

PROBLEMS AND OPPORTUNITIES FOR THE BUSINESS ENVIRONMENT IN THE REZEKNE SPECIAL ECONOMIC ZONE

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Abstract.

Purpose and aim of the study: *The present research aims to identify and analyse problems and opportunities for the business environment in the Rezekne Special Economic Zone.*

Design / Methodology / Approach: *The research employed the following methods: descriptive and graphic, analysis, an expert survey, as well as SNW (strengths, neutrals and weaknesses) analysis and the SNW typological index.*

Main Findings: *The most important problems for the business environment in the Rezekne SEZ, according to the experts, were as follows: a lack of suitable land plots and buildings for starting production; a lack of qualified labour; rare and poor communication between Rezekne SEZ businesspersons (etc.), as well as opportunities such as additional tax relief for companies from the Rezekne SEZ; additional advantageous criteria for national, EU, ALTUM etc. project evaluation for businesses having Rezekne SEZ company status; opportunities for cooperation with Rezekne Academy of Technologies (etc.).*

Originality: *Based on an expert survey, an SNW analysis and the SNW typological index, the research identified the most important problems for the business environment in the Rezekne SEZ.*

Implications: *An analysis of the situation in Rezekne city and Rezekne municipality regarding the national business environment reveals regional differences, which makes it necessary to perform an analysis of the business environment in the Rezekne SEZ in order to identify the main problems that hinder the creation of a favourable.*

Keywords: *business environment, special economic zone, regional development, Rezekne SEZ.*

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Introduction

The fast emergence of special economic zones (hereinafter SEZ) in the world (Puri-Mirza, 2022) has a significant impact on the economic situation in and wellbeing of countries. In recent decades, special economic zones have become a popular instrument of economic policy aimed at creating attractive investment prerequisites for businesses in developed countries. SEZs are

special geographic areas within a country, where laws and regulations differing from general national legislation are applicable to businesses. The laws established for a SEZ are aimed at creating a more favourable business environment for businesses. Despite all the advantages of SEZs, it is necessary to perform a regular analysis of the business environment in the SEZs in order to identify problems faced by companies operating there, as well as to be able to find opportunities that favourably affect the development of companies and the business environment.

Contemporary author E.W. Barbieri has emphasized that SEZs are a powerful economic development tool based on tax and operational strategy reforms, resulting in job creation and capital attraction to new territories (Barbieri, 2020). Authors A. Ambroziak and A. Hartwell have found that SEZs are established to foster regional development. The authors had examined the case of Poland, analysing several indicators: business investment, unemployment etc. and concluded that the establishment of SEZs had a positive effect particularly in the least developed regions of Poland, whereas the effect of SEZs was weak or even negative in highly developed regions (Ambroziak & Hartvells, 2017).

The research problem is that despite the advantages provided by the Rezekne SEZ, statistical data indicate that there is a high unemployment rate in Rezekne city and Rezekne municipality, thereby usually portraying Latgale as the least developed region of Latvia; therefore, the research focuses on analysing the business environment in the Rezekne SEZ to identify the main problems that hinder the creation of a favourable business environment and the overall development of the region and opportunities that can increase the current quality of the business environment in the Rezekne SEZ.

The present research aims to identify and analyse problems and opportunities for the business environment in the Rezekne Special Economic Zone.

To achieve the aim, the following specific research tasks were set:

- 1) To give insight into the theoretical principles of the business environment and special economic zones;
- 2) To examine problems and opportunities for the business environment in the Rezekne Special Economic Zone based on an expert survey.

The following research hypothesis was put forward: there are problems in the Rezekne Special Economic Zone that do not contribute to the development of the business environment.

The theoretical framework of the present research was based on scientific research information from research paper databases, online resources, theoretical books as well as materials published by the Rezekne Special Economic Zone.

The research employed the following methods: descriptive and graphic, analysis, an expert survey, as well as SNW (strengths, neutrals and weaknesses) analysis and the SNW typological index.

The expert questionnaire data were processed using SPSS Statistics.

Research results and discussion

1. Theoretical aspects of the business environment and special economic zones

Business success depends on the availability of various resources such as financing, human resources, skills etc. By combining all the factors, a company can adapt to a particular environment and the changes therein. Business development and success depend on factors in the business environment in which the company operates (Cherunilam, 2016).

The constantly changing business environment of the 21st century, which is specific to the global economy, creates a burden to businesspersons to seek more successful and newer solutions that would contribute to faster, better and resource-efficient results. Nowadays, the ability to adapt to changes in the business environment is considered to be one of the elements of successful business development (Taouab & Issor, 2019). The authors believe that a complete understanding of the current business environment and its advantages and disadvantages enables a businessperson to find the most successful tools to use for the growth of the company and the successful creation and implementation of a business strategy.

