

Special regime "Territory of Advanced Development" in mono-profile municipal entities

Zeynegul Samaibekova¹ and Gulia Galiullina^{2,3*}

¹Department of Economics and Enterprise Management, Kyrgyz State Technical University named after I.Razzakov, 66 Ch. Aitmatov Avenue, 720044 Bishkek, Kyrgyzstan

²Institute of Economics of the Ural branch of the Russian Academy of Sciences, 29 Moskovskaya St., 620014 Ekaterinburg, Russia

³Naberezhnye Chelny Institute of Kazan Federal University, 68/19 prospekt Mira, 423812 Naberezhnye Chelny, Russia

Abstract. Today, performance efficiency of the territories with a special regime of conducting entrepreneurial activities is assessed by comparing planned targets with actual indicators in terms of the number of recruited residents, new workplaces created, the resident's actual investment. Another efficiency indicator is the ratio of public budgetary funds per one ruble's worth of private investments. However, these indices do not gauge the need itself for the territories to be granted the special territory status. The article compares performance results during 2016–2020 registered by mono-profile municipal entities, which have acquired the status of priority development territories, with the indicators achieved by similar company cities without any special status. For pair-to-pair comparison, a selection was made of company cities in the Ural region of Russia with approximately similar population and belonging to the same category in terms of the level of the socio-economic situation. Analysis was made of such indicators as population, investments in property, plant and equipment, revenues of the local budget, wages and salaries. The results of the above comparative analysis allow us to conclude that in the short-term perspective, the key indices of special company cities and company cities without status do not differ much.

Key words: Priority development territory; Comparative analysis; Efficiency; Resident.

1 Introduction

The priority development territory is one of the 14 types of territories with a special regime of conducting entrepreneurial activities (hereinafter referred to as "special territories"). The government grants tax, administrative, customs preferences to companies which have obtained the status of residents in special territories. The aim of creating such territories is to take the country's economy onto and along the path of innovative development. Based on

* Corresponding author: gulia-fag@yandex.ru

today's state of the country's economy, the thirty years of experience in operating special territories is typified by low efficiency, with the strategic targets of the majority of them having failed to be achieved. The first priority development territories came to be established in 2015 in the Far East – Komsomolsk Priority Development Territory (PDT), Nadezhdinskaya PDT, Khabarovsk PDT. The Far Eastern priority development territories, in respect of many key parameters, are similar to special economic zones (hereinafter referred to as SEZ). It must be pointed out that it was exactly during this year that performance of most of the SEZs was recognized to be inefficient judging by the budgetary expenditures towards creating jobs in them. The main difference between a priority development territory (hereinafter referred to as PDT) and SEZ is the fact that it is established to suit the key investor, so pending signature of cooperation agreement with the company willing to open up a new production facility as a resident, this special territory may fail to materialize.

Conduct of preferential regimes in certain territories is actively being practiced by many countries. They are created in developed countries [1-4], in countries with economies in transition [5-7], in countries with structurally weak economies [8-11]. Efficiency studies of their performance are pursued both by national [12-16], and international scholars [17-20].

The goal of creating PDTs is to put in place favorable conditions for raising investments, ensuring a rapid pace of socio-economic development and shaping comfortable conditions to ensure sustainable life for the population. An audit conducted by the Audit Chamber of the Russian Federation of the performance results achieved by special territories has revealed that “preferential regimes do not bring about breakthrough type influence on the economy, while making it difficult to give a fully-fledged assessment of their efficiency.”

As a matter of fact, currently, the country has been operating two types of entrepreneurial activities. The first type has been in operation in the territories whose resident organizations are provided with certain government preferences. As a rule, these are tax benefits, simplified administrative procedures, tax breaks, etc., which are enshrined in legislative acts. The second type is the one in the case of which business entities' operations are regulated by the existing law of the country.

2 Methods

To assess the results of preferential regime operation in the conduct of entrepreneurial activities, it is contemplated that comparison will be made of the key statistical indicators of mono-profile municipal entities who have gained the status of a PDT as well as similar territories without special status. Comparison of the two types of involved in entrepreneurial activities was made based on comparative analysis. Comparative analysis is widely used both for country-to-country comparison [21, 22] and for a study of certain phenomena within the framework of one country [23-25]. Unequal rate of development typical of Russian regions, municipal entities requires that company cities similar in their key parameters be selected [26].

