



## Special Economic Zones in Russia: Results Evaluation and Development Prospects

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### ABSTRACT

The objective of the article is to analyze functioning efficiency of special economic zones (SEZs) in the Russian Federation and to assess their development prospects in the Russian regions. There are 36 SEZs of different types in 33 regions in Russia: Industrial production, technology development, tourism and recreation, port and complex SEZs. The empirical basis of the research constitute legal acts of the Russia, the annual reports of authorities of the Russia on the SEZs functioning results. Methodical basis of the research constitute an official efficiency estimation technique of the Russian SEZs. The industrial production and technology development SEZs are the most effective. The potential of the tourism and recreation and port SEZs is not realized. Only industrial production SEZs can have a real impact on the regional economy. They can attract large companies and significant private investments, which will provide a large number of new jobs, high revenue and tax payments into the budget.

**Keywords:** Development Institutions, Special Economic Zone, Regional Development, Russia

**JEL Classifications:** R1, R58, A10

### 1. INTRODUCTION

For the last 25 years in Russia special economic zones (SEZs) have been established and functioned. SEZs have begun to develop particularly intensively after 2005 when the Federal Law No. 116-FZ of July 15, 2005 “on SEZs in the Russian Federation,” had been adopted. After that, all previously created SEZs had been terminated, except for the SEZs in the Kaliningrad and Magadan regions, and new SEZs have begun to be created. SEZs are the largest development institutions in Russia.

Many researchers noted the impact of institutions on economic development (Acemoglu et al., 2004; Acemoglu and Robinson, 2008; North, 2010; Moberg, 2015). The most important instruments of regional policy aimed at ensuring sustainable economic growth and reducing interregional differentiation are development institutions in Russia, including SEZs (Tatarkin, 2012; Tatarkin and Kotlyarova, 2013; Kryukova, 2014; Maslikhina and Maslikhin, 2015; Erokhina, 2015).

In accordance with the Federal Law No. 116-FZ a SEZs is the part of the Russian Federation territory that is determined by the Russian Federation Government and to which application of the special business activity procedure is extended, as well as customs formalities of the free customs zone can be applied. SEZs are created with a view of processing industry development, hi-tech industries, tourism development, sanatoria and health resorts sphere, port and transport infrastructures, technology development and commercialization of their results, new product type production.

SEZs are interesting for investors because of special privileges and preferences, which are provided in the area of taxation, customs duties, administration and access to the established infrastructure. SEZs residents are provided with the decrease in income taxes, property, land, transport taxes and insurance payments. Investors are provided with a necessary sized piece of land with all the service lines necessary (heat, electricity, gas, water, telecommunications, etc.) on the basis of a lease contract at a preferential rental rate. Financing the creation of engineering,

transport, social, innovation and other infrastructures of the SEZs is performed at the expense of budget resources. The residents have an option to buy out the land plot located within the SEZs boundaries if they are the leaseholders of the said land plot. The regime of a free customs zone allows the import of foreign goods (equipment, raw materials, components, construction materials) without paying customs duties and value-added tax. There is an access to skilled personnel on the SEZs territory. Administration in the SEZs is carried out in the “single window” mode. Management and the state control over the SEZs functioning are provided by Ministry of Economic Development of the Russian Federation, management company JSC “SEZs” and the subjects of the Russian Federation. Using the resources of the SEZs, some areas may provide a constant influx of capital and subsequently accelerated regional development.

A SEZs is created for a term of 49 years and can be of the following types: Industrial production, technology development, tourism and recreation, port and complex. Currently there are 33 SEZs in Russia (Figure 1). There are 3 more SEZs with a special administrative legal regime (in Murmansk and Kaliningrad Regions, the Republic of Crimea and Sevastopol), which are regulated by the special Federal laws.

In the SEZs territory the following is not allowed:

- Mineral resources exploitation, except for exploitation of mineral waters and other natural curative resources;
- Excisable goods production and processing (except for motor cars and motorcycles);
- Placement of housing facilities objects, except for a tourism and recreation SEZs.

