

**The Ministry of Education and Science of Ukraine  
Ukrainian-American Concordia University  
Management and Business Faculty**

**BACHELOR GRADUATE WORK**

**FREE ECONOMIC ZONES AS DRIVERS OF DEVELOPMENT IN  
UKRAINE**

*(topic)*

Bachelor's student of  
Field of Study 292 – International  
Economic Relations  
Educational Program – International  
Business

Oleksandra Kushnirenko  
*(First Name, Last Name)*

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*(signature)*

Research instructor

Lesya Leshchiy  
*(First Name, Last Name)*

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*(academic degree, full name)*

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*(signature)*

Kyiv – 2022

## Abstract:

One of the most important recent change in the international economy has been the growth of free economic zones. The functioning of free economic zones has a significant impact on the economic development of specific territories and regions at this stage of development in the context of globalization of world economic relations, as well as being primarily focused on resolving pressing economic issues and implementing strategic programs and projects. The importance of free economic zones as engines of financial and economic development, concentrations of high technology, and modern business practices is growing as society transitions to the principles of the market economy. Because of the Ukraine's current economic difficulties, which were first brought on by Russia's military action in 2014 that resulted in the seizure of Crimea and certain districts of Donetsk and Luhansk, then came the all-out conflict, which started on February 24, 2022, free economic zones rehabilitation is crucial for the growth of Ukraine's economy.

**Keywords:** free economic zones, economic development, international economy, economic growth, Ukraine.

Однією з найважливіших нещодавніх змін у міжнародній економіці стало зростання вільних економічних зон. Функціонування вільних економічних зон має значний вплив на економічний розвиток окремих територій і регіонів на даному етапі розвитку в умовах глобалізації світогосподарських зв'язків, а також насамперед орієнтоване на вирішення нагальних економічних проблем та реалізацію стратегічних програм та проектів. Значення вільних економічних зон як двигунів фінансово-економічного розвитку, концентрації високих технологій, сучасних методів ведення бізнесу зростає в міру переходу суспільства до принципів ринкової економіки. Через нинішні економічні труднощі України, які вперше були викликані військовими діями Росії в 2014 році, що призвели до захоплення Криму та окремих районів Донецька та Луганська, а 24 лютого, 2022 року розпочалося ще й повномасштабне вторгнення, відновлення вільних економічних зон має вирішальне значення для зростання економіки України.

**PHEE-institute «Ukrainian-American Concordia University»**

**Faculty of management and business**

**Department of international economic relations, business and management**

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**TASK  
FOR BACHELOR’S QUALIFICATION WORK**

**Oleksandra Kushnirenko**

**1. Topic of the work**

**FREE ECONOMIC ZONES AS DRIVERS OF DEVELOPMENT IN UKRAINE**

**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 JSC CB "PrivatBank" for 2019-2021

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

– define the economic essence of free economic zones as a form of investment process;

- describe the role and place of free economic zones in the world economy;
- analyze the typological characteristics of free economic zones;
- to analyze the effective functioning of free economic zones of Europe;
- identify factors in the development of free economic zones in Asia;
- determine the role of banks in supporting the activities of free economic zones;
- describe special free economic zones on the territory of Ukraine;
- to determine the priority directions of development of Ukraine's foreign economic policy to ensure economic interests in the conditions of WTO transformation.

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

The work includes 5 figures and 10 tables

## 6. Consultants for parts of the work

Part of the project	Surname, name, position	Signature, date	
		Given	Accepted
<b>1</b>	Approval of the topic		
<b>2</b>	Discussion of work design		
<b>3</b>	The content of the main sections		
<b>4</b>	Discussion of statistical data		
<b>5</b>	Consultation on the presentation		
<b>6</b>	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)

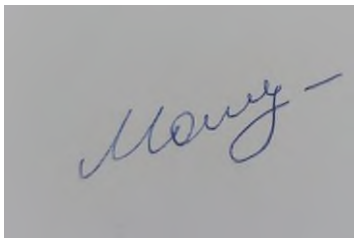
Supervisor Lesya Leshchii \_\_\_\_\_

**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 work is interesting and shows to some extent the involvement of banks in the activities of free economic zones.

Basically, the work meets the requirements and reveals the topic and deserves a positive assessment.

Supervisor

Lesya Leshchii



INTRODUCTION .....	3
SECTION 1. THEORETICAL AND METHODOLOGICAL FUNDAMENTALS OF FREE (SPECIAL) ECONOMIC ZONES .....	5
1.1 Economic essence of free economic zones as a form of investment process .....	5
1.2 The role and place of free economic zones in the world economy .....	12
1.3 Typological characteristics of free economic zones .....	17
SECTION 2. ANALYSIS OF THE EFFICIENCY OF FUNCTIONING OF FREE ECONOMIC ZONES IN DEVELOPED COUNTRIES AND THE ROLE OF BANKING INSTITUTIONS IN THEIR ACTIVITIES .....	21
2.1 Analysis of the effective functioning of Europe's free economic zones .....	21
2.2 Establishment and functioning of free economic zones in the United States .....	25
2.3 Development of free economic zones in Asia .....	29
2.4 Free economic zones and the role of banks in supporting their activities .....	34
SECTION 3. FREE ECONOMIC ZONES: ANALYSIS OF THE DOMESTIC SITUATION AND IMPLEMENTATION OF WORLD EXPERIENCE IN UKRAINE .....	40
3.1 Special free economic zones on the territory of Ukraine .....	40
3.2 Priority directions of development of Ukraine's foreign economic policy to ensure economic interests in the conditions of WTO transformation .....	49
CONCLUSIONS .....	53
LIST OF SOURCES USED .....	57

## INTRODUCTION

**Relevance of the research topic.** At the present stage of development in the context of globalization of world economic relations, the functioning of free economic zones (FEZ) significantly affects the economic development of individual territories and regions, as well as focused mainly on solving major economic problems, implementing strategic programs and projects. In addition, the system of benefits provided to residents in free economic zones should be based on the individual characteristics of the country and the needs of residents, and have a close relationship with the programs implemented in its territories.

The development of free economic zones in recent decades has become one of the most notable new phenomena in the world economy. In world practice, there is a great variety of types of SEZ, the differences of which are expressed in the tasks set before them. The creation of each specific FEZ has specific goals, which may be to solve economic, political and social problems of the country. Based on this, the FEZ, in general, is divided into zones of trade, production and technical-implementation type.

In the transition to the principles of market economy, in modern global processes, free economic zones are becoming increasingly important as levers of financial and economic prosperity, the concentration of high technology and advanced methods of doing business. And the experience of developed countries shows that due to well-thought-out government policies, preferences and benefits can achieve significant success in attracting private capital, technology and achieve product competitiveness in the world market.

The topic of free economic zones is not new for Ukraine. Since 1992, namely with the adoption of the Law "On General Principles of Creation and Functioning of Special (Free) Economic Zones" [1], they have been enshrined in law. At that time, zones with a special legal regime of economic activity and the procedure for applying the legislation began to be actively created on the territory of Ukraine; which meant the introduction of preferential customs, monetary,

financial, tax and other conditions. However, due to abuses of benefits in some areas, the instrument was abolished altogether, violating investors' rights, and most businesses ceased operations.

Today, their recovery is invaluable for the development of Ukraine's economy, as the country is in a rather difficult economic situation, initially caused by military aggression in 2014 by Russia, resulting in the occupation of Crimea and some Donetsk and Luhansk regions (ORDLO). And then the full-scale war, which began on February 24, 2022 and continues today in our country. All these events have led to the emergence of depressed areas and regions, which now require widespread investment in order to overcome the development gap in some areas. These are all factors that shape the relevance of our study.

Studies of the functioning of free economic zones in our country were conducted by the following scientists: Amosha O.I., Bilopolsky M.G., Lukyanchenko D.B., Makogon Y.V., Sazonets I.L., Stukalo N.V. and others, but the activities in the FEZ in modern conditions, the need to develop ways of their development and functioning requires a systematic analysis of their use for economic development.

**The purpose** of the thesis is the analysis of free economic zones as a driver of growth in Ukraine. According to the goal, the following tasks are set:

- define the economic essence of free economic zones as a form of investment process;
- describe the role and place of free economic zones in the world economy;
- analyze the typological characteristics of free economic zones;
- to analyze the effective functioning of free economic zones of Europe;
- to study the creation and functioning of free economic zones in the United States;
- identify factors in the development of free economic zones in Asia;



- determine the role of banks in supporting the activities of free economic zones;
- describe special free economic zones on the territory of Ukraine;
- to determine the priority directions of development of Ukraine's foreign economic policy to ensure economic interests in the conditions of WTO transformation.

**Object** of research: free economic zones in domestic and foreign practice.

**Subject** of research: a set of economic relations associated with the formation and functioning of free economic zones.

**Methodology**: analysis and synthesis, systematic approach when working with various scientific and practical materials, methods of logical and comparative analysis, functional and situational approach, method of expert assessments, statistical, historical analysis.

**The information base of the study** was monographs, articles in periodicals on the development and functioning of SEZ, official statistics, Internet resources, research reports of various organizations that analyze the activities of SEZ in different countries, etc.

**The structure of the final qualification work** corresponds to the goal and objectives, includes an introduction, three sections, conclusions and a list of sources used.

## **SECTION 1. THEORETICAL AND METHODOLOGICAL FUNDAMENTALS OF FREE (SPECIAL) ECONOMIC ZONES**

### **1.1 The economic essence of free economic zones as a form of investment process**

Today, one of the most effective means of economic development, based on examples from world experience, is the formation of free economic zones. FEZ is one of the most important places in the world economy. But at the same time, the analysis of the success of special zones is very ambiguous.

Today in Ukraine there are 11 special (free) economic zones and 9 territories of priority development [47]. Ukrainian experience of free economic zones is ambiguously perceived by scientists: on the one hand, free economic zones have contributed to attracting investment, developing production and increasing the number of jobs, on the other - creating conditions for duty-free imports, exceeding benefits over budget revenues.

Based on this fact, a significant role is given to assessing the real importance of free zones for the economy of the region where they are located. If the economic situation of the country is unattractive for foreign investors, one of the ways to attract them is to create SEZs near countries within which other investment, fiscal, industrial and tariff policies are possible [31, P.52].

Currently, SEZs have thoroughly entered the world economic practice and are an integral part of international economic relations. Attracting investment resources has a positive effect on the overall level of overall development of the region. However, it must be understood that foreign investment can have a detrimental effect on the region's economy. Giving it a powerful energy impetus for development, technological renewal, restructuring of industry in favor of knowledge-intensive, high-tech industries and information and communication networks and systems, foreign investment also creates an effect of dependence on national and regional economies, as well as competitive pressure on domestic producers and relevant market segments [33].

The most important condition that motivates the movement of capital in general and the inflow of foreign capital in the FEZ, in particular, is the maximization and reliability of profits.

Free Economic Zones (FEZ) is an important institution of the world economy, one of the tools for shaping the national economy. For many countries,

they are a non-traditional form of increased participation in the international division of labor [26] .

Free economic zones are formed to attract local and foreign capital, expand exports, increase foreign exchange earnings, gain access to new technologies, improve the balance of payments, and ultimately to shape the national economy and its closer integration into the world economy.

According to the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto, May 18, 1973), a free zone means a part of the territory of a state where goods are treated as objects outside the national customs territory. Summarizing, it can be stated that this is a special economic zone, which is part of the country, where there are special conditions for doing business for national and foreign residents [12] .

The territory of a free economic zone is not defined as a territory in the political or geographical sense. This is part of the economic space, where there is a certain system of benefits and incentives for entrepreneurship. The special regime in force in free zones is regulated by special legislation that controls the activities of economic entities in the FEZ, and also deals with such issues as customs regulation, taxation, administrative regime, licensing, visas, banking, property relations (in particular, those related to land ownership rights in the FEZ), providing guarantees to investors, management of a special area. In addition, the norms of labor and social legislation have certain specifics in special economic zones [22, P.79] .

Creation of state-of-the-art infrastructure, reduction of administrative barriers, optimal customs and tax regimes, regional specifics and preferences - these are the basis for stimulating innovative developments, attracting high-tech companies focused on processing and creating competitive products with high value added. embody the ideas of import substitution, the creation of innovative technologies, knowledge-intensive industries and new products.

For the introduction and formation of an innovative economy of all possible options, the most promising are industrial and technical zones. Despite the wide

variety of special economic zones in the world, we can note a number of universal characteristics that can apply to any special zone (Fig. 1.1.)

