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## INFLUENCE OF FREE ECONOMIC ZONES AND TERRITORIES OF PRIORITY DEVELOPMENT ON MARKET TRANSFORMATIONS IN UKRAINE

*This paper investigates the role of free economic zones (SEZ) and territories of priority development (TPD) in a market transformation of economy of Ukraine, their impact on improving foreign economic relations of Ukraine, partly out of financial crisis and promoting economic growth.*

**Key words:** free economic zones, territories of priority development, the European Union, foreign trade activities of Ukraine.

After the collapse of the Soviet empire in the early 90-s began a new era known as the "transformation", which meant the system changes from socialism toward a market economy. Mixed initial conditions determined the different approaches of Central and Eastern Europe to reform.

Today there is a clear direction of the transformation process in most countries. 27 Central and Eastern Europe has received membership in the European Union, others try to reach a level sufficient for entry, others still make decisions about how to improve the economic system. Ukraine is in a 2nd category.

First, Ukraine was considered one of the strongest post-Soviet republics in 1992 but it rolled into the abyss of economic depression. On the other hand, if initially it was considered a potential center of ethnic conflict and political instability, they then turned Ukraine into a democratic, peaceful society that clearly was confirmed among the new European and world order.

Market transformation of regional socio-economic systems in a transitional period means acting growth opportunities of all actors of their interests, namely personal, group, ethnic, regional industry, government, etc. It is designed to provide institutional, organizational and legal and economic preconditions for rational use of available natural resources, industrial and geopolitical potential. Its core is a restructuring aimed at forming a competitive environment and market infrastructure, promote decentralization and internationalization of investment processes. A positive point to be considered in this component of the transformation policy shift from sectoral to functional principles, which at first are task specific problem identified as the most priority directions of social policy and economic development. Requirements of the population, on the one hand, and natural-resource and infrastructure capabilities in the region, on the other, are essential for the formation of goals and criteria for development of regional socio-economic systems. Of great importance in this process of free (special) economic zones (SEZ) and territories of priority development (TPD).

This question is very important for Ukraine, because creation FEZ and TPD will lead to improvement of foreign economic relations of Ukraine, a partial exit from financial crisis and promoting economic growth.

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Ukraine needs investment. The powers that be realize this, and they also know that potential investors need incentives and guarantees, otherwise they will place their money elsewhere. To encourage investment in the country, the government created special economic zones (SEZ) with preferential taxation in areas where the overall investment climate was otherwise unfavorable.

Improvement of the territorial structure of Ukraine to some extent concerned with the creation of free economic zones, inter-territorial production complexes and various multinational companies. It is need to use the features of the geopolitical position of Ukraine in general and its specific areas, particularly those that are advantageous economic and geographical position (transport units, regions, where the international ways, etc.). Thus we must work with national interests from a position of unity and independence of the Ukrainian state. The essential condition is that Ukraine, as a young nation, was stage centralization and consolidation of those parts of its territory that have developed because of their long stay within the same State. So without improving public administration and economic reforms can not strengthen the territorial unity of the state itself. This fully applies to the formation of free economic zones. Soon they must cover a small area. Free Zone, as territorial and border systems should be one of the specific ways of integrating Ukraine into the global economy.

Special Economic Zones (SEZs) have been established in 120 countries to promote business and increase foreign investment. Stimulated by more liberal economic policies in these zones, as compared to the host countries' typical economic laws, a variety of institutional consortia have invested in more than 3,000 SEZ implementations worldwide.

In most cases, an SEZ is structured as a combination of public-private partnerships in which the public sector provides incentives such as infrastructure, equity investments, soft loans, and bond issues that enable a private sector developer to obtain a reasonable rate of return on the project.

A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. The category 'SEZ' covers a broad range of more specific zone types, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports, Urban Enterprise Zones and others. Usually the goal of a structure is to increase foreign direct investment by foreign investors, typically an international business or a multinational corporation (MNC).

The first joint enterprise zones (BSI) in the world considered the territory of large sea ports, railway junctions, airports. They usually was out from customs regime on the territory of the principal and operating through duty-free goods. Preceded the formation of such zones offer a "free port", is areas where they could be stored duty-free goods that come to the area for later sale. The first news of "free ports" associated with the XVI-XVII centuries.

