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Modern Tools for Sustainable Development of Territories. Special Topic: Project Management in the Regions of Russia

TERRITORIES OF ADVANCED SOCIO-ECONOMIC DEVELOPMENT: THE GROWTH POINTS OF THE RUSSIA'S REGIONS

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Abstract

Being Russia's peculiar framework, the regions of Russia play an important role in the development of the country's economic potential. In order to ensure sustainable development of the Russian economy, it is necessary for each region to have its own "pillars" – points of growth, thereby ensuring sustainability and the achievement of general equilibrium. The Far East of Russia has specific relevance in this context. On the one hand, the territory is located at a considerable distance from the center of Russia; it has severe climate and increased costs of conducting business and, as a consequence, the territory requires special conditions for doing economic activity. On the other hand, the region has a special status, an important geostrategic value and in its external economic activity the region is mainly oriented towards the countries of the Asia-Pacific region. Throughout the period of the historical development of the Far East, the Russian state gave it priority attention. For example, before the perestroika reforms, significant capital investments were made in the Far East of Russia and big defense-industrial enterprises were transferred to the Far East. Today such measures as program-targeted management, improvement of the investment climate and a number of others are used. One of the Russian Federation government's main directions for the development of the Far East region is creation of competitive priority development areas with special tax and administrative regime.

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Keywords: Far East of Russia, points of growth, territories of advanced socio-economic development.



1. Introduction

At the current stage of Russia's economic development, one of the tools used for regional development and stimulation of economic growth in the Russian Federation is creation of territories with a special status. As part of formation of a new development model for the Russian Far East oriented towards the markets of the Asia-Pacific region, it was suggested to concentrate efforts on creating priority social and economic development territories with competitive and preferential terms, such as a special tax and administrative regime that will allow them to win competition for investors from the Asia-Pacific countries

The Far East of Russia was chosen for implementation of the pilot project to test the new mechanism of regions' economic development. The choice of the location for the project implementation was substantiated by the necessity to find growth points of the region. Their effectiveness has not yet been fully proven; however, the initial steps have shown the attractiveness of the project for investors to conduct business successfully. Today, creation of the areas with special economic regime has extended to the entire territory of the Russian Federation, which in general allows us to make a conclusion about the success of the chosen.

2. Problem Statement

The main task of the paper is to study the functioning of the priority development areas in the context of the formation of growth points of the Russian Far East.

3. Research Questions

- 3.1. A study of the theoretical foundations of economic growth.
- 3.2. Analysis of foreign practice in the development of economically depressed regions by means of creating territories of a special economic status.
- 3.3. Analysis of the development of special economic zones, and areas of socio-economic development in the context of formation of growth points of the regions of the Far East of Russia.
- 3.4. Analysis of the problems of the territories of socio-economic development as well as possible directions for their future development in the Far East.

4. Purpose of the Study

To analyze the goals of creation, implementation, and efficiency of the territories of socio-economic development within the framework of the of growth points formation in the regions of the Far East; to identify problems and ways to solve them.

5. Research Methods

1. For the purpose of the research, theories of economic growth were studied applying the historical method of analysis. The theory of economic growth as a branch of economics originated in 1930-1940; the subject-matter of its study was determining the conditions for sustainable and balanced growth. Economic growth is defined as an increase in the volume of goods and services created over a certain period. Economic growth is associated with the efficiency of production, the effectiveness of which is reflected in an increase in the gross national product (Tsvetkov, 2013).

It is important to understand that each theory is based on those factors that are relevant in a given period of time and are determined by the level of development of the productive forces, the stage of the economic cycle, and the existing technological structure.

2. With reference to the theoretical issues applicable to practical activities, it was revealed using the method of comparison that much attention is given to the issues of growth points in foreign practice.

One of the areas associated with the above theories is the search for points of growth for the development of remote, underdeveloped and depressed territories the economic advancement of which is difficult due to economic and geographical terms and unfavorable climatic conditions. A state developed special measures to stimulate their socio-economic development. Thus, special programs were created to develop some areas in the United States, in particular the Appalachian Mountains region including the largest “problem” territory of the country with an area of 420 thousand sq. km and population of 19 million people). The Canadian government also devised projects to eliminate imbalances in the development of the Canadian economy, its northern parts of the provinces of Quebec, Ontario, Alberta, in particular.