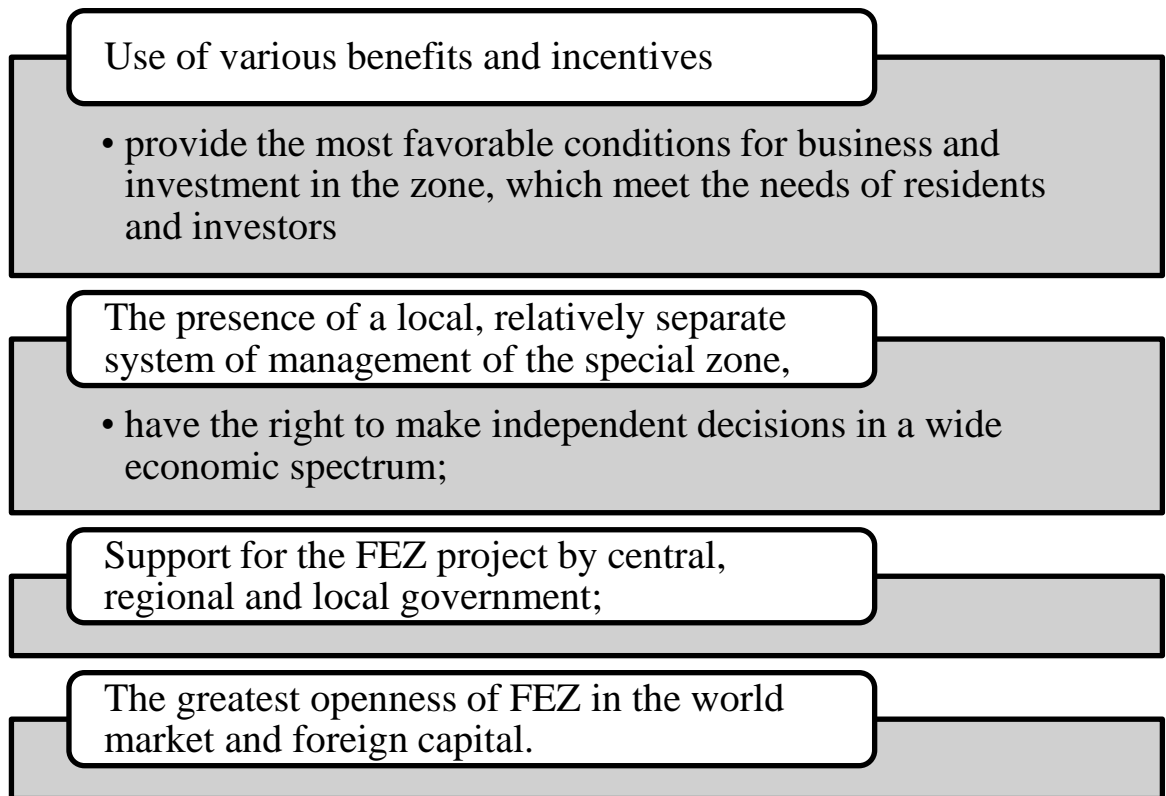


Fig. 1.1 Characteristic features of any special zone [12; 24; 32]

In the analysis of foreign experience in the creation of SEZ, we can name some objective preconditions for the organization and successful functioning of the special zone, the neglect of which can lead either to the complete failure of the zone, or to inconsistent expectations of the economic results of its activities.

Such conditions include:

1. Favorable transport and geographical position for both domestic and foreign markets, as well as the availability of developed transport communications. Based on illustrative examples of special zones, it is ineffective to create special economic zones in deep regions of large countries scale.

2. Availability of developed infrastructure near the FEZ. It includes water and energy supply, developed transport network and service sector, modern means of communication, educational and health care institutions, leisure culture, etc. As

a rule, the formation of the infrastructure of the special zone, which meets the needs of future residents, lies on the shoulders of the host country of the free economic zone.

3. Availability of human resources relatively cheap, but at the same time highly skilled labor.

4. Developed sphere of banking and other financial services, established connection with the international financial market.

5. Absence of administrative and bureaucratic barriers to doing business in the FEZ, including with the participation of foreign capital.

6. The appropriate level of investment barrier, i.e the amount of funds that an investor must invest in the development of a special zone to obtain preferential terms for business activities in its territory.

7. Developed and stable legal basis of SEZ. In practice, the creation of a special zone should be based on legislation and not on changing executive decisions.

8. Guarantee of security of investments and other property located in the territory of the free zone for investors, both local and foreign.

9. Existence of special free zone management bodies and delimitation of their powers and spheres of activity with other authorities.

10. The general favorable investment climate of the country, due to political stability in the country, the size of taxes, transparency of legislation, as well as the criminal situation in society [36, p .5-6].

Free economic zone, as a complex organized reproductive system consists of the following participants and the relationship between them (Fig. 1.2).

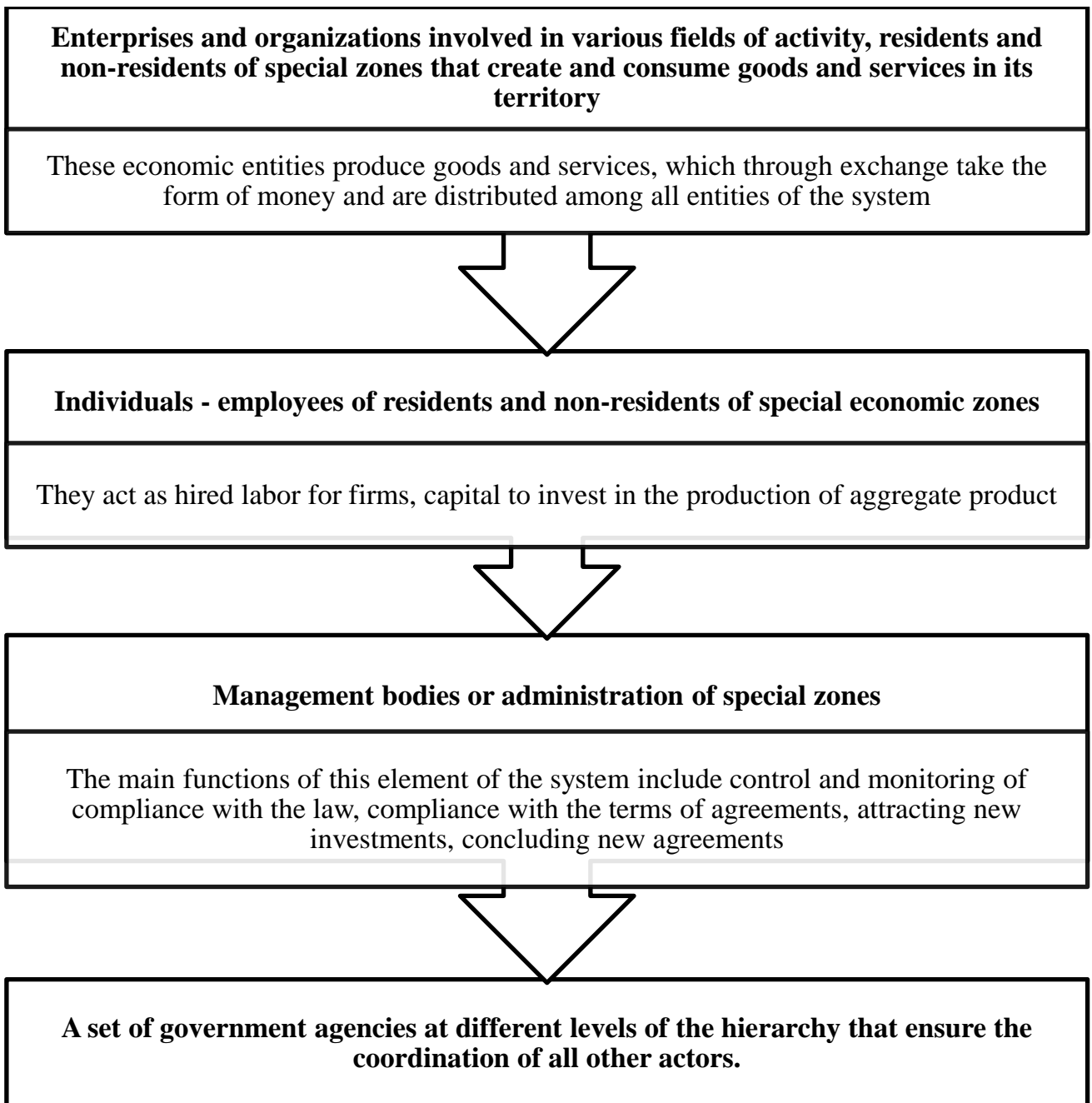


Fig. 1.2 Participants in the free economic zone system [3; 17]

In general, a SEZ participant is an individual entrepreneur or legal entity registered in accordance with the legislation on the territory of the FEZ, which has concluded an agreement with the administration of the free economic zone, on the territory of the free economic zone.

The classification of participants in the project of creation and operation of the SEZ, and their functional roles in the project are presented in Table 1.1.

## Participants of the SEZ project and their functional loads [31; 36]

Participants	Functional role in the project
1. Initiator and initial sponsor of the project	Organization that initiates (independently or jointly with other participants) the project of creating a FEZ and provides its partial or full funding from its own and / or borrowed funds
2. Financial sponsor of the project	State or other (national, international, foreign) organization that finances the initiator of the project
3. Project manager	The organization responsible for the implementation of the project at all stages. Can also be a zone developer.
4. Zone developer	Organization (general contractor), which on the initiative or under an agreement with the operator prepares the land, laying communications and construction of other infrastructure facilities provided by the project. Can also act as a zone operator.
5. Zone operator	The organization that manages the area on the rights of ownership or trust (operational) management, which operates the constructed infrastructure facilities and provides users with services for production activities
6. Users (residents)	Commercial organizations operating in the area on the basis of agreements concluded with its operator, or on the basis of a license obtained from the authorized state bodies

In general, the creation of the SEZ is aimed at achieving economic, social and scientific and technical goals. In world practice, there are two options for creating a free economic zone.

In the first case, the zones are formed on the initiative of the central government, as well as in the implementation of the state program (the example of South Korea). In the second case, the formation of FEZ takes the form of market self-organization (Poland, Dominican Republic) [41].

The second option is developing more intensively, including with mixed private-public funding. Proposals for the establishment of the SEZ are submitted to a specially authorized state or regional body, which, after making a decision on the establishment of the zone, begins work on creating the conditions for its creation. Particular attention when creating a zone is usually paid to the choice of location,

the formation of social and industrial infrastructure, the sectoral structure of the region's economy.

However, it should not be assumed that the creation of a free economic zone will undoubtedly ensure the economic growth and prosperity of any territory. A free economic zone is always an innovative project that has a high risk share and a significant variety of end results [46, p .48].

However, if as a result of the developed free zone development program, together with the joint efforts of the state and private investors, the SEZ project begins to operate successfully and profitably, its role for the economy of the country or region as a whole can be very important.

Free economic zone:

- is a strong catalyst for socio-economic, scientific, technical and personnel improvement of a particular region, promotes the creation of new jobs and the development of high-tech industrial production;
- acts as one of the main channels of communication between the world economy and the regional economy of a particular country;
- embodies some example of the most advanced forms of production, management and technology;
- is the most important tool for attracting foreign investment and mobilizing local economic resources;
- stimulates the development of new forms of business.

## **1.2 The role and place of free economic zones in the world economy**

In the modern world, SEZs differ in different stages of development, have different economic, legal and political bases, which is associated with a large number of classifications and different types of zones.



Free zones vary in size and can range from a few hectares to more than a thousand square km., also differ in location, can be located either within the country or in the border area between two or more countries.

It should be noted that recently in the world practice there is a growing trend of increasing the share of SEZs in private ownership, which is especially true for both developed and developing countries. Nevertheless, a significant proportion of the world's FEZs remain state-owned. In world practice, there is also a tendency to form small specialized free economic zones within other large SEZs, hereinafter referred to as the "SEZ within SEZ" model [45].

This practice originated in the United States when subzones began to form within free trade zones. China was practically the first to use such an initiative. For the first time in 1988, the Shatojiao Free Trade Area was established within the Shenzhen FEZ, and a similar practice was later introduced in the Waigaoqiao Free Trade Area in the New Pudong FEZ, which is part of the Shanghai FEZ; Fujian and Yangtian zones in the Shenzhen FEZ and others. [52] .