Research studies by several researchers have been devoted to a theoretical review and analysis of the business environment and the concept and components thereof (Commander & Svejnar, 2011; Kraja & Osmani, 2015; Akpoviroro, 2018; Sardak & Movchanenko, 2018). The present research has summarized the characteristics and definitions of the business environment given by some researchers:

- the business environment is a variable that requires constant research and consequently facilitates strategic, dynamic and successful cooperative decision-making and the creation of new products and services (Ostos et al., 2016);
- a good business environment is a basic element to attract business gatherings, release investment potential, improve the credibility and influence of the entire country and promote economic development. (Liang et al., 2021);
- the quality of the business environment is considered to be the country's ability to provide businesspersons with a sufficient level of freedom and

low taxes, and the country's ability to produce products cheaply and efficiently at minimal production capacity (Hajduova et al., 2021).

The authors of the present research conclude that the definitions of a business environment could be very different, depending on the particular situation; however, despite this, all the definitions include the same main elements: the role of national governments in shaping the business environment, strategic decisions made by company managements, which are based on detailed environmental analyses, as well as the company's ability to adapt to various changes using the available resources.

According to the definitions given by contemporary researchers, the external business environment is a set of factors known to the company that affect its performance, thereby creating constraints and opportunities, and are beyond the company's control. All external forces closely relate to one another (Piccio & Manigo, 2022) and can represent direct (suppliers, consumers, intermediaries) (Ghimire, 2020) as well as indirect (economic, political, environmental, technological, socio-cultural and demographic) factors (Adagba & Shakpande, 2017; Suryana et al., 2017).

The internal business environment is an environment where specific business decisions are made. It is an environment that a businessperson can influence and change, and it depends on the decisions made by the company manager (Vagre-Abizāre, 2011). The internal environment consists of: the vision, mission, goals and values of the company (Brătianu & Bălănescu, 2008); the company's internal resources: employees and technologies (Sankar & Mahesh, 2012); the organizational culture and climate, the manager's work style, organizational structure (Hans, 2018; Vagre-Abizāre, 2011). Therefore, the authors conclude that there are factors in the business environment that the company can influence, yet there are also external factors that could not be controlled by the company.

The concept of special economic zones in their current form emerged in the 1950s when they were popularly known as export processing zones, and later as free zones. A SEZ is a geographically defined and fenced-in area that has a number of location-specific advantages.

In the world, special economic zones are used as a tool for promoting development and attracting foreign investments (Mayburov & Sinenko, 2017). The term special economic zone covers a wide range of zones, e.g. free trade zones, export processing zones, industrial parks, economic and technological development zones, high-tech zones, science and technology parks, free ports, enterprise zones and others (Zeng, 2016). The research gives a summary of the most common kinds of special economic zones (Table 1).

Table 1 Overview of the most common kinds of SEZs in the world
(compiled by the authors based on Zeng, 2016)

Name	Definition
Free trade zone	FTZs (also known as duty-free zones) are fenced-in areas that have commercial warehouses, storage and distribution facilities, as well as distribution points.
Comprehensive special economic zone	Comprehensive SEZs (also referred to as multi-functional economic zones) are large-size areas that provide a mix of industrial, service, and urban operations. In some cases, such zones might encompass an entire city or jurisdiction such as Shenzhen (city) and Hainan (province) in China.
Industrial park	Industrial parks (also called industrial zones) primarily represent manufacturing sites.
Customs bonded zone	Customs areas (also known as customs warehouses) are special buildings or other protected areas where goods are stored, handled or manufactured without paying the duties that would normally apply. To some extent, a bonded zone is similar to a free trade zone or a free port. However, the main difference is that a customs zone is subject to customs laws and regulations, while a free trade zone is exempt from them.
Specialized zone	Specialized zones include science/technology parks, petrochemical plant zones, logistics parks and airport zones.
Eco-industrial zone or park	Eco-industrial zones or parks focus on ecological improvements, waste reduction and environmental protection. They often employ the concept of "industrial symbiosis" and green technologies to achieve energy and resource efficiency. Given the severe environmental challenges, an increasing number of countries adopt this new kind of zone.

The authors conclude that the main common advantage of a SEZ is the provision of support to businesspersons, which could take the form of various tax relief, specialized zones for business, advantageous transport roads and corridors, distribution hubs for logistics purposes etc.

