

Role of Special Economic Zones in Development of the Republic of Kazakhstan

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Abstract: In the article a method of controlling the spatial economy such as the creation of special economic zones on part of the state territory is analyzed. The problems of identifying the characteristics and key features of the special economic zones at the present stage of development are solved. Three main purposes of their creation are identified; various groups of special economic zones depending on the classification criterion are listed. Experience of creation of free and special economic zones in the Republic of Kazakhstan are studied. The reasons of their low efficiency in the 1990s are listed. The modern system of state regulation is presented in the sphere of establishment, operation and liquidation of special economic zones in Kazakhstan. It is carried out grouping of zones operating in the territory of the country by criterion of their economic orientation. Results and efficiency of operation of special economic zones during 2008-2012 are analyzed. The conclusions about their role in the development of the Republic of Kazakhstan are given.

Key words: Special economic zones • Republic of Kazakhstan economy • Investment • Free customs zone

INTRODUCTION

In the second half of the 20th century in the world economic practice became widespread use the tool of state regulation of the economy as an organization in the territory of the country special and "free" zones of private equity with institutional content. Effective use of these tools represents a complex challenge for transitional economies on the former Soviet Union. Currently, whereas between countries for the world financial capital with a new force the struggle is resumed, relevance of this task is especially considerable. The purpose of this article consists in identification of a role of the special economic zones (SEZ) in development of the Republic of Kazakhstan.

To achieve this purpose it is necessary to solve the following tasks in sequence: first, it is necessary to review the global experience of operation the special economic zones and on this basis to highlight their key features and characteristics; second, it is necessary to examine the practice of implementation of special economic zones in Kazakhstan, to identify their role in the development of the country.

In addition to the SEZ term in the theoretical literature and in practice the following terms are used, a total number of about 30 types [1]: special economic zone,

free customs zone, duty-free zone, free economic zone, export-manufacturing zone and so on. However, the most widespread in the world literature received terms as free and special economic zones. There are various definitions of these terms and understanding of their essence are respectively various. One of the most successful definitions is given in the financial and credit encyclopedic dictionary [2]: SEZ is the isolated part of the territory of the country (enclave) in which the special system of preferences and incentives are created. Preferential conditions are created, as a rule, both for national and for foreign entrepreneurs, although, in practice there are exceptions when the preferences introduced mostly only for local or only for foreign economic agents.

Types of preferences and incentives introduced in the special economic zones and their orientation depends, first of all, on the purpose of establishing the zone. All variety of specific purposes can be summarized in three generalizing purposes:

- Creation of a growth point for all national economy. That is, the SEZ is aimed at intensification of entrepreneurial activity and the increase in production capacity in parts of the country. In the medium-term outlook, it will result in both the growth

of national manufacturing firms through mutually beneficial cooperation with foreign businessmen and additional revenues to the state budget and so on. This is the classic purpose of special economic zones creation, which a worldwide distribution of SEZ implementation practice began with. In today's world, the first purpose is increasingly giving way to the following two purposes.

- The introduction and development of innovative technologies of production and management. Organization of a special economic zone for this purpose has to lead to the elimination of the country lag in the development of high-tech areas and in the long-term outlook it has to lead to the accelerated formation of new technological way and the timely acquisition of an appropriate share in the world market [3]. It has to occur through the creation in SEZ special privileges and incentives directed on creation of favorable environment for foreign and local innovative companies.
- Restoration of a certain territory of the country from a depressive or crisis economic state [4]. The direct financial help to lagging behind regions from the center in practice showed its focus on the resolution of the current acute problems on the territory and its weak efficiency in both the high-quality growth of economy and self-development stimulation. The mechanism of the creation in the depressive economic state territory of the special economic zone has proved to be on the example of many developed countries. This mechanism not only attracts foreign investments on the zone territory, but also encourages the local business community.

Regardless of creation purpose, any special economic zone is constructed on a combination of the official and private capital. The difference between the SEZ consists in the ratio between these capitals. As a rule, the state provides investments into infrastructure creation, but production capacities are introduced at the expense of private funds [5]. They can be both foreign and local, but most often the foreign investors have more privileges and a greater share of the SEZ economy.

Another and, probably, the main feature of the special economic zone is its extraterritoriality, i.e. non-proliferation on its agents of the country legislation and the presence of its own unique legal framework. Also in the SEZ special conditions usually work to facilitate foreign economic activity, i.e. there is free customs regime. At this regime in the SEZ territory export-import

operations either at all aren't assessed with taxes, excises and the customs duties, or assessed on favorable conditions. Restrictions and prohibitions on import of the goods, acting on the rest of the country cannot apply to the special economic zone if it is economically reasonable and it doesn't create threats of safety.

For the cultivation of a favorable business climate in the SEZ in addition to the free customs regime can be provided:

- Guarantee of reduction or exemption from certain taxes for several years;
- Removal of administrative barriers to business: the simplified procedure of registration of firms and their property, the implementation of the "one window" principle, providing a direct supervision by the authorities especially of the large investment projects, etc.;
- Government subsidies in the form of the soft state loans or in the form of discount on the rent of land and reduced prices for connection to the economic infrastructure;
- The state guarantees of protection against unfavorable changes in the legislation and property nationalization protection, etc.

