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## INTRODUCTION

**Relevance of the research topic.** In the conditions of globalization of the world economy, for most countries, the problems associated with ensuring the openness of national economies and their integration into the world economy are becoming increasingly important. As a result, they seek to derive economic benefits from participating in the international division of labor.

One of the effective tools that facilitate the process of incorporation of national economies into the world economy, the revitalization of foreign economic activity, have become zones of joint business.

Among them are the special economic zones (FEZ), which allow countries to realize, first of all, regional advantages in accelerating economic growth, socio-economic development of territories, to exert a multiplier effect on the development of the entire national economy.

As the UN Center for Transnational Corporations (TISC) notes, the growth of special zones is becoming one of the most important trends of recent decades. They are widely used both in developed and developing countries of the world. Since 1981, the number of special economic zones has grown more than 10 times, and their share in world trade by the end of the 1990s amounted to about 15%, which confirms their positive role as an important institution of the world economy. The World Association of Zones unites more than 100 similar structures. As shown in the paper, they successfully operate in China, Cyprus, Brazil, USA, Switzerland, Ireland and other countries. Positive foreign experience provides an informative and methodological basis for developing effective approaches to the formation of zones and ensuring their operability.

However, at the turn of the 20th and 21st centuries, when the economic integration of the world economy intensifies, the need for Azerbaijan to become more

actively involved in this process, the problems of the functioning of economic zones is again becoming increasingly important. There was a need for a comprehensive study of the functioning of the zones, taking into account the changing external and internal factors of the development of the Azerbaijan economy as a whole and the specifics of the development of its large economic regions. This determined the choice of the topic and the content of the dissertation research.

**Purpose and objectives of the study.** The purpose of the work is to identify common and specific characteristics of the formation and development of special economic zones, as well as assess the impact of regional factors.

To achieve this goal, the following tasks of the dissertation research:

- to classify the goals and objectives of the creation and functioning of special economic zones in the world economy, to consider their options that may be applicable in Azerbaijan;
- to identify the specifics of the formation and functioning of special economic zones in the macrozone of the world, taking into account the specifics of their economic development;
- to analyze the experience of the operation of special economic zones in Azerbaijan in order to identify the existing main difficulties and search for promising areas for the development of zones;
- to determine on the basis of a comparative analysis of different models the conceptual framework of the special economic zone for Azerbaijan and its regional modifications that contribute to economic stabilization and increase of the efficiency of management through active integration into the world economic system.

**The object of the study are** special economic zones as segments of national economies that are in close interaction with the world economy.

**The subject of the study** is the country and regional specifics of the formation and development of special economic zones.

**The theoretical basis of the research** was the works of Azerbaijani and foreign scientists dedicated to the formation and development of economic zones.

**Research methods.** The methods of economic-statistical analysis, comparison and generalization, systemic and historical-logical approaches are applied.

**Information and empirical base of the research** was provided by international, state and regional statistics, normative acts and subjects of Azerbaijan, collections of scientific papers, foreign and domestic periodicals.

**Practical significance.** The practical significance of the study lies in the focus on solving strategic tasks for the effective inclusion of the Azerbaijani economy in the integration processes of the world economy.

The results of the dissertation research can be applied in the development of laws and regulations on the formation of specific economic zones in the regions of Azerbaijan, as well as to adjust the administrative and economic activities of the existing Azerbaijan economic zones.

## **CHAPTER I. THE ROLE AND PLACE OF FREE ECONOMIC ZONES IN THE WORLD ECONOMY**

### **1.1. Free economic zone as an instrument of the policy of economic openness of the country**

Keynesian conception rejected the classical model of open economy, developed on the basis of the works of A. Smith, D. Yum, S. Mill. This model assumed that the internal and external equilibrium is achieved automatically due to the movement of gold between countries. If disequilibrium was established in the external economic calculations of the country (positive or negative balance of payments), then the resulting tide or ebb from the "open gold economy led to a change in domestic prices, and then export and import prices. Thus, according to the classics, there was an automatic equalization of the balance of external payments, that is, the equality of exports and imports, but in the modern world economy, gold no longer fulfills the role of regulator, so neoclassicists as regulators consider the reserves of foreign exchange reserves in the country and the amount of money supply.

Representatives of the neoclassical approach argued that deepening internationalization, increasing the degree of openness of individual national economies further reduces the effectiveness of the aggregate demand management mechanism. Neoclassicists suggested shifting the burden of regulation to a self-correcting market mechanism characteristic of capitalism, which, in their opinion, could eliminate external economic shocks and solve the problems of balance of payments. If the state does not interfere in the functioning of the market system, then the automatic mechanism for equalizing the balance of payments will always lead the economy to equilibrium.

According to the representatives of the neoclassical theory, the economic policy of the state constantly encounters the unpredictable shocks of the monetary sector of the open economy that are introduced from the outside and only contributes

to their strengthening. Only the action of market forces, they believe, can mitigate the consequences of foreign economic processes. The relationship between the changes in the reserve stock of the Central Bank's foreign exchange reserves and the domestic money supply can play the role of a corrective factor. Thus, it is possible to regulate the economy using monetarist methods. [31, p.69]

However, global monetarists oppose the Keynesian and neoclassical models. They analyze the integrated world economy. According to their concept, individual national economies are in close interdependence, and their development is determined not so much by national specifics as by the development of the world economic system. The proponents of global monetarism study a set of open economies so interconnected that they form a global economy from highly integrated national markets, between which goods, services, money and capital assets freely flow. In their opinion, all attempts at state regulation with the help of credit-budget instruments are neutralized by processes in the monetary and financial sphere of the open economy, the functioning of currency markets. Therefore, the state should refuse to interfere in the economy and promote further "opening", that is, remove barriers to the overflow of capital, foreign trade, currency transactions. In this case, as global monetarists believe, the role of the coordinator will be assumed by the international market system.

Evaluation of these theoretical developments is very ambiguous. It is fully justified criticizing the Keynesians for using short-term analysis and focusing on the domestic economy, economists - neoclassicists have fallen to the other extreme. They refused to consider the processes in the real sector of the economy. In the field of view of the creators of global monetary models of the "open economy" were mainly monetary aggregates, and, only at the international level.

Attempts to take into account all the criticisms led to the construction of a model that is a synthesis of Keynesian and neoclassical models of an open economy.

In it in the center of the analysis is the problem of interaction of expectations and forecasts of the volume of GNP. And it is in their research that they seek the key to understanding the causes of crises and shocks in an open economy. In this model, another channel for the openness of the national economy has emerged-the expectations of economic agents. In the opinion of the creators of the model, it is expectations that increase the scope of exchange rate fluctuations and cause huge capital flows.

Despite the differences in approaches, the founders of open economy concepts have convincingly shown that the most important indicators of the development of the national economy (such as the growth rate of GNP, inflation, exchange rate, balance of payments, etc.) are closely related to the processes in the foreign economic sphere of this open economy. Moreover, changes in one sector of the open economy (for example, in the area of public finances) can affect the development of others (the money market and the capital market). As a mechanism for "transfer" will be not the traditional for closed economy relationships, but the whole complex of processes in the foreign economic sphere. On the contrary, impulses emerging on the international market are transferred to the national economy. An example is the world financial crisis of 1997/98.

The most common interpretation abroad is the treatment of free economic zones as a territory where, through the introduction of a duty-free customs regime, as well as through other economic and organizational-administrative measures, foreign economic activity is stimulated and foreign investment is attracted. The definition of the free zone (or the "zone-franco") given in the eighth annex to the Kyoto convention (1973), which is understood to mean "part of the territory of the country where the goods are treated as objects beyond limits of the national customs territory (the principle of "customs extraterritoriality") and therefore not subject to normal customs control and taxation.



At the same time, sometimes in the foreign and domestic economic literature an extensive definition of the "free economic zone" is used as any territory within which any preferential terms of economic activity are established. In some modern theoretical works on the problems of zones, the latter are defined as a tool for selectively reducing the scale of state intervention in economic processes.

The modern policy of stimulating the development of the national economy branches is based on such financial and economic instruments as preferential taxation and lending, the provision of state guarantees, the offering of a certain set of privileges and preferences to investors, state assistance in promoting domestic products to foreign markets, providing investors with all necessary infrastructure for production competitive in world commodity markets. It is important to ensure the integrated and interrelated use of these tools. One of the effective ways to solve this problem is the creation of free economic zones (FEZ).

The free zone is not only and not so much a separate geographic territory as a part of the national economic space where a certain system of incentives and incentives for business is introduced and applied, which is not used in other parts of it.[8, p.36]Let's give some more definitions of FEZ. The free economic zone is, first of all, tax privileges, voluntary refusal of the center from the part of budgetary receipts due to it. Beli zones are several - this is an experiment. However, hundreds and even thousands of zones are already a serious threat to the authority of the center.

The free zone is not only and not so much a separate geographic territory, but rather a part of the national economic space where a certain system of benefits and incentives is introduced and applied, not used in its other parts.

The free economic zone is a part of the national territory (sometimes separated from the common customs feature of the state), which has expanded autonomy in resolving economic issues, a special management regime and preferential terms of economic activity for foreign and national entrepreneurs.

Despite some differences in concepts, the authors agree that the FEZ is part of the territory of the country with a special operating regime.

In this regard, in this territory there is a special legislation that regulates the activities of agents in the FEZ. It covers the customs regulation of export-import transactions, taxation, licensing, issuing visas, banking, property and mortgage relations (including those relating to land ownership rights), concession representation, free zone management.

Certain specific features in the SEZ can have acts of labor and social legislation. As a rule, the creation and development of free economic zones is focused on the solution of specific priority economic tasks, the implementation of strategic programs and projects. At the same time, as practice shows, each of the created zones has its own specific features, conditioned by the territorial distribution of the productive forces in the country, the specifics of the social and economic development of the given region, etc. With all the huge diversity of the current FEZ in the world, it is possible to single out common for all zones criteria.

1. Locality of territories.

2. The operation in this territory of special legal and financial-economic regimes, more preferential in comparison with the conditions operating outside the FEZ. The zones are characterized by a significant degree of autonomy in relation to economic conditions and legislation existing in the country. Often the right of legislative establishment in a wide range of economic issues is vested in the local administration. Along with this, the activity of the subjects of FEZ is based on comprehensive government support and guarantees.

3. The existence of a certain orientation in the sphere of economic activity.

4. The combination of locality with the openness of the economy, liberalization, stimulating the inflow of capital. However, it should be noted that in the current world practice, the initial goals and objectives declared in the creation of

the FEZ almost always do not coincide with what happens as a result of actual development, and are realized, therefore, in part. In full agreement with the original plan, in fact, they have never been sought.

Let's consider the main types of FEZ. Economists distinguish several types of classifications of free economic zones. So, for example, classification on the basis of economic specialization and the profile of the majority of economic entities operating in the zone. In accordance with the scheme, the zones of industrial processing belong to the central place in the world "family" of free zones. In the literature they are often referred to as industrial or industrial-production zones. They are subdivided, in turn, on the basis of the prevailing markets for import substitution zones (the domestic market of the country), export zones (foreign markets) and export-import-substituting zones (mixed marketing orientation). There are two different conceptual approaches to the organization of free zones: territorial and functional. According to the first approach, the zone is considered as a separate territory, where all resident enterprises enjoy a preferential mode of economic activity. According to the second approach, the zone is a preferential treatment applied to a certain type of entrepreneurial activity regardless of the location of the relevant firm in the country.

Any FEZ, regardless of the location of its location, the purpose of creation remains an integral part of the state territory with all the ensuing consequences. The sovereignty of the state on whose territory a zone is created and the exercise of its sovereign rights are not affected at the same time. This means that FEZs are economic, not political, state power in them will be exercised by authorities and government. [22, p.322]

The main types of FEZ, related to the modernization of the economy, are technical-innovative and industrial-production zones. These two types of special economic zones should be considered simultaneously, in spite of the fact that they are

fundamentally different. Industrial production zones are created for comprehensive development of production capacities aimed at import substitution and increasing the export of high-tech products. The creation of technicians of the economic FEZ assumes the development of an innovative economy by improving the conditions of economic activity of innovation business and creating conditions for the development of competitive advantages in science, education and advanced technologies. Both types of zones are inseparable elements of the national innovation system. [27, p.137]

The operation of the FEZ contributes to the social and economic development of the region, as new technologies are developed, the social infrastructure improves, the wealth and employment of the population of the region increase and the level of unemployment decreases. There is a significant increase in the revenue side of the regional budget, which contributes to the successful development of business; innovations are stimulated, activating information exchange between the participants, which ultimately determines the competitiveness of the region.

Thus, the development of special economic zones as an important element of the innovation infrastructure will contribute to the development of the national innovation system and increase the competitiveness of not only the regional and municipal economy, but also the economy of Azerbaijan as a whole.

To attract foreign capital, it is necessary to carry out a set of measures to develop the infrastructure of the territory. At the same time, it is necessary to focus on the level of infrastructure services achieved in developed countries. It is necessary to take into account the impact of socio-economic effects on the regional and national economies. It will be positive if a certain critical number of FEZs is reached with internal economic stability. Economic activity of FEZ should be carried out on the basis of the general legislation of the country with certain additions establishing preferential treatment for the investor.

Factors that contributed to the wide spread of the FEZ were: the development of innovation; strengthening competition for the markets for raw materials, goods and services, as a result of which several regions entered the path of economic development, where free economic zones have been created and are functioning.

Creation of FEZ, to a great extent, is determined by the geographical location of the territory on which it is planned to develop it. [16, p.146]

The special economic zone as an element of the state's regional policy is created to develop the country's export potential, to strengthen the competitiveness of domestic producers in the world market, to increase the degree of cooperation of the national economy with the world economy. It is integration into the world economy through the FEZ, as some experts believe, acts as the leading goal of creating special zones.

Free economic zones are used by both developed and developing countries, regions to solve a wide range of socio-economic problems.

The experience of zoning in regional economic systems makes it possible to identify a characteristic trend: a state decision to create a free economic zone is usually carried out within the framework of state socio-economic policy and a unified economic strategy with the aim of efficient development of the regional economic system and solving social problems facing the regions.

Special economic zones today are one of the most effective instruments for attracting foreign direct investment to Azerbaijan.

Business development is always connected with the use of innovations. In today's competitive environment, innovations play a key role in ensuring sustainable development of the economy. [10, p.338]

FEZ as a territory of development has a regenerating effect: they fill technological and managerial gaps, stimulate the modernization of various sectors of the regional economy.

Creation and functioning of free economic zones is one of the forms of realization of territorial priorities, when it is found out that in this geographical place the best conditions for effective capital flow and acceleration of economic growth are formed.

Thus, the creation and operation of zones with a special economic status is aimed at the solution of regional and national tasks proper: imparting an impulse for economic development to the region with active use of foreign investments; addressing employment problems; growth of export potential of the territory and the country; organization of production and supply to the domestic market of high-quality import-substituting goods.

## **1.2. General and specific aspects of free economic zones functioning**

The Institute of Free Economic Zones (FEZ) has a fairly long history. By the middle of the 20th century, FEZs have become widespread in many countries. At the same time, in different countries, the establishment of this institution took place in its own way, which gives relevance to the study and comparative analysis of the practical experience of foreign countries in the interests of its use in Azerbaijan. Today FEZ is an institution that facilitates attracting investments, as well as strengthening the economic and scientific potential of the state.

Free economic zones are clearly limited territories with a specific customs and trade regime, characterized by a general freedom of movement of capital, goods and labor. The main features of the FEZ are a close connection with the world economy, the world market and the active attraction of foreign capital. The use of the benefits of the economic and geographical situation is realized, first of all, in the fact that FEZs are usually created near sea and river ports, international airports that provide good communication with the world market. However, the different purposes of creating such zones and the different rules for doing business on their territory give rise to a

variety of terms for identifying such zones and make it difficult to compare their modes of operation.

The most common and most common name for zones with special economic conditions in world practice is the phrase "free economic zones", which is used as a generic term. Depending on the organizational forms and purpose, they vary widely in their name - "export zones", "free customs territories", "free trade zones", "free banking zones", "industrial-trading zones", "technology-innovative zones ", etc. Despite the diversity of terms, it is essentially a matter of the same phenomenon - the creation of economic enclaves that have a duty-free or preferential regime for the import and export of goods, a certain isolation in trade and monetary terms from the rest of the country, a close connection with the world market and functioning on the basis of active attraction of foreign capital. According to the UN experts, "SEZs are limited industrial areas that are part of the territory of the country with duty-free customs and trade regime, where foreign firms that produce products mainly for export enjoy a number of tax and financial benefits." The International Kyoto Convention (1979) "On Simplification and Harmonization of Customs Procedures" defines the FEZ as part of the territory of the state, beyond the customs borders, in which any movement of goods and money is not subject to administrative or any other control. [9, p.27]

It should be noted that the institution of FEZ arose in the extreme antiquity and gradually evolved. In their development, FEZ have come a long way from medieval trading port cities to innovative parks and research centers. Their role, place and forms have changed dramatically, they exist and operate in many countries of the world, turning into an inescapable institution of the world economy. Administrative and legal regimes of their functioning were transformed, new types of special economic zones were introduced. Initially, such zones were mainly created in ports and they were called zones of free trade. Currently, SEZs with some success operate

in more than 120 countries around the world. The largest number of special economic zones (more than 240) operates in the United States of America. They can be divided into three categories: foreign trade zones, business zones, technology parks [2, 100].

