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The Special Economic Regimes

(Особые экономические зоны)

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THE SPECIAL ECONOMIC REGIMES (ОСОБЫЕ ЭКОНОМИЧЕСКИЕ ЗОНЫ)

Textbook

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Vladivostok State University represents a textbook reviewing impact of the special economic regimes on the economy. The textbook holds 6 chapters and exercises dedicated to the functional models of special regimes and the effects they stipulate on the economy.

The textbook is recommended for Russian and international students, business practitioners and lawmakers seeking the ways to improve business performance and raise economic output by applying the preferences.

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FOREWORD

Special economic regime is a legislative form of public-n-private partnership aimed at best way sustainable development of national economies. Special economic territories (zones) – geographically outlined areas within the governments facilitate industrial activity representing fiscal and regulatory incentives and infrastructure support. Special economic regimes and territories go by many names, varieties and sizes. However, they have in common, – within a defined perimeter they provide a regulatory regime for businesses and investors distinct from what normally applied in broader national or sub-national economy where they established. The most common types of SEZs are variations of free zones, which are essentially separate customs territories. In addition to the preferences such are customs duties and tariffs, most regimes also offer fiscal incentives, business-friendly regulations with respect to land access, permits and licenses, or employment rules, or administrative streamlining and facilitation.

All special economic regimes may be placed in 2 functional groups – spatial related and operational form. The functional difference is that the spatial forms assume investments in land, capitalizing it and making benefit in the brown field plots. Operational forms use, as a rule, existing industrial sites and infrastructure. Infrastructure support is another important option, especially in developing countries where the basic infrastructure for business outside these zones can be poor or absent at all. In return for these customs and fiscal preferences, business-support measures, investments from the public sources in physical infrastructure, governments expect investors to create jobs, boost exports, diversify the economy and build productive capacity.

Special economic regimes have a long history. For example, the conception of Free port of Vladivostok goes back for many centuries, with traders operating off ships, moving cargoes and re-exporting goods with little or no interference from local authorities. Modern free zones, adjacent to seaports or airports or along border corridors, appeared in the 1960s of XX century. They began multiplying in the 1980s, with the spread of export-oriented industrial development strategies in many countries, especially in Asia, as well as the increasing reliance of global manufacturers on offshore production. The acceleration of international production in the late 1990s and 2000s of XX century and the rapid growth of global value chains generated another wave of new special regimes territories, with many developing countries across all regions aiming to emulate the early success stories.

In 2022, when the Russia's economy had faced severe sanctions, leading foreign providers interrupted the accounting, lawyers, finance and marketing consulting services for companies with “Russian capital” registered abroad. Some foreign banks illegally started blocking accounts of these companies without any explanation. All these unfriendly steps forced process of redomicilation of the “Russian capital” companies under the Russian jurisdiction in Special Administrative Regions. It is a new legislative model for the Russian Federation with purpose to provide the preferences and services attractive for foreign business, including those with Russian "roots". Special administrative regions located at Russkiy Island (the Russian Far East) and island of Oktyabrskiy (Kaliningrad region of Russia) since August 2018. They were legally established in 2018, but have been freezing at zero point until 2022, when number of residents at the Special Administrative Regions boosted abruptly.

In emerging economies, we can find many examples of very successful special economic zones playing a key role in industrial transformation. However, even in sustainable economies we can find examples of zones not attractive for investors. In latecomer countries, there are many more cases of zones that, once established by law, remained underdeveloped for decades, and today's number of special regime territories includes many underutilized zones. Even where zones have successfully generated investment, jobs and exports, the benefits to the broader economy – a key part of their rationale – have often been hard to detect, many zones operate as enclaves, with few links to local suppliers and few spillovers.

Despite the Russia's special economic regimes valued skeptically by the Accounting Chamber and the Ministry of Finance, they remain top of mind for the government by a number of reasons. In the regions, where the economy is relatively weak and where the implementation of reforms is difficult, the preferences are often seen as the only feasible option. Establishing, for example, the advanced development territories in much of Russia's mono-functional small towns is getting some like a universal cure to overcome unemployment, low personal incomes, and poverty. Among the crucial risks, related to development projects in Russia, we can note the investment expenditures excessive at initial stage for infrastructure, utilities and engineering. The regional investment project is a model, which deploys much incentive to put upfront capital into the physical infrastructure, for example, a coal mining, or berth's front extension at a seaport.

Since 1995 for two decades, the most common practice in Russia has been special economic zones (SEZs). Initially seen like the industrial base promotion vehicle the special zones did not bring sufficient innovative policy, so it stipulated a disproportion in technological development between the national economy and the advanced countries. Responding the challenge, Russia established six (seven on July 2024) techno-innovative special economic zones between 2005 and 2015, three in the Moscow region, one in St. Petersburg and three in other regions. Among those, the Skolkovo Innovation Centre (Moscow), a high-tech business area established by special legislative act in 2010, has tax privileges similar to those of SEZs. In addition to hosting firms in advanced microelectronics, nanotechnology and other science-based areas, the Centre also aims to spearhead sustainable development by sourcing at least half of the energy consumed by the zone from renewable sources and by constructing energy-neutral buildings, recycling water and minimizing pollution by transport.

Chapter 1. KNOWING THE SPECIAL ECONOMIC REGIMES

Speaking about special economic regimes, we traditionally mean the tax exemptions, a low rate, or free of charge tenancy, the brown field land plots with physical infrastructure and other support for business, the way which broadly we could refer the "preferential" economy. That is correct, but fundamentally, we should keep in mind a special model of business organization, based on public and private partnership, aimed at sustainable economic development. The approach based on ideas by Françoise Perroux's about the poles of growth and Michael Porter's theory of the spatial business clustering. Fast growing business agglomeration makes a precondition for rapid or advance development due to the knowledge spillover, concentration of resources and cooperation in the value added chains of private companies.

When the private companies get a support by governments and public institutions, generally, we could describe it, like the special economic relations. More exactly, we say "the special legislative regime" referring to a resident (tenant) legal status granted by the governments. It assumes that tenants, being allocated within a legally limited area, have the special business aims, which correspond to the public interests. In most common ways, such cooperation must provide a "soil" for rapid economic development under assistance of corporations and governments.

> **Note: Special economic regime is a legislative form of public-n-private partnership aimed at deployment the best way impacts on the economy, including fiscal investment lending, subsidies for tenants, brown field lands for long horizon tenancy, and other.**

Speaking about reasons why countries apply for the special economic measures, it comes to the point when the economy had seriously imbalanced or extraordinary measures are used to prevent the long way declines and avoid the deeper recession processes. At this point, the aim of special regimes is provision the links between investors and local enterprises. More exactly, links between the global capital markets and developing economies. The special regimes, at point of investment stimulus, affect the economy on macro-level, where they stipulate a process of convergence the enterprises into agglomerations and clusters, scaling up industrial output, employment and personal incomes. On micro-level, they stimulate innovation and improve business performance. At point of strategic development, they stipulate the approach to the Sustainable Development Goals and the National Projects target indexes.

According to World Investment Report 2022 by WAIPA[1], foreign direct investment flows to developing economies grew more slowly than those to developed regions grow but still increased by 30 per cent, to $837 billion. Disparity in the capital inflows leads to asymmetry in the world's regional and sub-regional development that threads the Sustainable Development Goals agenda of the UN. Broadly, the goal of the special economic regimes to support national recovery economical programs, so, each economy seeks the better ways to support start-ups, to balance regional development, and to stream up the international trade.

Links between zone-based investors and the domestic suppliers are important for transmitting technological skills and knowledge spillovers. They support a broader industrial development and important to ensure that zones become bridges to structural reform in the national economy, as investors interact with the local business environment and local firms. The links indirectly improve business climate and this is the key rationale for continuing use of Special Economic Regimes in the recent wave of new industrial era despite to skeptical views. In response to the outer and home risks, the governments are continuing to make their investment promotion packages more attractive to strength the effect.

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How can we evaluate the impact of special economic regimes? The effects could appear in a direct way or indirectly, they might have a

[1] World Association of Investment Promotion Agencies.

broad impact at macroeconomic level or narrower impact on a corporate level.

Direct impact appears in the next effects:

a) disproportions erasure between the leading regions (countries) and outsiders in terms of access to capital and innovations;

b) innovative transformation of the industrial sectors in the ways of transition to the forth economic system;

c) convergence the enterprises into agglomerations and clusters, dual effect of the urban and economic growth;

d) emergence of global chains of added value and insertion the peripheral economies into the global links;

e) global trade acceleration due to special regulation of the trans-border shipment and consignation.

Erasure development disproportions between leading regions (countries) and outsiders directly respond to Sustainable Development Goals agenda. Impact vehicles vary, for example, Russia’s well-known Advance Development Territories – the land development projects within the regional investment project, which imply fiscal investment loans for 7–10 years, subsidies for engineering infrastructure, pledge mechanisms and administrative support. Effect of the advance territories is controversial. At one hand, they imply the rapid development of industrial sectors accumulating them geographically. At other hand, they absorb human resources from other regions making them disadvantageous.

Speaking about indirect impact or a positive externality, we should notice that special regimes help to overcome crisis related stress and to assist facilitation the sectoral recovery. Despite the emergence of new forms of zones linked to natural resources, aimed at domestic markets or targeted at innovation capabilities (e.g., science, high-tech or green zones), most Special Economic Regimes remain as parts of countries’ competitive investment promotion package, along with other forms of incentives. That is to point due to the post pandemic period when the global foreign direct investment has been slowing since 2020, manufacturing across all developing countries was structurally lower over the last five years than in the preceding period.

Following the goals, the special economic regimes could appear like a geographically limited area, or may not be a territory at all. Within it the governments establish fiscal preferences and regulatory along with the infrastructural provision to facilitate business activity.

A “no land” approach, for example, special investment contract, assumes the fiscal vacations for a large industrial start-up. In varying forms the special regimes widely used across most developing and many developed countries to support the international project finance for the Sustainable Development Goals and climate change investment. The strong growth performance of international project finance can be explained by infrastructure stimulus and significant interest on the part of financial market investors to participate in large-scale projects that require multiple financiers.

Note: In varying forms the special regimes widely used across most developing and many developed countries to support the Sustainable Development Goals and climate change investment projects.

How does it work in the world?

The United Nation organization for trade and development (UNCTAD) notes, that although the performance of many zones remains below expectations, failing either to attract significant investment or to generate economic impact beyond their confines, new special economic regimes (SERs) continue to be developed, as governments increasingly compete for internationally mobile industrial activity. The current globalization and international production is having the opposite effect, as governments are responding to greater competition for mobile industrial activity with more SERs and their new models. Despite constrains there are more than 5,400 special economic territories today, more than 1,000 of which were established in the last five years. At least 500 more projects (approximately 10 per cent of the current total) have been announced and are expected to open in the coming 2–3 years.

The continued attention towards SERs among governments around the world based on the impact of these zones, which is often controversial. In developing economies that followed export oriented development strategies, there are many examples of highly successful projects that played a key role in industrial transformation. However, even in those economies, examples abound of territories that did not attract the anticipated influx of investors or did so only late. UNCTAD Investment Promotion Agencies Survey says, in latecomer countries, there are many more cases of the special regimes that, once established law, remained un- or underdeveloped for decades, and today number of projects includes many underutilized economic zones (fig. 1). The survey was conducted from February to April 2019. Results based on information from 114 respondents. Evidently forty seven percent of the special economic territories are underutilized partially or heavily [1, 2].

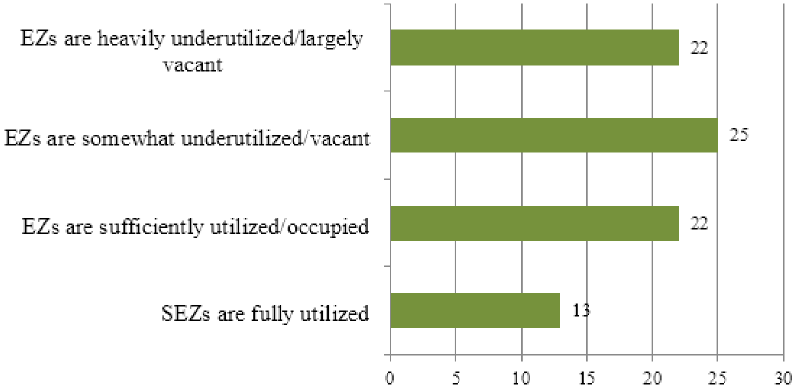

Fig. 1. Rate of utilization of Economic Zones according to national investment promotion agencies (Percentage of survey respondents)

Even where zones have successfully generated investment, jobs and exports, the benefits to the broader economy – a key part of their rationale – have often been hard to detect. Many special economic territories operate as enclaves, with a few links to local suppliers and a few spillovers. In addition to doubts about the economic benefits of SERs, the concept of establishing a regulatory regime distinct from the rest of the economy has raised concerns about social standards and labor conditions and about their environmental impact. Looser regulations have mostly focused on labor rules, including, for example, precarious employment arrangements and the discouragement of unions, although some studies also highlight the formal nature of jobs in special economic territories and the often relatively high wages compared with those in the surrounding economy. Even where there may not be formal exemptions from national rules such as those on health and safety, weaker controls and limited enforcement within the zones resulting from a desire to avoid disrupting businesses have often meant that standards within zones differed significantly from the rest of the economy [3].

A country's industrial strategy should identify the type of SERs and the services provided to investors. Any model may generate indirect economic benefits and can exert positive externalities on the rest of economy. They also provide opportunity for policy experimentation and learning. The quality of port infrastructure and streamlined customs procedures typically play a more important role for firms integrated in global value chains than companies sourcing their inputs locally and serving the domestic market. In this regard, considerations should be given to the country's competitive advantage and its stage of economic development.

Note: Scopes of the special regimes are varying. They cover spatial and sectoral development, transfer innovations, start-ups assisting, business's recovery past the economic turmoil, putting the local enterprises into the global value added chains. Economists seek not only the traditional ways of making SERs succeed, including the strategic focus, regulatory and governance models, and investment promotion tools, but new ways to respond the sustainable development imperative.

Special Economic Regimes are known by many names and come in many varieties and sizes. They have in common, that within a selected territory they provide a regulatory regime for businesses and investors distinct from what normally applied in the rest of a national economy where they were established.

