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MODEL FOR COORDINATING THE INTERESTS OF BUSINESS
PARTICIPANTS IN SPECIAL ECONOMIC ZONES

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Abstract

Modern methods of intensifying economic growth are based on a broad organization of special economic zones (SEZ), used mainly in depressed and less developed regions in countries that are embarking on the path of industrialization. On the international stage, there is a competitive struggle for attracting investment. Tax incentives and preferences are provided, as well as organizational support, which encourages the creation of SEZ. For modern SEZ, there is a special procedure for its creation, limited time, special management bodies, and the content of the legal regime of business activity. When studying the activity of the SEZ, we should take into account the multi-directional action of owners of foreign investment in the local economy: on the one hand, they give a strong impetus to industrial and economic development, with another - increase the competitive pressure on existing domestic producers displace them from the market, often forced to go bankrupt. If the activities of foreign SEZ participants are fully deployed, the amount of repatriated revenue may be significantly higher than the initial investment, which worsens the currency balance. The position of the inviting company, which creates favorable conditions for doing business and refuses part of payments to local budgets through the provision of benefits, is to strive to maximize the involvement of existing national factors in the production process.

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1. Introduction

In the context of ongoing globalization, industrial capital has a highly mobile character, and is fixed in the jurisdictions of those countries where the authorities create particularly attractive conditions for them, provide significant preferences, technical and organizational support. The creation of special economic zones (SEZ) is a striking example of such an approach to stimulating business activity on the basis of creating a favorable climate for industrial entrepreneurship. Currently, it is one of the most important and effective tools for attracting direct, and mostly foreign, investment to a particular less developed territory of a certain country that is embarking on a new industrialization path in the digital economy format.

The emergence and development of these zones is associated with the strengthening of integration and internationalization processes in the global economy, building global value chains, which was noted in the early works of the authors (Yakovlev et al., 2020). The number of them worldwide is currently approaching one and a half thousand, including free trade zones, scientific and industrial parks, export-production zones, ecological and economic regions, tourist centers, etc., only a few dozen types. According to various estimates, they account for up to 30% of the world's turnover of finished products and services, which indicates a fairly wide spread of SEZ in world economic practice. At the same time, FEZ (free economic zone) have a number of common features: they are part of the national territory; they provide independence in solving a number of economic issues; a special management regime; preferential conditions for economic activity; equal conditions for foreign and national entrepreneurs - investors.

The creation of a SEZ means that a country that does not want to fully open its economy to foreign capital or significantly reduce taxes on a national scale, does so on a limited territory, without compromising economic security. In fact, SEZs are certain "traps" for industrial capitals migrating in the world economy. Therefore, there is currently a sharp competition between SEZ and the states that create them in terms of tax and other benefits provided to investors. At the same time, it should also be remembered that large transnational capital is mobile and this characteristic should be taken into account when organizing SEZ and forming long-term strategic programs for the development of territories.

The world experience of creating SEZ shows that despite the various specific goals of their organization, which differ from country to country, they usually have a single, more general goal – to ensure a more extensive participation of the country in the international division of labor, global flows of value creation. Or it is an increase in the production of modern competitive products that are in demand on the domestic market and export-friendly. Due to this, a number of internal problems are solved, ranging from the modernization of the economy to improving the welfare of the population. We should not forget about the increase in foreign exchange earnings and foreign direct investment due to the SEZ, as well as the transfer of modern technologies that are important for updating the production apparatus of domestic enterprises, especially the development of human capital and their cross-cultural competencies.

The SEZ also allows to cover the needs of the domestic market with high-quality import-substituting products produced within the country. For this purpose, enterprises producing import-substituting goods are created in specially isolated territories with the participation of foreign and, in some cases, with the attraction of domestic investment. This also allows to solve a number of problems related to improving the technological foundations of domestic production.

