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Bachelor's Qualification Work
Special Economic Zones and Financial Services in IER

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Doctor of Philosophy

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Abstract:

Special Economic Zone, or preferential areas have been object of academic debates many times, especially in Ukraine. The greatest experience of successful implementation of SEZs belongs to China. That's why we have to pay attention to those actions that attracted Foreign Direct Investments in Chinese SEZs, and identify FDI's obstacles in Ukraine. Deeper study of Special Economic Zones enables to elaborate post-war economic development mechanism and/or may foster Ukraine's partnership with the EU through introducing a new form of cooperation with the European community. The paper follows the objectives of discovering SEZs drivers and obstacles in Ukraine, and considering Special Zones as international integrational mechanism.

Keywords: Special Economic Zones, Foreign Direct Investments, Financial Services, National Bank of Ukraine, China, Financial System, Post-War Development, Integration, Globalizing Institutions.

Особлива (Вільна) економічна зона або пільгові зони неодноразово були об'єктом наукових дискусій, особливо в Україні. Найбільший досвід успішного впровадження СЕЗ належить Китаю. Тому ми маємо звернути увагу на ті дії, які залучили прямі іноземні інвестиції в китайські ВЕЗ, та визначити перешкоди для ПІІ в Україні. Поглиблене вивчення спеціальних (вільних) економічних зон дає змогу розробити механізм післявоєнного економічного розвитку та/або може сприяти партнерству України з ЄС через впровадження нової форми співпраці з європейським співтовариством. Дослідження спрямовано на виявлення драйверів та перешкод С(В)ЕЗ в Україні та розгляду особливих зон як міжнародного інтеграційного механізму.

PHEE-institute «Ukrainian-American Concordia University»

Faculty of management and business

Department of international economic relations, business and management

Educational level: **bachelor degree**

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APPROVED

Head of Department _____

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TASK
FOR BACHELOR’S QUALIFICATION WORK

Bogdan Sklifas

1. Topic of the work

Special Economic Zones and Financial Services in IER

Supervisor of the work: Lesya Leshchii, Ph.D., Associate professor

(surname, name, degree, academic rank)

Which approved by Order of University from “**22” December 2022 №22-12/2022- 3c**

2. Deadline for bachelor’s qualification work submission “**16” May 2022**

3. Data-out to the bachelor’s qualification work

Financial statements and other documents of PrivatBank

4. Contents of the explanatory note (list of issues to be developed)

- 1) Formulate drivers of a SEZ success;
- 2) Apply them to Ukraine and define prior implementation problems;
- 3) Consider SEZs as international integrational mechanism

5. List of graphic material (with exact indication of any mandatory drawings)

The work includes 9 figures and 5 tables

6. Consultants for parts of the work

Part of the project	Surname, name, position	Signature, date	
		Given	Accepted
1	Approval of the topic		
2	Discussion of work design		
3	The content of the main sections		
4	Discussion of statistical data		
5	Consultation on the presentation		
6	Final consultation before the defense		

7. Date of issue of the assignment

Time Schedule

№	The title of the parts of the bachelor's qualification work	Deadlines	Notes
1.	I chapter	14.02-13.03.2022	In time
2.	II chapter	14.03-10.04.2022	In time
3.	III chapter	11.04-24.04.2022	In time
4.	Introduction, conclusions, summary	25.04 – 01.05.2022	In time
5.	Pre-defense	06.06.2022	In time

Student _____
(signature)

Supervisor Lesya Leshchii_____

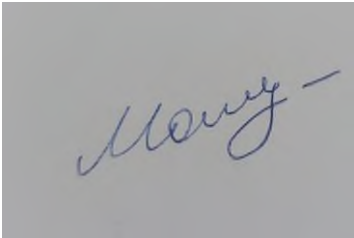
Conclusions: The student worked on the work consistently and persistently - completed the work on time, performed the structural parts of the work in accordance with the tasks. The student took into account the remarks of the supervisor on the design of the work, processing statistical data, supplementing the content of individual sections.

The student also participated in an international student conference with a report related to the topic of the diploma.

Basically, the work meets the requirements and reveals the topic and deserves an excellent grade.

Supervisor

Lesya Leshchii

A handwritten signature in blue ink on a gray rectangular background. The signature appears to be 'Mary' followed by a horizontal line.

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General Introduction: Stated Problems

The paper follows several purposes, which are: 1) Formulate the principles of SEZs success in China; 2) Discover the problems of SEZs in Ukraine and understand how banking may complement to their success; 3) Consider SEZs not only as a local, but also as integrational mechanism through which countries may deepen political cooperation into economic sphere.

The chosen topic and stated problems are actual for Ukraine, as post-war development requires some elaborated mechanism and SEZs can be this mechanism. Moreover, the invasion of Russia made countries divided by those who approves the war actions, neutral countries, and those denouncing the war. So, we observe foundation of political blocs, like in the times of Cold War. SEZs and their subtypes like Free Trade Area may be the framework of deepening economic integration on political basis, which would represent Regionalization, which is opposite process to Globalization. Failure of Globalization means potential re-form of existing Globalizing Institutions, which are WTO, World Bank and IMF, but not only them. That's why SEZs should be studied not only at local but also at the international level

The aim of the Chapter 1 to define obstacles and drivers of SEZs success mostly on China's example, but also generalizing on the US and Myanmar evidence. It can't be stated that any zone with special economic status can reach stated purposes, thus we shall make emphasis on the determinants of success of SEZs.

Chapter 2 follows several purposes, which are defining problems of SEZs implementation in Ukraine, which include financial system problems and underdeveloped, controversial and obsolete legal framework of SEZs. Then, we will formulate conclusion on how sophisticated legislation and stable banking system may boots SEZs prosperity. Also, we will pay attention to Privatbank's internal work and financial results, as one of the biggest banks of Ukraine owned by the government, based on historic and actual data.

The Third Chapter devoted to consideration of SEZ and its subtype FTA at a higher level, as integration mechanism that may unite countries into political and economic blocs. For this discussion we need to pay attention to the current World Globalizing Institutions, as IMF, World Bank, and World Trade Organization. We shall discover the Regionalization process of creating Regional Trade or Political agreements to Globalizing mechanism, that may unite the countries by several principles. Will be considered NAFTA and the EU blocks that oppose BRICKS countries.

Getting back to SEZs as domestic mechanism, for the last twelve years, PRC's success remains one of the hottest topic for discussions. Politically authoritarian state with leftist regime, open-to-the-world economy and foreign capital inside the country creates paradoxes to certain dimension.

Therefore, discovering and understanding Chinese experience in implementing economic reforms, and especially special economic zones would be useful for post-soviet countries, as it succeeds in operating the largest number and most diversified types of special economic zones. According to the World Investment Report [29], SEZs in the world count 5383, most of them located in Asia (4772) and especially in China (2543).

China's practice also distinct, as we have examples of poor economic zones, like it was with the Philippine, when authorities invested significant money in infrastructure (upgraded the port, constructed a new damn for energy supply) and general organization for zone located in Bataan. As R. Nash concludes [21], then, zone failed to attract businesses, and those costs weren't covered. The same, not fully realized potential of SEZs development India, Myanmar, Dominican Republic, some African countries and Ukraine.

The story of preferential regime zones in Ukraine starts in 1992, when "On General Principles of Special (Free) Economic Zones Creation and Functioning" Law has been approved. The law introduced SEZ mechanism, types, management system,

order of foundation and cancellation. The purposes were engaging foreign capital, rooting free market model, and promotion of export activities.

Since 1992 till 2005 more than 10 SEZ and 70 preferential zones have been created around the country. But as was discovered by tax service research, 201 enterprises of total 225 of those operating in SEZ and Preferable Development Areas were abusing tax and customs relief measures. [33]. Moreover, SEZs are being criticized as domestic off-shore.

Then, in 2005 Verchovna Rada of Ukraine issued rewritten version of "On the State Budget of Ukraine for 2005", which changed Customs Code of Ukraine with remark about imports from preferential territory being covered with same customs duties as general imports, which isn't correspond to "On General Principles of Special (Free) Economic Zones Creation and Functioning" Law. Then, SEZs lost domestic off-shore significance, and on the other hand, failed to engage more foreign capital. Now SEZs do not function, even though the existent legal basis, and the government doesn't provide any actual data on them

Today, in 2022 Ukraine has not only problem of Covid-19 recovery, but on-going war and military aggression, and that's why we should pay a greater attention to the re-build mechanisms.

Bibliography overview

Special Economic Zones is a vast topic, that causes discussions on many aspects of it. The rapid growth of China, which in the late 70th started to use SEZs as economic strategy has made an array of scholars paying attention to it. P.V. Pavlov and E. K. Zashchitina [18] have shown the importance of consistent SEZ strategy on country's performance on international trade arena. L. Shkvarya, X. Wang [34;40],

Especially, needed to be emphasized Vladimir Andrianov's [2] paper, which helped in understanding the history and features of different SEZs, purposes and mechanisms of each type. Also, Lotta Moberg with dissertation on "The political economy of special economic zones" [20] demonstrated how effective SEZs can be

in promoting liberal-economy reforms, revealed on experience of Dominican Republic, Philippines, China, and Ghana why some zones become successful, and why the other fail.

In the pandemic times on SEZs can promote a faster post-pandemic recovery in a country. As the biggest part of zones are export-oriented, there should be cooperation with the government for SEZ to overcome the crisis, as Sandra Ezmale [10] argue. On the other hand, Special zones can play the final role in struggle with the virus. Special zones are zones with special regime of work, and if the other part of country stays in lockdown, these zones can continue to work, keeping key industries working, even with some restrictions for virus non-spread Nojeem Amodu [1]. Thus, Science and Technology parks can pursue to work, looking for weapon against Covid-19. Developed countries started vaccination, but emerging countries like India, Ukraine, Brazil, etc. keep to fight with disease. Thus, for emerging ones understanding of how they can organize SEZs in the most effective way to cope with the disease can be vital.

Also, Ukrainian scholars continue to analyze Ukraine's and the World's experience. Sergei Kivalov, famous scholar and the president of Odessa Law Academy has been researching legal aspects of Free trade (porto-franco) zones functioning, to implement them in Odessa region. The other Ukrainian scholar Irina Pidoricheva [19] was looking for alternative concept of SEZs in Ukraine, as an instrument of innovative development of the areas relying on specifics of each region. Her examination shown many misses of the Ukrainian government in foundation and further operating of special zones. Especially, the noted legal faults, and inability to engage foreign investors (such not decisive, but essentially important things like infrastructure hasn't been provided in SEZs by the government).

Also, the paper takes discussion of international institutions: World Trade Organization (WTO), International monetary Fund (IMF), and World Bank (WB),

which serve as political and economic framework of the international economic relations.

WTO usually is not discussed by itself, and always examined in connection to some economic, legal or political problems.

Huge contribution to the understanding current role of Global Institutions brought public debate on WB and IMF has been conducted by leftist P. Peet [34] in the book “Unholy Trinity: the IMF, World Bank and WTO” where he criticizes them from the global governance point of view, as institutions serving to the strongest powers, and unable to solve world problems. Ngaire Woods [35] in her work “Globalizers: IMF, WB and their borrowers” gives more deepen analysis of internal decision-making in these institutions. Unlike Peet, she sees the future of the global institutions as reformed with inclusion of previous mistakes.

Basically, WFI the same as SEZ can serve as integrational mechanism. But special zones and especially their frequently used subtype FTZ can serve integration rather in regional level, compared to WTO or the others.

Chapter 1: History of SEZ in Global Scale and Evidence from China

1.1 General Information on SEZs

Special zones can be very different. All of them have numerous subtypes, and some represent a convergence of 2 or more types of special economic zones.

