

# Free Economic Zones as the Basement to Increase Innovation and Investment Activity of Economic Units

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**Abstract**— The fundamental objective of the existing economic system changes is its transition on to a new stage of innovative development by forming of novel models considering territorial, innovative, investment, knowledge-intensive potential of a region. Creation and operation of free economic zones in the RF is a perspective direction for innovative activity promotion, investments attraction, entrepreneurial potential revitalization, the country's competitiveness enhancing on the world arena. In the world free economic zones are considered as multipliers of economical and social development, which are equally able to rehabilitate a depressed territory and give an additional development impulse to the regional growth points. The research scientific novelty is in theoretical rationale and methodical approach development to the formation and functioning of free economic zones on the contemporary development stage. The authors presented the copyright determination of the free economic zones notion and developed their classification under the modern market condition of management. The result of the study is a model of contemporaneous economic zones creation, where the significant resource for their development has been distinguished an opportunity of modern informative technologies application.

**Keywords**— *Free economic zone, Innovation, investment, Preferential taxation, National economy modernization.*

## 1. INTRODUCTION

The experience of radical social and economic transformation in the RF is related to finding the ways and means forwarded to achieve stabilization and subsequent economic growth. One of such ways as the world experience shows is practice of creation, functioning and development of free economic zones. Free economic zones (FEZ) is a tool to solve problems of the national economy, one of the operative and effective methods of business activity boosting and territory development acceleration. Free economic zones creation and development is one of the perceptible institutional innovations happened in the world economy in the second part of XX century.

Stimulation of free economic zones development in Russia can be an effective method of economic activity revival in the country and priority tool for regional development strengthening, series of investment stimuli's formation.

## 2. MATERIAL AND METHODS

At the present time, there are various approaches of modern scientists to the definition of "free economic zones" notion [1,20]. The main distinction of the notions in focus is variety of FEZ's creation and realization purposes. These definitions do not take into account the modern structure of economic system and significantly changed approaches to economic units activity. Nowadays such factors as globalization, constant growth of the economic development rate, high importance of intellectual capital, entrepreneurial activity level increasement caused by cooperation and others are of substantial significance for the enterprises activity [12]. As, even entrepreneurial enterprises are integrated in common economic system of a region or country in general, and the main trends of their activity are shifted to the knowledge-intensive and high-tech direction of activity, decline of value of enterprises territorial location under the influence of the information technology development is equally important, what allow to expand sales markets, raw material procurement centers and to attract workforce to work remotely.

Thus, it is impossible to define that "free economic zones" are complicated organized and complex economic system, implementing innovative and investment activity on the territory of the RF, where are work special preferential economic conditions (regime) for entrepreneur contributing to solving of general economic problem, social, science, technical and other tasks as part of national economy modernization.

It is necessary to emphasize that authors focus special attention speaking about FEZ, that it is a "complex economic system", what differs this notion from the previously stated one [10]. The system may not have clearly defined territorial boundaries, change composition of its participants and etc. A purpose of such a system and its core in the form of a main economic entity remain permanent.

During the study, it is proved that organizational and functional structure FEZ is various in the world economy, and it is quite difficult to determine a zone's type, because most of them have features of others [17]. In addition, weak scientific elaboration of institutional approaches to FEZ has been revealed in absence of any common methodology for the zones classification, single definition of FEZ, some established international terminology. In the result, experts

could not differentiate zones according to their types and number. Let us consider the most common classification of FEZ.

Efficiency of the national innovative system will directly depend on quality and efficiency of innovative infrastructure development, degree of infrastructure facilities integration (sciencetowns, business incubators, technoparks, special

economic zones, etc.) in the structure of the national innovative system. However, it should be noted, that innovative development level of separate territories and the RF subjects, is unequal and directly depends on innovative activity rate of individual regions and territories. Therefore, after reviewing of the FEZ existing classification, the authors offer their own classification of FEZ, presented on Figure 1.