2. Problem Statement

The initial Russian experience of SEZ activity is considered unsuccessful, despite a sufficiently long period of time to attract foreign investments. The history of their creation in domestic economic practice began in 1989, without proper legal regulation. Then, over the next almost 15 years, the process of functioning of such zones was regulated by bylaws and, in fact, was reduced to granting tax benefits and privileges to certain regions, based on their political weight. The systematic development of special economic zones began with the adoption of Federal law "On special economic zones in the Russian Federation" of 22.07.2005 N 116-FZ (2005), which allowed the creation of SEZ of four types: industrial-production type, technical-innovation, port and tourist-recreational type.

However, SEZ have not become not only basic elements of the national innovation system of the Russian Federation, but also significant "growth points" of the Russian economy and regions. This is largely determined by the presence of a significant number of problems in their work: economic, administrative, and legislative, which require satisfactory resolution within the framework of programs and strategies of socio-economic development of the country. The activities of various types of SEZ over the past years have revealed a number of organizational, managerial, and economic problems. At the same time, it seems that in general, the experience of their activities shows the prospects for implementation in the domestic economy, especially industrial-production zones.

This way of modernizing the economy and increasing the inflow of foreign exchange earnings is quite effective, because if a country cannot, for various reasons in global politics and economy, allow or ensure a large influx of foreign capital into its economy, it can achieve a significant multiplier effect from foreign investment, even in the limited territories of the SEZ. This is particularly important due to the growth of sanctions and other geo-economic restrictions, as well as strategic uncertainty in global trade of capital and advanced technologies (Volkodavova et al., 2017).

The specific goals and objectives of creating SEZ, as shown by global practice, can be different. They can be classified as follows.

1. As a rule, the main goal of their organization is to increase the technological level of production, increase the competitiveness of products based on the policy of openness of the economy. These goals can only be achieved if there is a sufficiently significant inflow of foreign investment. However, attracted foreign investment has a multidirectional effect on both the regional and national economy. On the one hand, they provide an impetus for the technological development of the economy, on the other hand, they can eventually take a key position in certain sub-sectors and areas of activity, increasing the competitive pressure on existing domestic producers. There are often cases of unfair competition due to the acquisition of undervalued assets of a Russian enterprise by a foreign firm for its subsequent liquidation.

2. As a goal, we can highlight the fact that the creation of SEZ is mainly intended to increase the economic level of development of depressed territories. The main criteria for determining the location of the SEZ in this case are the level of income and unemployment. The main goal is to increase business activity on a particular territory. This goal can be achieved not so much with the help of foreign capital, but with the use of state benefits and subsidies, increasing the investment activity of national capital. However, it should be taken into account that an increase in business activity on the SEZ territory may lead to a decrease in it on other territories, and the deepening of the oppression of productive depressive territories.

3. In domestic practice, when regulating the activities of SEZ, insufficient attention is paid to another common goal of creating SEZ in the world - increasing the volume of exports of finished products and foreign exchange earnings. As a rule, setting this goal has a significant meaning in the economy of developing countries. However, its implementation requires significant efforts of local/regional authorities. This is due to the large cross-country competition for providing more attractive conditions for mobile investment of multinational companies and the fact that the volume of benefits provided and the degree of availability and cheapness of resources were so significant for them that the divisions created in the SEZ received priority in terms of production and, consequently, export over the company's existing divisions in other countries.

4. One of the goals is also to improve the entrepreneurial culture and, as a result, to adapt domestic entrepreneurs to the rules and standards of international business more quickly, and to form cross-cultural competencies. However, this also requires a significant inflow of foreign capital.

It should also be taken into account that today many domestic SEZ may interest foreign investors not only in the volume of benefits, not in the quality of infrastructure, but also in the prospect of access to a large domestic market with qualified consumers. However, this requires stable growth trends in domestic demand in the proper volume for the placement of foreign companies' divisions in the Russian Federation.

3. Research Questions

Important problems of effective organization of SEZ activities and ensuring a regime for coordinating the interests of the investing and receiving parties require studies.