Each of these types of FEZ has a special administrative and legal regime of economic activity. Zones of foreign trade are distinguished by preferential customs conditions, which are characterized by special tax regimes. In addition, foreign trade zones cancel quotas for exported goods to other countries. In the business zones, both the warehousing of the manufactured product and its processing are produced. Complex entrepreneurial zones are created, as a rule, in those regions of the country where there is a high level of unemployment, as well as low incomes of working citizens.

A special position is occupied by techno-innovative zones (technological parks), the mode of functioning of which allows integrating economic activities with scientific ones. Zones of this type contribute to the development of innovative technologies. The experience of creation and mode of functioning of technoparks can be used in the development of technical and innovative special economic zones in the Russian Federation.

In addition to the USA, countries of Western and Eastern Europe have rich experience in the operation of special economic zones: Germany, Poland, Bulgaria, Ireland and others. The most notable success in the development of the FEZ was achieved by Ireland, which after the Second World War, using the market mechanism of special zones, overcame a deep economic crisis. In the thirty years since the war, 60 FEZs of various types have been created in Ireland. Shannon Airport, located in the southwestern part of Ireland, was one of the largest in Europe and provided refueling for transatlantic flights. But with the advent of jet aircraft in the 50's able to travel long distances without intermediate landings for fuel refueling, Shannon Airport's activity began to decline sharply, and the economy of the adjacent area was



in danger of crisis. The increase in unemployment and the growing level of emigration forced the Irish government to look for ways to solve this problem. In 1959, in an area (100 hectares) near the airport, an export-production zone was established, which was developed in two stages. Formation of the zone began with international tourism and duty-free trade. Here was opened the world's first "duty free shop." Parallel to this, an industrial park was created, albeit very slowly. As a result, in 1980 the innovative center "Limerick" was opened, which made it possible to switch to high-tech industries. Ireland's experience in creating economic zones has been successfully used by Asian countries. [24, p.156]

The peculiarities of the functioning of the special economic zones of the countries of South-East Asia (Singapore, South Korea, Malaysia) is that the administrative and legal regime of their business activities contributes to attracting both national and foreign investments. A flexible investment regime meets the interests of both the state and investors.

The main feature of the Chinese free economic zones is that the entrepreneurial activity carried out in them is regulated by legislative acts passed by the parliaments of those provinces in which the respective zones operate. Since 1980, China has created five special economic regions (OER), located in the south-eastern part of China. Areas are oriented to external markets. Of the five special economic regions, more than 50% of the products produced there are exported; It is mainly the manufacturing industry that develops here, as well as the sphere of NI-ROC and the trade and sales network. A special economic policy and a special management system are implemented on the territory of special regions. Foreign investors enjoy numerous customs and tax incentives, they are given large rights and powers. For example, the Shanghai Pudong OER provides participants with the following tax benefits: cancellation of VAT, consumer taxes, taxes on income of foreign personnel, income tax for 5 years and payment of 50% of income tax for the next 3 years. Within the

framework of the FEZ in Busan, there is a complete exemption from income and transport taxes, corporate income tax and their 50% reduction for the next 2 years; complete exemption from local taxes (property and VAT) and their 50% reduction for the next 2 years.

This allows China to acquire the most advanced types of equipment and technologies, to borrow modern methods of production management, to obtain reliable information about the situation on the world commodity and financial markets, and to improve the level of training of its personnel. All this was achieved after the clearly stated political will of the Chinese leadership, as well as a result of the implementation of a huge construction program related to the need to create modern infrastructure. 80% of these costs fell on the Chinese side.

In 1984, the Chinese government opened 14 cities for foreign trade - all major port centers of the country. They are given the role of "windows" and intermediaries in the foreign market. The zones of technical and economic development created in these cities attract foreign investors. The number of joint ventures in these cities is thousands, and the amount of capital resources involved reaches several tens of billions of dollars. Since the mid-90's. In China's FEZ, about 40 billion dollars are attracted annually. After 1991, a number of border cities in China received the status of open to the outside world. These cities have advantages for the development of trade and economic cooperation with neighboring countries, among which the prominent place is occupied by Eastern Siberia and the Far East of Russia.

In addition to the undoubted economic advantages of developing free economic zones in China, it is necessary to note a number of shortcomings in their functioning that must be taken into account when using the Chinese experience in a particular country. First, the priority development of the zones led to a disruption in the development levels of these territories and other areas of the country. Secondly,

because of the outstripping growth of manufacturing industries in the production sector, there was a significant backlog in the development of the raw materials base.

In many European countries, special laws on free economic zones have been adopted, and in some, even a coherent system of legislation on FEZs has been formed. This legislation is most active in the countries of Eastern Europe, including in post-Soviet countries.

For example, in Lithuania, along with the general law of June 28, 1995 No. 1-976 "On the foundations of free economic zones", laws were adopted on the creation of FEZ in Kaunas, Klaipeda and Siauliai. In Latvia, there are special laws on each of the four SEZs created (the Ventspils Free Port Act of 19 December 1996, the Freeport of Riga Act of 9 March 2000, the Law on the Establishment of a Free Zone in Rezekne 1997, the Law on the Liepaja Special Economic Zone of February 17, 1997), as well as the Law of June 27, 2001 "On the Application of Taxes in Free Ports and Special Economic Zones".

In the Republic of Belarus, the general rules for the creation and operation of FEZ are defined by the Law of December 7, 1998, No.123-3 "On Free Economic Zones". Important norms are contained in the decree of the President of the Republic of Belarus of June 9, 2005 No. 262 "On some issues of the activity of the FEZ in the territory of the Republic of Belarus". In addition, the regulations of the government approved provisions for each of the six SEZs operating in the territory of the Republic (Brest, Minsk, Mogilev, Vitebsk, Gomel-Raton and Grodnoinvest), which specify the benefits provided residents of FEZ.

In Poland, as early as 1989, the law "On Economic Activity with Participation of Foreign Entities" simplified the procedure for foreign investment and stimulated the emergence of SEZ. More detailed foundations for the creation and functioning of the FEZ laid the Law of October 20, 1994 "On Special Economic Zones", which supplement the rules established by the Law of July 27, 2002 "On State Assistance."

However, the enlargement of the European Union (EU) and the inclusion of a number of Eastern European states caused a change in policy towards free economic zones in these countries. In a number of countries, in the coming years, it is planned to curtail or significantly modify the activities of the FEZs created earlier, as well as the benefits to residents of free zones granted prior to the accession of these countries to the European Union.

It is difficult to trace a clearly expressed pattern in the terms on which free (special) economic zones are created. For example, Russian legislation establishes a 20-year term for which special economic zones are created. [18, p.114] Under the new law of 2006, the FEZ in the Kaliningrad region was established for a period of 25 years. Ten years before, the FEZ functioned here under the previous 1996 law. The above terms should be assessed as average. In the legislation of most European countries, these terms vary from 10 years (business zones in the UK) to 50 years (FEZ Brest and Gomel-Raton in Belarus). Although there are examples of longer periods of operation of free economic zones: for example, the FEZ "Cadiz" in Spain has been operating since 1929.

The analysis of the legal regulation of FEZ activities in a number of European countries, including measures of state regulation and the system of privileges granted to residents, indicates that the development of the legal regime of FEZ is carried out strictly within the framework of national legislation. This applies to the countries of the European Union. The exception is customs regulation, where the unification of legal regimes is clearly traced. So the EU Customs Code, approved by Regulation of the Council of the European Union No. 2913/92, contains provisions on the legal regime of the free zone and free warehouse. [20, p.4-5]

Considering the management aspects of the development of special economic zones, it should be noted that in most European countries, non-state structures are often involved in SEZ management. For example, in Lithuania, the management of

the FEZ is carried out by the management company that won the competition, which is appointed by one member from the government of Lithuania and the council of the municipality of the territory where the zone was established. The management company is a legal entity to which the very territory of the FEZ is leased out and certain management functions are delegated.

In Latvia, the management of the Liepaja FEZ is carried out by the board, which, in addition to three representatives of relevant ministries, includes three representatives of the City Council and three representatives of entrepreneurs of the city of Liepaja. Management of economic zones in the Netherlands can be transferred to public law companies or a limited liability company. Similar examples can be found in the practice of other European states.

Unlike many European countries, in Russia FEZ management is carried out mainly by state bodies. At the stage of discussion of the draft law on FEZ, various legal forms of FEZ administration were proposed, including the transfer of its functions to a commercial or non-profit organization. Preference was given to the option with the government body. As a result, the main functions in the management of FEZs were assigned to the Federal Agency for Management of Special Economic Zones and its territorial bodies. In addition, the creation of a supervisory board is envisaged as a coordinating body, which, along with representatives of federal and regional state bodies, municipal bodies, includes representatives of residents of the FEZ and other organizations. SEZ management bodies to exercise their functions to create real estate objects located within the boundaries of the FEZ and adjacent territory at the expense of budgetary funds and manage these and previously created facilities have the right to involve a joint stock company with 100% of shares owned by the Russian Federation or a management company in the manner prescribed by law.

The system of FEZ management in the Kaliningrad region has its own specifics. Here, certain powers to manage a special economic zone are assigned to the administration of the FEZ, whose functions are currently assigned to the Ministry of Economy of the Kaliningrad region. The formation of the supervisory board is not provided here, as well as the possibility of delegating management functions to the management company.

In European countries, non-state structures are often involved in the management of FEZ. For example, in Lithuania, the Management of FEZ is administered by the management company that won the competition, in which one member is appointed by the Lithuanian government and the council of the municipality of the territory where the FEZ is established. The management company is a legal entity, it is leased to the territory of the FEZ and certain management functions are delegated.

The volume of special tax privileges granted to residents varies considerably from country to country. Their larger volume is typical for countries that are not members of the European Union. For the countries of Eastern Europe, recently joined the European Union, the problem of reducing tax benefits in the SEZ has been the subject of serious discussions. In particular, during the negotiations between Poland and the EU, the European Commission considered acceptable the measures of state support undertaken since January 1, 2001, but did not agree to accept investment privileges granted to investors on the basis of the previous legislation. With difficulty, Poland managed to keep 14 FEZs on its territory for 6 years to fulfill its obligations to investors, solve complex demographic problems.

Industrially developed European countries, to which Russia is oriented, mainly moved away from the creation of industrial-production and service zones. It can be said that the general trend in the development of FEZs in Europe is the wide dissemination of technical and innovative zones, which in practice have a variety of

names: scientific parks, scientific industrial parks, technoparks and etc. The creation and development of such zones is becoming one of the promising directions of economic and scientific and technological development of the countries of the European Union. They are developing fundamentally new technologies, materials and goods, and experimental production of science-intensive products is carried out.

State aid in the field of R & D can be applied to technical and innovative FEZs, the creation of which is stipulated by the legislation of many countries (including Russia), and does not contradict the normative acts of the European Union insofar as it stimulates inventions, scientific research and technological development. In the European Union, state aid is always permitted if it is directed at basic research. According to Art. 163 of the Treaty establishing the European Union, enterprises, research centers and universities are encouraged in their efforts in the field of scientific research and the development of high-quality technologies.

Russian legislation also provides for the possibility of creating technical and innovation zones, but the number of zones created in practice is very limited. [7, p.48] A decision has been made to create only 4 technology-innovative zones, which is obviously not enough for the scale of Russia. For comparison, we can say that in the United Kingdom about 40 such zones have been created, in France - about 30, in Germany - about 20. It seems that the real positive effect from the creation of technology innovation zones in Russia will manifest only when the number of zones created and the scale their activities will exceed a certain critical mass. If we restrict ourselves to the creation of only a few such zones, then we can discredit the very idea in connection with a little tangible effect from their activities.

At the same time, the ongoing integration processes in the economies of European countries require the further development of legislation on special economic zones and, first of all, determining the appropriate level of measures of state support for investors in the SEZ to establish equal competitive opportunities for participants.

European legislation in the field of FEZ in most countries limits the provision of state aid in the field of economy, since such assistance is not compatible with market principles and fair competition is difficult due to the provision of state preferences to individual companies or the production of certain goods. In accordance with the provisions of Article 87 of the Treaty on the Establishment of the European Economic Community, any form of state aid in the form of grants or from public resources that violates or threatens to violate competition by creating more favorable conditions for certain enterprises or for the production of certain types of goods is considered incompatible with a common market. [32, p.27]

Exceptions to general rules are permitted in cases of assistance to support the economic development of regions with a low standard of living or high unemployment, or assistance to encourage or support certain types of economic activities or individual regions. Assistance to regions differs from other kinds of state aid in that it is limited to a certain geographic area and aims to stimulate economic development in this particular geographical area, supporting investments and creating jobs.

Distortion of competitive relations resulting from the allocation of financial assistance to individual regions can be justified only if certain requirements are met: this assistance should be provided only in exceptional cases and be limited to a time frame, the funds allocated should be sent to the most disadvantaged areas.

World experience shows that along with significant successes of countries using FEZ regimes, there are unsuccessful attempts to operate them. Not enough effective were free zones, created, for example, in India. The main reasons for this are certain miscalculations that were committed at the design stage. The main admitted shortcomings are: unsuccessful choice of the location of the zone; underdevelopment of the basic infrastructure, - roads, air communications, telecommunications and



electricity supply, - inadequate institutional links between the administration of the zone and state institutions responsible for creating preferential treatment regimes.

### **1.3. Typological characteristics of the free economic zones**

Starting from the definition of a free zone included in international legal practice through the VII Kyoto Convention of 1973 on the simplification and harmonization of customs procedures, the following general definition of FEZs can be formulated: free economic zones should be understood as part of the national territory (sometimes separated from the common customs state ), which has expanded autonomy in resolving economic issues, a special management regime and preferential conditions of economic activity for foreigners and national entrepreneurs.

There is currently no common type of FEZ. There are many approaches that classify free economic zones. It can be said that each researcher dealing with this topic offers his classification of free economic zones. For example, OECD experts identify three main types: free trade zones, business zones, reconversion zones.

In the world practice there are two main approaches to the creation of FEZ - territorial and regime. In practice, the territorial approach is most often used. With this form of organization of the mechanism of the free economic zone, preferential treatment is granted to enterprises located on a particular territory. With a regime approach, certain advantages are granted to enterprises regardless of their location. And already within the framework of each of these approaches there is a whole variety of types of free economic zones.

Making further classification, modern researchers use additional characteristics that make it possible to unite the existing SEZ in the world into four groups according to the following criteria:

- by the nature of the activity or functional purpose (free zones, export-production zones, scientific and industrial parks, offshore zones);
- on the degree of integration into the world and national economy (two types of FEZ are singled out: zones oriented to the external market (enclaves excluded from the customs territory of the state), and zones integrated into the national economy);
  - by industry;
  - by the nature of the property (public, private and mixed). [19, p.97]

Depending on the method of registration of the boundaries of the zone and the mode of their operation, SEZs are divided into two types: enclave (closed) and integration.

Enclave FEZ is fully oriented to exporting all products produced on its territory in order to obtain revenues in freely convertible currency. They are usually created in the territories of the country, naturally separated from it (islands, peninsulas, seashores, etc.), but can also be created inside the city.

Integration zones are closely connected with the national and world economy, they have a freer regime of their functioning. They are most typical for countries with developed market economies, widely included in the international division of labor.

Free trade zones are compact territorial entities allocated outside the national customs territory. FEZ specialize in warehousing and processing of imported goods in accordance with the conditions of the domestic market (packaging, labeling, quality control, simplified completion, etc.). Depending on the functions they perform, free trade zones are divided into:

- Free transit zones;
- Free customs zones;
- Trade and production zones.

Free transit zones are designed to serve a large international cargo traffic, in zones there is a minimum of formal procedures for crossing goods by borders. In free

customs zones, a special regime of customs control is established, in commercial and industrial areas, commercial and commercial activities are combined with industrial production.

Free trade zones are created primarily to increase exports and encourage foreign investment, as well as to stimulate economic development in these zones. Advantages of this type of zones are that they require a small initial investment and are characterized by a quick payback.

Industrial production zones are created as territories with a special customs regime, where industrial companies produce export or import-substituting products, using certain fiscal and financial benefits. On the basis of the prevailing markets, the industrial production zones are divided into:

- import substitution zones (domestic market of the country);
- export zones (external markets);
- export-import-substituting zones (mixed marketing orientation).

National and (or) foreign research, design and research-and-production firms that use a single system of fiscal and financial benefits are concentrated in zones of scientific and industrial or technology-innovative type. The closest to this model are scientific parks and technopolises.

