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List of Abbreviations

- CD: Cultural Distance
- EIP: Eco-Industrial Park
- EPZ: Export Processing Zone
- EZ: Economic Zone
- FDI: Foreign Direct Investment
- FTZ: Free Trade Zone
- IB: International Business
- IP: Industrial Park
- IP SEZ: Industrial Production Special Economic Zone
- JV: Joint Venture
- KSI: Kogut-Singh Index
- M&A: Mergers and Acquisitions
- MEM: Market Entry Mode
- MNC: Multinational Corporation
- OLI paradigm: Ownership, Location, and Internalization paradigm
- RBV: Resource-Based View
- SEZ: Special Economic Zone
- SMEs: Small and Medium-sized Enterprises
- TCA: Transaction Cost Analysis
- TCT: Transaction Cost Theory
- VRIO: Value, Rarity, Imitability, Organization
- WOS: Wholly Owned Subsidiary

1. Introduction

Governments of both developing and developed countries constantly search for instruments that would boost economic growth. Some countries aim to attract foreign investment, and others attempt to create self-sustainable competitive industries. An ambitious attempt to achieve these goals was made in the 1950s when the Irish government introduced the first modern free zone located at Shannon Airport (Bost, 2019). Free zones originate from free ports that already existed centuries ago. In other words, the Shannon free zone was a recreated, improved version of an already known concept.

Contemporary special economic zones (SEZs) originate from the Shannon FZ, take different forms, and vary in size. The popularity of SEZs as an instrument for economic growth stimulation and attracting foreign direct investment has become noteworthy among developing economies (Babita & Bishnoi, 2018). The advantages of Special Economic Zones for entrepreneurs are well known: authorities offer tax reductions, customs exemptions, and administrative support, trying to lure foreign investors and keep domestic businesses within national borders (Chaisse & Ji, 2020). By creating SEZs, governments, in turn, strive to attract foreign direct investment, facilitate internal skills and technology transfers, prompt knowledge spillovers, and generate synergies (Buba & Wong, 2017). Such zones have steadily increased over the last decades, with over 5400 SEZs operating worldwide (United Nations Conference on Trade and Development, 2019). The concept of a Special Economic Zone has become a collective notion for several types of Zones, such as Free Trade Zone (FTZ), Export-Processing Zone (EPZ), and Freeport (Farole & Akinci, 2011).

SEZs have the potential to become innovative industrial clusters if they meet a set of criteria. Concerning the activities of national governments, this process can either be facilitated or hindered. Although there are cases of free zones becoming business activity centers and critical innovation and growth drivers for developing economies, the success is highly dependent on the economic policies the authorities carry out (Kuznetsov & Kuznetsova, 2019). SEZs have existed in the focal country of the current study, Russian Federation, for a long time. Nonetheless, the achievement of the goals set by the state authorities was incomplete, and experts admit the ineffectiveness of the policies of the latter (Kuznetsov & Kuznetsova, 2021; Sosnovskikh, 2017).

Nonetheless, taking into account the aforementioned characteristics and potential of the zones, the behavior of SEZ tenants, particularly in terms of entry mode choices and commercial activity forms, can substantially differ from the operation of other foreign business entities outside such economic zones within the same host country. In addition to the MNCs' SEZ-resident status that influences the internationalization strategy in emerging markets, cultural distance plays an essential role in the choice of market entry modes (Siegel et al., 2013). Many researchers have confirmed the importance of cultural distance in entry mode choice (Kogut & Singh, 1988; Hennart & Larimo, 1998; Brouther & Brouthers, 2001; Cho & Padmanabhan, 2005). Cultural distance is most applied based on transaction cost and institutional theory reasoning (Brouthers, 2013). These theories are reviewed in greater detail in chapter two.

When analyzing the relevant literature, research gaps related to the impact of SEZs of the focal region on the internationalization strategy of the MNCs are identified. Most relevant scientific papers focus on SEZs' performance, with only a few studies considering the attractiveness of SEZs for subsequent market entry from a business perspective. In the first decade after the promulgation of Federal Law No. 116, which paved the foundation for SEZ establishment in Russia, the newly emerged SEZs turned out to be significantly less efficient than expected (Yankov et al., 2016). However, the interest in SEZs grew with the number of foreign residents gradually increasing (Kuznetsov & Kuznetsova, 2019). The purpose of this master thesis is to complement the existing research on special economic zones by providing an answer to the following research question: Does special economic zone residency impact the ownership mode decision of MNCs when entering into developing countries? We focus on its impact on the entry mode choice of MNCs and its moderating effect on the relationship between cultural distance and mode choice.

To answer the research question we develop and test three hypotheses. The hypotheses address the influence of a multinational firm's special economic zone tenancy on its ownership mode, cultural distance impact on the ownership mode, and finally, moderating effect of the SEZ on the latter relation. The regulatory framework provides only two forms of foreign operation in special economic zones, given the mandatory minimum capital investment needed to obtain industrial production SEZ resident status: joint venture (JV) and wholly-owned subsidiary (WOS), meaning that for the internationalizing firms only equity entry modes being available (Andreev et al., 2021). At the same time, JV and WOS are used to classify enterprises' ownership structure,

which in this study, allows utilizing entry and ownership mode concepts as interchangeable. With ownership mode being the binary outcome variable, logistic regression models were applied to test the hypotheses aimed at capturing the impact of special economic zones on the operations of foreign firms in the focal market. Based on the data from 80 MNCs in 5 Russian special economic zones, it was found that the residence of the enterprise in a special economic zone and cultural distance affect the ownership mode choice. Moreover, the results show that SEZ residency moderates the relationship between the cultural distance between MNC's home and host countries and the ownership mode. The empirical support for the hypotheses allows us to conclude that SEZ residency plays an important role in the market entry mode decision in emerging markets. The study contributes to the international business literature by advancing the understanding of the market entry mode choice of MNCs when entering emerging markets through special economic zones.

The study is structured as follows: Chapter 2 and Chapter 3 provide an overview of the theoretical frameworks that are applied to develop the research hypotheses. Chapter 4 discusses the characteristics of the market entry modes, i.e., joint ventures and wholly-owned subsidiaries. Chapter 5 gives an overview of the SEZs in Russia. Chapter 6 develops the theoretical framework and hypotheses, which are tested in Chapter 7. Finally, Chapter 8 and Chapter 9 discuss the results and implications and devise some conclusions.

2. Theories of Foreign Direct Investment and Entry Mode Choice

Foreign direct investment heads the list of the most studied topics in business research (Paul & Singh, 2017). The attitudes towards foreign direct investment are not unanimously positive. Host countries benefit from FDI as the latter trigger higher employment, human resource development, increase in exports, and also enjoy technology as well as knowledge spillovers (Denisia, 2010). Nonetheless, researchers have pointed out several disadvantages that host states, especially least developed ones, might experience from foreign direct investment. Critics tend to emphasize the negative impact on local entrepreneurship that cannot withstand the competition, balance of payments deficit, and diminishing R&D activities in the host country. Despite such claims, research indicates that the benefits far outweigh the drawbacks, and the latter can be deemed insignificant (Kurtishi-Kastrati, 2013).

The internationalization of businesses has become an undetachable concept of international trade and a common vector of contemporary development. From a business perspective, internationalization has become the only way to grow or sometimes even exist when it outmatches the market in terms of resources and customers (Van Tulder, 2015). From the international development perspective, multinational corporations have been considered among the most prominent agents of globalization since its conceptual emergence (Forsgren, 2013).

Market entry mode selection is crucial to an enterprise's internationalization strategy. The analysis of factors preceding the choice is seen within the massive layer of business research papers. The widely accepted definition of market entry mode states that the former is "*a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only marketing operations (i.e., via export modes) or both production and marketing operations there by itself or in a partnership with others (contractual modes, joint venture, wholly owned operations)*" (Sharma & Erramilli, 2004, p.2).

Contemporary research on market entry mode choice encompasses a large number of approaches that provide a theoretical explanation and practical frameworks for a consistent decision-making process of mode choice (Hennart & Slangen, 2015). The research on the topic has been noticeably driven by transaction cost theory, according to which the theory-inherent

transactional components define governance structures of multinational enterprises, which remains the main theoretical framework of the vast majority of studies (Brouthers et al., 2022).

In the subsequent sections, the several most prominent approaches to entry mode selection are analyzed. An attempt is made to review the approaches systematically with interdependencies and interrelationships captured, for the entry mode choice is impacted by a variety of factors inherent in the host country's environment. Besides, one of the most well-accepted frameworks for the entry mode selection process, the OLI paradigm, is reviewed. The combination of theories covered in this chapter would allow a coherent approach to hypothesis formulation and consistency in the interpretation of the study results as well as specifics of market entry strategies into the focal market of the research. The figure below depicts an outline of the perspectives under review. The determinants will be elaborated on in the subsequent chapters of the current study.

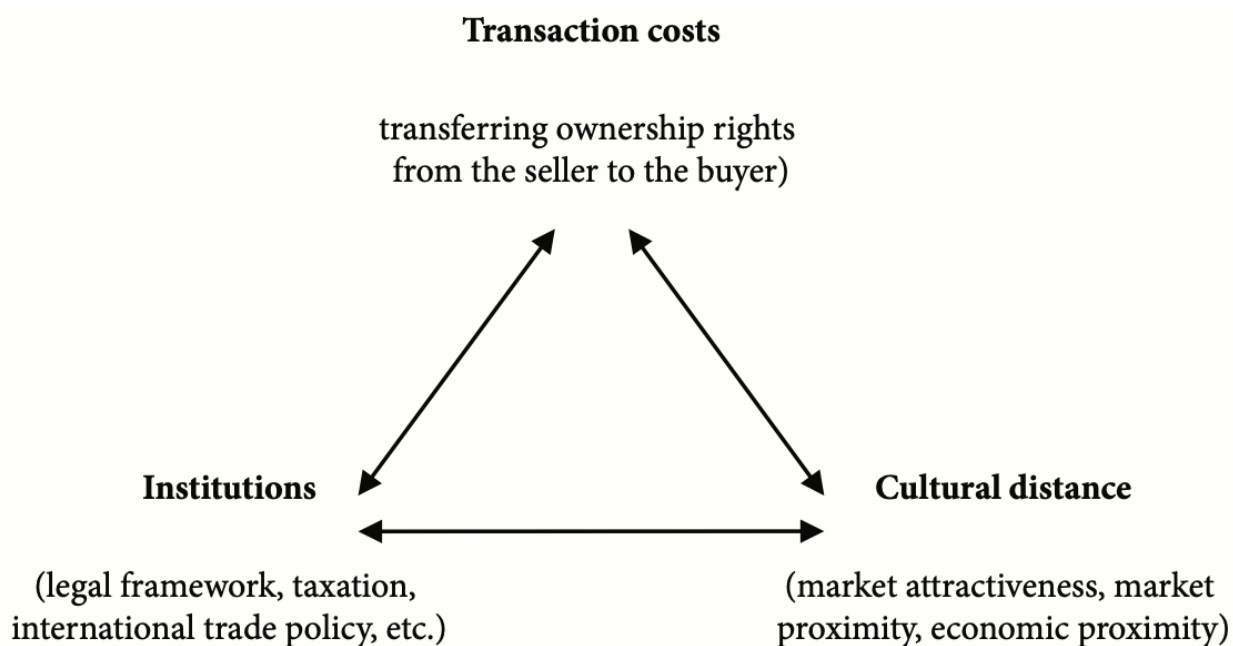


Figure 1. Perspectives on entry mode choice determinants. Source: Mroczek, 2014, p. 55

2.1. Transaction Cost Analysis (TCA)

The foundations of the transaction cost theory were formulated by Ronald Coase (1937) in his prominent study “The Nature of the Firm”. Coase aimed to understand the reasons that predefine the establishment of an enterprise. Back in the first half of the 20th century, a firm was regarded as a separate system of economic organization, but the theoretical manifestation of a firm was absent. Economic thought was dominated by the concept of a perfect market economy in which a firm does not fit in terms of its economic activities. Coase proposed a version that, firstly, explained the emergence of a firm and, secondly, emphasized market imperfections. According to Coase, the firm exists because, at some point, it can become more efficient than employing price mechanisms. Specifically, economic agents incur supplementary costs when they engage in market transactions, whereas a firm, as alternative means of economic organization, provides an opportunity to avoid these. Transaction costs are, therefore, defined as price mechanism utilization fees (Coase, 1937).