1. Among the economic problems are the following. The main tool for attracting investors to SEZ in both modern Russian and global practice is the provision of tax incentives. However, their current level is not obviously attractive to many investors, especially foreign ones. In the big world, there are a large number of SEZ where the value of such benefits is greater.

The increase in tax benefits contradicts the requirement to increase the revenue side of the budget, especially at the regional level. In addition, this may lead to the use of the SEZ site to minimize taxes by existing entrepreneurs in the region. At the same time, it should be taken into account that the regions have already invested in the formation of SEZ infrastructure.

Among the problems is the fact that for large investors, the availability of tax benefits is an important, but not the only condition for making a decision on placing production in the SEZ. The availability of cheap resources or a large sales market is also quite significant for them. The first condition is currently impossible in the domestic practice – there are a large number of SEZ operating in the world, especially in new industrial countries where resources are cheaper. The second condition – a large sales market - has not yet been implemented, because with low economic growth and, consequently, effective demand, the Russian market is not attractive for large foreign companies.

We should also note another problem related to the current economic situation. Foreign investment tends to regions that are characterized by low risk and economic and political stability. In addition, most of them are invested by large multinational companies. The existence of sanctions restrictions and their continued expansion violates the principle of stability and increases the risk.

2. Among the administrative problems, we can note that the SEZ management system is not always developed. As the practice of functioning of more successful domestic SEZ has shown, their effectiveness is largely determined by the level and degree of systematic management of them. The determining condition for the successful functioning of SEZ is the constant regulation and coordination of their activities at the federal and regional levels, in the latter case at the level not lower than the regional governor.

3. It is necessary to further improve the regulatory framework for the SEZ functioning, which regulates the inflow of investment in renovation and the creation of new production facilities "from scratch", using the advantages of project financing, tax incentives, improving the conditions for attracting "long" loans, further harmonization of Russian technical standards with international ones, ensuring the stability of the regulatory sphere, and organizing large-scale technology transfer to update established industrial competencies (Yakovlev, 2015).

4. Purpose of the Study

This study is aimed at developing and justifying a new system paradigm for the development of domestic productive forces, enhancing business activity, and organizing new industrialization in the digital economy by attracting new sources of industrial competencies and investment. Obviously, the interests of socio-economic development of local communities and private enterprises pursuing the goal of commercial gain require coordination. The purpose of this study is to develop substantive characteristics of the organization of activity of the enterprises – participants of the SEZ in modern conditions of global socio-economic crisis, the digital economy. Composition and duration of preferential conditions lying in the economic interests of potential residents of such zones; to identify the main methods of organizing coordinated activities of participants of the SEZ in the interests of local development; to develop recommendations to improve the competitiveness and economic growth of companies and local regions where the SEZ is organized.

When describing the goals of creating SEZ, two alternatives can be identified: developing the economic potential of depressed territories and attracting new competitive technologies to existing production facilities, followed by stimulating the export of finished products. The first, when organizing SEZ, most often prevails in developed countries. The economic conditions in the SEZ at the same time focus not so much on attracting foreign investment, but on increasing entrepreneurial activity on this local territory. The second way prevails in developing countries where it is necessary to increase the level of economic development, innovation activity, to stimulate the technological renewal of fixed capital on the scale of the national economic complex. The goals chosen by governments determine the necessary list and content of benefits for investors.

5. Research Methods

Statistical methods of research, comparative management, analysis of cause-and-effect relationships, as well as meaningful economic and managerial interpretation of the phenomena of economic practice of implemented SEZ projects were used. The empirical basis of the study was the reporting data of SEZ existing in Russia and abroad, their residents, management bodies, and state statistics. Strategic analysis tools have been used, as the existing problems of using this tool in the Russian Federation show

that it is necessary to refine the existing concept of their organization and functioning. The most important step in this is to develop strategies for the development of individual SEZ with mandatory coordination between them at the federal level. At the same time, it is mandatory to strictly adhere to all the tools of strategizing and, first of all, to indicate the development goals of a particular SEZ. As one of the goals, it is necessary to determine the increase in the export component of the SEZ activities for residents-multinational companies that do not want to create export-oriented production in order to avoid competition with their foreign divisions.

