

## PERSPECTIVE DEVELOPMENT DIRECTIONS WITHIN SEZ IN THE REPUBLIC OF CRIMEA AND SEVASTOPOL CITY

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### Abstract

*The subject of the article is perspective development directions within special economic zone in Republic of Crimea and Sevastopol city. After holding the referendum on joining of the peninsula to the Russian Federation, the leadership of the country faced with the task of development of the region, one of the main instruments for which was the creation of special economic zone. Even before joining, the economic level of Crimea was among the least developed Russian regions. Financial, economic and military-political crisis in Ukraine has exacerbated its economic position. In 2014, there was decline in production, foreign trade reduced multiply, and tourists flow decreased. In addition to exacerbation of the existing problems (short tourist season, homogeneous tourists flow, dependence on supplies of water and electricity), new ones appeared: growth of food prices, deteriorating ability to attract credit resources and the level of banking services, the need to re-register enterprises and associated downtimes. The purpose of this work is to propose basic development directions within the special economic zone. The methodological base of the research is comparative analysis, cause-effect relationships, as well as historical method. The author indicates the most perspective development directions for the residents within the SEZ. They include tourism, manufacturing (food and chemical industry, mechanical engineering), as well as agriculture. The author gives advice on potential areas for investment in the tourism industry: hotel business, restaurants and entertainment, passenger transportation. At the same time due to several factors development of innovative industries and commercial ports is prejudiced.*

**Keywords:** investments; special economic zone (SEZ); economy; problems; tourism; production; development; residents; hotels; season; crisis; service.

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In 2014, the important event happened in the post-Soviet space: according to the results of referendum on March 16, the Autonomous Republic of Crimea and Sevastopol city came under the jurisdiction of the Russian Federation. In this regard, Russia received not only new rights but new responsibilities as well. One of the latest is the economic development of the joined region.

The task of accelerating and increasing the volume of attracted investments with tax and customs privileges can be solved through creation of a special economic zone. So, on January 1, 2015 the Law "On the development of the Crimean Federal District and the free economic zone on the territory of the Republic of

Crimea and federal significance city of Sevastopol" came into force.

### Crimea: general economic profile

However, just holding referendum was not enough for the integration of new regions into the Russian Federation. A long process of adaptation of economy of the Republic of Crimea and Sevastopol to the Russian economy began.

In terms of economic development the region was among the least developed regions of the Russian Federation. So, by GRP it was on the 59-th place<sup>1</sup> (4.3 billion dollars in 2012<sup>2</sup>), by volume of industrial

<sup>1</sup> Available at: [http://raexpert.ru/researches/regions/krim\\_2014/](http://raexpert.ru/researches/regions/krim_2014/)

<sup>2</sup> Available at: <http://www.kommersant.ru/doc/2418407>

production – on the 60-th. Positions of Crimea by per capita figures were even lower.

Accession to Russia and economic crisis in Ukraine strongly affected the economy of the peninsula. Existing economic ties were violated, traditional markets and suppliers of goods and services were lost; due to transition to Russian legislation, downtimes at businesses were observed. Moreover Crimea almost completely lost Ukrainian tourists and investments.

As a result, in 2014 the volume of industrial production fell by 9.9%, the volume of agricultural production increased by only 0.7%, while the volume of retail trade fell by 7.6%. The deepest decline was observed in the construction sector: amount of construction work accounted for only 44.5% of volumes in 2013. The fall of passenger and freight transportation was 14.2% and 32.1%, respectively. The volume of investments in fixed assets amounted to 21.5 billion rubles, which was almost 2 times less than the year before.

Last year was also marked by significant reduction in foreign trade. Exports fell by 84.2% and imports by 93.2%<sup>1</sup>. As a result, from April to December, exports totaled 147.9 million dollars, while imports – 84.2 million dollars.

Despite the macroeconomic problems, the average nominal wage increased from December 2013 to December 2014 by 1.7 times and amounted to over 21 thousand rubles [1]. At the same time the consumer price index over the same period was 142.5%, indicating some increase in purchasing power.

### **Economic problems of Crimea**

The Republic of Crimea before joining Russia had a number of problems: short tourist season (from June to August), lack of water supply and shortage of local electricity production. In addition, the region was subsidized. [2] So, in 2013, from 490 million dollars of budget expenditure, 256 million dollars accounted for grants and subventions from Kiev<sup>2</sup>.

Change of jurisdiction led to aggravation of the above mentioned problems. For 23 years after Ukraine gained independence, resorts of Crimea had not become international. The majority of tourists visiting the peninsula were from the CIS countries, especially from Ukraine and Russia. Due to this fact, financial,

economic and military-political crisis in Ukraine severely affected the flow of tourists. For example, in 2014 the total number of rested was 3.8 million people. Although year earlier, there were more than 6 million tourists. And a large part fell on Russians.

