

European Experience in the Construction of Territories with Special Economy Regime after an Armed Conflict: A Trajectory of Sustainability

Doświadczenia europejskie w budowie terytoriów o specjalnym reżimie gospodarczym po konflikcie zbrojnym: Trajektoria zrównoważonego rozwoju

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Abstract

This article is due to the presence of a unique situation in Ukraine associated with the armed aggression of the Russian Federation, which increases scientific interest in European cases on the restoration of territorial integrity, mitigation of adverse socio-economic conditions impact after an armed conflict. The article is devoted to the existing European experience research in the construction of territorial units with special functioning conditions through the prism of the sustainable development. This allowed the authors to structure the studied countries into two groups: countries that use special economic zones as a priority tool of state policy (Latvia, Lithuania, Poland) and countries that have experience in developing such territories after an armed conflict (Croatia, Bosnia and Herzegovina). The authors analysed the use of special economic zones in the countries of the first group as part of their state policy to strengthen the socio-economic potential of problem regions and presented the main results of this process. Particular attention is paid to the Balkan experience in the construction of priority development territories after the armed conflict in the context of the sustainable development implementation.

Key words: priority development territories, construction, European experience, armed conflict, sustainable development, Ukraine

Słowa kluczowe: Priorytetowe Terytoria Rozwojowe, budownictwo, Europejskie doświadczenie, konflikt zbrojny, zrównoważony rozwój, Ukraina

1. Introduction

The study of sustainable development determines the importance of the local socio-economic context in the process of development of territories that have survived armed conflicts. In the Ukrainian territories, the orientation in matters of restoring the economic potential of the territories affected by the armed conflict is focused on the construction of priority development territories as a new form of territorial organization. The intensification of Russian aggression at the end of February 2022 and the expansion of active military operations zone in Ukraine actualizes the need to develop effective state tools, which will help restore the competitiveness of the affected territorial units. This is especially important for those areas where the destruction of critical infrastructure facilities and the scale of external and internal migration are catastrophic. It seems possible to solve these issues thanks to the analysis of European cases on the construction of priority development territories or the introduction of other public policy instruments after the armed conflict in order to adapt this experience gained in the Ukrainian conditions. An analysis of recent studies and publications in the field of construction of priority development areas indicates a wide discussion of this issue in the world. Thus, scientists D. Zeng (Zeng, 2021), J. Chaisse and G. Dimitropoulos (Chaisse, Dimitropoulos, 2021), S. Frick, A. Rodriguez-Pose and M. Wong (Frick et al., 2019), K. Christensen and M. Raynor (Christensen, Raynor, 2004), M. Karimov, D. Ilyina, A. Akramov (Karimov et al., 2015) consider the territories of priority development from the of evolutionary point of view, highlighting the territories of management of the first, second and third generations. I. Klim (Klim, 2008), S. Boyenge (Boyenge, 2007) in their works explore the problems of classifying territories with special economic conditions and ensuring their economic, social and environmental development. Positively evaluating the scientific achievements, we should note the discrete level of research into the European experience in the construction of priority development territories after an armed conflict to ensure their restoration and sustainable development, which requires significant improvement and determines the purpose of this scientific work.

2. Using special economic zones as a tool of public policy to strengthen the socio-economic potential of problem regions

The analysis of normative and literary sources of modern European practice on the functioning of territories with freedom in the regime of economic issues and/or with a special administrative regime, preferential conditions of activity, is reduced mostly to the use of different definitions with one content, emphasizing significant gaps and confusion in the application of the conceptual elements and categorical apparatus of the regional economy. It is understood that almost all analysed European countries have experience in the areas creation and construction called *territories with special conditions for economic activity* or *priority development territories*, *special areas*, *free economic zones*, *special economic areas*, *free trade zones*, *territories of advanced development*, but in essence these territories are special (free) economic zones, which in turn have several subtypes: *special economic zones (SEZ)*, *free trade zones (FTZ)*, *free economic zones (FEZ)*, and *integrated industrial free zones (IIFZs)* (United Nations Conference on trade and development, 2019).

