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### THE ROLE OF SPECIAL ECONOMIC ZONES IN THE DEVELOPMENT OF THE NATIONAL ECONOMY

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#### ABSTRACT

The main aspects of features of the special economic zones in innovation of national economics in the context of acceleration of processes of the world economics globalization are investigated in the article. One of the main problems in the investigation process is implementation of more effective mechanisms in the world economics system during the reformation of national economics. With this aim the role of special economic zones in the development of national economics and reformation was of great importance. Taking into consideration the grouping of special economic zones in the world experience and existing of them the world model of devision of special economic zones was investigated in the article. The influence of special economic zones on renovation of national economics and their development processes were analyzed in the investigation materials. There were defined the main directions of using SEZ in increase of the social economic rationality on the basis of modern economics. The possibility of SEZ operating like the specific tool in provision of economic safety of the national economics were justified scientifically-economically. The results and offers important from the practical point of view for the modern economic processes were also shown.

**JEL:** F41; F43;O31

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#### INTRODUCTION

More than 25 years in accordance with appearance of new sovereign country on the world map the problems of national economics which would like to improve its economic processes is a major focus of interest. A group of developing countries and also the post-Soviet and post-socialist countries implement their strategic positions for improve of competitiveness of their national economics.

First of all the problems of innovatization of national economics are notable for their actuality. Thus, the importance of implementation of more effective and rational economic mechanisms into the system of national economics for modernization and reconstruction of its different sectors grows. Undoubtedly the preference of economics methods distinguished by the innovation functions in these processes is much more rational and their implementation conditions the realization of some complex positions.

Today the fast development of the scientific economic fields, formation of national economics sectors based on high technologies have an opportunity of faster and more rational realization on the basis on innovation functions. From this point of view the active use of SEZs which were used for implementation of more different and effective mechanisms into economics in many countries of the world draws attention (Farole et al., 2011). The owning of special discounts and profitable legal economic regulations by SEZs creates advantageous situation for the successful activity of the resident companies and firms, additionally motivates for acceleration of development of the national economics, brings the more modern management methods and technologies to the country, invests the formation of large capital and investment promotion, gives opportunity to enhance the industry potential, reinforcement of the conomic activity of the different zones and enhance of variety of the goods for export.

#### Problems of national economic innovataton and SEZs

The problems of national economics innovatization draws the attention as the influence of elements of world economic globalization grows up. Thus, as the processes of world economics become more global, the economic systems become more complex because of the diversification. In this case the importance of implementation of the cross functional economic mechanisms and economic tools which are able to make the immunity level of national economics higher in accordance with the level of adequacy make appearance. The possibility of taking up space of the effective innovative economic tools in the different sectors of national economics makes possible to create additional motives and new situations. As the result of this the level of



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national economics activity can grow up alongside with the new breath in the directions of economic development, the opportunity of realization of large innovation projects is created, and the possibility of formation of economic fields with high technologies is created. While reviewing the processes of innovative development of the developed countries of the world the one aspect that draws our attention most of all is the fact that the foundation of these processes was the growing up of the technology level and principles of economic modernization.

It must be noted that the diversification and modernization of the national economics of the developing countries in the world economic processes requires the realization of very complex processes. Alongside with the development of several traditional economic fields in these processes the formation of the modern economic sectors is required as the important economic mechanism. I believe that especially SEZs are the effective economic tool in this process. As it is known SEZs influence the economic development positively being the active and autonomous economic area (Sanjeev, 2008). Alongside with this SEZs give opportunity to enhance the competitiveness of the economics of the country by means of additional motivation for the economic activity of the residents. Several developing countries which had been living the historical economic development period during last 15-20 years gave a big role to the importance of SEZs implementation in their economics in order to reach the level of industrially and economically developed countries. For example, in accordance with the version of World Economic Forum 30 countries entered the rating of global competitiveness index for the period of 2011-2012, and 9 of them are the developing countries. The role of China is especially distinguished among them because this country was registered as the country with the most stable economic development dynamics during the last 20 years.

