

Policy Options to Reform Free Economic Zones in Belarus

- Summary of results -

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1. Introduction

- Belarus uses several economic policy instruments that establish a special legal regime for stimulating investment and business activities of enterprises and entrepreneurs
- One of these instruments are Free Economic Zones (FEZs). The first was established in Brest (1996). In total, 6 FEZs are now active all over the country
- This Policy Briefing summarizes the results from our Policy Study PS/01/2016 on “Policy Options to Reform Free Economic Zones in Belarus” where we:
 - Assess the performance of the FEZs in Belarus,
 - Provide best international practice,
 - Propose policy recommendations on how FEZ performance could be improved

2. Concept and different types of special economic zones

Depending on the definition and criteria applied, there are up to 4,300 special economic zones world wide. Common types include:

Free trade zones

Duty-free areas at ports and airports for warehousing, handling and re-exporting of goods

Export processing zones

Fenced-in industrial estates with incentive frameworks tailored to export-oriented manufacturers

Free economic zones

Demarcated area offering a broad set of incentives and benefits to various types of companies and activities

Free ports

Large zones located at and around ports, allowing various types of activities and offering broad sets of incentives

Single factory schemes

Allow individual companies to operate under an SEZ scheme without having to physically locate to a zone

Specialized zones

Designed and equipped to serve specific activities and sectors, offering specialized facilities and services

2. Concept and different types of special economic zones

SEZ programmes are typically launched with the goal of supporting one or several of the following policy objectives:

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- Attracting foreign direct investment
 - Promoting and diversifying exports
 - Generating employment
 - Supporting wider structural change
 - Spatial and cluster-oriented development
 - Testing new policies and measures

3. Economic performance and impact of FEZs in Belarus

- According to the law, the main objectives of FEZs are:
 - the promotion of the socio-economic development of Belarus and its regions,
 - the attraction of investments aimed at the creation and development of export-oriented and import-substituting industries,
 - based on new and high technologies,
 - as well as other purposes.
- To what degree have these different economic objectives been achieved?

3. Economic performance and impact of FEZs in Belarus

- Some selected empirical evidence:
 - FDI stock: 5% of total FDI stock of Belarus located in FEZs
 - Employment: 3% of total employment; employment is declining
Number of new workplaces created is falling
 - Residents: Number of FEZ residents is declining
 - Export performance: Export share is lower than in international peer group; no significant diversification away from traditional CIS markets
 - Innovative products: In most zones share is lower than the national average

Conclusion: Very mixed economic performance, ample room for improvement by strategic repositioning

In addition:

- FEZs have lost their customs privileges due to the agreements in the Customs Union
- Unclear positioning of FEZs within the policy and incentive framework (e.g. industrial park, hi-tech park, regional schemes)

4. Lessons learnt from international experience

While SEZ programmes need to be aligned to the prevalent conditions and objectives, a few lessons from international experience are widely applicable:

- Integrate SEZ scheme into the industrial policy framework
- Foster linkages with the domestic economy
- Use infrastructure and services as an effective means of differentiation
- Align the incentive framework to the strategic positioning
- Involve the private sector in zone development and management

5. Policy options and recommendations

The FEZ scheme in Belarus differs from international experience in several key aspects:

Belarus

Rather strong inward and no clear cluster-/sectoral orientation

Benefits & conditions in zones not significantly different from the rest of the country / other schemes

Seem to attract considerable investments that would also have occurred in the absence of zones

International experience

Strong outward and/or cluster-orientation

Benefits & conditions only available within zones differing significantly from the rest of the country

Attract investment that would otherwise not have occurred

5. Policy options and recommendations

The following strategic options for reforming and repositioning FEZs within the incentive framework of Belarus can be identified:

Option A

Strengthen outward orientation of FEZs

- Focus more strongly on attracting export-oriented investment
- Emphasis on FDI attraction

Option B

Shift from spatial to sectoral focus

- Define strategic industries
- Align incentive framework to sectoral schemes (such as hi-tech park)

Option C

Strengthen cluster-orientation of FEZs

- Focus eligibility criteria / incentives on specific economic activities
- Leverage clusters for structural change

Option D

Reposition FEZs towards regional development

- Consolidate FEZs with scheme for small and medium-sized towns
- Focus on reducing regional disparities

5. Policy options and recommendations

The recommendations combine elements of the identified options in order to maximize the impact and minimize the risks:

1. Reposition the FEZ scheme towards a cluster-oriented model with a strong focus on FDI-attraction:
 - Assessment of cluster/investment potential and competitive position of FEZs
 - Selection of FEZs with most promising potential
 - Targeted upgrading of infrastructure, services and incentives at selected FEZs
 - Phase-out fiscal incentives of remaining zones

5. Policy options and recommendations

2. Strengthen the focus on SME development

- Adopt services and facilities catering for the needs of SMEs
- Reduce or abolish minimum investment requirements
- Introduce preferential treatment for SMEs in incentive framework

