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EXPLORING OPPORTUNITIES IN IMPROVING MANAGEMENT OF SPECIAL ECONOMIC ZONES IN KAZAKHSTAN

Based on the review of literature and international experience on management structures for special economic zones (SEZ), this paper argues that the current management model should employ the centralized regulatory authority in Kazakhstan. The findings of this paper suggest that centralized capital management for SEZ project portfolio and decentralized management of the operational issues would be beneficial for a number of reasons.

Keywords: Kazakhstan; special economic zones; centralized and decentralized management.

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ВИВЧЕННЯ МОЖЛИВОСТЕЙ ВДОСКОНАЛЕННЯ УПРАВЛІННЯ СПЕЦІАЛЬНИМИ ЕКОНОМІЧНИМИ ЗОНАМИ У РЕСПУБЛІЦІ КАЗАХСТАН

У статті на основі огляду літератури та аналізу міжнародного досвіду з управління спеціальними економічними зонами (СЕЗ) запропоновано запровадити централізований регулюючий орган в межах чинної моделі управління СЕЗ в Казахстані. Результати аналізу свідчать про те, що централізоване управління капіталом портфелю СЕЗ-проектів та децентралізоване управління операційними питаннями буде вигідне з цілої низки причин.

Ключові слова: Казахстан; спеціальні економічні зони; централізоване та децентралізоване управління.

Рис. 1. Табл. 2. Літ. 12.

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ИЗУЧЕНИЕ ВОЗМОЖНОСТЕЙ СОВЕРШЕНСТВОВАНИЯ УПРАВЛЕНИЯ СПЕЦИАЛЬНЫМИ ЭКОНОМИЧЕСКИМИ ЗОНАМИ В РЕСПУБЛИКЕ КАЗАХСТАН

В статье на основе обзора литературы и анализа международного опыта по управлению специальными экономическими зонами (СЭЗ) предложено внедрить централизованный регулирующий орган в рамках существующей модели управления СЭЗ в Казахстане. Результаты анализа свидетельствуют о том, что централизованное управление капиталом по портфелю СЭЗ-проектов и децентрализованное управление операционными вопросами выгодно по многим причинам.

Ключевые слова: Казахстан; специальные экономические зоны; централизованное и децентрализованное управление.

Introduction. There are numerous theoretical and empirical studies on special economic zones (SEZs). Traditional studies examine the process of their establishment. Most often the analyzed issues are the impact of these zones on the national economy and entire environment of a developing country having SEZ (Meng, 2003). There is a large number of structures and forms of SEZs, which is the result of wide distribution of this phenomenon in the world. Various, existing structures of SEZs could be grouped by certain common characteristics (Farole, 2011).

Some authors define special economic zones as an instrument of reducing government intervention in economic processes. This formulation often met in litera-

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ture is mostly associated with preferential treatment and management (Galamov, 2003). For instance, the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Protocol, 1973) established the concept of SEZ ("Franco-zone"), which is understood as a part of a country where goods are treated as objects, located outside of national customs territory, and therefore are not subject to usual customs control and taxation.

Worldwide experience of creation and functioning of different types of special economic zones includes many positive examples of such zones. Despite the positive experience in SEZs development, some authors highlight the disadvantages too, including:

1. Inequality of regions (Lin, 1997).
2. Knowledge spillover effect (Zhou, 1984).
3. Inequality of sectorial growth in different regions (Murphy, 1998).
4. Inefficient distribution of resources (Sufen, 1993).

At the beginning of the 2000s the predicted turnover of 15–20% of the world's stocks passed through the global system of SEZ (Malin, 2006). According to the literature analysis, the establishment of SEZ in each case is associated with certain features of a particular country. Academia generally agrees that due to the fact that SEZs is a complex political, economic and social formation they need to be managed.

Based on the literature the characteristics for modelling the structure of SEZ management depends on the specifics and types of SEZs. SEZ management system may include the following elements (Vėreshagin, 2008):

- SEZ management concepts and objectives (strategic, tactical and operational level);
- structure, functions and management techniques.

