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STUDY OF THE DYNAMICS AND IMPACT OF SPECIAL ECONOMIC ZONES IN LITHUANIA: A COMPREHENSIVE ANALYSIS

Abstract. *Special economic zones (SEZs) have become important mechanisms for stimulating economic development, attracting foreign investment and accelerating industrial growth around the world. Lithuania, located in the Baltic region, strategically uses SEZs to stimulate economic progress and strengthen its positions in the world market. In this paperwork, the analysis of special economic zones of Lithuania will be provided, especially, the aim of creation, evolutionary development and phases, juridical and economic regulation from the government. The deep analysis of SEZ in terms of problems, strengths and weaknesses showed a pathway for adaptation of sustainable development that contributed by deep discussions.*

Key words: *special economic zones, public administration, economic development, economic progress, the world market.*

■ Introduction

Investment is the source of employment, knowledge and competitiveness, and is the key to economic growth, faster development and increased attractiveness of weaker regions. Foreign and domestic direct investment enables people to earn and live better. The aim is therefore to put Lithuania on the map of business investment and strengthen its position in international markets.

One of the essential tools of public policy and administration in terms of quick economic growth is opening and creation of special economic zones. It also plays a vital role in foreign investment to any country with a specific area of development. SEZ in Lithuania was created in order to develop export of local products to fasten the economic growth, but then SEZ gave a multidimensional effect that created industries and infrastructural development of the whole country. It also developed new and advanced technology, machinery and science. The aim of this paper will be focused on deep analysis of SEZ of Lithuania regarding the issues such as creation, development, regulatory mechanisms, public administration tools and economic benefits to the country.

The development of Lithuanian free economic zones shows that the legal basis for the creation of the SEZ in Lithuania was laid in 1995 by the Republic of Lithuania Government adopted the Basic Law on Free Economic Zones of the Republic of Lithuania. However, the moments of creation of the legal base of the SEZ began in 1992, when Lithuanian government adopted the resolution "On the establishment of a free international business territory in Klaipėda". In this the resolution approved the Klaipėda City Board's proposal to allocate free international business 100 hectares of land for the territory, and lease it for 99 years to the company "Paulius and Associates". In the same year, 1992, the Lithuanian-US joint company "Kauno Nova" prepared and presented it the draft statutes of the SEZ, and the government's turn, the establishment of international business territories, were announced in the priority direction of the development of the Lithuanian economy. Klaipėda Free Economic Zone (205 ha) was established in 1996. in September, upon acceptance of the Klaipėda Free Economic Zone Law of the Republic of Lithuania. This is the first one a free economic zone started operating in Lithuania in 2002 after signing a contract with the company UAB "ESPERSEN" established by the Danish fish processing concern A. ESPERSEN A/S. The Kaunas Free Economic Zone (1053 ha) was established in 1996 after accepting Lithuania Republic of Kaunas Free Economic Zone Law. Won at the end of 1997 announced international

tender, the Republic of Lithuania by Government Resolution Belgian company was approved as a founding group of the Kaunas Free Economic Zone Law.

It must be stated that there are peculiarities in the creation of free economic zones in Europe. Establishment of preferential regimes for economic activities in certain designated states territories is becoming a fairly common phenomenon in international economic practice. United Nations according to the organization (UN), over 120 countries of the world can to count about 3 thousand special economic zones providing jobs per 50 million people. Legislation on the operation of the SEZ of European countries, including measures of state support and benefits, the analysis testifies to the fact that the development of the legal SEZ regime is exclusively national within the legislative framework. This provision applies to countries belonging to the European Union. An exception is the customs regulation, where the unification of legal regulations is carefully followed. The European Commission recommends the following investment promotion countries tools: 1. exempting companies and organizations from real estate tax; 2. exempting from deductions from income according to LR road maintenance and development program financing law (road tax); 3. exemption from profit tax; 4. by applying a 50% lower land rent for the zone management company leased state land (Commission, 1998).

