



# Russian Special Economic Zones: Opportunities for Economic Border Region Growth

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**Abstract.** The article delves into the territories within the Russian Federation subject to a special regime of entrepreneurial activity, specifically focusing on regions situated along the country's borders. The author examines the issues of their legal basis for functioning, location, period of existence, the quantity of investment demanded, as well as the requirements that a potential resident must meet. The content of the special regime of entrepreneurial activity in the indicated territories is separately disclosed.

**Keywords:** Special Economic Zones, SEZs, Russia, Investment, Resident, Special Regime of Entrepreneurial Activity.

## 1 Introduction

As of 2019, there were about 5,400 special economic zones in the world located on the territory of 147 [1] countries; evidently, their number will continue to increase as more countries begin to use this legal institution for economic growth.

In alignment with the global trend of the 1990s, Russia initiated the establishment of territories featuring a distinctive legal framework for entrepreneurial activities, referred to henceforth as Special Economic Zones (SEZs). Since the Russian Federation is the largest state in the world and, as a result, has an advantageous geographical position and has borders with 18 countries, the creation of SEZs in the border regions was pre-determined.

For investors, including foreign ones, there are two legal forms of investment available: contractual and corporate. The implementation of entrepreneurial activities on Russian SEZs involves first establishing a special purpose vehicle and then the conclusion of an investment contract.

## 2 The Number of SEZs

There are 12 types of SEZs in Russia; each of them operates based on a separate federal law:

- Special economic zone in the Magadan Region.

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- Special economic zone in the Kaliningrad Region.
- Special economic zones.
- Skolkovo Innovation Center.
- Zones of territorial development.
- Free economic zone on the territory of the Republic of Crimea and the federal city of Sevastopol.
- Territories of advanced social and economic development.
- Free port of Vladivostok.
- International Medical Cluster.
- Innovative science and technology centres.
- Special administrative regions in the territories of the Kaliningrad Region and the Primorsky Krai.
- Arctic zone of the Russian Federation [2].

The intricate diversity of laws surrounding Special Economic Zones (SEZs) complicates the understanding of their specific legal regulations, especially in distinguishing them from other types. To address this challenge, the Ministry of Economic Development of the Russian Federation is in the process of drafting a Federal Law titled "On Preferential Regimes in the Russian Federation and on Amending Certain Legislative Acts of the Russian Federation." This legislation aims to unify various SEZs. In its current iteration, the proposed reforms will encompass special economic zones, territories of advanced social and economic development, the free port of Vladivostok, and innovative scientific and technological centers.

### 3 SEZs Geography

Speaking about SEZs in the border region, it is easier to identify those that function not there but deep inside Russia. These SEZs include the Skolkovo Innovation Center, and the International Medical Cluster created in Moscow, and the Zones of territorial development, which, in fact, did not gain traction in Russia. Not a single SEZ of this type was created.

It should be noted that most types of SEZs are *sui generis*. Special economic zones, territories of advanced social and economic development, and innovative science and technology centers stand as exceptions, as their establishment is determined by the Government of the Russian Federation. The creation of SEZs by secondary legislation is the most efficient, compared to creating a separate federal law requiring compliance with a more complex legal procedure.

There are 160 such "scalable" SEZs in Russia, where:

- 40 special economic zones (under the legislation, there are 4 forms of that type of SEZs: 20 industrial production SEZs, 7 technology innovative SEZs, 11 tourism and recreational SEZs and 2 port SEZs).
- 115 territories of advanced social and economic development (86 were created in single-industry towns to stimulate their economic growth, 8 in closed administrative-

territorial entities, where the nuclear industry has been developing since Soviet times, and 21 in the Russian Far East to develop the economy of a remote but strategically important region of the country).

- 5 innovative science and technology centres.

The wide variety and a large number of such territories cannot be viewed as a proof of their investment attractiveness and efficiency. The noted fact indicates that the listed territories have investment potential, like their foreign analog [3].

#### 4 Period of Existence of SEZs

All SEZs operating in Russia have either a limited period of operation or an indefinite one (Table 1).

