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Implementation of the Territories with Special Economic Regimes in the Far East of Russia

Sergey Sosnovskikh

Lecturer in Business and Management

Management and Entrepreneurship Department

Leicester Castle Business School

Faculty of Business and Law

De Montfort University

Address: The Gateway, Leicester, United Kingdom, LE1 9BH

Email: sergey.sosnovskikh@dmu.ac.uk

ORCID: <https://orcid.org/0000-0002-3744-740X>

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Abstract

In the Far East of Russia, economic development has dramatically slowed down for the past 30 years. The federal government seeks new methods to attract investments into the regions, stimulate entrepreneurial activity, and boost economic growth. This paper critically evaluates state policies that involve the active implementation of Special Economic Zones, Territorial Development Zones, Vladivostok Free Port, and the Territories of Advanced Social and Economic Development. Research is based on the interviews with the state authorities from the regions of Russia and thorough investigation of the state policies, legislation, and government reports. This study suggests three conclusions. First, there is an excessive amount of state development policies, which is the result of competition among different federal ministries. Second, there is no evidence of innovative activity or productivity growth within those economic zones. Finally, methods to assess the effectiveness of the regional policies are undeveloped and lack clarity. Recommendations for further research are given at the end of the paper.

Keywords: territory of advanced social and economic development, special economic zone, territorial development zone, Vladivostok Free Port, Russia, Far East, government, industrial cluster, innovation, investment

1. Introduction

The recognition of Special Economic Zones (SEZs) and other types of free economic zones as a policy tool has evolved significantly over the last 50 years (Gupta, 2008; Tantri, 2016). Despite the global growth of SEZs, many of them failed to fulfil objectives such as employment growth, export diversification, the attraction of foreign direct investment (FDI), and stimulating innovative activities. Furthermore, many successful SEZs have shifted their competitive focus, concentrating on the quality of services rather than relying on fiscal incentives. This has been vital for distinguishing successful economic zones from failing ones (Bräutigam and Tang, 2014; Moberg, 2015; Nel and Rogerson, 2014). Nevertheless, despite almost five decades of research into SEZs, there are still many uncertainties. There is a lack of systematic data-driven analysis on the performance of SEZs and limited up-to-date review of the policies and practices that measure that performance (Alam et al., 2014; Cheesman, 2012; Wang, 2013).

SEZ is a general definition that includes recent variations on traditional commercial zones. The basic concept of the SEZ has several specific characteristics: its territory is geographically demarcated. It has a managing company or a single administration (Aggarwal, 2011a; Zeng, 2012). SEZs offer tax benefits within the area and provide an autonomous customs zone with simplified procedures and duty-free benefits, and with more liberal economic and juridical regulations than in the rest of the country. SEZs are geographic concentrations of firms. They are created to provide better infrastructure and research and development (R&D) facilities, and they offer fiscal incentives that are not available outside the zones. They are often established by direct industrial policy intervention to promote regional economic growth (Chen, 1994; Erkang, 1985; Papadopoulos, 1987; Warr, 1989).

SEZs are created to ease complicated issues of land maintenance and infrastructure that may prevent the influx of investment into the regional or national economy. They offer potential investors access to prebuilt manufacturing sites, real estate facilities, telecommunications, sewerage) and long-term leases (Din, 1994; Johansson, 1994; Johansson and Nilsson, 1997). SEZs also facilitate administrative procedures for registering businesses, acquiring licences and accessing vital services such as utilities and construction. The zones offer 'single window' or 'one-stop' service, which means that the management takes responsibility for coordinating all administrative procedures. Lastly, a critical administrative service provided by zones is customs administration, which commonly includes fiscal incentives and a customs officer stationed inside the zone or at the gate who deals with customs clearance and quickens import and export operations (Ambroziak and Hartwell, 2018; Bell, 2016; Jensen, 2018).

Existing literature suggests that fiscal incentives can play a vital role in attracting investments in the short term, especially during the initial stages of zone development. Nevertheless, fiscal incentives have little impact on long-term success: there is no significant correlation between fiscal incentives (tax breaks in particular) with outcomes (Frick et al. 2019). Moreover, findings show a negative trend: these tax discounts may result in lower performance regarding exports and employment within the zones (Miyagiwa and Ohno, 2009; Tantri, 2015). Emphasis on tax incentives not only changes the behaviour of investors but also the behaviour of those who manage the zone. It forces them to concentrate on short-term fiscal issues (e.g. rent reductions) instead of aiming to increase competitiveness through developing infrastructure and quicker service delivery. This may also result in the inflation of incentives (Ambroziak and Hartwell, 2018; Jensen, 2018; Quaicoe et al., 2017; Wang, 2013).

The Far East of Russia (FER) is perceived as a large macro-region. The region has important geopolitical and geostrategic significance for the country (Lee, 2017). It has access to the Pacific and Arctic Oceans, and borders with four countries: China, Japan, the USA, and North Korea. The population density in the FER is extremely low, and as a result, it is still considered an underdeveloped territory, but rich in natural resources. The main areas of specialisation are mining and processing of non-ferrous metals, mining of diamonds, fishing, timber, pulp and paper industry, shipbuilding, and ship repair. These factors, when oriented to the domestic market, determined the role of the FER as part of Russian economic structure (Lukin and Yakunin, 2017). Due to its geopolitical significance, it has always been in the centre of attention of the federal government. The Russian government tested specific federal and regional programs, which were subsequently implemented in the rest of the country (Minakir and Prokapalo, 2017; Zausaev, 2016). For example, it implemented one of the first free economic zones - Magadan Special Economic Zone (SEZ) in 1999 (Dudkina, 2013; Yurinskaya, 2006).

Nevertheless, historically, the federal government interest in the FER was not constant: there were periods of autarkic development relying on their own capacity. When the federal centre could not provide significant financial support to the regions, there were periods of severe paternalistic attention associated with non-economic, military-political reasons for being close to the Asia-Pacific region (APR) and remoteness from the European part of the country (Fortescue, 2016; Huang and Korolev, 2016; Ziegler, 1994). By 2010, the surge in attention to the development of the FER has been intensified by the overall challenging economic situation in Russia (Sergi, 2018; Arapova and Isachenko, 2019). The government has started to implement various regional policies striving to stimulate economic development in the FER predominately focusing on establishing different types of territories with special economic regimes. In 2014, President of the Russian Federation signed the Federal Law “On Territories of Advanced of Social and Economic Development (TASED) in the Russian Federation”, which introduced a new type of preferential territories in addition to the existing special economic zones (Kashina, 2016; Min and Kang, 2018).

