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**SPECIAL ECONOMIC ZONES MECHANISMS
AND THEIR ROLE IN THE ECONOMIC GROWTH
OF DEVELOPING COUNTRIES (CASE OF MEXICO)**

The deepening of specialization and cooperation processes between countries, increasing competition on international markets, creation and operation of special economic zones (SEZs) are especially relevant in the current conditions of globalization processes. Currently, there are around 5 400 SEZs in 147 countries. The variety of SEZs types is very significant. But the main differences in the functional purpose of SEZs can be observed by groups of countries with different stages of economic growth. In developed countries the most common are SEZs aimed at facilitating trade logistics. In developing countries and countries with transition economies, SEZs are used as an investment and industrial policy tool. In these countries SEZs are aimed at industrial development, such as export production development, attraction of advanced technologies or conducting their own research and development, the development of innovation potential and job creation. SEZs are an effective investment policy tool for countries and part of the competitive package of measures provided by these countries to attract foreign investors along with other forms of foreign investment promotion. SEZs are a kind of catalyst for foreign investment and are widely used in developing countries.

In recent decades, Mexico has demonstrated the positive effects of its active integration into the world economy, which has ensured its access to international capital markets (foreign direct investment (FDI) flows to the country amounted to US \$ 35 billion annually before the start of the COVID-19 pandemic) [1]. Since the 1960s, the Mexican government has followed a consistent policy of attracting foreign direct investment in the manufacturing industry. The main role in attracting investment is given to export and import companies, zones called “maquiladoras” in Mexico. There are about 3 000 “maquiladoras” registered in Mexico. In the top 100 companies in terms of the number of “maquiladoras” and the number of employees, the leading positions are held by US companies (65 out of 100 large ones) and by a significant margin they are followed by companies from countries such as Japan, Canada, China, the Republic of Korea, France, Finland.

“Maquiladoras” are the most dynamic sector in the country’s economy. The essence of the “maquiladoras” mechanism consists in granting (both foreign and national investors) special preferential treatment in the manufacturing of industrial products for export. With the help of “maquiladoras”, Mexico improved its economic performance, began restructuring the national economy in order to increase the role of advanced industries. FDI flows to “maquiladoras” sector are 40% of total FDI flows to Mexico. “Maquiladoras” account for 15% of the country’s GDP and 25% of manufacturing production. “Maquiladoras” products account for 50% of the country’s total industrial exports and the rapid growth of production in these companies has a positive impact on the formation of a trade balance. In the last decades, the growth rate of “maquiladoras” manufacturing was 9,7% annually against the background of 3,5% annual growth in manufacturing production. Thus, the “maquiladoras” were one of the main tools of economic growth for Mexico in a number of macroeconomic indicators [2; 3].

Fifty years ago, the National Council of the Maquiladora Export Industry was created to establish and control the activities of “maquiladoras”. “Maquiladoras” can be created in any legal form, with

100% foreign capital or mixed capital. According to the types of administrative management “maquiladoras” can be divided into 3 types:

1. Companies wholly or partly owned by foreign capital and wholly controlled by the main foreign company. Companies of this type are the most widespread in Mexico (85% of the total number of “maquiladoras”) and have the greatest benefits and privileges.

2. Companies operating under long-term contracts. This type of “maquiladoras” is associated with the contracts placement for manufacturing according to a certain technology and designed purpose. The customer does not control the manufacturing process, he/she will receive the finished product and will be engaged in sales.

3. “Shelter” companies were created to fulfill a specific order. Generally, these companies are owned entirely by Mexicans and work on foreign (American) orders. “Maquiladoras” of this type work on imported raw materials and semi-finished products of the customer, independently hire workers, deal with organizational issues, control the manufacturing process and quality, ensure transportation and deal with customs benefits. Proportion of “shelter” companies in the total number of “maquiladoras” is 8% in Mexico.

