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## Special Economic Zone as a Local Area of Public-Private Partnership Implementation

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**Abstract:**

*The article is devoted to studying the theoretical and practical aspects of special (free) economic zones' functioning. The authors, by analyzing the relationship between the Institute of public-private partnerships and special economic zones, proved that the special economic zones are not a form of public-private partnership, but the environment of its implementation.*

**Keywords:** *special economic zones, public-private partnerships, tax relief, applications, residents, Technopolises.*

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## Introduction

Currently, one of the most important internal economic problems of Russia is a transfer of the national industry from the raw material orientation of the sphere of high technologies and innovation activity. To achieve success in the realization of this task is possible by using a special economic zone (SEZ) as one of the new promising tools for attracting private investment and economic diversification.

According to the Federal Law № 116-FZ «On special economic zones in the Russian Federation" of 22.07.2005, special economic zone is the territory of the Russian Federation determined by the Russian Government with a special regime of entrepreneurial activity on it. Simultaneously, the SEZ is a typical example of the public-private partnership practice (PPP).

Theoretical and practical aspects of PPP mechanism and its role in the modernization of the economy are reflected in the works of several scientific researches (Abe, 2013; Chan, 2014; Emek, 2015; Guan, 2015; Woodson, 2015; Theodoropoulos and Tassopoulos 2014a; 2014b and Tkacheva *et al.*, 2016).

A lot of attention is paid to the questions of organization and functioning of special economic zones in the world economy, to the specifics of their activities in different countries in several economic researches (Anwar, 2016; Ishii, 2015; Mohiuddin, 2014; Pan, 2016; Shi, 2015; Stroeva *et al.*, 2016 and Sibirskaya *et al.*, 2016).

Other works are dedicated to the study of problems of special economic zones as a form of interaction between the state and the private business (Bräutigam, 2014; Jenkins, 2015; Ortega, 2015; Pakdeenurit, 2014; Tantri, 2012; Popova *et al.*, 2015; Kalinina *et al.*, 2015; Gerasimov and Prosvirkin, 2015 and Albekov *et al.*, 2017).

## Rationale

However, to date, there is no an unambiguous opinion about the direct relationship between the concepts of «Public Private Partnership» and «Special Economic Zones». In this connection, we will identify similar genetic traits of these mechanisms.

Firstly, the definition of both concepts is based on the principle of territoriality. «PPP is an institutional and an organizational alliance of the government authority and the private business for the purpose of realization of socially significant projects in a wide range of fields of activity – from the development of strategically important sectors of the economy to the provision of public services throughout the entire country or the separate territories» (Deryabin, 2008). At the same time, a key factor in the SEZ category appears its clear territorial separation.

Along with this, it should be stressed that the partnership and the SEZ work on the concession scheme. According to this, the private investors receive the right to use object for commercial purposes for its full cost recovery, thus the PPP mechanism in the implementation of projects in the SEZ allows attracting not only financial resources, but also knowledge, skills and experiencing of private business management; introducing progressive technology and advanced equipment.

Secondly, as in the first and in the second case, the main function is to ensure the effective interaction between the state and the private capital interests in order to achieve mutually beneficial purposes. In this regard, there is a high degree of unification and concentration of tangible and intangible resources of the various sectors of the economy.

In addition, the connecting link of PPP and the SEZ is the fact that they operate in a formalized institutional and organizational and legal structure. Also, as an incentive to attract investment from the private sector, a special tax and customs regime is applied to the business representatives. That is the mechanism of realization of preferences received by the SEZ, found in PPP.

Besides a lot of similarities of PPP and SEZ, there is one fundamental difference, which amounts to the following. If in the case of a partnership, participants are implementing a project in one area, a large number of residents who are engaged in activities in different directions operate within the SEZ.

Consequently, the SEZs are not a form of PPP, but rather the environment of its implementation, which has a local character. The peculiarity of the local environment is that it is generated by the interaction of agents belonging to different sectors of the economy, and is formed by the mutual influence of the government authority and the business representatives. Today in the territory of the Russian Federation it is provided for the establishment of the following types of SEZ: industrial production zones (IPZ); technology development zones (TDZ); tourist-recreational zones (TRZ); port zones (PZ).

According to an official rating of the RF Ministry of Economic Development, on the territory of the Russian Federation there are ineffective zones where no registered residents or residents, registered for several years, do not conduct the declared activities. According to Deputy Minister of Economic Development Tsybulsky A.V., «tourist-recreational zones are in the high-risk category because they are so far, except for, maybe, «Zavidovo» zone (Tver region) – the youngest, but the most promising – certainly poorly developed» (<http://www.russez.ru/press/>).

The primary reason for the slow development of this type of SEZ is the presence of significant deficiencies already at the stage of application formation.

The evidence, for example, is the practice of competitive selection of applications, which offered the territories of Stavropol and Krasnodar regions, which were subsequently excluded because of charges by third party rights.

Thus, there is a need to correct the requirements for the contents of the application and its evaluation system. At the same time, it is necessary to develop a technique of drawing up a feasibility study of the application, which is the key to all the formation documents of the application. Table 1 shows a proposal for correction of indicator system for assessing applications.

