Potential of the Advanced Special Economic Zones as local growth poles in the Russian Far East

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Abstract. The Advanced Special Economic Zones (ASEZ) are a relatively new local instrument for implementing the state regional policy in relation to the Russian Far East, aimed at local selective support of the regions and the development of export-oriented sectors of the economy. The management of ASEZ is managed by the Far East Development Corporation (FEDC), which provides residents with a full range of consulting and organizational services, carries out infrastructure construction and examines applications from potential investors for obtaining resident status in the zone. Statistics of the number of residents of ASEZ are based on registries compiled by the FEDC. The total number of ASEZ residents in the Far East shows a positive trend - 331 residents in 18 ASEZ in eight territories of the Far East in early 2019. An analysis of residents by territories and industries revealed the attractiveness of ASEZ established near major cities and the propensity to develop the services sector. There was no apparent orientation of residents of the Far Eastern ASEZ on the production of export products. It is shown that the enthusiasm for the creation of advanced development areas in the Far East has created inflated expectations from their implementation. At the same time, none of the ASEZ created in the Far East demonstrated the real effect of the diffusion of innovations. The analysis of the results of creating ASEZ is aggravated by the lack of information and methods for assessing the role of administrative preferences provided by the territorial authorities for the implementation of regional projects. In order to properly assess the effectiveness of the functioning of Advanced Special Economic Zones, it is necessary to conduct additional research, which is currently hampered by the lack of information in the registers of ASEZ residents on the scale of their business (investment volume, number of employees, expected and actual production or sales).

1. Introduction

In an annual message to the Federal Assembly of December 12, 2013, President Vladimir Putin said that the development of the Far East is a national priority for the entire 21st century. Historically, two approaches to the development of the Far East have been formed: state paternalism and the promotion of private investment. The rapid economic growth of the beginning of the century was supported by significant federal investments. But the loss after the crisis of 2007-2009 financial opportunities for large-scale infrastructure development in the region made the federal government rethink its regional development financing strategy, relying on private investment [1; 2].

To successfully achieve the postulated targets for the Far East, the federal center tried to shift the focus in the development of the region to the formation of effective economic institutions and an environment conducive to the functioning of investors. In addition to the state program “The Far East and
the Baikal Region”, to solve the problem of attracting investments and technologies to the region, the Government of the Russian Federation chose to use special legal regimes for doing business within individual territorial entities of different levels, when accelerated economic growth at selected points should be achieved by providing the business with particularly advantageous business conditions localized at specific locations. It was assumed that the waves from such an economic recovery, according to the concept of “diffusion of innovations”, should inevitably spread beyond the local territories (“points of growth”).

Since December 2014, the federal government of Russia is introducing a new tool to attract private investment in the region, - “Advanced Special Economic Zones” (ASEZ) [3].

The basic principles of creating ASEZ are based on the application of the theory of "growth points" [4-6] and use of the best practices of the Asia-Pacific Region (APR) countries and include tax breaks, low rates for the payment of insurance premiums, a special customs regime and land use procedures, and the creation of infrastructure at the expense of the state. According to the general concept, ASEZ are similar to special economic zones (SEZ), but unlike SEZ, they are created for large investors who have entered into preliminary agreements with an authorized federal agency that define the type of planned economic activity, the amount of investment and the number of jobs created. ASEZ are created for 70 years, their life can be extended, which is not provided for the SEZ (49 years). In the ASEZ, it is permitted to conduct the development of mineral deposits and produce excisable goods, which is almost completely prohibited in the SEZ. Within the borders of ASEZ, it is allowed to create industrial parks. Tax benefits here are more significant than in the SEZ [7].

There are significant expectations that ASEZ will play a positive role in the development of the Far East, since the special tax regime for residents of ASEZ allows reducing the cost of paying taxes by more than 40% compared to the current tax system. [8, p. 577]. At the same time, there is a risk that this new tool may not be sufficiently effective [9, 10]. Therefore, empirical studies of the functioning of SEZ are important, both from an academic and from a practical points of view.

The ASEZ management body is the Far East Development Corporation specially created to manage the territories of priority development. FEDC works with both existing and potential residents of the ASEZ, providing them with a full range of consulting and organizational services, reviewing applications from potential investors for obtaining the status of a PDA resident and providing land plots and building infrastructure.