Most often, in the EU there is a mixed form of territories, which has the characteristics of both the first and second group of preferential territories. In addition, in several states there are specific prerequisites for the delimitation of territories characterized by certain functioning features from the territories to which the state should apply special incentives for reconstruction and development, but it requires more detailed study.

2.1. Latvia

The Republic of Latvia example demonstrates the widespread use of Special Economic Zones (SEZs) as a tool for regional development that can ensure sustainable development of backward areas where social and economic components play a crucial role in helping to employ large numbers of people knowledge in the regions.

As of October 1, 2022, there are three special economic zones in Latvia (Liepāja, Latgale, Rēzekne) and two free ports (Rīga and Ventspils), on the territory of which the procedure for applying indirect and direct tax benefits is established in accordance with the Law On Taxation in Free Ports and Special Economic Zones. All five zones have the same common goals within the social and economic component of sustainable development: attracting investment, developing infrastructure and production, creating new jobs, promoting export and industrial growth, which in turn improves economic development in the regions (Korpus prava, 2022). However, different business areas are concentrated in the free zones and such differentiation in economic activities requires environmentally responsible decisions and appropriate administrative support in the implementation of the concept of sustainable development of SEZs, and the lack of environmental component only enhances one-sided decision-making and upsets the balance between sustainable development components for weak areas of Latvia. Thus, the administrative-territorial units of the Latgale zone have the lowest level of socio-economic development among other zones, unfavourable environmental situation and, as a consequence, the status of problem areas, so the Latvian government has high hopes that the special economic zone improve the basic indicators of their condition.

To this end, the Latvian government relies on a stable inflow of foreign investment, so the entry of foreign business in the special economic zone of Latvia gives some preferences:

Direct tax benefits:

- business entities that have such organizational and legal forms as a capital company (a legal entity in which the fixed capital consists of shares of fixed capital or the total nominal value of shares; divided into limited liability companies and joint stock companies) (Korpus prava, 2022) or commercial companies (whose activities have received the status of licensed commercial activities) are entitled to direct tax benefits in the amount of 35-55% during the assessment period. This term envisages the process of forest inventory, which ensures the collection and documentation of information on forest lands in accordance with the regulations of the Republic of Latvia, which indicates fragmentary steps towards ensuring the environmental component of sustainable development in the country;
- a certain percentage of reduction (35%, 45% or 55%) is applied in the form of benefits from corporate income tax and real estate;
- special benefits for the payment of real estate tax and income tax (in the amount of 80% of the accrued amount) apply to enterprises with large investment projects (more than 50 million euros).

Indirect tax benefits: capital companies are subject to a zero rate of value added tax and exemption from excise tax on petroleum products.

Until December 31, 2021, the maximum allowable share of state support for a large enterprise in the special economic zone of Latvia was 35% of the accumulated amount of costs, for a medium-sized enterprise - 45%, for a small enterprise - 55%. With the amendments to the Law On Taxation in Free Ports and Special Economic Zones, the amount of basic support from the state has decreased and now stands at 30%. At the same time, the intensity of support can be increased up to twice a year and by 10% in those regions where the population decreased by more than 10% from 2009 to 2020, i.e., assistance in Rēzekne SEZ, Latgale SEZ, Liepāja SEZ and Ventspils Free port can be further increased by 10%, but in the context of ensuring only the social and economic components of sustainable development of territories, leaving the issues of environmental security and construction of priority development areas open.

2.2. Lithuania

The Republic of Lithuania also has the experience of mistaken identification of special (free) zones with territories of priority development, which in the country have the unofficial name *special purpose areas* (Ambroziak, Hartwell, 2018). There are seven such territories in Lithuania, but their official name is still *free economic zones* (FEZ). The first two FEZs in Lithuania were established in Kaunas (1998) and Klaipėda (2002), while the others were established in 2011-2015. Klaipėda FEZ is located on the coast with access to the Baltic Sea, and the other six territories are located within the country.