As it was mentioned above according to the economic power China leaves behind only USA. The GDP of the country increased 7 times during the last 20 years and the annual growth rate composed 7-8%. Despite of the labour power of the country composed more 800 million people the level of unemployment is one of the lowest in the world – a little bit more than 4%. During the last decades the most modern and developed industry fields were created in this country and the high technologies were implemented in most of them. The role of SEZs is too much in the processes of economic development in China. Several world experts characterise the SEZs of China as “China miracles”.

In case of connection of the science and education with the practical economic processes and their appearance as the indivisible mechanism in the process of innovatisation of the national economics the SEZs institute can act as an effective economic mechanism. The Nobel laureate J. Stiglitz states that fundamental research and most of inventions oriented to innovation take place in scientific and research enterprises, universities and institutes. But practical implementation of this important research does not take place long years (Stiglitz et al. 2005). The worry of the world known scientist is not without reason, because the analyses of innovatisation processes of world economics show that these processes undergo the really complex processes and their organization in accordance with the scientific-fundamental researches plays an important role.

### **Special Economic Zones: theoretical-conceptual convictions**

These days the formation processes of SEZs with different modifications have a millenary history in the world economics literature. In his work ‘The wealth of the nations’ the classic economist A. Smith argues against the trade regulation – the main activity field where the term ‘economic zone’ was formed. This leads to the conclusion that there are mistakes in these issues. The economist says that the taxes must fit the income and not to prevent development. Thus, the development of the local industry fields suffered from the smothering taxes and this caused the dangerous situation because of the export rate and privileges of the real production activity (Smith, 2001). In the processes of economic research and development more than 130 countries of the world preferred the implementation of trade simplification and expansion, holding development, business sphere development and motivation, and renovation and motivation of the existing economic and management mechanisms which have no influence, and the more important economic tools into the economic system of their countries via SEZs and these processes continue today also. The reasons and processes of renovation of traditional and inert management mechanisms and economic politics were also indicated in the ‘Innovation Diffusion’ theory of Y. Schumpeter (Schumpeter, 1947).

From the research works of another theoretician scientist T. Hegerstand we can come to realize that the importance and development characteristics of SEZs is directly connected with the economic policy of the



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government while formation of this kind of zones (Hagerstrand, 1967.). In USA the implementation of SEZs into the economic system of the country via the new functions caused the formation of different modifications of these effective economic tools in a short period and formation of new SEZs. American economists M.Frizer and R.Ray divided the changes connected with importance and forms of SEZs in accordance with 3 stages: store and transit zones (free ports, trade-store zones), free industrial zones (export and import oriented) and complex free holding zones (Frayze, 1991). Another american economists E.Toffler proved the SEZs as the new economic mechanism of the integration processes and international economic cooperation of different modifications. According to him playing the role of 'The Third Wave' effect in the process of progressive economic manahement SEZs gave opportunity to reach the productive results in the real economic processes (Toffler, 1995). Language English It is impossible not to agree with E.Toffler. Thus especially as the result intensive implementation of SEZs the accelerated economic growth has taken place in many countries since the 70-80-ies yars of the 20th century. The analysis of scientific points of view about the SEZs leads to the opinion that this complex economic mechanism was tested for a long period in the processes of world economics and proved itself, was formed as 'antient' and 'modern' economic tool and now it is innovatine and effective economic tool in the current world economic processes.

### Issues of classification of Special Economic Zones in the world

According to the analysis of the different modifications of SEZs all over the world we can arrive at a decision that during last 20-30 years the production technologically oriented SEZs models have been being preferable in the world, and it is not occasional that their number and importance growth every day. In this kind of SEZs espeially scientific and high technology goods are produces. Such kind of SEZs are widely spread in China last years.