SME and regional development focus of the Polish SEZ scheme:

Fiscal incentives are granted in the form of a tax credit based on:

- investment volume
- aid intensity defined for the region (25 – 50%)
- company size (top up of 10 – 20 percentage points for SMEs)

3. The positioning and differentiation of FEZs should be based on services and infrastructure and less on incentives

- Reduce incentives to necessary minimum to relieve pressure on public budgets
- Focus resources on target-group oriented infrastructure and services

5. Policy options and recommendations

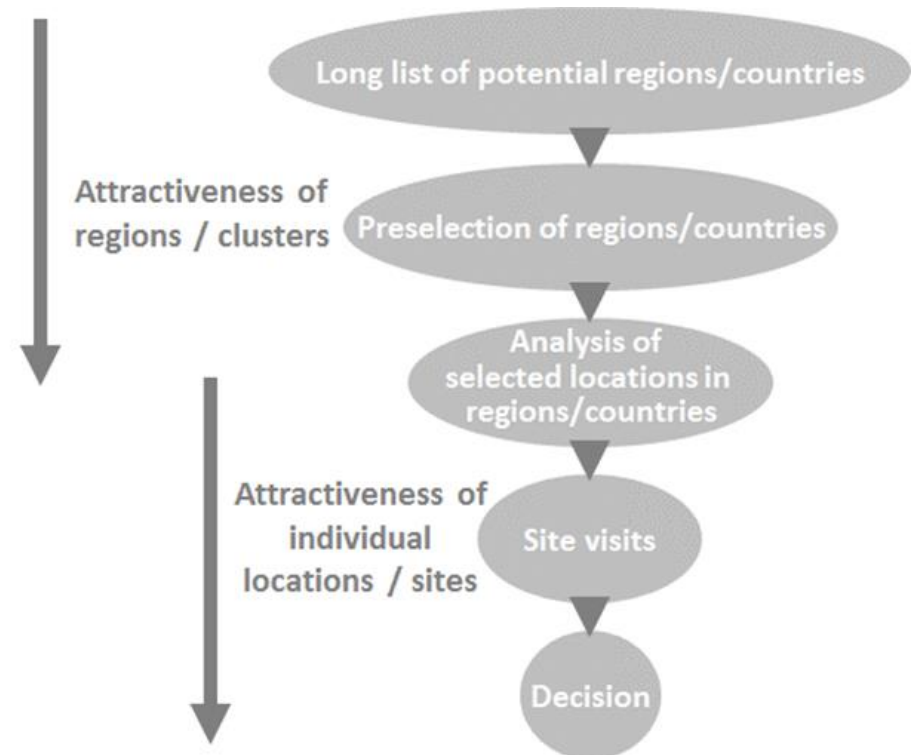
4. Intensify target group oriented investment promotion and extend after-care services

- Clearly define target groups
- Strengthen capacities of NAIP
- Coordinate promotion activities

5. Assess if PPPs can be used for the upgrading of the FEZs

- Build upon regional experience
- Increase efficiency and customer orientation
- Reduce burden on public budgets

Typical investment decision process



6. Way forward

In order to prepare a policy decision and to refine the proposed reforms, a survey-based analysis of the needs of residents and investment potentials of FEZs should be carried out, focusing on:

- Main motivation to invest in the FEZs, underlying business scenario
- Alternative locations considered
- Decisive location criteria
- Most important features of FEZs (e.g. incentives, infrastructure, services)
- Key needs regarding additional services and infrastructural aspects
- Cluster potential, cooperation patterns, backward/forward linkages
- Future investment plans
- Most promising target groups for investment promotion activities

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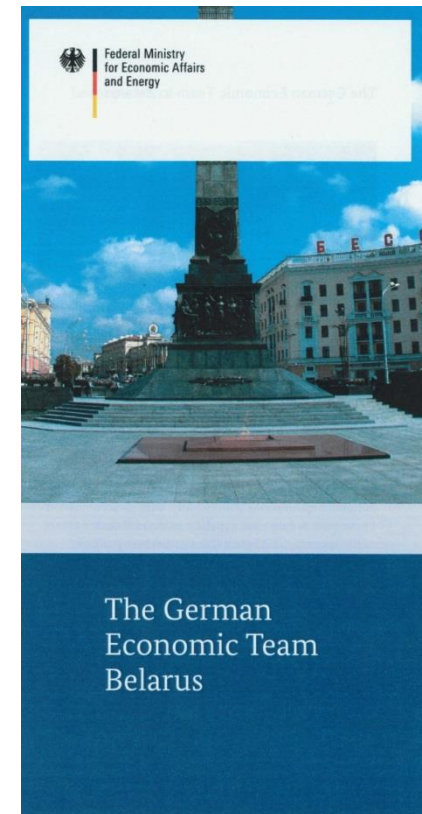
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