Crimea was always dependent on electricity supplies from other regions of Ukraine. In 2014, availability of power was about 20%. So, only 1,131 billion kWh was produced in Crimea of 5,417 billion kWh consumed [1]. Accession to Russia led to dependence on imports. The situation is quite similar with water provision. Furthermore, there are risks of abrupt termination of electricity and water supply, which could jeopardize the economic security of the region.

In addition, a number of new problems appeared last year. Transition to procurement of Russian products led to increase in logistics costs. As a consequence, prices for most products became higher than in Ukraine.

Moreover, in 2014, companies and citizens of Crimea and Sevastopol faced with deterioration of credit opportunities and lower banking service standards in connection with withdrawal of Ukrainian banks and lack of main Russian ones.

Due to differences in tax legislation of Russia and Ukraine, (excise duties are credited to the regional budget in Ukraine) Crimea became more subsidized. Increase in payments to state employees and various infrastructure projects also had effect on it<sup>3</sup>.

### **Perspective development directions within special economic zone**

The special economic zone in Crimea and Sevastopol is complex and created in the manner of the SEZ in Kaliningrad region. Let's consider the possible directions of its development.

The main sectors of the Republic of Crimea and Sevastopol are industry, agriculture and tourism. Opportunities of special economic zone lie in the development and enhancing the competitiveness of traditional industries, as well as in the emergence of new ones.

It is worth noting that the SEZ residents may not be enterprises engaged in mining production. So, according to article 12 of the Federal Law №377 "On the development of the Crimean Federal District

<sup>1</sup> Available at: <http://daily.rbc.ru/special/business/16/03/2015/550549ce9a79474207851a12>

<sup>2</sup> Available at: <http://www.kommersant.ru/doc/2418407>

<sup>3</sup> Available at: [http://raexpert.ru/researches/regions/krim\\_2014/](http://raexpert.ru/researches/regions/krim_2014/)

and the free economic zone on the territory of the Republic of Crimea and federal significance city of Sevastopol" of 29.11.2014, "participants of the SEZ are not allowed to carry out activities in the sphere of subsoil management for exploration and mineral production, mining of the continental shelf of the Russian Federation".

Quite promising is the development of enterprises of food industry. For example, Crimea is not provided with its own sugar, vegetable oil and milk<sup>1</sup>. The emergence of vast domestic market due to accession of the peninsula is a stimulus for development of wine production. At the same time due to remoteness of the region from the rest of Russia and the associated logistics costs, the possibility of the development of the food industry on a number of products is temporarily restricted by the internal needs of Crimea. In addition, agriculture is a promising direction for residents of the special economic zone, as a source of raw materials for the food industry and one of the key export sectors.

Chemical industry (inorganic chemistry accounts for 11% of Crimean exports) and engineering (mainly shipbuilding – 12.5% of exports) are rather perspective. [1] Companies involved in ship repair could also be SEZ residents.

Regarding innovative industries, the opportunities of Crimea are very low. Lack of necessary staff, educational institutions, and remoteness from the rest of the country make investments in these sectors highly risky and with long payback.

Development of cargo ports is also unpromising due to lack of proper volumes of freight traffic, presence of major ports on the "mainland". It makes sense to develop passenger ports for ferries and cruise liners. There is also a great potential for yacht parks.

By virtue of natural and geographical conditions, touristic and recreational sector is one of the most perspectives in Crimea. In the peninsula there are 825 sanatoriums and hotels, most of which were built in the Soviet period. Throughout the post-Soviet period, there was lack of financing re-equipment and construction of new facilities [2]. The service remained at low level. In addition, due to high risks, global hotel chains did not hurry to start business in the peninsula. In 2012, there were only 4 of them<sup>2</sup>. However, last year several world-class hotels were

opened in Crimea: sanatorium complex "Mriya" and hotel complex "Yalta". In view of small number of such facilities, prices for rooms are much higher than in similar objects on Mediterranean resorts and in Bulgaria. It is worth noting, that loading in 4 and 5 stars hotels was at high level even in off-season months. All of this suggests that, there is a shortage of such class facilities in Crimea.

The service should match the number of stars in hotels of this level. It suggests the presence of certain service technology. Conclusion of franchise agreements with international hotel chains solves this issue. In light of current geopolitical situation is worth engaging experience of Asian and Latin American hotel chains.

Also, in Crimea there is a lack of mid-range hotels (3 stars), which offers a service comparable to those at European resorts. A simpler, compared to four and five-star hotels, service allows to work without international franchise.

Furthermore, there are opportunities for health resort treatment objects, where medical services are combined with beach recreation and spa-treatments.

The low level service is observed also in the field of community nutrition. Within the policy of sanctions one very popular international fast-food chain left Crimea last year. Many international restaurant companies, represented in Russia, do not hurry to start their activities in Crimea and Sevastopol. In this regard, there are great development opportunities for Russian restaurant and fast-food chains.

Among the possible development directions of the tourism industry is creation of thematic water and amusement parks. In addition, residents could specialize in car rent or passenger transportation (taxi, bus). So, according to the law "On the development of the Crimean Federal District and the free economic zone on the territory of the Republic of Crimea and federal significance city of Sevastopol", vehicles can be placed under customs procedure of free customs zone, within which customs duties, taxes and non-tariff measures are not charged.