A comparative analysis was carried out on the example of the Verkhny Ufaley urban district, which received the status of a protected area on 11.13.2017, and the Asha urban settlement. Both localities are situated in the Ural region, namely in the Chelyabinsk region, and are classified as single-industry municipalities with the most difficult socio-economic conditions (the first category). The difference in population is 4.5% as of 01.01.2021. The population of Upper Ufaley is 30 thsd people. The population of Asha is 28.7 thsd inhabitants.

The city of Verkhny Ufaley is located in the north of the Chelyabinsk region bordering the Sverdlovsk region. The company to which it owes its company city status is Ufaley Nickel OJSC which was closed down in 2017. Currently, the foremost enterprises in the city are metallurgical facilities (Foundry Center LLC, MetMashUfaley LLC) as well as a manufacturing operation to produce electric power cells (Ural Element OJSC).

The city acquired the status of a PDT in November 2021, and a month later the first resident, i.e., Ufaley Knitwear LLC was registered. As of 06.01.2021, 11 residents have been registered of which the key one is Polymet Engineering LLC. It accounts for 99.1% of the total amount of pledged investments and 69.1% of the total number of jobs being created for the 11 residents in the Verkhny Ufaley PDT (Table 1). The key resident is planning on starting up a zinc electrolysis plant in the middle of 2022 in the site of the company which used to be the city's main employer and which is now bankrupt.

Table 1. Planned Indicators of Registered Residents in Verkhny Ufaley PDT.

No.	Resident	Date of obtaining resident status	Type of economic activity carried out by a resident	Planned indicators	
				volume of investments, million rubles	number of jobs, units
1	Ufaleyskiy trikotazh	12.22.2017	14.12 Manufacture of workwear, 14.13 Manufacture of other outerwear	3.0	25
2	Prirodnnyy resourcес	04.13.2018	16.10 Sawmilling and planing of wood, 16.10.1 Production of lumber, except profiled, more than 6 mm thick; production of untreated railroad and tram sleepers from wood	3.1	56
3	Uralenergokhim	06.27.2018	20 production of chemical products; 72 Research and Development	58.5	80
4	NPP Mikron	11.27.2018	23.70.1 Cutting, processing and finishing of stone for use in construction as a road surface; 23.70.3 Production of granules and powders from natural stone (main)	50.0	30
5	Perspektiva	30.10.2019	23.70.1 Cutting, processing and finishing of stone for use in construction as a road surface 23.70.2 Cutting, processing and finishing of stone for monuments	21.2	32
6	ArtMetall	12.25.2019	25.11. Manufacture of building metal structures, products and their parts 25.12. Manufacture of metal doors and windows	30.0	60
7	Ufaley-Shcheben	07.30.2020	23.70 Cutting, processing and finishing of stone 08.12 Development of gravel and sand quarries, extraction of clay and kaolin	12.0	13
8	Kvartsit	07.30.2020	08.99 Extraction of other minerals not included in other categories 08.11 Extraction of decorative and building stone, limestone, gypsum, chalk and shale	12.3	19

No.	Resident	Date of obtaining resident status	Type of economic activity carried out by a resident	Planned indicators	
				volume of investments, million rubles	number of jobs, units
9	Paritan	29.10.2020	08.11 - Extraction of decorative and building stone, limestone, gypsum, chalk and shale 23.70 - Cutting, processing and finishing of stone	10.0	21
10	UPP	29.10.2020	20.12 Manufacture of dyes and pigments 20.13 Manufacture of other basic inorganic chemicals	4.0	30
11	Polymet Engineering	29.10.2020	24.43.2 Production of zinc 24.43. Lead, zinc and tin production	21,400.0	820
Total for 11 residents				21,604.1	1,186
Total for 10 residents without OOO Polimet Engineering »				204.1	366

In the opinion of the regional officials, the key issue of Verkhny Ufaley and a hindrance to development of PDT is an extremely limited list of available industrial sites equipped with required engineering infrastructure and approach roads which can be offered to potential investors.

