

**ŠIAULIAI UNIVERSITY
DEPARTMENT OF BUSINESS AND PUBLIC MANAGEMENT**

**PARDUBICE UNIVERSITY
FACULTY OF ECONOMICS AND ADMINISTRATION**

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**‘FREE ECONOMIC ZONES’ IMPACT
ON REGIONAL ECONOMIC DEVELOPMENT:
COMPARATIVE ANALYSIS OF FEZ’S IN BALTIC
STATES**

Master’s Thesis

Šiauliai, 2018

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Social Sciences, Public administration (612N70006)

**Advisor of Thesis:
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I confirm that presented Master’s Thesis to obtain qualification degree in Public Administration is original author’s work

(Student’s signature)

DEDICATION

While concluding a long, hard but also enlightening period of thesis writing, I would like to thank my mother, who passed me not only blood and soul, but also the passion of learning and the sense of love. She taught me loving what we do and working hard for what we love are the most important things in life, no matter how hard it is we do. Her words ringing in my ears: “Never give up”. I dedicate my work to the memory of ‘Nevin Demirelişçi’ (1961-2006).

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SUMMARY

Master's thesis analyses the problem of Free Economic Zones as a source of regional development process and its impact on the regional economic development. The goal of the thesis is to reveal economic impact of Free Economic Zones on regional economic development in Baltic States.

Master's thesis consists of introduction, main part, conclusions, recommendations, references and appendixes. Main part consists of 3 sections. The first section analyses the conception of free economic zones in the context of regional economic development. The second part presents methodological part of free economic zones' impact on the regional economic development in Baltic States. The third part presents the results of the research of free economic zones' impact on the regional (economic) development in Baltic States. The research has shown that although at different level in each investigated region, FEZs in Baltic States have impact on the regional economic development, providing new economic activities, investments in infrastructure, attraction of advanced businesses as well as formation of new businesses creates an impact on the regional economic development. In reference to the results of the research the following directions (recommendations) for the public administration bodies and the executive bodies of the FEZs of the sample were formulated: The national public administration bodies of Baltic States should concentrate on the improvements and possible investments on infrastructure of the FEZs. Also author strongly recommends the local public administration bodies of the host regions of the sample FEZs (Sillamäe, Liepaja and Šiauliai) to take (even) more active role in the development process. Strongly recommended by the author that both national and local public administration bodies of Estonia, Latvia and Lithuania to work on the policies in order to prevent or at least minimize the emigration and outflowing brain drain. Author strongly recommends that the sample FEZs to work on regional alliances such as clusters in order to maximize number of elements. Author strongly recommends Sillamäe Free Zone and Šiauliai Free Economic Zone to work on the future development activities concentrating on environmental issues as Liepaja Special Economic Zone already works on the topic.

Keywords: Free Economic Zone, Regional Development, Regional Development Policy, Regional Economic Development, Foreign Direct Investment.

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SANTRAUKA

Magistro darbe analizuojama Laisvosios ekonomikos zonų kaip regioninės plėtros šaltinių ir jų poveikio regioninei ekonominei plėtrai problema. Darbo tikslas – atskleisti laisvosios ekonomikos zonų poveikį regioninei ekonominei plėtrai Baltijos šalyse.

Darbą sudaro įvadas, pagrindinė dalis, išvados, rekomendacijos, literatūros sąrašas ir priedai. Pagrindinę dalį sudaro trys skyriai. Pirmajame skyriuje analizuojama laisvųjų ekonomikos zonų koncepcija regioninės ekonominės plėtros kontekste. Antroji dalis pristato laisvosios ekonomikos zonų poveikio regioninei ekonominei plėtrai Baltijos šalyse tyrimo metodologiją. Trečiojoje dalyje pristatomi laisvosios ekonomikos zonų (toliau – LEZ) poveikio regioninei (ekonominei) plėtrai Baltijos šalyse tyrimo rezultatai. Tyrimo metu nustatyta, kad visi LEZ-ai Baltijos šalyse nors ir skirtingu lygiu, tačiau daro poveikį ekonominei plėtrai tiriamuosiuose regionuose, kurdami naujas ekonomines veiklas ir naujus verslus, pritraukdami investicijas į infrastruktūrą ir naujas įmones.

Remiantis tyrimo rezultatais darbe pateikiamos nuorodos (rekomendacijos) viešojo administravimo institucijoms ir vykdančiosioms tirtų LEZ-ų struktūroms. Pirmiausiai, nacionalinės Baltijos šalių viešojo administravimo institucijos turėtų koncentruotis į LEZ-ų infrastruktūros pagerinimą ir investicijas. Taip dar darbo autorė rekomenduoja vietos viešojo administravimo institucijoms tikruose regionuose (Sillamae, Liepoja ir Šiauliai) prisiimti aktyvų (aktyvesnį) vaidmenį vystymo procesuose. Taip pat Estijos, Latvijos ir Lietuvos nacionalinės ir vietos viešojo administravimo institucijoms rekomenduojama aktyviai įgyvendinti politiką, kuri preventuotų arba sumažintų emigraciją ir „protų nutekėjimo“ srautus. Taip pat rekomenduodama tirtiems LEZ-ams kurti aliansus (tokius kaip klasteriai) sumažinant elementų skaičių. Darbo autorė rekomenduoja Sillamae ir Šiaulių LEZams stipriau dirbti ties ateities plėtros veiklomis, koncentruojantis į aplinkosauginius aspektus kaip kad jau dirba Liepojos speciali ekonomikos zona.

Raktiniai Žodžiai: laisvosios ekonomikos zona, regioninė plėtra, regioninės plėtros politika, regioninė ekonominė plėtra, tiesioginės užsienio investicijos.

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INTRODUCTION

Countries have always been in the need of developing rapidly. And so, regions are essential dimensions of the development process, not just in the more advanced countries but also in less-developed parts of the world (Scott & Storper, 2003). Therefore governments search for new ways to achieve the development goals in regional and national levels. The regions' development in science literature is defined as the development of the integral community life's aspects such as social, economic, environmental, health care, technology, culture and recreation in the concrete territory (Tamošiūnas, 2009). On the other hand world is very-well aware of the fact; whoever has superior economy in nation-wide, has the power to influence the world. So as the pieces of a system, the economic success of a country in national level relies on competitive and dynamic regions to achieve their development objectives in following fields; political, economic, social, technological, environmental and legal. According to OECD (2010), "Rapid technological change, the extension of markets and the greater use of knowledge offers new opportunities for local and regional development. This requires further investment in the business environment, reorganization of labour and production, and upgrading skills and environmental improvements. All of these trends are leading public authorities to reconsider their strategies". Also it is possible to find researches suggesting governments to put more emphasis on adapting subsidies to specific entrepreneurial activities and promoting the emergence of common linkages between enterprises and universities (Stejskal et. al., 2016). Therefore it was inevitable while governments were in need of new policies and strategies; in the past few decades, zones with economic incentives (including Free Economic Zones (hereinafter FEZ)) together with the Industrial Clusters have become more and more popular in order to bring dynamism to the country economy through regional economy. Thus FEZ turned into an important element of regional trade.

Relevance of the research. Economic zones phenomena got very popular when policy-making institutions become conscious with the fact attracting new investments bring along new economic activities. New economic activities mean creation of new jobs which has a vital affection on successful economic development. Although in general, such zones are considered to be "promoted by national, regional, and local governments to spur economic growth and competitiveness" (UNIDO, 2015), definition of an economic zone varies from one type to another. That is why one can easily get lost in numerous types and names mentioned in the literature. The multiplicity is the result of several factors, including the need to differentiate among types of zones that display very real differences in form and function; differences in economic terminology among countries, zone promoters' desire to differentiate their product from those of the competition, and the consequences of multiple translations (Farole, 2011). Although there are several types of

economic zones, one of the most frequently used term for economic zones is FEZ. In literature it is also quite common to find Special Economic Zones (hereinafter SEZ) which is defined as a zone with a certain degree of geographical location which includes specific economic, social and environmental preferences than the rest of the country and is equivalent of the FEZ in terms of functions (Navickas & Tamošiūnas, 2008). Later in this study is given precise explanation to the usage of the synonyms and geographical locations they are used in. It is important to draw attention to the point, by using term FEZ; author includes all the synonyms discussed in the first section.

FEZs are actually a part of economic history for a longer period than one might think. Since 15th-16th centuries, regions with special economic advantages have been observed in different regions. By means of the terminology FEZs are defined as “demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory” (Akinci & Crittle, 2008). Due to the fact that every region has divergent development goals and characteristics, policy makers have used different FEZs policies in order to achieve the specific regional development goals. This research focuses on FEZs and understanding the connection between FEZs and regional economic development in selected case study.

The European Union (hereinafter EU) Commission defines such economic zones as “Free Zones” (which is one of the synonym terms), under its customs policy as special areas within the customs territory of the EU (Free zones: Benefits and costs, 2009). According to de Jong (2013) there were 74 Free Zones which were demarcated under the Community Customs Code. Regulations state that regions of member states are eligible for applying EU structural funds in order to create the appropriate atmosphere for the economic zones to carry on business. Although the current number is unknown as some has been demolished and some has been established. Author emphasizes that different forms of zones are observable in almost all EU member states.

Baltic States (Lithuania, Latvia and Estonia) became members of EU on the 1st May, 2004. Since then, EU is working with these three states to achieve regional development goals as one developing region. Baltic States share the history of being occupied by several foreign powers. This separated the Baltic States from Western Europe and the rest of the world. Naturally the states had to adapt the changes of the political reforms. This led the states to look for ways to catch up with the global economy and achieve the economic development goals. OECD published “Policy insights from a decade of Baltic transition” which is mainly pointing out that “The observation of a decade of transition in the Baltics and in other transition countries reported in several OECD Surveys provides solid evidence that macroeconomic stabilization is not an end in itself. It is a necessary condition to start the reform process” (OECD, 2000). Baltic States were far behind

Western EU member states in development level perspective which is why they needed solid strategic planning on development goals and sustainable solutions to the economic issues they had.

One of the policies Baltic States used in order to catch up with the other developing members was to work on attracting foreign investors to lagging regions. So the Baltic States were racing two battles at a time; trying to catch up with EU level and trying to implement micro economic stabilization policies along the regions. That is the main reason these research and thesis focused on Baltic States and the impact of FEZs on regional economic development.

Novelty of the research. Author aspires to fill the gap of information within the literature with empirical part of this study focusing on the FEZs as a tool of regional economic development in Baltic States and it provides systematically analysed information about the specific characteristics of the selected FEZs from Baltic States and how they function and benefit the host regions. Also author aims to add to currently narrow literature by providing a resource which in the theoretical part is focusing on the relationship of FEZs with public administration and regional development actors of the host regions.

Some of the issues which were discussed before about FEZs are as follows: studies which focuses on main policy issues and present it to the use of policy makers (Daru, 2016; Gauthier, 2011; Akinci & Crittle, 2008; Farole, 2011; Farole & Akinci, 2011; Pakdeenurit et. al., 2014; Zeng, 2016), engaging in the policy debate with governments on economic zones policy (ILO, 2014; Sosnovskikh, 2017; Aggarwal, 2011; Bernstein et. al., 2012), case studies from countries (Hamed, 2014; Kocaman, 2007; Fakroun, 2012; Zeng, 2014; Zeng, 2012; Yeung et. al. 2009), social perspective of the FEZs and its labour consequences (Shoesmith, 1986; UNIDO, 2015; Romero, 1995; Neveling, 2015).

The knowledge about the FEZs and their use as a tool of regional economic development as well as their connections to the regional development actors are still unrevealed by the mentioned resources. This research intends to fill the knowledge gap in the mentioned perspectives. By this point of view this research is novel and aims to add to the literature with new and reliable information.

Research problem. Firstly this study aims to put an emphasis on FEZs as a source of regional development process. In the meantime regional development is handled by the author in economic point of view and the point of research is, try to bring an understanding to FEZs and their impacts to the Baltic States' regions. Therefore **research questions** which author has followed to give better insight to the research are given below.

1. What is the conception of FEZs and how it evolved through history?
2. What are the key factors contributing to the success of the FEZs in Baltic States?

3. What are the main contributions of FEZs to regional economic development in Baltic States?
4. What future activities of FEZs can be identified to strengthen the regional development?

Research object has been set after deep consideration as, economic impact of FEZs on regional development.

The aim to this research is to reveal the importance of FEZ for regional economic development in Baltic States. While trying to reach a clear and systematic conclusion author has taken the **research objectives** as follows:

1. To present the concept of FEZs and its role in the context of economic development.
2. To reveal the conception of regional development and the role of FEZs in it.
3. After making a comparative analysis of the situation in FEZs in Baltic States, to identify their specifics of structure, activity and connections to other regional actors.
4. After interviews with experts, to discover challenges and trends of future activity of FEZs in Baltic States to strengthen regional economic development.

Constructing the Hypothesis

H₀: FEZs does not have any effect on the regional economic development process.

H₁: FEZs can contribute to regional economic development process in the economic area (GDP, GDP per capita, unemployment rate, inflation rate, FDI, level of Export, HDI, EQLS, population, growth rate and other socioeconomic indicators and etc.).

Research methods. *Analysis of scientific literature.* The author uses an analytical research method for the collection of the theoretical information. In order to create a valid and solid research author significantly stayed in the theoretical framework when keeping up with the data which is most reliable and closest to the date of the research. Although in some cases lack of resources has led author to use the information from the older researches.

It is necessary to use mixed methods strategy (quantitative and qualitative) for empirical research. The quantitative approach uses the methods of *secondary data analysis* (for the quantitative data collection) and *descriptive statistics* (for the quantitative data analysis). The qualitative approach uses the methods of *oral survey (semi-structured interview)* (for the qualitative data collection) and *categorization* and *interpretation* (for the qualitative data analysis). Author has first collected data and then created a FEZs sample from the target group which is all FEZs in Baltic States. Subsequently for the qualitative research the author has got in touch with the sample of FEZs' representatives to perform the interviews. This part is vital for understanding the case of current circumstances in Baltic States FEZs.

Theoretical significance and practical meaningfulness of the research. The findings of this study are redounding to benefit the currently narrow and complex literature by providing empirical data by comparative analysis of the FEZs in Baltic States. Also the study expected to add to the theoretical literature by enlightening the complications about terms discussed in first section: Special Economic Zones, Free Economic Zones, Free Zones, Free Ports, Free Trade Zones, Industrial Free Zones and Export Processing Zones. This research not only focuses on FEZs in Baltic States but also focuses on conception of FEZs, their historical evaluation process and their structure. Therefore this research can be a guideline for the future researches and researchers who are interested in this field.

This research deals with the Baltic States and the relation of regional development with the FEZs in Baltic States. By this research, author aims to understand the systematic insights of the FEZs and their impacts to the host country/region. The study also lays stress on economic point of view, when analysing the impacts of FEZs on regional development. Author takes FEZs into consideration as the source of regional development and tries to bring a better understanding to the instruments of FEZs contributing to regional development of Baltic States. Main motive for the preference of this topic is, as mentioned before, author believes that every new economic activity has an effect on development of the region. In this way by investigating FEZs, author aims to clarify the connection between FEZs and regional economic development and to create a solid source for the future research or projects.

Furthermore the research explains the Baltic States FEZ policies and their connection to the regional development actors. The research is an informative guideline for the public policy too; in view of the fact that it gives insights to FEZs and how they interact with the public policy actors. Author believes it could be used as a context for public policy actors who deal with goals such as boosting Regional Development in their regions by new economic activities or as creating a more attractive region for the FDI as well as potential investors of FEZs.

Author has taken part in the scientific event called ‘Young Scientists’ International Scientific Conference on Current Issues in Economics, Business and Public Administration’ with the partial findings of this study in April 2018 and became 2nd place winner in section ‘Challenges and Opportunities in Business and Public Sector’ with the presentation of the partial conclusions of this study (Please see Appendix I).

Structure of thesis. This thesis consists of the following: Summary, Introduction, 3 main chapters and also their subchapters, Conclusions, Recommendations, References and 2 Appendices. Thesis includes 7 tables and 22 figures.

I. THE CONCEPTION OF FREE ECONOMIC ZONES IN THE CONTEXT OF REGIONAL (ECONOMIC) DEVELOPMENT

1.1. Free Economic Zones Conception

The zones with economic advantages have been a phenomenon in most of the countries in history. These zones sometimes were used to attract greater capacity in exports or imports, sometimes create a better environment in industrial activities and sometimes they were used to attract and control the Foreign Direct Investment (hereinafter FDI) to the region or the country.

Author believes, every new economic activity has an effect on development to the host region. A successful activity brings profit and profit attracts new investors. New investment capacity of economic activity widens, meaning new employment needs, which is to be met by local workers. By new employment opportunities in the region, the prosperity level raises. In theory, this system works like an engine, one part initiates another and this sets successful development process in motion.

The current literature has number of titles and translations for this type of zones. A study led by ILO (Long, 1986) states that there are 19 different terms used in order to express such zones. Most popular ones are as following: FEZ, SEZ, Free Trade Zone (Hereinafter FTZ), Free zone (Hereinafter FZ), Export Processing Zone (Hereinafter EPZ) and Industrial Free Zone (Hereinafter IFZ). In order to maintain the integrity and not to cause further confusion, the term “Free Economic Zone (FEZ)” is used along the outline of this study. This study also explains the usage of other terms. For the broad description of the terms given in this paragraph, please see 1.2.1 Typology of FEZ.

There are many definitions to the term FEZ as it was used in many countries and in many languages but zones with particular tax reliefs from public administration in order to attract FDI, has been a part of international economy for a long time. Especially in developing countries, the need of procuring the capital for development goals pushes policymakers to maximize the exports and also to minimize the imports as this is the way to procure the capital. Although the developed countries are providing assistance and funds to developing countries, such provisions have some limits with regulations and effectiveness. In such situations countries require policies to achieve the development goals by procuring the capital.

As the FEZ literature spans more than 30 years, exposes FEZ concept definition developing over time (see Table 1). Under the light of the definitions it is possible to assume that, in such zones, the legislation and restrictions imposed in foreign trade in a country are partially or totally invalidated. This enables FEZs to act as an area where foreign commercial products can enter, may be kept on hold or operated. Consequently, such zones create an optimum establishment and

development environment for the industrial businesses. Also these businesses require side industries for packing, storing or moving their product which will be provided by other new businesses. Hence new economic activities will create a boost in volume of trade.

Table 1

Theoretical background to the term Free Economic Zones

<i>Author</i>	<i>Year</i>	<i>Definition</i>
Wang & Bradbury	1986	A special processing or manufacturing zone is a geographically defined area within which lower taxes prevail, fewer commercial restrictions are in effect, and less government intervention in the economy is evident.
Johansson & Nilsson	1997	Such economic zones are geographically or juridical bounded areas in which free trade, including duty-free import of intermediate goods, is permitted provided that all goods produced within the zone are exported.
Ge	1999	Special economic zone may be characterized, in general terms, as a geographic area within the territory of a country where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the country.
Akinci & Crittle	2008	Geographically delimited area which usually physically secured and handled by single management/administration, requires eligibility for benefits based upon physical location within the zone which includes separate customs area and streamlined procedures.
Farole	2011	Demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory.
ILO	2014	...can be defined as industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again.
Zeng	2016	... it is a geographically delineated area, usually physically secured which has a single management or administration and it offers benefits for investors physically within the zone.

Source: Author's conducted based on mentioned sources.

Although their existence relies on centuries, FEZs were not as popular as it is nowadays in the world economy. Only after 1960s they become a popular element of world trade. With the drying-up of commercial bank lending to developing economies in the 1980s, most countries eased restrictions on FDI and many aggressively offered tax incentives and subsidies to attract foreign capital (Aitken & Harrison, 1999; World Bank, 1997a; World Bank, 1997b). That caused FEZs become more desirable for countries. Over time, the reasons for establishing FEZs have differed, depending upon the needs of the host countries (Jayanthakumaran, 2003). Therefore unavoidably importance of zones with tax incentives has risen to in order; international, intercontinental then global level.

The first modernized zone was structured in Ireland in 1959 (Akinci & Crittle, 2008). At the 1950's Shannon Airport was the main stop for transatlantic flights for refuelling purposes. With the technology pacing up and developing more rapidly than the town the significance of airport was in danger, so were the jobs of local employees. These jobs were at risk as a result of advances in aviation technology which made it unnecessary for transatlantic flights to refuel at Shannon (Shoemsmith, 1986). Effective and immediate solution was needed in order to keep 1500 employees away from unemployment. The Irish Government decided to apply a reform in the airport in 1959 and revised its regulations by creating the first modern economic zone. The Shannon FEZ offered

many tax reliefs to the companies during its activity. It was stated to be successful by ILO annual report (1988).

The Shannon FEZ was quite a successful implementation which later influenced other countries. India was one of the first in Asia to recognize the effectiveness of the FEZ model in promoting exports, with Asia's first FEZ set up in Kandla in 1965 (Daru, 2016).

Such zones became popular among regions in East Asia and Latin America, starting from 1970s public authorities began establishing them in order to attract foreign direct FDI in labour-intensive manufacturing sectors to encourage exports causing a raise in the number of FEZs when there were 176 FEZs in 47 countries in 1986; the number reached to 3500 in 130 countries in 2006 (Farole, 2011). According to World Bank and FIAS annual report (Akinci & Crittle, 2008) on FEZs, it was stated that “By some estimates, there are approximately 3,000 zones in 135 countries today, accounting for over 68 million direct jobs and over \$500 billion of direct trade-related value added within zones”. Such statement gives a strong impression about the scale of the FEZ phenomena and the diversity of FEZ experiences around world.

China is the best example to show the impacts of successfully implemented FEZ policy. Before the Open Door policy, the economy of the country was planned and managed by central government. The policy before 1978 was not at all concerned in attracting FDI. After the country went for a dramatic change with Open Doors policy, FEZ were set up in different areas to attract the foreign businesses and inevitably FDI. By implementing new policy focusing on “special policies and flexible measure” main goal was to create a modern industry and to lift the economy. While in 1978 the GDP was 149.541 billion \$ in the following 6 years it doubled up and kept rising (GDP in U.S. \$ in World, 2017). Such drastic change in the policy was implemented very successfully and helped China become one of the countries with largest economy in the world. According to Zeng (2014), senior economist at the World Bank and an expert on economic policy, “China’s growth miracle can be largely contributed to its successful FEZ programs, which piloted many market-oriented reforms”.

On the other hand the regional knowledge got more advanced in EU as the volume of the union has been enlarging. There are some socio-economic principles settled by treaties or other regulations for the benefit of the union. Although countries need to achieve before becoming a member of EU, some countries are way more developed than the others. Not only some countries but some regions are far more competitive than other regions in the same country.

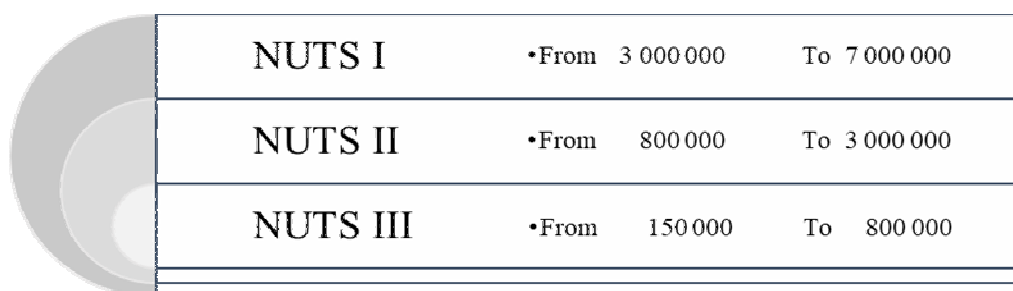
The main goal with the Treaty of Rome which was the first milestone of the EU, was to create a homogenized development and cooperation in economic activities in its community. This joint forces approach got EU in all respect to its success today. While the EU got enlarged through time the imbalance between regions became very obvious and EU had to set sight on the regional

policies. EU firstly tried to address the regional problems via national funding but that turned out failing in many cases (Adams et. al., 2006).

Also through time EU wanted to create a solution to the lagging regions, on 1972 Economic and Monetary Union (EU with its old name) decided to create the European Regional Development Fund (Hereinafter ERDF); the Council came to an agreement on the first ERDF regulation in 1975 (Commission Implementing Regulation (EU) 2015/1974, 2015)

Through the new regional policy direction, the importance of the spatial planning became more visible by the EU. Spatial planning or spatial strategy-making was spreading drastically around Europe at different scales (Healey et. al., 1999; Albrechts, 2001; Healey 2004; Adams et. al., 2006). That was when the Eurostat created a better representing set of regional classification system. The Nomenclature of Territorial Units for Statistics (hereinafter NUTS) was drawn up in 1988 in order to provide a single uniform breakdown of territorial units for the production of regional statistics for the European Union (Commission Implementing Regulation (EU) 2052/88 1988). Although it was used in the legislation after that date, it took until 2003 for EU to adopt the NUTS classification system.

NUTS regulation takes a role as ‘minimizing the impact of changes in the national administrative structures on the availability of comparable regional statistics (Eurostat, 2015). Its principles and purposes are arranged for regulation to work as a hierarchical division system for the economic distinction of the regions in Europe. The classification system works by the population and determination is processed by the inhabitants living in the region. There are basically three levels in NUTS system starting from the high populated areas to less populated areas (for population limits, look Figure 1).