Currently there are seven free economic zones in these cities of Lithuania: Akmenė, Kaunas, Klaipėda, Kėdainiai, Šiauliai, Panevėžys and Marijampolė. The investors established in free economic zones can take advantage of developed infrastructure as well as favorable economic and legal regime. Kaunas and Klaipėda are well regarded, because of their location: Kaunas is situated in the middle of Lithuania and offers good access to all the parts of the country and international highway\railway systems while Klaipėda situated on the coast of Baltic Sea has a port which facilitates shipping and receipt of goods. Four of the free economic zones have access to an airport close by as well.

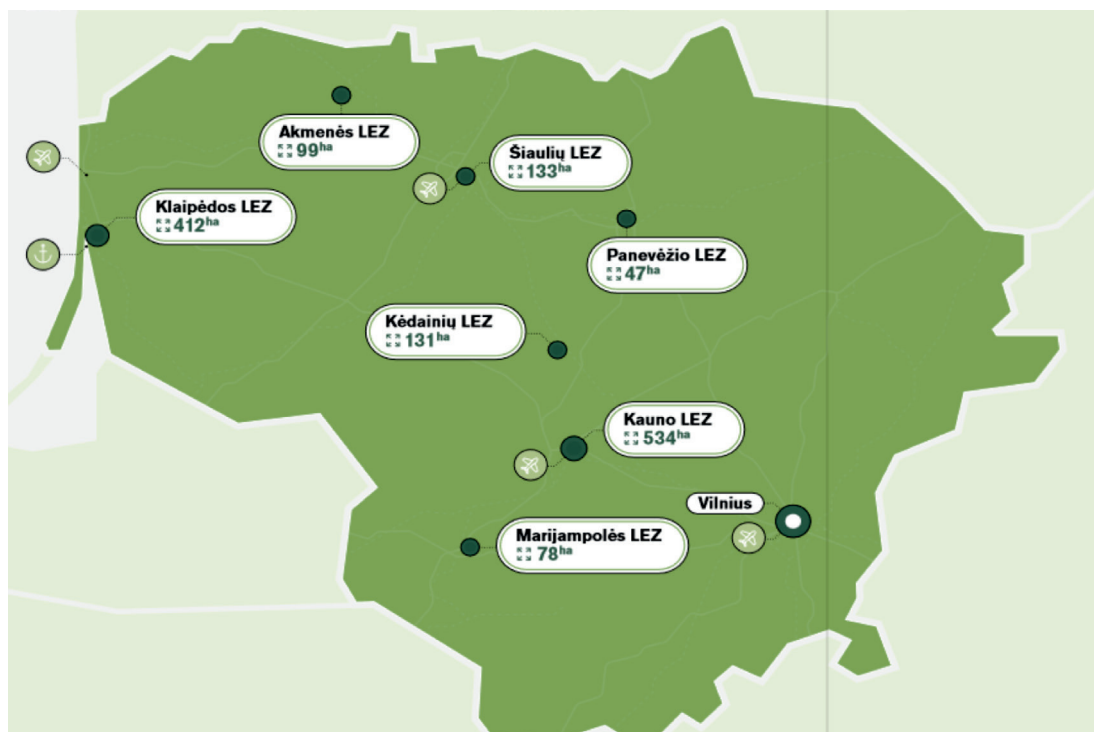


Figure 1. Location and areas of economic zones of Lithuania (Invest Lithuania, 2024)

Meanwhile, the free economic zones of Marijampolė, Akmenė, Kėdainiai, Panevėžys and Šiauliai can be classified as recently established, since the activity started 10 years ago or less. Observing the expansion trends of the SEZs of Šiauliai, Panevėžys, Marijampolė, Kėdainiai and