To create SEZs in the region, executive authorities of the region submit an application for SEZs creation with foundations of reasonability and efficiency of its creation for solution of problems of federal, regional, local importance. The decision on SEZs creation in a particular region is made by the Russian Federation Government based on the following criteria: The existence of natural economical and geographical competitive advantages for the implementation of investment projects; the objectives of SEZs creation have to correspond with the priorities of regional development; expected positive dynamics of the tax payments into the budget; existence of the investment projects and the potential investors and their written consent to implement these projects in the territory intended for SEZs creation; existence of the

infrastructure objects, which can be used by the SEZs residents, in the territory intended for SEZs creation as well as the surrounding area; the planned targets validity of the development of the engineering, transport, innovation, social and other infrastructure in the SEZs and the cost estimations for its development; grounds for the expected targets of the SEZs functioning; the existence of a management company ready to take over the SEZs management and the obligation to attract at least 50% of the planned private investments in the SEZs; the ability to provide SEZs residents with the necessary resources, including human resources; the existence of a successful experience in implementing large investment projects with participation of the Russian and foreign investors in the region or its municipality, and (or) the experience in establishing innovation clusters, industrial parks and technoparks.

The objective is to analyze functioning efficiency of SEZs of different types in the Russian Federation and to assess their development prospects in subjects of the Russian Federation.

## 2. DATA AND RESEARCH METHODS

Theoretical and methodical basis of the research constitute the regulatory and legal acts of the Russian Federation, the annual reports of Ministry of Economic Development of the Russian Federation on the SEZs functioning results for the accounting year and for the period from the beginning of the SEZs functioning. In conducting the study, an efficiency estimation technique of the Russian SEZs, approved by the Russian Federation Government Decision No. 491 of June 10, 2013 “On the approval of the efficiency estimation rules of the SEZs functioning,” was used.

## 3. RESEARCH RESULTS INTERPRETATION AND ITS ANALYSIS

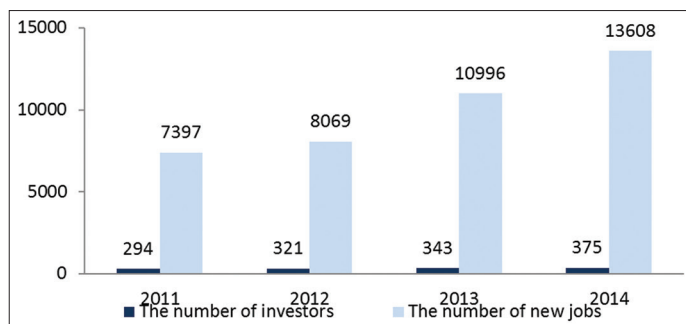
There are 36 SEZs of different types today (Table 1). There is a continuous process: Ineffective SEZs are terminated, new ones are created, and as a result only the most successful actually “survive.”

Out of 85 Russian regions the decision to create a SEZs in the region territories was adopted and implemented in 33 regions, and there are 3 SEZs in the Moscow Region, 2 SEZs in the Republic of Tatarstan and 2 SEZs in Primorye Territory. Mainly SEZs are located in the European part of the country.

In the competitive process of the SEZs creation the most developed regions always have the advantage. Underdeveloped regions are not able to withstand this competition as their opportunities to attract investors are limited. However, there are attempts to create a SEZs in the troubled regions. Thus the tourist cluster in the North Caucasian Federal District, Krasnodar Territory and the Republic of Adygeya, that includes 9 tourism and recreation SEZs, was created.

The Accounts Chamber of the Russian Federation carried out the audit of the efficiency of the budget funds use for SEZs development in 2006-2012 and estimated the activities of the industrial production and technology development SEZs as

**Figure 1:** The number of investors and new jobs in the special economic zones’ territories



**Table 1: Special economic zones in the Russian Federation**

Types of SEZs	SEZs	Year of creation
Industrial production SEZs	1. "Lipetsk"	2005
	2. "Alabuga"	2005
	3. "Togliatti"	2010
	4. "Titanium Valley"	2010
	5. "Mogilno"	2012
	6. "Lyudinovo"	2012
	7. "Vladivostok"	2014
	8. "LOTUS"	2014
	9. "STUPINO QUADRAT"	2015
Technology development SEZs	10. "Zelenograd"	2005
	11. "St. Petersburg"	2005
	12. "Dubna"	2005
	13. "Tomsk"	2005
	14. "Innopolis"	2012
	15. "Istok"	2015
	16. "Altai Valley"	2007
Tourism and recreation SEZs	17. "Baikal Haven"	2007
	18. "Turquoise Katun"	2007
	19. "Gate of Baikal"	2007
	20. "Rusky Island"	2010
	21-29. The tourist cluster in the North Caucasian Federal District, Krasnodar Territory and the Republic of Adygeya (it includes 9 SEZs)	2015
	30. "Zavidovo"	
	31. "Ulyanovsk"	2009
	32. "Sovetskaya Haven"	2009
	33. "Murmansk"	2010
	34. "SEZs in the Republic of Crimea and Sevastopol"	2014
Complex SEZs (3 federal laws regulate SEZs: 1. Federal Law No. 377-FZ of November 29, 2014 "On the development of the Crimean Federal District and the free economic zone on the territories of the Republic of Crimea and the city of federal significance of Sebastopol," 2. Federal Law No. 104-FZ of May 31, 1999 "On the special economic zone in the Magadan region," 3. Federal Law No. 16-FZ of January 10, 2006 "On the special economic zone in the Kaliningrad region and on amendment of some legislative acts of the Russian Federation")	35. "SEZs in the Magadan Region"	1999
	36. "SEZs in the Kaliningrad Region"	2006

