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Giving Large Corporations a helping hand in Russia: More Special Economic Zones created in Russia

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Another special economic zone, called Zavolzhie (literally meaning ‘area beyond the Volga River’) opened in Ulyanovsk on Wednesday.

The daily Noviye Izvestia says the regional authorities have picked up the federal authorities’ habit of creating special economic zones (SEZ) that offer favorable conditions for high technology industries to operate in.

One cannot say that the SEZs, which began to emerge in Russia in 2005, have not been developing at all, but far from all hopes that had been pinned on them have come true, analysts say.

The manufacturers inside the special economic zones use the preferences they have to crack down on competitors in the domestic market instead of focusing on export. No new jobs are created, because, as a rule, the SEZs emerge there where people have no employment problems.

Experts expect a major return from tourist and recreation zones. Industrial and innovative zones, according to experts at the Transitional Period Economy Institute, are capable of creating no more than ten thousand new jobs, and the tourist and recreation ones, 86,000.

Under the federal law of 2005 there may emerge a variety of special economic zones – industrial, innovative and tourist and recreation ones for a period of twenty years, and port zones, for 49 years.

In December 2005 the Russian government issued a resolution to establish six special economic zones – four innovative zones in Dubna, Zelenograd, St. Petersburg (Strelna suburb) and Tomsk, and two industrial zones in Yelabuga and Lipetsk.

Seven special economic zones of the tourist and recreation type were set up in February 2007 – in the Krasnodar Territory, Stavropol Territory, Irkutsk Region, the Republic of Buryatia, the Republic of Altai, the Altai Territory, and the Kaliningrad Region.

The recent inauguration of the industrial zone in the Lipetsk Region was presented by the local authorities as a big achievement.

At the end of January, in his address at the inauguration of the first unit of the Lipetsk SEZ First Deputy Prime Minister Sergei Ivanov said: “We have demonstrated how to work the new way. All this was built virtually in no time. Nine investors, including three foreign ones, were registered over a very brief period.”

“There has been much talk about ridding the country’s ‘addiction’ to oil money. The examples of special economic zones, including the Lipetsk zone, indicates that we have approached this task in a practical way,” Ivanov said.

The daily Noviye Izvestia remarks, though, that the reality is a stark contrast to what senior officials have been saying. In the Lipetsk SEZ only one enterprise (a producer of biofuel) can be regarded as one of those capable of ending the country’s dependence on oil money. All others are manufacturers of refrigerators, spare parts, glass bottles and windows.

“Special economic zones have been opening very slowly, their output is very moderate, and their influence on the economy, insignificant,” the daily quotes the chairman of the experts’ council at the Business Russia organization, Anton Danilov-Danilyan as saying.

Moreover, experts have doubts if the special zones may help ease unemployment. Opening glassware and refrigerator manufacturing enterprises would be far more natural in depressive regions. Danilov-Danilyan says the residents of the special economic zone in Dubna – a nuclear research center a hundred miles north of Moscow – still have problems with hiring personnel. All local specialists are employed, and high technology specialists invited from other regions need housing, which remains unavailable and unaffordable.

Ilya Sokolov, of the Transitional Period Economy Institute, estimates the government’s investments in special economic zones at 12 billion dollars. Another 31 billion is to be spent by the year 2011. In the meantime, in 2007 a mere 52 companies were registered in the whole of last year.

In other words, the federal agency for the management of special economic zones has confined itself to surrounding industrial enterprises already in place “with new perimeter fences.”

In Lipetsk, federal civil servants have declared that the ‘single window’ principle of accomplishing all formalities has made it far more easier for foreign investors to go in business inside the special zone. In the meantime, the chief of the investor relations department at the special economic zones management agency, Natalya Kuznetsova, told a round-table conference at the Chamber of Industry and Commerce that before one can start a business in Russia no fewer than 200 authorizations have to be collected (in contrast to 5-7 in the Scandinavian countries, and 40-50 in Poland).

First and foremost, experts point to red-tape and slow work. Secondly, they emphasize the poor selection of sites – special zones are created in industrialized regions and by no means help ease unemployment. Moreover, special zones inside Russia manufacture goods mostly for internal consumption.

“In other words, some domestic manufacturers operating inside special economic zones are entitled to benefits not available to other domestic producers outside the SEZs,” said Danilov-Danilyan. “As a matter of fact, domestic manufacturers operating inside the special zones force competitors out of the market (their products are cheaper because of the tax breaks), and the treasury gets less taxes.”

As for tourist and recreation zones, experts are unanimous these have a good future.

The daily Kommersant says tourist and recreation zones in Russia are created rather quickly even by Chinese and Indian standards. Russian and foreign companies eager to open businesses in special economic zones are many. Boeing, Motorola, General Motors, Siemens and Alcatel are on their list.

The daily remarks that most special economic zones created in the world were rather unsuccessful. Yet, all successful surges by national economies relied were achieved with reliance on SEZs," the rector of the Economics Academy, chairman of commission of experts for industrial zones at the Economic Development and Trade Ministry, Vladimir Mau, told the daily.

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