

Free Zone or Processing Area for Export

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Abstract

Some countries apply as primary fiscal facilities the "Free Zone"; some of them guarantee contract for investors, investor protection, the reduction of bureaucracies, the partial state capital, providing incentives for every employee and other promotional policies. In theory, the goal is very clear for their creation. The attraction of strategic investors, improvement of the technology, providing jobs, fast movement of goods and capital, increase of competitiveness, increase of economic cooperation between the border countries and other chain effects, lead with economic growth and development in a country. The last 8 years in Albania, have been approved 11 Decisions of the Council of Ministers, for the Establishment of Economic Free Zones that today is called: "Technology Zone and Economic Development". Some questions that will be treated in this topic, are based on the official data of the respective institutions. What are these decisions? What was the primary purpose of the 2008-2009 policy, where the development strategy was based on the free zones revolution? Who were the winners of these competitions? What extent is today in these areas of investment, what is the number of employees drawn up to date? Which could be a competitive bidding package for boosting foreign investment?

Keywords: Free Zone, Fason, Technological Zone, Industrialization, Economic Development

Introduction

Free Zone

According to the World Customs Organization (WCO) revised by the Kyoto Convention, the definition of free zones is as follows:

"A part of the territory contracted to the parties, where all goods entering the country, in respect of import duties and taxes, are considered to be goods outside the customs territory".

In fact, the definition and interpretation for different countries varies according to the concept and characteristics on which they are created. The aim has started with trade development, following by modernization of the concept and continues with the industrialization of countries and further with general economic development.

Free zones have been a very important factor promoting a country in the international market and to realize a real economic growth. Many of these in the border areas has provided high opportunities for economic cooperation by development decentralisation in the country in terms of creation of new inovative centers. In this way, it ensures not only the distribution of incomes but also the labor force that is provided both managerial and professionally. Mainly the Free Zones aim to industrialize the country as the source of multi-beneficiary economic-financial development.

Romania has approved the Law of Free Trade Zones in 1992, where 159 companies operate in the production, packaging, storage and trading sector. The distribution of these areas has their purpose such as: trade development and economic cooperation with the neighbors. Their distribution is made in border areas, for example Sulina, Constanta-Sud, Galati, Braila, Giurgiu, Curtici-Arad, which are Roman border countries with Hungary, Bulgaria, and Moldavia with broad stretch of coastline.

Romania's incendiary policies consisted in bringing new investors to create and manage leasing structures between juridical persons up to 49 years in warehousing sector and reducing customs procedures for re-export material.

Bulgaria has approved the law on investments in 1987 for up to 3 years, and it has implemented 5 industrial parks and 7 free areas where are conducted re-export, production, technology and financial activities. Tax exemption for investors has been applied for a period of 5 years. All imported goods, entering in the free zone and having purpose: producing, storing and packing for export are exempt from VAT and customs duties.

Free zones creation has attracted high-level investments such as Hyundai Co., Daewoo Co., KIA Motors, CITCO, Schawartskopf, Henkel, Landmark Chemicals Ltd., Schneider Group, BINDL Energic Systeme GmbH. The condition for these investments is to be completed within 3 years.

Turkey has approved the law in 1985. There are created 21 free zones in order to increase investment in the pharmaceutical, textile, storage and electronics industries. Tax liberalization has been applied as a major advantage to investors, excluding 100% from profit tax, income tax, interest or dividend tax, exemption from customs duties on goods, equipment and machinery.

Greece has an early experience through the main ports of Thessaloniki, Piraeus, and Heraklio since the 1930s. The focus of this strategy consisted in approaching all merchant ships or not, their services in logistical expansion at the international level.

It includes a number of traditional cargo terminals, tools, basic repair ship, and warehaus space. In these areas has been applied the processing export system, exempt from all taxes.

Croatia has applied 15 free zones in 1996, in approaching foreign investments and enhancing the welfare by offering jobs in less developed countries. Investors are exempt from profit tax for 5 years, while for the users is applied a 50% discount on the profit tax. In Croatia according to the law, are defined the specific criteria in each concessional contract, between Investor and the Ministry of Economy. Also infrastructure investments are foreseen separately to be fairly proportionate to central and local government. The investor who develops the free zone, participate in the infrastructure investment, is excluded from the profit tax for 5 years, as well to the user is applied the reduce of 50% of the profit tax.