Each FEZ, regardless of type, includes a system of general and special benefits for investors. General benefits are provided to all investors in the zone, and special benefits are provided for meeting the statutory criteria, such as large amounts of investment, the transfer of technologies not available in the host area, and the promotion of local employment. The system of general benefits provided to SEZ residents consists of trade, tax, financial and administrative benefits [40].

The main trade privileges are applied within the framework of the free customs zone regime and include: absence of customs duties and quantitative restrictions on products imported across the border into the territory of the zone and exported from the FEZ abroad; in the case of supply to the domestic market of products imported from abroad FEZ and after completion, the duty is levied only on the imported part of the value of the goods.

Many FEZs have a "one-stop shop" procedure, which speeds up customs clearance formalities. Tax benefits designed to reduce the tax burden on the investor include tax holidays, ie, deferrals of corporate income tax for a period of 5

to 20 years (Western European countries); in the following - reduction of the corporate tax rate; full or partial exemption from taxation of reinvested income for up to 5 years. Foreign investors may also be granted such tax benefits as exemption from property taxes, sales tax [36].

Among the financial benefits are the provision of investment subsidies to new investors, soft government loans, government loans, reduced tariffs for rent and land, utilities, free transfer of capital and profits abroad.

The most common administrative benefits provided within the FEZ are: simplified company registration, simplified entry and exit of foreign nationals, liberal terms of employment (subject to International Labor Organization (ILO) standards), simplified licensing.

Every year the number of SEZs and their role in the world economy is constantly growing. If in 1900 there were 11 free ports in a number of countries in Europe and Asia, then in 1975 - 79 export-production zones (EPZs) in 25 developing countries, in 1986 - 176 EEUs in 47 countries, in the 1990s - more than 1,000 EPZs in 90 countries, in 2005 - more than 1,500 (some researchers call the figure of 3,000) SEZ in 120 countries [43].

Today, examples of the most famous FEZ in the world include:

- Colon Free Economic Zone (Panama) is known as the largest trading area in the world, with more than 500 companies registered as residents and with a total foreign trade turnover of 80%.
- Hong Kong Free Port is one of the largest container ports in the world;
- Dubai's Jibel Ali Free Zone, with a total population of more than 2,200, and an annual turnover of about \$ 10 billion;
- FEZ Shannon in Ireland - which is one of the first export-production zones, which with the help of the proposed financial incentives, that are present at the same time, is characterized by high statistics of industrial movements from the US to Europe;

– The Onne in Nigeria is the world's only oil and gas zone with 4,700 employees, 76 licenses for energy development in the first four years of operation, and a total investment of \$ 312 million. [28] .

In general, we can say that the formation of special economic zones has increased significantly since 1980. Their importance in the world economy is supported by such successful projects as the "Shenzhen Miracle" and the result of export-oriented growth in a number of East Asian countries.

It should be noted that there is no clear plan in which the establishment and operation of SEZs will definitely benefit the region and the country, but there are some concepts that increase the chances of successful outcome of special areas, namely integration within industrial policy: special zones should be understood as an integrated policy tool, not a separate measure. When developing and implementing SEZ models , attention should be paid to the goals and priorities set in the country's industrial policy. Otherwise, ignoring the goals and priorities of the country's policy can lead to suboptimal or even negative results [33] .

Interaction with the national economy: an analysis of existing practices of special zones, suggests that the long-term successful outcome of the SEZ on structural reforms is due to the level of integration with the national economy. Accounting for direct and feedback can facilitate the transfer of skills and technology, the creation of local supplier networks and integration into regional value chains, and thus contribute to the diversification and modernization of industry. Accompanying policies and measures such as improving the education and training system or targeting the cluster can further accelerate this process.

The importance of infrastructure and services as a means of differentiation: Recent investor surveys show that the quality of the target group of infrastructure and service delivery is crucial for the success of the SEZ, while tax benefits are less important. This is especially important in countries and regions where industrial and transport infrastructure is lacking, energy supplies are unreliable, and bureaucratic processes are burdensome. Providing land for industrial buildings or facilities, ensuring a reliable and economically competitive energy supply,

efficient access to roads and ports, and related services and administrative efficiency can be the main means of differentiation and success. In addition to the optimal functioning of free zones, it is important to choose the base area of the zone, which includes access to quality infrastructure, skilled labor, access to local suppliers and service networks. Attempts to reduce regional economic disparities through the formation of zones in rural or underdeveloped regions have proved ineffective [21] .

Coordinating the structure of incentives for strategic positioning: in order to attract and support the activities desired in terms of strategic positioning of the SEZ and the policy in general, the structure of incentives should be carefully developed. In global competition, excessive and comprehensive tax incentives are a very ineffective means of differentiation. This is due to the fact that industries that move freely are looking for new places as soon as the tax holidays end. As noted above, non-tax incentives such as specialized services, good governance and high-quality infrastructure appear to be a more promising approach to attracting investors to specific areas. In recent years, some countries, such as Malaysia, have successfully improved the incentive tax regime based on strategic sectors and activities rather than location. Thus, target companies can combine non-tax incentives with sector-oriented fiscal zones, which reduces the risk of irreversible effects.

Involvement of the private sector in the development and management of the zone: a significant trend is the growing participation of the private sector in the development and management of the SEZ. This shift allows the government to focus on providing a favorable regulatory framework and providing key administrative services, such as customs in the area. In addition, public resources are freed up for the development of important infrastructure outside the zone, including energy supply and highways. At the same time, privately managed areas tend to offer a wider range of resources and services according to the requirements and requests of their customers.

### 1.3 Typological characteristics of free economic zones

At present, there is still no generally accepted typology of SEZs. In terms of functional specialization, there are usually 5 main types of zones inherent in the industrial era: trade, industrial production, technical implementation, complex and service.

The classification of SEZs is not just their enumeration with a brief description - it is their evolution. In their development, SEZs have come a long way from medieval trading port cities to innovation parks and research centers. Their role, place and forms have changed radically, they exist and function in many countries around the world, becoming an integral part of the world economy. In the scientific literature there is a variety of approaches to the types of SEZ, the classification features of the division of free economic zones into groups are (Fig. 1.3).

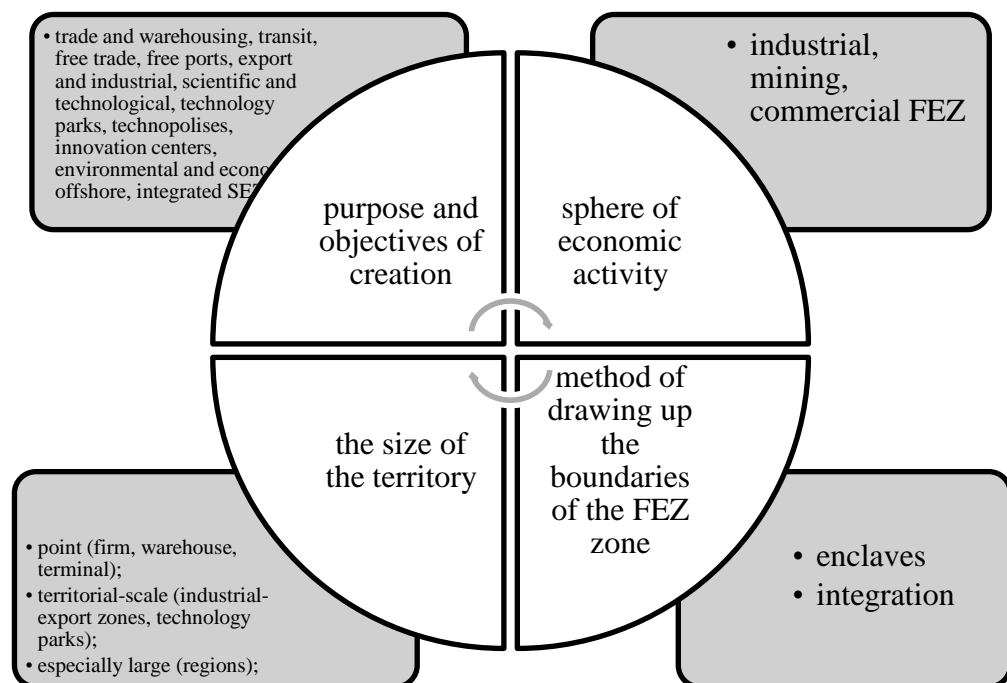


Fig. 1.3 Classification features of the distribution of free economic zones [2;

Specific types of zones depend on specific tasks and functions, features of the conditions of activity, its nature and scope. The classification of SEZ for economic specialization is shown in Table 1.2.

Table 1.2

## Classification of FEZ on economic specialization [10; 44; 50]

Shopping	<ol style="list-style-type: none"> <li>1. Free customs;</li> <li>2. Bond warehouses;</li> <li>3. Free ports;</li> <li>4. Trade and production</li> </ol>
Industrial production	<ol style="list-style-type: none"> <li>1. Import-substituting;</li> <li>2. Export-production (EPZ);</li> <li>3. Industrial parks;</li> <li>4. Science and industry parks</li> </ol>
Technical implementation	<ol style="list-style-type: none"> <li>1. Technopolises;</li> <li>2. Technoparks;</li> <li>3. Innovation centers</li> </ol>
Service	<ol style="list-style-type: none"> <li>1. Offshore;</li> <li>2. Banking and insurance services;</li> <li>3. Tourist services</li> </ol>
Complex	<ol style="list-style-type: none"> <li>1. Zones of free enterprise;</li> <li>2. Special economic zones;</li> <li>3. Territories of special regime;</li> </ol>

Free economic zones are mainly divided into several groups. The first group consists of trade zones. This group includes the earliest types of free economic zones, such as: free customs zones, trade and warehousing zones, free ports, but above all - free trade zones (FTA), which have become particularly widespread. Free trade zones are usually formed near seaports and airports. They enjoy customs extraterritoriality: stored goods and goods sold in them are not subject to normal customs control. The most common of the types of free trade zones are considered to be Duty free shops, which apply the right to duty-free trade and today are an essential attribute of most international airports [1].

Examples of free trade areas are the North American Free Trade Area (NAFTA), the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), the Bangkok Agreement (Bangladesh, India, the Republic of Korea), CIS Free Trade Area.

second group consists of industrial FEZ, which also have some varieties. Special zones of this group are usually divided into export- and import-oriented [4]

Export-oriented operate in the foreign market, and import-oriented in the domestic. There are many more export-production zones, so we can say that they predominate in this group of SEZs. In contrast to the FTA, the purpose of export-production zones is primarily to increase the country's export potential, as well as increase its foreign exchange earnings. This subgroup of zones is characterized by the spread of assembly plants. The main types of such zones include: zones of one industry, zones of one enterprise, export-production zones and industrial parks.

The third group includes free technical implementation zones, which concentrate national and foreign design, research, research and production firms, which also enjoy a single system of tax and financial benefits. The main goal of the SEZ of this group is the task of developing and implementing innovations in domestic practice. Varieties of technical and implementing FEZ: research centers, research, industrial parks, technology parks, universities, high-tech zones, business incubators, etc. [4] .

The fourth group includes service SEZs, which provide preferential terms to those firms and institutions that specialize in providing a variety of financial, banking, tourism and other services. In this group there are: recreational areas focused on tourism development, insurance services areas, financial services areas, banking services areas, offshore areas [1] .

The fifth group includes complex free economic zones. Such zones have a more complex internal structure, as they are not narrowly focused, but on the contrary, cover various aspects of production, innovation, export-import and other activities. These zones are presented as specially designated to assist the economic growth of the region and other tasks based on the provision of various types of incentives to all registered firms, regardless of the firm's activities. If we talk about the territorial issue of the zone, then in the general case, the territory of the complex zone is much larger than other zones [7] .

International SEZs can also be divided into a separate group. Such zones have begun to form relatively recently. Their creation takes place in the border areas of 2 or more countries. Both private companies and the states on the borders of which the zones are located take part.

In conclusion, it should be noted that at the present stage of development of the world integration process a special role is played by the rapid development of special economic zones, the diversity of their species and the formation of new forms of creation and operation. However, there is a noticeable difference in the practice of creating free zones of developed and developing countries.

In developing countries, the main goals of the formation of SEZs in these areas are increasing the level of industrialization, the country's entry into the international market, as well as raising the country's rating in international trade. The main source of capital inflows into such SEZs are foreign investors. That is, the main goals are aimed at increasing the popularity of the country as a whole, attracting investment, developing production in the country, improving the economic and social aspects of life.

