

## An Analysis of Economic Issues of Territories of Priority Development

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**Abstract:** The economic situation in Russia, sanctions war, slurred position of the Russian state, all of this leads to the change of vector of economic development and transformation of the economy. We consider the institutional conditions to form the territories of a priority development. We analyze the statistical data on the Far Eastern Federal District regions where the construction of such territories started. We evaluate the ROI of territory of a priority development. We suggest the mechanisms to implement of the industrial policy. We find that the strategic planning should be based on institutional matrix and options for its development.

**Key words:** Territory of priority development, industrial policy, production, transformation, institutions, matrix, development, return on investment, region

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### INTRODUCTION

The imposition of the economic sanctions against the Russian Federation in relation with the Ukrainian crisis has a two-way impact. In response, the Russian government imposed retaliatory sanctions. As a result, there is a sanctions confrontation in a global world. On the one hand, sanctions reduce the opportunities for economic growth, since they drop a financing the large-scale projects at the expense of foreign investments. On the other hand, it has become clear that the Russian economy needed a national industrial policy based on the market principles. The Russian economy, previously greatly depended on imported equipment has an acute shortage of the separately nomenclature groups. Thus, the state authorities decided to intensify an industrial policy and implement an ambitious program of import-substitution. However, the correct decision faced with a number of the institutional restrictions in its decision. Therefore, it turned out that there were no any institutional conditions for the development of an industrial policy in the country. To correct it, in December 2014 two major regulatory federal laws were accepted: “on the territory of a priority social and economic development in the Russian Federation” from 29.12.2014 and “on industrial policy in the Russian Federation” from 31.12.2014.

The changes in the structure of industry and the expansion of production base in the long term should have a positive effect by creating the new jobs in the territories of a priority development. It should be noted that three territories of a priority development have been already created in Russia (two territories in the Primorsky

Krai and one in Khabarovsk). During the current year, it is planned to create six such territories where not only new industries are created but the new jobs as well. The wages on these workplaces will give an additional demand for products and become an engine of a new round of the development in the separate sectors of the economy.

The experience of the foreign countries as well as a convincing argument of Myrdal (1968) and Reinert (2007) the experience of the industrialization in Finland, France, South Korea and Singapore suggest the need of the protectionist industrial policy in the new environment. Today the globalization is an irreversible process that led to the oligopolization of the world market by a small part of the most developed countries. Not only the affected countries but also even its sponsors from the International Monetary Fund and the World Bank have criticized the recipes of the Washington consensus. All of this prompts to pay attention to a different paradigm of the economic policy.

The institutional environment, an international environment, a globalization, a sanctions war have had a significant influence on the ideology of the new industrial policy of Russia. These actions can help the country to take a more prominent place in the international division of labor as an import substitution is intended not only to ensure the domestic demand but also to create the access conditions to the foreign markets, including a strengthening of the national producers before sanctions cancelation.

Following the approach introduced by Myrdal (1968) and Reinert (2007), we believe that reduction of the industries and increasing returns leads to losing the opportunity to achieve economic growth in a long

run. Nowadays this problem is on the agenda in Russia: the economic growth is reducing at sufficiently high prices for the raw materials and a huge flow of financial resources from their sale in a long run. The population does not have a demand for goods, the aggregate demand is sharply shrunk because of the reduction in incomes due to the catastrophic differentiation of the population by income. An agiotage in the foreign exchange market, a fall in the oil prices and the sanctions war, all together enhances the dysfunction of state governance. In addition following to Silvestrov *et al.* (2015), the primitive products and services may be well paid more or less when the other industries with increasing returns generate the flows of funds into the economy only. For example, a janitor in Nicaragua, Italy and in the United States has very different salaries for the same work at the same intensity of labor. Thus, the labor productivity cannot grow, not only because of the laziness of workers but also for other reasons, the structural ones.

Consequently, we can see an outflow of qualified personnel in other countries. Hence, in the absence of industry and increasing returns, the cost's increase in the education and science only leads to an outflow of skilled workers abroad. It turns out that a poor country, specializing in sectors with diminishing returns, provides the industry with increasing returns of other countries with an effective demand and in addition, can provide these countries with qualified personnel, willing to work for the lower wages than the local ones. The double outflow of the capital and personnel gives a major boost to development and economic growth in those countries that specialize in industrial production and slowly destroys the economic sector in poor countries. We have noticed that Paul Samuelson actually was wrong in his statement about the equalization of incomes in all countries in case the world markets opening. Income stratification increases, the poorness grows into the abject poverty in some countries.

We assume that new industrial policy or new industrialization or re-industrialization is to create the institutional conditions for the industry development in Russia.

