments in Katowice Special Economic Zone between 1996 and 1999**

Locality	The volume of investments			Average volume of the investment		
	Investments (in thousands zloty)	Area (in hectares)	Number of employed persons	Investments (in thousands zloty per worker)	Investment (in thousands zloty per hectare)	Number of employed per 1 hectare of investment
Sosnowiec-Dabrowa Gornicza	543 870	71	3 268	166,4	7 646,7	46
Gliwice	1 574 961	136	5 675	277,5	11 566,0	42
Tychy	1 031 221	102	3 657	282	10 062,6	36
Jastriebie-Żory	219 453	42	1 252	175,3	5 242,0	30
<b>Total</b>	<b>3 369 505</b>	<b>352</b>	<b>13 852</b>	<b>243,3</b>	<b>9 582,2</b>	<b>39</b>

Source: (Tkocz, 2001)

However, these offers were conditioned by the rule that an investment exceeds 2 millions EUR and will provide an employment for at least 100 workers. Preference was given to manufacturers from the sector of precision engineering, electronics, car industry, food-processing, medicine and medical instruments. Moreover, car industry was already present in

the conurbation and nowadays one may dare to say that car cluster exists in the region. In that way the functions of already existing duty-free zone in Gliwice and railway node in Katowice were strengthened.

The establishment of regional development agency and regional fund of venture capital (Domanski, 2002, Tkocz, 2001) proved to be positive as well. Moreover, in Katowice conurbation 7 incubators and technological centers were launched. They helped to develop new industrial branches and fostered research and development (Eckart, 2002).

Last, but not least, the region enjoyed substantial financial support from the European funds, namely from the programmes PHARE-CBC, INRED (integrated regional development), STRUDER PHARE (structural regional development programme) and even RAPID (rural areas infrastructure development programme).

### ***9.3. Communication Dimension of Restructuring***

Railway network in Upper Silesia can be characterised as ample but obsolete. It is gradually modernised. The same applies to the railway corridors that connects Katowice conurbation with other areas. The construction of highways is very extensive too. The junction of two principal motorways is to be located here. The west-east highway that links Upper Silesia with Cracow is to be soon tied together with the European highway network via Wroclaw and Dresden. This will be complemented by north-south A1 freeway.

Small airport in Pyrzowice is not exerted to the maximum nevertheless it provides direct flight connections to many important airports in Europe. Gliwice river port has an importance in cargo transportation. Duty free zone can be found in the region too. From the logistical point of view, the region is one of the most important hubs in Poland.

From the immaterial point of view, the image of the region remained almost so bad as in case of its Moravian-Silesian counterpart. Certain improvement of the image is observable after the massive investments of car industry. Also Katowice fair trades or one of the biggest European amusement parks in Chorzów contribute to the improvement of the reputation of the region.

## **10. Conclusion**

Basic restructuring strategies differed in both regions. While in case of Katowice conurbation restructuring of the industry turned out to be relatively slow and *ex ante* accompanied by careful creation of working places in other sectors, in case of Ostrava agglomeration, on the contrary, *ex post*, market generation of working opportunities was emphasised. For the

restructuring of Ostrava region, numerous poorly co-ordinated projects were typical. They moreover only mitigated the effects of restructuring but never forewent the causes of the problems. In case of Katowice area, the cohesion of particular restructuring measures was in no manner high, but individual projects proved to be sufficiently financed.

The impact of central government in Warsaw on the development of Katowice conurbation is much higher than on any other region. On the contrary, the attention devoted to Ostrava agglomeration corresponds to the fact that it is geographically, but also psychologically the most distanced region from Prague. It was emphasised, that endogenous development should take place in Ostrava. However, in the situation, when local and regional actors lack the competences and financial resources, transformation based on inner, endogenous potential can be only hardly successful.

Different transformational trajectories of both regions reflect the different regional informal institutions. In Katowice conurbation, path-dependent processes and intense lobbying influenced the process of restructuring in a positive way; on the contrary, path-dependency proved to worsen the negative trends in Ostrava agglomeration. Strong lobby in Katowice conurbation transformed its former economic power into the current political influence. Vice versa, formerly influential structures in Ostrava agglomeration started to fade since the beginning of restructuring due to the restrictive approach of central government as well as lower level of mutual trust and co-operation among regional and local actors.

After the mid 1990's the economic indicators clearly showed the different transformational trajectories in both regions. Spontaneous restructuring in Ostrava agglomeration could only hardly face the regional contract as well as special economic zone in Katowice conurbation. At the beginning of the restructuring, one could contemplate a great resemblance of economic characteristics in both regions. Katowice conurbation finally coped with the transformational challenges more successfully than its Ostrava counterpart, which can be ascribed to institutional differences in both regions.

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