At a distance of 300 km from Verkhny Ufaley, in the west of the Chelyabinsk Region, on the border with the Republic of Bashkortostan, there lies the city of Asha where the main employer is also the metallurgical business (Asha Metallurgical Plant). The city is also home to an electrical engineering plant, which produces electric hardware, as well as to the construction industry.

Both cities are approximately at an equal distance from major business hubs. Distance from Verkhny Ufaley to Ekaterinburg is 170 km, and 110 km from Asha to Ufa.

Comparative analysis was conducted on the basis of company cities' indicators for 2015-2020 gleaned from the Database of municipal entities of the Federal State Statistics Service of the Russian Federation. Indicators for the townships under study have uneven representation: for some, the database comprises data for the whole sampled period, for others – for the years of 2015-2019. It is also noteworthy that these townships are classified as small towns (in terms of population), and the database quotes a limited range of indices in respect of them.

The socio-economic development indicators for 2015-2017 give an idea of the cities' level of development before Verkhny Ufaley obtained the status of a PDT; the period between 2018-2020 is for the purpose of studying the influence exercised by the special regime of entrepreneurial activities on development of mono-profile municipal entities.

3 Results and discussion

During 2016-2017, in terms of investments in fixed assets (property, plant and equipment), Verkhny Ufaley surpassed Asha by 34% (Table 2). As estimated per one inhabitant, investments in fixed assets (property, plant and equipment) in Verkhny Ufaley amounted to 19.1 thsd rubles and 15.2 thsd rubles in Asha (a difference of 26%). After obtaining the status of a PDT, Verkhny Ufaley was expected to witness a significant increase in investments as a result of newly opened production operations of residents. In the short-term perspective, there

has been no growth, a decline in indicators is observed (Table 3). Thus, for instance, the level of investments for 2018-2019 decreased by 4.1%, as estimated per one inhabitant, it is 0.7% down (lesser reduction in this indicator is caused by fewer city inhabitants as the population dwindled by 3.0%). When comparing the volume of investments for 2019 with 2017 (the year that the favorable regime for conducting of entrepreneurial activities was granted), decline made up 5.5%; as estimated per one inhabitant, the decline made up 2.2%.

Table 2. Development indicators of the Verkhny Ufaley Urban District and the Asha Urban Settlement.

Indicators	Unit of measurement	2016	2017	2018	2019	Average for 2016-2017	Average for 2018-2019
Verkhneufaley urban district							
Fixed capital investments	million rubles	547.2	668.7	533.9	632.2	608.0	583.1
Fixed capital investments per one inhabitant	thousand rubles	17.1	21.2	17.3	20.8	19.1	19.0
Average annual population	human	32,024	31,518	30,916	30,458	31,771	30,687
Ashinsky urban settlement							
Fixed capital investments	million rubles	407.0	501.0	524.6	579.3	454.0	516.7
Fixed capital investments per one inhabitant	thousand rubles	13.5	16.8	17.8	19.9	15.2	17.6
Average annual population	human	30,046	29,819	29,483	29,274	29,933	29,379
The ratio of the indicators of the Verkhneufaleisko urban district to the indicators of the Ashinsky urban settlement							
Fixed capital investments	%	134	133	102	109	134	113
Fixed capital investments per one inhabitant	%	126	126	97	105	126	108
Average annual population	%	107	106	105	104	106	104

The situation with respect to the city of Asha is significantly different; the city is seeing an increase in investments. On the whole, investments for 2018-2019 increased by 15.9% compared to 2016-2017; as estimated per one inhabitant, investments are up 13.8%. When comparing the 2019 indicators with 2017, growth constituted 15.6% and 18.2%, respectively.

Table 3. Development of indicators for the Verkhny Ufaley Urban District and the Asha Urban Settlement, %.

Indicators	Indicators 2018-2019 by 2017-2016	Change in 2019 to 2017
Verkhneufaley urban district		
Fixed capital investments	95.9	94.5
Fixed capital investments per one inhabitant	99.3	97.8
Average annual population	96.6	96.6
Ashinsky urban settlement		
Fixed capital investments	113.8	115.6
Fixed capital investments per one inhabitant	115.9	118.2
Average annual population	98.1	98.2

The indicators of the Asha Urban Settlement, in terms of the amount of investments made during 2018-2019 are approaching the level of the Verkhny Ufaley, whereas in 2017 the gap comprised 33%, based on the 2019 results, it narrowed down to 9.0%.