This paper aims to critically analyse the regional policies in the implementation of various types of economic zones in the FER that have been established since 2011. The study strives to answer the following research questions: 1) What are the main goals of the policies and their clarification? 2) What are the approaches to assessing the performance of the regional programs used? Finally, 3) What are the prospects of the regional economic zones for their further development? The paper is structured as follows. First, it provides a theoretical discussion about

the SEZ concept. Next, data collection and analysis methods are described. The third section presents and discusses the findings according to the three identified research questions. Finally, the paper concludes with a reflection on the implications of the findings for future discussion on the development of the territories with special economic regimes in the FER, together with recommendations for further research.

2. Literature Review

The Concept of Special Economic Zones

According to the neoclassical approach, SEZs are areas that provide more open and liberal trade regulations to promote business operations. Evaluating the situation from a static perspective, economic zones are instruments that alter trade, lead to unfair competition between internal and external companies, reduce government profits and, in the context of non-liberalised economies, remain mere manufacturing areas offering a little contribution to the economy (Aggarwal, 2011b; Crowley and Hodson, 2014; Hamada, 1974; Hamilton and Svensson, 1982). Cost-benefit was proposed by Warr (1989) to evaluate the role of SEZs in the host country's economy. Like the neoclassical view, it claims that economic zones are enclaves in which export-oriented manufacturing activities are facilitated predominantly by a free trade environment, while the rest of the economy employs an import substitution policy (Baissac, 2003; Jayanthakumaran, 2003). However, SEZs use local capital and labour, public utilities, resources and infrastructure, and generate profit for the local economy by paying overhead costs, i.e. wages, electricity and water bills, and taxes, etc. Consequently, these profits are directed to local shareholders. The contribution of SEZs is considered to be positive if the overall payment for their usage of local resources exceeds the costs of their establishment and maintenance (Johansson and Nilsson, 1997). The perspective of the political economy approach suggests that government intervenes in the development of economic zones by dealing with interest groups that lobby for rent-seeking. The core message of this point of view is based on the theory of 'minimalist government', which argues that free trade, along with minimal government participation, can guarantee the development. Therefore, the purpose of SEZs, in this case, is to generate income from rents for a few investors (Aggarwal, 2011b; Buchanan and Tullock, 1999; Moberg, 2015).

The heterodox school relies on a combination of state and market interactions, which implies the essential role of government in investment, human capital formation, technology attainment, establishing institutions and implementing relevant policies and reforms (Chang, 2002). According to this approach, local companies do not possess sufficient marketing, technical or managerial capacity, and rarely have access to international markets and distribution channels. In

this case, the government provides aid by implementing SEZ policies and improving the investment climate through well-organised infrastructure, good management, skilled labour, fiscal incentives and a simplified regulatory system. These measures attract FDI, which brings more sophisticated technologies and managerial experience with it. The localisation of foreign companies produces significant spillovers, which lead to processes of knowledge, skill and technology sharing (Aritenang and Chandramidi, 2019; Montealegre, 2012)

This concept is linked to the cluster model. Many scholars suggest that it is necessary for successful development of the SEZs (Aggarwal, 2011a; Bräutigam and Tang, 2014; Hsu, Lai, and Lin, 2013; Nel and Rogerson, 2014; Zeng, 2012). In particular, SEZs share commonalities with Porterian clusters (Aggarwal, 2011a; Montealegre, 2012; Yeup Kim and Zhang, 2008). Within this framework, SEZs are state-promoted clusters made up of outwardly oriented companies, both domestic and foreign, which are established to maximise the benefits emerging from global value chains. These highly geographically concentrated agglomerations accommodate internationally competitive firms that are equipped with essential benefits such as efficient infrastructure, quality services, a favourable business environment, relaxed regulatory restrictions, and simplified red tape (Delgado et al., 2014; Lazzarotti et al., 2019; Vernay et al., 2018). Large, comprehensive SEZs are established on the basis of industrial districts, whose key features are the geographical and sectoral concentration of firms, cooperative competition, and a sociocultural identity that facilitates trust and active self-help in organisations (Nestle et al., 2019; Schmitz and Nadvi, 1999; Zeng, 2019)

The Role of the Government in the Russian Business Environment

The government in Russia plays an important role in determining the business environment in a certain region or country, in general. The government is involved, directly and indirectly, in several industries. Moreover, administrators at all levels have immediate veto power over business deals that involve local or foreign companies, and receiving permits and approvals is a complicated bureaucratic assignment in Russia (Tsygankov, 2014). Due to the strong position of the Russian government in economic processes, business networks apply to state agencies for protection and to create a more favourable climate for resolving various business-related issues (Vanteeva, 2016). The status of the Russian government as a power centre is similar to the role of governments in other transition economies, such as China (Du, 2014; Karhunen et al., 2018). The Chinese government supports businesses in terms of financing, information and technology (Li and Zhang, 2007). Businesses interact with state agencies regarding their actual entrance into the market, for example, to register firms, obtain necessary licences for certain activities, obtain

offices for production and sales, and gain resources, including access to information and funds. At the same time, large private companies have high expectations of the government to provide the necessary support for developing their businesses, such as bank reforms, financial support and even promotions. However, despite the general willingness of the Russian government to help local business, companies often experience 'false assistance' from the state. As soon as the state declares special priorities for a certain industry, companies face increased state control, additional sanctions, stricter monitoring, reports and other similar obstacles (Bashina, 2013; Rochlitz, 2014; Vanteeva, 2016).