In our opinion, it is necessary to take an advantage of favorable conditions of the sanctions and opportunities of the protectionist policy to develop a real sector of the economy. The geographically localized growth points are the best instrument to do it. In a market economy, the sanctions war makes the country's leaders to take into account the limited fiscal resources and reducing the private investments in the real sector of the economy due to the political risks. A more balanced approach to spending the budget forces is to determine the reference

points which could be the engines of the economic growth. These growth points may be previously mentioned industries such as a machinery industry, a machine-tool construction and others.

## MATERIALS AND METHODS

The experts believe that Western sanctions and retaliatory measures negatively affected on the economic development of Russia. This statement can be analyzed using three indicators: GDP growth, inflation and capital outflows.

For example, in 2012 there was an increase in GDP of 3.4%. By 2013, it decreased by 2.6 time and amounted to 1.3%. According to the Ministry of Economic Development of Russia, at the end of 2014, it should not been expected a positive change in GDP. However, according to the Western colleagues' estimations, it should be negative (-1.8%). As a result, in 2014 the level of GDP grew by a half a percentage point. The experts assert a significant slowdown in the macroeconomic indexes for the current year.

Regarding the inflation rate from 2011-2013, it insignificantly ranged from 6.1-6.5%, respectively and in 2014 reached a record mark of 11.4% which is close to relevant indicator of the crisis of 2008 (11.9%). The inflation rate for January of this year can be called sensational (3.85%), Russia didn't ever faced with a such level for the comparable period during the last 15 year. It should be noted a slowing of the inflation growth since the beginning of 2015. In March, the inflation rate has decreased by 3 times (1.21%) (Table 1).

The capital outflow from Russia amounted to 54.6 billion dollars in 2012. In the following year, the index increased by 15% and reached the level of 62.7 billion dollars. Despite a prediction of the Central Bank about an increasing the capital outflow to 128 billion dollars ("the main directions of a monetary policy of the Bank of Russia for 2014 and the period 2015-2016") in 2014 the index exceeded all expectations and was \$ 150 billion. At the same time the massive capital rush which is characterized by a purchase of the foreign currency of the population and companies in terms of the foreign economic

Table 1: GDP of Russia between Selected Years

Years	Values	Percentage change
2014	43723	0.6
2013	43444	1.3
2012	42870	3.4
2011	41458	4.3
2010	39762	-

Estimates represent changes in GDP between 2010 and 2014; Data are represented at the constant prices of 2008, billion rubles; Researchers' calculations

uncertainty and a transfer of deposits into the dollars and euros, happened last autumn, when new sanctions were introduced to Russia.

According to a preliminary data, in the first quarter of 2016 the capital outflow fell to 31.7% (32.6 billion dollars), compared to the same period in 2015. The most risk scenario assumes capital outflow could achieve \$131 billion in 2016.

An analysis of three macroeconomic indexes showed a slowing of the economic growth in Russia in 2014 and a slippage of economic activity in 2015. The current year was opened by a deep recession to the country. Therefore, this problem has become urgent due to the Ukrainian crisis and sanctions.

Nevertheless, to the first quarter of 2015 Russia is coming to change a negative dynamics on, though weak but positive trend of economic growth. The economy showed the first signs of stabilization after difficult times, when all indexes were in a red zone. However, the Russian currency could not strengthen the position in relation to two key international currencies due to a rapid decrease in the oil prices. If in January 2015, a barrel of Brent cost 47.09 dollars and it was a record low index of the 6 year period, then in January 2016, its price is down to 33.28 dollars.

Despite the forecasts of the Central Bank and Ministry of Economic Development of the Russian Federation, it is very difficult to predict the depth and duration of the crisis. The Russian economy drops down because of the lack of the investment and trade but supports the industrial production. Index of the business activity in the industrial sector (PMI) is up from January's 47.6 points to 49.7 points in February. Although this is <50 points (if the PMI is above this value, there is a growth of business activity in the analyzed sector, if lower, there is a business decline) but the increase of the index in February was highest in 16 months. In addition, the volume of the new orders in the industrial sector has grown for the first time in three months.

Obviously, a recession must be overcome through the diversification of the economic structure, improving a business and investment climate in the close cooperation between the state and business.

One of the key instrument to support and develop the economy under the sanctions is a formation of the network of the territories of a priority development.