NUTS I	•From 3 000 000	To 7 000 000
NUTS II	•From 800 000	To 3 000 000
NUTS III	•From 150 000	To 800 000

Figure 1. Nomenclature of territorial units for statistics (NUTS) and its minimum and maximum population outlets which are used to determine the classification of the regions

Source: Authors conducted based on Eurostat, 2015.

Using NUTS system allows EU to be more precise about many fields from policy making to data collection. As Eurostat refers to the purposes of NUTS, helps with the size correlation of the EU regions, it creates improved quality in processed statistics, helps policy makers to distinct the regional/national problems and implement the regional or national policies accordingly and gives

EU a vision to the determine the regional policies such as Cohesion Policy funding to eligible regions (McCann, 2015).

The definition to the term remains same in EU, but such zones are regulated under Customs Policy by the name “Free Zone”. According to briefing paper ‘Establishing Free Zones for Regional Development’ there were 74 zones defined under the Community Customs Code and they are classified according to the way in which both Community and non-Community goods are dealt with upon import and export (de Jong, 2013). The classification divides the zones in two categories. One is Control Type I which refers to the type of zone where all goods are controlled by the customs authorities through entry and exits. Second is Control Type II where the goods are not controlled on the entry and exit process but they are controlled upon the declaration process done by the operating companies.

In EU FEZs are used generally in order to create a policy base for regional development purposes in the lagging regions to create a competitive and attractive economic activity zone. As mentioned earlier EU uses NUTS regional classification system to determine the eligible regions whom can benefit from various funding options supplied by EU including Regional Development Fund.

As the zone structure requires incentives from each government, EU aims to prevent the organizational crimes in the member states and institutional difficulties in the public administration bodies and highlights the importance of sufficient regulatory supervision in such zones.

From a simplified definition, it is possible to theorise FEZs as establishments that increase the international market share of a country or a region in which they are located in, so that they can achieve much more stable export. In other words, the aim of the establishment of such zones is to enter international markets with the help of FDI or the goal of attracting FDI by making use of the low costed production factors of the region, without intervening to the market. In regard to literature background of the term, author theorizes the FEZ as “Areas with clear geographical limit, in which active businesses were given special advantages for their economic activities by the government”. The primary goal of FEZs is to increase the level of international trade by generating FDI inflow to its region and country.

1.2. Features of the Free Economic Zones

Special Economic Zones have their specific features which are discussed in this part of thesis.

1.2.1. Typology of Free Economic Zones

Discussing a phenomenon which is used by many countries worldwide for more than 3 decades, it is quite inevitable that there are terminological confusions. The main reason to this is

that mainly countries in need of new policies for attracting new economic activities have adopted the phenomena and named it under its regulations with the most convenient term. Figure 3 is given in order to illustrate the variety of names in different countries.



Figure 2. The terminology in selected countries

Source: Author's conducted based on literature research.

Such barrier in typology of term FEZ creates a very big confusion for any researcher or anyone who may be interested in the area in the first place. But after careful investigation it is clear to see that following terms are interchangeable; Special Economic Zone, Free Economic Zone, Free Zone, Foreign Trade Zone, etc. It is important to draw attention to the fact; they share the definition but are used in different names by adopting governments.

FEZs take different forms depending on the economic structure of the country they are set in and depending on the establishment goals. In other words it is possible to say that FEZs are not homogenous and according to their functions it is possible to group them under certain types. Although Akinci and Crittle (2008) also suggests the FEZ is an umbrella term which covers numerous types of FEZs but author believes it is important to draw attention to following types of FEZs.

Free Trade Zones (FTZ): This is one of the most used types of FEZs. The FTZs are most likely to be set up in or near international entry ports to create an attractive trade activity area. Their distinctive characteristic is that they are fenced-in areas and are also known by the name Commercial Free Zones.

The FTZs offer warehousing, storage, and sales facilities which are essential for businesses in trade, shipping, import, and export (Farole, 2008, Farole & Akinci, 2011; Bernstein et. al., 2012; Pakdeenurit et al., 2014; Zeng, 2016). The example can be FTZ located in Panama Canal. By the geopolitical importance it is the heart of the trade for the goods with the destination of South America.

Export Processing Zones (EPZ): EPZs are popular amongst the developing countries in order to attract FDI and increase the level of export in region. They are used as a tool by governments of developing countries who are implementing export-led policies (Jenkins & Arce, 2016). The main definition to term EPZ is almost same with the FEZs. The main difference is that EPZs focuses on the export led economic activities and their primary focus is to boost the export in the region. The definition was given to the EPZs is as following; ‘a delimited geographical area or an export oriented manufacturing or service enterprise located in any part of the country, which benefits from special investment-promotion incentives, including exemptions from customs duties and preferential treatment with respect to various fiscal and financial regulations’ (Romero, 1995; Neveling, 2015).

EPZs offer reliefs in customs regulations for the foreign investors. By such reliefs, it is aimed to attract more FDI. After careful investigations author suggests/believes that EPZs were used as an earlier form of FEZs. Following countries can be given as example to such zones; South Korea, Taiwan, Malesia, Brazil and Chine. The main investment industries objects are consumptions goods, electronics products and textiles.

Enterprise Zone (EZ): EZs are a form of FEZ aiming to boost urban development. It is optimal for the local or national governments in need of boosting a lagging region. The aim of EZs is that they bring dynamism to the area they are set in and this creates an attractive environment for local or foreign investors. They are most likely to be set up in stressed urban areas where a solution is required to a distressed the area (Bernstein et. al., 2012).

The distinctive characteristic of EZs is that there are many initiatives for tax subsidies. But the EZs have concrete regulation for the size, which leads to variety of sizes of EZs. They are also known as Urban Enterprise Zones.

Free Ports: From the historical framework it is possible to deduce that the ports have always been filled with trade activities such as trade of sea products and transportation also import and export of the goods to/from other civilizations. The transportation sector is a strong factor in terms of economic and regional balanced development, as well as also having a great influence on national integration to the world economic market (Dwarakish & Salim, 2015). In this regard countries have set FEZs in ports in order to enhance the economic activities. They are used in many countries which makes them the most wide-ranging type of FEZs.

Free Ports can be defined as “a port which was declared by a government as not being regulated by their customs laws” (Brasoveanu et al., 2015). In other words, Free Ports are the FEZs which are located in ports within the political borders of a country but are exempt from the customs policy.

Single Factories (SF): SFs are the only type of FEZs which were not defined by geographical limits. Which means it can be set up in any location. The main idea behind developing SFs is to increase the specialization of a particular industry in order to increase the ability to compete with the foreigner in the same industry (Pakdeenurit et al., 2014).

SFs are mostly popular among the countries that are in need to create a boost of export in a selected industry. The SFs are also known by the name Industrial Parks or Industrial Zones.

Specialized Zones (SZ): SZs are not as popular as the other types but still can be seen in many countries. They are often set up in order to encourage the market for goods and services with latest technological updates that are exclusive to any production. SZs are focused on one specific purpose, in other words their main goal is the development of one special industry.

Specialized zones can be named after the main focus industry, e.g. science and technology parks, petrochemical zones, logistics and warehousing park, airport-based economies, tourist and recreational zones, reconstruction opportunity zone, multi-product Free Economic Zones, the gambling zones (Farole, 2008; Bernstein et. al. , 2012; Pakdeenurit et al., 2014).

According to the literature research it is possible to divide the types of FEZ according to their goal of establishment, specific characteristics and focus market. The comparisons of the types of FEZs are given in the table (see Table 2).

The common features of the FEZs when examined, FEZs in world were/are more densely established in developing or underdeveloped countries or the underdeveloped regions of developed countries. The main reason to that is policymakers who are using FEZs as a short cut to create a more attractive region for local and foreign investors, as underdeveloped or developing countries are rich with the low cost production factors and possession of raw material.

Main features of the world's FEZs are:

- They encourage export-oriented industrial development;
- They support entering foreign market through gained foreign capital and contribute through capital and industry;
- They create employment opportunities;
- They increase the domestic demand for raw materials.

Table 2:

Types of FEZs

No	Type of FEZ	Goal of establishment	Specific characteristic	Focus Market
1	Free Trade Zones	Boost trade	<ul style="list-style-type: none"> Geographically limited and enclosed Duty Free when entering or leaving zone Mostly located in ports Can be used as warehouse or can be host to production process activities 	Domestic and International Market
2	Export Processing Zones	Boost export	<ul style="list-style-type: none"> Geographically limited Establishment aim is to promote the exports in the industry sector Creates an attractive zone for the foreign investors Providing special investment-promotion incentives Exceptions from custom duties 	International market
3	Enterprise Zones	Boost local economic activities	<ul style="list-style-type: none"> Geographically limited Establishment aim is to boost the lagging regions economic activities Creates an attractive zone for local and foreign investors Mostly located in stressed urban areas Provides initiatives for tax subsidies Distinct regulations about the size of such zones depending on the country they are located in 	Domestic market
4	Free Ports	Internal and external development goals	<ul style="list-style-type: none"> Geographically limited Located in port cities Can cover all city or just the port Considered in the country borders but not considered in customs code of the country which they are located in Provides a zone for more free of regulations in economic activities such as export, import, logistics in the port 	Domestic and international market
5	Single Factories	Increase/boost the export activities in a specific industry	<ul style="list-style-type: none"> Not defined by geographical limits Aims to compete with the foreigner in particular industry Increases the specialization of a particular industry 	International market
6	Specialized Zones	Promote high tech products and services	<ul style="list-style-type: none"> Geographically limited Aims to boost a specific industry Encouraging an industry to use latest technological updates 	Domestic and international market

Source: Author's conducted based on Romero (1995); Farole (2008); Farole, Akinci (2011); Bernstein et. al. (2012); Pakdeenurit et al. (2014); Neveling (2015); Dwarakish, Salim (2015); Brasoveanu et al. (2015); Zeng (2016); Jenkins & Arce (2016).

Factors affecting success and failure of Free Economic Zones. (see Figure 3 and Figure 4) They are ranged from infrastructural challenges to structural challenges. As the world proceeds to globalization progressively, the structure of the FEZs has to be resilient in order to keep up with the changes with the least damage to its establishment goals (Kocaman, 2007).

In order to embody a successful case, FEZs has to pay very systematic attention to some matters. A zone that is well controlled by an adequate administrative body and profit-focused operation would face with minimum danger. The potential threats can emerge at different intensity and quality levels which depends on the type of FEZs as well as the region which FEZs operate.

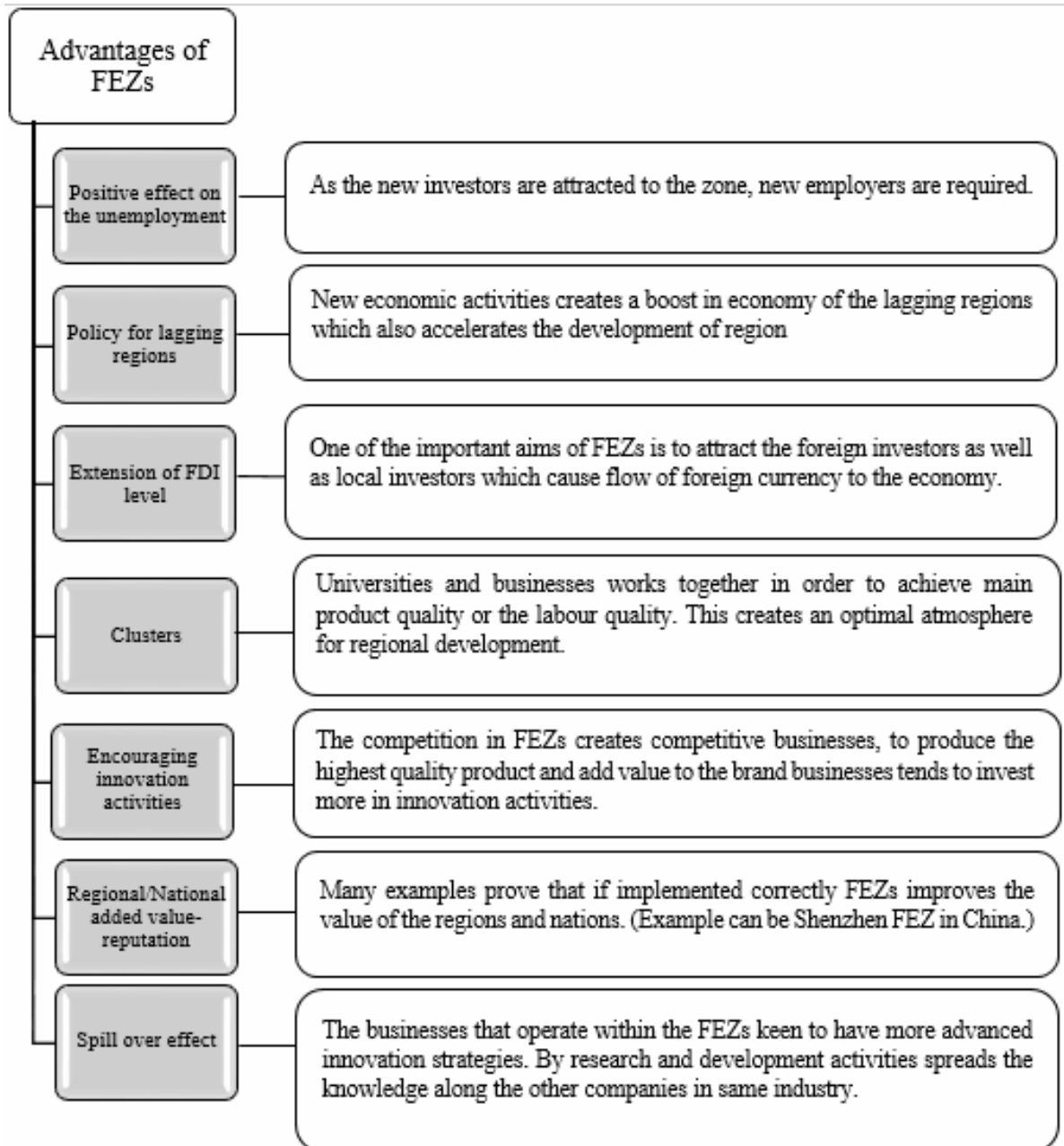


Figure 3. Advantages of FEZ's

Source: Author's conducted based on literature researches.

One of the many factors which is effecting the success of these zones is developing a FEZ is a process which takes time and strategic planning by the public and private sides. The success or at least results can be seen only in long term. From a policy perspective, this means that governments need to be patient and to provide consistent support to zone programs over long time periods, a particular challenge in countries whose political cycles are rather shorter (Farole & Akinci, 2011).

Also from the business perspective it is very important that the companies get the results, the outcome, and the long term period can be deterrent for the investors as well as the policymakers.

Another aspect is the business environment. The zones are entitled to create a desirable work environment for the workers. There are specific acts and regulations for the FEZs. As mentioned earlier, each country has its own FEZ regulations or laws. The labourers of FEZs may not always be covered by the national labour regulations or the regulations may not cover the best interest of the labourers. This can lead to conflicts in the zone between labour force and administrative body or businesses. A chaos between workers and businesses creates an undesirable zone which will eventually fail attracting local or foreign investors.

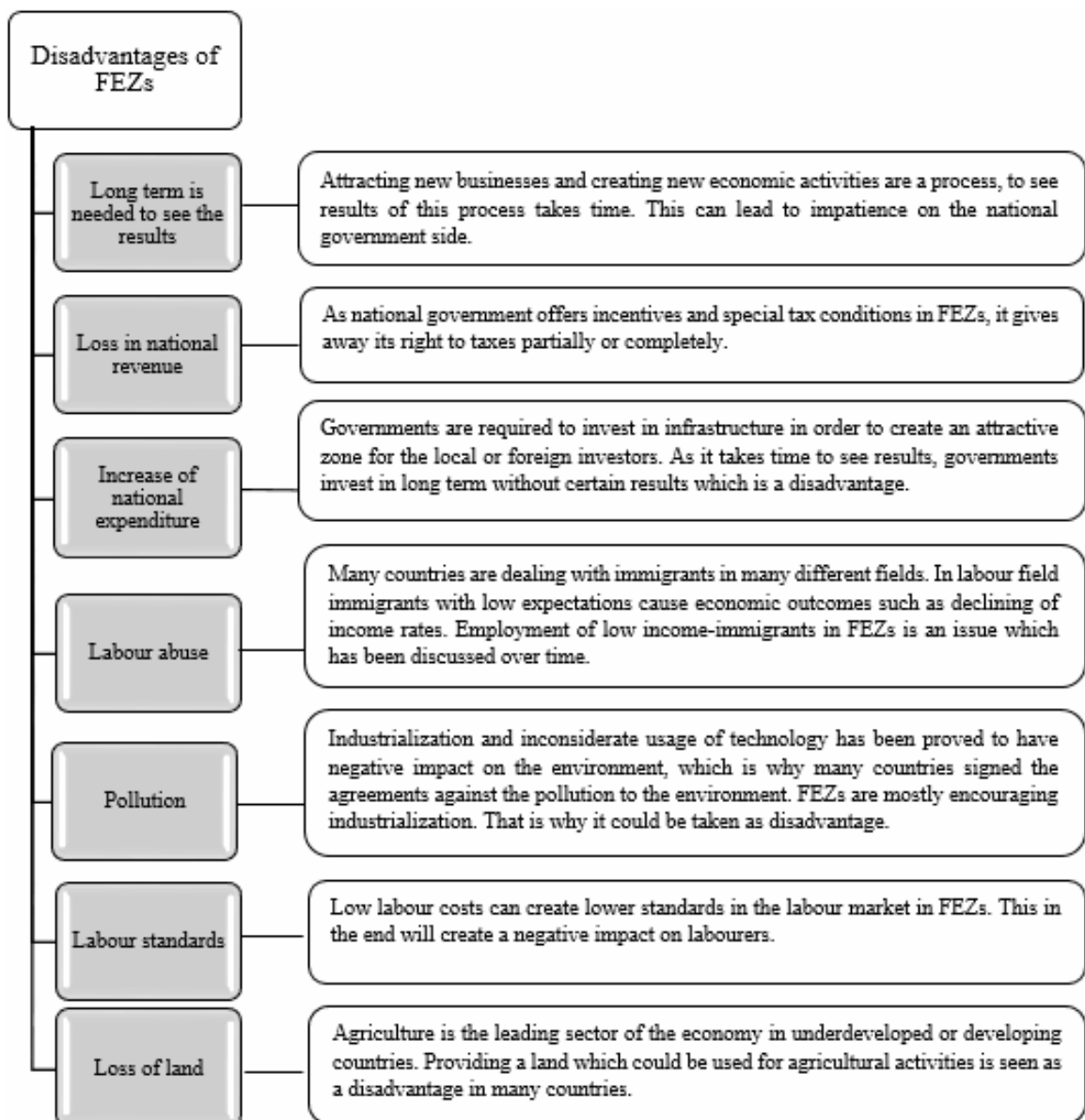


Figure 4. Disadvantages of FEZ's

Source: Author's conducted based on literature researches.

Some other element is the infrastructural background of the region or the country which the FEZ is located in. As the production process will take place in the zone and will be transported to

the internal or international market, it is important that the region meets the infrastructural needs to create a success through a more attractive zone. The strategic location of the zone, the international gateways and road network, the railway network, bridges, distance to the airports or ports, sometimes distance to the raw material, geopolitical location as well as the population, supply of electricity, water or gas, production cost as well as labour cost is some of the factors which are affecting the success of FEZs.

Along with the other components the success of the FEZ depends on the market success of the businesses. In this case for businesses to have successful marketing and publicity is vital. Also, competitive business environment is very well linked with the success or failure of FEZs. As the competitiveness of a business environment helps growing the businesses and the focus market of the zone, it also provides a proper environment for the innovation activities. The businesses learn the weaknesses and strengths and they become eligible to identify the potential threats which can affect their businesses and become smarter. Businesses becoming smarter means the FEZs will be achieving the establishment goals in shorter terms rather than long terms.

The entrepreneurial structure of the internal private sector is another aspect effecting success or failure of the FEZs. Private sector investments are the main establishment goal of the FEZs. This makes the fullness of entrepreneurs in the internal private sector as well as their productiveness will be a fact determining the results of the zone goals. As mentioned earlier the FEZs are more densely used as a policy in underdeveloped or developing countries or regions. However, it is important to point out in this phase of this thesis that it is quite possible to find in literature the examples of FEZs that have failed to attract important investments and where the expenses have outweighed the economic and social benefits (Fakroun, 2012).

1.2.2. Public policy influence on the establishment of Free Economic Zones in regions

Grounds for establishing FEZs may differ in zones, as each region and country has various goals of development. But after careful literature research it is possible to reckon five main FEZ policy goals (see Figure 5).

These five policy goals are shared by many countries, which makes it desired and popular among the countries in need of new policies. Through FEZs, governments aim to develop and diversify exports while maintaining protective barriers, to create jobs, and to pilot new policies and approaches in various areas (Akinici & Crittle, 2008). Giving incentives on taxes and advantageous regulations governments are capable of controlling economy more efficiently.

Although the name changes according to the geography FEZs are used in, the main characteristics remains unchanged. It is important to draw attention to the fact that for a zone to be qualified as a FEZ, there are number of must-have-characteristics.

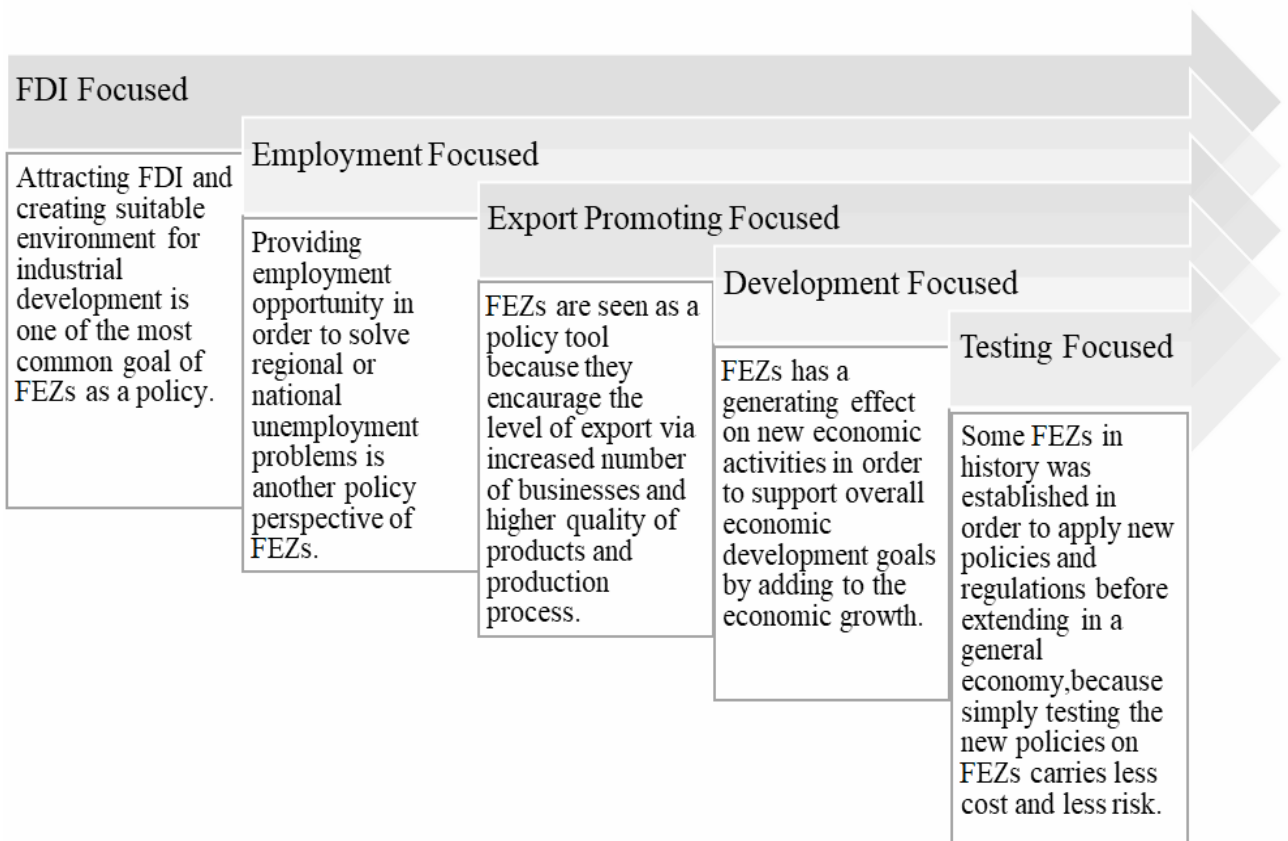


Figure 5. The common policy goals when establishing FEZs

Source: Author's conducted based on Madani (1999); Akinci & Crittle (2008); Farole & Akinci (2011); Zeng (2016)

From the many definitions, it is quite clear that first characteristic is the area. Creating a FEZ requires an area where the economic activities will take place. The area usually delimited by clear borders and usually fenced-in.

The next one is the advantages. The zone must offer some incentives to the businesses in order to drive new economic activities in its structure. At this moment it is important to draw attention that the World Trade Organization sets some rules for this type of zones which all countries must abide. But mainly it is to create more attractive environment for businesses to start-up new economic activities. Those companies who are active in FEZ are exempt from paying customs duties on the imports of raw materials which will be used in the production process which is a clear example of incentives offered by FEZs.

The next characteristic is that the zone is owned and managed by single party. Most of the FEZs are owned and administrated by private companies or a developer. The rest of the regulations such as management board and members and qualifications depend on each country's FEZ policy.

