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## FREE ZONES AS AN ACCELERATOR OF INTERNATIONAL AND NATIONAL ECONOMIC DEVELOPMENT

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**Abstract:** *The authors emphasize the importance of free zones as a key factor of economic business progress. Through the presentation of the basic regulations, the authors point out that free zones have achieved their purpose and conditions for existence and work, compared to the most successful zones in the region and the world. The authors point out that the capacity of free zones as an accelerator of economic development is insufficiently used, and that the implementation of the experiences of developing countries would significantly increase it. In a period when our country has many development priorities, a more inventive strategy for free zones would be useful at numerous levels, starting with increasing production, technological modernization of numerous activities through increased foreign exchange inflow, exports and development of certain regions of the Republic of Serbia. The authors conclude that free zones contribute to the development of companies that operate both in the zone and around the zone, and that this ultimately contributes to increasing employment in a broader sense.*

**Keywords:** *Free Zones, Economic Development, Employment, Strategy, Republic of Serbia*

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### INTRODUCTION

The basis and support for an economic environment is a quality regulatory framework of a country. In the time of modernization, globalization and accelerated technical and technological development, when patterns and models are changing in all spheres of society, one of the carriers of change is national and international business in which free zones are building their place. Business in the Republic of Serbia, shaped by legal solutions and economic opportunities, and burdened with numerous historical and social factors, tries to maintain, find and secure its place in international business, trends and globalization, combining the economic interests of individuals with complex mechanisms market business.

Business entities operating in such an environment, created by national laws, potentials and goals, and limited by the rules of international trade, which are changing more often, are facing constant challenges and demands. In the Republic of

Serbia, which is recovering from the system of social property, where due to economic underdevelopment it is difficult to do business without state intervention and it is even harder to keep pace with international standards, the conditions for the work of companies are very complex.

Companies, as the backbone of economic business, certainly bear the greatest burden of this market pressure. The existing economic framework shows that economic entities in Serbia are resisting challenges, and that their structure, organization and functionality contribute to the trend of constant growth in the number of economic entities. This certainly leaves room for further implementation and anticipation of new or modified legal forms of economic association that would aim to further achieve efficiency and economic development. A significant number of companies are the subject of the work of economic free zones, as a special type of economic organization that has its own rules regulated by law, but also numerous additional favorites and opportunities.

## 1. CONCEPT AND STRUCTURE OF FREE ZONES

When we talk about the concept of zone, we could define it from the point of view of the territorial area of a sovereign state in which economic business and movement of persons and things is performed under special conditions and control of administrative bodies. Therefore, the very notion of a free zone can represent an area in which there are special working and management conditions that are reflected in the form of special benefits for both customs and fiscal, administrative and others. "Free customs zones" has long been the most common name for zones in the world in which the exchange of goods and services, storage, industrial production, finishing of goods, etc. was performed under certain preferential conditions. In some countries, special economic zones are established, which, in addition to economic ones, also follow development and strategic goals, and are most often on the land territory along the state border and near river and sea ports (Milos & Rudic, 2004).

"Special economic zones" is a generic term, a form of more modern definition of free zones, newer in character and its wider use in publications and international literature coincides with the 2019 World Investment Report issued by UNCTAD. This name was used before the mentioned report by the World Bank and the International Finance Corporation (IFC), and it was also accepted by the Organization for Economic Cooperation and Development (OECD). According to the UNCTAD definition, free economic zones, as a generic term, are geographically limited areas within which governments facilitate industrial activities through fiscal and regulatory incentives and infrastructure and are widespread in developing countries and many developed countries (Bost, 2019).

According to this definition, free economic zones operate under different names in different economies and countries, they are characterized by different types and sizes, but they have in common that within the defined area they provide a regulatory regime for companies and investors different from that applied in the national economy were was established (UNCTAD, 2019).

Defining in this form was an expression of the intention to overcome the existence of numerous and different names (as many as 82) for the same or different types of zones in different countries, which causes misunderstandings, ambiguities and difficulties for investors in understanding the nature of the zone, possibilities and comparison with free zones in other countries. Defined in this way, they represent a broader concept than the concept of classic commercial free zones. The names "Free zones" (EPZ - export production zones), "Industrial parks", "Free Trade zones" are also used in national economic and legal regulations around the world. Free trade zones, Foreign trade zones, Free ports (the largest number in China), Enterprise zones (production zones) and many other types (FIAS, 2008 ). We could mistakenly assume that these names refer to the same term by defining it more closely, but in fact they are different concepts of free zones depending on their purpose and the types of preferences they provide in the business itself. In the European Union, the term "Free zones" is used. The stated terminological definitions of zones actually represent the most common types of zones. (Kostic, 2019). The Law on Free Zones defines this term as a fenced and clearly marked area in relation to the single market of our country, where under special conditions the activities provided by law are performed (Law on Free Zones, 2006).