There are two main conceptual approaches to the creation of Free Economic Zones:

- territorial approach - ECO functions as a specifically designated area covered by the profile;
- custodial approach - introducing a special regime, which provides certain advantages certain companies located in any which areas of the country if they meet certain criteria.

So, according to a Law of Ukraine "On general principles for the creation and functioning of special (free) economic zones" special (free) economic zone is a part of Ukraine and on which a special legal regime of economic activity and order of application of the legislation of Ukraine. In the special (free) economic zones introduced preferential customs, finances, tax and other economic conditions of national and foreign legal and natural persons.

Ukraine currently has the chance to turn these zones into a powerful investment mechanism. The Economy Ministry prepared a draft law changing the regional development legisla-

tion, which it said would help overcome the negative consequences resulting from the 2005 cancellation of privileges. However, Kostyantyn Kuznetsov, economic expert with the Kyiv-based think tank Razumkov Center for Economic and Political Studies, strongly disagrees with their reasoning. "It's simply not true," he says. "On the contrary, the amount of direct foreign investment in late 2004 was USD 8.4 billion, and it had risen to USD 22.4 billion as of April 1, 2007, according to Ukraine's State Statistics Committee. This is an absolute growth in foreign investment. The cancellation of privileges in the economic zones did not scare investors away, but instead attracted USD 4.8 billion in investment in the steel giant Kryvorizhstal, which allowed Ukraine to fulfill its privatization plan for the very first time." he said.

The government has made moves to improve the situation by determining clear criteria for the operation of the zones, introducing incentives for investors, and establishing a system of state control over project realization.

According to the new draft law, territories must fulfill the following criteria in order to become a special economic zone: average monthly salaries should not have risen above 85% of the country average for three years; unemployment levels must have remained about 110% of the country average for three years and investment projects must create employment.

There is a great deal of capital available to come to Ukraine, but there are too few viable projects from the point of view of investors. Ukraine has the human capital, consumer markets, location, natural resources and infrastructure to grow rapidly for a sustained period. Yet the administrative business environment, security of property rights, minority shareholder rights and ability to enforce contracts are lacking to the degree that Ukraine continues to forgo the lion's share of its opportunities for sustainable growth. Given the apparent incapacity to improve the business climate throughout the country, and a desire to develop especially depressed regions, starting in 1999 the authorities turned to the creation of free enterprise zones, where basic ingredients needed by investors were to be secured within pre-defined territories, and where special privileges were awarded. Among the motivations for these zones, it was thought that they would help to attract technology and foreign investment to Ukraine.

Ukraine has a multitude of sector subsidies, free trade zones and priority development areas. The following industries are considered "priority" and have been receiving subsidies of different magnitude during the last five years: shipbuilding, coal mining, steel, motorcars, aircraft, space, chemicals, pharmaceutical, and construction.

Name	Location	Area	Established	Time limit*
NCEEZ Sywash	Autonomous Republic of Crimea		1996	5 years
Slavutych	Slavutych, Kiev Oblast	2,000 ha	30.06.1998	till 01.01.2020
Azov	Mariupol, Donetsk Oblast	315 ha	21.07.1998	60 years
Donetsk	Donetsk, Donetsk Oblast	466 ha	21.07.1998	60 years
Zakarpattia	Uzhhorodskiyi Raion and Mukachivskiyi Raion, Zakarpattia Oblast	737 ha	09.01.1999	30 years
Yavoriv	Yavorivskiyi Raion, Lviv Oblast	116,000 ha	17.02.1999	till 01.01.2020
Interport Kovel	Kovel, Volyn Oblast	57 ha	01.01.2000	20 years
Kurortopolis Truskavets	Truskavets, Lviv Oblast	774 ha	01.01.2000	20 years
Mykolaiv	Mykolaiv, Mykolaiv Oblast, shipyard territory, and adjoining area	865 ha	01.01.2000	30 years
Port Krym	Kerch, Autonomous Republic of Crimea	27 ha	01.01.2000	30 years
Porto-Franco	Odessa, part of Odessa Trade Sea Port's territory	32 ha	01.01.2000	25 years
Reni	Reni, Odessa Oblast	94 ha	17.05.2000	30 years

\* Initially planned time of operation given. All zones were shut down on March 31, 2005.