This is relevant to Russia in the context of increasing federal spending on various regional programmes, and local elites with different levels of impact on the federal centre, who compete for federal funding and transfers (Sharafutdinova and Turovsky, 2017; Vartapetov, 2010). Such competition has evolved, especially with the help of numerous regional projects that are historical, sport-related, cultural, or social. Regional governments devise and promote these projects in a bid to obtain additional federal funds in their region. In some cases, the lobbying and hard work of regional managers secure massive financial inflows following mega-projects (Gorokhov, 2015; Müller, 2017; Sharafutdinova and Steinbuks, 2017). Regional governments have developed different lobbying strategies and techniques for attracting these funds. They strive to gain access to federal officials who are in charge of distributing funds by organising visits to their regions to demonstrate local projects in progress or discussing ideas for new projects with an emphasis on the necessity of federal support. Regional governments with superior administrative capacities have more chance of winning the race for federal funding, reflecting the challenging bureaucratic procedures underpinning intergovernmental budgetary flows (Sharafutdinova and Steinbuks, 2017; Sharafutdinova and Turovsky, 2017). Governors with the best lobbying skills, as well as informal established networks, are the most successful in bringing federal funding into their regions. Meanwhile, in the regions, the governors must assemble robust teams of state officials who can produce creative ideas and projects, and deliver substantial results when these projects are implemented. Most of these projects result in the provision of necessary financial support (Mullakhmetov et al., 2015; Sabitova et al., 2016; Sharafutdinova and Turovsky, 2017).

3. Methods

Many scholars have conducted various researches on industrial clusters, SEZs and IPs using different methods of data collection and analysis. The topic of SEZs, which were established from 2005 onwards, is still considered under-investigated due to the challenging process of data

collection and general lack of secondary data (Fedorov et al., 2011; Kushnirsky, 1997; Kuznetsov and Kuznetsova, 2019; Yankov et al., 2016; Zhukovskaya et al., 2016). The topic of SEZ implementation in the FER is covered only in Russian academic literature; however, it is very descriptive and lacks critical discussion of the policies themselves (Kashina, 2016; Min and Kang, 2018). Data collection and analysis of this study consisted of two stages. The first one involved the use of various secondary sources. Consultant Plus enabled to assess legislation and policies, which were implemented to establish the territories of special economic regimes in the FER. The official reports published on the website of the Magadan SEZ, the Ministry of Economic Development of the Russian Federation, Far East Development Corporation, and Ministry for the Development of the Russian Far East provided the valuable data about the general description of the policies and their clarification, approaches in assessing the performance of the regional programs, and also informed about the progress of the development of those projects.

The second stage comprised ten unstructured interviews that were organised with nine state authorities from different regions of the FER: Primorsky, Khabarovsk, and Kamchatsky Krai, Jewish Autonomous, Amur, Sakhalin, and Chukotka Autonomous Regions, Sakha Republic (Yakutia), and the Kuril Islands. One more additional interview was conducted with the representative from the Far East Development Corporation. Interviews were organised in the period of June-July 2019 via the Skype-video conference call and lasted for about an hour. The interviewing process was unstructured to gain any valuable data for this study. However, the process was still attached to the plan according to the research questions. A primarily deductive approach was used. The qualitative analysis software, NVIVO, facilitated the systematic process. Qualitative data was analysed and interpreted as well as paraphrased and described.

To conduct this research, specific attention has been given to Lancaster (2017), who had experience in collecting the data from 'elites'. The term "elite" is commonly used to describe individuals or groups who are allegedly close to power or specific professional knowledge (Morris, 2009; Neal and McLaughlin, 2009; Smith, 2006). Similar to Lancaster (2017), conducting interviews with respondents from government organisations required preparation and involved building trust necessary to obtain useful data (Ostrander, 1993). In this study, in order to overcome the limitations of the approach in selecting and gaining access to the respondents, the author used personal networks among the state authorities from the previous study about the SEZs in the Western part of Russia that had been established since 2005 and onwards. This approach is characterised as a snowballing technique, which is especially useful when there is no

direct access to respondents (Bryman and Bell, 2015). It also helps to reduce the sampling error and contact the relevant participants only.

The notion of confidentiality is related to anonymity since anonymity is one way of ensuring (or applying) privacy by making it impossible for individuals to be identified (Wiles et al., 2008). One of the core dilemmas faced by researchers is to balance reliable reporting of results with potentially exposing the identity of respondents or alternatively choose hidden information and reduce the risk of harm to participants (Baez, 2002). In this study, the respondents were not required to disclose their names, positions or connections to their organisations, or give away any signs or associations that could potentially reveal this information. Some participants engaged in a kind of self-censorship, trying to express their expression to find a politically correct way to say it.

4. Findings and Discussion

In world practice, the methods to implement regional economic policies are quite diverse (Ghebrihiwet and Motchenkova, 2017; Lazzarini, 2015). In Russia, they are aimed at selective support of individual regions with different financial and economic foundations. The financial instruments for such support include tax policy measures and inter-budget transfers that are allocated to the regions (Berezin et al., 2018). The volumes of transfers vary according to the specific needs of the region. Since 2011, the Russian government has been actively implementing the following federal programs: the creation of SEZs, Territorial Development Zones (TDZs), Territories of Advanced Social and Economic Development (TASEDs) and Vladivostok Free Port (VFP). The diversity of the local economies explained the necessity in the implementation of these initiatives but with deteriorating infrastructure and decreasing overall business activity (Lyapina et al., 2019; Zaytsev, 2016). The Russian government aimed to create so-called regional ‘points of growth’ by creating a favourable investment climate throughout the FER and strived to avoid potentially large-scale negative consequences in case of failure of the experiment (Han, 2017; Minakir and Prokapalo, 2017). Regulatory and legislative documents determined the procedure and rules for the use of each of the above tools, but the question of assessing the effectiveness of using instruments of state regional policy remained subjective and unclear.

Approaches in assessing the performance of the regional programs

Regulatory and legislative documents typically comprise the procedures and rules for the application of specific instruments for implementing regional policies. They also include

indications of the impact of the measures and involve an assessment of the effectiveness of the resources required for their implementation. Nevertheless, methodological approaches in assessing the effectiveness of regional policies are still not resolved. These tools are at the disposal of various state departments that use their criteria for selecting the region for financial support and assessing the estimated effectiveness of policy implementation. The currently unresolved methodological problems are compounded by the lack of a uniform interpretation of the terms. These include the concepts of outcomes (result), productivity (result achieved to the goal), efficiency (the ratio of the obtained cost results to the costs incurred) and effectiveness (means the best possible compromise between different tasks and political and administrative pressure). There are four different approaches to assessing the effectiveness of regional policies:

- Cost-benefit analysis;
- Economic forecasting of the possible outcomes from the policies;
- Assessing individual indicators identified for analysis;
- Evaluating the degree of achievement of goals.