Generally, we can split zones by a few criteria: by the level of integration in international and national economy, by ownership type and by functions. [2]

The division by the level of integration divides zones by **extroversive**, which are oriented on externals, and **introversive** - oriented on national economy. As most of the zones relate to export processing (EPZs), they have extroversive trait.

Next, SEZ can be **state-controlled** and **private**. To exemplify, private SEZ can be formed on the ground of cooperation of several universities, like it was with Silicon Valley. The question about effectiveness of state-controlled and private SEZs remains open to discussion. Generally, private zones considered to be the most effective with some exceptions.

Economic zones distinguish by functions (purpose of its usage), that is, like Free Trade Zones (FTZs), Export Processing Zones (EPZs), and Science and Technology Industrial parks (STIPs). Let's consider successful example of each type in history.

Evolution and cases of success in the world history

As it mentioned, the first type in the history of special economic zones was FTZ. Free Trade Zone, or foreign trade zone, an area in which goods may be landed, handled, manufactured or reconfigured, and reexported without the intervention of the customs authorities. [4] The main purpose of FTZs creating in XVI-XVIII centuries was import stimulation, development of internal and external trade. Then, the status of free port has been given to major port cities.

Today, special zones of this type usually create in the territories of international trade connections, like airports, railway stations, sea ports, etc. with the purpose of strengthening of external links. The most prevalent subtype of free trade zone is duty-free shop, which was firstly established in Ireland at Shannon Airport in 1947, and then spread around the globe.

An example of successful examples of duty free shop considered Dubai Duty Free (DDF), which has been founded in 1983. For now, it's the largest global retailer, that recorded annual sales of over US \$697 million. [8]

The second stage of SEZ history was establishing of Export-Processing Zones (EPZs). Unlike FTZ, this one concentrated on improvement of export potential of a country. Industry-developed and emerging countries had different evolutionary ways of establishing EPZs.

While in developed countries EPZs appearance was a result of evolutionary transformation of FTZs, when free tariff territory was using not only as intermediate point for storing goods in trade chain, but started to accumulate capital and produce goods for export needs.

An example of evolutionary transformation of FTZs into EPZs can serve the US experience. In 1950th has been adopted remark to the 1934th law about functioning of

FTZs. This remark approved expanding of trade zones performance, enabling to establish processing enterprises at its territory. At the same time, developing countries have been establishing EPZs deliberately, to expand export manufacturing capacities.

For instance, deliberate foundation of export-processing zone in 1959 at Shannon airport in Ireland. From the first day of its existence, it was producing goods for export, unlike transformed US's trade zones. Convenient location, free-customs and removal of red tape made turned Shannon Airport into prosperous area. For today, Shannon free zones generates 7,000 jobs, makes €3 billion in trade every year, with 90% of export, and counts 7 million sq. ft. of development buildings for manufacturing, distribution and offices. [24]

Also, at this stage of international business development TNC (transnational corporations) started to use the practice of transferring production capacities in emerging countries, and EPZs were very suitable for these businesses. Thus, EPZs were beneficial for host countries and for transnationals simultaneously. That played role in popularity of Export-Processing Zones as economic instrument. Later, at the end of 70th, China will define SEZ, and especially EPZs as model of its growth, which also going to be discussed below.

Science and Technology Industrial Parks (STIPs) is the following stage. The appearance of STIPs was evolutionary development of EPZs, when not the price was the main indicator for customers, but competitiveness, quality and innovativeness of the product. Thus, STIPs became a new form of industry and science convergence. Usually, technological parks represent itself with research labs and processing accommodations, located at the same territory.

In the USA, creation of a technological park doesn't require a license from the government, and that's why there exist two types of STIPs: those existing from the private initiative, and existing from the government initiative. The most efficient parks belong to the first type, like "Silicon Valley", "Boston's road 128", and "The

Research Triangle”. Later, the example of “Silicon Valley” inspired Chinese authorities to establish Technology Parks in Shenzhen and Beijing.

1.3 SEZs in China: Drivers and Implementation Obstacles

Then, when we considered the history of economic zones, and their differences, we are going to identify those drivers that led Chinese SEZs to those levels of effectiveness. During the narration not only positive results will be revealed, but also problems occurred during the numerous reforms going to be detailed.

China becomes more and more integrated in the world’s trade system. Even in the year of pandemic, China’s export has shown higher indicators than in 2019 – the year of continuous trade war with the US. Some scholars [26] state, that economic growth in China for the last three decades caused by engagement of foreign capital with SEZs, and cooperation in international trade sphere.

The foundation of the special zones has been announced in the frames of Deng Xiaoping’s reforms at the end of 70th. From the beginning, special zones purpose mostly was import substitution with export orientation. Foundation of preferential zones was a consistent part in the Deng’s pack of reforms. That is important, as the establishment of special zones wasn't the only receipt of success, there were other stimulus underpinning preferential zones growth, and we will discuss them the same.

The governmental policy toward SEZs has been modernizing and adapting since establishing the first economic zone, as we’ll see. Generally, scientists [12] emphasize 4 stages of SEZs development in China, but we will complement the study with one more phase.

1.3.1 Difficulties Implementation of SEZs in China

At the first stage (1978-1982) there were many problems, related to economic and ideological problems. Issues related to economics partly similar to nowadays Ukraine, like unstable economic growth and economic gaps, infrastructure problems. Moreover, Deng Xiaoping had to overcome the negative aftermath of the

Cultural Revolution initiated by Mao Zedong, who in result decided to resign and assign Deng as successor.

Ideological side was connected to struggle in the Communist Party of China, and there were many opponents of market reforms. To some point it was related to Marx theory, but also memory about Opium Wars and British colonists remained among people of China. Thus, Special Economic Zones were creating a picture of “Imperialistic capital domination” in masses.

In addition, there was a problem of legal basis creation, because before there wasn't any law regulating foreign capital in China. So, legal framework has to be created for the first time.

Thus the efforts during the first stage were directed on to the creation of legal basis for foreign capital, and it was a chance to show the effectiveness of these measures. In 1980th special economic zones have been established in Shenzhen, Zhuhai, Shantou and Xiamen in Guangdong and Fujian regions. Then, SEZs had independence from the other territories, with own legal basis, special access regime and liberal economic system. Wang Xizhe [40] The question of investing in different SEZs types was strictly regulated. So, investor clearly understands on which legal basis enterprise will work, like term and price for rent, tax privileges, etc.

The second stage (1982-1988) purpose was enhancement of obtained experience, steps to modernization and liberalization of everything connected to SEZs. At this stage noted expending private property role in economy, and fortification of market economy system. At this stage were founded the first technological development zones, technological parks in Shenzhen and Beijing, as it was mentioned before. Altogether, in the China's territory from 1984 to 1988 were established 14 Free Economic Zones.

Also, there is an evidence that political and fiscal decentralization in 1985 played role in promoting and succeeding SEZs. The political decentralization enabled local official to decide local policies, and fiscal reform allowed provinces to retain a huge part of their internal tax revenues, which served as stimulus for locals. Lotta Moberg in her dissertation devoted to analysis of failure and success of special economic zones worldwide [20] emphasizes the implication of decentralization as a part of reform aligned with SEZs promotion “Local demand for SEZs manifests the importance of fiscal decentralization for SEZ creation. While the Chinese SEZs had to be granted by the central government, the initiative came from local elites, who began to lobby for SEZs when they saw the profit opportunities that they offered.” The other scholar examining “capitalism with Chinese characteristics” is Petr Mozias notes and emphasizes SEZ development and fiscal decentralization as logical and consistent part of that policy of economic expansion in 1980-1990.

Moreover, in 1988 countrywide “Torch” program has been started, and concentrated its aim on industrialization and technological progress. Under this program Science and Technology Industrial parks (STIPs) started to growth grow rapidly. The main purpose of STIPs was import and mastering foreign technologies.

Nevertheless, such huge success required significant investments from the government side, especially creation of infrastructure in SEZs territories. Also, the budget less was gaining less money as privileges for firms operating in special zones expended.

During the third stage, (1990-1992) the government continue to make an accent on foreign investors. In 1989 state council of Peoples Republic of China identified priorities of further SEZs development. The most significant admired those enterprises which specialized in: [30]

- Producing necessary for country, but not produced yet goods;
- Producing export-oriented production;

- Investing in technologies, especially economic-efficiency technologies;
- Investing in infrastructure, communication, transport, production of electronic devices and appliance. The biggest privileges obtained those who operate in high technology industry.

Simultaneously, China pursue to increase the number of special zones. In 1992, with the purpose of deeper integration in the world trade, the 13 customs-off zones in Wuhu, Jiujiang, Yueyang, Wuhan, Huangshi, and Chongqing cities, which are located along the Yangtze river. Here, the government decided to change finance structure of SEZs, introducing self-finance regime, to reduce government spending in infrastructure, which were growing all the time starting with the first stage.

The fourth stage (since 1992-2001) characterized by growing expansion of SEZs, especially to the north and the West of the country, and fiscal reform. The government discovered some fundamental problems related to previous reforms occurred in 80s-90s. Especially, traditionally well-developed East regions economic success was essential compared to impoverished the West regions, and due to established free-trade zones the disproportion was growing. The other problem was related to high budget losses connected to preferences to investors, and erosion of central budget due to fiscal decentralization in 1985. Therefore, costs started to outweigh simulative effect.

To overcome problems of regional disproportion, the government accepted development plan for the Western regions in 1999. Development plan assumed infrastructural, social and ecological transformation of the regions, stimulation of domestic consumption in that area and FDI. Special investment regime started to operate on the Western China, which implies low tax burden on profit for the next 10 years, and many other indulgences.)

Nevertheless, in terms of investors engagement, the program was inefficient. The flow of investments in the West regions increased, but total amount in those regions

even decreased. Thus, in 1983-1999 twelve West regions accumulated 5,32% of total investments, in 2000 – 4,42%, and in 2001 – 3,98%. [14]

Additionally, fiscal reform introduced in 1994 created even greater problems than there were before. Hence, local budget was forming from local taxes and central budget transfers, including special preferences and partly refund of central taxes. Additional payments and return of taxes calculated with fixed value. In due, it caused even more inequality between the regions. [14]

In order to fix central budget, the government cancelled some benefits for foreign investors. Enterprises with foreign capital started to pay contributions to social funds, in special economic zones investors lost right to off-tariff import of commodities, building materials, unfinished parts, etc.

Today China is on fifth stage, started in 2001. Joining the WTO signaled of accelerating the process of China's integration into the world economy.

Becoming a part of World Trade Organization is a consistent chain in the country's policy, as liberal economic reforms were encouraging for the last twelve years. Joining WTO, according to the rules, requires expansion of free access for foreign investors, especially in banking sector, insurance, retail and wholesale trade. Also, the government cancelled obligatory registration at the governmental level for economic agents specialized in export and import activities. Before this change foreign market access was a feature of SEZs.

Thus, some benefits of preferential zones have been lost. Nevertheless, specialized zones remained significant instrument of China's economic strategy, as it enables to promote so called selective industrial policy and pursue the process of economic liberalization. Moreover, scientific-specialized zones (program of establishing STIPs in early 90th started to bring its wealth harvest in form of upward patent statistics) continue to be essential part of Chinese science, bringing the biggest part to domestic patent statistics.

1.3.2 Drivers of SEZ Implementation in China

1) Legislation and tariffs. China's legislation is continuously improving and modernizing. The last change of the law related to SEZs and investment regime was in 2019 year. Then, the purposes of renewed legislation were improvement of competitive environment and shrink existing restrictions for investors in the domestic market. [15]

2) Flexible and varying administrative regime. Chinese legislation foresees many variations of SEZs administrative regime.