In addition, special Economic Zones existed in Ukraine until March 31, 2005. The first created was the North-Crimean Experimental Economic Zone Syvash (since 1996). From 1998 to 2000 11 new zones were created: Azov, Donetsk, Zakarpattya, Interport Kovel, Kurortopolis Truskavets, Mikolaiiv, Porto Franco Odessa, Port Crimea, Reni, Slavutich, and Yavoriv. There are also nine special priority areas granting privileges comparable to those of free economic zones. For purposes of brevity moving forward, all types of Ukraine's free or special zones in Ukraine will be referred to, simply as "zones".

The privileges are granted not to all activities in the zones but only to a list of investment projects specified by government resolutions. In order to qualify, a project should meet the following criteria:

- the project belongs to the list of priority types of economic activity;
- minimal investment is in an amount from US\$0.2–3.0 million, depending on the type of the activity;
- the project is approved by the zone authorities; and
- there is a contract with relevant Central Government bodies.

The purpose of the special (free) economic zones are attracting foreign investment and supporting the promotion of joint activities with foreign investors to build business export goods and services, supplying the domestic market of high quality products and services, attract and implement new technologies and market methods of economic development market infrastructure, improve the use of natural and labor resources, accelerate socio-economic development of Ukraine.

PDA - the priority development territory - the territory where the prevailing adverse socio-economic and environmental conditions, poor condition of employment and which introduced a special regime of investment to create new jobs.

The purpose of the PDA is the formation of new and existing jobs resuscitation by attracting foreign and domestic investment under preferential customs, finances, tax and other conditions of economic activity.

Relevance of free economic zones in Ukraine has a system of factors that can be divided into the following groups: economic, ideological and administrative.

To economic factors include: the ineffectiveness of the existing method of economic management, the need for radical changes in economic policies, low productivity of state enterprises, a significant burden of budget deficits and debt, numerous investment programs funded by the budget.

To ideological factors include: changes in the key principles that underpin economic management, namely, the refusal of the state of uncharacteristic for her role of producer and supplier of products, as well as policies that inhibits individual freedom and promotes monopoly restricts the possible choice buyer.

It can not take into account the causes and groups associated with the need to change management style. High level of state ownership in the country generates bulky, inefficient bureaucratic structures that eventually transformed into "state within a state", working on their own wellbeing, strengthening their power.

Same these reasons territorial movements such as Economic Cooperation Organization (ECO), become important, fairly mobile element of market transformation. ECO target applications are creating new jobs, broadening the export base, improving the country's balance of payments, effective use of local resources, promote market reforms. International experience confirms that the use of ECO - an effective means to attract foreign investment into the country, creating favorable conditions for their operation.

It should be noted that Ukraine, occupying an advantageous geographical position in Europe, not the full use of cross-border cooperation to address their socio-economic problems. In particular, this applies to foreign economic relations. Border Development of regional cooperation as one of the specific ways of integrating with the common process at the macro level involves the division of power between the center and administrative areas, which makes it possible to react quickly to market demands, including the relevant cross-border merger.

National economy and regions by attracting foreign capital to receive the following benefits: more efficient use of local natural resources, introduction of new technologies, development of trade and export, production of goods for export; restructuring of national and regional economy, rising employment levels, job creation and reduce unemployment, increase welfare, domestic market saturation ECO high-quality goods, creating favorable conditions for international lending, obtaining new sources of funding opportunities for training and retraining of qualified personnel and the development of foreign economic relations, socio-economic rehabilitation of the region.

However, in the opinion of counsel for the organization of the UK ECO John Hansen, there are two dangers in creating SEZ: provided benefits not offset by work area or benefits not stimulate increased investment, and previous negative situation in the region continues to be stored. In the first case by reducing the tax burden the budget deficit even greater. The danger lies in the second variant of extremely high interest rates in Ukraine are very low ratio of bank assets and industrial countries (about 1:200). Therefore, success will occur only when ECO facilitate access to world capital markets. Yes, Leonid Minin believes that the establishment in Ukraine of special (free) economic zones has two advantages: it is the highest level in Europe transitivity, skilled and cheap labor. Budget losses of NO hardly be because the country's economic complex collapsed so that without radical reconstruction of any serious income to give it out just can not. With high levels of government criminalization of society is seriously concerned about a problem of intensive zones with special investment regime without the simultaneous creation of control mechanisms. Much less hassle cause classic zones with separate territory. It is a very serious question of the new zones in the financial plan.