SEZs: Special economic zones

conditional-effective and the rest of the SEZs as ineffective (Performance Audit of Public Funds for Creation and Development of SEZs).

Since 2013 the effectiveness evaluation of the SEZs is assigned to Ministry of Economic Development of the Russian Federation that prepares an annual report on the results of the Russian SEZs functioning. Following the results of 2014, 375 residents were involved in the SEZs, they invested 142.3 billion rubles; 13467 new jobs were created; volume of budgetary funds for the creation of SEZs infrastructure amounted to 128.9 billion rubles; 234 infrastructure objects were built; the amount of taxes paid by the SEZs residents to the budgets of all levels of Russian Federation budgetary system reached 14.7 billion rubles; total revenue of the residents amounted to 148.3 billion rubles; budgetary efficiency is not high (for 1 ruble of public investments

there are 1.1 rubles of private ones) (The Report of Ministry of Economic Development of the Russian Federation on the SEZs Functioning Results for 2014 and for the Period from the Beginning of the SEZs Functioning).

When assessing the effectiveness of Russian SEZs various factors should be taken into account: Functioning efficiency of SEZs; activity efficiency of the SEZs residents; effectiveness of budget investments in the creation of the SEZs infrastructure objects; SEZs management efficiency; the impact SEZs has on the social and economic development of the region, in which it was created.

Functioning efficiency of SEZs and the activity efficiency of its residents in 2014 and since its creation are not high. The volume of private investments slightly exceeds the volume of budgetary funds and created facilities are generally not actively used. The

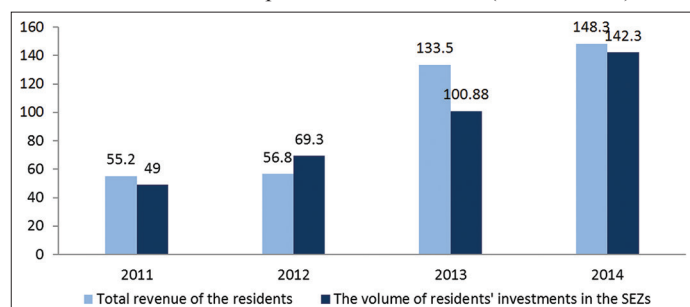
number of residents, volume of their investments and the number of new jobs are executed according to the plan (Figures 1 and 2). However, in 2014 budgetary under-funding was 47%; therefore the number of built infrastructure objects was 63% lower than planned. The amount of revenue received by the residents decreased by 36%, and tax payments in the budget was 13% less than planned.

In the technology development and industrial production SEZs were attracted the largest number of residents and created the largest number of jobs: 220 residents and 8185 jobs in the industrial production SEZs and 105 residents and 5186 jobs in the technology development SEZs. In the industrial production SEZs work larger companies than in the technology development SEZs, therefore the number of jobs created in the industrial production SEZs is higher. 79% of all private investments and 80% of total revenue of the residents are attributed to the industrial production SEZs.

18 SEZs, created over the past 3 years, are still in a formation stage, therefore it is too early to speak about the efficiency of their work. A SEZs payback period is to be 8-10 years. The most efficient SEZs are those that exist more than 10 years, have a well-developed infrastructure, have received large investments and were able to attract major investors. The best of them are the industrial production SEZs: “Lipetsk” (Lipetsk Region), “Alabuga” (the Republic of Tatarstan), “Togliatti” (Samara Region); the technology development SEZs: “Saint-Petersburg” (St. Petersburg City), “Zelenograd” (Moscow), “Dubna” (Moscow Region), “Tomsk” (Tomsk Region). In these SEZs more than 90% of planned targets are carried out. The tourism and recreation SEZs “Turquoise Katun” (Altai Territory) and “Baikal Haven” (the Republic of Buryatia), and the port SEZs “Ulyanovsk” (Ulyanovsk Region) are considered rather effective SEZs: Since their creation more than 70% of planned targets were carried out. In 2014 the indices of the majority of these SEZs have deteriorated.