3. Employing the methods of analogy and comparison, the author analyzed foreign and Russian experience in creating territories with a special status. Thus, the depressive territories of the coastal zone and the eastern provinces in the People's Republic of China (PRC) have been developing by creating areas with special economic status. In particular, the Special Economic Zones and then the Economic and Technological Development Zones were created there. The most successful example is the Tianjin zone which comprises more than 5 thousand joint ventures with a total amount of contractual investment of over \$ 25 billion and where the main types of production are represented by innovative products with high-added value: electronic communications, automotive, food processing, pharmaceuticals. A new direction in the development of such territories in the PRC is the formation of the Shanghai Experimental Free Trade Zone created in 2013. The Shanghai Free Trade Zone integrates four bonded zones – the Waigaoqiao Free Trade Zone, the Waigaoqiao Free Trade Logistics Park, the Yanshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone (Official site of China (Shanghai) Experimental Free Trade Zone, 2019).

The experience gained in the country over the years has clearly shown the success of the territories with a special regime as points of growth as well as an effective tool for the development of the regional and national economies.

In order to stimulate economic development of regional territories in Russia, special economic zones were initially created; they were considered as the areas for building strategic relations with foreign investors. In particular, such zones were established in in the Far East of Russia – Primorsky kray,

Khabarovsk kray, Amur oblast and Sakhalin oblast. Later, the number of such territories decreased primarily due to the imperfection of the regulatory framework, the lack of infrastructure, and low economic efficiency of the regions; the institute has actually become obsolete.

The adoption of the Federal Law of December 29, 2014, No. 473-FZ “On the Territories of Advanced Social and Economic Development in the Russian Federation” (TADs) (Federal Law, 2014) gave a new impulse to the development of territories with a special regime in the context of searching the points of growth and development of the Russian Far East along with program-targeted management methods 1. To achieve the goal of the study, using the historical method of analysis, theories of economic growth were studied. The theory of economic growth as a branch of economic science arose in 1930-1940 and the subject of the study was to determine the conditions for sustainable, equilibrium and balanced growth. By definition, economic growth is an increase in the volume of goods and services created over a given period. Economic growth is associated with efficiency of social production, the effectiveness of which is expressed in an increase in gross national product (Tsvetkov, 2013).

6. Findings

In accordance with the above law, TADs are a part of the territory of a constituent entity of the Russian Federation, including a closed administrative-territorial entity where, in accordance with the decision of the Government of the Russian Federation, establishes a special legal regime for carrying out business and other activities in order to create favorable conditions for attracting investments, ensuring accelerated socio-economic development and the creation of comfortable conditions for the livelihoods of the population.

At present, in accordance with the law mentioned above, creation of TADs is possible on the territory of any subject of the Russian Federation. However, in the first three years of the law acting, TADs could be created exclusively in the regions of the Russian Far East and single-industry towns.

The work on the creation of TADs took into account priority economic activities determined after analysis of the development prospects of the Far Eastern regions which include energy, mining and mining metallurgy, chemical industry, shipbuilding, composite materials, logistics, tourism, fishery sector, timber processing complex, agrarian business, aircraft manufacturing. Currently, 18 TADs are operating in the Far East: namely “Khabarovsk”, “Komsomolsk”, “Nikolaevsk”, “Nadezhdinskaya”, “Mikhailovskaya”, “Bolshoy Kamen”, “Neftehimicheskiy”, “Amuro-Khinganskaya”, “Belogorsk”, “Svobodny”, “Priamurskaya”, “Uzhnaya”, “Kurily”, “Kamchatka”, “Industrial Park “Kangalassy”, “South Yakutia” and “Beringovskiy”. Thus, TADs were created in all regions of the Far Eastern Federal District, with the exception of Magadan Oblast. The total number of residents of 18 Far Eastern TADs reached 206 units (see Table 01).

Table 01. TADs Performance Indicators (Official site of the Far East Development Corporation, 2019)

Year	Number of TADs, units	Number of residents, units	Amount of created jobs, units (stated in agreements)	Volume of investments, billion rubles (stated in agreements)
2015	9	21	7666	187
2016	14	111	22256	450
2017	18	206	39772	2175

Considering TADs with reference to the formation of growth points of the Far East regions, it should be said that this mechanism has proved to be quite successful.