The efficiency and cost savings (table 1) that might be associated with lower social and environmental standards are no longer considered a viable competitive advantage, especially in industries that have incurred or are at high risk of reputational damage [3].

Table 1

Special Economic Regimes success and challenges factors

Key dimensions driving Special Economic Regimes success	New challenges facing Special Economic Regimes
1. Strategic focus on undervalued assets and "cheaper" factors 2. Regulatory framework and governance	1. Sustainable development imperative 2. New industrial revolution and digital economy

End of Table 1

Key dimensions driving Special Economic Regimes success	New challenges facing Special Economic Regimes
3. Market entry incentives, e.g. access to M&A market	3. Changing patterns of international production
4. Added value proposition for investors	4. The global economy destruction and revaluation of postindustrial paradigm

Source: by author accordingly to World Investment Report, Special Economic Zones, 2019.

As such, offering laxer social and environmental rules or controls is no longer a competitive. The worldwide most common types of SERs are variations on free zones, which are essentially separate customs territories. In addition to relief from customs duties and tariffs, most zones also offer fiscal incentives, business-friendly regulations with low rent, or no charge land access, permits and licenses, or employment rules, and administrative streamlining and facilitation.

As reported in a recent UNCTAD study on the contribution of the special regime economy to the Sustainable Development Goals, some of them are beginning to shift away from lower standards and are instead incorporating sustainable development into their operating model, with sustainability-related shared services (e.g. common health and safety services, waste management plants, renewable energy installations) among the clustering synergies that special regime can deliver. The new industrial revolution – the adoption across all industries of digital technologies, advanced robotics, 3D printing, big data and the internet of things – is transforming manufacturing processes, related services and business models, with wide-ranging implications for international production and global value chains (GVCs) [4, 5].

Note: As a contribution to Sustainable Development Goals, some territories with the special economic regimes are beginning to shift away from lower standards and are instead incorporating sustainable development into their operating model, with sustainability-related shared services (e.g. common health and safety services, waste management plants, renewable energy installations) among the clustering synergies that could be delivered.

Some of these changes, mainly the heightened technological scope for re-shoring production and the declining importance of labor costs as a location determinant for investment, have fundamental implications for the special regimes and their use in industrial development and investment promotion strategies. The new industrial revolution also comes with opportunities for the special regimes (or development programs) that can offer access to skilled resources and clusters of relevant business and technology service providers.

From a development perspective, as well as an investment policy perspective, special economic territories that are established as an integral part of industrial policy with active clustering efforts are the more relevant. Although free trade zones (FTZs), which mostly focus on logistics and warehousing services, are important – especially in developed countries – most existing and planned zones in the developing world are integrated free zones that aim to attract investment in industrial activity. Many zones that do not have a distinct regulatory regime are established with clear industrial development objectives in mind. Government authorities, often at the sub-national level, as well as semi-public and private institutions, have brought enormous innovations to the concept of special regime, building specialized zones for science, start-up incubation, R&D, biotech, green-tech and many other purposes. Such zones can certainly be valid policy options and alternatives to the official economic policy.

It is time consuming to provide an exhaustive catalogue of these zones. National governments often do not keep statistics on initiatives of this kind. In addition, there is no uniform approach: studies assessing the impact of SEZs, need to focus on operational zones, while those assessing them as part of investment promotion focus on established zones. An added difficulty is that countries are inconsistent in their labeling of zone status, and zone development pipelines vary – for example, "under development" can mean that several tenants are operating in the zone already, but additional investors are being sought.

Special economic territories (table 2) can be classified according to their specific objectives or industrial focus (e.g. high-tech parks, services parks), their location (e.g. port-based zones, border zones), or the type of regulatory regime that applies (e.g. FTZs, commercial free zones) [3].

Table 2

A functional taxonomy of the special economic territories

Type	Model	Distinctive points
Specialization	Logistics hub	• Commercial, warehousing and logistics services • Trade facilitation services for trans-shipping and re-exports, at airports, seaports, borders • Located next to or within larger industrial estates
	Multi activity territory	• General industrial development
	Specialized territory	• Focused on industries (e.g. automotive, electronics, garments) • Focused on GVC activities (e.g. business process outsourcing, call centers, R&D centers)
	Innovation driven Special Economic Zone	• Focused on sectors (e.g. services, resource or agro based) • Focused on industrial upgrading and new industries
Design and governance	Wide area zone	• Large, integrated zones, often coinciding with a subnational administrative region or built as townships with residential areas and amenities • Original purpose of the largest zones was to pilot economic reforms

End of Table 2

Type	Model	Distinctive points
	OFDI/ODA[1] driven territory	• Established under a partnership between capital
	Cross border/regional development zones	• Established to foster regional economic cooperation and to exploit economies of scale associated with regional markets

Source: by author accordingly to UNCTAD, World Investment Report 2019 Special Economic Zone.

Changing patterns of international production, as routinely documented in the World Investment Report over recent years, are driven in part by structural changes in international business, with a shift towards intangibles and overseas operations that are increasingly asset light. These patterns are therefore less concerned with the production advantages offered by SEZs. They are also driven by economic and policy factors. The growing weight of emerging markets in global trade and investment has implications for SEZ clientele. The return of protectionist tendencies and slow progress in the international policy regimes for trade and investment are leading industrial investors to constantly assess strategic locations for low-cost production in light of potential new trade barriers or shifts in preferential market access.

The regionalization of trade and investment agreements has further implications for SEZ competitiveness, depending on import sources and export destinations, as well as the status of SEZs in regional agreements. Infrastructure support is another important preference, especially in developing countries where basic infrastructure for business can be poor or absent. In return for these customs, fiscal and regulatory preferences, business-support measures, and investments in physical infrastructure, the governments expect investors operating in the special regulatory territories to create jobs, boost exports, diversify the economy and build productive capacity.

[1] ODA – official development assistance, OFDI – outward foreign direct investment.

Note: In return for these customs, fiscal and regulatory preferences, business-support measures, and investments in physical infrastructure, the governments expect investors operating in the special regulatory territories to create jobs, boost exports, diversify the economy and build productive capacity. Scopes of the special regimes include the economy spatial and sectoral development, transfer of innovations, start-up venture promotion, business's recovery, building up the local enterprises into the global value added chains, the international trade boosting.

What is in Russia?

In Russia, idea of special economic regimes arose in 90-th of XX century as a measure to give better incentives for the international and home investors at risky domestic market. The very first forms of free economic zone had demonstrated just willingness to market transformation, but not a rationale for investing. Since 1995 though a various models have appeared, following the core allocation, all special economic regimes (not territories) may be placed in 2 functional groups:

1. First group – spatial related forms, for example, economic zones, the rapid development territories, free port of Vladivostok, regional investment projects.

2. Second group – operational form, for example, the special investment contract and the special administrative areas.

The functional difference is that the spatial forms assume investments in land, capitalizing it and making benefit in the brown fields. Operational forms use, as a rule, existing industrial sites and infrastructure (table 3). Each model has its own scope, for example, special economic zones, the rapid development territories, free port of Vladivostok are the models that must attract private enterprises and courage them investing in scale-up sectoral projects facing the risks and uncertainty of Russia's economy.

Table 3

A simple grouping of the Russia's special economic regimes

Spatially related form	Operational form
Special economic zones Advance development territories Free port of Vladivostok Regional investment projects Territorial development zone Concession (Russian Far East Model)	The special investment contract Special administrative areas Skolkovo Innovation Centre Innovation clusters

Source: by author.

Some countries adopt government-funded zones, like Russia doing, while others provide the land and contract with private companies to develop the land. The hints on the optimal structure of the special regime territories are controversial, but many studies showed, that not land, but a place is a crucial element of zone performance [6].

Among the crucial risks, related to land development projects in Russia, we can note the investment expenditures excessive at initial stage for infrastructure, utilities and engineering. The regional investment project is a model, which deploys much incentive to put upfront capital into the physical infrastructure, for example, a coal mining, or berth,'s front extension at a seaport.

Despite the Russia's special regimes are still a critical point by the Accounting Chamber and the Ministry of Finance, they remain top of mind for the government for a number of reasons. In regions, where the economy is relatively weak and where the implementation of reforms is difficult, the preferences are often seen as the only feasible option. Establishing, for example, the advanced development territories in much of Russia's mono-functional small towns is getting some like a universal cure to unemployment, low personal incomes, and poverty.

The effect of "low cost" of establishing a territory with Special Economic Regime in Russia in many aspects is losing the effect. While the land getting more and more expensive and time of "cheaper" labor had passed, any project should represent an innovative rationale. A present key rationale for SERs is their low cost in relative terms, compared with that of building equivalent industrial infrastructure in the rest of economy. However, even in absolute terms, the upfront investment costs can be contained. Capital expenditures for the development of basic zones offering plots of land rather than hyper-modern "plug-and-play" zones – are often limited to basic infrastructure connections to the territory perimeter. Additional costs, which are mostly outsourced to a private development company, are then incurred gradually as the land attracts investors and develops individual plots. In such cases, the government considers basic zone development costs as largely "no cure, no pay".

Note: The effect of "low cost" of establishing a territory with Special Economic Regime in Russia in many aspects is losing its effect. While the land getting more expensive, and less accessible, and time of "cheaper" labor had passed away, any project should represent an innovative rationale.

The most common practice in Russia since 1995 has been special economic zones (SEZs). Initially seen like the industrial base and trade venues the special zones did not bring any innovative impact, so it stipulated disproportion in economic development. Responding the challenge, Russia established six (seven on July 2024) techno-innovative SEZs between 2005 and 2015, three in the Moscow region, one in St. Petersburg and two in other regions. By early 2018, they hosted 374 residents, including 39 foreign firms. With over 14,000 jobs created, they exceeded the job creation performance of industrial SEZs in the country. Total number of residents in 50 special economic zones exceeded 859 with average 25 residents per a zone, which is a good result (table 4).

Table 4

Types of Russia's special economic zones

Type of SEZ	Number of SEZ	Number of residents	Residents per zone, average
Techno-Innovative	7	406	58

End of Table 4

Type of SEZ	Number of SEZ	Number of residents	Residents per zone, average
Logistics	2	49	24
Industrial	31	303	10
Leisure & Resorts	10	101	10
Total	50	859	25

Source: by author accordingly to OEZ.RF.

The Skolkovo Innovation Centre (Moscow), a high-tech business area established by a separate law in 2010, enjoys tax privileges similar to those of SEZs. In addition to hosting firms in advanced microelectronics, nanotechnology and other science-based areas, the Centre also aims to spearhead sustainable development by sourcing at least half of the energy consumed by the zone from renewable sources and by constructing energy-neutral buildings, recycling water and minimizing pollution by transport.

Another form of special economic zone, which recently came into the spotlight in Russia, is advanced development territory. Idea follows to Perroux Françoise's and Michael E. Porter's concepts of the growth poles and clustering, e.g. geographic concentration of business, the effects which deploy many factors: land, resources, entry to the domestic markets, the knowledge, etc. The concept at its base has a contradiction – if we support any selected territory, the others are losing. A long-term economic stimulus is in simultaneous support the spots which interact each other in many ways and forms (table 5).

Table 5

Types of Russia's advanced development territories

Type of ADT	Number of ADT[1]	Specialization/Aim
The Russian Far East practice	22	Sectoral – NLG chemicals, shipbuilding special ice type class vessels, automotive assembling Multi-sectoral – food processing, logistics, nutrition additives
Mono-specialized cities	89	Multi-sectoral/Diversification of the industrial base, to prevent mass unemployment
A closed-cycle economy cities	3	Mono-sectoral, to support priority sectors in the closed-cycle local economies

Source: by author accordingly to Ministry of Economy on July 2024.

A brief statistic shows remarkable results, more than 1300 tenants registered as residents of advanced development territories, they employ 111 thousand people, and investments exceeded 333 billion rubles (4,012 billion USD), revenues exceeded 1,245 billion rubles (on December 2023, accumulated data).

Like many developing countries, that have made progress towards more attractive investment climate, Russia also continues to rely on special regimes. When such progress fails to deliver better competitiveness rankings or expected foreign investment, special regimes may still be seen as a necessary complement to the investment promotion package, and as a later signal of the country's progress in building an attractive investment climate.

[1] URL: https://www.economy.gov.ru/material/directions/regionalnoe_-razvitie/instrumenty_razvitiya_territoriy/tor/

Note: When special regimes fails to deliver better competitiveness, they may still be seen as a necessary complement to the investment promotion package, and as a later signal of the country's progress in building an attractive investment climate.

Conclusions to Chapter 1

Special Economic Regimes, especially spatial related, traditionally attract internationally mobile efficiency-seeking investments, for which countries compete. Despite the emergence of new forms of zones linked to natural resources, aimed at domestic markets or targeting innovation capabilities (e.g., science, high-tech or green zones), most SERs remain essentially part of countries' competitive investment promotion package, together with other forms of incentives. Global foreign direct investment (GFDI) has been slowing for 2020–2024, manufacturing across all developing countries has been structurally lower over the last five years than in the preceding period. In response to the risky market for investment in industrial activity, governments continue to make their investment promotion packages more attractive.

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Chapter 2. TO SPOTLIGHT THE SPECIAL ECONOMIC REGIMES

Worldwide and Russia's home practice proved that the Special Economic Regimes appropriate and strongly recommended instruments for sustainable economic development at regional, the national and global level. Nevertheless, decisions to establish any form of the regime must thoroughly be verified following a number of factors, which lead us to options – to support a project, or not. These include the risks measuring, valuing of incentives (public and private), analysis of costs and benefits.

If we would work out a proposal for applying the Special Economic Regime, we ought to put the things in some appropriate order. First thing, investment motives go first, the special economic regimes are secondary. Second rule, a place (see location) with outstanding potential defines the special regime. Investors rely exceptionally on the market positive signals, while the public imply a program or project that may be profitable, or may not be aimed at making a profit at all. Valuing degrees of risk and the importance of a project's results for the national economy, the public authorities can offer fiscal and property benefits, as well as administrative support. In this way, investor has a right to accept or to refuse of such preferences and support. Accepting it, investor takes the juridical obligations for getting a status of "resident" in fact a "controlled enterprise" by the public authorities.

Note: Investment motives go first, the special economic regimes are secondary. Investors rely exceptionally on the market positive signals, while the public sector imply a program or project not be aimed at making a profit at all.