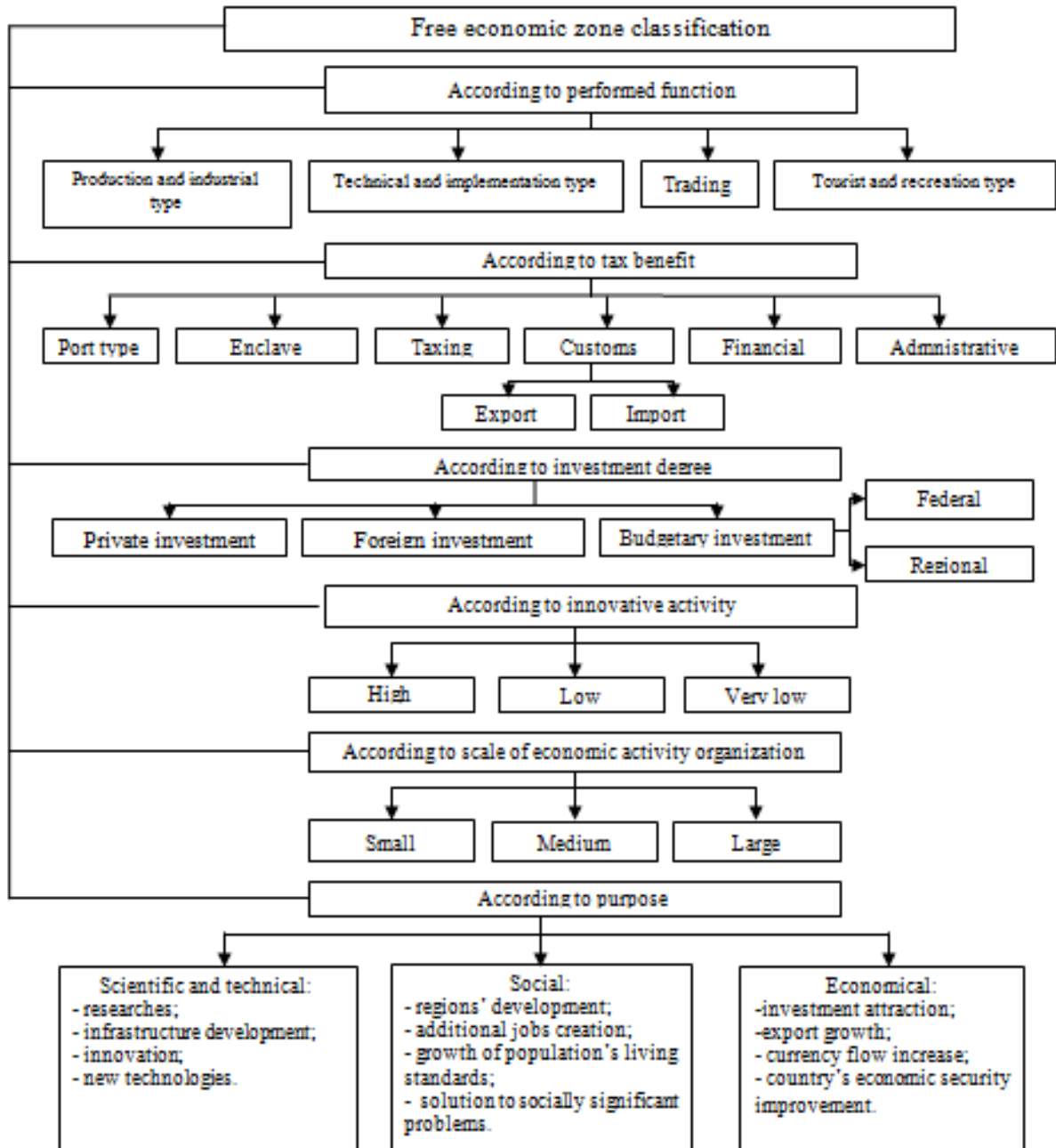


Fig.1. Innovation and investment free economic zones classification (compiled by the authors).

The given classification of free economic zones meet modern the market conditions of activity more accurately and can be applied for creation of information base, promoting effective management decision-making both at municipal,

regional and federal scales, and also for compilation of statistical and analytical reports.

As of 01.07.2016 in Russia 34 FEZ of four types have been created, including: production and industrial type (PIT) – 10 items; technical and implementation type (TIT) – 6 items;

tourist and recreational type – 15 items (TRT) (including the tourist cluster consisting of 9 pieces of OEZ); port type (PFEZ) – 3 items.

It worth mentioning that the statistic data above do not contain any science –intensive areas, which play crucial role in the development of the modern economy, oriented to investment and innovation development.

The analysis of free economic zones formation and functioning in the RF allows the conclusion that there is a great interest in free economic zones, and what is more, both on the part of Russian entrepreneurs and business communities, and foreign business structures. Dynamic of FEZ residents number by types in 2011-2016 is presented on the figures 2-4.

Studying the world practice of FEZ creation it is established that the result of complex benefits application is

the rate of profit in the FEZ wakes up about 30-35%, what reduces the payback period of investment projects by 2-3 times [7]. Also, system of benefits is quite individual and directly linked to zone location and the programs implemented on its territory. Besides, the public authorities fully support free economic zones administrations and members.