3) But on the other hand, SEZs united by common and almost unified tariff policy. All SEZs have almost equal regime in terms of tariffs, excluding incentives related to specific activities of the firms. Thus, corporate tax in China is 25%, but for those operating in SEZs tax equals to 15%, and there is some lowered taxes for specific firms (technological, for examples). Comparing to Ukraine, each SEZs has totally different characteristics, which are defined during voting in VRU. Take a look at the Table 1, which reflects VAT (excluding specific tariffs, like land tax).

Table 1: Comparing of common VAT in SEZs in Ukraine and China

SEZ	VAT	SEZ	VAT
Shenzhen	15%	Donetsk	20%
Zhuhai	15%	Azov	20%
Xiamen	15%	Mykolaiv	first 3 years - 0%, 4-6 years - 50% from current VAT, etc.
Swatow	15%	Port Crimia	20%
Hainan	15%	Slavutich	first 3 years - 0%, 4-6 years - 50% from current VAT, etc.
Kashgar	15%	Yavoriv	first 3 years - 0%, 4-6 years - 50% from current VAT, etc.
Shenzhen	15%	Donetsk	20%

Source: B. Sklifas, based on FDI China source; Ministry of Economy of Ukraine

4) Specific regime of connecting specific SEZ to specific bank. The government of connects each SEZ to specific bank, and recommends to investors to manage their economic activity in recommended bank. The whole banking sector in China is managed by the government. This connection of preferential zones with stable

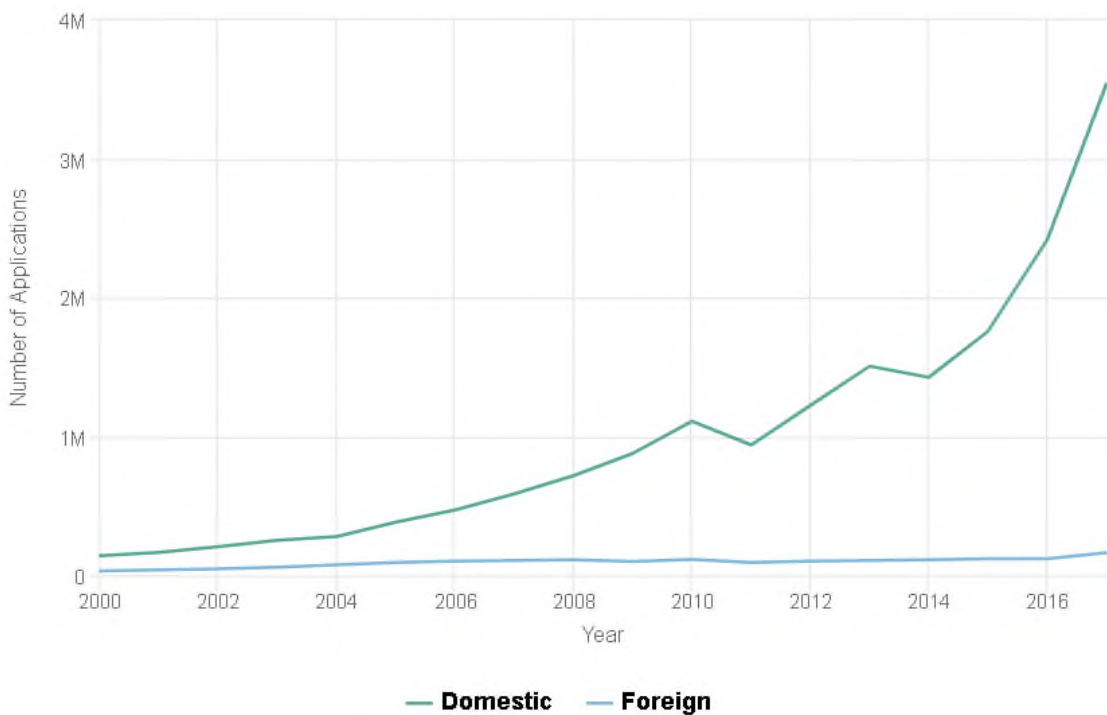
banking system clearly unifies foreign capital operating in a SEZ with banks owned by China.

5) As we discussed, infrastructure investments from the government was one of pillars of SEZs success in China, but as example of Myanmar has shown, even extremely high infrastructure spending cannot compensate inappropriate SEZ area and weak legislation on SEZs.

1.4 Statistical evidence: Technological Advantage and Prosperity

As the biggest part of researches concentrated in private sector, companies represent itself tasty slice for the governments. Therefore, country which is the most effective in engaging companies will have greater competitive advantages. Here we going to consider patent statistics, performance of China's firms in international business environment and how these things connected to the SEZs as development institute.

Figure 1: Foreign and Domestic patent applications in China

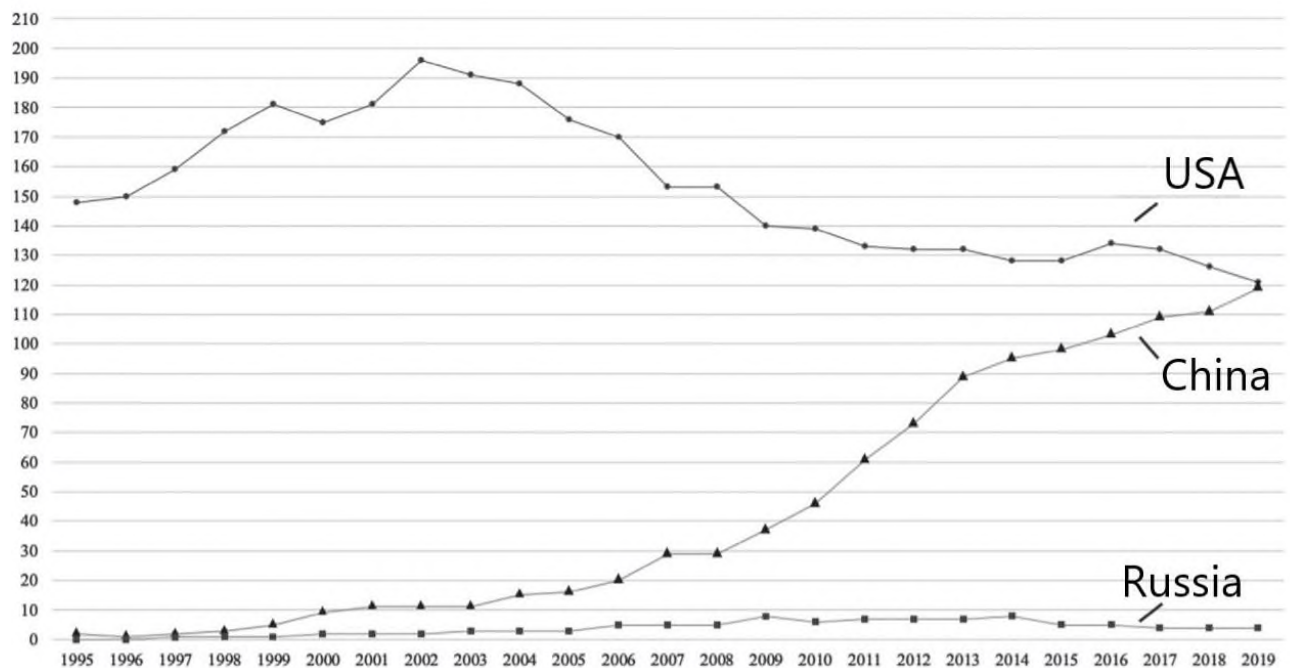


Source: Tokio, J. Dang and K. Motohashi [6]

Scholars from University of Tokio, J. Dang and K. Motohashi [6] argue, that patent count directly correlate with R&D input and financial output, with proves that patent statistics can be a good indicator of innovations in China. Hence, patent statistics can serve as pledge of further economic growth.

Thus, according to the WB's data in 2007, the 54 High-tech Industrial Development Zones (HIDZs) "...account about half the national high-tech firms and science and technology incubators. They registered some 50,000 invention patents in total, more than 70 percent of which were registered by domestic firms" "...they (HIDZs) have accounted for half of China's high-tech gross industrial output and one-third of China's high-tech exports. In addition, the ETDZs are also responsible for another one-third of China's high-tech industrial output and exports"

Figure 2: Dynamics of the number of companies in the USA, China and Russia included in Fortune Global 500 by revenue (1995–2019)



Source: P.V.Pavlov, E.K. Zashchitina, 2020 [24]

Also, scholars Pavlov P.V. and Zashchitina E.K devoted their paper [24] to the question of relationship between success of companies in international business and

functioning of SEZs. Then, examining the question has been proposed a hypothesis according to which globalization and the transition to a multipolar model of the world lead to a new way of life in the field of not only international business, taking into account not only the traditional competitive advantages and technological innovations of companies, but also the economic climate in the country.

Thus, we can summarize that attracting foreign firms, expanding existent restrictions, creating STIPs and HIDZs had in result economic and technology growth, which caused the next waves of investors to come (because of success and prosperity observed; so called “reverse” or “feedback” effect). Boosting foreign capital in SEZs (and nearby territories) improved economic climate, which caused growth and success of China’s firms entering international business environment (as economic climate in domestic country affects operating of the firm in international level). Hence, this chain of cause-and-effect formed a loop (reverse effect good described by behaviorist Robert Shiller, [33]), with anchor effect where investors observing achieved success (growth) expand the amount of invested capital.

1.5 Conclusion on Chinese success

Concluding on such a big and controversial as SEZs, I can’t say that there exist some strong points that could make any Zone successful. As it was mentioned earlier, each SEZ account specific set of stimulus and different management models. Same, I would mention that **timing** played substantial role in China’s success. When China only started its move toward opening to the world market, that was time of active stage of confrontation between the Soviet Union and the USA. Hence, in international relations system there were parties taking advantage from this struggle, like Israel or China.

Nevertheless, we shall try to give more elaborate answer on the factors of SEZs success in China. We divide them by 2 categories: Strategic and tactic factors.

Strategic factors are those creating appropriate basis or prospects, that determine success of special zones. They are flexible but not overcomplicated legislation, that

improves if it's necessary, stable financial system and political systems. But Strategic factors are not enough for a specific zone being successful. Tactical factors are those, related to specific SEZ characteristics, like successful choice of its functional purpose, or good placement that corresponds with stated purpose. Here we include appropriate Area choice.

Table 2: Factors of SEZs success divided by Strategic and Tactical specifics

Strategic	Tactical
Elaborated and modernizing legislation	Right-chosen area, that corresponds with functional purpose of a Zone
Political stability; vibrant politics make investments vulnerable	Government spending on infrastructure in SEZs
Strong and stable financial system	Functional purpose of a SEZ has to correspond with world economy trends

Source: B. Skifas authorship

Now, after formulating drivers of growth, we can elaborate on why SEZs haven't become an effective tool of economic growth and foreign investors attracting. Post-war development requires long-term investors, not speculating money, as short-term capital would make post-war economy more volatile. So, in the recovery we need long term investments, and SEZs would be pretty good form of attracting money for war-worn country.

The next chapter devoted to the main obstacle to SEZs development in Ukraine: weak financial system and controversial and underdeveloped legislation.

Chapter 2: Problem of SEZs operation in Ukraine: Financial System and Legal Framework

2.1 Problems of Banking in Ukraine and NBU Reform

Policy of the Central Bank plays crucial role in development of economy. One of its essential functions is stability, and National Banks have the whole set of rights to organize financial services in the country in the most effective way, for financial services to be safe for both commercial banks and for customers. Only financial system based on stability and respect to the ownership rights can engage foreign capital to invest in the country, especially via SEZs.

