

FOREIGN EXPERIENCE OF SPECIAL ECONOMIC ZONES AND PROSPECTS OF DEVELOPMENT IN UKRAINE

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Abstract. Free economic zones of the world are investigated. The features of functioning and management of special economic zones in Ukraine are determined. The volume of foreign direct investment in Ukraine is analyzed. The positive and negative components of the experience of free economic zones in Ukraine are highlighted. The foreign experience of functioning of special economic zones and prospects of development in Ukraine is investigated. The dynamics of indicators of functioning of special economic zones in Poland is given. The change of priorities is substantiated in the spatial organization in the direction of stimulating the formation of zones of intensive development of applied science and science – intensive production – special economic zones of the third generation (technological, scientific, industrial parks, industrial and innovative clusters).

Keywords: free economic zone, special economic zone, foreign trade zones, trade and production zones, scientific and technical zones, tourist and recreational zones, offshore zones, techno parks, scientific parks, industrial parks, clusters.

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Introduction

Investing in special economic zones (FEZs) is important for our country, as there is a decline in the economy, GDP decline, inflation growth, devaluation of the Ukrainian currency, almost complete cessation of trade with the Eastern neighbor. FEZ is an effective tool for improving the economic situation in the country, stimulating exports and, accordingly, attracting foreign currency.

In addition, investment activity in the FEZ territories will allow the country to integrate more quickly into the market economy, to modernize economic mechanisms, to develop priority sectors of the economy, to increase the potential of individual regions, and to introduce the latest technologies. At the same time, FEZs are one of the main forms of

attracting investments, which will improve the competitiveness of both the region and the country as a whole. Ukraine already has some experience in the functioning of the FEZ, but this issue is quite complex, because our state has taken the course of European integration, which means strengthening foreign trade, that is, a free trade zone with the EU and the flow of foreign investment in Ukraine. Thus, investment activity in the FEZs is strategically important for the development of the country's economy and well-being in the future (*Bahashova, Puriy, 2017*).

Foreign experience of special economic zones

The economic development of countries is usually characterized by significant territorial heterogeneity and differences in the intensity of economic activity. The emergence of depressed areas or regions poses the problem of attracting investments in order to overcome the underdevelopment of some territories.

To solve this problem, the world practice has accumulated experience in the creation of so-called special economic zones (SEZs) in certain local areas. The peculiarity of these zones is that their formation is based mainly on attracting foreign investment, and the activities are carried out on preferential terms such as preferential taxation and the like.

The effectiveness of the SEZ depends to a large extent on the coherence of the interests of investors, the state and the territories. For investors, profit is important, for the state – revenues to the country's budget, for local communities – new jobs and revenues to the local budget. Without these interests, the existence of FEZs is problematic.

The rationale for effective management in the FEZ version requires economic science to conduct non-standard research and development in many areas. In particular, it concerns the definition of priority areas of the country and their potential for SEZs, payments for the use of local resources, infrastructure, taxation, training.

Every country that seeks to develop its economy and does not have enough capital for this is trying to attract foreign investors, using appropriate mechanisms of financial incentives. One of these mechanisms is the special economic zones, the strategic objectives of which (except for attracting foreign investors) is the creation of new jobs, modernization of production, the development of individual industries, the introduction of new technologies. Special economic zones can also be considered as an instrument of the regional policy of the state. In many countries, their main task is to accelerate the development of regions (using their own resources – raw materials, labor, etc.), where there is the greatest economic stagnation, poverty, high unemployment. If this is understood as the task of special / free economic zones, they should be created in those regions of the country where it is not profitable to invest without additional financial benefits to foreign firms.

According to the Economic Institute Bay area Council, today there are more than 3.5 thousand special economic zones in 130 countries, which account for \$200 billion of world exports and employ about 66 million people (*Special Economic Zones, 2017*).

FDI's Global Free Zones of the Year Awards 2017 knowledge the most promising free zones across the world. For this year's awards, fDi invited free zones, government entities and investment promotion bodies to complete a short survey detailing their zone's activity, facilities and incentives offered to investors. In total, 66 entries were received from free zones across the world (*Global Free Zones of the Year 2017 – Winners, 2017*).