Service zones are territories with a preferential business regime for firms and institutions that provide various types of financial and non-financial services. Offshore formations also belong to service areas.

Complex zones are formed by introducing a special, privileged in comparison with the general regime of economic activity in the territory of individual administrative entities.

The goals and options for creating zones of different types are not the same, however, the common features of most zones are the following:

- the creation of zones is aimed at solving the problems of development of a certain territory;
- zones are created for a limited time;
- they provide for minimal state intervention in business, and the tax burden compared to other territories is reduced. [4, p.128]

In practice, the FEZ can rarely be clearly assigned to one of the types, since it can combine elements of different types.

The world experience in creating free economic zones shows that for successful functioning it is necessary to provide a number of economic and social conditions that can be combined into the following groups:

- general economic (national) conditions (stability of political and economic situation, committed laws and regulations, convertible currency, low inflation);
- Regional conditions (availability of skilled labor or excessive number of unskilled labor resources, infrastructure development of the territory, effective service sector (banks, insurance system, distribution network, professional service) in the zone, as well as availability of normal living conditions for the population);
- a system of incentives and incentives for investors, which may include low export-import duties, preferential taxation; free repatriation of profits and a number of other conditions.

Regulation of activities of free economic zones is carried out through liberalized foreign trade, tax, currency and labor legislation.

Each type of zones has its own set of basic incentives and incentives, which are supplemented by special forms of incentives that are aimed at solving specific problems (for example, accelerated creation of transport infrastructure), or to stimulate certain types of activities (banking services, etc.) or attraction in the investor zone of a certain type (small or large).

There are four groups of benefits:

- Foreign trade privileges providing for the introduction of a special customs and tariff regime (reduction or abolition of export-import duties) and simplification of the procedure for foreign trade operations;

- fiscal incentives, which include norms related to tax incentives for specific types of activity or behavior of entrepreneurs. These benefits can relate to the tax base (profit, income, value of property), its individual components (depreciation, salary costs, R & D, transportation), the level of tax rates, permanent or temporary exemption from taxation;

- financial incentives, including various forms of subsidies, presented in the form of low prices for utilities, reducing rent for the use of land and production facilities, as well as through budgetary funds and preferential government loans;

- administrative benefits provided by the administration of the zone in order to simplify the registration procedures of enterprises and the entry-exit regime for foreign citizens, as well as the provision of various services. [17, p.363]

Benefits can be used in a variety of combinations. Experience shows that in relatively large industrial zones it is more expedient to use a territorial approach rather than a territorial one, when not all enterprises located on the territory of the enterprise receive preferences, but only those that meet the goals and objectives of the zone's development.

In large zones of a complex type, the system of benefits can be based on a combination of territorial and functional approaches: a basic set of preferences, universal in nature, is supplemented with benefits localized within certain areas of the zonal territory, as well as special benefits that permeate the economy of the zone horizontally (territorial section) and vertically (branch cut).

If we follow the accepted classification of regions, free economic zones are essentially program areas, whose boundaries do not necessarily coincide with administrative boundaries. Ensuring a special regime in the territory should be carried

out on the basis of administrative management, which creates special problems in the organization of the mechanism for the operation of the zone.

The FEZ is a territory with a special status, so the choice of the model of the administrative and economic management of the zone depends on the type and size of the territory, the features of the state structure of the country, the development of the private sector, etc. It should be borne in mind that the zone, being a local socio-economic system, should have a relatively separate economic management system, i.e. is outside the jurisdiction of the line ministries and departments that oversee various spheres of the economy.

This specificity of zone management creates the basis for conflicts that can arise both at the interagency level and between the zone and various state instances. To effectively manage the operation of the zone and prevent conflicts, it is necessary:

- creation of a functional structure for zone management, led by the administration, which is endowed with significant powers, including those delegated by different departments;
- the presence in the country of a state body for the coordination and control of the development of zones that have sufficient power to protect the interests of the latter, it is desirable that this body has an official status;
- direct subordination of the administration of the zone to an authorized state body, bypassing all interim administrative and territorial authorities.

Owing to the above-mentioned features of the free economic zone, the zone management mechanism should realize two types of functions: administrative functions related to the provision of a special economic regime, and economic functions associated with the development of the territory of the zone and ensuring the implementation of agglomeration effects. Therefore, the management mechanism of the SEZ includes two types of controls:

- the administration of the zone, which performs the functions of organizational, legal and economic regulation;
- a development corporation of the zone, which solves the problems of development of the territory.

The corporation of the zone, as a rule, operates on commercial principles. Its tasks include: representing the economic interests of the zone within and outside the country; solution of issues of placement of new productions; ensuring the attraction and training of labor resources; construction and operation of infrastructure facilities; arrangement and leasing of land plots; creation of specialized (trade, procurement, construction, transport, information, etc.) organizations.

The experience of creating free economic zones in different countries has shown that they can become a growth factor in the region, but the effect of the opening of the FEZ is achieved after several years and in the presence of the above conditions that determine the success of the zone.

The creation of a special economic regime in the zone and the application of various tax benefits result in the fact that the rate of profit in the zone is slightly higher than in the surrounding regions and the national economy as a whole, which allows the capital attracted to the zone to raise the rate of profit; favorable economic conditions in the zone may lead to a reduction in the payback period of capital investments.

However, the FEZ regime may not only have a positive impact on the development of the territory, national business in the zone, although it experiences the learning influence of foreign experience, but falls into the environment of fierce competition with unequal starting opportunities (low technical level of production, high prime cost, incomparable financial potential and i.e.), therefore in FEZ the fall of local production and decrease in economic activity of local producers cannot be ruled out.

Specific scope and size of benefits are established on the basis of the feasibility study of the FEZ development project, they are determined depending on the magnitude of the losses caused by the provided benefits (shortfall of revenues to the budget) and the effect of resolving the problems of the territory.

Analysis of the experience of the operation of the SEZ shows that in its development, the zones, as a rule, are divided into four stages: [5, p.85]

- the stage of creation, when the infrastructure is being formed, an active process of inflow of foreign capital is taking place;
- stage of development, in which there is a slowdown in the inflow of foreign capital with a rapid simultaneous increase in exports;
- stage of maturity: cessation of growth of foreign investment due to the filling of free market niches, replacement of small firms by larger ones with advanced technology, expansion of links with extra-zonal space;
- the stage of decline: the reduction of foreign investment as a result of the convergence of economic activity in and outside the zones, as well as the expiration of tax benefits, the expansion of participation in the zones of national capital.

During the life cycle of the zone, which is on the order of 20-30 years, it must solve the tasks assigned to it, after which the special economic regime of the zone is canceled, the zone in terms of its economic development actually merges with the extrazonal space developed on its basis.



## **CHAPTER II. REGIONAL FEATURES OF THE CREATION AND FUNCTIONING OF THE FREE ECONOMIC ZONES**

### **2.1. Free economic zones of Europe**

The development of free economic zones (FEZ) has become one of the main features of the functioning of the European economy in the XX century. Prototypes of modern FEZ can also be called the Greek island of Delos, where in 166 BC. the merchants were exempted from duties and administrative formalities, and the Italian city of Livorno, where in 1587 the merchants secured the right to trade tax-exempt, and the port cities of Genoa, Venice, Marseilles, where the first port-francos originated, and the free port Hamburg, and the old Hanseatic cities - Lübeck and Danzig. With the development of world economic relations, international trade, capital flows, migration of population and labor, globalization and integration, the role of FEZ in the functioning of modern society also changed. Today, the European FEZ has new quantitative and qualitative characteristics: the geography of their education has expanded, the problems and management mechanisms that they have solved have become more complicated, the range of industries and structures involved in the functioning of FEZ has increased, their specialization has deepened, and the tendencies of their further development have been outlined.

At the beginning of the 21st century, the speed of economic development in the EU has grown so much that in the Trade and Development Report 2007, the Secretary-General of UNCTAD announced the possibility of engaging the EU in the near future as the leader of global growth. This conclusion was made on the basis that, since 1999, the EU's economic growth rates have been higher than in the US and Japan. [25, p.57] In the opinion of UNCTAD experts, the acceleration of the growth rate of the EU economy is not least connected with the transition of European integration to a new quality: the transformation of the EU into a single economic space that has allowed the creation of a single market for goods, services, capital and

labor. In one way or another, it affected all spheres of the economic system: production and market, the state and corporate structures, interstate relationships. The result of these processes has become the growing interdependence of countries, which is expressed by the dependence of the economic conjuncture of each of the EU member states on the general economic policy pursued by the Community.

The development of modern economic principles of the EU has passed several stages, to a certain extent, corresponding to the development of the integration group itself. During the first stage (1958-1968), a customs union was formed, liberalizing the movement of goods within its framework. The central event of the second stage (1969-1992) was the Single European Act, which proclaimed the task of moving to a single internal market, with uniform standards and norms in the sphere of economic activity of legal entities and individuals, which was achieved by the end of the period. In the third stage (1992-2000), in accordance with the Maastricht Treaty, the task was set to create a single European currency - the euro, which really turns the Community into a real single market, as it removes internal differences in the organization of credit and settlements, exchange rate policy and currency markets, taxes and prices. It was during this period that a base was built for the common markets of goods and factors of production that developed in the EU. As the single market was being built, the organizational mechanism for its development was created. Schematically it can be represented as follows. The main policies of the member countries and the Union are defined for each of the markets (goods, services, capital, labor) in the form of joint decisions of the Council of Ministers of the member countries and the Union as a whole. If the economic policy of one of the countries does not correspond to the main directions of the EU or if it impedes the normal functioning of the community, the Council of Ministers must take the necessary measures provided for in regulations to eliminate inconsistencies through European regulatory bodies, and especially the European Commission. Much attention is paid to the development of complex

procedures for mutual recognition and specification of technical standards, harmonization of legislation, taxation standards, general approaches to consumer protection, creation of equal conditions for investment, free movement of labor, payment for labor, terms of employment, etc.

Initially, European economic integration was built on the unity of two elements: trade liberalization and the liberalization of market relations between the EU member states. However, as practice has shown, to create a single market for goods these two components are not enough. It is necessary to harmonize national foreign trade policies in terms of removing barriers to mutual trade and developing a common foreign trade policy in relation to third countries. The latter required the removal of protective reservations from the Treaty of Rome (they were lifted by the Single European Act in 1993); full delegation of authority to formulate and implement foreign trade policy from national governments to supranational governments. The effect of the measures taken was impressive: trade within the Union doubled, compared to what could have been in the absence of integration. [21, p.169] Thus, the development of international trade both between EU member countries and between third countries is a priority strategic task that can be traced in all decisions taken at the national and supranational levels. Therefore, it is not surprising that the main form of free economic zones in the EU are free trade zones.

Today, the largest FTAs operate in Germany (Hamburg, Kiel, Cuxhaven, Emden, Bremenhafen), Denmark (Copenhagen), Austria (Linz, Graz, Solbad-Hall, Vienna), Greece (Thessaloniki and Piraeus), Finland (Hanko, Helsinki and Turku). Smaller FTZs exist in almost every member state of the EU, which once again confirms that trade development is a priority for the development of the EU, and also attests to the incomes and other benefits provided by one of the simplest forms of FEZ, both for the state and for private capital. FTAs of the EU are based on full or partial absence of customs duties and taxes, preferential regime of import, export and

re-export of goods. On their territory, it is allowed to perform loading and unloading operations, storage, sorting, marking and storage of goods, to engage in exhibition activities, repair of ships, sale of goods. Thus, many of them carry out production activities - mainly processing of imported goods for re-export purposes. However, some FTAs have special historical privileges that allow them to carry out production activities oriented to the domestic market, using all the advantages of FTA. It should be noted that most FTAs operating in the EU have a long history. The only exception is the free trade zone on the island of Curacao (Netherlands), which was formed already in the 21st century. Such a paradox can be explained both by geographic features (optimal and competitive territories for the creation of customs-free zones have historically been formed and are already functioning), and by the general administrative barriers that exist today in the creation of an industrial type FTZ in the European Union. However, administrative barriers are not the only obstacle to their creation.

The classical economic model professes the principles of free trade and business, perfect competition, known as "laisFEZ-faire", and opposes state intervention. However, it is difficult to determine the optimal boundaries for government intervention in business activities, even at the national level, and to combine them with the supranational level is even more difficult. Not surprisingly, the EU's industrial policy has been forming for a long time. A clear industrial policy of the EU was acquired only with the signing in 1992 of the Maastricht Treaty. The Treaty formulated the objectives of the EU industrial policy: to accelerate structural transformations in industry, to create a favorable climate for the initiative, to encourage cooperation and interaction between companies, and to increase the efficiency of the use of the results of scientific and technological progress in industry. Back in 1989, the Commission proposed the adoption of the Status of the European Company. This document was supposed to put all companies of the EU countries in

an equal legal and fiscal position and thereby eliminate many of the difficulties that were caused by the inconsistency of national legal norms and tax rules. And although this document has serious opponents, which is confirmed by the fact that it has not yet been signed, but, nevertheless, work in this direction is being conducted. The main bias in it is to eliminate unequal competition. This fact has a direct impact on the creation and operation of industrial and industrial zones in the EU. The main trends of this development can be identified as follows:

1) Refusal to equalize the level of economic and social development of the backward regions of the EU member states due to the mechanisms of the FEZ. Despite the fact that promoting harmonious and balanced development of economic activities of all member countries is the fundamental goal of the community, the fulfillment of this requirement is most problematic. As is known, at present the economic development of these countries (and especially the regions) is unequal, and therefore the state or community assistance to depressed areas is extremely necessary. Moreover, its provision is provided for by the relevant EU regulations. But this assistance is strictly controlled: Article 92 of the Treaty of Rome proclaims the refusal to use the mechanisms of the FEZ, an alternative to them are the structural funds (European Structural Fund, European Regional Development Fund, Agrarian Fund Orientation Department). [13, p.9-10] Within the framework of the implementation of the Single European Treaty, the financial resources of the structural funds were more than doubled, and the mechanism for allocating and using their funds was revised.

1. The targeted exclusion of the system of preferential taxation from the privileges granted to industrial-production zones, since tax incentives lead to unequal competition. The exclusion of fiscal incentives, along with the rejection of direct financial assistance by the state in the creation of industrial and industrial zones, greatly reduces the potential of FEZ and their relevance in the EU.

2. Unification and standardization of labor and environmental legislation of the EU member states preclude the possibility of reducing the costs of manufacturing companies by minimizing the requirements for the workplace and wages or the level of environmental protection and pollution levels, which automatically makes the industrial-production FEZ in the EU uncompetitive.

Thus, the operation of the FEZ of a purely industrial-production type in the EU is inappropriate and rarely encountered in this form. However, the EU directives change drastically, if it is a question of production located on the territory of technical innovation zones (TVZ). This is the so-called "bloc exception" from the Treaty of Rome adopted by the EU Commission when business practices that differ from the established rules of competition, but which do not contradict them, become common. The precedent was established in 1985. Decree 418/85 until the end of 1997 introduced a block exemption for inter-firm agreements on joint R & D and joint use of research and development results in production activities. Today, numerous TVZs in the EU vary in size, specialization and main sources of funding. The fact that the EU pays special attention to the functioning of technopolis is evidenced by the fact that the headquarters of the International Association of Science Parks, which unites the European, North American and Asian-Pacific regions, is located in Shannon, Ireland.

One of the first scientific and technological parks (NTP) was created in the UK around the world-famous Cambridge University, where in the 50's. firms specialized in the production of electronic optics, and later switched to computer technology. Today, more than 400 firms are engaged in the NTP, which are engaged in the production of small-sized and high-priced science-intensive products. A typical company here has no more than 30 employees, and only about 150,000 employees are employed in Cambridge companies. Among other scientific and technological parks of Great Britain are Silicon Glen in Scotland and Milton Keynes in England. The

largest West European technopolis is in Germany under Munich and specializes in the creation of small science-intensive firms. The German technopolis has a high degree of autonomy and commercialization of innovation activity.

The successful experience of the introduction of technology parks is Ireland, and the creation of a technopark in the port city of Limerick, located 24 km from Shannon, is an example of the synergetic effect and evolutionary transformation from the functioning of the duty-free zone "Shannon", which was established on the territory of Shannon International Airport. In 1959, the Irish Parliament passed a law establishing an export-industrial zone (industrial park) near Shannon airport in order to attract foreign investment for export production, which could use the airport's services to import components and export finished products with a concessional 10% export duty. Such measures ensured a significant increase in freight and passenger traffic through the airport, the creation of new industrial enterprises and the development of the west of Ireland as a whole. At present, Shannon is a highly developed industrial center, consisting mainly of high-tech enterprises with more than 110 foreign firms, more than 6,000 jobs have been created, and annual exports amount to more than \$ 1 billion. The state company manages the project. Unlike the leadership of many other export-industrial zones, this company manages not only the management of the free zone, but also is a society created for the development of the Shannon region. Taking into account its responsibility for further development of the zone and the region as a whole, in 1980 the company opened the Limerick Innovation Center as a kind of experimental ground for organizing new enterprises using advanced technology. The center is located on the territory of the technological park "Plessi" and performs many auxiliary functions peculiar to the technopark, complementing the research work of the Limerick Technical University.