Increased transaction costs are the result of the interplay of four main components of transaction cost economics, to wit, “*uncertainty*”, “*small-numbers bargaining*”, “*bounded rationality*”, and “*opportunistic behavior*”, which serve as the explanation of market failure and the inability of markets to operate efficiently under given circumstances (Williamson, 1975; Forsgren, 2017, 2008, p. 53). Transaction cost economics laid the basis for a number of prominent multinational firm theories and approaches to the market entry mode choice (Forsgren, 2017). Within this perspective, a transaction is taken as a research unit (Williamson, 1991). There are three dimensions associated with each separate transaction, namely, “*asset specificity*”, “*frequency*”, and “*uncertainty*” (Williamson, 1985, p. 52). The latter is subdivided into “*environmental*” or “*external*” and “*behavioral*” (Schellenberg et al., 2018, p. 608). The application of transaction cost analysis in market entry mode selection studies has become the golden standard for the respective research (Erramilli & Rao, 1993). The initial research has supported the argument that multinational firms are pursuing the goal of minimizing transaction costs (Anderson & Gatignon, 1986). The costs themselves stem from several aspects of business activity, primarily from inter-firm cooperation. They can be allocated into two categories: those incurred prior to the transaction (ex-ante) and those appearing after the transaction takes place (ex-post).

Asset specificity is a pivotal element of a single transaction and TCA in general. It refers to the extent of the asset value in a specific investment, which does not remain the same under a different setting (e.a. investment, counterparty) (Brouthers & Nakos, 2004). The approach suggested that the activity carried out via outsourcing should be internalized, whereas low asset specificity encourages the utilization of market structures (Pawlicz, 2011). Behavioral uncertainty is a component caused by the uneven distribution of information among economic agents involved in a transaction and the probability of being put at a disadvantage caused by other agents' opportunistic behavior (Mroczek, 2014). The external or environmental uncertainty, in turn, stems from the varying institutional setting of the host country, imposes additional risks, and, therefore, boosts transaction costs (López-Duarte & Vidal-Suárez, 2010). A typical example is a change in the political environment, legal basis, or economic policy of the host country, which the business activity of a foreign investor can be subject to (Bremen et al., 2010). All of that impacts not only the cost of a transaction but also the strategic decisions preceding the full-scale operation in the host country, such as entry mode selection (Mroczek, 2014). The third facet to designate transactions, frequency, was not as significant as the other two in Williamson's initial studies, but its utility, in his view, should not be underestimated (Williamson, 1975; Williamson, 1979). Frequency refers to the share of operations being outsourced, and the transaction costs grow with this share increasing (Deng & Zhang, 2020).

The long tradition of market entry mode research indicates that the above-observed three dimensions of transactions impact the structure of ownership and control of foreign operations established (Brouthers, 2013). The inclusion of distance parameters into the examination of factors influencing the mode of investment under the transaction cost approach has been particularly inherent in the transaction cost analysis of international market entry (Zhou & Guillen, 2016). Notably, empirical justification has been discovered for two contradistinct ideas. On the one hand, with home and host countries being more culturally distant, the preferences of international firms shift towards equity modes with less control given the increase in uncertainty (Brouthers & Brouthers, 2001). On the other hand, research has indicated that due to the inability to assess potential partners in a culturally distant market, internationalizing enterprises have to settle for complete control over a venture (Padmanabhan & Cho, 1996).

2.2 Institutional Theory

Host country environment has long been known to impact overseas ventures' success. The absence of experience and knowledge of the host country's institutional setting drastically undermines a firm's position in the local market (Hymer, 1976). The acquisition of the respective knowledge facilitates operation in the host country and mitigates the adverse effects of the liability of foreignness (Delios & Beamish, 1999).

A Nobel-winning economist, Douglass North, defined institutions as “*rules of the game*”, specifically, a set of guidelines that shape inter-human interaction politically, economically, and socially (North, 1990, p. 3). Those aspects constitute the institutional environment of a state, which is why the above-mentioned local knowledge is semantically interconnected with it (Delios & Beamish, 1999). North's institutional theory is formulated, inter alia, on the prior-addressed transaction cost theory, for the cost of a transaction includes aspects determined by the institutional settings (North, 1990). The effect of institutions on the economy is indisputably significant as production costs are affected in the first place.

Another distinguished scientist who contributed to the establishment of the institutional view is William Richard Scott. He pointed out three separate pillars of institutions: “*regulative*”, “*normative*”, and “*cognitive*” (Scott, 2013, p. 56). Various aspects of foreign direct investment and, specifically, the entry mode selection process are influenced by the institutional environment, which consists of the aforementioned pillars (Xu & Shenkar, 2002). Each pillar has been empirically confirmed to alter the mode choice process, either with regard to national specificity or firm-intrinsic characteristics (Yiu & Makino, 2002).

The regulative pillar refers to formal codes and regulations (Scott, 2013). It plays a crucial role in the internalization process as it defines the legal framework for foreign direct investment, not to mention in the first place, the contract law, property rights protection, and settlement of disputes (Korsakienė et al., 2015). The normative pillar relates to the informal constructs, such as norms and traditions constituting a given culture (North, 1995). In business contexts, it predefines the level of trust between parties and the particularities of collaboration with local economic agents for a foreign enterprise entering the market (Xu & Shenkar, 2002). The cognitive pillar alludes to people's shared mental setting, specifically, their historical perception of various events that fall into

the same category, which over time becomes institutionalized, making judgments about current events pre-determined by the experience of the past (Yiu & Makino, 2002).

The concept of institutional distance arises from the three above-reviewed layers. Understanding the local specificity manifested in the institutional setting is the critical element of foreign venture success, the importance of which has been acknowledged by international business researchers for decades (Kostova et al., 2020).

The cultural aspect of the institutional distance that stems from the second layer appeared prior to the establishment of the theory itself and has been utilized in research far beyond international business studies. The subsequent section, thus, addresses the notion of cultural distance, which is central to this master thesis. The cultural distance has been found to influence the entry mode selection process, especially in combination with choice determinants from the transaction cost theory (Brouthers & Brouthers, 2001). The figure below summarizes the main parameters of Scott's institutional pillars categorization and advances the sociological understanding of the latter. The institutional pillars are highly relevant to the context of FDI, with studies indicating its implementation in MEM research bearing fruitful results and a better understanding of entry mode selection determinants (Brouthers, 2013).

	Regulative	Normative	Cultural-Cognitive
<i>Basis of compliance</i>	Expedience	Social obligation	Taken-for-grantedness Shared understanding
<i>Basis of order</i>	Regulative rules	Binding expectations	Constitutive schema
<i>Mechanisms</i>	Coercive	Normative	Mimetic
<i>Logic</i>	Instrumentally	Appropriateness	Orthodoxy
<i>Indicators</i>	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of actions Isomorphism
<i>Affect</i>	Fear Guilt / Innocence	Shame / Honor	Certainty / Confusion
<i>Basis of legitimacy</i>	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Figure 2. Three Pillars of Institutions. Source: Scott, 2008, p. 51

2.3 Cultural Distance

As was touched upon briefly in the previous section, the cultural contrast between home and host country is encapsulated in the concept of cultural distance. The earliest references to it with regard to the impact on foreign direct investment and firms' operation overseas can be traced back to the introduction of the Uppsala Model in 1977 (Vahlne & Johanson, 2017) and conceptually in even earlier studies, while the first empirical application of the concept in the MEM research was carried out by Singh and Kogut in their landmark study in 1988 (Beugelsdijk et al., 2018). Its elucidation of differences between countries regarding inherent norms has been proven to impact the success of overseas initiatives, especially for those implying FDI (Siegel et al., 2013).

Kogut and Singh (1988) carried out the earlier mentioned operationalization of the cultural distance hinged upon Geert Hofstede's (1983) four cultural dimension indices (power distance, uncertainty avoidance, masculinity versus femininity, and individualism versus collectivism) (Beugelsdijk et al., 2018). Their study included a list of countries whose deviations from Hofstede's indices for the US were estimated via the algebraic formula, now widely known as Kogut-Singh Index (Kogut & Singh, 1988) and widely applied by IB researcher and beyond.

$$CD_j = \sum_{i=1}^4 \{(I_{ij} - I_{iu})^2 / V_{ij}\} / 4 ,$$

Figure 3. Kogut-Singh Index (KSI). Source: Kogut & Singh, 1988, p. 422.

Despite its utilization commonness in international business research, the KSI has been criticized for mathematical and conceptual deficiencies (Konara & Mohr, 2019). One of the striking points is that KSI is based on Hofstede's cultural dimensions, which appears to be biased, as it can be qualified as one company data (Shenkar, 2012). Nevertheless, there is no alternative way of overcoming these shortcomings proposed, and the Kogut-Singh index appears to be an appropriate tool for further research (Brouthers, 2013). In the current study, the original version of KSI is extended and incorporates all six cultural dimensions discussed in the following subsection. The inclusion of all six parameters into the Kogut-Singh index conceptually differs from the original version. However, it allows a more precise measurement by capturing more aspects of the cultures under review (Ha et al., 2020).

2.3.1 Hofstede's Cultural Dimensions

Hofstede's cultural dimensions concept has been widely applied but, at the same time, criticized by various researchers in business studies to capture and measure the similarities and differences between countries and societies (Kogut & Singh, 1988). The framework suggested by Hofstede illustrates how various aspects of a given culture affect the behaviors of cultural code holders. Hofstede's cultural distance theory is based on the following dimensions: power distance; individualism versus collectivism; uncertainty avoidance; masculinity versus femininity; long-term orientation versus short-term orientation; indulgence. (Hofstede, 1980). The researcher defines culture as "*the collective programming of the mind which distinguishes the members of one group or society from those of another*" (Hofstede, 1984, p. 2).

1. Power distance

Power distance is the first component of Hofstede's cultural distance concept. This dimension indicates the level of society members' compliance with the inequality of power distribution or, in other words, it captures the level of hierarchization within a given culture (Country Comparison, n.d.; Minkov & Hofstede, 2011). In business studies, this aspect is commonly applied to describe a relationship between workers and their superiors (Hofstede, 2011).