Each approach has its strengths and weaknesses, but none of them has been fully developed, and therefore universally recognised. A specific set of target indicators should be taken into the evaluation of the particular regional policy. In reality, the set of indicators is almost identical for all programs. The calculations of the effectiveness of federal policies are merely a formality in the development of the program and discussed only at the stage of program verification.

Regular reports on the progress of the policy implementation are prepared in different formats, including indicators of financing and its specific objects from various sources. Hence, the performance indicators are not monitored at the program implementation or development stages. The problem is that it is challenging to draw unambiguous conclusions about the real significance of the tools used for the socio-economic development of the region and the country as a whole. Indeed, government support measures commonly lead to real results such as stimulation of entrepreneurial activity, creation of new jobs, growth of tax revenues, etc. (Cumming, 2007; Giessen et al., 2016; Lazzarini, 2015; Maskin and Tirole, 2008) In the Russian case, whether these could have happened without state support. The Russian government finds it challenging to evaluate the effectiveness of state support measures by comparing the indicators of socio-economic development in the regions in which these initiatives were used with those regions in which they were not applied. Interviewees claim the impossibility of assessing the contribution of specific instruments to the dynamics of regional indicators, as well as the durability of the results obtained. Besides, the actual lack of information on the creation of concessional lending conditions in the regions and the absence of methods for assessing the role

of administrative preferences provided by regional authorities for the implementation of local projects are recognised. Hence, the severe problem exists in the evaluation of the results and outcomes of the regional policy implementation and development processes in the FER.

Territories of special economic regimes as tools for regional development

The Russian federal government has decided to implement the territories with special economic regimes to solve the problem of attracting investments and technologies into the FER (Glazyrina et al., 2013; Min and Kang, 2018). Depending on the industry specifications and location of the region, these zones offered various tax and legal benefits. According to the concept of “diffusion of innovations” and spillover effect, the impact of business growth will spread beyond the boundaries of these zones, i.e. points of growth (da Rocha, Kury, and Monteiro, 2009; Nestle et al., 2019; Serebryakova et al., 2018). However, the Russian practice has shown that in reality, not only positive but also adverse effects can occur, such as lack of cooperative networks with local businesses and innovative activity (Sosnovskikh, 2017). The perspective of such policies should be assessed by the degree of attractiveness not only on the local level of economic and legal background but in the international global context as well (Fedorenko et al., 2017; Ratanavararak, 2018). Figure 1 demonstrates the types of territories with special economic regimes being implemented in the FER. The common feature for all of them is that they all offer a special economic and legal regime for their potential tenants. Privileges and advantages are granted only to the tenants of the zone (financially stable investors - legal entities and individual entrepreneurs) that meet the requirements stated in regulatory legal acts on a specific type of territory.

[Insert Figure 1 here]

The Initial Stages of the Special Economic Zone implementation in the Far East of Russia

The foundations of the legal regulation of SEZs in Russia were laid down by the decrees of the Supreme Council of the RSFSR in 1990 “On the creation of free enterprise zones” №160-1 and №165-1 (Prihodko et al., 2007). The first experience in introducing Free Economic Zones in the Far East was quite turbulent and chaotic. These were the Free Economic Zone (FEZ) ‘Nakhodka’ in the Primorsky Krai, the FEZ ‘EVA’ in the Jewish Autonomous Region, and the FEZ ‘Sakhalin’. These first attempts did not bring any positive results due to the following reasons (Hong, 2007; Ivanov, 1994; Kontorovich, 2000; Min and Kang, 2018; Rozman, 1997):

- These FEZs required huge investments for infrastructure development, which the Russian government was unable to provide due to the economic crisis in the 1990s;

- There was a weak regulatory framework that did not provide favourable economic (tax, customs and currency) conditions for the creation and functioning of SEZs in comparison to other countries, e.g. South Korea, China, and India
- The approach employed by the government focused on obtaining the highest possible budget revenues as soon as possible, rather than on balancing the interests of the state and investors

Due to the economic crises in 1998, when the Russian government announced the termination of payments for several obligations (Burawoy, 2001), all of these projects did not survive. Even Nakhodka FEZ, which was actively developing in the early 1990s, half of the tenants, into which state investments were directed, went bankrupt. FEZs in Russia were declared unprofitable, and their financing was terminated (Kushnirsky, 1997). In the Magadan region in 1999, the SEZ was established, that remained strictly on the territory of the city of Magadan until 2014. It was created to stimulate the economy of the Far Eastern parts of Russia that had always been considered undeveloped due to their inconvenient geographical location, harsh climate and low population density (Dudkina, 2013). The preferential regime provided an exemption from tax payments such as value-added tax (VAT), corporate income tax, water tax and various excises. The preferential customs regime stipulated that foreign goods imported into the SEZ should be kept and used on its territory without being subject to customs fees and taxes. These benefits did not apply to excisable goods. Foreign goods that had undergone sufficient processing following the criteria established by law were recognised as goods of the Russian customs regulation. The Magadan SEZ mainly processed goods imported from China, Japan, South Korea and the U.S. The implementation of the SEZ in the Magadan region significantly improved the economic status of the region in the short term, but development reached an absolute ceiling by 2005 (Dudkina, 2013; Glazyrina et al., 2013; Kashina, 2016; Kichanov and Kichanova, 2014).

However, it was deemed unsuccessful due to the vague and constantly changing legislation. Enterprises had to prove their right to use the SEZ regime in the courts. The disunity of legislation, the permanent court session held with SEZ tenants and sanctions imposed by the government - all damaged the reputation of SEZs among firms and entrepreneurs. Such instability in the legal field made it difficult for businesses to conduct medium- and long-term planning, which led to the SEZ functioning less effectively. The borders of the SEZ did not benefit the key local corporations of the region, which were located outside the territory of Magadan city. Thus, significant market players in the industries of mining, fishing, transport and processing industries could not take full advantage of free customs benefits. By 2005, only three per cent of the total number of firms and individual entrepreneurs registered in the region was

part of the Magadan SEZ, which comprised 333 tenants, half of which were trading companies (Dudkina, 2013; Kashina, 2016; Yurinskaya, 2006).

