



Khaduri, K., Svanadze V., (2022). The essence of special economic zones and their role in fragile regions. *Innovative Economics and Management*, 9(1), 42-47.
doi:10.46361/2449-2604.9.1.2022.42-47

THE ESSENCE OF SPECIAL ECONOMIC ZONES AND THEIR ROLE IN FRAGILE REGIONS

Khatuna Khaduri

PhD student in Business

Administration Caucasus International University

Tbilisi, Georgia

E-mail:

khatuna.khaduri@ciu.edu.ge

ORCID 0000-0003-3861-772X

Vakhtang Svanadze

Associate Professor at Caucasus

International University

Tbilisi, Georgia

E-mail: vakhtang.svanadze@ciu.edu.ge

ORCID 0000-0001-7487-1763

ABSTRACT. In recent decades, Special Economic Zones (SEZs) have become widespread in both developed and developing and fragile countries around the world. The article discusses the main aspects of the concept of special economic zones; Features of SEZ models; Effective functioning factors of SEZ. The article focuses on SEZ policies and development strategies in fragile countries; Factors that determine the effectiveness of special economic zones in fragile countries and unstable regions are analyzed. The article provides recommendations for creating an optimal SEZ model integrated into the local economy in fragile regions.

Received: January, 2022

1st Revision: February, 2022

Accepted: April, 2022

DOI: 10.46361/2449-

2604.9.1.2022.42-47

JEL Classification: R11, F63

Keywords: Special Economic Zones Concept, Fragile Regions, Models, Efficiency of zones, Development strategy

Introduction

In recent decades, special economic zones (SEZ) have become widespread in both developed and developing and fragile countries around the world. In general, special economic spaces are an effective mechanism for creating an attractive investment climate and a competitive business environment in a limited geographical area within a country, with a liberal normative, legal and trade regulatory framework, efficient infrastructure and services.

Countries are creating free economic zones to address challenges such as: expanding trade space and diversifying exports; Industrialization and development of non-traditional industries; Creating a competitive business environment; Attracting foreign direct investment and foreign exchange inflows; Creating new jobs. The goals of the creation of SEZ are also the transfer of new knowledge and innovative technologies in entrepreneurial activities, the development of human capital, and the socio-economic recovery of the regions beyond the zones.

Also, world experience shows that fragile and medium-sized developing countries are actively pursuing the SEZ as a mechanism to overcome socio-economic instability and facilitate the development of

local entrepreneurial activity in regions beyond the zones. The effectiveness of such SEZs depends on how well they are integrated into the regional economy

Thus, the urgency of the topic is determined by the development of an adequate SEZ model for the specifics of a particular region and the achievement of optimal results for its functioning.

Literature review

The free economic zone is considered in the scientific literature as an effective mechanism for the growth of the country's national economy and regional integration. In the basic concept of special economic zones adopted by the world organizations, the special economic zone is defined as a demarcated geographical area, where liberal economic benefits and incentive packages different from the rest of the country operate to attract investors. SEZ offers customers an attractive investment environment that includes efficient infrastructure, a special customs regime, simplified administrative procedures, and an attractive fiscal policy.

According to SEZ researcher Douglas Jihua Zeng, special economic zones are an effective means of industrialization and structural transformation in the context of proper planning, targeted policies, and development strategies.

According to him, attracting foreign investment in SEZ, on the one hand, contributes to economic growth, the introduction of new technologies, and raising the qualification of the workforce. On the other hand, it has a positive impact on the development of the local private sector, increasing economic productivity and improving the quality of life of the population in the area beyond the SEZ.

The scholarly view that SEZ's productivity is determined by its integration into national or regional industrial policy and economic development strategy is noteworthy.

Douglas Jihua Zeng believes that the SEZ planning process should include an analysis of issues such as: regional requirements, local market conditions, industrial base and supply chain, business environment and infrastructure, labor market, and land use conditions.