Thus, in Shannon, the main functional types of FEZ are presented in miniature: duty-free trade, an export-industrial zone using industrial technologies, and

a technopark. Another form of FEZ, which for a long time was widespread in the territory of the EU member states and which is undergoing transformation now, are offshore zones. The most important criterion for classifying offshore companies can be their image (prestige) in the eyes of the international community. The offshore reputation determines the ratio of trading and financial partners to a company registered in offshore. Historically, it turned out that offshore jurisdictions located on the territory of the EU member states belong to the so-called "respectable" (white) offshore companies. Tax laws in some territories of Great Britain, Ireland, Luxembourg, Malta in some cases imply low taxation for certain groups of investors (usually foreign). The reduction in the taxation of enterprises' incomes is sometimes also achieved by applying the terms of international agreements for the avoidance of double taxation (CIDN) or the residence of companies. Characteristics of the offshore zones of the EU in terms of benefits provided to offshore companies are presented in the table.

**Table 1**

**Characteristics of the offshore zones of the EU in terms of benefits  
granted to offshore companies**

<b>Offshore Type</b>	<b>Features</b>	<b>Jurisdiction</b>
Limited offshore, requiring reporting	Availability of preferential taxation conditions for offshore companies, reporting requirements. There are AADT agreements	Cyprus
Offshores, which reduce taxes on certain types of activities	Certain activities are taxed at reduced rates. As a rule, benefits for banks, holding companies. Often there are AADT	Gibraltar, Luxembourg, Guernsey, Maine, Austria
Jurisdictions providing certain benefits to non-	For residents, the standard terms of taxation,	United Kingdom, Netherlands



residents	however, a company registered in the country may not be considered as a resident, some benefits for non-residents and certain types of companies	
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Source: <https://www.energy.gov>

In general, despite the preferential nature of taxation, certain offshore jurisdictions differ significantly in terms of the tax breaks granted. If for companies with a special tax status (exemption or zero tax rate apply if the source of income is located outside these territories), a low or zero level of taxation exists in almost all jurisdictions, for other types of companies, including non-residents, tax rates are strong enough vary. The importance of offshore reputation has increased especially now, when global pressure is put on this form of business organization. High reputation from the point of view of modern requirements allows to achieve more favorable conditions from foreign trading partners and from financial institutions. For example, foreign insurance companies will not insure companies from tax-free zones, since it is difficult to obtain reliable information about their financial condition in order to assess financial risks. At the same time, the higher the reputation, the more expensive the company's service in this jurisdiction (the need for accounting according to international standards, compulsory audit, maintenance of documents, etc.).

In addition, it should be noted and new trends in the development of offshore legislation in the EU: Weakening banking secrecy (almost all offshore laws adopted legislation that meets the requirements of the FATF and ensures greater transparency of offshore companies). Strengthen the transparency of corporate structures (prohibition of bearer shares, the need to provide information about the ultimate owners of corporations). Exchange of information (offshore agreements on the exchange of information with the United States and other OECD countries).

Counteracting the "pernicious" activities of offshore companies (offshore companies that do not meet new requirements, practically lose competitiveness due to tough opposition from the international community and national authorities).

## **2.2. Creation and functioning of the Free economic zones on the American continent**

In the United States, there are currently three main types of free economic zones: foreign trade zones, business zones and technology parks.

Free trade zones arose in the world only in the XIX century, primarily in Northern Europe. In the USA, similar zones appeared in the 30s of our century, having received the name of zones of foreign trade.

Such zones are limited areas of the national territory, within which a preferential, in comparison with the general, regime of economic, including foreign economic activity, is established.

In other words, foreign trade zones are trade or trade production zones, which, being part of the national territory, are considered from the point of view of customs, fiscal and fiscal regimes as being outside the state.

Modern zones of foreign trade provide a wide range of services: warehousing, sorting and packaging of imported goods, as well as its complete processing, the assembly of certain types of products from components of local or foreign origin and even the creation of certain types of productions on the basis of products entering the zone or produced therein. Usually, the prerequisites for organizing free trade zones are a favorable geographical location (proximity to international transport arteries, large industrial centers, border trade areas, etc.) and the availability of a developed infrastructure (access roads, warehouses, cargo terminals, handling equipment, sustainable electricity, water and heat supply). Therefore, foreign trade zones are most often located in ports, airports or near them.

The first zones of foreign trade created on the basis of the Law on Foreign Trade Zones (1934) pursued the goal of deepening the involvement of the United States in world trade through the expansion (through customs privileges) of economic activity in certain territories, as well as to reduce the unemployment rate, which was extremely high Great in the period of the "Great Depression".[12, p.68]

Under existing legislation, foreign trade zones operating in the United States are divided into

- General purpose areas,
- specialized zones (subzones).

General-purpose areas are located, usually near or in the territory of ports and airports, outside the jurisdiction of the US Customs.

A typical general foreign trade area has leased storage areas for goods, a distribution center located there, with access to any means of transportation. In most of these zones there are also industrial park sites where zone users can have their own farm; utilities are provided on the basis of published tariffs for state companies.

General-purpose zones are an American version of what is known in international practice as a zone of free trade or a free harbor. The scope of general purpose areas covers warehousing, sorting, packaging of goods without additional processing. Such zones are created on the basis of a permit issued by the Committee on Zones of Foreign Trade to various organizations existing under the state government or local authorities, for example, the port administration, state committees for industrial development, agencies and corporations for economic development. An important condition for the creation of these zones is their contribution to the economic development of the state, to the increase in employment, the expansion of trade. Managed zones are public or private companies, with which organizations that have been granted permission to create zones, enter into contracts.

The first general trade areas were located in major ports in New York, New Orleans, San Francisco, Oakland, Los Angeles and Seattle. In the 1950s, similar zones were established in Toledo (Ohio), Bay County (Michigan), Mayaguez (Puerto Rico), Honolulu (Hawaii). Most of all, the number of zones increased in the 1970s and 1980s, reflecting the growth of US foreign trade and the intensification of competition in their domestic market. During this period, such zones were created not only at seaports and international airports, but also in cities that do not have access to the ocean, but play an important role in foreign trade. Out of the 52 general purpose zones created in 1970, 24 were located in cities with no access to the ocean. [3, p.206] An important role in this process, in addition to the increased volume of US trade, was the activation of foreign corporations in the domestic market, the rapid growth of various types of export operations, which led to the creation of a new trade infrastructure in the country.

Specialized zones (subzones) are organized in the interests of large companies, whose activities go beyond general purpose zones, and are targeted to only one user. Such zones are created by the decision of the management of zones of general purpose, for the organization of a certain private company assembly plants or various industrial productions. The status of the subzone is secondary to the status of the general-purpose zone, as a rule, it is granted to already existing industries. Subzones are technically part of general-purpose zones, but they can be geographically far removed from the latter. The creation of subzones pursues the goal of developing export potential, establishing import-substituting industries.

In America, free economic zones are widespread. This is facilitated, in the first place, by various benefits provided by companies operating in their territory. The main of these benefits are:

1. Customs duties and internal taxes, if any, should be levied, are paid only when goods are transported from the foreign trade zone to the customs territory and are intended for domestic consumption.

2. Goods in the zone are not subject to customs duties and excise duties are not collected from them. Private property of companies or individuals located in the territory of the zone is exempt from federal and local taxes.

3. Goods that are exported from foreign trade zones to third countries are not subject to customs duties, internal taxes and are not subject to quotas.

4. Exported goods, thanks to a well-established security system, do not require large insurance costs.

5. The customs procedure for exporting goods is minimized.

6. Goods banned for import into the United States are not imported into the territory of the zones. An exception is made for goods intended for subsequent imports into the United States if they are processed in the zone according to the requirements of the US Customs.

7. Import of goods from foreign trade zones to the territory of the United States is carried out in accordance with a procedure that allows the importer to pay a customs duty either for goods received in the zone or for foreign components used in the process of its processing. Thus, the importer is given the right to choose a smaller fee.

From the general standpoint, it can be argued that the creation of free economic zones will promote the activation of foreign economic relations, the economic and social development of the whole country and its individual regions on the basis of the involvement of foreign and local investment, technology and managerial experience.

For many enterprises, it is also important to postpone the payment of import duties for the period of the presence of foreign goods within the zone of foreign trade

(until the time of their release to the customs territory of the United States), as well as the non-collection of duties in the case of re-export of previously imported into the zone of foreign goods.

Despite the prohibition of retail trade existing in most areas, retailers have their warehouses on these territories and benefit from deferring payment of import duties.

The following data testify to the scale and main directions of activity of the foreign trade zones. In 1992, the total value of goods that were imported and processed in these zones reached 93.8 billion dollars. And at the end of the 1990s, the total value of goods imported annually into the zones amounted to 130-150 billion dollars. The expansion of the economic activity of the foreign trade zones is mainly due to the growth of assembly enterprises and the production of finished products on the basis of local and foreign materials (crude oil, car parts, etc.). The main users of the zones are car assembly plants, they account for 63% of the total volume of work in the work areas. Domestic goods account for 75% of the total volume of imported goods.

Thus, the zones of foreign trade, deeply integrated into the economy of the country, make a significant contribution to its socio-economic development. This is carried out, first of all, through the stimulation of national companies with the help of a preferential tax regime to produce in the US various types of finished products, more competitive, compared to foreign, sold in the US market. The activities of foreign trade zones also have a beneficial effect on the investment climate in the country, counteract the trend of job losses and promote foreign trade. Through the zones of foreign trade, 2% of imports pass and about 1.5% of the country's exports. The role of these zones also increases in meeting the needs of the domestic market - in the early 90's, 88% of the products produced and processed in such zones were sold. [28, p.94]

In recent years, the United States has made great efforts to improve the efficiency of foreign trade zones and their orientation to expand exports and transit trade in the United States. To this end, a special program was developed at the federal level, according to which measures were taken to support American firms operating in foreign trade zones in those industries where there is strong competition from foreign companies. Among these measures is a change in practices and procedures for obtaining export licenses.

This group of free economic zones include those that are not directly related to servicing foreign trade. In this case, customs privileges fall into the background, and the main role is played by various tax, financial and administrative incentives.

Entrepreneurial zones arose in the United States to revive small and medium-sized businesses in depressed areas by providing entrepreneurs with greater freedom of activity and significant financial benefits. These zones have become important centers for regional development based on three "d": deregulation, deficiation and de-bureaucratization.

According to the legal status, business zones in the United States are divided into federal, state and local, and are created by decisions of government bodies at appropriate levels.

Entrepreneurial zones are usually located in economically depressed areas of large cities with the highest unemployment rate. They cover, as a rule, areas of 2.5-5 square meters. km, do not have fenced limits and are allocated only by the status of the companies located there. In most states, business zones are created for 10-20 years, federal zones - also for 20 years, this can be extended.

In order to develop production and increase employment, US companies are granted various privileges on the territory of the zones. At the federal level, this is a 5% discount on taxes paid for construction and repair work, tax rebates for enterprises for each additional work, and cancellation of the tax on increasing the cost of capital.

At the level of various states - this is a 50% discount on the income tax of the enterprise (Connecticut), 100% tax on sales of equipment (Louisiana) and construction materials (Kansas), on fixed assets (Virginia). More than 70% of all tax benefits are received by entrepreneurs who create new jobs in the business zone.

In addition to economic incentives, a number of other benefits are being extended to entrepreneurs. In particular, the simplified procedure for maintaining records, reducing the requirements for standards for environmental protection and safety standards. Some state governments provide direct support to the zones, - a special fund has been established in Connecticut to finance the activities of enterprises located in the zones of the state.

The federal and state governments continue to expand the organization of business zones and provide them with new benefits. One of the reasons for this policy is that the creation of these zones, without putting a heavy burden on budgets of all levels, helps to increase business activity in the depressed areas of the country and reduce unemployment. The functioning of business zones also contributes to a reduction in budgetary allocations for various social programs and a gradual increase in tax revenues to budgets of various levels from enterprises and citizens as a result of the revival of economic activity and the increase in the number of employed. Entrepreneurial zones are focused on solving intra-economic problems by reliance on local capital and labor.

Such parks (technology and innovation zones) have declared themselves as a new effective form of integrating science and production, the location of innovation activities and the creation of venture firms engaged in the development of new technologies. Usually they represent a territorially grouped set of scientific laboratories and industrial premises leased on preferential terms to venture firms engaged in the commercial development of promising scientific and technological



innovations and ideas. Unlike free trade zones and entrepreneurial zones, the creation of a technology park does not require government approval.

The vast majority of parks do not receive any privileges from state organizations. Certain advantages have firms operating in high-tech sectors of the national economy on the basis of federal contracts (mainly in the defense industry). When concluding such contracts, the federal government allocates significant funds for the implementation of risky projects related to the research, development and production of new types of high-tech products. Since firms engaged in these industries are concentrated in technology parks, they, respectively, are in a better position compared to other industrial regions of the country. However, the main incentive for firms engaged in high-tech industries to locate their enterprises in technoparks is the synergistic effect of the numerous factors that characterize each of these parks, thanks to which the further development of high-tech and knowledge-intensive industries is stimulated.

In the United States, there are two types of technology parks: those that emerged spontaneously, on the initiative of individuals or private organizations, and those that were created at the direction of the governments of individual states. Parks of the second type continue to be created and now, however, especially well-known and effectively operating technoparks belong to the first type.

Among them: Technopark "Silicon Valley" in Santa Clara (California) near Stanford University; "Boston Route 128", located next to the Massachusetts Institute of Technology and Harvard University; The North Carolina Park is a triangle created in the center of the district, where three universities are located - the University of Duke, the University of North Carolina and the University of North Carolina. These three technoparks have become models for creating similar centers not only in other parts of the United States, but also abroad. [29, p.59]

Financing of technoparks is carried out from different sources: funds established by universities or charitable organizations, local municipalities, federal agencies and ministries, industrial firms, and also at the expense of own funds. Some of the technoparks operate on a profitable basis, while others are non-profit organizations.

All technology parks have one characteristic feature associated with the implementation of the target installation: provision of assistance on preferential terms to venture companies, individual inventors and scientists developing new products and new technologies. This assistance includes leasing of production and office premises, laboratory equipment. Advisory services, implementation of technological expertise of individual inventions, drafting of business plans for the companies being created, assistance in obtaining loans from the Administration for Small Business, etc.

Significant cost savings for firms that are part of the technopark, gives the use of its centralized services: secretarial services, computer equipment and software, copying equipment, libraries and reference and bibliographic service.

The main requirement put forward by the management of the technopark of the firms entering into it is to conduct scientific research and development in the field of high-technology production and the correspondence of the park's specialization to the priority areas of research conducted at the basic university.

Therefore, within the technopark all activities, scientific and administrative, that are directly or indirectly related to the research and development of venture firms are permitted.

Another characteristic feature of the activity of industrial parks is their cooperation with industrial companies that get access to university resources. The University, as the main unit of the technopark, is able to directly participate in the implementation of research results, use more modern research equipment, attract specialists from industry as lecturers, provide additional earnings for university staff.

Often in the territory of the industrial park, industrial production is created, provided that it is intended for the production of pilot batches of products, which were the direct result of research carried out in the park.

Not all of the technology parks are effective. The reasons for the ineffectiveness are different, the main one is inability to attract entrepreneurs to cooperation. The peculiarities of technoparks also include a long period of formation. Technology Park "Silicon Valley" to achieve success took about 35 years, the park - the triangle of North Carolina - 30, the technology park of the University of Utah - about 20 years.

The first conclusion from the analysis of the American practice of creating free economic zones of various types is the need for a reliable legal framework. An important positive moment is the adoption of the law "On Free Economic Zones", now it is necessary to improve it taking into account the comments of the application in practice.

It is advisable to focus the newly created zones on solving not only foreign economic, but also general economic problems, especially considering the state of the Azerbaijan economy, characterized by a deep decline in production and rising unemployment. In these conditions, the American experience of forming zones of development of backward regions and technological parks deserves attention. The zones of development of backward regions due to the granting of more freedom to entrepreneurs and certain economic benefits could contribute to the development of small and medium-sized businesses in depressed areas, as well as to the reduction of unemployment. As for the creation of technoparks, which have a great potential for bringing to the practical use of scientific inventions and the breakthrough of Azerbaijan products not only to the domestic market, but also to the external market, there are huge unused opportunities. In addition to large scientific centers that have a rich scientific base and a large number of highly qualified specialists with a solid

innovative potential, technoparks can also be created on the basis of the former closed cities of the military industrial complex, which can somewhat facilitate the conversion of enterprises of the defense complex and solve the problem of employing specialists.

From a more general standpoint, it can be argued that the creation of free economic zones will unequivocally promote the activation of foreign economic relations, the economic and social development of the whole country and its individual regions on the basis of the use of foreign and local investment, technology and managerial experience.