And in developed countries SEZs are formed mainly to increase the level of economic and social development of backward regions of the country [17, p .22] . At the same time, the key criteria in selecting the territory for the creation of SEZ are the unemployment rate and the level of income of the population. The number of regions selected to provide special economic conditions for development is limited. In addition, I would like to note that in industrialized countries, SEZ is financed not by foreign investment but by national private capital, government grants and loans.

Analyzing the world practice, we can say that the existence of free economic zones through which foreign investment flows, have a positive effect on national economies.

Reasonable distribution and use of foreign investment promotes the development of production, transfer of advanced technologies, job creation, increase productivity, increase the level of development of backward areas. In



addition, such foreign investment can be a stable source of state budget special zones in relation to Ukrainian realities.

## **SECTION 2. ANALYSIS OF THE EFFICIENCY OF FUNCTIONING OF FREE ECONOMIC ZONES IN DEVELOPED COUNTRIES AND THE ROLE OF BANKING INSTITUTIONS IN THEIR ACTIVITIES**

### **2.1 Analysis of the effective functioning of free economic zones in Europe**

Europe is the fourth most important free economic zone in the world. The volume of foreign investment in the countries of Central and Eastern Europe, in particular, those that joined the European Union in May 2004, increased significantly. According to Ernst & Young, the list of countries investing in Europe was led by the United States, Japan, Britain and Germany. Investments from China, Singapore and South Korea increased. In the first half of 2004, Hungary, which by the way has the largest number of SEZs, attracted funds for 84 new investment projects, compared to 40 in the same period last year. The Czech Republic and Poland surpassed Spain in the number of projects, while Estonia was ahead of Italy [2].

It is worth noting that in Europe there are a number of countries that build their investment policies without relying on FEZ instruments (even if they were previously created). The prevailing trend in these countries is to introduce a favorable investment climate by improving general legislation. For example, in the Slovak Republic there are preferential customs regimes for the processing of products supplied for export. Slovakia's foreign trade with the Czech Republic within the framework of the customs union between these countries has a special regime. Liberal monetary and fiscal policies of the Slovak government have led to an increase in investment, in particular, of foreign origin.

The member states of the European Union have the greatest practice in the development of free economic zones: Bulgaria, Germany, Ireland, Poland, as well as other countries.

The variety of species operating in European FEZ countries is represented by:

- export-production zones (EEZs) in Ireland: Bulgaria, Romania, Poland, the Netherlands and Croatia;
- special economic zones in Bulgaria;
- free trade areas (FTAs) in France (87), Italy (24), Denmark (10), Germany (8), Switzerland (14), Sweden (4), Romania, Serbia, Latvia, Ukraine;
- free ports in Spain, Germany, Great Britain, Poland, Latvia, Ukraine;
- technology parks in Poland, Austria [20, p .1227] .

Table 2.1

The main industries in the FEZ of Europe [5; 17]

Industry production	FEZ
Textile industry	Bulgaria, Romania, Croatia
Food	Ukraine, Bulgaria, Romania, Serbia, Kyrgyzstan,
Electrical equipment	Serbia, Latvia
Automotive	Poland
Manufacture of furniture	Poland
Chemical products	Ukraine

Despite the main production sectors described in Table 2.1 operating in the European Special Zones, the main activities in the FEZ of Europe are packaging, repackaging and warehousing. This is due to EU legislation, which states that only the trading areas of Hamburg, Madeira, the Canary Islands and the Azores have the right to produce and process products. Most EU trade zones are located in or near port cities, which are controlled by port or customs authorities. Other FEZs in the EU member states can only be of the FTA type.

The smallest free trade areas operate in almost every EU member state, which once again shows that the development of trade relations is one of the main activities of the EU, and proves that the FTA as one of the simplest types of SEZ provides great benefits for the country. and for residents themselves, both income and other benefits.

Table 2.2 presents the countries and cities where the largest free trade areas in Europe are based.

Table 2.2

The largest European FTAs, countries and cities of their location [3; 22]

Country	Location
Germany	Hamburg
	Keel
	Cuxhaven
	Emden
	Bremenhaven
Denmark	Copenhagen
Austria	Linz
	Graz
	Solbad Hall
	Vienna
Greece	Thessaloniki
	Piraeus
Finland	Hanko
	Helsinki
	Turku

The experience of such countries as Estonia, Hungary, Czechoslovakia, Lithuania and Poland is also interesting. For example, the Estonian government has exempted from income tax investors who do not use dividends. After Estonia's accession to the EU, amendments to the Income Tax Act came into force, according to which dividends paid to non-resident legal entities do not withhold income tax if the non-resident's share in the Estonian company is at least 20% of the statutory fund.

Hungary's duty-free territories and zones, as a rule, have a clearly defined territory and are legal entities. Some of them act as multifunctional (unified) zones,

and some - as specialized (processing several specific types of goods). An example of the latter type is the Chepel area, which specializes in the storage and transportation of electronic products.

During the existence of Czechoslovakia, eight free trade zones were established on the territory of the Czech Republic, and several zones also operated in Slovakia. The legislation of the modern Czech Republic did not provide for the creation of special economic zones (SEZs). Instead, industrial zones of entrepreneurial activity are being created, in which the rules of conducting entrepreneurial activity, similar to the EU rules, apply [1].

There are two SEZs in Lithuania: Klaipeda and Kaunas. It took eight years for the Klaipeda area, which was established in 1994, to attract its first investor. During this time, similar initiatives in other regions of the country have remained on paper. Goods located in the territory of the FEZ are considered to be outside the customs territory of Lithuania. Both the national currency (litas) and any foreign convertible currency can be used for payments. The import and export of currency from the territory of the FEZ is regulated in the same way as the import and export of currency from the territory of Lithuania.

During the introduction of SEZs in Poland, the emphasis was on the creation of new jobs and the inclusion in the economic circulation of idle production areas. It was determined that such goals cannot be achieved without creating favorable conditions for innovation [3]. The legislation on SEZ states that the priority tasks of the zones are the development of exports, support of new technical and technological solutions, development of certain sectors of the economy. Thus, there is a logical connection between the development of SEZs and the development of innovation activities both inside and outside the zones.

Together with examples of successful activities, the experience of the SEZs discussed above shows a number of typical problems. These are, in particular, political instability, ignorance of the principles of free zones, poor training of leaders. The state of SEZs is also negatively affected by poor current financing,

high inflation, high cost of primary infrastructure, and poor functioning of the banking system of the country in which they are located.

## **2.2 Establishment and operation of free economic zones in the United States**

The maximum number of SEZs (about 240) have been created and are successfully developing in the United States of America (USA), where they are divided into three groups (Fig. 2.1).

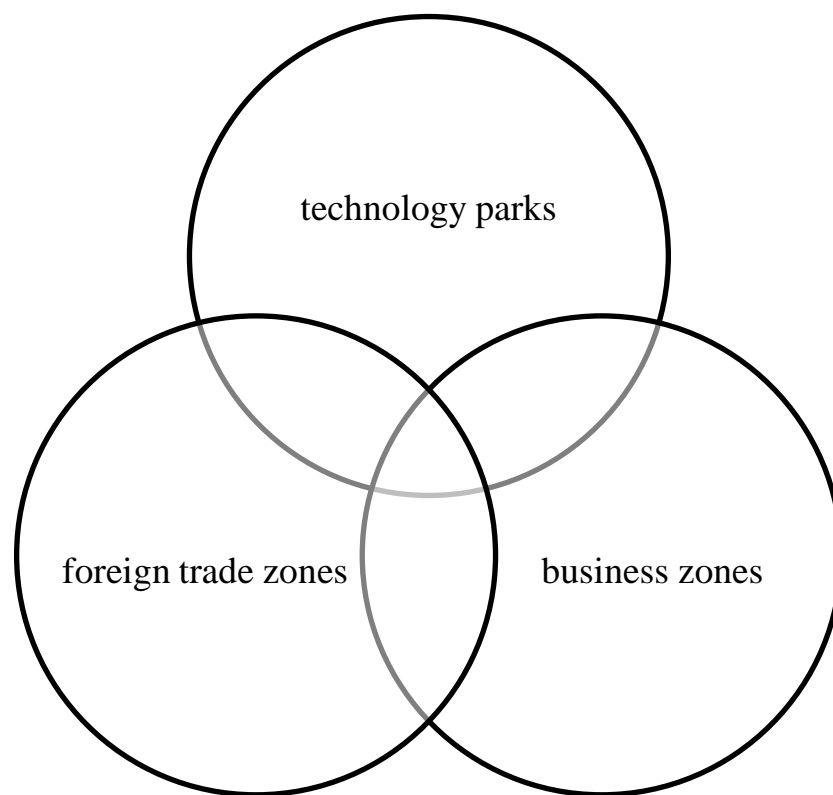


Fig. 2.1 SEZ groups in the USA [10]

Each SEZ group in the United States has a special legal and administrative regime. These foreign trade zones are distinguished by special tax preferential customs conditions. In addition, quotas on exports of domestic products to other countries were abolished in foreign trade zones. Business zones are characterized by the possibility of warehousing of manufactured products, as well as its processing.

Another attractive nuance that attracts residents to US FTZs is that importing companies are given a choice over the type of tax payment. This means that the importer can choose from two options, which duty to pay:

Option 1 - payment of tax on the value of foreign products imported into the territory of FTZ;

Option 2 - payment of tax on the value of foreign parts in finished products produced from US customs territory [44] .

It's all about the final amount of customs taxes. If the amount of duty on components, parts or raw materials imported into FTZ is more than the amount of taxes on finished products, the company has the right to use the right of "inverted duty". This is due to the fact that the customs tax is paid at a lower rate based on the value of finished products, rather than the value of foreign components, raw materials or other components.

Re-exported products are also not subject to customs duties, which is another special advantage of the zone compared to the rest of the country, as the percentage of re-exported goods is more than 40% of foreign products imported into US HTA. This rule is implemented under the program of compensation of losses which is practiced by the American customs authorities.

In the United States, it is also possible to create integrated business zones, which operate mainly in such areas of the state, characterized by high unemployment and low incomes.

For any state that uses the efficiency of the production economy in the FEZ, the functioning of such territories means primarily involvement in global integration processes, entry into world economic relations, the possibility of using cross-border movement of factors of production, especially financial.

As of 2022, there are 270 SEZs in the United States. Each zone has its ordinal number of creation, and often instead of the name of the zone when mentioning it in statistical reports use its number.

Top 15 states by type of FTZ activity [23, p .100]

Place on production goods	State	Place on export of goods	State
1	Texas	1	Texas
2	Louisiana	2	Arizona
3	California	3	South Carolina
4	South Carolina	4	Louisiana
5	Arizona	5	Alabama
6	Tennessee	6	Florida
7	Pennsylvania	7	Mississippi
8	Kentucky	8	Indiana
9	Illinois	9	California
10	New Jersey	10	Tennessee
11	Ohio	11	Puerto Rico
12	Alabama	12	Kentucky
13	Mississippi	13	Washington
14	New York	14	Illinois
15	Georgia	15	New York

From Table 2.3, it is clear that Texas ranks 1st in both production and exports of goods from other states. Let's conduct a comparative analysis of the number of free trade zones in the United States in 2021 (Fig. 2.2).

