

# **Organizational and financial problems of functioning of the Free Port of Vladivostok**

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**Abstract.** Many developing countries face low levels of socio-economic development, both in individual regions and the country as a whole. The use of special economic zones nowadays is one of the best methods to solve this problem. In the far East of Russia, the main problem for the entire period of its existence is the low level of social and economic development. Solutions to this problem in our country also implement a special economic policy, one of the tools for its implementation is the creation of the free port of Vladivostok on its territory. On October 12, 2015, the law on the Freeport of Vladivostok entered into force and the special economic zone began its work with it. Since the beginning of the special regime, there have been problems and shortcomings in its implementation and operation. And since the process of this project is very dynamic, there is a need for constant monitoring, analysis of the current situation, adjusting the conditions and actions to improve the efficiency of the regime.

**Keywords:** Free port Vladivostok, Special economic zone, Fiscal concessions, Efficiency of the mode of special customs zone.

## **1. Introduction**

One of the economic instruments used as an activator of investment and innovative development of the region is the creation of a special economic zone on its territory. One of the varieties of the special economic zone is a Free port. The regime of the free port of Vladivostok extends to the port areas of five subjects of the far Eastern Federal district: the Primorsky, Khabarovsk and Kamchatka territories, the Sakhalin region and the Chukotka Autonomous district.

The Main task of the free port of Vladivostok is the establishment of special measures of state support for entrepreneurship, which are regulated by article 18 No. 212-FZ.

The aim of this research is to substantiate the recommendations on the formation of the stages of development of Vladivostok in the conditions of the Free port regime.

Research task:

- to analyze economic indicators of the Vladivostok free port project;
- to reveal organizational and financial problems of functioning of the free port of Vladivostok at the present stage;
- to define ways of development of Vladivostok in the developed conditions.

The subject of the research is the development trends and features of functioning of Vladivostok city under the conditions of the free port of Vladivostok.

The validity and reliability of the study is achieved by the use of General scientific methods of analysis.

The decision to implement this regime on the territory of Vladivostok to improve the socio-economic climate in the far East is not accidental, for a long time it is Primorsky region that is the main driver of the region's development. Vladivostok has many characteristics necessary for the implementation of this regime. The city is located at the intersection of many transit sea routes, making it an ideal candidate for the development of trade, entrepreneurship and production on the basis of Maritime transport. The idea of using this regime in the far East and for the country as a whole is not new. The port-Franco regimes have already been implemented throughout the far East region, as well as in the Crimea. However, it should be noted the specifics of the use of these modes, first of all, they were used to simplify the supply of distant regions with essential products. In that historical period, the state simply did not have the opportunity to provide, so far from the center of the regions, all the necessary goods. To achieve this goal, the relevant policy of simplifying customs regimes and reducing most customs duties was carried out, which allowed to quickly fill the market with foreign goods [3].

The use of this historical experience nowadays can be not only ineffective, but also detrimental to the economy of the region. The main example in the creation of the free port of Vladivostok (FPV) was the foreign experience [5-6]. One of the first zones in the world practice, specializing in the production of export products, from the date of its Foundation is Shannon export-production zone in Ireland, which was formed in 1959 in the area of the airport of the same name, located in the Western part of the Shannon estuary. Thanks to convenient transportation, as well as providing a number of benefits for potential investors – in particular, duty – free import of raw materials, semi-finished products and components, low rent for factory premises and warehouses, simplified procedures for investment and comfortable living conditions-Shannon area quickly managed to achieve impressive results. The enterprises located in Shannon produce electronic equipment, industrial diamonds, well drilling equipment, consumer goods and much more. During the years of existence of this special economic zone, the volume of exports has increased dramatically. Shannon has become a thriving industrial hub in Western Ireland. The successful operation of the Shannon zone has gained worldwide fame and served as an example for many developing countries, which began to actively use this experience. There is also a similar experience of creating special economic zones in the United States, where the largest number of zones appeared in the 70-80-ies, which was due to the growth of US foreign trade and the strengthening of competition in the domestic market. During this period, a large number of similar zones appeared in cities that do not have access to the ocean, but at the same time play an important role in the foreign economy. This is due to a number of factors, the most important of which are the sharply increased volume of US trade, the intensification of activities of foreign corporations in the domestic market, the rapid growth of various types of export transactions. In the future, such a policy led to the creation of a new trade infrastructure in the United

