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## Financial Results of the Implementation of Preferential Regimes in Municipalities of the Russian Far East



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**Abstract.** The aim of the work is comparative analysis of the problems and methodological approaches to assessing financial effectiveness of measures implemented in the Far East in the context of regional preferential policy in outstripping development territories (ODTs) and in the Free Port of Vladivostok (FPV). We analyze the experience of organizing preferential regimes in ODTs and FPV, substantiate the reasons for difficulties in assessing the implementation of financial measures of preferential regimes related to the political specifics of the implementation of the latter; difficulties in clustering the objects of analysis due to a considerable differentiation of Far Eastern municipalities; difficulties related to the assessment horizon; as well as current problems concerning the substantiation of indicators to comprehensively assess the results of stimulating municipal development. We show how local budgets are affected financially by the extension of local preferential regimes to the entire territory of the Far East and the prerequisites for the emergence of a “tax trap” as a result. Using the example of the Khabarovsk Territory, we assess shortfall in local budget revenues caused by a significant increase in tax benefits. We reveal the consequences of a situation when the volume of tax benefits provided is not limited by the volume of investments in projects. We consider measures to dampen the consequences of the “tax trap” for regional budgets in the case of expanding the zone of local preferential regimes to the entire Far East. We propose to allocate tax benefits to a resident in the form of a money grant, provided that the resident fulfills its obligations to increase employment and develop the real sector of the region’s economy, and the total amount of benefits is limited by the amount of investments made by the resident.

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**Key words:** municipal development, state regulation, financial regulation measures, outstripping development territories, Free Port of Vladivostok, implementation of preferential regimes, Russian Far East.

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### Introduction

In the modern conditions it is important to understand how financial preferences introduced by the government and aimed at promoting entrepreneurial activity affect socio-economic development of specific municipalities. Russian regional policy uses almost all financial tools known in world practice to stimulate spatial development. But the Far Eastern outstripping development territories (ODTs) and the Free Port of Vladivostok (FPV) regime have recently become the most famous and widely used. To manage their functioning, JSC “Far East and Arctic Development Corporation” (FEADC)<sup>1</sup> was established, the sole shareholder of which, on behalf of the Russian Federation, is the RF Ministry for the Development of the Russian Far East and Arctic (Minvostokrazvitiya).

A significant body of publications is devoted to assessing the results of financial policy aimed at promoting regional development, demonstrating a wide range of opinions, from completely positive (Hirofumi, 2019; Sida, Kan, 2021; Chichkanov, Belyaevskaya-Plotnik, 2022) to severely critical (Gulidov, 2021; Leonov, 2020; Minakir, 2022; Savchenko, 2022). Such discrepancies in estimates

indicate a lack of generally accepted theory and methodological unity among researchers. The issue of assessing the financial impact of preferential treatment on municipal development is becoming more acute in connection with existing proposals put forward by scientists (Minakir, 2017; Minakir, 2022) to extend preferential treatment to the entire territory of the Russian Far East. Recently, this idea has become the focus of attention of the Russian Government<sup>2</sup>.

The aim of the work is comparative analysis of the problems and methodological approaches to assessing the effectiveness of financial measures implemented by the preferential regional policy of ODTs and the FPV in the Russian Far East (FE).

### Research materials and methods

The theoretical basis of the research is the concept of propulsive industries and growth poles of F. Perroux (Perroux, 2007). The methodological basis of the work includes systems and comparative analyses, and various methods of data visualization. The information base consists of analytical documents and official financial statements of federal, regional and local authorities.

<sup>1</sup> FEADC JSC is the management company of the outstripping socio-economic development territories, the Free Port of Vladivostok and the Arctic Zone of the Russian Federation in the Far Eastern and Arctic constituent entities of the Russian Federation.

<sup>2</sup> The entire Russian Far East can become a single territory of outstripping development. Available at: <https://www.vedomosti.ru/economics/articles/2022/11/17/950880-ves-dalnii-vostok>

### Specifics of the emergence and functioning of preferential regimes

The first type of financial support for regional development in Russia was federal target programs<sup>3</sup> that homogeneously covered the entire territory of the federal district. We should recognize that these programs, as noted in the literature, did not give a great impetus to the development of the Russian Far East “due to three reasons: vagueness of the target program objectives (“achieving economic growth”); continuous underfunding of program activities; lack of a management system for their implementation and real redistribution of financial flows” (Leonov, Barabash, 2020).

Subsequently, the federal center began to shift the focus in the development of the region toward the formation of effective economic institutions and an environment favorable for the functioning of investors, complementing region-wide projects with the simultaneous implementation of local or point projects within the framework of the concept of “growth poles” (Perroux, 2007).

The RF Government has chosen to use special legal regimes for conducting business within the borders of individual territorial entities at different levels, when accelerated economic growth in selected locations should be achieved by providing a particularly beneficial, localized economic environment for doing business. Attempts were made to introduce the ideas of special economic zones and then exclusive economic zones in the Far East. The results of the implementation of these ideas at the regional level turned out to be controversial<sup>4</sup>.

Creating territories with an outstripping socio-economic development regime launched in 2014 in accordance with the federal law<sup>5</sup> has become an instrument of polarizing policy in relation to the modern Far East. The ideology of ODTs<sup>6</sup> in Russia was first applied in the Far Eastern regions. Currently there are 17 ODTs in the Far East (their number has recently decreased due to the consolidation of some of them within RF constituent entities in order to optimize management<sup>7</sup>).

<sup>3</sup> To overcome the crisis in the Far East, it was necessary to take special measures of state support in terms of concentrating state budget funds on the main target areas. The main instrument of state regulation of regional development in relation to the Far East was the federal target program “Development of the Far East and Transbaikalia”, which has about a dozen different variants since the mid-1980s (Minakir, 2022).

<sup>4</sup> Attempts to create special economic zones and exclusive economic zones in the Far East were unsuccessful due to a number of reasons: the scale of the zones was obviously unrealistic, and they required huge investments for infrastructure development, which the Russian Government was unable to provide. The weak regulatory and legislative framework did not provide really favorable economic (tax, customs and currency) conditions for the creation and operation of zones in comparison with the conditions offered in neighboring countries.; when creating the zones, the Russian Government has absolutized a fiscal approach aimed at generating as much budget revenue as possible and as soon as possible, rather than balancing the interests of the state and investors (Kuznetsova, 2016; Leonov, Barabash, 2020, pp. 22–24).