Countries with a low power distance score can be distinguished as inequality-intolerant. Specifically, it means there is a belief among the cultural code holders that inequality should be minimized and hierarchies abandoned with the perception of a hierarchy, including the organizational one, being primarily negative, as the latter preserves the inequality within a society (Hofstede, Hofstede, Minkov, 2005). Consequently, subordinates tend not to dissociate themselves from their directors. This setting has an influence on interpersonal activities, in particular, on communication between individuals. Under such a setting, the emergence of preferences for management styles is witnessed (Hofstede, Hofstede, Minkov, 2005). A low power distance score implies a distinct predilection towards a less formal working environment and less autocratic leadership styles (Hofstede, 2011).

In contrast, societies (countries) with high power distance scores consider hierarchies and inequality part and parcel of their cultural setting and existence, with people preferring more paternalistic leadership and obeying their superiors (Hofstede, 2011). The arguments between subordinates and their bosses are deemed practically obscene or flagrant. In such cultures, people tend to look up to their bosses (Hofstede, Hofstede, Minkov, 2005). A consultive management style can be perceived as the passivity of the leader, which is why the authoritarian style is inclined towards (Wang & Guan, 2018).

II. Individualism versus collectivism

This dimension captures the extent to which adherence to a specific group is inherent in society. In a broad sense, the difference between individualistic and collectivistic societies is based on how detached from each other their respective members are (Hofstede, 2011). In the former ones, people have an inclination to act in their private interests, whereas the latter type of society is characterized by individuals being extensively integrated into groups, and their conduct is predetermined by the group's aims (Minkov et al., 2017). Accordingly, under strong collectivism, individuals submit part of their personal freedoms in exchange for the protection of the group they belong to, whereas members of individualistic cultures have to take care of themselves and their families in a narrow sense on their own (Hofstede, 1980).

Hofstede claims that a high score on this dimension is inherent in Western states, and low scores are standard among less developed countries (Hofstede, 2011). Notably, countries with higher focal scores are characterized as the ones where individuals are welcome to express their opinion openly and independently, and privacy is an undetachable notion of each person's life, which is not the case for collectivistic societies where group opinion and norms determine individual action (Hofstede, 1980).

In the organizational context, a member of an individualistic society aligns his conduct with organizational goals primarily for his own reasons, compensatory as an example, while a collectivistic society specimen assumes that it is their moral obligation to strive towards organizational goals achievement (Hofstede, 1980). The loyalty, as mentioned earlier, therefore, extends onto the organization as well.

III. Masculinity versus Femininity

The distribution of roles and functions between genders is different in various cultures. Although there is a tendency towards balancing the functions between genders in Western cultures, the preservation of gender roles is quite typical for some other societies. Hofstede's idea behind this dimension is measuring the extent to which an inclination to traditionally male's role patterns is witnessed in a given society (Hofstede, 1980). The contrast of roles creates the polarity of attributes used to categorize cultures. However, the dissimilarities between female values across cultures are less perceptible, while male values vary significantly (Hofstede, 2011). Because of this, the contrast is captured through the examination of men's values and behavioral patterns in different societies and their subsequent comparison with women's ones.

The above-mentioned polarity of behavioral attributes is illustrated in the variation of values between assertive (masculine) and caring (feminine) ones (Hofstede, 1980). Accordingly, the contrast between men and women is more noticeable in masculine societies, where males and, much less significantly, females are driven by success, competition, and career goals (Hofstede, 2011). Feminine societies illustrate much less difference between the genders, with both being modest and caring, creating a match between males' and females' roles and emotional traits (Hofstede, Hofstede, Minkov, 2005).

In the organizational setting, members of masculine society would aim at career growth, acknowledgment, and financial compensation, whereas feminine society representatives tend to maintain good relationships with other individuals at the workplace, value efficient cooperation both with subordinates and superiors, and, finally, have a distinct preference towards employment security (Hofstede, Hofstede, Minkov, 2005).

IV. Uncertainty avoidance

Along with power distance, this dimension is believed to be among the most important ones in business research, sometimes used separately from the other ones to investigate a given culture's attitudes towards the unforeseeable development of events (Belkhamza & Wafa, 2014). The occurrence of unforeseeable scenarios and events that cannot be predicted is quite common for every individual and group. Regardless of the nature of the event, the reaction and, consequently,

the forbearance of vagueness are different in various societies. The attempt to capture the extent of this forbearance was made by the introduction of this cultural dimension. In a more accurate definition, uncertainty avoidance is distinguished as the tolerance of a given society to ambiguity (Hofstede, 2011).

The difference in perceptions of uncertainty is what creates a basis for the comparison of cultures. In some cultures, uncertainty appears as something negative in its nature, and in such cases, society has to cope with it. On the contrary, countries with a more tolerant attitude towards ambiguous situations and unforeseeable scenarios perceive uncertainty as an integral part of life and accept it (Hofstede, 1980). The deviation entails curiosity and is objectively reviewed; the society demonstrates overall greater flexibility and openness (Hofstede, 2011).

The uncertainty causes stress and tension among individuals and groups in countries that demonstrate high scores on this dimension. In order to deal with uncertainty more efficiently, such cultures develop specific behavioral rules and formal norms the members of society are expected to apply and unconditionally comply with (Hofstede, 1980). Innovation and new ideas are skeptically adopted and are more likely to be disapproved (Minkov et al., 2017).

V. Long-term orientation versus short-term orientation

The profound idea for this dimension originates from Confucian philosophy, the principles of which were formulated around 500 B.C. and some of which formed the basis of the Chinese Value Survey, a questionnaire developed by Chinese scholars at the request of Hofstede's co-author, Michael Bond (Hofstede, Hofstede, Minkov, 2005). Michael Bond from the Chinese University of Hong Kong conducted a series of studies similar to Hofstede's in nature and obtained comparable results in a different cultural setting, which indicated support for Hofstede's cultural dimensions (Hofstede, Hofstede, Minkov, 2005). The two researchers noted the bias for the questionnaires they have been utilizing, as Western minds designed the former. The aforementioned Chinese Value Survey created by Chinese researchers involved values for Chinese people and was intended to solve the bias (Bond, 1988). One of the Chinese Value Survey dimensions did not have an analog in surveys administered by IBM and was later included in Hofstede's classification (Hofstede, Hofstede, Minkov, 2005).

Long-term versus short-term orientation indicates the convergence point of people's conduct — whether it is determined by traits angled towards the future or present and past (Hofstede, Hofstede, Minkov, 2005). More specifically, the inherence of future-orientated qualities such as perseverance and thrift in countries with higher scores on this dimension is common (Hofstede, Hofstede, Minkov, 2005). In economic terms, long-term orientation cultures tend to economize and postpone consumption (Hofstede, 2011). On the other hand, countries with lower scores illustrate an inclination to traditionalism and individual stability with a higher chance of immediate consumption (Minkov & Kaasa, 2021).

VI. Indulgence versus Restraint

This dimension was the last one to be added to Hofstede's cultural framework and was initially conceptualized by Micho Minkov, who derived it from the World Values Survey reviewing items related to the happiness concept, which is not captured explicitly by either of the five dimensions as mentioned earlier (Hofstede, Hofstede, Minkov, 2005). The dimension is considered relatively under-researched and is sometimes omitted in cultural and social studies (Chudnovskaya & O'Hara, 2022).

By the accepted definition, indulgence is a propensity of a society to allow the gratification of a personal need for leisure and entertainment; restraint, in contrast, implies extensive normalization of both this gratification (Hofstede, 2011). An alternative interpretation suggests that indulgence is a degree of emotional control and wish expression accepted in society (Country Comparison, n.d.).

High scores on this dimension allow us to distinguish respective countries as liberal in terms of leisure, self-expression, and sexual norms, whereas lower scores indicate proneness to stricter societal order, the lower significance of amusement, and a smaller share of people denoting themselves as happy (Hofstede, 2011).

2.4 Eclectic (OLI) Paradigm

Apart from the earlier mentioned transaction cost perspective and institutional view, there are several renowned approaches to the selection of MEM. Nonetheless, there is a widespread opinion that these approaches appear incomplete under separate applications (Dunning, 2001). John Dunning proposed an alternative way of analyzing FDI-specific decisions by developing his eclectic framework. The framework encompasses the main features of several theories that explain the market entry mode choice from various standpoints.

The eclectic framework postulates that an enterprise's engagement in foreign direct investment activities is a result of a three-factor-match of the following components (Dunning, 2000):

- Ownership advantage (O-advantage)
- Location advantage (L-advantage)
- Internalization advantage (I-advantage)

The ownership component of the framework originates from the attributes of the resource-based view and market imperfections theory (Welch et al., 2008). This component refers to a competitive advantage that enables the clearance of challenges posed by the liability of foreignness. The latter represents additional costs incurred by internationalizing firms, stemming from discrepancies between home and host country environments and the host country's institutional setting's particularities (Zaheer, 1995). In practice, the ownership advantage relates to firm proprietary assets, such as brands, patents, and know-how (Dunning, 2000). As mentioned earlier, the O-advantage roots conceptually lie in resource-based theory, which is why for the advantage to become competitive, its concurrence with VRIO-framework is stipulated (Beamish & Chakravarty, 2021). According to the RBV, the advantage has to be valuable, rare, hardly imitable, and embedded in the organization (Barney & Wright, 1998).

The location component of the framework is derived from international trade and location theory and represents the assessment of host country resources in terms of utility to internationalizing firms (Welch et al., 2018). According to the eclectic framework, for foreign direct investment to take place, the host country is supposed to offer more price-efficient factors of production compared to those of the firm's home country (Rugman, 2010). If this prerequisite is not fulfilled for the host

country, production is not performed locally, and the goods are exported instead (Dunning & Lundan, 2008).

The internalization component originates in the transaction cost theory and represents virtues a firm obtains when it carries out production in-house instead of outsourcing it (Welch et al., 2008). The advantage itself is characterized by gaining control over operations, facing fewer risks associated with partners, e.g., opportunistic behavior of the latter, and lower transaction costs (Welch et al., 2008). The internalization is subject to the best application of production-related resources. Suitable modes of entry and establishment involve wholly-owned subsidiaries, joint ventures, greenfield, and brownfield investments, as well as mergers and acquisitions, which are discussed in greater detail in the following section.

The OLI framework's comprehensive character has been subject to criticism for its broadness, which does not enable an accurate prediction of FDI-related decisions and firms' behavior (Dunning, 1988). Nonetheless, the framework remains one of the most utilized in IB research (Zhou & Guillen, 2016). It was claimed that theory does not include a firm's aspiration to internationalize, which can impact the choice of an entry mode and contradict the logic of the eclectic framework (Dunning & Lundan, 2008; Brouthers et al., 1996). Despite the criticism, Dunning's eclectic framework remains a dominant theory among those addressing international expansions of firms (Paul & Feliciano-Cestero, 2021).