An important fact for this study is that only some FEZs (Kaunas, Klaipėda and Kėdainiai) are located in regions with relatively low unemployment, while others have much worse social and economic development than the national average and are considered weak. That is, mainly FEZ of Lithuania is located in areas with relatively low income, which need to ensure priority economic development, so the Lithuanian government considers them as areas of priority development (Navickas et al., 2021).

In terms of incentives and incentives, Lithuanian FEZs offer only economic incentives that are determined by the state and approved by the European Commission:

- individuals and legal entities that have invested at least € 1 million are exempt from income tax for all businesses during the first ten years of operation in the Lithuanian FEZ. After the next six years, the corporate income tax is 7.5%, which is half of the total tax (15%);
- for the same category of individuals and legal entities there is a full exemption from real estate taxes and dividends, which is currently indefinite.

It is vital to note that Lithuanian FEZs have a different governance system, where economic incentives are provided by the state, but the activities of special purpose entities are controlled by private companies, without focusing on balancing the sustainable development of these areas. Based on the public tender process, the government selects private FEZ management companies to lease part of the zone's land to the government. Such companies are responsible for general management of the territory, attracting investors and issuing permits for activities that allow them to receive income from subleasing land to investors, as well as from receiving rent for the use of infrastructure and other services they provide in the FEZ. In addition, private companies should to some extent contribute to the FEZ infrastructure at a decent level, which does not relieve Lithuania of the need to invest in these areas (total costs for the FEZ development amounted to 69 million euros in 2005-2020, of which 64% were funded by the EU, 30% - by the Lithuanian government, 6% - by private companies). As private companies, they can often act quickly and flexibly, which encourages investors to get started quickly in the area, but the lack of a clear action plan to ensure its development through sustainable development is increasingly discouraging foreign investors.

3. Poland

Another country that widely uses special economic zones as a tool for building weak and depressed regions is Poland, where as of October 1, 2022 there are 14 SEZs (Ministry of Development and Technology of Poland, 2022), which are located throughout the country. Until 2018, SEZs covered only 0.1% of Poland's area in certain places, but the new regulations on the operation of special zones in 2018 expanded these zones to cover all corners of the country and provide state aid to enterprises regardless of their actual location. The Polish SEZs, which were established between 1995 and 2001, are conceived as interregional entities containing different subzones in different regions of the country and operating until 2026.

Polish SEZs are state-owned companies owned by the relevant treasury or regional authority, which is responsible for managing a specific area. With their permission, investors are provided with certain parts of the zone for economic activities, taking into account the following social and economic incentives:

- exemption from taxes on income and real estate of individuals and legal entities operating in the area. These incentives are used to cover an entity's capital expenditures or to create new jobs that last for at least five years for large businesses and for at least three years for SMEs. Exemption from taxation lasts 10-15 years, depending on the socio-economic condition of the region where the SEZ is located;
- receiving targeted state aid to businesses at the level of 25-50% for large companies, 35-60% for medium-sized companies and 45-70% for small companies.

The amount of state aid and the number of years of its provision also depend on the socio-economic condition of the region in which the SEZ is located (Dorozynski et al., 2021).

The implementation of these incentives is closely linked to the priority recovery of the regions lagging behind in terms of socio-economic development, while the ecological potential of the territory in this regard is usually taken into account in fragments or not considered at all. Despite the non-compliance with the key principles of the concept of sustainable development and shifting the emphasis on the restoration and development of weak areas in the socio-economic direction, the experience of Latvia, Lithuania and Poland has the features of priority development with appropriate successes and failures (Table 1).

Table 1. The main results of the construction of special economic zones to strengthen the socio-economic potential of problem regions, built by authors