According to the law "on the territories of the priority development in the Russian Federation", this kind of the territories is a part of the territory of the Russian Federation, there is a special legal status of the business and other activities in order to create the favorable conditions for attracting investments, ensuring a rapid

socio-economic development. On these territories, the residents will get the economic benefits in the form of special regimes of land use, taxation, employment and state control. There will be a unique mechanism of administration. A management company that deal with a particular territory will have its rights concerning the providing the educational and health services. It is assumed that the territories of the priority development will be able to act as the specific growth points and their rapid development will stimulate the development of the other territories and districts.

The official criteria for assigning a land to the territories of a priority development as well as customs, tax and administrative incentives, procedure to access to the existing infrastructure and the final list of such territories would be clarified upon a receipt of the project proposals.

First of all the subjects of the Far Eastern Federal District have be on the list. They should be the pilot projects aimed to develop the district as a whole:

A territory of the priority development "Komsomolsk". Specialization: aviation, shipbuilding and engineering. Total investments in the infrastructure -1.7 billion rubles. The production will be located at the factories "Parus", "Amurlitmash" also in Amursk city. Total area exceeds 300 ha.

A territory of the priority development "Khabarovsk". Specialization: metallurgy, agricultural and food production, industrial production, transport and logistics center, distribution, storage and services sector. A territory of the priority development "Nadezhda". Specialization: logistics, food processing, construction materials.

This route is due to a new geopolitical situation in terms of sanctions, against which there is a change of the Far Eastern policy. Today, the Far East becomes a national priority of the country.

The Far Eastern Federal District as a largest district by area, occupies the last place in terms of the population and the fourth place in the level of employment in a whole country. The gap between the potential and current level of the district is enormous. The emergence of the territories of the priority development in the Far East will not only stimulate a production but also promote a development of the technologies, innovations, investment in the health, education and social sector. Thus, there will be the conditions for the integrated development of the Far East.

The Ministry of the Russian Federation for Far East development has formed a database of the large manufacturers that export products to Asia-Pacific countries. The negotiations held with >300 companies and

the first 5 memoranda of understanding with foreign investors to finance the territories of the priority development are signed. The heads of the major South Korean companies (Samsung, Lotte, LG, Daewoo) and the Japanese companies (Sumitomo, Kawasaki, Hitachi, Mitsubishi, Mitsui) personally expressed an interest in the projects in the territories of the priority development.

Thus, a creation of the territories of the priority development is not a new fact but a promising route of the strategic planning. The formation of such territories includes an attracting investments, a concentration of the various resources, a creation of the conditions for the growth of the competitiveness of goods and services as well as obtaining a multiplier effect the momentum transfer of development from the territories of the priority development to the other ones, especially neighboring territories. This action will ensure an effective use of the limited resources and achieve a rapid economic growth under the sanctions of the Western countries.

## **RESULTS AND DISCUSSION**

In the scientific community, there is a series of discussions on the feasibility of a particular industrial policy to maintain the economic growth, re-industrialization, modernization of the economy. Exchange of the views in a chess style has successfully clarified some of the pros and cons of the policies to promote the industry and upgrading its structure by presenting information from all sides of the dispute and the fact that each party upheld its own well-reasoned position.

During the extensive research, some experts note that industrial policy was not necessary. Following to idea introduced by Forbes and Ames (2012) and Marsh (2012), the private sector, in pursuit of profit will be able to determine what the comparative advantages of an industry are and will invest this direction. However, Stiglitz (1977) expresses the view that not many markets were capable to do it. For example, the foreign investors may not know how to do business in a new location. Firms, coming to the market first-no matter, if they succeed or not-create the benefits for other potential investors. These rivals and followers get the experience and do not bear the costs related to the risk management. The result can be the most effective and optimal level of doing business, unless the state intervenes to tighten it up. Another example: in countries with a large amount of seasonal unemployment, most often, it is employed in agriculture; there is the fact that the social benefits of the industrial employment may exceed the private benefit.

