

Golobokova, Galina

**Conference Paper**

## Territorial "Points of Growth" of Northern Region Economy Development in Russia

46th Congress of the European Regional Science Association: "Enlargement, Southern Europe and the Mediterranean", August 30th - September 3rd, 2006, Volos, Greece

**Provided in Cooperation with:**

European Regional Science Association (ERSA)

*Suggested Citation:* Golobokova, Galina (2006) : Territorial "Points of Growth" of Northern Region Economy Development in Russia, 46th Congress of the European Regional Science Association: "Enlargement, Southern Europe and the Mediterranean", August 30th - September 3rd, 2006, Volos, Greece, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

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Professor Galina M. Golobokova, Northern International University, Magadan, Russian Federation

### Territorial “points of growth” of northern region economy development in Russia

Magadan region is one of the northern regions caught by stagnation processes at the end of 1990ies. This situation required urgent measures to find effective ways out, with establishing Special (Free) Economic Zone (SEZ) among them. There were some prerequisites for this:

- 1) Beneficial geographic and transportation position to inner and outer markets, close to the markets of Asian-Pacific region.
- 2) Good transportation routs due to Sea trade and fishing port in the most comfortable bays of the Far East and international airport.
- 3) Free labour resources available. Magadan region takes the 4<sup>th</sup> place according to the educational level of population in Russian Federation.
- 4) Rich natural resources, not being used perfectly.
- 5) Relatively developed infrastructure of the city of Magadan as the main territory of SEZ.

The organization of SEZ assumed creation powerful industrial and agricultural bases, development of infrastructural branches and formation of modern technical and information centres, allowing to carry out rise of economy of region and its harmonious inclusion in the world economic system on principles of the international economic integration and globalization.

The mode of a free customs area has been organized in territory of SEZ. Alongside with tax privileges this was the powerful protectionist mechanism from a sharp competition of foreign manufacturers for the enterprises - participants of SEZ.

Due to Fund of SEZ received from registration payments of participants, it was planned to finance realization of projects of the Program of development of SEZ, including especially significant program actions and especially significant regional projects of social character.

440 enterprises were registered as participants of SEZ (18 % in the sphere of industry, 44% in trade, 12% in the sphere of services, 9% in construction, 9% - in transport). Now the structure of participants of SEZ includes the largest enterprises of the region and 80 % of small business enterprises.

The majority of SEZ participants are private ownerships (82 % of total number of SEZ participants). The significant share of regional production (60-70 %) is being manufactured by the enterprises - participants of a special economic zone

For the period of 2000-2004 the volume of the industrial output made by SEZ participants, has grown from 6,3 bln Rb up to 11,1 bln Rb. Large and middle-sized enterprises made 83 %, and small business enterprises - 64 % of regional manufacture of the enterprises of corresponding forms of business.

In total amount of manufacture of the industrial enterprises the significant role is played by the enterprises of nonferrous metallurgy (62 %). The Food-processing industry in total amount of manufacture makes 20 %, electric power industry - 14 %, mechanical engineering - 2 %.

In nonferrous metallurgy of 63 % of gold mining of area is carried out by 125 enterprises - participants of SEZ. In the food-processing industry enterprises - participants of SEZ make 80 % of production of the area (soft drinks, beer, vodka, and also liquor and confectionery products).

In meat-and-milk branches more than one third of whole-milk production of the area is manufactured by the enterprises - participants of SEZ.

In a fishing industry over 50 % of fish and other seafood are caught by the enterprises - participants of SEZ.

Within SEZ enterprises-participants were able to considerably improve their social and economic indices due to privileges regarding federal taxes (the profit tax, VAT, the uniform tax to the made income, the land tax, a payment for normative and above permitted standard emissions), and also customs clearings.

The additional funds received by participants of SEZ, owing to a special legal regime, have allowed to increase volumes of manufacture, due to it raise incomes of the enterprises, and also create sources for investment in development of manufacture. The positive result of functioning of SEZ is seen in improvement of financial parameters of the enterprises - participants of SEZ: their total financial result has grown 3 times, the share of the profitable enterprises has made 63% of all participants of SEZ.

30 enterprises have recovered their losses and reached profitability. There are enterprises of mining, fishing, constructing, transport and agricultural branches, and also enterprises of trading, communications and services among them. 60 enterprises have considerably increased the sum of their profit (mining, fish and the food-processing industry, branches of construction, trade, communication, mechanical engineering, transport, petrochemistry, an agriculture and sphere of service).

31 enterprises have lowered the losses due to participation in SEZ (mining, fishing, building and agricultural enterprises, and also the enterprises of the food-processing industry, trade, transport and sphere of service).

From the moment of the organization preferential mode of SEZ has made powerful influence on development of economy of the region, having created the mechanism of "points of growth" which is showed in direct and indirect consequences.

Direct consequences of the mechanism of "points of growth" of SEZ are the following:

- 1 - creation of a favorable business climate and activization of small business;
- 2 - improvement of a financial condition of the enterprises - participants of SEZ;
- 3 - increase in receipts of all level budgets;
- 4 - creation of new workplaces and organization of new enterprises;
- 5 - development of industrial potential and updating of material base of enterprises and establishments.

Results of direct consequences of the mechanism of "points of growth" of SEZ have multiplicative character and can also be seen in the following indirect consequences:

- 6 - decrease in a consumer price index;
- 7 - increase of income per capita of inhabitants of the region;
- 8 - improvement of a social infrastructure and ecological situation in the region.