One of the key problems faced by the majority of the mono-profile municipal entities is many years' decline in population both through natural attrition and due to migration outflow [27]. Thus, for example, as of 01.01.2021, the population of Verkhny Ufaley was 30,026 persons, which is 3,835 persons, or 11.3%, less than as of 01.01.2013; for the Asha Urban Settlement – 2,430 persons, or 7.8% less (Fig. 1). At the same time, decline in population of inhabitants in Verkhny Ufaley has been happening at a faster rate than in Asha. While the population of the company city which was granted the status of a PDT, during 2013-2020, diminished by 11.3%, that in Asha diminished by 7.8%.

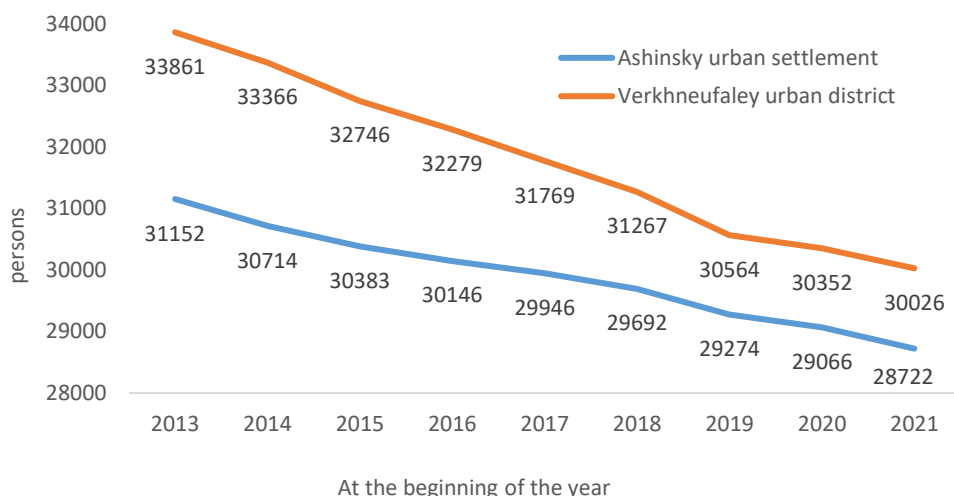


Fig. 1. Development of population, persons.

During the last two years before the status of PDT was granted, the population of Verkhny Ufaley decreased by 1,012 persons (410 persons through natural attrition and 602 persons as a result of migration outflow). During the subsequent two years, the city lost another 915 inhabitants including natural attrition which comprised 588 (178 persons more than during 2016-2017). It is encouraging that there has been a reduction in migration outflow by 275 persons for the period under analysis and growth in migration by 94 persons based on the results for 2019 (Table 4).

Table 4. Change in population, persons.

Indicators	2016	2017	2018	2019	Average for 2016-2017	Average for 2018-2019
Verkhneufaley urban district						
Population change	-510	-502	-703	-212	-1,012	-915
natural decline	-187	-223	-282	-306	-410	-588
Migration outflow (-), inflow (+)	-323	-279	-421	94	-602	-327
working age	-165	-163	-273	56	-328	-217
over working age	-49	-39	-51	10	-88	-41
under working age	-109	-77	-97	28	-186	-69
Ashinsky urban settlement						
Population change	-200	-254	-418	-208	-454	-626
natural decline	-99	-180	-199	-204	-279	-403
Migration outflow (-), inflow (+)	-101	-74	-219	-4	-175	-223
working age	15	6	-42	13	21	-29
over working age	-86	-81	-147	-9	-167	-156

Indicators	2016	2017	2018	2019	Average for 2016-2017	Average for 2018-2019
under working age	-30	1	-30	-8	-29	-38

In the Asha Urban Settlement, the trend for population decline did not only persist but it also strengthened. Population diminished by 626 persons during 2018-2019, which is 172 persons more than during 2016-2017.