Akmenė, it can be said that the smallest number of new companies were established in them - just one. The Panevėžys SEZ was supplemented by a third investor - UAB «IMG Lithuania», which is a company with Norwegian capital that specializes in furniture production. The company's investment will reach 10 million EUR and 125 jobs will be created. In other SEZs, three companies are still preparing to start operations: Kėdainių SEZ will be supplemented by UAB «Ikaras», which will invest 3 mln. EUR, will be engaged in furniture production and even 80 percent. manufactured products will be exported; Natural fiber UAB carries out the construction works of the hemp stalk processing plant, invested 8 million EUR amount, and the number of employees will reach over 30. Panevėžys SEZ development is carried out by AR Maistas UAB – a company that bakes flour products.

■ Literature Review

Economic is treated as a critical component of the region's development, forming the basis for developing other components. Moreover, regional economic development can be defined as the development, comprehensive process of change that promotes long-term economic growth, transformation that improves the economic quality of life of society members in the community. Nowadays, the regional and spatial policy focuses on supporting the development of network connections among business entities, local authorities, and the business environment (Hajduga, Pilewicz and Mempel-Śnieżyk, 2018). Point out that regional economic development can be understood as a result of regional competitiveness driven by a tendency to fight for a better economic position. The economic development of the region focuses on quality improvement, risk reduction, innovation and entrepreneurship, which lead to a faster and higher trajectory of economic growth at the regional and national level. The economic development of a region can also be defined as a mechanism for expanding economic actors' opportunities. These participants can be individuals, firms, or industry representatives (Feldman, Hadjimichael, & Lanahan, 2020).

In the development of regions, such factors are important as: the regulatory base and the dynamics of operational activities, socio-economic impact of SEZ and future of SEZ and influence of public policy.

In terms of regulatory framework and dynamics of operational activities, it is stated that the legal framework governing SEZs in Lithuania is enshrined in the law on Special Economic Zones, which provides a legislative basis for their creation, operation and management. The mechanisms of regulation of SEZ in Lithuania contain incentives from customs, tax, ready infrastructure, leasing of land and softened export procedures. One of the key points that has been done by the Lithuanian government is the simplification of procedures for skilled workers who would like to work in SEZ in terms of licensing and permission (Daugeliene & Mandravickas, 2018). Discussing about socio-economic impact of SEZ it is stated that SEZs in Lithuania have brought significant socio-economic benefits, contributing to job creation, technology transfer and export diversification. By attracting transnational corporations and strengthening cooperation between domestic and foreign enterprises, SEZ encourages industrial growth and innovation. In addition, the creation of SEZs stimulated regional development, especially in peripheral areas, to create employment opportunities and improve communication with infrastructure. However, the problems remain, including the need to ensure sustainable development, solve environmental problems, and promote inclusive growth within SEZs (Tseslinskas and Kuzmarskaite, 2019). Future of SEZ and influence of public policy it is obvious that SEZ will play a vital role in the economic development and prosperity of Lithuania that fosters the mechanisms and tools for a better future. In addition, aligning the policies of creating special economic zones with broader national development goals such as sustainable growth, social integration and environmental sustainability will be important to maximize their impact. Continued investment in infrastructure, education, and skills development will further increase the competitiveness of SEZs and ensure their long-term viability (Baniulis and Remeikiene, 2020).

The concept of SEZ was first introduced in Lithuania in the early 1990s, after the collapse of the Soviet Union and subsequent transition to a market economy. The main goal was to attract foreign investment, stimulate industrialization and integrate into the world economy. The original SEZs were created in strategically located regions such as Klaipeda, Kaunas and Panevezis and offered simplified tax incentives, simplified administrative procedures and infrastructure support to encourage investment (Daugeliene & Mandravickas, 2018). Methodologies on the establishment and assessment of free economic zones recommend the use of certain criteria. We see them in table 1.

