

UDK 332.122:338.45

Pregledni članak

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SPECIAL ECONOMIC ZONES AS AN INSTRUMENT OF REGIONAL DEVELOPMENT

The goal of the paper was the analysis of the main aspects of Special Economic Zones (SEZ) activity. It refers especially to the goals for establishment, operational models of these zones, SEZ based on examples of selected countries and Poland in the context of integration with the European Union. The Special Economic Zones to create more attractive conditions for business operations, to contribute mainly to the development of small and medium enterprises and variety of services, consequently to improve employment. However, the consequences of the zones existence can be negative for economy of the region. The Special Economic Zones that are functioning worldwide are different. In Poland, they were first designed by the Irish and based on the example of the zone in Shannon. The existence and principles of the Special Economic Zones operations in Poland are one of the contradiction points in the negotiations with the European Union.

Key words: *special economic zones, business operation, economic development*

INTRODUCTION

Countries try to create economic and legal conditions allowing increase of competitiveness of their own economies. Solutions existing in Special Economic Zones (SEZ) are also instruments determining economic development. The goal of their existence was to stimulate economic activities in some regions through restructuring them with participation of public institution and financial support. Involvement of external strategic investors, their capital and technology also played an important role in that process. The main idea behind establishment of Special Economic Zones in Poland was to mitigate structural unemployment in selected regions of the country through directing new investment projects there with support of financial incentives package [6, p. 13].

Investing in the SEZ is promoted by tax exemptions and facilities for investors offered in them. Despite limitation of the public aid scope the zone is a strong and relatively easily available instrument of financial support for new investment projects. Undoubtedly investing in Polish SEZ offers positive effects. The most important effect for the national economy is that with the increasing value of investment outlays in the Special Economic Zones the number of new jobs increases.

The zones, although attractive for investors, still have their problems. The main of them is the continuous shortage of funds for development of modern infrastructure. The zones are unable to cooperate with one another and even to the contrary, they frequently compete against one another. They do not have one common promotional format. There is even a negative opinion that there are too many zones and their operation is not always linked to the local needs [7, p. 199].

The goal of paper was the analysis of main aspects of Special Economic Zones activity, specially: goals for establishment, operational models of SEZ, SEZ on examples of selected countries and in Poland in the context of integration with European Union.

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GOALS FOR ESTABLISHMENT AND OPERATIONAL MODELS OF SPECIAL ECONOMIC ZONES

The Chinese were the first to use the term of "special economic zone" when they were establishing economic enclaves around Hong Kong. In Northern Europe those were the duty free zones (Hamburg, Stockholm) while in the other areas, e.g. London – free banking zones. During 1960s and early 1970s the special economic zones spread all over the world [8, p. 406].

Special Economic Zones are areas with strictly defined borders within which special legal regulations aiming at creating attractive conditions for business operation are in effect. Those zones are to contribute mainly to development of small enterprises and a variety of services and, as a consequence, contribute to decreasing unemployment, particularly in the regions encountering problems with restructuring of entire industrial sectors. Besides creating new jobs, the additional benefits include inflow of new technologies together with investments and the offer of investors for local partners, which allows improvement of own technologies. The task of the zones is to bring in the capital and investments, which stimulates development of business activity in the local and regional scale [10, p. 160].

A Special Economic Zone can be a geographic region (e.g. the island of Taiwan), and industrial region (Poland), urban area (the United Kingdom), agricultural area (Canada) or it can possess no specific characteristic but only specific resources allowing development of new investments (China). The Special Economic Zone, in line with its name, possesses special characteristics formulated by special regulations in effect within its area.

According to the International Labor Organization (ILO) estimates, in 1997, there were 850 special economic zones in the world and the companies operating within them employed almost 27 million people. As compared to the World Bank data of 1990 (according to which there were 86 zones in the world employing ca. 530 thousand people) that represents an exceptionally dynamic increase in both the number of zones and the number of people employed in them. That also indicates a major increase in popularity of that economic policy instrument, which could be linked to the increasing globalization of the world economy [1, p. 21].

Operation of the zones was to be a factor

of acceleration in the economic development of the region in which industry-restructuring processes required additional support. Redevelopment of industrial areas and utilization of the existing assets, mainly in the form of technical infrastructure, was one of the major goals for establishment of the zones. The conditions for conducting business in a SEZ represent an incentive for positioning investment projects in a given area. The SEZ, because of jobs offered in successful economic undertakings, played a particularly important role in the regions previously dominated by economic sectors maladjusted to the market economy conditions and requiring overall restructuring. Operation of the zones and involved prospects of shifting the employment can be the necessary condition for opening the possibilities for restructuring. The zones can also be supportive for utilization of the existing but shut down production capacity [4, p. 7; 2, pp. 160-161].

Is economic stimulation the result of a zone functioning only? Three consequences possible in practice can be investigated. The first one of neutral nature was called the idle gear. It occurs when the required changes, i.e. economic growth would occur independent of the existence of the zone. It can be stated that in this case establishment of a zone would be a redundant element of regional policy. The consequences of existence of a zone can, however, also be negative for the economy of the region. This happens in case the effects of ousting and substitution occur. The effect of substitution occurs when as a result of commencement of operation of an entity in the zone its operations in another area are liquidated or limited. The problem occurs when the costs of operation outside the zone are higher than those incurred by an entity operating in the zone in case of the same economic activity.

