

IMPACT OF FREE ZONES AS LOGISTICS PLATFORMS ON THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES AND THEIR CONTRIBUTION TO SOLVING OF EMPLOYMENT CRISIS

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Anotácia:

The article discusses the free zones as a potential for economic development, contribution of free zones to the resolving of the crisis in employment, contribution of free zones to the development of small and medium-sized companies as well as risks to which small and medium-sized enterprises are exposed when they conduct business in the free zones. After the analysis in the paper is noticed that free zones are one of the possible solutions to overcome the crisis situation in a country's economic growth. Analyzing the trends of development of free zones it is observed that the implementation of free zones in each of the states at one point found itself at crossroads: to extend the work of free zones and increase them, or provide formal mechanisms for closure and the inclusion of users of free zones in the regular flow business.

Introduction

In crisis situations, one of which is undoubtedly, with the most serious and global consequences, the recent global economic crisis, each country seeks the best way to minimize losses and overcome such situations. Free zones, as areas of special treatment, can play an important role in an economic crisis, but also lead to a faster economic development. Many countries have opted for implementation of free zones. Impact is multiple, ranging from the promotion of internationalization of the economy, introduction of new technologies, to the impact on the increase in employment of the population. Consequently, free zones can lead to increased standards of living of the population and to revivification the country's overall economic trends. The free zones mainly trigger new production company. They enrich product range and offer products that serve as generators of money. Free zones allow companies to achieve savings in handling of imported raw materials and production assets, reduce operating costs and thus create a real possibility that the actual savings are used to promote production and business.

Free zones are an instrument that has universal use. In the last thirty years they have been used as special development centers in many countries. Because of the globalization of the world economy, traditional barriers that countries use to protect their own industries and production of goods

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and services, have been broken. The new approach allows the end user to affect the prices of goods and services in a natural way, by making their own decisions. This approach provides a competitive struggle of producers for predominance in the market, which is ultimately also on the benefit of consumers. However, to achieve this it is necessary to ensure high levels of technology, infrastructure, but also high level of knowledge. In order to ensure a high level of competitiveness it is often necessary to introduce changes in culture and mentality of the population. In order to survive on the market, for the company it is necessary to fulfill at least one of the two most important factors:

- exclusivity and/or
- low cost.

In both of these factors, free zones can provide a significant advantage to the company and a significant boost to its development. This is applicable on large multinational companies, but also on small and medium enterprises.

Free zones as a potential for economic development

Free zones are not an invention of our time. The first free zone in the United States appeared during the Great Depression (1929-1939). Free trade zones were defined by the act: Foreign-Trade Zones Act (1934). The aim of these days' free zones was to promote foreign investments in the U.S. Economy.

There is no doubt that the free zones contributed to the recovery of the American economy. Legislation was reformed 1950s, when production in free zones was allowed. They were additionally reinforced on the April 12th, 1980 when the U.S. Customs Service agreed to the request of the National Association of Foreign-Trade Zones (NAFTZ) that companies do not need pay customs duties for the goods and parts that are imported into free zones. For the finished products that are imported from the free zones in the United States duty had to be paid only for the parts that were not produced in the free zone. This "integrated" model, which had replaced previous "islands" model, fostered the development of free trade in the U.S.



Figure 1 USA annual real GDP from 1910–60, with the years of the Great Depression highlighted. [1]

Today, the entire trade of the United States based on the model of free trade. The model in theory knows only profit for all parties, but in practice there is another side. Expenses that arise in this model are not negligible, but they are still less than the gain. It is normal that a model that is favorable for strong economies, such as the U.S. economy, may not be suitable for all countries. Each country must make deep analysis about advantages and disadvantages of the model in their own particular case. The same applies to business enterprises that wish to operate within the free zone.

The first free zones outside the U.S. were located at strategic points of interest (e.g. Singapore, Hong Kong, Hamburg ...) and were virtually international laboratories. Very good results were achieved. Today the U.S. has about 400, in Asia there are more than 300 (in China more than 124), in Africa more than 70, the EU more than 70, in Mexico more than 100, in the Caribbean and Central America more than 100 free zones.

