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**WORLD EXPERIENCE OF PRODUCTION AND BUSINESS**  
**ACTIVITY IN SPECIAL ECONOMIC ZONES**

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*Abstract*

The authors of the study consider factors and features of intensified economic growth of various countries in terms of modern cooperative organizational forms of industrial production and entrepreneurship in special economic zones (SEZs). The importance of SEZs is the order of their creation, the special validity period, governing bodies, and the content of the legal regime of economic activity. The authors analyze the activity of attracted foreign investments: on the one hand, they boost the technical development of the economy, on the other hand, they can drive out domestic enterprises, occupying a key position in certain types of activities, increasing competitive pressure and reducing the economic security of a country / region. SEZs, remaining enclaves, do not provoke dramatic structural economic changes, but act as reliable programs for creating high-performance jobs; develop and implement a broad strategy of economic reforms, allow the country to develop and diversify the export of highly processed products; gain access to capacious markets of developed countries. SEZs can also be considered as experimental laboratories for the implementation of industrial policies and approaches to support entrepreneurship. Legal, land, labor and pricing policies were often first implemented and tested in the framework of SEZs, before they were distributed throughout the national economy and were effective in developing productive forces.

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**Keywords:** Special economic zone, resident company, industrial production, entrepreneurship, competitiveness factors, infrastructure.



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## **1. Introduction**

Special economic zones (SEZs) are local territories of a nation state with special legal and customs regulations and tax incentives established to accelerate the attraction of advanced international experience in organizing production of high value-added products and attracting investments. The world experience in creating SEZs shows the following: despite the various specific goals of their organization, which differ from country to country, they have a single, more general goal - this is to ensure the country's wide participation in the international division of labor, world flows of creating value. Or - this is an increase in production of modern competitive products that are in demand on the domestic market and they are exportable. Due to this, there is a solution to a number of internal problems, ranging from modernizing the technical and regulatory level of the economy to improving the well-being of the population in the end. Due to SEZs, we must remember about the increase of the flow of foreign exchange earnings and foreign direct investment, the transfer of modern technologies that are important for updating production of domestic enterprises, especially the development of human capital, enterprises' cross-cultural competencies (Vasiliev, 2014).

SEZs also allow you to meet the needs of the domestic market with high-quality import-substituting products produced domestically. To this end, enterprises producing import-substituting goods are being established in specially isolated territories in regions with the participation of foreign, and in some cases, attracting domestic investments. It also allows solving a number of problems associated with improving technological foundations of domestic production.

## **2. Problem Statement**

The unprecedented challenges of maintaining competitive positions in the context of modern broad digitalization of reproductive national economies require not only large-scale investments in the infrastructure development, but also deep institutional transformations of industrial production and entrepreneurship models, which are the foundation of faster economic growth. It is required to determine the outlines of modern forms of support for entrepreneurship and industrial activity, to reveal the factors of their successful implementation that can ensure a qualitative breakthrough in the economic development of individual countries in the context of the rapid development of modern "disruptive" production technologies (new conditions for global value chains, digitalization, virtual and augmented reality, cyber-physical systems, additive manufacturing, etc.). The production activity in special economic zones (SEZs) around the world is associated with intensified economic growth, relying on the widespread release of entrepreneurial initiative, support for start-ups, development of the technological potential of manufacturing sectors, updating the employment structure of the population based on broad digitalization and socialization of the main types of economic activity.

## **3. Research Questions**

In the transition to the intensive type of development, institutional reforms of the economic legislation and the implemented economic mechanism of individual countries that would stimulate production, programs for creating high-performance jobs and open up the internal possibilities of the

economy require consideration. Structural and entrepreneurial policy instruments are widely used to accelerate the pace of economic development, ennoble the structure of industrial production, and implement the elements of the latest sixth technical structure. The most effective form of them is special economic zones (SEZs). Innovation incubators (technoparks), innovation and industrial zones, industrial parks, cluster formations, technopolises, innovation cities, engineering centers and even priority development areas are recognized as effective options for the introduction and development of new technologies.