<sup>5</sup> On outstripping socio-economic development territories in the Russian Federation: Federal Law 473-FZ. Available at: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_172962/](https://www.consultant.ru/document/cons_doc_LAW_172962/)

<sup>6</sup> We should note that the difference between the concepts of ODTs (outstripping development territories) and OSEDs (outstripping socio-economic development territories) is quite conditional. Initially, OSEDs were created to suit the export specialization of the region, but due to the 2014 sanctions the specialization of the Far Eastern territorial formations was clarified in practice under the idea of import substitution. The abbreviation ODTs (outstripping development territories) began to be used more often. Currently, ODTs and OSEDs are often considered synonymous, unless otherwise agreed in advance. Nevertheless, it can be considered with a certain degree of conditionality that the abbreviation OSED in modern conditions is more associated with the concept of single-industry towns as territories of outstripping socio-economic development created on the territories of single-industry municipalities of the Russian Federation (single-industry towns) (see RF Government Resolution 1240, dated September 23, 2019).

<sup>7</sup> For example, in 2023, in the Khabarovsk Territory, the outstripping development territories of Khabarovsk, Komsomolsk and Nikolaevsk were merged into a single Khabarovskaya ODT (RF Government Resolution 1045 “On the unification of outstripping development territories created in the Khabarovsk Territory and the invalidation of certain acts and certain provisions of certain acts of the Government of the Russian Federation”, dated June 28, 2023 ([government.ru/docs/all/148423](http://government.ru/docs/all/148423))); in the Amur Region, the Belogorsk, Priamurskaya and Svobodny outstripping development territories were merged into a single Amurskaya ODT (RF Government Resolution 3 “On the unification of outstripping development territories created in the Amur Region and the invalidation of certain acts and certain provisions of certain acts of the Government of the Russian Federation”, dated January 10, 2023 (<http://static.government.ru/media/files/dMzEtTgVdkP17LfmPalvg9AgagglnaSC.pdf>)).

Figure 1. Main preferential regimes of the Russian Far East



Source: compiled by V.D. Khizhnyak based on the Annual Report on the Activities of the Far East and Arctic Development Corporation for 2023.

In 2015 the preferential regime “Free Port of Vladivostok”<sup>8</sup> was launched, the experience of which was later extended to 22 municipalities in five regions of the Far Eastern Federal District (FEFD).

In fact, the peak of creation of preferential regimes in Far Eastern regions (Fig. 1) occurred in 2015–2021, when crisis phenomena were occasionally observed in the country’s economy, and the selective policy of this time was focused on stimulating potential “growth points” in the interests of both the relevant territories and the country as a whole.

As we can see, in some cases there is a territorial intersection of various preferential regimes, but it is stipulated by law that the preferences of each regime cannot be superimposed (summed up) and act simultaneously<sup>9</sup>.

Interest in the financial performance of local preferential regimes in the Far East, which are conceptually close to “growth poles” and are forming around “anchor” projects that serve as “propulsive industries” in the terminology of F. Perroux (Perroux, 2007), is mentioned in a significant number of works. Initially, it was assumed these regimes would provide “incentives for transformational economic development” (Fortescue, 2022).

The existing positive assessments of the functioning of preferential regimes focus on the

<sup>8</sup> About the Free Port of Vladivostok: Federal Law 212-FZ, dated July 13, 2015. Available at: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_182596/](https://www.consultant.ru/document/cons_doc_LAW_182596/)

<sup>9</sup> For example, according to Federal Law 473-FZ “On outstripping socio-economic development territories in the Russian Federation”, the municipality on whose territory an outstripping development territory was created belongs to the Arctic Zone of the Russian Federation in accordance with Federal Law 193-FZ, dated July 13, 2020 “On state support for entrepreneurial activity in the Arctic Zone of the Russian Federation”. At the same time, residents of the specified outstripping development territory retain the resident status obtained in accordance with this Federal Law and carry out their activities in accordance with concluded agreements on the implementation of activities until the expiration of their validity period”. ([https://www.consultant.ru/document/cons\\_doc\\_LAW\\_172962/](https://www.consultant.ru/document/cons_doc_LAW_172962/)).

results of potential economic activities of their residents, which in the medium term will be able to create an effect measured by tens of thousands of jobs (Sida, Kan, 2021; Chichkanov, Belyaevskaya-Plotnik, 2022). According to some estimates, preferential regimes are designed to ensure more than two thirds of economic growth and up to a quarter of investments in the FEFD (Savchenko, 2022, p. 54).

On the other hand, it is recognized that the cost of maintaining preferential regimes reaches 70% of all budget expenditures on FEFD development (Borshchevskiy, 2024; Gulidov, 2021). Moreover, even the authors who give positive assessments note the uneven level of effectiveness and development potential of ODTs and the FPV (Sida, Kan, 2021, p. 30), when already at the first stage of formation, the FPV regime turned out to be more popular among investors due to the lack of need to purchase a land plot that was provided to the resident according to the application principle. As a result, the number of FPV residents grew twice as fast from 2016 to 2020 compared to the number of ODT residents, and competition between preferential regimes led to tougher conditions in one of them contributing to an increase in the number of residents in the other (Leonov, 2020).

### **Complexity of financial assessment of the results of preferential regimes**

The complexity of such an assessment in relation to municipalities is partly explained by the open nature of the regional economy and its strong dependence on external impacts (Savchenko, 2022; Kuznetsova, 2016). The preferential regimes of ODTs and FPV are currently quite close both in terms of functionality and goals and objectives (*Tab. 1*).

However, there are several significant differences between these regimes.