Some research studies (Puri-Mirza, 2022) found that between 1997 and 2002, there was a rapid acceleration in the establishment of economic zones (from 845 to 3000 units, respectively). The number of SEZs tends to increase worldwide, and this solution is gaining acceptance. However, different achievements in the economy, countries and regions indicate that such zones are not an unambiguous source of success for comprehensive development. To achieve success, economic zones need to be properly and accurately established and carefully adapted to the specific situation in the country. SEZs cannot be applied as an economic tool to any situation and country or its region. Given the complex and heterogeneous business environment in which special economic zones function, a clear vision is needed of how to manage them in accordance with the needs of the country (Zeng, 2016).

It could be concluded that each kind of SEZs has advantages and disadvantages; therefore, the businessperson needs to assess available opportunities and resources needed to operate and develop in the specific business environment.

2. Expert ratings of problems and opportunities for the business environment in the Rezekne SEZ

Regional development and significant regional disparities are a significant problem in areas with an unfavourable socio-economic situation. To deal with this problem, many Eastern European countries, including Latvia, established special economic zones and free ports as a regional development tool aimed at reducing disparities between regions, attracting investments and creating new jobs in particular areas (Ziedina & Pelse, 2017).

Several special economic zones have been established in Latvia. In the less developed region of Latvia – Latgale – two special economic zones have been established, whereas in well-developed regions such as Kurzeme and Riga have two free ports and one SEZ (Ziedina & Pelse, 2019).

To effectively identify and analyse problems and opportunities for the business environment in the Rezekne SEZ, a questionnaire for experts was created with reference to the Turība Business Index 2022 indicating the quality of the business environment in Latvia (Turība University, 2022). The businesses that have received the status of Rezekne SEZ commercial company were surveyed on problems and opportunities for the business environment in the Rezekne SEZ. The questionnaires were sent by e-mail. The questionnaire data were processed using SPSS Statistics and Microsoft Excel.

The questionnaire survey involved 9 experts representing positions such as a manager (3 experts), an accountant (1), an executive director (1), an assistant manager (1), a technical director (1), a personnel selection specialist (1) and the chairman of the board (1). The average length of service of the experts was 11.4 years, and the average number of employees in the companies represented was 102 employees.

The experts gave their opinions on the extent to which the advantages provided by the Rezekne Special Economic Zone were important for businesses (Figure 1), rating the availability of qualified labour and tax relief granted by the Rezekne SEZ for businesses for conducting business as the most important (both advantages were rated as “very important” by 7 respondents or 78% of the total experts), as well as costs and resources that contributed to higher competitiveness for businesses (6 respondents or 67%).

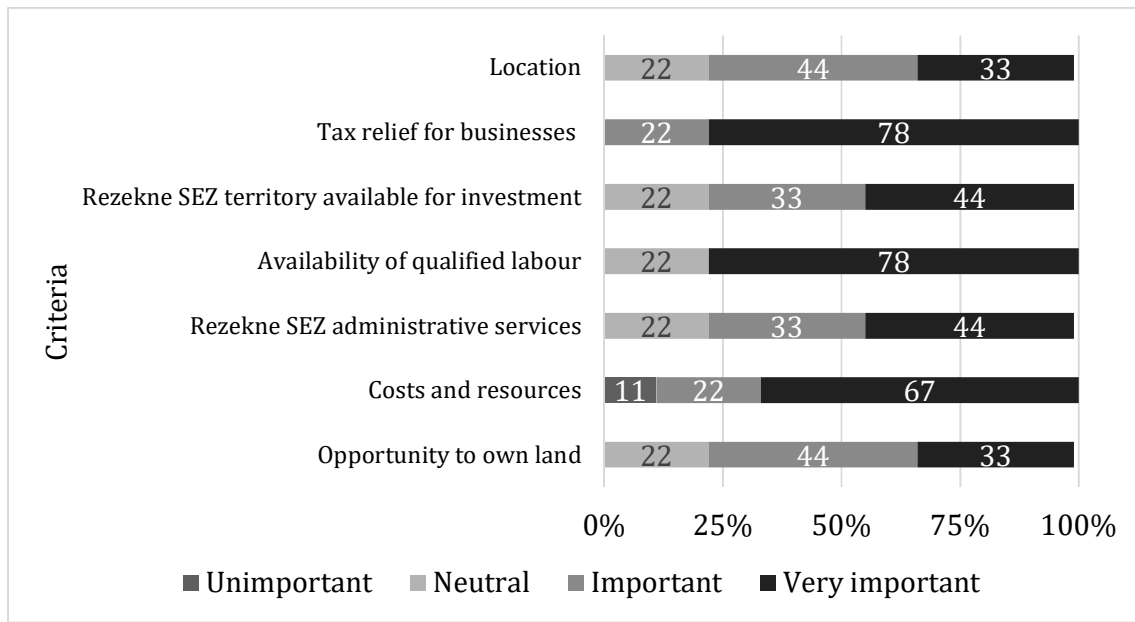


Fig.1 Expert ratings of the advantages provided by the Rezekne SEZ for companies (compiled by the authors)