Nature of the privileges is defined by their types that operate in a special economic zone. Depending on the grouping criteria there are different typologies of the SEZ. By criterion of economic orientation it is possible to allocate the following it types: technical innovation, industrial-production, service, tourist and recreational, complex zones and free trade zones.

Technical innovation zones are aimed at creating favorable conditions for innovative activity [6]. Within them organized effective process of generation and search of innovative ideas, their registrations in the form of projects, finding ready to high risks sources of investment for them and implementation of projects in practice. In this type of SEZ the most productive is "tax holiday" (either the exemption from the payment of income tax or collection part of the profit for a certain period) on the property tax, income tax, reduced income taxes from patents sale and licenses, also additional privileges are provided at creation of new workplaces in hi-tech spheres [7].

In the industrial-production zones fiscal incentives and financial support are organized for the industrial companies whose products are intended for export or import substitution [8]. Service zones presuppose

existence of preferences for companies offering a variety of financial and non-financial services. Tourist and recreational zones set up severe requirements to the territory of its location: it has to be environmentally friendly, it should have excellent climatic conditions and it has to be safe for foreign citizens. SEZ of complex type unite in the same territory a few of the above-mentioned zones.

Some authors propose to divide the special economic zones on the basis of competitiveness into preferential and transitive. In the preferential zones enterprises possess competitiveness at the expense of privileges and public assistance available for them, but the foundations of transitive zones are innovation and operational adaptability.

So, the special economic zone, attracting investors with its privileges, can become the growth point and innovative core for all national economy and can lead to recovery of a certain territory from a depressive economic state, as opposed to the SEZ inefficient organization that can bring more negative effects than positive: unprofitability of public investment in infrastructure, uselessness of granting privileges and incentives, lack of innovative return, negative social consequences, etc.

Owing to written above it is impossible to make an accurate conclusion about a role of the special economic zones in the country development without specific features of their operation in specific spatial and economic conditions.

Experience in the use of zonal structures in the Republic of Kazakhstan originates from the 90's of the 20th century, when nine SEZ were created for the purpose of social and economic development of territories and acceleration of restructuring of the national economy from directive system to the market one. However all of them were ineffective and they were eliminated in a short time, except for "Lisakovsky" SEZ which has brought for 1 Tenge of investments return in 2,93 Tenge [9].

Experts identify a number of reasons for failures of the mechanism of free economic zones in Kazakhstan in 90's. One of such reasons is inappropriate use of the public funds aimed at the development of SEZ [9]. Inherent in almost all the countries of the CIS, the high level of corruption was a strong obstacle to the increase in the inflow of foreign investment and the development of the institutes of market economy. At the time besides national interests, most important factors influences on decisions of the SEZ establishment and support are interests of small groups of the influential people, whose interests are expressed in the form of strong lobbying. Serious mistakes were made in spatial planning: SEZ were

extended on too large territories, sometimes completely covering the whole region; some zones were created in unsuitable territories for this purpose. There were also shortcomings in differentiation of jurisdiction areas and legislative faculties between administrative councils of SEZ and local authorities.

Practical implementation of free economic zones at that time pointed to mistakes and shortcomings in the regulatory and legal framework that governed corresponding area activity. Therefore, in 1996 in it there were essential changes recorded, first of all, in the Decree of the President of the Republic of Kazakhstan "About special economic zones". Instead of the term "free economic zone" the new concept of "special economic zone" was determined. The purposes of the creation of such zonal structures were: attraction of investments on the accelerated development of regions; creation of production capacities, producing competitive products for the world market; development of modern market-based management and entrepreneurship. In addition to modifying the management of a special economic zone in the legislation was introduced the urgency in the life cycle of SEZ and the formalization of the process of it liquidation.

Besides annual corrections of regulatory and legal framework the new laws were adopted in 2007 and 2011 to regulate economic zones. Currently, the law of July 21, 2011 No. 469-IV "On special economic zones in the Republic of Kazakhstan" operates [10] and defines the basis of state regulation of the establishment, operation and the liquidation of the SEZ.

The SEZ control system in Kazakhstan under the existing legislation looks as follows. To ensure the best quality in the management of the economic zone in it the management company in the form of joint-stock company has to conduct the professional activity. The founders of the society can be not only the state and local authorities, but also private legal entities (domestic and foreign subject to availability of SEZ management experience). In the presence of the central regulatory agencies of all SEZ (now it is the Ministry of the industry and new technologies of the Republic of Kazakhstan) the interdepartmental advisory body (review council) operates in the conduct of which belong functions of drawing the conclusions of advisory by nature about expediency of creation or liquidation of specific SEZ. And part of the review council includes not only government officials, but also members of the public and business communities. Public authorities of various level and private legal entities are entitled to submit the offer on creation of SEZ for consideration of review council.