The last one is that each zone is considered out of the general customs code which means it has its own organization of incentives. World Customs Organizations has regulated the guidelines of the customs code for such zones in Kyoto Convention in Annex about 'Customs warehouses and free zones' (2008) by pointing out such zones have their own customs code.

As FEZs are located and administrated in countries or regions with the provision of special conditions and initiatives from national customs code they are attached to public bodies. In this chapter author aims to create a clear vision to public policy influence on the FEZs and their establishment.

Role of National Government has a far-reaching influence on the establishment of the FEZs. First of all, the national government of the country which the FEZs located within has the liability of creating a law or regulation for FEZs to be able to operate within its borders. This is an important part of the national governments role in FEZs establishment. By the law or statute laws, the government entitles FEZs to be established.

Another important dimension to the its role is that national government regulates the tax incentives which FEZs will be allowed to benefit as well as regulations related to the exemption of customs code. The national government renounces some revenues such as taxes, and by laws, the level of taxes in which corporates will gain advantage by operating in the particular zone is arranged.

As the national government regulates the international trade, the FEZs are bounded to national government and its laws, regulations or policies. Foreign affairs and policies are also regulated by the national government which is an important fact when it comes to attract the foreign investors. Especially foreign affairs play an important role as the conflicts between countries can weaken the attractiveness of the FEZs for some foreign investors.

Also the national government is generally the main supplier of the water, electricity and gas resources. Water is an essential infrastructural resource in any location at any time. In an industrializing production process electricity is another essential service which is mainly supplied by national government. Beginning from their establishment, FEZs are critically attached with the national government. As transporting the products carries significance for any business, the businesses relies on national government on the construction and operation of national trunk roads, railways, pipelines.

National economic policy and planning is another responsibility of the national government. Public bodies need to create a strategic plan in order to achieve the development goals. This will allow the policymakers determine the required type of FEZ. If the planning is done correctly and the right type of FEZs is chosen, the zone can concentrate on the establishment goals without distractions.

As FEZs promote the industrialization in production process, the zones are related closely with the environmental regulations of the countries in which they are located. The world is facing the climate change makes it important for countries around the world has to regulate the pollution.

Therefore many governments are committed to environmental issues through international agreements. Those regulations aim to minimize the pollution or keep it in a desired level.

Role of Local Government is another important actor when it comes to relations with the FEZs. Representation, strategic planning, service delivery, development policies and legislation are few of the main roles of the local governments.

Local governments consists of many components, one however is the councils who often represent their local community on matters of concern to the residents of the local community. This makes local government an important actor as the councils have better perception in understanding the region's needs. Policy makers in local level are always closer to the

Setting the overall direction for their municipalities is a part of local government's duties for the long term planning. Local governments in relation with the FEZ's are required to deliver the infrastructure and other basic services such as electricity and water supply.

Local governments carry an important role of managing and delivering services such as local health institutions and recreational facilities, local road maintenance, and public libraries. In order to create an attractive environment for the foreign and local entrepreneurs local government bodies are in charge of the supplying a stabilized quality of services.

The initial point of the activities and functions of local government bodies are directed by public policies. As in any field the planning and implementing is important in policies. As long as the public administrators are not successfully implementing the policy, the best policy could vanish to be a big failure. Local governors are responsible from the implementation of the regional policy which in the end brings success in development. As a chain, the attractiveness of the region ends up with new investors and new economic activities which have a very important effect on the success of the FEZ's.

1.2.3. Establishment of Free Economic Zones

In this chapter author tries to envision the establishment process. Each zone consists of many components, such as land, the administrative body, shareholders which are businesses or investors, agreed type of economic activity in the zone, the guidelines and regulations, the incentives from government etc. As the regulations may differ in various countries, these are the main components of a FEZ.

The establishment procedure could be discussed quite widely. Earlier author touched upon the statement each country has its own rules and regulations for the establishment and administration of the FEZ's. For the sake of this research it is not possible to mention every FEZ regulation which was adopted by countries, while the author believes it is possible to include some important

information about the FEZ's; milestones of the initiation process of FEZ's which is valid for every economic zone.

The process involves cooperation between public and private sides as the investments are required from both sides to create a solid development. The public side invests in the infrastructure of the host region and uses the public revenue for creating a better environment for the future investors and businesses which will be attracted to the host region. Then the private side invests in the commercialization of the zone with the same purpose as government investments.

In many countries either the government or the business entities can submit a proposal for the FEZ initiation. The proposal mainly consists of the particular economic activity type, time period of the activity for the zone and the territorial boundaries zone will be established in. In many cases governments supply the land via rent to the private partner with some discounts on the price of the rent. This means the ownership of the zone belongs to the public partner.

The public partner is required to prepare a policy base for the establishment of the zone as well as the incentives it will be given. The process may take time if the zone will serve as established precedent. Each government has special regulations and incentives that are entitled to the FEZs operating inside their borders. In some cases, EU interfered in some regulations of the candidate states in order to create a competitive environment inside of the union.

The private partner is required to come to an agreement on a development plan for the FEZ. This is an important part of the establishment process of the zone. It takes strategically designed development plan for a business to be an eligible private partner to the partnership. If the development plan is overdesigned, private partner may be obliged to pay some fee for the failure of the plan. Also the plan cannot be under designed as the public partner and private partner needs to come to an agreement on a realistic development plan in a realistic time period.

Once the establishment process takes place, next step is the attracting new investors to the zone which also takes an important share of the time which private partner included to the development plan.

1.2.4. Institutional structure of Free Economic Zones

This part of the research lays emphasise on the other actors play part in the FEZs. To understand the institutional structure of the FEZs, knowing the actors taking role is significant. The roles of the FEZs could be divided in three; FEZ unit, developer/operator and the end users (For key responsibilities and relationships in a FEZ, see Figure 6).

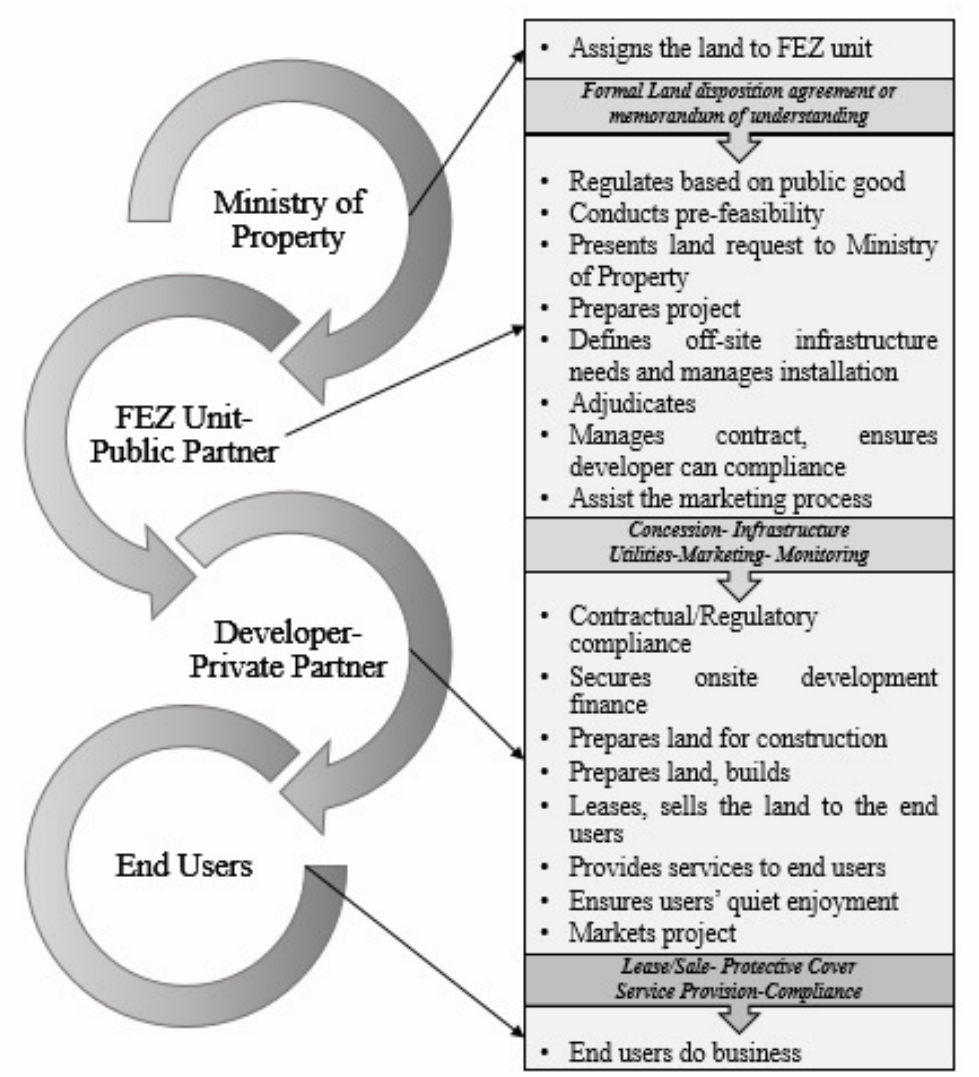


Figure 6. Key Responsibilities and Relationships in FEZ

Source: Adapted by author from: Gauthier (2011).

The FEZ unit is basically the government or public side of the zone and carries out many details including supervisory of the operations in the zone. The developer is the private side and is the actor that carries out the development of the zone. Lastly end users are the companies that are actively operating in the Zone and are entitled to the zone incentives supplied by FEZ unit.

It is understandable that there are confusions about FEZs and public-private partnerships (hereinafter PPP). Although there are FEZs in PPP format, it would be a mistake to consider all FEZs as PPPs. The institutional structure of FEZs are very well alike independent from the fact that FEZ is a PPP or not. The structure includes two sides; public and private. There is an agreement between sides regulating the terms and conditions. The public side undertakes number of responsibilities; the land assignment through it's' allocation function, strategical planning of the zone and its operations, legislative and enforcement role of the regulations (Gauthier, 2011). Also public side is responsible from providing goods and services when the private side is not or cannot provide. FEZs as a policy tool for government is a complex and time consuming process. That is

why it requires experts in their fields to work on each and every step along the implementation of the FEZ as a policy tool.

The private side undertakes the other share of the FEZ process; business and business administration. Through the agreement private side and its roles are assigned by the government as well as the land for the zone to be established. The agreement simply includes a part where government expects to see development in the specific period of time from the developer. Developer should come up with realistic and achievable goals and government should approve the development goals. Government supervises the compliance of the development goals and ensures that there are legal enforcements following in case of a failure in the end of the period which was specified in the contract.

While government takes the off-site infrastructure investment share, private partner takes the onsite infrastructure investments. Private partner makes sure that the onsite of the zone is ready to be designed and planned for buildings for the potential investors and businesses. Private partner is responsible from the marketing and the advertising of the zone through many channels to the potential investors and businesses; foreign or local.

In some cases for the convenience of the investors FEZs are designed as a one-stop shop. One-stop shop practically represents the feature where the governmental permissions and licenses are issued by one issuer so that the investors would not have to go through the process of bureaucracy possibly with a foreign language. Best practices of FEZs have one-stop shop characteristic in their institutional structure.

1.2.5. Relations of Free Economic Zones with other regional actors

FEZs 2 Businesses. In many cases local businesses take FEZs as threat against their business. Because FEZs are known by FDI that they attract. For the local businesses having foreign investors means competition in many levels from labour to production and product cost. But also there are many cases that the FEZs affects the local businesses in positive way via raw material merchandising, knowledge spillovers and regional absorptive capacity.

For a FEZ to be attractive it is important that the new investors and businesses finds a convenience with the raw material which is used as their production factor. In many cases the new businesses operating in the zone does not wish to spend on the transportation of the raw material from another regions or countries so they do trade with the local businesses for the raw material. Through this trade local businesses get to find a new customer and the new businesses get to cut from the cost of transportation of raw material.

The knowledge spillovers basically represent the transfer of knowledge between individuals. The reason author emphasizes the knowledge spillovers is; FEZs attract FDI and new businesses to

operate in the zone and they are known encouraging innovation and R&D activities working with the clusters. It is possible to find many researches in literature about spillovers of knowledge. Those researches argue that the spillovers from external sources have an important impact on innovation processes and economic development and that the role of innovation as a factor of competitiveness and technological progress have combined to make enterprises intensify and expand their innovative capabilities (Miotti & Sachwald, 2003; Fritsch & Franke, 2004; Acs et. al., 2013; Alfaro & Chen, 2013; Stejskal et. al., 2016). Also there are many researches that investigate relations of knowledge spillovers with FEZs. Many suggests that for FEZs to be successful there is a need for an industrial cluster concept to be adopted along with FEZ (Aggarwal, 2011; Zeng, 2012; Hsu et al, 2013; Sosnovskikh, 2017). Clusters are defined as a concentration of 'interdependent' firms within the same or related industries in a limited geographical area (Linzenbergen, 2007; Konstantynova, 2016). The clusters are shaped according to the needs of a specific region; as a policy tool for regional economic relationships they provide a well-provided representation of regional needs and regional drivers than other methods do. When the businesses have the optimal atmosphere for the R&D and innovation activities, it is often not possible to keep the knowledge (in this case not only knowledge but also technology) from one to another person or company. By this perspective, FEZs are known by their positive externalities on the local businesses and the businesses operating in the same zone.

In the other hand many researchers emphasize also the technology spillovers resulted by the FDI to the host country and the region. In earlier chapters, it is mentioned that FEZs are mostly adopted by the developing countries as a development policy tool. The main appeal of FEZs for the developing countries is; FEZs attract not just FDI from any country, yet they attract FDI from developed countries who are advanced than developing countries in many fields, including technology. Some researches emphasise that spillovers resulted from FDI may arise by two variations; either local businesses may learn to imitate the process or improve quality of their product or services via observing; or they may find out a better way of processing or marketing methods through interactions with FDI (Gorodnichenko et. al., 2007). Another research focuses on the relationship between FDI spillovers and productivity in manufacturing firms and more importantly drawing an emphasis on the ability of local firms to absorb the external knowledge depending on the existing absorptive capacity (Orlic et. al., 2018). It brings this chapters' focus to another important relation of FEZs with the businesses - regional absorptive capacity.

Absorptive capacity can be defined as an economic unit's ability to classify, absorb, modify and then most importantly implement the valuable knowledge from another unit to its production and innovation process. A regional absorptive capacity can be identified under the same concept, only here the subject taken is a regions' capacity of absorbing knowledge. Juknevičienė (2017)

suggests that regional absorptive capacity can be understood as a cause and a consequence of the regional development process and be reflected by regional disparities. To this extent, the FDI which is attracted to the FEZ may bring new valuable knowledge. This may result in two possible ways for local businesses; local businesses may adapt their production and innovation process, creating a higher absorptive capacity, or they may fail to keep in pace with the valuable knowledge which will in the end bring their existence to the end because through time they cannot compete with other businesses with high absorptive capacity.

FEZs 2 Public Administration. Public sector has a crucial role starting from pre-establishment process. Not only because the government is the authorized legislative and executive body within the country borders, but also representatives from government are always a part of its operations as members of the administrative board of the FEZs. This makes public administration closely associated with the FEZs.

Moreover to its legislative and executive characteristics, governments are seen as an important chain to the FEZs process. Because each country that implements FEZs policy has their own FEZs Act which defining the legal grounds such as; definition of FEZ, qualifying what are the activities allowed within these zones, where it may be established, for how long it may operate etc.

They let businesses know by creating tender of the planned FEZ. Often governments are the owner of the land of FEZs, the tender rents the land from government with some discounts or reduced prices. They are a side of the contract which is signed with the administrating body of the zone. Via this contract governments get the enforcement over the administrative body of the zone in case if they fail to achieve the development goals indicated within contract.

FEZs 2 NGOs. Many FEZs from around the world are known to be working with non-governmental organizations such as trade unions and chambers of commerce of the host government. These non-governmental institutions, has no direct role in the writing and passage of laws and regulations that affect businesses. As already mentioned the laws and regulations are handled by the public sectors. In fact they do not have direct influence on the FEZs as well. The only relationship between non-governmental organizations and FEZs is that they create the optimal atmosphere for FEZs to be able to seen by the foreign direct investors. They hold some events and conferences in order to bring related businesses and potential investors together. Although it seems like it does not have a big impact, NGOs help FEZs to be more recognizable within their target field group.

It is known that these organizations are sometimes partially funded by the government, sometimes function as a non-profit organizations and sometimes even a combined version of both. It is possible to say that NGOs have usually been associated more with development practice than with development theory (Lewis & Kanji, 2009). That is why it is hard to define their actions with

their theoretical background. But as stated, they play important role in the FEZs as a development tool of the host region and country because they create the optimal circumstances for them to be actively participated partners.

1.3. The Conception of Regional Development

The term region has a wide range definition. Region concept does not have a clear definition in the world. Because the size and content of the space unit expressed by the concept of the region may vary according to the context in which the concept is used, it may also differ in the same context. It is used in many fields including public administration. Region in general perspective is the administrative and economic unit of a geographical territory that has the common characteristics of climate, land and plant which is specified in between borders. In regional development perspective it is "... a territory less than its sovereign state, possessing distinctive supra local administrative, cultural, political, or economic power and cohesiveness, differentiating it from its state and other regions" (Cooke et al, 1997).

The concept of development can be defined as positive improvements in both qualitative and quantitative aspects taking place together. For a long time development in economics were considered through various elements but not by location. The scientists were mostly focused on the market and its components when it came to the economics analysis. Isaard (1960) was one of the first scientists who suggested to incorporate the 'location' and 'time' into science of economy in his work "Methods of Regional Analysis: an Introduction to Regional Science" which now contains the regional science and its history. His work mainly suggests that the economics have neglected the importance of the location and time which are very important components of economics. He suggests that the regional development concept is outcome of the regional analysis.

In this chapter the author guides the reader through the regional development concept and tries to create a clear vision for the term regional development by touching upon its features and actors. Later author passes to the formulation of the regional development concept and most importantly the implementation process in order to see regional development from the public policy point of view and the importance of regional development goals, after all addresses to the elements of regional development.

The Definition. The term regional development is very broad as it was touched upon earlier, which is why author prefers to take OECD definition in account to prevent further complications. OECD refers to regional development term as a subject of policy which aims to diminish the disparities between the regions by encouraging the economic activities in regions such as employment and wealth-generating (OECD, 2014).

As mentioned before, the term regional policy became popular amongst the policy makers around late 1950s and 1960s which was the period of relatively strong economic growth, fiscal expansions and low unemployment (OECD, 2010). As a main result of strong economic growth, the regions with more successful economic activities became more developed and those with less or none remained rural. These years were the years where imbalances between regions started to occur. So the policy-makers were in need of finding policies to reduce these imbalances. These policy pursuits were initiatives of the regional sciences.

Regions can be classified as underdeveloped or developed in terms of development level. An underdeveloped region can be defined as a region that does not have economic and social advantages compared to other regions in terms of various social and economic factors in a country. On the other hand the developed region is socially and economically more advanced than other regions of the country. Education and health services in developed regions are above the country average.

Theoretically the regional development policy was planned to modify the demand of the regions which remained underdeveloped. First thought was public investments in these regions through financial transfers. Although it was successfully implemented, the challenges were evolving along with the solutions and regional development policy evolved with the new challenges and grew larger and larger by the definition.

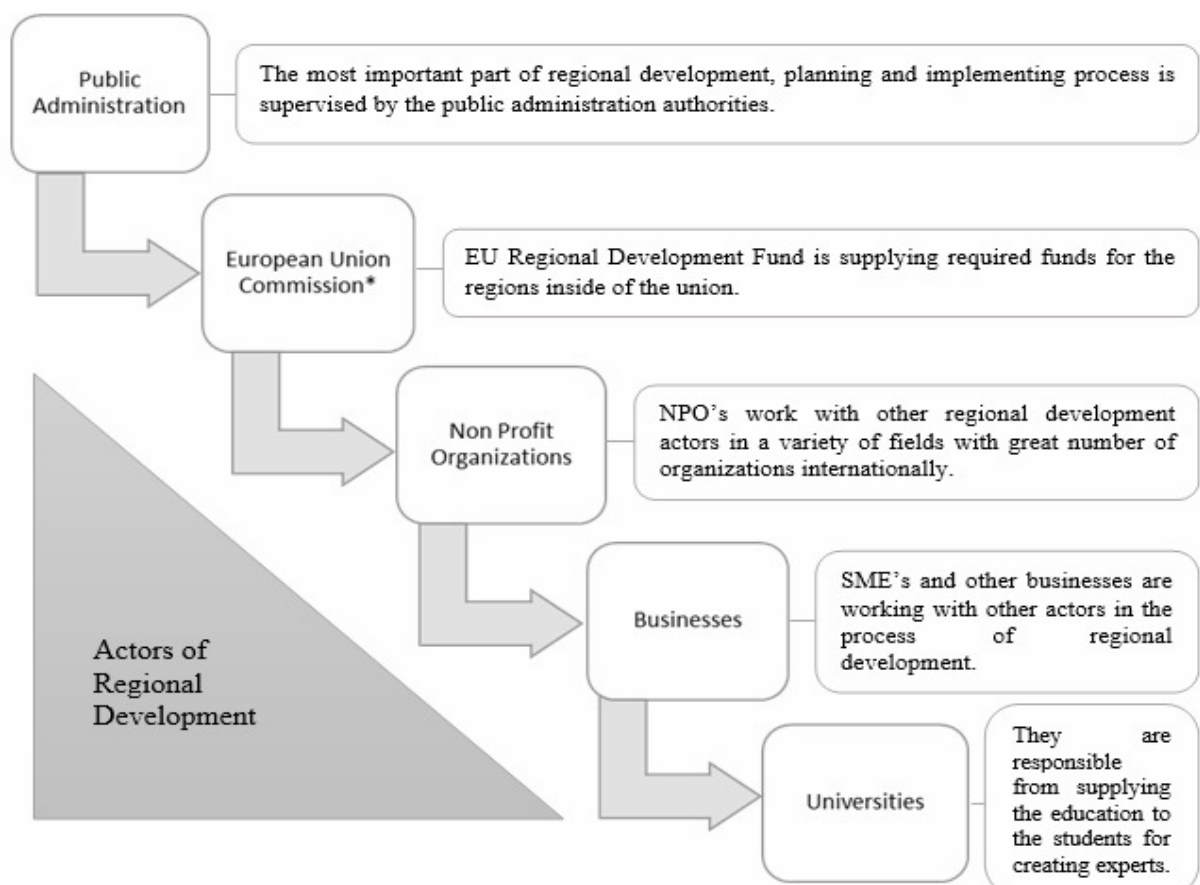
Features. Development does not depend on macroeconomic phenomena alone but is also strongly shaped by processes that occur on the ground, in specific regions (Scott & Storper, 2003). In almost every country social and economic activities gets more concentrated in some natural centres. Concentration causes major disparities between these centres and other regions. Such disparity has effects on many fields such as government investments, the economic activities of such regions, the environment, regional value and cost of life, quality of life as well as the population density.

The increasing industrialization race with the desire for rapid growth after the Second World War led to further increase of the international division of labour. This differentiation, which is seen as developed and developing economies at the international level, has become a reality in national level as well. However, the distinction between regions in developed countries is less than in developing countries. Since the earlier 1980's in industrialized countries and then recently in Central and Eastern Europe, emphasise on the role and importance of the local and regional actors and policies in economic development has grown drastically (Keune & Creation 2001).

The main idea behind the term regional development is to remove or minimize the disparities between regions via taking the terms 'region' and 'development' not individually but together as a whole harmonizing it with the planning or regional development activities.

Through regional development, goal is to create a success in national level through higher level of welfare in regions. That is why the planning of the regional planning plays important role in regional development process. Reason for regional planning is that it is a type of planning that is suitable for coordination between economic, social and physical planning studies. The need for regional planning is vital for transforming national development policies into local actions in response to local needs, traditions and customs. Such planning process for requires high quality knowledge as well as expertise and high level responsibility and commitment from the actors of the regional development. In next chapters author focuses on the regional actors which are taking a role in implementation of regional development plans and in the process of regional development.

Actors Defining Regional Development. The actors defining regional development is a chain which is linked to one another (look Figure 7).



*EU Commission works to supply funds for its regional development goals inside of the union under the Regional Development Fund. Although EU has undergoing projects in other countries of the world these projects are not supported by Regional Development Fund. So this block is not valid if the subject country/region is not a member of EU. Author believes since this work is comparative analysis of three member states EU Commission block should be in the figure.

Figure 7. Diagram of regional development actors

Source: Author's conducted.

As mentioned earlier regional development is a delicate process which requires a high level understanding on regions and the regional development policy planning. It is a great responsibility

to create a regional development policy because not only the businesses get affected by the results of the policies but also the citizens who are living in the regions.

First link of regional development is public administration bodies of the region who carries the largest responsibility. Public administration bodies are in charge of a number of steps when regional development process is discussed such as; goal setting, planning and implementing. Each connected to each other and one cannot be divided from others if the aim is to achieve regional development.

Second link is EU Commission. As mentioned before, disparities between regions in developed countries are not as large as in developing countries. This statement is very well valid for the developing member states in EU. So the EU Commission created the fund “Regional Development Fund” through this fund EU is trying the balance the unevenness of the regions of member states.

Third link is the non-profit organizations (hereinafter NPO’s). Many NPO’s are known for the social works they led. The main aim in NPO’s carry is raising budgets in order to find a solution to one particular or a group of problems. That is why they are very influential on policy making process in national and regional level.