Reloading stage of Special Economic Zone Development

Since 2005, a peculiar regeneration of the concept of regional economic zones has been conducted in the FER. Over the ten years, four groups of new federal projects have been introduced: SEZs (2005), TDZs (2011), TASEDs (2014) and VFP (2015). This activity occurred due to the rivalry between the federal ministries. Initially, first SEZs and TDZs were created and supervised by the Ministry of Economic Development of the Russian Federation. Whereas TPSEDs and VFPs were implemented by the Ministry of Economic Development and Trade of the Far East (a separate entity from the former). A comparative description of requirements for territories with a special management regime in the Russian Far East is presented in Table 1.

[Insert Table 1]

The regional government attempted to create three SEZs: Free Port ‘Sovetskaya Gavan’ in 2009 (Khabarovsk Krai), tourist and recreation economic zone ‘Russky’ SEZ in 2010, and the industrial and manufacturing SEZ based on the automobile cluster in Vladivostok in 2014 (both in the Primorsky Krai). The idea of creating a free port zone was perceived as a failure. The underlying cause was the economic crisis in 2008. The requirements for the cost of investment projects in the port area were high. As a result, and not a single tenant was attracted to the industrial and tourist and recreation zones. In 2016, both of these zones were liquidated following the conditions for the early termination of the SEZs. Also, Vladivostok SEZ faced competition from the TDZs because the benefits provided to investors in the TDZs were more appealing than in the SEZ (Table 2). As a result, no official residents were registered in Vladivostok SEZ.

[Insert Table 2]

Prospects of Local Economic Zones in the Far East of Russia

Failures with the SEZs did not reduce the enthusiasm of the Ministry of Economic Development. In 2011, it made a new attempt to create TDZs. Unlike the SEZs, TDZs could have been created in one or several regions with decreasing economic trend. The federal government monitored the selection process of such regions and approved five of them (Table 1). In contrast to the SEZs, TDZs were not specialised. Developers planned to attract investors from various industry

sectors. The simultaneous creation of TDZ and SEZ in the territory of one municipality was not allowed. The regional government managed TDZ, whereas SEZ was by the managing company. State support policies in the TDZs were much weaker than in the SEZs (see Table 2). Besides, these measures were not recorded in the relevant legalisation. Thus, tax incentives for TDZ tenants, in contrast to the SEZ, were not enshrined in the Tax Code of Russia, which cast doubt on their implementation by the federal centre. As a result, only in the Amur Region and Kamchatsky Krai, preparatory work was carried out to create TDZs. However, in reality, not a single one in the Far East was formed. Both TDZ and SEZ have not become effective tools to support the economy of the FER. So, the government had more hopes in accelerating of socio-economic development of the region with TASED and VFP projects.

Vladivostok Free Port. The idea of creating a VFP occurred and acquired legislative features in a short time straight after the Eastern International Economic Conference in 2015. Such a rush did not allow the successful implementation of the original concept of the free port in the contemporary economic and political circumstances of the 21st century. A year later, the law was extended to sixteen municipalities of the Primorsky Krai and four of the FER (see Table 1), including four ports and their waters, e.g. Vanino, Petropavlovsk-Kamchatsky, Korsakovo, Pevek. Difficulties in the implementation of Federal Law №212 “On the Free Port of Vladivostok” began with the uncertainty of the concept of a ‘free port’. In world practice, a free port is the territory of the port with its berths, warehouses, utility rooms and adjacent water area, not included the customs territory of the country. The functioning of the free port is based on the complete or partial absence of customs duties and taxes, a preferential regime for the import, export, and re-export of goods (Chiu et al., 2011; Schrank, 2001).

In Russia, under the free port, there is a part of the territory of the Primorsky Krai, on which measures of state support for entrepreneurial activity are established (Nikolaev and Grigoryeva, 2016). This raises the concern if VFP is different from SEZ and TDZ, in which the government provides financial support too. According to the Federal Law №212, VFP is created for a period of 70 years. This is the longest among other economic zones (Table. 1). At the same time, the law does not specify what strategic task this project fulfils in the region on and how its functioning is related to the development of the entrepreneurial activity. Nothing is clarified about the stages of development of a free port for such an extended period, about the completed cycles of business processes, and implementation of investment projects. Problems of the application of the VFP are associated with the actual territory of the free port. Only the desire of state authorities that want to increase the significance of the project and count on federal

investments can explain the expansion of the VFP territory and the registration of Vanino ports (Khabarovsk region), Petropavlovsk-Kamchatsky, Korsakov (Sakhalin region) and Pevek (Chukotka region). It remains unclear how this expansion correlates with the capabilities of the federal budget for the infrastructure of these ports and what mechanism should be used to implement the initiatives of the VFP. At the moment, these issues are unresolved and leave a lot of uncertainty in legislation and practical activity; hence, for potential foreign and Russian investors. Therefore, VFP has nothing in common with the world practice of free ports.

Territories of Advanced Social and Economic Development. These initiatives are considered as the most advanced and developed among the economic zones in the FER. The core principles are based on the application of the best practices of the Asia-Pacific countries (Aggarwal, 2012; Yeung, Lee, and Kee, 2009; Zeng, 2019). They include tax incentives, low rates for paying insurance premiums, special customs regime and land use procedures, and the creation of infrastructure at the expense of the state (Table 2). In contrast to the SEZs and TDZs, TASEDs are created for big investors that have concluded preliminary agreements with the authorised federal body by clarifying the type of planned business activity, the volume of investments, and the number of jobs created. TASEDs are built for 70 years, and their lifespan can be extended, which is not provided in the SEZs (49 years) and TDZs (12 years). In the TASEDs, the development of mineral deposits and production of excisable goods are allowed, which are almost entirely prohibited in the SEZ and partially in the TDZ. The creation of industrial parks is also permitted within the boundaries of the TASEDs. Tax incentives are more significant than in the SEZs and TDZs: the special tax regime for the tenants of TASEDs allows reducing the cost of paying taxes by more than 40% in comparison with the current tax system. By 2019, 18 TASEDS have been created in the FER with 251 tenants and 42,904 jobs created.