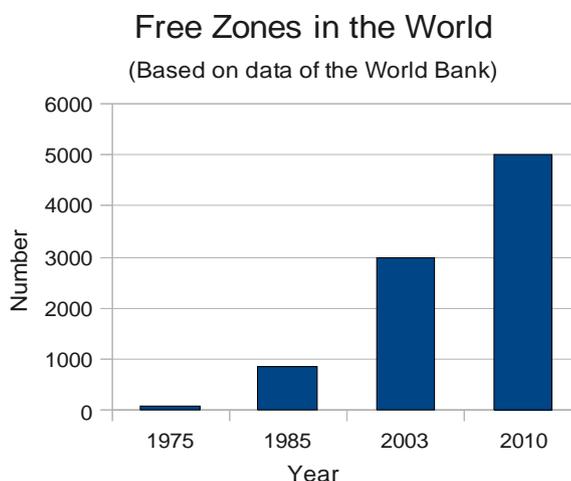


Figure 2 The number of free zones in the world in the period 1975-2010 years

In **Slovenia**, there were two types of free zones: the two free economic zones (Koper and Maribor) and six free customs zones allocated in different cities. By amendments to legislation in the year 2001 there was changed the interpretation of the term "free zone", so the number of free zones has declined dramatically as well as the number of potential locations for the establishment of free zones.

In **Hungary**, there were no free zones established by the territorial principle, but the eligible commercial companies have received authorization to operate under the principles of free zones. Before entering the EU under these conditions, there were 140 companies in 130 free zones. Since the end of 2005, these companies do not operate in the free zone anymore but the state has introduced a "Smart Hungary" program that gave special benefits to the operation of foreign companies.

In **Bulgaria** there are 6 free zones in which, under the law of the year 2006, investors can qualify for the exemption from the value added tax when they meet the criteria for opening new jobs and investment volume.

In **Romania**, there are six free zones with 159 companies. For the import of goods in free zone user does not pay the customs duties. For import of goods from free zone in the home country importer pays the tax.

In **Slovakia** there are no free zones. In order to attract foreign investors and domestic entrepreneurs in Slovakia they build industrial parks. These are locations with the necessary technical infrastructure. The functioning of the industrial parks is provided by the state company that provides customers based in the industrial park with a variety of services such as accounting, marketing, investment, legal and advisory services in terms of development.

In **Croatia**, there are 13 free zones. A user who has invested in the construction of free zone's building of more than € 125,000 is exempt from paying income tax in the year of investment and in the next five years.

In **Macedonia** there are three free trade zones where companies pay income taxes in the amount of 10%, but for reinvested profits they do not pay any taxes.

According to the Law on Free Zones [2] free zone is defined as a part of the territory of the **Republic of Serbia**, which was specially fenced and marked, where activities are performed under conditions established by that act. In Serbia, there are four free trade zones (Pirot, Novi Sad, Zrenjanin and Subotica), and establishment of two new free trade zones (Kragujevac and Niš) is in preparation.



Figure 3 Free Zones in Serbia (Source <http://www.szns.rs/srbija.htm>)

Free zones in Serbia, offer to the users the following benefits:

- Import of goods and services in the zone and export of goods and services in the area are free.
- On imported raw materials implemented into export's goods companies do not pay customs duties and other import duties.
- For imported equipment, machinery and building materials companies do not pay customs duties and other charges.
- The foreign exchange resources realized from the operations in the zone are at disposal of the users of the zone.

- Rights of zone's users established by the Law on free zones can not be reduced by other regulations.
- Imports of all kinds of goods into the zone are exempted from customs duties. Goods from the zones can be placed on the domestic market with payment of customs duties and taxes. If the goods entering the customs territory of Serbia are produced in the zone or were a subject of manipulation with the participation of local components, customs duties will be paid at a customs rate only on the foreign component of the goods.
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- Imports into the zone and exports from it are completely free, i.e. there are no applied contingents, import or export licenses or other restrictions on foreign trade operations; goods imported from the zones to the domestic market, are subject to normal import mode, but if the local content in it is at least 50% of the total value of such goods, goods will be considered domestic.
- Goods from the Zone may be temporarily present in the rest of the national territory or may enter the zone from the rest of the national territory for refining (processing, finishing, installation, repair, quality control, marketing presentations, etc...) that provides great opportunities for connecting with local economy.
- Free transfer of profit made in the activity zone.
- In the area of Zone expropriation is not allowed.
- Zone users can rent, buy or build their own production, storage and business facilities.

