

# Prospects for the Development of Territories of Socio-Economic Development of Russia Based on the Experience of the Functioning of Free Economic Zones of China

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**Abstract.** The idea of creating territories for socio-economic development in Russia is a priority and promising from the point of view of forecasting the development of regions and the country as a whole. The main results of the functioning of the territories of socio-economic development (TOSED) were to improve the business climate and increase the investment attractiveness of the regions, as a result, reduce the number of labor-deficient regions and solve the problem of overpopulation of the country's megacities. However, at the present stage of the functioning of TOSED, they encountered certain problems. Despite the fact that in China there are also a number of significant obstacles to the implementation of such projects, their activities contribute to solving general economic, foreign trade, strategic, social, scientific, technical and scientific and technological tasks of the state, as well as improve the business and investment climate, create and modernizing jobs for the local population. In the most favorable way, TOSED can influence the interaction of Russia and China in the implementation of joint economic strategies, as well as in the realization of lost opportunities for expanding international trade. It is obvious that the progressive development of the economic state of China requires special attention to studying the mechanism of the functioning of the free economic zones of China (FEZ) and finding the possibility of using the Chinese experience in relation to TOSED Russia.

## 1. Introduction

Analyzing the economic aspects of the functioning of Russia and China, the question arises: why, given the availability of the necessary resources for both countries, investment attractiveness, qualified specialists, all the conditions for production, etc., does China's economic condition significantly exceed Russia's economic development? Let's try to figure it out.

## 2. Prospects for the development of territories of socio-economic development of Russia based on the experience of the functioning of free economic zones of China

Both in Russia and in China, existing special territories of preferences for investors have been created. China gained positive experience from the very beginning, multiplying such special zones [16], Russia initially had a bad experience with the implementation of special economic zones [10, 22] and moved to a new project TOSED [2, 9, 17].

### 2.1. Comparative analysis of the implementation of projects of the free economic zones of China and TOSED Russia by common criteria

As part of the study, criteria were formulated, according to which it is possible to conduct a comparative analysis of the implementation of the projects of the free economic zones of China and the TPSED of Russia (Table 1) [1, 5, 6, 7, 8, 18].

**Table 1.** Comparative analysis of the implementation of the projects of the FEZ of China and TOSED of Russia according to common criteria.

Criteria	FEZ of China	TOSED Russia
Chronology of the project	1980	2015
Presence of the uniform law for zones	not	there is
Goal setting	socio-economic development of the state through mutually beneficial relations, the development of non-economic relations	activization of investment activity, social and economic development of regions
The number of zones (on the present. time)	6	99
Location of active zones	east coast of the country	in 85 subjects
Directionality of zones	shopping; industrial production; technological; service; complex.	scientific and
Governing body	Office	Management Company, Supervisory Board
Special benefits for residents	tax preferences; free customs zone; greater independence in international trade, based on free currency settlements; considerable independence of the zone from the central authorities; well developed infrastructure; cheap labor the absence of a single legislative act; bureaucracy; shortage of raw materials and resources; low qualification of the local labor force; Reduction in 2008 of tax concessions	tax preferences; free customs zone; it is allowed to conduct the development of mineral deposits and produce excisable goods; possibility to transfer operating enterprises to a special zone for more favorable terms bureaucracy; poorly developed infrastructure in the regions; currency rate jumps in terms of ruble settlements in the Russian Federation

Important is the difference in the number and location of these territories. The location of the Free Economic Zone of China has an interconnection with the ports on the east coast, which

leads to the active implementation of trade-money relations in a free form. In Russia, the TASED are located in 85 subjects, their location was planned based on the prospects of conditions, which are due to a number of factors, for example, resource potential, human resources, the need to develop depressive, in terms of the economy, regions, etc.