#### **4. Purpose of the Study**

SEZs, as a rule, contribute to the economic growth of those countries and regions in which they were organized. Otherwise, they can lead to irrational distribution of resources, rent-oriented behavior, withdrawal of capital abroad or emergence of the so-called local territories of “white elephants” poorly integrated into the regional economic and management system. Therefore, the scientifically-based management of such business enclaves prevents the destructive rent-oriented behavior of their residents, both on the part of business and on the part of state and local authorities, allows developing effective models for managing industry and entrepreneurial activity and spreading positive experience to the quality of peculiar growth points among the bulk of enterprises in the business environment. Basic statistics on the results of their activities, as well as national developmental features, are required to be considered in order to identify the most successful examples for dissemination in interested countries.

#### **5. Research Methods**

The evolution of the organizational and functional forms of SEZs took place under the influence of changes in existing economic paradigms and international trade rules, which developed from simple forms (initially related to trade in goods) to more complex ones (oriented to production of mass consumer goods, development and production of new goods, provision of various kind of services, mainly export-oriented, digital enterprises). As the theoretical and methodological basis of the study, the following methods were applied: the principles of a comprehensive and comparative analysis, which allowed the authors to cover a wide range of aspects of the dynamic development of industry and entrepreneurship in SEZs of various countries, the state of national economies; a systematic approach to determining the measures taken to solve the problem of increasing the efficiency of domestic enterprises participated in world value chains with an assessment of their reproduction. The experimental base of the study: state statistics on the state of the economy and foreign economic relations, data on the economic turnover of industrial enterprises - residents of SEZs, as well as case studies of international organizations on these issues.

#### **6. Findings**

In accordance with the provisions of the International Convention on the simplification and harmonization of customs procedures (KYOTO (Japan) 18.05.1973) (1973) a free zone is understood as a part of the country’s territory in which goods are accepted as objects located outside the national customs territory (the principle of “customs” extraterritoriality), in connection with which they are not subject to

ordinary taxation and customs control. At the same time, resident enterprises are not free from tax, administrative, technical and other regulation by the state, which only stimulates entrepreneurial activity with benefits. SEZs can be defined as: a separate part of the territory of a nation-state created in accordance with a specific target production purpose and having at least three most important characteristics: the presence of previously prepared infrastructure; the action of a set of economic benefits; preferential treatment of the import and export of goods, equipment for the formation of authorized capital.

The number of organizational and functional structures of SEZs exceeds 25 varieties, changing from the specific conditions of individual countries. According to various estimates, by the beginning of the current millennium, from 1,200 to 3,500 various types of SEZs functioned throughout the world, including free trade zones, scientific and industrial parks, export-production zones and various special-purpose zones (offshore centers, recreation zones, environmental and economic regions, tourist centers, etc.). In modern free economic zones, up to 30% of the global turnover of products and services takes place, which explains the increased interest in their implementation on the part of many countries in Asia, Africa, South America, which have embarked on the path of industrialization and development of productive forces. It is no coincidence that Cizkowicz, Cizkowicz-Pekala, and Rzonca (2017) showed a strong influence on the work of firms in SEZs on increasing employment in the host region of the country, spreading a positive effect on the technological and social chain to neighboring regions, involving economic turnover of their resources, including qualified personnel. It is noteworthy that investments in these SEZs do not drive out investments of other industrialists and entrepreneurs outside SEZs, but most likely contribute to their attraction as a kind of consolidation point for business activity.

Yitao and Meng (2016) examined the issues of successful functioning of industrial entrepreneurship in SEZs in the specific conditions of the PRC, where this industrial development and entrepreneurship with the unprecedentedly large scale ensured the influx of foreign direct investment, the growth of export-oriented production, and ultimately served as a catalyst for successful economic reforms, raising the country to first place in the world in terms of GDP. In turn, Zeng (2016) proposed to disseminate the Chinese experience in the development of special economic zones (SEZs) in Africa, including with the participation of local resident firms. African countries interested in industrial development can greatly benefit from the Chinese experience, especially using the example of Chinese zones in this continent.