The effect of ousting occurs when the lower operational costs in the zone allow achievement of competitive advantage that allows ousting enterprises of similar character operating outside the zone from the market [1, p. 52].

The consequences of operation of a special economic zone are not limited to its own area. Its environment should also be considered. The level of economic development of the country establishing a special economic zone is of crucial importance in defining the goals it should serve, projecting benefits from its establishment and selecting the model of the special economic zone.

The major division differentiating the zones is the division into the developed countries and highly developed countries. In case of the developing countries the national (macroeconomic) aspect of special economic zones operation is of major importance. The major macroeconomic motivation for establishment of special economic zones is the striving towards acceleration of the economic development of the country through increase of employment and involvement of foreign capital. In highly developed countries the goals formulated for special economic zones are linked to solution of regional or local problems. As opposed to the developing countries, as a consequence of high supply of foreign capital, there is no need for additional stimulation of direct foreign investments inflow by offering special economic zones. The goal is to integrate the companies operating within the special economic zone with the national economy [1, pp. 24-25].

The possibility of obtaining tax exemptions and preferences seems to be the most important economic objective for investors planning operation in a Special Economic Zone. Additionally, the investors are looking in that institution for a clear picture of the government policy and principles applicable to foreign investments, definition of clear rights and responsibilities of the investor (preferably in the form of a contract), minimum contact with government agencies, effective principles governing export of goods from and import of goods into the zone [9, p. 25].

SPECIAL ECONOMIC ZONES ON EXAMPLE OF SELECTED COUNTRIES

Special Economic Zones functioning worldwide can be divided into trade zones, industrial-trade zones and technology parks. The Export Processing Zone in Shannon (Ireland) started operation in 1958. The main reason for establishing the zone was the project of establishing the bridge between Ireland and the United States, promoting exports, attracting foreign capital and creating new jobs. That zone contributed significantly to bringing foreign capital and new technologies into Ireland in a controlled way. At the same time the use of domestic raw materials and products stimulated the national economy.

Special Economic zones in Taiwan, the Philippines, Malaysia and Sri Lanka were orga-

nized and operate in a way similar to the Irish way. Since 1980, in Larnaca (Cyprus) a Special Economic zone of 40 hectares with ca. 90 companies operating in it has been in operation. The aims for establishing the zone included stimulating economic activity in the country, creating new jobs, attracting foreign investments, promoting Cyprus as a dynamically developing industrialized country and using the competitive advantage of the country resulting from the strategic geographic position and modern infrastructure.

In Turkey two basic types of zones are found – special economic zones and free trade zones of trade and industrial nature. These are specially designated areas that after improvement at the expense of the government (90% of funds) and local authorities with necessary industrial and social infrastructure are sold to entrepreneurs for conducting production activities [11, pp. 15-16].

In Latvia there are four Special Economic Zones situated in the cities of Riga, Ventspils, Liepaja and Rezekne. The first three are linked to large maritime ports while the last one is located in Latgale – the highest unemployment region. Those zones positively influence the regional development and all the time improve their operations [3 pp. 105-106].

Liepaja and Rezekne zones were established in 1997 for 20 years. That period can be extended by enactment of new acts SEZ Liepaja was established on the grounds of former military base, port and industrial areas of the city. Its goal is to facilitate and increase investments in port operations, development of local industry and infrastructure, development of trade, shipping and air transport. Free Trade Zones can also be established within its area treated as foreign territory by the customs, excise and VAT law. The goal for establishing SEZ Rezekne was to develop industry and transport, exports and imports of goods by Latvia, building interest of investors in production, development of infrastructure and creating new jobs. To attract foreign capital a project for development of small and medium enterprises was prepared and filed with the PHARE fund. It covered establishment of goods distribution centers in the zone to develop and increase attractiveness of the flow of goods between the East and the West. The management of the zone also established cooperation with the Council of Industrialists of Russia that represents the SEZ Rezekne in Moscow dissemina-

ting the information on operation of the zone and possibilities of investing in it¹.

In 1972, the Government of Thailand established the agency for establishment of special areas for industrial operations and administering them. So far, the agency has established 30 special industrial zones. In Thailand two types of industrial zones are found: general zones and export zones. The largest zone is situated in Rayong and it has the area of 1200 ha. In that zone 200 companies employing 16,000 people operate.

The Chinese special economic zones do not limit their operations to processing or exports only. They contribute significantly to implementation of priorities of national economic development. Capital is also invested in agriculture, tourism and services. In 1985, China started establishing cities-zones of economic and technological development. The Government decided to transform the island of Hainan into a separate province simultaneously establishing the Special Economic Zone in its area. It is projected that within the coming 20 years Hainan should achieve the development level of Taiwan [11, pp. 15-17].