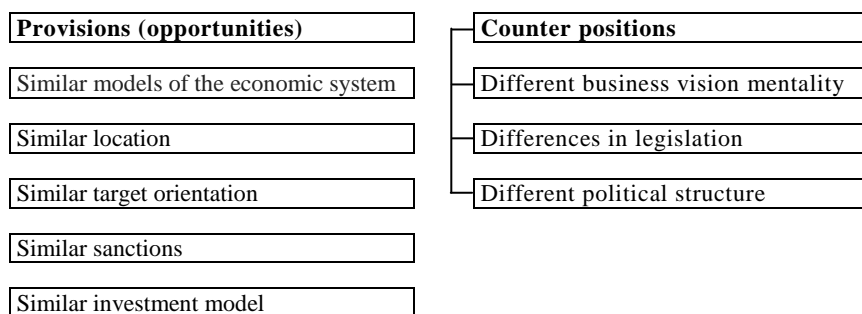
From the point of view of obstacles to the investment of potential residents in the FEZ of China, the absence of a unified regulatory act regulating the activities and legal relations of the participants of the FEZ should be highlighted. The legitimacy and the norm of the relationship is built on each SEZ by separate central and local decrees. The problem is also the rather low qualification of the local labor force, as well as the lack of raw materials and resources. In TASED Russia, as a specific barrier for an investor, we can distinguish poorly developed infrastructure in the regions, as well as currency fluctuations in terms of ruble settlements in the territory of the Russian Federation [6, 20].

Both states seek to create free conditions for mass production and export of finished products. However, there are fundamental differences in this area. For example, in Russia, more favorable conditions are offered - a potential resident in the future is exempt from land tax, property tax and contributions to the federal budget for the first few years. In addition, the lease of land in Russia is only 0.1% of the cadastral value, when in China a discount is offered to the resident, depending on the type of activity, only from 5 to 15%. Less attractive land preferences in China are understandable, since Compared to China, Russia has a much smaller population density of its territory and less development. It is important that in Russia, the resident is offered more simplified conditions for VAT refunds [14, 15, 20, 21].

In addition, China's accession to the WTO in 2001 led to a change in the entire Chinese market, including part of the government that some of the benefits were eliminated and preferences for residents of the FEZ were reduced [13]. At this historical stage, the free economic zones of China are not the instrument of economic progress than in 1980-1990, since they have already fulfilled their function and now represent a streamlined mechanism in the economy of the state. From the point of view of identifying aspects of the adaptation of this experience, in the development of TOSED Russia, the system of organizing the free economic zone of China until 2008 should be considered.

*2.2. Opportunities for introducing the experience of the FEZ of China into the development of TOSED Russia*

It is possible to identify a number of provisions that allow us to consider the possibility of introducing the experience of the FEZ of China into the TASED of Russia. Despite the existing possibilities of introducing experience, it is impossible not to note the existence of counterpositions, which include a number of barriers to adapt China's experience to Russian TASED (Fig. 1).



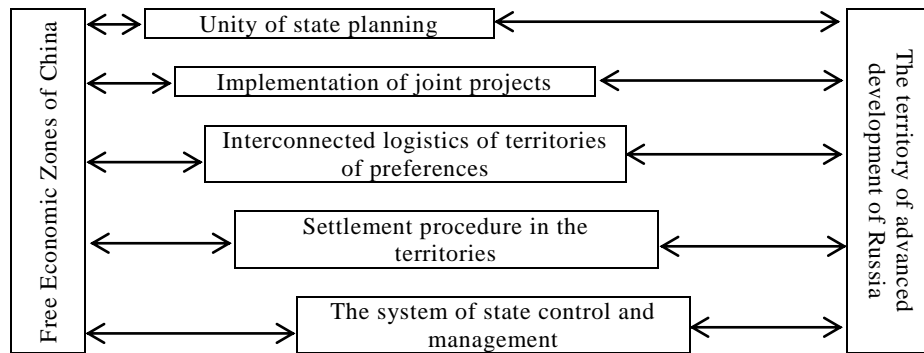
**Figure 1.** Opportunities for introducing the experience of the FEZ of China into the development of TASED Russia (compiled by the authors).