Due to rich experience of SEZs functioning, primarily in India and China, Moberg (2015) formed a political and economic basis for explaining the phenomenon of how special economic zones (SEZs) can intensify the economic development of the country and the region of location. It is noteworthy that we consider them in the right institutional context, their effectiveness turned out to depend on the level of implementation of the country's factor features, primarily such as natural resources, infrastructure and geographical location of the zones, which is in good agreement with Porter's determinants of national competitive advantage.

This conclusion is confirmed by the results of the analysis conducted by Ambroziak and Hartwell (2018), who, considering the statistical series of SEZ's performance indicators, including the size of investments of resident companies, their number and unemployment rate, showed a strong positive impact

on entrepreneurship in SEZs. The study was carried out in relation to conditions of the least developed regions of Poland, while in relatively rich regions this effect was insignificant. It most likely can be explained by the relatively small scale of industrial and entrepreneurial activity of the studied business entities relative to the current gross regional product.

The works of Nazarczuk and Uminski (2018) revealed the positive role of SEZs in relation to certain aspects of increasing the scale and structure of resident firms' export, relative to other companies. Any national economy, even under sanctions, can achieve a significant multiplier effect from foreign investment in production and business, even in limited-scale areas of the SEZ localization. This seems especially important for economic growth in connection with the growth of modern trade wars, sanctions and other geo-economic restrictions initiated by different countries, and the growth of new centers of economic power in world trade in capital and the projection of their influence (Volkodavova, Zhabin, & Yakovlev, 2016). Currently, SEZs have taken fairly stable positions in the global economy and are the most important tool for redistributing investment flows. Substantial international practice and statistics allowed the authors to systematize the key features of this socio-economic development in various countries.

**Table 01.** Policy and features of SEZs' development in different countries of the world

Country, region	Goals for creating SEZs	Features of applying SEZs	Importance for the national economy
PRC	Creation of new effective organizational forms for the development of industrial production and entrepreneurship and promotion of the national economy	Wide state support, including an advertising and information campaign, soft loans, tariffs for resource provision	High
USA	Improving competitiveness of industry in the world market, reducing costs	SEZs are mainly in the form of foreign trade zones, technology parks, business zones	Average
Russian Federation	Attraction of modern technologies and foreign investments, international cooperation in production of technically complex products	There are 25 SEZs of four types: 9 SEZs of industrial-production type; 6 SEZ of technical-innovation type; 9 SEZ of tourist-recreational type, 1 port SEZ. They set up labor productivity and import substitution	Average
Dominican Republic	Obtaining benefits for preferential access to the markets of developed countries, especially the USA	They form large production capacities in segments previously dependent on agricultural products	High
Egypt	Ensuring export-oriented diversification of the raw material economy	They provide multi-structure and modern industrialization of the economy	High

This table (Table 01) shows that countries pursue distinctive goals when creating SEZs at different levels of economic development. The most developed, multi-level system of special economic zones was created in China. Each type of these zones of China (special economic regions, open coastal cities, zones of cross-border economic cooperation, etc.) is oriented towards the implementation of certain economic

tasks. These SEZs are limited enclaves whose primary goals are to study and apply the experience of market entrepreneurship in the PRC, to attract modern technology and foreign investment, which, if successful, is subsequently used to spread outside the rest of China. We can see positive experience in organizing SEZs in South Korea, India, Brazil, Malaysia, and other countries (Padilla, Sari, & Handoyo, 2017). In the Russian Federation, according to the results of 2018, the highest efficiency among 25 SEZs is demonstrated by the technology-innovation type (TI) (100%). By the beginning of 2019, 707 resident enterprises were registered in the territories of SEZs (105% of the planned values), including 131 residents with the participation of foreign investors as part of shareholders (participants). 36 839 workplaces were created and investments were made, including capital investments for a total amount of 369,371 million rubles. The amount of income for 2018 amounted to 193,031 million rubles (184% of the planned values), for the period since the beginning of SEZs' functioning - 716,794 million rubles (118% of the planned values). The volume of customs payments paid by residents of SEZs amounted to 8 769.66 million rubles in 2018 (317% of the planned values) (Ministry of Economic Development of the Russian Federation, 2019).