A panel of judges from fDi was approved and studied each location. Judges nominated their winning and runner-up locations in each region, as well as their top zones for SME and

Large Tenant categories. In addition, some locations which were particularly outstanding have been recognized with honorable mentions and bespoke awards.

For the third year in a row, the best free zone according to fDi is DMCC Free Zone (United Arab Emirates), where 125 foreign companies operate, including such giants as PepsiCo and Levi Strauss (USA) and Panasonic (Japan). Free economic zones (FEZs) from the Baltic countries are included in the list of the best countries every year.

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Reigning fDi Global Free Zone of the Year champion DMCC has won the coveted title for the third year running. Dubai's leading centre for global trade, which was also named regional winner for the Middle East, welcomed a range of new clients in 2016, including US-based drinks giant PepsiCo, Japan-based electronics manufacturer Panasonic and US-based fashion brand Levi Strauss.

Additionally, 125 of the zone's member companies expanded by more than 15%, adding nearly 20,000 square metres of occupied space. DMCC is creating grade A office spaces to entice investors. These include the recently opened One JLT tower, with 14 floors of energy-efficient space, and the Burj2020 district, which will boast residential, commercial and retail space for a global business community.

DMCC adopted a smart city strategy in 2016 to ensure the zone is offering its community the latest technology and connectivity in amenities. DMCC was the world's first free zone to offer electronic signature capabilities to its members, and since the end of 2016, more than 8000 contracts have been delivered using e-signatures.

Investors can also use the DMCC Business Apps Manager, which offers a range of connected apps for SMEs to ensure compliance with UAE regulations. The app manager includes tools for accounting, human resources, customer relationship management and scheduling (DMCC, 2017).

The DMCC Disputes Centre, which was expanded in the past year, offers pro bono legal services to member companies, as well as direct access via video link to the Dubai International Finance Centre small claims tribunal hearings. Investors have access to employment law training at subsidised rates, all of which contributed to the zone scooping the Global SME award.

Highly Commended: Jebel Ali Free Zone, UAE.

Highly commended for the Middle East region for the second year running, Jebel Ali Free Zone has also been highly commended globally in 2017. The zone boasted an annual growth rate of 7% in the five years to 2016, with 126 companies expanding in 2016 alone. Several new guidelines for investing companies were introduced in 2016, such as allowing companies to re-domicile in the zone and operate there without having to establish a subsidiary.

A business centre was established in August 2016, exclusively to support SMEs. It boasts more than 1000 workstations in fully furnished offices, which share secretarial and office services and state-of-the-art meeting room facilities. Infrastructure developments abound, and a six-lane, two-way bridge is under construction to connect the north and south areas and ease traffic congestion on Dubai's Logistics Corridor. Plans are in place to build a multi-storey warehouse space to meet increased demand for Jebel Ali's facilities and for staff accommodation facilities, including more than 3500 rooms.

This year, the list of the best FEZs in the world included Klaipeda FEZ, which has 120 companies with foreign capital, including the world's largest producer of granules Indorama

(Thailand) and the second production of pallets in Europe NEO Group. Klaipeda FEZ also received an award for its contribution to the national economy, producing 2.5% of Lithuania's GDP and about 3% of exports due to the inflow of foreign investments. The successes of the Klaipeda FEZ in the field of energy efficiency after installation of the lighting control system, which provided energy savings of 30%, were also noted (*Global Free Zones of the Year 2017 – Winners, 2017*).

The list of the best marked and Kaunas FEZ, 85% of companies in which have the status of SME (small and medium-sized businesses).

In the category of logistics, the free port of Ventspils (Latvia), where several foreign logistics companies operate, including Noord Natie Ventspils Terminals (Belgium), Stena Line (Sweden) and others, Ventspils free port is also noted for its participation in the cross-border cooperation in the Chinese-Belarusian project "Great stone".

