



## **Economic Zones as a Factor of Increased Economic Competitiveness of the Region**

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### **ABSTRACT**

One of the most promising and effective ways to raise state and foreign investment holdings for further development of economic potential and opportunities of the region, promoting innovative development and transformation of the region, its economic system there can be formation and development of special economic zones (SEZ). This dynamics of economic zones assumes their further development in the structure of the region as a center of industrial and innovative cluster development which operation is a driving force promoting the domestic economic system on the way of its modernization and advance. Each economy of the region possesses specific peculiarities of available resource and potential development, and also conducts its own policy of development of innovative enterprises, companies and other organizations. All inherent distinctive features and potentials of economic development of the region allow to qualify this or that region as the most competitive one. The paper considers SEZ of regions of the Russian Federation, their development in the modern conditions of world fluctuations. It reveals the main problems in the field of realization and introduction of SEZ, and the ways of their elimination. The paper also describes priorities for of economic zone realization efficiency their further development both in economy of the region, being a factor of increased competitive advantages, and in the whole state.

**Keywords:** Region, Special Economic Zone, Innovation, Cluster, Competitiveness

**JEL Classifications:** O30, O40, G29

### **1. INTRODUCTION**

Now, economic integration processes, interregional ties at different territorial levels between certain states and their groups, between regions within national borders become more acute. Invariable initiative interaction between subjects of the Russian Federation presents special distinctive potential, having 17 million km<sup>2</sup> at its command during the whole historical development.

Transition from planned and distributive, directive economy to market-driven economy forces the system to bear down on the issue of interregional economic ties of their interaction, and also development of competitive advantages which promote further progressive of productive potential bootstrapping in a different way. First of all, it is determined by development of economic independence of economic regions of the Russian Federation and

their economic systems, their opportunity to accept and implement independent economic resolutions.

Formation and carrying out of activities of an economic zone of the region is one of the important principles of economic potential operation of the region. A special economic zones (SEZ) represents a factor of accelerated economic growth due to activation of the commodity turnover, investment mobilization, an exchange of technologies, information, deeper integration economic processes.

In fact, SEZ act as the poles of economic growth and, therefore, express great social economic impact both on regions of their operation, and the whole economic system of the state.

Since the beginning of the XXI century SEZ gained a global character, having taken possession of many countries of world

powers. Nowadays, there are many various concepts of a SEZ, but the most capacious and accepted is the author one. SEZ are a part of national economic space where domestic and foreign businessmen have such a system of privileges and incentives that on the basis of the latest technologies allows to form priority branches of the economic system of the region capable, in its turn, to supply production and delivery of high-quality goods to the market of world powers and successful building of the social and economic sphere of its regional location.

## 2. MATERIALS AND METHODS

Methodology of the research is constructed by using a dialectic method, systemic and strategic approaches to analyzed objects. The scientific provisions, conclusions and recommendations made in the paper are based on use of a set of methods of historical and logical analysis, comparison and synthesis, induction and deduction, economics and statistics method and scientific assessments.

Informational background of the research was made by the laws of the Russian Federation, official publications of the state statistics, social and labor relationship management bodies in the sphere of policy of the SEZ organization and development, territorial sector, the International Labor Organization, thematic collections and reference books, data published in scientific magazines and periodicals, internet resources.

The paper takes account of data characterizing tendencies of development of SEZ in innovative policy of the state and region, marketing of research both of external and domestic market outlets of products of a new generation and new modernized technologies.

## 3. DISCUSSION

On the basis of legislative base of the Russian Federation a SEZ is a part of the territory of the Russian Federation determined by the Government of the Russian Federation where there is a specific regime of carrying out of business activities, the main objective of this structure realization is development of manufacturing industries of the economic system, high-tech industries, production of the latest series of products, transport infrastructure, and also tourism and the health resort sphere (Zimenkov, 2014).

On the basis of SEZ operation, to increase competitiveness and attract the greatest number of potential investors, a special regime of realization of enterprises' commercial activities of the region operates:

- Investors acquire the infrastructure constructed at the expense of financial grants of the state budget for business activity development that allows to reduce for the latest productive process development;
- On the basis of an operating regime of a free customs area residents get significant customs privileges;
- A number of tax preferences is given;
- Financial preferences were formulated, first of all, by a

preferential rent for the plots of land given to be consumed by an investor;

- One window administration system assuming allows to simplify the system of relationship with public authorities (Ivchenko, 2013; Novoselova et al., 2015).