The effectiveness of special economic zones also determines:

- Strong state support for the long-term sustainable development of the national economy;
- Flexible legal and regulatory framework and institutions;
- Strategic location with developed infrastructure and services;
- Economic benefits and social compensation;
- Understand potential environmental problems and create an environmentally sustainable environment to address them. (Zeng,D)

Fragile countries in Africa and Asia have extensive experience in creating SEZs. It should be noted that SEZs have proven their potential in attracting foreign direct investment, job creation, and economic development.

2. Methodological approach

The methodological bases of the article are the works of scientists and the results of my own research. A questionnaire type survey was used, which was conducted through a questionnaire distributed in social space. Marketing research obtained quantitative data, which were grouped and analyzed.

Methodological approach

The theoretical basis of the research is scientific literature focused on research issues, reports of international organizations and research centers, publications, electronic resources. The obtained information was processed using logical analysis, synthesis and comparative methods.

Conducting research and results

Based on the analysis of scientific research, the main, interrelated economic and social goals of the creation of the SEZ are identified. (Table 1).

Objectives of special economic zones	
Economic	Social
Attracting foreign direct investment; Export diversification; Industrialization; Economic Growth; Transfer of innovative technologies	Creating new jobs; Increase revenue; Human capital development; Raising the qualification of the workforce beyond the zone; Increase in well-being

Table1: The goals of creating SEZ.

Source: Compiled by author.

Special economic zones have evolved and gone through various stages of development. Accordingly, taking into account the needs of the country, geographical, economic contexts, and the level of industrialization, they were implemented in different forms in countries around the world. Therefore, the forms of their functional purpose and the terminology related to the definition of SEZ also differ. The zones classified according to the purpose, creation goals, and importance for the country's economy are presented in the following table.

SEZ models	Destinations
Free Trade Zone	Warehousing services, product configuration, processing, exporting
Specialized zones	Development of specific fields, activation of economic activity, provision of services
Scientific and technological zone	Generating research, design and innovative industrial ideas
Export Processing Zones	Stimulation of export and import production Focus on foreign markets; Offers firms free trade conditions and a liberal regulatory environment
Special Economic Zones	Attracting foreign investment, industrial development, orientation to local and foreign markets
Free Industrial Zone	Strengthening the competitiveness of industry. Implementation of large foreign investments within the zone
Ecological-Industrial zone	Focus on reducing environmental threats and environmental measures, attracting green technologies
Enterprise Zone	Revitalize backward urban and rural areas by providing tax breaks and financial subsidies.

Table2: SEZ models and destinations.

Source: Compiled by author, based on (FIAS.2008), (Zeng.2010)

In special economic zones, there is a legislative-institutional framework developed by the state, a liberal tax and trade law. Special economic zones offer preferential-incentive packages to foreign and local investors. (UNCTAD/WIR.2019)

Despite their different uses, SEZ has common features such as: Demarcated geographical area; Operating foreign and local companies within SEZ; Investment incentive packages and tax breaks; Simplified administrative procedures; A separate customs area; SEZ has an administrative governing body; The state land management policy is in force in SEZ; SEZ offers customers an efficient infrastructure.

It is generally accepted that the effective functioning of the SEZ is driven by the strategic planning of the SEZ; Development policy; Management; SEZ strategic geographical location; Regional and country contexts; Monitoring mechanisms; Profitability of SEZ.

The success of special economic zones is closely linked to the national economy, the investment climate, and the governance opportunities of the country's local structures, as well as the level of industrial development beyond the zone and the fiscal normative framework. (UNCTAD/WIR.2019).

According to Thomas Farole, the efficiency of SEZ operation is reflected in the static and dynamic effects obtained from SEZ, which are obtained in the short and long run, respectively. Static effects are: foreign direct investment; Generating new jobs; Inflow of foreign currency; Export growth; Creating additional economic value. The dynamic economic effects of SEZ are: the transfer of new technologies; Export diversification; Formation of industrial clusters; Establishing links with the national economy; Encouraging non-traditional industries; Raising the level of economic openness. (Farole, T.2011).

In addition, some studies have shown that the degree of positive effects is limited, and the secondary effects obtained from SEZ are mainly generated within a radius of 50 km. However, factors such as the level of industrialization of the area surrounding the zone and the stability of the country contribute to maintaining economic growth.(UNCTAD.20019)

The role of special economic zones in fragile regions.