Free zones in most cases represent an integral part of state teriory. In that part, in accordance with the national regulations, favorable business conditions are envisaged, through measures of fiscal exemptions. This greatly contributes today to a global improvement in foreign trade attention and understanding. Interesting is the 1999 convention (revised Kyoto Convention) which introduces some para-extraterritorial character of a free zone. Namely, it defines a free zone as a territory outside the customs territory of the state in terms of import duties and taxes on goods and services performed in the zone (Free Zones Development Strategy 2018-2022).

From the point of view of positive legal regulation, the free zone is undoubtedly a part of the state, customs territory and belongs to the single market of the country. They do not have extraterritorial status in the narrow sense, we can only talk about a new concept of "economic extraterritoriality". Zones are characterized by specific economic operations that are accompanied by special regulations, and thus economic entities operating in such zones enjoy different preferences, and are in a privileged position compared to other economic entities operating in the Republic of Serbia.

In terms of legal basis, they do not have extraterritorial status, so other regulations that apply in the territory of RS are in force in the zones. These zones are said to have "economic extraterritoriality", precisely because of the special benefits for performing activities, which give the users of the zones a more privileged position in relation to other economic entities. These special conditions are mainly the reason why our legislation, as well as international legislation, insists that they must be clearly marked and fenced (Vilus et al, 2008).

Free (customs) zones are characterized by an exception in relation to the state and economic relations of one state. Foreign goods and their processing have a longer treatment while they are in the area of the zone, only after being placed on the market, tax and other duties are paid. In legal theory, the term free zone refers to two terms. This term means a space, area, part of the territory where a free zone operates, but the term free zone also means a certain economic activity that is performed in the free zone under special conditions. Goods in a free zone are exempt from customs duties (public law measure) according to domestic laws or on the basis of an international agreement, which can be considered within reduced customs territory in relation to the political one (Đurovic, 1997).

Location is of great importance in the process of determining the location of a free zone. They are most often established in areas near sea or river ports which are close to the airport, especially if there is a good connection with highways and access to international traffic. The work of free zones is also encouraged by measures of local government units in the form of numerous exemptions from taxes, the transfer of land for the establishment of free zones under favorable conditions, bringing infrastructure or construction within the zone itself.

Free zone in RS in terms of spatial structure does not have to be only in one place, it can consist of subzones, separate parts, but it is important that these parts of the zone achieve a functional whole (through infrastructure) and that the conditions are met in accordance with customs regulations, in terms of fencing, marking and the possibility of control on each of these separate parts (usually separate plants, factories, business centers, etc.). From the derived structure of the free zone itself, the basic numerous advantages are clear. They are reflected in fiscal, customs, various benefits provided by local self-government, financial and administrative.

The fiscal benefits of working in some free zones are most often through certain legislation for exemptions or benefits in terms of income tax, property, personal income and VAT. Customs benefits can be seen through exemptions or benefits related to customs duties and other import duties under certain rules and legal conditions, while financial benefits mainly relate to the free movement of capital, profits and dividends. Administrative benefits are logistics services at more favorable

prices such as: organization of transport, transshipment, loading, forwarding, agency services, insurance and reinsurance services, banking, etc. (Veselinovic, 2017)

The main goal of free zone development can be seen through the implementation of state-economic policy that should contribute to increased investment and neutralize the effects of restrictive policies, poor governance, backward infrastructure, and the like. Free zones have the capacity to encourage the creation of surplus value by attracting investors who, by taking advantage of the privileged conditions of economic business, realize a profit. From that angle, the function of free zones is the realization of microeconomic goals (job creation), macroeconomic (implementation of regional economic development strategies and structural reforms) and the performance of economic activities.

In the free zone, all economic activities can be performed without restrictions (most often: trade, production, finishing and processing of goods, wholesale and intermediation in trade, provision of transport services, banking, insurance and reinsurance of property and persons). Restrictions on the type of activity are only those that could endanger the environment, human health, material goods and the security of the country.

## 2. COMPARATIVE OVERVIEW OF FREE ZONES

Free zones are located in 70% of developed countries, in most cases they are customs zones, the economic importance of these zones and their participation in the overall national economy is very limited, except for the United States. In 2019, this country had as many as 262 free economic zones. The first zones in the United States began to be planted in 1934 in free ports. More liberal transport and processing of foreign goods is allowed in order to improve foreign trade and increase employment. Since 1950, industrial production, display, and the commodity exchange have been made possible in the United States.