Risk based nature of the Special Economic Regimes.

Going to risks analysis, let us take, for example, a drinking water bottling plant, we intentionally divide risks on acceptable, when a special regime (preferences and support) is not required, or recommended, and the cases, when the special regime is necessary. Investment expenditures at initial phase may overrun 30 % the critical level, for example, overrun project budget limits due to extra expenditures in infrastructure, that delays payback, and more, goes to losses, or even a bankruptcy.

If it is predictably running, that makes the risks acceptable; a fiscal investment loan due to corporate taxes may be lending to cover additional investment stage, and, at least, three operational periods. To cover the infrastructure expenditures, say, wastewater facilities, the project may attract so called the “infrastructure support». Such a scheme follows to the model of “regional investment project”, which widely used for individual projects not localized in industrial agglomerations.

In addition, contrary, if the target markets are volatile, project accommodates the “old days” equipment and occupies huge land portions, it goes to losses or low returns. Such a project must not be supported and the business model should be resolved. If the target market is predictably growing, and the investments are cost effective, so it makes the risks acceptable, then the preferences are excessive.

We goes to conclusion, that preferences are strongly required if the up-front investments at initial phase are overrunning a critical level. It delays payback, goes to losses and in some ways to bankruptcy. Extra capital expenditures at, for example, the initial stage of the rapid development zone depend mainly on three elements. Location determines the need to build expensive additional transport infrastructure to serve tenants. Quality and coverage of the existing utilities and telecommunication infrastructure may be insufficient. The special economic territories in some locations may require dedicated power, water and waste management plants.

Note: Preferences may strongly require if the up-front investments at initial phase are overrunning a critical level. It delays payback, goes to losses and in some ways to bankruptcy.

Preferences have not a long lasting effect. For steadier development, we have to assume broader incentives, which fit the public and private interests. First phase of making decisions gave us an option – if we apply the special measures, or not. Next step must provide us with more information – which form of the partnership is more suitable. Going on further, it worthy to note, private and public macroeconomic incentives are mainly controversial (table 6).

Table 6

Controversy of public and private incentives and goals

Public incentives and goals	Private incentives and goals
1. Access to long-horizon revolving finance sources	1. Higher returns and bigger profits taking low investment risk
2. Reciprocal exchange of the advanced technologies and best business practices	2. Easy entry into the target domestic market, easy exit the project due the options agreements
3. Building a national technological base, reducing the imports dependence	3. Access to the natural resources and the key fields
4. Stimulate export, support national industries, improve the sectoral competitiveness	4. Reducing up-front and operating expenditure with the "cheaper" factors – land, labor, physical infrastructure
5. Explore and develop the resource-rich territories	5. Under valuated assets
6. Reduce an asymmetry in regional development	6. Easy capital withdrawing
	7. Access to M&A and privatization market

Source: by author.

The governments in the emerging economies strive to get access to a low interest corporate or institutional financing, or the international funds, along with the advanced technologies and best business practices. Strategically, the public's incentives go as far, as the special economic programs aimed, for example, building a national technological base and reducing dependence on the foreign technologies. Contrary, private and institutional investors seek the ways for reducing up-front and operating expenditure not taking any risks. Moreover, getting the status of resident gives a path to M&A market, to the natural resources and the key fields.

According to UNCTAD report[1], almost 98 per cent of the legislative acts provide the fiscal incentives, such as tax holidays for a defined period (often 5 to 10 years) or the application of a reduced tax rate (fig. 2, per cent in 127 legislative acts).

[1] World Investment Report. Special Economic Zones, 2019. URL: https://unctad.org/system/files/official-document/wir2019_en.pdf

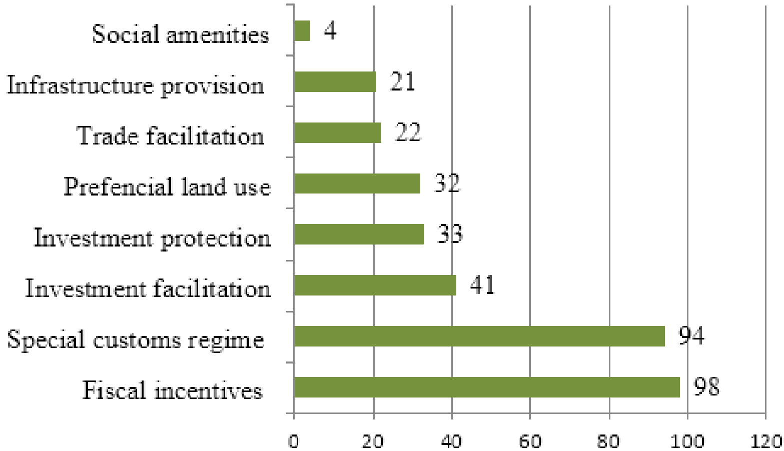

Fig. 2. Investment attraction tools in Special Economic Zones
(re. FDI report, 2019)

Tax exemptions may apply to the payment of profit taxes, corporate taxes, wages and salaries taxes, and value added taxes invoiced by local suppliers of goods, services and works necessary for carrying out activities. Some countries allow the deduction of a certain percentage of training expenses for local personnel from the tax bill. Others link the granting of fiscal incentives to specific investor performance, for example, reliance on the use of local content or local employees, or compliance with certain export targets

A limited set of objectives in focus at early phases of SERs is likely to be preferable than following too many targets at the same time. These benefits should be weighed against the costs of investment. While there may be significant savings from concentrating infrastructure and public services in one delimited area, the costs of operating remain high. Infrastructure development, operating the zone authority, and revenues foregone from tax exemptions should all be incorporated into the costs of the zone. Revenue loss from financial incentives is rarely a concern for policymakers when they consider preferences, so the policy should be subject to profit and loss analysis as any other project (World Investment Report, 2019).

Note: The governments in the emerging economies strive to get access to low interest corporate or institutional financing, or the international funds, along with the advanced technologies and best business practices. Contrary, private and institutional investors seek the ways for reducing up-front and operating expenditure not taking any risks.

The world's streamlines

The world's practice shows that countries tend to adopt specific types of SERs according to their stage, or level, of economic development (table 7). Relative newcomers to SER programs, such as numerous economies in Africa, are using SERs to start manufacturing, industrialization and exports. Many more economies that are advanced use zones to stimulate industrial upgrading. In transition economies, technology-focused zones are important.

Table 7

Typology of special economic zones

Level	Objectives	Types of zones
High income economies	Provide an efficient platform for complex cross border supply chains; Focus on avoiding distortions in the economy	Logistics hubs free zones only (not industrial free zones); Innovation and new industrial revolution objectives pursued through science parks without separate regulatory framework, or though incentives not linked to zones
Upper middle-income economies	Support transition to services economy; Attract new high tech industries; Focus on upgrading innovation capabilities	Technology based zones (e.g. R&D, high Specialized zones aimed at high value added industries or value chain segments; Services zones (e.g. financial services)

End of Table 7

Level	Objectives	Types of zones
Middle income economies	Support industrial upgrading; Promote GVC integration and upgrading; Focus on technology dissemination and spillovers; Specialized zones focused on GVC	Intense industries (e.g. automotive, electronics); Services zones (e.g. business process outsourcing)
Low income economies	Stimulate industrial development and diversification; Offset weaknesses in investment climate; Implement or pilot business reforms in a limited area; Concentrate investment in infrastructure in a limited area; Focus on direct employment and export benefits	Multi activity zones; Resource-based zones aimed at attracting processing industries

Source: World Investment Report 2019: Special Economic Zones. New York and Geneva: United Nations.

The Special Economic Regimes follow to four formations of the economy. High-income economies provide an efficient platform for complex cross border supply chains and preventing distortions in the economy. In high-income Asian countries, e.g. the Republic of Korea, the United Arab Emirates, for example, zones that were initially intended to attract export-oriented manufacturing are now diversifying towards services and vertical integration, whereas in Latin America and the Caribbean, SERs that initially focused on warehousing and logistics only have evolved towards manufacturing and services.

Upper middle-income economy provides support for transition to services economy, new high tech industries with focus on upgrading innovation capabilities. Technology based zones, e.g. R&D, high-specialized zones aimed at high value added industries or value chain segments are common vehicles of development in these countries. Middle-income economies have focus on technology dissemination and spillovers with specialized zones focused on global value chains. Low-income economies make focus on direct employment and export benefits.

> **Note: numerous economies are using SERs to start manufacturing, industrialization and exports. Many economies that are more advanced use zones to stimulate industrial upgrading. In transition economies, technology-focused zones are important.**

Various countries have created SEZs to promote tourism or tourism-related industries: examples include Bangladesh, China, Indonesia, the Lao People's Democratic Republic, Malaysia and the Russian Federation. Others, such as Uzbekistan, are considering the creation of such zones. In countries such as the Republic of Korea, tourism is allowed in combination with other activities (e.g. in zones catering to health tourism). Countries using SEZs to promote tourism do so for a number of reasons:

a) SEZs have administration companies that can look after investor needs, especially in countries with no one-stop shop;

b) tourism zones, given their confined and homogenous nature, can offer a better framework for integrated resort and leisure community development;

c) tourism zones can also be a conduit to bring in specific foreign investors (such as Chinese investors in the SEZ Grand Baikal in the Russian Federation);

d) environmental protection and sustainable, green development (including ecotourism) can be better administered in the confined.

The Russia's streamlines

Paying attention to the Russia's practice, the country since 1995 had passed step-by-step five phases of the special regimes evolution:

1. Industrial revitalization in 1995, which launched the special economic zones, doing strong emphasis on industrial sectors, e.g. general machinery, automotive assembling, oil extraction equipment, so on.
2. Technological upgrade of the economy when in 2015 the techno-parks, science parks and innovation clusters program had been launched.

3. Regional disproportion erasure in 2015–2018 when the special legislative acts were accepted for the Russian Far East, e.g. the advanced development territories, free port of Vladivostok.

4. Import dependency erasure in 2022–2024 in major industrial sectors with the special investment contract launching and direct financial support of the key industries.

5. Establishing the international zones abroad in partnership with the foreign governments.

The Russian Federation and Egypt signed an agreement in March 2018 to build the Russian Industrial Zone in the Suez Canal Economic Zone in Egypt. This $7 billion investment, to be undertaken in three phases, will be built by a Russian industrial developer and is expected to be finalized by 2031, providing some 35,000 direct and indirect jobs in Egypt.

In Russia the pace of newly established SEZs accelerated from the second half of the 2000s onwards, especially over the 2015–2019 period, due to the creation of Territories of Advanced Development (TADs; also called advanced special economic zones), as a response to the global crisis (fig. 3). The rapid expansion of the number of zones also included failures – 11 zones were abolished between 2010 and 2017. During the same period, SEZ programs also went through a rapid expansion in 10 other economies in the region, although the vast majority of SEZs in the region are concentrated in the Russian Federation.

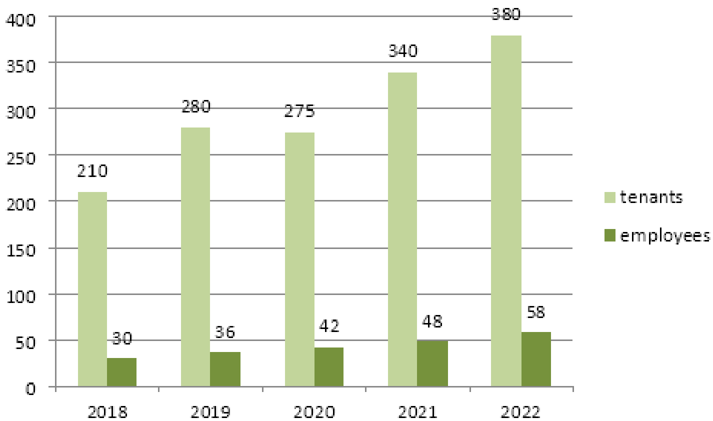

Fig. 3. Number of tenants and employees (thousand) at Russia's advanced Development territories (accordingly Ministry of Finance)

Revenue of residents of the ADT in the Far Eastern Federal District, who entered into the perimeter of territory, increased in 3.1 times from 2017 to 2022, the number of residents increased in 1.8 times, the amount of capital investments increased in 4.1 times, the number of employees increased in 2.2 times. At the same time, in 2022, despite an increase in the number of residents and an increase in the number of employees by 11,4% compared to 2021, the total volume of capital investments decreased by 15,8% over the same period.

The Russian Federation, which accounts for over 70 per cent of the region GDP, hosts more than half of the 237 zones in the region. Russia has a complex network of different types of zones, including:

a) two wide-area zones (Kaliningrad and Magadan);

b) 26 SEZs falling under the SEZ law adopted in 2005;

c) innovation Centre Skolkovo, which applies SEZ privileges according to a 2010 law;

d) 100 TADs in the Russian Far East and in single-industry towns (also called mono-towns);

e) Free Port of Vladivostok, consisting of at least five subzones (ports).

Comparing practice of Russia and the developing countries, it is worth to note, that just a few transition economies have SEZs, which cover large areas. The large surface areas of SEZs in some transition economies reflect their availability of land and the focus of some zones on resource-based industries (e.g., petrochemicals zones require relatively large surface areas). SEZs in the region vary significantly by size, numbers of tenants, industry focus and governance models (public versus private involvement). Export-oriented zones tend to attract mostly foreign firms, whereas zones geared towards regional development, such as those in the Russian Federation, host mostly domestic firms. At the end of 2019, only 19 per cent of the 656 resident firms in the Russian Federation's 26 zones established based on the SEZ law were foreign affiliates, but they accounted some 60 percent of investment.

Note: The large surface areas of SEZs in some transition economies reflect their availability of land and the focus of some zones on resource-based industries, e.g. petrochemicals zones require relatively large surface areas.

SEZs in transition economies tend to focus on general manufacturing, although in the Russian Federation, technology-oriented zones also play an important role. In addition, the Russian Federation hosts nine tourism zones. The SEZs' industry focus often reflects the host countries' industrial traditions and resource endowments. Due to the recent addition of 82 single-industry cities among SEZs, more than half of the zones in the region now focus on a specific industry. Tourism SEZs offer similar advantages as SEZs in manufacturing: customs reduction on capital goods, tax benefits, infrastructure support and facilitation of business registration. Given the characteristics of tourism (mostly bound to certain locations of natural beauty or cultural value), most countries do not consider SEZs a policy tool to promote the industry, relying instead on general incentives schemes or for the development of remote or underdeveloped areas, or other clustering techniques.