Another link is the businesses. When it comes to businesses they do have a direct impact on regional development. As some researchers have enriched the literature by their researches (Forsman, 2011; Mckeever et. Al. 2014; Ribeiro-Soriano, 2017) their works have concluded one fact; in a case of long-term economic growth and prosperity is closely related to the entrepreneur participation in an economy. Since the main aim of regional development is minimize the imbalances between regions, businesses carry an important amount of responsibility. Especially the small and medium sized enterprises (hereinafter SME’s) are very important in regions to strongly develop in all fields including economy.

Lastly the universities come. Education is the most important part of development, not only regional but also national as well. Creating a well-educated future generation is the root of a successful development in any field. Universities by the education aspect are important actors in the regional development chain because they are responsible from training the experts in any field as future employers and employees. Also it is important to emphasise that in regional development process some public authorities implement a policy called clusters which is mainly the cooperation of businesses and universities in regions to create better quality and high tech products.

Formulating, Implementing and Goals of Regional Development Policy. If one could envision regional development, the term regional development would be similar to the sport of archery. The archer would represent the regional development actors such as; public administration, NPO’s, universities, businesses etc. Then the bow would represent planning of the regional

development process. The arrow would represent the implementation of the regional development plan and lastly the target board would represent the outcomes of the process. Each step is very important and equally requires expertise and attention.

Regional development policy requires careful investigations because each region is unique in its own way. Features such as historical background, population density and population age, education levels and interests, geographical conditions as well as political circumstances, infrastructural adequateness, economic background etc. plays an important role when formulating the regional development policy, implementations and setting goals for the regional development.

1.4. Activities of Free Economic Zones affecting regional development

Many countries establish FEZs as a public policy tool. Governments aim to reach specific goals through the FEZs in regional or national level. In this chapter author aims to create a detailed description to the relationship between FEZs and regional development, especially effects of activities of FEZs .on regions and their development processes.

Regional Development. FEZs aim to work in a zone as economic activity catalyser. As they are implemented in order to create an attractive region for the investors, local and national government spends more on the infrastructure of the region as well as the initiative business invests in the zone. Such infrastructure investments not only creates an attractive region but also improves the education, health, security of the region as well as roads, water supply, electricity supply, network and communication services and public spaces. FEZs require high attention from the policy makers because legislations and regulations call for observations.

As a political point of view in regional development public administration is closely related to FEZs because they are entitled with tax incentives. So the regulatory bodies and processes in FEZs are connected directly to the policy makers. In the pre-establishment phase of the FEZs, the administrative body of FEZs and government agrees on the field of economic activity. According to the field of economic activities, type of FEZs and their goals, strategic planning processes and regulations are structured (for the type of FEZs please see chapter 1.2.1 Typology of FEZs). The focus field creates a characterization for the region

FEZ's mainly keeps the usage of latest technology as a priority. Technological outcomes of FEZs are; high tech creates more competitive atmosphere for businesses which ends up creating higher quality products. High tech usage leads to better global communications and attracts more high tech user businesses to the zone. By the developments and improvements of the zone makes the region able to compete with other regions and become even more advanced than the others. As the cost of production lowers the profits grow higher and this creates an optimal gap for research and development activities. Innovation plays very important part in success of the businesses. The

success of the businesses is the success of the zone, the success of the zone means a more attractive and achieved goals in regional development.

Environmentally, it is quite easy to worry about environment as the production levels gets higher. As it was mentioned, FEZs promotes high tech production tools. Focus on high-tech tools is to use environmental friendly ingredients. While FEZs promote high tech tools their production process - which even with the lowest level creates pollution - they are bounded to pay environmental taxes to the government so this is also preventing the pollution to become high levels.

Regional Economic Development. In globalization point of view; a research emphasizes that with improved technologies the importance of the physical distances got reduced and this ended up showing the economic growth can occur in any place of the earth without any effect from the spatial factors which is a result of globalization; interregional incomes become more convergent (Ascani et. al., 2012). Partially agreeing with this statement, author believes that the process of globalization ended up over loading strategic regions and cities. Urbanization turned into a daily fact which deepens the regional disparities. So in contrary globalization has an effect on regions which turns them into more divergent units. Business activities increases and economic growth rate becomes higher and the cost of production raises in the more urban regions and cities which leads businesses to gravitate towards less developed regions to reduce the cost of production.

New economic activities in the host region create needs for new employment, which practically is corresponded by the local labour market. The efficient use of labour resources causes higher production levels. A report on regional policy about FDI suggests that the effects of FDI to the host region can be grouped in two; first is spill over of productivity and the second is the labour market impacts (European Commission, 2006).

Knowing by FEZs businesses benefit from incentives which reduces the cost of production, earlier it was mentioned that many businesses turns this into a higher level of advantage by encouraging the R&D activities. More innovative businesses create higher quality of products which end up raising the demand of the product. But this is not the only outcome of the R&D activities.

Another research suggests it is possible to expect gains from many different fields including: economy-wide efficiency through technology and knowledge transfer, sharing business practices and easier access to foreign markets that results in rises in production and increases in employment opportunities (Kersan-Škabić & Tijanić, 2014). Attracting local and foreign investors through entries of the new businesses to the regional economy creates a regional economic growth.

Also FEZs effects the regional economic development through the capital inflow. The increased capital inflow creates an increased aggregated demand as well as technological

improvements. Also it becomes easier to achieve goal of higher productive capacity by increasing the aggregated supply. It is important to emphasise that through the FEZs businesses are allowed to trade more freely. By this point of view, businesses tend to turn towards the international market. Through international trade the foreign currency also enters the economy of the region as well as the overall economy of the country which in economy is referred as the 'hot money'. With basic words it makes the national currency to be more competitive versus other currencies.

Attract Foreign Direct Investment. One of the main aims of FEZs is to attract FDI. Earlier in FEZs and their effects on regional development as well as their effects on regional economic development parts it was mentioned that attracting FDI increases the employment level via new local businesses. When the subject is the effects of FDI in host regions, it is important to emphasise that the FDI improves the disparities between regions and furnishes the host region with higher competitiveness. Efficient usage of the resources such as employment, technology and cost creates a higher productivity level by achieving the goal of increased value of the outcomes.

The FEZs also allows the investors to avoid the taxes, barriers and other tariffs which lead them to trade more freely. By avoiding some taxes, tariffs and barriers the investors obtain the chance to reduce cost of the production. This leads to the supply of better work conditions for the employees which motivate the workers to be more productive. FDI also create higher wages for the labour market. By FEZs investors also can benefit from the lower transportation costs and improved technology.

Ayyagari and Kosova (2010) suggest that the FDI and spill over effect is connected closely. Their work emphasise on the FDI has a productive impact on the host economy as the innovations in the local businesses becomes widespread.

Create New Employment Opportunities. FEZs effect to the labour market is direct. New employment leads to achievement of optimal level in production. FEZs allow the host country economy and the businesses to have a better quality in the production process. By efficiency of production process businesses get higher chance to meet the customer expectations. This means a higher value for product, business and also for FEZs. Higher connection between customers and businesses are promising for the future demand. This ends up expanding of the operations of the company. Bigger operation capacity at the end requires more employees and this creates an improved and easy access to the jobs for the unemployed people.

From another perspective the new employment opportunities ends up delivering higher consumer power to the employees. Lifestyle trends grow to be higher quality. Demographics are also affected by the FEZs because the FEZs creates also more attractive region for the other regions inhabitants as well as the less unemployment creates a better environment for family creation

process. Less unemployment in the end leads to less crime activities. The society as a whole improves its life standards.

Increasing the Level and Quality of Exports. Through FEZs regional business capacity grows larger. Attracting FDI and local businesses to the zone creates a bigger production level in the region which requires not only local-regional-national markets but also international market. As it is, almost all types of zones have a focus on international markets except enterprise zones (see Table 2). So the main idea when the FEZs are to be set as a regional development policy tool, the main policy objective is to boost the export levels and contribute to the regional and national economy.

Not only the level of exports but also the quality of exports matters (see Figure 8). There are many examples of the rural areas turning into popular and famous economic activity areas through FEZs. The Pearl River Delta in China is very appropriate example to this theory. Shenzhen FEZ is one of the FEZs in the Pearl River Delta. It is known with its industrialization process, high export numbers and shown as a success story amongst other FEZs.

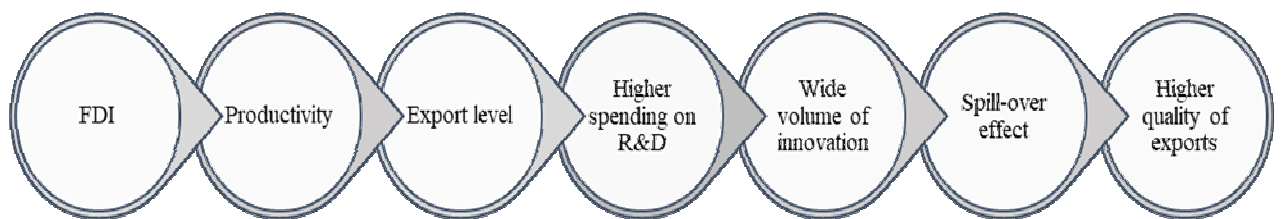


Figure 8. Process of creating a higher quality of exports

Source: Authors conducted.

For policy makers and their decision-making it may be important to know whether a country is obtaining high market shares from low quality products, or from high quality products (Vandenbussche, 2014). Creating an advanced export is dependent on quality of the products as well. From this perspective, to maintain the demand to their products, producers are obliged to keep it important to emphasise in this point that increasing quality of exports is a long term result which is achieved by the increased level of exports. FEZs in regional development process: firstly, attract the FDI, through FDI and other new businesses the productivity level of the region grows. If the focus market of the zone is international, the export levels grow rapidly. FEZs also encourage R&D activities as well as innovation. Chapter 1.2.5 urges upon the spillovers and its outcomes in the region. As the new knowledge, new ways of production processes and the new technology spreads around the region the quality of the exports grow higher.

Growth of Local Added Value. In history of FEZs it is quite common to find examples of regions or cities which were urban and less developed before the establishment of FEZs and it was expected that these regions or cities would become ghost towns. Somewhat FDI attraction policy

through FEZs turned the situation upside down and successful implementation created a centre for various economic activities in these locations. Implemented successfully the FEZs are able to create higher local added value in the host region in terms of reputation.

Perhaps first and most important example to creating a growth in local added value theory is China's Shenzhen SEZ (synonym of FEZ). As a result, against a national average annual GDP growth of roughly 10 percent per year in 1980–1984, Shenzhen grew at a phenomenal 58 percent annual rate (Yeung et. al., 2009). Shenzhen is referred as a hub of high-tech design and manufacturing in the world. Variously called the “world's factory”, “the new Silicon Valley” and the “maker's dream city”, Shenzhen has a complete ecosystem that contains everything needed for all stages of electronics production all in one place (Forbes, 2016).

In the following chapter, author gives insights to the methodology of this research. For creating a novel study empirical part gives information about what kind of logic is followed by the author as well as the data collection and analysis methods.

II. METHODOLOGY OF FREE ECONOMIC ZONES' IMPACT ON THE REGIONAL (ECONOMIC) DEVELOPMENT IN BALTIC STATES

This chapter aims to explain the strategical steps of the research. Various methods have been used in order to create a clear vision of the research. The entailed details in this chapter are the theoretical background to the empirical research, research strategy and design.

Then chapter focuses on the quantitative approach to the empirical research and its research methods along with its instruments, sample, organization of research and its ethics along with the analysis of results of the research.

Lastly chapter sets the sight on the qualitative approach to the empirical research and its research methods along with its instruments, sample, organization of research and its ethics as well as the analysis of results of the research.

2.1 Theoretical background of the empirical research

This research deals with the FEZs phenomena in Baltic States. While creating a reliable data, the author acknowledges the contributions of other researchers and their academic works. Therefore this chapter presents some of the earlier researches and strategy they preferred in order to achieve the goals of their research and answer the research problems. Main obstacle here is that when the subject is narrowed down to the Baltic States, it is clear that there are no significant works which was led by earlier researchers about the FEZs. While this influences to the novelty and significance of the research positively, it also causes certain problems about the subsequent literature review.

Also while reviewing the literature review; it is clear to see there are many works which are handling FEZs in many different points of views as FEZs around the world. In this chapter, author presents information about background to the theoretical researches about FEZs.

One of the leading works on FEZ phenomena is a book named “Special Economic Zones - Progress, Emerging Challenges and Future Direction” (Farole & Akinici, 2011). The main aim of the book is to explore main policy issues and present it to the use of policy makers. The strategy of the scientific paper is combining theoretical discussions with practical examples from the field through the use of case studies from countries around the world. The methodology is mixed as the book suggests qualitative and quantitative data from sample. The advantages of the methodology are; the work presents many case studies, for the reader, it is very convenient to see many empirical data and results and to be able to understand what were the misled FEZ policies which was led by the individual countries from the sample group.

Other leading work was led by ILO (2014) “Trade Union Manual in EPZs” the work focuses on two challenges; engaging in the policy debate with governments on EPZ (a type of FEZ) policy,

organizing labourers. It is a descriptive work on FEZs which is combining mixed methods in order to show the current situation in FEZs and to construct new approaches that combine the needs of FEZ policy. The sample of the quantitative data was some socioeconomic indicators. The mixed methods of research were adopted in order to combine the quantitative data with some qualitative data which is focusing on social indicators through data collection method.

Another work in the field is “The Impact of Special Economic Zones” (Criger, 2013). The work mainly focuses on the evaluation of the problem “Does FEZs improve individual’s lives or not?”. The target groups identified as middle and high school students. The work adopted quantitative research to conduct empirical data. The sample was chosen such as: population living below the poverty line, percentage of child labour, GDP per capita and economic growth level. Strategy of the work is to compare the collected data from before and after the implementation of FEZs and conduct the results according to the data. The instruments were chosen as data collection and interview methods.

Literature also includes some comparative analyses led by scientists. One of them is “A Comparative Analysis of Free Trade Zones - the Case of Nasr City” (Hamed, 2014). The work is done as an ethnographic research; the case is investigated as both an experimental tool and it is a descriptive case study. It shows how the nature of FEZs, their policies and structural organizations can result in changes on different scales.

“Has the Special Economic Zone Approach Improved Ghana’s Competitiveness in the Global Market?” (Kutin-Mensah et al, 2017) in the other hand examines if the implementation of FEZ model have made any changes on the outcome of the trade patterns in Ghana by analysing the number of economic indicators as well as particular indexes. The work consists of comparative analysis of selected products shares in the market, conducting the answer to the question; which one has more advantage on selected products as well as index and other economic indicators comparison.

For further details there are quite few works focusing on more in legal scope rather than economic scope such as, “Special Economic Zones in the United States: From Colonial Charters, to Foreign-Trade Zones, Toward USSEZs” (Bell, 2016) on the other hand focuses on the historical development of the FEZ phenomena in more political and judicial point of view. It is describing the next generation of the special jurisdictions of FEZs located in United States of America. The work consists of qualitative data from the field. It was collected through data collection method. Another work is “Judicial Justice for Special Economic Zone Land Resistance” (Bedi, 2015). This work focuses on the land resistance in India against the FEZs and public conflicts causing from corruption. The research sample is ethnographic fieldwork led in one year. The work adopts

interviews and surveys as its instruments. Here aim is to draw a logical schema for intervention to the changing patterns according to the empirical data collected from inhabitants.

The main aim of the author while choosing mixed methodology is that research have proven that many researches enriched the literature more successfully than others by using mixed methods. Also author believes, to show FEZs impacts on economy is hardly possible without both quantitative and qualitative researches and even if possible it would be meaningless to show facts without reasons as well as showing reasons and not the outcomes.

2.2 Research strategy and design

The research is designed to contribute to the literature of the focus topic for the future policy-related activities as well as future researchers. For this author uses both qualitative and quantitative research methods in order to create concrete results.

The mixed methods strategy has been selected for the research. The main idea of the research is to collect data for the empirical perspective of the selected topic. As principle to the research author collects data and then creates a sample from the target group which are all types of FEZs in Baltic States.

To create this research, author takes particular steps to create a logical and comprehensible research. First step is taken as investigation of the topic, for the novelty of the research this step carries importance in order to understand value of the topic in the literature as well as contributing the literature through creating a unique work. Second step is taken as the selection of the proper topic, creating the basic outline of the research and decision on the methodological requirements for the research. Next step is taken as literature review, finding appropriate references and sources in the selected topic. Another step is taken as the grouping of the related data collected through literature review. Following step is taken as formulation of the research strategy and the outline of the research as well as selection of the sample group which is done by non-random convenience selection considering the distances between the regions and zones. Sixth step is taken as creation of the quantitative research using secondary data analysis to collect data about economic indicators from the sample group as well as the selected countries and then uses descriptive statistics for the analysis of the collected data. Next step is taken as creation of the qualitative research and using the oral survey (semi-structured interview) for the qualitative data collection of the empirical part from sample and then uses categorization and interpretation for the analysis of the collected data. Lastly follows creation of the research using all the data collected through these steps (see Figure 9 for visualization of the research).

The research's focus consists around the key terms, regional economic development, FEZs, Baltic States. As there are many articles and researches with the focus of FEZs and its types

individually, there is no previous research found focusing on the FEZs impact on regional economic development on Baltic States. This research aims to fill in the gaps in the literature.

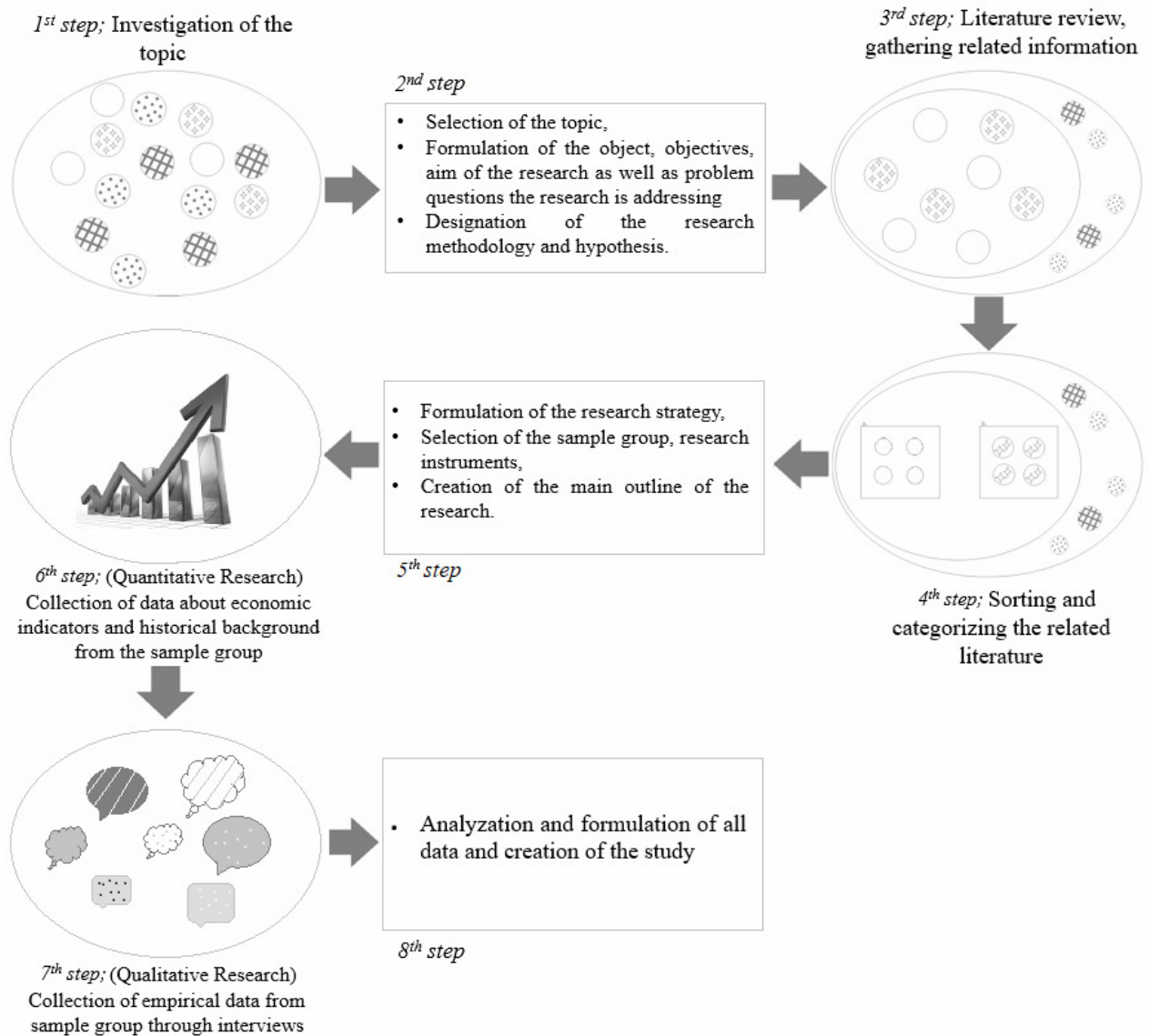


Figure 9. Visualization of the research strategy and design

Source: Author's conducted.

2.3 Quantitative empirical research

This research adopts quantitative for empirical data in order to gather the numerical data regarding to the issue of the research outline. Using quantitative research author aims to emphasise the statistical, mathematical information collected through pre-existing data and data collected through the interviews using computational techniques.

The quantitative research allows the author to focus on the economical perspective of the regions in Baltic States and the FEZs in these regions. The quantitative research carries a vital

importance as the research aims to see the impact of FEZs on regional economic development in Baltic States.

Using quantitative research conducts a highly reliable data which is helpful to create solid empirical predictions on the current circumstances in the sample group as well as the Baltic States. Qualitative research provides the numerical data which is pre-existing and uses the data in order to create a descriptive statistically trustworthy method in order to answer the research problems.

2.3.1 Quantitative research methods

The method author prefers is the secondary data source analysis in quantitative research in order to conduct the empirical data from chosen sample. The mode of the secondary data source analysis is formal data sharing, where author uses the existing data which was analysed in databases and re-use them in this work. Data collection aims to identify the variables which are being measured and obtain them in order to create the quantitative part of the research. The data analysis refers to procedures author goes through to create a systematic and a causal empirical data between two or more variables in order to address the problems of the research.

2.3.2 Instruments of the research

In order to construct the quantitative part of the research, author collects data about some socioeconomic indicators (for social and economic indicators please see Table 3). Creation of the quantitative data in this work carries a big importance as the thesis focuses on the importance of FEZs in the regional economic development in Baltic States.

Table 3

Table of economic and social indicators that are subject to the thesis*

1) GDP	2) GDP per capita	3) GDP growth rate	4) Unemployment rate	5) Inflation rate
6) Level of Export	7) FDI of GDP	8) Exports of GDP	9) EQLS	10) HDI
11) Population changes	12) FDI	13) Current account balance	14) Growth rate	

Source: Author's conducted.

The indicators which are selected as subject are given in the Table 3. Through these indicators author aims to create a solid understanding of the real economic and regional situation of the Baltic States in various levels. The indicators are selected in order to successfully achieve the aim of the research, which is set as 'to reveal the importance of FEZ for regional economic development in

Baltic States'. The main source of the data collection is chosen as the reports, books, documents; statistical data which is calculated by the earlier researchers, scientists and statistical institutions.

2.3.3 Sample of the research

As the FEZs in Baltic States are located in various locations and the quantity of the FEZs is relatively large, author determines a sample group which research is focused on. Author chooses one FEZ from each state to collect the data about

The FEZs are selected according to their socioeconomic backgrounds. Purposive selection sampling strategy is chosen for the research. It makes it useful as there are many types of FEZ, author works on the same types of FEZs from each state.

Table 4

Table of sample selected by the author for the quantitative part of the research

<i>Country</i>	<i>Region</i>	<i>Name of FEZ</i>
Estonia	Sillamae	Sillamae Free Zone
Latvia	Liepaja	Liepaja Special Economic Zone
Lithuania	Siauliai	Siauliai Free Economic Zone

Source: Author's conducted.

Main motive while selecting the FEZs from Baltic States can be expressed as follows; author believes in order to address the research aim correctly, FEZs should be selected from cities which are not capitals, not the most urban areas also not known as the business centres of the Baltic States. Cause in that case the data and statistics may have been misleading in terms of population change, GDP, levels of export and import, unemployment level, FDI. So author prefers FEZs in regions which are less developed comparing to the other regions in their home country in order to understand the importance of the FEZs in those regions, cities.

The main objects of quantitative research are to find out about the real conditions of FEZs and the socioeconomic indicators. The indicators are used in order to create a logical schema for the research. This research focuses on the indicators given in Table 3 for the last 10 years.

2.3.4 Research organizing and ethics

The data is collected through the secondary data source analysis which works with the data collected and processed by earlier researchers or scientists in their reports, books and documents. After the selection of the topic of the research while preparing the outlines of the research, the author elected the related instruments of the research which the data is going to be collected about. Following the theoretical part, analysis of the related documents, books, reports and databases is done and during methodological part of this research. Author selected the sources of data which is

conducted by earlier works. For the National Level data collected through Eurostat, OECD and national statistics institutions as well as earlier scientific papers about the Baltic States for each country individually. For the Regional Level data collected through earlier scientific papers and researches that focuses on the same field accessed through Siauliai University and University of Pardubice Libraries online access, documents, books and reports that are available online, Eurostat, OECD databases as well as national statistics institutions of the Baltic States for each country individually.