Definitely, before 2014 this major function hasn't been performed in the right way, as any significant crises turn out liquidity deficit, like it was in 2008 and in 2014, which came turn point for the banking system of Ukraine.

The shrink of liquidity has been caused by many factors undermined stability of the weak financial system of the country – the Maidan Revolution, Russian annexion of Crimea and military aggression in Donbass.

Then, new governance of the National Bank started active reform of the whole system inside and outside the Central Bank. The major changes include free-float exchange rate, inflation target, liquidation of the banks treating to financial system of the country. It caused many banks to stop operating, and after 3 year of the reform total number of commercial banks decreased from 180 to 96 in 2017 (O. Druhov, V. Druhova, [22]), and to 71 in 2022.

The first four years, the banking system was unprofitable, but since 2018 net profitability of the banks has reached historical high of UAH 22,4 billion, and was growing, setting the new high of UAH 77, 5 billion net financial result of the banking system in 2020 (Table 2).

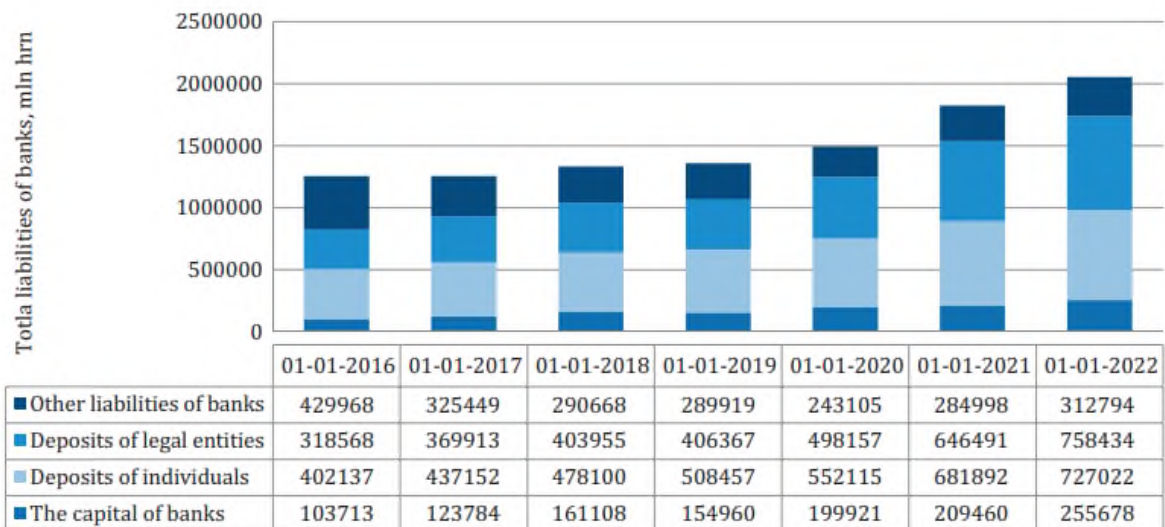
Table 3: The main profitability indicators of Ukrainian banks, 2013-2021 (data of 1st of Jan. each year, in billions of UAH).

Indicators	2014	2015	2016	2017	2018	2019	2020	2021
Income	168,9	210,2	199,1	190,7	178,1	204,5	250,17	273,84
Interest income	129,9	151,3	135,1	135,8	124,0	140,8	154,30	168,75
Commissions	24,9	28,3	28,4	31,4	37,1	50,9	62,10	93,20
Net financial result	1,4	-53	-66,7	-159,3	-26,4	22,3	39,70	77,50

Source: Oleksiy Druhov, Vira Druhova, [22], NBU data

Another positive changes provoked by the banking reform was structure and size of liabilities of Ukrainian banks. Looking at the Figure 5, can be notice deposits of legal entities and deposits of individuals since 2020 were growing, that says about increased confidence in Ukrainian banking and trust in financial system, even in the difficult and uncertain 2020 Covid pandemic times.

Figure 3: The size of liabilities of Ukrainian banks, 2015-2021

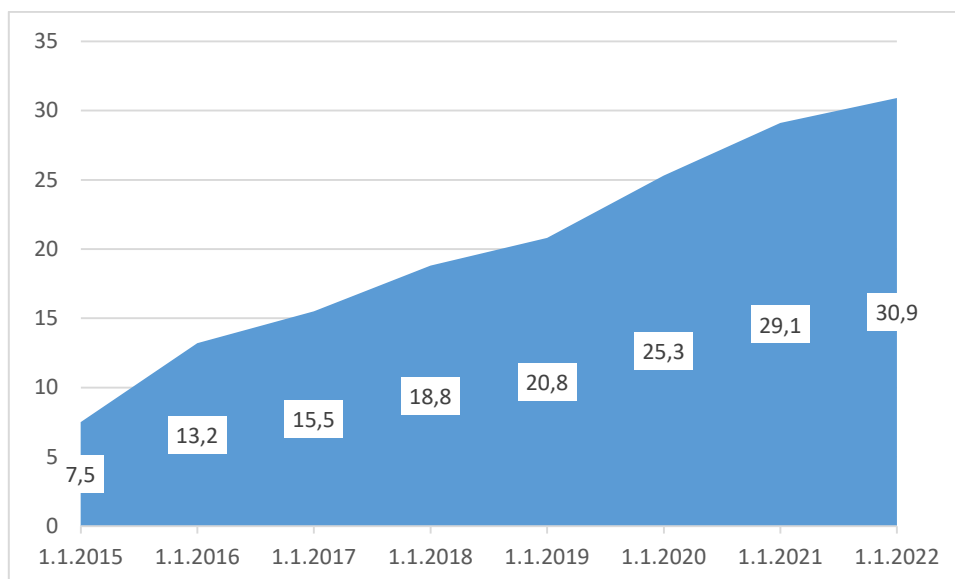


Source: Oleksiy Druhov, Vira Druhova, [22], NBU data

And speaking of Covid, this was the first big danger to financial system after the reform. Then, financial services remained stable and banks were provided with high liquidity rates.

Another side of monetary and stabilizing policy of the NBU related to its reserves. The Central Bank is always borrower of the last resort, and even when some banks default, the Central Bank still can support the financial system by restricting expansion of crisis to the other economic agents.

Figure 4: NBU Reserves in billions of USD, 2015-2022



Source: National Bank of Ukraine, author's figure

Growth of the reserves guarantees several essential things. First, it makes investors confident in stability of the financial system and then attracts those who aim for long-term investments profit. Low-quality speculative money makes financial stability of the country very dependent of international market conjuncture and expectations on political environment in Ukraine. Second, high reserve rate provides NBU with effective stabilizing tool to decrease free-float exchange rate volatility, which also makes domestic economic agents more confident in the Central Bank's financial policy.

2.3 Internal work of financial institution on the example of PrivatBank

2.3.1 Familiarization with the base of practice

PrivatBank, a commercial bank founded in 1992, is the country's banking market leader. According to the CBR Ukraine survey, 62% of Ukrainians over the age of 16 cooperate with it in the fourth quarter of 2020. The 49.4% of clients name Privatbank as their main financial services supplier.

Today the bank employs more than 22 thousand people. PrivatBank introduces itself as a socially oriented bank that employs people with disabilities (4% of the total number of employees). Also, the employees receive an average salary 10% higher than their colleagues in other banks. In addition, PrivatBank provides employees with a full social package, annual paid leave for 24 calendar days

Privatbank the state-owned bank, with 100% of ownership rights belonging to the Cabinet of Ministers of Ukraine since 2016. In total, banking system has 4 state owned banks that manage 46% of total assets of the banking system, and they're Ukreximbank, Oschadbank and Privatbank (O. Druhov, V. Druhove, [22]).

The bank underlines, that improving the quality of customer service processes, with mandatory compliance with the law, development of lending while maintaining a high quality loan portfolio, improvement and development of banking products / services, optimization of infrastructure have been and remain priority areas in the Bank's activities.

Products of the bank include Distance Banking (management of your account not physically visiting the bank) through SMS technology, and special platform Privat24 which enables to manage your account 24 hours a day, and available in App Store and Play Market.

Business-model

The Bank provides universal service to a wide range of customers, being the leader of the Ukrainian market in the retail segment, actively promoting services for small and medium-sized businesses and selectively working in the corporate sector. The basis of the resource base of the bank are funds of individuals in the national currency, with a significant share of current accounts.

The strategic goal of the Bank is to increase the quality loan portfolio of retail loans and SME loans. The Bank provides online banking services through Privat24 mobile application, which allows efficient servicing of customer account operations of all segments and causes a high level of commission income. Along with online services, the Bank has an extensive network of branches, ATMs and self-service terminals that allow you to provide services throughout the country. [30]

Products and services of the bank include:

- Card / account management
- Utility payments
- Transfers to cards and accounts
- Money transfers
- Deposits (open, replenish, close)
- Apply for a loan
- Buy currency

Organizational structure of the bank

Corporate structure of the bank consists of shareholder (Supreme body), supervisory board, and top management (executive body) of the bank. Supervisory board estimates performance of the bank and monitors the correspondence of the shareholder's and clients' interest. This division of owners, estimators and managers provides higher performance efficiency.

The executive body of the Bank, which carries out the current management of its activities, is the Management Board, which is accountable to the Supreme Body and the Supervisory Board of the Bank and organizes the implementation of their decisions. The competence of the Management Board includes resolving all issues related to the management of the current activities of the Bank, except for issues that fall within the exclusive competence of the Supreme Body and the Supervisory Board of the Bank.

The Management Board acts on behalf of the Bank within the limits established by the legislation, the Bank's Charter and the Regulations on the Management Board. The Chairman of the Management Board of the Bank heads the Management Board and manages its activities in accordance with the powers defined by the current legislation of Ukraine, the Charter, the Regulations on the Management Board of the Bank and other internal documents of the Bank.

The Board ensures the independence of the internal control units by not interfering in their work. The Management Board shall submit a report on its activities to the Supervisory Board in accordance with the procedure and deadlines determined by the Supervisory Board. The Chairman and members of the Management Board are responsible for the activities of the Bank within the limits of their powers. Verification of professional and qualification compliance of the members of the Management Board, compliance with the requirements of the legislation of Ukraine and the requirements of the banking legislation on business reputation and professional suitability is carried out in each case when necessary, in accordance with the legislation of Ukraine.

In order to ensure the effective work of the Board creates the following permanent committees:

- Budget Committee,
- Compliance and Financial Security Committee,
- Assets and Liabilities Management Committee,
- Change Management Committee,
- BedBank Portfolio Management Committee
- Operational Risk Management and Information Security Committee,
- Credit Committee
- Marketing and PR Committee,
- Project Committee,
- Committee on Products and Tariffs,
- Tender Committee,
- Technology Committee,
- Non-performing Assets Management Committee.

During 2020, the Supervisory Board approved a number of changes to the organizational structure of the Bank, according to which the executive body consists of seven positions, namely:

- Chairman of the Board,
- Deputy Chairman of the Board (for Finance),
- Deputy Chairman of the Board (for problem assets management),
- Deputy Chairman of the Board (for operational issues),
- Deputy Chairman of the Board (for business development),
- member of the board (on risk management),
- Member of the Board (on network issues and problem debts)

Legal side of banking and international regulations

The Bank's governing bodies operate in accordance with global corporate governance practices, in particular the OECD Guidelines on Corporate Governance of State-Owned Enterprises, the Basel Committee on Banking Supervision's Principles of Corporate Governance for Banks. (Corporate governance principles for banks by Basel Committee on Banking Supervision), Guidelines on Internal Governance by European Banking Authority, applied to the extent that does not contradict the mandatory norms of current legislation of Ukraine.