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

It is known that the countries of East and South-East Asia took quite a short time to turn from the poorest countries into industrial countries with one of the highest living standards of the population. A distinctive feature of the countries of South-East Asia is the significant role of foreign trade in the formation of their national welfare, their foreign economic activity. The regulation of foreign trade was an important part of the state strategy of economic development.

In fact, in their foreign economic policy, these countries managed to combine protectionist measures with an orientation toward the external market. This helped, on the one hand, to maintain important positions in the international division of labor, and on the other hand, to ensure freedom of maneuver in the face of unfavorable conjuncture in foreign markets. Moreover, in their foreign economic policy, these countries had to repeatedly change priorities and on the move to rebuild.

It should be noted that the East Asian countries began the radical reform of agriculture, which created the preconditions for industrialization (confiscation of large landed estates and division of land, a departure from the monoculture of rice and an increase in profitability, the release of workers). The basis of industrialization was mainly the availability of backward textile production. The first years of expansion in

world markets were carried out in the form of cheap low-quality clothing. Nevertheless, this product could take its niche, provide the initial accumulation for the modernization of production. Somewhat later, it was possible to achieve an optimal combination of low price, attractive appearance and a wide range of its textile products. The strict restriction of imports was considered as an indispensable condition for achieving economic independence.

At the same time, the development model of the countries of South-East Asia has demonstrated the failure of fears about the preservation of backwardness and dependence as a result of the policy of stimulating exports, which envisages active inclusion in world economic relations and a broad attraction of foreign capital for the establishment of national industry, because it helped to solve the problems of investing in new production, introduction of advanced technology for the production of competitive goods.

An import substitution policy played an important positive role in the process of industrialization of the Asian states that began. High customs barriers have protected emerging industries from competition from high-quality Western goods. In addition, the middle class was formed and strengthened - the support of the new regime, new jobs appeared, unemployment was reduced. The low-paid strata, which made up the majority of the population, were provided with inexpensive locally produced goods. The restriction of import costs has made it possible to reduce the consumption of foreign currency and to direct it to industrialization. Soon, the market satiated with new industrial goods.

High customs barriers have protected the production of cement in South Korea, the textile industry in Taiwan. [2, p.62] Due to the lack of sufficient funds in Japan and South Korea, the production of television sets immediately began to work for export. Only as the incomes of the population increased, attention was paid to the national market, protected from foreign goods by tariff and non-tariff barriers.

Their successes are largely due to the thoughtful and active actions of the government, which analyzed the state of the national economy, made decisions on the strategy of economic development of priority industries, methods of stimulating and protecting national producers. Their decisions were coordinated with the laws of the market. As national producers strengthened, it became possible to reduce government intervention in the economic development of the country and liberalize foreign trade by reducing customs duties, moving away from non-tariff import restrictions, etc. The dominant role in this direction was played by the creation of FEZ in all countries of East and South-East Asia .

So Singapore is now essentially a single FEZ. To develop exports in this country in the early 1990s, 25 industrial regions were created, in which more than 3,000 enterprises operated. The main incentive for the development of Singapore's FEZ is the granting of 100% control to the foreign companies and a concessional tax on industrial construction. Singapore's exports almost completely cover the country's foreign currency needs. In addition, according to experts, the creation of one workplace in any FEZ leads to the formation of 2-4 jobs outside the FEZ - in the service sector, construction, corporate relations, etc.

The industrial complex in Jurong (Singapore) is the largest in Southeast Asia. There are more than 1600 factories and factories, textile, plywood, bricks, cement, chemicals and plastics, steel armature and pipes, ships, electronics, optics, machines.

For the period of the beginning of reforms in the late 1970s, the PRC did not have a detailed foreign economic strategy. The basic guidelines, including the concept of creating open economic regions, were developed gradually, taking into account the practice of economic development and the situation on the world market. Step by step, China was also connected to the world economic community. In the 1980s, a number of favorable coastal areas were allocated to special economic zones

(Shenzhen, Zhuhai, Shantou in Guangdong, Xiamen in Fujian and, later, Hainan Province).

FEZs were created on the basis of a model of export processing zones, had similar enclave features, principles of inclusion in the international division of labor, methods for forming an investment climate and the creation of export industries. At the same time, the practice of their formation, the setting of the goals for the formation of diversified national economic complexes that envisage the development of industry (both import-substituting industries and export-oriented enterprises), agriculture, trade and tourism, attracting foreign capital, borrowing advanced foreign technology and management experience, run-in "of reform measures, reflected the dual character of the FEZ, which consisted of a combination of an externally oriented strategy, systematic way to interact with the world market, with the inner-oriented strategy of import substitution, to serve the development of the national economy. Politically, the zones were created as buffers for the gradual economic integration of Hong Kong and Macau on the eve of their reunification with mainland China in 1997 and in 1999, and in the future - also in Taiwan.

China's FEZs are by no means isolated from cities, small in area areas, in which only the export manufacturing industry is developed. These are complex economic areas, created on the basis of pre-existing cities and villages. From the point of view of the economic structure, they are not similar to the zones with the export processing industry of other countries, in which the production structure is excessively simple and industry occupies a priority place. In China's FEZ, all branches of the economy exist, function and comprehensively develop (see Table 8 (appendix)).

A characteristic feature of the initial stage of development of special economic zones was the predominance in them of small enterprises with the participation of foreign capital. Foreign investors were unwilling to make large investment risks,

preferring to create small enterprises with a rapid turnover of capital - textile, food enterprises, etc., that is, light industrial enterprises, (see table 9 of the appendix)

Special Economic Zone (FEZ) Shenzhen

The Shenzhen Special Economic Zone (FEZ) was formed and developed along with the reform and policy of the Open Doors in China. In a short time, just 21 years, at a rapid pace a small village turned into a modern city, which, according to economic development, entered the group of big cities of China. In March 1979, the former Baoan County of Guangdong Province was renamed the city of Shenzhen. In August 1980, the Shenzhen Free Economic Zone was officially created. In July 1981, the city became a city of provincial importance. In October 1988, by decree of the State Council of China, the city of Shenzhen was included in the list of cities of smooth development.

The city of Shenzhen covers an area of 2020 square meters. m, in which the FEZ occupies 327.5 square meters. m. The total population is 3,950 thousand people, among them 1,146,000 people permanently live, and 2,804 thousand people live temporarily. [14, p.103]

Geographical location of ShenZhen city has the advantage: it is the only city connecting the mainland of China with the city of Hong Kong, with a length of the sea coast of 230 km.

Creation and development of the Shenzhen Free Economic Zone was based on modern technology of urban planning in almost empty space. The area of the former district was 3 square meters. km, and the population is not more than 30 thousand people. In the city there were 8 km of narrow streets with low, old houses. At the beginning of the construction of the city in 1979, the gross output of its economic complex was only 190 million yuan (about 23 million dollars at today's rate), gross industrial output of 60 million yuan (about 7.25 million dollars), financial income 17 million yuan.



As a result of the tremendous changes thanks to the policy of the Open Doors, a new modern city has grown up on an empty land, a border village located on a beautiful seashore in a subtropical climate has become a new modern city with a rapidly developing economy, with a stable social society and with advanced management.

Since the creation of the Shenzhen Free Economic Zone, the city's economy has developed at a rapid pace. In 1994, gross output reached 61 billion 500 million yuan. In 1998, the GDP of the Shenzhen Free Economic Zone amounted to 128.928 billion yuan (15.533 billion dollars), and is the sixth largest city in China. From 1979 to 1998, the average annual GDP growth in the Shenzhen area was 14.5%, industrial output increased to 184.800 billion yuan (ranked fifth in the country among cities, according to statistics on the cities of China, its average annual increase of 49 , 5%, the financial income to the local budget from the activities of the zone is 16.5 billion yuan). In 1999, the total amount of import and export trade of the Shengzhen area was \$ 24.914 billion - 13.1% more than in 1998, and the export of the zone was \$ 12.731 billion - 3.5% more than in 1998 Imports, respectively, increased by 24.9% and amounted to 12.183 billion dollars. Since 1993, for 6 years in the export of the free economic zone, Shenzhen has been ranked first among large and medium-sized cities of China.

The countries of the Middle East and North Africa are not only vast and, most importantly, solvent markets for a variety of products from industrial complexes to food and other consumer goods, but also by ample financial reservoirs. These countries have more than 60% of the world's oil reserves, they are distinguished by the world's highest population growth rate (3.5% annually), located in a strategically important part of the world linking Europe, Africa, Asia and the Pacific.

The weight of these countries in the world economy increased sharply in the first half of the 1970s, when as a result of the multiple increase in the prices of crude

oil, they were able to accumulate considerable gold and foreign exchange reserves. The money reserves of the Arab countries to date, according to various estimates, reach more than \$ 100 billion, and their investment in Europe alone is \$ 600 billion.

It is known that the basis for the prosperity of the UAE were their oil reserves. However, oil is not infinite. In Dubai, this was realized before others and took effective steps to reduce dependence on the oil-producing and processing industries. Currently, the emirate authorities are focusing on the development of wholesale and retail trade, construction industry and tourism. An increasingly important place in the diversification of the economy and the promotion of foreign investment is the construction of the FEZ. In Dubai, there are three: Jebel Ali, Rashid Port and the Dubai Airport area.

Free economic zones of the Arab countries are considered as one of the tools for achieving openness of the national economy and stimulating international economic cooperation. The main objectives that the state sets itself when creating FEZs are: solving employment problems, enhancing foreign trade, stimulating foreign investment, enhancing knowledge and technology sharing, expanding the export base and developing import substitutability, and others.

The Middle East has a favorable geographical position, being at the intersection of the main world trade routes. Free economic zones in the Arab world are the link between Europe, America and Asia. They provide access to large markets, offer a variety of financial benefits and stability, as well as export-oriented centers that have a relatively much more modern infrastructure.

Free economic zones are available in most Arab countries. There are currently three free trade zones in Jordan: Aqaba, located on the Red Sea; Zarka (Zarqa), located 30 km from Oman and another FTA, located along the border with Syria. The main activities of the Aqaba zone are transit, storage, commerce and industrial production. According to the new peace agreement between Jordan and Israel, it is

expected that a new free zone will be created between the Akakbai and Elat. [11, p.17] In order to obtain permission to establish an enterprise in one of the free trade zones, it is necessary that production be new in the country, use modern technology, consume local raw materials or components and help reduce Jordan's dependence on imports. In order to attract foreign entrepreneurs, the government offers the following benefits: exemption of the company from social payments and income taxes for 12 years; exemption from import taxes, customs duties and other taxes and payments from goods imported or exported from free zones abroad; exemption from license fees and municipal taxes on real estate and infrastructure in free zones; permission to repatriate profits and invested capital; exemption from income tax and social charges of non-residents; the release of the objects constructed by the lessee from the rent for 3 years, if the roof is made of concrete and for 2 years, if the roof is built of any other material. In addition, Jordanian Free Zone Corporation provides office premises for clearing agencies, insurance companies and shipping companies.

In order to attract foreign and local investors to form an export-oriented production, Syria created five FEZs - Adra (25 km northeast of Damascus), Aleppo, Damascus, Tartus and Latakia. Syrian free zones have the following advantages: exemption from taxes on profits and wages; freedom to transfer invested capital and profits outside Syria, permission to duty-free import factory equipment, materials, etc. [26, p.39]

In terms of Africa, in Tunisia, two free economic zones - Bizerte, with a total area of 46 hectares on the northern coast and the southern city of Zarzis - began to function. Foreign investors have the same opportunities as in other countries of the Arab East. Companies are exempt from taxes and customs duties related to any type of business activity within the zone. These companies can choose the status of a resident or non-resident. Non-residents have the right to repatriate income from

exports or services. The transfer of invested capital in foreign currency and profits is guaranteed.

Any commercial links of companies in the free zones of Tunisia with companies outside it are not subject to state control. Employees of non-residents are subject to a low income tax of 20%. They are also exempt from customs duties when importing personal goods, including one car per employee.

The free trade zone of Morocco is located in the city of Tangier - on the north-west coast. The free zone is open to both foreign and Moroccan enterprises. All 65 companies operating in the free zone are exempt from taxes and customs duties on the import of goods. Salaries are issued directly in foreign currency, which is exchanged for dirhams in Moroccan commercial banks located in the zone without fail.

#### **2.4. Positive and negative points of Free economic zones in economic conditions of the world**

The free economic zone is a part of the territory of the state where the regime of economic activity is established more preferential than in the rest of the territory of the given state.

When creating special economic zones, two conceptual approaches can be used: territorial and functional. According to the first approach, preferential treatment is enjoyed by enterprises and organizations located on a specific, specially stipulated territory. In the second case, privileges are established for certain types of entrepreneurial activity, regardless of the location of firms and enterprises engaged in this activity.

The choice of one of these two approaches depends on the specific tasks that the state wants to solve when establishing a free economic zone. The territorial approach allows to solve the problem of development of any region to a greater

extent, and the functional one - the problem of the development of certain industries. In practice, the territorial approach to the formation of FEZ prevails.

The benefits granted to foreign investors in the territory of special economic zones can be divided into four main groups.

1. Foreign trade privileges, providing for a simplified procedure for foreign trade operations, as well as reducing or completely canceling export-import duties.

2. Financial incentives, that is, the establishment of low prices for utilities, the reduction of rent for land and production premises, the receipt of preferential government loans.

3. Fiscal incentives provide for the stimulation of foreign capital inflow due to the reduction or cancellation of taxes on profits, income, property.

4. Administrative benefits, which provide for a simplified procedure for the registration of companies, the regime of entry and exit of citizens, the provision of various services related to the registration of companies.

Benefits of various types can be applied in free economic zones in various combinations, depending on the priority objectives of the formation of FEZ.

Creation of free economic zones can pursue different goals. First of all, the attracted foreign investments are used to expand the production of goods for export, or import-substituting goods. Such industries are developed, as a rule, on the basis of the latest technologies. Some FEZs are created with an orientation towards the development of foreign tourism in the territory of the zone.

In both the first and second cases, the creation of FEZ promotes the accelerated development of the economy, the creation of modern infrastructure, the upgrading of skills of local workers, and, ultimately, the increase in the inflow of monetary assets into the country.

However, to attract foreign investors, it is not enough just to proclaim certain benefits. Practice shows that the creation of FEZ will be effective from an economic point of view only if the following conditions exist:

1. Favorable geographical conditions, that is, proximity to the state border, to the main international transport highways;
2. presence in the territory of the zone of modern infrastructure (electricity, water, telecommunications, etc.).
3. The advantage of a favorable social infrastructure (housing that meets the necessary standards, kindergartens, schools, hospitals, etc.).
4. the availability of a relatively cheap but qualified workforce.
5. sufficiently high level of providing financial services, communication with international financial markets.
6. Clarity in legislation, broad powers of local authorities in the management of FEZ.
7. overall political stability. [14, p.127]

In order to create the prerequisites for the successful development of the FEZ, the state should make certain costs for the development of the zone in accordance with these requirements. Practice shows that the state needs to invest about 4 dollars for every dollar of initial foreign investment in the FEZ.

However, the governments creating FEZs are going to these costs on the assumption that the positive effect of the operation of such zones will fully pay for them. The attracted foreign capital will create new jobs, organize production on the most modern technologies, and will contribute to raising the qualification level of employees. A large export sector of the economy will be created in the country, due to which the foreign exchange earnings to the country will increase. The experience of countries such as South Korea, Malaysia, the Philippines shows that about half of all foreign exchange earnings from the FEZ are the amounts paid to employees in the

form of wages. The second most important source of foreign exchange earnings is the supply of electricity to the enterprises of the host country for enterprises operating in the zone.

It should be noted that large costs can pay off only if the FEZ will function for a long period with consistently high returns.

By the beginning of the 1990s there were more than 400 free economic zones in the world.

In Russia, attempts were made to create free economic zones. It was adopted a government decree "On the establishment of free enterprise zones." Documents were accepted on the creation of such zones as the FEZ "Sakhalin", the free economic zone "Yantar" (in the Kaliningrad region), "Kuzbass" and others. However, in practice, these zones have not been properly developed, because there were no clear programs determining the necessary amount of investments for the creation of production and financial and economic infrastructure, the sources of obtaining these investments were not determined, local authorities were not given sufficient authority to resolve issues related to the organization of such a zone. In fact, none of the zones received the necessary momentum for development. [23, p.72]

The positive and negative consequences of foreign investment of entrepreneurial capital for the economies of the home countries and the host countries.

The international movement of business capital affects both the home countries and the host countries.

In modern conditions, host countries (both developed and developing) generally approve the influx of foreign investment into their territory. The main benefit of the host country is the availability of additional resources, not only in the form of capital, but also through the introduction of new technologies, the transfer of

managerial experience and the upgrading of the skills of domestic personnel that result from foreign investment.

However, host countries are afraid of political pressure from large investors of foreign capital, as well as their penetration into industries related to national security. In addition, foreign investors often seek to move to the host country production, the most unfavorable from an environmental point of view. In this regard, the host countries issue laws that restrict or directly prohibit foreign investment in certain industries.

