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**SPECIAL ECONOMIC ZONES AS A KEY TO SUSTAINABLE
ECONOMIC DEVELOPMENT OF RUSSIA**

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Abstract

Today, Free Economic Zones (FEZ) are actively used in the World as an instrument of regional policy. The experience creating FEZ in Russia in the 1990s cannot be called successful. Since 2005 this instrument has been actively used and the SEZ of industrial and production, technological and innovation, tourist-recreational and port types have been created in Russia. However, the effectiveness of the SEZ causes doubts nowadays, therefore a rethinking of the theoretical developments is required, as well as the foreign experience in the area specified. This article analyses the world practice of functioning of FEZ, their transformation into SEZ in Russia; it also evaluates the effectiveness of the functioning of special economic zones, identifies the problems of their development, and the directions for their solutions. The main goal of the article is to determine the most important directions for the creation and development of special economic zones in Russia in modern economic conditions. This is important because in the world free economic zones are a factor in accelerating economic growth. Since the entry into force of the Law on Free Economic Zones in Russia, the pace of investment has intensified, employment has increased, and exports have increased, which has positively affected the development of some regions. There is no doubt that special economic zones will continue to play an irreplaceable role in economic development.

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1. Introduction

International trade can be interpreted as a possible way for the economy to achieve the required level of cooperation. The growth of World trade, the globalization of economics connections, the search for new trading partners have made the SEZ an important instrument in the development of the country's economy. The need to create the SEZs was justified by the attraction of foreign investment, the creation of new jobs, the formation of value-added costs, the inclusion in international supply chains, and the avoidance of commodity exports.

Past researches (Basile, 1989; Redko, 2012; Neveling, 2015; Bublik & Gubareva, 2016; Zhukovskaya et al., 2016; Chepinoga, Solodkov, & Semenova, 2017) have proved the great FEZ's role and importance of the in the modern World Economy.

The classification and interpretation of economic zones in different countries vary significantly. There are some kinds of economic zones: the Bonded Zone, the Free Zone, the Foreign Trade Zone, the Export Processing Zone, the Special Economic Zone, the Enterprise Zone and the Bank-Free Zone (Xia, 2013).

2. Problem Statement

This study aims to analyse the evolution of the development of SEZs and to evidence to the fact that they are an important instrument for the economic development.

It is necessary to understand the need to develop the institution of special economic zones in Russia and assess their impact on the Russian economy.

3. Research Questions

3.1. Are free economic zones in the world practice a prototype of Russian special economic zones?

3.2. What is the investment attractiveness of special economic zones in Russia?

3.3. What administrative and tax support measures are guaranteed in special economic zones?

3.4. What role did special economic zones play in the sustainable development of the Russian economy?

4. Purpose of the Study

The main purpose is to determine the basic directions of Russian Federation special economic zones regulation in a challenging economic environment contributing to the sustainable economic development of Russia.

The object of study is the special economic zones as a way of sustainable economic development.

The subject of research is current economic relationships of foreign and domestic companies within the establishment and functioning of special economic zones.

5. Research Methods

The theoretical basis of research is comprised of the concepts found in fundamental scientific works of foreign and domestic scientists; statistical data on operational FEZ, their content and contribution to improvement of investment attractiveness of national economies.

Basic research methods are the method of comparative analysis, generalization and systematization of facts, method of economic modeling. The application of these methods and the conducted analysis ensure objectiveness of conclusions.

6. Findings

6.1. The development of FEZ in the World

The idea of creating Free Economic Zones is not new. Various countries began establishing Free Economic Zones several centuries ago. The earliest Free Economic Zone – Leghoyne Freeport of Genoa Bay in Italy (1547) – helped to make the development of the region's economics more rapid.

The first modern FEZ in Western Europe was founded in 1959 near Shannon Airport (Ireland) with the aim of creating new jobs and increasing transport and passenger traffic. The territory of this zone featured duty-free export-import regime where the income tax rate was only 10%, which contributed to the creation of new industrial enterprises and the development of the west of Ireland as a whole.