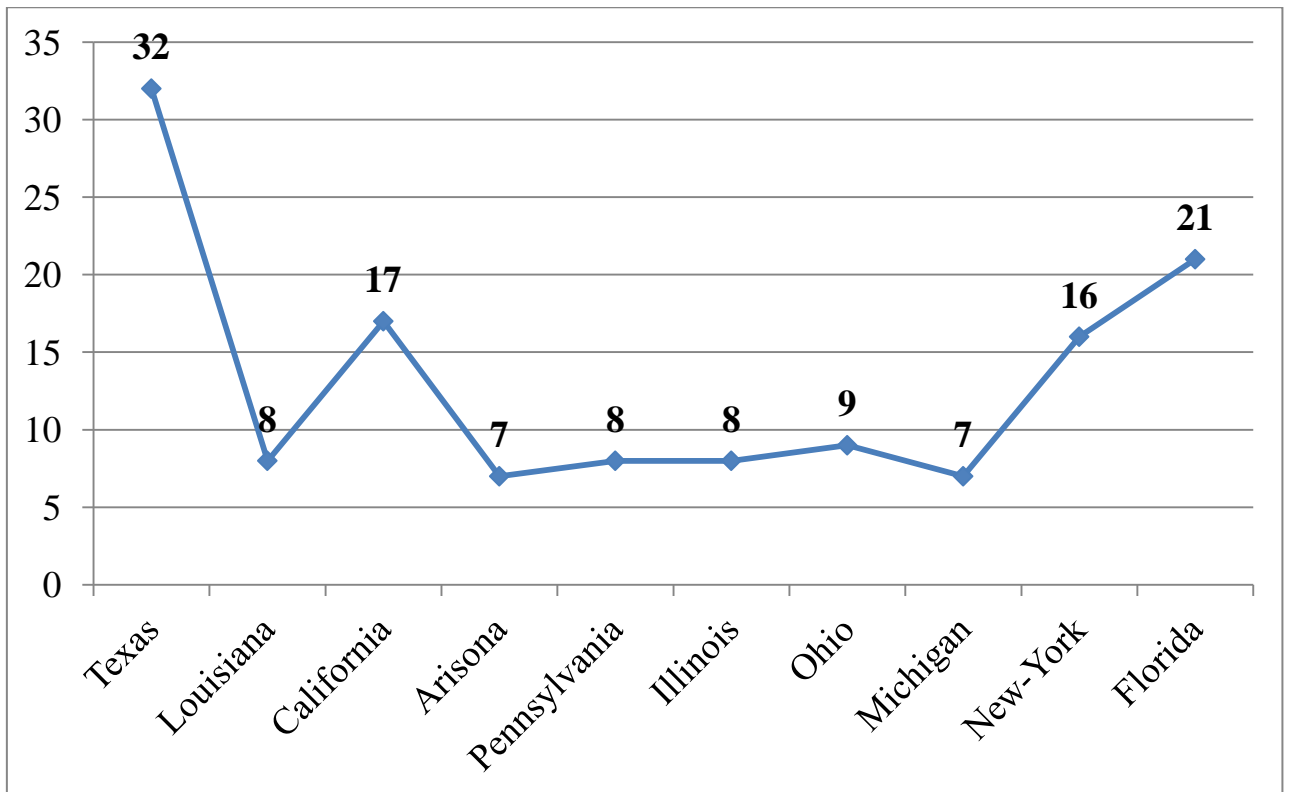


Fig. 2.2. Comparative Number of Free Trade Areas in the United States by  
2021 [44]

Analyzing Figure 2.2 on the relative number of FTAs in the United States, it can be concluded that the largest state in terms of the number of registered zones is Texas (32 zones), followed by Florida (21) and California (17).

To give an example of the impact of US free trade areas, let's give an example of the free trade area system in California. There are 17 free trade zones in this state. Due to the effective functioning of free trade zones, the state of California ranks 3rd in the volume of goods imported into its territory. California's total free trade zone exports are \$ 1.86 billion .

As in many other free trade areas, the largest share of goods passing through them is oil and petroleum products (78%).

There are 42 business districts in California. Their main goal is to stimulate the development of small and medium-sized businesses and create as many jobs as possible in the most disadvantaged regions of the "golden state". The main tool of the leadership of the California Association of Business Areas in trying to achieve its goal is not only preferential taxation, but also a simplified lending system [46].

The most effective tool to support employment in the region is to obtain soft loans. In the first three years of the business zone program in California, about \$ 7 million was allocated to the soft loan program for employment. In addition, the program was able to attract new residents to this market, which could not but have a very positive impact on the socio-economic situation of the state as a whole.

It should be noted that the activities of business zones are aimed mainly at small businesses. And this form of cooperation (small business and software) is considered very effective. We should not forget about the impact of technology parks on the US economy. Technology parks in the United States - one of the most developed types of spontaneously created special economic zones [8] . California has the largest Silicon Valley, or Silicon Valley, not only in the country but also in the world. The success of this world's largest association of science and business has been greatly facilitated by the universities located in the technopark.



Another factor that is of great importance is the then new system of financing high-tech projects - venture financing. In the 1950s, the system of investing in high-risk projects was not as developed as it is today. Today, Silicon Valley is considered the largest Hi-Tech center in the United States. More than 300,000 specialists from different regions work on its territory. World-famous companies such as Cisco, Apple, Facebook, HP, Intel, Oracle, etc. work on the basis of this special economic zone [36].

### **2.3 Development of free economic zones in Asia**

Today, Asia is one of the fastest growing regions. Mainly in the Asian practice of functioning of FEZ, the state creation of zones prevails, that is the majority of SEZ are considered state. The area is administered by government agencies such as the Republic of Korea or Singapore, government corporations in Malaysia or India, as well as line ministries in Taiwan.

The practice of creating private special zones began in the 1990s in Thailand, the Philippines, Vietnam and Indonesia. The main motive for the creation of SEZs in Asian countries was to stimulate exports, mainly labor-intensive products, and later capital-intensive goods [40] . Exports of capital-intensive products are characteristic of the FEZ of Malaysia, Taiwan and Thailand, in the structure of whose economy is dominated by the share of such industries as electronics and production of semi-finished products, chemicals, car assembly, etc.

To date, we can highlight the industry specialization of Asian FEZ, which is represented by the following types of production:

- clothing (Vietnam, Nepal, Colombia, China, Pakistan, Indonesia);
- pharmaceutical products (India and Pakistan);
- software (Singapore and India);
- biotechnology (Hong Kong);
- information technology (Hong Kong);

- textile products (India and Bangladesh);
- electronics (India, Republic of Korea, Taiwan, China, Malaysia, Thailand, Philippines);
- high technology (Taiwan and the Republic of Korea);
- jewelry (Thailand, India, Sri Lanka) [3; 18; 49].

The table below provides information on some Asian countries, which includes the main types of industries targeted by foreign investment, major investor countries, and major markets.

Table 2.4

Data on investment by country, sectors and export markets [55]

Country	Major investor countries	The main sector of investment	Major markets
Singapore	Japan, USA, Mexico, Canada, Chile, Australia, New Zealand and etc.	Food industry, textiles, chemicals, electronics components	USA, ASEAN countries, European Union and etc.
Malaysia	Japan, Great Britain, Germany, Italy, Finland, Taiwan, Sweden and others.	High technology, food industry, pharmaceuticals	Japan, USA, Germany, Rep. Korea and etc.
Thailand	EU, Great Britain, Taiwan, Singapore and etc.	Agricultural products, minerals, ceramics, plastic, electronics	Rep. Korea, The Netherlands, Austria, Malaysia, Japan, India, USA and others.

In the Asian region there is a great variety of types of special economic zones, represented by:

- free ports (Republic of Korea, Singapore, Hong Kong, India, China, Philippines, etc.);
- technology parks (India, China, Taiwan, Singapore, etc.);
- science parks (Republic of Korea, Malaysia, Thailand, Hong Kong);

- FTZ (Republic of Korea, India, Malaysia, Sri Lanka, China, Indonesia, Taiwan);
- free investment zones (Republic of Korea);
- trade areas (China);
- industrial areas (Hong Kong and Vietnam);
- areas of access to foreign investment (Japan) [10] .

The peculiarity of the establishment and operation of SEZs in Southeast Asia (Malaysia, Singapore, South Korea) is manifested in the administrative and legal regime of business operating in special areas, the main purpose of which is to attract foreign and national capital. The investment regime, which is easily adapted to Asian countries, was developed by the state to achieve the goals of both investors and the state.

Malaysia is one of the countries in Asia where the establishment of the FEZ has made a significant contribution to the economic development of the country. About 200 industrial parks and 14 FTEs operate in the country. In total, about 4,000 resident companies are registered in Malaysian FEZs. Investment activities in the special zones are carried out by residents from Japan, Taiwan, the Republic of Korea, the United States, Great Britain, Germany, Switzerland and Italy [42].

The main activities of the SEZ include: high technology, food production, information technology products and pharmaceuticals and services. Of the country's total national exports, 83% belong to SEZs, which employ more than 320,000 people, including 54% women [42] .

There are 34 FTEs and 7 information technology parks in the Philippines. The main areas of activity are: high technology, production of textiles and leather products. As about 950 companies with investments from the USA, Japan, Great Britain, Malaysia, Singapore are residents of the FEZ, the total amount of invested capital is 38.7 billion dollars; more than 820 thousand people work on the territory of special zones. Of the total Philippine exports, 87% (\$ 22.7 billion) are occupied by special economic zones [42] .

Considering the world practice of the SEZ, it is necessary to pay attention to the practice of functioning of Chinese zones, which have more than 20 years of activity. It is believed that the SEZ has had a great influence on increasing the macroeconomic performance of this country. The main feature of China's special zones is that doing business in the FEZ is carried out through regulations passed by the governments of the individual provinces near which the FEZ operates.

China has a large number of effective practices for the operation of special zones. According to the State Council of the PRC, the country has about 1,600 special zones of various types. The total number of investments is 17.03 billion dollars, the main routes of foreign investment can be traced from the United States, Germany, France, Switzerland, the Netherlands and Canada. There are about 45.7 thousand resident companies in the FEZ, in which up to 40 million people participate. The main activities of the FEZ in China include - information technology, production of electrical equipment, electronics, petrochemical products, textiles, building materials, paper, pharmaceuticals and automobiles. The total volume of goods produced near the FEZ and exported from the country is about 145.06 billion dollars. (59.3% of total national exports) [43].

Today in China there are the following administrative and economic entities with preferential regimes:

- 5 special economic zones: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, Pudong (Shanghai);
- 90 zones of technical and economic development of the state level;
- 114 zones of new and high technologies;
- 13 free customs zones;
- 14 zones of cross-border economic cooperation at the state level;
- Shanghai Free Trade Area [46, p .48].

The five special economic zones in China have been established mainly with foreign investment.

The following are data on the activities of all five Chinese FEZs in foreign trade in 2021. For comparison, in 2020 the total volume of indicators of special zones in foreign trade amounted to 699.83 billion dollars, including exports - 394.98 billion dollars, imports - 304.85 billion dollars. We can also say that compared to 2019, the figures increased by 14.7%.

Table 2.5

Foreign trade of the People's Republic of China in 2021 (according to the Main Customs Administration of the People's Republic of China) [43]

VEZ	Value, billion dollars			Share in China's foreign trade,%		
	General	Export	Imports	General	Export	Imports
Shenzhen	487,76	284,74	203.36	11.34	12.15	10.37
Xiamen	83.55	53.16	30.39	1.94	2.27	1.55
Zhuhai	55.00	29.05	25.95	1.28	1.24	1.32
Shantou	9.60	6.96	2.54	0.22	0.3	0.13
Hainan	15.87	4.42	11.45	0.37	0.19	0.58
Total	651,78	378,33	273.69	15.15	16.15	13.95

Analyzing the data in Table 2.5, we can conclude that the highest performance of the FEZ in foreign trade is observed in the Shenzhen FEZ. The Shenzhen Special Zone is considered to be the most successful SEZ practice in China. After the formation of the Special Zone, the Shenzhen region became a center for attracting investment from various TNCs that relocated to China, and whose activities were mostly focused on export production.

Most of the investment in the area was provided by companies from Hong Kong, due to the geographical proximity of the countries. Thus, in the early 2000s, total investment from Hong Kong was about 70%, and, for example, in export-oriented industries - up to 95%.

Analyzing the inflow of foreign direct investment (FDI), the total volume of foreign investment in the period from 2015 to 2020, they amounted to about 95%. From 2010 to 2015, the level of economic growth in the region increased 4.4 times.

In 2018, the GDP of the FEZ amounted to 146 billion dollars, turnover - 537.3 billion dollars, and exports - 305 billion dollars. USD, which is 12.7% more than in 2017. In 2021, Shenzhen was included in the list of 25 cities in the world with the highest GDP growth rate. Today, 189 companies from the world's 500 largest TNCs invest in Shenzhen.

The success of the FEZ in Shenzhen is determined by its integration into large territorial clusters with strong financial and technological infrastructure.

Analyzing China's experience, it is clear that SEZs need to intervene in the development of low-income areas, but are an effective tool. In China, the introduction of special zones has helped in a short period of time to redistribute wealth in favor of the regions, the current preferential treatment. The practice of the Shenzhen zone shows that the effective economic activity of the SEZ was influenced by the actions of the state aimed at participating in the financing of special zones.

The experience of the Shenzhen Special Zone and other administrative and economic entities with preferential regimes shows that the success of economic development of territories largely depends on the distribution mechanisms, and it is impossible to give an exact answer, China could achieve the same results today , without using free economic zones in their policy.