[Table 3]

Most of the projects are designed for the local Far Eastern market with the aim of import substitution. It was expected to integrate into the Asia-Pacific region by actively sharing the resources of the Far East with foreign investors with the help of TASEDs. However, regional governments claim that the FER needed all possible investors to attract. It raises the concerns if they can create industrial clusters within the TASEDs, which can become an essential condition for the functioning and development of the international industrial network (Steiner and Ploder, 2008; Wei et al., 2016; Zhong and Tang, 2018). Institutional interactions within the national (regional) scientific and technological potential and the problems associated with their

intensification have always been an everlasting issue (Ben-Lalouna and Pearlman, 2018; Lameira et al., 2013). In Russia, the system of institutional interactions is hugely inert and prone to structural degradation (Albekov et al., 2017; Lyapina et al., 2019). In particular, the creation of powerful technological corporations capable of becoming the drivers of the innovative development is delayed indefinitely due to many reasons such as lack of investment and high-interest bank loans (Bogoviz et al., 2018; Demidova, 2015; Mau, 2017). However, developing a cluster involves forming a system of small and medium-sized companies intercepting some operations of large enterprises. A multilevel system of innovations of a new type starts taking shape in a network of institutional interactions, often going far beyond the industry, territory and even country (Delgado et al., 2016; Lee et al., 2017; Puppim de Oliveira and de Oliveira Cerqueira Fortes, 2014)

In the FER, the concept of TASEDs is based on a functional approach in organising regional management. It starts with the organisation of creating infrastructure, focusing on the production of finished products within the zone and ending with the criteria for the success of TASED activity: e.g. a number of jobs created, volume of attracted investments, etc. Dynamically developing Asia-Pacific countries are characterised by the functional and complex organisational structure of production management, in which responsibility for the release of the final product is distributed among several regions/countries (Bhutta et al., 2003; McMorrnan, 2015; Scuotto et al., 2017; Wei et al., 2016). This confirms the advantages of the process approach to the organisation of production, especially in conditions of high competition and frequent changes in business processes. Nevertheless, the proximity of TASEDs to Asia-Pacific countries is not practically considered. Therefore, the emerging focus of the Far Eastern TASEDs on domestic demand and import substitution can become a preventing factor on the export specialisation. The question remains open if Russia can create industrial clusters in the FER through the implementation of the economic zones, which will become an essential link in the country's integration into the Asian-Pacific international industrial networks.

Quantity versus Quantity

A brief analysis of territories with special economic regimes in the FER raises a legitimate question of why the Russian government needs an increasing number of those initiatives taking into account their overall similarity. There are some explanations:

- Excessive government expectations of the created tools to support the regions in the absence of quick returns;

- Substitution by the federal authorities of scrupulous work to analyse the causes of relative successes and failures by simulating intense activity by introducing more and more new zones;
- The expectations that the newly implemented policies for supporting tenants of the economic zones will be more successful than the previous ones.

Indeed, TASEDs provide tenants with more opportunities than SEZs. However, legislation on SEZ allows amendments to the law expanding the list of benefits for the tenants. The critical problem is that different ministries implement these policies (Table 1). Hence, the battle between the federal ministries for the right to access the federal budget is the main reason for the excessive variety of zones with special business conditions. In general, the set of territories with special regional regimes in the FER, and Russia as a whole, is redundant. The variety inevitably reduces the effectiveness of these policies. It replaces the analysis of these initiatives and their improvement with the introduction of new supporting programs often with the repetition of previous mistakes. Similar issues complicate the business activities for investors - it is difficult for them to comprehend the whole variety of federal legislation.

5. Conclusion

The use of territories with special economic regimes has become a priority for the state policy of spatial development in the FER (Han, 2017; Kashina, 2016; Min and Kang, 2018; Minakir and Prokapalo, 2017). Concerning their effectiveness, some points should be noted. Evaluation of the effectiveness of the state regional development policies of the FER is currently conducted only at the stage of substantiating the need for the use of these tools. Monitoring of the implementation of projects and programs is conducted based only on the allocation and development of investment resources, which is insufficient for an adequate assessment. The implementation of state regional programs is complicated by the vagueness and the lack of quantitatively measurable targets. It also significantly underfunded and lacks a strong leadership among regional governments to provide an effective mechanism for redistributing limited financial resources for implementing regional policies and achieving the stated goals.

In the FER, the problem emerges in an excessive number of different instruments of federal support for entrepreneurship in local economic zones. These are associated with inconsistency (competition) of interests between various federal ministries in the region. Excessive activity in the creation of territories with special regimes has given rise to high expectations from their implementation, treating them as a panacea. The launch of special economic zones is a long,

complicated and expensive process (Gupta, 2008; Tantri, 2016). Investments are needed for infrastructural development, which is more important than the proposed tax benefits to potential tenants (Aggarwal, 2012; Meng, 2005; Zeng, 2019). At the same time, the government should provide in-time financial support; otherwise, the benefits will be delayed or more modest than expected (Aritenang and Chandramidi, 2019; Montealegre, 2012).

It is important to note that none of the territories with special regimes in the FER has shown real evidence of the innovative activity. This has also happened due to chaotic attraction of random investors operating in different industry sectors, which have had no opportunity or incentive to cooperate. The development of business clusters is under threat, which is a crucial factor for successful regional economic growth (Delgado et al., 2014; Lazzeretti et al., 2019; Vernay et al., 2018). The regional government should focus on improving the existing economic zones instead of creating new ones and repeating previous mistakes. However, the situation in this matter is controversial. On the one hand, the Russian government continues to develop similar concepts in creating SEZ and their analogues optimising state investments and their transfer mechanisms. If different state departments support this idea, then it will be possible to simplify the existing investor support system and provide the necessary funding. On the other hand, the State Commission for the Development of the Arctic is preparing a new bill with a new type of special territories, which will be called 'reference zones'. In this regard, the issue of creating subordinate types of territories with special economic regimes for each federal structure gaining political weight remains relevant.

