

Лекція:
Особливості управління економікою
регіонів
(презентаційні матеріали
англійською мовою)

Презентована на засіданні
Євробізнес асоціації України.

Питання для відображення:

1. Завдання та цілі регіонального розвитку, пререборення депресивності

2. Форми, функції та система економіко -управлінських рішень.

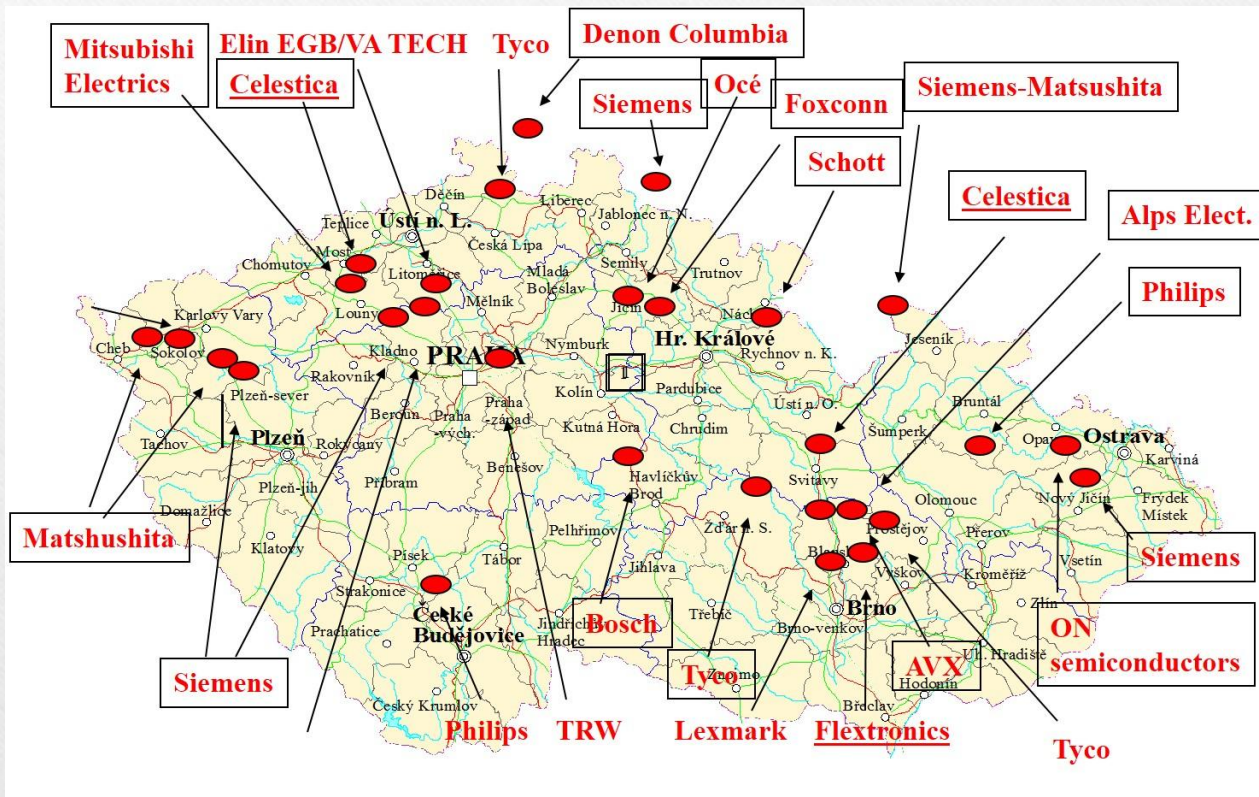
INFORMATION: Based on the Practical Activities of the
Transcarpathian Agency for Promotion of Investments and
Development of Territories after the Expansion of EU

Reporter
Volodymyr PRYKHODKO

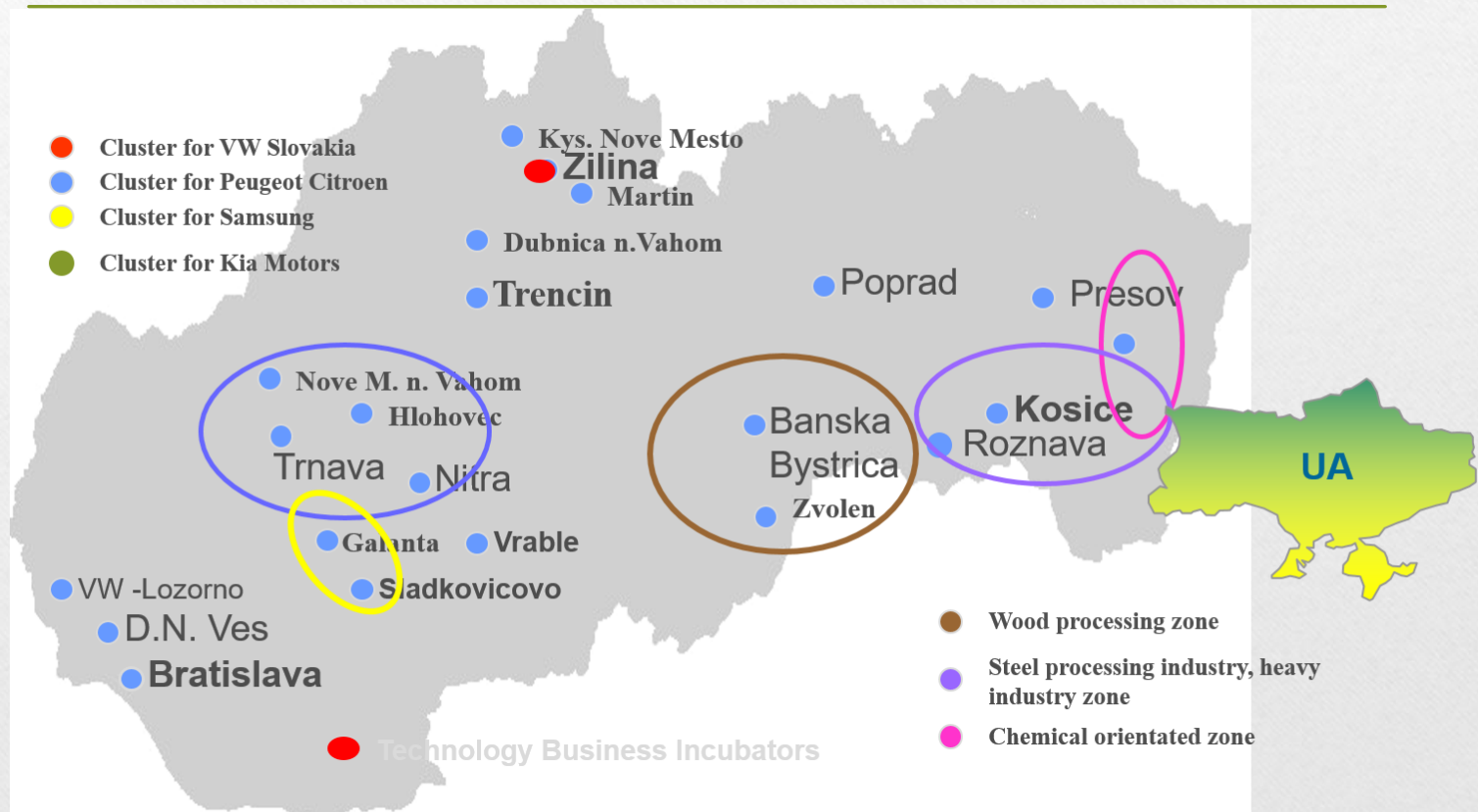
GENERAL DIRECTOR
Transcarpathian Agency for Promotion of
Investments and Development of Territories

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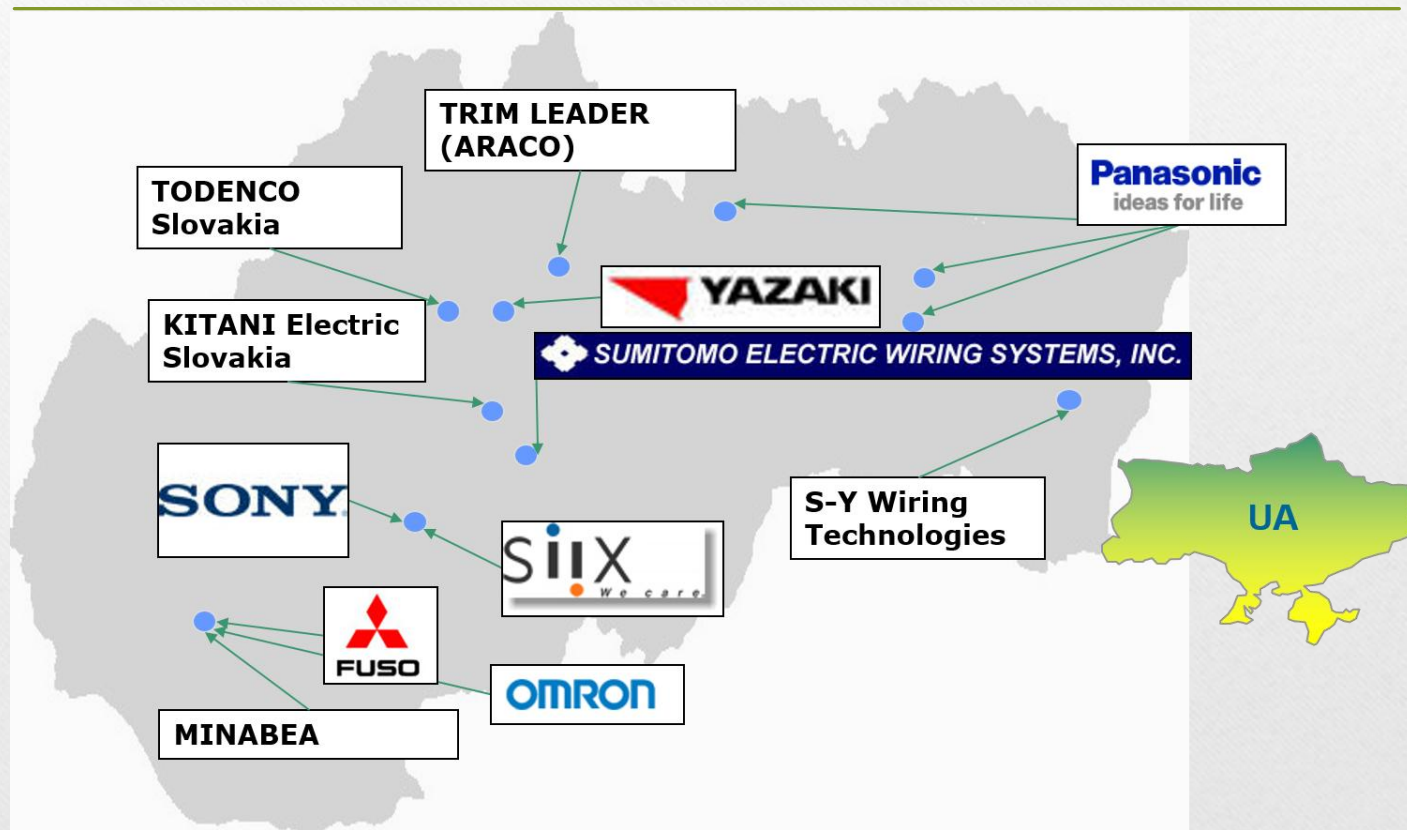
The Story of Success in Central Europe. Czech Republic: Investments to the production of electronics within the bounds of industrial parks in the years 1994-2003