Country	Elements of experience	
	Major successes	Major miscalculations
Latvia	<ul style="list-style-type: none"> • a successful system of tax incentives, which contributed to attracting investment and increasing the volume of transported goods; • increasing export diversification; • new acquired competencies, knowledge and dissemination of technologies; • mitigation of asymmetries of regional development, transformation of problem regions into new centres of economic activity. 	<ul style="list-style-type: none"> • insufficient level of infrastructure development, which increases uncertainty for potential investors and reduces their interest in the country; • insufficient number of jobs and attracted investments in absolute numbers and relative to the size of the regions where they are located.
Lithuania	<ul style="list-style-type: none"> • significant amount of attracted investments; • a large number of new jobs, increasing the number of highly skilled labor; higher wages; • quality infrastructure and institutional support; attractive value for money; • significant financial incentives; • new acquired competencies, knowledge and dissemination of technologies; • promoting the economic growth of problem areas (by choosing local suppliers, speed of production start-up, significant reduction of bureaucratic procedures, support of the ecosystem at a high level, constant expansion of opportunities for creation and development of innovative products). 	<ul style="list-style-type: none"> • a fairly high level of initial investment (in the amount of 1 million euros), which provokes a significant number of foreign investors to choose FEZ of other countries; • excessive pragmatism (decisions are made in favour of the employer and potential profits, often without taking into account the public interest).
Poland	<ul style="list-style-type: none"> • significant amount of attracted investments; • a large number of new jobs, increasing the number of highly skilled workers, including in problem regions; • quality infrastructure; • increasing the share of economically viable small and medium-sized enterprises; • a high degree of concentration of exports of enterprises, which increases the level of their competitiveness; <p>more significant impact from the SEZ is observed on the development of the least developed regions, reducing their unemployment rate.</p>	<ul style="list-style-type: none"> • deepening regional disparities due to the lack of catch-up of poor regions in terms of growth rates of their more successful neighbours.

Thus, the analysed European countries use special economic zones as a priority tool of public policy, which are effective in terms of social and economic components of territorial development. Latvia, Lithuania and Poland have gained significant success in using SEZs as a priority policy tool to restore the economic potential of problem regions, while ignoring the issue of complementary support for the sustainable development of such areas.

Undoubtedly, the practice of using SEZs and introducing appropriate incentives has the right to be implemented, but it does not promote a balance between the components of sustainable development and does not turn weak regions into priority development territories, the content of which is more complex and complex.

3. Balkan experience in constructing priority development territories after armed conflict in the context of implementing the sustainable development concept

3.1. Croatia

The overall structure of Croatia's regional economy has changed significantly over the last 30 years: since the 1960s, the local population has left rural areas due to the declining share of the agricultural sector in the national economy. This trend accelerated significantly in the 1990s due to the war for independence and integrity of the state against the aggression of the united Greater Serbia forces – Serbian extremists in Croatia, the Federal Yugoslav People's Army and Serbia and Montenegro (Wikipedia, 2022), forcing thousands of families to flee and migrate in Zagreb, Split and Rijeka.

By approving the Law On Local Self-Government and Administration in April 2001, the Croatian government recognized that effective local development begins *from below*. However, this normative legal act lacks specifics on the structural, organizational and administrative features of local development. In fact, municipalities (communities), cities, villages, settlements continue to develop their own individual development plans based on local budgets, which are only enough to cover the minimum current costs, leaving funding for important development projects largely dependent on the state budget or assistance. UN agencies and international non-governmental organizations.

During 2001-2002, the decentralization reform developed a pool of strategic legal acts in favour of new social and economic goals on the ground, which formed the preconditions for the implementation of sustainable development concept in local territorial units.

The idea of decentralization of Croatian power was continued and embodied in several international project instruments implemented in the post-conflict territories from 2001 to 2010, among which the five-year strategy of financial assistance to Croatia by the European Commission - CARDS (The CARDS Country Strategy Paper) 2002-2006 (Horopakha, 2018) and the Strategic Project for Social and Economic Recovery of Croatia in 2002 and 2005 (World Bank Group, 2022) (SPSER) of the World Bank, the EU and the Government of Croatia, which were implemented in parallel, almost at the same time, laying a solid foundation for a comprehensive security and socio-economic issues of deoccupied areas.