Data accessed through the mentioned sources are collected on the third part of this research which is preparation of the empirical part. Due to the providing the most reliable research author uses the latest available and real data. The idea of latest data is to strengthen the empirical part by using the newest data in terms of structuring a solid representation of the current situation of the FEZs in Baltic States. Real data is used by the author for the reliability and the validity of the research.

2.3.5 Results analysis

Quantitative research consists of the data collected about the socioeconomic indicators (for social and economic indicators, please see Table 3). In order to conduct a systematic analysis for the collected data, author uses firstly categorisation of the data. In this part the collected data can be categorized as national scale data.

Analysis of the collected data secondary data source analysis method is expected to provide a legitimate representation and analysing of the FEZs in Baltic States. Author applies the descriptive statistics methods in order to analyse the quantitative data. The following data was processed by author using MS Excel 2016 and IBM SPSS 24 (Statistical Package for Social Sciences) software; calculation of the economic indicators, percentage expression of the social and economic indicators, comparison of economic indicators between FEZs as well as regions and nations. It is important to emphasise in this part that analysis of the data is not only numerical or dictated but also visualized by the mentioned programmes via graphs and tables.

2.4 Qualitative empirical research

In this scientific research qualitative research methods are adopted in order to collect the evidence from FEZs in Baltic States and to produce the non-determined data by earlier researches. The main reason to selection of the qualitative research is that by using this method author aims to construct a textual description about the FEZ experience in the Baltic States under regional economic development point of view as well as to explore the FEZ phenomena in Baltic States.

Qualitative research is chosen in order to create an understanding to underlying causes and motivations of the FEZs in Baltic States and their impact on the regional development to their host region. Through qualitative research author aims to provide insights to the conditions and problems of the implementation of the FEZs in Baltic States and to develop ideas for the quantitative research.

The qualitative research also is used in order to understand the reasons of the current situation of FEZs in Baltic States as well as its interaction with other regional actors. Qualitative research also is helpful to describe the numerical data quantitative research has provided, which is the main reason the mixed research methods have been chosen from the beginning of the research.

2.4.1 Qualitative research methods

Author follows oral survey method in order to collect the empirical data from sample group in Baltic States. The main reason for interviews is that author believes that it is optimal for collecting data for each representative who provides the latest data along with individual experiences from each state and zone.

2.4.2 Instruments of the research

In the qualitative research method author uses the semi-structured interview (copy of the interview questions can be found in appendix) instrument which provides empirical data about the policy objectives. The purpose of usage of the semi-structured interview is this method allows author to chance to look for deeper information if necessary and it entitles the author with the freedom to follow a new line of inquiry regarding to the direction of the interview. The interview structure is carefully designed by the author regarding the research problem questions 3 and 4 by finding out about the real situation of the effects of FEZ implementations in Baltic States.

2.4.3 Sample of the research

As the FEZs in Baltic States are located in various locations and the quantity of the FEZs is relatively large, author determines a sample group which research is focused on. Author chooses one FEZ from each state (please see Table 4) and performs the interview with; representatives from administrative body of the selected FEZ.

The FEZs are selected according to convenience to the author. Non-random convenience selection strategy is chosen for the research. As there are many types of FEZ, author works with one zone from each state.

The research collects the empirical data from FEZs in Baltic countries as well as some socioeconomic indicators such as; policy objectives of FEZs, main factors when governments are

setting FEZs, regional development goals of FEZ and their strategy to achieve them, focus sector of FEZs, its interactions with regional development actors, challenges for future activities of FEZs and future development possibilities. Sample consists of three informants from each Baltic States FEZs. The interviewees are selected according to couple of criteria's, such as:

- 1) Informant is a part of administrative body of the FEZ,
- 2) Informant is working in the field not less than 6 months.

According to this criteria, three informants were selected as following:

- Expert from Sillamae Free Zone
- Mr. Gatis Ginters from Liepaja Special Economic Zone
- Mr. Arturas Klanguauskas from Siauliai Free Economic Zone.

2.4.4 Research organizing and ethics

Author connects the informants from each states' FEZ through mail or phone calls. The author gives the important information about the thesis and the empirical part. It is important to put emphasise on the part that the informants fully obtained by the knowledge of the scope of the thesis and they are ensured that the data collected by the interview is only going to be used for scientific purposes within the research ethics frame. Before, after or during the interview, the interviewees have not been harmed physically, psychologically or via their vocation or future employment. Interviewees are given the required information in order to make an informed decision about whether or not they wish to participate in this study. In order not to cause invasion of privacy, each informant is given the chance to decide if they prefer to be preserved in terms of their privacy. The research is presented to interviewees as it is and there are no involvements with any kind of deception.

The intended period of one interview is in between 20-40 minutes. In some cases the direction of the questions become deeper and the interview took longer than intended. This is caused by the semi-structured interview as data collection instrument. Due to the convenience of the online channels and distances between the countries, 2 interviews are organized through Skype video calls and one is organized through face to face interview.

The interviews are recorded and the usage of the collected data through the qualitative research is limited within scientific basis and only used for the scientific purposes. This not only creates a trust relationship between interviewer and interviewee but also assures the interviewees for their confidentiality with the data they have provided to the interviewer. As mentioned, each informant is given the chance to decide if they want their personal data (such as name, surname, position and years of experience) to be presented in the thesis or not. While two experts accepted to reveal their identities, one expert preferred not to reveal their identity and author guarantees their

confidentiality by using only “expert” label. The interviewees are given the right to refuse the recording of the interview through electronic devices. No interviewee is forced within any terms to give an interview to the interviewer.

2.4.5 Results analysis

Qualitative research consists of the data collected through the semi-structured interviews. In order to conduct a systematic analysis for the collected data, author uses firstly categorisation method of the data. In the first part the data collected from the interviewee about the FEZ they work is investigated and divided in 3 main category:

- 1) Data about the FEZ
- 2) Data about the host country/region economy
- 3) Data about regional economic development.

And later the categorised data is analysed through the interpretation method in order to understand the findings and linking the findings to the data conducted by the quantitative research method. The main idea here is, as it was pointed earlier in the methodology chapter, to create a vision of the real circumstances of the FEZs in Baltic States and to analyse the underlying reasons as well as addressing the future challenges for their operations.

III. RESULTS OF THE RESEARCH OF FREE ECONOMIC ZONES' IMPACT ON THE REGIONAL (ECONOMIC) DEVELOPMENT IN BALTIC STATES

This research is based on three main chapters. As earlier chapters laid emphasis on theoretical and methodological aspects, this chapter consists of the empirical part of the study in order to form a logical and novel research. This chapter starts with the analyzation of the economic situation in Baltic States first; to create a better understanding in readers mind about the countries and adverts and compares the economic indicators while trying to enlighten the reasons behind some facts. Then continues with more specific subject after the economic analysis of the states; research lays emphasis on the activity and goals of FEZs in Baltic States. The next step; as mentioned in the methodological part, the research deals with the analysis of results of interviews on the economic impact of FEZs on regional development. As it was mentioned in the introduction part; this research is expected to add the literature as a guideline for the future researchers and the policy makers, therefore this chapter lastly addresses to future activities of Free Economic Zones for the strengthening of regional (economic) development.

3.1. Analysis of the economic background in Baltic States

After becoming EU member states, Estonia, Latvia and Lithuania have been seen as one region by EU as the countries share background in many fields. The economy of the Baltic States was not as strong as the other member states because they share a long history of being occupied by more than one forces. The states carries the importance by this point of view because no other member state was occupied by Union of Soviet Socialist Republics (hereinafter U.S.S.R.). The EU have taken special steps for remedying the economy of the Baltic States, which was damaged by occupation of other states through history, in order to help them reach to desired level of success in means of economy. To create a solid analysis of the economic situation in Baltic States, author believes it is important to lay emphasis on the historical background of the three states.

Regaining their independence from USSR on 1991, Baltic States have had many policy steps that needed to be taken. Through the occupation period, the states were fully under control of the USSR and trade was focused mainly to the east. Three states were under control in terms of economics, including production and trade. Although the main reason of USSR was to be able to create an economy which can provide prosperity to its residents the ideology of USSR was not working as it was planned to work. Through the mid-1980s it was obvious to even the most doctrinal political leaders in the USSR that the command economy did not produce anything but shortages and poverty (Erixon, 2010, Grigas et. al., 2013). While the USSR was running around in

circles, the western world kept advancing and creating higher prosperity through the well-functioning policies such as economic policies and alliances with each other.

Regaining independence from USSR was a hard and crucial process for Baltic States. Given the losses and the chaos caused by the USSR trying to suppress the Baltic States and get the control of them again ended up becoming a bittersweet victory of the Baltic States. To gain independence from USSR was not enough, the three states experienced it earlier by being occupied by other forces many times, which is why Baltic States have more than one Independence Day celebrated as a national holiday in one calendar year. The most important part was to maintain the independence. The countries were very focused on the idea of not getting under the occupation of other forces so they worked on the policies which would protect them in some ways. Right after the Independence was regained from USSR, in 1991, the Baltic States membership was approved to the United Nations. The 50+ years of experience with the communist governance damaged the Baltic States not only political and social point of view. But damage that the hardest to remedy was to the economy of these states. As it was mentioned, all those years under the political power of USSR, the states were obliged to focus on east with a number such as 90% of the trades were done within the USSR (Erixon, 2010, Grigas et. al., 2013).

The transition from the communism to a liberal and democratic system was hard enough but then other crises have arisen. After the decomposed USSR, Russia's economy transitioned from communist controlled to the free capitalist system. The foundation of the rouble was shaken into ground because the fixed exchange rate was in history. The agitation ended up creating a continuous high inflation because Russia had no other options than printing more money to meet the expectations of higher salaries. This also has influenced Baltic States. The Baltic States regained their independence in August 1991, but kept using the Soviet rouble, as did the other countries that emerged from the Soviet Union (Staehr a, 2015). The following years the main agenda of the policy makers was to deal with the hyperinflation, but also the creating a monetary policy with or without Russian rouble. Through the period it was not seen as smart decision to change the rouble with the national level currencies because then Baltic States were newly independent countries after long years of occupation. Changing the currency requires expertise and advanced implementation skills from the policy makers which Baltic States did not have 100% so. Also for the first period it was hard for the Baltic States as their main trade partners was either each other or the former USSR member states that were also still using rouble. Changing the currency would only be smart if the policy makers would be sure that the new currency would not be affected from the same trend as rouble did.

Because of their turmoil background with Russia, Baltic States turned their route to west and implemented policies in order to create a distance with Russia. Through following years, zones with

economic incentives was only one of the many remedy policies in order to attract FDI, create a strong economy as well as establishing new and strong relationships with other western countries and unions in terms of economy and alliances. Halfway through the 1990's the Baltic States' economies were already contributed actively by other countries. There was already formation of FEZs in order to attract FDI into their economy. Foreign trade became increasingly oriented towards trading partners in Western Europe, aided by the restructuring of their economies and large inflows of FDI (Staeher a, 2015).

On the 2nd year of their application, in 2004, three states were accepted to firstly to NATO and then to EU membership. Although in terms of accepting memberships NATO and EU is not bounded to one another, right after NATO acceptance, states became the EU members. Becoming member states not only created the obligation to have more stable economies but also turned states into more credible for the FDI and created a basis for bigger volume in trade partnerships within union. Accession of EU membership had a positive impact on the economies of the states. EU was funding the development policies of these states. FEZ policy was one of the policies funded by EU in order to attract FDI. Because the FDI inflows can play a significant role in increasing and enhancing the supply of funds for domestic investment in the host country (Belloumi, 2014). Main duty that EU took over was to create funds for Baltic States to improve infrastructure so that they would become more attractive for the foreign investors. Because after their independence, free market economy, constitutional democracy and civil liberties have triumphed and again brought civilisation and good institutions to Baltic States (Erixon, 2010). They were just in need of new policies in order to have stronger economic relations with other states.

The Baltic States were very dedicated to catch up with the developed countries of the EU. Through their dedication and successful implementations of new policies (many focused on stabilization, liberalization, institution building and privatization), it was bright and clear that Baltic States had their prime time after all the criticism about them being deceased without Russia's help. In fact, in the following years of their EU membership they became focus of interest in terms of their economic growth in comparison to the member states. The three Baltic countries showed a relatively prominent economic growth, therefore their performance over these years often cited as Baltic Miracle (Mező & Bagi, 2012). That made them more attractive in the international trade. They were even the fastest growing economies in the EU from 2004 to 2006. Often they were called as Baltic Tigers, due to their pace of successful real economic growth which was around 8-10% (for details please see Figure 10) until the economic crisis that hit almost all economies in the world.

Although their economies were quite promising in the following years of their EU membership, the economic crisis during late-2000's, so called Great Recession affected the Baltic States' economies as many other developing and emerging economies felt the deleterious effects of

the US recession by the end of 2008 (Verick & Islam, 2010). As a crisis on a global scale, it had many outcomes on the Baltic States even when economic growth extent of the states were successfully implementing new policies and strategies before the recession such as FEZs policies to make them more stable by attracting FDI and generating new economic activities.

Many economists and researchers agrees that their new implementations were not enough to cover up the structural and macroeconomic imbalances such as financial and economic activities and the lack of FDI activities within their borders. Their FEZs were not attractive enough to create inflow of FDI within their economies. Even when their success was acknowledged by many, there was contradictions to their success; researchers identify them as 4 main signs (Meisel, 2009; Mező & Bagi, 2012):

- The large and rising deficit in the balance of payments,
- The lack of economic activity except Estonia,
- The lag of productivity growth from growth in incomes,
- Getting supported financially by external loans because of the low levels of savings except Estonia.

Because of these signs and many more, Baltic States were bounded to be affected by any crisis let along the global crisis, where even many developed countries stumbled. Even when they were getting a lot of help from EU the Baltic States were hit hard by the crisis.

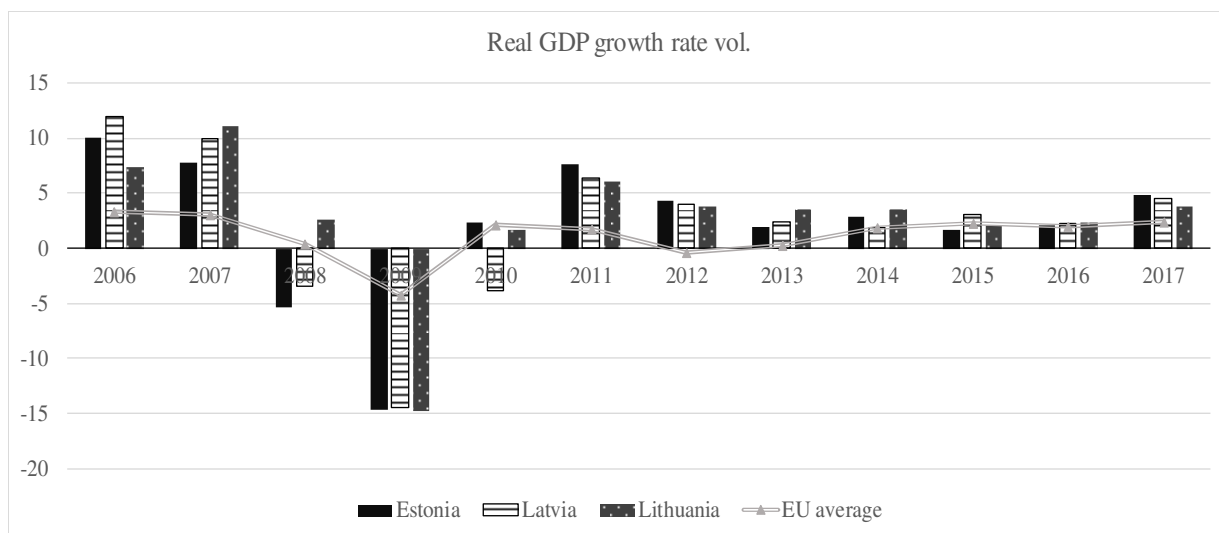


Figure 10: Real GDP growth rate in Baltic States during pre and post crisis period (2006-2010)

Source: Author's conducted based on Eurostat, 2018

As mentioned, Baltic States were many times centre of economists' attention, due to their fast growth rate in GDP volume. During 2008 all three states had a big drawback as the outcome of the recession. While Estonia and Latvia had negative economic growth rate, Lithuania maintained slightly above the EU average. Many economists underestimated the scale of the crisis and

expectance was that, during 2009 global economy would recover. Only that was not the case, 2009 was actually the year when many countries felt the harshest impact of the Great Recession. All three Baltic States had negative rate below the EU average, which was also negative. Even EU economy –in terms of the size in global economy– was highly damaged by the recession period. Many countries including Baltic States had FEZs which aimed to create a GDP growth within state but the crisis hit almost all countries and they had to go for the austerity policies in economy. Although the economy of the EU depends on the economy of the member states GDP growth rate volume is a quite reflecting indicator because it helps to see the impact of the recession period on the EU economy overall as well as on Baltic States.

Although after becoming members of EU it was expected that inflation rate would be stable or decreasing, the inflation was at constant rise during pre-crisis period in Baltic States (please see Figure 11). During 2009 while Estonia’s inflation rate dropped below EU average, Lithuania and Latvia remained above EU average, still with a lower level compared to 2008. Then during post-crisis term, the inflation rates was still at low level even negative in Latvia. The decreased inflation rate in Baltic States caused by mainly abrupt drop of domestic consumption.

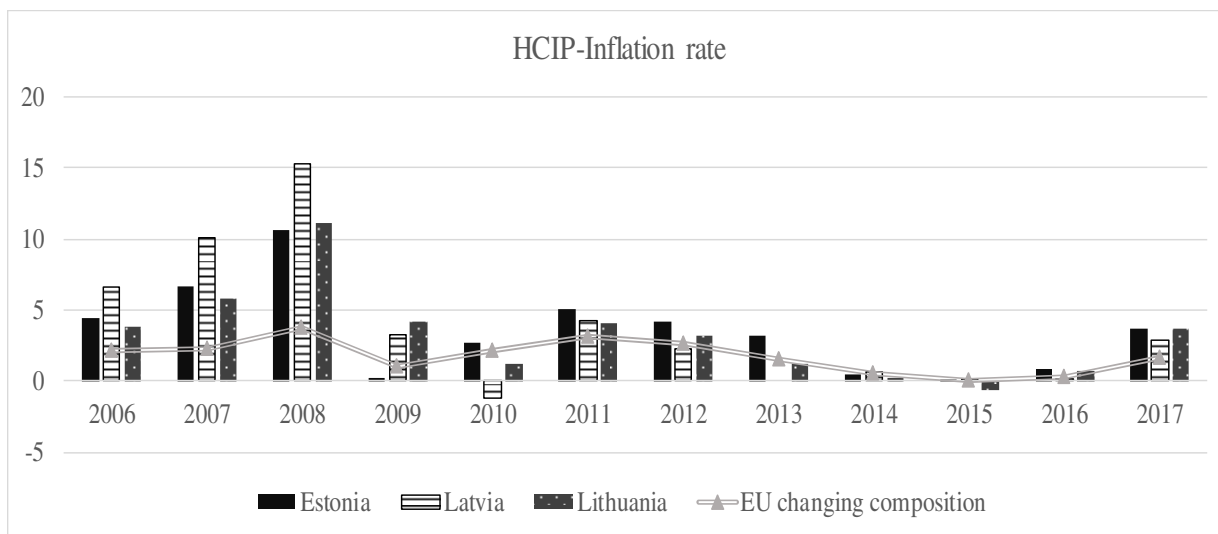


Figure 11: Inflation rate-HCIP in Baltic States during pre and post crisis period (2006-2010)

Source: Author’s conducted based on Eurostat, 2018

The economies of the three states were highly dependent on the construction sector, as the US real estate bubble affected all world, the real estate become hardly affordable in these three states and this ended up causing the most observable job losses in construction sector. Numbers were so high in 2009 36-42% of all lost jobs came from the constructions (Masso and Krillo, 2011; Mező & Bagi, 2012).

Table 5:

Table of exports of goods and services (% of GDP) during pre and post crisis in Baltic States (2007-2016)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Estonia	%63.1	%66.7	%60.8	%75.0	%86.5	%85.9	%84.3	%82.5	%78.6	%78.9
Latvia	%38.4	%39.5	%42.6	%53.6	%57.8	%61.3	%60.3	%60.7	%60.4	%60.0
Lithuania	%50.3	%57.1	%51.9	%65.3	%74.9	81.6%	%84.0	%81.1	%75.8	%74.4

Source: Author's conducted based on World Bank, 2018

As mentioned before, the crisis had impacts on almost all developed and developing countries. Although the scale of the crisis was felt in different levels in every region and country, almost all who got affected went for the restricting the domestic consumption. Many countries took measures including minimizing their imports. So even though there were FDI attracted to the countries with or without FEZs, countries were having hard time because of these precautions. And then again, the economy of the Baltic States was dependent also on their exports (please see Table 5). Many foreign investors chose Baltic States because they were only new members which made them an attractive region in terms of their low cost production advantages. Plus FEZs were providing even more advantages by excluding foreign investors from some taxes and customs duties.

As a resulting impact of the crisis, in 2008 the inflation rate become to its summit for each state as well as EU general. Three states have been exposed highly to the crisis -especially Latvia-, both national government and international forces such as EU, IMF and World Bank were working on the policies and the supports that Baltic States needed. Latvia had the most prompt attention considering the impact of the crisis had on the economy and the politics of the country. The economic stimulation within Latvia was not quite enough to manage the crisis, so EU, IMF, World Bank and Nordic States pooled up an economic fund for the country (IMF Survey: Latvia Caught in Vicious Economic Downturn, 2009). The main idea was to create a policy capsule and the required fund for Latvia, in order to help with economic crisis management.

On the other hand, Lithuania the case was not as urgent as it was for Latvia. The country managed to keep implementing its' policies during 2008 and 2009. Lithuania did not needed special assistance or funding for the first year following crisis, although EU created a policy support for Lithuania in order to fight with country's high deficit problem. Policy makers went for restrictions on the value added tax and the decrease on public sector workers and politicians wages along with other limitations. As the conditions were not as bad as it was in Latvia, after many policies, country

managed to deal with the outcomes of the crisis and at 2010 returned to positive GDP growth rate along with Estonia, while Latvia's rate remained negative (please see Figure 10).

Between Baltic Tigers, Estonia always seemed as it was the most successful managing the impacts of the crisis as well as maintaining the most solid economy after crisis. For Estonia managing crisis was not as hard as it was for other Baltic States. The government did not need special assistance program from EU or other international forces. Although even it was not as pressing as other Baltic States, Estonia also had to take austerity measures and followed some monetary and fiscal policies in order to fight with the outcomes of the crisis. However, even though austerity has played a role in economic recovery in the Baltic States, it is important to recognise that on the one hand, the factors that determined the relatively successful recovery were specific to the region and the countries (Maslauskaite & Zorgenfreija, 2013).

It is important to emphasise that while after crisis, Latvia and Lithuania postponed the adoption of Euro, Estonia managed to fulfil the requirements to become first in Baltic States to enter Eurozone on 2011, following Latvia on 2014, and lastly Lithuania on 2015.

Adoption of the Euro has been discussed bringing advantages as well as disadvantages. In theory single European currency aims to stimulate trade activities and prevent loss of the money while it's being exchanged also encourage free movement of goods, people and capital within Eurozone. Although in some cases Euro was criticized having negative impact on some economies. The fact that European Central Bank is in control of the Euro and can behave as a national government in terms of monetary policy making is seen as negative impact by many researchers. Other disadvantages can be defined as; fiduciary character of this currency, the creation of a supranational monopoly of the European Central Bank, an excessive centralization of decision-making in the European Union, the suppress of freedom of choice of the Europeans citizens in monetary affairs (Mursa, 2014).

The most important concern of the Baltic States while adopting the Euro was and still is that it would have an impact on the low costed production advantage of three countries. After all, their economies are highly dependent on their foreign trade and their development is dependent on the foreign investors. Losing the advantage of low labour cost would impact their foreign investors negatively and FEZs would be hit by the impact, losing its investors as it would no longer be beneficial for them to do production in Baltic States. It was many times criticized that the adoption of Euro would rip that advantage from them and make them less attractive to the foreign investors. In this case the condition of their FEZs would change drastically, even while they are providing some tax incentives. Because with costs getting higher investors turns their route to other states, which is one of the reason the foreign direct investment phenomena exists. Investors take their chance of investing in lower costly regions of the world because the cost in their home countries are

relatively higher. Except Estonia, that is why along with other reasons, Latvia and Lithuania postponed the adoption as much as they could. But it is possible to say that the process of losing the low cost advantage is long term.

Although adopting Euro does not bring only negative consequences. Currently all three states are members of Eurozone, which makes them more stable and attractive for the Eurozone member investors. Adopting Euro, Baltic States also expected that it may help them attract foreign investors more actively to FEZs and to the countries in general because possibility of devaluation is ruled out. They are easily presumed as small scale economies in terms of the size of their economy with other developing countries. GDP is one of the most commonly used indicators for evaluating the national economic activity of a country. Looking the size of their economy (please see Figure 12) it is possible to see that the countries are growing -except the crisis term- constantly.

Although looking only at GDP is not quite clear indicator in order to compare the economies of the Baltic States (creating a real representation is most reliable with GDP per capita), it is important to show the sizes of the countries' economies and how they evolved through time. While economy of Baltic States were growing in a fast pace pre-crisis period, their growth slow down and it was until 2012-2013 that they did not made progress from their pre-crisis size. Since crisis impacts have been restored in 2013, their GDP's are at constant rise. This was one of the reasons the governments and EU wanted to implement FEZ policy within Baltic States, so that they could reach the level of other developed member countries in terms of their GDP.