From 1980 to 1990, over 156 free zones and 145 subzones were opened (Milos & Rduic, 2004). In the middle of the 20th century, there was also an increase in the number of free zones, mostly export zones, in which countries like Ireland, in addition to tax benefits, offered numerous others (free land, exemption from utility costs, energy connections, etc.), which contributed to economic activity, expansion and creation of new production capacities, increase of exports, reduction of imports, immigration instead of emigration of professional staff and improved the standard of living.

When it comes to developing countries that have realized the potential of SEZ, Taiwan and South Korea stand out, and in recent years, India has joined these countries. In the mid-20th century, Taiwan and South Korea had a free zone concept that allowed free trade and commerce to attract foreign capital and modern

technology. Since the beginning of business, (multi-purpose) zones in Taiwan have been successful, which has led to the opening of new zones.

In 2019, they can boast of 3 science and 4 science and technology parks, but also with free zones that specialize in agricultural biotechnology and the software industry and logistics. In South Korea, free zones covered wider areas, were established to improve economic growth in underdeveloped regions and attract foreign investment. Today, in addition to the production capacities, free zones also has tourist, medical and educational institutions and services.

In South Korea, 8 zones are of this type, 13 are duty-free and 26 are specialized free economic zones (UNCTAD, 2019). The development of free zones in India has come very close to modern trends in recent years. Depending on the area they use, the type, number of sectors and purpose of free economic zones are determined. Multi-sector special economic zones (multi-FZ) have an area of over 1,000 ha of land; zones of certain activities (FZ specific to the sector) occupy at least 100 ha of land; free trade and storage zones (FTWZs) occupy at least 40 hectares of land and IT free zones occupy at least 10ha of land. With the new policy for FZ, India has enabled smaller free zones to be transformed into advanced models with greater advantages and possibilities (Kostic, 2019). Thus, from 221 special economic zones, their number increased in 2019 to 423.

At the end of the 20th century, after the collapse of the Soviet Union, and the socialist economic system in general, all the countries of the Eastern bloc began to open a larger number of FZ, which accelerated the process of transforming the socialist economy into a market economy. As many as 167 FZs were established in Hungary by the end of 2003, the volume of investments amounted to USD 5.5 billion, which accelerated the development of small and medium-sized businesses and their cooperation with users and investors from abroad. China is one of the most successful countries in the field of free zones.

After the opening of China to the world in 1979, special attention was paid to the formation of special areas and types of economic activities and activities that would attract foreign investors (the term FZs dates back to that period). These zones were formed in provinces more developed than other parts of China, which parried Hong Kong, Macau and Taiwan, Chinese territories under the administration of other states. The first economic zone was "Shenzhen" at 326 km. Customs and tax benefits and cheap labor have attracted foreign investors from the US, Canada and Europe, and business agreements have been concluded with domestic companies on joint ventures.

In 2019, China had 2543 FZs. This economic policy of China has resulted in success and its position on the world market, it is one of the most economically powerful forces. Following the example of China, the Russian Federation made a

decision in 1995 on the formation of a special economic zone Kaliningrad, which includes the entire Kaliningrad region (15000km<sup>2</sup>). In the period 2005-2015. Russia has approved 6 new technologically innovative zones (2 in the Moscow region, 1 in St. Petersburg and 2 in other regions) which are currently the most successful industrial SEZs out of a total of 130 zones in Russia in 2019 (Kostic, 2019).

### **3. FREE ZONE DEVELOPMENT FACTORS AND THE IMPORTANCE OF STATE POLICY**

Among the most important factors influencing the development of free zones are political (economic) stability, customs relief, tax relief, infrastructure, economic and economic policy of the state, currency stability, general attitude towards investments, support of state authorities during and after the start of the zone and availability of skilled labor. These factors must have economic justification, which is reflected in attracting foreign investment, increasing production and exports, hiring new labor and regional development, including: political (economic) stability, customs relief, tax relief, infrastructure, economic and economic policy of the state, currency stability, general attitude towards investments, support of the state government during and after the beginning of the work of the zone and availability of skilled labor.

The host country must provide legal protection of foreign economic entities, efficient economic environment (network of banking, legal, transport, etc.), legal guarantees, efficient administrative infrastructure, access to markets of developed countries, incentives and many other factors of great importance for investors and their decision to operate within a free zone. If we follow the UNCTAD recommendations, we could conclude that the key conditions leading to the successful operation of free zones are strategic focus, regulatory framework and management, proposed benefits for investors, which must be implemented with the principle of sustainable development, digitalization of the economy and harmonization with the new international trade law.