The experience of China’s FEZ has negative aspects that should be taken into account in the development of TOSED Russia, such as: environmental pollution; no order of monetary circulation; overspending of resources, etc. Note that along with the progressive development of the production sphere, as well as maximum efforts aimed at ensuring economic growth, China has come to serious problems. Thus, the poisoning of rivers and forests significantly affects the future resource potential of the state. Uncontrolled monetary circulation is a threat not only to a lack of funds in the budget fund, but also to the security of the population.

Thus, the identified provisions of the possibilities and counterpositions allow us to conclude that in general there are conditions that make it possible to use the experience of China, but it should be borne in mind that the PRC and Russia are two different states, each of which has its own established norms and rules when organizing a business and the formation of investment attractiveness [4, 7, 12].

2.3. Directions of development of TASED Russia based on the experience of the operation of the FEZ of China

Having comprehensively studied the experience of developing the free economic zone of China, the following aspects have been identified that are suitable for implementation and adaptation to the development of TASED Russia (Fig. 2)



**Figure 2.** Perspective scheme of possibilities for introducing the experience of the FEZ of China into the development of TOSED Russia.

Since the main idea of creating an SEZ and TASED is the progressive development of the country's economy, it is important to carefully study and plan the entire interaction system. In this case, China is guided by the evaluation empirically, and Russia - by forecasting.

In China, D. Xiaoping clearly defined the main stages that had to go through the FEZ in its development [6]. In Russia, only in 2017, the need to develop criteria according to which territories for the TOSED project will be selected, was voiced. Moreover, since 2015, a project has been launched to create nine TASED in the Far East [19]. Based on the experience of the PRC, it should be noted that Russia should adopt the system of strategic planning for the development of TASED, in particular, not only work out profit prospects or criteria for selecting territories, but also a real plan for implementing communications construction measures and reorganizing their management in an integrated manner. In addition, you should act on the principle of quality, not quantity.

It is especially important to emphasize the regulatory role of the country's leadership in the process of practical creation of the FEZ in China. Thus, according to the “Provision on Special Economic Zones of the Province of Guangdong”, local authorities were granted the right to regulate the economic activities of foreign enterprises in their zones, a number of aspects were based on general Chinese laws. The central authorities determine the development strategy of the formed SEZ, determine the tax policy, deal with the problems of land use. From the very beginning of their establishment, branches of the Central Bank of the People's Republic of

China have been operating in all the FEZs [4, 5].

An important problem for entrepreneurs in Russia is a strong dependence on the exchange rate. In China, the procedure for settlements on the territory of the FEZ is different from the rest of the territory. Enterprises with foreign participation have the right to keep accounts in both Chinese and foreign currencies. This element of the experience of the free economic zone of China can also be adapted for TOSED Russia. Another most promising condition for investors in the free economic zone of China is the availability of resources, in particular electricity in the territory, for example, the province of Shenzhen.

In China, all SEZs are tightly located along the coast, connected to each other by water transport in the most efficient way, i.e. Logistics is one of the important principles of the whole concept. For Russia, it is necessary for remote regions with difficult logistics to be in communication, with at least two more TOSED, to reduce transport costs [7, 12].

It should be noted that Russia should not expect large foreign investments. The nearest countries of the Asia-Pacific region, such as China, Japan, South Korea, see in the eastern part of Russia rather a source of resources and a sales market. Focusing on the Russian investor on TASED faces other problems: lack of preferences; state and business relations; lack of clear distinction between different levels of government. It is also important the lack of image support for the activities of TOSED in Russia at the state level. Unfortunately, currently created “growth points” are more aimed at supporting existing large enterprises than at creating fundamentally new solutions to ensure economic growth.

### **3. Conclusion**

Despite a number of problems in the process of the formation and development of TASED in Russia, it should be noted that this is a more successful experience than the SEZ before - in fact, the territories attract residents, and the conditions become more interesting for investors. Nevertheless, the aforementioned promising possibilities of using the experience of the FEZ of China with respect to the TASED of Russia are, in our opinion, necessary for a more efficient development of the country's economy

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