Government monitors and evaluates SEZs in several indexes: industrial production, technology innovative, tourism and recreational, as well as ports. The law establishes six indicators of SEZ efficiency:

a) investment attractiveness;
b) business environment;
c) infrastructure provision;
d) availability of land resources;
e) SEZ residents' investment activity;
f) information transparency of the SEZ website.

The evaluation is carried out annually and produces zone rankings along the criteria. The process has served mostly to create peer pressure on underperforming zones and the regional authorities of the area in which they are operating. Consistent underperformers have been removed from the list of SEZs and have been shut down. Using this mechanism, 11 zones were closed between 2010 and 2017.

The revised resolution of 2018, having adopted a philosophy of broader impact assessment, adds four pillars for evaluation:

1. Performance of residents of the SEZs.
2. Profitability of federal, sub-national and local investment in engineering, transport, social, innovation and other infrastructure objectives of the SEZs.
3. Performance of the SEZs' governing bodies.
4. Effectiveness of the planning for SEZ creation.

These general indicators are constructed from 18 sub-indicators. The evaluation methodology is differentiated by type of zone.

Conclusions to Chapter 2

A country's industrial strategy should dictate the type of SERs and the services provided to investors. Any model may generate indirect economic benefits and can exert positive externalities on the rest of the economy. They also provide an opportunity for policy experimentation and learning. The quality of port infrastructure and streamlined customs procedures typically play a more important role for firms integrated in global value chains than companies sourcing their inputs locally and serving the domestic market. In this regard, considerations should be given to the country's competitive advantage and its stage of economic development.

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Chapter 3. THE RAPID DEVELOPMENT TERRITORIES

Special Economic Regimes go by many different names, including advanced development territories, free economic zones, free ports, export processing zones, industrial parks, and come in many varieties. For diligent learning, we intentionally classified regimes in several groups. First group, spatial related regimes, e.g. agglomerations, zones, parks and other territories. Second group, operation related regimes, e.g. investment contracts and domicile rights, which do not require land allocation. Each regime has a distinct regulatory, but all aimed at rapid development of a territory or an economic sector.

In Chapter 2 we mentioned that large surface areas of SEZs in some transition economies reflect their availability of land and the focus of some zones on resource-based industries (e.g. petrochemicals zones require relatively large surface areas). SEZs in the region vary significantly by size, numbers of tenants, industry focus and governance models (public versus private involvement). Speaking about the rapid development territories (RDTs), we traditionally refer to those projects, which assume lands development for the ventures and urbanization projects.

In Russia, those include the special economic zones, the advanced development territories, free port of Vladivostok, and the regional investment projects. Rapid or advanced status means, that a territory should perform leading indexes and outstanding outputs in comparison to other territories. It based on assumption of efficient resources (labor, capital, natural) allocation and must respond the question – is the input distributed to its highest value?

Rapid development territories is a class of economic spatial agglomerations aimed at advance innovative and sustainable development of a territory, or economic sector, or a group of entities (a regional cluster) integrated as a whole with up-to-date infrastructure and the human inhabited environment, for example, Advanced Development Territories, Free or Special Economic Zones.

Note: Rapid development territories is a class of economic spatial agglomerations aimed at advance innovative and sustainable development of territories, or economic sectors, or a group of entities (a regional cluster) integrated with up-to-date infrastructure and the urban areas.

Advance Development Territory (ADT) – is a model of the rapid development territory aimed at front-edge technology projects in selected sectors, or a multi-sectoral development specially established for the Russian Far East. International Advance Development Territory (IADT) – is a trans-border form of economic clusters, which aimed at large international project in consuming sector.

The role of RDTs is erasure barriers between allocation of labor, capital, natural resources and technology within a region or national wide. The spatial growth begins from the cluster effect due a geographical concentration and cooperation of commercial firms around an anchor enterprise. That is not a new idea. The conception follows a Soviet era model so-called "territorial industrial complexes", well-recommended and effective form of funds concentration and distribution among the integrated projects.

In the home economy and worldwide, territories with regimes that depart from national rules, are necessarily public initiatives. The development, ownership and management of individual zones, however, can be public, private or a public-private partnership (PPP). Private developers are often engaged to minimize initial public outlays and to access international expertise in zone design, construction and marketing. RDTs management and oversight can involve various government levels (local, regional, national), investors and businesses operating in the zone, and numerous other stakeholders, such as financiers, industry associations and representatives from local communities or other interest groups. Numerous governance models exist, sometimes within the same jurisdiction, and the choice depends on the objectives and desired strategic focus of individual territories.

Focus at rapid development territories in the Russia's Far East

Rapid development territories, such are the special economic zones, the advanced development territories, free port of Vladivostok, and the regional investment projects had primarily been represented for the Russian Far East (RFE) with a scope of the economy revitalization facing to unconditional impact of the risks in the transition period. So, why the Russian Far East is at focus of the policy makers?

The region is on a crossroad of the North-East Asia, where a large volume of the world's GDP is produced, transferred and consuming. It concentrates major world's transportation routes and considered a major energy supplier for the growing economies of the region. For Russia, it serves as prospective transshipment processing hub, but one specific constrains these prospective plans. The region is spatially large and seriously under invested. Existing railroads and the seaports run out of capacities and should be extended critically to meet the shippers' requirement. In comparison to the central Russia, every square inch of its territory requires additional investments into roads, engineering facilities, energy supply, and the human environment. Investing in the region is still risky and low return on investment is the specific due it. As we mentioned earlier the rapid development territories aimed at intensive and balanced growth of a group of enterprises within a territory of a several hundred hectares up to 3–4 thousand square kilometers. The specific of enterprises may reflect mono-sectoral or multiple objectives as processing as well as customer related services. Typology of regimes based on three factors – specific of functions; objectives; preference vehicles (table 8).

Table 8

A simple typology of rapid development class territories/regimes in the Far East of Russia

Type/Regime	Sectoral objectives	Preference vehicles	Number of ventures
Advance Development Territory (ADT)	Multiple/Shipbuilding, Agriculture/Chemicals	Tax investment loan, low rate tenancy, plug-and-play land plots and physical infrastructure	23 (The Far East of Russia) 92 (other Russia's regions)

End of Table 8

Type/Regime	Sectoral objectives	Preference vehicles	Number of ventures
Special Economic Zone (SEZ)	Industrial, mostly assembling, tourism, logistics, innovations	Tax investment loan, low rate tenancy, plug-and-play land plots and physical infrastructure	10 (industrial type) 6 (innovative type) 7 (recreation type) 1 (logistics type)
Free Port of Vladivostok (FPV)	Sea ports and transportation infrastructure	Exemption or low tax rates, free customs regime	20 municipalities
Regional Investment Project (RP)	Multiple, mostly extraction of mineral resources	Exemption or low tax rates, low-interest financing in physical infrastructure	66
Infrastructure Support (IS)	Physical and transportation infrastructure	Low rate financing infrastructure	70

Source: by author.

Since 2017, equity investment into the residents' projects in the Russian Far East, due to statistics, has increased in 4.5 times to 2024. In the same period, number of employees grew in 1.7 times, operational revenues were growing twice. Despite to the optimistic indexes, the operating shortcoming budget revenues (debt to the federal budget) have increased from 2,5 billion rubles to 23,7 billion rubles (9.4 times). Capital investments in Russia's advance development territories (accordingly AS Efficiency of Preferences), exceeded 580 billion rubles (2021), though dropped to 450 billion rubles in 2022 (fig. 4).

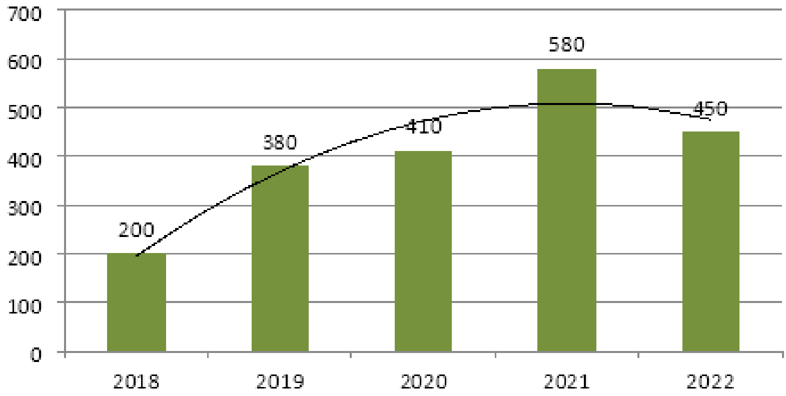

Fig. 4. Capital investments in Russia’s advance development territories (accordingly AS Efficiency of Preferences), billion rubles

Since 2014, twenty three Advance Development Territories have been established in the Russian Far East and ninety two in other regions. The revenues of the residents (fig. 5) in Russia’s advance development territories (accordingly AS Efficiency of Preferences), were growing steady and exceeded 470,0 billion rubles (5,662 billion USD).

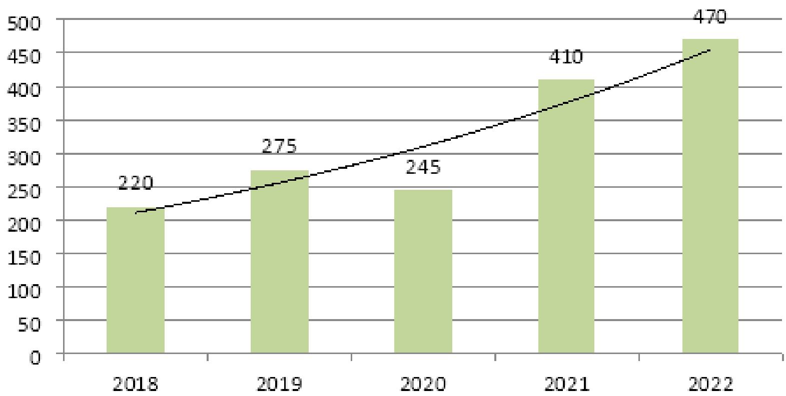

Fig. 5. Revenues of the residents in Russia’s advance development territories (accordingly AS Efficiency of Preferences), billion rubles

The output (share, %) of Advance Development Territory (ADT) in the gross regional product in 2022 was estimated in 7,8–8,2%. Sectoral specialization represents the shipbuilding, chemicals, agriculture and other economic spheres integrated with the up-to-date engineering and transportation facilities, settlements, customer services, which must inspire the agglomeration processes in the south of region.

The preferences vehicles for residents of the Advance Development Territories include the fiscal investment loan at zero interest rate within 8–10 years redemption, low rate, or no charge tenancy, plug-and-play land plots and physical infrastructure at site, single window clients' services. The set is approximately the same for the rapid development class territories in the Far East of Russia, the difference is only in functional specifics and sectoral objectives (tables 8, 9).

As expected the rapid development territories can give a boost to investment, exports and jobs. However, they are neither a precondition nor a guarantee for above-average performance on foreign direct investments and global value chains participation. The overall impact on economic growth tends to be temporary: after a build-up period, most territories grow at the same rate as the national economies. Anyway, they are a key investment promotion tool and can play an important role in attracting direct investments.

Note: Unfortunately, the impact on up-front capital investments and especially on additional investments is without special economic measures is hard to measure because data are scarce. RossStat or international statistics do not track investment in the special zones separately from the outside, and they mostly do not register foreign investment flows separately.

A functional dimension of the rapid development territories in Russia shows distinctions between regimes (table 9). Instead of an individual offering, the RDTs represent "a package preference set" of benefits for residents, along with the administrative support.

Table 9

A functional dimension of the rapid development territories in the Far East of Russia

Type/Regime	Function/Objective	Main outputs
Advance Development Territory (ADT)	Strategic focus on industrial sectoral development, business clustering, physical infrastructure, industrial and residential land development.	Agglomeration effect, industrial and urbanity zones extending/ Mass employment/ Migration at zero point
International Advance Development Territory (IADT)	Trans-border cooperation, changing patterns of international production.	A zero red tape stipulations for business. / Growth of consuming
Special Economic Zone (SEZ)	Added-value proposition for investors, building, diversifying and upgrading industries by attracting investments and best practice governance	Renovated industrial base/Extended customers' related services/ Advanced competencies
Free Port of Vladivostok (FPV)	Strategic focus on the international cargoes' transshipment and related infrastructure	Renovated cargoes' processing, warehousing engineering facilities
Regional Investment Project (RP)	Focused on multi-sectoral economy, high return commercial, but risky projects support	A zero constraints for home and foreign direct investment.

Source: by author.

Through adequate infrastructure and best practice, they can to a certain degree compensate for an adverse investment climate. Unfortunately, the impact on up-front capital investments and especially on additional investments that would not have been attracted without special economic measures is hard to measure because data are scarce.

Ross Stat or international statistics (including UNCTAD's FDI data) do not track investment in the special zones separately from the outside, and they mostly do not register foreign investment flows separately.

For example, Advance Development Territories represent fiscal investment loans, low rates tenancy, plug-and-play land plots and the entire physical infrastructure. Special Economic Zones (SEZs) are offering similarly the same, but some distinctions exist. While the strategic point of the Advance Development Territories is mainly large-scale industrial projects, the Special Economic Zones targeted at middle-size ventures, presumably in the consuming and clientele services. A mixed new model of International (trans-border) Advance Development Territory (IADT) announced in 2023 is going to be the first in Russia large-scale free trade and processing zone.

The nature of rapid development territories in Russia's Far East is distinctive. They have a strategic focus at sectoral development (mainly industrial), ventures clustering, physical infrastructure, engineering facilities, and the urbanities projects. The idea was in concentration investments within a localized territory with low rate tenancy, plug-and-play land plots and available physical infrastructure. It gradually must erase disproportion between various regions in terms of access to capital and establish takeoff points, which might stimulate the agglomeration processes.

Note: The rapid development territories in Russia's Far East have a strategic focus at sectoral development (mainly industrial), ventures clustering, physical infrastructure and engineering facilities modernization, and, in the last days, the urbanities projects.