6. Findings

The problems of organizing highly effective SEZ activities in terms of maintaining a balance between the interests of local communities and residents are covered in sufficient detail in the world specialized literature. Back in the 1980s, Zhu (1996) studied the experience of state participation in the development of land and property relations in the Shenzhen special economic zone (PRC) in order to identify difficulties in this risky and highly profitable business, and considered in detail their contribution to promoting economic growth and their impact on attracting domestic investment. Lipták et al. (2015) found that the trend of globalization is clearly increasing in the last decades of the twentieth century, which leads to the formation of new paradigms in economic policy based on the concept of a special economic zone located in Europe.

Currently, the successful experience of SEZ in industrialized countries implemented in the XIX-XX centuries (Italy, Great Britain, the USA, Japan, and Germany) is considered as an example for successful industrial development in China and India, where they are encouraged through special preferential policies (Rubini et al., 2015). Specific tools have been developed for shaping the geography of industry: clusters have been promoted, as well as a number of SEZ have been managed with the specific goal of focusing early stages of industrial development in limited areas, learning from the previous experience of industrialized countries. Xi et al. (2021) identified the effect of urban community enlargement and development associated with increasing local production and increased productivity of enterprises in SEZ. The desire of inefficient firms with low productivity to penetrate to work in the SEZ, thanks to benefits and preferences was noted.

In turn, Noori et al. (2020) considered the phenomena of complementarity of the activities of individual SEZ residents, when some firms successfully use the waste and energy of others that are earlier in the technological chain of others, for example, waste heat from steel plants (heat recovery). Alkon (2018) - based on the materials of the activities of Indian firms, showed a mechanism for stimulating the processes of local and regional socio-economic development from the activities of special economic zones, excluding cases of rent-oriented behavior of the authorities. Teangsompong and Sirisunhirun (2018) showed the importance of local community participation in the management of special border economic zones, which requires a targeted policy to persuade local populations to contribute to the goals of their effective activities.

Sosnovskikh (2017) studied the development and implementation of special economic zones (SEZ) and industrial parks in Russia, created for the development and diversification of exports, job creation and exchange of technologies/knowledge that lead to innovation and productivity growth. It turned out that the

prevailing interests of strict regulation of economic processes by the authorities strongly hindered business activity and hindered the vital competitive and cooperative behavior of firms in these economic zones.

Beliakov and Kapustkina (2016) review the intermediary results of the functioning of special economic zones and territories of advanced socio-economic development in Russia, noting that the key condition for the formation of a system of indicators for the functioning of territories is to ensure its universality and at the same time take into account the specific features of each territory. Chettri (2020) showed a conflict of interest between large corporations and the local community that arose over two decades of public investment in the infrastructure development of the state of Sikkim in North-Eastern India. Private investment in hydropower and pharmaceuticals has transformed Sikkim from a remote border state to a de facto special economic zone (SEZ), but corporate land grabs have led to a realignment of peoples' land and property relations with the Land and the creation of a new layer of the rural poor.

Currently, there is a lack of elaboration of the national concept of SEZ functioning in the mode of coordination of economic and social interests of its participants, which leads to a number of problems. It is quite common practice for foreign investors to create relatively small enterprises that are duplicates of existing domestic manufacturers. At the same time, they focus on the intermediate consumer with a large market share and high profitability. Priority is given to foreign participation in its capital. Based on the use of SEZ benefits and some savings on conditionally fixed costs, their products gain competitive advantages. While the high technical and technological level of the newly organized production is quite controversial. In many cases, foreign investment is made in the form of equipment that is decommissioned and imported from other divisions of multinational companies. The novelty of this equipment, the degree of its cost estimation, the choice of standard service life, etc. raises questions, since instead of spending on recycling, foreign owners give a second life to outdated equipment in unsaturated markets to undemanding consumers in developing countries.