States. Among developing countries, Taiwan has been a pioneer in the organization of free zones. Taiwan's experience has been so successful and impressive that it has since become a model for free economic zones for developing countries. The first such zone in Taiwan was established in 1966, and in the mid-90s there were already 240 enterprises with a total number of 76 thousand people employed. The total volume of investments in enterprises exceeded \$ 1 billion [4].

## 2. Discussion

Today's draft law of the free port pursues other goals, in addition to customs procedures, it covers almost all economic activities not only in the Vladivostok city district, but also in the entire Primorsky Region. The main idea of the regime is to create a special economic zone in the territory of Primorsky Region, which provides special benefits to enterprises operating on its basis, that is, they are residents of the free port. In order to be able to establish an enterprise on the basis of a free port and use special tax benefits, the future resident must submit an application to obtain the status, as well as pass the selection according to special criteria.

One of the main tools for attracting residents to work under this regime is the provision of special benefits by the state. The analysis of the current tax benefits for residents of FPV, conducted on the basis of the initial regulations, as well as taking into account the changes made to the legislation of Primorsky Region, is summarized in table 1.

**Table 1.** The Main financial benefits for taxes and fees to residents of the free port of Vladivostok in comparison with the standard rates of tax collection.

For residents of the free port			
The amount of insurance premiums for 10 years	Income tax for the first 5 years	Property tax for the first 5 years	Land tax for the first 5 years
7,6%	0% (the next 5 years 12%)	0% (the next 5 years not more than 2,2%)	0%
For non-residents of the free port			
The total size of insurance contributions	Income tax	Property tax	Land tax
30%	20%	2,2%	0,3-1,5%

Table 1 provides a brief overview of the main financial benefits of the main taxes and duties, which are presented to residents of the free port of Vladivostok in the implementation of their activities in comparison with the standard tax rates in force at the moment. These tax incentives designed to attract to the operation of the free port of new residents and further accelerate socio-economic development of the whole far East region by reducing the cost to the resident for the payment of taxes and duties at the beginning of its activities. The money released can be used to improve the state of the enterprise and create a more economically developed environment [1-2, 9-12].

To assess the results achieved to date, the free port regime considered the main statistical indicators of its activities during 2016 from official sources, namely the data provided by JSC "Corporation for the development of the Far East", reports on the activities of this organization, as well as the register of residents of the free port [7, 13-15]. The results of the analysis are presented in table 2 and 3.

**Table 2.** Key performance indicators for the 2016 FPV regime.

Indicator	The first quarter		The second quarter		Third quarter		The fourth quarter	
	Fact	Execution of plan %	Fact	Execution of plan %	Fact	Execution of plan %	Fact	Execution of plan %
Number of new resident applications (PCs.)	56	101,8	93	143	148	185	235	156,7
Number of concluded agreements with residents (PCs.)	15	100	40	100	94	188	118	168,6%
The volume of investments stated in agreements with residents (billion rubles))	28	100	101	112,60	126	120	188	134,2

Number of jobs already created, (PCs.)	0	100	200	50,00	285	59,00	-	-
Number of jobs being in the process of creation, (PCs.)	-	-	-	-	-	-	23000	124,3

**Table 3.** Key performance indicators of the FPV regime in 2017.

Indicator	The first quarter		The second quarter		Third quarter		The fourth quarter	
	Fact	Execution of plan %	Fact	Execution of plan %	Fact	Execution of plan %	Fact	Execution of plan %
Number of new resident applications (PCs.)	245	117	330	115	442	155	630	213
Number of concluded agreements with residents (PCs.)	156	107	229	170	318	159	432	198
The volume of investments stated in agreements with residents (billion rubles)	257	120	-	-	-	-	366,4	121