Our Rival Friends. Positive Trends. Industrial Zones and Clusters in Slovakia



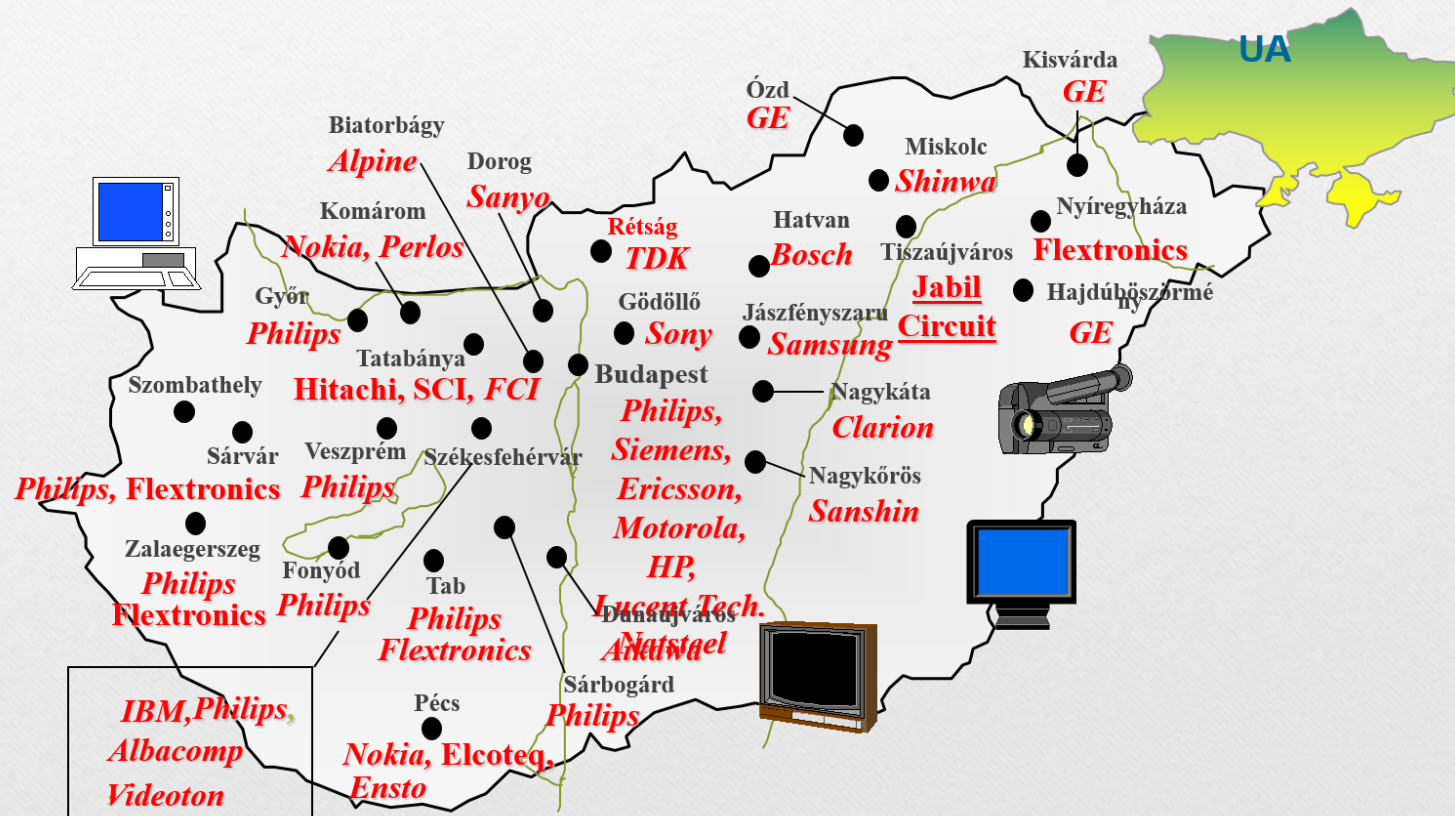
Japanese Investments Into Slovakia



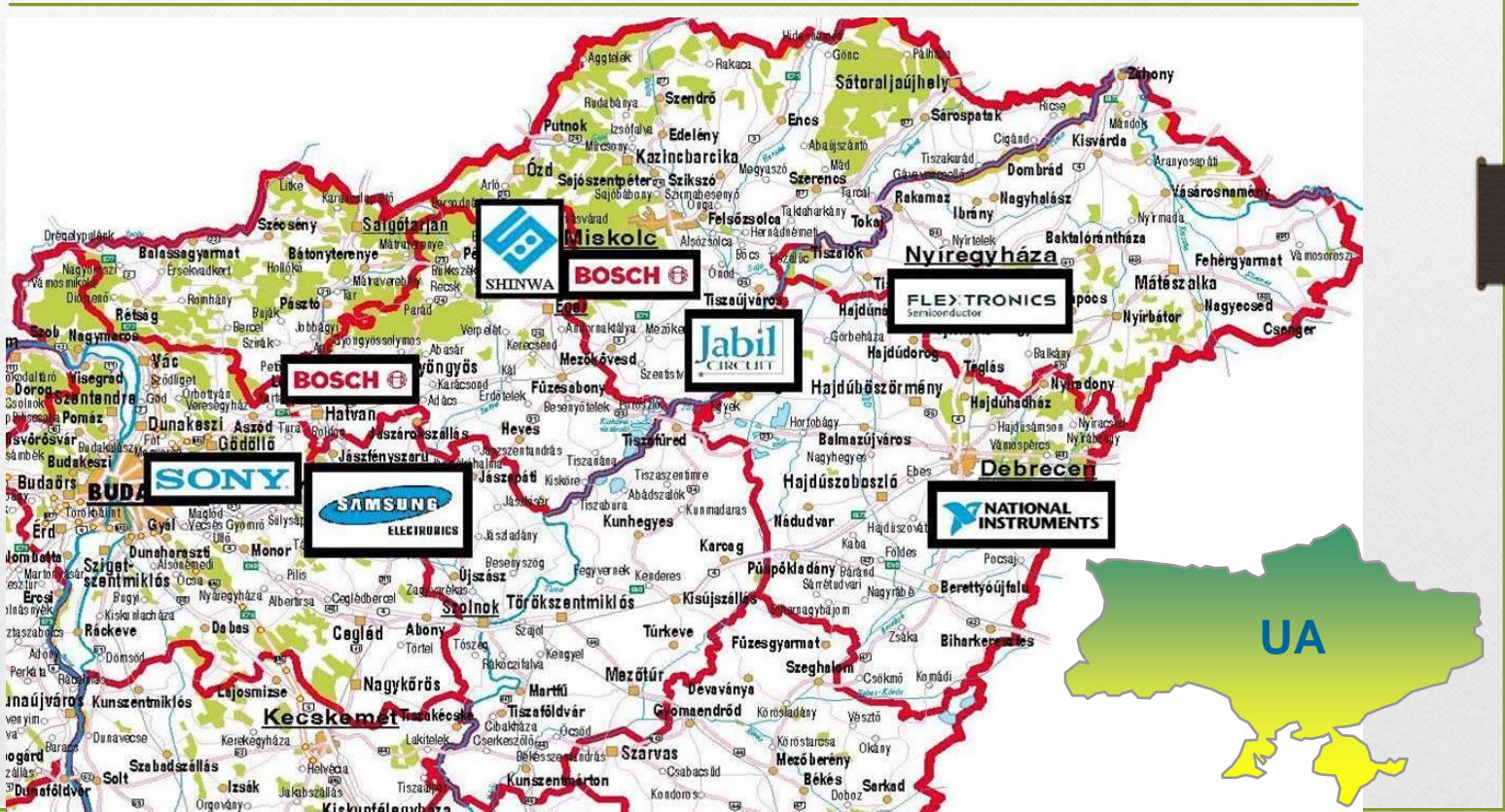
The Story of Success in CENTRAL EUROPE

Hungary:

Investments into the electronic production within the bounds of industrial parks and free customs zones in the years 1994-2003



Foreign Investments Into Eastern Hungary



2004. An Evident Movement Tendency of All the New Investments to the East



Great possibilities for promotion of investments into hi-tech production

- 5 companies – leaders in the field of electronic production have chosen different strategies of essential investments in order to extend their new manufacture capacities
- 2 companies decided in favour of Ukraine – the territory of SEZ “Zakarpattya”: Flextronics Ltd and Jabil Circuit Ukraine Limited
- 2 companies decided in favour of Romania : Solectron and Celestica
- 1 company decided in favour of Russia: the “Elcotecq” company on the territory of the “Saint-Petersburg” SEZ .

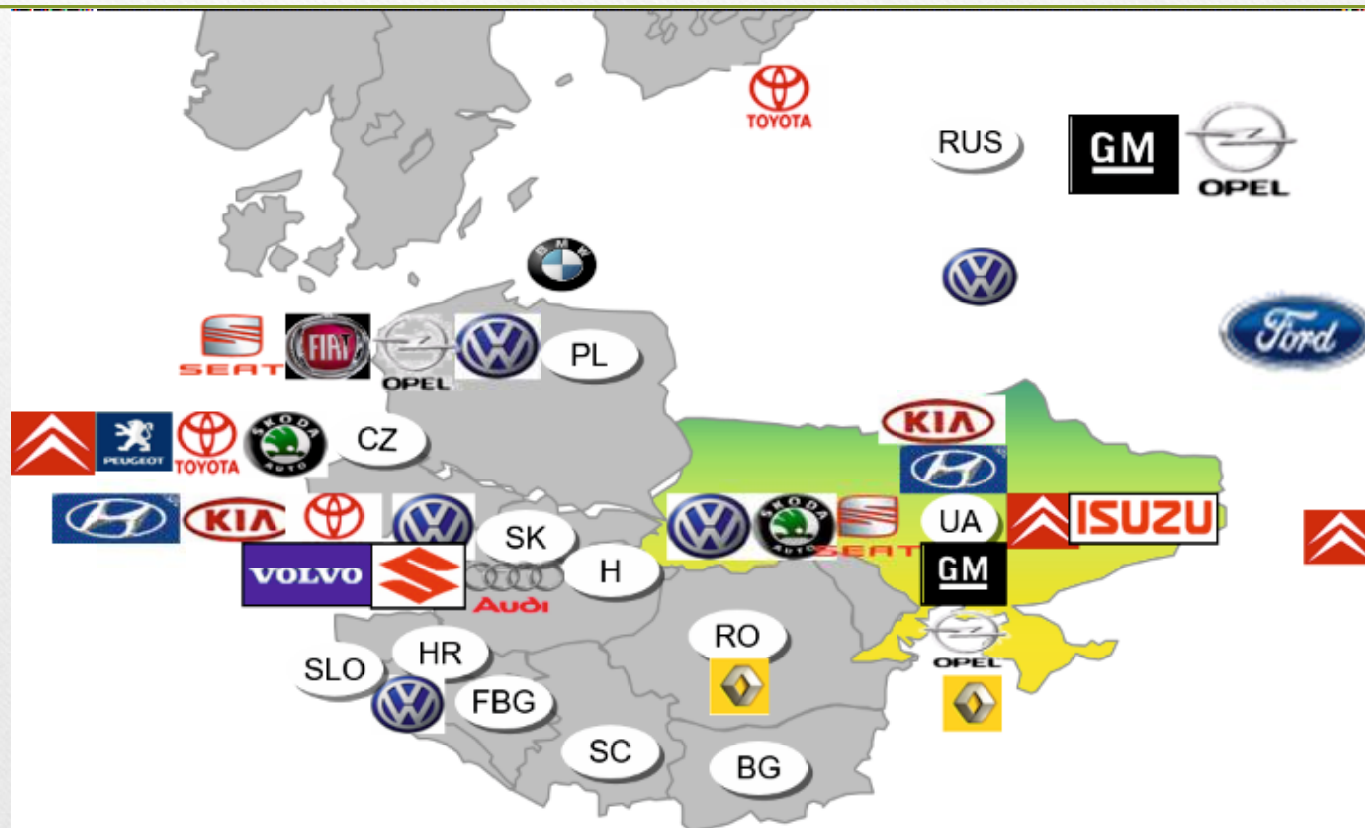
An Evident Movement Tendency of All the New Investments to the East in 2007



- 7 companies working in the field of high technologies have chosen different strategies of essential investments in order to extend their new manufacture capacities
- 2 companies decided in favour of Ukraine – the territory of SEZ “Zakarpattya”: Jabil Circuit(Ukraine Limited (currently functioning), Flextronics Ltd (currently not functioning)
- 3 companies decided in favour of Romania: Solectron ,Celestica,Elcotecg (all of them are currently functioning)
NOKIA and SIEMENS have announced of new investments
- 1 company decided in favour of Russia:
Elcotecq (currently functioning)

A New Tendency: the Investments Move to the East

The Production of Automobiles and Buses: Central and Eastern Europe



World Tendencies of Automotive Industry

Location of Production in a Low-Cost Country

alternative 1

The use of simplified and out-of-date (uncomplicated) technologies in production (*example: Tata, India*)