As a result, on the one hand, the SEZ activities with such investors seem to be carried out successfully. Investors are coming. They have a stable or even increasing production volume. On the other hand, from the point of view of the stated goals of creating SEZ: employment increases a little due to the small size of newly created enterprises with foreign participation, moreover, there are bankruptcies of domestic producers due to their substitution by foreign ones, respectively, unemployment increases in the regions where the latter are located. This also leads to an increase in dependence from foreign capital. If the innovative level of production increases, it is only slightly. In addition, you should think about the subsequent periods of time when the benefits in the SEZ will end. Will it happen that by this time, domestic producers of similar products will already be ruined, and foreign ones will either take a dominant position, or go to the SEZ of another country, where the level of benefits and access to resources is higher? As a result, the host regions will be more depressed than they were initially.

These problems have led to the fact that significant budget investments have not yet led to the implementation of the intended goals. As a result of their implementation, only some effective SEZ have appeared, moreover, they are located in regions that are already economically developed. In depressive territories, the development of which SEZ should have affected first of all, for the most part they were not very successful. Attention to the development of SEZ has significantly weakened. An illustrative example

is the appearance of other tools for attracting investment in the regions where SEZ are located, for example, territories of advanced development (TAD).

As a result, we can note the following. As shown by global practice and some successful domestic examples (SEZ "Alabuga", SEZ "Lipetsk"), SEZs are the most important and effective tool for attracting investment, especially foreign ones. Less attention to their activities leads to a decrease in the effectiveness of budget expenditures already implemented. Even in the conditions of Western sanctions and restrictions on the transfer of foreign technologies, the creation and development of such innovative complexes is especially important.

It is necessary to finalize the existing concept of their organization and functioning, including the development of strategies for the development of individual SEZ with mandatory coordination between them at the federal level. First of all, it is necessary to identify and implement the development goals of a particular SEZ, especially to increase the export component of SEZ activities. This is all the more important, since at present foreign investors do not want to create export-oriented production facilities, so as not to create competition for foreign divisions of their multinational company. Setting the export conditions for a certain part of the volume of products produced allows not only to replenish the inflow of foreign exchange earnings, but also to more objectively assess the level of competitiveness of production products placed in the SEZ.

Setting goals and objectives for individual SEZ at the federal level will allow to more clearly build a mechanism for attracting investors.

Currently, all SEZ compete in this with each other, the advantage in competition is given to those who rely on the more significant support of regional authorities in the person of governors (heads of republics). Since domestic SEZ do not have tax, resource, or market advantages in comparison with SEZ of a number of new industrial countries, it is necessary to form a set of measures at the federal level to increase their competitiveness, perhaps even taking into account the restriction of their competition at the domestic level.

They can include both measures to reduce the tax burden due to federal taxes, and non-tax measures, including at the international level (Figure 1).

It should be taken into account that in order to attract investments of a significant scale, at least at the stage of SEZ formation, the level of state regulation and the position of the head of its implementation must correspond to the scale of the potential investor's activity with appropriate control of the characteristics declared on both sides.