The main opponents of foreign investment in the host countries are local producers of similar products. They are unable to withstand foreign competition and require the government to take protectionist measures.

However, practice shows that a country that accepts foreign investment of entrepreneurial capital generally benefits from their inflow. Workers and suppliers serving new businesses, as well as local and federal governments that receive taxes, benefit more than local firms lose. The possibility of positive technological and personnel changes causes the government to stimulate the influx of entrepreneurial capital from abroad, and not to introduce protectionist measures.

In the long run, international migration of entrepreneurial capital contributes to the growth of the world's product.

Creation of free economic zones is considered by their founders as an important link in the implementation of the principles of an open economy. Their functioning is associated with liberalization and activation of foreign economic activity. In free economic zones, the economy has a high degree of openness to the outside world, and customs, tax and investment regimes are favorable for foreign and domestic investment.

Thus, free economic zones are territories in which special economic conditions for national and foreign entrepreneurs operate, contributing to the solution



of foreign trade, general economic, social, scientific, technical and scientific-technological tasks. FEZ is currently an important tool for economic development and stimulation of foreign economic relations. Having different organizational forms and purposeful purpose, free economic zones can differ. More often, the financing of the FEZ is ensured by attracting foreign investors with a special preferential tax regime, special conditions for the provision of land plots and others.

It is worth emphasizing that the development of FEZ has some negative consequences, like any other phenomenon in the economy. Negative moments of rapid development of FEZ are intertwined with negative aspects of economic growth, among them: deterioration of the environment, exhaustion of irreplaceable resources, overpopulation in the largest cities of the region, deterioration in the labor market as a result of automation of production processes and introduction of new technologies. It is for these reasons that it is necessary to pursue an effective state policy in the sphere of regulating the activities of free economic zones so that the quantitative growth of production does not worsen the quality of life in these regions.

## **CHAPTER III. WORLD EXPERIENCE AND DEVELOPMENT OF FREE ECONOMIC ZONES IN AZERBAIJAN**

### **3.1. Differences between Free economic zones of the world and Azerbaijan**

Now new trends in the development of modern society and economic relations have emerged: no country in the world can live and successfully develop outside the world community, primarily economic. Today, globalization is characterized by a systemic integration of world markets and regional economies, all spheres of human activity, as a result of which there is a high economic growth, acceleration of the introduction of modern technologies and management methods.

Globalization has made the domestic (national) economy not only closely related, but also dependent on the external economy. "Turbocapitalism," by the definition of E.Luttwak (an American expert), has made a structural coup in the economic system, to which policy is to some extent powerless, since such an economic system is determined by a market not controlled by politics. Economic space and the market no longer coincide with the territory of any state: there was a transition from the "market-state" system to the "many states-one-market" system. Capital can no longer obey the national conditions and is freed from state bonds. He cannot be taxed by the state, and he chooses where to pay taxes. Production is transferred to where costs are lower, and the quality of services, infrastructure and labor is higher. The modern economic system is characterized by the multiplicity of decision-making centers. It is subject to the influence of transnational forces that do not obey the commanding will and state control. However, the state can push them to take action favorable to their goals, following their logic and providing appropriate incentives, for example in the field of taxation, services, infrastructure, workforce, etc..

But, nevertheless, globalization simultaneously generates new challenges and threats to the sustainable and safe development of the economies of various countries, especially small ones, with a "narrow" domestic market. It makes the national economy vulnerable to various negative processes occurring on the world commodity and financial markets. Another threat of globalization is the undermining of national state sovereignty under the pressure of foreign capital and the actions of transnational structures. But the main threat to the national economy is globalization through growing international economic competition, which today has become an inalienable characteristic of the world economy. Competition has long gone beyond the boundaries of individual companies, firms, it has become a cross-country.

Due to various economic, historical, social and political reasons, most post-Soviet economies are initially formed as parts, separate cells of the global economy. Through the maintenance of free conversion of national currencies and the liberalization of the current account of the balance of payments, coupled with price liberalization and a fairly high degree of openness in the foreign trade sector, national economies and national producers are placed in the position of global competition for real-time costs. The actual context of development is, in fact, not a national but a global economy, in which those manufacturers and firms that compete to compete in terms of production costs.

Azerbaijan is consistently restructuring its economy and striving to adapt it to the requirements of the globalization process. Our country actively participates in global energy and communication projects: the so-called "Contract of the Century" is being successfully realized, contracts were signed between Azerbaijan and the world's leading oil companies to develop the hydrocarbon fields of the Caspian Sea, the Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum, the Silk Road is reviving - the construction of the Baku-Tbilisi-Kars railway is planned. [7, p.119]

The rules for the regulation of legal and economic relations related to the establishment and management of free economic zones in the Republic of Azerbaijan, as well as the organization of entrepreneurial activities in these zones are defined by the Law of the Republic of Azerbaijan No. 791-IIIQ of 14 April 2009 "On Special Economic Zones".

The purpose of creating free economic zones is to accelerate the development of entrepreneurship and the economy as a whole through the organization of spheres of new competitive production and services based on the application of a special legal regime and modern technologies.

Residents registered and engaged in entrepreneurial activity on the territory of a free economic zone shall calculate the tax at the rate of 0.5% (simplified tax) from the amount of received funds (total revenue) from the sale of goods, work, services and non-operating income no later than 20 On the 1st day of the month following the quarter, a declaration is submitted to the tax authorities on the tax payable in the form determined by the relevant executive authority and within the same time period they pay tax in the state budget.

In case of failure to fulfill the obligations of the agreement between the operator and the resident of the free economic zone, during the year registration of the resident of the free economic zone is liquidated, his tax liabilities for the previous periods are recalculated and paid according to the procedure established by the tax legislation.

In accordance with the Decree of the President of the Republic of Azerbaijan of June 3, 2009, No. 101 "On the Application of the Law of the Republic of Azerbaijan" On Special Economic Zones, "the state policy related to the creation of free economic zones and their functioning is carried out by the Ministry of Economic Development.

The following legal documents related to the formation of free economic zones were also adopted: Rules for the collection of statistical reports on the activities of

residents of the free economic zone and control over their activities; The procedure for providing the operator with reports on the development and activities of the free economic zone of its administration, as well as third-party audit reports; Typical form of agreement on intentions, concluded between legal entities and individuals and the operator for carrying out activities in the special economic zone; Typical form of the contract concluded between the resident and the operator of the free economic zone; Typical form of agreement between the administration of a free economic zone and the operator on the lease of a land plot of a free economic zone in state ownership.

In addition, the Cabinet of Ministers of the Republic of Azerbaijan adopted Resolution No. 16 of January 25, 2010, "On the Rules and Forms of Drawing up a Balance Sheet on the Activities of Residents Operating in the Special Economic Zone through Branches and Representative Offices without Formation of Individual Legal Entities," and Decree President of the Republic of Azerbaijan of April 20, 2010 No. 257 "On Approval of the Rules for Conducting a Competition for the Selection of the Operator of the Special Economic Zone".

The Action Plan on Implementation of State Programs on Poverty Reduction in the Republic of Azerbaijan and Sustainable Development in 2008-2015, approved by the Decree of the President of the Republic of Azerbaijan of June 28, 2011 No. 1578, as well as in the Action Plan to Promote Export of Non-Oil Products in 2011-2013 approved by the decree of the Cabinet of Ministers of the Republic of Azerbaijan of February 8, 2011 No. 40, provides for the creation of industrial (towns, business incubators and industrial clusters) and free zones (borderland free zones and zones of free ports).

Currently, work continues on the selection of the field of activity and the appropriate place for the creation of special economic zones.

Investments in the national economy last year amounted to \$ 6.7 billion. However, with the successful completion of oil and gas and communication projects,

from the next year, there will be a corresponding decrease in investments in this sector of the country's economy. In these conditions, the issue of new approaches to intensifying investment processes, the use of new instruments of economic development, positively established in the world. Among them, in our opinion, it is necessary to single out such a mechanism for attracting investments, such as the creation of free economic zones (FEZ).

In this regard, a very timely and giving a new impetus to the development of the country is the decree of the Azerbaijani President I.Aliyev on March 6, 2007 "On the establishment of special economic zones in the Republic of Azerbaijan".

Now in the world there are, according to various sources, 400 to 2,000 free economic zones. FEZ, depending on the goals and objectives can be divided into the following main types:

- complex production zones;
- foreign trade (free customs zones, including export production zones and transit);
- functional or branch (technological parks, technopolis, tourist, etc.).

Certain factors influence the choice of the type of zones for specific purposes. So, for transport, export-import zones, there is a need for a large transport hub. They, as a rule, are located in seaside cities, which have seaports, railways, and airports. To create zones such as technoparks and technopolises, a well-developed research and production base and a skilled workforce are needed. The organization of tourist zones requires the presence of cultural and historical centers, balneological resorts, attractive for tourism landscapes, developed infrastructure.

Establishment of Free Economic Zones in Azerbaijan can at least allow regional economic conditions. For example, there are more than 20 FEZs in Turkey and they play an exceptional role in the balanced development of the regions.

Creating such zones in Sumgayit, Lankaran and Nakhchivan is important from the economic point of view. It should be noted that the presence of railway lines in Sumgayit and Lankaran in the sea, the airport in Lankaran and Nakhchivan, and the presence of Nakhchivan's borders with several countries favored the creation of FEZs.

FEZs can play an important role in the development of the non-oil sector. Let's remind, that in the first years of our independence, the FEZs, which have a significant role in many countries, have also been actualized and discussed in Azerbaijan.

In November 1994, the government made a proposal to the United Nations Development Plan to turn Sumgayit into FEZ. In this regard, representatives of the United Nations were acquainted with the social and economic situation in the area. It was noted that the implementation of FEZ in Sumgayit could be possible with a small number of businesses, and some steps were also taken.

Today, more than 400 FEZs worldwide are set up to increase the country's foreign trade, simplify exports and imports, boost currency revenues and employment, boost industry growth and attract advanced technology to the country.

FEZs played an exceptional role in the development of many countries' industries. The most important of these are the following: One of the most significant benefits provided by the FEZs is the positive impact of the country's foreign exchange reserves. Exports of goods in this zone can provide both export revenues and expansion of export markets.

In addition, raw materials and semi-processed products, which are demanded by factories in foreign markets, are largely derived from local countries, and revenues generated in this way can create additional increases in exports. In practice, some countries have provided 30-50 percent of the value added in the FEZ to the country. For example, in Kandi, India, 30 percent of exports have been provided from raw materials or semi-processed products of local sources. The organization of FEZs in Azerbaijan required first of all to study the experience of the countries of the world

and to organize the preparations in a very organized way. It was still necessary to start the FEZ in April 1996. According to the experience of the world countries, if the FEZ cannot be formed within three years in a given area, then it can be questionable. Because the delay of the FEZ organization will result in a reduction in interest rates for foreign investors. In the future, in other regions of Azerbaijan (Lankaran and Nakhchivan), the FEZs were supposed to be created, which required the Government to carry out all the sacrifices on the Sumgayit project.

A successful variant of the free economic zone was the creation in 1957 of a zone of favor in Ireland with the center at the airport "Shannon." The territory of the zone was only 15 hectares. The goal was modest: to get an additional 300 new jobs. Here, however, the case where the results have significantly exceeded expectations.

In 1967, a free economic zone of a different type was created in Brazil - the "industrial zone of the free zone of Manaus" (Amazonia). The goal is to stimulate the development of industrial production; the main means to achieve the goal - tax incentives. This zone received rapid development, which largely affected the recovery of the economy throughout Brazil. The core of the FEZ comprised approximately 30 raw materials and fuel and energy industries, the products of which were consumed in Brazil itself. Export of the zone reached only 3 - 5% of production. [15, p.62]

In South Korea, Malaysia, Singapore, Hong Kong, there are "point" zones, focused on the export of goods.

There is an accelerated development of scientific and technical areas. In 1973, there were 84 of them in the United States; 142,000 workers and 45,000 scientists were employed here. The largest in the US scientific and technical zone - Silicon Valley ("Silicon Valley"). It carries out 20% of the world production of computer hardware and computers. In the near future in the US it is planned to create up to 1000 FEZ. The volume of investments should at the same time amount to more than \$ 3 billion, and the number of additional jobs - 100 thousand.



In the Netherlands and Germany in 1985 there were 45 and 50 technoparks, respectively, and it was planned to form another 100 in each country. In Japan, 18 technopolises are created in 14 districts on the basis of leading scientific divisions. The largest technopolis of "Tsikuba" employs 145 thousand people. In England there are more than 25 zones and technoparks, due to which a total of 18,400 jobs were created.

The experience of creating foreign trade zones is also found in post-socialist countries, for example, in Russia. For example, the foreign trade zones include the Sherry Zone Free Trade Zone (near Sheremetyevo Airport), the free customs zones Moscow Freeport (near Vnukovo Airport), the Franko-Port Terminal (on the territory of Moscow Western river port).

In 1978, China created free economic zones in 14 coastal cities. The goal is the development of foreign trade. The main instrument is tax and customs privileges. For each hectare of the zone in the period of its formation, approximately \$ 15-17 million was invested annually. The number of FEZ in the country increases every year, and in 2006 80% of China's GDP was produced in free economic zones. [9, p.215]

### **3.2. Free economic zones of Azerbaijan and its development**

Our country actively participates in global energy and communication projects: the so-called "Contract of the Century", concluded between Azerbaijan and the world's leading oil companies to develop the hydrocarbon fields of the Caspian, is successfully implemented, the "Baku-Tbilisi-Ceyhan" and "Baku-Tbilisi" "Erzurum", the "Silk Road" is being revived.

The modern economic history of Azerbaijan has in its archive attempts to create a free economic zone. However, the issue of free economic zones in Azerbaijan has so far not been solved consistently, in the absence of a constructive conceptual framework and a sufficient legal framework. In 1995, the then representative of the

United Nations Development Program (UNDP) in Azerbaijan, Mr. P. Lembo, actively promoted the idea of creating a "special economic zone" in Sumgait. However, this project was never implemented. Then there was a polemic about the creation of FEZ in Lankaran, Nakhchivan, further the technopark in the Khizi district.

In 2002, the Government of the country reached an agreement with the International Monetary Fund and the World Bank on the establishment of free economic zones in Azerbaijan. The IMF and the World Bank proposed to create them in the form of free export zones. The logic of the IMF and WB experts is that the creation of free economic zones in its traditional sense will not serve the interests of the country, since this can lead to a weakening of the tax policy and the creation of management problems. Experts propose to create one or two free export zones, that is, when importing certain goods, processing them for further export (zones of industrial character). At the same time, it is possible to release such goods from import duties. Currently, the possible location of these zones is being studied: they are expected to be established in the north of the country. At the same time, it should be noted that for the creation of FEZ in this region, infrastructure is needed - roads, electric lines, seaport and other conditions necessary for its effective functioning. In the modern world economy, for large investors, tax and administrative benefits are not at all the main indicator of the attractiveness of investment. It is no less important that the FEZ has a developed infrastructure (transport, production and warehouse buildings and structures, water supply, energy supply, etc.), as well as a large-scale sales market. The implementation of production activities in the territory of another state is always associated with additional costs: despite the benefits and cheap labor, produced in the FEZ at the initial stage of their formation, production requires quite high costs, and in order to attract foreign investors, the simultaneous and interrelated action of various factors. [2, p.159]

In the Regulation on the Ministry of Economic Development of the Republic of Azerbaijan, approved by the President on December 28, 2006, one of the responsibilities of the ministry is the creation of special economic zones in the country (paragraph 3.1.32). (2) In accordance with this, the Ministry of Economic Development is drafting a bill "On Special Economic Zones".

Decree of the President of Azerbaijan I.G. Aliyev "On the creation of special economic zones in the Azerbaijan Republic" testifies to the ongoing active process of attracting both domestic and foreign investments into the national economy using a new economic policy instrument - the FEZ.

At the same time, by attracting investments in the FEZ it is necessary to selectively approach this issue: what is this investment, what is their sectoral and technological structure; that for production will be made at the invested enterprises and whether it meets high quality standards. World experience, even in the now developed countries, shows that not always with foreign investments in the country modern technologies are imported, and the products produced at these enterprises will not necessarily be of high quality. Thus, the experience of the development of South Korea indicates that the technology imported from the United States, Western Europe and Japan differed in quality and in scientific and technical level. Japan, not wanting to have a competitor next door, did not export modern technology to South Korea. According to the National Institute of Science and Technology of South Korea, it turned out that only 30% of "know how" (borrowed from the US and Western European countries) could be attributed to advanced technological processes, and the remaining 70% (introduced through Japan) were assessed as backward and obsolete. After the survey, a Consulting Center for Technology Involvement was established in South Korea, which provided (with the advice of foreign experts) preliminary "know how" assessments planned for implementation in order to eliminate negative factors. In light of the above data, I would also like to note that there have been cases (and, by

no means rare) when Japanese firms were selling any equipment at speculative prices, despite the fact that the products produced on this equipment did not meet the accepted standards. Thus, the US and Western Europe, not seeing a potential competitor in South Korea, supplied the most advanced technology; while Japan, worried about the rapid pace of development of its neighbor, supplied to South Korea far from the most modern technologies. [21, p.39]

Faced with this situation, the Korean authorities have amended the rules for attracting foreign technology. New rules prohibit the purchase of technology:

- if the contract provided for merely the simple use of factory marks and trademarks;
- if the contracts had in mind only the sale of raw materials or individual components, parts and assemblies for the proposed products;
- if the contract contained unfair and restrictive conditions regarding the export of products planned for release;
- if the contract offered technology outdated, imperfect, or with any deviations from the norm;
- if contracts affected a particular technology that, as defined by the Minister for Science and Technology, "did not serve the interests of independent development";
- if the Minister of Economic Planning did not consider it possible to recognize certain contracts as vital.