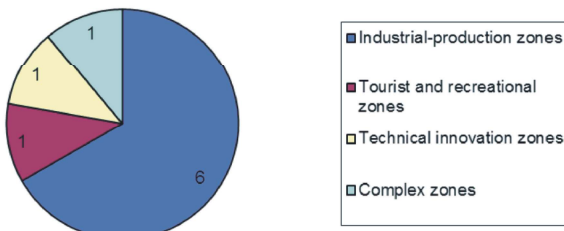


Fig. 1: Distribution of the special economic zones in Kazakhstan into groups, depending on their economic orientation

The maximum possible period of operation of a special economic zone in Kazakhstan is 25 years. All types of entrepreneurial activity in the SEZ are divided into the priority and auxiliary activities. Basic distinction between the two is that agents of auxiliary activity not covered by the special economic zone regime. Priority activity types are that answer the purpose of creation of this particular zone.

The procedure of the free customs zone established by the legislation of the Republic of Kazakhstan has real effect on the territory of the special economic zone. That is, the goods in the zone have a special status and are regarded as being outside the customs territory of the Customs Union. On the export-import operations can be established additional privileges and exemption from customs duties, taxes and measures of non-tariff regulation.

These economic conditions encourage the emergence of a growing number of special economic zones in Kazakhstan, which now are already 10. The most number of them are of the type of industrial-production zones (Fig. 1).

Example of a tourist and recreational zone is SEZ "Burabay" created to attract local and foreign tourists. SEZ "Park of Innovative Technologies" is the only technical innovation zone in the country. For stimulation of its development in the legislation of Kazakhstan is provided for the opportunity to be registered as the participant in the SEZ, being at the same time not in the zone territory and enjoy the tax privileges (except for the VAT and the customs duties). SEZ "Astana – the New City" is the complex zone including the purposes and activity conditions of industrial-production and service zones.

SEZ Seaport Aktau has shown the best results on production volume. For 2008-2012 in the SEZ Seaport Aktau was produced goods for the sum of 104 billion Tenge, which is about half of the total value of goods produced in all SEZs in Kazakhstan. The second place on this indicator is taken by the SEZ "Astana-the New City", which produced goods for the sum of 72 billion Tenge, that is about 1/3 share of the total output of all SEZs. The SEZ "Park of Innovative Technologies" has shown the third place on this indicator, which produced goods for the sum of 6.5 billion Tenge for 2008-2012. Thus, the special economic zones "Seaport Aktau" and "Astana- the New City" are the leaders, who are strongly surpassing in the economic power other zones.

The intensification of SEZ activity in Kazakhstan occurs within state program "Programs aimed at attracting of investments, development of special economic zones and stimulation of export to Kazakhstan for 2010-2014". In these programs there are three key indicators of the SEZ activity and their planned values are specified. By comparing planned with actual values, it is possible to draw conclusions on high efficiency of operation of the SEZ and their noticeable role in development the Republic of Kazakhstan (Fig. 2).

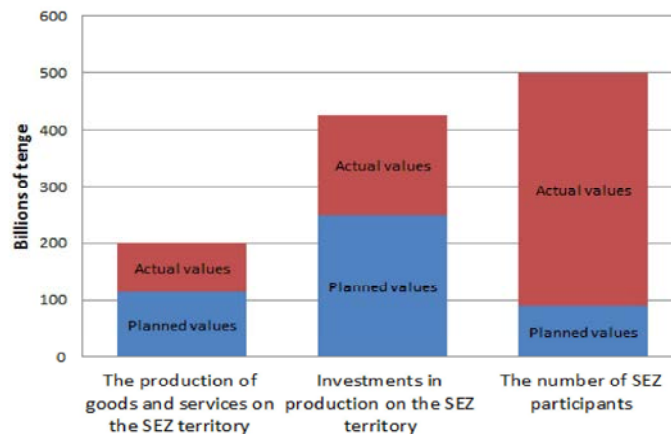


Fig. 2: Indicators of the operation of special economic zones in Kazakhstan for 2008-2012 periods

Over the four-year period in production development in territories of Kazakhstan SEZ was invested 428 billion Tenge of private funds. In a total amount of investments into fixed assets in Kazakhstan this sum is not large and is only 0.023%. If one takes into account that the construction of infrastructure in the SEZ has been spent 90 billion by the state, as a result, each Tenge of the state investments has led to a 4.75 Tenge of private financial investments in production.

For 2008-2012 by the SEZ participating enterprises were produced goods and performed services for approximately \$ 210 billion, which is 75% above the planned level. In the total volume of goods produced and services performed in the Republic of Kazakhstan values of SEZ have a share of 0.003%.

CONCLUSIONS

Creation of special economic zones can be effective tool of the state economic policy. Though the contribution of SEZs in the Republic of Kazakhstan's economy is not so great yet, but their role in attraction of direct investments in non-raw material resources and innovative productions, as well as integration into the global trading system is extremely important. Considering the high efficiency of the majority of special economic zones of Kazakhstan, in the long term their number and role in the development of the country will only increase.

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