As we mentioned, the rapid development territory, as an economical form of interaction between business and public institution has constraints. Constraints factors of applying rapid development territories in Russia's Far East, we should notice, are the next:

Making a diligent assessment of efficiency the preferences is a tough process. About 80% of the up-front investments in the advanced development territories in the Far Eastern Federal District attracted into large investment projects with sum of capitalization over 100 billion rubles, which additionally apply other tax benefits and non-tax support measures in addition to those provided for by the ADT (for example, fiscal deductions for petrochemical projects).

That’s a fact the idle interaction between regional executive authorities and local self-government with business for assessing the economic efficiency of an investment project planned for implementation and there is no system of responsibility (including financial) of the subjects of the Russian Federation and the management company for failure in achievement the indicators previously established in the agreements.

It is hard enough to confirm the sources of debt financing for investment projects planned for implementation on a preferential basis (bank guarantees are provided in case of obtaining resident status before signing the relevant agreement). There is an inefficient use of federal budget funds due to the construction of unclaimed infrastructure facilities, as well as risks for the federal budget in terms of providing tax incentives for projects whose probability of successful implementation is low.

The respond might be a newly announced for the Far East of Russia model of concession which reflects a specific in public-private partnership (PPP), that imply a legal reciprocal obligations of public and private sectors to build and operate a real estate or physical infrastructure. The government compensates to investors up to 100 % of the estimated expenditures in the infrastructure and facilities within 10–20 years if the facility put into operation. It assumes, that new mechanism will allow compensate risks of “uncertainty” and substantially increase the volume of financing into infrastructure projects and attract up to 500 billion rubles by 2024.

Due to abundant natural resources, the new mechanism of public-private partnership will also be interesting in the development of related and supporting infrastructure for large mining, industrial, and processing, logistics facilities. In particular, some investors will be interested in projects in the social and communal energy sector, while other ones will be interested in transport and engineering infrastructure for industrial, logistics and resource-producing enterprises.

Conclusions of Chapter 3

Going to conclusions we should bear in mind, the objective of the rapid development territories is acceleration of the economic system national wide. Functional distinctions reflect the essence of problems, for example, red tape or unreliable electricity supply considerably increases the cost of doing business. All of these constraints are present *in low-income countries, but their prevalence may vary from one country to another. By granting land for industrial activities, providing high quality infrastructure, and streamlining bureaucratic procedures, Special Economic Regimes have the potential to overcome these distortions.*

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Chapter 4. THE SPECIAL ECONOMIC REGIMES MISCONCEPTIONS AND CRITICISM

Free economic zones differ substantially among economies at a different phase of growth. In matured economies – most zones are customs-free. Their role is provision the relief from tariffs and, more important, from the administrative burden of customs procedures, in order to support a complex cross-border supply chain. In developing economies, in contrast, the primary aim of zones is generally – to build, diversify and upgrade industries by attracting investments. Developing countries are typical subjects to a wide range of market failures and misconceptions. Political constraints, economic disturbances, or high up-front investment costs may lead to a bankruptcy of the project.

First attempt of making the Russia's free trade zone had failed despite to all attempts to push the market transformation on. So-called free economic zone of Nakhodka was first Russia's international free trade seaport with a special regime, which eventually led to in bankruptcy in 2005 facing to a number of reasons – legislative, bureaucratic, and macroeconomic. In 2011–2014, the national legislation had been critically improved to secure equity investments in a volatile Russian market. In the Russian Federation, there are more than 130 SEZs established under several SEZ laws.

The Federal Law on Special Economic Zones adopted in 2005 is a generic legal framework for the establishment and operation of four major types of SEZs: industrial, technological, touristic and logistical. It aims to develop targeted sectors and industries. The law provides customs benefits and financial preferences at the federal, regional and local levels, and facilitates administrative procedures. It stipulates that the establishment of an SEZ require a federal government decree. As of April 2019, there were 26 such SEZs operating in the country.

In addition, the regional development policy is supported by the Federal Law on Territories of Advanced Social-Economic Development, which distinguishes between two types of territories of advanced development. As of April 2019, there were 18 such territories in the Far East part of the country that run by the public entity, JSC Far East Development Corporation. The law also allows for the establishment of “single-industry town” territories of advanced development, which are confined to municipal boundaries and operated by local authorities. There are 89 territories of that type. Furthermore, some additional federal laws have set up specific zones and regulate all aspects of these SEZs’ operations without needing implementing decrees. Their aim is the development of specific regions.

As we mentioned in the Chapter 3 the Russian Far East is large and under invested, so it has own legislative regulation. Investing in the region is still risky, low return on investment is the specific due it. Existing railroads, and the seaports run out of capacities and should be extended critically to meet the shippers’ request. In comparison to the central Russia, every square inch of its territory requires additional investments into roads, engineering facilities, energy supply, and the human living environment.

Note: every square inch of territory requires some additional investments into roads, engineering facilities, energy supply, and the human environment. Investing in the Russian Far East is still risky and low return is the specific due it.

In the beginning of 90-th XX century ideas of establishing a free trade zone at sea ports of Nakhodka and Vostochny were daring but reasonable. Vostochny sea port was built with technical assistance of Mitsui and Sumitomo intentionally for trading coal and timber with Japan and for the intermodal container transshipment from North America and Japan to Europe. The place was a domicile for largest home fleets of PRISCO (tanker fleet) and BAMR (fishery vessels), the zone possessed the first class shipyards and deep-water berths.

In 1990–1992 the zone accommodated the world largest companies Hyundai, P&O Australia, Links/Sea Land, Cable & Wireless, Sumitomo. The focus was at stevedore services, satellite global telephoning, timber processing and consignation warehousing. The residents seek “the easier access” to enter Russian market more, then “no customs duties paid” because, in fact, not any juridical act was effective regarding off-duties regime.

Note: In 1990–1992 free zone Nakhodka accommodated the world largest companies Hyundai (trade operation, lumbering concession), P&O Australia (stevedore transshipment operations), Links/Sea Land (expeditors), Cable & Wireless (mobile satellite telecommunication), Sumitomo (timber trade operation).

Prospectively in the free zone must be allocated3 techno parks with foreign capital specialized in assembling, textile, bonded warehouses, but incompetency and idle governance led the free zone to bankruptcy de-jury in 2006 due to finance losses in infrastructure projects. However, de-facto yet in 1998 the financial crisis had stopped the infrastructure projects, and the bureaucracy absorbed the initiative. Delay with the accepting of legislation base did the preferences illegal. Misunderstanding of the market ideas, the hyperinflation, failures with catching up the investments and advanced skills, made the free zone ineffective.

However, the opportunities were visible (table 10), political uncertainty and hyperinflation hit severely the free zone. The preferences were inadequate to compensate the risks and did not balance the threads. High returns on equity investments seen more hypothetically than realistic because of absolute uncertainty – political, business behavioral, mental.

Table 10

Investors' balance of interests in Free Zone of Nakhodka

"Opportunities"	Access to M&A market and voucher privatization, Seaports Vostochny and Nakhodka, equity investment and value added projects, e.g. telecommunication, distribution sector, financial services	"Preferences"	Custom duties and tax postponements, but were illegal Brown fields for industrial residents declared, but not executed

End of Table 10

"Incentives"	Undervalued assets, High return on dollar investment hypothetically, Cheap and educated labor force	"Risks and Threads"	Political uncertainty, Hyperinflation, No acceptable legislation, Bureaucracy and incompetency of management

Sources: by author.

Anyway, the free zone did the endowment in business practice of local enterprises giving them lessons of market economy. Although Special Economic Zones are widely used in the national economy, there is no still any success story in the Russian Far East. Despite to all attempts to revival logistics free zone in Khabarovskiy krai, industrial and recreation zones in Vladivostok, they all had suffered fiasco, because just a fewer tenants were interested in location and preferences. Contrary, closely located China, alone hosts over half of all Special Economic Zones in the world. Other countries of the region including India, Laos, Vietnam, and the Philippines have extensive measures aimed at creating special incentives for business activities free of burden and additional hidden obligations.

Conclusions

Learning the lessons of free zone of Nakhodka we can conclude, that hyperinflation made economically impractical and risky the investment into the projects financing from the federal budget loans following the agreement with the Russia's Ministry of Finance.

Skeptical view at the efficiency

Is it evidently that the preference driven economy is giving the efficiency? According to Foreign Investment Advisory Service[1], only a few large rapid development territories (RDTs) could attract significant amounts of investment and generate a large share of exports, while many others, often smaller zones, remain relatively inactive. One or two

[1] Foreign Investment Advisory Service is a subdivision of the International Finance Corporation.

territory can significantly affect a country's foreign direct investments and export performance.

For the last several years, the skeptical attention towards the special regimes has been constantly growing. The reasons regard to low viability, because most developed economies do not have the territories apart from the public programs. The business environment in these countries is considered sufficiently attractive, and many offer alternative policy schemes to facilitate trade in cross-border supply chains, such as duty drawbacks or systems of bonded warehouses. Second, economies that face particular geographical challenges have limited resources to create zones, and their locations often make the development of export-oriented manufacturing less viable.

Note: economies that face particular geographical challenges have limited resources to create zones, and their locations often make the development of export-oriented manufacturing less viable.

Another skeptical opinion arose regarding finance efficiency of the preferences. According to estimations of Russia's Ministry of Finance, about 35 investment fiscal benefits and preferential tax regimes are currently applied in the home economy. Over the past 5 years, the sum of budget shortfalls due to provided investment and preferential fiscal regimes has increased from 0,8 trillion rubles in 2017 to 2,0 trillion rubles in 2021, which is about 26% of the expected total expenditures of the federal budget.

From 2017 to 2022, the total amount of shortfall in budget revenues of the budgetary system of the Russian Federation (for residents of INL who entered the perimeter of the analysis) increased from 4,4 billion rubles to 56,4 billion rubles (12.7 times), including from 2,9 billion rubles to 23,0 billion rubles (8.0 times) for tax benefits and from 1,5 billion rubles to 33,4 billion rubles for non-tax support measures (21.6 times). Thus, in 2022, the share of tax benefits and non-tax support measures in the total amount of shortfall in budget revenues of the budgetary system of the Russian Federation for residents of this INL who entered the perimeter of the analysis was 40,8% and 59,2%, respectively (fig. 6).

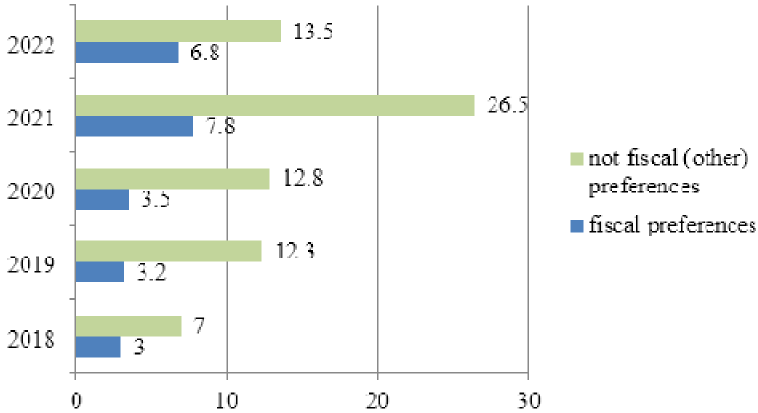

Fig. 6. Fiscal and not fiscal preferences within the special economic regimes in Russia, billion rubles

Thus, in 2022, the share of tax benefits and non-tax support measures in the total amount of shortfall in budget revenues of the budgetary system of the Russian Federation for residents of this INL who entered the perimeter of the analysis was 40,8% and 59,2%, respectively.

First, there are a significant number of individual investment tax benefits and preferential tax regimes that overlap in their objective the regulatory, which, among other things, can lead to low efficiency of the government's policy and complicate its administration. There is no a methodology for determining priority sectors of the economy (for example, those which not represented in some particular region) for the purpose of attracting new residents to extend the preferential regimes and diversifying the structure of activities.

Second, a number of taxpayers have declared a basic tax code, which does not correspond to the initial code of economic activity. For example, most rapid development regimes are aimed at the manufacturing and high technology sectors of the economy, but instead taxpayers engaged in leasing, warehousing or ore mining activities, doing business operations, as the legal residents on they own way. Most taxpayers, applying the Individual Fiscal Preferences (IFP), do not accept any legal obligations (for example, in terms of provision the outputs). According to a number of IFP, up to 10% of taxpayers are excluded from the fiscal analysis due to frauds and negligence in submitting the accounting statements. At the same time, existing penalties for the fraud do not lead to improvement of the information provided.

Finally, there is no system of penalty (including financial) for negligence to obligations and indicators stipulated in the agreements with the Russian Federation, or development institutions, or management companies.

The Accounts Chamber of Russia critically notes, the Special Economic Regimes, including rapid development territories, have a positive impact on employment, but did not stop population outflow. They have not still become a driver for the Russian economy, and their role has just over estimated. Direct and indirect economic contributions of SERs should be weighed against their construction and operating costs.

Note: Though, the Special Economic Regimes did not stop the migration outflow, they still have a chance to become a driver for the Russian Far East economy.

Factors that can negatively affect the financial and fiscal viability of any zone include:

a) high up-front costs due to over-specification;
b) subsidies for zone residents;
c) transfers to zone regimes of already operating firms;
d) illicit financial flows.

Growth of economic activities within the Special Economic Regimes does not necessarily ensure that the special regimes make a net positive contribution to the economy, because zones may rely on significant government subsidies. Special regimes' economic contribution should thus be weighed against the resources they receive from the public sector.

Note: We need not rely, that the special regimes make always a net positive contribution to the economy, because zones may rely on significant government subsidies. Special regimes' economic contribution should thus be weighed against the resources they receive from the public sector.

Subject for skepticism is a real endowment of some zones in the national economy. According to the UNCTAD, special economic zones remain enclaves with few linkages to the rest of the economy. The reason is a relatively high import intensity of some of the industries common in zones, such as apparel, footwear and electronics. The tendency of multinational enterprises to establish affiliates in zones leads to reliance on internal suppliers or on suppliers that are already in their international network as part of global sourcing strategies. The next reason is a scarcity of competitive local suppliers in relevant industries – or unawareness of their existence by zone-based firms. Local firms in many developing countries may lack the capacity to serve zone-based investors, may not produce according to the required standards or may struggle to access zone-based firms.