**Table 1.** All SEZs in Russia

No	SEZs type	Operation life
1	Special economic zone in the Magadan Region	26 years (till December 31, 2025)
2	Special economic zone in the Kaliningrad Region	25 years (till April 1, 2031)
3	Special economic zones	49 years without the possibility of prolongation
4	Free economic zone on the territory of the Republic of Crimea and the federal city of Sevastopol	25 years (till December 31, 2039)
5	Territories of advanced social and economic development	70 years with the possibility of prolongation or 10 years if created in a single- industry town with the possibility of prolongation for another 5 years
6	Free port of Vladivostok	70 years (till October 11,2085)
7	Innovative science and technology centres	
8	Special administrative regions in the territories of the Kaliningrad Region and the Primorsky Krai	no time limit
9	Arctic zone of the Russian Federation	

## **5 The Quantity of Investment Demanded and Requirements for Potential SEZs Residents**

The special regime of entrepreneurial activity in specified territories is created to develop certain sectors of the economy, trade, or the economy of the regions. It is expressed in the provision of various benefits and measures of state support to their residents [4].

To acquire the status of a SEZs resident, and as a result, to be able to use the privileges and benefits provided by the special legal regime of SEZs, it is necessary to have a particular organizational and legal form, as well as to conduct entrepreneurial activities provided for by the relevant federal law.

In some SEZs the term “member” is used instead of the term “resident”; both are identical in their legal status; consequently, they can be used as synonyms.

As a rule, a legal entity that is a commercial organization can become a resident of any SEZ; in some SEZs, an individual entrepreneur can also obtain a residential status. Typically, in Russia, foreign investors opt to establish a legal entity in the form of a limited liability company, which is considered the most convenient corporate structure for conducting business activities.

The quantity of investments naturally differs depending on the type of SEZs. As an illustration, acquiring residency status in the territories of advanced social and economic development established in the Russian Far East necessitates an investment of 500,000 rubles (approximately \$7,000). For the status of a resident of industrial production SEZs - 120 million rubles (approximately \$ 1.6 million) are needed. This differentiated approach to the required investment amount makes SEZs available to almost any investor, including a foreign one.

For additional details regarding the prerequisites for potential residents of special economic zones in the Magadan Region, the Kaliningrad Region, special economic zones, Free economic zone in the Republic of Crimea and the Federal City of Sevastopol, and territories of advanced social and economic development, including the required investment amount in the Russian economy, kindly refer to our textbook on investment law for comprehensive information [5].

## **6 Contents of the Special Regime of SEZs**

The set of exemptions from the general legal regime for each SEZ is unique. Therefore, it is optimal to highlight the main privileges and benefits that their residents can count on:

- Tax incentives (corporate profit tax, value added tax, corporate property tax, land tax, etc.). The peculiarities of taxation are a key incentive for acquiring the status of a participant in the relevant territory.
- Reduced rates of insurance premiums (Mandatory payments for statutory pension insurance, statutory short-term disability insurance, and maternity benefit, compul-

sory health insurance, levied from organizations and individuals to financially ensure the realization of the rights of insured persons to receive insurance coverage for the corresponding type of statutory social insurance): for example, in innovative scientific and technological centres 14% are paid instead of 30%, as in the rest of Russia.

- Customs privileges, such as reimbursement of costs for payment of customs duties or the possibility of applying the customs procedure of a free customs zone.
- Special aspects of attracting foreign citizens to labor activity.
- Special conditions for renting real estate.
- Use of ready-made infrastructure and priority connection to it, as well as features of urban planning activities.
- Special aspects of state and municipal control (supervision).
- Receiving state and municipal services on an one-stop principle.
- Stabilization clause: Guarantee against unfavorable changes for the investor in the legislation of the Russian Federation, in particular tax legislation, which worsens the conditions for conducting the entrepreneurial activity. For more details on the grandfather clause see Lisitsa V.N. (ed.) "Russian business law" [6] (applied in special economic zones of technology - and - innovative type) [7].

## 7 Conclusion

An investor planning to invest in the Russian economy faces a rather difficult task due to the peculiarities of Russian SEZs. First, there is a need to understand the 12 types of SEZs, each with its specialization. For example, some SEZs are created to develop industrial production, and others to stimulate innovative entrepreneurship.

Given a large number of SEZs themselves, of which there were 169 at the time of this writing, they are common throughout the country. Most SEZs are created in border regions, making them attractive for countries near and far abroad.

Equally important is the period of existence of certain SEZs, which the investor should also pay close attention to. Making significant investments in a SEZ that will soon lose its investment prospects is impractical.

The legal regulation of each type of SEZ by a separate federal law cannot be called convenient. The steps taken by the Russian state authorities are not yet resolving this problem.

One of the few universal characteristics for all types of SEZs is the requirements for potential residents. Apart from a few exceptions, a legal entity that is a commercial organization can become a resident of any SEZs.

The amount of investment required differs depending on the type of SEZs, which makes SEZs available to almost any investor.

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