Volkswagen SK a.s., Slovakia

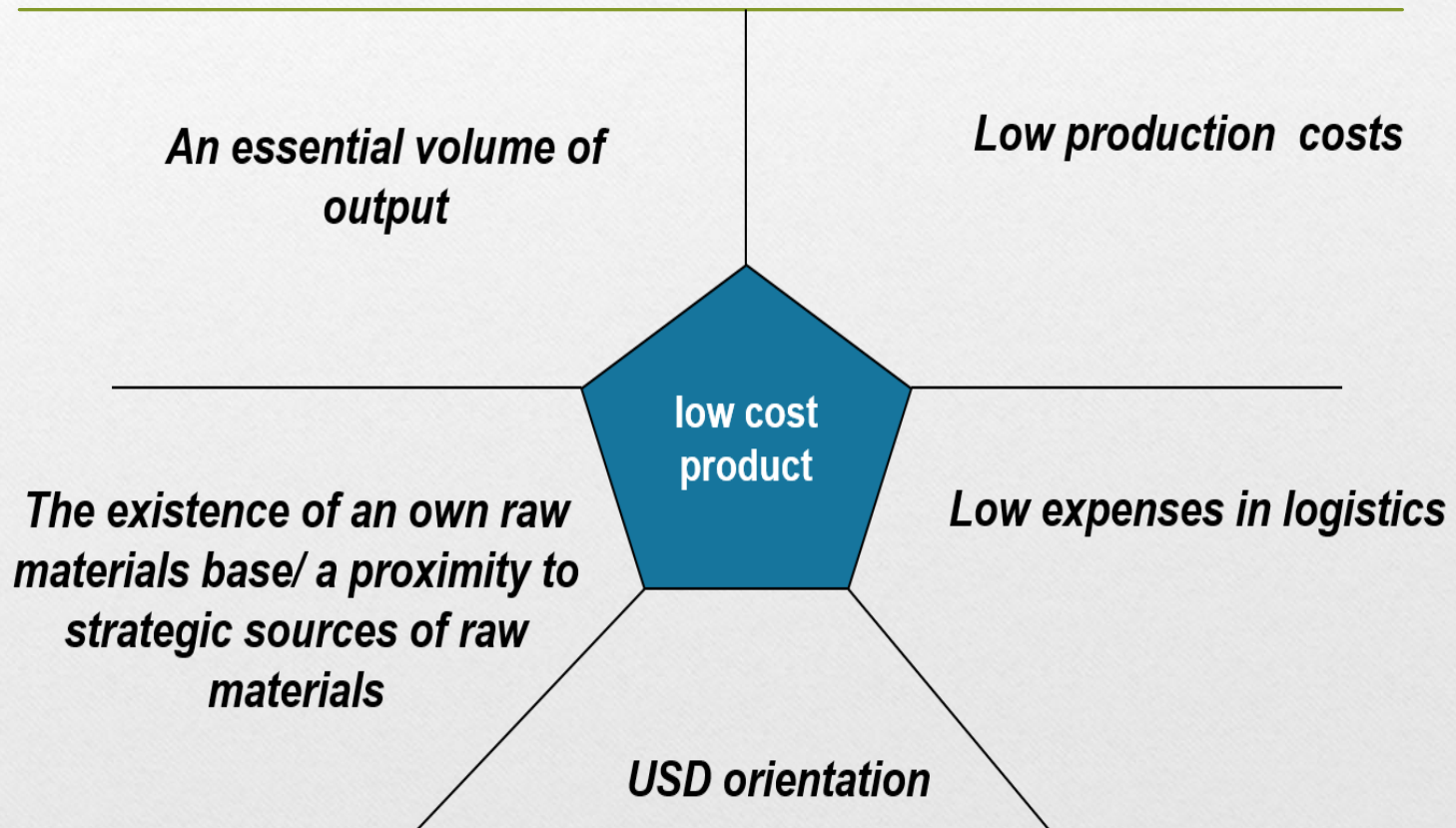


alternative 2

Hi-tech production owing to economy in expenses and an increase in capacities. (*example: Dacia, Romania; the Great Wall, China*)



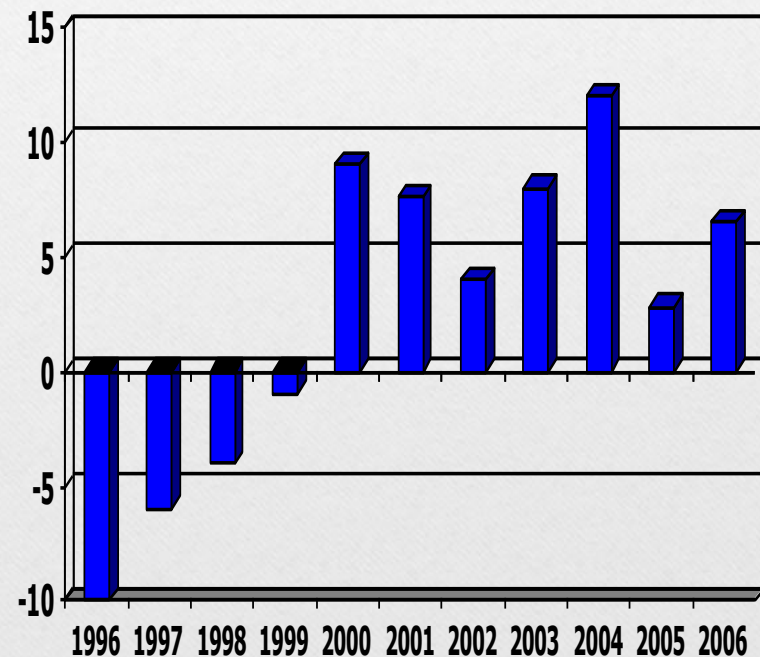
Factors Determining the Manufacture of a Low-Cost Product



Reasons to Invest in Ukraine

- ✓ Stable national currency in Hryvna (UAH) tied to dollar of United States (USD)
 - ✓ Low cost production
 - ✓ Primely location
- ✓ Availability of highly skilled workforce
- ✓ Reasonable price for raw materials and energy sources
- ✓ Access to markets of EU countries
- ✓ Favorable manufacturing platform with a high export potentials
- ✓ The opportunity to supply following the variant of reducing the production expenses
- ✓ The opportunity of Tier 3 supplier

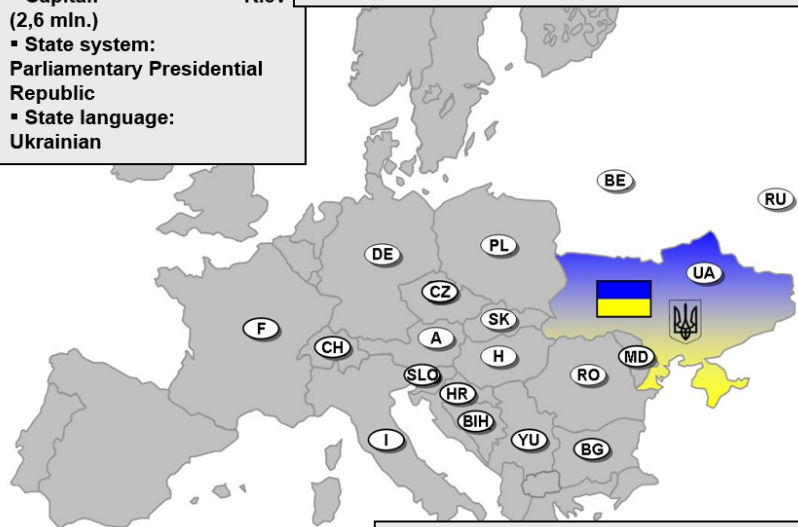
The dynamics of GDP growth in Ukraine, %



Sources: ipa.net.ua (The Institute of Reforms)

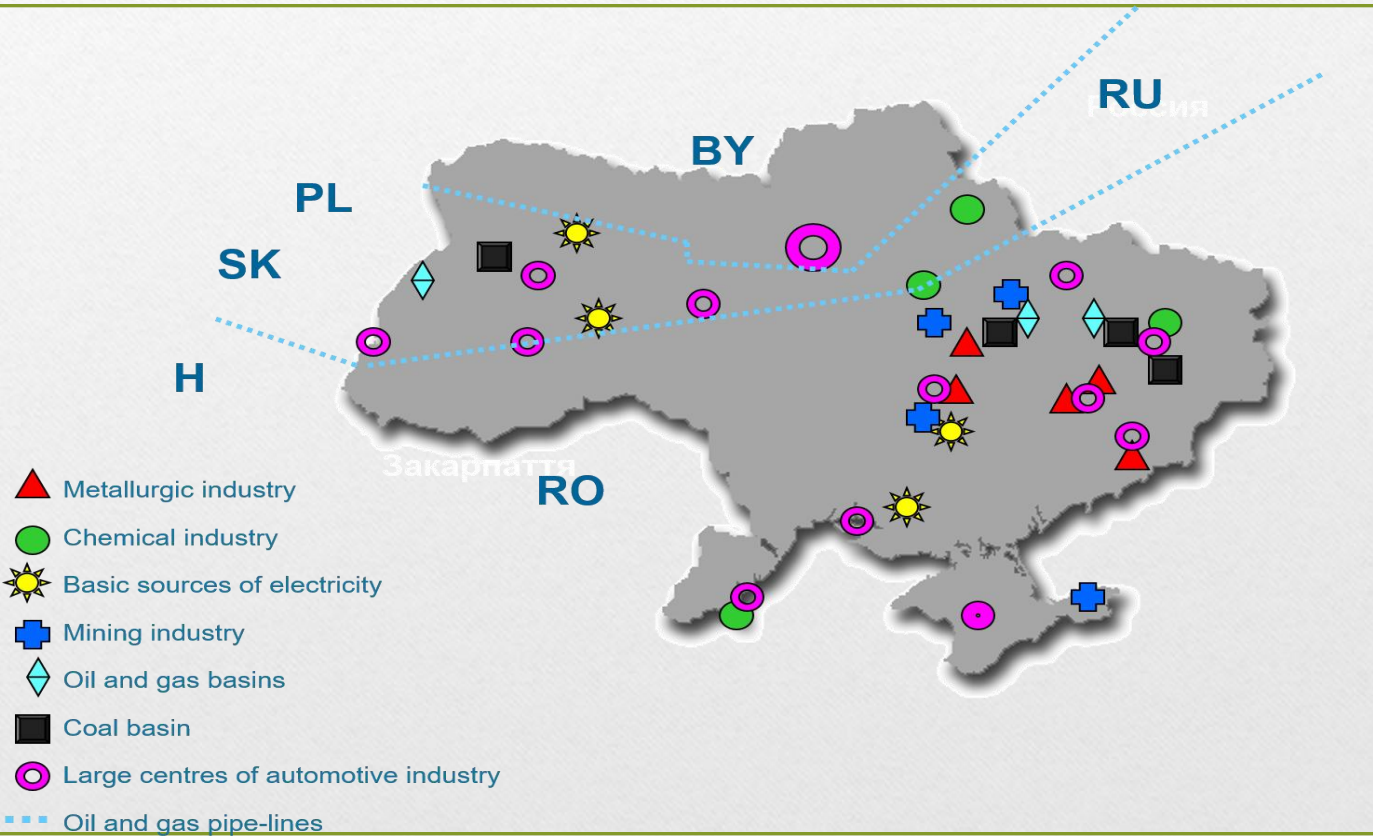
Geographical location and macroeconomic data of Ukraine

Salary calculation in the countries of investment axis:				General information: <ul style="list-style-type: none"> ▪ Territory: 603 700 km² ▪ Population: 46,9 mln. ▪ Capital: Kiev (2,6 mln.) ▪ State system: Parliamentary Presidential Republic ▪ State language: Ukrainian 	Basic macroeconomic indications: <ul style="list-style-type: none"> ▪ GDP growth: 6,2% ▪ Inflation: 11,6% ▪ Unemployment: 7,5% ▪ Average salary: 1103,90 UAH (exchange rate - 6,52UAH/€) ▪ GDP per capita: 1380€
	Czech Republic	Slovakia	Ukraine		
Net salary	553,40 €	392,03 €	927,28 UAH		
Employee share of obligatory contributions, %	23,8	13,4	16,0		
Gross salary	726,25 €	452,69 €	1103,90 UAH		
Employer share of obligatory contributions, %	35,1	35,2	36,2		
Total cost to Employer	981,16 €	612,04 €	1503,51 UAH		

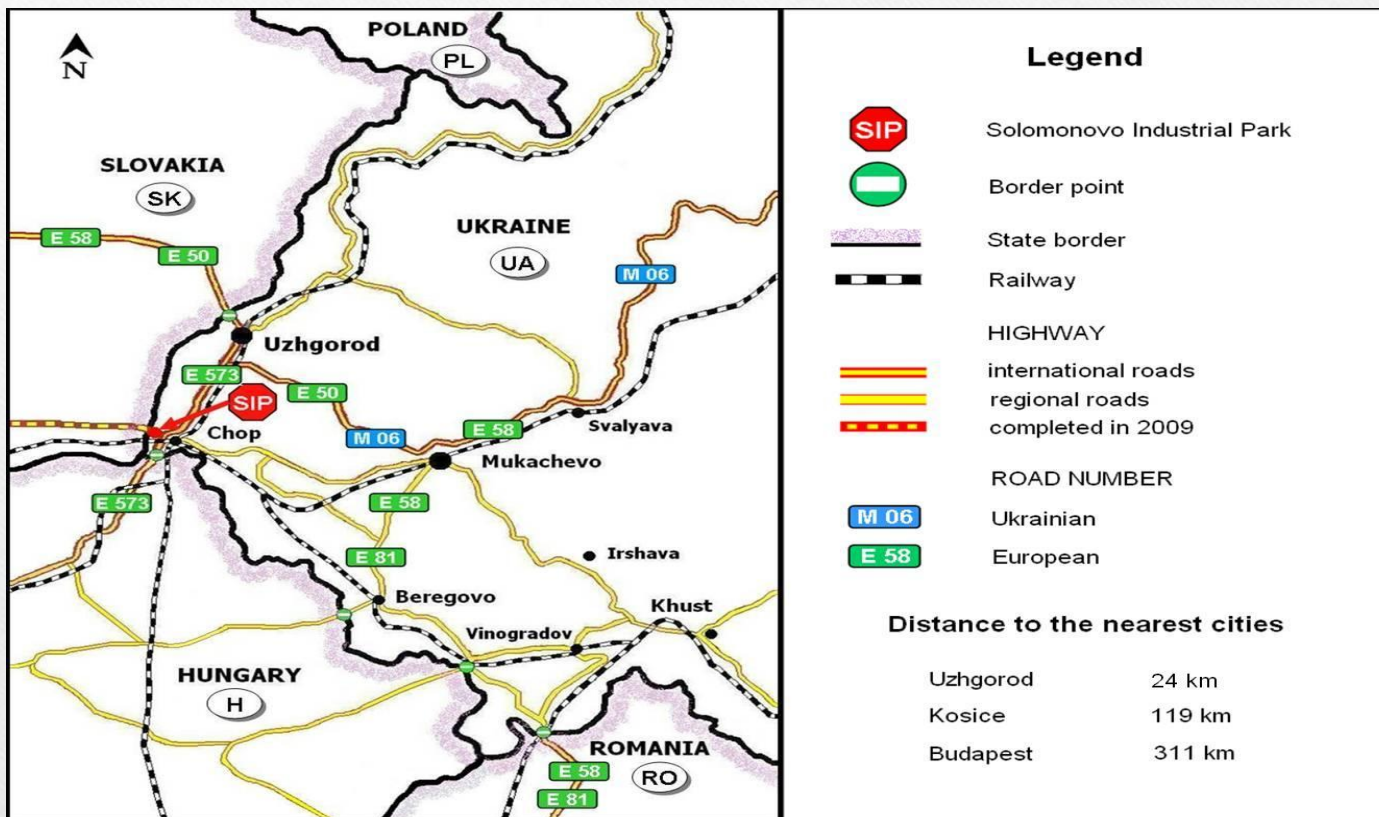


Tax rates:	
▪ Profit tax:	25%
▪ VAT:	20%
▪ Dividend tax:	15%

Raw Materials Base of Ukraine



Access to Markets. Transport Corridors



Transport Corridor №5
Lisbon-Trieste-Budapest-Bratislava-Uzhgorod-Lviv
(Italy, Slovenia, Hungary, Slovakia, Ukraine)

The length of the transport corridor is 1595 km. In Ukraine - 226 km of railway length, 338, 7 km of motorway length (including the branch of 47, 2 km).