Special economic regimes have long been criticized over the world for negative social and environmental impacts. The treatment of women, labor standards and working conditions in zones has been highlighted, as have pollution and misuse of land. Common concerns regarding labor issues include the suppression of core labor rights (e.g. collective bargaining), poor employment conditions (e.g. working hours, health and safety standards), lack of training or skill upgrading, use of trainees to lower wage costs, and exploitation of women (e.g. lower wage levels, lack of childcare, inadequate rights during pregnancy).

On the one hand, as enclaves of differential regulation, zones can reduce the pressure for governments to pursue difficult nationwide structural reforms. On the other hand, zones can serve as regulatory laboratories by allowing countries to test different policies and new approaches, with successful experiments serving as a catalyst for countrywide policies. China is well known for using SEZs to pilot economic policies that later have been introduced across the country. Zones have been used as pilots in other regions as well, including South and West Asia, where SEZs have been used to test the liberalization of foreign ownership restrictions. The fiscal and financial viability of SEZs and their overall sustainable development impact are both equally important.

Governments may well accept bearing the fiscal burden of zones for some time in order to support industrial development objectives and to spur broader business reforms. Yet they cannot endlessly cover the costs of zones that do not pay for themselves through direct and indirect economic contributions that lead to higher fiscal revenues. Zones that are not run on a cost-recovery basis or that entail significant subsidies are at higher risk of becoming financially unviable. Ultimately, a positive overall sustainable development impact contributes to gradual industrial transformation. This implies that the role of SEZs needs to evolve over time. The economic activities within zones should change, along with the emphasis that governments place on different parts of the cost-benefit analysis.

Note: Governments may well accept bearing the fiscal burden of zones for some time in order to support industrial development objectives and to spur broader business reforms. Yet they cannot endlessly cover the costs of zones that do not pay for themselves through direct and indirect economic contributions that lead to higher fiscal revenues. Zones that are not run on a cost-recovery basis or that entail significant subsidies are at higher risk of becoming financially unviable.

Conclusions to Chapter 4

Linkages between zone-based investors and domestic suppliers are important not just to transmit technological and skills spillovers that support broader industrial development. They are also important to ensure that zones become bridges to structural reform in the broader economy, as investors interact with the local business environment and local firms indirectly experience business climate. This is the key rationale for the continued use of Special Economic Regimes in the recent wave of new industrial policies.

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Chapter 5. THE RUSSIAN TAX HEAVEN AND INNOVATION ZONES

Since 2022, when the sanctions had been tightened for Russia's economy, large foreign providers of customer related services began interrupting accounting, lawyers, finance and marketing consulting services for foreign companies with "Russian capital". Foreign banks illegally started blocking the accounts without any explanation; in the result some assets had been frozen. All these unfriendly steps forced process of redomicilation of the "Russian "roots" companies under the Russian jurisdiction in so-called Special Administrative Region or SAR.

The SARs' located in the Russkiy Island (the Russian Far East) and island of Oktyabrsky (Kaliningrad region) since August 2018. The purpose of SARs is providing the preferences and services attractive for foreign business, including those with Russian "roots". This model of Special Economic Regimes has been legally launched in 2018, but was staying at a zero point until 2022. From this point and on, the number of residents of the Special Administrative Regions has being continuously growing.

At first sight, this model represents a simple tax heaven, where the international companies have unlimited opportunities, but not only the tax exemptions. Indeed, an international company can be any foreign legal entity, which is a commercial corporate organization decided to change the company personal law. Special requirement is that an international fund may be a foreign unitary legal entity whose founders are not its participants and do not participate in the distribution of profits, and also do not possess special rights. The enterprise is established for a certain purpose and decided to change its personal law in accordance with the procedure implied by such a personal law. International holding companies follow the same rules like the international companies doing, but with a special legal status in order to receive tax benefits [1].

Note: SAR is a territory where the legislative regime of "tax heaven" is major incentive, but not only… Redomicilation is a process of going a firm off a foreign jurisdiction and its registration accordingly to the Russia's national legislation within the Special Administrative Region.

For all residents of the SAR established the next preferences:

a) a fiscal base of business is valued at a market value on the date of redomicilation;

b) fiscal control regarding taxation periods “before redomicilation” is prohibited;

c) companies do not pay the tax on vessels after registration in the open register of vessels.

Additional preferences for all residents – tax on the dividends is nil, if a foreign company of an individual are the bearers of incomes, the tax is 5 percent.

Not fiscal preferences:

a) consultancy assistance before redomicilation;

b) “One window” registration;

c) permission to erect infrastructure;

d) rights to apply a foreign corporate legislation in a company charter.

Besides tax benefits the residents have accounts (from bank deposits) with banks outside the territory of the Russian Federation to one's bank account (to bank deposits) at authorized banks, as well as the right to transfer without limitation foreign currency and the currency of the Russian Federation from its bank accounts (from bank deposits) in authorized banks to its accounts (in deposits) at banks outside the territory of the Russian Federation.

A minimal property endowment, established for purpose of registration the personal international fund is 500 million rubles.

Among 390 participants in Russian special administrative regions there are 388 international companies and 2 international public benefit funds. Of these, 92 international companies (fig. 7) were located in Russkiy Island on January 1 of 2023, and 100 to be located in 2024. Over 296 companies and 2 international social benefit foundations are located on Oktyabrsky Island. In the end of 2023, more than 332 participants were registered (331 international companies and 1 international public benefit fund).

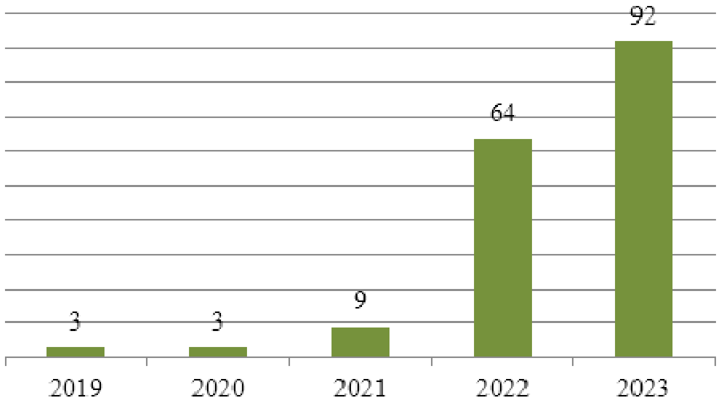

Fig. 7. Number of residents at Russkiy Island SAR, annual average

The total amount of investments accumulated in both SARs for 2019–2023, according to reports of management companies, had amounted to 85 billion rubles (approx. 977 million USD). According to the Federal Tax Service of Russia for 2023, tax payments in two SARs are about 24 billion 852 million rubles (fig. 8).

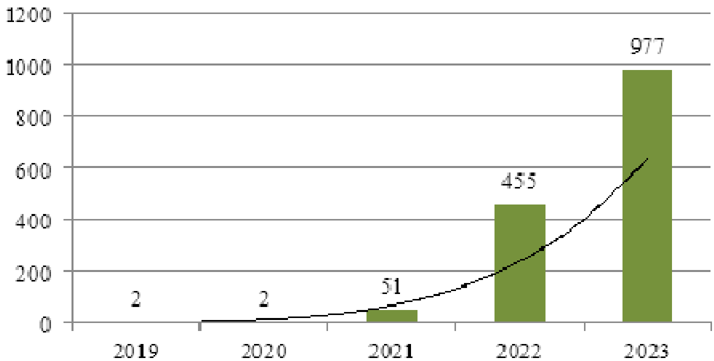

Fig. 8. Total accumulated investment in Russia's SARs, million USD[1]

For Russia the SAR is absolutely new approach for accumulation of funds for long-horizon low return projects in the Russian Far East. Since

[1] As of June 29, 2023.

the beginning of 2024, additionally 90 new residents have registered in the SAR, and the first international personal investment funds have been launched. In the beginning of June 2024, 418 residents were already registered in the SAR, including 410 international companies, 2 international public benefit funds, and 6 international personal funds. While the number of new residents is continuously growing, total amount of tax payments for 2018–2023 exceeded 38 billion 492 million rubles.

Territory (a domicile or legal address) for foreign companies should respond to some conditions:

a) easy access to M&A market information and no obstacle to enter the market, easy access to major global markets and transportation hubs, that minimizes business related transactions;

b) equal, or bigger returns (profits),or any opportunity to gain return on investment not less or higher in comparison with the analogue enterprises within a home market. In Russia those sectors include land development, residential and commercial real estate, distribution sectors and the customers' related service, including financial;

c) a low risk principle implies that all risks are evident and affordable;

d) a strategic location close to key infrastructure hubs (e.g. ports and airports) and close to labor pools is fundamental to attracting investors into the SAR.

Worth to note, that strategic location closely to key infrastructure hubs (e.g. ports and airports) and nearby to labor force is a fundamental issue for attracting investors into the SARs. Several studies have shown that closeness to ports or large cities is more likely to spur region dynamism than locating SAR in more remote areas. In fact, in most developing countries with one or very few major urban agglomerations, the distance to the largest city is negatively correlated with zone performance, indicating that SAR may not be the most effective tool for the development of remote or relatively poor regions.

SAR performance, as well as any other model of preference regime, depends on an attractive business environment, including good infrastructure, an adequately skilled labor force and efficient services. Although fiscal incentives and subsidies are important to attract investors, SARs can be developed successfully without excessive reliance on incentives. In contrast, primary reasons for the failure of many unsuccessful programs are weak governance, complex procedures, and insufficient infrastructure and services. Effective development often relies on pragmatically resolving problems ranging from slow connection of businesses to utilities to a lack of public transport links for workers living outside the zone.

Priority services depend on context, objectives and investor profiles. For example, being able to provide effective security services can be a key competitive advantage in a SAR with extensive warehousing and logistics operations. The attractiveness of SARs for investors is further enhanced by the synergies and economies of scale that it can deliver through the promotion of clusters and linkages with the local economy. Vertically specialized territory have a greater scope for synergies, but multi-activity zones can also promote cost-sharing arrangements, e.g. for warehousing and transportation, and shared services. Within large multi-activity zones, smart co-location strategies can bring industries with greater scope for collaboration physically closer together.

Matchmaking programs and training initiatives for local SMEs outside the zone stimulate linkages that are important not only for SARs' broader economic impact but also for their long-term prospects. Well-designed legal and regulatory frameworks and institutions, as well as good governance, are vital to the success of a SAR. The enabling legal infrastructure (national laws, in most cases) should be sufficiently stable to ensure consistent, transparent and predictable implementation of policy. Also, SAR operating procedures should be practical and responsive to the needs of investors. The legal infrastructure should set out investment rules, institutional arrangements, fiscal incentives and tax administration, licensing and regulation of business activities, trade facilitation and customs control, and dispute settlement mechanisms.

The hints, which would effectiveness of the SARs authority responsible for the enforcement of the legal framework, will make or break a SARs program. Independent agencies under a board of directors including both public and private sector representatives have the better record of accomplishment. Finally, good governance and the rule of law, including effective anti-corruption procedures, are crucial. Coordinated promotion efforts between SARs authorities, developers and IPAs are important for an effective approach to potential investors. The institutional set-up and the role of IPAs vary between countries. In most cases, IPAs do not distinguish their activities for SAR from their other investment promotion efforts. A joint effort could lead to targeted initiatives for SARs; it would have the advantage of more effective linkages with investment facilitation efforts in the rest of the economy; and it would integrate SARs more seamlessly into national investment promotion strategies. Clearly assigned roles are important, separating responsibilities for promotion efforts, approval processes, the granting of incentives, and the monitoring of adherence to zone policies [2, 3].

Innovation zones

Like the rapid development territories, the innovation special economic zones come in different forms and under different names. Abroad, the science parks and innovation districts are the common forms, in Russia the special economic regimes taking a form of territorial innovative clusters, or innovative special economic zones, and the Innovation Centre Skolkovo. Most territories are not the Special Economic Zones, as they tend to lack a distinct regulatory framework. Conversely, not all zones that focus on science, technology and innovation qualify as science parks since they may not have recognizable links to knowledge-based institutions (e.g. universities). A synergism of functional and product special economic regimes may have effect if the special administrative region combine with innovation zones.

The activities in science parks and high-tech zones tend to be distinct. The science parks are focusing on the commercialization of research and the incubation of start-ups, and the high-tech zones on scaled-up manufacturing in technology-intensive industries. The Innovation Development Territories, we conditionally may place in two groups, following the substance of their ecosystems:

1. The science parks and innovation districts are the conglomerates focusing on the commercialization of research and the incubation of start-ups, e.g. San Francisco's Mission Bay, innovation centers such as Skolkovo and Innopolis in Russia. They tend to be growing, transforming into a model of territorial innovation cluster or innovative special economic zone.

2. Localized at industrial sites, the science parks and techno parks, aimed at scaled-up manufacturing in technology-intensive industries.

The difference is in specific role, if R&D conglomerates have the primary core – a university or institution, and they are rarely gathering ventures around, while the science park is a group of independent enterprises united around an anchor producing enterprise. As the commercial chains these forms extended abruptly in 2008–2010 in the wake of Michael Porter's hints on the Russia‘s economy.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) has estimated, that there were over 400 science parks by the early 2010-s. Nowadays, the rough estimation varies depending on how such institutions are defined and related, first. The International Association of Science Parks and Areas of Innovation defines the aim of a science park as “promoting the culture of innovation and the competitiveness of its associated businesses and knowledge-based institutions”. Relatively few entities meet the criteria for both special economic zones and science parks.

Most science parks are not SEZs as defined in this report, as they tend to lack a distinct regulatory framework. Conversely, not all SEZs that focus on science, technology and innovation qualify as science parks since they may not have recognizable links to knowledge-based institutions (e.g. universities). The activities in science parks and high-tech zones tend to be distinct, with the former focusing on the commercialization of research and the incubation of start-ups, and the latter on scaled-up manufacturing in technology-intensive industries. An EU report in 2013 estimated that there were 366 science and technology parks in the EU member States, covering about 28 million square metres of completed building floor space and hosting some 40,000 organizations that employed approximately 750,000 people (European Union, 2013). The report estimates capital investment in these parks to have been about €11,7 billion in the period 2000–2012, of which €4,8 billion was public funding.

