

**INDUSTRIAL PRODUCTION ZONES AS A TOOL OF  
DEVELOPMENT OF THE REGIONAL ECONOMY (ON THE  
EXAMPLE OF THE REPUBLIC OF TATARSTAN AND THE  
SVERDLOVSK REGION)**

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**Abstract:** *At the present time, during the period of integration and globalization, free economic zones or, as they are called in Russia, special economic zones, become a regular fixture in the world economic practice, and are an integral part of domestic and international economic relations. This issue has been studied by foreign and domestic economists for several decades. However, when writing this paper, the authors noted the absence of a single terminology and conceptual apparatus in relation to special economic zones. This is due to the different views and goals put by individual specialists in the term under investigation. The paper assesses the activities of special economic zones (SEZs) of industrial production type, and analyzes the results of their operation in the Russian Federation. The regional economy was considered as an object of the study, and the industrial production SEZs were assigned to the subject. The methodical approaches and practical recommendations presented in the paper are aimed at realizing the potential of free economic zones: increasing investment in facilities, applying modern technical developments, and organizing clusters that will ensure high competitiveness of the regions. The recommendations on the influence of economic entities on the development of the national economic complex, applied in the paper, on developing federal and regional regulatory legal acts, or on developing measures that improve the functioning of individual economic entities are specified in the paper.*

**Keywords:** special economic zone, industrial production type, efficiency, regional economy, cluster.

### **Introduction**

The relevance of the study is determined by its systematic approach to the analysis of the SEZ functioning experience in Russia and in developed countries, identifying factors that hamper their development, and in developing recommendations that increase the efficiency of special economic zones. The paper substantiates the methodological approaches to the content of special economic zoning, and also developed a number of practical recommendations to improve the SEZ management, taking into account the territorial features of a facility location:

1) The theoretical substantiation for the necessity of formation and development of special economic zones as institutions intended to economic development, allowing to ensure the introduction of innovative technologies and innovations in regional industrial

development, is elaborated. The shortcomings of today's approaches to the scientific understanding of the problem under consideration and the applied expert definitions are revealed. The author's definition of a special economic zone, including its subtypes, has been introduced.

2) Methodological approaches intended to establish public-private partnerships in the regions of the Russian Federation, providing for the creation of infrastructure, tax and customs incentives, stimulating the attraction of private (including foreign) investments with modern technologies and organizational and managerial structures that promote a higher level of competitiveness and labor productivity are substantiated.

## **Methods**

To assess the impact of special economic zones on the development of the regional economy, the authors considered the regional economy as an object of research, the subject was the special economic zones of the industrial-production type. Since, according to the authors, it is the industrial-production economic zones that have the greatest prospect of development and they follow the interests of the state which involve the development of high-tech industries. The exclusion from the analysis of zones of technical and innovative type is accepted because these institutions are not so profitable as the first ones, since their activity is more connected with scientific research activity, which is maintained in Russia less intensively than production, and the loyalty level for this activity as to large investors has not been developed. Regions in their economic and political activities are as a visual projection of the state. In their intensive development lies the success of the state. Therefore, the degree of importance of the region can not be understated.

The application of the analysis technique to a specific special economic zone was carried out using the ideas presented in the works of Tarun Dhingra, Tripti Singh, Ambalika Sinha, Tracey P., Heide J.B., Bell S.J., & Governance, Hsiao Cheng, Shen Yan, Park, B.-G., Wang Jin.

## **Results**

There are different word combinations for designating phenomena related to special economic zones in modern economic works and papers. For example, "special economic zone", "free economic zone", "exclusive economic zone"; in some sources, you can find other

designations, such as "offshore zones", "free trade zones". The inconsistency in the use of the term designation leads to difficulties in the search for information, and a comparative analysis of the special economic zones of different countries.