First, it concerns the provision of infrastructure. In ODTs the infrastructure is created by the management company and residents have

Table 1. Comparison of ODTs and FPV preferential regimes

Feature	ODT (2014)	FPV (2015)
Authorized body	RF Ministry for the Development of the Russian Far East and Arctic (Minvostokrazvitiya)	
Period of operation	70 years with the possibility of extension	
Infrastructure	Provided by the management company	Connecting using own means
Provision of land plots to residents	Provided by the management company	The declarative principle until 2020 (a resident received land in a municipality without an auction), since 2020, land is provided to residents of the SPV at an auction in accordance with the Land Code of the Russian Federation.
Place of implementation	Determined by cadastral quarters for each ODT individually	Within the boundaries of municipalities
Tax benefits for residents	social contributions in the amount of 7.6% for the first 10 years	
	property tax 0% for 5 years, 0.5% for the next 5 years	
	0% land tax for the first 3–5 years (the exact term is set by the representative body of the municipality)	0% land tax (for the first 5 years)
	0% profit tax for the first 5 years, 12% for the next 5 years (2% to the federal budget and 10% to the regional budget)	0% profit tax to the federal budget and no more than 5% to the regional budget
	0% mining tax for the first 2 years, with a gradual increase in the reduction coefficient to 100% over 10 years	10 days expedited VAT refund
Necessary investments	500 thousand rubles	until 2022, 5 million rubles / starting in 2022, 500 thousand rubles for three years
Special obligations of the resident	Responsible for not using the requested infrastructure	Absent
About the Free Port of Vladivostok: Law of the Russian Federation 212-FZ, dated July 13, 2015. Available at: <a href="http://www.consultant.ru/document/cons_doc_LAW_182596/">http://www.consultant.ru/document/cons_doc_LAW_182596/</a> ; On outstripping socio-economic development territories in the Russian Federation: Law of the Russian Federation 473-FZ, dated December 29, 2014. Available at: <a href="http://www.consultant.ru/document/cons_doc_LAW_172962/">http://www.consultant.ru/document/cons_doc_LAW_172962/</a> (accessed: June 2, 2024).		

the right to request the necessary infrastructure from FEADC JSC, provided they are fully responsible for its use.

Second, the amount of minimum investment, which was significantly different at the first stages of operation of the ODTs and FPV regimes: for residents of the FPV it was 5 million rubles<sup>10</sup>, and from January 12, 2022 the volume of required investments was reduced to 500 thousand rubles over 3 years<sup>11</sup>. At the same time, for ODT residents the minimum contribution was initially 500 thousand rubles.

<sup>10</sup> On approval of the criteria for the selection of residents of the Free Port of Vladivostok: RF Government Resolution 1123, dated October 20, 2015.

<sup>11</sup> On amendments to the criteria for the selection of residents of the Free Port of Vladivostok: RF Government Resolution 2514, dated December 28, 2021.

The third difference between these regimes, which was recently eliminated, concerned the acquisition of land plots by FPV residents at cadastral value without bidding<sup>12</sup>. However, the limited number of vacant land plots and high demand for them in Vladivostok led to the fact that at the beginning of April 2020 more than 70% of residents of the FPV who applied for land plots had not received them (Leonov, 2020). To resolve this

<sup>12</sup> According to the results of a survey conducted among SPV residents in 2019, 86% of respondents stated that preference in obtaining land is of key importance for the implementation of their investment projects. If there was no such benefit, more than 40% of respondents would have refused to implement projects due to the lengthy registration of land plots, and over a third more because of the high cost of land being formed at auction (the Residents Association defended the key preference of the Free Port of Vladivostok. Available at: <https://primamedia.ru/news/927383/>).

Table 2. Comparative dynamics of the number of residents of the Far Eastern ODTs and the FPV, units

	2016	2017	2018	2019	2020	2021	2022	2023
ODTs	111	211	330	425	492	562	644	762
FPV	118	432	1057	1720	2119	2073	2130	2045
Total	229	643	1387	2145	2611	2635	2774	2807

Source: Annual report on the activities of the Far East and Arctic Development Corporation for 2016–2023. Published in accordance with Part 5 of Article 8 of Federal Law 473-FZ, dated December 29, 2014 “On outstripping development territories in the Russian Federation” (with amendments and additions) and the Order of the Minvostokrazvitiya of Russia.

issue, the State Duma of the Russian Federation adopted a federal law that deprived FPV residents of their former land preferences<sup>13</sup>. The abandonment of the declarative principle of land grant significantly affected the growth rate of the number of FPV residents (*Tab. 2*). As a result of the abandonment of the declarative principle of land plots allocation, the growth in the number of FPV residents, which overtook the growth of ODT residents by 2.1 times in 2016–2020, slowed dramatically in 2020–2023.

In fact, these data indicate the need for extremely careful intervention in the mechanism of setting up the tools of preferential influence on the activities of entrepreneurs who are residents of local preferential zones.

The fourth difference between the FPV and ODTs, which has persisted to this day since the introduction of these regimes in the economy of the Far East, is the difference in the territorial boundaries of the impact of a particular regime, which significantly affects the ability to track the financial results of the introduction of preferential treatment in the economy of a particular municipality. For the FPV the simplified administration regime is localized within the boundaries of municipalities, and the preferential

ODT regime introduces preferences only within specific cadastral sites, which, while being organizationally related to one ODT, can be geographically located in different, even non-adjacent municipalities (Leonov, 2020; Tolmachev, Leonov, 2020).

The above provisions indicate that, for example, it is much more difficult to track the financial results of the impact of the ODT regime on the socio-economic development of a municipality than the FPV regime, which covers a specific municipality as a whole. At the same time, the task becomes much more complicated if several preferential regimes operate on the territory of a municipality; in this case the financial results of the impact of preferences will be possible to capture only at the level of the consolidated budget of the RF constituent entity, which records both the total amount of tax benefits provided to residents and the total amount of incoming tax deductions.

#### **Approaches to assessing the financial impact of preferential measures**

The need to use quantitative criteria in assessing the financial effects of preferential municipal regimes is recognized by researchers<sup>14</sup> (Zaitseva, 2007; Mikheyeva, Ananyeva, 2011) and practitioners (Shirokov, Yurkova, 2020).

However, in reality, the difficulty of setting up a unified system for assessing the financial results of regional preferential policies for municipalities is due to several points.

<sup>13</sup> As of October 25, 2020, Federal Law 318-FZ, dated October 15, 2020 “On invalidation of certain provisions of legislative acts of the Russian Federation in connection with a change in the procedure for leasing land plots in state or municipal ownership to residents of the Free Port of Vladivostok” entered into force; the Law resolved the issue regarding the competition between residents of the FPV applying for the same land plot the land plot by resuming the auction procedure in accordance with the restored requirements of the Land Code of the Russian Federation.

<sup>14</sup> Bachtler J. Assessing regional policy in the European Community. Available at: [http://www.politanaliz.ru/articleprint\\_501.html](http://www.politanaliz.ru/articleprint_501.html) (accessed: May 2024).