2.3.2 Economic planning

Product of a financial organization belongs to cyclical, as consumer spending depended on the general economic performance. In deepen view, Ukrainian banking sector closely interconnected with international financial markets performance and this process becomes more and more decisive for the banks performance [8].

Hence, economic planning and approach to it plays definitive role in efficiency performance of a bank. Organization of planning and economic activity at the enterprise includes forecast with internal (bank's) and external performance with several scenario of macroeconomic events development. [30]

Planning of internal performance of the bank consists of:

- assets and liabilities plan (see Table 1)
- income and spending plan (see Table 1)
- plan of projected key performance indicators of the bank

Table 3: Composition of the financial plan of the bank

Financial plan of the bank			
Planned balance sheet		Planned budget	
Assets	Liabilities	Income	Expenses
<ul style="list-style-type: none"> • Cash and cash equivalence 	<ul style="list-style-type: none"> • Client's money 	<ul style="list-style-type: none"> • Interest income 	<ul style="list-style-type: none"> • Interest expenses
<ul style="list-style-type: none"> • Requires in NBU 	<ul style="list-style-type: none"> • Other bank's money 	<ul style="list-style-type: none"> • Bank's commission 	<ul style="list-style-type: none"> • Commission expenses

		income	
• Money in other banks	• Requires reserves	• Other operational income	• Administrative and operational costs
• Client's debt obligations	• Statutory capital		
• Fixed assets and intangible assets	• retained earnings		

Source: B. Skilfas authorship, based on PrivatBank 2020 report

All indicators mentioned in Table 1 are obtained during the independent audit.

2.3.3 Audit

Audit is an estimation of the effectiveness of an overall management and business indicators of the Bank. The Internal Audit Department reports to the Bank's Supervisory Board and reports to it. The Supervisory Board monitors and verifies the effectiveness of the Bank's internal audit service.

The internal audit department performs the following functions:

- checks and evaluates processes, helps other banks, including those that do not provide a basis for analysis and analysis of data that will be provided by memorizing legal and physical contracts (outsourcing)
- checks the availability, evaluates the effectiveness of the adequacy of risk management systems, internal control, processes of bank management, compliance of these systems, processes, types, volumes of bank operations, including the prevention of the use of banking systems for money laundering / terrorist financing
- increase the process of assessing capital adequacy, the level of liquidity, ensure the safety of assets, taking into account the risks of the bank;
- checks the proper maintenance and reliability of accounting, information, financial and other reporting to be between ATMs, their competence and indicator of supervision, including nationality, production management organization, management organization

- carries out an independent assessment of the control system implemented by the bank's management;
- independently assesses the reliability, efficiency and integrity of the management of information systems and processes of the bank; - checks the financial and economic activities of the bank;
- evaluates the efficiency and sufficiency of the ATM plan of its activity; - a special unit for risk management and risk compensation, committees, an ATM and the quality of risk reports to be provided to the board and the board of the bank;
- identifying and transferring cases of excess of extended seats in banks, as well as the emergence of conflicts in banks;
- other functions provided by the legislation of Ukraine;

Organization of risk management in PrivatBank

Risk management is key aspect of planning in financial institution, that determines huge contribution to the bank's policy.

As it noted in Privatbank's official report, at all organizational levels the risk management system should ensure the identification, assessment, monitoring and control of all sorts of risks, as well as the appraisal of the Bank's capital adequacy to cover all types of risks. [30]

The strategic task of the Bank's policy in terms of market risk management is minimizing and preventing possible losses that may occur in the event of changes in market conditions.

The Chairman of the Management Board and the Chief Accountant examines and approves monthly reports containing computations to ensure that the capital adequacy ratio specified by the National Bank of Ukraine. Other capital management goals are examined on an annual basis. According to the National Bank of Ukraine's present capital requirements, banks must maintain ratio of regulatory capital to risk-weighted assets ("capital adequacy ratio") at a

level higher than the mandatory minimum value. This provision creates some restriction to the creation of the bank's loan portfolio.

The Bank manages its capital, including the level of capital adequacy calculated in accordance with the requirements of the Basel Capital Accord, as defined in the Report on the International Convergence of Capital Assessment and Capital Standards and in the Supplement to the Basel Capital Accord market risk analysis, commonly known as Basel I, II, and III.

Thus, the bank performs in accordance with positive, neutral or negative macroeconomic scenario prescribed by its forecast, risk management strategy, and international regulatory framework like Basel agreements.

Also, need to note the structure of the bank's credit portfolio, because it defines level of a bank's risk. So, Ukrainian scholars Dmytryshyn M.V, and Panchak N.V [8] have conducted SWOT-analysis of the Privatbank's credit portfolio. The scholars emphasize the significant part of long-term loans, which makes economic planning slight more predictable, and general low-risk Privat's loan portfolio, which makes the bank less vulnerable to economic cycle fluctuations.

2.3.4 Analysis of the Outcomes of Business Activities

The main purpose of the banks is mediation on economic basis between those clients' who have surplus and able to lend money, and those who has deficit and wants to borrow money.

Thus, we will look how the bank performs its basic function on the example of 2019 and 2020 years. Look at the table below.

Below is the representation of annual financial PrivatBank report in 2020

Table 4: PrivatBank's Financial Statement and Maturities

<i>IN MILLIONS OF UKRAINIAN HRYVNIA</i>	12/31/2020			12/31/2019		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total

CASH AND CASH EQUIVALENTS AND REQUIRED RESERVES	49,911	-	49,911	45,894	-	45,894
BANKS' DEBTS	25 015	44	25 059	27 044	74	27 118
LOANS AND PREPAID EXPENSE TO CLIENTS	45 986	9 035	55 021	50 435	9 109	59 544
SECURITIES INVESTMENTS						
○ AT FAIR VALUE THROUGH PROFIT OR LOSS	888	99 862	100 750	865	83 815	84 680
○ AT FAIR VALUE THROUGH OTHER CUMULATIVE INCOME	66 701	52 495	119 196	10 674	55 928	66 602
○ AT AMORTIZED VALUE	1 510	205	1 715	636	239	875
CURRENT TAX ASSETS	-	6 660	6 660	-	2 257	2 257
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	-	30	30	-	155	155
INVESTMENT REAL ESTATE	-	2 933	2 933	-	3 379	3 379
PROPERTY ASSETS	-	1 748	1 748	-	1 716	1 716
FIXED ASSETS AND INTANGIBLE ASSETS	-	5 894	5 894	-	4 764	4 764
OTHER FINANCIAL ASSETS	1 327	2 121	3 448	445	1 755	2 210
OTHER ASSETS	-	8 900	8 900	-	9 285	9 285
MORTGAGED PROPERTY TRANSFERRED TO THE BANK	-	1 228	1 228	-	1 224	1 224
ASSETS HELD FOR SALE	32	-	32	-	-	-
TOTAL EQUITY	191 370	191 155	382 525	136 003	173 720	309 723
DEBT TO THE NBU	-	-	-	7 721	-	7 721
DEBTS TO BANKS AND OTHER FINANCIAL ORGANIZATIONS	2	-	2	201	-	201
CLIENTS' FUNDS	312 376	332	312 708	239 768	853	240 621
DEFERRED INCOME TAX LIABILITY	-	146	146	-	121	121
OTHER FINANCIAL LIABILITIES	2 331	576	1 907	1 038	484	1 522
RESERVES AND NON-FINANCIAL LIABILITIES	-	12 082	12 082	-	3 260	3 260
TOTAL LIABILITIES	315 321	14 379	329 700	249 251	5 943	255 194
ASSETS (END OF YEAR)	-	-	-52 825	-	-	-54 529

Source: PrivatBank's annual report, 2020 [30]

Particularly, in 2019 economy growth was rather slow due to tight monetary policy, moderate fiscal policy, and deceleration of the world trade during the US and China Trade War. This explains slowdown of the Ukrainian business cycle that year.

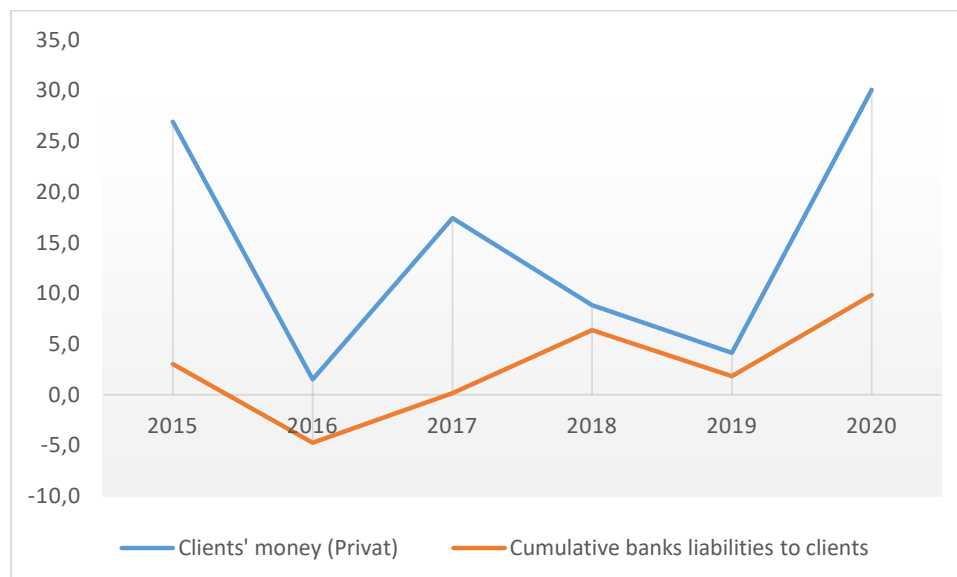
In 2020, international financial markets were shocked by steep recession, and following rapid recovery accompanied by growing world inflation processes. But summarizing, these events have controversial effect on banking sector in Ukraine,

because some clients want to get fixed percent deposit to hedge risks, and some avoid relation with banks during uncertain economic processes.

One more observation is significant grow of clients' funds in 2020 compared to 2019, which is 30% to 2019 numbers. This confirms confidence in the biggest banks of Ukraine, so people not just take money out of the bank during pandemic, but did otherwise. Let's compare Privatbank's numbers with the whole banking system. We will express rate of growth via percent for the comparison being adequate and fair.

What else is important in terms of Table 4 is growth of clients' funds amount by the end of 2020 year. Clients' funds compared to 2019 have grown by 30%, which reflects high certainty levels of Ukrainian banking and especially PrivatBank as financial institution. Now pay attention to the Figure below.