On the basis of the provisions of the Federal Law "On SEZ" in the territory of the Russian Federation zones, belonging to the main 4 types such as industrial production, technology development, tourism/recreation and port can be formed and conduct their activity.

The first type - An industrial production zone is used in the field of launching and production of competitive commodities, having distinctive features of quality to saturate the state consumer market launching of commodities, having the ability to compete in the world market.

The second type - Technology development zones are mostly used in the process of scientific product development and innovative process stimulation in them. Development and formation of the latest "breakthrough ideas" is the main objective of operation of these zones, and their further realization allows to involve commodities into the large-scale process from pilot one that stimulates its advance in the Russian market, thereby modernizing the economic system of the state.

The third type - Tourism/recreation zones. The process of their development consists in increased competitive features of activities connected with tourism industry, the main stages of development and change of wellness complexes, development of a number of activities focused on consumption of natural medical resources. One of the significant differences of these SEZs from two previous types is that they focus not on the productive process, but on provision and rendering of services to society. However, it should be noted that some tourism recreational zones in the territory of the Russian Federation are located in unique, ecologically important districts and specialize their primary activities on a commercial basis in the sphere of tourism that in its turn is not dangerous, does not hurt and pollute the environment with its emissions.

These tourism recreational zones are generally defined as an ecologically economic region or district (a zone of stable development). In the territory of these zones experimental tests of the latest economic adaptation of proper natural use and balanced invariable development, safe for the ecological sphere are conducted.

The fourth type - A port zone, their mission was thought by legislative base as a center of system modifying of an adverse climate of economic processes for industries connected not with raw production especially it concerns the sphere of logistics. At the same time due to increased transshipment opportunities attraction of additional cargo streams to ports of is supposed, thereby, it promotes increased integration of the Russian Federation into economy of world powers, and also distribution of the world output and financial mean flows into a focus of Russian interests. The need for port zone development is proved by the fact that

the Russian Federation is the longest maritime boundaries in the world community, but despite such an advantage the territory is greatly lagging behind a number of maritime powers on port economy work utility.

The main distinctive results of SEZ' work are noted in the last 6 years. At this time, construction and start of 24 zones of the newest type took part, these achievements were won due to partial solution of the issues which are characteristic for realization of SEZ in the 1<sup>st</sup> year of development of the domestic economic system.

But, despite the fact that in recent years development of SEZ have the positive dynamics, there are also quite complicated issues which slow down development of these zones in the territory of our state.

The main problems which interfere with advance of SEZ and slow down all processes in our country concern the following matters:

- Not all problems which were characteristic for the time of development of SEZ in 2000s have their final solution, especially it concerns legislative base, infrastructure development;
- Insufficient rendering of preferential policy and privileges - this direction has one of the negative impacts on development of SEZ in the territory of the Russian Federation;
- Minimum attraction of foreign investments which will come to development and formation of economic zones, thereby, it reflects a minimum indicator of the export output volume released by SEZ - these low indicators are formed because of insufficiently created policy of preferential support.

Programs of the prospects of development and future improvement of SEZ in the system of economic processes of the Russian Federation depends on a continuous modernization and increased efficiency of legislative base of the state in the area of development and work of SEZ, and also on the basis of the most acceptable ways of check over its implementation (Rylov et al., 2016).

Now, there is a task that should be solved as soon as possible that is simplified administration of SEZs, it is necessary to eliminate double functions of control authorities, government bodies. Execution of the one window system is welcomed and expected.

One of the important issues that also does not fall on deaf ears consists in development of the regulations of supervisory authorities' and administration bodies' operation directly in SEZ, there is the need also to predetermine the limits of their competences, the sequence of activities in various cases of appeals, to designate a training order, to develop the main functional and duty regulations of all employees engaged in this sphere.

This policy of changes will allow to carry out SEZ' activities step-by-step, quick, and that the most important is informed for residents. Positive solution of all these problems and issues concerning operation will allow SEZ to become owners of a key competitive advantage that is quite important than various zone preferences in the territory of the Russian Federation.

The key issue that demands urgent invasion concerns attractiveness of an investment shape and forming climate of investor policy that was developed in domestic SEZ now is a thorough question. The minimum volume of privileges which are provided to residents by the state, is obvious in comparative analysis with industrial world powers - The significant lack of statutory SEZ, and exactly that leads to commercial organizations' unwillingness to deposit financial means and to participate in economic zone development.

