

## **Early Stage Assessment of the Special Economic Zones in the Russian Far East: Some Stylized Facts from Companies' Accounting Reports (Summary)**

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After many repeated unsuccessful attempts, the Russian leadership once again installed policies of special economic zones (SEZs) in the mid-2010s. This time, the newly established SEZs, namely “Advanced Special Economic Zone” (ASEZ) and “Free Port of Vladivostok” (FPV), are designed especially with the regional development of the Russian Far East in mind. The government anticipates domestic and foreign direct investments, the founding of industrial and export bases of high value-added non-resource goods, and subsequent contributions to the region’s development. Five years on and the Far East SEZs have successfully attracted more than 2,500 companies, including some from abroad. However, this figure neither paints a clear picture of their economic activities nor supports the validity of the policy measures.

Considering the relative importance of ASEZs and the massive budgets that have funded the necessary infrastructure developments, this paper investigates the successes and failures of ASEZs at their early stage from the viewpoint of companies’ financial conditions. We assess the dynamics and regional distribution of economic activities, organizational structure in ASEZs, the financial conditions of resident companies, and accordingly reveal the features of each ASEZ. For this purpose, we compile an original dataset containing two sets of firm-level data: resident registers and financial accounting reports.

Our investigation uncovers some stylized facts concerning the Far East ASEZs. First, continuous increases in the number of resident companies can be observed only in certain ASEZs, resulting in the geographically uneven distribution of economic activities. Second, only one or a few companies within each ASEZ produce the lion’s share of its revenues. Thus, these “dominant” companies have formidable influences on the ASEZ’s performance. Third, the profitability of resident companies, especially smaller ones, is low compared to the Russian average, indicating that the privileged regime does not sufficiently contribute to improving the financial conditions of companies in ASEZs. Additionally, the profit margin ratio and return on assets of resident companies vary among ASEZs as the number of resident companies and their profitabilities are not positively correlated with each other. Based on these findings, we can classify each ASEZ either as relatively promising or as having poor prospects.

We confirm the importance and influence of large-sized “dominant” businesses as well as the quite poor economic performance of small businesses in ASEZs. It implies the necessity to improve the institutional settings of ASEZs so that small and local businesses can continuously operate and make profits, which in turn will contribute to regional development.

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Free Port of Vladivostok

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