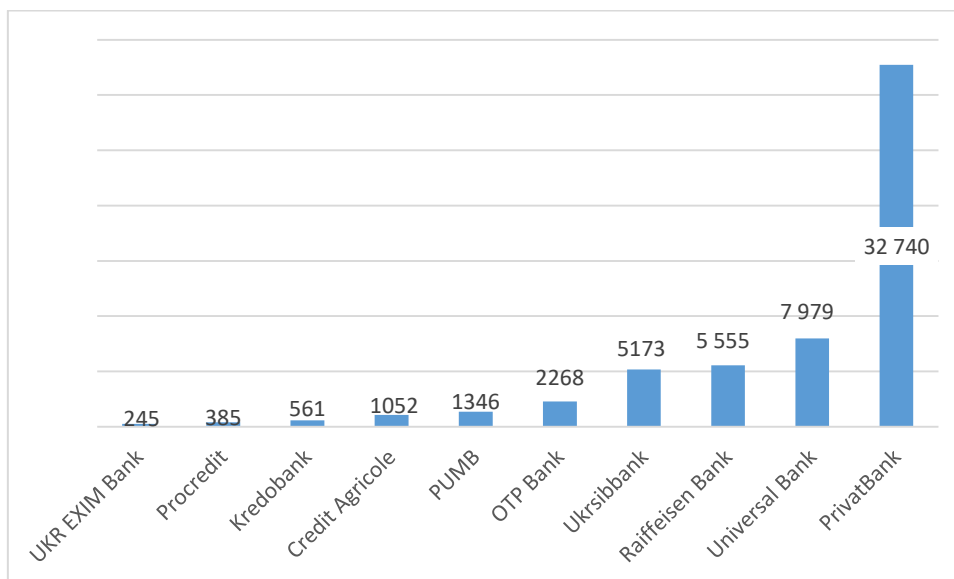
Figure 5: Dynamics of Clients' money as PrivatBank liabilities, compared to the dynamics of cumulative banks liabilities before clients (in percent to previous year, 2015-2020)



Source: B. Sklifas authorship, based on PrivatBank reports (2015-2020), Ministry of Finance statistics.

Figure 5 compares only liabilities of the banks before clients, and does not include other information on the banks capital, and it shouldn't be compared with Figure 4 that shows the size of total liabilities in hryvnia. The dynamics show cumulative liabilities and liabilities of Privat before clients (clients' funds). From the end of 2019 till December of 2020 has not only Privat, but the whole banking system was successfully attracting money, even though disrupting and uncertain pandemic times. Since the end of 2020 Privat didn't publish any financial reports. But recently NBU provided us with interesting statistics. From the figure below its clear, that Privat strongly gains its position at Ukraine's financial services market.

Figure 6: Top 10 Banks by Inflow-Outflow balance of Individuals' Funds in February-March 2022 (in millions of hryvnias)



Source: B. Sklifas autorship, based on NBU data

Purifying of Ukrainian financial system in 2015 has made it pretty stable even during the time of full-scale war. Privat able to attract almost in 4 times more money, compared to the second most profitable bank – MonoBank.

Nevertheless, the war has revealed some significant problems related to online banking in Privat. The bank in its time has taken a significant part of Ukrainian financial services market, because of innovations and specifically online and SMS banking feature. Currently, during the wartime Privat has problems in providing customers with online banking services. The management team didn't clarify the reasons of systematic technical issues, perhaps it's connected to the huge flow of online transactions.

The systematic problems with online banking reduces confidence in the bank and provides its main competitor – Monobank with additional advantage. Unlike Privat, Mono doesn't aim to represent offline and online banking simultaneously. As we mentioned, Privat employs more than 22,000 employees and has offices in many cities of Ukraine.

In its turn, Mono do not aim being offline and online bank at the same time. Its business model supposes young people interested in innovations as TA and online banking features only, which is very actual during unstable pandemic and war time.

2.3.5 Strategic planning

In the bank, shareholder determines of the main (strategic) orientation of the Bank and confirms the information about execution of stated goals.

The stated mission and the slogan of the bank are belonging to strategic planning categories. The PrivatBank sees its mission as “we help the economy to develop, business - to grow, and the private client - to realize dreams” (the author's translation), which embraces and emphasizes different client segments and their different goals, that can be united and reached/satisfied in one bank.

Nevertheless, except official stated goal Privatbank as financial institution owned by government obliged to bear costs of increased social care for its employees and

clients. That's why Privat being first bank in Ukraine that provided online and SMS banking, can't be transformed completely in online banking like its competitor Mono.

Now, paying attention to mentioned above, will consider strategic planning using SWOT-analysis model.

SWOT-analyses – is the process of establishing connections between the strong and weak sides, and opportunities and threats related to the certain economic agent/object of estimation. Firstly, will be distinguished strong/weak and opportunities/threats parts separately, and then we will join them together.

Figure 6: SWOT-analysis, part 1

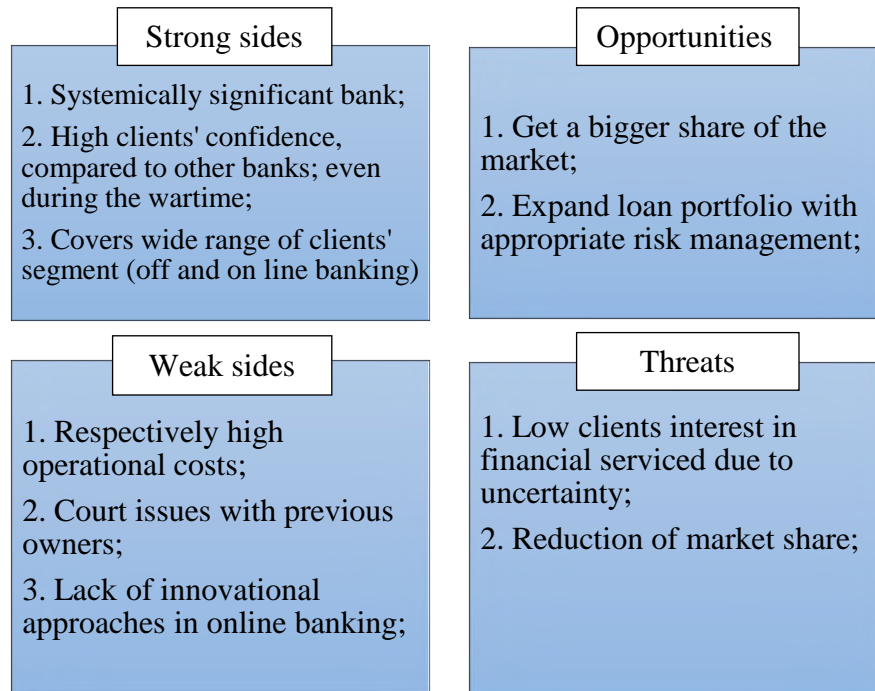
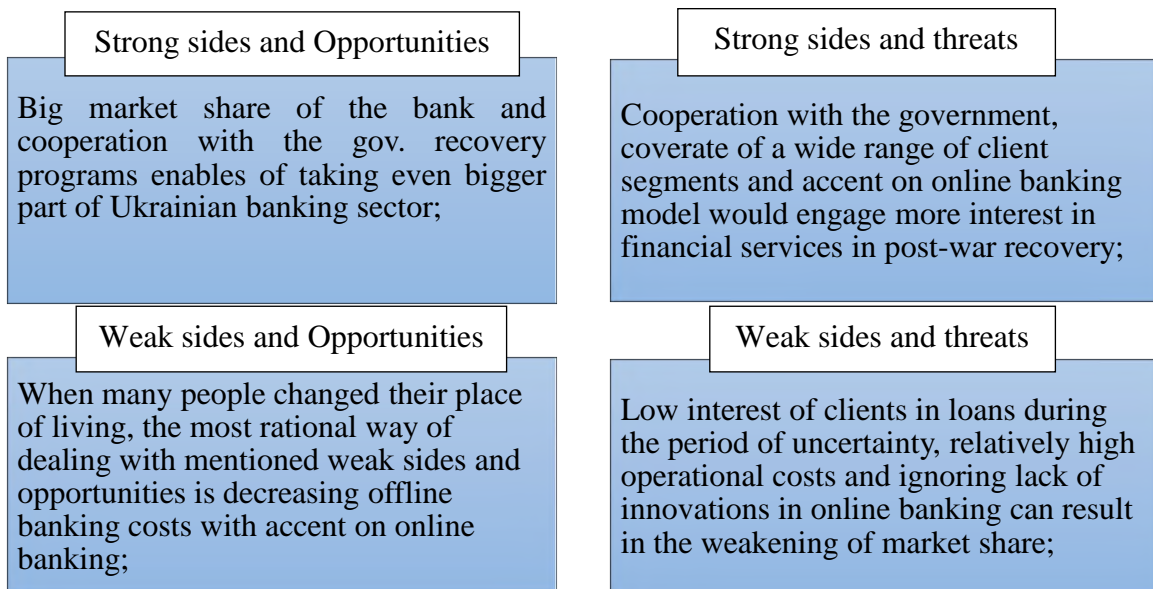


Figure 7: SWOT-analysis, part 2



Strategic planning analysis results:

1. The bank is taking already big share of the Ukrainian market, which enables it to expand its scale further. If mechanism of cooperation with other government

programs will be well-elaborated, with purpose of fast solutions of business-related problems and provision of financial services anytime at any controlled part of our country, all participants would be pleased – the bank, the government and the consumer;

2. With the mentioned above, Privat should pay more attention at technical problems related to online banking and innovations in online banking;
3. The main problems that may appear in the bank's functioning are 1) ability to engage clients to financial instruments even during uncertain times, which partly depends on the bank's activity and functioning of financial system in general; 2) even before the war, Ukrainian banking system was more and more online oriented. That's, the military invasion just gained this problem. Therefore, the banking system after the war will look much different that before, so PrivatBank management should pay more attention to its competitive advantages and innovations that would shape the bank's activities.

2.4 Current Problems of Financial Sector: Wartime and NBU Actions

Active banking and financial services, same as SEZs can cause powerful boost of the economy.

In its strategic document, National Bank of Ukraine (NBU) states its purpose as provision of appropriate conditions for everyone to have access to high quality and safe financial services. (NBU, 2021) Before the full-scale invasion, NBU always has been counting the probability of war escalation in its strategic planning.

The main, but not the only one strategic purpose of the National Bank, as it stated in “Strategy of the National Bank of Ukraine Until 2025” document was recovering of the national economy after pandemic and world trade decline. Today, in the wartime the main purpose is only one – support fiscal and financial system of Ukraine.

Rapid change from relative peace to wartime made all government spending planned in budged restructured. IMF estimation shows that Ukraine need an additional USD 4.8 billion of external financing this year. Nevertheless, government

spending except military expenditures, still cover wages and pensions payments, public debt, help to refugees and those who lost their homes, etc.

In this sight, the essential role of the National Bank is supporting liquidity through domestic channels and support of the fiscal stability of the country.

As independent institution, the budget deficit is prohibited to be financed via NBU lending. Thus, on 4th of March the President of Ukraine issued “On financial maintenance of measures of a legal mode of martial law” Decree with recommendation to the governance of the National Bank to finance the deficit through military bonds. Based on this document, NBU governance on 8th of March approved fiscal support, but continue to put emphasis on temporality of these measures that take place only during the Martial regime, and immediate return to target inflation and free float regime model when the war will come to its end.

On 27th of April NBU informs about holding military bonds value more than UAH 70 billion.

Ministry of Finance of Ukraine estimates budget needs about USD 5 billion monthly.

Most of actions undertaken by NBU and Cabinet of Ministers of Ukraine in terms of war related to restrictions and fixation of prices. In order to cope with inflation and depreciation, NBU and the cabinet of ministers prescribed temporary hryvna exchange rate fixation (earlier it was free-float rate), softening of tax policy toward domestic and imported goods, and administrative regulation of vital foods price. (National Bank of Ukraine, 2022)

Also, NBU holds percent rate at 10% having year inflation of 13.7% (in April, 2022), which reflects difficulties of maneuvering between engaging liquidity to the banks, and stimulation of economic agents to revive and expend production. On the other hand, it approves stability of banking sector and dominance of lending expansion activities over expansion of banks’ reserves

2.5 Legal aspect of Special (Free) Economic Zones implementation in Ukraine

Getting back to SEZs, above we've discussed historic and contemporary problems of Ukrainian banking sector in engaging foreign investors. Weak banking system problems interconnected with controversial legal framework. By itself, "On General Principles of Special (Free) Economic Zones Creation and Functioning" Law isn't that perfect and has some misconceptions. The other problem is contradiction between "On General Principles of SEZs..." and the Customs Code of Ukraine. These are what we'll discuss below.