Much of the capital expenditure was for building works. China had established 156 high-tech development zones (HTDZs) by the end of 2017. Starting in the late 1990s, HTDZs were established in major cities such as Beijing and Shanghai and in provincial capitals, building on the existing knowledge and industrial base. They then spread across the country. Incentives offered include access to quality infrastructure, corporate income tax exemptions for the first two years, a preferential 15 per cent corporate income tax, exemptions from tariffs on high-tech equipment and special treatment for employees at the discretion of each zone, such as exemptions from income tax, subsidies on housing, cars, etc. In 2017, the 156 HTDZs contributed $1,42 trillion to China’s GDP, or 11,5 per cent of the economy. In these zones, the ratio of research and development (R&D) expenditures to total production value was 6.5 per cent, three times the average in the national economy. Patents granted to enterprises in the zones account for 46 per cent of all business patents granted nationwide. In Turkey, technology development zones (TDZs) are areas designed to support R&D activities and attract investments [4, 5].

Conclusions to Chapter 5

The SAR regime is constantly evolving; new institutions that were previously unknown to corporate practice and Russian jurisdiction are emerging. Sectoral specialization of the SARs' residents includes telecom and data processing companies, coal mining, financial companies, customer related service and distribution. Firms operating in SARs have greater scope to interact and collaborate, get access to pool resources and share facilities. They get more than in a specialized zone, because multi-activity territory, like the special administrative region is, can extract more the benefits of co-location.

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Chapter 6. MORE CHALLENGES FOR THE SPECIAL REGIMES ECONOMY

Despite recent legislative changes and organizational efforts, most resident-enterprises in Russia and worldwide are engaged in labor-intensive, assembly-oriented activities such as automotive, apparel, textiles, and electrical and electronic goods. The product specialization tends to be linked to the host country's level of industrial development, with the least developed countries generally hosting multi-activity non-specialized zones. More developed economies focusing on industries and value chain segments that promote industrial upgrading.

Key challenges today for the special regimes, like an institute of economic development, are infrastructure support to investors (42 percent) and the domestic presence of capable suppliers (43 percent) outside the zones (fig. 9). That is besides the competition (47 percent), the supreme factor of success or survival of the economic system [1]. The issue is at the top of concerns along with incentives packages, the cost of labor and strategic concerns such as zone specialization. Policy debates on special regimes and what makes them successful have generally focused on five the key considerations:

a) strong requirement to identify the strategic focus at a country overall development;

b) appropriate regulatory frameworks and governance structures;

c) added value proposition for investors, the package of advantages that provide an individual fiscal and financial preference;

d) risk secured investment approach, when the government shares the structural and variable risks through participation in the equity;

e) capital efficiency approach in identifying the investment goals.

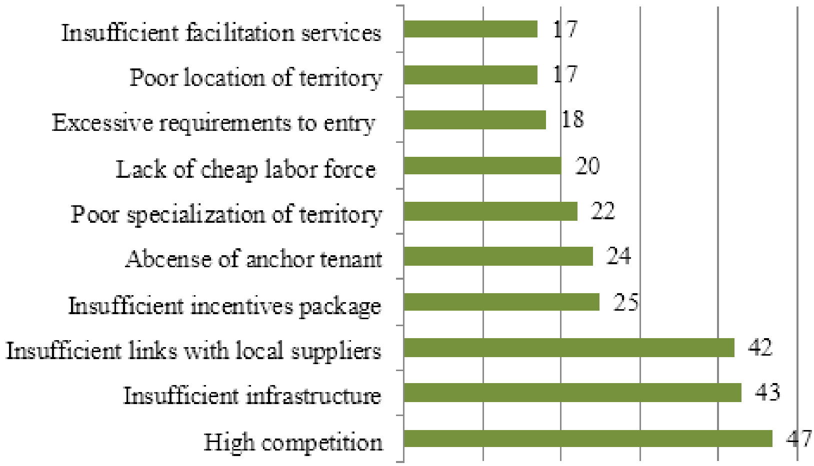

Fig. 9. Key challenges for special regime economies
(source UNCTAD's World Investment Prospects Survey 2019;
120 respondents from 110 economies)

The overall value proposition of individual services includes a host of location advantages, only some of which are determined or can be influenced by government policy. Focusing on those that depend on active policy decisions, the first and most important feature is the choice of location. SER policies often specifically aim to promote the economic development of more risky regions, for example areas with high levels of unemployment or population outflow (table 11). Structuring risks on macroeconomic, investment and operation related we can choose an appropriate regime which might as individual or more adopted to a national economy strategy plans.

Table 11

Special regimes options regarding to risks

Macroeconomic risks	Investment phase risks	Operation phase risk
Natural loss and decrees of population	Extraordinary investment expenditure on the initial phase	Operational returns lower than expected

End of table 11

Macroeconomic risks	Investment phase risks	Operation phase risk
Migration outflows	A synchronicity of finance available and required expenditure	High operational expenditure, over cost of the outputs
Skilled employees outflows and unemployment	Market outer factors changes	Severe competition to entry the market
Special economic regime options		
Rapid development territory	Infrastructure support, special investment contract, regional investment project	

Source: by author.

The incentives offered in zones are generally considered a key element of the value proposition. Nevertheless, the use of generous incentives packages to offset location disadvantages may be ineffective. Recent analyses find no correlation between fiscal incentives offered to investors and zone growth in terms of jobs and exports (Farole, 2011; Frick [et al.], 2019). Incentives on their own are therefore insufficient to explain zone performance. The lack of correlation may be caused in part by the increasing convergence of zone investment incentives and the lack of differentiation.

Note: The use of generous incentives packages to offset location disadvantages may be ineffective. No found a correlation between fiscal incentives offered to investors and zone growth in terms of jobs and exports. Incentives, on their own, are therefore insufficient to explain zone performance. The lack of correlation may be caused in part by the increasing convergence of zone investment incentives and the lack of differentiation.

Some variations in fiscal incentives exists, but only at the margin – most incentives packages include exemptions from import duties on machinery and inputs, as well as reductions in or exemptions from corporate and other local taxes. More important than the incentives package on offer may be the facilitation of administrative procedures for businesses and investors in the zone through regulatory streamlining and one-stop shops or single windows. Failed zones or zone proposed plan that have struggled with effective implementation have generally been negatively affected by excessive bureaucracy (Moberg, 2015).

A policy approach encouraging zones to compete on the basis of streamlined administration, adequate facilities and efficient services rather than on (relatively undifferentiated) incentives is considered a better predictor of success. Elements commonly prioritized in business and investment facilitation efforts include simplified investment approval processes and expatriate work permits, removal of requirements for import and export licenses, accelerated customs inspection procedures and automatic foreign exchange access. Single windows dedicated to individual advanced development territory, such as those 22 launched in the Far East of Russia, can boost facilitation efforts.

Infrastructure and services are challenge for zone success for most zones in lower-income countries is to ease the infrastructure challenges in the country and to concentrate public investment in infrastructure in a limited geographical area. Infrastructure connections should ideally provide access to at least two transportation modes to allow for intermodal and sufficient connectivity. Commonly developed basic infrastructure services further include reliable utilities, telecommunication, and water and waste management installations. Non-infrastructure services are equally important. Dedicated customs offices and inspection units are the common feature of special regime territory by definition, but other services may include security, human resources-related services, and catering or housing services, among others. Such services are an integral part of modern wide-area or township-like zones, which include residential and commercial areas on site.

Note: Non-infrastructure services are equally important and may include security, human resources-related services, and catering or housing services, among others. Such services are an integral part of modern wide-area or township-like zones, which include residential and commercial areas on site.

The key issue should be addressed to the law makers for the special economic regimes for the next decade:

1. Providing a synchronicity the special regime territory proposed plan with the national economy development programs. The special territories strategy should not be formulated in isolation from their broader policy context, including investment, trade and tax policies. The types of zones and their specialization should build on existing competitive advantages and capabilities. And long-term zone development plans should be guided by the SERs development plan.

2. Proposed development plans should correlate with the Sustainable Development Goals with strong emphasizes on the needs for financial and fiscal sustainability of zones, as their broader economic growth impact can be uncertain and take time to materialize. High upfront costs due to over-specification, subsidies for zone occupants and transfers to zone regimes of already-operating firms pose the greatest risks to fiscal viability.

3. Active support is required to promote clusters and linkages, which is a key to maximizing development impact. Firms operating in zones have greater scope to collaborate, pool resources and share facilities – more so in specialized zones, but multi-activity zones can extract some of the benefits of co-location. Pro-active identification of opportunities, matching efforts and training programs, with firms within and outside the zone, significantly boosts the impact.

4. It is necessary to provide a solid regulatory framework. Strong institutions and good governance are critical success factors. The legal base should ensure consistent, transparent and predictable implementation of policies. The responsibilities of governing bodies should be clearly defined. Zones benefit from having public and private sector representatives on their boards.

5. The sustainable development agenda should be reflected in strategic decisions and operations, and in the value proposition to investors. Modern special economic territory can make a positive contribution to the ESG performance of countries' industrial bases. Controls, enforcement and services (e.g. inspectors, health services, waste management and renewable energy installations) can be provided more easily and cheaply in the confined areas. These territories are traditionally big employers of women, with about 60 per cent female employees on average. Some modern zones are implementing gender equality regulations, such as anti-discrimination rules, and support services, such as child care and schooling facilities, setting new standards for SDG performance.

6. The governments should accept and share the risks of investing along with investors on reciprocal and equal basis, especially in these projects which giving a mass job places and high personal incomes of the local population.

7. A synergism of functional and product special economic regimes may have an effect if the special administrative region combine with innovation zones.

High upfront costs due to over-specification, high initial investment expenditure into a green-field project may have a critical weight in decision making process (table 12). For example, a project of coal exploration and extracting which is distantly located from transportation and power supply facilities may be ejected by investor off the investment plans. Untimely and insufficient financing of a project, deviations from the financing plan may affect the delay in deadlines and poor-quality work.

Table 12

Vehicles of risks compensation

Level / Group of risks	Characteristics	Vehicle of compensation
Critical	High upfront costs due to over-specification and high initial investment expenditure into a green-field project	Such regimes as “regional investment project” or “infrastructural support” provide financing of infrastructure from the public budgets
High	Untimely and insufficient financing of a project deviations from the financing plan, which affects the delay in deadlines and poor-quality work	The "regional investment project" regime may provide a long-term revolving loan at low cost
Moderate	Changing of factors affecting the technological and product model of the project, for example, the emergence of a new technology makes the project "obsolete"	The "special investment contract" mode provides financing of a modern technological decisions from public funds

Source: by author.

Changing of factors affecting the technological and product model of the project, for example, the emergence of a new technology makes the project "obsolete". The new industrial revolution and the digital economy are changing manufacturing industries. Main clients will need to adapt their value propositions to include access to skilled resources, high levels of data connectivity and relevant technology service providers. The special regimes economy may also have new opportunities to target digital firms.

The current challenging global policy environment for trade and investment, with rising protectionism, shifting trade preferences and a prevalence of regional economic cooperation, is causing changes in patterns of international production and GVCs. These changes can significantly affect the competitiveness, which function as central nodes in GVCs. International cooperation on zone development is likely to become increasingly important. Finally, the 2030 Agenda to achieve the Sustainable Development Goals (SDGs) provides an opportunity for the development of an entirely new type of the economy: the SDG model zones. Such zones would aim to attract investment in SDG-relevant activities, adopt the highest levels of ESG standards and compliance, and promote inclusive growth through linkages and spillovers [2–4].

Note: 2030 Agenda to achieve the Sustainable Development Goals provides an opportunity for the development of an entirely new type of the economy: the SDG model zones. Such zones would aim to attract investment in SDG-relevant activities, adopt the highest levels of ESG standards and compliance, and promote inclusive growth through linkages and spillovers.

A program approach to prevent failures

Programs to build effective economic regime should aim to complement existing competitive advantages and build dynamic capabilities based on sustainable sources of competitiveness. Designing and building zones that require industrial and technological infrastructure and skills not yet available in the economy is likely to lead to zone failures as we learnt in Chapter 4. These failures can be expensive in terms of both capital and time. SARs can modify traditional location determinants of investment. Competitiveness can be built around, for example, natural resources, strategic geographies or the workforce. The long-term sustainability of these sources of competitiveness depends on building up dynamic capabilities through, for example, industrial upgrading in resource value chains, improved connectivity of strategic geographies and skills development of the workforce.

The success of SAR policies is closely entwined with the national economy, the national investment climate and the governance capacities of relevant national and local authorities. SEZs are not an end in themselves; they need to provide an impulse to the industrial development of the economy and yield benefits beyond their confined geographical area. Conversely, the successful development of SARs depends on the parallel development of the surrounding economy. Just as SARs should not be developed as isolated economic enclaves, SAR policies should not be developed in isolation from the economy's broader policy framework. In other words, SAR policies should be coherent with trade and investment policies, and with business and fiscal regulatory frameworks beyond the zones. Finally, effective zone governance by, and coordination between national and local authorities, developers and operating entities is key to gaining – and maintaining – investors' trust in the zone and is a precondition for zone success.

Conclusion to Chapter 6

Finally, special regimes programs should be designed to ensure cost recovery. Regime objectives may well extend to the development of long-term dynamic capabilities, industrial upgrading, and skills and technology dissemination. But the financial viability is fundamental for their long-term sustainability. Long-term economic development contributions are uncertain and difficult to predict. If SARs' immediate economic contributions, including their fiscal contributions, rents and services fees, are insufficient to cover costs, their fiscal impact will be increasingly difficult to justify. The risk of negative fiscal impacts is higher in programs that allow existing domestic firms to convert to zone status – thereby eroding the tax base – without significant investment in new productive capacity.

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PRACTICE SECTION TO CHAPTER 1

Exercise 1

Estimate the number of Special Economic Regimes worldwide in studies carried out over the last 3 years. Classify them with the most common terms – free zones, special economic zones, free trade zones, export processing zones, free economic zones, and free ports. Explain the terms diversity of the regimes, compare the investment promotion packages. Make a conclusion about efficiency of the investment promotion packages.

Test 1

Choose one or more correct answer:

1. A key rationale of the Special Economic Regimes is:

a) free of taxes regime;
b) free of custom duties regime;
c) low cost in relative terms;
d) administrative support.

2. The spatial form of the Special Economic Regimes assumes investments:

a) in development of lands;
b) in the space exploration;
c) in cultural space diversity;
d) all options correct.