The Rezekne special economic zone has become one of the fastest growing regions thanks to one investor: NewFuels has invested 11.3 million euros in development, increasing the production of wood pellets by 94%. The number of workers increased by 84%.

Among the European free zones in various categories also noted FEZs of Poland, Macedonia, Serbia, Croatia.

The third time "fDi Global Free Zones" marks the uspihi Birmingham Enterprise Zone (UK) in the transfer from London to Birmingham banking giant HSBC, closer to key customers and infrastructure, so that 90% of the market will have access to services after the completion of the high Speed 2 railway project.

The Birmingham Enterprise Zone development Fund has £ 11 million (\$14.6 million) dedicated to small and medium-sized businesses and start-UPS.

Another free economic zone in developed European countries received the award fDi Global Free Zones – a Zona Franca de Vigo (Spain), the automotive cluster which includes more than 130 support companies and has more than 30,000 people.

Most of the free economic zones marked "fDi Global Free Zones" are located in developing countries of Asia, Africa and Latin America and are designed to attract foreign investment in the development of regions. Most often it is the industrial free zones.

It was interesting to find among the best also free economic zones specializing in investment in education. The winner of the European region was Katowice SEZ (Poland), working closely with local schools and colleges. And also Starachowice SEZ (Lublin, Poland), which supported the initiative "Regional cluster of professional education" (*Report «Global Free Zones of the Year 2017 – Winners», 2017*).

It is also worth noting the support of PIISA Industrial Park (Dominican Republic), where there are many companies related to medicine, such as Accumulated, Baxter (USA) and Getinge (Sweden), cooperating with educational medical institutions.

"fDi Global Free Zones of the Year 2017" also included in the list several industrial SEZs operating in Russia (Elabuga, Lipetsk, Yekaterinburg) and Kazakhstan (Innovation Technology Park SEZ).

Prospects for development of territories with preferential treatment in Ukraine

The generalization of the impact of special economic zones on the economic system has allowed to establish that the consequences of the functioning of special economic zones are:

- cross-border movement of capital;

- anonymity management of financial resources and property;
- formation of optimal conditions for business registration and obtaining permits;
- implementation of investment projects by attracting cheap financial resources and reducing transaction costs, including tax;
- shifting corporate tax pressure on individual consumers (*Kotane, Yegorova, Puriy, Hushko, Kulishov, 2018*).

For two decades, Ukraine has been using such a tool to stimulate investment in certain local areas as special economic zones. During 1995-2000 12 FEZs were created in 8 regions.

From the above, it should be emphasized that the creation of a favorable investment climate for investors is the main key to the effective functioning of the FEZ. To do this, certain measures should be taken, in particular: to provide guarantees for the protection of property rights; to establish effective cooperation with the administration; to allow the free movement of capital and goods; to ensure the implementation of a controlled, stable and long-term economic policy. In 2005 the law "on amendments to the Law of Ukraine "on the State budget of Ukraine for 2005" was adopted (*The main indicators for the FEZ, 2017*) which abolished the preferential regime in the FEZ, and therefore deprived of tax benefits and guarantees of SEZ investors regarding the stability of the legal regime of their activities. This led to a decrease in investment activity and outflow of foreign investment (table 1).

Table 1

Period of activity of special economic zones of Ukraine

№	Name of FEZ (the region in which it is located)	The defined term of activity	Actual project implementation period (years)	Volume of investments to be attracted
1.	Donetsk (Donetsk region)	21.07.1998-21.07.2058	1998-2014	500
2.	Azov (Donetsk region)	21.07.1998-21.07.2058	1998-2014	400
3.	Zakarpatya (Zakarpatya region)	09.01.1999-09.01.2029	1999-2016	1300
4.	Interport Kovel (Volyn region)	01.01.2000-01.01.2020	2000-2016	18
5.	Mikolaiv (Mikolaiv region)	01.01.2000-01.01.2030	2000-2016	650
6.	Porto-Franko (Odessa region)	01.01.2000-01.01.2025	2000-2016	78
7.	Port Crimea (The Autonomous Republic Of Crimea)	01.01.2000-01.01.2030	2000-2014	150
8.	Slavutych (Kiev region)	30.06.1998-01.01.2020	1998-2016	118
9.	Kurortopolis Truskool (Lviv region)	01.01.2000-01.01.2020	2000-2016	100
10.	Yavorov (Lviv region)	17.02.1999-01.01.2020	1999-2016	277
11.	Reni (Odessa region)	17.05.2000-17.05.2030	2000-2016	58