The impact of SEZs has on the regional economy is generally insignificant. In 2014 the ratio of the number of jobs created by the residents to the number of able-bodied population of municipalities, in which SEZs was created, was 0.87%. The ratio of revenue of the residents to the volume of the gross regional product (GRP) is 0.17%. The ratio of the volume of taxes paid by the residents to the amount of taxes paid to the budgets of all levels by the taxpayers, registered in the subject of the Russian Federation, in which SEZs was created, reaches 0.065%. Nevertheless, in some regions SEZs play an important role in the regional development. For example,

**Figure 2:** Total revenue of the residents and the volume of their investments in the special economic zones (billion rubles)



the ratio of the number of new jobs to the number of able-bodied population of municipalities, in which SEZs was created, reaches in the SEZs “Alabuga” 11.1%, in the SEZs “Lipetsk” – 10.5%, in the SEZs “Tomsk” – 11.7%. As a result the tension in the regional labor market is reduced. In the SEZs “Alabuga” and “Lipetsk” the ratio of revenue of the residents to the volume of the GRP is 2.1%. The numbers are impressive, considering the size of the economy of the Republic of Tatarstan. It ranks sixth in the top Russian regions in terms of GRP (1.671 billion rubles). Achievements of the Lipetsk Region are more modest: It ranks 38<sup>th</sup> in Russian by GRP (396 billion rubles). SEZs “Lipetsk” has provided the highest ratio of the volume of taxes paid by the residents to the amount of taxes paid to the budgets of all levels by the taxpayers, registered in Lipetsk Region, at the 1.9% level, even taking into account the tax preferences provided for the SEZs residents.

The success of two Russian SEZs has also been noted at the international level. According to the Financial Times fDi’s Magazine, in 2014 SEZs “Lipetsk” (Lipetsk Region) and in 2015 SEZs “Alabuga” (the Republic of Tatarstan) were awarded #1 Position in the rating of SEZs for the large companies in the European countries (Global Free Zones of the Year, 2014; Global Free Zones of the Year, 2015).

Tourism and recreation and port SEZs are ineffective. They have a small number of residents, non-compliance of the budgetary commitments to finance the creation of infrastructure, poor quality of the administration. An inefficient tourism and recreation SEZs located on the Russky Island territory in Primorye Territory will be shortly terminated (Ministry of Economic Development of the Russian Federation has prepared the draft decree on its termination). Land and property problems of the tourist cluster in the North Caucasian Federal District, Krasnodar Territory and the Republic of Adygeya, that includes 9 SEZs, need to be addressed. The volume of private investments in the tourism and recreation SEZs in 2014 amounted to 1.2 billion rubles, total revenue of the residents – only 0.1 billion rubles. In 2014 the volume of the residents investments in the port SEZs was 0.1 billion rubles, revenue of the residents – zero.

## 4. CONCLUSION

The potential of the tourism and recreation and port SEZs is not realized. The experience of the creation of the tourism and recreation SEZs in the disadvantaged areas such as the North Caucasian republics is short and insignificant. As the instrument of smoothing interregional differentiation and accelerating regional development of the underdeveloped territories, SEZs are not used to the full extent. Low competitive advantages of undeveloped regions and strict selection criteria of the regions applications for the SEZs creation on their territory leave almost no chance for weak regions to create a SEZs.

Taking into account the long payback period, conclusions on efficiency of SEZs can only be drawn on several SEZs that have been working in Russia for over 10 years. Industrial production and technology development SEZs are the most effective and promising in the Russian regional space. They function as “key



points of growth” and effectively work in the most developed regions: The Republic of Tatarstan, Moscow City, Moscow, Tomsk and Lipetsk Regions. Technology development SEZs show good results, but the purpose of their activities do not provide for the involvement of very large investors. Therefore, the level of investments, revenue, volume of taxes, the number of new jobs will be much lower than in the industrial production SEZs. Only industrial production SEZs can have a real impact on the regional economy. They can attract large companies and significant private investments, which will provide a large number of new jobs, high revenue and tax payments into the budget.

## 5. ACKNOWLEDGMENTS

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