The investigation of the economic processes in China let to arrive at a decision that provision with the approach of taking into consideration the realities of innovative important economic mechanisms from the practical point of view in this country in accordance with the requirements of each period made the opportunity for SEZ to become the valuable and effective state economic tool in this country (Tao et al, 2012.). Considering these facts the believes of china scientists and researchers about the functions, groups and types of SEZs and specific characteristics of such kind of zones also draws the attention. Among the main advantages and specific characteristics of the TPEZ in China are the following: the acceleration of development of the modern technologies, effective organization of the industry export areas, the provision of the fertile conditions for attraction of investors to the country, and giving an opportunity to increase the economic activity incomparison with another SEZs. P.Czanshen and V.Kay comparing the advantages of such kind of zones with the other opportunities of taking places in the economic system of China, led to the conclusion that such kind of SEZs ca give opportunity to manage more profitable results in the economics system (Tsyanshen et al., 2006). During the research on SEZs classification we reviewed the importance of such kind of zones and the strength of the aims for them on the basis of formation of their different groups and types.

Simplification of the large capital formation and formation of the local and foreign investments, formation of the effective economic activity sphere with the profitable economic regulations for the investors and owners and creation of the economic regulations free of the different administrative bareers and etc.

The major of economic literature devides the SEZs on 5-6 groups and most of all the classification of the kinds of SEZs spread most of all in 30-40-ies was covered. A group of scientists in economics who researched the problems od SEZs for more years tried to generalize and group the models of SEZs by different researches in accordance with the classification. In these processes the importance of preparation of the unique classification of the SEZs in the world in accordance with the groups and models of such kindof zones drew our attention (see Fig.1.).