Source: compiled by the authors on the basis of (*The main indicators for the FEZ, 2017*)

According to the world practice, a tangible effect on the national scale can occur only 10 years after their Foundation (*Khomenko, 2018*).

In Ukraine, their high efficiency became evident during the first years of the functioning of such territories. However, in the next period there was a rapid decline in all their socio-economic indicators. The main reason for this was the changes in the conditions of their functioning on the basis of information about the low efficiency and budget inefficiency of the FEZ.

Against the background of a significant reduction in the performance of FEZ in Ukraine, the number of similar organizational and economic forms of investment and innovation stimulation in many countries has increased significantly in recent years, and the main socio-economic indicators of their application are several times higher than those achieved by Ukraine (*Mirror of the week. Ukraine, 2017*).

The success of the world experience in the use of SEZs is based on the systematic transformations, found a balance between the necessary and sufficient incentives for business entities, in particular:

- simplicity of the procedure for creating and defining the boundaries of FEZ by government decisions (in Ukraine, the procedure for creating SEZ is complex and bureaucratic and provides for the adoption of a separate law by the Verkhovna Rada of Ukraine for each functional unit);

- provision of the necessary infrastructure (standard office, warehouse and production facilities with communication networks) or providing investors with the opportunity to build production facilities at their expense in accordance with individual needs (in Ukraine there is no prepared infrastructure and communication networks, and the development of infrastructure was actually carried out by investors);

- the system of fiscal incentives and preferences for FEZ residents, including:

- application of the free customs zone regime for goods imported into or exported from the zone to the EU and third countries (exemption from import duties and other charges and VAT);

- exemption from tax on income of residents who carry out investment activities;

- the term of the operating license for residents depending on the type of economic activity is limited to the period of 15-45 years.

Functioning of FEZ in Ukraine is a necessary condition for for the development of many spheres (fig. 1).

Given this, we believe that the new priorities of the spatial organization in Ukraine to replace the previous FEZs should be:

- technoparks, with the help of which the implementation of projects for the production introduction of high-tech developments, high technologies and industrial production of competitive products is carried out (*The main indicators for the FEZ, 2017*). In Ukraine there are 16 technoparks, of which only 8 projects are implemented. The activities of technoparks should be aimed at the development and implementation of new technologies and equipment for quality medical care, treatment, pharmaceuticals; development of modern information, communication technologies, robotics; development of energy-saving technologies;

- science parks, which are significant centers of commercialization of research results and their implementation in the external and domestic markets, using the scientific and educational potential. In Ukraine, there are 8 scientific parks, half of which are located in Kiev, and three in Kharkov. Thus, there is a need to expand their network on the basis of the leading educational institutions of the country, as well as research institutes;