According to the Law, consideration of SEZ foundation at specific area may be initiated by the President of Ukraine, Cabinet of ministers of Ukraine, or local authorities, and will be approved or rejected by Verkhovna Rada of Ukraine. Thus, for each single special zone VRU defines its status, territory and specifies period of its existence.

The purposes of Special Zone creation, the same as its functional types may diverse. The purposes provided by the Law are attraction of foreign investments and assistance to them, promotion of entrepreneurial activity to foster the export of goods (and services), facilitate to new technologies foundation and examination, development of the private market, ease financing of natural resources and labor resources usage, speed up Ukraine's socio-economic development. The principles of financial regulations account soften monetary conditions to facilitate the banking and credit system, insurance, etc. at the specific economic area

For SEZ status to be established, necessary to provide a set of documents on economic and technical justification of special zone existence, which has to include, among other things functional purpose and sectoral orientation; volume, sources and forms of its financing; and stages of development with clarification of time implementation to each stage.

The legislation foresees the following functional types of SEZ: free customs zones and ports, export, transit zones, customs warehouses, technology parks,

technopolises, complex production zones, tourist and recreational, insurance, banking zones, etc., and mixes of mentioned above. Divergence of SEZ forms of purposes is vitally important for attracting investors. Basically, zones may diverse not only in mechanism and purpose, but each zone in Ukraine may have totally specific set of economic and legal characteristics. Wide varying terms of managing for each single zone may only slow down their development and lead to misleading by investors of SEZ mechanisms.

Once established, further management of a SEZ consists of:

- 1) government, or its local representative;
- 2) an economic development and governance body, that's created to each single special economic zone and may unite domestic and foreign business entities;

The main function of government at this stage is control of legislation of Ukraine being implemented in the right way. Law of Ukraine on SEZ doesn't bring any mechanism of their economic efficiency estimation. An economic development and governance body functions and power defined by the terms of creation and may diverge.

Therefore, Ukrainian legislation foresees pretty flexible regime of special economic zones foundation. On the other hand, it's too flexible and can be even confusing, as each zone has own terms and management regime. Legislation doesn't prescribe any efficiency-controlling methods, which sufficiently reduces effectiveness of any SEZ-related activities.

But even through these problems, specific areas were growing and attracting money (those basically were domestic investments). Everything has changed in 2003-2005 years. Customs Service in 2003 started research on the SEZs operation. During the examination, Customs Service has found out numerous violation of customs regime. In fact, 203 of 225 enterprises that operated in SEZs were violating import law transferring goods from SEZs avoiding customs tax. [31]

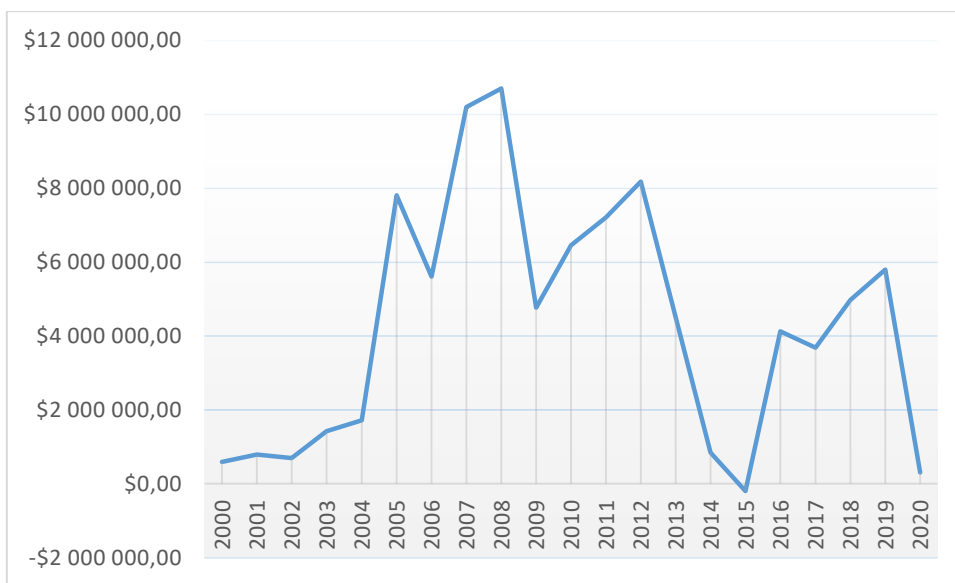
Based on examination results, Verkhovna Rada of Ukraine on 03.25.2005 by “On Changes to the Law of Ukraine “On the State Budget of Ukraine for 2005”” has made edition to the Customs Code of Ukraine “On Special Customs Zone”, where equated imports tax from Special Zones to the general imports tax. This edition excluded the main simulative mechanism, which gained economic activity on SEZs, and this’s why preferential zones through its history were treated as internal off-shore. They were not able to attract foreigners and lost activity from internal capital.

2.6 How Banking system may complement SEZs in attracting investors: Post-War Recovery Implications

What is important in terms of attracting foreign capital is the NBU reform of 2015 year, because it introduced some essential points that, keep financial system stable and profitable. Even during difficult for Ukraine 2015-2019 years, the country’s FDI were growing until the world pandemic outbreak.

When the NBU reform gets started, Ukraine’s FDIs were falling since 2008 year. The last big down move continued since 2012 till 2015. That’s, the next year after reform has shown vibrant grow in attracted investments. What is noticeable, that after the world pandemic to start and FDIs reached almost 2015 level, the banking system still remained strong and stable enough.

Figure 8: FDIs in billions of USD (current; BoP)



Source: The World Bank

Another important thing is how the bank sees its role and strategic aims. Depending on that the bank will perform its role effectively or not. Moreover, right priorities in the bank's governance vision raises foreign and domestic economic agents' confidence.

Before the invasion, NBU emphasized in its strategic aims are: 1) Foster economic recovery caused by Covid-19 and local economy misbalances; 2) Promotion of digital finance as economy digitalization driver, with the purpose of creation Ukrainian "Industry 4.0"; 3) Institutional and operational development of the National Bank

More detailed NBU formulates specific economic aims:

- Monitoring of financial entities correspond to the EU standards;
- Lending service is recovering and supports economic growth;
- Greater part of the population actively uses financial services;
- Introduction of digital hryvnia and other elements of digitalization

Basically, each of these Strategic aims is very close to what investors want to see. But this was in the peaceful times. During the war, as we mentioned above, NBU essential aim is support of the banking and fiscal stability of the country. In the war times, NBU stopped any interest rate manipulation, and fixed hryvnia exchange rate.

In its announcements and public documents NBU makes strong accent on temporality of mentioned measures, and as fast as its possible return to traditional inflation-target and free-float policy. But the problem is that the return and continuation of these policies may happen if NBU saves its independency. In the wartime, there is high change of unification of the whole power available in the country. And if the policy of the National Bank will be more and more integrated to fiscal support and too active cooperation with the government, it may reflect in its independency. From announcements we see that the governance of the Bank predicts this problem too.

The question of transition of the NBU war-time management and policy to peaceful recovery time it vital at this stage, because depending on how much the Central Bank's policy will be connected with political decisions shall define the whole framework of the post-war development. So, in this terms, essentially important for the Bank to continue its policies that had place before the war.

Thus, we economic recovery may be faster if the NBU will stay independent, as it was last years, and continue attract FDIs in the country and SEZs. For a greater control, the government may engage foreign investors operating in SEZs to the banks, like China's government does, and this mechanism should be elaborated by the National Bank. Also, SEZs can't exist without the legislation being modernized and simulative and independent policy of the NBU.

Chapter 3: Integrational Mechanisms: Free Trade Areas, World Financial Institutions

3.1 Special economic zones in IER

At this subchapter special economic zones will be observed from global scale of international trade. We compare correspondence with WTO principles, and understand how SEZ can regionalization process and creation of trade blocs.

3.1.1 WTO principles and subsidiaries

First, its necessary to understand how WTO works, and then define place of privileged zones in WTO system

WTO is structure that provides place for conflicts settlement, bargaining and negotiations between countries. The bargaining and negotiations related to procedures of trade, and its development in different spheres like agricultural and industrial production trade, or FDI regulations, etc. Unlike GATT (General Agreement on Trade and Tariffs) that served as pre-WTO stage of global trade, WTO implies membership on the basis of organization, not agreement. The negotiations and bargaining process is burdened with multiples participants, as the institution counts over 160 member countries, and unlike IMF, each country has vote right (1 member – 1 vote), and right of veto.

As it stated, the purpose of the institution is prosperity is the world scale. To achieve steadily prosperity, countries join WTO and pledge to follow prescribed rules of the organization. This institution does not prescribe rules by itself, it only follows its core principles. Rules of trade are created in result of negotiation rounds between all WTO participants. These participants can be divided into two opposite groups – developed and developing countries, or those countries that have created rules of global cooperation, and those who do not agree with current world order. The second category usually associated with BRICKS (Brazil, Russia, India, China and SAR) countries. Usually, developed and developing countries have different purposes behind establishing zones with special economic regime. While developed

countries use them to revive depressed areas and stabilize them at a nationwide medium level, developing benefits from engaging FDIs.

Nevertheless, rules discussed in negotiations cannot confront with core WTO principles, which basically can be generalized to one principle – non-discrimination. [5]

Which core principle that lies in the whole idea of trade, implemented in WTO in the form of two policies.

The first one is Most-Favored Nation (MFN), that prescribes that all countries should be treated in equal way. That's, when the US raises tariffs on a good from the EU, the tariff has to be raised for imports from all countries. The same when a country lowers tariff for a good from the other country, as when it lowers for one side, it has to provide for others equal terms of trade.

The second one is National Treatment (NT), which prescribes ban on usage of any form of discriminatory policy (regulations, or other non-tariff obstacles) regarding imported goods. Domestic-produced and imported goods have to be treated equally and have equal market access.

On the basis of these principles world trade exists today.

As most of the world zones with special economic status located in developing countries, especially in Asia, SEZs and their status in international trade still can be used by developed countries to oppress developing ones in WTO bargaining process.

By itself, SEZs are not mentioned by WTO rules. Basically, GATT Article XVI and the Agreement on Subsidies and Countervailing Measures do not include the main feature of SEZs – relief from import duties and taxes on goods exported from SEZs. Nevertheless, WTO policy toward Free Zones is dubious.

On the one hand, it's prohibited to directly manage or sponsor them by the government. On the other hand, private zones are not considered as violation, because private management is not contracting party of WTO. [5] As most of zones

are private and rules do not cover them, products exported from some countries have greater advantage at the world market. Compliance with WTO discipline could be reached through review government measures in countries-participants and identification of inconsistent measure that have to be changed. The research has to be concluded with independent experts, not locals or civil service.

This research can be included in Trade Policy Review regular issue, that would contain detailed examination and defined inconsistent SEZs measures and required governments to remove disrupting world competition regulations. That's how WTO competition principles and areas with specific administrative regime could reach compliance inside the organization.

But even if SEZ reform will be implemented in WTO, organization can't prohibit Regional Trade Agreement between its participants, which usually take form of Free Trade Agreements as integrate participant countries' economy.

3.1.2 FTA as integrational mechanism

In this subchapter we explore how Free Trade Areas (Agreements), which is SEZ subspecies can promote and deepen political and economic integration between countries.

SEZ can be established at a specific territory inside a county, or between two or more countries.

Those established inside a country can vary depending from its purpose. Usually, developed and developing countries have different purposes behind establishing zones with special economic regime. While developed countries use them to revive economically depressed areas and stabilize them at a nationwide medium level, unlike developing counties, that are benefit from engaging FDIs and technologies boost.