But according to many participants of SEZ activities, it is considered that the level of state influence on advance and support to residents must be various for everybody, this policy has to be conducted differentially depending on time terms and total amount of investments, a share of spent means made in the territory of SEZ, importance and priority of a project realized by a resident of a zone for increased economic competitiveness of the region and then of the country in general.

This approach in rendering methods of solution for intended issues (Silnov, 2016), which have influence on financial means of foreign investors, is characterized by the small export volume from SEZ, and the use of its ways will have impact on investors for more volume demonstration of interests towards SEZ, thereby, it contributes to increased competitive features in economy of the region, its financial operations, development of innovative projects and output, for sale and consumption not only by a domestic consumer, but also the world society.

SEZ of the state proved their potential and efficiency being the members of many world powers. SEZ have great impact not only on the economic structure of a certain analyzed region of the Russian Federation, but also on all state economic processes of operation and the productive process (Verstina et al., 2015). Having some influence and certain arrangements with foreign investors, managers of many structures and enterprises of SEZ support both the productive process and output and the control system of personnel resources on level with foreign companies. Also SEZ of the region supply "effect of training" for domestic employees. All economic zones speed up restructuring from closed economy to open one in the region and the whole state in general.

Also development and creation of SEZ can be considered in the state as a method of solution of difficulties of regions with low population or depressive ones, having low economic development of their main operation processes.

There are two successful ways of SEZ work. The first way consists in quite planned initial stage of development, the second way means flexibility of policy of the head in work with the personnel.

Changeable tendencies of development of economic processes of the state which are shown in competitive qualities of corporations, continuous changes of currency rates, have significant influence on economic zone development and reciprocal response to external factors of influences.

Favorable conditions in the sphere of socio-economic development, obtained in the course of creation and operation of economic

zones, are sufficient and powerful. The main matter of activities of these zones is that their activities is focused not only on the world consumer market, but also on the regional market, thereby increasing the quality of turned out products and providing the high level of the region.

Society of economic zones of the region and territory of its operation plays the necessary role in commercial activities of the area or in concentration of interest on development of this or that sector of the economic sphere.

And also, SEZ development is interconnected, as a rule, with significant financial receipts and previous considerable efforts of the Russian Federation on their bootstrapping and development. Without severe central support they are almost impractical.

#### 4. RESULTS

Drawing a general inference from mentioned offers, it can be said that formation and further development of SEZ in the territory of the Russian Federation demands to increase the volume of preferential policy, to carry out activation of the infrastructure of regions and its provision of the necessary facilities, to improve a mechanism of administrative policy of the region, to increase efficiency of the government actions and to assign the majority of functions to local authorities of the region.

This improvement policy will promote the increased volume of annual private investments into domestic economic zones of the region by 3-4 times, increasing their productive potential and competitive advantage of output products, as well as the consumer market in general, to create free jobs, thereby, to reduce unemployment of the region among the population, to increase the level and quality of life, to increase the cash inflow to the budget of the country (Acharya and Ryan, 2016).

Along with this direction of the process on formation and development of SEZ promotes decision-making of a set of problems, urgent for the state, in the sphere of stable balance and growth of economic policy, increased development of regional economy, development of foreign economic activity and world interactions with other countries to improve competitive qualities and features in the state (Shkurkin et al., 2016).

A plan of development of stable and significant legal base on development of a SEZ, the presence of an accurate program about the role of SEZ in the economic chain of the regional territory must be in the list of the main directions of policy activities. Mechanism of the structure of SEZ has to be regulated by legislative base, accurately fixed, but not by often changing resolutions of executive regional and state power.

There is the urgent issue concerning the lack of accurately expressed purposes of SEZ development which in their turn will not contradict development of economy of the region with their policy of development. Many heads see only one attractive advantage such zone development that is reaping the preferential benefit, and also partial or full deviation from tax payments. Also

there is a wrong opinion that such economic zone development in the region will help to get rid of already existing problems such as the bad condition of infrastructure, production disorder, unemployment, severe public situation. In development of an economic zone under such conditions a head does not take into account that an investor and its capital in such activities cannot be attracted as the characteristics of the area already have disadvantages of operation.

Meanwhile, as it was noted above, the system of privileges provided to an economic zone is obliged to be an instrument of execution of available comparative advantages of this region, but not a mechanism of compensation of available shortcomings or development factors which are absent here. As for domestic zones, at this stage they can attract foreign investors not by the width of fiscal privileges and even not by low cost of labor, but most likely by the prospects of development of the extensive domestic market. It has to be put in the center of specific zone projects.