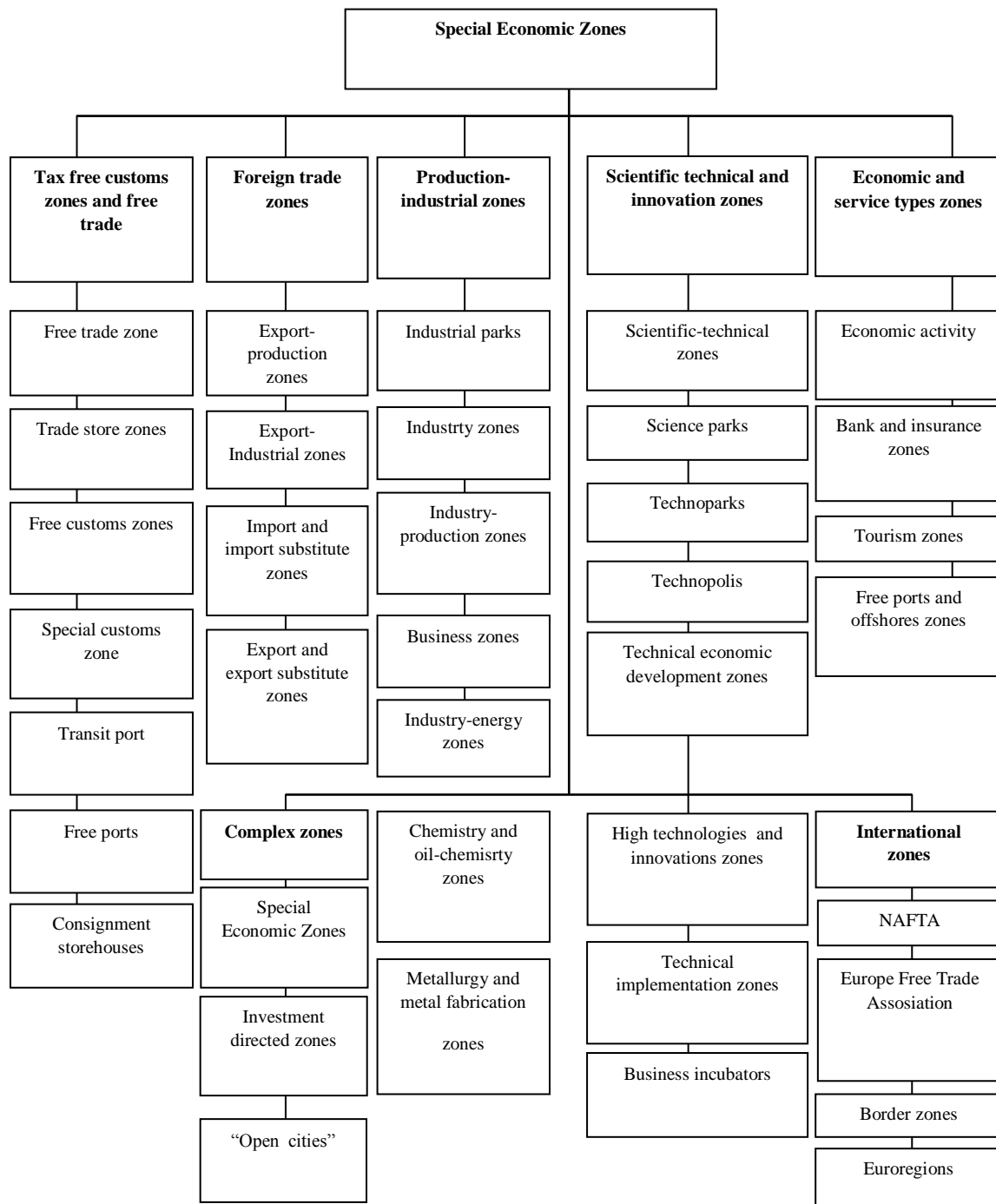


Fig.1. The classification scheme of the world SEZs in accordance with different groups and variations (prepared in accordance with different research materials).

**Influence of SEZs in the innovatization and development of thenational economics**

SEZs being the effective mechanism in the world economic system during the long period of time is the economic tool for giving additional motivation for the economic development processes of national subjects. Joining the local and foreign capital and investments together SEZs bring here the modern technologies and management models, implement the leading production processes, produce the various competitive goods and products, enhance the entrance of the local, regional nad country economics into the different channels, take the active role in the international exchange of goods and services, become the member of international cooperation



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relations, implement the external trade operations, and with all of these SEZs make the important invests for the constant development of the national economics and take part in strengthening of the world economic system. The number of SEZs with different modifications were more than 3 thousand and more than 68 million people were employed in these zones. The export volume of SEZs in different countries, distinguished with their effectiveness in the world economic system, composed 851 billion USD. It is worth to note that 61 million of people were employed in SEZs in China, Iran, Tailand, South, Malasia, Vietnam, Phillipins, Singapour and etc (Changwon, 2005; Carter et al., 2010).

Also it is notable that the national economics of such kind of zones fundamentally developed for account of the complex development, some of these countries took the main places among the world countries due to the level of their economic development. The implementation of more modern and progressive models of SEZs during the last 70-80 years in USA which is the more experienced among the developed countries is also notable. The volume of the annual net profit of the SEZs of the country is 20 billion USD and the value of output is 140 billion USD. The number of employes in SEZs of USA is more than 400 thousand people (IFC, 2004.). The comparatively improved and modernized 3 main groups of SEZs operate in this country today. Now there are about two thousand entrepreneurial zones in USA and they covered 49 states of the country. The technoparks in USA draw the attention too much as the progressive and efficient models of SEZs. Silicon Valley Technopark was formed as an effective economic operation zone reflecting the mutual operation of science and industry. This technopark was organized in 1983 in Boston, California (Kartsev, 2000). Taking into consideration the valuable productions during its operation period it can be noted that this zone is one of the largest technoparks of USA and the whole world. About 20% of production of the world technical equipment and computers have been realizing here. 15% of the industry potential and 30% of the construction potential is concentrated in this technopark (Avdokushin, 2004).