As world experience shows, has formed a wide range of forms of free economic zones. Goals, trends and development strategies, approaches to the separation zone, have formulated a clear concept of the timing and appropriateness of the development of ECO. Common Criteria is also a reference to the territorial entities of different types of zone classification which takes into account:

- location areas according to geography position on border: internal (in-country) and external (right near the border);

- nature places zoning objects: local (point) based on small areas of individual enterprises, transport nodes, and complex - a significant development for the formation of territorial, administrative-territorial units that perform various functions;

- relationships with host country national economy: integration in mechanism of the principle of close cooperation with business entities beyond the development of horizontal linkages, and created primarily to increase the impact of freely convertible currency and localized in one small area with a small contact with the rest of the economy;

- functional orientation when zones are distinguished by the criterion of performing certain functions: foreign trade, commercial and industrial, technological, tourist, banking and insurance, information, etc.

Based on this classification, the objectives are often the foundation ECO:

- job creation and thus solving the problems of employment;
- expanding export base;



- countries improve the balance of payments from the proceeds in foreign currency, effective use of local resources;
- stimulating market transformation.

Investigation of effectiveness of ECO functioning directly concerned with identifying factors the effectiveness and achievements and failures due to operation of ECO in the process of their evolution.

Factors efficiency can be conventionally divided into positive, in those that promoted the effectiveness of ECO, and negative, that is, those that inhibit it. It is clear that the achievement of ECO is the result of positive factors (or the result of mitigating the negative factors), and the shortcomings and failures-negative zones.

Negative performance factors include:

- political instability in the country;
- instability and vagueness "in the legal regulation of economic activities;
- mechanical transfer its state experience of other countries;
- existence of too centralized management of the state;
- no state-level ECO constructive policies, including the sectoral and geographical priorities: lack of strategy and tactics development programs ECO (this applies to the creation of financial and credit structures, mechanism of guarantees for foreign investors, which hamper investment, is not conducive to their return);
- consumer market imbalance in the host country, the negative balance of payments, structural imbalances, lack of market mechanisms enshrined;
- multiplicity of purposes and ambiguities that can cause unreasonable distribution of benefits to almost all activities and operations in any area of subjects;
- area designers claim to receive benefits due to a depressed economy of the region that are not associated with a cost-based needs of local FEZ territory of favorable economic and geographical position and resource potential. In this case a SEZ without creating internal incentives to attract national or foreign investment in manufacturing, only artificially supports the mediation sector. Thus they are deprived of local budgets, a significant portion of tax funds;
- Lack of flexible and effective mechanism for estimating and resolving the problems encountered in the development zone. This means failure management area or the host government to adapt to changing environments, make the necessary adjustments to adapt the organizational structure of the zone to the new issues that arise during the evolution of the zone (reduced zone management adaptability):
- poor choice of location for the zone. For example, an underdeveloped region with poor roads and air transportation. Based on worldwide experience creating ECO can provide some important parameters of the location zone. Namely:
  - remoteness from major world centers of high demand (which includes both geographical location and transportation, communications, general basic infrastructure that already existed in the region);
  - availability of labor (both in qualitative and quantifiable);
  - existence of other factors: scientific and technical personnel, raw materials, climate, environmental conditions, the amount of arable land, etc.;
  - bridge market presence, which can sell their products. International experience shows that ECO should be set up on the main areas of commercial, industrial, data communications, taking into account regional cultural and historical traditions:
  - size not optimum zone. Zone size is a critical performance factors. It is believed that in countries such as China, Malaysia, Mauritius, Singapore, Macau large areas has become a major factor in industrial development. But on the other hand, large areas require large investments too,

especially the organization of infrastructure that makes inefficient functioning of such zones. Especially when you consider that we should expect positive results in 5 (now already is 10) years from the time zone. ECO Really profitable in the world is no more than 50 (this fact shows that profitability can not act as a generalizing, a universal criterion of efficiency and ECO can play a role only local criteria)

The adverse effects of operation of ECO. ECO failures or shortcomings in the planning stage of its development and operation can be considered:

- reasonable costs involved in the organization area, with the volume of foreign investments (Liberia - Infrastructure organization \$ 15 million investment - \$ 600 thousand):

- attempt firms located in areas, the internal market as a field for the dumping of products that do not meet international standards, suitable for implementation on a more demanding foreign markets (China, Guangdong Province);