The above problem is a reflection of the multidirectionality of scientific thought vectors with reference to special economic zones (hereinafter referred to as SEZ). In the writings of such economists as Berezenkov V.V., Gaiduk V.I.,<sup>1</sup> Tarun Dhingra, Tripti Singh, Ambalika Sinha<sup>2</sup> SEZs are understood as international economic entities that have acquired a global character covering practically all countries of the world, including rich and poor ones. With their help there is a very intensive integration of entire regions into the system of world economic relations, which largely contributes to the development of the economy of individual regions.<sup>3</sup> In the writings of Tracey P., Heide J.B., Bell S.J., & Governance P.,<sup>4</sup> Hsu, Lai & Lin<sup>5</sup> there are indicated that free economic zones create the potential for future clusterization, which is one of the instruments of regional development. The identification of clusters is a valuable tool for understanding the regional economy and implementing successful development strategies.<sup>6</sup> Clusters are the way to increase the competitive advantages of the regional economy. Clusters reduce uncertainty and provide access to the necessary resources (financial capital and competency / knowledge) during periods of crisis.<sup>7</sup>

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<sup>1</sup> Berezenkov V.V., Gaiduk V.I., Mikhaylushkin P.V. "Commercial Activity: A Training Manual ", Krasnodar, p. 256, 2010.

<sup>2</sup> Tarun Dhingra, Tripti Singh, Ambalika Sinha, "Location strategy for competitiveness of special economic zones: A generic framework for India", *Competitiveness Review: An International Business Journal*, vol. 19, № 4, pp.272-289, 2009.

<sup>3</sup> Albert G. Schweinberger, "Special economic zones and quotas on imported intermediate goods: a policy proposal", *Oxford Economic Papers*, vol. 55, № 4, pp. 696–715, 2003.

<sup>4</sup> Tracey P., Heide J. B., Bell S. J., & Governance, P., "Bringing “ Place ” Back In : Regional Clusters, Project Governance, and New Product Outcomes", *Journal of Marketing*, vol. 78 (November), pp. 1–16, 2014.

<sup>5</sup> Hsu M.-S., Lai Y.-L., & Lin F.-J., "Effects of Industry Clusters on Company Competitiveness: Special Economic Zones in Taiwan", *Review of Pacific Basin Financial Markets and Policies*, vol. 16(3), 1350017. <https://doi.org/10.1142/S0219091513500173>

<sup>6</sup> Argüelles M., Benavides C., & Fernández, I., "A new approach to the identification of regional clusters: hierarchical clustering on principal components", *Applied Economics*, vol. 46(21), pp. 2511–2519, 2014.

<sup>7</sup> Skálholt A., & Thune T., "Coping with Economic Crises—The Role of Clusters", *European Planning Studies*, vol. 22(10), pp. 1993–2010, 2013.

Hsiao Cheng, Shen Yan,<sup>8</sup> Park B.-G.<sup>9</sup> gave in their works the following definition of SEZ: the territory of the state (states), which is an integral part of the economic complex of a country (groups of countries), where production and distribution of social product is provided to achieve a defined and specific national integrated, corporate goal using special mechanisms for regulation of socio-economic relations of production and distribution, capable of diffuse expansion of its boundaries.

Such economists as R.I. Zimenkov<sup>10</sup> and Wang Jin<sup>11</sup> gave the description of a SEZ as a part of the national economic space where a separate preferential economic regime for foreign and local business is applied exclusively within the designated entity and it allows solving a lot of socio-economic tasks and scientific and engineering problems.

The above definitions have a similar meaning, but differ in the arrangement of accents. The first definition considers SEZs as clusters which unite different types of production. Special economic zones are considered as one of the globalization instruments. Considering the second definition, it can be noted that it not only has a multidimensional character and differs in complexity to perception, but it also has some inaccuracies. With scrupulous consideration, one can find a contradiction between the definition of SEZ as a territorial entity of a country or several countries and the establishment of a national goal.<sup>12</sup>In the same vein, SEZs are considered as an integral part of the economic complex of one or several states. For the last part of the definition, as well as for the characteristics defined as "integrated and corporate", a more concise and precise explanation is required. As the authors consider, the term SEZ is more accurately described in more detail in the third definition and is similar to their point of view.

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<sup>8</sup> Hsiao Cheng, Shen Yan, "Foreign Direct Investment and Economic Growth — the Importance of Institutions and Urbanization", *Economic Development and Cultural Change*, vol. 51, pp. 883-896, 2003.

<sup>9</sup> Park, B.-G., "Spatially selective liberalization and graduated sovereignty: Politics of neo-liberalism and "special economic zones" in South Korea", *Political Geography description*, vol. 24, pp. 850-873, 2005.