At the beginning of its activity, “maquiladoras” focused on the manufacturing of finished products based on imported components. But the strategic goal of Mexico in the field of “maquiladoras” regulation was a gradual increase of the national proportion of components (manufactured directly in Mexico) in the finished products of “maquiladoras”, that is, an increase in the cost of the national manufacturer’s products. At the current stage, there is a strong integration of “maquiladoras” to the country’s national economy system with a constant increase of the national manufacturers’ proportion (and its technological complexity) in the finished products of “maquiladoras”. “Maquiladoras” have gradually moved away from “purely assembly industries”, operated only on imported items. For example, consider the main concentration industries of “maquiladoras” and national manufacturers in manufacturing: manufacturing of components for electrical and electronic industry is 24,4%; manufacturing of units and parts in the automotive industry is 23,5%;

manufacturing of electrical and electronic equipment is 11,5%; other industries are 12%, on average [2].

Let us focus on the benefits system provided by the Mexican government for “maquiladoras”, since they evoked such successful and rapid development of this type of companies and attracted FDI in very large numbers. The first group of benefits includes customs benefits on temporary import for the following product groups:

- a) raw materials, parts, units and components for manufacturing goods for export;
- b) packaging and container materials used for exported goods;
- c) fuel and lubricants used in the manufacturing process;
- d) machinery, equipment, tools used in the manufacturing process;
- e) quality control tools for exported products, equipment for research purposes, communication tools, tools for environmental control in the manufacturing process.

Customs clearance of imported goods for “maquiladoras” is carried out according to a simplified procedure.

And it is important to mention that for the development of the national economy these benefits are granted only if certain requirements for investors are met. Thus, “maquiladoras” have the right to receive import customs benefits if: a) the company’s annual export is at least USD 500 000; and/or b) the company “maquiladoras” strongly adheres to the exported products proportion (at least 30% of manufactured products, although there is a difference in the industrial fields and sometimes reaches 80%). In case if “maquiladoras” products (more than defined proportion) were sold on the domestic market, the received “maquiladoras” import benefits should be compensated to the state.

The second group of benefits for “maquiladoras” companies includes different financial and credit benefits. It could also be government support by financing the cost of construction, purchase of machinery, equipment, vehicles, as well as the cost of conducting marketing research, preparing business plans, acquiring technology and know-how, running advertising campaigns. The third group is tax benefits, which include: a) the right to reduce the tax base; b) VAT exemption of imported and domestic goods used in the further

manufacturing process. The second and third groups of benefits are connected with the strict requirements for “maquiladoras” on development of advanced manufacturing methods and introduction of the latest technologies in manufacturing activity, as well as compliance with the strict requirements for “internal content”. The fourth group of benefits included the creation of a visa facilitation mechanism for administrative and technical foreign workers.

Significant changes have taken place in the industrial structure of “maquiladoras” during their fifty years of existence. The first “maquiladoras” companies appeared half a century ago in the textile, clothing industry and in “purely assembly” manufacturing of televisions, that is, they were focused on manufacturing processes, requiring minimal labor qualifications and minimal technological knowledge from the domestic market. The process of technological complexity in the “maquiladoras” manufacturing processes took place gradually. The development of scientific and technological progress in Mexico and the introduction of TNCs technologies created the conditions for upgrading the skills of Mexican manufacturers and for increasing Mexican domestic proportion in finished “maquiladoras” products. The activity nature and technological complexity of the processes in “maquiladoras” companies gradually changed. Now most of “maquiladoras” are high-tech companies in the electronic, electrical and mechanical engineering and automotive industry, as well as in the textile industry. For example, “General Motors” has 15 “maquiladoras” factories in Mexico, which employ 22 000 workers [4; 5].

Experience in the creation and functioning of SEZs shows that through the use of SEZs mechanisms and attraction of foreign capital the countries try to implement industrial development programs, boost to the development of individual branches or country’s regions, reach a new level of industrial development, improve social and economic conditions. With the help of SEZs mechanisms the governments try to combine the interests of foreign investors with the national priority programs for economic development through the use of the principle “benefits to foreign investors, requirements for foreign investors, economic effect for the development of the country”. The history of

SEZs has rich experience in attracting foreign investments, its analysis and use may be useful in reasoning the methods and organization of state investment policy in Ukraine in the near future.

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