The Memorandum on mutual understanding was signed in December, 1996.

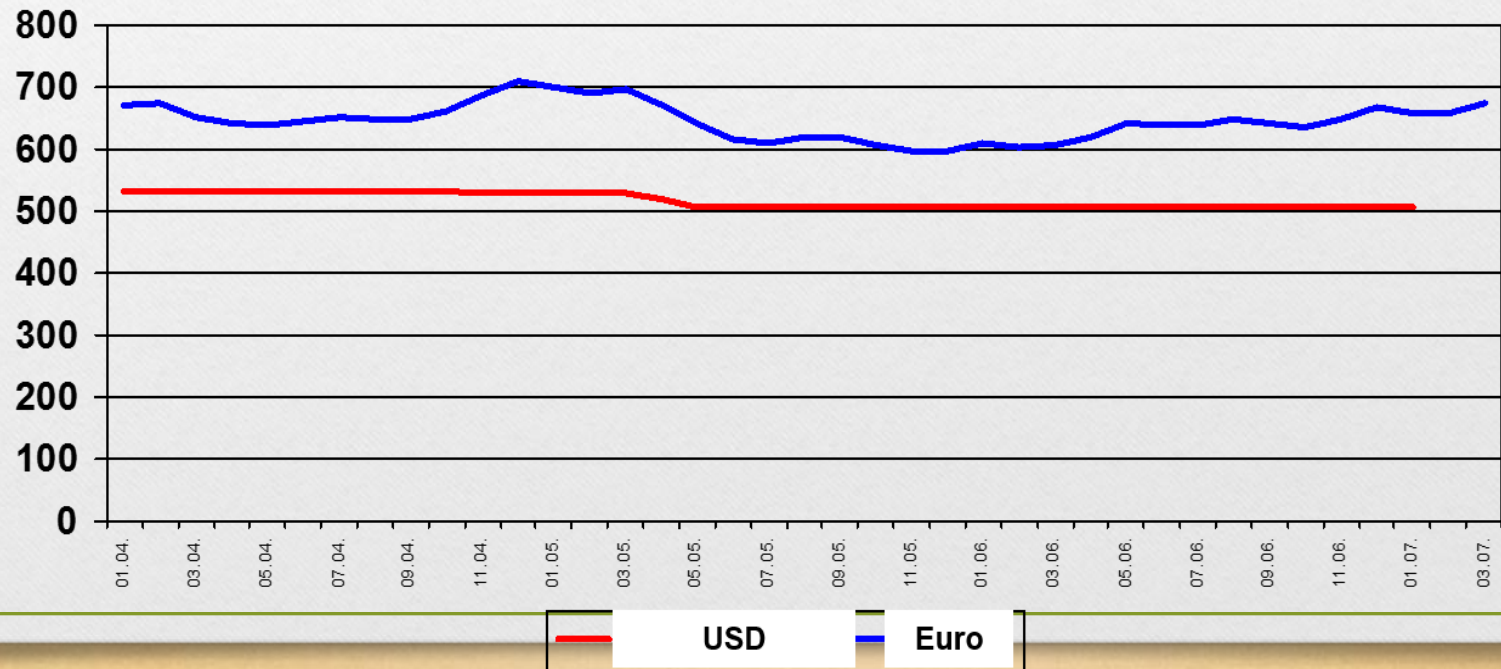


Умовні позначення

	- проходження коридору (Венеція-Трієст/Копер-Любляна-Будапешт-Ужгород-Львів)
	- відгалуження (Братислава-Жиліна-Кошице-Ужгород)
	- відгалуження (Рієка-Загреб-Будапешт)
	- відгалуження (Плоце-Сараєво-Осієк-Будапешт)

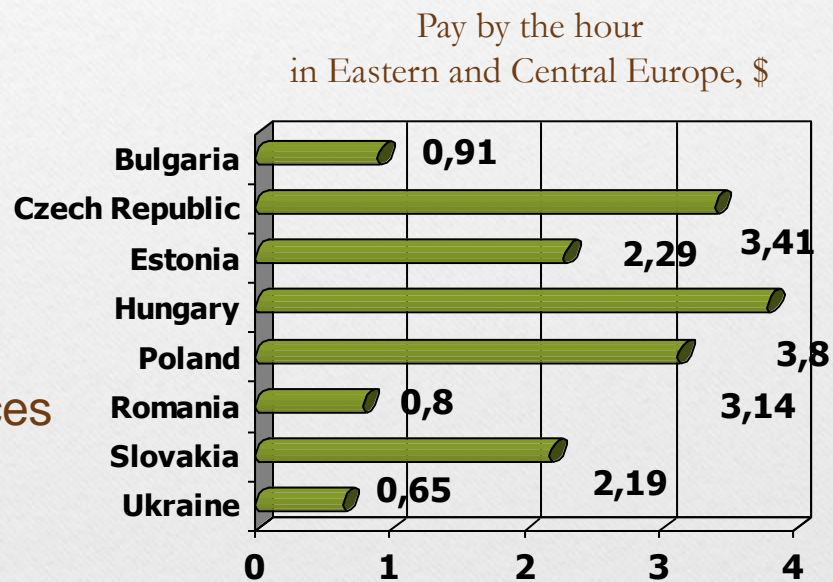
USD orientation

- ✓ A fixed exchange value of UAH to USD
 - ✓ The instability of the European currency regarding UAH
- The official rate of exchange of UAH to USD and Euro



Reduction in Production Costs

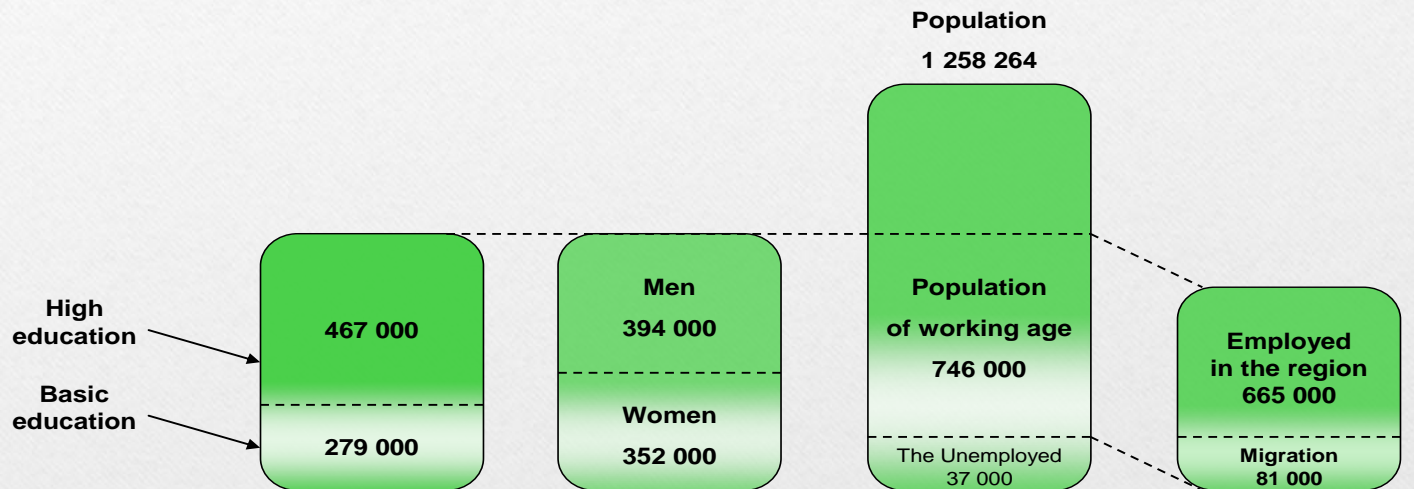
- ✓ Skilled and low-cost labour
- ✓ Low value of energy resources



Sources: ipa.net.ua (The Institute of Reforms)

Information: In Ukraine the tariffs for electricity power for the population are the lowest in comparison to those of the countries of Europe and the CIS - 3, 61 USD 100 kWh; in Russia - 2, 76 USD, in Moldova - 6, 15 USD, in Poland - 9, 43 USD.

DEMOGRAPHIC DATA of Transcarpathia, Ukraine



Local unemployment rate is equal to 5%.

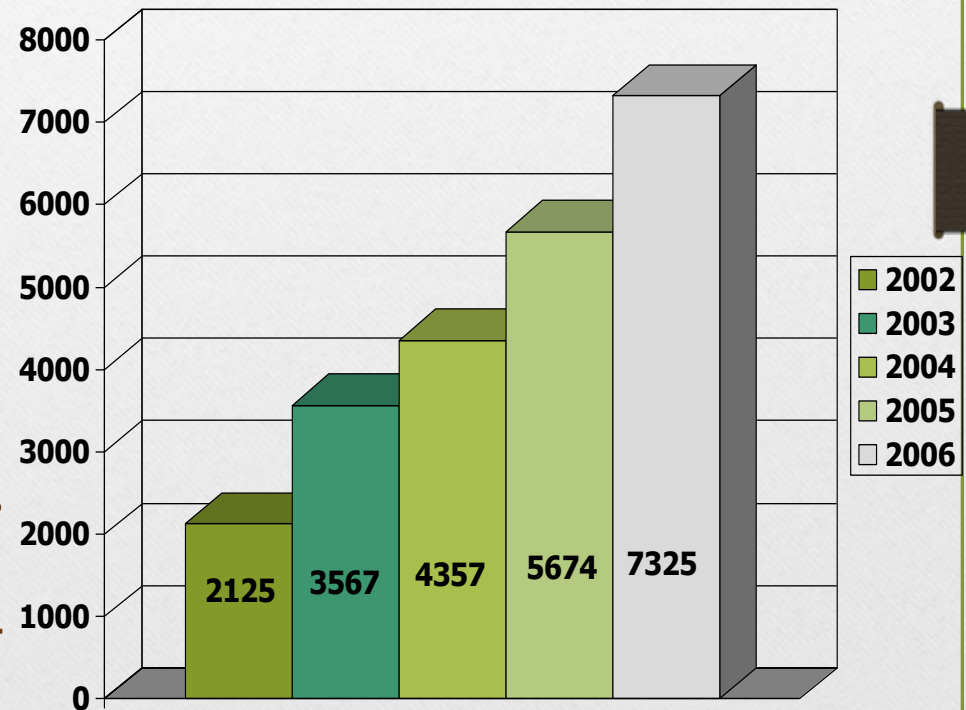
Gross unemployment in Ukraine is 3,2%.

There are 14 universities and 20 colleges in the region.