- weak inverse relations firms zones host country that leads to the inability to effectively implement the country's comparative advantages, particularly its natural resources, most areas NIK PSA (Exception: United Arab Emirates, Ghana, Trinidad and Tobago). Final causes of this phenomenon has not yet established, but several of them are: in many countries, foreign companies operating in the area had established lines of supply to another zone, so they do not need local suppliers;

- poor areas;

- a significant difference in perceived ideas feedback from management and potential investors;

- cultural upheavals of foreign investors free economic zones (according to Western experts, it will be a significant disadvantage in the new states in terms of international comparisons). Means of reducing shock:

- functioning special stores, access to foreign television and radio programs and even adoption of English or another foreign language as a lingua franca;

- ignored psychological barrier that occurs when the organization entering the host country on FEZ territory and unjustified attempt to address the political and national-cultural problems through the establishment of SEZ (at this point the authors project zones in Ukraine);

- high level of unpredictability accurate economic forecasts for the further operation of the zone (example - Mauritius);

- unreasonable distribution of benefits in almost all activities in the area and the operation of any of its subjects, resulting from a large plurality and ambiguity of objectives which it set for area designers and organizers (India, China)

The above achievements and shortcomings ECO can serve as useful lessons for the newly independent states which deem it necessary to use the ECO as a means for economic growth state, and instruments of world economic integration. Refer to have some useful lessons from the activities of ECO in the process of their evolution, at which point foreign experts:

- transformation of export-import processing zones and industrial zones (Manaus in Brazil, China, Mexico, Barbados);

- national organization enterprises in the SEZ (in some states, such as in India, it is required):

- ECO understanding how a large area, not as a small industrial enclave (China, Sri Lanka, Mauritius). World experience shows that the evolution of territorial zone approach usually applied in the initial stages zones transformed secured. This ensures a stimulating effect on the area of the economy of the host country;

- evolution zone-oriented production of goods for exports, targeted services (Thailand);

- a completely new, such that meets global standards, the administrative system within area (Malaysia, Sri Lanka):

- means that some countries were able to attract some areas of heavy industry sector, which are characteristic of zones.

The experience shows that usually directed investments in electronics, light industry (textiles and clothing), furniture and food industries, are those in the industry, whose products have high cost or are easily transported; specialization export industrial zone depends on the first investor. Each zone takes the main place in any one industry. Often, that industry, which represents the first foreign enterprise zones, gaining the greatest development. For example, if the first zone investors are electronic firms, then these investors are automatically inclined to this area. Moreover, if industry takes the leading position in one area of the country, then, practically, it dominates the whole country.

Studying of foreign experience shows that through the creation of free economic zones in many countries managed to stabilize the economic situation and bring them to the crisis. Being the prevalent economic free zones in industrialized countries of the Pacific region, including South Korea, Taiwan, Singapore, Hong Kong. Among developing countries, the largest distribution of free economic zones have acquired in Mexico, Trinidad, Sri Lanka, Ghana, United Arab Emirates.

This way world practice confirms the feasibility and necessity of establishment of SEZ like a most activity in Ukraine. However, considering the financial and economic aspects of the ECO and relevant experience gained in China, Korea, Ireland, Hungary, Yugoslavia, Poland and the U.S. should bear in mind that ECO is a very costly, because their organization is associated with much investment. Estimated amount of initial investment in the SEZ is 5000 dollars per job.

In considering the place and role of special economic zones in the economy of regions and countries should assume a priori that the economy of special economic zones and the relevant territory's economy largely interdependent. Practice shows that the higher efficiency observed is in countries which are characterized by dynamic development. This is South-East Asia, South America. But in these countries as a zone of the same class, but different in size and production volume indices are unequal. Higher efficiency in small marked area. It is connected with the mobility of such zones, the ability to more quickly adapt to conditions that frequently change management flexibility. That is, the effectiveness of the zones depends above all from the same factors, and production activities, located directly in the zones.

Clearly, the resident country on whose territory or create a special economic zone, expects some positive effects. They can be direct, like a profits or indirect, that occur in the acquisition of new technologies, training workers new professions, production and social infrastructure, reducing unemployment, increasing exports, import substitution etc. Of course, each resident of the creation on its territory of special economic zones primarily focused on attracting foreign investment, along with the capital to get advanced technology, innovative technology, intellectual potential, management experience. It is also allows the state to plan in the long term restructuring of the economy, increase the volume of production.