1. ***The political features*** of the implementation of the Far Eastern preferential regimes within the framework of the existing vertical of power indicate that the management model developing in the region demonstrates a significant dependence on the personal activity of the head of an RF constituent entity. According to researchers, “investment projects are more successfully implemented in those Far Eastern regions that have a higher level of development and more influential governors; this confirms participation of regional elites in the formation and implementation of federal spatial development policy, but is extremely difficult to quantify” (Borshchevskiy, 2024).

2. ***The difficulties of clustering the objects*** due to the differences between municipalities in area, population density and level of economic activity<sup>15</sup>. As a result, it is extremely difficult to form clusters of municipalities to compare the financial results obtained in a municipality with and without territorial benefits (Leonov, 2023b).

3. ***The influence of the assessment horizon should be taken into account.*** Preferential regimes in the short term often lead to a loss of tax revenues by the municipal budget, when in the short term most of the region’s tax revenues are “eaten up” by tax benefits (Kuznetsova, 2016). In fact, the development of recommendations on the use of assessment results largely depends on the lag laid down in the process of evaluating the results of the impact of government measures on the development

of a municipality. Thus, in the case of ODTs, a 13-year lag was included in the methodology for assessing their effectiveness<sup>16</sup>.

In addition, of importance is long-term stability of the benefits introduced, which is the main condition for the effective functioning of preferential regimes (Tolmachev, 2021).

4. ***The problem of selecting the indicators*** that provide a comprehensive assessment of the results of stimulating municipal development (Kulakovskiy, 2019). The Institute for Urban Economics actively worked on this problem at the beginning of the formation of the modern system of municipal organizations (Zaitseva, 2007), but recently the possibility of using the gross municipal product as a comprehensive indicator of the development of the municipality’s economy has been actively discussed (Gafarova, 2017; Uskova, 2009). Since this indicator has certain disadvantages, it is proposed to focus on a system of territorial indices reflecting different aspects of the socio-economic development of municipalities.

The use of territorial indices is associated with the problem of selecting indicators at the stage of forming integral territorial indices, constructing the indices themselves, and interpreting the results during the analysis (Tarasova, Soldatenko, 2024). The main problems include lack of a clear interpretation of the results, poor representativeness of the information, and widespread use of expert assessments. The latter often leads to subjective

<sup>15</sup> We should point out that the spread of municipalities according to these parameters is noted not only in Russia, but also in other countries. For example, in the OECD the main analysis of spatial data is conducted in the context of NUTS 3 regions, which are closest in meaning to Russian municipalities, with a population of 150 to 800 thousand people, with an average value of 380 thousand people per region for the European Union (Report of the World Observatory on Subnational Government Finance and Investment – Key Findings (2019) / OECD/UCLG. 109 p. Available at: [https://www.sng-wofi.org/publications/2019\\_SNG-WOFI\\_REPORT\\_Key\\_Findings.pdf](https://www.sng-wofi.org/publications/2019_SNG-WOFI_REPORT_Key_Findings.pdf) (accessed: May 2024)).

<sup>16</sup> The effectiveness of an outstripping development territory should be assessed annually, starting from the 13th year following the year in which the Government of the Russian Federation decided to create the outstripping development territory. For more information, see RF Government Resolution 1240 “Methodology for evaluating the effectiveness and monitoring performance indicators of territories of outstripping socio-economic development territories, with the exception of outstripping socio-economic development territories established in the territories of single-industry municipalities of the Russian Federation (single-industry towns)”, dated September 23, 2019.



calculations, since the reliability of estimates depends on the competence of experts and their objectivity in ranking the results (Leonov, 2024).

In other words, although Russia has not set up a generally accepted universal methodology for assessing the financial results of preferential policies, we can talk about emerging approaches to such an assessment.

First, the methods of multi-criteria analysis are being improved, although this approach has flaws as well. Thus, the approved methodology for evaluating the effectiveness of ODTs<sup>17</sup> includes six groups of initial parameters: 1) volume of private investments; 2) amount of budget funds for the creation of ODT infrastructure; 3) number of jobs created; 4) amount of value added created by ODT residents (calculated by the management company); 5) amount of tax and customs benefits and payments (except insurance premiums); 6) total expenditures of the RF budget system. There is no open data for parameter groups 2, 4, and 6, which, by definition, does not allow conducting a full-fledged assessment of the effectiveness of ODTs within the framework of the proposed methodology (Tolmachev, 2021).

The state program “Socio-economic development of the Far Eastern Federal District” contains five indicators characterizing the functioning of ODTs and the FPV<sup>18</sup>, while the state

program “Socio-economic development of the Arctic Zone of the Russian Federation” takes into account only two indicators of the effectiveness of program activities: the accumulated volume of extra-budgetary investments by residents of the AZRF and ODTs in the Arctic Zone of the Russian Federation, as well as the number of jobs created on territories as a result of the implementation of the Program’s activities<sup>19</sup>.

The second area is related to a number of econometric studies that attempt to assess the results of preferential policies through a quasi-experiment, when attempts are made to compare the results of preferential treatment in the territories under consideration with the financial results of development in a pre-formed cluster of regions where preferential treatment was not applied (Kotov, 2022). This approach is limited by the complexity of forming clusters of municipalities for comparison and the complexity of interpreting the results noted above<sup>20</sup>. Therefore, we cannot but agree with the existing opinion that “despite the development of econometric methods and specialized software and model complexes, their explanations for solving problems of applied regional policy are rarely obvious” (Kotov, 2020).

In view of the above, issues related to the assessment of the financial effectiveness of the preferences operating in Far Eastern municipalities can be considered from a strategic and tactical point of view.

<sup>17</sup> Methodology for evaluating the effectiveness and monitoring performance indicators of territories of outstripping socio-economic development territories, with the exception of outstripping socio-economic development territories established in the territories of single-industry municipalities of the Russian Federation (single-industry towns): RF Government Resolution 1240, dated September 23, 2019.

<sup>18</sup> State program “Socio-economic development of the Far Eastern Federal District” was approved by RF Government Resolution 308, dated April 15, 2014 as amended December 10, 2021 No. 2256 and includes the following target indicators: number of ODTs created in the FEFD (cumulative total); accumulated volume of investments of ODT residents in the FEFD (cumulative total); number of jobs created in ODTs in the FEFD (cumulative total); number of jobs created in the territory of the SPV; number of investment projects of ODT and SPV residents implemented with the participation of loans issued at a preferential rate (cumulative total).