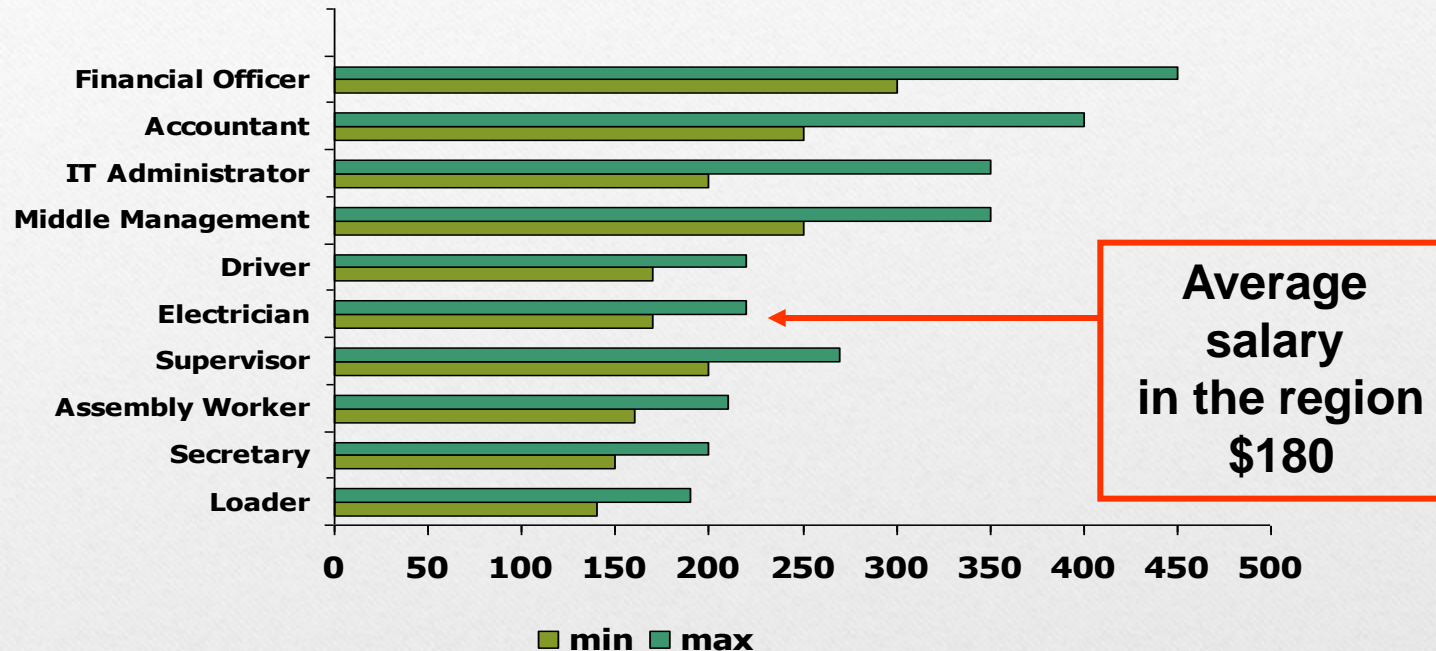
A lot of highly skilled specialists are taught by professional lecturers and technical trainers in the universities and colleges of Transcarpathian region.

The Personnel Potential of Transcarpathia

The training of specialists of secondary, technical and higher education in Zakarpattia region (in years) (higher educational establishments of III-IV levels of accreditation – 5, higher educational establishments of I-II levels of accreditation – 14, vocational training schools - 20)



SALARY STATISTICS in Zakarpattya, Ukraine



Average salary is equal to 909 UAH (180 USD).

There is a beneficial salary-to-productivity ratio in the region. At the same rate of productivity the salary of Ukrainian employee is drastically less than in EU countries.

Legal environment in Ukraine

The Conception of Industrial Park Establishment

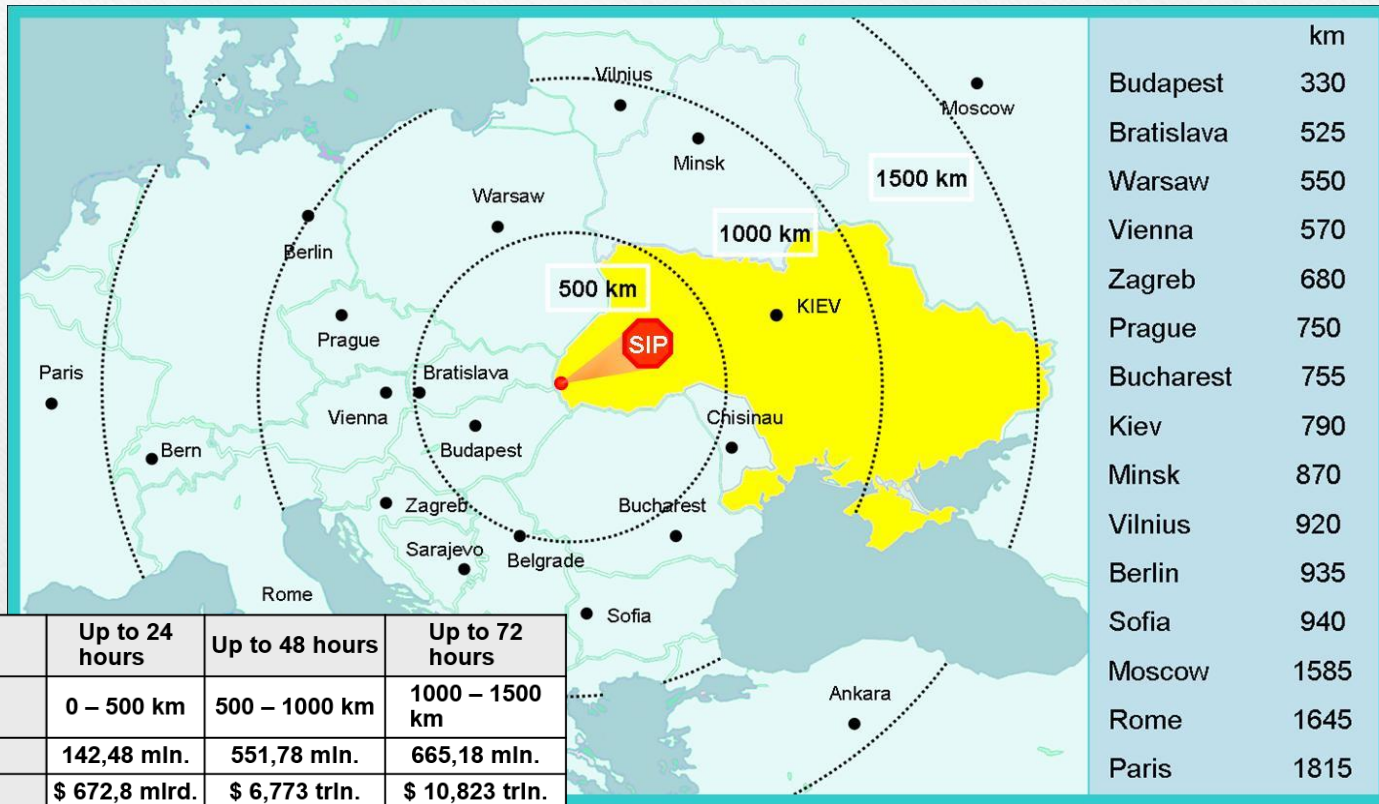
dated from August, 1, 2006, № 447-р

The Law of Ukraine «On the Single Custom Tariff of Ukraine» dated from April 5th, 2001 No.2371-III

The Law of Ukraine «On the Value Added Tax» dated from April 3rd, 1997 No.168/97-VR

The Law of Ukraine «On the Investment Activity» dated from September 18th, 1991 No.1560-XII VR







Production Capacities and Logistics



Factors Influencing the Promotion of Investments in the Region

1. The fall of regional economics as the result of the USSR`s collapse: 60% in 1997 compared to 1990.
2. A surplus manpower of 300 000 people,
great intellectual potential;
3. The absence of the country`s direct investments, the imperfection of social protection;
4. Access to markets, proximity to the customer, a developed transport infrastructure

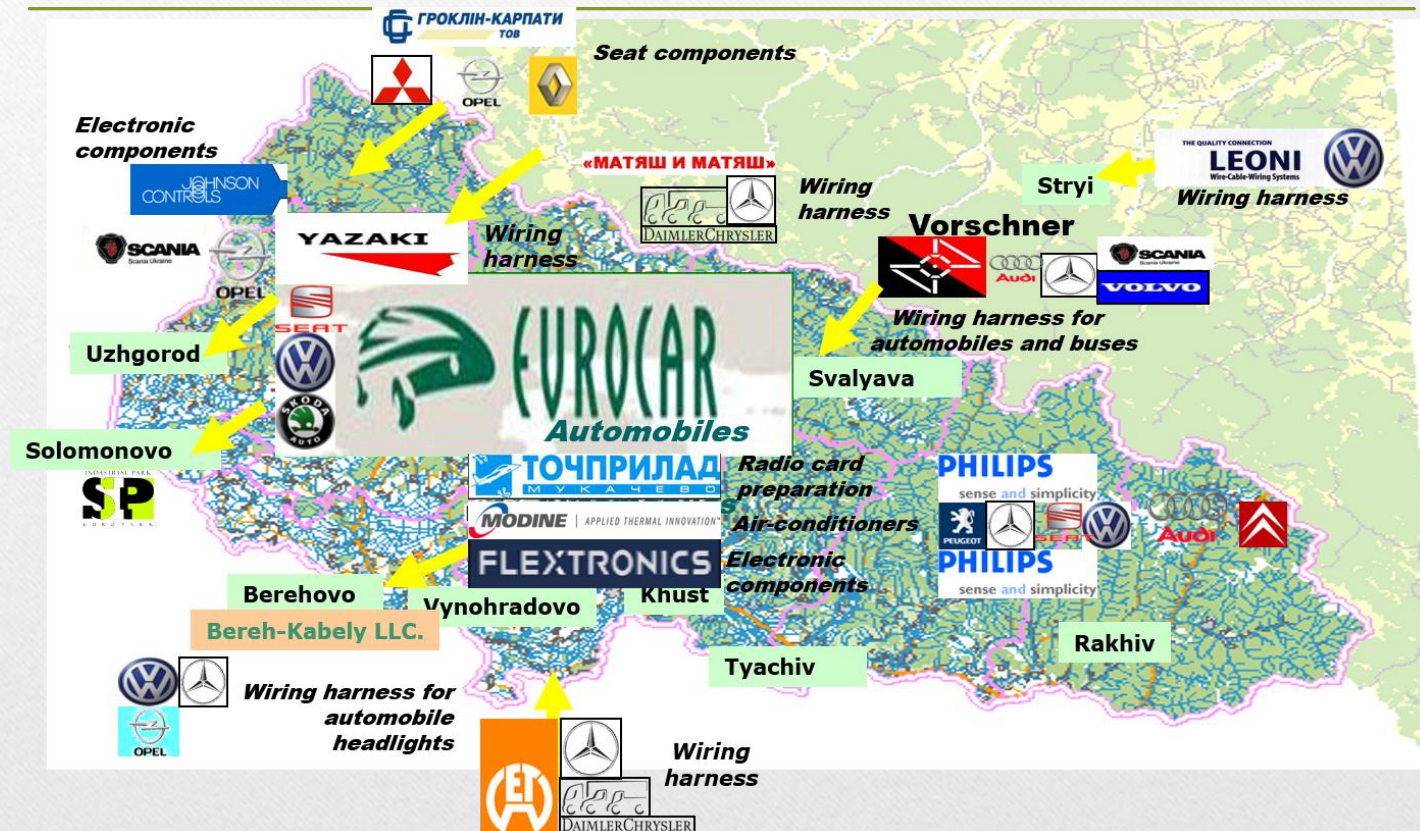
Achievements Made under the Law of Ukraine on SEZ in Force

2001		The Skoda Auto is the biggest enterprise of Czech Republic. In 2004 its profit was 4.815 milliard crowns (+91.3%). The turnover makes up 136,3 milliard crowns; 1 million motors and 421 000 automobiles are manufactured in a year. Having a personnel of 24,56 000, the Skoda Auto composes 3% of the whole Czech Republic's workforce.
2002		The Volkswagen AG Concern is a huge European automobile producer. It includes the Audi, Seat and Lamborghinibrands and has 90 plants all over the world. In fact the Volkswagen brand is presented at all the world markets; production - 5 083 547 automobiles in a year; its quota at the world market is 12,2 % and its turnover is 50 milliard EUR.
2003		A leader in projecting, production products and provides different service. Its plants are located in 28 countries on 4 continents. The yearly turnover is 10 milliard USD. There are 12 plants of Flextronics in Asia, Europe and USA.. The number of its employees is 13 000 people. The Flextronics company deals with projecting, production and distribution of goods to such well-known producers as Cisco, COMPAQ, Hewlett-Packard, IBM, Lifescan, Lucent, Nokia, Philips, Sony and WebTV.
2003		The Yazaki Corporation is a world leader in projecting, technology and production of electric and electronic systems for automotive industry having more than 70 years of experience. The Yazaki Corporation has 115 000 employees in 31 countries of the world (in Europe there are 11 000 working at its plants). Its yearly turnover is more than 8, 3 milliard USD. The Yazaki Corporation is one of the two biggest producers supplying its products to the Japanese and international leaders of automotive industry.
2003		The Audi AG Concern is a part of the Volkswagen AG Concern; The Audi AG is one of the biggest players at the world market. Nowadays 3,6 % of the whole market belong to this German brand. The automobiles are manufactured at three European enterprises. 780 A3 models and almost the same number of A4 models and 200 TT models are produced in Ingolstadt, Germany in a day. In 2004 the yearly profit of the Audi AG Concern was 871 million EUR.
2003		Jabil Circuit Ukraine Limited is a leader in electronic production. In 2004 the yearly income of the corporation made up 6,3 milliard USD. Jabil Circuit Ukraine Limited owns 14 plants all over Europe and has provided 41 000 jobs. The company offers a complete spectrum of service to the biggest world producers of electronic industry, such as Philips, Nokia, IBM, Alcatel, HP, Valeo, etc.