Applicants for free economic zone development should not take of the largest territory under their jurisdiction as it is necessary to understand that the largest it is, the worst the enterprise success of a zone. The issue concerning reasonable restriction of initial investments on construction of production facilities for a free zone is especially urgent, considering the sharpest shortage of investment means.

It should be emphasized that solution of the questions concerning development of free economic zones to provide effective economic operation of the region must use an integrated approach. It is necessary to meet the principle of zone operation efficiency and realization of objectives of development of the main economic zone to be achieved in order they will not become the points of illicit commodity transshipment and the centers of crime (Merola, 2015).

The important objective of economic zone organization is stimulation of economy of the region or a concrete branch of production. However, the history of economic zone development has such an objective as the use of economic zones as a regional method of economic modernization in the conditions of its transition from the administrative principles of operation to market ones.

Estimating influence of development of a free zone on improved regional economy, it is necessary to consider the existence of a favorable investment climate including customs, financial, tax privileges and advantages. The whole set of applied privileges has to serve as an instrument of realization of certain advantages of the region, but not a means of compensation of absent development factors. It is important to keep in mind that not tax privileges are a decisive incentive of attraction of investments. In the modern scales of distribution of free economic zones the most important factors in this regard are investment guarantees, the quality of infrastructure, simplified administrative procedures (Becker, 2015). One of the defining moments is still political stability in the country of location of the main economic zone.

Free zones as “the points of economic growth” are attractive to the foreign capital from the point of view of tax liability, guarantees on regulatory base invariance, and also simplified bureaucratic procedures and security. They have both direct and indirect beneficial impact on economy of the region. It is an image of the region, new jobs with the possibility of new technology and new production culture training. Contributions to the budget, the possibility of receiving business services at the modern international level, production of domestic substitutes, increased export, high rates of development of the territory, declared by a free economic zone should be added.

One of the important matters which should be considered in development of the main economic zone, is a choice of directions of foreign investments. It is obvious that they can bring the positive result in case if they are directed on modernization of key branches and, of course, if they fit in fundamental state programs of economic transformations and restructuring.

Aims and ways of their achievement which are pursued in development of the main economic zone, as a rule, are identical to all countries. Russia has mostly adopted other countries' experience.

The process of development of free economic zones has to become an instrument of economic modernization and attraction of foreign investments to the country, but not a way when zone privileges become a means of hidden subsidizing of certain lobbying groups and the possibility of initial accumulation of capitals which subsequently are flowing abroad. It is important to create such conditions that preferential regimes were applied not to distribute privileges to certain enterprises, branch or territories, but to stimulate new business patterns, development of external economic relationship, providing the technological break of the region.

Also, development of the main economic zone promotes the accelerated process of integration of the country into world economic ties, and still attracts huge commodity and capital streams (Komarov, 2014).

## 5. CONCLUSION

It may be concluded that operation efficiency of economy of the region and its competitiveness in development of the main economic zone in its territory increases. However, it is obvious that effective realization of this form of economic interaction with the other world can be executed while meeting a number of conditions.

Of course, it is accurate concept generation at the federal level in the field of free economic zones, considering both nation-wide and regional interests of local society, development policy (Baer et al., 2015).

Development and acceptance of the corresponding legislative regulatory base regulating the process of development and operation of the main economic zone are also quite important. The need for the opportunity and federal bodies' readiness to allocate

considerable budgetary funds to create infrastructure of the main economic zone, with understanding of that a real effect for the region can be gained only in the long term is necessary.

Development of a special management body, coordinating processes of development of free economic zones and carrying out check over implementation of their obligations by free zones in relation to the state, including the use of means received from the federal budget at federal and regional levels is also a necessary condition for effective operation. Granting to foreign and domestic investors acting in a free economic zone, the best conditions for conducting economic activity than they have in other states and territories is also quite important.

Among mentioned conditions there are no essentially impracticable. The issues concerning free economic zone development and their effective operation can be solved when ensuring coordinated activities of all interested parties.

Development of economic zones is one of the effective ways of attraction of foreign investments and also a catalyst of development of foreign economic ties and economy not only of the region but of the country in general. But thus, policy of their formation has to be well-thought-out and consecutive.

Thus, development of economic zones determine effective operation of economic processes that provides the increased export volume, increased employment rate, carrying out industrial modernization and accelerated digestion of new technologies. These achievements have caused the interest that many countries show in development of the main economic zone in the territory.

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