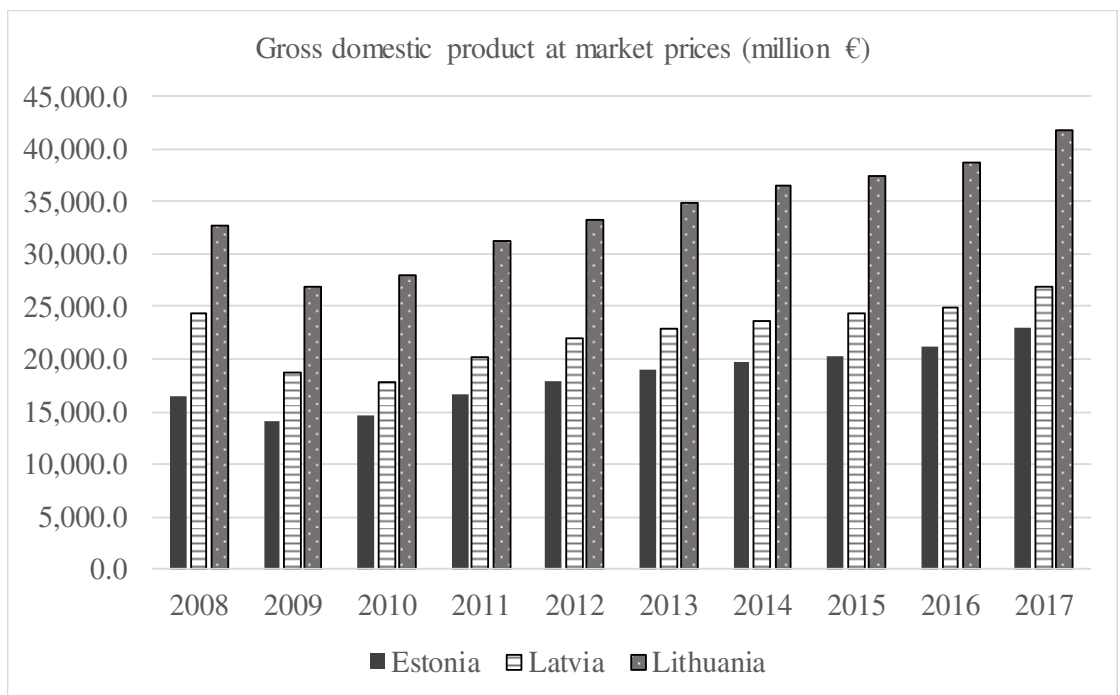


Figure 12: GDP at market prices in Baltic States (2008-2017)

Source: Author's conducted based on Eurostat, 2018

As mentioned earlier, real GDP per capita is more reliable indicator if one sets aim of comparing two or more economies as it represents the division of the GDP at market prices to the population. Although in figure 12 Lithuania seems as if it has the highest GDP, by looking at GDP per capita it is possible to see that when population gets involved, Estonia takes over, then Lithuania, lastly Latvia comes (please see Figure 13). During 2008-2009 the GDP per capita was decreasing with the impact of the crisis but since then it is increasing. Also it is possible to see that the countries did not get to the level they were at pre-crisis until 2014. It is possible to state that the countries have similar economic backgrounds, but at the same time it is clear to see that small differences ends up making big impact when comparing economies of the states. Evidence can be sought from Central and Eastern European countries where FDI is seen as one of the main contributors to GDP growth (Cicak & Soric, 2014). Consequently, many countries have adjusted their FDI policy framework offering certain conditions to attract FDI, such as taxes deductions and other incentives (Duarte et. al., 2017). Although it would be difficult to prove that it is a causal relation one can notice that there is some influence between FDI and GDP per capita when the size of the economy is taken into consideration (Kurečić et. al., 2015). So the use of FEZs are important for Baltic States in order to improve their GDP per capita via attracting FDI to their economy.

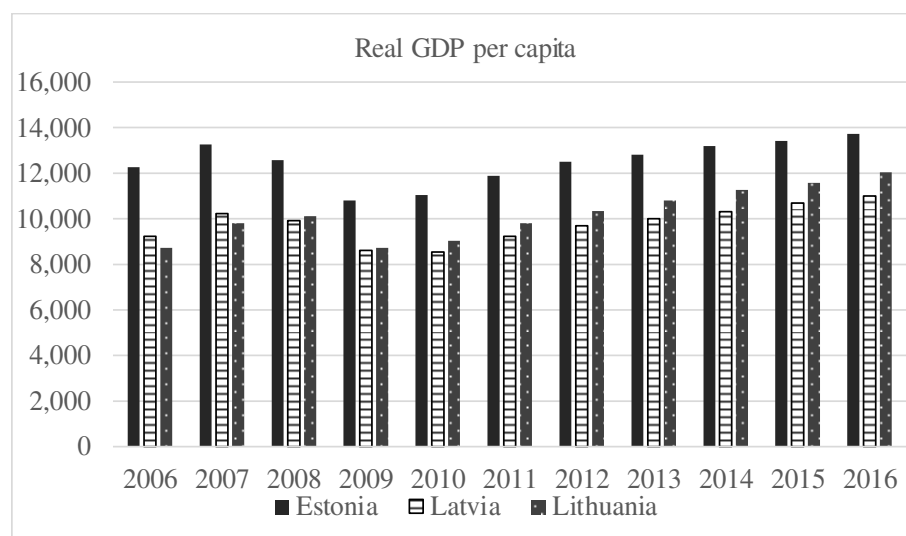


Figure 13: Real GDP per capita (€) in Baltic States (2006-2016)

Source: Author's conducted based on Eurostat, 2018

As many other small sized economies, three states needs the constant inflow of the FDI to their economy. There are many reasons that countries are in constant need of FDI, because it is defined as an important source of savings and capital accumulation for the host economy, creating positive spillovers, facilitating labour training and backward and forward linkages across sectors, as well as being a conduit for the transfer of technology and organisational know-how (Iamsiraroj & Ulubaşoğlu, 2015). Accession to EU made it easier for Baltic States to have long lasting relationships in the international trade. As mentioned earlier Baltic Tigers were under flashlights in

terms of their successful implementations with their economic policies. During their accession till the crisis period, large capital inflows followed (please see Figure 14).

After crisis, the FDI was showing a regressing trend in GDP's of Latvia and Lithuania, but for Estonia it was more stable and progressing for the reasons mentioned earlier. While two states were still under impression of the crisis in terms of FDI attraction, Estonia reached its summit of FDI as % of GDP in 2010. Baltic States had the advantage of low labour cost due to the size of their economy. For that reason, after their EU membership they were attracting investors in many sectors. Following years with the adoption of Euro, Estonia in 2011, Latvia in 2014, and Lithuania in 2015; the labour costs have risen and it lead to decrease in prices.

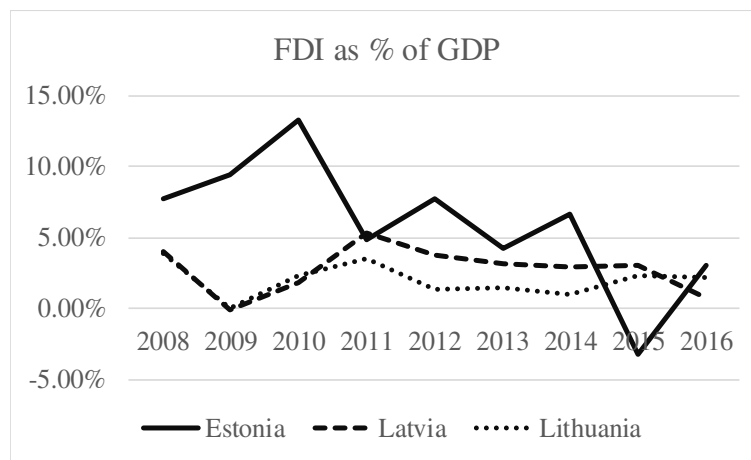


Figure 14: FDI inflows in Baltic States (2008-2016)

Source: Author's conducted based on The World Bank, 2018

The FDI in the Baltic States are considered as lagging because of their size and openness. Also the economy of Baltic States depends heavily on the economies of its export partners. So the countries are in need of new policies or improved implementations to their current FDI policies since capital formation and technological improvement are the motor of economic growth, FDI is expected to promote host countries' economic growth (Wang, 2009). That is why FEZs become more and more important for the FDI policies of the Baltic States. Creating regions with attractive FEZs benefits all three states as the FDI impacts the region in all fields including economy, technology even socially.

As for unemployment rate, crisis impacted unemployment negative as it did many other indicators. During 2009-2010 the countries unemployment rate faced summit by raising near 10-12% from their pre-crisis rate (please see Figure 15). Business confidence was hit to ground and investments decreased drastically. The crisis led to very high unemployment and economic hardship in turn spurring mass emigration from especially Latvia and Lithuania.

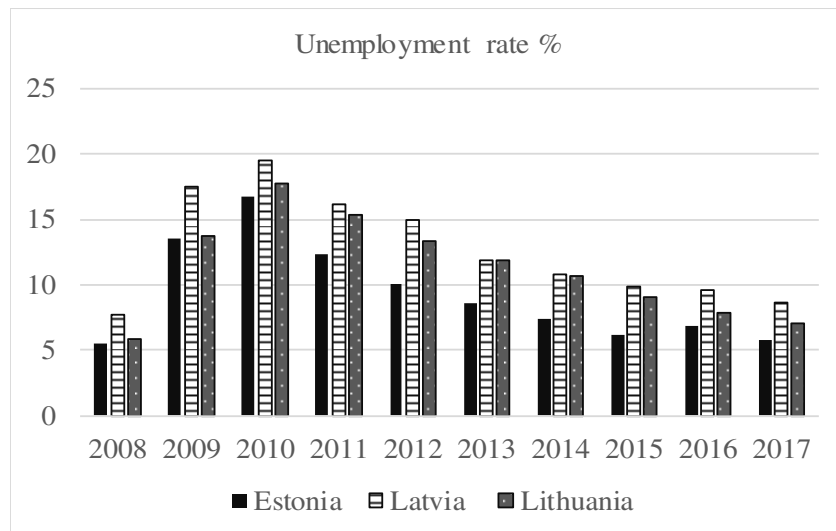


Figure 15: Unemployment rate in Baltic States (% of active population) (2008-2017)

Source: Author's conducted based on Eurostat, 2018

Year 2017 statistics and Baltic States are almost back at their pre-crisis condition in terms of the unemployment. It is important to emphasise at this point that the unemployment rate is closely associated with the emigration the countries are giving. Since their membership to EU was accepted, the migration rate of three states are following a negative rate. The main reason to that is that the labourers prefer to work abroad with higher wages in developed countries of the EU since the regulations are much easier than it was before EU membership. Then again it is clear as day that the states are still not back in their condition before the crisis and are still dealing with unemployment problem. That is one of the reasons Baltic States may enjoy the best of both worlds by promoting and developing activities of FEZs as they create new employment opportunities and new economic activities provided by new investors and companies.

The three states are considered as small sized economies within EU. Their levels of export got impacted by the crisis as all other countries went for restriction on the import of goods and services, but Baltic States were able to catch up with their pre-crisis condition on 2010. After that their exports went with less fluctuates. Looking at their statistics (please see Figure 16) it is possible to say that Baltic States' economies are highly dependent on their exports. This is a typical situation with many countries with small sized economies.

After the crisis term the share of exports have risen recognisably in GDP. Although their economy size is small, the three states are exports partners with many countries in many sectors. Although the Baltic States turned their route to west, Russia takes an important share of their exports. For Lithuania, the destination of the biggest share of the exports is Russia (Lithuania Trade at a Glance: Most Recent Values, 2018), while for Latvia (Latvia Trade at a Glance: Most Recent Values, 2018) and Estonia (Estonia Trade at a Glance: Most Recent Values, 2018), Russia comes as

the third destination with the biggest share of exports. The Baltic States are also trade partners of each other.

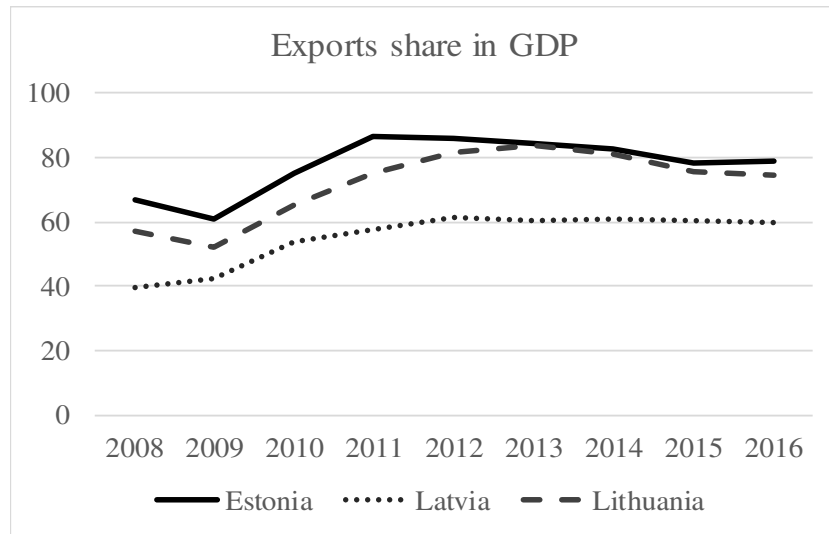


Figure 16: Exports of goods and services in Baltic States (2008-2016)

Source: Author’s conducted based on The World Bank, 2018

Current account balance is defined as difference between a country’s savings and the investment. It is considered as an important indicator of the health of an economy by economists. A positive current account balance indicates that the country is a net lender to the rest of the world, while a negative current account balance indicates that it is a net borrower from the rest of the world (Ousseini et. al., 2017). Although it is not a very bad condition economically, because many countries apply investments in order to try to boost their GDP and future growth, a country may choose to go in debt via creating liability based relationships to other countries.

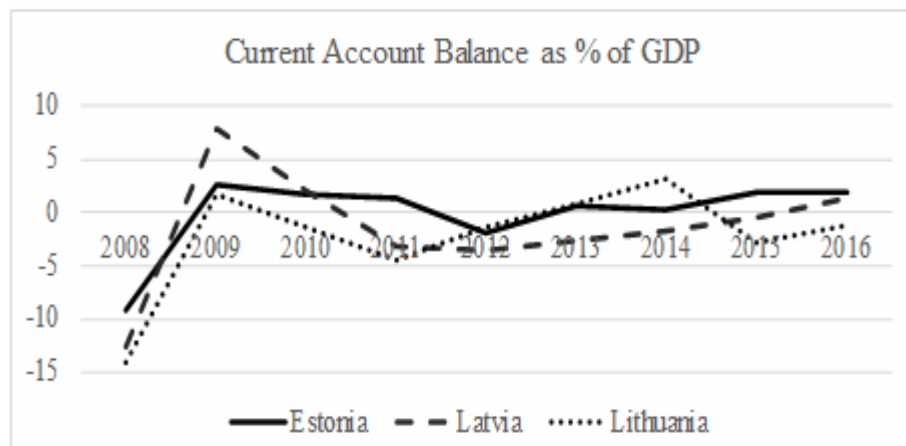


Figure 17: Current account balance in Baltic States (2008-2016)

Source: Author’s conducted based on The World Bank, 2018

That simply could be explained by a theory; it takes money to make money. That is why many countries go for the investment opportunities in other countries. FDI is an important ingredient of economies, especially those small sized economies such as Baltic States. It carries an importance for them to keep attracting the FDI and use it as the first action of a chained reaction

and get the most of the benefit. FEZs are very useful tools as their first and foremost aim is to attract FDI. Implemented correctly, they may allow the host regions and countries to be more active in the international trade. Although the current account balance of Baltic States until the crisis was on a negative trend, which represents that their economy was depending on the borrowings (please see Figure 17). That actually was one of the main reasons that they got affected deeply from the crisis. During 2009, three states were feeling the impact of sudden drops in capital inflows as they ceased abruptly. This made it difficult for three states to borrow for consumption and investment which is why the balance as GDP is positive right after the crisis. Current account balance as % of GDP in Baltic States are still not stable and the countries statistics clusters around -5% to +5%. While Latvia and Estonia has a positive value, Lithuania follows them with a negative value in 2016. Economic growth in the Baltic States appears highly dependent on the availability of foreign capital and is still vulnerable to financial crises that affect capital inflows (Staeher b, 2015).

As mentioned earlier, after feeling the impact of crisis deeply with negative growth rates, the Baltic States returned their economy to growth in 2010-2011 and since then they maintain their positive growth rates. Although since the crisis the growth rate of the states follows a slow pace, comparing to their pre-crisis growth rate (please see Figure 18).

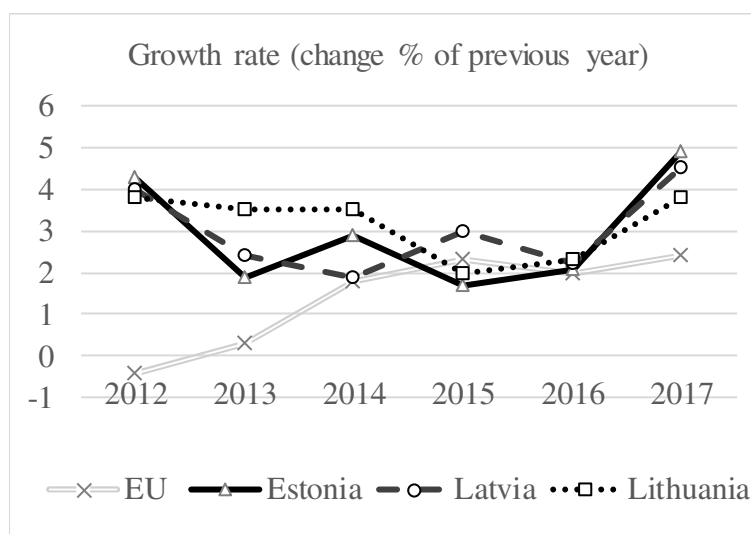


Figure 18: Growth rate in Baltic States and EU average (2012-2017)

Source: Author's conducted based on Eurostat, 2018

FEZs are also known by their impact on the economic growth of a state because they create an attractive hub for new economic activities and foreign direct investors. Baltic States already had their prime time as Baltic Tigers with the highest economic growth within EU, they were only impacted by the crisis because they did not have sustainable policy plans for their economic growth and they were criticised harshly for that. It was many times pointed out that the Baltic Tigers was not as successful as they seem by the statistics. Critics were partially right, the most important proof of that is the scale of impact crisis had on them. Although there are results conducted by researches

providing partial confirmation of the idea that systematic reliance on temporary investment incentives as an instrument of countercyclical stabilization policy can actually be destabilizing (Edge & Rudd, 2010).

Baltic States ruled out the possibility of destabilization and they are now promoting investments on the FEZs policies. The Baltic States may create a sustainable and natural process of economic growth as the operation of the zones is determined by the contracts. Within the contract, government and private partner who is administering the zone comes to an agreement on some development plans with the penalties if they fail to do so. This characteristic of FEZs makes them a more reliable and sustainable policy object as driving force of economic growth.

It is possible to find empirical analyses show that economic growth in the Baltic States in the post-crisis period can be explained almost entirely by growth in the capital stock and employment while there has been virtually no growth in the efficiency with which these resources are used (OECD, 2015). It simply means that the economic growth of the states before the economic crisis was not sustainable and it also explains their slow pace of economic growth after the crisis. Their growth was not sustainable because of the reasons which were stated earlier. Concerning their relatively slow pace, there are researchers focusing on the possibility of Baltic States being caught in a middle-income trap. Some researches emphasise that Baltic States are vulnerable for middle-income trap but the factors making them vulnerable are reversible with strong policy making and investments in infrastructure, education, business development and social welfare which will increase public spending (Staehr b, 2015). They show the characteristics of the middle income trapped countries as they lag in terms of productivity growth from growth in incomes. This is an issue which could be partially solved by working on the economic policies such as generating new economic activities and promoting FDI. This carries the importance of FEZ policy to the next level.

From economic point of view, it is clear to see that the Baltic States are developing countries. But to evaluate the development of a country does not depend only on indicators of economic growth alone. That was the reason United Nations Development Program (hereinafter UNDP) created indicator called Human Development Index (hereinafter HDI) and it is defined as 'a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living' (UNDP, no date). HDI carries an importance if one works on development of countries, but is not restricted with the economic development indicators. Which is why it is important to use it defining the development of Baltic States while making a comparison.

Looking at the HDI in recent years, Baltic States are located in the group of countries with 'very high HDI' (please see Table 6). Which by the index it is possible to interpret; the Baltic States have high life expectancy, high education and high gross national income levels.

From three states, Estonia has the highest HDI and improved its place from 31st to 30th, from 2014 to 2015. Lithuania follows Estonia ranking 37th. Then comes Latvia, ranking 44th place. As mentioned earlier, HDI makes it easy to distinguish whether the country is developed, developing or underdeveloped. From HDI point of view, Baltic States with 30th-37th-44th within almost 200 countries around the world, adds them in the group of developed countries.

Table 6:

Table of Human Development Index in Baltic States

Countries	Group	HDI 2015	2016 report for 2015 Rank	2015 report for 2014 Rank
Estonia	Very high HDI	0.865	30th	31st
Latvia	Very high HDI	0.83	44th	44th
Lithuania	Very high HDI	0.848	37th	37th

Source: Author's conducted (based on Jahan, 2016)

European Quality of Life Surveys (hereinafter EQLS) aims to explore both the objective conditions of the lives of European citizens and their feelings about these conditions and their lives in general. The surveys focus on many fields such as employment, income, education etc. Since it become possible to track key trends in the quality of people's lives over time, it is important to see the conditions in Baltic States looking at the EQLS (please see Figure 19).

Looking at the results of the surveys on happiness and life satisfaction of Baltic States residents, it is possible to say that three states are under the EU average. Estonia is has the highest happiness and life satisfaction in Baltic States. It is easily recognizable that Estonians feel happier and satisfied since 2011, which is the year of previous surveys. It is quite possible to define the change as an improvement of the life standards of Estonians. Latvia follows Estonia with also improved life satisfaction and happiness levels.

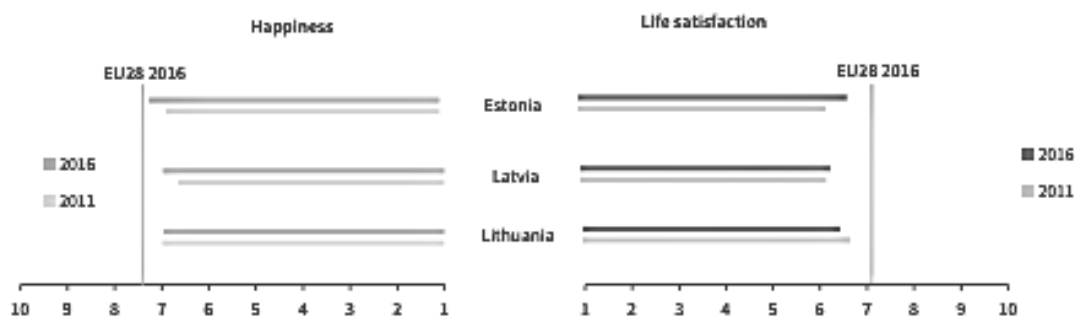


Figure 19: European Quality of Life Survey on happiness and satisfaction in Baltic States

Source: Adapted based on Eurofound, 2017

Although the improvement of life satisfaction is hardly recognizable, Latvians feel happier than they did in 2011. Coming to Lithuania, quite interesting to see that Lithuanian results of the surveys not only was not improved about their happiness, but declined their life satisfaction since

2011. Maybe this could explain the high emigration rate of Lithuania, people are not happy with their lives so they prefer trying to find happiness in other countries.

Many countries in Europe has the characteristics of decline of the fertility rate and higher life expectancy, which leads to the aging population. In Baltic States, along with both characteristics, emigration is creating many challenges in economic, social and political fields.

Since the opening of borders big part of a population at working age have chosen to work in wealthier EU Member State with a hope to get a higher wage and better life standards. That is why states are facing negative migration rate. Their low population (comparing with other EU member states) is getting even lesser with the emigration of the people leaving their country.

Although it has the biggest population amongst Baltic States, Lithuania is also the one that has the highest emigration rate within three states. In last 5 years Lithuania lost around 200.000 of its population while Latvia's loss is nearly 100.000 and Estonia's is around 10.000 of its population (please see Figure 20).