Therefore, there may be a need to subsidize employment or investment outside the agricultural sector to compensate this gap. Some skeptical experts still recognize that markets are not always effective but they prefer to argue that industrial policies were not working as well. We explain this that governments did not have full information and understand what they should do. In other words, the state does not have a peer review to detect the objects for the profitable investments and most of the resources are spent on attractive but actually failed projects. Alternatively, there will be more tragic situation; the state can deliberately undermines the procedure, handing out the benefits to their industrial allies. Of course, there is a significant variation in the competence level of the governments of the various countries and influence of special interest groups including transnational corporations. On the other hand, the passivity of the government to promote industrial policy also carries the risks. A prosperous industrial sector is a key component of high economic growth, especially in the early stages. If the economy is not able to diversify a domestic production and create jobs in the new industries, the state should seek to find a way to dramatically push the process and act as a driver of the development. However, these efforts have to obey the certain rules. Firstly, they should be temporary because the problems are not permanent also. Secondly, the measures taken concerning the modernization are necessary to think about and quickly coordinate them if the strategy leads to a significant imbalance of the economic system. If these measures do not give a desired result, the state should have an opportunity to promptly abandon them and continue the industrial policy in a different way. An example of one of these tools is the state measures which usage can be justified if any production without them cannot be started, also the creation of the specialized free economic zones and the territories of priority development. If the industry is not able to keep going without them, it means that the initial industrial policy was wrong and ineffective institute should be canceled. Third, even though such strategies will gravitate in favor of the industrial sector of the national economy in general, they should be neutral in relation to the rest of the industry. If it is possible, they should be indifferent to a particular production, leaving a choice to the private investors. Finally, it is important to note that the inclusive development of the modern economies in parallel with the modernization of the industrial sector embrace the other key ingredients of the growth-education, technology, flexible and efficient management, etc.



Fig. 1: Current problems of russian industry

In the modern Russian practice, the weakness of the institutional environment and lack of a strategic definiteness reduce the planning horizon of the most decision makers and the state policy becomes short-term, reactive. Actually, in these conditions, the government should be a driver to start a modernization of the industrial sector of the national economy. The modernization directly aims at developing the economic potential of the Russian Federation, ensuring the production of competitive industrial products, development of non-commodity exports. It is important to note that the current trends of the economic growth in Russia should also be inclusive. Analyzing the different options of the industrial policy, implemented earlier in Russia and abroad, the most efficient variant is that one which focused on the removal of the various institutional barriers to doing business. Currently, in Russia such mechanism works in formation of the territories of a priority development. As noted above, the modern state policy of Russia in relation to industrial modernization is operational. It is important to take into account the errors of previous, not very positive experience related to the projects, concerning the creation of the free economic zones. Most of them proved to be ineffective, because of the high level of corruption and lack of institutional infrastructures. Nevertheless, the experience of the foreign countries is represented very valuable to implement the industrial policy within a formation of the territories of a priority development (Abdin, 2015; Tsyanshen and Kai, 2006; Dobbin, 1994). The priority task of forming mechanism of the territories of priority development is a creation of a business climate and infrastructure that could compete for the investments and

labor resources on a global market. Figure 1 reports the existing obstacles presented in Russian industry. Accordingly, the main problems remain the same, the solutions of which were not found by the previous mechanisms.

A new law on the territories of the priority development more clearly defines the criteria for the resident's selection, details a legal aspect which regulate the activity of the territories of the priority development and its residents. The main difference between a new law from the previous analog is the emphasis on the public financing of the construction and maintenance of the future infrastructure, i.e., one of the main current problems of the industrial sector. Yescombe (2012) clearly holds this idea.

Despite the existing criticism of many experts including representatives of state bodies, regarding the existing sufficient financial budgets resources to build the infrastructure from scratch, the main outstanding contradiction remains in the return mechanism of the private investment. Here, need to emphasize that the mechanism of the territories of a priority development is a fundamentally new institute to improve radically the investment climate. The law defines the procedure for easy access to the power grid construction. This new law legitimizes the customs, tax and administrative benefits and concessions for the future residents of the territories of the priority development. In short, all above mentioned directive measures aim at attracting investment, both domestic and foreign. However, all investors are pursuing the same goal; not only competently and safely invest their financial resources but also to get some benefit in the future, whether it is a guaranteed profit or ownership of the infrastructure, etc.