An analysis of the expert opinions revealed that the respondents rated each of the advantages provided by the Rezekne SEZ based on what was the most important for their company’s core economic activity. For example, lower production and resource costs were very important for manufacturing companies, whereas for companies that provided property rental services, an important criterion was the potential acquisition of land where to build additional buildings for the services provided. Besides, the experts gave quite positive and mostly high ratings to the current business environment in the Rezekne SEZ and future growth opportunities for the Rezekne SEZ companies represented by the experts. Rating the business environment in the Rezekne SEZ as “very positive”, 22% or 2 experts rated future growth opportunities for their companies operating in the Rezekne SEZ also as “very good”. In contrast, 67% or 6 experts gave the answer option “4” to the current business environment, of which one expert gave the answer option “3” to future growth opportunities for his/her company operating in the Rezekne SEZ, while four experts gave the answer option “4” and one expert rated the opportunities as “very good”. None of the 9 experts rated neither the current business environment in the Rezekne SEZ as “very negative”, giving the answer option “2”, nor future growth opportunities for their companies operating in the Rezekne SEZ as “very poor”, giving the answer option “2”. Accordingly, it could be concluded that the higher the current business environment in the Rezekne SEZ was rated, the higher the future growth opportunities for the Rezekne SEZ companies surveyed were rated.

When rating the hindering factors (high tax burden, shadow economy, lack of financing, insufficient support from local governments, legal framework for business, high production costs, logistics for exports and imports, corruption, tough competition and raw material procurement) for successful business in Rezekne, the experts had the opportunity give multiple answers.

An analysis of the data received revealed that 6 experts (25%) believed that the current hindering factor for successful business in Rezekne was the high tax burden, followed by the shadow economy, which was noted by four experts (16.7%). It was emphasized that this was an external factor in the business environment, which indirectly affected the business environment and no businessperson was able to influence this factor (Vagre-Abizāre, 2011). According to the information provided by the Ministry of Finance of the Republic of Latvia on combating the shadow economy, effectively combating the shadow economy involves long-term coordinated and complex measures implemented by several national institutions, and for the implementation, all sectoral ministries need to continue a constructive dialogue with sectoral organizations, the national institutions involved and non-governmental organizations (Ministry of Finance, 2023). A percentage breakdown of respondent answers revealed that 8.3% answers concerned each of the factors such as a lack of financing, insufficient support from local governments, the legal framework for business, high production costs, logistics for exports and imports, as well as the level of corruption in the city.

The factors that, according to the experts, hindered the least the development of business in Rezekne were tough competition and the procurement of raw materials (ticked only once). An analysis of the expert answers revealed that the experts emphasized the fact that businesspersons in Rezekne were capable of creating competitive advantages for their companies, maintaining their market position in competition with other industry participants. Businesses operating in the Rezekne SEZ were provided with good opportunities for the procurement of raw materials to manufacture goods and services; therefore, this factor did not represent a hindrance to doing business.

In addition to the above, the questionnaire survey established expert ratings of whether the business environment in the Rezekne SEZ was different from the business environment at national level. An analysis of the information gathered from answers to the question revealed that the business environment in the Rezekne SEZ was mostly rated as more favourable than that at national level: 33% experts rated the business environment in the Rezekne SEZ as “the same as in the country”, while 56% rated it as “more favourable as that at national level”, and none of the experts gave a rating that meant it was “less favourable than that at national level”.

The experts based their ratings on the clarifications given, which are summarized in the following responses:

1. Commercial companies that have been granted the status of Rezekne SEZ commercial company are granted tax relief that is not available to the businesses that do not operate in the Rezekne SEZ;
2. A more attractive business environment is available in the Rezekne SEZ, which gives businesses better opportunities to enter the global market owing to the consultations, training and informative events provided by the Rezekne SEZ;
3. In the Rezekne SEZ, ready-made rental spaces are available for starting and performing economic activities, which saves time and financial resources for the purchase and furnishing of the spaces.