During 2016-2019, the number of city dwellers shrank both due to natural attrition (by 682 persons) and as a result of migration outflow (by 398 persons).

Serious differentiation of the cities under study has been established with regard to such indicators as “revenues of the local budget per one inhabitant”; however, the cities are not much different in terms of population or the area of the municipal entity. In 2021, in Verkhny Ufaley, the revenues of the local budget per one inhabitant totaled up to 56.7 thsd rubles, while in the city of Asha, it was 9.7 thsd rubles (Fig. 2). During 2020 as compared to 2015, the gap narrowed down from 8 times to 5.9 times.

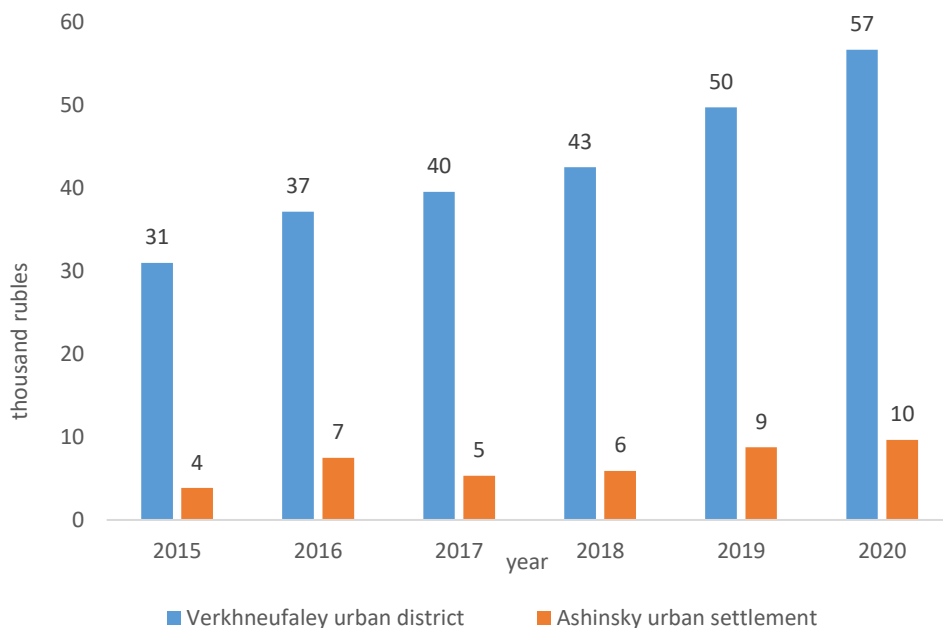


Fig. 2. Dynamics of local budget revenues per one inhabitant, thousand rubles.

The trends in the development of the company city of Verkhny Ufaley, during the period of PDT regime operation, compared to Asha Urban Settlement (which does not enjoy any special status) do not differ much. Investments in the fixed assets (property, plant and equipment) per one inhabitant even decreased after registering in Verkhny Ufaley the residents who were opening up new production operations. And this situation calls for further serious research, as the city registered 11 residents who, during this period, were at the investment phase, i.e., construction of production shops and installation of production lines were underway. At the same time, in the company city of Asha, one can witness an annual increase in investment without granting tax, administrative preferences for business. In the special company city compared to the company city without any status, the rate of decline in population is higher, while the growth rate of local budget revenues is lower. In terms of positive trends in Verkhny Ufaley in 2019, one can observe a slight influx of population migration as opposed to migration outflow during the previous years.

4 Conclusion

The obtained research data, on the one hand, showed that the results of the PDT regime in single-industry municipalities do not have a strong impact on the development indicators of a single-industry town in the short term, on the other hand, the limited duration of the PDT regime (the first territories were created only in 2016) does not allow draw a conclusion about its effectiveness.

In this regard, it is necessary to conduct further research in this area in order to identify the impact of the PDT regime on the socio-economic development of the country in the medium term.