The identification of particular concern territories to the state was first implemented under Croatian law in 1996 as an attempt to compensate and stimulate economic development in war-affected areas to return the local population (displaced persons and refugees). Thus, back in 1996, the Law On Territories of Special State Aid was adopted (Zastupnicki Dom Sabora Republike Hrvatske, 1996), which allowed local governments to realize the inevitability of developing areas affected by armed conflict through the introduction of special incentives. Despite the fact that the law was adopted much earlier than the CARDS strategy and the SPSER, the norms of these documents laid the foundation for the restoration of deoccupied territories, and later (in 2008) a new version of the Law On Territories of Special State Aid, some provisions of which remain in force today (Zastupnicki Dom Sabora Republike Hrvatske, 2008).

The drafters of the SPSER regulations relied on the experience of a pilot project previously provided for the creation of a post-conflict fund in the Šibenik-Knin and Zadar regions to accelerate the development and socio-economic situation of areas affected by the armed conflict. The pilot project combined demand-driven social and economic revitalization mechanisms with territorial cohesion to restore broken personal and territorial ties due to the conflict, facilitating and accelerating the transition of these regions to market economies and addressing administrative fragmentation.

The rather successful implementation of the SPSER provisions has laid a solid foundation for restoring the socio-economic potential of Croatia's territories and, at the same time, pointed to the need to amend the existing legal framework for rehabilitating areas affected by armed conflict equate to the development of other regions of the country.

As noted, in 1996, representatives of state and local authorities have already noted the need to identify war-affected areas at the legislative level, which is embodied in the critical Law On Territories of Special State Aid (Zastupnicki Dom Sabora Republike Hrvatske, 1996). The purpose of highlighting these territorial units was to focus on addressing the effects of the war in their specific areas and communities, encouraging displaced persons and refugees to return home, and introducing incentives for socio-economic development. It was determined that the territories of special state aid are created to eliminate the 1991-1995 war, the rapid return of displaced persons and refugees,

to encourage demographic and economic progress, to achieve the most balanced development of all regions of the Republic of Croatia.

Subsequently, in 2008 this law was substantially updated, its provisions provided incentives for demographic renewal of affected areas, return and stay of the population living in the above territories before the 1991-1995 war and settlement of citizens of the Republic of Croatia of all professions, especially those who could contribute to the economic and social development of the territories of special state aid. Also, the return, stay and settlement of people in the territories of special state aid was encouraged by free or discounted housing in the following options:

- rent of a family house or apartment of state property;
- rent of a damaged family house of state property and provision of construction materials;
- donation of state-owned land plots and construction materials for the construction of a family house;
- transfer of construction materials for repair, reconstruction and modernization of a family house or apartment, i.e., construction of a family house on a construction site;
- transfer of state-owned land plots and construction materials for the construction of a residential block in an apartment building;
- donation of a family house or public apartment (Zastupnicki Dom Sabora Republike Hrvatske, 2008).

In addition, the provisions of the Law On Territories of Special State Aid provided for some tax incentives to be implemented in the occupied territories, including:

1. The tax on the transfer of immovable property shall not be payable by citizens who acquire the right to immovable property located in areas of special state aid, provided that they actually reside in these territories.
2. Corporate taxpayers who carry out economic activities related to agriculture and fishing in the territory of special state importance and employ more than five employees for an indefinite period of time, and more than 50% of them live in these areas are not less than nine months pay the tax as follows:
 - a) the tax is not paid on the territory of communities and cities belonging to the first group of territories of special state aid;
 - b) the tax is paid in the amount of 25% on the territory of communities, cities and towns belonging to the second group of territories of special state aid;
 - c) the tax is paid in the amount of 75% on the territory of communities and cities belonging to the third group of territories of special state aid.

Besides, the provisions of Article 24 of this law provided for a separate procedure for payment of income tax for economic entities that carried out economic activities in areas of special state aid, except for agriculture and fisheries, provided employment of more than five employees. more than 50% lived permanently in the occupied territories.

A successful solution for Croatia was the implementation of a comprehensive approach to the definition of *affected areas, occupied territories, post-conflict areas, areas in need of special state supervision/special state care*), the content of which was combined into a single complex concept *territories of special state aid*, to which in 2008 all territorial units that directly or indirectly suffered from the armed conflict of 1991-1995 were legally included. This helped to pay more attention to the social and economic components of territorial development during 2008-2020, which later repealed the law of the same name, except for those articles that classify these units into three groups (today they still have legal force).