In Serbia, the free zone are used or will used by the global giants such as FIAT, but also numerous small and medium sized enterprises that have found their interest in the free zone.

Contribution of free zones to the resolving of the crisis in employment

Opening of free zones and creation of new business enterprises inevitably results in job creation. However, the number of new jobs, and their structures differ from zone to zone. The differences are related not only to the country of the free zone, but also there are differences between free zones in the same country, depending on the structure of the companies that are users of these zones. However, one can freely say that the free zones have made a huge impact on job creation, money, investment and production.

Generating of new jobs is not only related to the direct involvement of workers in the zones. According to international statistics, each newly opened direct job generated in the free zones opens two indirect jobs.

If the free zones are intended for industrial production, because of the great need for production workers, the number of newly opened jobs is significant, but if the zone operates as a commercial free zone, the number of newly opened jobs is small. For example, on the Caribbean and in Central America, in the year 1995 in 53 free zones more than 250,000 jobs were open [3].

However, although the new jobs provide employment opportunities, they do not guarantee the satisfaction of workers on new jobs. Most often they are manual or jobs that do not require high skills. Also, very often the workers who work in free zones earn low wages. Because they are most often low trained workers, employers see them as easily replaceable, and often do not pay attention to their problems.

Mostly female population finds employment, and up to 90% of total employment. The situation is more difficult because the governments of many countries in order to attract foreign investors rarely put demand to investors to train and to employ local people and to carry out technology transfer to local firms. Human resources and labor relations have remained the main problematic aspects of doing business in free zones.

Contribution of free zones to the development of small and medium-sized companies

Before the trend of globalization, the main generators of jobs and employment were the major private or public companies. Changes in the socialist countries there led to a failure and to changes in the ownership of most state companies. On the other hand, during globalization, large private companies have come into a situation to form new alliances and new fusion strategies, which resulted in the introduction of new technologies and significant reduction in the number of jobs. As the consequence, the mass layoffs of labor took a place. Also, the formation of new small and medium-sized enterprises took place, because of their adaptability to fill the gaps that remained after the formation of giant multinational companies. Old and emerging small and medium-sized enterprises now have the greatest potential to generate jobs.

Also, it is an interesting fact that at the end of the 1980s, small and medium-sized enterprises in countries belonging to OECD, in the industrial sector had a share of 90% and also had a share in the provision of employment of 30-70% depending on the state. [4]

Their share in GDP was between 30 and 50%. For example, in Spain the companies with fewer than 200 employees participated in sale with 50% and in exports with 40%. In the United States, small companies with 6 to 10 employees participated with 40% in high-tech jobs. [5]

The contribution of small and medium-sized enterprises to export is of great importance, and in developed countries they contribute at the level of 30% of total exports, while in developing countries this percentage goes up to 50% (China), and even up to 56% (Taiwan).

Free zones contribute to the development of small and medium enterprises for the benefit of the very companies, free zones, countries in which the zones are and the whole region.

The establishment and operation of small and medium sized enterprises in free zones, is often accompanied by problems that have causes in:

- insufficient professional level and under-developed managerial level of directors;
- lack of information on the necessary activities of their own companies, the state of the market and the activities of competing companies;
- lack of own know-how and lack of modern technology and equipment.

Small and medium enterprises do not have the strength to overcome these problems alone. The interest of the zone is that companies do their business successfully within the zone. One of the main tasks of a free zone is that, in the common interest, zone provides services of this kind to their companies. Services may be in the form of "consultation" or "training-course". Services might be provided by the administration of the zone directly, or, what is the current trend, the zone provides financial resources but some specialized organization carries out consultation and / or training.