As experience shows, foreign investments are usually delivered to the countries where the political situation is stable, dynamic economy, create appropriate conditions for investment. The latter means that residents of countries in placing areas should bear the related costs. For example, China at an early stage of development zones (am 80-years) spent one dollar to attract around 7.5 Yuan. China covers the costs incurred rapid engagement zone and its effective functioning in the next. Important to use new technologies, advanced marketing principles and management. Products of new creation enterprises should ensure saturation of the domestic market and simultaneously establish the global market. Thus, as the practice more effective is the creation of zones of small-size objects associated with their greater mobility, more simple, reliable



device management. This is one reason that the objects of this class is placed in the zones and what they represent small and medium-size capital companies.

Often traced element of the national mentality. Foreign investors and entrepreneurs of foreign origin drawn to their historical homeland. These often have medium and small capital, celebrated national patriotism, easy to climb. That this can be explained by the fact that the biggest investors in special economic zones of China are Huatsyao, that is the Chinese who live outside Greater China - Hong Kong, Taiwan, in other states.

Experience of special economic zones showed that it due achieved a significant macroeconomic effect, which is comprehensive in nature. In terms of international economic relations, he is at the expense of economic growth factors such as integration into the world economy, comparative advantages from the point first of all, the global economy, introduction of free or preferential trade, and the inclusion in the reproductive process of foreign investment .

If you consider the effect of the activity of special economic zones from the perspective of the national economy, it is formed as a result of attracting investment and intensification of export-import links, rapid economic development of the region and the state as a whole, the formation range of innovations, and receives a demonstration effect. Capital investment in the involvement, increased export and import links provided within the provision of special economic zones of various incentives (tax, customs and other), creating a favorable climate for investment, especially foreign ones. This is an important factor of market reforms and national economic development, its integration into the world economy. Easing, in turn, activates Economic, including foreign trade, as a special economic zone and areas that are in its sphere of influence. In addition, simplified way of national companies to foreign markets formed some experience on it.

An economic benefit for development of the region shows that the development of areas of priority activities is a necessary starting impulse. Functioning of Special Economic Zone is one of the sources of income to replenish local budgets and state budget. This applies to direct taxes referred to the budget, but also increase the tax by the intensification of the mass circulation of goods and services, intensive financial activity, attracting private and other businesses to cooperate of Zoning structures, etc. In addition, the concentration of much of the taxes and other mandatory payments to the local budget provides an additional incentive for development.

Existence of special economic zone creates favorable conditions for social development of regions, as rising standard of living of the population, settled acute social issues, such as unemployment, expanding services to the public and others. Scales, which carries the idea of special economic zones as an instrument of regional policy can be used for purposeful development of Regions of correcting economic development, deprivation of negative trends.

Economic benefits for national development based on the fact that the establishment and functioning of special economic zone gives not only the economic effect for the region, but the macroeconomic effect for the state as a whole. Special economic zones should be regarded as a powerful instrument of state policy of economic restructuring, when these zones can be introduced at once in several regions. Since the formation of special economic zone integrating certain areas (regions) in the global economy, so created a kind of "Ostrivka" competitiveness in the economy, which is not yet ready for international competition.

The special economic zone may be used as a range of innovations, have a demonstration effect. Because of its relative isolation special economic zone acts as an active research facility for implementation and testing of new technology developments in a particular area. Obviously, the successful implementation of new developments will be the basis for the transfer experience to other regions, will have major practical implications in view of economic reform demonstration deployment.

It should be emphasized those economic benefits that are achieved with the creation of free economic zones. They can provide direct and indirect. Direct benefits are revenue administration area in national and hard currency payments, taxes and rent paid by companies operating in the area income workers, profits as a result of utilities (water and electricity, communications, sewerage) supply of raw materials, etc., profit from relationships with companies located outside and income through extensions turnover of goods and services. In the indirect benefits is revitalization of the region and expand economic cooperation with other regions and countries, improve local skills, achievements of the new technologies and best practices, increase the quality of goods and services acceleration restructuring processes in industry.

Effective functioning of SEZs is largely determined by events on creating a favorable investment climate in the SEZ. It is necessary to ensure long-term and controlled nature of economic policy, terms of liberalizing the movement of capital and goods, to ensure reliable guarantees for the protection of property rights, establish effective forms of interconnection of local authorities, local and regional governments and of economic development and management of BMS.