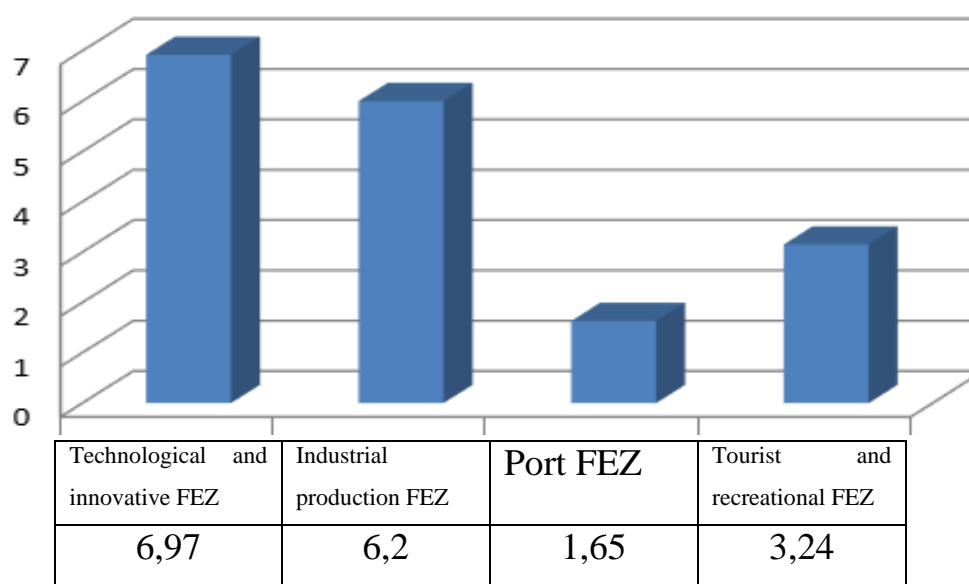
Thus, according to these rules, the authorities could unhesitatingly reject the contract if they were provided only with the mere use of foreign trademarks and factory marks by South Korean firms. The incentive for Korean businessmen served in this case the desire of local consumers to purchase goods with a foreign brand name, since the quality of products produced for sale in the domestic market left much to be desired. In addition, South Korean firms have tried in this way to expand

their foreign markets, selling them to domestic products, decorated with some famous foreign brand. The authorities disapproved of such unpatrioticness of consumers and not quite honest aspirations of businessmen.

The experience we have given shows how tightly administrative methods in the conditions of a market economy were the Korean government. In the conditions of creation of FEZ in Azerbaijan it is very useful to use this experience, and when involving technologies to carry out their expertise, both for ecological and scientific and technical validity. It should be taken into account that the country is on the verge of accession to the WTO, after which all barriers to import and the low quality of domestic goods will be removed, may have a negative impact on the production potential of the industries. Therefore, the archival task is to improve the quality of domestic products, to develop and implement high quality standards for goods and services, production and service standards. It seems to us that by creating a FEZ in the country it is necessary to apply the "cluster" theory developed by M. Porter. (54,55) According to the cluster theory, a group of geographically neighboring and interconnected companies, firms and organizations working together in a certain sphere (which forms a cluster), significantly enhances their joint competitiveness. In this case, it becomes possible to obtain a synergistic effect. (The term "synergism" was introduced by R. Benedict in 1934 and denotes the systemic effect of cooperative influence - "the whole is greater than the sum of its parts.") Proceeding from the fact that Azerbaijan has oil and gas, the use of Norwegian experience in the formation and functioning of the oil cluster seems promising. (56) Another option may be a cluster in the field of ICT (information and communication technologies). [27, p.277]

To date, only half of all existing FEZs operate in Azerbaijan, and even the work of this half is either inefficient (the efficiency index value is less than 5), or conditionally effective (the efficiency index value is more than 5). Figure 1 shows the average performance indicators for all types of special economic zones for 2017 [3]:

**Figure 1. Assessment of the effectiveness of the FEZ in the Azerbaijan in 2017, %**



Source: State Statistical Committee

One of the problems in the development of FEZ is related to the shortage of qualified personnel in the established FEZ. Production in some areas is specific (medicine, aviation and auto production), and in this regard, the selection of first-class specialists in the regions today is very acute.

To solve the problem of shortage of personnel in the FEZ will help the experience of creating engineering centers (ECs), oriented to innovative industries. These centers will ensure the coexistence of science and technology, as well as help enterprises in staffing young qualified personnel. Another possible solution to this problem is the cooperation of residents with universities and technical schools on the preparation and possible retraining of the necessary specialists, as well as the establishment of special educational centers in the territories of special economic

zones to complete the training of students from other regions, taking into account the specificity of resident companies.

In addition, it is worth noting that in the report on the results of the control activity of the FEZ there are data from which it can be seen that the actual number of jobs created (for 2017) does not correspond to the planned (Table 3) [5].

**Table 3.**

**The ratio of jobs actually created for 2017 to the planned**

Type FEZ	Created, people	Scheduled, people.
Technological and innovative FEZ	350	830
Industrial production FEZ	1200	3000
Tourist and recreational FEZ	92	153
Port FEZs	8	104
Total	1650	4087

Summarizing all of the above, it should be noted that in the Azerbaijan there are many different types of problems in this area, and the fact of the existence of the FEZ does not mean that the regions in which they were created automatically and without effort will come forward. To improve the efficiency of the operation of free economic zones in the Azerbaijan, constant improvements in this area are needed. The more stable the situation in these entities, the more residents will be ready to invest their money in these facilities.

Thus, consideration of the world experience in the creation of free economic zones allows us to conclude the following:

- World practice shows that the creation of FEZ - a very effective direction of economic development of individual territories and regions. In general, the creation and development of free economic zones is focused on the solution of specific priority economic tasks, the implementation of strategic programs and projects.

- Territories that are most favorable for the location of FEZ, as a rule, have a border location, and also have a developed transport, production and social infrastructure. In some cases, the creation of FEZs is also advisable in areas of new economic development that do not possess these advantages, but have a high concentration of valuable natural resources that enable them to solve important long-term national tasks.

It seems to us that using the free economic zone as a possible mechanism for attracting new investments to the economy, it is important to create such conditions that preferential FEZ regimes will not be used to distribute benefits to certain enterprises, industries or territories, but in order to stimulate new forms of management, industrial production, development Foreign economic relations, providing technological breakthrough. Another strategically justified direction is the realization of the advantages of the transport and geographic position of the country and the potential of its port territories. The creation of free economic zones in several regions would accelerate Azerbaijan's integration into world economic relations, and would also attract huge flows of goods and capital that are currently heading to similar zones in foreign countries.

### **3.3. Perspective directions of using the international experience of Free economic zones development in Azerbaijan**

Noting that the special economic zones (FEZ) can play an important role in the implementation of strategic programs and projects adopted in our country, the solution of priority tasks at a new stage of socio-economic development, President Ilham Aliyev issued on March 6, 2007 the Decree "On the establishment of special economic zones in the Republic of Azerbaijan".



Special zones are called "higher mathematics" of market relations at the present stage. The decision to "launch" this mechanism shows the maturity of our economy, the readiness to solve new, more responsible tasks. What is your position?

Creation of special economic zones is a command of time and, frankly, a historical necessity. In the conditions of internationalization of economic life, the importance of effective use of geographic and other advantages of territories, achievements of science and technology, the creation of FEZ opens up broad prospects for the integration of the state into the world economy, more active participation in the global division of labor. This is how the question is posed in the well-known Presidential Decree, which aims at a large and laborious work.

Since its time in Azerbaijan, attempts have already been made to create a free zone, like the territory was defined - the Sumgayit region.

Indeed, in various years there have been some initiatives, the relevant draft was being prepared, and the United Nations Development Program was also involved in this endeavor. However, for a number of objective reasons, the project and other measures were temporarily postponed. And this was probably the right step. There was not enough experience, and our economy still "did not reach" to such a high level.

Today we have completely different economic prerequisites. Azerbaijan has reached a qualitatively new level of social and economic development. Over the past three years, our economy has grown at a pace that has no analogues in the world - in 2015 the growth was 26 percent, in 2016 - 36 percent. And in the past quarter, GDP growth has reached almost 40 percent. Thanks to the implementation of global projects in the region, the deepening of reforms in all spheres, the economic potential of the republic has seriously strengthened, we began to look with great optimism forward. This was convincingly said by President Ilham Aliyev at the recent meeting

of the Cabinet of Ministers, at which the results of the first quarter of 2017 were summed up, the tasks of our progress. [1, p.117]

At a new stage of development, it is very important not only to maintain a consistently high growth rate, which is not a problem for Azerbaijan. The problem is to fill this growth with modern content by implementing a technological and modernization revolution in industry and innovation in the economy as a whole. And this requires not only funds, deep reserves, but also new approaches and mechanisms of acceleration. Among them there are special economic zones. We hope that they will significantly help in the structural renovation of the domestic economy, in particular, give impetus to the development of the non-oil sector, as well as expand foreign trade ties, increase the competitiveness of the republic, prepare for its accession to the WTO, etc.

It seems that we will not have to start from scratch, we already have sufficient experience abroad in this direction.

In Azerbaijan, there are many conditions for the creation of free economic zones. Because Azerbaijan seeks to strengthen its economy through economic diversification. One of them is the creation of a free economic zone in the Caspian Sea. And Azerbaijan's goal of creating a free economic zone is to promote the development of the non-oil sector. If we look at the following diagram, we can see that in recent years, the development of the non-oil sector in Azerbaijan is in the same condition.

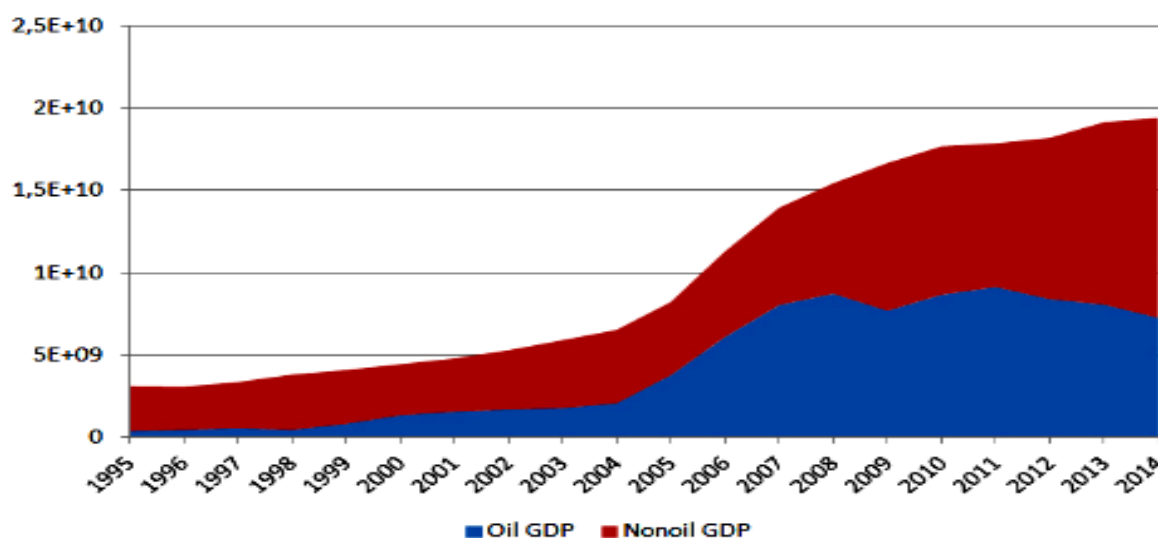


Figure 2. Composition of Oil and Non-oil sector.

Source: State Statistical Committee 2015

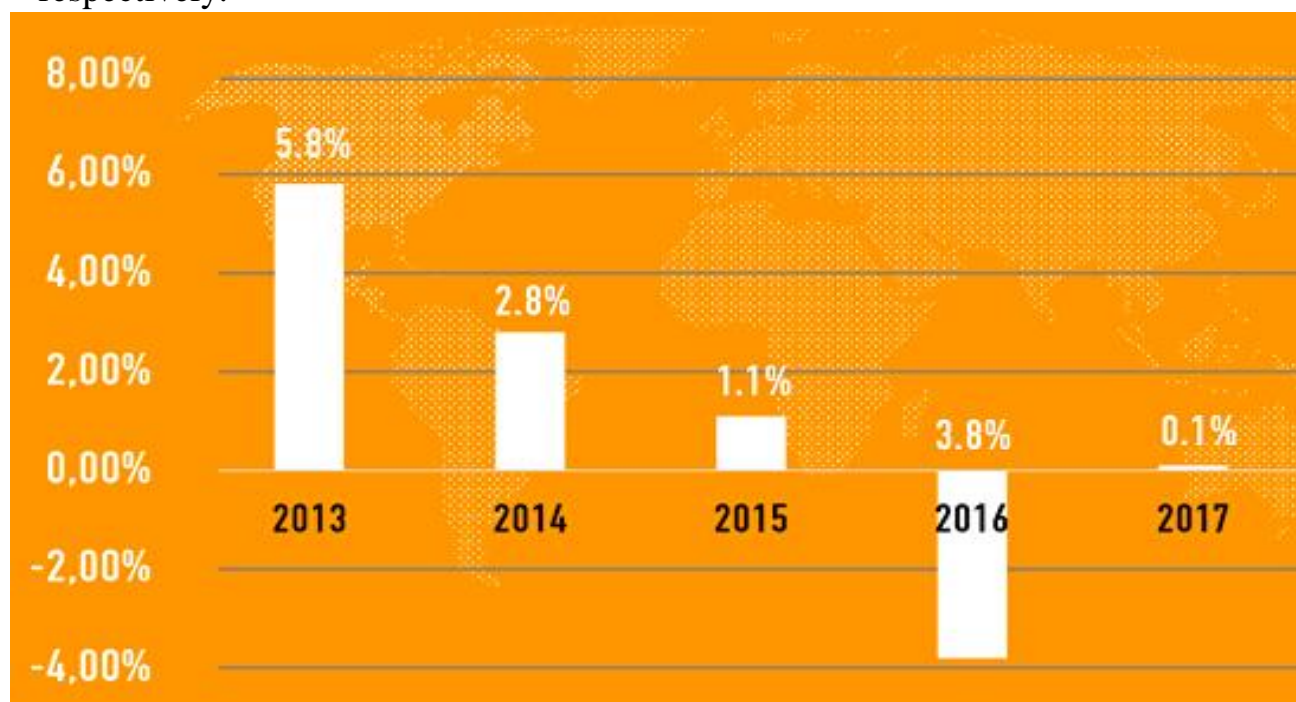
According to the results of January 2018, the shaft intruder product (HPP) made up 6.049 billion manats, which is 2% higher than for January 2017.

It is said in the State Statistics Committee of the United States.

Due to the locomotive devaluation in January, the current production output in the non - food sector was 3.9%, whereas the oil sector was registered at 0.5% per annum.

It is noteworthy that the most profitable sector in the non - food sector was 8.7% in January, compared to the analogous period of the previous year.

At the same time, the share of goods and services in the structure of GDP was 48.4%, for the sale and repair of motor vehicles - 9.6%, construction - 6%, transport and storage - 6.5%, agricultural production, fishing and forestry - 2.7%, the number of tour operators - 2.5%, and services - 1.5%, in other spheres - 15.8% and 7% respectively.



### Figure 3. Dynamic GDP Azerbaijan in the 2013-2017 years

Source: State Statistical Committee 2018

Inflation in 2018 by January 2018 was 5.5%, after a two-year low of 13%. It is remarkable that this is what is forecasted by the Central Bank of Azerbaijan at the rate of 6-8% for inflation.

In January, the number of wave infants was fixed at 618.5 manats.