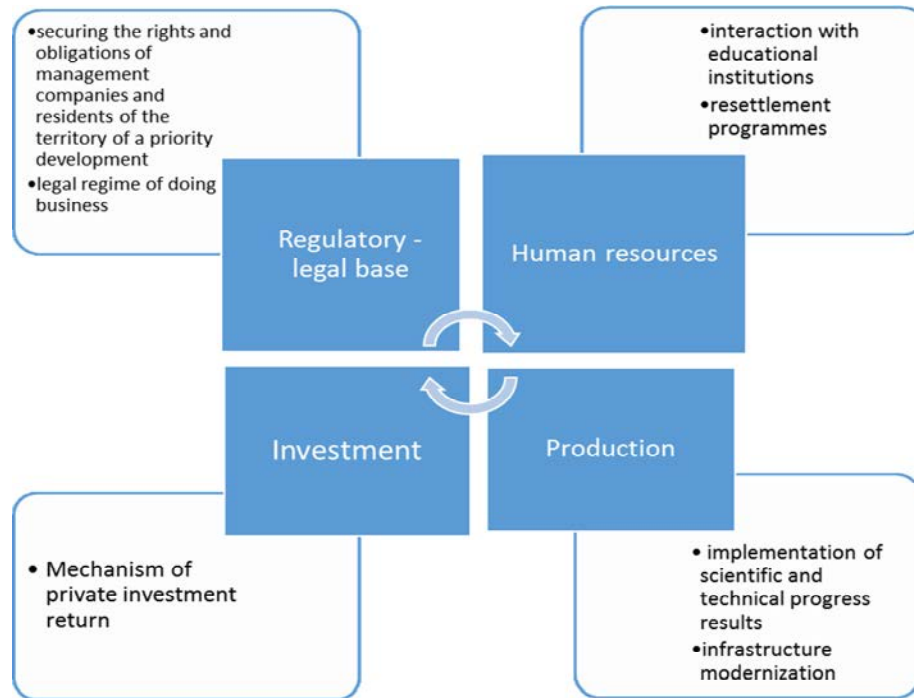


Fig. 2: Institutional matrix of the territory of priority development

Another unresolved contradiction in the functioning of the mechanism is the human resources, acting here as a potential of the development. Firstly, we would like to emphasize the lack of the educational programs, links with educational institutions that could be directed to the training or professional reorientation of the labor force. Subsequently, the absence of a decision on this issue will lead to a shortage of Russian experts. A preparation of the professional experts takes a time and this fact will increase the need to attract a foreign labor. Secondly, in order to improve the competitiveness of the existing work force at these territories, the state should make a local labor cheaper. The tax incentives, provision of free housing as well as the development of the resettlement programs and a creation of the favorable conditions for Russian citizens from regions with high unemployment can achieve it. The existing experience to motivate the labor force to move as wage supplements, only leads to a rise in the labor cost, increase the investment costs and the main result is an unrestricted attraction of the foreign workers, especially from Asian countries with lower wage costs. Third, during the implementation of the projects in the territories of the priority development, it is important to take into account the local specifics. It is meant a standard of living of the local population, the income and living conditions, the demographics and regional characteristics which can have a positive effect on their correct use. In other words, any

project should not be penetrate spontaneously, sharply without an adequate training in the region and obviously not with an expectation of the instant results.

There must be an institutional matrix to launch successfully the mechanism of the functioning of the territories of a priority socio-economic development. North (1989) noted that institutional matrix should be as the formal rules and informal restrictions inherent in the behavior and values. Thus, using the method of formation of institutional matrix based on mentioned information, we offer the following option of the institutional matrix, presented in Fig. 2. The principle of a strict interdependence of institutional-functional matrix elements does not allow the mechanism to disintegrate.

Now a days the formal rules are fixed only for two elements of the matrix: legislative and industrial ones. The main issue and the actual goal of creating a territory of a priority development are remain open: how to improve the investment attractiveness of these objects. Because of this open issue, there is an informal restriction to create the territory of a priority development; there is no any mechanism to attract a private investment to help starting the process. First, the state should develop a mechanism of returning of private investment capital. Any investor should make sure that he would not be an object of

Table 2: The Analysis of Differentiation of Socio-economic Indexes in the Far Eastern Federal District