Later, in the 1960s, the number of FEZs increased significantly due to the implementation of a policy of stimulating employment and attracting foreign investment by developing countries of East Asia and Latin America.

In 2000, the Indian Government unveiled its new SEZ policy. The "Export Processing Zones" was converted into "Special Economic Zones". SEZs in India have been contributing almost 25 percent of India's overall foreign trade since 2009 to the present date. It clearly indicates that the Indian SEZs are important instrument in terms of export growth (Rahooof & Arul, 2016).

In China, economic zones are usually regions associated with technological and economic development that accumulate a number of research institutes and industrial enterprises and form a regional economic model of synchronous development of education, technology and economy (Gwynne, 1993). However, the concept of the creation and development of the SEZ truly flourished in the 1980s in China, when the authorities decided to set up an experiment and unveiled the creation of a special economic zone in Shenzhen. The success of the SEZ is mainly due to the implementation of a preferential policy towards investors, developed infrastructure, availability of labor resources, etc. China has built up a variety of economic zones, such as Special Economic Zones (SEZs), Hi-tech Zones, Economic and Technological Development Zones, Bonded Zones, etc. They have all contributed to the rapid development of China's economy (Bai, Yan, & Chiu, 2015). With the completion of the Blue Economic Zones in 2009 and the Shanghai Pilot Free Trade Zone in 2013, China focused on the marine economy and comprehensive economic aggregates to guide economic development in the transition period. Furthermore, they have become the core power of economic development in the new period. After the Chinese reform and the creation of economic zones, such as Special Economic Zones, Hi-tech Zones and Bonded Zones have played an irreplaceable role in China's economic development (Wei et al., 2018).

In Thailand, 36 industrial zones are being developed in 16 provinces in three key areas: electronics, car industry, and consumer products. Their purpose is to stimulate FDI investment in assembly and industrial production. Of the 36 industrial zones, 12 are state-owned while 24 are under the management of private capital under the control of the state agency for the control of industrial zones. The largest and most efficient industrial areas are Nava Nakorn (near Bangkok), Rozhana Ayutthaya, Chonburi, Amata City and Amata Nakorn. In 2014, the Thai government approved the plan to form five special economic zones (FEZ) in the regions bordering with other ASEAN countries (Malaysia, Laos, Myanmar and Cambodia) and another five zones in 2016. These zones are called special economic zones, but in fact they are cross-border free economic zones (Kostyunina, 2017).

SEZs are also widespread in South Korea. The creation of “zones of foreign investment” began in 1994 with the aim of improving the investment climate. According to the Law on the Promotion of Foreign Investments, in such zones, foreign companies are provided with special conditions for doing business, including tax breaks, weakening of administrative regulation, a reduction in rent, and, in some cases, complete exemption from these types of payments. Currently, there are eight SEZs in the Republic of Korea.

Japan implements a purposeful policy of creating SEZs on its territory with the aim to enhance foreign economic activity and regional development. There are ten special economic zones (Tokku) in Japan. They have a specific thematic affiliation: the area of medical technology manufacturers in the Kansai region; the zone of overseas business and innovation in Tokyo; the tourist SEZ in Okinawa, etc. In order to boost the investment appeal of the SEZ, the Government of Japan took the necessary measures to encourage foreign investors to obtain the status of zone residents and to simplify the procedure for starting a business in the zone.

In Europe, special economic zones are widespread in Germany, Great Britain, Ireland, Poland and other countries. For example, in Poland there are fourteen special economic zones, the most effective of which is the zone in the city of Katowice. The anchor residents of this SEZ include such large industrial enterprises as General Motors Manufacturing Poland, Volkswagen Poznań, Toyota Motor Manufacturing Poland, Michelin Polska, etc. More than 260 companies are located on its territory of more than 2.3 hectares, whose total investment exceeds 5.5 billion euros.