Allowing the %15 depreciation of the equipment, buildings and constructions gave opportunity to decrease the expenses of the production processes and decline in the prime cost and as the result of these to increase the volume of the profit in the first year of operation of the firms and companies in these technopolises (Prisekina, 2009). More than 120 companies have been operating in the SEZ located in the international Shannon airport in Ireland since 1958. The annual average export volume of the zone is 2,5 billion USD and the volume of import composes 1,2 billion USD. There is about 8000 employees in Shannon SEZs. As the result of innovation processes and high technologies transfer in the 'Limeric' innovation center opened in 1980 there was given a fillip to development of the technological production network in Ireland (Sacharov, 2007). About 30 SEZs operate in Singapour and about 4 thousand enterprises are located there. 230 thousand people were employed in these SEZs and 70% of people busy in industry work there. According to the value and production volume the export industry zone located in Jurong is the largest SEZ in Singapour. The territory of this zone is 6,5 thousand ha and about 2000 firms and organizations operate there. There are more than 100 thousand people in the zone. In 1984-1993 32 TPEZ were created in China. These zones gave important investments for the historical economic development of China. The most important is that these zones played a big role even in the innovatization of the economics of China and in implementation of the modern technologies in its different fields. It is interesting that TPEZ composed 5% in the GDP of the China and this indicator composed 6,7% in the production of the country, 10,1% in its export and 18% in the foreign investments formation. Despite of the low experience of the SEZs such kind of zones were organized in 27 regions and cities of Vietnam. For example, 13 zones were created in the North of Vietnam, 13 in the regions of the country and 40 SEZ were created in the South of Vietnam. In the beginning of the 21st century 24 billion USD was invested in creation of SEZs in Vietnam and about 1400 projects were implemented here. About 500 investment projects were registered in the industry and high technology zone Hoa Lak located 30 km far from the capital of the country. 180 SEZs which cover 53 regions and cities of Vietnam have more than 1 million employees and the number of different modified SEZs is expected to be 100 in 2015 (Khan, 2009). The implementation of SEZs gave opportunity to realize the huge volumed works in the field of diversification of the national economic sectors in Hungary. More than 100 thousand people were employed in more than 110 SEZs formed during this period. The average annual production volume in SEZs in Hungary composed 6 billion USD and more than 80% of this production was exported. 1,5 billion of USD was invested into creation and operation processes of export production oriented SEZs (Neklyudova, 2001). The analyses of the research materials give the opportunity to end up with the following results and proposals characterizing the theoretical and practical role of the SEZs in the innovatization of the national economics:



- Today SEZs have the power to operate as the rational economic instrument in the realization of the strategic goals of the national economics in the context of globalization of the world economic processes and enhancing of the principles of the international labour division;
- SEZs appear for the economic mechanisms in the solution of problems of national economics innovatization which own complex, autonomous, different legal and economic regulations and etc.

### The modern state of development of economy of Azerbaijan and contributing factors the use of SEZ in the national economic system

The measures on continuous and intensive development of the national economics were taken in Azerbaijan Republic during 2005-2014. The social economic indicators of the country are shown in Tab. 1.

*Table 1 – The dynamics of one group of the social-economic indicators of Azerbaijan (on the previous year in %)*

Indicators	2005	2010	2011	2012	2013	2014
GDP	126,4	105,0	100,1	102,2	105,8	102,8
Industry production	139,5	102,6	95,0	97,7	101,8	99,3
Agricultural products	107,5	97,8	105,8	106,6	104,9	97,4
Real fixed capital formation	116,6	121,2	127,3	118,5	115,1	98,3
Export (with current costs)	120,2	106,9	92,6	95,1	100,7	99,2

#### The results on Tab. 1:

- The growth ratio of the industry production does not show the important increase and a slight decrease in registered in 2014 in comparison with 2013;
- In the global experience the SEZ can serve as effective economic mechanisms in realization of the indicated strategic positions.

In Tab. 2 the ratio of non-oil sector in GDP of Azerbaijan Republic is indicated.

*Table 2 – The ratio of non-oil sector in GDP of Azerbaijan Republic (billion USD)*

Indicators	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total GDP	8,7	13,2	20,9	33,1	48,8	44,3	52,9	65,9	69,6	74,2	75,1
Non-oil sector	5,7	7,4	9,2	13,6	20,8	23,1	26,7	32,2	36,3	41,6	45,9
The special significance of non-oil sector in GDP- in %	65,9	56,0	43,9	41,2	42,6	52,2	50,4	48,8	52,8	56,6	61,0

#### The results on Tab. 2:

- The special significance of the added value created in the non-oil sector in GDP composed 61,0% at the end of 2014, alongside with this the non-oil sector did not reach even the same special significance in GDP as in 2004;
- SEZ operate as productive economic tools in the continuous and intensive development of different fields of economy in the global experience.