Description	2005	2010	2015	2020	2025
<b>Panel A. The Republic Of Sakha (Yakutia)</b>					
GRP per 1 employed in the year (RUB)	390166.3	739789.5	1327055.4	2204459	3069538.5
Electricity consumption per 1 million rubles of GRP (kW per hour)	31396.5	17323.9	13965.9	13668.8	10005.1
Share of residential electricity consumption from the consumption of the economic sector (%)	15.4	14.8	11.1	7.5	8.0
Number of able-bodied but not employed population, thousand persons	147.3	144.5	147.5	150.1	152.9
<b>Panel B. Khabarovsk Territory</b>					
GRP per 1 employed in the year (RUB)	223477.6	490586.7	1085576.8	2250061.6	3756883.9
Electricity consumption per 1 million rubles of GRP (kW per hour)	41209.9	20874.5	12867.5	7019.8	4430.5
Share of residential electricity consumption from the consumption of the economic sector (%)	12.1	15.1	13.8	13.4	12.3
Number of able-bodied but not employed population, thousand persons	187.1	160.9	97.3	55.3	38.1
<b>Panel C. The Primorye</b>					
GRP per 1 employed in the year (RUB)	190392.8	425231.5	832346.5	1437126.9	2425053.2
Electricity consumption per 1 million rubles of GRP (kW per hour)	45841.1	24329.1	15574.9	10657.0	7217.4
Share of residential electricity consumption from the consumption of the economic sector (%)	23.1	22.7	22.7	23.9	25.6
Number of able-bodied but not employed population, thousand persons	410.2	405.4	406.2	400.0	399.2
<b>Panel D. Amur Region</b>					
GRP per 1 employed in the year (RUB)	181190.9	429260.9	824327.1	1570882.1	2816644.2
Electricity consumption per 1 million rubles of GRP (kW per hour)	61175.2	31569.0	20174.7	11555.1	7175.0
Share of residential electricity consumption from the consumption of the economic sector (%)	12.2	14.6	12.7	12.6	13.0
Number of able-bodied but not employed population, thousand persons	154.5	140.4	138.7	141.3	141.8
<b>Panel E. Kamchatka Region</b>					
GRP per 1 employed in the year (RUB)	229624.1	522077.8	983675.3	1365596.1	1806717.7
Electricity consumption per 1 million rubles of GRP (kW per hour)	31849.6	14490.7	7938.9	5685.0	3994.9
Share of residential electricity consumption from the consumption of the economic sector (%)	34.5	33.1	29.7	27.6	27.1
Number of able-bodied but not employed population, thousand persons	53.7	58.9	61.3	66.8	74.5
<b>Panel F. Magadan Region</b>					
GRP per 1 employed in the year (RUB)	274862.5	575245.0	1024160.6	1734638.8	2694301.0
Electricity consumption per 1 million rubles of GRP (kW per hour)	65471.8	30306.6	21363.9	16738.6	12262.2
Share of residential electricity consumption from the consumption of the economic sector (%)	12.6	10.9	14.4	10.8	12.3
Number of able-bodied but not employed population, thousand persons	23.5	14.7	12.3	12.6	12.7
<b>Panel G. Sakhalin region</b>					
GRP per 1 employed in the year (RUB)	435.6	963.1	1784.9	2433.5	3686.5
Electricity consumption per 1 million rubles of GRP (kW per hour)	16471074.4	7463295.3		6192244.8	5876741.7
	5188111.4				
Share of residential electricity consumption from the consumption of the economic sector (%)	27.8	19.2	11.7	10.5	8.7
Number of able-bodied but not employed population, thousand persons	81.1	81.6	28.3	28.0	46.8
<b>Panel H. The Jewish Autonomous Region</b>					
GRP per 1 employed in the year (RUB)	177997.5	458047.6	681423.8	858104.1	1307269.0
Electricity consumption per 1 million rubles of GRP (kW per hour)	57166.2	27050.7	20715.0	16184.2	12992.9
Share of residential electricity consumption from the consumption of the economic sector (%)	4.6	4.3	3.5	3.5	3.1
Number of able-bodied but not employed population, thousand persons	40.4	35.1	15.6	2.0	-2.5
<b>Panel I. Chukotka Autonomous Area</b>					
GRP per 1 employed in the year (RUB)	320909.1	794579.9	1366887.1	2011166.7	2723472.2
Electricity consumption per 1 million rubles of GRP (kW per hour)	43302.3	18588.0	16768.1	13798.0	12728.8
Share of residential electricity consumption from the consumption of the economic sector (%)	10.3	10.1	6.9	5.8	4.6
Number of able-bodied but not employed population, thousand persons	-3.0	-1.9	-7.3	-7.5	-7.4

All indexes are calculated on actual and predicted values (up to 2025); These data are the basis for the assessment of the potential of the territories of a priority development; Researchers calculations

corruption schemes and the investment would bring a positive return. The next step is a need to establish the education resources and resettlement program to improve the competitiveness and reduce the labor cost.

With the results of the institutional analysis, we analyze and forecast the formation of the territories of a priority development in the Far Eastern Federal District in Russia. The nine regions of the Far Eastern Federal District are presented (Table 2) and the following indexes are calculated:

- Gross Regional Product (GRP) per 1 employed in the year (RUB)
- Electricity consumption per 1 million rubles of GRP (kW per hour)

- Share of residential electricity consumption from the consumption of the economic sector (%)
- Number of able-bodied but not employed population (thousand persons)

The analysis revealed a significant differentiation of selected socio-economic indexes characterizing the activity of administrative-governmental entities in the Far Eastern Federal District. In terms of GRP per 1 employed in the year, regions vary almost in two times. Sakhalin region shows abnormally low values, due to the lack of development of the real sector. Analysis of the electricity consumption in the Far East Federal District allows speaking about a significant corruption component. It

Table 3: Dynamics of not Employed Population of Far Eastern Federal District (FEFD) Regions

Description	2005	2010	2015	2020	2025
No. of able-bodied but not employed population of FEFD, thousand persons	696	658	442	361	354