In Latin America, one of the most effective SEZs is Manaus, located in Brazil. The zone produces electronics, electrical equipment, motorized vehicles. In addition to the federal tax breaks, businesses operating in the Manaus SEZ are provided with tax breaks by the state of Amazonas and the municipality of Manaus.

In North America, the SEZ is most common in the United States and Canada. In the United States, foreign trade zones (FTZ) are the object of comparison. They were established in the USA in the 1930s in order to increase the national industry competitiveness on the world market, and simultaneously reduce unemployment and improve the situation in social and economic spheres in the country after the Great Depression. Such zones are of trade or trade-production type, which, while remaining part of the national territory, are considered as being outside the state from the point of view of customs, fiscal and financial authorities. The geography of foreign trade zones indicates that the highest concentration of foreign trade is recorded either in states that have access to the sea or ocean (Texas - 32 zones, New York - 16, Florida

- 21, California - 17 zones), or in states not having access to waterways, but having large industrial complexes (Ohio - 9 zones, Indiana - 6, Illinois - 8, Arizona and Michigan - 7 zones each) (Korneyko & Lyu, 2017).

In Canada, there are two free customs zones. They are located in Stephenfield (Newfoundland) and Sydney (Nova Scotia) and are subject to the Canadian Border Service, as well as export distribution centers. In privately owned but state-controlled areas with special customs regulations, only export products manufacturing is allowed.

Currently, there are more than 5,000 free economic zones in the world. The dynamics of their creation is presented in Table 01.

Table 01. FEZ creation dynamics in the World

Year	1966	1975	1981	1990	1996	2000	2004	2016
Number of FEZ in the World	2	79	60	200	839	993	About 5000	More than 5000

6.2. The role of SEZs in the Russian economy

Special economic zones in Russia are part of federal projects for developing the region's economy by attracting direct Russian and foreign investments in priority economic activities.

The activity of the SEZ in Russia is regulated by Act of 2005. They envisage the creation of four different types of zones: industrial-production type (IPT), technology-innovative type (TIT), tourist-recreational type (TRT) and port type (PT). The Government of the Russian Federation approves the decision on the establishment of a SEZ and a resolution is issued.

The criteria for creating a SEZ are listed in the Decree of the Government of 2012 "On Approval of the Criteria for Creating a Special Economic Zone". When creating a SEZ, profitability and payback period, the quality of the project development of the territory, the long-term development plan of the SEZ, as well as the project environmental risks analysis are all taken into account. The SEZ management company should have experience in building infrastructure, working with large investment projects, clusters and technology parks.

As of October 1, 2018, 25 SEZ (9 industrial-production, 6 technical-innovative, 9 tourist-recreational and 1 port) function in Russia. Over 12 years of work in the SEZ, more than 670 residents have registered, of which more than 100 companies are with foreign participation from 35 countries of the world. Over these years, the total amount of investments amounted to more than 850 billion rubles, invested investments – more than 260 billion rubles; more than 25 thousand jobs were created; over 67 billion rubles were paid in tax and customs payments. The leaders in terms of investment in the Russian SEZs are China (\$1,531 million), USA (\$1,009 million), Turkey (\$646 million), Japan (\$532 million), Austria (\$325 million), Germany (\$266 million), France (\$119 million), and Vietnam (\$117 million).

6.3. Benefits and support measures in special economic zones

Each SEZ has a special legal status, which gives the SEZ investors a number of tax breaks and customs preferences, as well as guarantees access to the engineering, transport and business

infrastructure. Investor costs when implementing projects in the SEZ are on average 30% lower than in the Russian Federation.

Tax concessions offered to SEZs are justifiable as an aggregate when we consider the sectors that perform better. The taxes in SEZ are presented in Table 02.