Montenegro has approved the law since 2004. It consists in relying on the approach of foreign investors, opening new jobs and making the competitive country in the Balkans. No deadlines or fiscal incentives have been set up and no regulation has been adopted for the establishment of economic zones and there is no strategic territorial and technical-economic plan. It has been created, only, the Bar Area with a surface of 200 hectares.

Macedonia has approved the law since 1999. There are created three free economic zones in Tetovo, Stip and Skopje. The main goals of political initiatives have been: economic development, introduction of advanced technology and promotion the foreign investors.

Macedonia has offered large fiscal incentives for free zones. Among other things, the activity in the free zone pays ZERO profit tax, 50% personal income tax, ZERO construction tax, and ZERO cost for water, energy, and gas. The deadline for rent the land is 50 years, renewable for other 25 years. Within the free zone the services are exempt from taxes.

Serbia has approved the law since 1994. There have been applied 13 free zones. The political purpose continues to be, the encouragement of foreign investors in the country as well as the increase in the number of employees. The most sensitive sectors in these areas are: clothing, materials and packaging. Macedonia offers tax cuts but not their removal. Her strategy is focused on reducing bureaucratic procedures and an active duty-free processing system.

Macedonia has offered many fiscal advantages from these countries, but also reduced procedural bureaucracy and is regarded as the most competitive country in the Balkans regarding the free zone incentives. While other countries offer natural advantages such as geographic position, and political stability.

Free zones in Albania

The law for Free Zones was drafted at the beginning of the transitional period in 1991. His approval was reached on 15 February 1996, with a new look for the country's economy. That was qualified as the engine of economic development, and this law was based on the goal of general economic development and in particular with the growth of employment.

Law no. 8072, dated 15.02.1996, was replaced by Law no. **8636, dt.6.7.2000**, a law generally improved in the sense of promoting nature, since, among other things, excluded investors for 10 years from the profit tax.

The promotion of this law at international business roundtables has turned into a media outlet that was very important to foreign investors, who showed a special interest. This brought in Albania a large number of the big world businesses of American, Italian, Turkish, Greek etc. The European Bank for Reconstruction and Development was present in the

conception of free-area in the country. But this conception had the next hurdle. Changes to this law in parliament, no later than six months, made controversial the sustainability political balance in the service of safe investments.

The Article 18, point 3, which excluded 10 years of business from the profit tax, was canceled. The "Free Zone Operation Regulation" was approved in December 2003, which did not give a result, so it did not work. Following the reforms of new governance after 2005 and concretely in 2007, the Law on the Establishment and Functioning of Economic Zones was amended by law no. 9789 date 19.07.2007.

Independent economic institutions are an important tool for converting political indicators into economic and social indicators, The creation of the National Free Zone Entity, was considered to be abolished, as a legal entity, which did not have a development impact on country versus developing policies for free zones up to job vacancies.

During 2015, was created the Economic Zone Department in the Ministry of Tourism of Economic Development, Trade and Entrepreneurship, in the Directorate of Public Property Administration. The mission of this sector is the implementation of the rule of law, which has his mission, to create an attractive business environment for foreign investors and local enterprises, in function of the economic growth of the country, also the establishment and improvement of the legal basis for reactivating existing economic zones and to create new economic zones as well as their functioning, supervision and monitoring.

It began a remarkable work on the concentration of foreign investors in Economic Zones in Albania from this year. This includes many advantages.

The improvements in law have been and are always necessary, but sometimes spoil the balance of sustainability. However, the following changes are very positive with Law no. 54/2015 that consisted in the procedures of obtaining licenses in a very short time, within 15 days, as well as the deepening of fiscal facilities, following the amendment of the relevant regulation in early 2016.

Advantages

The advantages offered by economic zones are closely related to their type. The policies of their creation are encouraging and characterized by the advantages that they offer. As mentioned above, different countries use different indicative indicators for attracting investors.

The increase of incomes from abroad is the primary economic element that offers the growth of money circulation in the country. Also, the employment and training of the labor force is the primary social element offered by the respective policies. Above I mentioned some of the advantages offered by Balkan countries for investors in free zones. A multi-mix strategy of political treatment of new investors in free zones or in the facilitated sectors has been created from a fiscal and procedural point of view in our country. Recent changes of the law provided more advantages in terms of economic zones, also significantly increasing the political concentration in promoting this law and approve of concrete free zones.