Today, not only domestic but also foreign investors are showing interest in TADs from the point of view of organizing and running business. Projects with foreign capital are represented in 8 TADs out of 18 that were established in the Russian Far East. 5 of them are projects with Chinese investments. 14 applications worth of 210 billion rubles with participation of Chinese companies have already been submitted to the Far East Development Corporation (FEDC), of which 160 billion rubles have been invested by Chinese companies. 7 projects are already being implemented.

Among Russian investors involved in TAD projects there are also foreign investors. The range of interests of Chinese investors is quite wide: agriculture, industry, energy, transport and logistics, wood processing, pulp production, construction of hotels and housing, tourism development. For example, an industrial complex for oil refining with a design capacity of 4 million tons of oil and 2 million tons of gas condensate per year is being created in TAD “Priamurskaya”. Also, six investors from the Republic of Korea have recently joined TAD project in the Far East with the investments amounted to \$ 67 million. In addition to Chinese and South Korean companies, businesses from Japan, Australia, Lithuania, Singapore, Cyprus and other countries have begun their activities in TAD projects.

The region is receiving foreign investment. According to the data of the Ministry for the Development of the Russian Far East, in the last two years, the share of foreign investment in the development projects of the Far East has exceeded 20%, 14% of which has come from China and 5% from Japan. Chinese investments account for 30% of the total foreign investment in TAD and the free port of Vladivostok. In the vast majority of cases, this is private investment which amounts to 93%. It is worth mentioning that 73% of the private investment are not associated with the extraction of natural resources, which is especially important. According to the Ministry for the Development of the Russian Far East, new investments diversify the structure of the economy of the Far East as this is investment in manufacturing, logistics, agriculture, tourism.

TADs promote the development of non-primary exports, an illustrative example of which is organization of deep processing at the Far Eastern Center for the Deep Processing of Wood within the framework of TAD “Komsomolsk” that was established in Amursk by the “RFP Group” holding and received the status of TAD resident in 2015.

The attractiveness of the established territories for business is due to the provision of special tax regimes and sites with preferential terms for business. For the residents of TAD, a wider list of more substantial tax benefits is provided in comparison with the residents of the special economic zone, the free port of Vladivostok and other preferential regimes operating in the territory of the Russian Federation. In accordance with the Federal Law № 473-FZ, a special legal regime is created for carrying out entrepreneurial and other activities. In addition, it is expected that the creation of TADs and regional innovation clusters will allow implementing a promising strategy to gradually increase production of high value added exported goods in primary industries. This is ensured by a set of criteria used in the selection of priority TAD, among them are such as the presence of investment demand from private investors and export orientation of the products.

One of the main tasks in development of a package of preferences offered to TAD residents was a guarantee of absolute competitiveness in attracting investments compared to foreign competitors. As a result of the study of the experience of providing preferential terms for residents of TAD and special economic zones of the PRC, a conclusion was drawn that a number of taxes in the Russian Federation are more competitive, in particular income tax, VAT, and mineral extraction tax (Kashina, 2015).

In the course of the study, a number of problems were identified. Among them are those that hinder the development of advanced socio-economic development areas and do not allow the effectiveness of this mechanism to fully manifest itself in stimulating the economic growth of the Far East and its regions.

Among the problems that are particularly acute, there are those that arise from difficulties in finding funding to create supporting infrastructure (electricity, water and sewage, etc.), as well as developing infrastructure to create a territory with a special legal status (free customs zone). Lack of clear information about responsibilities of the authorities involved in assisting the creation of infrastructure facilities (who is specifically responsible, their area of responsibility and level of authority) is another serious problem. Clause 1 Article 4 of the Federal Law states: financial support for the deployment of infrastructure objects of the territory of advanced socio-economic development is carried out at the expense of the federal budget, the budget of the constituent entity of the Russian Federation and local budgets, as well as extra-budgetary sources of funding.

This ambiguity in determining the area of responsibility in providing financial support of infrastructure projects by the governmental structures generates considerable difficulties in their realization.