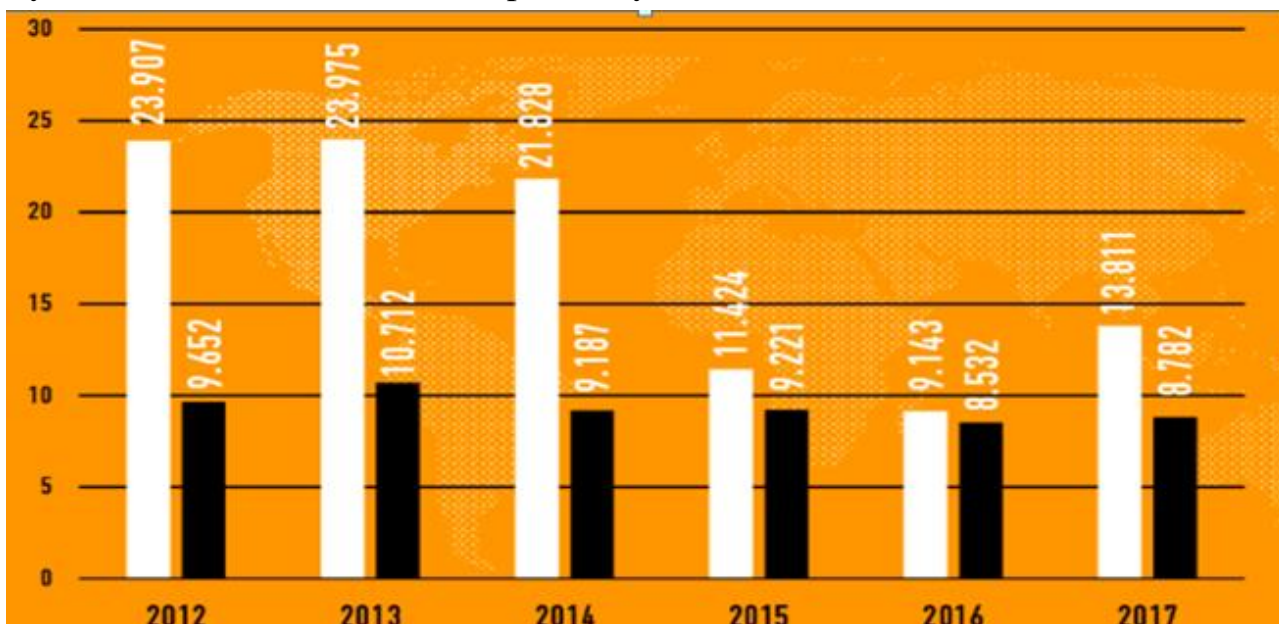
According to the forecast of the Azerbaijani government in 2018, GDP growth will be at 1.5%, in 2019 - 4%, in 2020 - 3.7%, in 2021 - 2.9%.

Certainly, the development of the non-oil sector has strengthened Azerbaijan's export potential. The diagram below shows this.(diagram 4)

Statistics of foreign economic activity of Azerbaijan shows that in January 2018 the volume of foreign trade turnover of the country amounted to 1.727 billion dollars, which is 473 million dollars, or 37.7% more compared to the same period in 2017.

At the same time, the export of Azerbaijani products amounted to 1.038 billion dollars, while imports reached 688 million dollars. Thus, in foreign trade activities in January, a positive balance of \$ 350 million was recorded.

Following the results of January 2018, the export of Azerbaijani products grew by 234 million, or 29.1%, and imports - by 238 million dollars, or 52.8%.



#### **Figure 4. Export and import for 2012-2017 years**

Source: State Customs Committee

The world economy knows many modifications of what is commonly called FEZ: free economic zones, priority development areas, joint business zones, special economic regions, foreign trade zones, industrial-entrepreneurial, service, export development zones, technology parks, technopolis, free customs zones etc. All these forms, united by a general principle of investment, can be classified into two main blocks. The first, export-production, aims to ensure a sufficient pace, so to speak, catching up with economic development. The most common in developing countries. The second block is a scientific and technological one, which includes technopolises, technoparks, scientific and technical zones created with ambitious goals of outstripping economic growth. For example, there are 45 technopolises in the Netherlands, 50 in Germany. There are 25 zones and techno parks in the UK, 20 scientific and technical areas in Japan.

The choice of a variety of FEZ is usually caused by a number of factors, in particular, the presence of regional economic disparities, the zonal excess of unclaimed labor, the need to stimulate certain industries, etc..

Unfortunately, as the world practice shows, against the backdrop of numerous examples of successful operation of FEZ there are unsuccessful attempts to organize them. Thus, the creation of various zones in Sri Lanka, Senegal and other countries was not only unsuccessful, but many of them ceased to function at all. Among the countries and regions where FEZ not only do not yet have a noticeable result and

effect for the national economy, but their own development leaves much to be desired, Russia also belongs (Kaliningrad). The reasons for this are not only economic but also organizational. For economic reasons, above all, it is necessary to include an overly complicated, intricate, from the point of view of the investor, legislation on the investment regime in the zone. The presence of numerous unjustified procedures for registration of a foreign investor in the zone, weak propaganda and advertising of the advantages of the special zone - all this also significantly affects its fate. [3, p.37]

Of course, all failures do not mean that the zones need to be banned, on the contrary, overcoming the identified systemic shortcomings, they should be improved as a tool of stimulating business and economic activity approved by world practice. And here the policy of the state is very important: it is called to be stable, predictable and consistent. The activities of the zones should be subject to constant strict monitoring and monitoring. Optimal integration of the state's controlling role in the economy can be achieved through the introduction of industrial parks, etc..

And one more nuance. China was able to attract investors only after carrying out 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 conditions necessary for business.

It is necessary to approach the creation of the FEZ extremely responsibly. First of all, it is important to clearly articulate their main goal and objectives. Let me remind you once again that the main goal of the FEZ is to attract foreign investments, to open new jobs, to take advantage of the transport and geographic location of the country and to promote the development of its regions.

Creation of FEZ is a very complicated process. It includes several stages. At the initial stage, with the participation of qualified experts, the feasibility of the formation of the zone is carefully specified, further its sectoral structure is planned, as well as

some other parameters. As a result, decisions are made on the design of the FEZ and the preparation of relevant documents for its official recognition. And only then comes the stage of its introduction into action, i.e. formation of infrastructure, basic elements, business conditions. [31, p.287]

Currently, the legislative base is being developed, a mechanism for the operation of special economic zones is being created and, first of all, the infrastructure of their territory that meets world standards. I would like to note that in the state budget for 2017 for this purpose there are funds in the amount of 1.5 billion manat, of which 90 percent will be used to create infrastructure.

The main conclusion is that we are on the right track, it is important to consolidate all existing reserves, in order to achieve the goal. The key to success is substantial state support, good experience already accumulated in our country in carrying out economic reforms and global transnational projects. It is in this line that there is also the creation of special economic zones - an important tool for accelerating our socio-economic acceleration at a new stage of development.

## CONCLUSION

The development of the processes of globalization, the strengthening of integration tendencies in the world economy is estimated by specialists not unambiguously. However, one cannot fail to see the positive aspects of these phenomena. First of all, they contribute to the internationalization of science and production, the dissemination of achievements of scientific and technological progress to countries with insufficiently high level of socio-economic development. In the mechanism of dynamical retraction of the country's economy into world economic relations a special role is played by specially created by the state limited zones (territories), where a special regime of economic activity is established that facilitates integration processes. More than half a century of experience in the operation of such special economic zones in many countries has shown a more positive than negative result. It is particularly attractive for less developed countries and countries with economies in transition, seeking to take their place in the international division of labor.

The economic reform in Azerbaijan, aimed at the formation of market relations, the transformation processes associated with it, makes it necessary to look for ways of reviving economic activity. Therefore, it is quite understandable that some theoreticians and especially practitioners are particularly interested in the possibility of using the SEZ as a policy tool that can give a new impetus to the revival of the economy and become a point of economic growth for the economy of the regions. It was from such positions in the thesis that the study of world and Azerbaijan experience in the formation and development of special economic zones.



The conducted research has shown that with all the diversity of approaches, each state pursues a policy of individualization of approaches to the formation and functioning of the FEZ on the basis of a national framework law on special economic zones.

When creating the FEZ, countries tend to take into account the existence of favorable prerequisites and conditions, form a stable regulatory framework and set fairly clear goals and objectives related to the implementation of domestic and foreign economic policies. Integration into the world economy through a special zone as a common goal in each specific case finds its own forms of realization. The goals and objectives of the FEZ are determined, first of all, by the state's economic and social policy, the level of economic development of the country as a whole and individual regions in particular.

It is from these positions that specific types and types of FEZ were formed in the world practice. This focus allowed ultimately to achieve positive results, and FEZ as a tool of policy of economic openness, as revealed in the study, acted as:

- mechanism of effective attraction of foreign direct investment into the economy;
- means to strengthen the export potential of the economy and increase its integrated level in the world economy;
- polygon for approbation of administrative, market innovations, revealing their effectiveness;
- means of direct impact on the economic recovery of the territories on which FEZ are located.
- means of indirect impact on the development of the economy of the rest of the country.

Conducting a comparative analysis of the functioning of the FEZ on the European, American and Asian continents made it possible to identify both common

features and specific features of the formation and development of special zones. The tendency of the stages of development of zones from trade to complex or highly specialized zones has been revealed.

The general economic features of the FEZ are due, as a rule, to the formation of zones, the legal and organizational foundations of their functioning, the definition of specific objectives and incentive mechanisms, and often the programs of state support for economic activities, which contributes to the long-term nature of the economic policy of openness.

Regional differences are largely due to the peculiarities of the development of the economic systems themselves. More characteristic of special zones in Europe are their active growth in countries with economies in transition, and in countries with developed market economies, the predominant formation of highly specialized zones.

A feature of the zones on the American continent is the orientation towards the needs of the internal market, the formation of mainly highly specialized zones, but of an industrial and technological nature.

FEZ in Asian countries are more multi-purpose, complex in nature and are formed on the basis of extensive use of the accumulated world experience. These zones are provided with more active state support, where a broader system of privileges is provided for the types of zones and the purposes for their creation. Stimulating the export orientation of economic entities creates favorable conditions for foreign investors, contributes to the inflow of capital and new technologies into the economy of the country.

Based on the study of the world experience in the formation and development of FEZ, a general theoretical model of a special zone is presented in which the main directions of the effective functioning of zones.

In our opinion, the necessary conditions for the effective implementation of special economic zones, as a form of economic interaction with the rest of the world, should be:

- the formation at the federal level of a clear concept in the FEZ area, taking into account both national and regional interests, the experience of developing special zones in the world;
- Adoption of the relevant legislative and regulatory framework governing the establishment and operation of FEZ;
- organization of FEZ in a limited area, excluding violation of the principle of the single economic space of the country;
- mutual economic interest of both local and federal authorities in creating special zones;
- the possibility (and readiness) of federal agencies to channel the necessary budgetary funds to form the infrastructure of the FEZ, with the understanding that the real effect for the country, unlike the territory, can only be obtained in the longer term;
- the establishment at the federal level of a special management body that coordinates the creation of FEZ and monitors the fulfillment of their obligations by special zones, including with respect to the state in terms of using funds received from the federal budget;
- providing foreign and Azerbaijan investors operating in the FEZ with more favorable conditions and economic incentives for doing business than those they have abroad and in the rest of Azerbaijan.

The application of internationally approved approaches to the creation and operation of special economic zones on the basis of a critical but constructive assessment of the realities will allow Azerbaijan to solve such macroeconomic problems as attracting foreign investment and ensuring stable economic growth of

less developed areas of the country (primarily cross-border areas) benefits from participation in the international division of labor.

It is necessary to develop complex measures for the establishment and development of free economic zones in the Republic of Azerbaijan. First and foremost, tax, customs and other discriminations should be clarified and regulated by law. Additionally, the conditions under which conditions the enterprises operating here should be fully reflected in this plan. As is known, FEZs in the world are characterized by their characteristic and functional approaches to three, private, state and mixed forms. The most commonly used FEZ forms in the world. Looking at the Sumgayit technopark and the Balakhani Eco-Industrial Park, established in the Republic of Azerbaijan, we see that the role of state-owned enterprises is broad. It is important to take steps to involve private ownership, local and foreign private enterprises, as well as universities and research institutes in the FEZ, which, of course, will be built in other areas. For this, Turkey's experience, which is closer to us, should be explored and a new concept should be developed using the world experience. In addition, separate surveys should be conducted for the establishment of FEZs in the regions and a substantiated proposal package should be prepared.

The most discussed areas in the emergence of Free Economic Zones were Sumgayit city, Sadarak settlement of Nakhchivan AR and Lankaran city. However, more attention is now paid to the establishment of Baku and the Absheron economic region. The natural and geographical position of Azerbaijan reveals many opportunities for the establishment of many FEZs in other parts of our country. Basically, free trade zones can be considered in border and border areas.

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## XÜLASƏ

Azad iqtisadi zonaların meydana gəlməsi əsasən XX əsrin ikinci yarısından başlamışdır. Azad iqtisadi zonalar əsasən dünya ölkələrinin təsərrüfat əlaqələri üçün beynəlxalq mal dövriyyəsinin formalaşdırılması, investisiyaların paylanması, iqtisadi məkana integrasiya proseslərinin genişləndirilməsi zəminində iqtisadi inkişafın sürətləndirilməsi amili və həm də integrasiya proseslərinin idarəetmə formalarından biri kimi müasir dövrdə aktualıq kəsb edir.

Azad iqtisadi zonalar o dövlətlərdə yaradılır ki, həmin dövlətlərin sosial-iqtisadi inkişaf səviyyəsi, strateji və inkişaf istiqamətləri və planları və s. digər ölkələrdən fərqlənir. Buna görə də hər bir dövlətdə azad iqtisadi zonaların yaradılmasının səbəbləri və məqsədləri fərqlidir. Belə ki, *artıq inkişaf etmiş dövlətlərdə*, məsələn, ABŞ, Böyük Britaniya, Fransada azad iqtisadi zonaların yaradılmasının səbəbi məhz beynəlxalq iqtisadi əlaqələrin inkişaf etdirilməsi, problemli regionlarda orta və kiçik sahibkarlığın inkişafına istiqamətlənmiş regional siyasətin aparılması, regionlar arasında olan fərqlərin yox edilməsi üçün yaradılmağa başlamışdı. İlk zamanlar azad iqtisadi zonalar sahibkarlara müxtəlif vergi güzəştlərinin təqdim olunması rolunu oynayırdı. İndiki zamanda azad iqtisadi zonalar dünya ölkələrinin təsərrüfatı məkanında integrasiya edən maliyyə üçün tələb rolunu oynayır.

Azərbaycanda da 2016-cı ildən azad iqtisadi zonaların yaradılması prosesinə başlanılmışdır. Belə ki, Bakı Beynəlxalq Dəniz Ticarət Limanının ərazisi daxil olmaqla azad ticarət zonası kimi xüsusi iqtisadi zonaların yaradılması bu istiqamətdə görülən işlərin başlanğıcıdır.



## SUMMARY

The emergence of free economic zones began in the second half of the twentieth century. Free economic zones are important in modern times as one of the forms of integration processes, as well as the factor of acceleration of economic development, mainly due to the formation of international goods turnover for economic relations of the countries of the world, the distribution of investments, expansion of economic space integration processes.

Free economic zones are created in those states that the level of social and economic development of these countries, strategic and development directions and plans, etc. differs from other countries. Therefore, in each state, the causes and objectives of creating free economic zones are different. The reason for the creation of free economic zones in developed countries, such as the United States, the United Kingdom and France, was the establishment of international economic relations, the implementation of a regional policy aimed at the development of small and medium-sized businesses in troubled regions, and the elimination of differences between the regions. At first, free economic zones played the role of providing various tax incentives to entrepreneurs. At present, free economic zones play the role of demand for finance that integrates in the economies of countries around the world.

The process of creating free economic zones has been started in Azerbaijan since 2016. Thus, the creation of special economic zones as a free trade zone, including the Baku International Sea Trade Port, is the beginning of the work done in this direction.

## РЕЗЮМЕ

Появление свободных экономических зон началось во второй половине двадцатого века. Свободные экономические зоны в наше время важны как одна из форм интеграционных процессов, а также фактор ускорения экономического развития, в основном за счет формирования международного товарооборота для экономических отношений стран мира, распределения инвестиций, расширения экономических интеграционных процессов.

В этих государствах создаются свободные экономические зоны, которые отличаются от других стран уровнем социально-экономического развития этих стран, стратегическими направлениями и планами развития и т. д. Поэтому в каждом государстве причины и цели создания свободных экономических зон различны. Причиной создания свободных экономических зон в развитых странах, таких как Соединенные Штаты, Соединенное Королевство и Франция, стало установление международных экономических отношений, осуществление региональной политики, направленной на развитие малого и среднего бизнеса в проблемных регионах и устранение различий между регионами. Сначала свободные экономические зоны играли роль предоставления различных налоговых стимулов предпринимателям. В настоящее время свободные экономические зоны играют роль спроса на финансы, который интегрируется в экономику стран мира.

Процесс создания свободных экономических зон начался в Азербайджане с 2016 года. Таким образом, создание специальных экономических зон как зоны свободной торговли, в том числе Бакинского международного морского торгового порта, является началом работы, проделанной в этом направлении.