<sup>19</sup> State program “Socio-economic development of the Arctic Zone of the Russian Federation” was approved by RF Government Resolution 484, dated March 30, 2021.

<sup>20</sup> We should note that Russian and foreign approaches to assessing the results of regional policy, have not formed a generally accepted, satisfactory from the point of view of the expert community, universal methodology for assessing the effects of regional policy measures and choosing the most rational measures of state support for municipal development. The development of econometric research and emerging microdata sets makes it possible to analyze the impact of regional policy on enterprise performance. The effects are studied at aggregated (regional) levels. At the initial stage of the analysis, groups of similar regions (enterprises) are formed, followed by a comparison of the distribution of selected characteristics among firms in the regions that received and did not receive support (Kline, Moretti, 2014).

In the strategic (long-term) perspective, an important issue is related to the ratio of tax benefits provided to residents and the volume of investments attracted to the zones. Since the period of establishment of preferential zones takes at least 10 years on average, the period of tactical (medium-term) perspective is extremely important for state and municipal authorities, when creating conditions for the establishment of preferential zones places a serious burden on regional budgets.

In this study, when assessing the medium-term financial results of implementing measures for the region's economy, we made an attempt to take into account at the level of RF constituent entity the ratio of tax benefits provided to residents of preferential zones (interpreted as shortfall in local budget revenues) and the amount of tax payments made by residents of the zones to regional budgets. The importance of this approach can be explained, on the one hand by its visibility, on the other hand by the need to test the hypothesis of a "tax trap" when preferential regimes are implemented in the Far East.

#### **Dissemination of the ODT regime to the entire Far East and the emergence of a "tax trap"**

The fact that the Far East has preferential regimes that are essentially similar ("growth points") but differing in the details of the implementation has urged scientists to consider the need to expand preferential regimes to the entire territory of the Far East.

Back in 1990, on the eve of the collapse of the USSR, academician P.A. Minakir pointed out: "The Far East can only develop as a region open in both directions – toward the Pacific rim and toward European Russia. In a closed condition the region is doomed to rapid extinction. The competitiveness of almost all types of products for the domestic market is zero, and there is no hope for economic development by attracting capital here, creating new economic potential and increasing income. The attractiveness for foreign producers is constantly

decreasing due to the closeness of the region" (Minakir, 1990, pp. 18–19). For these reasons, P.A. Minakir believed that "in order to break the current vicious circle, conditions should be created for the free movement of capital, people and technology between the Far East and East Asia, which in turn would be an incentive to attract Russian capital to the region" (Minakir, 2017).

We should note that recently these ideas, as well as aspirations to build up territories with preferential treatment, have been voiced by representatives of the highest echelon of the Russian government. Thus, according to Yuri Trutnev, Deputy Prime Minister and Presidential Envoy to the Far Eastern Federal District, a single territory of outstripping development (ODT) can be created in the Far East<sup>21</sup>.

Experts of the Ministry for the Development of the Russian Far East believe that the creation of a single ODT with uniform tax benefits and preferences will simplify administrative procedures related to the management of the ODT and shorten the launch time of new facilities for residents. In addition, according to experts<sup>22</sup>, launching a unified management process for the zone can accelerate the attraction of direct investment, including foreign investment, promote the growth of business activity and development of small and midsize enterprises.

<sup>21</sup> "Mikhail Mishustin and I discussed further improvement of work in ODTs. We have made a proposal to create a single ODT in the Far East. So as not to adopt new regulations each time regarding the creation of separate ODTs, we proposed making the entire territory of the Far East an outstripping development territory", said Yuri Trutnev, Presidential Envoy to the Far Eastern Federal District (Romanova L. The entire Far East can become a single outstripping development territory. Available at: <https://www.vedomosti.ru/economics/articles/2022/11/17/950880-ves-dalnii-vostok>).

<sup>22</sup> How ODTs are changing the economy of the Far East: *Amurskaya pravda* has compiled a portrait of outstripping development territories. Available at: <https://ampravda.ru/2024/01/09/kak-tor-menjayut-ehkonomiku-dalnego-vostoka-apsostavila-portret-territorij-operezhayushchego-razvitiya?ysclid=lxns506hhh250488445>

Indeed, the idea of a single preferential treatment for the entire territory of the Far East, expressed by academician P.A. Minakir, is no longer new, but it is tempting, since it can be assumed that the extension of tax benefits and support measures provided for ODTs to the entire federal district will attract significant investments to the region.

Nevertheless, it seems that the use of a single preferential treatment may lead into a trap. The ODT, like the FPV, assumes a preferential tax regime, including regional income and property taxes, which form a significant part of local budget revenues; therefore, the expansion of territories covered by preferential regimes may lead to significant shortfalls in income for the Far Eastern constituent entities of the Russian Federation.

#### **Assessing the shortfall in revenues of regional budgets when using preferential regimes. The case of the Khabarovsk Territory**

Let us take a closer look at a specific example of the problems concerning tax benefits and income shortfalls in regions whose municipalities operate under preferential ODT and FPV regimes.

The Khabarovsk Territory is a Far Eastern federal constituent entity, where the ODT regime was introduced in Russia for the first time, followed by the FPV. The existing experience of simultaneous operation of both preferential regimes allows us to assess the potential gains and losses for a particular constituent entity of the Federation (*Fig. 2*).

In the Khabarovsk Territory the FPV regime is implemented in Vaninsky and Sovetsko-Gavansky municipal districts.

Khabarovskaya ODT was formed on June 28, 2023<sup>23</sup> as a result of the merger of three ODTs:

<sup>23</sup> On the unification of outstripping development territories established in the Khabarovsk Territory and the invalidation of certain acts and individual provisions of certain acts of the Government of the Russian Federation: RF Government Resolution 1045, dated June 28, 2023. Available at: <http://government.ru/docs/all/148423/>.

Khabarovsk<sup>24</sup>, Komsomolsk<sup>25</sup> and Nikolaevsk<sup>26</sup>. The total area of the formed outstripping development territory is 623.3 thousand hectares. The localization of Khabarovsk ODT sites is not so clear. The ODT regime operates within the framework of cadastral plots in the territories of Amursky, Verkhnebureinsky, Vyazemsky, Komsomolsky, Solnechny, Khabarovsky, Nanaisky and Nikolaevsky municipal districts, Okhotsky Municipal Okrug, Lazo Municipal District, urban okrugs “Komsomolsk-on-Amur City” and “Khabarovsk City”.