Instead, the imperfect institutional basis of this process in 1996 significantly delayed the process of rebuilding war-torn areas, and prioritizing the social and economic components of development, without considering the environmental potential of regions and communities, led to one-sided administrative decisions. The first important step in rebuilding the territory should be security guarantees for the return of local residents, but they were immediately offered houses and apartments, which was too early because people were afraid to return to their area due to the large number of mined areas. The ill-conceived and premature policy on post-conflict development provided by the 1996 law did not lead to any improvement or tangible effect on the recovery of affected communities, cities and towns, the situation changed only after the implementation of the CARDS and SPSE components.

3.2. Bosnia and Herzegovina

During the four years of protracted war and conflict, Bosnia and Herzegovina has experienced almost complete destruction of its socio-economic system, critical infrastructure, and negative environmental impacts. As of April 1992, when Bosnia and Herzegovina declared independence from Yugoslavia, the country was torn apart by a fierce international war that led to falling production, rising unemployment, inflation and migration. In general, the territorial units were severely damaged, and some areas were completely devastated (Hasic, 2004).

The signing of the Dayton Accords in 1995 divided the country into two semi-autonomous regions, the Republika Srpska and the Federation of Bosnia and Herzegovina, and Brcko County became a buffer zone for the partition of the Republika Srpska (now an entity of Bosnia and Herzegovina). (All three sides in the military conflict lived there – Bosnians, Bosnian Serbs and Croats). After the war, the parties could not agree on the status of Brcko

(which includes the city of Brcko and 57 other villages and settlements), so the Dayton Accords defined the territory de jure part of both the Republika Srpska and the Federation of Bosnia and Herzegovina, controlled by neither one nor the other. There is a special High Representative with a UN mandate in the region, appointed by the guarantors of the agreement, so de facto and de jure this international overseer has more power and authority than local politicians.

The top priority on the post-war reconstruction of the district and the country as a whole was the massive housing reconstruction for the rapid return of refugees and internally displaced persons, road repairs, rehabilitation of housing and communal services, job creation and small business promotion. To this end, the head of the Brcko district went by providing microcredits of 15-20 thousand US dollars, issued without strict conditions and financed by the United States Agency for International Development (USAID). During 1995-2000, EU-funded bridges over the Sava River were rebuilt, and 11 barracks were rebuilt into district courts and schools.

According to foreign scholars (Leese, 2006), the total funding of the US government for the restoration and development of the county from 1999 to 2005 amounted to about 73 US dollars, 45 million of which was spent during 1999-2002.

During 1996-2006, fragmentary steps towards restoring the socio-economic potential of Brcko County and ensuring its sustainable development had positive results, but this was not enough to address the return of displaced persons to the district. In addition, Brcko's artificial alienation from the political and socio-economic spheres of life in Bosnia and Herzegovina has provoked new discontent among all sections of the population: Bosnians, Bosnian Serbs and Croats.

There have been no major developments in this regard, which has helped the authorities of Bosnia and Herzegovina understand the inevitability of change and special measures to rebuild Brcko County, which has suffered most from the 1992-1995 Bosnian war as a zone of ongoing inter-ethnic conflict. In March 2006, the issue of post-conflict economic recovery in the Brcko district was resolved by the Law On the Promotion of Economic Development in the Brcko District of Bosnia and Herzegovina (Skupstina Brcko Districta Bosne I Hercegovine, 2006), which was established under the Brcko District of Bosnia and Herzegovina Law (Skupstina Brcko Districta Bosne I Hercegovine, 2001), in 2001, the implementation of which in itself did not yield significant results. Today, both acts are complementary, effective, they determine the status, possible forms of foreign investment, as well as regulate the establishment, management and termination of enterprises by foreign and local entities.