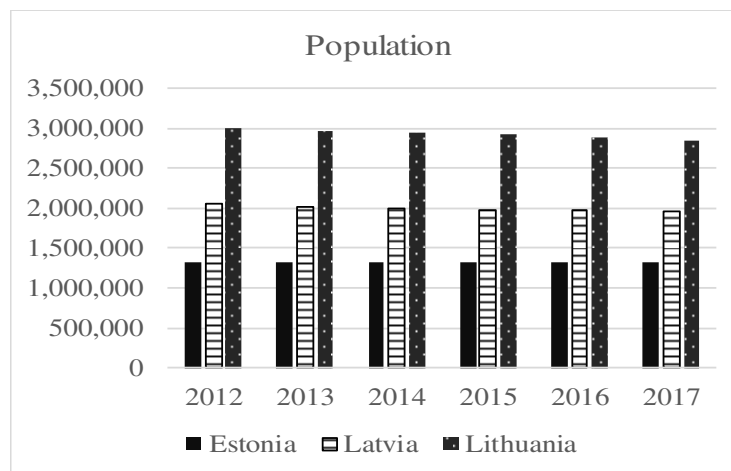


Figure 20: Population of Baltic States (2012-2017)

Source: Author's conducted (based on Eurostat, 2018)

Many reasons of the emigration aroused with the accession of Baltic States on order to the EU and then Eurozone. Becoming EU member states and joining the Schengen Zone the citizens of the Baltic States claimed the right to move freely within the union. That brought adaption to the fact free movement of workers between other Schengen States. Along with that due to EU adaption, prices have risen quicker than the wages of inhabitants. The growing cost of living has causes quite a sizeable percentage of the population to move to other countries. FEZs policy is considered to be a solution to this problem as it provides new employment opportunities, may improve the purchasing power of the inhabitants of the host region and in general improves the welfare of the region.

Loss of population brings many challenges but most importantly the loss of the public revenue; taxes. Leaving government take more strict steps on many fields including pensions. This leads to less satisfied citizens and it creates a dead-end with the emigration. Less government

spending means a narrow budget for the government spending. So regions within country borders with higher population get more budget while rural areas become more neglected. That, mainly, is the worst scenario for the regional disparities and imbalances.

Expectably, those citizens of Baltic States who did not leave their country, but still want better life standards, migrate to the regions with more opportunities. That is the main reason while looking at the population density of the Baltic States it is possible to see that most populated areas are the capitals of the three states. This led to Baltic States having regional disparities in terms of regional development because the less developed areas became less populated and the developed regions became densely populated which made gap between regions more distinctive. The states are having challenges due to these imbalances between regions. All three states have regional development strategies undergoing in order to remove the imbalances and create a well distributed regional development within their borders. One of the policies focused on reducing these imbalances is FEZ policies. Via attracting FDI and generating new economic activities, FEZs are thought to be solution to the lagging regions within Baltic States.

3.2. Activity and goals of Free Economic Zones in Baltic States

Under this subtitle author focuses on the activity and goals of FEZs in Baltic States.

3.2.1. Political, economic, social and technological environment for Free Economic Zones in Baltic States

As the research mainly focuses on the first section, the first and foremost reason why governments implement FEZs policy is to attract FDI. The role of FDI in economic growth and the development of host country have been widely investigated by many researchers. (Liu et al. 2002; Choe 2003; Hansen & Rand 2006; Popescu 2014; Simelyte & Antanaviciene 2014; Banaitienė et al., 2015; Hlavacek & Bal-Domańska, 2016). Activities of FEZs are not only limited by attracting FDI, but also connected to many fields. In this subchapter author addresses the political, economic, social and technological environment for the FEZs in Baltic States.

After the accession to the EU, Baltic States needed solutions to the development problems in order to catch up with the developed EU member states. Establishing FEZs was one of the many policies three governments decided to implement. Main incentives when governments are setting the activity of FEZs are to attract FDI, stimulate economic activities, create more attractive region, boost GDP, and boost industry and trade. In order to create a good implementation with the FEZs policy it is important to know what factors play a role in their activities and goals. In the Figure 21, author provides a PEST analysis in order to define the factors impacting Estonian, Latvian and Lithuanian governments when they are implementing FEZs as a policy.

Analysing the figure, it is possible to define FEZs as a multidimensional policy object. Baltic States are amongst the smallest countries within EU member states also less known which is why by means of political factors, individual governments are working to change that via implementing FEZs. Three states works on becoming more attractive within EU member states.

Baltic States were three of 10 new members accessing EU on 2004, and possible to say that they weren't the most advanced ones in new member states. Plus during crisis period they have been particularly hit hard with the impacts. The individual governments are working on the policies to make their states and Baltic Region in general more attractive again via constructing new relations with developed states, encouraging new entrepreneurs and trying to catch up with EU level of development.

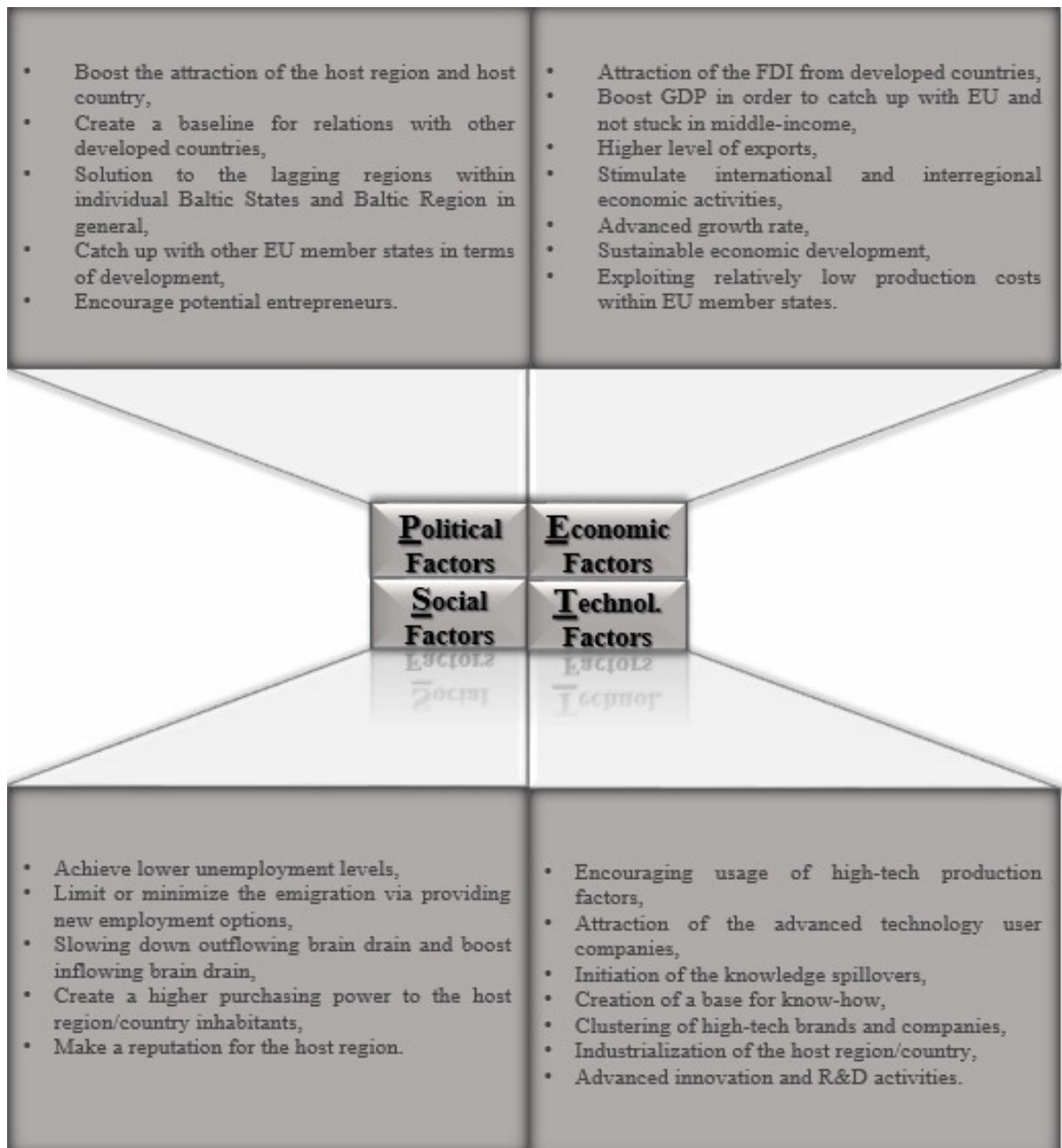


Figure 21: PEST Analysis of the incentives of FEZs in Baltic States

Source: Author's conducted

As mentioned earlier Baltic States are considered in smaller sized economies within EU member states and FDI for their economy carries a big importance. So attraction of the FDI is one of the most important incentives when it comes to the implementation of FEZs. Of course consequently new economic activities and employment opportunities GDP and economic growth rate gets their share of increase. With new businesses the FEZs boost export related economic activities and this creates capital inflow to the national and regional economy. Baltic States are advantageous particularly with their lower labour costs because of their small sized economy, so using it in order to attract new businesses to the region makes FEZs smart policy strategy. Also operation period of a FEZ is determined by the public and private sides which makes it sustainable and long term policy.

Due to new businesses operating in a region, new employment opportunities are provided to the local labour market. Creating new employment opportunities for the inhabitants and making the region more attractive for investors work as a suspension in terms of emigration, because the region becomes more developed and life satisfaction of the citizens become improved via higher purchasing power. Investors mainly are interested in the qualified labour force, which makes higher demand for the educated workers. Via FEZs policy Baltic States aim to slow down the emigration of educated people and even attract qualified workers from other states.

Although they are the youngest members of Europe's growing family of tech start-up hubs, the Baltic states of Lithuania, Estonia, and Latvia are maturing fast (Forbes, 2015). Reconstruction that had started in the Baltic States in 2000–2001 by public authorities in developing national strategies and creating forecasts for high technology development was assessed in 2004 upon the accession to the European Union (Ambrusevič, 2010). One of the incentives to FEZs as a policy is that Baltic States aims to encourage the high-tech within their borders. FEZs allows Baltic States to attract advanced tech user companies, initiate a cycle of knowledge spillovers and improve know how. Via attracting high tech user investors, FEZs works as a tool of promoting industrialization. Therefore finally, attracting high technology related activities to the host region/country, governments aim to improve R&D and innovation activities.

3.2.2. Current situation of Free Economic Zones in Baltic States

According to their individual agencies promoting FDI, Baltic States are hosting 14 FEZs in total particularly 3 in Estonia, 5 in Latvia and 6 in Lithuania (please see Table 7).

Although the concept of zone is called differently in each state, they function for the same purposes. Each state has its own legal basis for FEZs (even though they are called with different names) and their functions. Following this chapter, author focuses on the goals and activities of the FEZs and their contribution to regional development in Baltic States.

Table 7:

Table of FEZs in Baltic States

<i>Country</i>	<i>Zone</i>
<i>Estonia</i>	Paldiski Free Zone
	Muuga Free Zone
	Sillamäe Free Zone
<i>Latvia</i>	Riga Free Port
	Ventspils Free Port
	Liepaja Special Economic Zone
	Rezekne Special Economic Zone
	Latgale Special Economic Zone
<i>Lithuania</i>	Klaipėda Free Economic Zone
	Šiauliai Free Economic Zone
	Panevėžys Free Economic Zone
	Kėdainiai Free Economic Zone
	Kaunas Free Economic Zone
	Marijampolė Free Economic Zone

Source: Author's conducted (based on investinestonia.com, liaa.gov.lv, investinlithuania.com, 2018)

3.2.2.1. Goals and activity of Free Economic Zones to contribute to regional economic development

All FEZs has one major aim; attracting FDI. But as it was mentioned in theoretical part of this study, attracting FDI is not the only thing that FEZs are working on (for more information please see Figure 5). As common features of Baltic States presents that their economy is dependent on FDI, their characteristics gives away that FEZs are not the only objective which is working on attracting it. Looking at the capital cities of the Baltic States, it is possible to define them as most developed regions within country borders. In terms of infrastructure, many investors prefer to invest in or start-up businesses in these relatively more developed regions in the states. This trend has been going on for a while and it boosts the regional development of capital regions. But also adds up to the gap between other regions of the Baltic States.

Implementing FEZs policies in less developed areas of Baltic States helps the policy makers benefit multiple needs of the less developed regions; solution to the lagging regions while closing up the gap between regions, also attracting FDI and working on increasing the prosperity level of its host region. As the investor pool grows in the FEZ, their need for employment grows as well. New employment need met by the local labour force allows the regional inhabitants to have higher purchasing power. Also FEZs generally promote innovative activities, where regional and national economy benefits from the outcome of these innovations. FEZs allows the region to make a statement via showing that the host region is interconnected with FDI activities primarily such as exports. FEZs also allow the host region to be more recognizable within the regions of each Baltic

State. By creating clusters with the other regional actors FEZs could be implemented more accurately. For example FEZ working with educational institutions allows both sides having positive impact on the region; educational institution provides improved education and businesses operating in the FEZ provides job opportunities to the graduates with wanted skills. It is quite possible to say that FEZs works on fulfilling the current and future needs of the region through strong collaboration. It also is a sustainable policy object for regional development as its operation period is defined in the contract most commonly for the long-term.

As it was mentioned in the methodological part of this study, the sample group was selected from Baltic States as; Sillamäe Free Zone, Liepāja Special Economic Zone and Šiauliai Free Economic Zone.

Sillamäe Free Zone is a port located next to Baltic Sea and it is in the very east of Estonia, which makes it the most eastern FEZ in EU and closest to the Russian border. The Port started operating in 1999 and it was redesigned later in 2008. The zone was established in order to support cargo handling within the Port of Sillamäe. Area of the port is located within the free zone territory. Aim of the Sillamäe Free Zone is to support cargo deliveries via offering long term storage without need to pay any customs fees or taxes. It has the infrastructural advantages with connections via railways, seaways and highways as well as connection to the Russian border. The capital of the zone is shared 50% by Russian government and 50% Estonian government. There are 4 terminals operated by different investors within the zone. The number of licenced operators in Sillamäe Free Zone is 10 with around 1000 employees. Main sector that is subject to economic activities within the zone is; transit cargo handling. The zone is actively operating in international market.

As mentioned, Sillamäe Free Zone was redesigned in 2008. The reasons to its re-designation was that earlier the zone was regulated by EU within the Control type II and it was changed after 2008. The zone is now classified under Control type I. Another reason to its re-designation is that upon the needs of operations the zone in 2008 was enlarged from its earlier size.

Liepāja SEZ is located within Latvian borders, is a zone located next to Baltic Sea. The Liepāja port is located within the borders of the zone. The zone was established in 1997, which makes it the oldest one in the sample group. During the period under Soviet occupation, economy of Liepāja got more active with the construction sector and import of labour force from other Soviet Republics. Also the city was a Soviet military city. Government worked particularly hard on the transformation process of the zone after Latvia gained its independence with other Baltic States. Liepāja also provides infrastructural advantages such as railways, seaways, international roads as well as 3 airports located within 200 km radius. The main sectors in zone are; production, industry, logistic services, cargo storage and real estate development. The zone is actively operating in

international market and its main investors are from Scandinavian States, Denmark, Finland, Russia, Belarus and other countries.

Case with Šiauliai Free Economic Zone is more different than it is with other zones selected from Estonia and Latvia. FEZ in Šiauliai was established in 2015 which makes it newest in the sample. History is separating Šiauliai from others as actually during 1997-1998 period the first FEZ was established in Šiauliai, but the operator who won the bid gave up on right to manage the FEZ because the infrastructure was not installed during that time and there was a problem with the land pollution. The city was earlier used as military base of Soviets and when the independence was won, soviet soldiers were drawn back but many tools were left behind such as military tanks and fuel bases for the military planes. The land was polluted from these tools and the tender did not know the size of this pollution. Then the government had to choose two other locations to establish new FEZs. The government have faced difficulties with land plan plots of these two new locations. The landowners gave very high prices and government decided to minimize the areas given to two FEZ areas in Klaipeda and Kaunas. Instead of the minimized areas in 2011, parliament decided that there would be 5 new FEZs established. One of them was decided to be established in Šiauliai, again.

Thus the establishment of the FEZ in Šiauliai was postponed until 2015, when the contract was signed between tender and Ministry of Economy. For zone to operate properly, 2 million Euros were funded in order to clean the land from pollution. Although the contract was signed in 2015, requirements such as infrastructural investments from both sides took long time. That is why, the zone is not operating yet to its full potential.

Although Šiauliai has a perfect location and access to international airport right next to the FEZ, railways, sea ports, international roads and an industrial park located next to the FEZ; infrastructural difficulties decelerates the operation and attractiveness of the FEZ. Main sector the zone is promoting is industry sector such as metal plastic and furniture industries because trade is not supported by the law yet. International and national markets are seen as target market. Along with local investors, the potential investors are from Scandinavian States, Denmark and Finland.

3.2.2.2. Impression of Free Economic Zones on Labour Market and on FDI Attraction

As it was mentioned earlier, 10 companies are operating within the Sillamäe Free Zone and total number of labour force including port employees and employees of the companies which are operating is approximately 1000. More than half of the labour force need is met by the locals of Sillamäe town, and around 90% of employees are the residents of the Ida-Viru region which Sillamäe city is located within. The zone is a part of the cluster within Sillamäe. Cluster helps the

zone reach more labour force and provide them with jobs. According to their own statistics, every 7th person on the region is provided with a job by the clustering businesses.

Although the total amount of FDI attracted to the Sillamäe Free Zone is not a public information for the expert to share, it is possible to state that resulting from its locations close to border, the most important trade partner of the zone is Russia.

With its 47 companies operating within the zone, Liepaja could be considered as a success story. It provides approximately 2000 employment opportunities. It became the second region with biggest share of GDP contributions after capital Riga. State labour agency provides trainings for the employees prior to employment or to the unemployed at the employer's request and also provides grants for job creation for specific support groups. This provides a pool of employees with high skills for the investors.

Through its successful implementation, Liepaja Special Economic Zone was able to attract investors which made almost 3 billion Euros of investment that were subject to the tax incentives in 2015 by their statistical estimations.

As it was mentioned earlier, the Šiauliai Free Economic Zone is not yet operating full-potential. Right now it has 2 investors soon to finish the project design for the plan of factory, and many potential investors were lost because of lacking infrastructure. Until the operations of the investors begins (one expected to start within 2018, other 2019), there are no employment provided to the local labour market yet. But the city has around 100 000 population and an industrial park located within the region. Šiauliai is a promising zone in terms of providing employment to the residents in the following years. As it does not operate to its full operation capacity, even the zone has two investors who are working on their designs for their buildings, Šiauliai Free Economic Zone has not yet successfully attracted FDI yet. The administrative body of the zone which is a company from Lithuania, is constantly working and investing into its marketing. The zone is expected to be seen more actively in the national and international events in order to create contacts with the foreign investors.

3.2.2.3. Other impact of Free Economic Zones on regions

Sillamäe Free Zone has main activities focused on imports and exports. The zone does not have direct connections to the public administration. But the most common customers are the local businesses, factories, traders and logistic companies that are either renting warehouses from the zone or they use other services provided by the zone. The zone is aiming for a continuous economic activities within the region as the location of the zone is very convenient for that because it is close to Russian border (25 km from border to the zone). That is the main reason to zones close relations with Russia even when earlier it was stated that the Baltic States have turned their route away from

Russia. The country is still a huge market and Sillamäe Free Zone is taking the opportunity of its location to reach this huge market. Also the zone aims to improve and develop the cargoes handled and boost the capacity of the zone transshipments.

According to Statistics Estonia, the population of Sillamäe region was 11 680 in 2017, also it is possible to comment that the region is facing with the loss of its population (Statistics Estonia, 2018). Although it is possible to point out the fact that the loss of population is not as high in numbers as it is in the following regions from Latvia and Lithuania, but the number of inhabitants are lesser than in Latvia and Lithuania as well.

Liepaja Special Economic Zone also has development projects which is focused on the regions' infrastructural improvements. Since 2011-2012, each 1-2 years, the zone works on these projects. The field of the projects span from street construction to railway and airport improvements. Also zone is focused on the environmental issues and has an environmental plan for future activities and with reports analysing the state of the environment in the territory of the Liepaja Special Economic Zone and the possible impact of the implementation of the planning document on the quality of the environment.

Although the FEZ concept is implemented well in Liepaja region, population loss is still an impact which affects the region. According to national statistics institution of Latvia, from 2010 (the oldest date of statistics belongs to this year so it is not possible to show before the FEZ) to 2017, Liepaja lost almost 10 000 of its total population and 2017 estimates that the population is 69 443 (Central Statistical Bureau of Latvia, 2018).

Šiauliai Free Economic Zone is mostly focused on attracting foreign investors to the zone. Because in many cases it is known that new businesses attract other new businesses as zone becomes more attractive. Other case is that the businesses attract other businesses because before or after production process they need side businesses for example for packaging or logistics of the product. Also Šiauliai FEZ aspires to be in the same page with the education institutions in terms of creation of high-skilled labour force pool. Also it is possible to state that the local businesses are feeling the need to be threatened by the FEZ in Šiauliai because the common presumption is that new businesses will be attracted and local businesses have less opportunities. This is just a minor issue but still impacts the relations of the zone.

According to Statistics Lithuania, the population of Šiauliai region was around 100 000 in 2017, also it is possible to comment that the region is facing with the loss of its population (Statistics Lithuania, 2018). Although all three regions are losing population, the fact that Šiauliai is losing its population is affecting the attraction of the FEZ more. Šiauliai has more population than Liepaja and Sillamäe, so the common presumption would be that it would attract more investors with the labour force. But the case of Šiauliai is different in 2 point of views; one of the reasons is

that the implementation period has been slow with infrastructural improvements and investors tend to focus on other FEZ options in other regions or even other countries. Second reason is that there are not physical companies yet operating within the zone, which makes it hard for other businesses to see the future of the zone.

3.3. Analysis of results of interviews on the economic impact of Free Economic Zones on regional development

In following text, author pays attention to the answers of informants (experts) collected via oral surveys (interviews). Aim here is to discover challenges and trends of future activity of FEZs in Baltic States to strengthen regional economic development. Author gives insights related to aim and the data provided here is based on the interviews (for more information about the interview questions please see Appendix II).

3.3.1. Activities of Free Economic Zones contributing to regional economic development

Locally known fact about Sillamäe region is that, the Peter I, known also as the Peter the Great was considering locations to make capital to Russia. There was two options he was considering: one was Sillamäe, other option was today's St. Petersburg. It was known even in 18th century that the Sillamäe city had a good location right next to Baltic Sea.

The port location was chosen by the owners to invest in Sillamäe region. Based on the seaside location, the port was built within the region. Later in 1999 it was seen that there was a need to establish a zone in order to boost cargo transshipments and offer additional incentives as well as advantages to the end users. The expert states “Sillamäe Free Zone has very good location due to its access to railways and highways, due to development of the zone and the port, region develops in terms of infrastructure”.

As it was mentioned earlier, the Baltic States had hard times during the last years of the Soviet occupation. Small cities of the states had particularly hard times especially Liepaja, because it was functioning as a military port hosting Soviet Army during the occupation. At the beginning of 1990s the city Liepaja was having hard times.

After the independence with soviet military backing off from the country, city was troubling with production. Liepaja Special Economic Zone was established by the Latvian Government in order to remedy the cities' low production, to give it a chance to recover from the military related reputation and promoting new economic activities within the region. Expert states “Main contribution of the zone in Liepaja to regional development is in economic field as the zone provides work force and keeps people in the region and attract labour force from other nationalities such as Ukraine”.

Similar to Liepaja, during Soviet occupation, Šiauliai was used as military base with its airport. After the independence was gained back in 1991, the city was cleaned from the Soviet soldiers. During Soviet times the city had arranged and planned productions by the Soviet government and the city was producing goods in electronics, wood processing and construction industries. After the independence the production and the trade became weaker as there was no more planned production or trade within the union. So the city became a lagging region. “By setting FEZ in Šiauliai, government aimed to attract foreign investors and create a natural process of development accelerated by the activities of new companies and investors” expert states. Right now the zone has no activities to impact the regional development, but the potential is still there. Because as the infrastructure improvements are done, the foreign investors are planned to be attracted to the zone because the zone has a good geographic location.

3.3.2. Relations and collaboration with other regional actors

Although there is no direct influence of public administration bodies to the administration of the zone, Government of Estonia is already taking an active part on the investment process of the Sillamäe Free Zone. One of the recent investment policies on the zone was built with the help or with the investments from EU, Government of Estonia and the owners of the port. The project consisted of creating a preliminary waiting area for the trucks who are passing to border and an electronic registration which allows the trucks to book a date and time for exact border passing. This area as well is located within the zone as the zone is very close to border.

The expert states “We have excellent relations with the local public administration bodies and they are very supportive. We have regular meetings with them and we are discussing different projects related to for example different cargo handling within the zone. We feel that local public administration bodies should take a part in the process even though it is not a necessity because it is a privately administrated zone”. Also in some cases the projects that Sillamäe Free Zone is working on need coordination or confirmation from the local public administration. It is possible to state that the zone administration and the local public administration body is working harmoniously on these projects.

Another important point which was touched upon during interview, in experts’ own words: “The customs personnel of the Sillamäe Free Zone are quite competent and well educated”. No doubt this makes the zones’ work function smoothly in terms of bureaucracy. This makes it easier to provide a better service to the end-client. As Estonia is one of the most advanced countries due to their e-government activities, possible difficulties are avoided by the use of document providing via electronic channels to the related institutions.

Expert from Liepaja states particularly that “Liepaja Special Economic Zone has a positive impact on the region socially and economically”. The zone is partners with Latvian Chamber of Commerce and Industry which is the biggest association of entrepreneurs in Latvia. Liepaja Special Economic Zone participates in activities, seminars and events the Chamber of Commerce and Industry is holding. Via these events and seminars the zone is able to promote their economic incentives and attract new businesses to the zone. Also local administrative body is promoting the zone to possible investors because region benefits the new businesses.