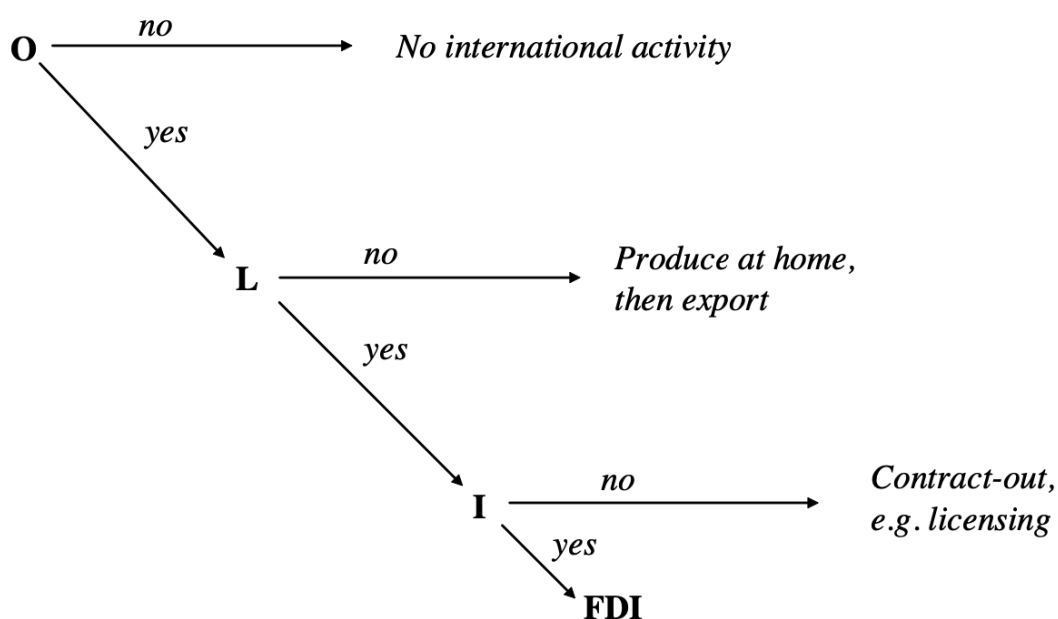


Figure 4. A decision tree for FDI, based on the OLI framework. Source: Welch et al., 2008, p. 31

3. Localization and Regional Growth Theories

The success of SEZ establishment demands adequate measures and a consistent approach from policymakers. Nowadays, with the number of special economic zones (SEZ) increasing worldwide, duty-holders have to intensify improvements of respective policies and create a more lucrative environment for foreign and local investors. An ambitious recommendation from the recent research postulates that the inclusion of cluster attributes into place-based programs positively affects the overall competitive potential and performance of the latter (Sosnovskikh, 2017).

Recent papers on SEZ development worldwide and in the focal region have identified policymakers pursuing cluster approach to refine the quality of special economic and free zones (Turgel et al., 2019). In other words, some of the researchers observe SEZ/FTZ and cluster concepts as related in particular cases. This chapter observes the notion of a cluster as an economic activity hub and analyzes several prominent views on the latter. The analysis of spatial concentration and regional development theories enables the conceptual understanding of special economic zones discussion and the opportunity to comprehend whether the latter can transform into clusters in the focal country.

The prior research indicated that by implementing Special Economic Zones in the Russian Federation, policymakers attempt to create geographical and sectoral clusters that would enhance regional innovation and growth and attract foreign direct investment (Sosnovskikh, 2017). Market entry through an industry cluster makes a firm a member of a business network of enterprises embedded in the cluster itself. The observation of SEZs as geographical and sectoral clusters allows assuming that firms entering a foreign market in this way may benefit from economic incentives offered by the authorities and from externalities within SEZs. Foreign enterprises can see the market entry through SEZ as an industrial cluster as a potential source of competitive advantage (Brown et al., 2010).

Several prominent theories explore the specifics of agglomeration and clustering and have been applied extensively to underpin regional policies theoretically. Alfred Marshall (1890) introduced the notion of external savings within agglomeration economies arising from the spatial concentration of production factors. He distinguished three critical advantages of agglomeration economies: pooled

labor market, industry-specific inherence of specialized inputs, and technological spillovers (Potter & Watts, 2014). Further research stated that investment into areas of industrial concentration becomes lucrative for firms in terms of interdependencies among productive activities (Cella, 1984; Hirschman, 1958).

The second prominent theory is New Geographical Economics by Paul Krugman. He introduced the concept of spatial externalities as determinants of subsequent spatial concentration of industrial activities (Krugman, 1991). The externalities are also referred to as agglomerating forces and are identical to Marshallian externalities. However, spatial concentration is an outcome of the interaction of the two opposing forces: agglomerating and dispersive (Bekele & Jackson, 2006).

The third perspective is narrated in *The Competitive Advantage of Nations* (Porter, 1990), which introduces a cluster concept (Porter, 2000). Porter's perspective was initially assumed to address national competitiveness. However, the concept found its significant exertion in the context of industries and their scope. Clusters imply establishing linkages and facilitating knowledge spillovers both internally and externally (Nielsen et al., 2021). Following the three previously mentioned perspectives, firms are supposed to benefit from agglomeration economies as the latter offer knowledge spillovers, a local supply of labor, supply, and value chain linkages (Potter & Watts, 2011).

This chapter examines the above-mentioned theoretical views on the spatial concentration of economic activities in greater detail. The analysis of the main theories on spatial bundling of economic actors and their operations reveals the nature of clustering phenomena and the general sense behind the actions of policymakers aimed at enhancing regional development and innovativeness in pursuing the cluster approach. Besides, the theoretical justification gives the means to adequately address the experiences and implementation of special economic zones and the full spectrum of advantages they offer to local and foreign businesses, especially MNCs, as research indicated the latter's inclination to internationalize through clusters (Belussi, 2018).

3.1 Marshall's Agglomeration Theory

The phenomenon of firms locating physically close to each other was spotted long before researchers started to address this issue in their studies. The concentrations of economic activity raised interest from independent observers and scholars as early as the seventeenth century, whereas localization theories were first conceptualized in the works of the renowned classical and neoclassical economists of the nineteenth and twentieth centuries (Zizka & Rydvalova, 2021). Alfred Marshall first put forward the argument that physical proximity results in distinct economic benefits for economic agents, specifically enterprises, in his agglomeration theory (Potter & Watts, 2014).

The notion of agglomeration economies, however, was not introduced by him. As a theoretical concept, they were primarily introduced by Alfred Weber, who considered geographical closeness a prerequisite for the establishment of agglomeration economies and tried to define the optimal location for the setup of economic activity empirically (Zizka & Rydvalova, 2021). Alfred Marshall, in his turn, by introducing the external savings emerging from agglomeration economies, specified the reasons for firms to locate within close range to each other (Martin, 2006).

The first of the key agglomeration advantages and sources outlined by Marshall is labor market pooling, which emerges as a result of economic activity concentration in a given area (Andini et al., 2013). Market pooling underpins the establishment of an agglomeration economy as it enforces the influx of businesses to such areas, making it a centripetal force that magnifies the agglomeration effect (de Almeida & de Moraes Rocha, 2018). Thus, firms enjoy access to a rich supply of specialized labor force, which allows the former to economize on personnel search.

Industry linkages or access to specialized inputs are the second benefit of agglomerations (Bekele & Jackson, 2006). It implies the increase in profits and reduction of costs, such as transportation ones, as a firm within industrial agglomeration benefits from the proximity of suppliers and markets for its services (Potter & Watts, 2014). The availability of resources frequently appears lucrative for asset-seeking firms, making this element cluster-reinforcing.

The third and the most conceptually prominent feature of agglomerations is the notion of knowledge spillover. Knowledge spillover appears when geographically proximate firms directly or

indirectly (employee transfers, transactions) share resources and production factors (Galliano et al., 2014). The agglomeration effect can lead to the establishment of both formal and informal communities of local workers, which stimulate professional and social exchange, appearing at all managerial levels, through which knowledge transfers are facilitated (Vorley, 2008). Knowledge spillovers, among other things, foster the growth of innovation, which subsequently increases the productivity of the agglomeration and attracts new enterprises into the area (Feldman, 2000). Thus, it can be stated that knowledge spillovers can be distinguished as one of the channels through which cluster establishment takes place (Nielsen et al., 2021)

Furthermore, the figure below depicts an alternative categorization of clustering channels by Nielsen, Asmussen, Weatherall, and Lyngemark (2021) in which they claim that proximity decreases costs of transacting (search costs) and the level of opportunism due to a higher level of trust induced by the closeness that also implies lower switch costs for consumers, thus increasing competition (Nielsen et al., 2021). All in all, Marshallian externalities laid the basis for the conceptual establishment of new approaches to industry clustering, the most prominent of which are observed in the following two sections of this chapter. The relevance of these approaches cannot be underestimated as they serve as a theoretical basis for SEZ implementation and administration of their development.

<i>Agglomeration Mechanism</i>	Within-Industry Marshallian
<i>Knowledge Spillovers</i>	Industry- or product-specific technological knowledge
<i>Market Transactions</i>	Value chain transactions with industry-specialized buyers and suppliers, or factor market transactions such as specialized labor
<i>Competition</i>	Product market competition and competition for specialized production factors such as labor

Figure 6. Agglomeration externalities. Source: Nielsen et al., 2021, p. 2

3.2 Krugman's New Economic Geography

Attention toward localization theories diminished slightly throughout the second half of the 20th century. The emergence of New Economic Geography as a gap-filling continuation of neoclassical tradition in localization theories revived the debate. One of the most notable contributions of the NEG to localization science is the introduction of models that, compared to neoclassical perfect market conditions, assume possible deficiencies of markets (Zizka & Rydvalova, 2021).

The idea behind the theory is to examine the geographic concentrations of economic activity through the fusion of trade theory and location theory. Krugman departs from a simplistic descriptive approach to the analysis inherent in initial localization theories and presents specific models considering the prior research gaps (Zizka & Rydvalova, 2021). Krugman explains the main point of such fusion: it is, first of all, the equal importance of interregional and international trade depending on the economic size of a country (Hassink & Gong, 2019). The formulated principle states a positive impact of international trade on production concentration. Specifically, in SEZs' case, the export-orientated character of the latter may involve the further spatial concentration of economic activity (Turgel et al., 2019).

Krugman (1991) observes the concentration of economic activities in certain regions as a result of centripetal and centrifugal forces' influence. The first force, also called agglomerating, stems from the Marshallian concept. The main components of the forces are Marshall's externalities (Bekele & Jackson, 2006). Besides, transportation costs are also included, so the lower the costs, the stronger the concentrations are. The components of centrifugal force are the reversed previously mentioned externalities, which defer the geographical concentration of firms and practically make the focal companies bound to the location where they initiated the operations. Krugman revisits Marshall's externalities in detail and addresses additional issues not covered in the Principles of Economics and Marshall's further research. Apart from Marshallian attributes of spatial concentrations of economic activities, Krugman integrates the historical aspect of regional development (Zizka & Rydvalova, 2021). The development of the geographical concentration of economic activities is analyzed through the externalities mentioned earlier. The emergence of economic links between geographical areas is subject to economies of scale, whereas the emergence of production hubs is the result of economic activity intensification (Krugman, 1991).

The subsequently established clusters of economic activities become self-sustainable and evolve. As a result, there is a historically determined specialization of industries nowadays in specific regions. In particular, Krugman paid attention to technological clusters. Silicon Valley and Route 128 are examples of coordinated efforts, mainly from universities, to create a tech cluster. The initial attraction of famous tech companies to the forming cluster was consequential. However, the major agglomerating force was merely tech-driven. The presence of a high-skilled labor force in those areas is explained through the presence of high-ranked universities. In other words, the labor pool, that is, the Marshallian externality, was the component that adhered to the later-appeared spatial concentration in the first place (Krugman, 1993).