**Table 1.** A proposal for a system of indicators to assess under the competition of application selection for creation of special economic zone of tourist-recreational type (Kotov, P.A., 2011)

№	Indicator number	Weighting factor
1	Objective measures	0,5
1.1	Changes in the number of tourist flow in the RF region for the last 5 years, %	0,025
1.2	The share of the budget investment of the total volume of investment, %	0,03
1.3	Payback period of the budget investment, years	0,03
1.4	Profitability of the project on the profit, %	0,03
2	Criteria for expert evaluation	0,5
2.1	The tourist and recreational potential of the territory	0,14
2.2	Transport and geographical position	0,05
2.3	Depth study of the application	0,15
2.4	Degree of business interest in a project realization	0,05

The next type of SEZ technology development is designed to create high-tech products and bring it up to industrial applications. If we consider an international experience, technology development zones are more common in the United States, Japan and China. Moreover, in American practice, they are called Technopark, in Japan – Technopolis, in China – High-Tech Development Zone.

As practice shows, at this stage of the SEZ development, industrial production zones (SEZ «Alabuga», SEZ «Lipetsk») are more successful in attracting private capital to their territories. This positive moment is explained by the preferential tax system for equipment and components supplied from abroad: exempted from payment of VAT; exempted from payment of a number of local taxes for 10 years; exempted from payment of property tax, land and transport taxes; reduced income tax to 20 %. Indicators of major Russian Industrial Production Zones and Technology Development Zones and the forecast of their development are shown in Table 2.

**Table 2.** Indicators of the major Russian IPZ and TDZ (Mikheev, O.L., 2011)

SEZ	As of 01.01.2010				Forecasts in 2025				
	Reside nts	Investme nts, Billion Rubles	Created workpla ces, thousa nd persons	Producti on, Billion Rubles	Reside nts	Investments , Billion Rubles		Workpla ces, thousan d persons	Producti on, Billion Rubles
						Budg et	Priva te		
Alabuga	9	11	5	15	90	29	135	27	1800
Lipetsk	17	8	1,4	over 3	60	21	90	18	1200
Zelenog rad	32	1,1	0,54	1,7	150	41	18	12	100
Dubna	50	0,4	0,45	0,18	180	30	16	30	150
Tomsk	45	2	0,8	0,5	160	23	20	14	140
St. - Petersbu rg	33	0,23	0,3	no data	100	15	20	10	100

It should be emphasized that the effectiveness of the IPZ activities, first of all, depends on the objectives, the achievement of which is possible with multi-function control system. To evaluate the control system defined criteria may apply, which include the effectiveness of investments in the creation and development of SEZ residents. To assess the effectiveness of investments, as a rule, the model *NPV* (Net Present Value of the investment project) used (Bogdanovsky, 2013).

$$NPV = PV - IC \quad (1)$$

Where

*PV* – The Present Value of future cash flows from the project;

*IC* – The Industrial Capacity, the current value of the investment in the project.

If the money isn't invested in the project at the same time, and many times over several periods, then:

$$NPV = \sum_{i=1}^n \frac{V_i}{(1+r)^i} - \sum_{j=1}^m \frac{I_j}{(1+r)^j}, \quad (2)$$

Where

$V_i$  – The net cash inflow generated by the project during the period  $i$ ;

$I_j$  – Total initial investment costs in the period  $j$ ;

$r$  – Discount rate (bank interest rate) as a decimal;

$n$  – The number of income-earning periods;

$m$  – The number of investment periods in the project (Bogdanovsky, 2013.).

However, to date, the development of SEZ still has a lot of problems. According to experts the following factors have a negative impact on the successful development of the SEZ: shortage of residents, insufficient amount of provided benefits, the slow development of the territories; an insufficiently transparent mechanism for agreements with residents, high barriers to entry; underdeveloped social infrastructure, low activity of settling budgetary funds. The special attention of these problems should be paid to the provision of benefits to investors, which, in their opinion, are not enough, as they do not compensate emerging risks fully. Also, with less effort it is possible to get them through regional legislation.

As budgetary resources are limited, it is necessary to attract private investment due to the system of preferences. Consequently, because of the need to make changes in this area, it would be useful to study and to put into practice foreign experience of providing benefits for the formation of SEZ (Table 3).

**Table 3.** SEZ types and benefits available to them in developed countries (Leshina, I.E., 2007)

Country	SEZ type	Key benefits
USA	Free Trade Zone	Reduced tariffs on imported parts
	Business areas	Tax benefits, the simplified reporting
	Technology Parks	Preferential credit terms, the benefits of rent
Japan	Technopolises	Accelerated depreciation
Ireland	Complex Free Zone «Shannon»	The benefits of rent, tax breaks
United Arab Emirates	«Jebel Ali» Free Zone	Exemption for 15 years from the payment of corporate income tax, income tax and others

However, despite this, foreign investors do not believe the support provided by government as the main incentive to invest their capital. The most important for them in this regard are the stability in politics, organizational guarantee, a favorable administrative regime of investment and economic activity, the prospect of the national market mastering and the quality of the labor force.

## Conclusion

Thus, despite the current difficulties in the process of creating SEZ along with other development institutions can be an effective tool of anti-crisis policy, the inflow of investments, growth of employment, improving the competitiveness of the country's economy, which takes the profitable export-oriented nature.

The innovation potential of SEZ can be expressed in the form of static and dynamic economic effects. The static economic effects are achieved when there are new sources of income and workplaces, increasing exports, foreign currency flows, supplemented the revenue part of the state budget.

Dynamic effects include the potential to create new workplaces, staff development, provision of transfer of new technologies and the demonstration effect, which arises from the use of best practices. The effects of this group are more significant in terms of long-term profits from the zone development, but less measurable.

Speaking about the advantages and benefits of SEZ, it is necessary to bear in mind that their implementation is possible only under the certain conditions, these include: the development of the administrative management of the institutions (opportunistic, marketing, certification institutes), assisting investors in the promotion of innovative technologies, products and services to the market; institutions and financial market mechanisms (loans, asset management, insurance, leasing, etc.); the formation of innovative activities, including through education of special venture funds.

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