Most projects are local and are designed for local sales of products. This applies to agricultural projects and the production of construction materials. TADs attract interest of foreign companies. Most of all foreign businesses with Chinese, Japanese, Singaporean and Italian participation are interested in creation of factories for the production of building materials (bricks, cement clinker, metal structures), a refinery in the Amur Region, mining production in Chukotka with a capacity of over two million tons of coal per year, a modern greenhouse complex of 10 hectares in Khabarovsk area, tea-packing factory, and production of thermal clothing. At the same time, the analysis of residents' preferences shows that export potential has been developed only for a few industrial TADs despite the fact that one of the tasks of creating TAD is to ensure the export orientation of the projects that will be involved in the country's international relations (Shvetsov, 2016).

The lack of a unified, integrated methodology for evaluating the effectiveness of the activities of TAD and the timeliness of its assessment is another acute problem. For example, according to the approved rules, the effectiveness of the SEZ is to be judged by the absolute value of such gross indicators as the amount of budgetary and extra-budgetary funds aimed at financing the creation of infrastructure facilities; the number of residents and the number of jobs created by them; the volume of investments made by residents, goods produced, taxes paid and customs payments (Shvetsov, 2016). As the analysis of the activities of the SEZ showed, the lack of a systematic approach to assessing the effectiveness of the development zones as well as the lack of timely monitoring of their activities led to negative results. Thus, in the period from 2005 to 2016, 127.1 billion rubles were allocated from the federal budget for the

creation and development of special economic zones and for the maintenance of infrastructure facilities of such zones; however, the real economic effect from the operation of 8 special economic zones was not achieved. During the period of eleven years of special economic zones existence, only 21.1 thousand jobs were created while the cost of creating one workplace at the expense of the federal budget in the territories of such zones amounted to 9.1 million rubles.

A lot of criticism of TAD is caused by the problem of the so-called “Chinese threat”. Indeed, the population of China’s border regions is several times larger than the population of the Far Eastern Federal District. Also, Chinese business is actively developing the border regions of the Far East, mainly in the areas of agriculture and export (or primary processing) of mineral and forest resources.

In the opinion of some experts the law on the territories of advanced development includes conditions that open up large-scale opportunities for abuse by foreign companies, which will have a negative impact on the development of domestic entrepreneurship. Thus, foreign companies are allowed to withdraw land and real estate located on it with compensation; the amount of compensation is determined by a company. Also, permission of unrestricted employment of foreign citizens creates a threat of mass involvement of low-skilled foreign labor. However, at this point the economic principle of the mobility of factors of production is worth mentioning. It states that capital moves to where it can produce the greatest marginal product. The latter, in turn, is inversely proportional to the marginal product of labor. In this regard, a relatively lower-paid foreign labor force is an important condition to attract foreign investors (Isaev, 2017).

The study of world experience in the development of special economic zones, the Russian experience of developing advanced development territories (SEZ, ZTD) and analysis of the problems in implementing the TAD regime in the Far Eastern regions as well as the opinions of representatives of science, government and business on further improvement of the zonal development mechanism in Russia have helped to determine the following directions for TAD development: elaboration of a transparent, formalized system of monitoring the effectiveness of TAD; introduction of measures facilitating the effective use of budgetary funds aimed at creating the infrastructure of TAD; organization of project selection taking into account export orientation of products; increasing the degree of specialization of TAD aimed, inter alia, at creating clusters for the production of high-tech products of the aircraft industry and other industries; solving problems of skilled labor shortage, etc.

At the same time, there is a number of specific directions for the development of TAD. There is an opinion about the necessity to introduce a currency quota mechanism for TAD residents, which would allow resident enterprises to acquire foreign currency required for the purchase of imported equipment, components, and raw materials at preferential prices (Savaley, Samsonova, Vodopyanova, & Kornienko, 2016).

Another possible direction of the development of TAD is organizing a preliminary study of the effectiveness of certain measures aimed at the development of a territory. The experience of introducing various development zones in China is an example of implementation of the suggested approach. It is worth noting that an important feature FEZ creation in China was their experimental nature. These were the SEZs that served as the test sites for many subsequent transformations implemented later in different

regions of the country. The government of the PRC understood that at the initial stage of economic reforms it was impossible to quickly destroy the former planned economy system.