With the creation of the Special economic zone in the Magadan area enterprises and businessmen of the region have received powerful stimulus for development of own manufacture - in the form of privileges under federal taxes and customs payments. Taxation benefits of the enterprise are put into development of manufacture. Financial parameters of enterprises activity also improve, the wages grow, new workplaces are created, receipts in the budget of the area increase as well.

Thus, privileges under taxes and customs payments have given an opportunity for development of productive forces in the economy of the region, the financial and commodity markets, growth of investment appeal of the region and removal of social intensity.

The preferential customs mode of the Special economic zone has allowed the enterprises and businessmen-participants of SEZ to deliver modern import equipment for development of own manufacture as well as consumer goods for realization in the territory of SEZ. In a preferential mode there were imported goods for 36 mln dollars.

The mode of the Special economic zone has made positive influence on improvement of an investment climate in the region. Despite lacking of significant inflow of the foreign capital in the region, the level of the Russian investments has grown that positively affected economy of this area.

In connection with development of enterprises and new manufactures, the employment in the economy of area has grown. In 2004 the share of unemployed in relation to economically active population made 4,37 % , that is less than the level of 2003 (4,5 %) and all-Russian parameter.

With introduction SEZ in action foreign trade became more active. There are businessmen and enterprises in the spheres of trade and industry working in a mode of a free customs area as SEZ participants.

The basic countries from which import of the goods is carried out are Japan, Italy are the USA. Equipment is being imported from the USA, Canada and the European countries, cars - from Japan, stuffs, the economic and industrial goods are imported from Korea and China. The furniture and building materials are imported from the USA, Korea, China.

For the considered period participants of SEZ also exported production. 9 enterprises and 2 businessmen took production out of the Russian Federation. The basic categories of export are fish and scrap metal.

The customs privileges stipulated by the Law "About the Special economic zone in the Magadan region" promoted creation of favorable conditions of social and economic development, growth of investment appeal of the region, development of productive forces. The opportunity to import goods in a preferential mode allows to constrain a rise in prices for a number of food stuffs of the first necessity.

Import of furniture, textile production, pottery, cars in a preferential mode has allowed to sate the consumer market with these goods and reduce price for them for 20-30 %. Instability of a legal situation generated a problem in realization of "points of growth" of SEZ. It consists in absence of a long-term strategy of development of SEZ, worked out stages and steps in interrelation with the basic directions of regional development on long-term prospect.

In these conditions Fund of SEZ was distributed during all period of functioning between many directions and objects of financial support of SEZ, however the large industrial complexes turning economy of the region on an innovative way of development, and raising depth of processing of the regional resources and promoting a new conceptual role of region, practically is not created.

Endogenous problems connected with instability of a legal field and attempts of the Government to limit preferences of the mode of SEZ in the region and even completely terminate them, as well as with limitation of territory of SEZ within the borders of the city of Magadan.

Exogenous character of problems was showed in absence of strategic approaches to use of mode of SEZ, incapability of some branches, enterprises and leaders to work effectively in the conditions of SEZ, an inefficient control system and absence of the innovative approach in development of economy of the region on the basis of use of "points of growth" potential.

All the listed problems have not allowed to use opportunities of SEZ to the full, having realized effectively only tax and customs preferences. Inherently SEZ has shown classical properties of only free industrial customs area.

Unfortunately, the centers of a science, techniques and the manufacture have not been created (they were planed to render stimulating influence on development of various branches of regional manufacture), there was no essential redistribution of resources in favour of creation of mechanisms of the self-development promoting taking the Magadan area out of the number of regions - outsiders.

Considering positive experience of optimization of economic activities in the region on the basis of the concept of SEZ "points of growth", allowed during the time of market reforms to solve a whole set of problems of the northern region, the decision to keep a mode of preferences is accepted, having eliminated the problems of functioning of SEZ revealed during the analysis.

SEZ in the Magadan area is realizing functions of the classical free customs zone with some elements of a manufacturing zone. According to a world practice, it should be transformed to a zone including free port and airport, free industrial zones, free customs area and scientific-technologic zone which would add functional blocks of a preferential mode of managing for maintenance of an innovative way of development of the region.

As objects for creation scientific and developing zone according to the legislation developed at the moment in the Russian Federation on functioning of science cities and other zones of an innovative type, in the Magadan area it is possible to consider an opportunity of formation of technoparks in following areas:

- use of bioresources of the sea for reception of biologically active additives which can become powerful currency-consuming regional product which is not demanding great expenses for transportation to commodity markets;
- extraction of hydrocarbonic raw material from the Magadan shelf in conditions of critical natural and climatic conditions;
- creation of a modern complex of coastal fishery and reconstruction of coastal bases of seafood processing to eliminate disproportions between extracting capacities and insufficient maintenance with resources of an ocean fishery.

Thus, for successful realization of prospects of SEZ development in a new format it is necessary to reconsider the program of development with definition of new criteria and create new legal methodological base and the mechanism of management of SEZ which should be released from the inefficient style caused by administrative submission to executive authority. The structure of SEZ management should possess the features inherent in any agent of market economy, carrying out commercial activity.

Criteria of functioning in this case should include economic efficiency and safety, living ability and development of industrial and personnel potential, active attraction of internal and external investments. It is necessary to provide long-term planning of activity of a mode of preferences with forecasting of use of "points of growth" potential for the further self-development of the region.