Getting it right: Alabuga is the largest special economic zone of its kind in Russia and strategically located in the country's industrial belt

Mixed success

SPECIAL ECONOMIC ZONES ARE BEING DEVELOPED ACROSS RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES. THEIR SUCCESS WILL REST ON THEIR ABILITY TO OVERCOME BUREAUCRACY AND CUSTOMS ISSUES. **JASON MITCHELL** REPORTS ON THE EFFECTS ACROSS THE REGION

Special economic zones (SEZs) are being used to develop the more remote parts of Russia and countries of the Commonwealth of Independent States (CIS), but there are concerns that bureaucracy and government intervention are stifling their growth.

Russia has 28 SEZs of four different types: six are industrial and production zones, five are technology and innovation zones, 14 are tourist and recreational zones, and three are port zones.

Within the CIS, Belarus has at least six zones; Ukraine has established more than 10, Tajikistan has five, Armenia has at least three, and Azerbaijan has several. Kazakhstan has nearly a dozen SEZs and the president has decreed there should be zones in all regions of the country.

But the SEZ programmes in Armenia, Kyrgyzstan, Tajikistan and Uzbekistan have all had "very poor results", according to Juan Torrents, president of Geneva-based World Free and Special Economic Zones Federation.

One of the most successful zones in Russia is Lipetsk, which was the joint winner for large tenants in the Europe region in **fDi**'s Global Free Zones of the Year Awards in 2014. The zone is located close to the large city of Lipetsk and 430 kilometres south-east of Moscow.

Since being established in 2007, the zone has attracted 37 resident firms from 11 countries, including Japanese tyre company Yokohama, Swiss power and automation technologies company ABB, German electrical fittings manufacturer OBO Bettermann, US supplier of paints and fibreglass PPG Industries, Belgian steel wire products supplier Bekaert, Chinese motorcycle and car manufacturer Lifan, and Dutch milling engineer Ottevanger.

"The growing Russian consumer market is the main attraction of our zone," says Ivan Koshelev, director-general of Lipetsk SEZ. "Economics always come first, whatever the political situation. Federal government warrants and guarantees also help to protect any foreign investment in the zone. We are keen to attract companies working in areas of advanced

technology and that want to establish R&D centres within the park."

In particular, the zone is attractive to metal-intensive industries, thanks to its close proximity to Novolipetsk Steel, one of the world's largest steel companies.

Alabuga's access

Another successful zone in Russia is Alabuga, which was established in 2005 in Tatarstan, west of the Ural mountains and more than 1000 kilometres from Moscow. It received an honourable mention in **fDi**'s Global Free Zones of the Year Awards for the Europe region in 2014 and two of its industrial parks, Synergy and A Plus, were recognised in a special 'ones to watch' feature in **fDi** this February.

With an area of 20 square kilometres, Alabuga is the largest industrial SEZ of its type in Russia and has 45 resident companies (16 are already manufacturing goods and a further 20 firms are expected to do the same by the end of the year). The mix of domestic and foreign firms is split 50:50. The site consists of plant and office buildings, and 6000 people are expected to be directly employed there by the end of the year.

Timur Shagivaleev, chief executive of Alabuga SEZ, says: "Our strategic location has been key to our success. We are located in Russia's industrial belt and 50% of Russia's biggest cities lie within 1000 kilometres of the zone, creating a huge market for goods produced here. Federal highway M7 is close to Alabuga, linking it to Moscow and the expanding east of the country.

"Having the right infrastructure in place is very important. This is not just about roads, but having electricity and gas supplies already available. In Russia it can take time to arrange these services but the management company here already ensured that they are in place."

Specialist zones

Ulyanovsk is an example of a specialist SEZ in Russia, focused on aviation-related industries. It is situated close to the river Volga and 900 kilometres east of Moscow. It is the only aviation SEZ in Russia and is located adjacent to Ulyanovsk-Vostochny airport.

Meanwhile, Gomel-Raton – located close

Building success: Lipetsk special economic zone has 37 resident firms, including Bekaert, ABB and Yokohama

> THE GROWING RUSSIAN CONSUMER MARKET IS THE MAIN ATTRACTION OF LIPETSK SEZ

to Belarus's border with Russia and Ukraine – is an example of efforts among Russia's neighbours to develop such zones. It is a hi-tech zone, specialising in radio electronics, mechanical instrument engineering, machine building, and electrotechnical and cable industries. A resident company of the zone pays 50% less tax than a firm located outside the park and Gomel-Raton has investors from 16 different countries.

The Russian SEZs provide investors with a number of tax advantages, but analysts say the main reason foreign companies are interested in them is their access to large consumer markets.

Zone benefits

The income tax for Russian SEZ residents ranges between 0% and 13.5%, instead of the country's normal 20% (the residents of technology and innovation and tourist and recreational SEZs that are combined into clusters are exempt from income tax). Additionally, property and transport tax exemptions exist for 10 to 15 years, at the federal level investors are exempt from land tax for five to 10 years, and there is a special customs regime, which means that investors in the zones do not have to pay any customs duty or VAT on foreign goods.

Residents are also supposed to benefit from reduced administrative barriers through a system called 'single window'. This is meant to simplify the investor's interaction with regulatory authorities, allowing them to pass all the necessary documentation to establish a business through one special agency. However, critics say the SEZ programmes in Russia and the CIS suffer from a great deal of red tape.

"The Russian and CIS SEZs are advancing slowly because they are organised and managed by the state," says Mr Torrents. "This can lead to long administrative delays. An official from an SEZ might want to go on an inexpensive, one-hour flight but it takes three weeks to get it approved. Without all the bureaucracy, the zones would be full up with residents and successful within five years, but in reality it takes much longer."

Mr Koshelev says the Lipetsk zone has made a big effort to try to understand investors' needs and simplify procedures. "We try to relieve investors' apprehensions about red tape. We realise that bureaucracy is a serious problem in Russia but we work very closely with the regional authorities to smooth out all bottlenecks. We are an enthusiastic team and developing a strong, personal relationship with investors is very important to us."

Battling bureaucracy

Mark Rovinsky, a counsel at Russian law firm Egorov Puginsky Afanasiev and Partners, believes that bureaucracy has got much better in Russia and the CIS, and that some agencies help foreign investors a great deal.

However, he feels there is one important area in which Russia and the CIS definitely do not do enough: the international promotion of SEZs. "The zones need to be much more proactive. They need to get local and federal government ministers at events and meetings abroad, robustly promoting the zones," he says.

Mr Rovinsky adds that a thorough economic analysis of each specific region is required to create the appropriate conditions and to attract the right type of investor to the SEZ. Protection of foreign capital as a general legal issue and an overall positive business environment are also of high importance.

Kari Liuhto, professor of the Russian economy at Finland's University of Turku, questions the added economic value of SEZs in Russia. One of their benefits is supposed to be helping to establish a business in the country, but World Bank surveys show this is now a reasonably straightforward process throughout Russia. He says what would be an advantage is if the SEZs could help with customs so that investors face far shorter delays in obtaining spare parts and inputs, but it is not clear if the zones can do this.

Russia and the CIS now have a large number of SEZs that are promoting regional development and creating local jobs. But the zones have been slow to take off because of a high level of bureaucracy and they are not doing nearly enough to market themselves internationally to foreign investors. ■