3. Infrastructure expenditure risk relates to:

a) excessive costs at the initial stage;
b) uncertainty in engineering estimation;
c) wages extra payments;
d) the investments into infrastructure.

4. The most common type of Special Economic Regimes is:

a) a variation on free zones;
b) a variation on special administrative regions;
c) a combination of the named above;
d) all options correct.

5. The free zone is mainly:

a) free of tax charges territory;

b) territory with an effective foreign law;
c) a separate customs territory;
d) all options wrong.

6. Special Economic Regimes of most zones offer:
a) fiscal incentives;
b) business-friendly regulations with land access;
c) cheap and unqualified labor force;
d) administrative streamlining and facilitation.

7. The governments expect investors operating in SERs' territories to:
a) employ only foreigners;
b) build productive capacity;
c) create jobs;
d) all options wrong.

8. Infrastructure support is:
a) free of charge infrastructure services;
b) a form of financing the infrastructure;
c) a form of support the green-field projects;
d) a form of public and private partnership.

9. Special Economic Regimes have in common:
a) defined boundaries;
b) special regulatory regimes;
c) access and exit restrictions for non-residents;
d) self governance.

10. Special Economic Regimes provide:
a) a special regulatory regime for businesses and investors;
b) a special governance under the international law regulatory;
c) an entrance visa relief for the foreigners;
d) all options wrong.

PRACTICE SECTION TO CHAPTER 2

Exercise 2

Compare two preference mechanisms – Free Economic Zone and Special Investment Contract. Give your opinion, which is more effective at macroeconomic level (national economy) and at microeconomic level (a producing company) in terms of costs and revenues.

Test 2

Choose one or more correct answer:

1. Getting status "resident" follows after:

a) a company occupied a land within special regime territory;
b) a company enlisted in the public register of taxpayers;
c) a company signed an agreement with the authorities;
d) all options correct.

2. Special economic territory is

a) a clearly demarcated geographical area;
b) restricted access territory under a foreign law jurisdiction;
c) territory under the global corporations' regulatory;
d) territory of a common legal practice.

3. A regulatory regime may include:

a) customs and fiscal rules;
b) foreign ownershiprules;
c) access to land or employment rules;
d) all options correct.

4. Private and institutional investors' incentives are:

a) access to M&A and privatization markets;
b) risks litigation;
c) financing the social impact projects;
d) reducing poverty.

5. Public incentives may include:

a) reducing asymmetry in regional development;
b) stimulation of export;
c) support of national industries;
d) improving the residents' business performance.

6. ***The type of Special Economic Regime should be defined:***
a) with a country's industrial strategy;
b) by services provided to the tenants;
c) by the international classification;
d) with a country's business customs.

7. ***A project must not be supported when:***
a) the target markets are volatile;
b) the target market is predictably growing;
c) a project accommodates out-of-date equipment;
d) a project occupies excessive land portions.

8. ***Preferences may be excessive if:***
a) a company has good performance;
b) the operation is cost effective;
c) a project is innovative start-up;
d) the risks are acceptable.

9. ***Investors rely exceptionally on:***
a) the market positive signals;
b) high returns with a minimal risks;
c) huge land resource available;
d) access to infrastructure.

10. ***Public authorities' incentives aimed at:***
a) making profits only;
b) making profits and social effects;
c) implicating programs or projects that may not be profitable;
d) all options wrong.

PRACTICE SECTION TO CHAPTER 3

Exercise 3

Select from the right column a model of Special Economic Regime due the specific of projects in the left column. Select one or more models and explain your opinion at risk related view.

Project	Model of Special Economic Regime
1. Seaport deepwater a 300-m berth for containerized cargoes transshipment with back-front infrastructure. One phase project, approx. M 200 USD/ the ground is available	A. Subsidized structured project financing (non-resident status) B. Free Port C. Advance Development Territory D. Regional Investment Project E. Infrastructure Support F. Special Economic Zone due specifics – innovative, logistics, recreation, producing G. Innovative cluster H. Special Investment Contract I. No preferences granted
2. Drinking water purification and bottling plant. One phase project, approx. M 75 USD/the ground is available	
3. Diapers production and distribution Two phase project, producing plant and storage facilities, approx. M 180 USD/ a ground is not identified	
4. Ecology pure food-packaging. Start up one phase venture approx. M 12 USD/premises-n-ground are not identified	
5. Garment outlet chain extensions. A new brand fashion stores. Start up two phase venture approx. M 3 USD	

Test 3

Choose one or more correct answer:

1. Strategic focus of Advance Developing Territories at:

a) oil exploration;
b) customers related services;
c) business clustering;
d) start-up ventures.

2. Effect of Advance Development territory in:

a) extending of urbanization;
b) unlimited access for foreign companies;
c) agglomeration effect, industrial and urbanity zones extending;
d) all options wrong.

3. Regional Investment Project aimed at:

a) digital science;
b) multi-sectoral economy;
c) high return commercial, but risky projects;
d) all options correct.

4. Free Port of Vladivostok's focus is:

a) access to M&A and privatization markets;
b) international cargoes' transshipment projects;
c) related back-front sea ports infrastructure;
d) financing the social impact projects.

5. Special Economic Zone objectives are:

a) added-value proposition for investors;
b) building, diversifying and upgrading industries;
c) crude oil processing;
d) social infrastructure upgrade.

6. Rapid development territories include:

a) special economic zones;
b) the advanced development territories;
c) free port of Vladivostok;
d) all named above.

7. Rapid development territory is:

a) a class of economic agglomerations;
b) a form of aid to nonprofit organizations;

c) a model of transition economy;
d) all options wrong.

8. Rapid development territory aimed at:

a) the sustainable development goals;
b) an economical sector;
c) group of entities (a regional cluster);
d) all options correct.

9. Public-private partnership has the goals:

a) to build and operate a physical infrastructure;
b) to build and operate a real estate for social aims;
c) to create the residential and commercial objects;
d) all options wrong.

10. Public-private partnership is a finance source for:

a) social and communal energy sector;
b) transport and engineering infrastructure;
c) for industrial, logistics and resource-producing enterprises;
d) all options correct.

PRACTICE SECTION TO CHAPTER 4

Test 4

Choose one or more correct answer:

1. The Russian Far East is at a focus view because of:

a) high population density;
b) low prices on electricity;
c) location on a cross-road of the North-East Asia;
d) cheap labor force.

2. In the beginning of 90-th XX century the first Soviet Union's special economic regime was established:

a) for the sea port of Nakhodka;
b) with in boundaries of Nakhodka and Partizansky District;
c) for Vladivostok;
d) all options wrong.

3. The first Soviet special economic regime had a model status:

a) innovation district;
b) free economic zone;
c) special administrative region;
d) free port Vladivostok.

4. Nakhodka Free Economic Zone's sectoral focus was:

a) access to M&A and privatization markets;
b) international cargoes' transshipment;
c) telecommunications, warehousing;
d) the social impact projects.

5. Nakhodka Free Economic Zone objectives were:

a) international trade facilitation;
b) attract equity capital;
c) crude oil processing;
d) social infrastructure upgrade.

6. Nakhodka Free Economic Zone incentives were:

a) undervalued assets;
b) the low cost operation;
c) high investment added value;
d) all named above.

7. Nakhodka Free Economic Zone advantages were:
a) access to Russia’s market;
b) the outskirts abound for resorts;
c) the year-round agriculture;
d) inventive people.

8. Nakhodka Free Economic Zone disadvantages were:
a) high infrastructure investment expenditure;
b) brown-field lands only;
c) hyperinflation;
d) all options correct.

9. Nakhodka Free Economic Zone misconception was:
a) unconditional regulation;
b) unpredictable policy of the government;
c) sanctions against Russia;
d) all options wrong.

10. Nakhodka Free Economic Zone bankruptcy occurred due to:
a) hyperinflation;
b) finance losses with infrastructural projects;
c) unprofessional behavior;
d) all options correct.

PRACTICE SECTION TO CHAPTER 5

Test 5

Choose one or more correct answer:

1. Tax heaven means:
a) low tax preference;
b) low prices for customer services;
c) legislative regime;
d) political system.

2. Special Administrative Region is a territory where:
a) tax exemption is prohibited;
b) tax exemption is only for foreign investors;
c) every enterprise could take tax preferences;
d) no answer is right.

3. A tax exemption is an amount that:
a) subtracted from a taxpayer's taxable income;
b) reducing the amount of taxes they owe;
c) is a net debt to a commercial bank;
d) is a personal income.

4. Redomicilation is a process:
a) of going to Russian jurisdiction;
b) re-registration accordingly to national legislation;
c) re-registration within the Special Administrative Region;
d) all named above.

5. Besides tax benefits the SAR's residents are permitted:
a) to transfer without limitation the foreign currency;
b) to transfer the foreign currency in sum limited 10 thousand dollars US;
c) to transfer without limitation any currency except US dollars;
d) to transfer without limitation any currency.

6. SAR's residents are permitted:
a) to erect infrastructure;
b) to acquire business;
c) to apply a foreign corporate legislation in a company charter;
d) to employ only foreign staff.

7. SAR’s residents have rights:

a) on consultancy assistance before redomicilation;
b) to deal only with foreign companies;
c) do not pay custom duties;
d) “one window” registration.

8. For all residents of the SAR established the next preferences:

a) fiscal base of business is valued at a market value on the date of redomicilation;

b) no any fiscal control before and after redomicilation;

c) no tax on vessels after registration in the open register of vessels;

d) no tax on personal income.

PRACTICE SECTION TO CHAPTER 6

Exercise 6

Select macroeconomic and political risks typical for the national and the global economies and fill the column 2. Identify the special economic regimes (vehicle of risks compensation) appropriate to risk compensation and fill in the column 3.

Level / Group of risks	Characteristics of risks	Vehicle of compensation
Critical		
High		
Moderate		

No keys provided to exercise 6.

AFTERWORD

The lessons we learnt gave us a classic case of the economy driven by preferences, not incentives. However, in real situation the things are not always follow the right way. Any national economy should accept a clear vision on own industrial strategy for option a preference regime or set of preferences accordingly to risks or projected losses. The impacts must be thoroughly checked, otherwise, seeking the option to be a long process, leading to misconceptions, finance losses, impractical behavior and ineffective investment. Instead of acceleration, the economies may slide into a narrow path of public over regulation, consuming time and losing competitive power.

We should bear in mind that incentives go first and the preferences follow. No preference to lead to revival of economy, if the profits are descending, the returns are low and business performance is poor. Contrary, if the market is predictably growing, it attracts capital – if there any preferences exist, or not. The public-n-private partnership must be reciprocal, balancing between incentives and the regulatory. A synchronized model may generate direct economic benefits and can exert positive externalities on the rest of economy.

We should remember – the nature of failures is similar. For the last thirty years, the nature of failures of free zones in Russia and in emerging economies was similar due to legislative, behavioral, and territorial reasons. Disaccords of free zone regulatory to the public law, delay in acceptance of basic codes, misconceptions in the legislative provision are typical faults related to legislation. Corruption and unwillingness to action led to bankruptcy of idea of the market economy driven by public regulatory. Misconception with allocation of territories led to high investment costs at the initial stage and bigger operational expenditures.

In case of free zone of Nakhodka we noted, that hyperinflation did economically impractical and risky investments from the federal budget into the infrastructure. There were not any sufficient market opportunities within the free zone that did any returns on debt investments. For 15 years the economic and social performance of territory, the status of Free Economic Zone has not practically changed, despite presence of world name large companies like P&O Australia, Aker Kvaerner, Cable & Wireless.

We came to findings that the special economic zones remain enclaves with a few links to the national economies. The reason is relatively high import output of the industries commonly represented in zones, such as apparel, footwear and electronics. Attempts of the multinational enterprises to establish affiliates in zones lead to reliance on internal suppliers or on suppliers that built-in already in their international network as part of global sourcing strategies. The next reason is a scarcity of competitive local suppliers in relevant industries – or unawareness of their existence by zone-based firms. Local firms in many developing countries may lack the capacity to serve zone-based investors, may not produce according to the required standards or may struggle to access zone-based firms.

Special regimes must become a bridge to structural reform in the economy. Links between zone-based investors and the domestic suppliers are important due not only transmitting technological skills and knowledge spillovers. They support a broader industrial development and important to ensure that zones become bridges to structural reform in the national economy, as investors interact with the local business environment and local firms. The links indirectly improve business climate and this is the key rationale for continuing use of Special Economic Regimes in the recent wave of new industrial era despite to skeptical views. The Accounts Chamber of the Russian Federation admits, though the special regimes in some cases demonstrated yourself impractically, anyway, at the modern phase the economy does not survive without them, due the sanctions declared towards Russia.

We also should remember, the special regimes are the part of countries 'investment promotion package. In response to the outer and home risks, the governments are continuing to make their investment promotion packages more attractive. Global foreign direct investment has been slowing since 2020; manufacturing across all developing countries has been structurally lower over the last five years than in the preceding period. Despite the emergence of new forms of zones linked to natural resources, aimed at domestic markets or targeted at innovation capabilities (e.g., science, high-tech or green zones), most Special Economic Regimes remain as parts of countries' competitive investment promotion package, along with other forms of incentives.

We must learn by heart that public authorities may accept bearing the fiscal burden of zones for some time in order to support industrial development objectives and to spur broader business reforms. They cannot endlessly cover the costs of zones that do not pay for themselves through direct and indirect economic contributions that lead to higher fiscal revenues. Zones that are not run on a cost-recovery basis or that entail significant subsidies are at higher risk of becoming financially unviable. We need not rely, that the special regimes make always a net positive contribution to the economy, because zones may rely on significant government subsidies. Special regimes' economic contribution should thus be weighed against the resources they receive from the public sector.

KEYS TO EXERCISES

	1	2	3	4	5	6	7	8	9	10
Test 1	d, c	a	a, d	a	c	a, b, d	b	b, c, d	a, b	a, c
Test 2	d	a	d	a	a, b, c	a, b,	a, c, d	a, b, d	a, b, d	b
Exercise 3	A, B	C, D, H	D, F, H	G	I					
Test 3	c	a, c	b, c	b, c	a, b	d	d	d	a	d
Test 4	c	b	b	b, c	a	d	a	a, c	a, b	d
Test 5	a	c	a, b	d	a, d	a, b, c	d	d		

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