Table 1. Criteria determining the creation and operation of free economic zones

Comparative analysis of seven Lithuanian free economic zones							
Criterion / Zone	Kaunas	Klaipėda	Šauliai	Marijampolė	Kėdainiai	Panevėžys	Akmenė
Highway	A1 connects Kaunas with Klaipėda and Vilnius stretches towards Minsk, Kiev, Moscow	A1 connects Kaunas with Klaipėda and Vilnius stretches towards Minsk, Kiev, Moscow	The A6 highway stretches from Warsaw to St Petersburg, on the way Riga, Tallinn	The A6 highway stretches from Warsaw to St Petersburg, on the way Riga, Tallinn	The A6 highway stretches from Warsaw to St Petersburg, on the way Riga, Tallinn	The A6 highway stretches from Warsaw to St Petersburg, on the way Riga, Tallinn	
Road surface quality	Among the best in Europe	Among the best in Europe	Among the best in Europe	Among the best in Europe	Among the best in Europe	Among the best in Europe	Among the best in Europe
Airports	Kaunas airport	Palanga Airport	Palanga Airport	Kaunas airport	Kaunas airport, Vilnius airport	Vilnius airport	Palanga Airport
Sea and river port	River port in Kaunas	Sea port in Klaipėda					

Source: compiled by the author

Methodologies for the creation of free economic zones are suggest an assessment of airport influence area and accessibility to industrial areas to maximize small town with a radius of 69.90 km, the sea port – 51.91 km, the signal terminal – with a radius of 20.08 km, and the main ones’ roads – at a distance of 3.49 km. Outside of this area of influence parks may be viewed as poorly accessible. Free economic zones are concentrated near highways of European significance and larger cities, however according to the method proposed by scientists, after evaluating air or location of seaports, their sufficient accessibility only the SEZs located in Vilnius, Kaunas, Klaipėda and Šiauliai.

According to the number of Special Economic Zones operating in the country, Lithuania is the third in the Western world, after the United States of America and Poland. While SEZs can be found in about 70 percent of developed countries and are mostly customs-free zones to encourage foreign trade, Lithuania, Poland, and other countries like Bulgaria are different, with other fiscal incentives offered as well in an effort to boost the growth of industry, especially in the less developed regions of these countries. Currently, there are 16 SEZs (7 Free Economic Zones (FEZs) and 9 industrial parks) in Lithuania, 21 in Poland, 262 in the United States. Following Lithuania, Croatia is in fourth place with 11, while Bulgaria is fifth with 9 SEZs. Foreign direct investment (FDI) flow for 2018 in Lithuania increased by 39%, to 905 million EUR, compared to 2017 figures of 654 million EUR. The situation is different globally, with FDI flows continuing to slide, falling by 13 percent to \$1.3 trillion from \$1.5 trillion recorded in 2017. In Lithuania, manufacturing and logistics companies established in SEZ territories, having invested more than

a million EUR, and business service companies that have invested more than 100 thousand EUR do not pay corporate income tax for 10 years with a reduced (7.5%) tariff for further six years after that. These companies are also often relieved from paying the real estate tax. In the United States and Western Europe, “freeports” are the most common customs-free zones. The main rationale for establishing SEZ in developed economies is to reduce the distortionary effects of tariffs and regulatory “costs” associated with importing, the UNSTAD economists state (UNCTAD, 2019).