It is noteworthy that the volume of budget funding for the creation of SEZs in all countries is ten times less than their performance indicators. At the same time, the experience of their functioning on the territory of the Russian Federation has ambiguous characteristics among experts and supervisory authorities on a number of organizational, managerial, and economic problems, which is reflected in discussions between the Accounts Chamber and the Ministry of Economic Development of the Russian Federation. In general, the experience of their activities shows the prospects for the implementation of technology-innovation and industrial-production zones in the domestic economy (Kookoueva & Tserceil, 2016).

Systematization of issues and features of SEZs at the present stage of their development allows us to single out the most significant characteristics that are significant for assessing the prospects for the development of this industrial and business activity:

- In the context of the general economic crisis and even the initial stages of post-crisis development, if the factor of the overall market decline is not offset by a similar increase in exports, production dynamics will focus on narrowed inter-regional or even smaller regional markets. Under these conditions, one cannot expect fast growth rates of new industries in SEZs. At the same time, there could be a worse option for the economy of regions — locations of SEZs, when enterprises open their production sites in SEZs to optimize taxation, while not increasing or even reducing the volume of production at existing facilities.

- In the process of creating and developing SEZs, certain contradictions arise between the interests of state and regional government concerning income policy, SEZs represented by management companies, as well as domestic and foreign residents, which can be resolved through conciliation procedures.

- When a foreign investor comes to SEZs, it is usually assumed that his production base will use domestic, cheaper resources localized in the region. In practice, especially at the first stage, the technological level and quality of these resources may not meet the requirements of a foreign resident. It is assumed that local suppliers will increase the technological level of their production to participate in cooperation with a foreign investor. However, all this requires time and capital costs to reach the levels

planned by the enterprise. Taking into account the difficult financial and economic situation of many domestic enterprises and the limited availability of investment resources, this mismatch of world standards and requirements can turn into a serious problem of local / regional importance for the effective functioning of SEZs.

- After naturalization in SEZs, foreign residents tend to move from declarations in favor of cooperating with domestic suppliers to renewing ties with their traditional foreign suppliers-subcontractors. In this case, their production in SEZs essentially turns into the so-called “screwdriver assembly”, which will benefit from tax benefits, but will no longer affect the dynamics of updating the technological potential of domestic production and population employment.

- At present, the total volume of investments by residents does not exceed one third of the initially declared volumes in Russia. Such important indicators of investment project evaluation as profitability, payback period are almost not considered. Many declared SEZs have not started their activity yet.

## 7. Conclusion

The creation of SEZs means that a country, not wanting to fully open its economy to foreign capital or significantly reduce taxes throughout the country, is experimenting with new formats of production and business activities in its limited territory. In fact, SEZs are certain “traps” for industrial capital migrating in the world economy. Therefore, there is currently a fierce competition for tax and other benefits provided to investors between SEZs and states that create them. Russian SEZs may interest foreign investors not only in the amount of benefits and the quality of infrastructure, but in the prospect of access to a large domestic market with qualified consumers. The success of the further development of SEZs in the domestic economy largely depends on the formation of a single integrated concept for their development.

At the initial stages of SEZs’ functioning, a rather expensive capital infrastructure is created. Tax incentives are mainly provided at the expense of the subject of the federation and municipalities. We can note an increase in the number of jobs, investments, and the development of cooperation between enterprises with enterprises-residents in SEZs. But new technologies which were brought by investors coming to SEZs are usually labor-saving. Initial investments are mainly directed to construction and installation works and do not cause a rapid increase in production volumes. Therefore, significant budgetary effects from SEZs at the regional level can be expected only in the long and partially medium term.

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