

CLUSTER APPROACH IN INNOVATION AND INVESTMENT ENTREPRENEURIAL ACTIVITY IN FREE ECONOMIC ZONES PROMOTING

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In markets globalization and increasing competition context, governments of the world's leading countries are forced to use complex organizational and economic instruments to support the countries' economy. One of such instruments is creation of Free Economic Zones (FEZ) with favorable conditions for doing business. Over the last decade activation process of Free Economic Zones mechanism disposal for the economy of a particular country development has been possible to observe. If in 1995 there were approximately 500 zones in the world, now there are more than 4,300 zones in more than 130 countries which employ more than 68 thousand workers. In addition, global practice has shown that FEZ activities effective organization is efficient not only in giving impetus to the country's economy development, but in bringing it into the world leaders as well [1].

In the world practice Free Economic Zone or Free Enterprise Zone is a specially designated area with preferential customs, tax and currency regimes, which encourages foreign capital in industry and services inflow, joint production with foreign capital in trade and in other types of entrepreneurial activities, as well as export of capital development.

Free Economic Zones as national economy territorial subsystems, are capable of improving its development efficiency by attracting necessary investments [2].

Global development contemporary realities indicate contradictions between different regions, blocks and groups of countries deepening. Competition between individual countries for «the right to develop» foreign investors' capital is becoming more and more evident. This leads to the role of different tools and mechanisms to attract investors increase. The

most effective and proven tool for increasing economic competitiveness of a country is a Free Economic Zone creation [3].

The following FEZ characteristics are distinguished [4]:

1. FEZ is an isolated territory (a part of national area).
2. A special entrepreneurial activity regime is applicable on FEZ territory.
3. A special management body is established to regulate FEZ activity.
4. The objectives of the zones creation are different depending on the state socio-economic development level.
5. FEZ functioning is aimed at promotion domestic and foreign entrepreneurs.

The objectives of Free Economic Zones creating depend on the level of socio-economic development of the countries organizing them, their strategic national economic plans, etc. Therefore, reasons and objectives of Free Economic Zones creating may vary in each specific case. According to the world experience, Free Economic Zones were often created to enhance foreign economic relations of regional policy aimed at revitalizing small and medium-sized businesses in the areas that are prone to economic depression implementation, as well as for inter-regional differences equalization.

Along with this, FEZ objectives in different groups of countries in the world economy despite their differences possess some commonality within which they can be divided into economic, social and scientific-technical.

Thus, the main economic objectives of Free Economic Zones creating are:

- general foreign trade and foreign economic activities perimeter intensification and extension;
- foreign exchange earnings to the state budget and budget of regions growth;
- exports increase and imports rationalization;
- innovative-investment activities activation;
- national competitiveness increase.

Social objectives of Free Economic Zones creating are:

- population welfare and living standards growth;
- regions infrastructure creation and development;
- new jobs creation, employment growth;
- qualification level of workers, engineering, economic and managerial personnel by means of the world experience increase;

- national market with high quality goods and services, industrial and consumer goods saturation;
 - depressive regions socio-economic development level alignment.
- Scientific-technical objectives of Free Economic Zones creating are:
- innovation activity enhancing;
 - innovative technologies in production activities diffusion;
 - scientific and technical specialists, including foreign specialists, for priority areas concentration;
 - science and production integration, research and scientific-technical centers (labs), as well as venture companies creating.

According to the world practice in special economic zones creation and efficient functioning emerge some objective prerequisites of their organization and successful operation, the neglect of which leads either to the investment project complete failure or to inadequate results of its implementation. Among such fundamental conditions are [5, p. 21]:

1) favorable transport and geographical position concerning external and domestic market, as well as advanced communications availability. According to practice, such economic zones in the interior regions of large countries that are remote from transport hubs of national and international scale creation is inefficient;

2) well-developed industrial and social infrastructure. These include power supply facilities, roads, modern means of communication, developed transport network and service, modern educational, healthcare, cultural, leisure, etc. institutions.