Today, the economic Zones in Albania offer a comprehensive political and fiscal support, not only lower facilities and taxes, but also in terms of functioning and logistical. Among the static advantages that our country offers, as a connecting bridge between Eastern Europe and the Balkans, were joined by several other fiscal elements as follows:

Users and developers are exempt from paying 50 percent of the tax rate for the first 5 years, when they start their activity in that area;

Users and developers that invest in the free zone, within 3 years from the date of starting the economic activity in area, are recognized as deductible tax expenses 20 percent of annual capital expenditures, regardless of amortization amounts, according to the law for income tax, for a 2-year period;

The supply of Albanian goods destined to be placed in the area is considered to be a supply of zero scale export, in accordance with the provisions of the Law on Value Added Tax and Customs Law;

The developer's project is excluded from infrastructure tax;

Buildings in this area, according to the developer's project, are exempted from the property tax for a period of five years;

Users of developers of the area are exempt from taxes on the property transfere tax;

Expenditures of salaries, social and health contributions that are paid by the employer are recognized at 150 percent of the value during the first fiscal year of the activity. In the following years, additional wage costs, in relation to the previous year, are recognized as expenses at 150 per cent of the value;

Employee training costs in technology and economic development areas, are recognized as expenses with double value for the tax period for 10 years from the beginning of the economic activity;

Expenditure on research and development is recognized as a double-digit expense, for a period of 10 years from the beginning of the economic activity.

Restrictions

Fiscal facilities offer an international competition for fiscal treatment. For this reason, many countries apply restrictions to maintain the parameters of their economic and financial indicators.

In some countries, the criteria for investors in free zones determine the type of company for legal liability. It means that who does not belong to that responsibility, should be subject to change the commercial liability, or to register the company according to the defined criteria;

Sometimes we see restrictions of the activity in free zones through branches or in foreign companies that are often encountered. These restrictions, is more related to the image of the company and creating consolidated financial systems controlled and supervised than create an additional cost for entrepreneurs, increases the legal responsibility to the administration by distributing it in some levels of supervision, and preventing threats to potential threats. But in the case of branches and affiliates as a restriction, the primary purpose is the origin of capital and the second purpose profit distribution;

Investor's transactions that are located in free zones, are bound to co-operate only with free zone operators inside or outside the country in order to benefit from the advantages of fiscal treatment. This limitation offers a static attitude of the entrepreneur. Flexibility is related to the additional fiscal cost and other legal norms;

Restriction of foreign ownership in the company's capital is another limitation applied to the treatment of free zones. These are cases of developed and industrial countries that do not liberalize capitals but offer supportive policies for their citizens by combining know-how values with financial ones of new investments;

Determining the boundaries of the invastation is a criterion used by all applying countries in the free zones;

The obligation to continue the activity through resident companies of the product or service in the country where they operate. Other constraints inhibit companies with high development potential. But they help to distribute the welfare of some operators simultaneously;

For countries that do not enjoy free movement, it is foreseen the number of visas for foreigners work, in order to use the labor force in the country.

As well as compiling the characteristics of free zone treatment policies, we take consider both of them: benefit and cost analysis. After that we see the balance of interest of the sole purpose of their profit.

In our case, it is clear that the line and legal infrastructure has been reached after a nearly 20 years of a qualitative, but not administrative, quality in the framework of planning, monitoring, and financial oversight.

Investments and Employment in Free Zones

In Albania, have been announced 9 economic zones, of which 8 are industrial parks and 1 free zone. The table below shows the relevant data per year, the value of the investment and the number of employees applied to obtaining the rights. The investment for all these projects presented against the guarantees issued for the expected investment results to be zero. Consequently, the contract criteria have not been fulfilled for the number of employees, and other income related to taxes and tariffs.

Big names in the business world are contracted as investiture, referred to countries with high reliability from the features, representing serious view, based on guarantees and experiences which are proven before the sign of the contracts. Even this, the investments have not been yet realized and employment is not reached from these companies. It is further

understood that the lack of tax revenues for years could have arisen from these investments, including employment, caused damage and other economic development opportunities.