Number of jobs already created, (PCs.)	886	206	-	-	-	-	1889	126
Number of jobs being in the process of creation, (PCs.)	24700	105	-	-	-	-	35900	133

It should be noted that during the two years of the regime, there is a constant excess of the actual figures over the planned ones, with the exception of only 2 and 3 quarter of 2016 in which the number of jobs created reached only 50-60% of the existing plan. This figure is not critical and is associated with a decrease in the number of jobs in the company "Aviapolis Yankovsky" at the time of the opening of the enterprise. Assessing the overall dynamics, we can see an increasing rate of growth of indicators by 2017, which indicates the development of the regime and the growth of interest in it on the part of the business community. The continuation of this dynamics is expected in 2018, which indicates the good development of the regime and the readiness of the region to develop in this direction.

To study the main problems and shortcomings in the work of the FPV, the reports of customs services on the activities of the regime were studied[8,20]. The analysis of opinions of specialists and experts allowed to divide the existing problems into two main groups:

- territorial;
- technological.

To date, territorial problems include such problems as:

- providing residents with land plots;
- implementation of the special customs zone procedure.
- poor preparedness of customs infrastructure

Providing residents of the free port with land plots is one of the key factors of the regime's operation. Earlier, there was a weak preparation of administrative structures for the work on the issuance of land, there were no accurate cadastral maps and information on specific land plots[16]. At the moment, work is underway in this direction, more accurate data have been prepared, but they are still not enough, residents are still not available full information on available land. And also negative factor is lack of any istructure on the issued sites. To solve this problem, it is necessary to continue to collect information and provide residents with full access to this information through electronic information resources. Electronic resources «FEDC» can serve as a platform for placing this information.

The problem of residents preparing their land for the implementation of the special customs zone (SCZ) also has a great impact on the progress of the project. The problem is that the current requirements are still insufficiently developed, lack transparency, and residents refuse to use them. According to Sergei Fedorov, the first Deputy head of the far Eastern customs administration, the customs part of the law is not fully used, it works extremely poorly and today there are only two residents who apply the procedure of SCZ [20]. It should be noted that at the moment, there are developed incentives for the preparation of the site for those enterprises that use the electronic accounting system on the plot of land, however, in order to completely solve the problem, it is necessary to develop more accessible and simple requirements for residents.

The development of customs infrastructure is a necessity for the normal operation of the FPV, from the very beginning of the regime, the administrative authorities are faced with a complete lack of readiness of customs to work in a free port. To date, a lot of work has been done on the development of customs infrastructure, but as noted by customs officers, this is still not enough. According to opinion Sergei Fedorov, there are problems on the land border, it is not equipped and not ready to work, and Chinese colleagues are not ready to move to the round-the-clock mode. While the FPV regime has not yet fully operational, the burden on customs authorities is not critical, but if the problem is not resolved in the near future, it can have a significant impact on the work of the entire regime. To solve this problem, it is necessary to connect the administrative authorities and work together with foreign partners.

The technological problems of the free port project include:

- high administrative burden for residents of FPV
- use of the complex of software «Portal seaport»,
- the use of an automated accounting system in the implementation of the resident procedure SCZ.
- the need to adjust the principles of accelerated VAT refund

The problem of high administrative burden has existed since the very beginning of the regime, but until recently has been relegated to the background of the primary problems of the regime [18]. Today, this problem is increasingly heard among residents. According to Alexander Shumatov, the General Director of LLC "center for children's health" the development of restrictions on verification is important for us, because a lot of labor goes to fill out documents and prepare for inspection. Work to solve this problem is ongoing, but in the opinion of the residents, the solution to the problem is to reduce bureaucratic procedures and the transfer of documents in electronic form.