It is noteworthy that the country-organizer of special economic zone as a rule should ensure such infrastructure for the future investors creation. In extremely rare cases special economic zones creation proves to be expedient in new economic development areas without initially developed industry, production and social infrastructure, but enabling to solve strategic national programs;

3) human resources, namely relatively cheap and at the same time skilled labor availability;

4) high level of banking and other financial services provision, available link with international financial market;

5) lack of administrative and bureaucratic barriers for business organization, including foreign participation;

6) an adequate investment barrier level, i.e. the size of funds that an investor is obliged to invest in special economic zone development for the right to conduct entrepreneurial activity on preferential terms;

7) special economic zone well-developed and stable legal framework.

According to practice, such zones creation should be based on legislative acts, but not on executive authorities' rapidly changing decisions;

8) providing investors, including foreign ones, with clear state guarantees of their investments and other property located in the special zone safety;

9) formation of special management bodies on the basis of their authorities and responsibilities with other authorities' clear division;

10) general favorable investment climate in the country, which is composed of political stability degree, taxes level, legislation transparency and criminal situation in the society.

It should be understood that a special zone creation is by no means a panacea for all economic diseases and a hundred percent guarantor of any territory rapid booming. Special economic zone is an innovative project with a high degree of risks and a considerable variety of final results.

However, if the project starts to operate successfully and bear fruit due to the result of a well-considered development area program and joint efforts of the government and private investors, its positive role for a particular region and the economy as a whole can be quite significant; in particular, special economic zones [6, C. 62]:

- serve as a catalyst for socio-economic, scientific-technical and human development of a given region by stimulating new jobs creation and high technology industry growth;
- serve as one of the main communication channels between the global economy and the economy of a particular country (region);
- represent the most advanced forms of production, management, and technology standard that can have a positive impact on economic development of other regions of the country;
- are the most important tool to attract foreign investment and mobilize local economic resources;
- stimulate new forms of business development, are a kind of «field experiments» for emerging economy countries.

Enterprises located on FEZ territory activities regulation should be aimed at creating a favorable investment climate for a foreign investor so that

investment conditions would not only be more profitable than in capital-exporting country but, if possible, more favorable than in neighboring countries and regions, able to compete as foreign investments recipients [7].

In the world practice Free Economic Zones actively influence entrepreneurship and investment activity development, which are mainly characterized by the following factors and mechanisms:

- residents engaged in entrepreneurial activity tend to receive customs, fiscal, non-monetary incentives, special exchange rate regimes, business registration simplified procedures and other preferential benefits for infrastructure facilities and real estate disposal;

- in many FEZs strategic tasks are primarily associated with state, private, as well as foreign investments stimulation and investment resources and capital attracting;

- free economic zone focused on commercial-industrial, industrial-production, import-substituting, export-oriented, industrial, scientific-industrial parks, technoparks and innovation centers creation increases positive impact on competitive products and exportable goods list development, forms the base for import-substituting products increasing, stimulates investment and entrepreneurial activities by creating research-and-production companies, research companies, cluster and other holdings.

There is an important factor that 2/3 of existing and functioning FEZs in the world are engaged in entrepreneurial activity and more than 70% are directly or indirectly related to attracting investment resources.

It should be emphasized that FEZs can expand not only entrepreneurial and investment activities, but enrich them with innovative elements and innovative functions in the world economic system globalization and international economic relations serious transformations context [8].

Various kinds of incentives and benefits in FEZ territory provision can perform stimulating of innovative products manufacturing function, like, for example, in the USA, but only subject to objective prerequisites availability. According to foreign experience study, the following initial conditions for innovative development are considered:

- technological and intellectual potential sufficient for the innovation process launch;
- constant growth of innovation «chain» participants number, including a result of new social groups engaging;

- institutional system (including both formal and informal elements) focused on innovative development;
- demand for innovation by the majority of economic entities and newly industrialized economy as a whole [9].

A well-known tool for the economy innovative and investment development is special economic zones creation and clusters formation. Their application has become a notable trend of modern world development; it has become widespread and firmly established in the practice of many countries [10].

Whereas the Institute of Special Economic Zones has become the focus of the global economy researchers, then clusters are still remained the object of research primarily for specialists in economic geography or national economy management. In addition to that clusters hold a fairly noticeable external economic potential, the study of which represents an important challenge for the economic science [11].