At the same time, the analysis of FEZ functioning shows that investor put tax and customs benefits only on the third-fourth place. Engineering, transport and social infrastructure development of FEZ due to monetary resource of the government ranks the second, and the first place is occupied by creating of friendly administration environment, clear comprehension of who represents the state in the FEZ, how the relationship related to obtaining various permissions, registration of property rights, etc. will be simplified.

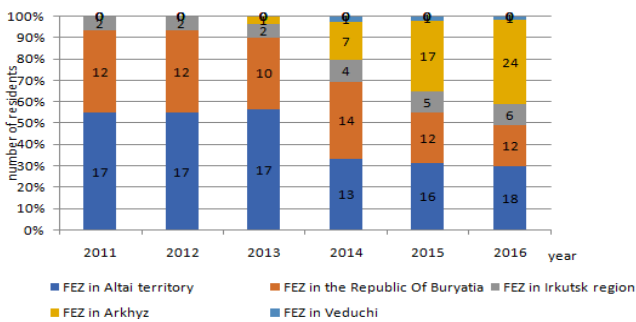


Fig. 2. Dynamics of FEZ residents number by TRT type in 2011-2016

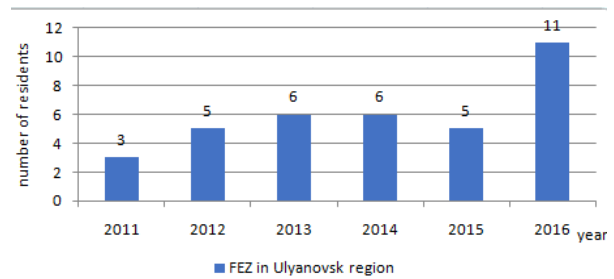


Fig. 3. Dynamics of FEZ residents number by PFEZ type in 2011-2016

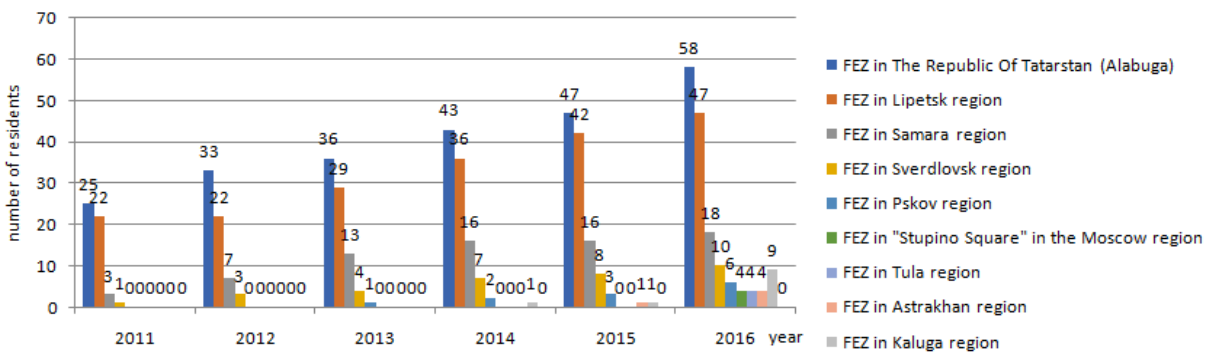


Fig. 4. Dynamics of FEZ residents number by PIT type in 2011-2016

The results of the study "Analysis of FEZ efficiency functioning in 2016" draws the conclusion that they have not become an effective instrument of the national economy, and the expected economic effect from their activity for 11 years has not been reached. Since 2006, they have allocated 188 billion rubbles for 33 FEZ, but only 160 billion rubles have been spent. FEZ tax and customs duties amounted to 40 billion rubles [15]. The investment volume of residents in this FEZ accounts for 79% of total investments. It can be assumed that such progressive activity of these zones can be linked with

initially favorable conditions for entrepreneurship [15]. For 2017 in the Russian Federation there are 23 FEZ.

### 3. RESULTS

Based on the study of free economic zones functioning in domestic and foreign economies, and also taking into account the main trends of economy system development, the authors have designed the model of effective innovation and investment FEZ development with distinctive features. The important and primary role in the proposed FEZ model is

given to concept of FEZ creation, where the key moments and conditions of effective functioning are identified, a zone's core, a purpose of its functioning, an investment scheme and expected effect are determined.

In the presented model a logistic centre has been allocated, which will be contribute to formation of optimal transport scheme and reducing delivery time of goods (services or

resources) from supplier to manufacturer and from manufacturer to consumer. Effective management on each stage of FEZ life cycle will lead to achievement the expected economic effect of innovation and investment type (see fig. 5). The main idea with the creation of FEZ is given to internet-portal as one of the modern aspects of innovative type economy development.