The limitation of the study is based on its nature. As it has been stated in the methodology section, this research involved interviewing the state authorities, which were resistant and careful with revealing certain necessary information. To minimise the problem, the author used personal networks and snowballing technique to gain access to relevant respondents for this study and obtain useful data. There are no relevant economic or financial results of these territories with special economic regimes, also due to the absence of effective assessment measures. Recommendation for further research will be the collection of the primary data from the tenants of the economic zones in the FER. It will give a better understanding of the effectiveness of the state development policies and perspectives of their further development.

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Figure 1. Types of territories with special economic regimes operating in the Far East

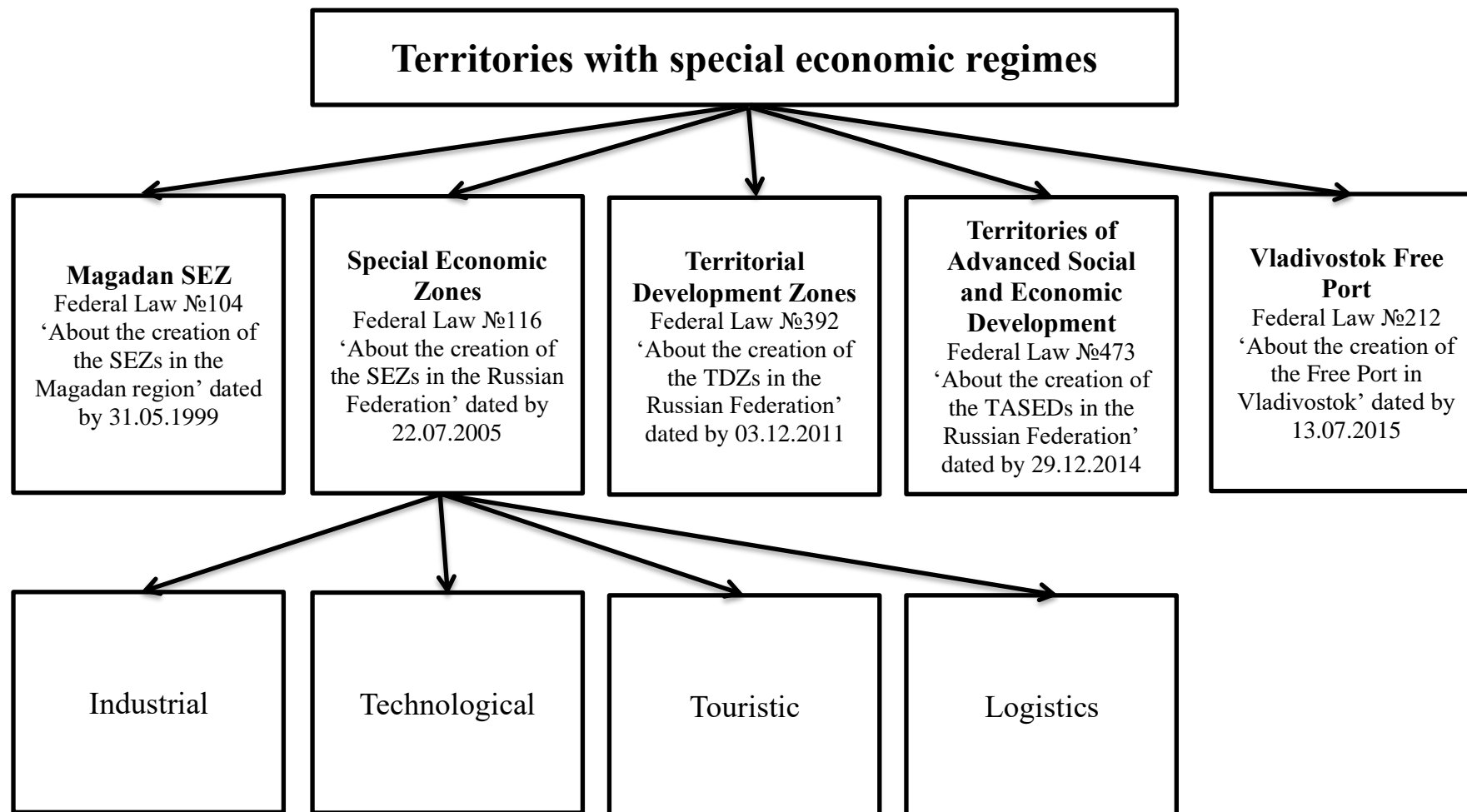


Table 1. Comparative characteristics of requirements for the territories with special economic regimes in the Far East of Russia