Researchers calculations

Table 4: Calculating the payback period of investment in the development of the territory of a priority development

Input data for the calculations	Values
The number of new jobs (persons)	10000
The intensity of the workplace (RUB)	1500000
Transportation costs of fixed assets, percentage of the cost of fixed assets	5
The cost of transporting building materials, percentage of the cost of industrial infrastructure	2
The cost of 1 m <sup>2</sup> of living space (RUB)	35000
Standard of living space on 1 person (m <sup>2</sup> )	20
GRP per 1 employed in the year (RUB)	760000
The average wage of workers per month (RUB)	42000
The cost of 1 m <sup>2</sup> of industrial infrastructure (RUB)	50000
Standard of production space on 1 worker (m <sup>2</sup> )	70
Current operating costs per year for maintenance of fixed assets, percentage of the cost of fixed assets	2
Current operating costs per year for maintenance of industrial infrastructure, percentage of the cost of industrial infrastructure	1
Revenues from GRP, percentage (variations from 25% until 35%)	30
Pay-back period (years)	38

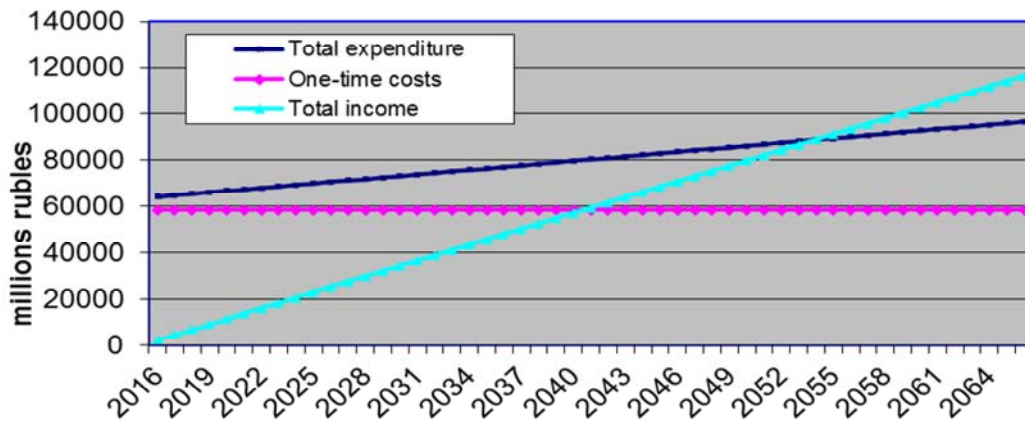


Fig. 3: The Model of the Investment Payback in the Territory of a Priority Development (income = 30% of GRP)

could be a result of poor organization of accounting of electricity consumption that is it becomes clear that the consumption of electric energy could not be the abnormally low in comparison with the in other regions. Therefore, there is a distortion in the accounting of consumption which may be only on a base of silent and disinterested accordance of the electricity-supplying companies. A labor potential of regions varies a lot which could be a basis for the decision on the opening of the territory of a priority development in areas with a high labor surplus. Table 3 shows the expected trend in the number of able-bodied but not employed population of Far Eastern Federal District regions. According to the available data for Far Eastern Federal District (Table 4) we are able to calculate the payback period of investment in the formation of the territories of a priority development in this region. The estimated size of non-recurring costs amounted to -58450000000 rubles (58450 mln. RUB) that is comparable with the regulatory figures in the governmental documents. The non-recurring costs included:

- The cost of fixed assets 15 000 million rubles
- Transportation costs of fixed assets 750 million rubles
- The cost of housing for workers -7000 million rubles
- The cost of building the industrial infrastructure -35000 million rubles
- The cost of transporting building materials -700 million rubles

The calculated data allow us to estimate the payback period of investment in the creation of the territories of a priority development for 38 year. According to the law, the standard period of the creation of the territory of a priority development is 70 year, it means that starting from the 39th year of such territory's working and it will bring positive economic effect.