In view of risks of termination of air transportation to Crimea, due to possible sanctions, as well as high tickets prices, emergence of local air carrier is quite reasonable. Such plans have already been announced by the republic's leadership. Moreover,

<sup>1</sup> Available at: <http://www.kommersant.ru/doc/2418407>

<sup>2</sup> Available at: [http://tourlib.net/statti\\_tourism/najdina4.htm](http://tourlib.net/statti_tourism/najdina4.htm)

creation of cruise lines between the main Black Sea ports (like cruises, committed in the Baltic Sea by vessels of «St.Peter line» company <sup>1</sup>) is rather perspective.

Another possible development direction of special economic zone in Crimea is the sphere of ski tourism. There are two resorts in the peninsula – Angarsk pass and Mount Ai-Petri. And the season lasts about 3 months<sup>2</sup>.

Emergence of free zones could be a logical extension of SEZ creation in Crimea. Successful experience of Andorra speaks in favor of such decision. As an option, amendments, concerning placing certain categories of goods (clothing and footwear, household appliances, sporting goods, perfumes, etc.) under customs procedure of free customs zone, could be made to the law "On the development of the Crimean Federal District and the free economic zone on the territory of the Republic of Crimea and federal significance city of Sevastopol". This will help to attract more tourists outside the summer season.

The main problem of tourism industry of Crimea is a very short season. Namely it, high prices and lack of proper service are the restrictions for the growth of tourist flow. Development noncoastal types of tourism (skiing, medical, shopping, etc.) may slightly mitigate the impact of seasonal factor. The potential of Crimea as a tourist resort is undervalued. In 2014, despite the economic crisis, more than 11 million Russians visited international beach resorts<sup>3</sup>. Emergence of new facilities with due service will lead to leveling prices according to hotel level, and to increase of attractiveness of Crimean resorts for Russian tourists. Solving geopolitical problems will help to attract foreign tourists.

Thus, joining to Russia, financial, economic and military-political crisis in Ukraine has had a profound effect on the economy of Crimea, which development indicators were low in comparison with other Russian regions. There was a decline in production, foreign trade reduced multiply, and tourists flow decreased.

In addition to exacerbation of existing problems, new ones appeared: growth of food prices, deteriorating ability to attract credit resources and the level of banking services, the need to re-register enterprises and associated downtimes.

SEZ creation is intended to mitigate the effects of negative factors and contribute to the economic development of the region. Among the main perspective development directions within special economic zone are tourism, manufacturing (food and chemical industry, mechanical engineering) and agriculture.

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<sup>1</sup> Available at: <http://www.stpeterline.com/ru/home.aspx>

<sup>2</sup> Available at: [http://www.crimea.ru/article\\_info\\_small10033.htm](http://www.crimea.ru/article_info_small10033.htm)

<sup>3</sup> Available at: <http://www.russiatourism.ru/content/8/section/82/detail/3768/>

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ИННОВАЦИИ

## ПЕРСПЕКТИВНЫЕ НАПРАВЛЕНИЯ РАЗВИТИЯ ОЭЗ В РЕСПУБЛИКЕ КРЫМ И ГОРОДЕ СЕВАСТОПОЛЕ

Павел Павлович Богданенко

### Аннотация

Предметом статьи являются перспективные направления развития особой экономической зоны в Республике Крым и городе Севастополе. После проведения референдума о вхождении полуострова в состав Российской Федерации перед руководством страны встала задача его развития, одним из основных инструментов которого стало создание ОЭЗ. Еще до присоединения по экономическому уровню Крым находился среди наименее развитых российских регионов. Финансово-экономический и военно-политический кризисы усугубили его экономическое положение. В 2014 г. произошел спад производства, кратно сократилась внешняя торговля, упал поток туристов. В дополнение к обострению существующих проблем (короткий туристический сезон, однородность потоков туристов, зависимость от поставок воды и электроэнергии), появились новые: рост цен на продукты питания, ухудшение возможностей привлечения кредитных средств и уровня банковского обслуживания, необходимость перерегистрации и связанные с ней простои в деятельности предприятий. Цель данной работы – предложить основные направления развития особой экономической зоны. Методологической базой исследования являются сравнительный анализ, анализ причинно-следственных связей, а также исторический метод. В статье автор отмечает наиболее перспективные для развития резидентами сферы в рамках ОЭЗ. Среди них туризм, производство (пищевая, химическая отрасль, машиностроение), а также сельское хозяйство. Автор дает рекомендации по потенциальным направлениям инвестиций в туристической отрасли: гостиничный бизнес, сфера питания и развлечений, пассажироперевозки. В тоже время в силу ряда факторов ставится под сомнение возможности развития инновационных отраслей и грузových портов.

**Ключевые слова:** инвестиции; особая экономическая зона (ОЭЗ); экономика; проблемы; туризм; производство; развитие; резиденты; гостиницы; сезон; кризис; сервис.

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