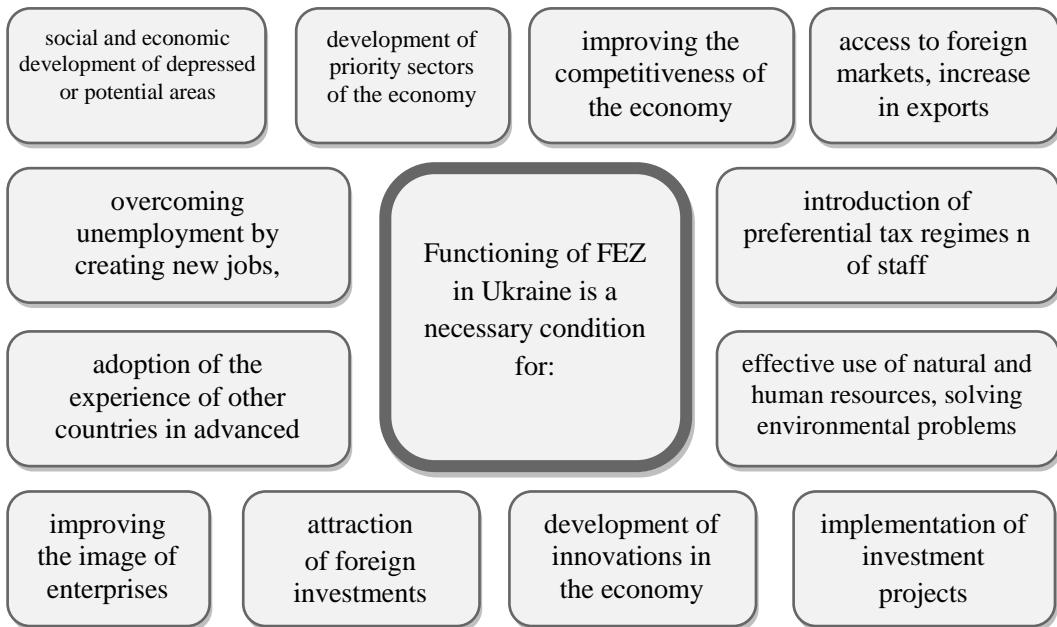


Fig. 1. The necessity for the functioning of FEZ in Ukraine

Source: compiled by the authors

- industrial (industrial) parks, whose activities are carried out in the field of processing industry, information and telecommunications, as well as research (*The Law of Ukraine «On stimulation of development of regions»*, 2017). In Ukraine, there are formally 12 registered industrial parks. The activation of their activities is particularly relevant at the stage of transition of the domestic economy to the fourth industrial revolution and focus on the development of new technologies in the field of artificial intelligence, robotics, biotechnology, Autonomous vehicles and the like. In addition, the domestic industrial parks should develop such strategic directions of development of innovative activities as the development of new technologies of energy transportation, the introduction of energy-efficient, resource - saving technologies; development of new technologies of high-tech development of the transport system, rocket and space industry, aircraft and shipbuilding, weapons and military equipment. In this context, highly specialized parks can be created: air, rocket and space parks. The development of cross-border industrial parks is promising in Ukraine;

- clusters, the emergence of which is facilitated by the presence of previous forms of spatial business organization. The main advantages of clusters include: creating favorable conditions for the development of innovation (the presence of a technological network on a common scientific basis), stimulating the development of small business, vuzogaluzeva specialization, production of competitive products, attracting investment. Today there is a need for the formation of the legal framework for the regulation of their activities in Ukraine. It clusters have high potential and development opportunities in Ukraine (*Izmaylov, Znotina, Puriy, 2017*).

Thus, the change of priorities in the spatial organization in the direction of stimulating the formation of zones of intensive development of applied science and science – intensive production – FEZ of the third generation (technological, scientific, industrial parks, industrial and innovative clusters) - will create effective "growth points" of the domestic economy on an innovative basis.

Conclusions

Summing up, it should be noted that in modern conditions of management to continue the operation of the FEZ in Ukraine in the same form is economically impractical. However, it is not necessary to completely abandon the practice of their use. World experience shows the change of forms of FEZs in accordance with the conditions of the environment and the challenges of time. The transformation of FEZs in Ukraine should be in the direction of development of their other functional types and be based on the strategic objectives of regional development, to ensure the implementation of priority areas of development of innovation, science and technology in Ukraine.

Given this, we believe that the new priorities of the spatial organization in Ukraine to replace the previous FEZs should be: technology parks, science parks, industrial (industrial) parks, clusters.

Thus, the change of priorities in the spatial organization in the direction of stimulating the formation of zones of intensive development of applied science and science – intensive production – FEZ of the third generation (technological, scientific, industrial parks, industrial and innovative clusters) - will create effective "growth points" of the domestic economy on an innovative basis.

The world experience shows that under the condition of favorable implementation of investment policy it is possible to achieve high results in attracting foreign investments and economic development.

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