#### **2.4 Free economic zones and the role of banks in supporting their activities**

In 2014, the World Organization of Free Zones [7], registered in Geneva and headquartered in Dubai, began its activities. It sets global SEZ development goals around the world, bringing together free zones, their associations, users, interested governmental organizations, and international organizations to share information, research results, and develop standards for free zones. , formation of guidelines for

the creation and management of free zones, support and consultation of new free zones at the international level as they develop.

According to the classification of the World Bank, there are four types of SEZ management [8, p. 36-37]:

- private management (performed by a private company)
- state institution (management is carried out by a state institution)
- state enterprise (managed by an organization wholly or partly owned by the state)
- public-private partnership (managed by a structure that includes at least one public and one private organization). [8]

Initially, most zones were created by governments. In the present time more and more zones are created on the basis public-private partnership at more active participation of the private sector [9].

Private developers are often involved to minimize start-up costs and gain access to international expertise in design, construction and marketing.

The role of banks in intensifying the functioning of the FEZ is very important, as commercial banks, branches of foreign banks, and development banks support projects related to the activities of the FEZ.

Commercial banks, conducting operations with the FEZ, provide all types of banking services to the SEZ enterprises. At the same time, foreign experience shows the participation of banks in the establishment of SEZ both in their country and abroad.

Of particular interest are the activities of branches of foreign banks FEZ. In some cases, national governments allow branches of foreign banks to operate in such areas under special conditions to support the activities of the FEZ. For example, despite the ban on the activities of branches of foreign banks in this country.

National and international development banks play a significant role in supporting the functioning and development of SEZs. Thus, in particular, the

World Bank, the European Investment Bank, and the Inter-American Development Bank support the creation of the FEZ. The Eurasian Development Bank participates in state programs of industrial development of the countries of presence, the formation of the national expertise of the FEZ [27, p. 7].

Among the domestic banks, one of the few financially capable of supporting the operation and development of the FEZ is PrivatBank. Thus, the rating of financial assets of JSC CB "PRIVATBANK" by the criterion of liquidity, allows us to state that JSC CB "PRIVATBANK" from 2018 belongs to a strong state - less than 5%, ie rating 1 (strong): high level of liquid assets; the liquidity indicator exceeding all established standards is constantly maintained; high level of attracted funds in the form of fixed deposits; ability to quickly raise funds for a modest fee; liquidity ratios are better than in other banks (Table 2.6).

Table 2.6

Rating assessment of financial assets of JSC CB "PRIVATBANK" by liquidity criterion

The ratio between the value of classified assets and capital, %	Rating rating
Less than 5 %	Strong (1)
From 5% to 15 %	Satisfactory (2)
From 15% to 30 %	Medium (3)
From 30% to 50 %	Critical (4)
Over 50 %	Unsatisfactory (5)

As international development banks provide credit, guarantee and consulting support to the SEZ, it is necessary to analyze the main types of credit products of JSC CB "PRIVATBANK", and identify possibilities to support the operation and development of the SEZ (Table 2.7).

Table 2.7

The main types of credit products of JSC CB "PRIVATBANK" [15]



Legal persons and / or individual person-entrepreneurs		Individual persons	
Type of credit	Maximum acceptable term	Type of credit	Maximum acceptable term
1. Loans in current activity:		1. Loans without securement:	
- overdraft on current score;	2	- credit cards;	2
- credit on replenishment of circulating funds;		- consumer loans.	
- guarantees;		2. Provided loans:	
- credit under pledge deposit;		- mortgage;	20
- trade financing.		- financing cars, incl. in leasing;	5
2. Investment financing:		- credit under pledge deposit;	1
- financial leasing;	5	- financing on bail real estate.	5
- investment credit.			

As can be seen from Table 2.7, credit products that can be used in part to support the functioning and development of the SEZ include: guarantees, trade finance and investment credit.

To confirm such measures, it is necessary to highlight the current state of the loan portfolio of JSC CB "PrivatBank" (Table 2.8).

Table 2.8

## Dynamics and structure of the loan portfolio of JSC CB "PrivatBank" [11]

Indicator	2019	2020	2021
Assets, UAH million	278048	309723	382525
Tempo growth, %	9.12	11.39	23.51
Loans provided (total amount), mln. UAH	291936	296043	232772
Tempo growth, %	23.01	1.41	- 21.37
Loans provided (minus reserve under expected credit losses), mln. UAH	50140	59544	55021
Specific weight loans in assets bank, %	18.03	19.22	14.38
Loans, provided legal persons million UAH	5648	6250	5509
Tempo growth, %	69.61	10.66	- 11.86
Loans that provided individuals UAH million	63434	68253	53839
Tempo growth, %	45.65	7.60	- 21.12
Loans enterprises small and secondary business (SMEs), mln. UAH	8251	8555	6859
Tempo growth, %	95.99	3.68	- 19.82
Loans and receivables arrears by financial leasing, what managed as separate portfolio	212795	210579	164332
Accounts receivable arrears by financial leasing	1612	2312	2157
Acquired / created depreciated loans	196	94	76

Overdue arrears by loans, million UAH	232000	228467	179175
Specific weight overdue loans in credit briefcases, %	79.47	77.17	76.97
Tempo growth, %	27.28	- 1.52	- 21.58
Reserves by loans, million UAH	241796	236499	177751
Tempo growth, %	21.60	- 2.19	- 24.84

The current state of the loan portfolio of JSC CB "PrivatBank" for 2019-2021 shows that during the analyzed period there was a clear trend of increasing lending, which is a positive factor and an indicator of bank stability. Thus, in 2019 the volume of loans issued by the bank amounted to 291936 million UAH, in 2020 - 296043 thousand UAH. In 2021, the volume of loans decreased by UAH 63,271 million, the growth rate was -21.37% (due to the pandemic).

Analyzing the table. 2.8, it can also be seen that for the entire period of analysis the total assets of JSC CB "PrivatBank" increased by 50.79% and at the end of 2021 amounted to 382525 million UAH. The high share of loans in the bank's assets (up to 60% in 2021) and a significant increase in overdue debt led to a significant increase in reserves for credit operations.

It should be noted that in 2020 JSC CB "PRIVATBANK" entered the top ten banks in Central and Eastern Europe according to one of the most authoritative economic publications of the British Euromoney, receiving the nomination "CEE's best bank transformation", the bank became the first Ukrainian bank to enter the rating of the best banks in the region in the history of Euromoney's Awards for Excellence and one of the few local banks that was included in the regional rating together with leading European and American banking groups [26]. Therefore, based on all factors, we can assume that JSC CB "PRIVATBANK" has financial opportunities and potential for quality support of the functioning and development of SEZ in Ukraine.

As a direct example in providing such assistance, we can present the experience of the World Bank, which supported 35 projects related to ODES and approved in the period from 1973 to 2015 [8, p. 97].

Development banks provide both credit, guarantee and advisory support to the FEZ. Consultative support is provided, including at the stage of formation of

SEZs, as well as the development and implementation of government programs for their development and support.

Such assistance is provided, in particular, by the World Bank, which has supported 35 projects related to ODES and approved in the period from 1973 to 2015 [8, p. 97]. These projects covered areas with different characteristics and purposes, including export processing zones, commercial free zones, industrial zones and parks, agricultural and investment zones, business zones.

The first projects to support FEZ by the World Bank are mainly related to FEZs located in Asia and South America. In recent years, funded projects have been linked to the promotion of SEZs located in Africa.

The experience of China, which announced the establishment of the FEZ there, is interesting. After their establishment, the zones must submit annual reports to the Ministry of Trade and the Ministry of Finance to evaluate their activities. Successfully inspected areas can apply for preferential financing from the development of banks [3, p. 157].

The prospects for the development of SEZ and increasing the role of banks in intensifying their operation include:

- the emergence of standards for the work of the FEZ. This is made possible primarily by the creation of the World Organization of Free Zones, which has set itself ambitious tasks, including standardization of free zones, which can lead to a unified approach to the definition of SEZ, selection and dissemination of best practices;
- spreading the practice of FEZ specialization, as its absence turns the FEZ into simple tools for promoting investment in limited areas;
- creation of new state programs to support FEZ, including programs to support bank lending to their residents;
- dissemination of the practice of supporting FEZ residents by national and international development banks;

– changing the requirements for FEZ, the activities of their residents, as well as banks interacting with them in the implementation of the concept of sustainable development, the new industrial revolution and the transition to a digital economy, changing the structure of international production.

### **SECTION 3. FREE ECONOMIC ZONES: ANALYSIS OF THE DOMESTIC SITUATION AND IMPLEMENTATION OF WORLD EXPERIENCE IN UKRAINE**

#### **3.1 Special free economic zones on the territory of Ukraine**

Today, Ukraine is in a difficult economic situation caused by a full-scale war with Russia and the aftermath of the COVID-19 coronavirus pandemic. The emergence of such depressed areas or regions raises the problem of wider investment in order to overcome the lag in the development of some areas [51] .

The world experience analyzed in the previous section proves that the creation of special (free) economic zones (FEZ) in some local territories is quite effective in solving this problem, the formation of which is based mainly on attracting foreign investment and providing tax, customs and other benefits for farms operating in the area.

Ukraine, like any other country, seeks to develop its economy, but does not have enough equity, so it tries to attract foreign investors, using special mechanisms of financial incentives, namely, creating free economic zones. However, among the rather successful functioning of the SEZ in different countries of the world, Ukraine may be the only negative example of using such an

extremely effective way to support the local economy and attract foreign investment.

According to the analysis, payments to the budget of enterprises implementing investment projects in the FEZ and priority development areas (PDA) amounted to UAH 1.8 billion in 2004. The amount of benefits provided for payments to the budget is UAH 1.5 billion, including from VAT (value added tax) – UAH 291.8 million (19.8%), from customs payments - UAH 795.2 million (53.8%), from income tax - UAH 389.5 million (26.3%). Other benefits amounted to UAH 200,000. For comparison: Poland accounted for \$ 4.8 billion in attracted investments for the subjects of its SEZs for \$ 480 million [10].

The peculiarity of Ukraine's negative experience is that tried and tested around the world as accelerators of economic development, SEZs in a number of eastern regions of Ukraine have become "black holes" in the state budget and earnings for dishonest businessmen and their unscrupulous partners. In different periods, SEZs experienced both the granting and revocation of benefits, destruction and revival. The government defends them, and the opposition criticizes them, seeing them as "black holes" in the state budget and a mechanism for lobbying the interests of certain industrial or regional groups.

The polarity of opinions on the expediency of the existence of FEZ and PDA in Ukraine is explained by the fact that they were discussed and adopted on an emotional level, not on the analysis of the current state of affairs. A clear example is that the Government first (in March 2005) decided to abolish tax benefits under special regimes, and only four months later (July 13) completed an analysis of the activities of FEZ and PDA. At the same time, this analysis was limited to comparing the targets specified in the investment agreements with their actual implementation.

Opponents of free economic zones operate because the results of these territories were quite heterogeneous and did not live up to expectations. During the entire period of operation of the FEZ and PDA it was expected to achieve the following indicators:

- investment attraction - more than 17.1 billion dollars. (actually - 2.1 billion, or 12.2% of the planned);
- creation of new and preservation of existing jobs - 387.4 thousand (actually - 137.7 thousand, or 35.5% of the planned) [10] .

In total, the volume of special and external investments used by the subjects of special regimes amounted to UAH 9.8 billion with the amount of provided tax benefits of UAH 8.4 billion.

Proponents, on the other hand, argue that the zones have a positive effect on the economy and investment climate. According to the Institute of Regional Studies of the National Academy of Sciences of Ukraine, as of January 1, 2005, 768 investment projects have been approved by the FEZ and PDA governing bodies, including 556 in the PDA and 212 in the SEZ, with a total estimated cost of 6.67 billion USD.

The largest share in the disbursed investments is:

- equipment - UAH 5.2 billion. (53.1%);
- funds - 1.5 billion (15.3%);
- raw materials - UAH 0.87 billion. (8.9%) [10] .

52.1 thousand jobs were created and 85.5 thousand jobs were saved; goods, works and services worth UAH 45.4 billion were sold, including UAH 15.8 billion for export. (34.8% of total sales).

In the period 2000-2004 –, investment growth outpaced GDP growth by an average of 2.5 times. In 2005, with the abolition of the FEZ, this ratio dropped to 0.7. In addition, the legal framework for the FEZ, PDA, technology parks needs to be streamlined and improved. The Law "On General Principles of Creation and Functioning of Special (Free) Economic Zones", adopted in 1992, defines only the general principles of their work and does not set criteria for effectiveness [2].