One of the main contributions of Krugman's studies to the localization theories is the core-periphery model, which explains the developmental disparities that occur between regions (Krugman & Venables, 1995). Krugman pointed out several distinct factors that subsequently lead to the geographical concentration of economic activities, namely, production mobility, market sizes, economies of scale, and transportation costs, with the latter two being key elements of the model determining the centers of economic activities (Zizka & Rydvalova, 2021). At the same time, it was indicated that the emergence of production centers outside agglomerations or "cores" is also expected and covered by Krugman's model. Firstly, the peripheral producers benefit from high transport costs in large agglomerations and face less competition locally, for the servicing of the local market comes at a lower cost, and secondly, high production-specific costs in agglomerations induce diminishing returns on scale (McCann & Van Oort, 2019). McCann and Van Oort (2019) add that high transportation costs will eventually lead to the formation of production centers or clusters in the periphery to serve the local market better.

In the context of special economic zones, Krugman's model gives grounds for the establishment of alternative production centers. Overall, the representation of special economic zones as centers of production in the current study's focal region fits the overall logic of New Economic Geography; the revisions of Marshallian externalities adapt them to the contemporary localization specifics. With governmental support, the centrifugal forces of the model are enforced and might as well lead to the overall success of the regional development policies carried out and, theoretically, to the establishment of new production hubs and agglomerations.

3.3 Porter's Cluster Theory

Porter's cluster theory is another paradigm that contributed to the revival of the debate on the localization of economic operations at the end of the last century and remains central to the issue of clustering to the present day (Zizka & Rydvalova, 2021). According to Porter (2011), location advantage is crucial to a company's performance along with elements of the external environment. In *Competitive Advantage of Nations*, the Diamond model of national advantage is presented, which lies within the essence of a cluster.

Porter's diamond consists of four elements that characterize the overall condition of a given national industry: *factor conditions* (labor force and infrastructure development level), *demand condition* (the demand character for the products of the industry), *related and supporting industries* (competitiveness of these industries), *firm strategy, structure, and rivalry* (the factors impacting the choice of firm strategy and organizational structure) (Porter, 2011, p. 71).

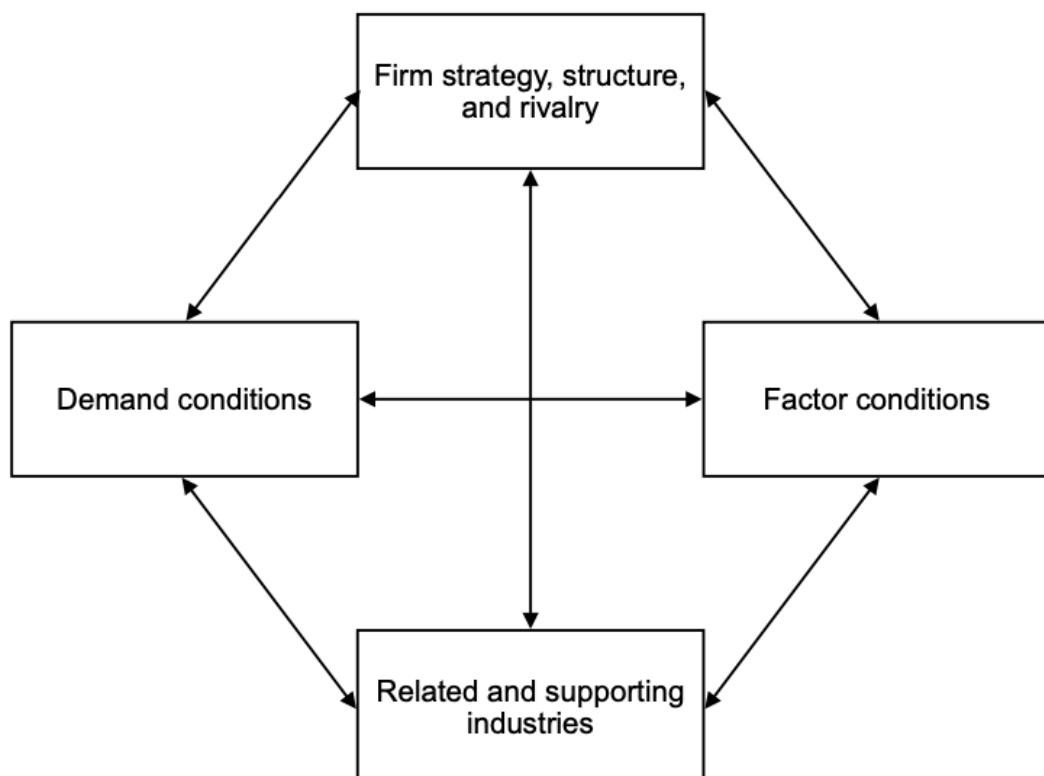


Figure 7. Porter's Diamond. Adapted from Porter, 2011, p. 72

These attributes have a positive impact on firms operating and entering clusters. The efficiency and innovativeness of firms increase significantly when all the components of Porter's diamond are inherent in the focal industry. Such a situation implies the mutual growth of competitiveness: of enterprises and clusters. The tale of innovativeness and competitiveness has drawn the attention of entrepreneurs and policymakers who started implementing the cluster approach to boost regional development (Turgel et al., 2019).

A notable feature of clusters that distinguishes them from spatial concentrations of firms in previously reviewed theoretical perspectives is the embeddedness of institutional bodies and social networks, along with the emphasized role of spillovers (Bekele & Jackson, 2006). Another aspect is the relatedness of industries in which firms operate. The relatedness implies the existence of common production factors, whereas institutions inherent in clusters are public agencies and universities (Porter, 2011). At the same time, despite institutional factors which sometimes adhere to the existence of clusters within regional borders, clusters can spread beyond identified boundaries and even become invisible (Porter, 1998).

Porter claims a distinction between the character of location advantage in existing perspectives on industrial concentrations. The difference between Marshallian agglomeration economies and Porterian clusters lies in the advantage companies gain from operating inside such areas, thus, Porter distinguishes between a comparative advantage in Marshallian agglomerations and a competitive advantage inherent in the contemporary cluster concept (Porter, 2011).

Porterian clusters contribute to enterprises' performance and long-term strategic development in the business context, consequently, cooperation intensifies in a cluster with the presence of the factors mentioned earlier, particularly industry-specific linkages and infrastructure (Zizka & Rydvalova, 2021). As in other localization theories, it fosters knowledge spillovers and leads to the competitiveness growth of the former. These attributes have a positive impact on firms operating and entering clusters.

With the main localization approaches observed, the comprehensive review of special economic zones both as FDI attraction instruments and potential clusters, depending on specifics, is conducted in the following chapter.

4. Equity Market Entry Modes

The performance of a foreign enterprise in a host country's market is highly dependent on an appropriate organizational structure (Laufs & Schwens, 2014). The performance assessment is subject to the aims a firm sets before entering a new market. For example, an enterprise can seek new markets to increase profits or to optimize the costs of production and resources it utilizes. Thus, the assessment criteria will differ: in the first case, it would be market share in the host country's market; in the second case, the assessment is based on indicators of efficiency and costs of production (Meyer, 2015). The selection of an entry mode is crucial in achieving organizational goals, and its strategic importance cannot be underestimated (Hollender et al., 2017).

Nevertheless, when carrying out an entry into an SEZ, MNCs have to choose an appropriate mode from the equity ones, as in the majority of cases, only those are available. Given this fact, the main focus of the subsequent review is the choice between a joint venture (JV) and a wholly-owned subsidiary (WOS). The establishment mode is also vital to consider when entering an SEZ, as SEZ administrators can be interested in particular establishment mode choices of the firms entering, as they are central to the fulfillment of the SEZ development goals (Masiero et al., 2017).

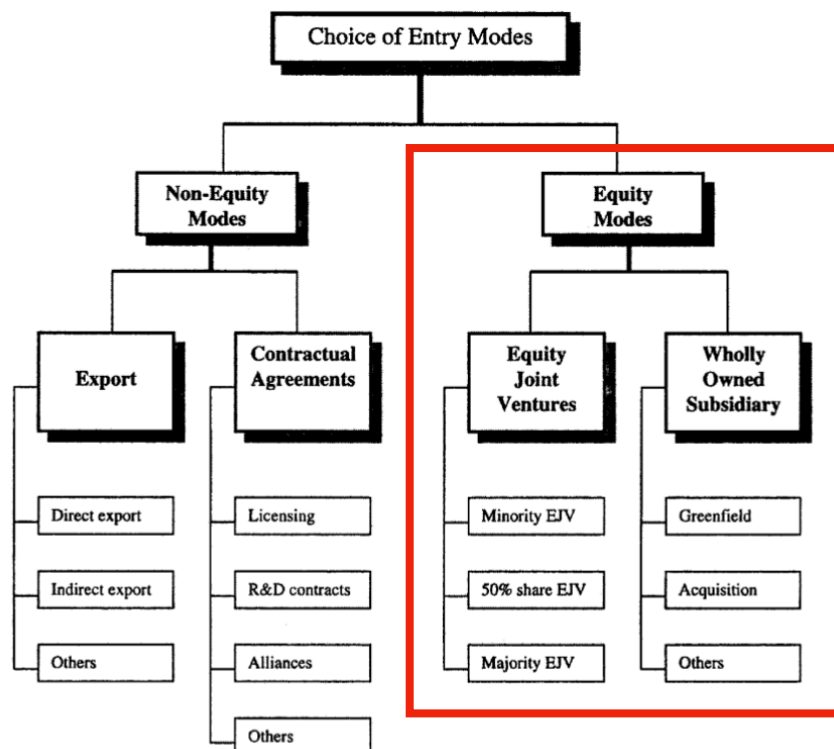


Figure 5. Hierarchical Model of Choice of Entry Modes. Source: Pan, Tse, 2000, p. 538

4.1 Wholly-Owned Subsidiaries

The main differentiation criteria between non-equity and equity modes, as well as between equity modes themselves, is the degree of ownership, control, and resource commitment. Wholly-owned subsidiaries, the first equity entry mode under review in this chapter, are most utilized when multinational companies engage in internationalization activities, and, despite the most extensive discharge of resources needed, their advantages seem to outweigh the drawbacks for MNCs in case of venture success (Welch et al., 2018). In accordance with transaction cost analysis and institutional view, wholly-owned subsidiaries are the best response to market imperfections, high country-specific risks, and high cultural distance between home and host countries (Tang & Buckley, 2020). The main reason behind the preference towards this mode among MNCs is the complete control over newly established enterprises, without the necessity to split the reins with partners and, consequently, decrease their return on investment (Brouthers et al., 2008). At the same time, there are several other reasons why WOS are more lucrative to MNCs than joint ventures, such as the swiftness of the decision-making process (Osland et al., 2001), the utility of WOS in terms of asset transfers and global operations consolidation that leads to higher profits (Madhok, 1997).

The most common type of establishment mode of FDI is acquisition. Acquisition of an already operating enterprise in a host country provides a functional business infrastructure with an established market-adjusted product portfolio and experienced personnel (González-Torres & Rodríguez-Sánchez, 2020). Thus, the critical feature of M&A for the investing firm is the swiftness of operations start, which becomes crucial when internationalizing firm competes with other multinationals entering the market (Welch et al., 2008). A typical categorization of M&As involves vertical, horizontal, and conglomerate ones, depending on the relationship of the acquired firm's industry to that of the acquiring firm in a value chain (Rozen-Bakher, 2018).

Greenfield investments are alternative means to FDI. They represent an opportunity for an MNC to establish an enterprise in a host state from scratch with its intrinsic culture and organizational structure. The choice of this establishment mode is frequently associated with the absence of an appropriate local company to acquire or when acquisition does not allow a secure transfer of the firm's tacit or technical know-how (Welch et al., 2018). An additional type of FDI, especially

encouraged in SEZ, brownfield investment can be distinguished as a mix of the former two types. It implies the acquisition of existing facilities and production properties (Galeza & Chan, 2015).