Achievements Made under the Law of Ukraine on SEZ in Force

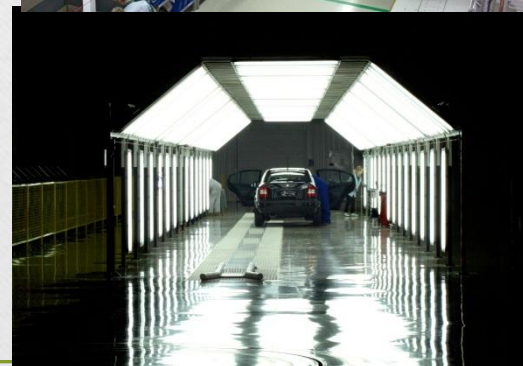
- In 2001-2005 the total cost of projects had been 312,28 million USD. This sum of money was supposed to be used up to 2012. Down to January, 1, 2006 80 million USD were promoted;
 - automotive and electronic cluster formation at the border;
 - competition at the labour market,
 - growth of average salary (average salary in SEZ – 1500 UAH);
 - the network of subproviders (construction, transport, sale, catering, insurance, banks, personnel trainings) is constantly developing;
- a market of highly skilled workforce has been created (4 000 jobs of 10 000 supposed ones)
 - transparency – absence of criminal cases, smuggling.

Industrial Park. The Heart of the Cluster of Automotive and Electronic Industry



EUROCAR CJSC. GENERAL INFORMATION

Name of mother company :	CJSC Atoll Holding
Ownership :	Closed Joint Stock Company
Country of origin :	Ukraine
Founded :	2001
Field of business :	Automotive industry
Activities :	- complete vehicle assembly - modules and systems sub-assembly
Amount of investments :	Brands: Skoda VW, Seat € 200 mln.
Scope for investments :	Greenfield
Start of construction	23.07.2001
Start of project:	19.12.2001
Production capacities:	Up to 120 000 automobiles in a year
Employment :	2300 workplaces



CJSC EUROCAR

Amount of investments
: 34,7МАН.\$,
Workplaces - 667



CJSC EUROCAR



Yazaki-Ukraine llc. General information

Name of mother company : Yazaki Corp., Yazaki Europe
Ownership : Limited Liability Company
Country of origin : Japan
Founded : 2002
Field of business : Automotive Industry
Activities : of automotive wiring harness

Amount of investments : \$ 32 mln.
Scope for investments : Brownfield
Start of construction : 15.11.2002
Start of project : January, 2003
Production capacities : 23 000 m²
Employment : Opel, Volvo, Ford, etc.
1100



Yazaki-Ukraine llc.

YAZAKI



production premises of
25 000 m²,
Investments promoted -
31,9 mln.\$
workplaces – 1100

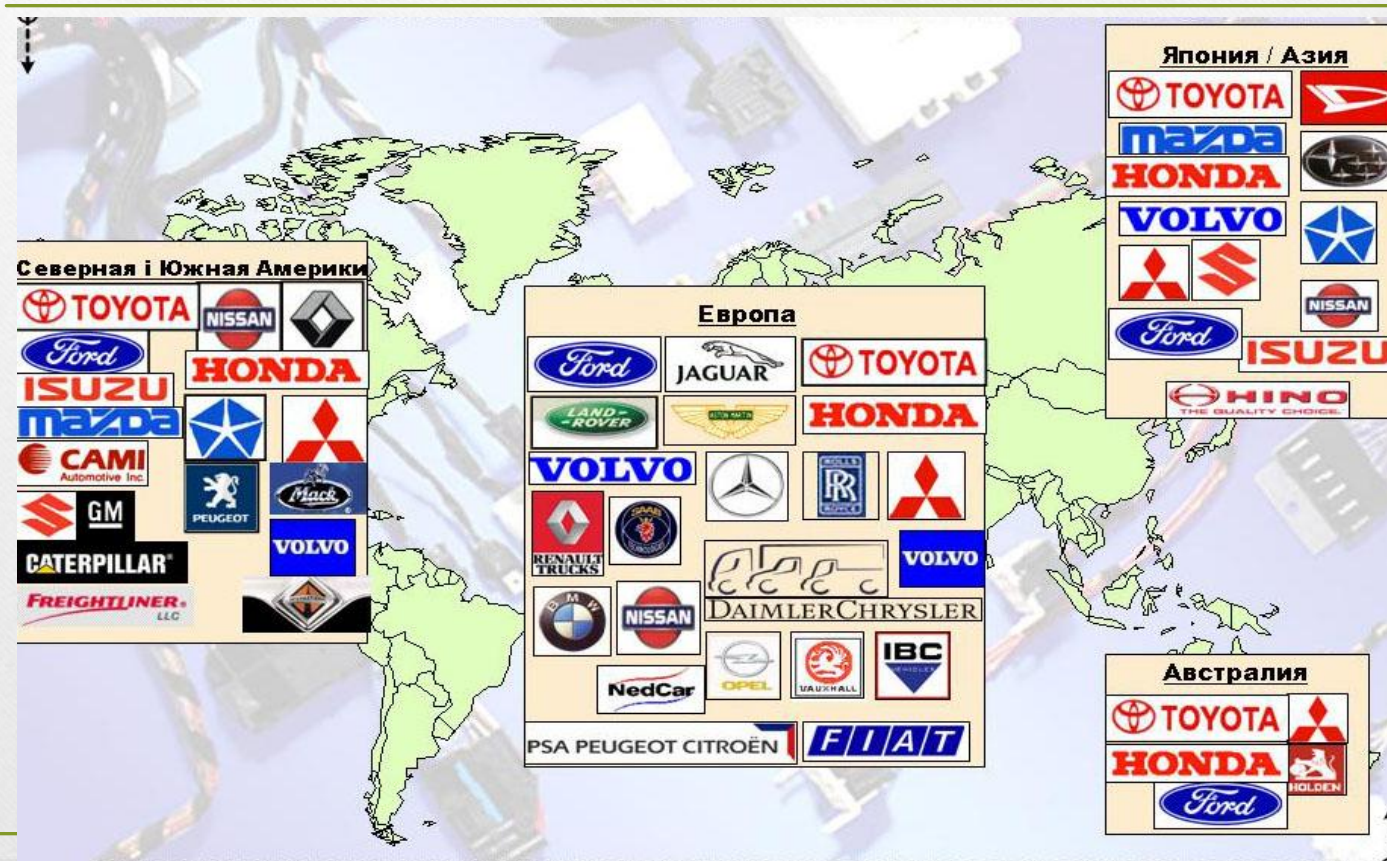


YAZAKI-UKRAINE LLC.

Planned workforce – up to 6 000

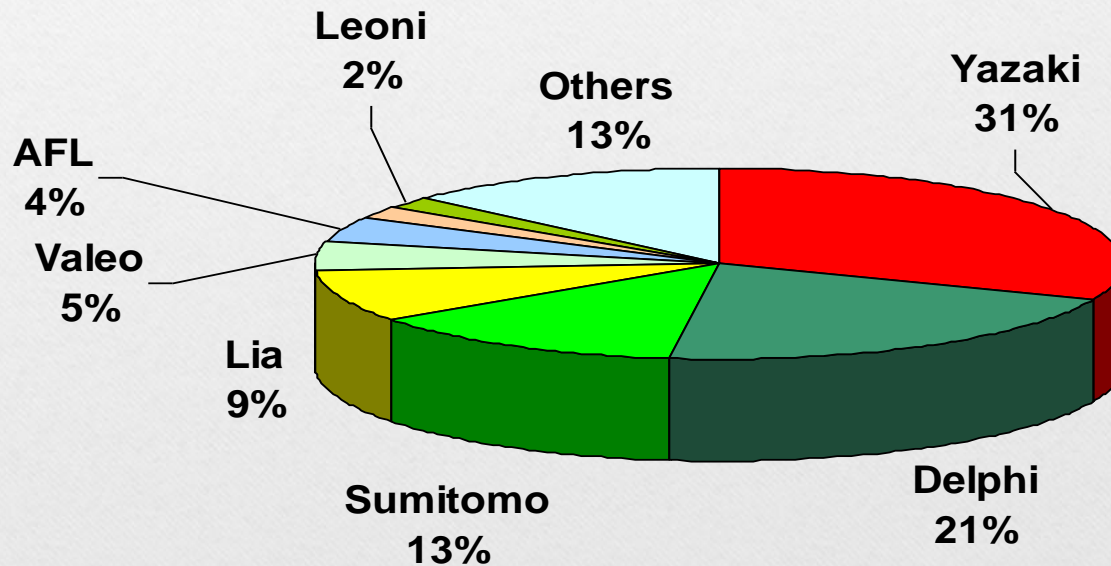


Globalization: The Customers of Yazaki



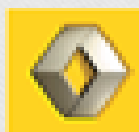
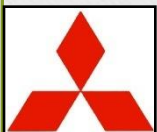
New Investments Movement. II Level Suppliers

Quota Distribution in Production of Wiring Harness for Automobiles at the World Market



GROCLIN-KARPATY LLC. General information

Name of mother company : JSC Inter Groclin Auto
Ownership : Limited Liability Company
Country of origin : Poland
Founded : 2002
Field of business : Automotive industry
Activities : Construction of facilities and seat covers manufacturing
Amount of investments : \$10 mln.
Scope for investments : Greenfield
Start of construction 2002
Start of project: 2002
Production capacities: Reno, Fiat, Mitsubishi
Employment : 450



JABIL CIRCUIT UKRAINE LIMITED. GENERAL INFORMATION

Name of mother company : Jabil Circuit, Inc.
Ownership : Limited Liability Company
Country of origin : USA
Founded : 2004
Field of business : Electronic industry
Activities : Production and assembly of electronic components
\$ 3,9 mln.
Amount of investments : Brownfield
Scope for investments : 2.10.2006
Start of construction April, 2004
Start of project: 26,000 m²
Production capacities: Nokia, HP, Philips, Alcatel, IBM, NEC, Johnson Controls, Valeo Corporation, etc.
Employment : 1265, is to be extended up to 2400



The Pilot Project of Jabil Circuit Ukraine Limited



investments
promoted –
50 000 USD
workplaces -
50

The Construction of the Jabil Plant



Construction Phase 2:
the extension of industrial
premises and doubling
in quantity of employees



Construction Phase 1:
26,000 m²
2,400 employees

Jabil Circuit Ukraine Limited–Construction Phase 2



investments– 50,0 mln. USD
workplaces – 3 000

Jabil Circuit Ukraine Limited



Flextronics Ltd.



II construction phase
workplaces – 3 500

I construction phase
investments – 21,3 mln. €
workplaces – 3 000

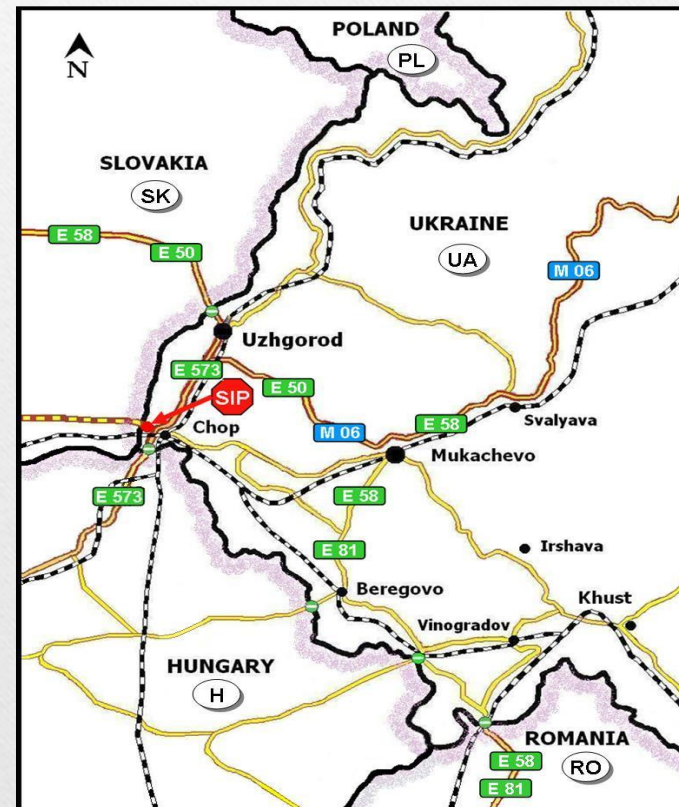
Solomonovo industrial park – The cross-road of Europe



SIP. General Information

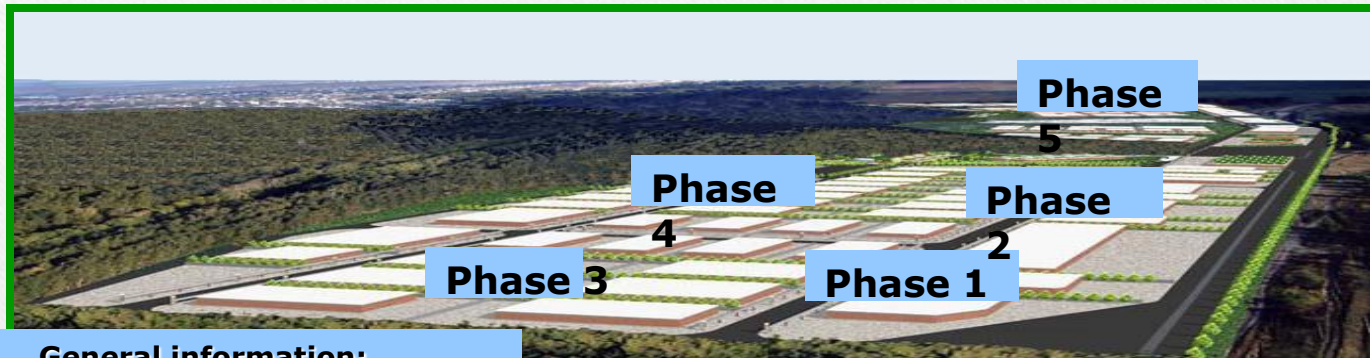
SIP main advantages:

- ✓ primely location
- ✓ 4 neighbouring countries of the European Union
- ✓ easy access to international transportation corridors
- ✓ well-positioned on the transit routes
- ✓ developed border infrastructure
- ✓ availability of highly skilled workforce
- ✓ reasonable price for raw materials and energy sources



Development Phases

Aimed to a complete synergy of new location, production capacities and export potentials

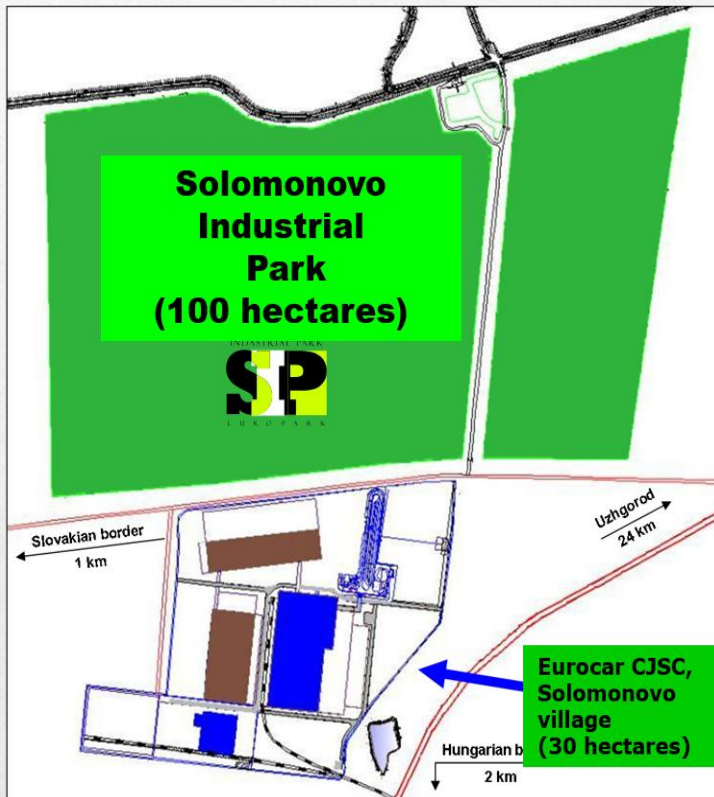


General information:

Total area: about 100 hectares
Start of project: September 2007
Capital investments: € 54 mln.
Foreign direct investment: € 124 mln.
Employment: 5400 jobs

Project steps	Area for lease	Completed in
Phase 1	75000 m2	2008
Phase 2	110000 m2	2009
Phase 3	115000 m2	2010
Phase 4	125000 m2	2011
Phase 5	75000 m2	2012

UTILITIES OUTLOOK

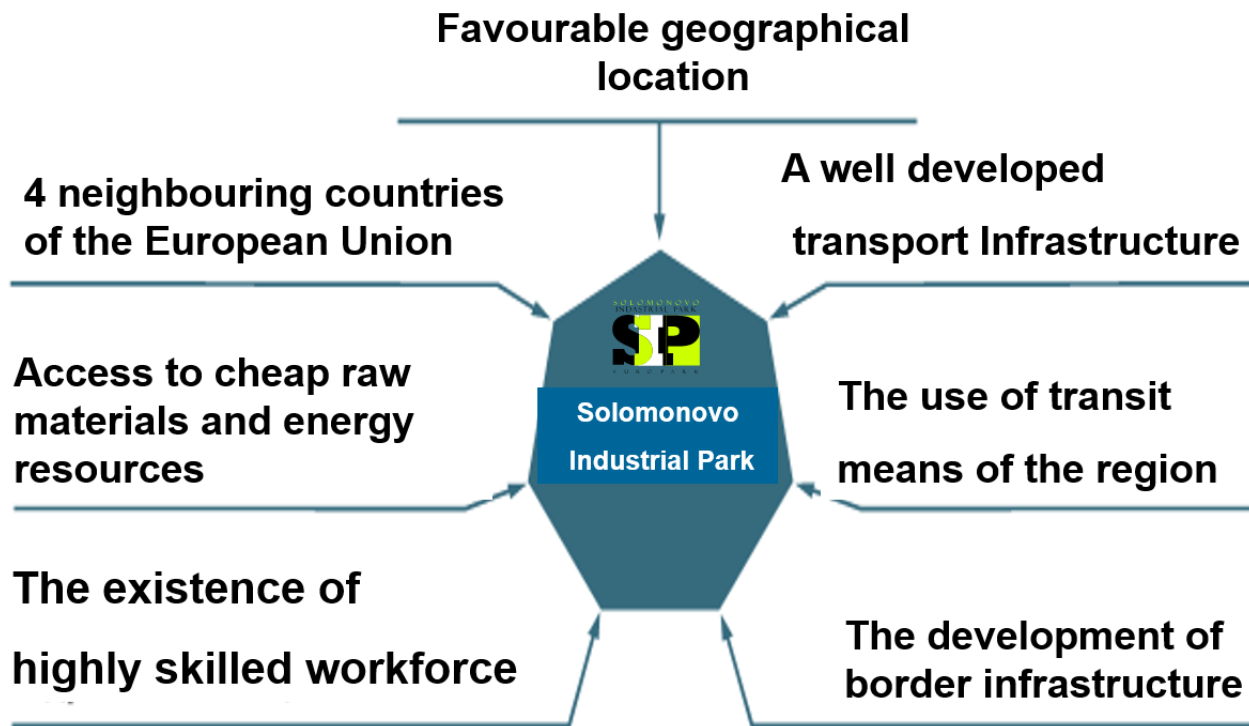


Water supply	Up to 5000 m ³ /day
Water drain	Up to 5000 m ³ /day
Wastewater treatment	Up to 2500 m ³ /day
Electricity	Up to 40 MWt
Natural gas supply	6000 m ³ /hour
Telecommunications	Digital

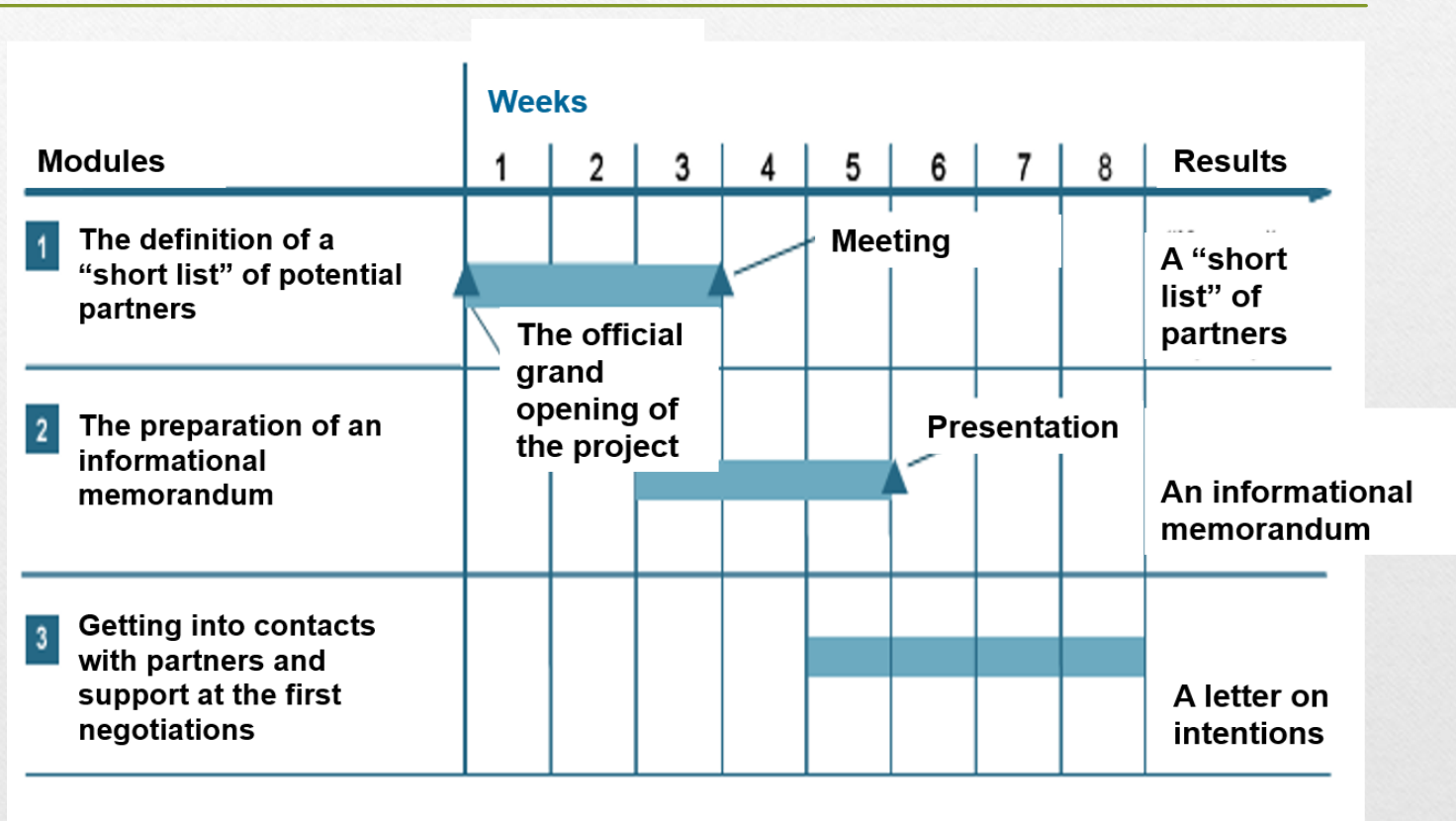
Own railroads:

European railway track: 4 roads
 Total length: 1470 m
 CIS broad railway track: 1 road
 Length: 370 m

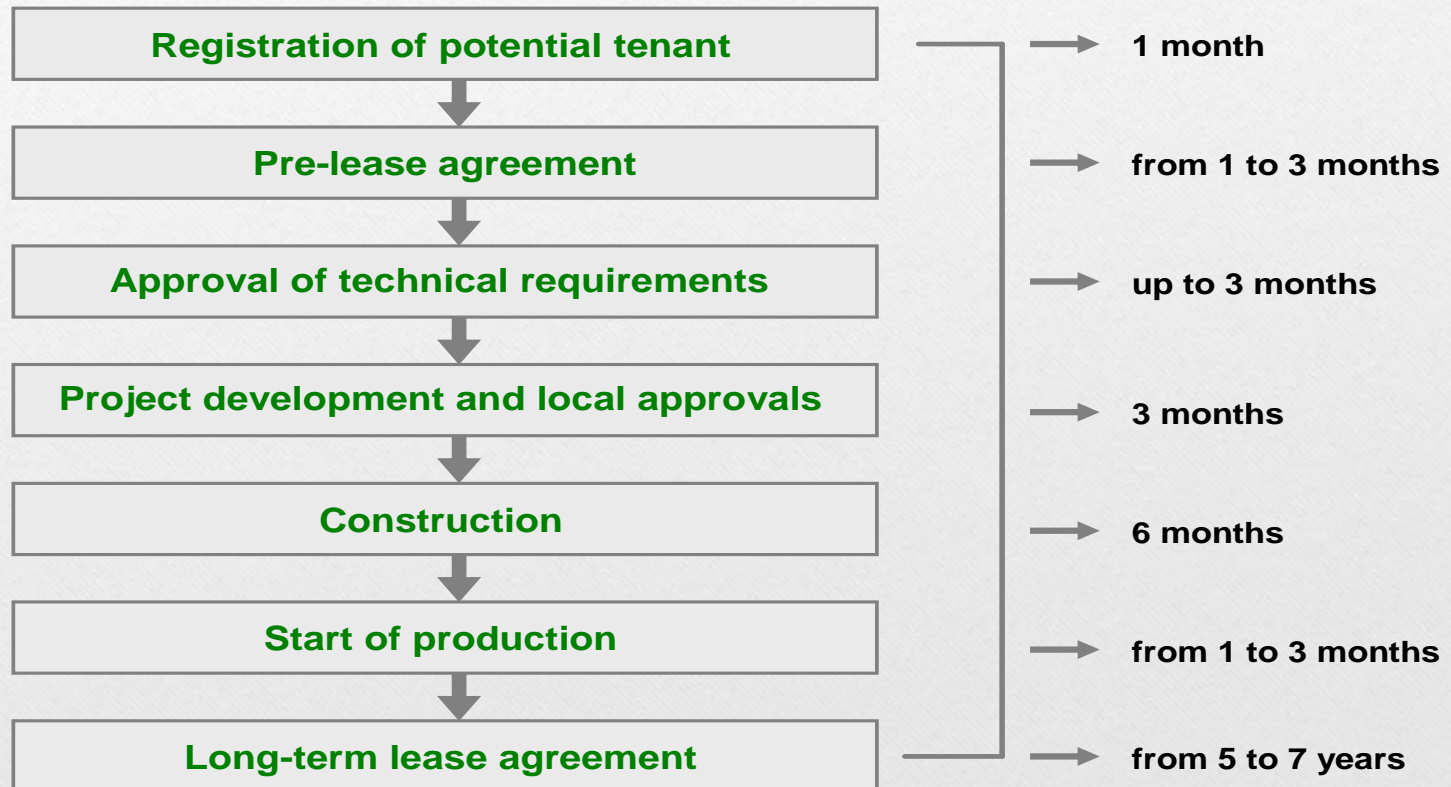
SIP Advantages



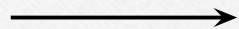
Entrance Procedure to SIP



Entrance Procedure to SIP



SIP Administration Service



Construction and development of infrastructure and facilities



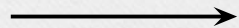
Consulting and co-development



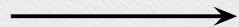
Short or/and long-term lease of standard and build-to-suit facilities



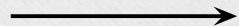
Operation and maintenance of infrastructure



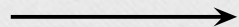
Continuous supply of electricity, water, natural gas etc.