Management theory assumes different levels of interaction within SEZ. The government strategic level occurs through the development of a set of relevant laws for establishing and effective functioning of SEZ. It is evident that government regulation of the establishment and functioning of SEZ also required at regional level. Based on the findings in literature, a typical institutional structure and functions employed across the globe are shown in Figure 1.

The aim of this study is to identify the typical institutional structure inherent to SEZs across the world. Based on this the best practice and the benchmark of the current structure of SEZs in Kazakhstan would be proposed.

Research method and results. A number of relevant case studies have been chosen for consideration. Through the semi-structured interviews during this research phase, case study selection was finalized. The analysis of case studies of 10 special economic zones in Kazakhstan has been carried out by several visits with semi-structured interviews. At the beginning of 2014 in Kazakhstan there were 10 SEZs and 10 industrial zones, operating in various sectors. As a part of the ongoing state support of industrialization, there has been ongoing development of SEZ infrastructure during the period from 2009 to 2014 which finalized in a number of SEZs (Table 1).

Currently SEZ development in Kazakhstan is performed at the republic and at regional levels. At the republic level, Ministry of Industries and New Technologies is in charge of SEZ development and their performance monitoring. At the regional level, customs territorial bodies are in charge of SEZ customs posts and akimats (local

government authorities) are in charge of SEZs land allocation and infrastructure development. At present, there are also SEZ Management Companies (MCs) created to operate SEZs, with limited power to execute their work effectively.

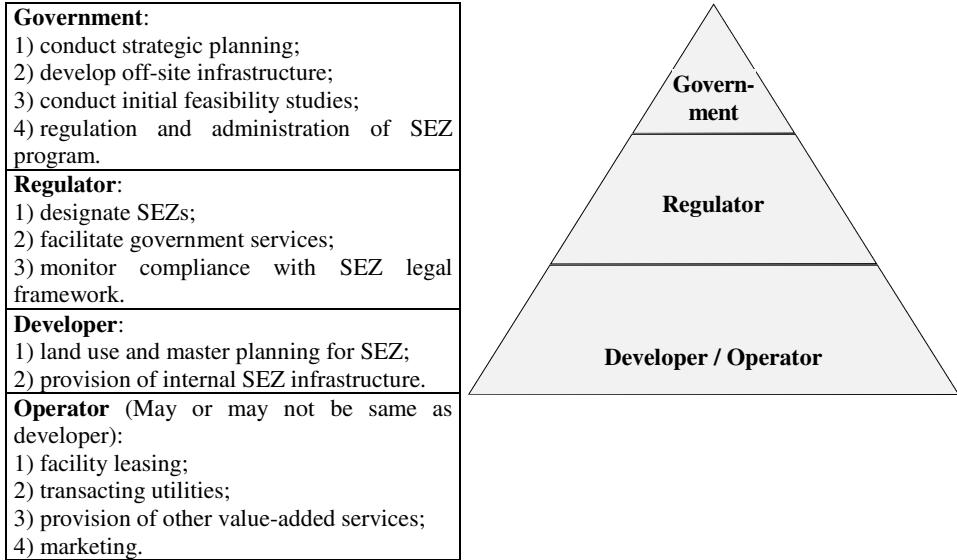


Figure 1. Best practice in institutional structure of SEZ, based on (IFC, 2010)

Table 1. Percentage of infrastructure readiness in SEZs

#	SEZs name	% for infrastructure readiness	
		2009	2014
1.	National Industrial Petrochemical Park	0	10
2.	Innovation Technologies Park, Alatau	83	100
3.	Astana-New City	47	80
4.	Saryarka	10	90
5.	Sea port Aktau	21	30
6.	Ontustik	82	100
7.	Burabay	0	100
8.	Pavlodar	-	0
9.	Khorgos	-	0
10.	The Chemical Park, Taraz	-	0

Source: State Program Industrial-Innovative Development of the Republic of Kazakhstan for 2015–2019 years.