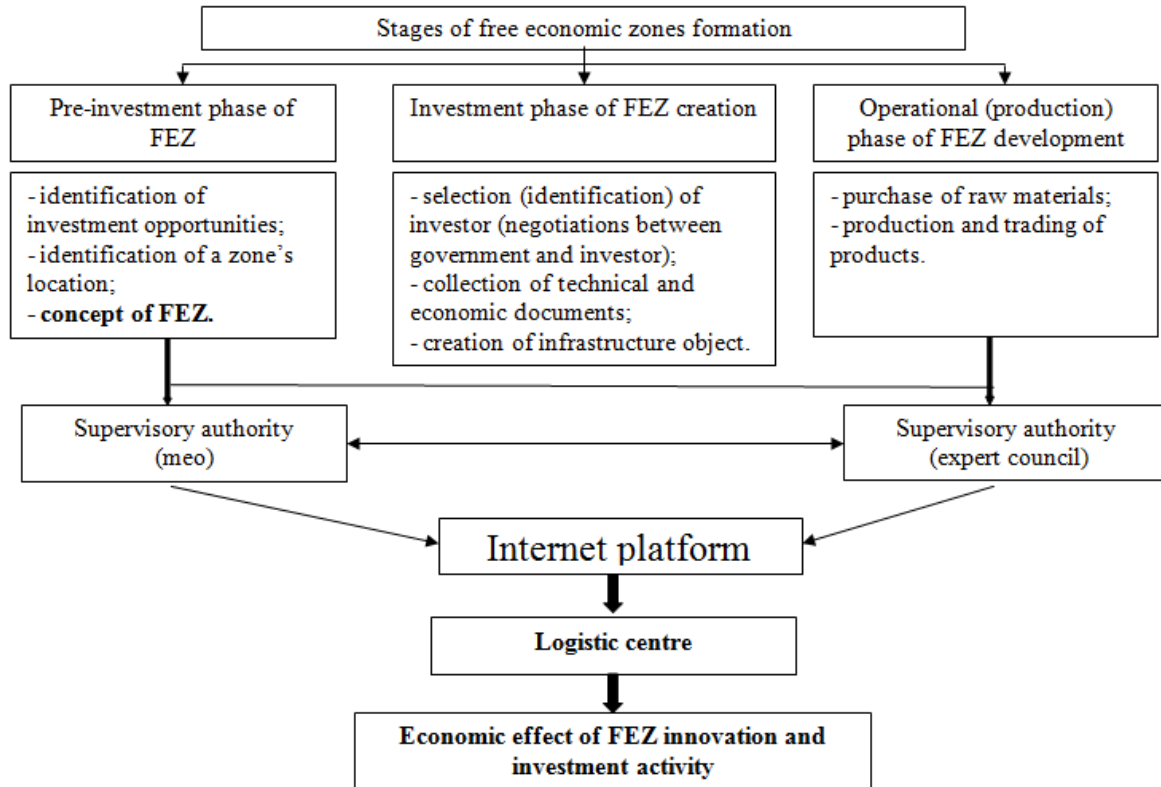


Fig. 5. The model free economic zone formation (compiled by authors)

The major advantage for resident companies in FEZ is not only possibility of special regime of entrepreneurial activity, but primarily using of resources of the created general business environment (with current information technology) for trading products and services, development and promotion of which will be supported by public authority included. And subjects trading their services or products with its help can be of unlimited number without a clear territorial reference, what will generate healthy competition for enterprises and possibility of searching of target audience for the products. Such approach will allow to expand geographical distribution of infrastructural goods, it can be considered as tool permitting to reach a different, more advanced level of business, giving new competitive advantages in the global economic system, what can influence business processes inside a free economic zone.

Right organization of FEZ functioning is a necessary condition of precise interaction of economic system main elements, the most important prerequisite for competitiveness,

improving productivity and resources' efficiency, activation of innovative activities to achieve necessary competitive advantages.

FEZ creation has mutually beneficial character for both the state and investors. Large-scale attraction of investments into Russian economy by FEZ creation promotes the solution of such tasks as production modernization, application of unclaimed scientific and technical potential of the country, export potential expansion and diversification and development of import-substituting industries in certain sectors, development of advanced forms and methods of production organization and civilized relationship experience in entrepreneurial activity sphere, development of infrastructure, transport network and communication facilities, and attraction of investment in labor-surplus regions. Investor interests, in turn, lie in access to mineral resources, opportunities to integrate potentially wide market, relatively cheap and skilled workforce employment, application of scientific researches results and technical developments to

create new types of goods, highly competitive in global markets.

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