The massive nature of the introduction of TAD in the Russian Far East, the transfer of the Free Port of Vladivostok experience to other regions of the Far East of Russia shows the intention of the Government to intensify economic activity in the macroregion. It is possible that in case of successful application of the TAD mechanism in the socio-economic development of the Russian Far East, the Government will need new mechanisms to stimulate economic activity which will be developed based on the experience of implementing TAD. These new tools will expand the list of preferences offered to potential residents.

One of the possible successors of TAD may be development zones created with due account of more active sectoral government policies which will be aimed at creating not only separate industries but mainly production chains integrating residents with each other and (or) with external productions both in the country and beyond.

For the successful implementation of a new type of TAD project, it is necessary for the Government to carry out a more active sectoral policy in order to provide the formation of production chains integrating residents into a single system of economic interaction.

Accordingly, in the case of implementation of such a policy, while selecting potential residents of TAD, priority should be given to industries with the highest inter-sectoral and inter-regional integration potential. For example, creation of a large regional wholesale distribution center can facilitate an increase in local agricultural production and intensification of food wholesale and retail trade including growth of exports of organic products or products with high marginal value.

According to the Institute of Organic Agriculture (Switzerland), this market segment is developing dynamically. The United States, Germany, and France have become leaders in the organic food production. According to the Ministry of Agriculture, the volume of the domestic organic market currently amounts to 160 million euros (Bandurina & Ogryzov, 2016). In 2020 the law on organic agriculture in Russia enters full force, which will give a clear definition of the concept of "organic products" and determine the required characteristics of it. The development of the Russian legislation in the field of organic production is based on the current international practices in Europe and the USA. After the law comes into force, a single sign of organic products as well as a unified state register of its producers will be created. Along with this, pilot regions will be determined specifically for green production oriented not only at the domestic market but also at its export. The southern regions of the Far East can become a platform for the development of this business. Promising markets for the export of Russian organic products can be: China, Japan and the countries of Western Asia. In the conditions of modern trade and economic relations, the most promising market for the Far Eastern exporters of organic products is China.

The implementation of the projects with great synergistic potential will require participation of the Ministry for the Development the Russian Far East and the sectoral ministries of the region (the Ministry of Industry and Trade, the Ministry of Agriculture of Russia, the Ministry of Transport of Russia, etc.). Using the capabilities of TAD, the authorities can quickly achieve the development goals of subordinate industries in the region.

In order to change these trends, it might be necessary to drastically restructure the system of public administration in the economy, changing the regional approach focused on creating the environment for organizing the production of goods and services to the production approach aimed at creating industries and “fitting” them into production chains.

7. Conclusion

Based on the study, the following conclusions have been drawn. The study has revealed that for the Far East of Russia, the search for growth points of socio-economic development remains an important problem. In foreign practice the development of remote, depressed regions was carried out by various measures, the creation of special territories with preferential terms for business was among them. It helped to attract investors to these territories. Developing business inside, the territories influenced economic activity in all nearby territories.

Russia was no exception in this regard, since its vast territory and regions with severe climatic conditions determined the search for growth points to stimulate their development. However, creation of special economic zones, which, in the long run, did not receive their development, proved their inefficiency.

At present, in accordance with the federal law mentioned above, the territories of socio-economic development have received fresh impetus for the development of the of the Far East regions. Currently, these territories can be created throughout Russia; however, until 2018 they could be created only in the Far East.

Today in the Russian Far East there are 18 TADs operating, over two hundred residents including foreign investors have been registered.

The attractiveness of TAD for investors is due to the provision of a wide range of benefits and preferences, which makes doing business more profitable compared to foreign countries, China in particular.

Nevertheless, the functioning of special territories highlights a number of problems associated with lack of infrastructure, uncertainty in the regulatory framework, lack of efficient institutional management structure, the threat of focusing on the resource component in the economic activity of TADs.

At the same time, it is possible to determine a number of promising directions for further development that will allow conducting effective economic activities in TAD, on the one hand, and ensuring sustainable economic growth in the Far East, on the other.

In particular, development of production chains consisting of TAD enterprises, creation of a wholesale distribution center and export of organic products may be attributed to such directions.

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