2. Statistical information and research methods
In the framework of comparison were used general scientific research methods, logical, statistical and structural analysis. As part of the research being carried out, static information is grouped from the register of residents of the ASEZ, which is maintained by the Far East Development Corporation. The information recorded in the register refers to the priority activities permitted to be held in the ASEZ and the number of residents of the ASEZ. At the same time, the register does not contain information on the scale of the business (the volume of investments, the number of personnel, the expected and actual production or sales). The analysis of the results of creating ASEZ is aggravated by the lack of information and methods for assessing the role of administrative preferences provided by the territorial authorities for the implementation of regional projects.

3. Features of ASEZ as a tool for territorial development
Signed on December 29, 2014, the Law about the territories of advanced socio-economic development [3] implies the creation of ASEZ on the territory of any constituent entities of the Federation. However, at the initial stage of its implementation, covering the first three years of the implementation of the concept of ASEZ, it was planned to create local zones only in the Far Eastern Federal District. At the same time, it is postulated that the borders of ASEZ cannot fully include the subjects of the federation, but should cover the separate sites to which the privileges fixed by the Law will apply. According to the Law, the territory of advanced development is created for 70 years, and its term of existence can be extended.
For enterprises registered in the ASEZ, the Law introduced a system of various tax benefits and preferences, characterized by greater breadth and attractiveness than for residents of special economic zones:

- reduction in the rate of income tax (0-5% during the first 5 years after receiving the first profit);
- reduction of the mineral extraction tax rate;
- exemption from property and land taxes;
- reduction in the rates of compulsory payments for insurance premiums to 7.6% within 10 years from the date of receipt of resident status.

In the territories of advanced socio-economic development, there is also a facilitated regime for attracting foreign labor: no work permit is required, and quotas for attracted labor are not valid. There are no duties on any imported goods imported for production needs. Residents of ASEZ can only be newly created enterprises that do not have branches and representative offices outside the territory of advanced development. Thus, the transfer of activities of existing enterprises to the territory of ASEZ is impossible.

In fact, the Advanced Special Economic Zones have their own specific specialization, since the Government approves the list of types of economic activity that residents can engage in within the framework of the ASEZ.

4. Dynamics of creation ASEZ in the Far East

The first three ASEZ were created in the Far East in June 2015 (Khabarovskaya and Komsomolskaya in the Khabarovsk Territory and Nadezhinskaya in the Primorsky Territory). In the period from August 2015 to August 2017, 15 more ASEZ were established in 8 Far Eastern regions of the Federation. Although, since August 2017, new Advanced Special Economic Zones were not created in the region, by the beginning of 2019, 18 ASEZ were functioning in the Far East (Table 1), and the total number of active residents in the zones reached 332 (Table 2).

As can be seen from the data of Table 1, the first of the created ASEZ can be characterized as “complex”, since the total number of types of activities, which have a special legal regime for doing business in these zones, was 50-53. Since 2016, the federal government has changed the policy of creating ASEZ, focusing on “narrow-profile” zones, where the number of permitted activities ranges from 5 to 23. True, ASEZ "Yuzhnaia Yakutia" and "Neftekhimicheskaya " declare a wider profile than others, but at the same time have the smallest number of residents by 1.1.2019.

**Table 1. Characteristics of the Advanced Special Economic Zones (ASEZ) established in the Far East (as of 01.01.2019)**