	Type	Place	Year	Legal Basis	Surface. ha	Investor	Origin of investor	Activity	Value of investment Eur	Nr of employment	Today status	Completed investment
The lack of investor seriousness and the lack of legal ownership do not present any cause for not penalizing until the cancellation of these contracts and the opening of new competitions with well-proven strategies in these areas. There is a good zonal distribution spreading south and north of the country. The decision for the present challenges on these issues has not been taken. The key factor remains the change every 4 year of the government or the political parties in government												
1	PI	Koplik, Malesi e Madhe	2008	VKM nr. 12, date 4.01.2008	61	"Industrial and commercial areas Koplik" shpk	Italian	manufacturing confection, trade and services	16,519,539	16,374	contract breakdown	0
2	PI	Lezhe	2008	VKM nr. 11, date 04.01.2008	3.2	"ATX-Internationale" shpk	German	production light and processing industry.	17,054,152	3,000	contract breakdown	0
3	PI	Vlore	2008	VKM nr. 774, date 04.06.2008	125	"IDEA VLORA"	Albanian	Commerce, logistics services, manufacturing	20,819,797	18,586	contract breakdown	0
4	PI	Elbasan	2008	VKM nr. 776, date 04.06.2008	254.7	Without information					repealed	0
5	PI	Spitalle, Dumes	2008	VKM nr. 391, date 21.02.2008	850	Repeated						0
6	ZL	Vlore	2009	VKM nr. 628, date 11.06.2009	478.1	Zumax AG	Switzerland	container port	1,200,000,000	10,000	renegotiate contracts	0
7	PI	Shkoder	2008	VKM nr. 775, dt.04.06.2008	137	lack of offer		Commerce, industry, manufacturing and services	lack of offer	lack of offer	repealed	0
8	PI	Lezhe	2009	VKM nr. 81, dt.27.01.2009	54.3	The hall Lezhe	Albanian	Commerce, industry, manufacturing and services	Without information		repealed	0
9	PI	Laknes, Tirane	2009	VKM nr. 790, date 22.07.2009	9.48	Mane TCI	Albanian	Commerce industry and services	Without information		negotiation for surface expansion	0
10	PI	Rrushbulli, Dumes	2012	VKM nr. 105, date 9.2.2001	16.52	employment		Commerce, industry, manufacturing and services	13,000,000		revocation phase of VKM	0
11	PI	Spitalle, Dumes	2016	VKM nr. 262, date 06.04.2016	199.7	"Zhejiang Haileng Investment Co., Ltd" dhe "Beijing Dongnan Tongbao Technology Co Ltd"	Chinese	Manufacturing, industry and processing of food products, trade and services	1,400,000,000	90,000	In process of investment	0
TOTAL INVESTMENT											ZERO	
TOTAL EMPLOYMENT											ZERO	

* VKM - The decision of the Council of Ministers

FASON Package

In 2013, in Albania, the Free Zone bundles were considered a failure of the past. Afterwards, the thought was related a special package with multiple facilities for entrepreneurship that were active in production under the active processing regime. The performance of the sector was quite problematic, where the entrepreneurs themselves often through conferences were directed to governance with multiple requests to be considered for them.

Export values from 2009 (47.72%) compared to 2013 (29.45%) have been down, while opportunities to increase production and exports were high, based on the advantages that the country offers as low production costs and logistics.

The initiatives that were taken by the government:

Procedures and symbolic tariffs 1 Euro were defined for land or building services for investors in the fason sector;

There were applied custom's administration facilities, allowing service delivery even after official working hours;

The procedure for obtaining authorization was simplified and the time limits were reduced;

The VAT reimbursement procedure was simplified by making reimbursement within 30 days and without control by allowing increased liquidity of operators in this sector;

Online registration for any legal act obligation on the company's at the National Registration Center and activation of the registration within 8 hours;

The ability to retrieve the online extract of the company;

Reimbursement of VAT on fuel without the need for certification by the responsible institution;

The possibility of instant verification with 1 Euro for those who apply and meet the criteria;

Grants from the Investment Development Agency;

The only window for mediation in the service of solving the problems of the sector;

Promoting them at international fairs and other forms of indirect action;

The right to apply for a three month trial period training without payment of contributions;