Parameters	Special Economic Zone (2005)	Territorial Development Zone (2011)	Territory of Advanced Social and Economic Development (2014)	Vladivostok Free Port (2015)
Authorised body	Ministry of Economic Development of the Russian Federation	Ministry of Economic Development of the Russian Federation	Ministry of Economic Development of the Russian Federation	Ministry of Economic Development of the Russian Federation
Period	49 years (without extension)	49 years (without extension)	70 years (can be extended)	
Governing bodies	Authorised Federal Body, Supervisory Board, Management Company	The Authorised Federal Body, the Regional Executive Body of State Power of the Russian Federation	Authorised Federal Body, Supervisory Board, Management Company	Authorised Federal Body, Supervisory Board, Management Company, Public Council
Early Termination Terms	The need to protect the life and health of people, protect nature and cultural values, ensure the country's defence and state security			
	<ul style="list-style-type: none"> During three years from the date of creation, not a single agreement has been signed, or all previously signed agreements have been terminated Tenants have been inactive for three years in a row 	Failure to achieve the targets specified in the agreement for assessing the effectiveness of the functioning of ZTR for a specific stage	<ul style="list-style-type: none"> No agreement is signed within three years from the date of creation All previously concluded agreements are terminated 	-
Characteristics of the territory	<ul style="list-style-type: none"> Industrial zones are established on not more than three areas within a total territory of up to 40 square kilometres Technological zones are established on not more than three areas within an entire territory of up to four square kilometres Port zones are established on the territory of up to 50 square kilometres 	<ul style="list-style-type: none"> Can be created in the Jewish Autonomous, Amur and Magadan regions, Kamchatka and Primorsky Krai Within the boundaries of one or more municipal areas, the territory of the TDZ is not restricted. 	<ul style="list-style-type: none"> Not clearly determined Can be created within the boundaries of one or several municipal areas SEZs and TDZs cannot be located on the territory of the TASED Industrial Parks can be established on the territory of the TASED 	<ul style="list-style-type: none"> 16 municipalities of the Primorsky Krai and four municipalities in the Far Eastern regions of Russia (e.g. Vaninskoe, Petropavlovsk-Kamchatsky, Korsakovsky, Pevek), including water areas of seaports located on their territories It does not include SEZ, TDZ, and TASED
Tenants	Legal entities, except for state and municipal unitary enterprises	Legal entities, except for natural monopolies, state and municipal unitary enterprises	Legal entities exception for state and municipal unitary enterprises	
	Individual entrepreneurs / self-employed (only in the technology-innovative and tourist-recreational zones)	Individual entrepreneur / self-employed		
Tenant requirements	<ul style="list-style-type: none"> Registration of the tenant on the territory of the municipal region where the SEZ is established It is prohibited to have branches outside the SEZ The minimum amount of capital investments for the tenants within the industrial SEZ is more than 2 million US dollars, for a port SEZ is 2 –6,3 million US dollars*. 	Registration of the tenant on the territory of the municipal region where the TDZ is established	<ul style="list-style-type: none"> Registration of the tenant on the territory of the municipal region where the TASED is established It is prohibited to have branches outside the TASED The minimum amount of capital investment for the tenants is determined individually by the TASED 	Criteria for the selection of potential tenants for the VFP are determined by the Government of the Russian Federation
Prohibited activities	<ul style="list-style-type: none"> Development of mineral deposits, except for mineral water deposits and other natural and medicinal resources. Production of excisable goods (except motorcycles and cars) 	<ul style="list-style-type: none"> Production of excisable goods (except motorcycles and cars). Extraction of oil, gas, precious metals, stones, and their processing Trade. Financial activities Non-ferrous and ferrous metal scrap processing 	The list of activities within the framework of special economic and legal regime is approved by the federal government on the creation of the TASED	The types of activities that the tenants are not entitled to carry out are determined by the decision of the Supervisory Board of the VFP

Source: Created by the author using data and various regulatory documents from the Consultant Plus: <http://www.consultant.ru/>

* - US\$1 equals 62.7 rubles, which was an average exchange rate during 2018 according to the Central Bank of Russia

Table 2. Benefits granted to the tenants based in the territories with special economic regimes in the Far East of Russia

Privileges	Special Economic Zone	Territorial Development Zone	Territory of Advanced Social and Economic Development	Vladivostok Free Port
Free customs zone	Yes	No	Yes	Yes
Tax incentives for the tenants	<ul style="list-style-type: none"> • The reduced income tax rate is credited to the budgets of the region where the SEZ is established • Transport tax preferences depending on the region • Exemption from property tax for the period of five to ten years depending on the zone. • Land tax exception for the period of five to ten years depending on the zone 	Tax incentives and investment tax credit under the legislation on taxes and fees	<ul style="list-style-type: none"> • Mineral resources extraction tax - 0% during the first four years, with a gradual increase to 100% • Income tax is not more than 5% in the first five years, not less than 10% in the subsequent five years • Property tax and land tax may be exempted depending on the region • Social contributions - 7.6% in the first ten years 	<ul style="list-style-type: none"> • 7.6% - the total amount of insurance premiums for ten years • 5% - income tax (0% to the federal budget and not more than 5% to the regional) • 0% - land tax for five years. • 0% - property tax for the first five years and 0,5% for the next five years • Ten days - accelerated VAT refund
Additional preferences for the tenants	Additional benefits depending on the type of zone: e.g. access to state financial support, brownfield opportunities, proximity to industrial parks	<ul style="list-style-type: none"> • Provision of budgetary appropriations from the Investment Fund of the Russian Federation. • Creation of capital construction projects in the field of energy and transport. • Leasing of land plots from state or municipal ownership within the boundaries of TDZ 	<ul style="list-style-type: none"> • Preferential connection to the utilities and infrastructure • Preferential and expedited procedure for attracting qualified foreign personnel • Preferential rental rates • A special procedure for conducting state control and municipal supervision 	<ul style="list-style-type: none"> • Reduced time for conducting verification checks - up to 15 days • Reduced time for obtaining permits for construction processes - up to 40 days • Simplified visa regime: obtaining an electronic 8-day visa at the border, which will be viable for 30 days

Source: Created by the author using data and various regulatory documents from the Consultant Plus: <http://www.consultant.ru/>

Table 3. Territories of Advanced Social and Economic Development in the Far East of Russia in 2019

Region	Name	Specialisation	Number of tenants
Primorsky Krai	Neftehimicheckiy	Petrochemistry, oil refining, and industrial production	1
	Michailovskiy	Agriculture	11
	Nadezhdinskaya	Manufacturing, logistics, and agriculture	39
	Bolshoy Kamen	Shipbuilding, tourism	15
Khabarovsk Krai	Komsomolsk	Production of components for aircraft	20
	Khabarovsk	Industrial and logistics, agriculture, metallurgical production	29
	Nikolaevsk	Logistics, fishing and fish farming, shipbuilding	5
Jewish Autonomous Region	Amuro-Khinganskaya	Mechanical engineering, woodworking, metalworking, food industry, tourism and recreation	4
Amur Region	Belogorsk	Agriculture, food production	5
	Priamurskaya	Industrial and logistics	6
	Svobodniy	Petrochemistry	3
Sakhalin Region	Gorniy Vozduh	Tourism	13
	Yuzhnaya	Agriculture, tourism	4
Kamchatsky Krai	Kamchatka	Tourism, industrial and logistics, agriculture, fishing and fish farming	51
Sakha Republic (Yakutia)	Kangalassy	Industrial (manufacturing of chemical, plastic and rubber products), crop production and livestock	12
	Yuzhnaya Yakutia	Coal mining, logistics	7
Chukotka Autonomous Region	Beringovskiy	Mining, fishing	25
Kuril Islands	Kurily	Fishing and fish farming	1
Total	16		251

Source: Created by the author using data sourced from the official website of the Ministry for the Development of the Russian Far East: <https://minvr.ru/activity/territorii-operezhayushchego-razvitiya/>