FUNCTIONING OF SPECIAL ECONOMIC ZONES IN POLAND

Special Economic Zones reached Poland together with appearance of the market economy and they were to mitigate the consequences of transformations. The first special economic zones in Poland were designed by the Irish based on the example of the zone in Shannon [13, p. 60].

The first Polish SEZ was established in September 1995 in Mielc. Further zones were established in mid-1996 in former provinces of Katowice and Suwałki. At the end of 2000 more than 81% of outlays in all Polish zones were made by foreign capital. The majority of it was invested in automotive industry, food processing, timber processing, timber production, furniture production, construction materials production and chemical industry [5, p. 30].

Until the end of 1998, 17 special economic zones (including technology parks) were established in Poland. Each of the zones was established for 20 years starting as of the effective date of the Council of Ministers regulation establishing it. The operational period for the technology park is shorter at 12 years. In 2001 two zones – Mazowiecka and Częstochowa were liquidated as no investor invested in them. In the same year the Tczew zone was amalgamated with the Żarnowiec zone establishing the Pomeranian SEZ. Currently 14 zones operate on the area of 6325 ha [10, p. 22; 4, p. 7].

The zones differ in area, positioning, characteristics, and conditions of development, road, technical and telecommunication infrastructure. Until May 30, 2004 the total area of the zones could not exceed the area determined as at December 31, 2000, i.e. 6325 ha but as of May 31, 2004 it is possible to expand the total area of the zones to 8000 ha. That increase, however, can be done only for implementation of large investment projects with outlays of not less than EUR 40 million or creating at least 500 new jobs. Each amendment of the borders of the zones requires balancing the areas included with those excluded².

SPECIAL ECONOMIC ZONES IN POLAND IN THE CONTEXT OF INTEGRATION WITH THE EUROPEAN UNION

Existence and principles of operation of Special Economic Zones in Poland are one of the points of contradiction in the negotiations with the European Union. They are as a consequence a factor hindering the process of integration with the EU.

Public aid can be provided according to specific eligibility criteria. Otherwise State intervention can distort competition. In the EU the Member States, even those with the highest economic development indicators, provide aid to entrepreneurs. However, the principles of providing that aid cannot obstruct competition among business entities. The law governing the principles of competition policy

¹ www.poltrade.lv

² www.wroclaw.pl

in the EU is the basic element of market economy determining undisturbed trade between countries.

Polish regulations were drafted three years after signing the European Treaty. Already then the EU regulations did not allow tax deductions as a type of public aid applied in the zones for private entrepreneurs. Nobody was aware, however, that the Act was in violation of the commitments made.

Within the frameworks of the treaty establishing the World Trade Organization (WTO) made in Marrakech on April 15, 1994, Poland committed itself to observe the regulations concerning subsidies and compensation funds.

WTO allows aid for regions with poorly developed economy but only as a clearly defined compact geographic area within the Member State. That principle is violated because in the Polish zones the sub-zones exist. The condition of *per capita* GDP of up to 85% of the average for a given territory is not satisfied in the zones located in the so-called Poland A. Similarly, although to a lesser degree the unemployment ratio is exceeded, which must be at least 110% of the average rate for a given area during a period of three years.

In the negotiation position presented to the European Commission early in 1999 Poland applied for the derogation period for entities operating in the Special Economic Zones until the end of 2017.

Poland demanded maintaining operational and export aid as well as non-application of the community principles of aid accumulation and ceilings. At the same time Polish negotiators agreed not to establish new zones and not to provide aid in the zones in the sectors considered "sensitive" by the EU, i.e. steel, textile and shipyards. Aiming at compete harmonization of the Polish law with the Community principles for providing public aid the commitment was made to amend the Act on Special Economic Zones by the end of 1999. The amendments were enacted in November 2000. During negotiations the European Commission pointed on many occasions at the necessity for modifying the assumptions for operation and programs of public aid in the zones.

During the years 1997-2001 representatives of the European Commission suggested that if Poland thinks of retaining the zones, it should change the forms of aid offered in them mainly by substituting the investment deductions by a system of subsidies from the State budget for specific investment projects [12, pp. 17-18].

SUMMARY

A special economic zone is the area with strictly defined borders within which special legal regulations are in force aiming at creating more attractive conditions for business operation. The zones are to contribute mainly to development of small and medium enterprises and a variety of services and, as a consequence to limiting unemployment. A significant benefit of existence of the zones is the inflow of investments and together with them new technologies as well as the offer of investors for partners, which allows improvement of own technologies. The consequences of existence of a zone can, however, also be negative for the economy of the region (the effects of ousting and substitution occur).

Special Economic Zones functioning worldwide are very different and can be divided into trade zones, industrial-trade zones and technology parks. The first special economic zones in Poland were designed by the Irish based on the example of the zone in Shannon and existence and principles of operation of Special Economic Zones in Poland are one of the points of contradiction in the negotiations with the European Union. But number of concessions and facilities as well as special conditions stimulating business development provided in the zones are significant factors for attracting foreign capital. Foreign investments, as a consequence of shortage of capital in Polish economy are important as an instrument of economic development of our country. Attracting foreign investors by the Special Economic Zones also allows creating new jobs resulting in decreasing unemployment and increasing community activity.

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Summary

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