In order to increase the overall competitiveness of the Brcko district in the single market of Bosnia and Herzegovina, to ensure its development on the principle of sustainability through viable economic development, to stimulate the development of small and medium enterprises, the following preferences were provided:

- a) encouraging domestic and foreign investment in Brcko, as well as the export activities of enterprises in order to ensure the social and economic development of the district, increase employment, increase productivity of productive and material resources, professional potential of the available workforce and competitiveness;
- b) stimulation of any economic, social, cultural and ecological progress in all spheres of Brcko's life;
- c) providing strengths and weaknesses of fiscal and non-fiscal nature.

The largest section of this law contained incentives for foreign investors: first, they were provided with the same rights and responsibilities in the district as local individuals and legal entities, excluding any discriminatory acts against this category of investors, including their nationality, place of residence, religion or country of origin of the investment, which was extremely important given the residence in Brcko of representatives of all parties to the military conflict; secondly, the right to invest and reinvest funds in any sector of economic and non-commercial activities in the district was ensured in the same form and under the same conditions as was determined for domestic investors (residents of Bosnia and Herzegovina). The only exceptions were foreign shares in the capital of enterprises engaged in the production of weapons, ammunition and military explosives in the Brcko district, their size may not exceed 49%.

As well, the provisions of regulations provide for the introduction of incentives and benefits of non-financial and financial nature, designed to improve the business environment in the district, which can be used by business entities subject to their creation and registration in the prescribed manner, location of their head office district, as well as the presence of at least 50% of employees of the enterprise who are permanent residents of Brcko district. Bosnia's experience in constructing priority territories after the armed conflict also demonstrates steps of a socio-economic nature, leaving the environmental component of sustainable development of the affected areas, mostly de jure.

Today, more than 25 years after the end of the Bosnian war, the country's domestic and foreign policy priorities are still the process of attracting investment, rather than ensuring the sustainable development of weak territories. The military consequences, numerous conflicts and difficulties in labour and pension legislation, lack of a single economic space, ineffective judicial and regulatory protection, and general bureaucratization of political and socio-economic processes are far from a complete list of reasons holding back investment in Bosnia and Herzegovina. The 1992-1995-armed conflict complicated the administrative-territorial system and, as a result, effectively halted opportunities for regional and community development. As a result, Bosnia and Herzegovina has a multilevel

regulatory framework, which is duplicative and contradictory, which does not promote the interest of foreign investors (Sozinova, 2016) and does not accelerate its accession to the European Union (formally submitted in 2016), as the country still needs political reforms.

Thus, over the years of implementation of regulations aimed at rebuilding the affected areas of Croatia and Bosnia and Herzegovina as priority development entities, restoring their social and economic potential, a number of significant results have been achieved in the transformation of territorial units (Table 2).

Table 2. The Balkan experience results in the construction of priority development territories after the armed conflict, built by authors

Country	Elements of experience	
	Major successes	Major miscalculations
Croatia	<ul style="list-style-type: none"> • successful implementation of international program tools; • in-depth study of strategic planning; • creation of a significant number of new jobs, emphasis on the development of small businesses and cooperatives; • formation of a single concept of <i>territory of special state aid</i>, which included similar in content concepts, which significantly expanded the opportunities for all regions of the country; • active use of incentives for special state aid territories and their effectiveness; implementation of the concept of local economic development to restore social and economic cohesion of the population. 	<ul style="list-style-type: none"> • imperfect institutional basis for the development of the affected regions in 1996 and prematurely proposed incentives for territorial development, which did not live up to expectations due to fears of people returning to their mined areas. Only after the implementation of the program components in 2002-2005, it became possible to gradually restore the economic and social potential of the affected areas.
Bosnia and Herzegovina	<ul style="list-style-type: none"> • the key role of international donors in rebuilding post-conflict areas; • adoption of separate laws to regulate business activities and encourage the economic development of the post-conflict district of Brcko, effectively giving it the status of a priority development area; • return of refugees, restoration of the infrastructure destroyed during the war and revival of the economy of the Brcko region as a territory of priority development against the background of active financial infusions of international organizations; • gaining experience of modern economic and administrative practices from international experts, which have contributed for some time to a slight reduction in corruption; • faster demining of the affected areas, demarcation of the warring parties, resolving issues with the movement of weapons. 	<ul style="list-style-type: none"> • inability to refuse the help of international donors, dependence on external financial support; • restraining the inflow of investment flows due to the consequences of conflict and complexity in the norms of labour and pension legislation, ineffective judicial protection; • lack of an independent partnership on the territory of Brcko; the territory is isolated from the Bosnian political and socio-economic system; • increasing bureaucratic and corrupt practices, leading to new outbreaks of conflict; • issues of political, economic, social and physical reconstruction of post-conflict areas were unsystematic.