<sup>10</sup> Zimenkov, R. I. "Free economic zones", Moscow: UNITY-DANA, p. 214, 2014.

<sup>11</sup> Wang Jin, "The Economic Impact of Special Economic Zones: Evidence from Chinese Municipalities," *Source Journal of Development Economics*, vol. 101, pp. 133-147, 2013.

<sup>12</sup> Alba S. "Comparative analysis of approaches to the concepts of special economic zones and offshore zones", *Finance*, No. 3, p. 119-123, 2016.

The study of various definitions and opinions on the SEZ allowed the authors to give their own definition, which more fully reveals this issue in their understanding.

A special economic zone is a separate part of the country's territory, with the institutional infrastructure organized there and the application of a separate legal and administrative regime for it. The regime provides for the regulation of economic relations within the region and with external partners, and at the same time it is an instrument of development of the zone. In the definition, the authors also included the notion related to the secondary goal of the SEZ, which determines its development from the position of the real estate economy and development of especially that region to which it belongs territorially, and not only from the standpoint of market economy and industry.

The key properties and attributes of a SEZ as a unit subject to analysis are:

- 1) Belonging and direct communication with the state, the secondary nature of a SEZ in relation to the latter.
- 2) Separatedness - clear boundaries defined by the state and strictly separating the entity from the rest of the country.
- 3) Presence of institutional infrastructure, since the absence of such an infrastructure may indicate a random nature of the differences between the entity and the rest of the economic complex.
- 4) Special legal and administrative regime that differs from a general regime that is valid in a given country, but not necessarily exceptional (unique in its kind).
- 5) Regulation of the relationship between institutions and business entities operating within a SEZ, including foreign economic relations concerning the SEZ.

It is assumed that availability of this set of characteristics arising from the definition is necessary and sufficient for classifying an entity as a special economic zone with the aim of further research.<sup>13</sup>

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<sup>13</sup> Gabdrakhmanov N.K. Role of space and stability in the development of tourism / N.K. Gabdrakhmanov, V.A. Rubtzov, E.E. Baybakov // Academy of Strategic Management Journal. Volume 15, Special Issue 2, 2016. pp 32-37. Rubtzov, V.A., Gabdrakhmanov, N.K., Mustafin, M.R., & Pratchenko, O.V. Methodological issues of monetary valuation of natural resources // International Business Management, 10(21), 2016 - pp. 5089-5092.

## Discussion

Federal Law dated 22. 07. 2005 No. 116-FZ "On Special Economic Zones" establishes the availability of industrial-production, technology-innovative, tourist-recreational and port types of special economic zones. Table 1 provides a brief description of the types of entities.

Table 1 - The main economic indicators of the special economic zones in Russia from 2006 to 2016 (cumulatively)

Zones	Number of residents (including potential), units	Created workplaces, units.	Actual volume of investments of residents, mln. rubles	Volume of cash proceeds, mln. rubles	Monetary revenue	
					Per 1 rubles of investments, rubles	Per one employee, million rubles.
Industrial production						
SEZ "Alabuga"	58	5,434	97 827. 19	168 136. 36	1. 70	30. 90
SEZ "Lipetsk"	23	2 460	24 148. 00	23 941. 00	0. 99	9. 70
SEZ "Togliatti"	19	574	8 704. 00	574. 00	0. 06	1. 00
SEZ "Titanovaya dolina"	11	21	3. 00	-	-	-
Other SEZs	97	101	271. 00	-	-	-
<b>Total for the Industrial production in SEZs</b>	<b>198</b>	<b>8,590</b>	<b>130,953. 19</b>	<b>192,651. 36</b>	<b>1. 47</b>	<b>22. 4</b>
In general, for the technology-innovative SEZs	402	4,509	22,890	19 342	0. 85	4. 30

In general, for the tourist-recreational SEZs	67	110	1 048	125	0.12	0.10
In general, for the port-type SEZs	13	24	108	-	-	-
<b>Total for all SEZs</b>	<b>681</b>	<b>13,233</b>	<b>154,999.19</b>	<b>212,118.36</b>	<b>1.37</b>	<b>16.03</b>

The development of a zone depends directly on the volume of investment. Recently, attempts have been made to strengthen the role of regional budgets in financing SEZs. For example, Federal Law No. 359-FZ dated December 14, 2015 "On the Federal Budget for 2016" provided for the reduction of allocations from the budget in favor of SEZs. And if according to the data for 2011 it was totally allocated 15.7 billion rubles, then for the period of 2012-2013 the amount of financing decreased to 6 billion rubles. According to data for 2016, only 4.35 billion rubles were allocated to all types of SEZs.