Principles of forming FEZ:

1. The flexibility and dynamism of the SEZ.
2. Speak of many approaches, shapes and patterns SEZ.
3. Perspective development.
4. Compliance with the priorities of the FEZ priority directions of development of regions and states.
5. Subject to the requirements of national security.

SEZ created as economic enclaves that are beyond the country's economy that takes. Practice establishment and operation of SEZs shows erroneous view that the impact zones on the national economy can only be positive and requires no special control measures. FEZ, speaking a form of international cooperation is the result of a compromise between the investor and the party takes. This situation highlights a certain internal contradictions inherent in SEZ, as part of international economic relations.

As with any complex formation, special economic zones may cause a negative impact on regional economic system. Components to this effect include unjustified economic regime disintegration of a certain region due to the allocation of special economic zone, the redistribution of resources for its development to the detriment of other regions. The formation of special economic zone may become a factor activation of unwanted economic activities cause like other regions, sometimes unfounded, have their own area with similar privileges. Everything must be taken into account in substantiating a zone to maximum limit potential defects.

Experience of special zones in developing countries, shows that side-founder sees benefit in them, however, should not exaggerate their significance.

Thus, SEZ is a tool of foreign economic relations and improving economic structure of certain regions. As the practice of creation and functioning of the IX, the main advantage of SEZ for countries in transition from administrative-command system to market. Faster more efficient and attract national economy to the use of scientific and technological, organizational, managerial, economic experience of leading countries, attracting foreign investment, creating jobs, solving problems related to the preparation of modern professional staff - all of which should materialize in concrete results - growth of export potential, the accumulation of international reserves, optimize economic structure. Therefore, the creation of SEZ should be concerned not only individual regions, but also healed state, leading to a weighted and balanced policy towards the center regions, which are committed to the creation of SEZs.

For coherent integration of the economy in the world economy ties are created free economic zone. They may be established on the initiative of local authorities. Proposals for the establishment of ECO are made to the Government of Ukraine by local authorities (districts) in areas which will be organized. The most promising areas for the establishment of such zones is Transcarpathian, Donetsk, Luhansk and Kharkiv regions and cities of Odessa, Mariupol, Sumy. Financing of the works on preparation of investment projects provided the initial creation of the SEZ.

Among the most important problems whose solution is possible by creating an area with favorable geographical location more favorable compared with other forms of foreign trade conditions, we should observe:

1. Ukraine's economy in attracting foreign capital, advanced technology and management experience;

2. Infrastructure for expansion of international economic relations (including monetary and credit, insurance, information, transport) that allows use ECO as a conduit between internal and external economies;

3. Development of export zones and increase foreign exchange receipts, including by processing raw materials coming into the world market in unprocessed form;

4. Efficiency introduction of domestic and foreign scientific and technical developments, followed by transfer of results to be used widely in the economy of the country and abroad;

5. Testing at the local level various ways of introducing new forms of management adapted to the conditions of the world market;

6. Practical training of our staff and methods of international business, followed by using skills obtained outside;

Based on a specific target and industry orientation of ECO can be divided in several types:

1. Integrated special economic zone of industrial origin (Kharkov, Donetsk Basin, Luhansk, etc.);

2. Foreign trade - free customs zones and ports of export production zone and transit zone (Odessa, Mariupol);

3. Or functional sector (technology parks, tourism, insurance, banking and other areas).

All types of free economic zones can perform national economic and foreign functions. Foreign trade zones are mainly intended for foreign exchange earnings due to a special warehouse, lease of premises for exhibitions, reloading and handling of transit cargo.

Technological Parks and techno polis can help speed up scientific and technological process based on activation of international cooperation in implementing the results of the national basic research to develop new high technologies, finished products and expand their exports. ECO complex character created for relatively restricted areas with their advantageous geographical position along the transport routes of international importance, where there are conditions for the involvement of foreign capital in order to create industrial infrastructure.

Financial and credit policy may become an effective regulation of the target orientation ECO.

For enterprises of Ukraine, joint ventures and foreign companies working in the SEZ can be provided such tax breaks:

- reduction (cancellation) of income tax (revenue) and its transfer abroad (foreign investors);
- increase in the release of taxes (for joint ventures and foreign enterprises);
- issuance of tax credits (temporary release from taxes with further payments);
- setting of deadlines for accelerated depreciation of production assets;

Enterprises, located in the SEZ could help attracting foreign investment, introduction of new technologies, activating domestic market, improving the investment climate in Ukraine.

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