Based the analysis, the conclusion was made about the absence of a centralized regulatory body at the tactical level with sufficient authority and oversight to manage the entire SEZs portfolio development and performance between government and regional levels. Based on the analysis of SEZs institutional and management structure it could be concluded that the best practice pattern (Figure 1) is not applicable in Kazakhstan.

Discussion. For any country the form of SEZ management is determined by historical and national factors, as well as the accepted model of economic regulation.

However, reviewing SEZs globally, it could be concluded that their purpose of establishment has similar objectives. It can be argued that proper selection of SEZs management approach can offer a more business friendly environment. Proper management model should be seen as a vehicle to attract foreign investment, create employment opportunities, and introduce advanced technologies. The observed best practice approach to avoid the conflict of interest by separation the regulatory role as much as possible from the owner, developer and operator roles within the zone. Current situation in Kazakhstan shows that the regulatory functions is spread over many institutions and haven't been concentrated in one independent organization. Further we propose functions (Table 2) to address the needs of SEZs in Kazakhstan.

Table 2. Proposed set of functions within the management framework for SEZ, authors development

<p>Government of Kazakhstan and regional akimats:</p> <ol style="list-style-type: none"> 1) conducting strategic planning for the overall SEZ processes in the country and development of the portfolio; 2) conducting initial feasibility studies; 3) developing on & off-site objects of infrastructure.
<p>Regulator (proposed centralized agency responsible for SEZ portfolio):</p> <ol style="list-style-type: none"> 1) designate SEZs; 2) facilitate government services; 3) monitor compliance with the SEZ legal framework; 4) strategic decision-making on capital allocation for the SEZ portfolio infrastructure projects; 5) SEZ portfolio progress evaluation and report consolidation and further transfer of the analysis on SEZ portfolio to government bodies; 6) knowledge accumulation, technology and innovations transfer among SEZs; 7) shortlisting of an appropriate developer for SEZ projects.
<p>Developer:</p> <ol style="list-style-type: none"> 1) land use and master planning for SEZs; 2) provision of internal SEZ infrastructure.
<p>Operator (SEZ MCs – may or may not be the same as developer):</p> <ol style="list-style-type: none"> 1) facility leasing; 2) utilities maintenance; 3) provision of other value-added services (“single window” or “one-stop-shop”); 4) marketing; 5) project management and construction management; 6) training / workforce development.

It is thus proposed that Centralized SEZ Agency at the tactical level is introduced to coordinate issues faced by SEZs today. This agency would act as a regulator of SEZs development on behalf of ministries and be the "bridge" between the government and SEZ MCs. Moreover, it also would coordinate the formation of SEZs portfolio and capital distribution among SEZ projects and infrastructure development. At the operational level, SEZ management companies should develop "single window" ("one-stop-shop") services for quick and easy investors registration and start-ups.

This set of functions would allow proper management with the introduction of centralized SEZ portfolio management by SEZ Agency and decentralized management authority for SEZ MCs in Kazakhstan.

Conclusion. As it has been stated above the objective of the study was to develop theoretical and practical recommendations aimed at designing SEZ management model in Kazakhstan. Key items identified are as follows:

- Not all SEZs are operating according to the master plan and infrastructure development.
- There is no central regulator authority that would coordinate SEZ portfolio.
- Management issues are not addressed as quickly as they should be.
- Reporting of SEZs projects is not done timely and properly.
- SEZ projects and infrastructure development are not executed in timely manner.
- Tenant registration takes about 2 months.
- Legislation on SEZ is constantly changing which is a risk for investors.

The analysis showed that infrastructure of some SEZs is imperfect and needs to be managed. Moreover, it was concluded that SEZ MCs in Kazakhstan don't use the "one-stop-shop" approach to investors' registration. The contribution to SEZ management model made by this research is the identification of Central Agency for SEZ as a special unit to manage zone portfolio balance and interface between SEZ management and ministries on the SEZs issues.

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