The increase in cargo turnover is an absolute factor that accompanies the development of the free port regime and obligates the customs authorities to develop special tools to simplify their work [17]. This tool was a set of software tools "Portal sea port". It allows the resident to perform the necessary complex of operations for transportation, control of their cargo in the territory of the FPV from any computer with Internet access. According to L. K. Pulina, if we talk about the ongoing experiment in seaports to implement the portal, we can note both positive and a number of negative comments to his work, allowing us to make a General conclusion

that the portal today is not ready to perform the functions and tasks that are assigned to it and requires significant refinement. In turn, the chief state customs inspector, Department for implementation of promising customs technologies service of the customs control organization of the far Eastern customs administration O. V. Gavrichkov notes that the work to improve it constantly, and the portal will continue to work. In our view, despite the existing shortcomings in the system, and taking into account the expected volume of cargo turnover of the free port in the future, a similar set of software tools is necessary for the full operation of the regime. At the moment, it is necessary to conduct studies aimed at identifying shortcomings in its work. In the future, thanks to this complex, the customs authorities are expected to make a full transition to the use of electronic document management in their work.

The system of automated cargo accounting was proposed for use by residents as an addition to the organization of its site under the procedure of SCZ. As the head of Department of Head Department of the organization of customs registration and customs control of FCS of Russia T. p. Denisova notes, the use of this system allows to reduce the number of requirements imposed to residents at arrangement of the territories. This reduction allows to simplify procedure of arrangement of the territory and to open access to creation of similar territories for any enterprise. Today's problem is the procedure of implementation and use of this system by some residents. Residents currently lack the experience to create and actively use such a system. In our opinion, to solve this problem it is necessary to reconsider the process of implementation and realization of this system, it will ensure not only development, but also its more active use, which will further lead to simplification and acceleration of the procedure of SCZ for the majority of residents of the free port.

The possibility of an accelerated VAT refund is one of the fundamental principles of FPV. However, in practice this principle is not perfect. According to Eugene Panin, General Director of LLC «Vostok LPG»[21], the Corporation does not have a Fund to provide support and issue any guarantees, documentation is being developed, the creation of such a Fund will improve both the speed of the regime and its reliability and prestige for future residents.

Thus, according to the analysis of the considered economic indicators, as well as the main problems of the project, it can be concluded that the impact of the special zone on the economy of the city today is insignificant, but the regime has already begun its work. Based on the results of the research, it is possible to identify several stages of the development of the city Vladivostok in the operating conditions of the FPV regime.

### **3. Conclusion**

The first stage includes the work on the implementation of the mode and the launch of the project in full force. The main problem of this stage is unfinished infrastructure elements, as well as the problems considered in the implementation of the regime. The majority of the problems in the FPV are the result of insufficient experience, both for residents of the free port and for Supervisory authorities. Taking into account the

peculiarities of the implementation of the FPV regime, as well as the novelty of its use for the whole country, this suggests that such a situation is natural. The main problem of this period is the unpreparedness of the FPV infrastructure, which hinders its development and discourages possible residents from participating in the project. By the end of 2017, the main volume of construction of priority infrastructure facilities was completed, so at the moment the final works on commissioning of these facilities are already underway [19]. Taking into account the work on the existing problems of the project implementation and the completion of infrastructure works, the first phase is expected to be completed by early 2018.

The second stage includes the actual launch of the project, the start-up of the main enterprises in the FPV mode and primary economic growth. Today we are at the very beginning of this stage, large residents have already started working at their enterprises, but this has not yet brought significant economic growth. During 2018-2020, the main production facilities will be launched within the framework of the regime, which will lead to the primary growth of the main indicators and honing the operation of the regime.

The third stage represents the main period of development of the city in the status of FPV. According to forecast data of Corporation of development of the Far East by the moment of the beginning of this stage in the territory of the special zone more than 600 enterprises will already work in full force. At this stage, both economic and social indicators of the city's development are expected to increase.

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