Along with the sources of budgetary financing, investment plays a significant role in improving the efficiency of functioning the economic entities. As the analysis showed, the situation with respect to the fulfillment by private investors of their obligations is rather complicated (Table 2).

Table 2 - Ratio of planned to actual investments of private investors (cumulative by 2014)

Types of zones	Planned investments, mln. rubles	Actual investments, mln. rubles	The ratio of the planned to the actual figures (%)
Industrial production zones	120 000.00	112 658.00	94.00%
Technical innovation zones	22 500.00	28 291.00	121.00%
Tourist and recreational areas	7 500.00	1 271.00	17.00%
Port areas	120.00	125.00	103.00%
<b>Total</b>	<b>150,120.00</b>	<b>142,345.00</b>	<b>94.82%</b>

The analysis of the presented data shows that in the SEZs of industrial and tourist types there is a gap between the investments declared by residents and the funds actually invested in the production process. The best position is for the technology and innovation zones, what is a bit surprising, because industrial-production zones have faster turnover of products and higher cash earnings, which is a stimulating factor for investors.<sup>14</sup>

### Summary

Summarizing the above, the authors draw attention to the fact that the planning and construction of such serious entities as special economic zones requires careful approach and painstaking work of project managers. One can not hope that it is possible to create pointwisely such a project without resorting to a change in the already established norms, rules, and ways of life. If a region assumes the responsibility to build such an entity on its territory, it must understand its costs, payback period, project objectives. And you need to approach implementation in a systematic way. To begin with, the well-considered documentation regulating the activities of the economic zone is needed, not only at the federal level, but also at the regional level. These facilities should be a reagent to create opportunities for small and medium-sized businesses, should promote employment of the population in the region, create additional jobs, create new medical facilities with preferential conditions, as well as specialized educational institutions that train highly qualified specialists under directions necessary for the economic zone.

It should be kept in mind that zones of an industrial-production type are created to solve a wide range of problems. Thus, it is possible to create industrial-production zones quite quickly in the territory of any region of the Russian Federation, without imposing an additional burden on budgets of all levels. As the authors consider, the solution of issues related to free provision of land plots, preparation of engineering networks and preferential technical connection to them, is the most promising mechanism for creating such facilities. Therefore, creation of industrial production zones as independent instruments of economic development should become one of the priorities in the formation of industrial policies of the state and regions. The introduction of technological and production specialization on their basis will create

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<sup>14</sup> Rubtzov, V.A., Gabdrakhmanov N.K., Delabarr, O.A., Tyabina, D.V. Equilibrium tasks in geography // *Mediterranean Journal of Social Sciences* 6 (3), pp. 669-672.



effective sectoral clusters, which will lead to a significant increase in the competitiveness of the goods and services produced, and the access to new product markets.

From the above, it can be concluded that the industrial production zone is not just a special economic zone with certain tax benefits, but the territory on which the transport network, infrastructure, autonomous power supply are developed, i.e. all elements contributing to the development of continuous production of competitive quality products and integrated development of the territory.

### **Conclusion**

1. To give a theoretical justification for the need to use SEZs as an institution for development that would provide a regional industry with modern technologies and innovations. Identify the shortcomings of existing approaches to understanding this problem and individual expert definitions. Develop and introduce the author's definition of SEZs and their subtypes.

2. To justify the influence of zones on the development of regions of the Russian Federation as a whole, to identify the main indicators and their further monitoring. To substantiate the methodical approaches developed to establish partnerships between business and the state that fosters infrastructure development, the introduction of separate tax and customs incentives that have a stimulating effect on private (including foreign) investment, the use of modern technologies and effective organizational and management models that increase competitiveness and labor productivity.

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