Speaking of specific administrative regime between countries, it usually has form of Free Trade Area and enables to move goods between members of agreements with lowered tariffs. This type of relations implies strengthening of economic ties

between participants. North-American free trade agreement serves as usual example of FTA.

Therefore, we can notice twofold nature of globalization, as with widening of the list of countries participating in global exchange, we see other side which is deepening of economic ties by geographical, cultural or political proximity. The other side of globalization called regionalization. That's, widening of countries participating in global goods exchange doesn't imply that these countries would follow principles of global coherences and share common aims and values.

Nevertheless, this is only economic integration takes place. Still, each country can decide upon economic policy in relation to the world and each single county.

Scholars who study types of integration split up this process by "linear" and "non-linear" integration. In linear type, countries reduce tariffs by stages and according to this classification, FTA clarified as first stage, because there is some weakening of tariff policy to countries-participants, but still absence common economic policy coordination. The next stage is customs union, when countries open domestic markets to each other, and set a common tariff for goods outside the union. The fifth and the last one stage supposes free movement of any type of capital between participants, which is pure economic union and it's exemplified by the European Union.

The basis for further unification of Europe after the WWII has been established by several economic cooperation incentives – ECSC (European Coal and Steel Community), EEC (European Economic Community) and EFTA (European Free Trade Association). Basically, EEC was created by ECSC countries, and EFTA was leading by Britain that couldn't join EEC because of contradictions with France and West Germany. Nevertheless, EFTA in 1973 joined ECSC and controlled over 90% of steel production, almost 100% of coal and 50% of iron ore mining in Western Europe

Then, ECSC has established common coal and steel production market inside Europe, decreased tariffs and restriction in tradable amount of the strategic resources between countries-participants. In its turn, EEC founded in 1957 is an examples of linear integration with different stages. From the beginning, the organization admitted as its purpose creation on common market between participants.

Economically, members agreed to reduce customs and trade restrictions among each other, organize free movement of all types of capital and coordinate agricultural sector efforts.

The logical culmination of these efforts was signing of the Maastricht Treaty in 1992, and unification of economic and political systems of countries-participants.

The other type of integration based on FTZ was NAFTA (North-American Free Trade Agreement) in 1993, which basically founded in response to the Maastricht Agreement. Unlike the EU, NAFTA which unites the US, Canada and Mexico hasn't aimed at coordination of economic policy and that's why integration of North-American countries takes so long time and not as effective as could be. The reduction of barriers for trade has taken place up to 2008, but still tariffs in agricultural and steel take place.[5] Europe is much more divergent region, but as the main purpose was free movement of goods inside the EU, creation of subnational authority that coordinated economic policy of members boosts integration. NAFTA members do not consider creation of subnational authority to coordinate economic policy as necessary.

Nevertheless, that would be a huge step toward strengthening interconnection. The reform of NAFTA could have in result establishing the customs union and coordination of economic policy. But such changes may occur in response to regionalization processes around the world (like it was in 1993), especially potential internalization of Russia and China. As in the light of sanctions imposed on Russia the world has excluded it from goods exchange with the West world, the only place where Russia sight can fall is East region and more deepen economic cooperation

with China. That's it, in the nearest years we may expect regional economic agreements between Moscow and Beijing.

3.2 The roots of WFI as globalizing mechanism

IMF and WB are the institutions starting their history after the WWII, and whose purpose was organizing and speeding up the post-war recovery, consistently improve standards of living and support international trade growth. The IMF and WB should achieve these purposes through assisting governments, providing them financial and informational resources. Besides, international cooperation would strengthen connections between countries and make governments overcoming crisis together. Nevertheless, through the whole its history global institutions created after WWII are being criticized from different perspectives and their future is not that clear.

Left-wing activists criticize the institutions as defenders of globalizing capitalism around the world, as even the idea of giving money in credit is inconsistent with Marx theory, not speaking of the whole world structures whose idea is financing and lending. The left ideology sight exemplified by Richard Peet's book [34] "Unholy Trinity: the IMF, World Bank and WTO", where he criticizes the world institution for ineffectiveness, neoliberal model of globalization and support of TNCs in immoral usage of human resources in emerging countries, which is totally consistent with Marx as he considers capitalists as monolith and impartible structure, and if he would live today, global financial institutions would be treated as impartible puppets of capitalists around the globe.

But examining these institutions as united bastion of world capital invasion is not right. The other and more complex view on the operations inside the world financial institutions is given by Professor of Global Economic Governance at Oxford University Ngaire Woods [35] in work "the Globalizers: the IMF, the World Bank and Their Borrowers". Here she explains the logic lies behind their policy and financial decisions as struggle between three powers inside the organizations which

are political powers, economists, and borrowing governments, and the relationship between them inside the institutions sets out political and ideological motivation of financial decisions.

And with sight of mentioned above, why future of the institutions is not clear? Because IMF, WB and WTO are political institutions, which reflect specific vision of not only the world economy, but also political systems (without any moral assessment on my side). They were created and strengthened during the Cold War, as instrument of West influence. This means, that depending on the result of the Second Cold War that takes place today and splits up the winners of the First Cold War and its losers, we may see another world institutions shaping new political and economic order. (will be discussed in more details later) Then, even if they will not be overthrown, reform can be expected, which would correct those imbalances in the organization that we observe today.

In the period of instability, the importance of these institutions grows up, not only to Ukraine, but too those countries being wounded by economic misbalances appeared after Russian invasion in Ukraine. Especially for NATO countries, as most of the EU members, and when they expend their military budgets, the only place where needed money can be taken are world financial institutions.

The historic deserve of international organizations is faster integration of emerging countries in the world community. Countries were engaged through opening markets, investments and capital flow. On the other side, World Bank and IMF haven't done enough to transition and integrate post-soviet countries into the world community.

Speaking of the current situation, at the first week of Russia-Ukraine full-scale invasion, IMF and WB directors expressed their readiness to continue cooperation with Ukraine and loan additional money for financial stability. IMF announced about an additional \$2 billion between March and the end of June under the Stand-by program, and the World Bank develops a stability package of \$3 billion 'in the

coming months' (IMF, March 2022). These announcements published on the official web-side of IMF exemplify slowness of decision making. If the idea behind these institutions is provision of global cooperation, there will not be any other case to demonstrate commitment to the values if not in the times of war and uncertainty. Even not mentioning that \$5 billion in total is too few for as big country as Ukraine is.

3.2 Changing world order and globalizing institutions fate

The invasion of Ukraine divided world into three groups of countries: that extremely denounce invasion and support Ukrainians through weapon supply, economic pressure on Russia and political announcements and decisions. These are most of the EU countries, Britain, The US. Asian supporters are South Korea and Japan.

The opposing side, those supporting the invasion are China, Kazakhstan, Belorussia, Venezuela, Serbia and India.

Other countries, besides mentioned haven't react radically and take neutral side.

In this sight, also important to emphasis almost absent reaction of Middle East countries. This region during the global hegemony of the US after Soviet Union collapse was mostly dominated by America. Now we observe not just absent reaction to the invasion, but in fact some countries discussion special regime of commodity-currency exchange.

In the middle of March, the world press headlines informed about Saudi Arabia negotiations with China of transition from the US dollar-oil exchange to yuan-oil regime. In this light, Russia is also trying to transfer its gas payments to ruble with the EU and India. For many years before, the US dollar has been the main payment currency in commodities markets.

By itself, the full-scale military invasion in the European region reflects weakening of Washington's position in international arena, that, perhaps, started even before

the Biden's presidency, but came evident during it, especially due to uncompromising retreat of American forces from Afghanistan in August of 2021. But even in a greater scale, weakening of the US international position means revision of all those rules of international cooperation that were expressed through globalizing institutions created after the WWII and Soviet Union collapse in 1991, including dominance of the US dollar as world exchange and reserve currency.

Hence, at the moment of violation of international order by Russia and full-scale invasion in Europe, the whole world came in the new stage of confrontation, where all rules and alignment of forces in every region of the world will be revised and the conflicts that were forgotten for many years. For instance, Turkey, that takes neutral position in Russia-Ukraine war, started its own military operation in the southern Iraq, simultaneously denouncing United Nations as ineffective in conflicts resolution.

Each of single mentioned element bring to the whole picture of aggressive phase of stand-off between countries that consider themselves as winners of the Cold War and those considering them the losing side of the Cold War. Then, as WB, IMF, WTO are political institutions bringing some ideology behind their actions and decisions, changes in international order will be reflected in either reform of existent, or establishment new world institution, uniting the world community on another rules and ideology.

Therefore, division of the world into political blocs would necessary have strengthening of economic relations and deepening integration between the block members. This is the point where special economic zones and integration study will be in hand and determine the deepness of changes.

Conclusion: Putting All Together

During the work, we had the following stated problems: 1) Formulate the principles of SEZs success in China; 2) Discover their problems of implementation in Ukraine, their potential role in the post-war development and make conclusion on how SEZs and financial system may complement each other in achieving strategic aims; 3) Consider SEZs not only as a local, but also as integrational mechanism through which countries may deepen political cooperation into economic sphere.

- 1) Among all other factors, we divided model of implementation of a SEZ by Strategic and Tactical factors of its success. We need this division, because even if the legal framework is good, it doesn't guarantee the success of a single SEZ. Strategic success may be determined by elaborated and modernizing legislation, strong and stable financial system and political stability. In its turn, tactical include right chosen area for a SEZs, which corresponds with its functional purpose, consistent government infrastructure spending in SEZs and correspondence of the stated functional purpose of a single SEZ with world economy trends.
- 2) During the research discovered many Strategic and Tactical problems. First problem is unstable financial system of the country and lack of liquidity, which resulted in falling FDIs (Table 3), and partly it determined failure of SEZs attracting foreign money, but after the reform of 2015 the NBU modernized its strategic vision in

correspondence with the world economy trends, cleaned financial system of low-liquidity banks and thus facilitated FDI growth.

But the NBU role transformed during the war. Now, the institution aim is fiscal and financial stability of the country. Some economic stimulus was cancelled during the military aggression. Thus, success of the post-war recovery through SEZs is defined by how effectively the National Bank will transform its policy from war-time to peaceful-time regime, when it will be in time. Another problem that defines the post-war development is how much independency the NBU will have after the war come to its end. The NBU policy defines stability of the financial system and stability, in its turn, defines the flow of FDIs.

Now, we switch from scale of the whole financial system to Privatbank. Analysis show that the bank able to meet difficulties of war-time. Before the war, Privat was effectively engaging clients' funds. As newly published NBU statistics says, Privat is was the most effective bank in attracting individuals' funds in February-March of 2022, exceeding its main competitor Monobank in 4 times.

But Ukrainian banking system was in the process of active transformation, and full-scale invasion fostered this process. Thus, the question for Privat is how effective it will be in adapting to the new reality.

- 3) As international integration mechanism, Free-Trade Agreements and Regional Trade Agreements serve as deepening of economic integration on the basis of common political interests of the countries-members of the FTA. The examples are the North-American Free Trade Agreement and the European Union and its integration history. This process of economic unification on the basis of common political ground is called Regionalism and by its core opposes to Globalization. Globalization is expressed by Globalizing Institutions like IMF, the WB and WTO. Thus, crisis of Globalization and Global Institutions make Regionalization and division by political basis more vivid. Some expressions of Regionalism have been noticeable since D. Tramp started his president term, but Covid-19 and Invasion of Ukraine even

fostered the process of world division by political blocs. In this sight, it's important to study SEZ and its subtype FTA in terms of international integration mechanism, to foster Ukraine's European integration path.

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