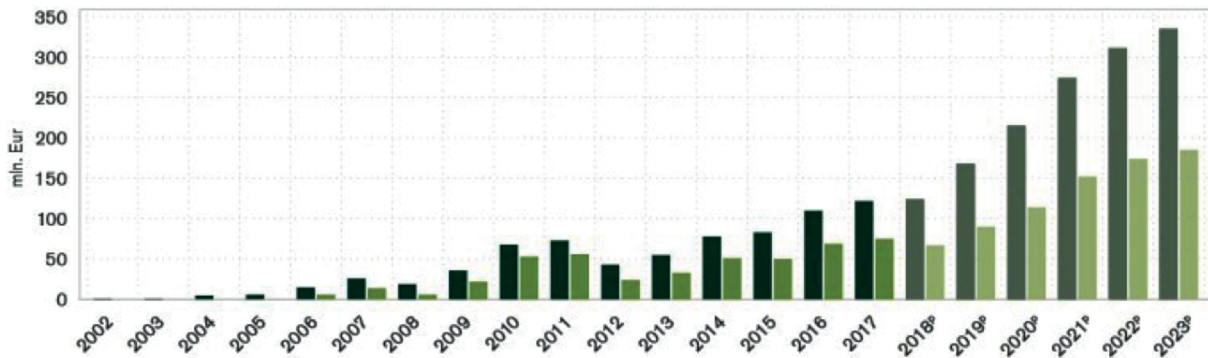


Figure 2. Benefits of Free Economic Zones (Invest Lithuania, 2024). Value added (dark line) and profit (light line)

■ Discussion

An important issue is whether the free economic zones in Lithuania are expanding efficiently and evenly (Guzovska, 2020). The factors of development of free economic zones can be divided into initial and main ones (Danilevičienė, Lukšytė, 2017). Initial factors include general information about country: economic situation, economic indicators, geographical location, current currency, data about the market. Meanwhile, the main factors that mainly determine the development of the SEZ are: the tax system, level of corruption, stability of the political system. It was determined that note that investors first pay attention to the state political - economic situation. Political stability is considered an important factor, which is necessary for the successful development of the SEZ. Because investors prefer a country that is advanced and tourism business opportunities, it is a country that lacks political-economic stability, often development scares off investors.

Convenient location and good communication not only within the country, but also with neighboring countries, around the world are particularly important factors for the development of SEZs. As the main advantages of Lithuania, which having a positive effect on the successful development of the SEZ are highways, airports, and seas located near the zones port, railway, educational institutions, etc.

An important question is what are the possibilities for the development of free economic zones in Lithuania:

The free economic zones in Lithuania are expanding ineffective because the infrastructure of the available area is not properly prepared. Comparing the use of the SEZ area with neighboring Poland, it is noticeable that Poland, which has twice the number of free economic zones, also does not use the free area. It is predicted that after a five-year period, the occupancy of the sub-leased area will reach 550 ha, which means that its occupancy will be increased by 38%, but the area of 357 ha (62 percent). It is likely that the fully leased space will be more than 10 years from now.

After conducting an investigation, the State Control of Lithuania found that the strategic planning documents foresee the development of free economic zones, but do not foresee separate measures and investment amounts for the development of the zones’ engineering infrastructure, do not set specific targets for the zones’ performance, and hence do not identify the added value that the zones’ activities are expected to bring at the national level.

It can be argued that factors such as political stability, tax benefits, location, qualified workforce are of particular importance for attracting investors. The main tax relief that encourages activities in the SEZ is considered to be the profit tax, which exempts investors from paying tax for 6 tax periods, and for the following 10 years followed by 50% reduced corporate tax liability. However, before using the toll booths benefits need to generate profit in the beginning, and skilled labor contributes the most to this. The study revealed that investors lack skilled labor, and according to the statistics department, in Lithuania over 50 percent of all the unemployed have only obtained secondary education.

After conducting an investigation, the State Control of Lithuania found that the law sets target for the use of regional infrastructure and high-tech development in the zones, the achievement of which is not measured. No performance indicators related to the use of regional infrastructure (seaport, Kaunas airport, railways and motorways) have been set for the Kaunas and Klaipėda zones; no performance indicators related to the development of high-technology or the advancement of science have been set for any of the zone's management companies. According to the data collected by the auditors, 78% (71 out of 91) of the enterprises operating in the territory of the zones in 2023 were not engaged in high-tech activities (Ambrusevič, 2010).