A very important aspect in FEZ formation is these zones competitive advantage which can be explained within the cluster approach framework. The cluster contributes to the performance improvement on the basis of the following factors:

- access to specialized inputs and labor;
- access to information;
- complementarity;
- access to institutions and public goods;
- incentives to the efficiency increase [12].

That is why many countries provide assistance for these areas with expectation that they will become engines of national development growth and stimulation.

In a literal and the most general sense «cluster» is defined as a «closed group of things» in The Concise Oxford Dictionary [13, 325].

According to Michael Porter theory, cluster is a group of geographically neighboring interconnected companies (suppliers, producers, etc.) and related organizations (educational institutions, governmental bodies, infrastructure companies) operating in a certain area and mutually complementary [14].

Since a particular industry or sector functioning, unlike cluster, is prone to competition distortion [15, p. 26], a cluster now is defined as a

group of geographically localized interconnected companies, suppliers of equipment, components, specialized services, infrastructure, research institutes, universities and other organizations complementary to each other and enhancing competitive advantages of individual companies and the cluster as a whole. In other words, a cluster is a group of entities (companies, enterprises, infrastructure, research institutes, universities, etc.) linked by territorial proximity relations and by functional dependence on the production sphere, its realization and resources consumption [16, p. 278].

FEZ creation and functioning presupposes the three subsystems organic unity, that is economic (production, exchange, distribution, consumption), natural-geographic (area with climatic conditions complex, specific geographical location) and social (population and the whole social infrastructure complex), which means a fairly significant similarity with clusters formation, which are represented by a group of interrelated and complementary enterprises of a certain activity.

Comparing FEZs and clusters on the economies of different countries development impact the conclusion is seemed to be suggested that the both tools are created to ensure a higher level of labor employment, investment in a freely convertible currency attraction, export potential without domestic market compromising increasing [11].

According to some estimates, about 50% of the world's leading economies are currently clustered. In such case 380 clusters operate in the USA, 206 in Italy, 168 in Britain, 106 in India, 96 in France. Coincidentally more than half of enterprises in the USA operate within clusters framework, and the share of GDP generated by them exceeds 60%. In the EU 38% of workforce is employed in clusters. Due to a powerful cluster policy Finland now provides 30% of world exports of mobile communication equipment, 10% of wood processing products, 25% of paper; and Italy 30% of national exports [17, p. 19].

Currently the largest economic growth is recorded in those FEZs which are formed in a single ethno-cultural space where compatriots' capital dominates or makes a significant contribution. For example, large areas in China, Jebel Ali in UAE, Izmir in Turkey, and Mumbai in India.

Numerous examples from world practice confirm that the cluster form of production organization is the most efficient for innovation-investment process.

Clusters formation contributes to regions spatial development and further industry strengthening; priority of enterprises in cluster supply chains cooperation is formed. Cluster approach provides a comprehensive vision at the state policy in a region development area. Clusters provide economic diversification, enhancing competitiveness, facilitating high-tech industries emergence, as well as stimulate regions development [18].

A dual approach to clusters is presented in the world practice. Firstly, a Free Economic Zone may be a part of a cluster. And secondly, a cluster may be a part of a FEZ [19]. I. V. Klim in his study emphasizes that areas into clusters transformation occurs either as zones in cluster form of production organization alignment, or as zones and clusters development «closure» [20].

It should also be noted that despite the fact that the main goals and objectives of Free Economic Zones and clusters are similar, important differences are still existing. Firstly, a cluster territory is not legally restricted, its dimensions depend only on economic feasibility. Secondly, clustering does not involve customs, foreign trade, financial, and tax benefits. Thirdly, a cluster creation and development is mainly aimed at internal development and enterprises interaction; exports development is a secondary task [18].

Along with this, obvious is the fact that cluster approach application positively directly effects competitive advantages of regions and the country as a whole increase. And this in turn means that Free Economic Zones are a kind of a base, preparatory infrastructure for clusters development. They are one of the cluster policy components. Large enterprises, which are often main forming elements of Free Economic Zones (base) are capable of forming a market, which in turn forms a cluster.