Figure 3 and 4 show the simulation results of the payback period of investment in the development of the territory of a priority development. It is supposed to



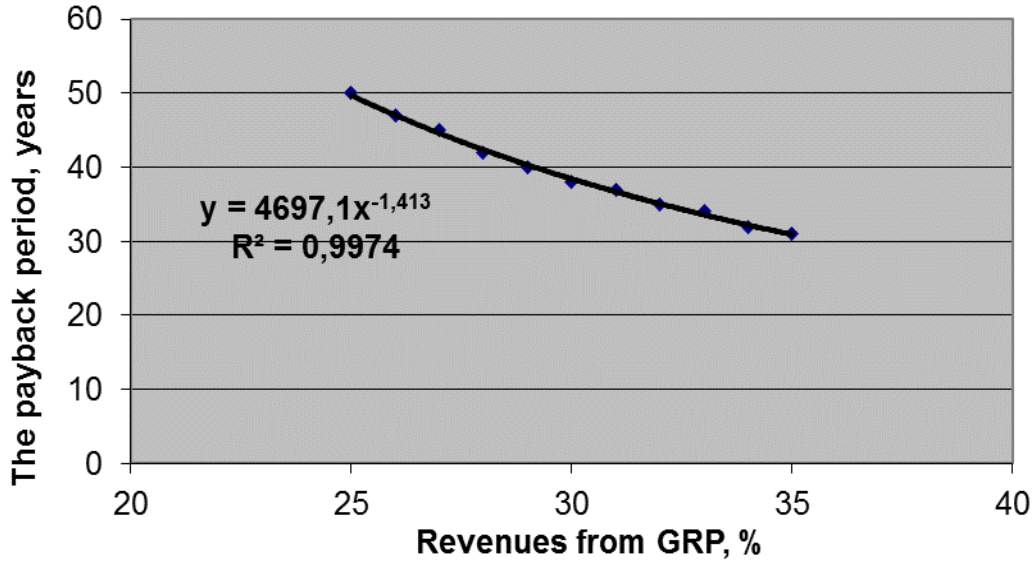


Fig. 4: The Relationship Between the Payback Period and the Revenue Side

create 10 thousand new jobs in 2016 which is 2.3% of the able-bodied but not of the employed population in the Far East Federal District.

### CONCLUSION

Hereby, we would like to mention some positions that had a significant influence on the formation and development of the territories of a priority development at the modern stage of their implementation. It is necessary to continue the investigation of each identified informal constraints in the development of the territories of a priority development to work out a possible mechanism of levelling.

The analysis of the electricity consumption in the Far East Federal District shows the considerable enforcement-corruption components. The mechanisms of supply of the electricity, its accounting and payment are not transparent that affects the official data on the spending of energy. Such significant governmental differences in the volumes of consumption of the electricity from one region to another within a single federal district obviously is impossible. However, the available statistical data made possible to determine a possibility of the projects' realization based on revealed features.

Prior to the implementation of the program related to the creation of the territories of a priority development, all dysfunctions of the public administration should be kept to a minimum. In the previous works, we noted that such dysfunctions negatively affected the effectiveness of public administration. Concerning the territories of a priority development, dysfunctions have even more

significant impact, since the mechanism of the territories of a priority development is a young institute of the industrial policy and it means a greater exposure to negative environmental influences, including poor governance.

The proposed model involves the acquisition of fixed assets while a creation of 10,000 new jobs in the form of investment. However, the variants, when the coefficient of use of production capacity-governmental not equal 100% are also possible, i.e., there is underutilized production capacity, then, there is no need 100% purchase of the new fixed assets. This position is variable in the proposed model and it can have a significant impact, depending on which solution adopted regarding the capacity rate. This important point requires further consideration and calculation in accordance with specific solutions for each territory of a priority development.

Now a days, according to the Federal state statistics service, the gross profit of economy and gross mixed incomes range from 30% to 40% of the GRP. The Far Eastern Federal District is far behind other federal districts concerning this part. The territories of a priority development of the Far East region also need a support from the state as the territories of a priority development in the other federal districts will be in clearly more competitive conditions.

The indexes of creation of the new working places within the implementation of the territory of a priority development and the actual indexes of the able-bodied but not involved in the production, population require further analysis. On the territories of a priority development, there are significant risks to employ not the local population but the foreign workers, for example from

neighboring China. This distortion of the model is possible not only from the calculations but also in terms of socio-economic efficiency of projects' realization in the Far East region. The differences in wages of foreign and Russian workers create the additional risks of realization of the projects in relation of the territories of a priority development in the Far East Federal District. In addition, the most important goal of the territories of a priority development is a raising the standard of living in such territories.

Each territory of a priority development should have a business plan. The business plan should clearly reflect the financial relations between the state and private investors especially in the process of profit distribution. An important point of the business plan should be the mechanisms of risk distribution among the participants. The risk distribution within the territories of a priority development requires an additional research, especially taking into account the possibility of realization of the project based on public-private partnerships.

According to the legal documents and regulations, the economic life of the territory of a priority development is 70 year and the payback period of the investment as calculations show, averages about 38 year. Thus, the prospect of making a profit during this period is a serious justification for a positive decision on the part of investors.

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