Other interaction of FEZ of Liepaja is that it has 9 Board members that include 3 members representing the state so they direct connection the administration and decision making of the zone. In the other hand as they have direct connection too, zone can also give suggestions and requests to these ministries. Other members are consists of 3 members representing the Liepaja City Council and last 3 members are representing entrepreneurs in Liepaja. Board includes all three level of actors from national government, local government and the regional entrepreneurs. The structure of the Board is well-thought as it helps the zone to have stronger development goals focusing on the interests of all three group as well as the society.

Šiauliai Free Economic Zone right now has one worker which is the director. It has a board consists of 7 people including city mayor and minister of economy. Governmental influence on the zone is not very big. Because Lithuanian FEZ law states that the administration of a FEZ belongs to the private partner. The governmental representatives are still members of the board and connection is always there. The zone also has two shareholders companies from region. The zone is a member of Lithuanian Chamber of Commerce which helps the zone to be more active in international and national conferences and events also it creates a web of contacts for its members which is good for the reputation of the zone. Expert states “In short words this membership helps the zone to be seen and recognized”. Other collaboration is between zone and a non-profit organization promoting the business opportunities to foreign investors ‘Invest in Lithuania’. It provides consultant services to the potential investors.

3.3.3. Success and challenges of Free Economic Zones contributing to regional economic development

Sillamäe Free Zone positively impacts on regional economic development of Sillamäe region. The zone actively creates new employment opportunities to the local and regional labour market. Also attracting new investments which makes it easier to improve the infrastructural facilities within the region. The new companies are attracted to the region and the zone provides new export and import alternatives to the local businesses. Also even when there are tax incentives, the companies are supposed to pay some taxes to the government which allows government to make

budget with higher public revenue. The expert states “I would say, yes, our goals have been achieved and the zone is developing even further. Our cargo volumes are growing year by year”.

In order to facilitate new business development in Sillamäe Free Zone has established a Business Incubation Centre that provides companies with some services for improvement. It makes it easier for the zone to assist the new businesses along the beginning period. The zone is improving the regional economic development of Sillamäe while it is boosting the economic activities handled within the zone.

Although expert mentions that the zone does not have big challenges to face, there is an aspect which could be improved by the government. “It is a challenge for us that there are some conflicts including host country and Russia. Better political connections and relations between neighbouring countries would improve our chances while attracting new economic activities. Because whether we want it or not the political situation affects our work as Russia is our main partner. A huge part of the transit cargoes handled by our zone either comes into the zone from or travels from the zone to Russia” states the expert.

On its 21st year of experience it is possible to say that Liepaja Special Economic Zone achieved the goals of establishment. The zone is now providing employment opportunities to many regional inhabitants and Liepaja comes as a second city after Riga in terms of production of entities such as goods and services. In order for the zone to attract FDI and improve regional economic development region must have advanced facilities and should be seen as a promising zone in terms of operation.

After interview with the expert from Liepaja Special Economic Zone, it is possible to state that the main and biggest challenge which zone is facing is in his words “insufficient investment and funding for infrastructure”. The funding of the infrastructure is quite important for any potential investor because the main idea is to create new economic activities. So when the potential investors and the zone interacts the most important attraction is the infrastructure and facilities.

In experts’ opinion, needed supports for zone in Liepaja to develop its impact in regional economic development “We need to have financial guarantees by the government as well as long term loans for the infrastructural development, this would improve our work and if our work improves we can take a more active role in the regional economic development”.

After a deep conversation with the expert from Šiauliai Free Economic Zone, it is possible to specify number of challenges when discussing the contribution of FEZ to the Šiauliai region (please see Figure 22). One of the most important challenge is that the lack of infrastructure. Although in 2018 the zone plans to have the first investors, it took long time for municipality and government to invest in infrastructure of the zone.

Expert implies that the second and third ones at first does not seem as problem, but “when investors are interested in the zone, they ask for statistics about the demographics and number of students who are enrolled in educational institutions, and when we provide this information to them it doesn’t seem very attractive to them”. As it was mentioned, Šiauliai city is giving emigration and the number of students enrolled in higher educational institutions within region is getting lower each year. This creates a big drawback for the FEZ to be able to contribute to the regional development. Because the new companies need the work force which mainly will be provided from the region.

It is also mentioned by the expert that the educational institutions, businesses as well as FEZ may work on the needs of region as a group, maybe a cluster. The reason to that is the expert states that; “If we can develop a well-educated labour force within the region meeting the needs of the foreign investors, which will make the region more attractive for investors”. Author believes via achieving the goal of creating well-educated labour force in the sectors which Šiauliai FEZ is promoting not only will create a more attractive region, but also it will create a more attractive region for the inhabitants of other regions, even countries as it will initiate a cycle for the inflowing brain drain in long term. Possible to state that only then they as regional actors can create a more efficient development for the region.

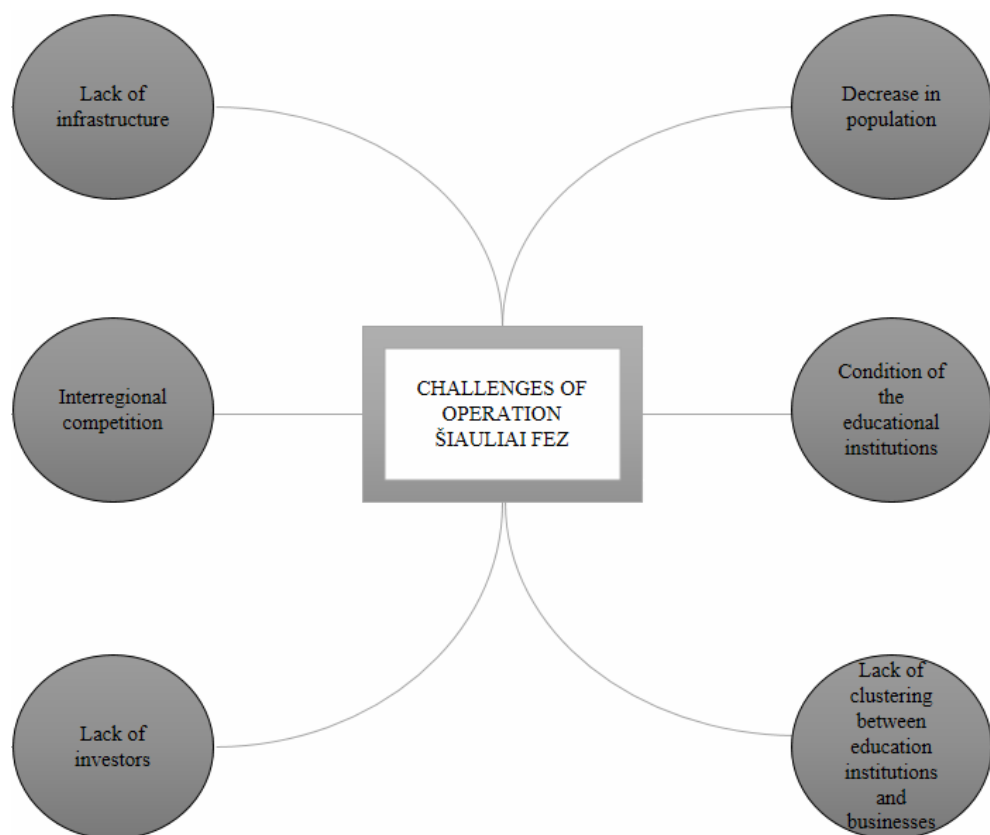


Figure 22: Challenges of Šiauliai Free Economic Zone

Source: Author’s conducted based on interview

The next challenge is completely about the regional imbalances. Interregional competition creates a drawback for Šiauliai Free Economic Zone as there are 5 other FEZs within Lithuania already with many companies operating, funding options and investors. So when the investors see the condition of the FEZ and the challenges that the zone is facing, they turn their route to the other FEZs within country which brings the other challenge; lack of investors. As it was already mentioned in the theoretical part, when new investors and businesses start operating within a zone in region, the new businesses are attracted to the zone naturally. It creates a magnet impact on the side businesses such as transporting companies or packaging businesses. So when there are no operating businesses within zone it is seen as a negative point for the investors.

3.4. Future activities of Free Economic Zones for the strengthening of regional economic development

This section focuses on the final details and results of the hypothesis of the present thesis, Literature suggests that FEZs has impact on national economy, but very few focuses on the impact of FEZs on the regional economic development. That is why this research focuses on FEZs in Baltic States and their impact on the regional economic development. To measure that author follows an investigation plan about some socioeconomic indicators and performs interviews. The hypothesis for the research suggested by author is that if FEZs can contribute to regional economic development process in the economic area.

By the results of this thesis; hypothesis 'H₁: FEZs can contribute to regional economic development process in the economic area' was partially confirmed. Although at different level in each investigated region, FEZs in Baltic States have impact on the regional economic development, providing new economic activities, investments in infrastructure, attraction of advanced businesses as well as formation of new businesses creates an impact on the regional economic development.

The individual governments while setting FEZs in these regions aimed that these regions would become business hubs and attract more businesses via becoming more and more developed. Although zones in Liepaja and Sillamäe have more experience, better implementation of FEZ policy than the zone in Šiauliai, it is possible to say that all three zones are impacting the regional economic development. Liepaja and Sillamäe has successfully attracted FDI, provided region with new employment opportunities, focused on the attractiveness of the region and worked on infrastructure through their years of operation and it seems Šiauliai FEZs is on the beginning of the similar process.

Sillamäe Free Zone is successfully contributing to the development of the Sillamäe region. The zone is actively working on some future projects as well as development plans. Their development plans firstly includes establishing a passenger terminal within the zone and they aim to

enlarge the territories by creating additional terminals to already existing 4 terminals. Zone is actively creating new employment opportunities to residents of the region and attracts investments on the infrastructure of the region which adds to the value of the region. Also easy to state by the author that expert improving the political connections and relations carries the big importance while attracting new economic activities. Expert states that “Achieving our goals and our success in the end depends on the attraction of the cargoes and investors into our zone”.

Liepaja Special Economic Zone representative stated that; “The most important support we need from government is financial assistance in continuous investments on our zone infrastructure and proactive promotion of Liepaja Special Economic Zone to investors”. As the zone gets the support from government it may add to its’ successful operations by achieving the goal of attraction of the workforce to Liepaja region.

Also expert stated that “In this phase of our operations, promises and trusts of development of infrastructure carries importance, which is why we need support from government on this area”. Liepaja Special Economic Zone could be seen as a success story. Because, no doubt, the zone played an important role within the transformation process of a small military-related, hardly producing city into second biggest production contributor city of the country.

As seen in figure 22, Šiauliai Free Economic Zone is facing number of difficulties. During the interview the expert stated that “Šiauliai has a good location in terms of connection to east and west as well as north and south of Lithuania. To turn this location to good account, there are several supports we need. First is the improvements of the infrastructure as this carries the biggest importance while communicating with the foreign investors. Second is from the educational institutions; we need to create a pool of well-educated labour force pool, not only in fields such as education and humanitarian sciences but also in engineering and related technologies, management and commerce related sciences. That will make the foreign investor consider our zone rather than other options within Lithuania”.

Indeed Šiauliai has a good potential of becoming a more productive region within the country, especially if the regional actors could be able to provide the needed support to the Šiauliai Free Economic Zone. The reason author believes that the city has a potential even with no operations yet is; the fact the city still has relatively lower labour costs than other regions within the country may be able to create the boost which is needed. If the zone could commercialize that point and give emphasise on the already mentioned location related characteristics, it has great chance becoming the next business centre and FDI-related production region.

The most common the three zones are identifying in terms of their future development is the improvements of the infrastructure (although during interview expert from Estonia mentioned “Everything functions as it supposed to be, but bettering infrastructure is never bad”.)

After the interview with the expert from Sillamäe Free Zone it is possible to state that the relationship of the zone with local public administration bodies as well as the national government functions well. Resulting from successful relationships with other regional actors such as local businesses the zone functions as a tool of regional development and it generates employment opportunities, investments on the regional infrastructure, an attractive area for the new economic activities and new companies, lastly the alternatives for the imports and exports of the local businesses.

In order to implement the FEZ policy as good as possible, government has to take some risks and not expect the zone administration to handle everything. The case of Šiauliai Free Economic Zone is a very clear example that the infrastructure means the most when it comes to the attraction of the investors. In case of Sillamäe, government taking very active role to improve the infrastructure makes the zone even more successful. The most important step for Šiauliai Free Economic Zone is to work on the infrastructure as intensely as possible. The zone already is expecting 2 new companies within 2018-2019. Author believes as the operations of these new companies will start the zone will get rid of the drawbacks and move forward. Most important future activities may be considered as to contact and be seen as more companies as possible. The fact that the region still has relatively lower labour cost could be used as an attraction theme. Most importantly, the region is in need of a collaboration between businesses, zone, education institutions and local public administration bodies in order to look out for the biggest benefit that could be provided to the Šiauliai region. It is in author's personal opinion, after all the collected data via interview, that the zone has a great potential of becoming more attractive for foreign and local investors in future.

Also case of Liepaja working strategically on scheduled development plans and projects makes it more advanced than the other zones within Latvia. Liepaja Special Economic Zone has many companies operating within the zone and this makes zone seen as a success and it adds to its attraction. The fact that the zone was built in 1997, in a city with military-related background and low production rates makes its success even more recognisable. Today Liepaja city has the second biggest share of contributions to GDP and according to experts opinion the zone within the city with new economic activity generating characteristics, is one of the most important reasons to this success. Liepaja Special Economic Zone benefits the regional economic development in terms of its production. The zone helps the region in terms of employment opportunities and has constant connections with the local and national public administration as well as local entrepreneurs from Liepaja. This makes the zone focus on the interests of the benefits to regional society as well as the regional development in general.

CONCLUSIONS

Although the concept of FEZ have been used for long time by many countries, author observes the term to the concept differs in large numbers. Via this study author brings the conclusion to the differences to the terminology of the concept by providing the important information: after careful investigation it is clear to see that following terms are interchangeable; Special Economic Zone, Free Economic Zone, Free Zone, Foreign Trade Zone, and etc.

Depending on information gathered and processed by the author following conclusions were made about the role of FEZs in economic development: The FEZ concept is used by many countries around the world in order to attract FDI to the host region and country, creating new economic activities, promoting R&D and innovative occupation, bond regional actors to each other and look out for the regional benefits. Besides author suggests that the concept could be used by the public administration bodies of the countries who aspires to achieve these goals. Implemented successfully, the zone benefits the region and helps with regional economic development and then regional development in general.

This research is created in order to not only focus on the FEZs in Baltic States, but also conception of FEZs their historical evaluation process and their structure as well as their relations with other regional actors. Author discovered systematic insights of FEZs and their impact to the host region and country. As conclusion to the research it is revealed that FEZs actively interacts with regional actors of host region such as public administration bodies, NPOs, businesses, universities and EU Commission in certain regions. It is possible to emphasise the fact that FEZs are a very popular policy object when governments are dealing with lagging regions or underdeveloped regions in order to bring more dynamism to less developed regions. That is why in the light of this research it is revealed that FEZ concept is an important element of regional development concept as they are used by many countries in order to create support and boost the regional development of the lagging regions within the country. There are many examples to its use and empirical part of this study is providing the use of the concept by the Baltic States.

After making a comparative analysis of situation in FEZs in Baltic States it is possible to conclude according to the information uncovered by this research that due to their turmoil background with occupation of other forces, Baltic States had hard times before and after their accession to EU. Economic crises hitting them harder than other countries has multiple reasons, including their non-sustainable development policies as well as not so strong economic structure. They used many policies to reach the level of developed countries of EU and one of those policies was to implement well-functioning FEZs within their borders. This study reveals that there are

number of FEZs within the Baltic States. Author worked on one from each country in order to conduct this study.

From Estonia, author worked on the Sillamäe Free Zone (concept of FEZ is called as Free Zones in Estonia) which is a zone mostly focused on the generating economic activities to or from Russia due to its location near the Russian border as well as functioning as a port next to Baltic Sea. It is possible to conclude that the zone and Estonian government works on development projects cohesively and most importantly it was discovered that the zone successfully is contributing to the regional economic development via creating more attractive region for foreign investors as well as local ones, generating new economic activities, providing new employment opportunities as well as import and export alternatives to the local businesses. On some projects EU is taking an active part in terms of funding as well.

Another conclusion is that the zone actively collaborates with the local public administration bodies in order to include them into the development process of the region. Local public administration body is very supportive to the activities of the zone as well as the national government. National government continuously invests in the infrastructure improvements and this makes the zone function even more successfully. After interview with expert, author discovers that the most important challenge for the zones operation is the political relations of Estonia and Russia, because Estonia is the host country and Russia is the most important trading partner and the market of the zone. It is possible to conclude that the zone and the regional actors of the host region, Sillamäe, are working cohesively to achieve the regional economic development goals and through interview it is discovered that the aim of the zone is to keep this well-functioning relationship with the other regional development actors in order to strengthen regional economic development of the region. Finally in terms of hypothesis of this research, with Sillamäe Free Zone, H₁: FEZs can contribute to regional economic development process in the economic area is accepted after analysis of the data collected through the interview with the Expert from Sillamäe Free Zone.

Another zone which is subject to this research is Liepaja Special Economic Zone (concept of FEZ is called as Special Economic Zone in Latvia). With its 21 years of operations Liepaja is the oldest zone within the group of zones which are included to this study. Case of Liepaja is another success story, in short words its history could be defined as ‘from a small town with low productions and military related background to the second highest GDP contributor region of the country after Riga’.

It was discovered by this research after interview that government successfully implemented the FEZ policy within the region due to its good location next to Baltic Sea, similar to Sillamäe Free Zone. The zone now has an impact on the regional economic development with many companies operating within the zone. These companies are providing employment opportunities to the regional

labour market and in order to create a pool of employees with high skills the state labour agency is providing trainings to the employees. After analysis of the collected data via interviews author reveals that main contribution of the zone in Liepaja to regional development is in economic field as the zone provides work force and keeps people in the region and attract labour force from other nationalities. Also the companies operate within the zone creating new economic activities that benefits the host region as well as the country.

Another conclusion is the zone is actively collaborating with the other regional actors and national government, they are included to the development process by their board memberships. The board is responsible from the development plan of the zone which makes the board being able to look after region's interests. In the other hand as the zone become more and more attractive the social life within the region improved as well, the quality of life has been improved as a result of more attractive region. Also zone is focused on the environmental issues and has an environmental plan for future activities and with reports analysing the state of the environment in the territory of the Liepaja Special Economic Zone.

Lastly, similar to Sillamäe Free Zone hypothesis of this research, 'H₁: FEZs can contribute to regional economic development process in the economic area' is accepted with Liepaja Special Economic Zone after analysis of the data collected through the interview with the Mr. Gatis from Liepaja Special Economic Zone.

Coming to last zone included to this research; Šiauliai Free Economic Zone is the newest subject of this study. Similar to Liepaja, Šiauliai was used by Soviet forces as a military town. It is possible to conclude that along with other reasons the city faced many difficulties after independence was regained and production levels were low. Its development pace have decreased through time even though the city has a good location.

It is possible to conclude that being a new zone brings many implementation problems and infrastructural difficulties which ended up leading the zone to a period of stagnation. It is still not operating to its full potential but it has companies which are planning to be operating within 2018-2019. After the interview with the Mr. Klangauskas it is revealed that zone did not reach the operation goals yet. As a result to this research it is important to emphasise the zone has a good location and the region is the 4th largest city in Lithuania but even then, the regional imbalances between the large cities are considerably high. The zone is not very attractive yet because of many reasons. Following are the biggest reasons to attractiveness of the Šiauliai Free Economic Zone discovered by the author; lack of infrastructure, decreasing number of students enrolled in desired programmes and decreasing number of population, lack of communication between regional actors such as educational institutions and businesses and interregional competition with 5 other zones in other regions because some are more attractive.

Hypothesis of this research, 'H₁: FEZs can contribute to regional economic development process in the economic area' is rejected with Šiauliai Free Economic Zone after analysis of the data collected through the interview with the Mr. Klangauskas from Šiauliai Free Economic Zone. The zone does not yet provide employment opportunities to region and did not yet attracted FDI and lastly it is not yet host to the economic activities. But as conclusion it is discovered that this is not a long term situation for the zone, because the zone has good potential of creating a more attractive region for the many potential clients from Scandinavian countries as well as other states because it still has relatively lower cost of labour than the other regions have which could be used as a theme while attracting new investors and companies to the zone.

In conclusion, although at different level in each investigated region, FEZs in Baltic States have impact on the regional economic development, providing new economic activities, investments in infrastructure, attraction of advanced businesses as well as formation of new businesses creates an impact on the regional economic development.

RECOMMENDATIONS

As a result to the findings which is provided in the conclusion part, the researcher constructs the recommendations in two parts. They are as following;

To public administration bodies of the host regions of FEZs which are selected as a subject to this study;

- 1) The national public administration bodies of Baltic States should concentrate on the improvements and possible investments on infrastructure of the FEZs, establishing them is not enough for them to be successful while attracting FDI, foreign and local investors. Depending on the conclusions of this study the most important need of the sample FEZs is investments on the infrastructure,
- 2) In cases that local public administration bodies of the host regions that are working cohesively with the FEZs in development policies and projects, the benefit to the regional economic development is maximised. So author strongly recommends the local public administration bodies of the host regions of the sample FEZs (Sillamäe, Liepaja and Šiauliai) to take (even) more active role in the development process,
- 3) Strongly recommended by the author that both national and local public administration bodies of Estonia, Latvia and Lithuania to work on the policies in order to prevent or at least minimize the emigration and outflowing brain drain so that when the FEZs become more attractive, with new company activities and need to fill the labour gap, inflowing brain drain goal may be achieved.

To the administration of the FEZs in Sillamäe, Liepaja and Šiauliai;

- 4) It is very important that the zones work together with other regional actors such as educational institutions and local businesses on the process of development of the region. Author strongly recommends that the sample FEZs to work on regional alliances such as clusters in order to maximize number of elements; the attractiveness of the zone to the local and foreign investors, the regional reputation or value and interregional competitiveness of the host region,
- 5) Year 2018 and the world is facing a fact called climate change. This makes many advanced companies consider going green. It is important for FEZs to have environmental development plans while working on attracting of the FDI. Although within the sample only Liepaja Special Economic Zone seems to work on environmental issues and projects; author strongly recommends Sillamäe Free Zone and Šiauliai Free Economic Zone to work on the future development activities concentrating on environmental issues.

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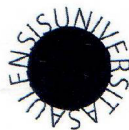
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APPENDICES

APPENDIX I



ŠIAULIAI
UNIVERSITY

DIPLOMA

Young Scientists' International Scientific Conference

**CURRENT ISSUES IN ECONOMIC, BUSINESS AND PUBLIC
ADMINISTRATION**

dedicated to 100th anniversary of Lithuania

Bisra Demirelisci

2nd Place Winner

in the section

**CHALLENGES AND OPPORTUNITIES IN BUSINESS AND
PUBLIC SECTOR**

Head of Department of Economics
Dr. Mačiulytė - Šniukienė

Handwritten signature in blue ink of J. Mačiulytė - Šniukienė.

Head of Department of Business and Public Management
Assoc. Prof. Solveiga Skunčikienė

Handwritten signature in blue ink of S. Skunčikienė.

Siauliai, Lithuania
April 11, 2018

SEMI-STRUCTURED QUESTIONNAIRE (APPENDIX II)

About the interviewer:

Name, Surname: Büşra Demirelişçi

Education: M.P.A. in Siauliai University (LT) on Regional Development and Governance

About the interviewee:

Gender:

Position:

Region/ Country:

About the interview:

Estimated time period; 50-60 minutes

Aim of the interview; the aim of this interview is to create a comparative analysis of the situation in Free Economic Zones in Baltic States, to identify their specifics of structure, activity and connections to other regional actors and to discover challenges and trends of future activity of Free Economic Zones in Baltic States to strengthen regional economic development.

*X FEZ represents the example, it is replaced during the interview according to the focused FEZ,

**From LT/LV/EE, the appropriate one is selected during the interview.

1. What is your position and responsibilities in brief?
2. How many years of experience do you have?
3. When was the X FEZ* established?
4. How does the establishment process works? What are the main difficulties when establishing a FEZ? –Who has more responsibility? Public administration or the private partner?
5. Is there a direct influence of public administration bodies to the administration of the X FEZ*?
6. What is the institutional structure of the X FEZ*?
7. Who owns the X FEZ*? Is it owned by a company or is it rented from government?
8. How X FEZ* is effected by the local public administration?
9. What is the main sector in which X FEZ* aims to boost/support?
10. X FEZ* is more active in International or Internal market?
11. How many companies are actively operating in the X FEZ*? And the progress from beginning till now?
12. How many employees does these companies have/ in total? The progress from beginning till now?
13. In history of the X FEZ* was it ever failed/had to be redesigned or re-planned?
14. If yes what were the main actors played part in the failure?
15. In the x years X FEZ* has been operating, which goals have been achieved? Which had to be redesigned?
16. What are the connections of X FEZ* with other local businesses/ public sector/ NPOs?
17. Why in your opinion governments are setting FEZs?
18. What are the ways to achieve the goal of X FEZ*? What are the challenges?
19. How does the X FEZ* effect X region to develop?
20. How does the X FEZ* effect the LT/LV/EE** development?
21. In the x years of its operation, what is the FDI in €?
22. What are the other impacts of X FEZ* in the X region?
23. What are the needed supports for X FEZ* to improve its impact on the regional economy of X?
24. What kind of activities do you think improves the chance of future development of X FEZ*?
25. Does X regional public policy bodies support the success of X FEZ*? If yes how? If not what could be done to improve the relationship between the Public Administration and X FEZ*?

Thank you for your answers and time!