Table 02. Comparison of taxes in the SEZ and Russia

Indicator	Russia	SEZ	Term
Company income tax, %	20	0 – 15,5	For the period of the SEZ's activity
Property tax, %	2,2	0	10 years
Land tax, %	1,5	0	5-10 years
Transport tax (euros per horse power)	0,01-0,7	0	10 years
Social taxes, %	30	21 14 (for IT-companies)	Until 01/01/19 Until 01/01/24
Land acquisition cost, %	100% market value	4-50% of cadastral value	For the period of the SEZ's activity
Customs duty on import of equipment, components, and materials, %	According to the customs tariff	0	For the period of the SEZ's activity

Additional support measures of the SEZ are presented in Table 03.

Table 03. Support measures in the SEZ

Program	Initiator	Support Description
Special investment contract (SIC)	Ministry of Industry and Trade of Russia (MIT), Region's Government of Russia	0% federal part of income tax Regional tax cuts - The volume of investment project > \$13 million
Concessional lending	Industry Development Fund	Loans at a rate of 1 to 5% p. a. - Loan amount from \$ 0.1 million to \$ 13 million.
Support in the framework of the program "Development of industry and increase of its competitiveness"	MIT	Subsidizing part of costs in certain industries.
Assistance to the Development of Small Enterprises	Foundation for Assistance to the Development of Small Enterprises	Providing grants in the amount of 3 to 250 thousand US dollars to projects in the scientific and technical sphere

6.4. Investment attractiveness and SEZ rating

In 2017, the Ministry of Economic Development of Russia presented a rating of investment attractiveness of special economic zones among industrial-production and technology-innovative type zones (Table 04).

Table 04. Rating of the investment attractiveness of the Russian SEZ in 2017

Name of SEZ	Region of Russia	Final place in the ranking
Group 1: High investment attractiveness of the SEZ		
SEZ “Dubna”	Moscow Region	1
SEZ “Alabuga”	Republic of Tatarstan	2
SEZ “Lipetsk”	Lipetsk Region	3
SEZ “St. Petersburg”	St. Petersburg	4
SEZ “Innopolis”	Republic of Tatarstan	5
Group 2: Medium investment attractiveness of the SEZ		
SEZ “Istok”	Moscow Region	6
SEZ “Togliatti”	Samara Region	7-8
SEZ “Mogilino”	Pskov Region	7-8
SEZ “Stupino Square”	Moscow Region	9
SEZ “Zelenograd”	Moscow	10
SEZ “Lotos”	Astrakhan Region	11
SEZ “Titanium Valley”	Sverdlovsk Region	12
Group 2: Moderate investment attractiveness of the SEZ		
SEZ “Tomsk”	Tomsk Region	13
SEZ “Kaluga”	Kaluga Region	14
SEZ “Uzlovaya”	Tula Region	15

The rankings took into account the number of residents, the amount of investments made, the availability of benefits and preferences for investors, the provision of infrastructure, the openness of information about the SEZ in the Internet, and other parameters.

Russian SEZ have received some international recognition. For example, the international publication Foreign Direct Investment Intelligence (FDI), a subsidiary of the Financial Times, published the “Global Economic Zones of the Year” in which the St. Petersburg Special Economic Zone became the winner in the nomination “Best European Special Economic Zone 2018 to attract large residents.” So far in 2018, the total revenue of the residents of the St. Petersburg SEZ has already exceeded 15 billion rubles, with the tax payments of companies to the budgets of all levels reaching three billion rubles, while the amount of residents’ investments – seven billion rubles.

7. Conclusion

In the world, the free economic zones are mainly a factor of accelerated economic growth through increased international trade, investment and deepening of economic integration processes. International corporations consider FEZ as favorable territories for super-profits and the organization of their own production in the FEZ as the most important direction of their expansion.

The SEZ Act of 2005 in Russia laid a well-established platform to help doing business easily for the investors. Since the SEZ Act of 2005 came into effect, Russian SEZs have shown outstanding growth rates regarding investment, creation of additional employment, export, and facilitating regional

development. The majority of the SEZs focus on high value added sectors like Information and Communication Technologies, pharmaceutical and chemical industry, design of new materials, electronics, etc.

There is no doubt that SEZs will play an irreplaceable role in economic development.

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