In general, fragile countries and conflict-affected regions are characterized by political and economic instability, low levels of institutional capacity and services, damaged infrastructure, uncoordinated work of government and local structures, inefficient business environment and investment climate, and low social incomes. In such a situation, it is difficult to develop an SEZ development strategy and implement an SEZ policy, as well as to maximize the potential of the SEZ.

According to scientists, SEZs can play an important role in the socio-economic development of fragile regions. World experience shows that SEZ has the potential to become a tool for achieving economic growth, attracting foreign investment, and overcoming regional instability in fragile regions.

To get positive effects, the programs of special economic zones should focus on issues such as:

- Creating an area of economic growth;
- Private sector participation in zone management;
- Stimulating private sector development;
- Supporting economic diversification;
- Attract multilateral international political and financial support;
- Creating an area of economic growth;
- Private sector participation in zone management;
- Stimulating private sector development;
- Supporting economic diversification;
- Attract multilateral international political and financial support;
- Improved economic and physical security and reduced risk of losses for investors;
- Connection with the local economy;
- Access to agricultural land and protection of land rights.(AfDB. 2015)

The SEZ program created in some fragile countries of Africa relies on these issues. As a result, the inflow of foreign direct investment from the world's leading countries has increased significantly recently. Investments in the clothing and textile industries in the Madagascar Special Economic Zone were made by

China, France, and India. Germany, France, and Denmark have invested in Mali's industrial zones. In Togosezprogram has attracted investment from several countries.

In addition, foreign investment in SEZ accounts for a large share of the country's total foreign investment. 48% of the total national foreign investment was in foreign direct investment in the Ghanaian SEZ. In Kenya and Tanzania, SEZ direct foreign investment accounted for 20% and 18% of total national foreign investment, respectively.

In addition to attracting foreign investment, SEZ has the opportunity to establish productive links with local small and medium-sized businesses and to help optimize entrepreneurial activities beyond the zone and create a unified entrepreneurial value chain. SMEs are offered low entry fees to enter the zone and also, by simplifying procurement procedures, help them become suppliers to the major tenants of the zones.

Special economic zones initiate incubators to provide training, education, and other support services to larger firms. A good example of this strategy is the incubator set up by the Kenya Export Processing Zones Authority, which aims to transform small and medium-sized businesses into exporting enterprises and establish direct export links with larger firms. Also, the Multifunctional Industrial Park of the African country Ghana facilitated the integration of local firms into the SEZ export chain. (AfDB. 2015).

Developing and less developing countries are focused on attracting high-tech investment to promote those sectors where more added value is generated. Often such approaches fail because they do not take into account the local economic conditions and the capabilities of the workforce. Therefore, firms have to change strategy according to the existing business environment and the skills of the workforce.

This shows, that there are cause-and-effect relationships between the development of local economic conditions SEZ productivity depends on the extent to which local entrepreneurial opportunities and workforce skills are taken into account. For example, SEZ in Costa Rica and Vietnam, based on the capabilities of countries, initially focused on the low-value segments. After achieving success at this level, they switched to firms with high technology components. The implementation of such a strategy was conditioned by the improvement of local economic conditions, the qualification of the workforce and the capacity of local firms s, and the success of special economic zone strategies.(UNCTAD.2021)

Thus, the optimal results of the operation of the SEZ can be achieved by integrating it into the national economy. It is also important to have strong political support at all levels of government.

Conducting research and results

Thus, based on the analysis of the above-mentioned materials, we are able to conclude that creating an SEZ tailored to fragile situations and making the most of its potential is driven by a well-designed SEZ policy, development strategy, location, and form of governance. Local industrial and entrepreneurial opportunities, the level of qualification of the workforce play a big role in the effective functioning of SEZ.

The following recommendations have been developed to create an optimal model of a special economic zone integrated into the local economy:

- Assess the specifics of the specific region, political, economic, social and geographical contexts;
- Identify local entrepreneurial opportunities and workforce potential;
- Clearly define the role of SEZ in the socio-economic development of the region beyond the zone;
- Analyze the relevance of the SEZ model in addressing regional challenges;
- Analyze the constraints on the land resources of the required area of the SEZ;
- Assess the profitability, strategic location and security of the SEZ in both political and economic terms;
- It is advisable to conduct research on the private sector, business environment, and commodity market in the region.