Figure 2 shows the differences between the territorial structures of the ODTs and the FPV, which are explained by the very idea of forming local zones. In the case of the FPV preferential treatment is localized within specific municipalities (in the Khabarovsk Territory these are Vaninsky and Sovetsko-Gavansky districts); in the ODTs preferential treatment is provided to a specific resident in certain cadastral plots.

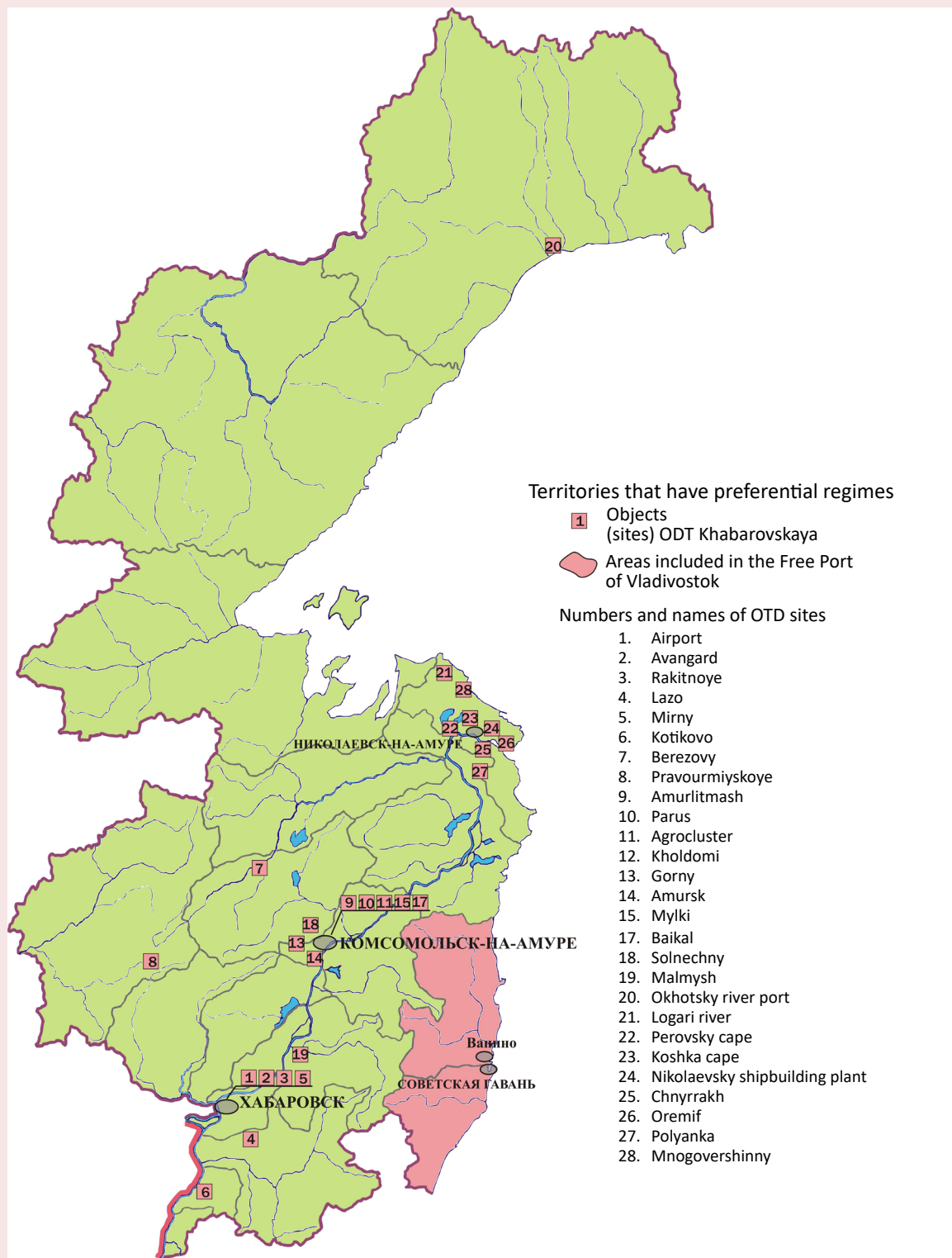
As a result, there are significant differences in the number, size and territorial “dispersion” of the location of sites in the ODTs, which makes it extremely difficult to assess the impact of the preferential treatment of the ODTs on the financial condition of a particular municipality.

<sup>24</sup> The ODT “Khabarovsk” became the first ODT in Russia. The territory was created in 2015 in accordance with RF Government Resolution 629, dated June 25, 2015. In 2018, the ODT “Khabarovsk” was expanded.

<sup>25</sup> The ODT “Komsomolsk” became one of the first ODTs in the Far East, having been established in accordance with RF Government Resolution 629, dated June 25, 2015. Subsequently, the territory was expanded three times: in 2017, in January 2018 and in April 2018.

<sup>26</sup> The ODT “Nikolaevsk” was established in accordance with RF Government Resolution 464 “On establishing the outstripping development territory “Nikolaevsk”, dated April 19, 2017. Since then, the borders of the territory have been expanded three times by RF Government resolutions: 1361, dated November 11, 2017; 90, dated February 7, 2019, and 773, dated May 28, 2020.

Figure 2. Main sites of Khabarovskaya ODT and the territories of the FPV located in the Khabarovsk Territory, as of January 1, 2024



Source: compiled by V.D. Khizhnyak according to: List of investment sites of the ODTs in Khabarovsk (<https://khv27.ru/administration/structural-units/uir/investitsii/investitsionnye-ploshchadki-munitsipalnye-chastnye-promyshlennye-parki-i-t-d-/perechen-investitsionnykh-ploshchadok/>)

Table 3. Tax payments and the amount of tax benefits provided in the preferential zones of the Khabarovsk Territory for 2016–2023, million rubles

Preferential zone	Tax payments	Tax benefits
<b>In general in the preferential zones of the Khabarovsk Territory</b>	<b>8653.4</b>	<b>10376.3</b>
Including:		
<b>Khabarovskaya ODT</b>	<b>6623.8</b>	<b>7311.8</b>
Including:		
ODT "Khabarovsk"	1559.0	1164.4
ODT "Komsomolsk"	3663.2	2921.2
ODT "Nikolaevsk"	1401.6	3226.2
<b>FPV of the Khabarovsk Territory</b>	<b>2029.6</b>	<b>3064.5</b>
Including:		
Vaninsky District	1897.5	3018.3
Sovetsko-Gavansky District	132.1	46.2

Source: own calculation using the data provided by the Ministry of Finance of the Khabarovsk Territory.