| Region            | Title of ASEZ          | Date of creation | Specialization of ASEZ                  | Priority activities* (number) |
|-------------------|------------------------|------------------|-----------------------------------------|------------------------------|
| Primorsky Territory | Nadezhinskaya          | 25.06.2015       | industrial and logistic, food, agriculture | 53                           |
|                    | Mikhailovskaya         | 21.08.2015       | agriculture                              | 53                           |
|                    | BolshoyKamen           | 28.01.2016       | shipbuilding, tourism                    | 51                           |
|                    | Neftekhimicheskaya     | 07.03.2017       | oil refining                             | 33                           |
| Khabarovsk Territory | Komsomolsk            | 25.06.2015       | industrial, production of components for aircraft | 53                           |
|                    | Khabarovsk             | 25.06.2015       | industrial and logistic, agriculture, metallurgical production | 53                           |
|                    | Nikolaevsk             | 19.04.2017       | ship repair, processing of aquatic bio resources, mining | 7                            |
| Jewish Aut-        | Amuro-                 | 27.08.2016       | mining, tourism, light and food indus- | 13                           |
nomous Region | Region | Title of ASEZ | The registered number of residents of the zone since the formation of the ASEZ | The number of terminated agreements since the formation of the ASEZ | The number of active residents of ASEZ
--- | --- | --- | --- | --- | ---
Amur region | Belogorsk | 21.08.2015 | agriculture, food production | 53 |
Priamurskaya | 21.08.2015 | industrial and logistic | 55 |
Svobodny | 3.06.2017 | gas processing plant, petrochemical industry | 20 | Sakhalin region | Gorny Vozdugh | 17.03.2016 | tourism | 16 |
Yuzhnaya | 17.03.2016 | agriculture, food production, tourism | 23 |
Kuril | 23.08.2017 | fish industry, mariculture, tourism | 6 | Kamchatka Territory | Kamchatka | 28.08.2015 | tourist, industrial and logistic, agriculture, fishing and fish farming | 50 | The Republic of Sakha (Yakutia) | Kangalassy (Industrial Park) | 21.08.2015 | industrial (production of chemical, plastic and rubber products), crop production and animal breeding | 51 |
Yuzhnaya Yakutia | 28.12.2016 | mining, extraction and processing of coking coal | 33 |
Beringovsky | 21.08.2015 | mining, fishing | 47 | Total | | | | 670 |

*) – economic activities in the implementation of which there is a special legal regime for entrepreneurial activities in the Advanced Special Economic Zones.
Source: compiled by [11]

5. Dynamics and structure of residents in ASEZ
Development Corporation is an executive corporation acting on behalf of the government. According to the regulations, either the FEDC or the resident can terminate the contract. Table 2 presents statistical data including both current and former residents of ASEZ. Total for the period from 2015 to the beginning of 2019 363 residents were registered, but the “mortality” of ASEZ residents during this time exceeded 8.5% (contracts for one reason or another were terminated with 31 residents).

| Region | Title of ASEZ | The registered number of residents of the zone since the formation of the ASEZ | The number of terminated agreements since the formation of the ASEZ | The number of active residents of ASEZ |
| --- | --- | --- | --- | --- |
| Primorskiy Territory | Nadezhdinskaya | 53 | 7 | 46 |
| Mikhailovskaya | 13 | 1 | 12 |
| BolshoyKamen | 21 | 3 | 18 |
| Neftekhimicheskaya | 1 | | 1 |
| Khabarovsk Territory | Komsomolsk | 30 | 5 | 25 |
| Khabarovsk | 36 | 7 | 29 |
| Nikolaevsk | 6 | | 6 |
| Jewish Autonomous Region | Amuro-Hinganskaya | 5 | | 5 |
| Amur region | Belogorsk | 7 | 1 | 6 |
| Priamurskaya | 7 | 1 | 6 |
| Svobodny | 4 | | 4 |
| Sakhalin region | Gorny Vozdugh | 21 | | 21 |
| Yuzhnaya | 8 | | 8 |
| Kuril | 1 | | 1 |
| Kamchatka Territory | Kamchatka | 80 | 4 | 76 |
Investor activity varies significantly by area. ASEZ "Kamchatka" is the largest among all zones in terms of the number of residents (76 residents), followed by "Nadezhdinskaya" (46), "Beringovsky" (39), "Khabarovsk" (29), "Komsomolsk" (25) and "GornyVozdukh" (21). Among the smallest in terms of the number of residents are the ASEZ "Neftekhimicheskaya" and "Kurily", each of which currently has one resident.

Registries contain data on the economic activities of residents, which allow to evaluate the sectoral structure of the economic complex that is being formed in the zones. According to the Regulation on the FEDC, an investor who wants to become a resident of ASEZ must determine the types of business that he wants to perform with resident status. FEDC considers the application and approves all or part of the requested residents of potential activities, which, ultimately, are specified in the investment agreement between the FEDC and the investor (resident).

Table 1 shows the number of types of economic activities that are allowed to be carried out in each of the ASEZ. Since one resident can carry out several types of economic activities, the cumulative number of registered types of economic activities (total for 18 zones is 670) is 2 times the total number of registered residents (332).