We can provide recommendations to achieve these goals. First of all, need that the national public administration bodies should concentrate on the improvements and possible investments on infrastructure of the SEZs, establishing them is not enough for them to be successful while attracting SEZ, foreign and local investors. Depending on the conclusions of this study the most important need of the sample SEZs is investments on the infrastructure. Second, in cases that local public administration bodies of the host regions that are working cohesively with the SEZs in development policies and projects, the benefit to the regional economic development is maximized. The local public administration bodies of the host regions of the sample SEZs to take (even) more active role in the development process. Thirdly, national and local public administration bodies to work on the policies in order to prevent or at least minimize the emigration and outflowing brain drain so that when the SEZs become more attractive, with new company activities and need to fill the labor gap, inflowing brain drain goal may be achieved. And fourth, 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. The sample SEZs 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.

■ Conclusion

In conclusion, SEZs have become catalysts for economic growth and industrial development in Lithuania, contributing to job creation, technology dissemination and export expansion. Despite the emerging problems, including the complexity of regulation and global economic uncertainty, the SEZ remains an integral part of Lithuania's economic transformation program. By creating a favorable business environment, encouraging innovation and expanding contacts, Lithuania will be able to fully use the potential of the SEZ to ensure sustainable development and prosperity.

The economic, social and investment climate of Lithuania also depends on the activities carried out by the SEZ. Although most authors highlight the possible benefits of the SEZ for the region, we have to prove it with concrete indicators.

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ЛИТВАДАҒЫ АРНАЙЫ ЭКОНОМИКАЛЫҚ АЙМАҚТАРДЫҢ ДИНАМИКАСЫ МЕН ЭСЕРІН ЗЕРТТЕУ: ЖАН-ЖАҚТЫ ТАЛДАУ

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***Аңдатпа.** Арнайы экономикалық аймақтар (АЭА) бүкіл әлемде экономикалық дамуды ынталандыру, шетелдік инвестицияларды тарту және өнеркәсіптік өсуді жеделдетудің маңызды тетіктеріне айналды. Балтық өңірінде орналасқан Литва экономикалық прогресті ынталандыру және әлемдік нарықтағы өз орнын нығайту үшін АЭА-ны стратегиялық тұрғыдан пайдаланады. Бұл құжатта Литваның арнайы экономикалық аймақтарына талдау, атап айтқанда, құру мақсаты, эволюциялық дамуы мен кезеңдері, үкімет тарапынан құқықтық және экономикалық реттеу көрсетіледі. АЭА-ның проблемалары, күшті және әлсіз жақтары бойынша терең талдауы тұрақты дамуды бейімдеу жолын көрсетті, оған тереңдетілген талқылаулар ықпал етті.*

***Түйін сөздер:** арнайы экономикалық аймақтар, мемлекеттік басқару, экономикалық даму, экономикалық прогресс, әлемдік нарық.*

ИССЛЕДОВАНИЕ ДИНАМИКИ И ВЛИЯНИЯ СПЕЦИАЛЬНЫХ ЭКОНОМИЧЕСКИХ ЗОН В ЛИТВЕ: КОМПЛЕКСНЫЙ АНАЛИЗ

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***Абстракт.** Специальные экономические зоны (СЭЗ) стали важными механизмами стимулирования экономического развития, привлечения иностранных инвестиций и ускорения промышленного роста во всем мире. Литва, расположенная в Балтийском регионе, стратегически использует СЭЗ для стимулирования экономического прогресса и укрепления своих позиций на мировом рынке. В этом документе будет представлен анализ специальных экономических зон Литвы, в частности, цель создания, эволюционное развитие и этапы, юридическое и экономическое регулирование со стороны правительства. Глубокий анализ СЭЗ с точки зрения проблем, сильных и слабых сторон показал путь к адаптации устойчивого развития, чему способствовали глубокие дискуссии.*

***Ключевые слова:** специальные экономические зоны, государственное управление, экономическое развитие, экономический прогресс, мировой рынок.*