Existing assessments of the activity of ODT residents in the Khabarovsk Territory show that municipalities with a greater amount of initial resources are more able to accept the policy of state support<sup>27</sup>.

At the same time, the impact of preferential measures of the ODT regime in the region varies significantly between different sites (Leonov, 2023a). The process of merging ODTs within a single constituent entity of the Russian Federation, which began in 2023, eliminates this difference and further complicates (obscures) the very possibility of assessing the impact of preferential measures on the development of a particular municipality (Tolmachev, Leonov, 2020). Such an assessment, as noted, becomes possible only at the level of RF constituent entity, in our case at the level of the Khabarovsk Territory.

According to the Ministry of Finance of the Khabarovsk Territory, for 2016–2023, residents were granted 10.4 billion rubles in tax benefits under the

preferential zones of the Khabarovsk Territory, and 8.7 billion rubles in tax payments were received by local budgets (*Tab. 3*).

Khabarovskaya ODT, established in 2023 by combining three previously established ODTs, currently has 99 residents specializing in the production of industrial and agricultural products and the provision of logistics services; 13.3 thousand jobs have been created here and 292.9 billion rubles of investments have been disbursed. From the years 2016 to 2023 residents of the ODT paid more than 6.6 billion rubles in taxes to the consolidated regional budget, while receiving tax benefits in the amount of more than 7.3 billion rubles.

The FPV regime operating in the Khabarovsk Territory covers 24 residents, 17 residents are located in Vaninsky District and 7 in Sovgavansky District; 4,000 jobs have been created in the FPV zone, and investments of more than 180 billion rubles have been secured. The main activities of FPV resident organizations are related to the transport and logistics sector (9 residents and 42% of the investments made) and the timber industry (7 residents and 29% of the investments made). The abolition of the priority right of residents to receive land plots without an auction has led to a decrease in the growth rate of the number of FPV participants in the region since 2021. The Khabarovsk Territory Duma is currently raising the issue of the need to

<sup>27</sup> We should note that similar behavior was typical for the municipalities of the Central and Eastern European countries, which joined the EU after May 1, 2004 and received the right to financial support from the Community. Despite the fact that the selection conditions for financial support were the same, the territories at the regional level were characterized by different socio-economic conditions (they had different "territorial capital"), which strongly influenced the financial results of the municipal cohesion policy within the EU (Fratesi, Perucca, 2014).

provide land plots to residents of the FPV without bidding<sup>28</sup> and proposes to review the provisions of the hastily adopted FZ-318 on October 15, 2020 regarding the waiver of this preference for residents of the FPV<sup>29</sup>.

In total, from 2016 to 2023, residents of the Khabarovsk Territory paid 2 billion rubles of taxes to the regional budget. The largest payers are VaninoTransUgol, Daltransugol and New Forest Pro. At the same time, tax benefits to FPV residents were provided in the amount of 3.06 billion rubles, more than one and a half times the amount of taxes paid to the budget.

The main problems faced by the regional budget of the RF constituent entity that has preferential zones on its territory include the following:

- significant increase in the volume of tax benefits provided at the expense of the regional budget as part of the preferential ODT and FPV regimes in the territory of the RF constituent entity, which covers the amount of tax revenues paid by residents to the consolidated budget and exacerbates the problem of shortfall in revenues;
- lack of compensation from the federal budget for the revenues lost by the budgets of RF constituent entities as a result of the ODT and FPV regimes;
- there is no limitation on the amount of tax benefits provided by the volume of investments in projects.

According to international practice, it takes about 10–15 years on average to establish a territory with a special economic status; after that the zone begins to bring dividends to the organizers – the

country and the region<sup>30</sup>. In the Russian Federation, according to the legislation, the minimum amount of investment for acquiring the status of a resident of a preferential zone is 500 thousand rubles. According to the Ministry of Finance of the Khabarovsk Territory, in 85% of the projects submitted to it (51 out of 59), the payback period of the project turned out to be significantly less than the period of preferential taxation. We can assume that in the conditions of the Far East, where a significant number of enterprises in ODTs have mining specialization, their owners will be able to make up for most of the invested funds at the expense of tax benefits in 10–15 years of the enterprise's functioning, having exploited a significant part of the ore base of the deposits during this time.

An important issue related to the effective organization of preferential regimes in the Russian Far East remains the choice of beneficiary residents to distribute subsidies in order to reimburse infrastructure development costs to ODT residents.

For example, Inaglinsky Mining and Processing Complex JSC<sup>31</sup>, a resident of South Yakutia ODT, received 2.4 billion rubles for the development of railway infrastructure and the construction of access railway tracks, which is 36.3% of the total financing allocated for the development of infrastructure in the macro region (6.7 billion rubles)<sup>32</sup>. While

<sup>28</sup> The Khabarovsk Territory Duma considered attracting investments to Vaninsky and Sovetsko-Gavansky districts. Available at: [http://debri-dv.com/article/35921/privlechenie\\_investitsiy\\_v\\_vaninskiy\\_i\\_sovetsko-gavanskiy\\_rayony\\_rassmotreli\\_v\\_kraevoy\\_dume](http://debri-dv.com/article/35921/privlechenie_investitsiy_v_vaninskiy_i_sovetsko-gavanskiy_rayony_rassmotreli_v_kraevoy_dume)

<sup>29</sup> On invalidation of certain provisions of legislative acts of the Russian Federation in connection with a change in the procedure for leasing land plots in state or municipal ownership to residents of the Free Port of Vladivostok: Federal Law 318-FZ, dated October 15, 2020.

<sup>30</sup> Zolt M.E. (2015). Tax incentives: Protecting the tax base. In: *Paper for Workshop on Tax Incentives and Base Protection New York, 23–24 April 2015*. New York: United Nations, Department of Economics and Social Affairs. Available at: [https://www.un.org/esa/ffd/wp-content/uploads/2015/04/2015TIBP\\_PaperZolt.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2015/04/2015TIBP_PaperZolt.pdf)

<sup>31</sup> Inaglinsky Mining and Processing Complex JSC is developing the reserves of the Chulmakan and Verkhne-Taluminskoye coal deposits in Yakutia. The Complex belongs to Colmar coal mining company.