Grants for each new employee, up to one year unpaid contributions and 4 salaries paid by the state;

Funding up to 70% of training costs;

Low-interest financing through agreements with KfW or Italian Cooperations up to € 39 million for technology line;

Exclusion of VAT to purchase the machinery and equipment;

Other facilities to consider are:

Taking a "FASON" card which serves for customs, taxes and police checks. With this card it becomes easier to introduce in service at any desk;

Withdrawing the profit tax for "FASON" which declaring that they do not want to benefit from funding schemes or grants in employment. (Equality between those who benefit and those who do not benefit and the reduction of corruption for access to funds in case of existence);

Eliminating the bureaucratic barriers, and replacing it with the FASON card;

Creating a Register of Trainees in the FASON system according to the type of training and deadlines;

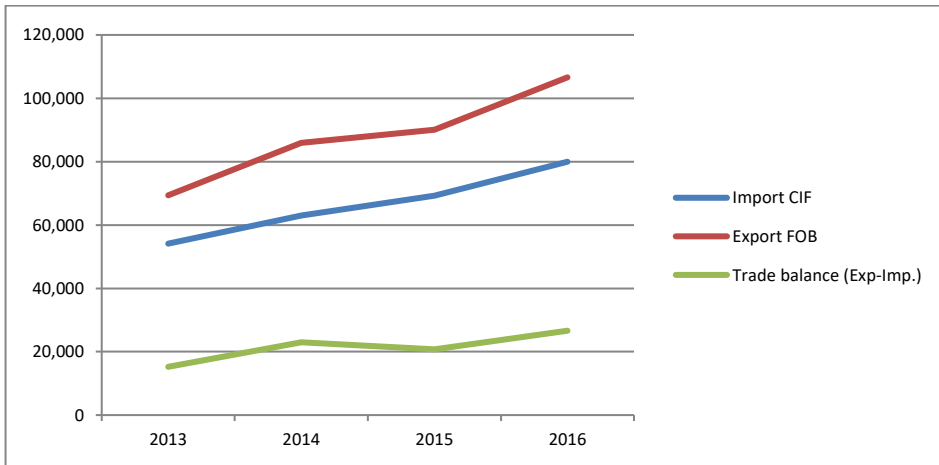
Creating Clusters Economy, where in a given area are created closed cycles of production of a final product;

Collaboration with the same customer, logistical cooperation and a reduction of the respective costs also in terms of marketing and more;

Creation the professional centers for training and technical assistance for the sector.

After setting up this package, this industry started with big steps. This made almost doubling exports and increasing employment from 28.058 to 100,000 after 3 years. The table below shows the trade balance in the textile and shoe sector, which are the most influential.

million ALL	2013	2014	2015	2016
Import CIF	54,130	63,004	69,300	79,971
Export FOB	69,374	85,936	90,091	106,608
Trade balance (Exp-Imp.)	15,244	22,932	20,791	26,637



* The data was taken from INSTAT

This graphic shows Import (CIF), Exports (FOB) and Trade Balance in the Textile and Footwear sector in Albania during 2013-2016 in million ALL. It is not including the leather sector which has a positive impact, further increasing the result in this sector.

* 1 Eur is eq. to circa 134 leke.

Conclusions

The strategy of free zones development in Albania was not mature for 2008. There was a great lack of laws to guarantee the investor's security and the solving of the property problem, which are now reduced and improved through the adoption of the law 55/2015 "On Strategic Investment on the Republic of Albania" and Law 93/2015 "On Tourism".

A long-term technological development strategy for the minimum of 10 years is needed in the service of political stability and the provision of a serious image for serious investors in Albania.

There should be a study of the creation of free zones with current investors, where the investment has not started. Also to offer PPP opportunities, or two-party solution with special contracts against the exemption from any payments for the years of investment, by approving in silence any necessary or other permits.

The decision to cancel the contracts must be taken, for unrealized investments for the contractors, who didnt reach the investment conditions not because of state barriers.

Focus on the criteria of free zones in the CLUSTER- economies, where investors operate as complementary to each other until the final product is met.

The development effects are more vulnerable and effective to smaller economies through policies focused on small and medium-size investors, such as the FASON system.

Entrepreneurs needs more facilitation on procedures than economic one.

Bureaucrats remain the strongest enemy of investors

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