For small and medium size enterprises it is positive that free zones need to constantly work on looking for new businesses that could successfully operate in the zone, as well as on the promotion of companies that already operate in the zone.

The conclusions of the UNCTAD Expert Meeting on Improving the competitiveness of SMEs through enhancing productive capacity held in Geneva, in the year 2002 speak about the importance of these activities:

- Formulating national action plans, including a gender perspective, to improve SME access to technology financing;
- Requesting UNCTAD to create a network/roster of experts who could advise on this issue, so that UNCTAD could better respond to individual country requests;
- Formulating a technical assistance project that would develop an assessment tool for evaluating a country's ability to finance technology for SMEs and elaborate an action plan to remedy any weaknesses identified; this could include programmes and financing to help SMEs acquire new technologies;
- Widening the dialogue between international organizations regarding a consistent interpretation of international agreements as they apply to technology-financing issues;
- Exploring concrete ways to implement the Monterrey Consensus concerning publicprivate sector partnerships in the fields of R&D, information technology and infrastructure, and facilitation of enterprise partnerships;
- Recommending that the Commission on Enterprise, Business Facilitation and Development hold an expert meeting on technology creation, transfer and diffusion and their relationship to the WTO

negotiations, agreements and possible future specific disciplines, including specific measures for SME financing for technology.

Risks to which small and medium-sized enterprises are exposed

Production processes are changing over time through continuous competition of companies. This competition covers not only fight for lower prices, but even the opportunity to maintain company's products on the market. Therefore, it is favorable that their advisory and training services are provided and carried out by competent specialized organizations.

At the present time, time of intensive development of information and communication technologies, primarily the Internet, opportunities for small and medium enterprises are significantly closer to the opportunities of large companies. While these services are cheap today, there are still problems with their use, primarily because of the lack of professional staff. Therefore small and medium-sized businesses often need help in this area. If they do not receive such assistance, or if they are not capable of using modern information and communication technologies, small and medium-sized businesses can meet with significant limitations in the production and sale of goods and limitations in their development, if not with the stagnation and collapse of the company.

Small and medium-sized companies could be vulnerable because of the lack of specialists. Often the individual engagement of the right specialist is for a company unacceptably expensive. Often companies even do not know where to turn for advice and assistance. Therefore, the required profile involvement of experts from the free zones could be a positive solution. It is possible that a specialized organization covers the needs of more free zones.

Conclusions

Free zones are one of the possible solutions to overcome the crisis situation in a country's economic growth. All the above mentioned countries have had or still have free zones. The applied models are different, depending on the economic and political opportunities, needs, and, often, habits. Some countries gave special tax breaks for working in free zones. Other gave tax breaks not only to users of free zones, but also to those investors who have based their activities outside of the free zones.

In the free zone large companies can successfully do their business, but it is particularly important that small and medium sized businesses work successfully because they could provide employment opportunities for many workers. Also, they could have a significant share in the country's export. Free zone can be regarded as incubators for new companies. Within the pre-defined period, zones provide numerous benefits to users. Benefits are reflected in financial terms, but, also, in the area of support zone provides to users assistance in the field of management, marketing, business planning and development, administrative jobs, training and so on.

Finally, analyzing the trends of development of free zones it can be observed that the implementation of free zones in each of the states at one point found itself at crossroads: to extend the work of free zones and increase them, or provide formal mechanisms for closure and the inclusion of users of free zones in the regular flow business. The turning point is occurring in different countries at different times and there is no simple and unique recipe for making such decisions. The final decision, at least in Europe, will significantly influence political decision:

- to apply to free zones current practice and regulations of the EU, where, instead of lowering taxes in free zones other types of economic incentives are used, or
- first, to create their own regulations and increase the contribution of free economic zone to the development objectives, and then, when the economy becomes strong and stable, when the perfect conditions are created, introduce the new free zone legislation in a way that will not harm businesses.

The possible exception in both cases could be a free zones establishing along the main corridors in the border areas of the country.



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