4.2 Joint Ventures

The general definition of a joint venture states that the latter is a strategic alliance between several parties with the respective commitment of resources by each one within a common legal entity (Hollensen et al., 2011). It can be viewed as alternative means of transaction organization between two or more companies. Kogut proposed three explanations for the choice of joint ventures as a mode of foreign operations, namely, *transaction cost*, *strategic behavior*, *organizational knowledge and learning* (Kogut, 1988, p. 320).

The transaction cost approach postulates that firms would tend to diminish costs associated with transacting and producing goods (Williamson, 1985). When two firms are unified under one roof, and the contractual circumferences are no longer ordaining their cooperation, the risks associated with contractual constituents are not as significant. This equity mode conveniently handles high uncertainty and high asset specificity (Kogut, 1988). The strategic behavior view postulates that entry mode selection is based on the improvement of firms' competitiveness and profit maximization (Cui & Jiang, 2009). Organizational knowledge and learning view on joint ventures is based on the premise that the latter are being founded when the knowledge the internationalizing firm is trying to transfer is embedded into the organization itself, which makes the utilization of other entry modes unsuitable for the success of the market entry (Lyles, 1994). Alternatively, the internationalizing firm can require an asset of a local enterprise that cannot be transferred other than by establishing a JV.

The establishment of a joint venture introduces the internationalizing firm into the host country environment as the foreign country partner benefits from the groundwork provided by a host country partner, for example, networks, infrastructure, market knowledge, and experience (Welch et al., 2008). Despite the controversy in research, it is assumed that higher cultural distance and unclarity of the host country environment account for the reasons why MNCs select JV when internationalizing (Brothers & Brouthers, 2001). Failures of JVs are also quite well studied and relate mainly to miscommunication due to cultural or business-specific differences (Brown et al., 1989).

5. Special Economic Zones

Special economic zones are central to this master thesis, and an exhaustive analysis of the special economic zone concept is required to obtain a comprehensive answer to the research question raised. The following chapter provides an overview of different types of regional place-based programs, i.e., various free zones. The success drivers, performance indicators, and the relationship between special economic zones and foreign direct investment are addressed. The rest of the chapter is dedicated to regional development policies in Russian Federation, particularly SEZ-related policies. Finally, for convenience reasons, the SEZs with the highest investment attractiveness, the foreign residents of which laid the basis of the empirical analysis for the present thesis, are examined. The choice of these SEZs and the respective resident firms for further analysis is justified in the next chapter.

Special economic zones have numerous definitions; however, it would be accurate to denote the former as a widely accepted economic development tool that stimulates the emergence of agglomeration economies through firm clustering achieved primarily through the attraction of foreign direct investment into the distinct areas (Lu et al., 2019). According to IMF, there are 152 developing countries in the world, accounting for roughly 85% of the world's population. Since 1995 the number of countries where special economic zones are established has doubled; as of 2018, there were 147 countries with at least one SEZ operating. Researchers have noticed that the utilization of this instrument has become common among developing countries, as there are several successful experiences with SEZs that developing nations tend to replicate domestically (Farole, 2011).

Figure 8 illustrates the rapid growth of the overall number of special economic zones, with more than 5300 such spatial programs established, most of which are situated in emerging economies, primarily in China, with roughly 50% of the total count (Bost, 2019). The canonical SEZ concept turned out to be an efficient blueprint for the promotion of regional and national economic development and the amplification of global trade ties for the countries that timely and correctly implemented this instrument (Pakdeenurit et al., 2014). The experiences, however, are not perfectly replicable, and the national context and institutional setting determine the success of such territorial economic development initiatives (Farole, 2011).

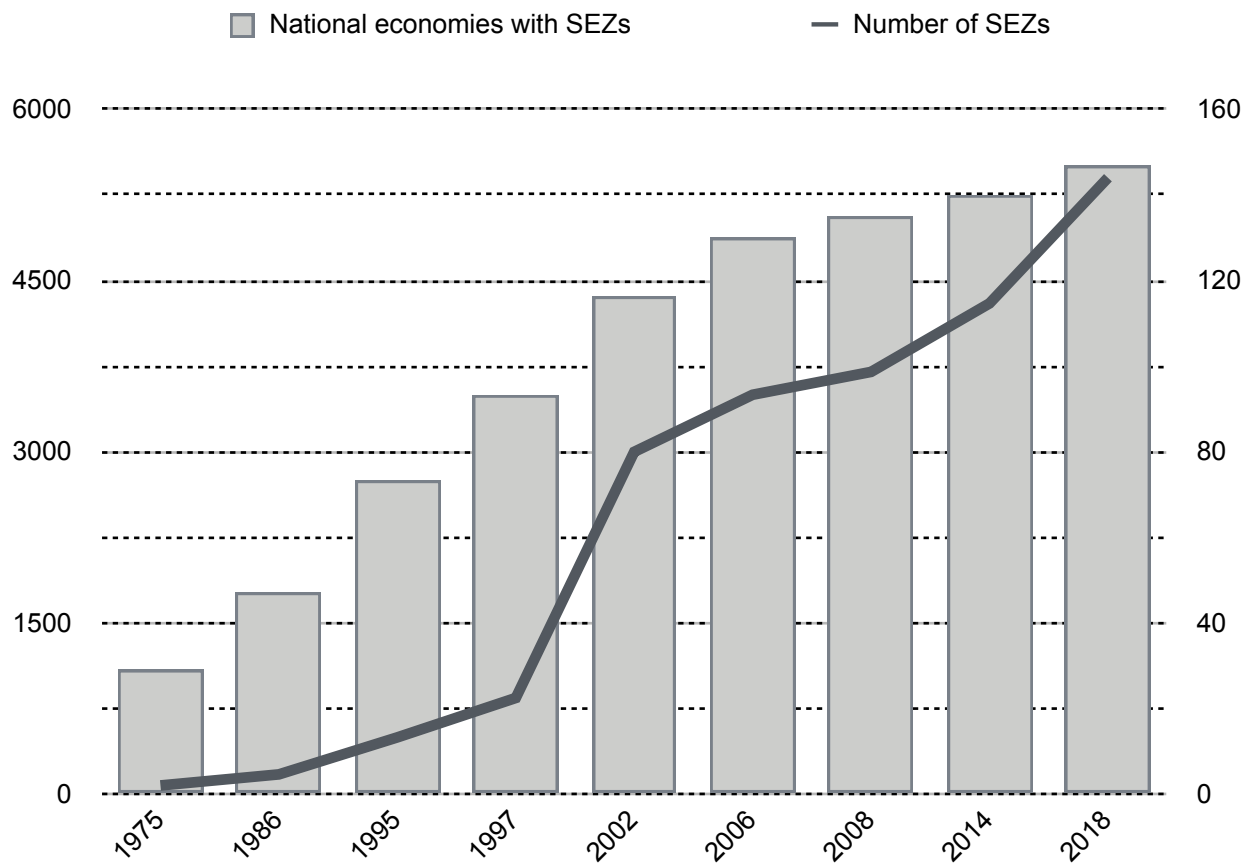


Figure 8. Historical trend in SEZs. Source: Own image based on: United Nations Conference on Trade and Development., 2019: p. 129

The widely accepted denotation of special economic zones implies the presence of the three main components which precede the official establishment of SEZs: a legislative framework divergent from the national regulation (mostly tax and customs policies), pre-defined physical boundaries (a demarcation of the territory subject to different legislation), and a set of prearranged infrastructural solutions (enablement of efficient operation for the SEZ-residents) (United Nations Conference in Trade and Development, 2019).

Apart from stimulation of the FDI influx into a country as a primary goal and economic growth as a desired outcome, there are several other reasons why policymakers implement SEZ, inter alia, positive socioeconomic impacts such as the reduction of local unemployment (Farole & Akinci, 2011). Currently, there is no consensus on how effective special economic zones are, what affects their performance, and what the potential discrepancies and drawbacks are (Wang, 2013). To this end, the following section addresses the types of SEZs and their performance indicators.

5.1 Typology of Special Economic Zones

There are numerous types of subnational place-based programs that fall under the definition of special economic zones. The three attributes specified in the previous section allow for a clear denotation of SEZs. SEZ-related policies are usually directed towards all kinds of area-based public initiatives, so the accurate categorization of all zonal program types is often neglected (United Nations Conference in Trade and Development, 2019).

The classification proposed by the United Nations Conference on Trade and Development (2019) involves legal and economic perspectives on special economic zones; thus, when the respective legislation is passed, and the clustering of firms is incentivized, the final product is a regular special economic zone in the conventional sense. SEZs, in their turn, differ in the type and purpose of the establishment. With the ultimate goal of FDI attraction, the development of an SEZ has to be accelerated for the achievement of long-term socioeconomic benefits which go beyond FDI attraction (Zeng, 2015). The inclusion or exclusion of legal and economic dimensions into/from the zonal policy results in the establishment of different zones such as *free trade zones*, *export-processing zones*, *industrial parks*, *tourist zones*, and, finally, *comprehensive special economic zones* (Zeng, 2016, p. 2).

The composition of the five-generation categorization of economic zones provides for the additional classification of SEZs based on the zones' objectives aligned with socioeconomic trends and needs. The first generation EZs (1.0) were primarily aimed at FDI inflow stimulation and boost in export ratio; the second generation (2.0) amended the shortcoming of the first one, namely, by the establishment of interlinkages with outer-SEZ areas; the third generation economic zones (3.0) entail the sustainable industrial development following the growing environmental concerns and the attributes of the former two generations with the adjusted objectives (Zeng, 2021, p. 262). Eco-Industrial parks, the standard type of third-generation economic zones, are bundles of enterprises that engage in closer cooperation to promote the aforementioned industrial sustainability (Bellantuono et al., 2017). Occasionally, the principles of the economic operation and the ultimate objectives of the advanced zones remain vague per their size, increasing with each subsequent generation (Zeng, 2021) and with socioeconomic trends becoming more indeterminate, that is, the forming forth and the hypothetical fifth generation zones are likely to be less defined both

physically and conceptually. Notwithstanding, the dominating type of the zones implemented is still closer to those of the second generation, which relieves the current study of add-on classification for the SEZs in focus. The taxonomy offered by Zeng (2016) includes the main types of SEZs extracted from the application of different approaches to their classification. The blend of comprehensive SEZs and industrial parks is the primary focus of the present study.

Name	Definition
Free Trade Zones	FTZs (also known as commercial-free zones) are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations.
Export Processing Zones	EPZs are industrial estates aimed primarily at foreign markets. They offer firms free-trade conditions and a liberal regulatory environment. There are in general two types of EPZs: one is a comprehensive type, open to all industries; another is a specialized type, only open for certain specialized sectors/products.
Comprehensive Special Economic Zones	Comprehensive SEZs (also called “Multi-functional Economic Zones”) are zones of a large size that have with a mix of different, industrial, service and urban-amenity operations. In some cases these zones can encompass a whole city or jurisdiction, such as Shenzhen (city) and Hainan (province) in China.
Industrial Parks	Industrial Parks (also called “Industrial Zones”) are largely manufacturing-based sites. Some multi-functional ones similar to “Comprehensive Special Economic Zones” (listed above) exist, but usually operate at a smaller scale. The parks normally offer a broad set of incentives and benefits.
Bonded Area	Bonded Areas (also known as “Bonded Warehouses”) are specific buildings or other secured areas in which goods may be stored, be manipulated, or may undergo manufacturing operations without payment of duties that would ordinarily be imposed. To some extent, a “bonded area” is similar to a “free trade zone” or “free port.” However, the major difference is that a “bonded area” is subject to customs laws and regulations, while a “free trade zone” is exempt from these provisions.
Specialized Zones	Specialized Zones include science/technology parks, petrochemical zones, logistics parks and airport-based zones.
Eco-Industrial Zones or Parks	Eco-industrial zones or parks focus on ecological improvements in terms of reducing waste and improving the environmental performance of firms. They often use an “Industrial symbiosis” concept and green technologies to achieve energy and resource efficiency. Given the severe environmental challenges, an increasing number of countries is embracing this new type of zone.