First of all, it concerns the return of refugees, the reconstruction of the infrastructure destroyed during the war and the revival of the region's economy, but this happened against the background of active financial assistance from international organizations. An indisputable achievement was the introduction of modern economic and administrative practices, the experience of which was shared by international experts, but the implementation of the concept of sustainable development in the practice of strategizing the affected areas is still in the moderate stage (Zablodska et al., 2021).

However, the Balkan experience of constructing priority development territories after the armed conflict is characterized by both positive and negative sides, which may be useful for Ukraine to follow a similar path after the war. But in this context, it is extremely important to develop or adapt existing strategies for sustainable development of areas that have survived armed conflicts precisely in terms of the priority of their development in comparison with other territorial units of the country. This applies not only to increasing the competitiveness of post-conflict areas (although this is important), but also to paying more attention to setting priorities and goals not only social and economic but also environmental and balancing these components for effective development of priority territories. This process can be seen as a strategy of collegial economic adaptation of the territories affected by the armed conflict and even as a survival strategy, which is vital in an unstable economic situation provoked by hostilities in Ukraine. Therefore, it is fatefully to intensify or expand existing ideas about the construction of priority development territories and, taking into account the analysed European cases, extrapolate it to the most affected regions of our country (Donetsk, Zaporizhzhia, Kyiv, Luhansk, Mykolaiv, Kharkiv, Kherson, Chernihiv, Sumy regions) as an effective tool of the state regional policy for the restoration and sustainable development of deoccupied territories.

4. Conclusions

Analysis of the results of foreign research on the construction of priority development territories shows a significant amount of experience in the practice of special legal regimes as a tool of public policy aimed at restoring the economic potential of depressed (weak, problematic) regions. Instead, European cases often use the tools of special (free) economic zones for this purpose, which proves its fragmentary effectiveness, as it is able to solve only some problems of weak regions. Unfortunately, the implementation of these tools is not enough to restore the economic potential of territories that have been negatively affected by force majeure and undermined their development potential (especially armed conflicts), which confirms the impossibility of socio-economic transformation and diversification of such areas.

The unique situation in our country related to the armed aggression of the Russian Federation increases scientific interest in European cases on the restoration of territorial integrity, mitigation of adverse socio-economic conditions and development of territories after the armed conflict, which summarizes the existing experience of territorial development entities with special operating conditions in the European Union and structure the studied countries into two groups: countries that use special economic zones as a priority tool of public policy to restore the economic potential of problem regions (Latvia, Lithuania, Poland), and countries with experience in construction such territories after the armed conflict (Croatia, Bosnia and Herzegovina).

Countries that use special economic zones as a priority tool of public policy demonstrate the effectiveness of such practices to restore the economic potential of problem regions: Latvia, Lithuania and Poland show much more positive aspects of this process than negative ones. However, the analysis of normative and literary sources of modern European practice on the functioning of territorial units with a special legal regime indicates the introduction of special tax benefits in such regions, which does not automatically make them a priority area, the content of which is more complex and complex.

Countries with experience in developing priority areas after the recent armed conflicts include Croatia and Bosnia and Herzegovina (Balkan states). The Croatian experience is considered one of the most successful in the restoration of deoccupied territories, hampered by one major factor: an imperfect institutional framework for rebuilding affected regions in 1996. On the other hand, the Bosnian experience in the Brcko region is characterized by major miscalculations, the key of which is the inability to refuse international donors, the country's dependence on external financial support, which still far exceeds investment and the success of developing priority territories.

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