The expert survey also helped to determine whether the current Rezekne SEZ businesspersons had identified problems related to the quality of the business environment in the Rezekne SEZ. Of the total experts, 44% or 4 noted that they had not observed problems, whereas 56% had encountered problems in the business environment in the Rezekne SEZ, for example:

- the Rezekne SEZ did not have enough suitable land plots and buildings to start production (one expert);
- a lack of qualified labour (1);
- rare and poor communication between Rezekne SEZ businesspersons (2);
- enough information was not provided to foreign companies about Rezekne SEZ companies and the Rezekne Special Economic Zone (3).

The experts (67%) gave the following recommendations on how to improve the current business environment in the Rezekne SEZ:

- infrastructure needs to be further improved;
- additional tax relief for Rezekne SEZ companies should be introduced from taxes such as personal income tax and mandatory state social insurance contributions;
- additional advantageous criteria for project evaluation for businesses having Rezekne SEZ company status and applying for national, EU as well as ALTUM funding need to be introduced;
- more professional development courses for employees and employers need to be held;
- businesspersons need to be informed about the advantages provided by the Rezekne SEZ;
- promotion of qualified labour (talents);
- more cooperation with Rezekne Academy of Technologies.

According to the experts, the range and quality of services provided by the Rezekne SEZ were sufficiently wide and high (4 experts gave the maximum rating of 5 and 5 experts – a rating of 4 on a 5-point scale, where 1 meant completely unsatisfactory and 5 was completely satisfactory), as well

as Rezekne SEZ companies were interested in receiving additional services and consultations that would help to foster business development. The expert ratings allowed us to conclude that the topics of consultation and the services that would contribute the most to the business of companies were as follows: investment attraction (14.6%), regional, international and global market analysis, exports and imports (12.2%) and marketing and project management (9.8%). Personnel selection and evaluation, however, was noted least frequently (2.4%).

Based on the results of the expert questionnaire survey, a SNW analysis was performed as part of the research, which allowed us to identify the competitiveness of the business environment components of the Rezekne SEZ.

Performing the SNW analysis allowed us to identify the level of competitiveness of an organization, as well as the weak, strong and neutral sides of a company. Employing SNW analysis, a company can improve its strengths or eliminate its weaknesses (Shtal, Buriak, Amirbekuly, 2018). As part of the SNW analysis, the SNW typological index was also calculated (equation 1) (Forands, 2004).

$$I = \frac{1 \times S + 0.5 \times N + (-1 \times V)}{n} \quad (1)$$

Where I – SNW typological index;

S, N, V - number of respective indicators;

n – number of respondent responses.

The index for the Rezekne SEZ ($I = (1 \times 19 + 0.5 \times 30 + (-1 \times 23)) \div 72$) = 0.15. The SNW typological index value of 0.15 showed that the strength of components of the business environment in the Rezekne SEZ was low, meaning that the competitiveness of the business environment was not promoted. The components of the business environment, which could be qualified as elements of strong (19) and neutral (30) sides of the Rezekne SEZ business environment, in total, represented a higher ratio than the weak sides did (23).

Conclusions and suggestions

The research found that the Rezekne SEZ administration and companies should hold both formal and informal events at least once every 3-4 months, in which company representatives are given an opportunity to meet and communicate in person, thereby intensifying and improving their mutual relations both as Rezekne SEZ companies and as cooperation partners. Thus, the problem of poor communication among Rezekne SEZ companies would be solved.

The Rezekne SEZ companies positively rated the range of services and consultations provided by the Rezekne SEZ administration to them; however, despite this, the representatives of Rezekne SEZ companies would also like to receive consultations and services related to the following fields: investment attraction, market analysis, marketing, as well as consultations on issues related to exports and imports. Thus, the hypothesis put forward proved to be true, as there were problems in the business environment in the Rezekne SEZ, which did not contribute to the development of the business environment. The Rezekne SEZ administration, in cooperation with business support institutions, could draw up a freely available document for Rezekne SEZ companies, which contains information on institutions, as well as their contact information, that provide support on topics of interest to businesspersons, thereby providing support to the companies in moments when additional consultations are needed to solve their problems.

Referring to the information published by the Parliament of the Republic of Latvia (Parliament of the Republic of Latvia, 2023), the Rezekne SEZ administration, in cooperation with other SEZs and free ports located in Latvia, should submit a proposal to the Parliament or ministries on potential amendments to the legislation governing SEZs and free ports located in Latvia with the aim of granting additional tax relief from personal income tax and mandatory state social insurance contributions, especially for companies operating in economic zones.

In addition, Rezekne SEZ companies whose economic activities closely relate to engineering, e.g. manufacturing companies, should cooperate with the Engineering Faculty of Rezekne Academy of Technologies and the students to develop innovations for the companies, thereby making full use of the resources of the higher education institution located in Rezekne city as a support instrument for businesses.

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