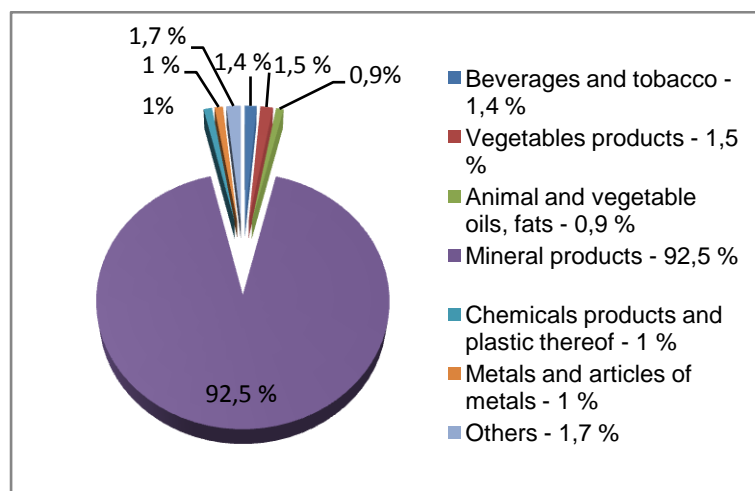
Foreign trade turnover in Azerbaijan Republic and the export dynamics of 1995-2014 is shown in Tab. 3.

*Table 3 – Foreign trade turnover in Azerbaijan Republic and the export dynamics of 1995-2014 (mlnUSD).*

Years	Foreign trade turnover	In comparison with previous year, in %	Including	
			export	In comparison with previous year, in %
1995	1304,9	91,2	632,2	97,6
2000	2917,3	148,4	1745,2	187,7
2005	8558,4	120,0	4347,2	120,2
2008	54925,5	466,6	47756,0	788,3
2010	27960,8	134,0	21360,0	145,0
2011	36326,9	130,0	26570,9	124,4
2012	33560,9	92,4	23908,0	90,0
2013	34687,9	103,4	23975,4	100,3
2014	31016,3	89,4	21828,6	91,1

## RESULTS

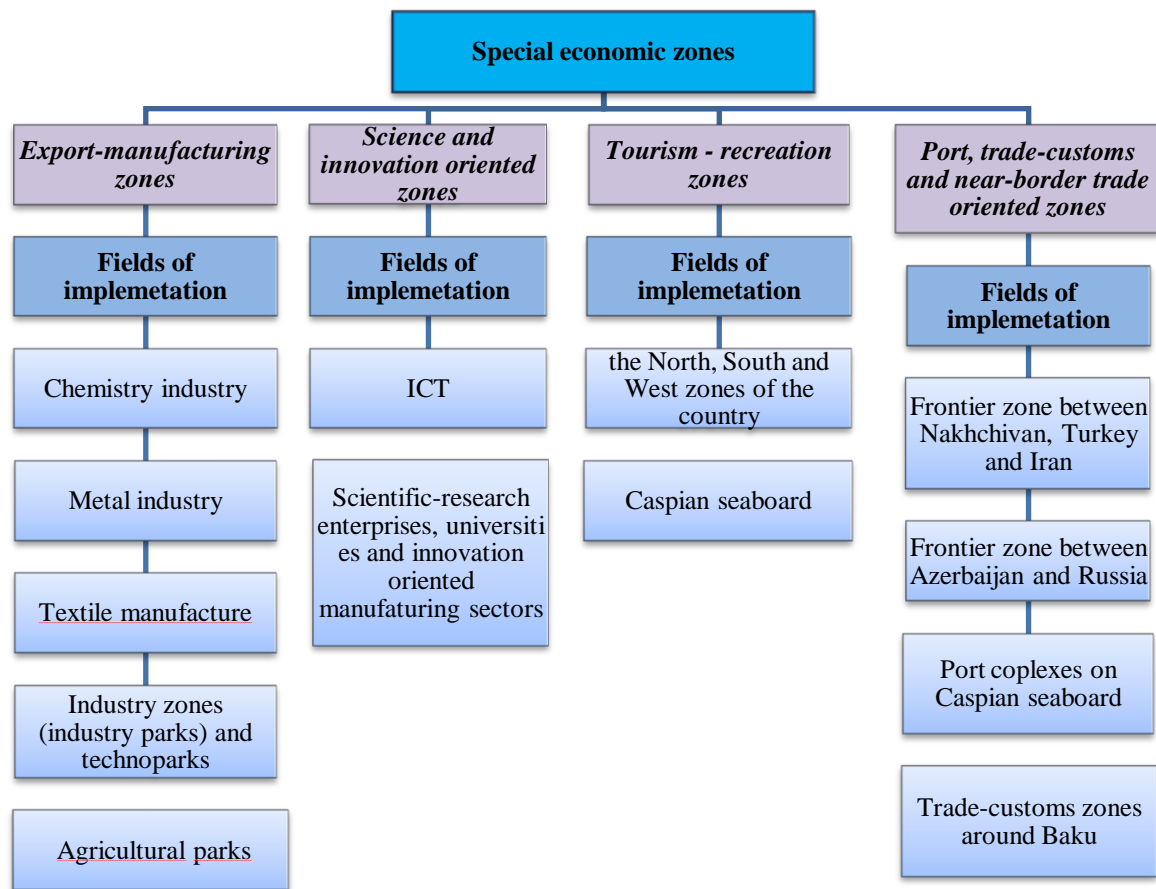
- In 1995-2014 the foreign trade turnover increased 23,8 times and the export volume increased 34,5 times.
- By the end of 2014 the foreign trade turnover decreased a lot in comparison with previous year.
- These indicators stipulate the diversification of the foreign trade especially the export and SEZ are created in the most countries of the world to increase the export potential.