FEZ and PDA were created "manually". The peculiarities of most zones, including the tax regime, were determined by separate laws or presidential decrees. There were no specific requirements for companies wishing to become subjects of

the special tax regime. The potential investor only had to submit a business plan to the special zone administration. This inevitably caused some inconsistencies in the legal framework and eventually became the basis for criticism of the SEZ as a "black hole in the pumping of budget resources."

It is also important to note that the state's policy on "zones" must be stable, predictable and consistent. FEZ of Ukraine did not attract foreign investment in high-tech production. As of January 1, 2005, only a third of investments in FEZs and PDAs were foreign. The low activity of foreigners is explained by the instability of business conditions in Ukraine in general and in special areas in particular. For example, in 1999 a moratorium was imposed on the creation of new SEZs and PDAs, and later on new investment projects within existing zones [3].

Such legal inaccuracies, of course, make it impossible for investors to make a profit not only in the long run, but even in the short term. And our FEZs in fact had nothing to do with the production and export of high-tech products .

The results of the research of the Council for the Study of Productive Forces of Ukraine showed that no budget transfers for the development of zonal entities were made at all. In fact, this is not an achievement, but one of the reasons for the low efficiency of the SEZ. For example, China was able to attract investors only after the implementation of a huge construction program to create in its FEZ the most modern infrastructure: roads, communications, hotels. Up to 80% of all costs fell on the country's budget, and foreign investment came to the FEZ after creating the necessary conditions for doing business in Ukraine, unfortunately during this period, there was no proper control over the implementation of projects.

The activities of "zones" should be subject to constant, strict control and monitoring. The functioning of FEZ and PDA should be approached carefully, taking into account the effectiveness of specific investment projects. Following the results of the previous period, significant unevenness of results between separate FEZ and PDA is fixed. It is possible to optimally combine the controlling and stimulating role of the state in the economy through the introduction of industrial

parks, which will be organized not on a territorial but on a functional basis and in terms of investment projects will operate similarly to technology parks.

The aim of the industrial parks should be to modernize existing and create new industries. The incentive mechanism within the framework of industrial parks is the provision of benefits not to the territories, but for the implementation of specific projects. This will make the activities of industrial parks both efficient and transparent, accessible to state control and independent audit at any stage.

A number of regions of Ukraine have favorable internal and external conditions for the location and development of SEZ - the availability of sufficient resource potential, favorable transport and geographical location, high scientific and technical potential and more. These are primarily relevant areas in:

- Volyn region (FEZ project "Interproject-Kovel") ;
- Donetsk region (FEZ project "Azov" in Mariupol);
- Dnipropetrovsk region (FEZ project "Dniproavia");
- Transcarpathian region (project of FEZ "Transcarpathia");
- Lviv region (FEZ project "Zhovkva", FEZ "Mostyska", FEZ "Yavoriv");
- Odessa region (SEZ projects "Porto-Franco" and FEZ "Ajalin");
- Autonomous Republic of Crimea (FEZ project "Manganari") [3].

The FEZ in Donbass should be considered separately, because the war has been going on there since 2014. The Russian invasion caused significant damage to the economies of Donetsk and Luhansk oblasts, which before the war generated about 15% of the country's GDP. The enterprises that formed the industrial power of the region remained in the occupied territory. Some of them were either stolen or taken to Russia.

The war also hit the economic potential of the unoccupied Donetsk and Luhansk regions. Communities on the line of contact are suffering from constant shelling by the occupying army. Proximity to the front line makes it impossible to



attract investment and promotes the outflow of population abroad and to other regions of Ukraine.

Most of the industrial assets of the Donetsk region remained in the territory not controlled by the Ukrainian authorities, where the largest domestic enterprises of black, color and chemical industry, heavy engineering are located. A significant number of these enterprises is of strategic importance for Ukraine in terms of volume, range of products or its use in the country's defense industry, and is also a source of revenue to the state budget [9, 10].

Most companies engaged in attracting foreign investment, due to hostilities in the region, and the emergence of logistical problems lost markets, including in the uncontrolled Ukrainian government in the region, severed ties with relevant counterparties [11, p. 32, 60]. The deterioration of the socio-economic situation in the Donetsk region, as indicated in the "Rating of investment attractiveness of regions", has led to a significant decline in investment attractiveness of the region.

The current extremely difficult situation in Donbass, which has only intensified with the full-scale war in Ukraine, requires an immediate response from the Government of Ukraine and the introduction of additional effective management mechanisms to speed up economic recovery. To solve such problems as lack of jobs, depressed regions, reduced investment attractiveness of the eastern regions of Ukraine, Donetsk region needs to be given the status of a priority development area and introduce a special regime of investment activity. The concept of "priority development area" has its own legal interpretation.

Yes, in accordance with Art. 415 of the Commercial Code of Ukraine of 16.01.2003 No 436-IV, the territory of priority development means the territory within the city, district, where unfavorable socio-economic conditions and on which on the grounds and in the manner prescribed by law, a special regime of investment activities in order to create new jobs.

According to the Law of Ukraine of 24.12.1998 No 356-IV "On Special Economic Zones and Special Regime of Investment Activity in Donetsk Region" [49], territories of priority development are defined as territories within the city,

district, where adverse socio-economic conditions and a special regime of investment activity is introduced in order to create new jobs.

It should be noted that the territories of priority development are one of the current types of special management regimes in Ukraine, which is used along with special economic zones, technology and science parks.

It is also worth noting the strategy of economic development of Donetsk and Luhansk regions until 2030, developed by the Ministry of Reintegration of the Temporarily Occupied Territories [52] . During this time, at least three billion dollars are planned to be invested in the economic activity of the unoccupied territory. The unoccupied parts of Donetsk and Luhansk regions will receive the status of priority development territories. Businesses will be insured against military risks, and the budgets of 15 communities on the line of contact will be able to leave more taxes on their territory.

In general, the creation of free economic zones in Ukraine is one of the elements of shifting the focus of management of socio-economic processes to the regional level. This is one of the forms of effective organization of regional economic development, which coincides with the national approach to its restructuring and expanding the independence of regions.

The war in Ukraine and the events of recent years have divided the life of the country in general, and free economic zones in particular, into two completely different periods of history. If we analyze the activities of the FEZ in Ukraine before the full-scale war , we can identify the following main problems:

- imperfection and practical lack of system documents that program and regulate the activities of the FEZ in Ukraine. That is, there is no procedure for granting benefits; benefits are not diversified depending on the size of enterprises operating in the zones; real regional and sectoral development programs for such zones have not been developed. And since 2005, the complete abolition of preferential taxation;

- complexity, ambiguity and multilevel management system of SEZ in Ukraine. Most of these areas were fully controlled and managed by government

agencies, which provided benefits to enterprises at their own discretion. On the other hand, the state has not created the necessary infrastructure for their development (for example, roads);

– use of FEZ to shade the economy. These shortcomings indicate that none of the characteristics of the free economic zone in Ukraine is met. This leads to the fact that their main goal (to attract foreign investment) is not realized and FEZ in Ukraine, except for the name, are not free.

To date, these problems have not disappeared, but have intensified, because as of the 69th day of the war, i.e. 03.05.2022, due to the destruction of infrastructure due to the war in Russia, Ukraine has already lost more than 88 billion dollars. In total, the losses of the Ukrainian economy, including direct and indirect (such as GDP decline, investment cessation, labor outflows) range from \$ 564 billion to \$ 600 billion. The largest increase in losses over the past week was due to new damage and destruction of railway infrastructure, health care, assets of enterprises, the analysis said. In all, at least 23,574 kilometers of roads, 32 million square meters of housing, at least 535 kindergartens, at least 535 kindergartens, 866 secondary, higher and higher education institutions, 231 medical institutions, 173 factories and enterprises were damaged, destroyed or seized during the 62 days of Russia's war against Ukraine. In addition, the war damaged 75 office buildings, 277 bridges and bridge crossings, 11 military airfields, 11 airports and two ports. The largest number of destructions was recorded in Donetsk, Luhansk and Kharkiv oblasts [53].

According to the chairman of the Verkhovna Rada Committee on Economic Development, D. Natalukh, today Ukraine needs to "introduce a new category in the legislation and create a new instrument, which should be a" state of emergency. We can debate the name, the so-called wording, in order not to give unscrupulous people grounds to abuse force majeure, to call it "a period of special measures in the economy" or something else, I agree. " [46]. Free economic zones can also be such tools. The positive experience of foreign countries shows the potential of this

area of economic development in a market economy and shortage of domestic investment resources.

After the analysis in the thesis, we can form the optimal concept of the SEZ, for the effective functioning of free economic zones in Ukraine (Fig. 3.1).

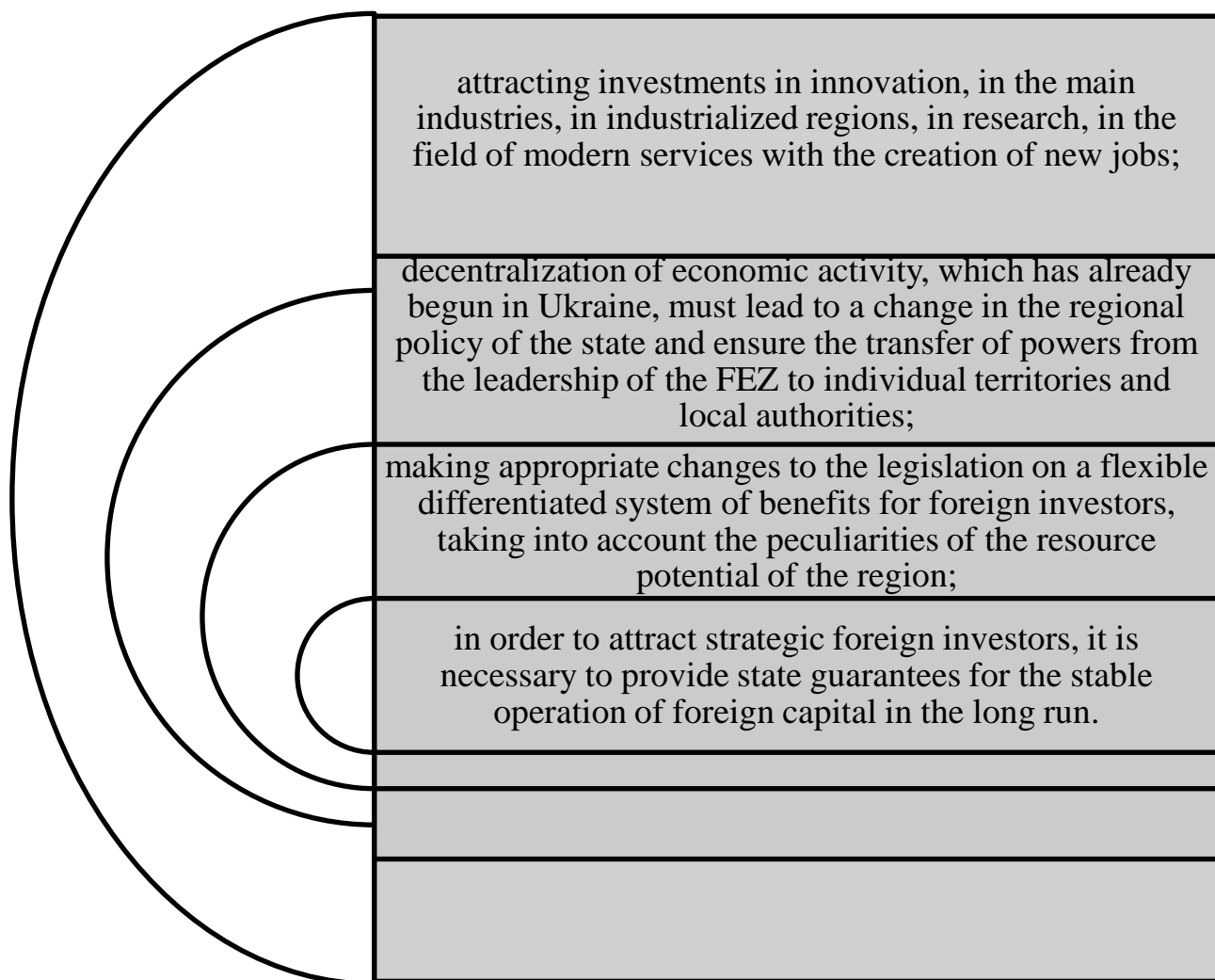


Fig. 3.1 The optimal concept of the FEZ in Ukraine

Free economic zones are becoming increasingly popular as a tool for structural change and economic development. The existence of zones in international practice indicates the imperfection of the institutional and regulatory environment in many countries, which is difficult to overcome on a national scale.