The structure and working conditions of free zones are very complex, involving a large number of public and private participants with different responsibilities. Free zones are highly dependent on country-specific political, economic, legal and administrative systems. State policy is crucial in the domestic regime of free zones, sets general goals and strategies of economic and economic development and implements them, among other things, through free zones. The government coordinates the policy towards free zones with other relevant policy areas and its international obligations and allocates the necessary resources - budget, personnel and certain types of administrative assistance. There is no one universal institutional model for all free zones.

The conditions for the establishment, arrangement, operation and supervision of free zones are regulated by law, but numerous conditions, especially in terms of economic justification, are more closely determined by the Government and the executive in the Republic of Serbia, but this is also the case with many FZs in the world. The executive is responsible for the overall management of the free zone regime, and most countries have established special bodies in charge of free zones to support government policy-making functions. It is either a specialized agency or a state body (the administration for free zones in the RS), overseen by the executive, the government (in some countries the president), special ministry units predominantly within the ministry of economy, trade or finance. There is no uniformity in the world in terms of national legislation.

Membership in a customs union or free trade area (EU, USA) or international organizations (eg WTO-RS is not a member) can be a form of restriction through regulations imposed on countries, such as tariff and non-tariff barriers, unfair competition, export incentives, state aid, agricultural and industrial incentives, rules of origin, etc. New EU members (Lithuania, Poland, Romania, Croatia, etc.), as well as candidate candidates (RS, Turkey, Macedonia) must harmonize their national laws on free zones with European laws on free zones and warehouses. International legal regulations in the form of international treaties, conventions, agreements, including the EU Customs Law, affect the operation of a free zone (BASCFP, 2020). From numerous reports and studies published by international organizations, both trade and financial, it can be concluded that there is interest and support for the concept of free zones at the international level, which nevertheless provides basic postulates and guidelines for the operation of free zones.

## CONCLUSION

The accelerated development of free zones in the world, especially in developing and transition countries, has contributed to high competitiveness among zones. As a result, many countries are trying to enable business in free zones under the most favorable, unique conditions, emphasizing their advantages and benefits in order to attract as much investment as possible, primarily foreign. The assessment of the competitiveness of the free zone is performed according to: business convenience, constructed facilities and infrastructure, economy in business, transport connections and promotion of zones. The advantages of doing business in free zones in our country are reflected in the favorable geographical position, in the fact that Serbia is a signatory to numerous international trade agreements, numerous customs and fiscal benefits, as well as efficient administration and numerous benefits provided by local self-government.

The adoption of the Law on Closed Zones from 2006 created the basis for the development of free zones based on world experiences and trends, which contributed to competitiveness in relation to free zones in the area. Free zones, on the one hand, contribute to the promotion of exports, foreign exchange inflows, on the other hand, increase economic activity, and are considered an instrument for stimulating economic growth through investment, technology transfer and employment. The position, importance and results of free zones in our country are best illustrated by the OECD Report, which concludes that in recent years they have significantly influenced the recovery of productive companies through foreign direct investment (90%).

It was also estimated that thanks to the development of free zones, new jobs were created. Free zones make up about 20% (with a tendency to grow) of the total exports of the Republic of Serbia, and almost half of the exports are from production. Free zones have had a major impact on the environment in the areas of education, infrastructure development and limited impact on technology transfer, companies around the zones and domestic suppliers according to this report. Observing the regulatory framework of free zones in our country, there is an undoubted effort of the state to treat them with due care with continuous supervision and expansion of their capacities.

What should be set as the next goal is to create a mechanism for regulating specialized economic free zones, which would greatly contribute to increasing the volume of international trade. It is up to the state to adopt the recommendations of the competent international organizations that monitor the development and functioning of free zones in the next legislative solutions, applying the experiences of successful countries, in order to create a good business climate and favorable ground for attracting foreign investments. Given that Serbia is on a transitional economic path, where it still requires significant state interventions in the economy, professionalism, expertise and skills of political, economic and economic solutions will condition the future development of free zones in our country. The Covid 19 pandemic has introduced tectonic disturbances in the field of geostrategic positioning, and today in the reality of the gas crisis and the increasingly threatening global economic crisis, the country is facing a turbulent period. In which only based on clear regulations and properly measured measures will be able to use the potential of free zones. economic development. If the state takes over base of clear regulations and properly measured measures there is potential to use free zones as an accelerator of economic development.

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