References

1. D. Fei, J. Int. Dev. (2017) <https://doi.org/10.1002/jid.3277>
2. M. Grant, Am. Eco. Rev. (2020) [10.1257/aer.20180384](https://doi.org/10.1257/aer.20180384)
3. Y. Al-Saleh, Place Brand. Public Dipl. (2018) <https://doi.org/10.1057/s41254-017-0079-1>
4. S. Sosnovskikh, Rus. J. Econ. (2017) <https://doi.org/10.1016/j.ruje.2017.06.004>
5. C. Jensen, Reg. Stud. (2018) <https://doi.org/10.1080/00343404.2017.1360477>
6. I. Turgel, L. Bozhko, E. Pracheva, A. Naizabekov, Environ. Clim. Technol. (2019) <https://doi.org/10.2478/rtuct-2019-0058>
7. S. Hardaker, Eur. J. Dev. Res. (2020) <https://doi.org/10.1080/00343404.2017.1346371>
8. P. Giannecchini, I. Taylor, Geoforum (2018) <https://doi.org/10.1016/j.geoforum.2017.11.003>
9. Z. Allam, D.S. Jones, Urban Res. Pract. (2019) <https://doi.org/10.1080/17535069.2019.1607017>
10. P. laungaramsri, S. Sengchanh, Can. J. Dev. Stud. (2019) <https://doi.org/10.1080/02255189.2019.1524748>
11. W. Ahmed, Q. Tan, Y.A. Solangi, S. Ali, Symmetry (2020) <https://doi.org/10.3390/sym12020242>
12. A.N. Shvetsov, Regional Research of Russia (2017) <https://doi.org/10.1134/S2079970517020071>
13. O. Ergunova, A. Makushev, F. Tsapulina *Industrial parks as an institutional factor of development of the regional economy: The mechanism of creation and efficiency of functioning*. In Proceedings of the 30th Int. Business Information Management Association Conf., IBIMA 2017 - Vision 2020: Sustainable Economic development, Innovation Management, and Global Growth (2017)
14. E.A. Terenteva, N.V. Vasilenkova, Mediterranean J. Soc. Sci. **6**, 319 (2015)
15. E. Iadrennikova *Evaluation of the feasibility of applying reduced social contribution rates in special economic zones in Russia*. In Proceedings of the 30th International Business Information Management Association Conference, IBIMA 2017 - Vision 2020: Sustainable Economic development, Innovation Management, and Global Growth (2017)
16. G. Galiullina, R-Economy (2019) <https://doi.org/10.15826/recon.2019.5.1.004>
17. S. Alder, L. Shao, F. Zilibotti J., Econ. Growth (2016) <https://doi.org/10.1007/s10887-016-9131-x>

18. W. Liu, H.-B. Shi, Z. Zhang, S.-B. Tsai, Y. Zhai, Q. Chen, J. Wang, *Int. J. Environ. Res. Public Health* (2018) <https://doi.org/10.3390/ijerph15010056>
19. A. Quaiçoe, A.Q.Q. Aboagye, A.B. Godfred, *Res. Int. Bus. and Finance* (2017) <https://doi.org/10.1016/j.ribaf.2017.07.052>
20. R.B. Davies, A. Mazhikeyev, *Rev. Eco. Anal.* **11**, 145 (2019)
21. Yu. Lavrikova, E. Andreeva, A. Ratner, *Econ. Soc. Changes: Facts, Trends, Forecast* **13**, 54 (2020)
22. F. Green, G. Henseke, *J. Labour Mark. Res.* (2021) <https://doi.org/10.1186/s12651-021-00288-y>
23. S. Hussain, V. Nguyen, Q. Nguyen, H. Nguyen, T. Nguyen, *Humanit. Soc. Sci. Commun.* **8**, 123 (2021)
24. E. Ripamonti, S. Barberis, *J. Labour Mark. Res.* (2021) <https://doi.org/10.1186/s12651-021-00296-y>
25. H.S. Amogne, T. Hagiwara, *J. Econ. Struct.* (2021) <https://doi.org/10.1186/s40008-020-00232-2>
26. A. Shelomentsev, S. Doroshenko, O. Kozlova, Z. Mingaleva, *Int. J. Appl. Bus. Eco. Res.* **14**, 5891 (2016)
27. G. Galiullina, R. Aetdinova, A. Makarov, *Dilemas contemporaneos: Educación, Política y Valores* **6** (2018)