Figure 9. An Overview of Common Types of Special Economic Zones. Source: Zeng, 2016, p. 2

5.2 SEZ, FDI, and Spillovers

The effect of special economic zones on institutional quality is not apparent; however, it is assumed that SEZ resident enterprises gain a greater degree of financial and fiscal flexibility, which goes in line with the attributes of any state policy aimed at the enhancement of institutional setting

(Chen & Jiang, 2021). Thus, with the institutional quality being improved in special economic zones that are implemented in accordance with the general establishment guidelines and best practices, the investment attractiveness grows, respectively. The relationship between special economic zones and foreign direct investment influx has been subject to several noteworthy research projects in recent years. The Indian national case demonstrated that SEZs positively influence the FDI influx into the host country; however, inequality between regions can occur, as SEZs are mainly established in regions with generally higher economic activity (Chakraborty et al., 2017). The issue of disproportion with regard to regional development as a potential outcome of strategic errors in regional policy amid clearly positive impact on FDI inflows by SEZ has also been observed in Poland (Dorożyński et al., 2016). The well-studied Chinese case has become the standard benchmark of SEZ establishment, showcasing the potential of SEZs in advancing the economy of a developing state through the attraction of FDI (Yeung et al., 2009).

The economic policy concerning special economic zones implementation aims to achieve distinct socioeconomic virtues. Those can be classified into two separate categories — static, which involves the above-mentioned FDI influx, increased labor supply, and regional industrial or urban development, and dynamic, which, first of all, implies knowledge spillovers (Tur Garriga, 2020). The role of spillovers resulting from inward foreign direct investment is existential for the development of outer-SEZ areas. The success of SEZ policy regarding knowledge spillover effect aggregation is subject to debates over the level of institutional quality required and the absorptive capacity of the resident enterprises provided (Buba & Wong, 2017). For instance, the shortcomings of the institutional setting in India triggered the impossibility of knowledge export from SEZs established across the country (Alkon, 2018). The spillovers are equally crucial for the firms entering special economic zones when such entry is associated with operating within an industry cluster (Porter, 2011). At the same time, recent research has indicated that FDI does not provide the desired spillovers per se, and those are highly contingent on several factors such as the aforesaid absorptive capacity of a firm, the competence of employees as well as their number, and are generally better achieved through R&D activities (Kleynhans, 2016). Besides, the analysis of the Chinese SEZ experience has revealed that the emergence of spillovers is interconnected with the institutional quality across all layers of the latter (Hale & Long, 2007). Hence, it can be deduced that the implementation of SEZs has often resulted in FDI influx; however, this effect is not

automatically guaranteed, while the achievement of spillovers and the ensuing socioeconomic benefits requires much more sophisticated and complex efforts both from public and private stakeholders.

5.3 Case of Russian SEZ

Understanding the national context in the implementation of special economic zones is essential for the consistent analysis of the environment SEZ residents operate in. With the conceptual examination of the special economic zones and respective policies, along with reasons for their implementation carried out in the previous chapter, an attempt to grasp the national particularities of Russian SEZ policy and regional development trajectory is made in this chapter. Firstly, a brief introduction to the Russian regional economic development from the beginning of the twentieth century until the Russian invasion of Ukraine in 2022 is worked out. Secondly, the examination of the Russian SEZ policy and consequences of the Russian invasion of Ukraine on this spatial program of the former is offered. Thirdly, a review of the special economic zones relevant to this research paper is conducted.

5.3.1 Overview of the Russian Regional Economic Development

After the collapse of the Soviet Union, the Russian authorities undertook a shift from a centrally planned economy to a market one via the introduction of liberal economic policies in cooperation with international economic organizations and mass privatization of state-owned enterprises (Benedictow et al., 2013). The need for continuous development of national territories was the central problem Russia faced long before the Soviet Union collapsed. The reason for that is unmistakably the size of the country. The Russian Federation remained the largest country in the world after the dissolution of the USSR, with its population being unevenly dispersed across the state.

The scientific literature on the regional development policies of the late Russian Empire is scarce; however, it is admitted that the development trajectory was mainly driven by market forces (Markevich, 2014). A lot more is known about the regional development policies of the USSR era, which included various strategies from those that can be characterized as savage nowadays, such as regional development stimulation via the Soviet labor camps system, to the encouragement of

resettlement via additional payments and non-monetary benefits (Khlevnyuk, 2001). The centrally planned economy of the Soviet Union did not provide for the market-driven character of regional development, with the latter being solely dependent on the government's plan. In the first decade after the establishment of the socialist state, the plan of the central government was two-fold: first, it forced the industrialization of the perspective peripheral territories, and second, it was aimed at the mitigation of economic disproportions of the established industrial centers with the main focus on labor productivity and output (Kinossian, 2013). The operational planning was mostly done at the regional level, while the strategic goals were communicated from the center (Alabina & Mishchenko, 2019). Despite the declared goals and the resettlement stimulation, as mentioned earlier, the population of the potential peripheral centers of industrial activities was insignificant for the realization of the regional development plan (Dienes, 1986). All in all, the regional development policies of the USSR contributed to the formation of industrial centers across the country but were unable to ensure the sustainability of regional economies in the long run for a large variety of reasons, including the deficiencies in the regional economic planning (Shaw, 1986).

Some of the cornerstones of the regional development policies the Russian authorities have been carrying out since the collapse of the Soviet Union tend to partially resemble the policies inherent in the foregoing political era for the need for the improvement of the disparities between the Russian regions remained (Zhuravskaya et al., 2021). The place-based programs are primarily targeted at distant or less developed regions of the country, and the authorities aim at equalizing the regions in terms of their urbanization and industrialization levels with the acceleration of market forces involved. Various area-targeted programs were implemented, including special economic zones, which were first established in the 90s but poorly designed and ineffectively administered, with the need for policy redefinition and improvement becoming evident shortly after. Apart from the SEZs, other regional development initiatives were introduced, such as the "Far Eastern Hectare" program and the "Priority Social and Economic Development Areas" program (Ksenofontova et al., 2019; Ivanova et al., 2017). However, the clear focus on the FDI can be seen predominantly in the SEZ program. The following subsections of this chapter review the main attributes of SEZ policy in Russia, point out the main zonal attributes influencing investment attractiveness, and address the focal SEZs of this study in greater detail.

5.3.2 Current State of the Russian SEZ Policy and FDI

The geographical concentration of industrial activities was inherent in the regional development policy of the Soviet Union; however, the emergence of agglomeration economies and clusters was not witnessed, primarily due to the absence of market forces (Holcombe, 2011). Under the planned economy, the appearance of manufacturing activity centers is subject to industrial planning, whereas the formation of clusters implies the presence of economic agents that willingly enter and establish operations in such agglomerations (Porter, 2011). The re-institutionalization of such place-based programs and clusters in Russia took place in the early 2000s following the inconsistencies arisen in the first attempt to implement FTZs. The official appearance of special economic zones was marked with a respective law (Federal Law no. 116) that clearly identified the principles of SEZs establishment and functioning (Maslikhina, 2016).

After the beginning of the full-scale Russian invasion of Ukraine in 2022, several researchers examined the socioeconomic outcomes of the war on the Russian economy and overall economic development. The researchers were unanimous in their assessment of the Russia's military aggression aftermath for both parties to the conflict and beyond and its detrimental impact on the global economy (Ozili, 2022). The war caused unprecedented capital flight and divestiture of foreign multinational businesses from the Russian market. Such events could not have left the SEZ and regional development policies and the tenant enterprises' FDI-related activities unaffected. There has been no specific alteration or changes in the policies carried out by the authorities declared, with the latter stating that the positions left by foreign businesses would be filled with domestic entrepreneurs.

According to the UNCTAD data, the overall trend of FDI to Russia has been negative for over a decade. It is worth mentioning that Russia was first sanctioned in 2014 by many states, including the United States and the European Union, for the annexation of the Crimean peninsula (Guenette et al., 2022). The effect of sanctions on the Russian economy and inward foreign direct investment met expectations, for the FDI dropped substantially with short periods of insignificant recovery, and economic growth was barely witnessed (Åslund & Snegovaya, 2021). At that time, the SEZ policy of the Russian authorities would mitigate the sanctions imposed and compensate for the decreased investment attractiveness and increased risks associated with FDI, which was seen in

the increased interest of MNCs towards entering the focal market through SEZ before the aggression (Kuznetsova & Bobrovsky, 2022). Figure 10 depicts the dynamics and volumes of inward FDI to the Russian Federation from the year of the legislation on SEZs passed to the present (the projected value for the year 2023).

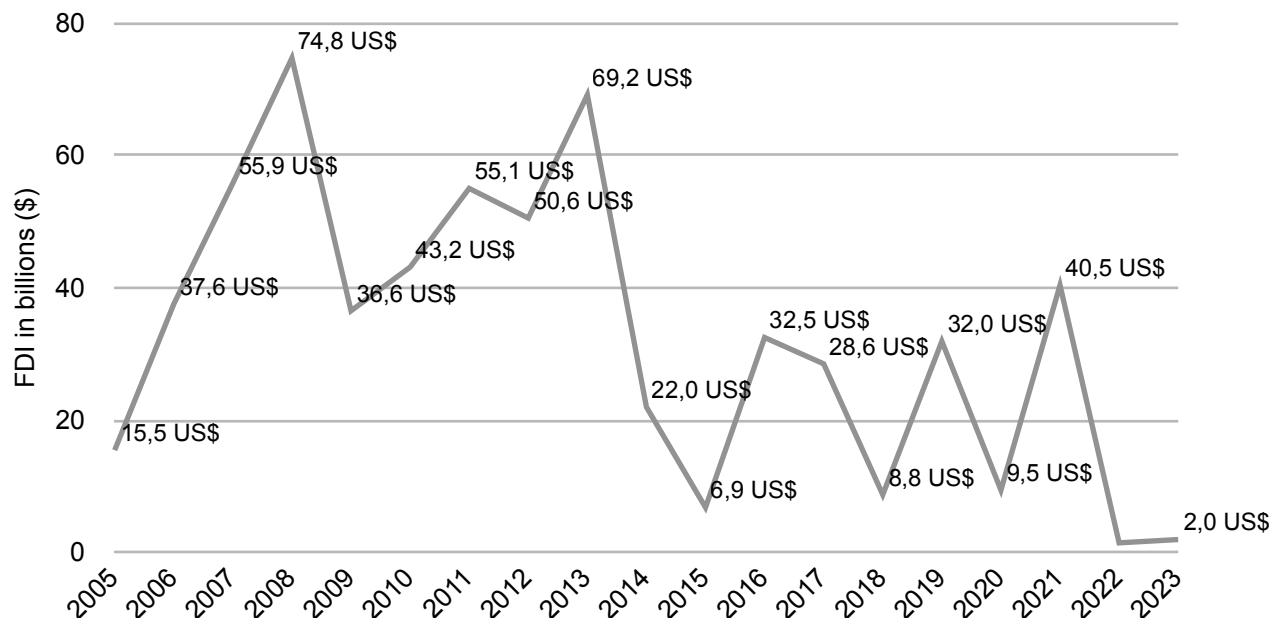


Figure 10. Inward FDI to Russia 2005-2023. Source: Own illustration based on World Bank data and United Nations Conference on Trade and Development data

Researchers of Russian special economic zones identified that three components of the national policy are crucial for the success of special economic zones in terms of FDI attraction: tax exemptions, administrative support, partial deregulation, and operational infrastructure solution on the land plots offered (Kuznetsov & Kuznetsova, 2019). The maturity of infrastructural solutions is a major determinant of investors' satisfaction and the final decision to become an SEZ tenant (Iskandarov & Borozdina, 2021). The administrators of the Russian SEZ, bearing responsibility for the operational robustness of the area-based programs, have a set of tools at their disposal to prepare and deliver the efficiency of those mentioned above logistical and infrastructural solutions. For that, managing companies of the Russian special economic zones usually seek financial aid from regional authorities or other public institutions. However, one of the least researched means of developing special economic zones in Russia, the efficacy of which has been continuously underestimated — public-private partnerships — has seldom been the focus of decision-makers (Yankov et al., 2016).