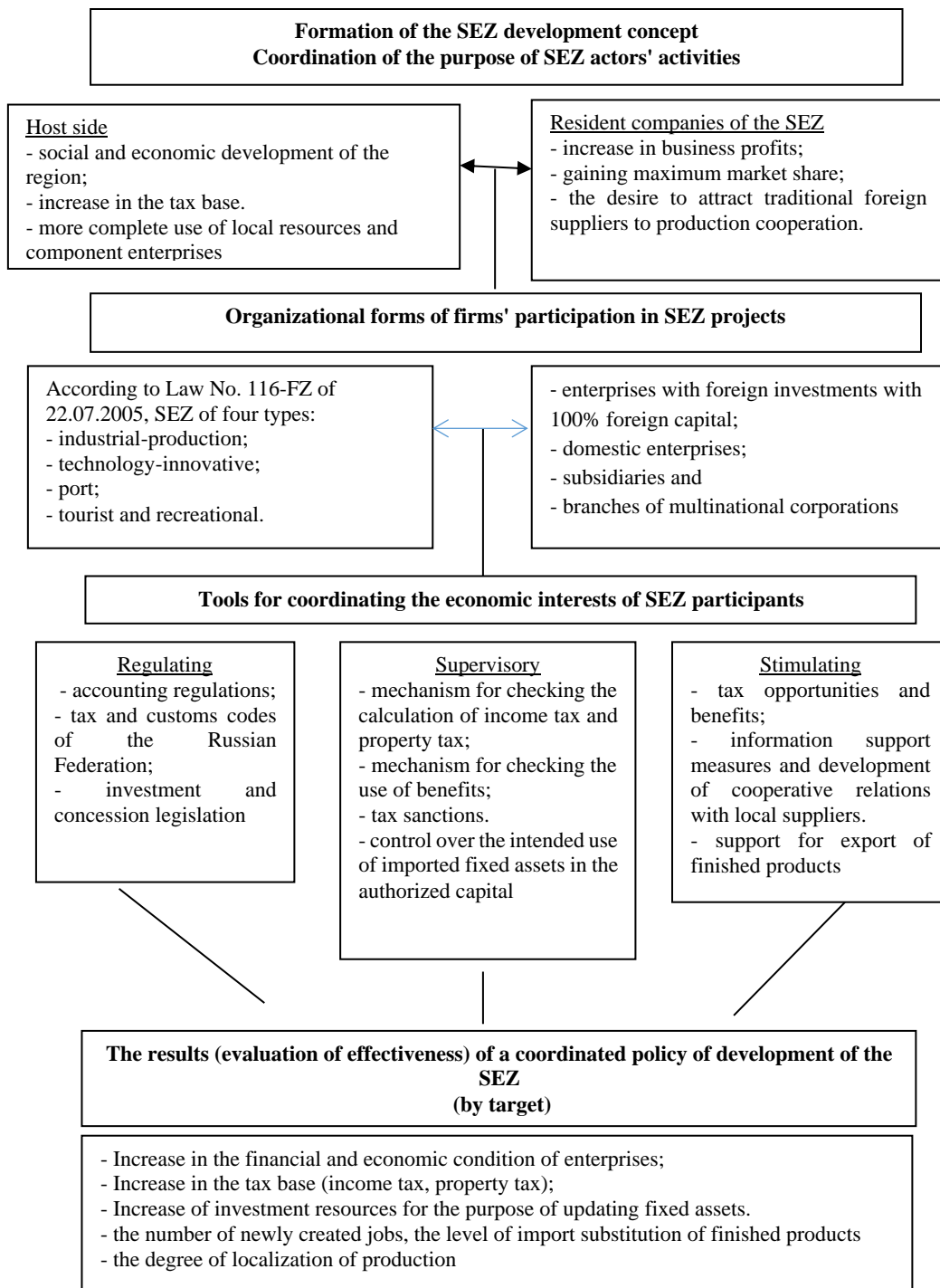


Figure 1. Model coordinated by interests of a policy of development of the SEZ of the Russian Federation

Source: authors.

Due to the rather high degree of risk of "entering" the domestic economy for foreign investors, it is advisable to develop a system of risk sharing between SEZs, their managing companies, regional and federal authorities. To improve the efficiency of SEZ development, other incentive measures should be used, for example, consider the possibility of preferential lending of SEZ residents.

The mechanism for monitoring the functioning of SEZ should also provide for regulating the profile of their residents' activities and their influence on the level of competition on the market so that the arrival of foreign companies' divisions accelerates the development of the Russian economy and increases its innovation level, and does not lead to the closure of domestic enterprises and increase the dependence of the Russian industry on multinational companies.