*Fig. 2. The export structure in Azerbaijan Republic in 2014, %.*

If we analyse the Fig.2 we can see that in Azerbaijan the mineral commodity ratio in general export was 84,6% in 2006, and in 2014 this indicator was 92,5%. This means that raw materials export is the basis for the export potential of Azerbaijan, and this factor is not considered as positive by the famous economists and world experts. As we can see the problem of dependence of the economics of the country and the export potential on mineral commodity, especially oil and gas draws attention. In diversification of the national economics it is necessary to implement economic tools with more productive and working mechanisms in enforcement of the export potential, including SEZ.

Fig.3 shows the chart of priority models and implementation fields of SEZ in Azerbaijan.



*Fig.3. The chart of priority models and implementation fields of SEZ in Azerbaijan.*

## CONCLUSION

Taking into consideration the result of researches and development perspectives of SEZ conduction it is expedient to realize the following strategic goals in virtue of such kind of zones:

- Giving additional motivation for assurance of continuance of economics of the country and economic increase;
- Modernization of the national economics structure and innovation of the economic fields;
- Implementation of new technologies in the national economic fields in the country and acceleration of attraction of non-oil investments in these fields;
- Enforcement of the potential of non-oil sector, activation of the modernization process of the traditional economic fields, increase of competitiveness of the enterprises in this fields;
- Acceleration of organization of science- and innovation-based economic fields and increase of volume of the innovation products, elimination of the factors which cramp the innovation
- Enhancement of the manufacturing enterprises which manufactures the products of the high standards alongside with the increase of competitiveness of the industry sectors;
- Organization of the network of the modern and high technologically based enterprises for creation of the import-substituting fields and enhancement of the range of the export-oriented products, thereby increase the export potential of the country, especially the export of the non-oil products and etc.

The main factors stipulating the organization of SEZ in Azerbaijan:

- Enforcement of potential of the non-oil sector, modernization of the traditional economic fields and increase of competitiveness of the enterprises in these fields;
- Acceleration of organization of science- and innovation-based economic fields and increase of volume of the innovation products, elimination of the factors which cramp the innovation





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- Alongside with increase of the competitiveness of the industry fields enhancement of the network of the manufacturing enterprises manufacturing the products of the high standards;
- Diversification of the export structure of the country and etc..

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