6. Discussion
First, there is a significant discrepancy between the ASEZ in the number of registered residents. There are several factors that can explain the difference. On the one hand, the five largest in terms of the number of ASEZ residents were founded in 2015 and have a longer history than those created later. On the other hand, "integrated ASEZ", in which it is permitted to conduct a larger number of types of economic activity, objectively attracts more residents, since it is open to a larger number of entrepreneurs. It is not by chance that the above five largest in terms of the number of residents of the ASEZ are "integrated" zones.

Secondly, in the case of large ASEZ like "Nadezhdinskaya", "Khabarovsk" and "Komsomolsk", it seems that the proximity to large cities can positively influence the number of residents (ASEZ "Nadezhdinskaya" is in the suburb of Vladivostok, and "Khabarovskaya" and "Komsomolskaya" located in the largest cities of the Khabarovsk Territory). True, this hypothesis runs counter to the leadership of the ASEZ Kamchatka in terms of the number of residents among all the Advanced Special Economic Zones of the Far East.

Thirdly, the analysis of the specialization of the created ASEZ (Table 1) shows that most of the projects are designed for the local Far Eastern market or the organization of import substitution. Considering the attention paid by federal authorities to the Far Eastern ASEZ, it is logical to assume that through this tool it was expected to integrate into the economy of the Asia-Pacific Region by actively sharing the resources of the Far East with foreign investors.

The emerging specialization of the Far Eastern ASEZ, supported by statements by representatives of federal authorities that "the Far East needs all investors in a row" [12], raises doubts that the Russian Government will be able to create an industrial cluster in the ASEZ, which may become an important condition for the functioning and development of the international Asia Pacific Industrial Network.
In Russia, the idea of advanced development areas, as it is being implemented, is based on a functional approach to organizing regional management, starting with the organization of creating infrastructure, focusing on finished product production within the zone and ending with the criteria for success of ASEZ (the number of jobs created, volume of attracted investments, etc.). At the same time, the proximity of the Far Eastern ASEZ to the dynamically developing countries of the Asia-Pacific region (APR), which are characterized not by a functional, but by a complex organizational structure of production management, within which responsibility for the release of the final product is distributed among several countries (regions), is practically not taken into account. In the APR over the past 10 years, international industrial relations have been able to significantly change the structure of trade. For example, between the Republic of Korea and the PRC in the last decade, the share of intra-industry trade, especially industrial goods and intermediate products, has significantly increased [13, p.12-13]. This confirms the advantages of the process approach to the organization of production, especially in conditions of high competition and frequent changes in business processes. Therefore, objectively emerging focus of the Far Eastern ASEZ on domestic demand and import substitution can become a brake on their export specialization, and the question whether the Russian Federation can create an industrial cluster on the APR, which will become an important part of the country's integration into international industrial networks of the Asia-Pacific region, remains open.

7. Conclusion
The paper attempts to assess the results of the creation and operation of ASEZ in the Far East, which act as one of the instruments for attracting private investment in the specified areas of Russia. In general, statistics on the total number of residents of ASEZ demonstrate a positive trend, and the territorial and sectoral structures of ASEZ residents demonstrate a number of specific features, which include the attractiveness of “complex” ASEZ located near major cities. Explicit export orientation in the framework of this assessment from the point of view of the industrial structure of residents can not be identified.

It seems that to rely on the effect of the use of special business regimes is possible only when such a mechanism is used in local small-scale territories. The launch of special modes is a long, complicated and expensive process [14; 15]. This is a piece of goods! In the Far East, the approach to its implementation is widespread. But in addition to the allocation of territory under the local zone, a favorable business environment should be formed on the territory [16], infrastructure investments are needed. This is often more important for residents than the tax benefits offered. At the same time, it is necessary to invest now and a lot, and the effect, if it is, is delayed in time and may turn out to be much more modest than expected.

It is important that created as the development of the concept of spatial development on the basis of "points of growth", none of the local territories with special regimes in the Far East has at this time demonstrated real evidence of the effect of diffusion of innovations [7]. Rather, it can be assumed that in the conditions of a shortage of investment and labor resources in economically rarefied spaces of the Far East, local zones will act like “vacuum cleaners” drawing in labor and other resources from the surrounding territories.

It should be noted that the assessment is preliminary in nature and was obtained only on the basis of the statistics of the number of residents based on registries compiled by the FEDC. In order to properly assess the efficiency of creating ASEZ, it is necessary to conduct additional research, which is hampered by the absence in the registers of information on the scale of the business of ASEZ residents (investment, number of employees, expected and actual production or sales, etc.)

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