Recruiting and training of local staff

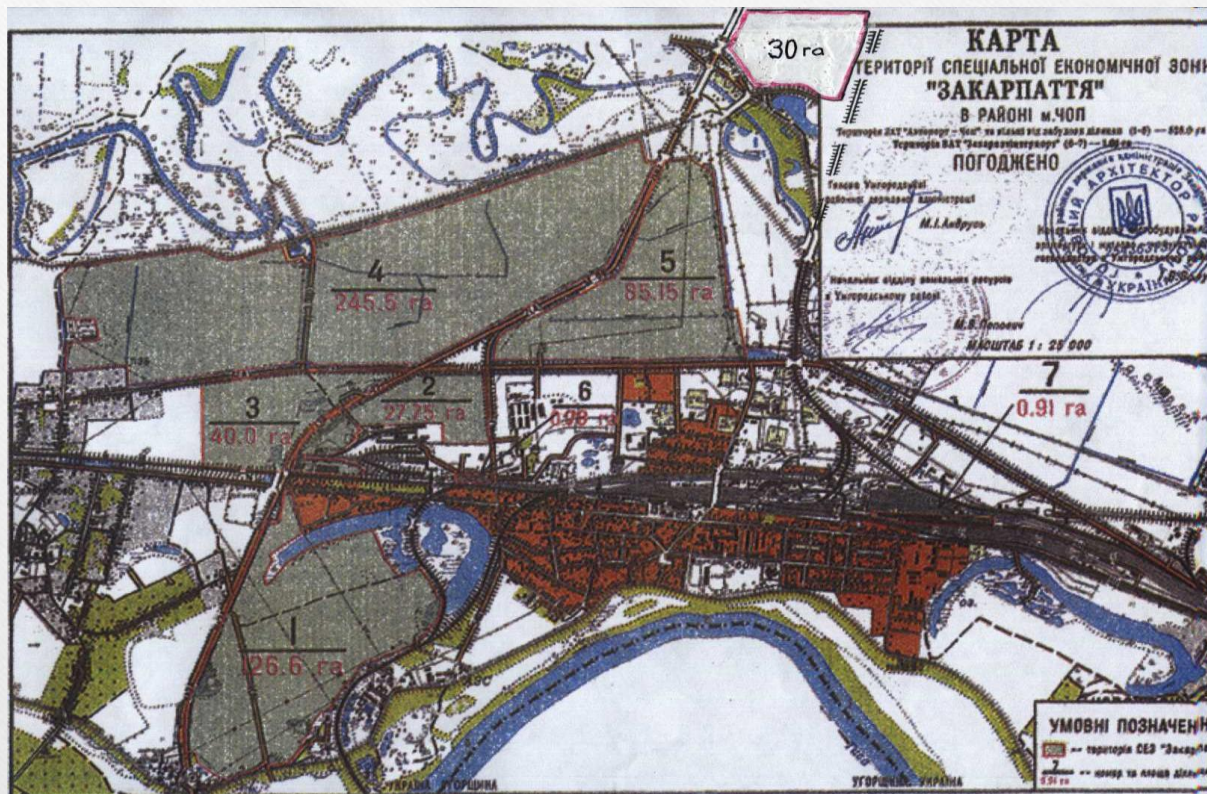


24-hour security of the entire territory

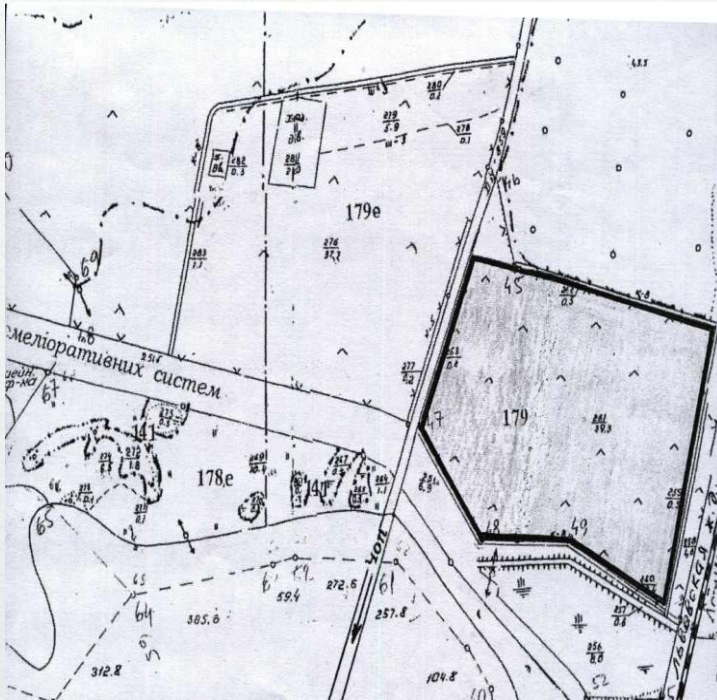


Logistic and distribution center in the park

New SIP Territories on the Map of SEZ



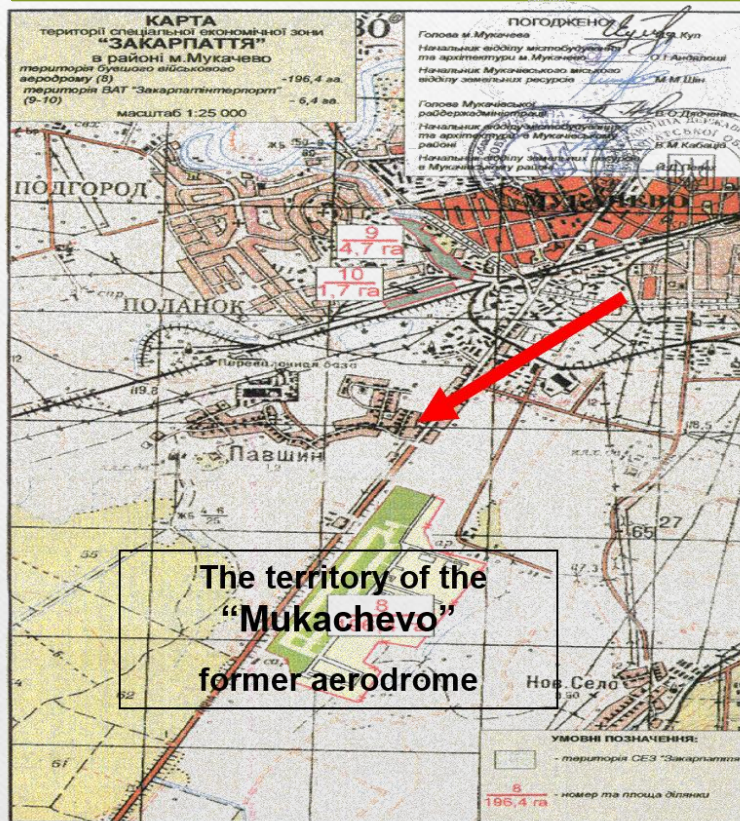
New Territories



The Characteristics of the Given Territory and the Perspectives of Its Development

Territory: approximately 30 hectares;
The purpose of the land – pasture;
Existing transport infrastructure:
The Chop-Kiev motorway;
Railways: Chop-Uzhgorod-Lviv with transition points to Hungary and Slovakia;
Existing engineering infrastructure:
Electricity transmission link - 110kVt;
Electricity transmission link - 10 kVt;
The gas main is under the pressure of 15 atmospheres.
The possibilities of the engineering infrastructure's development:
Water supply: the construction of a mining hole or of the Latorytsa river;
Water drain: the construction of local sewerage system structure with draining to the existing reservoirs or the Latorytsa river;
Electricity supply – from the transport substation of Chop;
Gas supply – the gas distributing station of Chop;
Communications – from the existing networks of Chop.
The territory can be used for industrial or civil construction.

New Territories



The Perspectives of the Given Territory's Development:

The area of the former aerodrome is approximately 350 hectares. 196, 4 hectares are included into the territory of SEZ "Zakarpattya".

Existing transport infrastructure:

The Mukachevo-Beregovo motorway is located not far from the aerodrome. The distance to the railway is 1, 5 km.

Engineering infrastructure:

Cable lines - 10 kWt .

Mining hole.

Other engineering networks – at the distance of nearly 1 km from Mukachevo.

The territory can be used for the construction of a cargo and passenger airport, cargo and passenger terminals, a logistic complex, industrial enterprises of air transport service, regional tourist and excursion centres.

Risks and Problems

1. The instability of legislation.
2. The lack of state financing in construction of engineering networks and arrangement of the territory foreseen by the technical and economic grounding of SEZ establishment. The Decision of the Cabinet of Ministers on adding the expenses answering the above mentioned purposes to the budgets of all levels (as it is done in other countries) is not carried out.

The Behaviour of Governments: Oscillation Amplitude

- The struggle of departments for administering of taxes

Consequences : - the outages of Eurocar CJSC in 2002 for 63 days, in 2003 for 84 days and in 2004 for 90 days

2003 – In Kharkiv President Leonid Kuchma criticizes the special economic zones for their imperfect customs regime (the production of meat products)

- December, 31, 2003– June, 7, 2004. The moratorium on registration of investment projects

Consequences : the realization of 14 projects by cost of 60 million USD was stopped

- “The SEZ conception itself foreseeing the activity of such zones in Ukraine, does not work any more. We understand well that this conception has been formulated to suit certain political and economic clans . Thus, we have discredited this idea and we should leave it now, - said Viktor Yushchenko.

(www.kmu.gov.ua/control/uk/publish/news)

- March, 31, 2005 – the abolition of special tax and customs regime for SEZ

Consequences :

- Eurocar CJSC the change of Eurocar CJSC from the SEZ regime to the automobile industry stimulation regime
- the construction of plants of Jabil Circuit Ukraine Limited LLC and Flextronics Ltd was stopped
- the breakdown of the contract between the Japanese corporation “Yazaki” and the French company “Peugeot”. The “Peugeot” company was going to provide additional 1500 jobs and investments in the amount of 12 million EUR (The “Peugeot” company decided in favour of Romania)
- Yazaki-Ukraine LLC. rejects to transfer the part of production to the mountainous areas. This could have given 3 000 additional jobs and investments in the amount of 15 -17 million
- a number of projects in sum of 155 million UAH have not been financed completely. 6 000 jobs have not been created;
 - the losses of Yazaki Ukraine LLC in sum total of 68 million UAH;
 - the problem of VAT repayment;
- the products of Jabil Circuit Ukraine Limited LLC. and Yazaki-Ukraine LLC. become beyond comparison as a result of entrance duty introduction and the existence of the European protective duty.

- deterioration of Ukraine's investment image:
- April - June, 2005 - the appeal of President of Ukraine to the representatives of business and official circles of USA, Germany and Japan concerning the discharge of Ukraine's commitments to the investors
- „This is wrong. There are effective projects and effective zones. That is why the effective should be preserved,” – said Viktor Yushchenko. (www.kmu.gov.ua/control/uk/publish/news)

Consequences: - creation of working groups under the leadership of Yulia Tymoshenko and Anatoly Kinakh;

- the rehabilitation of 400 projects as those that are able to function;

- November, 30, 2005. The Decree of the Cabinet of Ministers under the title “Some Issues on Import and Export of Products in Special Economic Zones”

Consequences: - the revival of the investment projects of Yazaki Ukraine LLC., Jabil Circuit Ukraine Limited and Flextronics Ltd.

Positive: - the adoption of the Conception of Industrial Park Establishment;

- October, 2006 – the abolition of certificates;

- November, 2006 – the law in draft of Ukraine “On Implication of Changes to Certain Laws of Ukraine on Taxation Issues ”№ 2841

- Ukraine joins the Kyoto Convention

Negative: - the speech of Viktor Yushchenko concerning the possible veto on the given law in draft

Suggestions

1. To achieve a single approach of official institutions and business circles to the question of necessity, basis and mechanisms of investment activity stimulation in Ukraine (the game rules)
2. To exclude the question of investment activity stimulation tools from political discussions (SEZ, the Territories of Priority Development, investment parks, tourist and recreation territories)
3. To finish urgently the elaboration on the law in draft “On Implications of Changes to the Law of Ukraine “On General of Establishment and Functioning of Special (Free) Economic Zones” ” and other laws of Ukraine.

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Лекція розміщена в матеріалах
комплексу електронного навчання