Systematization of the problematic aspects and features of SEZ activities at the present stage of their development allows us to identify the most significant characteristics that are significant for assessing the prospects for the development of such an effective form of joint economic activity:

1. In the context of the general economic crisis and even the initial stages of post-crisis development, if the factor of the general market contraction is not compensated by a similar increase in exports, the dynamics of production will focus on narrowed interregional or even smaller regional markets. Under these conditions, we cannot expect rapid growth of new production facilities in the SEZ. At the same time, it is possible to have a worse option for the state of the economy of the regions where the SEZ is located, when in order to optimize taxation, enterprises open their production sites in the SEZ, while not increasing or even reducing the volume of production at existing facilities. Therefore, preferential SEZ regimes should not be used to distribute preferences to certain economic entities, industries and regions, but should be used to stimulate the production of innovative import-substituting products, technological modernization, and increase of non-resource exports.

2. In the process of creating and developing SEZ, there are certain contradictions between the interests of state administration bodies at the regional and federal levels, the SEZ itself represented by management companies, as well as domestic and foreign residents, which are resolved through conciliation procedures.

3. When a foreign investor enters a SEZ, it is usually assumed that its production base will be based on domestic, moreover, cheaper resources supplied mainly from the region where the SEZ is located. However, in practice, the technological level and quality of these resources may not meet the requirements of a foreign resident. It is assumed that local suppliers will increase the technological level of their production. However, all this requires time and capital expenditures above the levels planned by the enterprise. Given the difficult financial and economic situation of many domestic enterprises and the limited available investment resources, this discrepancy between standards and requirements can develop into a serious problem of local/regional significance.

After naturalization in the SEZ, foreign residents tend to switch from initially declared ties with domestic suppliers, high localization rates, to resuming ties with their traditional foreign co-operators and related companies. In this case, their production in the SEZ essentially turns into a so-called "screwdriver assembly", which will use tax benefits, which is not as significant as it was intended when creating the SEZ, and will affect the dynamics of updating the technological potential of domestic production and employment. Currently, the total investment volume by residents does not exceed one third of the initially declared volumes, such important indicators for evaluating investment projects as profitability, rentability, payback period are almost not considered, and many SEZ have not started their activities.

7. Conclusion

The success of further development of SEZs in the domestic economy largely depends on the formation of a single comprehensive concept of their development. It is in the process of developing such a concept that the economic, legal, tax, and financial basis for the functioning of SEZ can be improved, and directions for improving the efficiency of their activities can be determined. This concept should more clearly define the target features of a particular SEZ and on this basis form the main directions of development, taking into account the development of special measures to overcome the identified problems that are most typical for domestic SEZ. Studying the regional experience of SEZ activities, it can be noted that the economic effect in the short and even medium term for the home region is viewed as not particularly significant. At the initial stages of SEZ operation, a rather expensive infrastructure is created. Tax benefits are mainly provided at the expense of the subject of the federation and municipalities.

Of course, we can note an increase in the number of jobs, investments, and the development of cooperation between enterprises and SEZ residents. But the new technologies that investors come to SEZ with, are usually labor-saving, initial investments are mainly directed to construction and installation works and do not cause a rapid increase in the volume of production of basic products. Therefore, significant budgetary effects from SEZ at the regional level can only be expected in the long and partly medium term.

Attracting foreign investment is of great importance for improving the efficiency of SEZ. They create a significant multiplier effect and increase the entrepreneurial culture. However, it is necessary to monitor the possible results of their use in order to timely eliminate possible problems related to the manageability of enterprises, working with suppliers, the level of localization, and capital withdrawal.

Industrial-production SEZ can significantly affect the increase in innovative activity of enterprises, the degree of technological renewal of the domestic economy. However, it is necessary to constantly monitor the compliance of SEZ residents with the declared indicators and goals of economic activity. The most important criterion for their contribution to the development of the technical and technological level of production, and accordingly, the effectiveness of the SEZ should be a large share of exports. It is export to the world's competitive markets that will allow us to more objectively assess the contribution of residents of zones and SEZ in general to the technical and technological development of the economy.

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