<sup>32</sup> The results of the selection of projects for the allocation of subsidies in order to reimburse infrastructure development costs to ODT residents. Available at: <https://minvr.gov.ru/upload/iblock/a94/rezultaty-otbora-proektov-dlya-raspredeleniya-subsidiy-v-tselyakh-vozmeshcheniya-zatrat-na-razvitiye-infrastruktury-rezidentam-tor.docx>

according to the company's accounting statements, in 2021 net profit of Inaglinsky Mining and Processing Complex JSC exceeded 11.1 billion rubles, and in 2022 and 2023 it amounted to 13.4 and 10.4 billion rubles, respectively<sup>33</sup>.

A rhetorical question arises: should the state allocate more than a third of the financial resources provided to support the construction of the railway and energy infrastructure in the entire macro region to ensure the activities of a company capable of financing these activities without government support?

The absence of restrictions on the amount of tax benefits provided by the volume of investments in projects could be perceived as reasonable if the specialization and functioning of residents of the preferential zone were long-term and aimed at the production of processed industrial products. However, in the case of mining enterprises, there is a high probability that tax benefits will compensate the investor for the capital spent, and when the field is fully developed, they will not bring the expected revenue to the regional budget.

In fact, if the proposal put forward by Yuri Trutnev, Deputy Prime Minister and Presidential Envoy to the Far Eastern Federal District, to establish a preferential zone throughout the Far East is implemented, then the identified problems of shortfalls in tax revenues, without their appropriate damping, may lead to a serious problem in replenishing regional budgets.

Among the real measures to dampen the effects of the "tax trap" on regional budgets in the event of an expansion of the zone of local preferential regimes to the size of the Far Eastern Federal District, the following should be envisaged and worked out in detail:

- a mechanism for partial compensation from the federal budget of revenues lost by the budgets of RF constituent entities due to the application of preferential regimes of ODTs and the FPV;

- the possibility for ODT and FPV residents to apply tax benefits only if they comply with the controlled indicators of the agreement on the implementation of activities as a resident of one of the preferential zones;

- limitation of the amount of tax benefits provided to residents of ODTs and the FPV in the amount of no more than the amount of actual expenditures on capital investments and/or scientific research and development within the framework of the agreement on the implementation of activities as a resident of one of the preferential zones.

We should note that it is necessary to consider the fact that each establishment or expansion of a local preferential zone in the Far East was accompanied by targeted decisions by the RF Government to support specific "anchor projects" in accordance with the current working conditions in the local zone. Since it is almost impossible to abandon the application of specific measures to support "anchor projects", then as a result, it will require setting up and adopting a special decision regarding the preservation of existing additional preferences for anchor projects of preferential zones.

### Conclusion

In summary, we note that the preferential ODT and FPV regimes in the Far East have become the most widespread and widely used in the regional policy of modern Russia.

The open nature of the regional economy, the structural and territorial features of the implementation of the ODT and FPV regimes, the difficulties of clustering municipalities due to the strong differentiation of the Far Eastern municipal entities, as well as the extreme fragility of the

<sup>33</sup> Accounting statements and financial analysis of Inaglinsky Mining and Processing Complex JSC for 2011–2023. Available at: [https://www.audit-it.ru/buh\\_otchet/7704531762\\_ao-gok-inaglinskiy](https://www.audit-it.ru/buh_otchet/7704531762_ao-gok-inaglinskiy)

mechanism for setting up instruments of preferential influence on the activities of entrepreneurs – residents of preferential zones<sup>34</sup> determine the complexity of assessing the financial results of promoting municipal development.

It is much more difficult to track the financial results of the impact of the ODT regime on the state of a municipality than those of the FPV regime, which covers a specific municipality as a whole. If several preferential regimes operate on the territory of a municipality, then with the current state of municipal statistics, the task of determining the financial results of the impact of a particular regime on the state of a particular municipality becomes practically impossible.

Assessing the financial results of the impact of preferential regimes on the region's economy is possible at the level of RF constituent entity by taking into account the tax benefits provided to residents (interpreted as shortfall in consolidated budget revenues) and the volume of investments attracted by residents of preferential zones.

The paper shows that in order to assess the financial effectiveness of preferential regimes, it is important to take into account the evaluation horizon and the duration of the evaluation time intervals. The use of the FPV or ODT regimes in the short term has shown that most of the region's tax revenues are "eaten up" by tax benefits, but in the long term, after the launch of production, this problem can be handled. An analysis of the government's idea to expand preferential treatment to the entire territory of the Far East revealed the existence of a "tax trap" when a significant increase

in tax benefits provided from the regional budget covers the amount of taxes paid by residents of preferential zones to the local budget, which creates the problem of shortfall in budget revenues of RF constituent entity.

The problem is complicated by the lack of compensation from the federal budget for a shortfall in regional budget revenues due to the application of preferential regimes, as well as the lack of restrictions on the amount of tax benefits provided by investments in projects, as a result of which, for example, in the Khabarovsk Territory over 85% of the projects reviewed by the Ministry of Finance were paid off during the preferential taxation period.

Measures are proposed to dampen the effects of the "tax trap" on regional budgets in the case of expansion of the zone of local preferential regimes to the entire Far East. The measures include a mechanism for partial compensation from the federal budget of the revenues not received by the budgets of RF constituent entities due to the application of preferential regimes; the possibility for ODT and FPV residents to apply tax benefits in the form of a monetary grant, provided they fulfill their controlled obligations under the agreement on the implementation of activities as resident of a preferential zone; limiting the amount of tax benefits provided to ODT and FPV residents to an amount not exceeding the amount of actual capital expenditures.

Scientific significance of the performed research consists in elaborating a methodology for quantifying financial results in terms of measures of state preferential support for municipal development.

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<sup>34</sup> This refers to the above-described hasty abandonment of the declarative principle of allocating land to SPV residents in 2020, which led to a dramatic slowdown in the increase in the number of SPV residents in 2020–2023 and to the fact that Khabarovsk Territory deputies raised an issue regarding the need to return this preference to the portfolio of the FPV regime in 2024.



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