This scheme of clusters in Free Economic Zones framework creating possesses many advantages. Firstly, it is communications between executive authority and business optimization. Secondly, it is the established relations between producers, suppliers, financial and governmental institutions that operate under the FEZ framework development [18].

Cluster approach is a form of regional development strategies implementation (in this case referring to a specifically allocated territory – FEZ), the developers of which often include clusters formation in the hope that clusters will contribute to productivity growth, innovativeness, competitiveness, profitability and employment of the region entrepreneurial activities entities.

Creating a cluster free economic zone will allow participants not only to interact and develop domestic enterprises, but to increase export potential of the region and the state in the world market as well. Thus, for example, in the UAE Technology & COMmunications is a unique cluster consisting of Dubai Media City, Dubai Internet City, International Media Production Zone, Dubai Outsource, Empower, Knowledge Village, Dubai Studio City and Dubiotech (Biotechnology Park) free economic zones. Interacting clusters can also be a FEZ parts that in general will have a positive impact on socio-economic development of the region and, ultimately, of the country [21].

Cluster policy of FEZ in modern conditions is to fully support the projects of cluster systems in depressed regions advanced development. It consists in the search for such economic structures that would maximize the «new shoots» potential in every Free Economic Zone. It is worth noting that if the task of optimization of budgetary funds disposal efficiency is to be achieved, then such a policy is not optimal. But in addition to economic feasibility, target system criteria still exist as well. Viewed in this way a cluster of objectives related to the most acute social and economic problems of regional development, as well as the need to implement technological development priority areas, should occupy the most important place for cluster policy of FEZ purposes.

In this context, cluster strategy of FEZ refers to a structural component of a coherent national strategy for socio-economic development, involving active participation of governments at national and regional levels in the creation and support of cluster systems on the territory of special development, an adequate level of development of social and economic potential of the regions of their localization, consistent with modernization policy principles and criteria, ensuring the key objectives achievement and actual problems of socially-economic development of the territories solution and technological development priorities supporting. Thus, cluster strategy of FEZ is aimed at sectoral and territorial principle of the state management integration.

We believe that the state and social institutions main strategy in clusters formation and support should be a targeted impact on cluster management of FEZ subjects coordinated with their internal structures, social and institutional development trends; involvement executive authorities, institutions of science and education, media and civil society, financial

institutions, large, medium and small businesses into this management process. At the same time, the world experience of clusters developing and effective development of society and organizations understanding are essential to be employed.

At the same time, when solving clusters strategic development issue, cluster policy and cluster initiatives formation issues, it must be realized that a cluster is not a strategic management subject, but a polysubjective environment, the evolution of which is determined on the one hand by the clusters subjects' dynamics, and on the other hand by the state strategy, cluster policy of the region and cluster initiatives [22].

It should be particularly noted that cluster type free economic zones possess a high capacity for innovative development, enhanced by centralization processes, as a result of which a synergistic effect is observed. Within its framework, new qualities are emerging, which are not possessed by separate elements of the system, that is by clusters and governmental regulatory bodies. In this context it is referred to cluster free economic zone with external environment inseparable unity, thereby national economy competitiveness is increased.

Cluster free economic zone is an area intended for the full production cycle of high-tech finished products of strategically important sectors of national economy, divided into several cluster formations, applying a differentiated approach to benefits distribution [23, p. 152].

This cluster economic zone model provides for the cluster with external environment integration record keeping: with small and medium-sized enterprises of various industries, with other clusters, as well as considers interaction with other regions in economic, social and political terms, free economic zones and higher-order management structures. In addition, with minor upgrading, a similar model when regions and enterprises strategic orientation planning and developing is applicable.

In this regard, the idea of a cluster of FEZ creating rationality and timeliness can be argued first and foremost by obvious integrative efficiency. A cluster free economic zone creation will result in modern high-performance competitive production accelerated development, additional investments attracting and new technologies introduction.

Cluster free economic zones consolidated development initiative is advisable to be fully supported at the state level. As a result of FEZ and

cluster characteristics integrative combination the state will receive additional benefits.

Based on the conducted research, it can be concluded that compared to classical free economic zones, FEZs created according to cluster principles are a more effective tool for primarily strategically important sectors of the economy development.

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