The creation of the FEZ allows, at least in points, to create the necessary environment for attracting investment and structural change in the economy based on innovation and new technologies. Of course, the positive effect of the SEZ largely depends on the competence of the government, the effectiveness of existing institutions (especially the state), a proper understanding of the nature of economic zones as integral parts of the national economy, policies and development strategies.

The idea of the study is to form a network of special economic zones in Ukraine as regulatory regimes to encourage innovative investment to generate ideas for new products and services, as well as the development of new industries taking into account the specialization of regions. The regime combines a system of incentives, benefits and restrictions as a basis for maintaining a balance between the interests of business and the state in order to promote Ukraine's innovative development.

The introduction of the regime aims to promote the release of economic, industrial and innovation potential of the regions, technological diversification of the Ukrainian economy through the development of high- and medium-high-tech industries, high-tech services and creative industries. This would solve the strategic problems of structural and technological modernization of the economy and its innovative, science-intensive development.

Prospects for further research are to justify the feasibility of using the mechanism of replication of franchising to form a network of SEZ in Ukraine in the following stages. The first stage is pilot design. The second stage is duplication. If the pilot project succeeds, organize the process of forming duplicate zones in other regions of the country. The third stage is the replication of the franchise. Transfer of the developed scheme of creation and operation of pilot and duplicate zones for use in other regions of the country of a pilot design; duplication; duplication of the franchise.

### **3.2 Priority directions of development of Ukraine's foreign economic policy to ensure economic interests in the conditions of WTO transformation**

Today Ukraine is a member of about 80 international organizations. One of the most important in the economic sectors is the International Monetary Fund (IMF), the World Bank. In addition, given the rapid development of international trade, the World Trade Organization (WTO) occupies a special place in international economic relations. Today, most goods and services are global, and countries compete with each other for markets [2].

The strategic goal of the WTO is the liberalization of world trade, the elimination of discriminatory barriers to the flow of goods and services, free access to national markets and sources of raw materials.

The scope of the WTO covers:

- customs and tariff settlement; antidumping regulation;
- non-tariff restrictions;
- trade aspects of protection of intellectual property rights;
- trade in certain goods, investment measures, etc. [46] .

In addition, Ukraine uses WTO rules and mechanisms to protect the interests of domestic producers in domestic and foreign markets, including through the settlement of trade disputes through WTO consultations.

If we consider the long-term prospects of Ukraine's participation in the WTO, they fully depend on which path of further development the country chooses. The war, which began on February 24, 2022, clearly shaped the direction chosen by the country. Ukraine has declared the goal of joining the European Union, today it is a candidate for EU membership. Under such conditions, the country faces the need to abandon the use of tariff barriers and pursue an active policy of increasing its own international competitiveness in European and international markets for high value-added goods and high levels of technology,

due to the need for high rates of modernization of many components of Ukrainian economy.

Ukraine's accession to the WTO means that the country is strategically focused on continuing to build a civilized market economy, based, on the one hand, on the progressive liberalization of trade and related other forms of foreign economic relations, and on the other - the introduction of clear and transparent rules in these areas. However, the implementation of these reforms does not in any way guarantee that the country will occupy a leading position in the world economy. After all, the latter significantly depends not only on the operation of WTO rules, but above all on the implementation of a strategically oriented development policy that would create a strong and modern economy capable of producing competitive goods on world markets with a high share of value added.

At the same time, it should be noted that the benefits of the country's accession to the WTO are ultimately determined by the relative competitiveness of goods and services, which is still relatively low in Ukraine. The reduction of trade barriers stimulates the growth of foreign trade turnover both in terms of exports and imports.

However, it should be noted that the growth of imports due to increased supplies of components to create end products with higher added value should also be considered as a positive factor. In the context of analyzing the consequences of Ukraine's accession to the WTO, special attention should be paid to the fact that in the initial period of adaptation to the conditions of membership in this organization there was a global financial and economic crisis of 2007-2009, which significantly affected the balance of risks and opportunities. obtained with the acquisition of WTO membership. At the same time, she raised the issue of the need to strengthen the policy of promoting adaptation to the conditions of functioning within the WTO. In this regard, we can agree with Nobel Laureate J. Stiglitz, who emphasizes the importance of targeted policies and action programs aimed at achieving positive results from participation in the WTO [15].

It is obvious that for Ukraine the strategy of realization of economic interests in the WTO in general, and first of all in the conditions of its transformation should include clear and consistent steps. These steps should be based on the traditional WTO practice of coalition diplomacy.

The first step should be to clearly define the tasks that Ukraine seeks to achieve through its participation in the WTO, as well as its own strategic position on the issues on the agenda of this organization.

The second step should be to find potential allies - groups of member countries whose interests would coincide with the interests of Ukraine in certain areas of the WTO agenda.

The third step should be to develop a common position within the WTO group and to promote this platform through joint efforts in the multilateral trade negotiation process.

Consistent adherence to these steps will maximize the effect of Ukraine's membership in the WTO. In addition, these steps should be enshrined in law. Ukraine's accession to the WTO was accompanied by the adoption of a number of important political documents at the highest state level, which laid down certain elements of the strategic vision of using Ukraine's membership in the WTO to ensure economic growth and deepen Ukraine's integration into the world community. In this context, it should be noted first of all the adoption of the Decree of the President of Ukraine of June 17, 2008 № 557/2008 "On measures related to Ukraine's accession to the World Trade Organization" [48], pursuant to which the Cabinet of Ministers issued an Order of 30 October 2008 № 1381-r "On approval of the action plan for the adaptation of the Ukrainian economy to WTO requirements" [49], as well as the Decision of the National Security and Defense Council, enacted by Presidential Decree of September 4, 2009 № 713/2009 "On the decision of the National Security Council and Defense of Ukraine of June 26, 2009 "On the report of the Cabinet of Ministers of Ukraine on the results of Ukraine's membership in the World Trade Organization" [46].



However, a clear, consistent and strategically oriented state policy on WTO participation has not been developed. The lack of a strategy for participation in the WTO, and therefore the lack of strategic guidelines for using the potential of membership in this organization, leads to a rather contradictory perception of participation in it by different socio-political and socio-economic groups, each based on its own specific for a specific area in which a group operates or for a specific sector of the economy in which it represents interests.

With the accession to the WTO, Ukraine has somehow completed the initial stage of integration into the world trade system. Further steps should be related to the correct positioning in the WTO system and the effective use of the benefits of the multilateral trading system through an adequately constructed national trade policy mechanism. In this context, it should be borne in mind that accession to the WTO should not in itself be seen as a purely positive or negative factor. Ukraine, as a member of the WTO, has received certain opportunities, but whether it realizes them depends primarily on the extent to which the country will be able to modernize its economy in accordance with the realities of global development and global challenges.

WTO rules also create certain opportunities in the field of regional integration processes, as they are the basis for trade relations in most countries. They played a particularly significant role in the process of concluding a free trade agreement with the EU and negotiating free trade zones with a number of other countries; therefore, WTO membership can be considered an effective factor in strengthening Ukraine's geoeconomic potential [12].

At the same time, Ukraine's accession to the WTO limits the possibility of autonomous actions in the field of Ukraine's foreign economic policy, creating a certain framework, violation of which will lead to additional costs. The key task of the state foreign economic policy in the context of the country's membership in the WTO, and, above all, in the context of the transformation of this organization, is to increase the country's export potential, in particular through the creation of an effective export support system. This task requires the implementation of a set of

measures to modernize and increase the international competitiveness of export production, optimize existing systems of legal, organizational, economic, scientific, technical, infrastructure and other systems of export-import activities of Ukraine.

## CONCLUSIONS

In the research, we comprehensively researched and analyzed free economic zones as a driver of growth in Ukraine. After a thorough analysis, we can draw the following conclusions:

1. The economic essence of free economic zones, as a form of investment process is that free economic zones are an important institution of the world economy, one of the tools for shaping the national economy. For many countries, they are a non-traditional form of increasing participation in the international division of labor. At the present stage of development of the world economy, they are one of the most effective mechanisms aimed at ensuring the success of economic policy, which focuses not only on increasing economic performance of regions and the country as a whole, but also on improving social living conditions.

2. There are many different interpretations of the SEZ, in different countries they are called differently and have different types, but most often, the purpose of the SEZ is similar. In the course of the work, the classification of free economic zones was determined. Basically, SEZs are divided into five types of zones typical of the industrial era: trade, industrial production, technical implementation, complex and service.

3. The paper analyzes the foreign practice of creation and operation of SEZ, namely: the example of Europe, the United States and Asia. It can be said that each country experienced certain difficulties at the beginning of the FEZ, but with a

competent public policy, the FEZ mechanism can create a strong economic base for the country.

4. The experience of the EU, in the form of free trade areas (FTAs) in the United States, clearly shows that business zones help increase production, while reducing unemployment and increasing business activity in the country, where there are various types of benefits that attract foreign investors. An analysis of US foreign trade zones has shown that this type of zone helps firms develop strategies and improves the turnover of their products.

5. The study of the effective functioning of free economic zones in Europe, allowed us to establish that Europe is the fourth most important region of the world in the number of free economic zones. The volume of foreign investment in the countries of Central and Eastern Europe, in particular, those that joined the European Union in May 2004, increased significantly. The list of countries investing in Europe was led by the United States, Japan, Britain and Germany. Investments from China, Singapore and South Korea increased. It is worth noting that in Europe there are a number of countries that build their investment policies without relying on FEZ instruments (even if they were previously created). The prevailing trend in these countries is to introduce a favorable investment climate by improving general legislation. A number of typical problems were also identified, namely: political instability, ignorance of the principles of free zones, poor training of leaders. The state of SEZs is also negatively affected by poor current financing, high inflation, high cost of primary infrastructure, and poor functioning of the banking system of the country in which they are located.

6. Study of the development of free economic zones in Asia, found that in the Asian region there is a great variety of types of special economic zones, represented by: free ports, technology parks, science parks, free investment zones, trade zones, industrial zones, foreign investment access zones. The peculiarity of the creation and operation of SEZs in Asia is manifested in the administrative and legal regime of doing business operating in special areas, the main purpose of which is to attract foreign and national capital. The investment regime, which is

easily adapted to Asian countries, was developed by the state to achieve the goals of both investors and the state.

A striking example of the creation of FEZ in Asia is the Shenzhen FEZ, which with its dynamic indicators of economic development, has a positive impact on the country.

7. It should be noted that in all the analyzed countries, the experience of the SEZ is positive, although it experienced little difficulty in the initial stages of development. The successful operation of the SEZ is observed in those countries where the government encourages the attraction of resident companies in the FEZ, providing them with various benefits, subsidies, grants, guarantees and loans at low interest rates.

8. The formation of special free economic zones on the territory of Ukraine has a negative example of the use of such an extremely effective way to support the local economy and attract foreign investment. The analysis showed that payments to the budget of enterprises implementing investment projects in FEZ and priority development areas (PDA) amounted to UAH 1.8 billion in 2004. The amount of benefits provided for payments to the budget is UAH 1.5 billion, including including VAT of –UAH 291.8 million (19.8%), customs duties of UAH 795.2 million (53.8%), and income tax of UAH 389.5 million (26.3%). Other benefits amounted to UAH 200,000. The main problems of the existence of free economic zones in Ukraine are: imperfection and practical lack of systemic documents that program and regulate the activities of the FEZ in Ukraine; complexity, ambiguity and multilevel management system of SEZ in Ukraine; use of FEZ to shade the economy.

9. The optimal concept of SEZ activity in Ukraine is formed: attracting investments in innovation, in the main industries, in industrialized regions, in research, in the field of modern services with the creation of new jobs; decentralization of economic activity, must lead to a change in the regional policy of the state and ensure the transfer of powers from the management of the FEZ to individual territories and local authorities; making appropriate changes to the

legislation on a flexible differentiated system of benefits for foreign investors, taking into account the peculiarities of the resource potential of the region; in order to attract strategic foreign investors, it is necessary to provide state guarantees for the stable operation of foreign capital in the long run.

10. The main national economic interests of Ukraine that can be realized in the context of participation in the WTO system are identified, first of all in the implementation of new world trade rules that would combine the implementation of trade liberalization ideas taking into account military conflicts between WTO members and in terms of implementing plans for Ukraine's integration into the European Union.

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