ხადური ხ., სვანაძე ვ., (2022).
ინოვაციური ეკონომიკა და მართვა
9(1), 42-47.
doi:10.46361/2449-2604.9.1.2022.42-
47

სპეციალური ეკონომიკური ზონების არსი და მათი როლი მყიფე რეგიონებში

ხათუნა ხადური

დოქტორანტი

კავკასიის საერთაშორისო

უნივერსიტეტი

თბილისი, საქართველო

E-mail: khatuna.khaduri@ciu.edu.ge

ORCID 0000-0003-3861-772X

ვახტანგ სვანაძე

კავკასიის საერთაშორისო

უნივერსიტეტის

ასოცირებული პროფესორი

თბილისი, საქართველო

E-mail: vakhtang.svanadze@ciu.edu.ge

ORCID 0000-0001-7487-1763

მიღებულია: იანვარი, 2022

რეცენზირებულია

თებერვალი, 2022

DOI:10.46361/2449-
2604.9.1.2022.42-47

JEL Classification: R11, F63

აბსტრაქტი. სტატიაში განხილულია სპეციალური ეკონომიკური ზონების კონცეფციის ძირითადი ასპექტები; სეზ-ის შექმნის მიზნები; სეზ-ის მოდულების დანიშნულებები და მათი საერთო მახასიათებლები; სეზ-ის ეფექტური ფუნქციონირების გამსაზღვრელი ფაქტორები; ყურადღება გამახვილებულია მყიფე ქვეყნებში სეზ-ის პოლიტიკის და განვითარების სტრატეგიის თავისებურებებზე. სტატიაში შემოთავაზებულია რეკომენდაციები მყიფე რეგიონებში ადგილობრივ ეკონომიკაში ინტეგრირებული სეზ-ის ოპტიმალური მოდელის შექმნის მიმართულებით.

კვლევის თეორიულ საფუძველს ქმნის საკვლევ საკითხებზე ფოკუსირებული სამეცნიერო ლიტერატურა; საერთაშორისო ორგანიზაციების (გაერო, მსოფლიო ბანკი, აფრიკის განვითარების ბანკი და სხვა) კვლევები და ანგარიშები, ასევე, ინტერნეტ რესურსები.

საკვანძო სიტყვები: სპეციალური ეკონომიკური ზონების კონცეფცია, მყიფე რეგიონები, მოდულები, ეფექტურობა

References

- Zeng,D :Special Economic Zones: „Lessons from the Global Experience“PEDL Synthesis Paper Series.No.1, pp 3-11.
[PEDL Synthesis Paper Piece No 1.pdf \(publishing.service.gov.uk\)](#)
- FIAS. (2008). Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development. Washington, DC: World Bank p.3
- UNCTAD/WIR/2019.World Investment Report 2019: Special Economic Zones. New York .pp161-170. [World Investment Report 2019: Special Economic Zones \(unctad.org\)](#)
- UNCTAD/WIR/2019.World Investment Report 2019: Special Economic Zones. New York .pp190-192. [World Investment Report 2019: Special Economic Zones \(unctad.org\)](#)
- Farole, T(2011).Special Economic Zones in Africa Comparing Performance and Learning from Global Experiences The World Bank.pp.62-72
- UNCTAD.20019. Special Issue on Special Economic Zones TRANSNATIONAL CORPORATIONS Vol. 26, 2019, No. 2 p.76
- AfDB. (2015). Special Economic Zones in fragile situations: A useful policy Tool?pp.3-10. [WAM-janv2015 \(afdb.org\)](#)
- AfDB. (2015)Special Economic Zones in fragile situations: A useful policy Tool?pp.20-23 [WAM-janv2015 \(afdb.org\)](#)
- UNCTAD (2021)Handbook on Special Economic Zones in Africa: Towards Economic Diversification across the Continent. p.100 UNCTAD/DIAE/IA/2021/3.