The intensification of cooperation between businesses and the public sector can eventually amplify the externalities and regional development (Mouraviev & Kakabadse, 2014). Yankov et al. (2016) claimed that the local authorities should have entirely elucidated the direction of special economic zone development; however, the latter often failed to ensure proper communication with the operating and potential tenant enterprises.

The policymakers have not been trying to replicate the SEZ experiences of other countries where the initiative turned out fruitful because the internationalization through the Russian SEZ is subject to market seeking and efficiency-seeking, meaning that the ultimate goal of foreign investment is servicing the local market given its size (Kuznetsov & Kuznetsova, 2021). It explains the low share of exports from special economic zones — one of the main criticism factors of researchers (Kuznetsov & Kuznetsova, 2021). At the same time, the unfamiliarity of the policymakers of the best practices and disregard for benchmarking led to deficiencies in the policy implementation. The particularities of the local SEZ policies imply the contractual risks for investors stemming from the unclear obligations of SEZ administrators and the complicatedness of entry, which obstructs the FDI inflow (Sosnovskikh, 2017). The benefits, in their term, are quite usual: tax breaks (0% on profits, property, land, and transport for a minimum of five years after obtaining the resident status), administrative support, and customs exemptions (Andreev et al., 2021, p. 24).

However, given the war's consequences for both national and foreign businesses, entrepreneurs are unlikely to engage in active economic cooperation with agents affiliated with the Russian authorities. Despite the possibility of SEZs being run by private companies, businesses may be reluctant to cooperate with the managing companies in such spheres as regional development if it is not the primary focus of their economic activities. Thus, the preparedness of SEZs' infrastructure for the immediate launch of operations will remain the cornerstone in the entry decision of multinational enterprises when internationalization through a special economic zone is considered. SEZs, in their turn, will not be able to gain developmental impetus via private capital in terms of logistics and infrastructure, as the latter predefine the interest of businesses in SEZs in the first place. Most importantly, with all consequences of the Russian military aggression considered, the interest of major foreign investors in Russian SEZs is likely to fall. With the assets of foreign SEZ tenants being purchased by domestic businesses in the divesture process of the former, the very meaning of SEZs as FDI magnets become undermined in Russia.

5.3.3 Five Focal SEZs

This subsection provides an overview of special economic zones in the Russian Federation, the foreign residents of which are subsequently analyzed in the empirical part of the present study. The overview includes relevant information about the establishment of each SEZ, economic data, performance indicators, information on industry clusters that emerged, as well as criticism concerning efficiency and policy-related features.

All of the observed special economic zones are located in different regions, so a brief introduction in the territorial context is necessary to capture the differences in SEZs' development and success. The objectives of SEZ establishment in the regions specified below varied significantly: in some provinces, the authorities aimed at the revival of pre-existing production activities through the attraction of foreign direct investment; other regions were falling behind significantly in terms of industrial and human development, the problems to be resolved with the help of foreign investors' funds (Sosnovskikh, 2017). The information summarized in this subsection enables a better understanding of the operation particularities for each case reviewed. The map below depicts the location of the five focal special economic zones, which are located in the European part of the country.

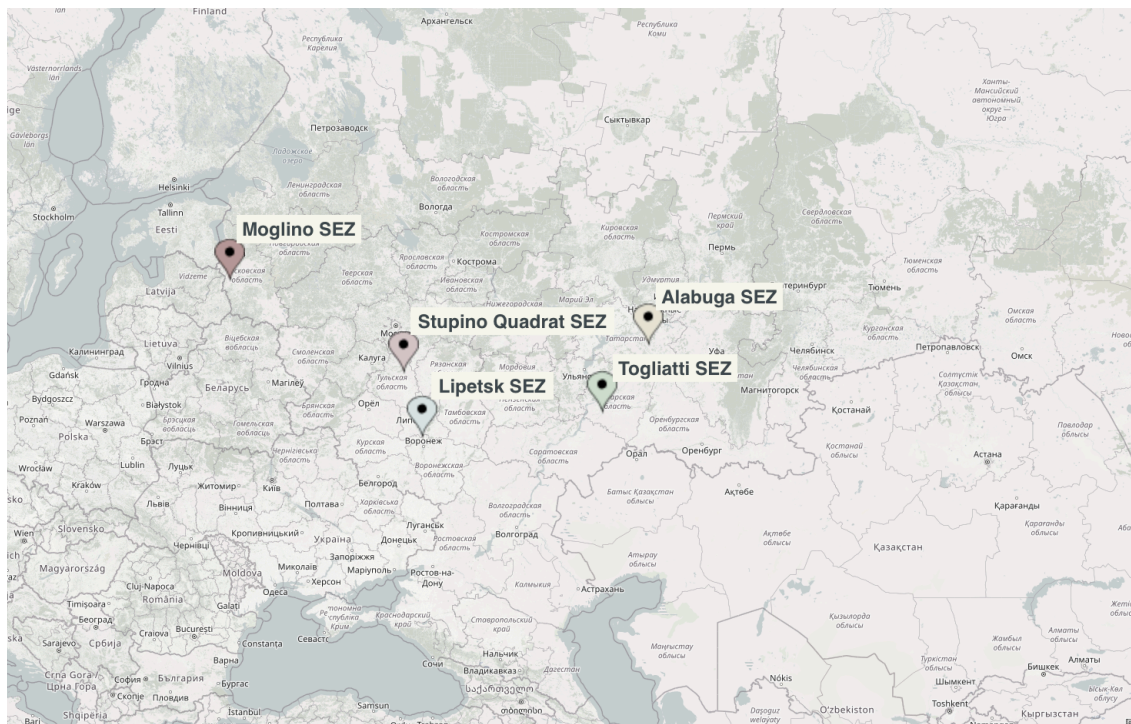


Figure 11. The geography of SEZs under review. Adapted from
Create a map | Mapcustomizer.com. (n.d.)

1. Alabuga SEZ

Alabuga special economic zone is the highest-ranked zone in the Ministry of Economic Development reports and was considered one of the most efficient SEZs in Europe before the Russian invasion of Ukraine in February 2022. Established in 2005 in the Republic of Tatarstan, Alabuga SEZ attracted over \$2,6 billion in investments, roughly 80% of which account for private investment involving FDI and approximately 15% qualifying as public expenditures (Andreev et al., 2021). The special economic zone achieved most of the strategic development goals set, in particular, enhanced employment in the region, with over 8,000 jobs created since its establishment (Bukharova et al., 2020).

The concentration of chemical and automotive industry enterprises has been enforcing the transformation of the SEZ into a gradually developing and sustainable industry cluster; however, the administrators of Alabuga and most special economic zones experienced hesitation concerning support from regional authorities, which significantly decreased the pace and intensity of cluster formation and special economic zone development in general (Sosnovskikh, 2017). As has been claimed earlier, this factor is one of the main reasons many investment projects are put on hold, as potential SEZ residents are reluctant to engage in FDI until the promised infrastructure is fully operational in a chosen SEZ (Sosnovskikh & Cronin, 2021).

At the same time, economic analysis revealed significant positive effects on the regional level after the establishment of special economic zones, as the gross domestic product of the republic of Tatarstan is quadruple the average national — 15,6% versus 3,7% — (Sinenko & Mayburov, 2017). The residents of the Alabuga special economic zone, in turn, could enjoy the advantages of the chemical and automotive industry cluster, in particular, access to specialized information, spillovers, and decreased transaction costs (Tsertseil, 2016).

The following multinational enterprises internationalized through the Alabuga special economic zone became residents and are included in the final dataset used in the current study: Coskunoz Alabuga (Turkey), Knauf Ceiling Solutions (Germany), Rockwool Volga (Denmark), RMA Rus (Germany), Air Liquide Alabuga (France), 3M Volga (Denmark), Saria Bio-Industries Volga (Germany), Allied Mineral Products Rus (United States), Drylock Technologies (Belgium).

II. Lipetsk SEZ

The industrial production special economic zone “Lipetsk”, set in Lipetsk Oblast, along with Alabuga SEZ, was one of the first place-based initiatives after the federal legislation on SEZs had been passed in 2005. Since then, this special economic zone has attracted \$1,2 billion in investments, 82,4% of which are classified as private capital invested by resident firms, and contributed to the creation of additional 4685 positions (Andreev et al., 2021).

The residents' operations were eventually conducive to the emergence of an energy equipment cluster within the special economic zone (Bukharova et al., 2020). In addition, the food industry and building materials industry clusters are witnessed in Lipetsk SEZ, which illustrates the diversification of industrial specialization and serves as a positive factor in the development (Gordeev et al., 2021).

Lipetsk SEZ is renowned for the economic incentives and, particularly, total tax exemptions offered for investors; the latest research projects indicated that financial and non-financial incentives allow residents to save up to 30% of annual turnover (Markova & Zageeva, 2020). The SEZ was subject to criticism for the below-average execution of investor-related activities by SEZ managers, which was addressed by the establishment of an investment acquisition center in 2019 (Andreev et al., 2019). However, the range of issues is not limited to the inefficiency of SEZ managers, but as in the case of almost every other special economic zone in the country, generally subject to the lack of effective legal practice for the resolution of residents' legal issues and investor compliance (Gordeev et al., 2021). According to Gordeev, Bobek, and Horvat (2021), the regional authorities attempted to aid the Lipetsk SEZ and compensate for the deficiencies of the present legislation by direct involvement in investor relations.

The list of multinational enterprises internationalized through the Alabuga special economic zone includes the following companies, which were included in the final dataset: Lanxess Lipetsk (Germany), PPG Industries Lipetsk (USA), Fenzi (Italy), Honeywell System Sensor Technologies (Singapore), ABB Electrical Equipment (Switzerland), OBO Bettermann Production (Germany), Viessmann Lipetsk (Germany), SEST-Luve (Italy), Techna (Ukraine), Triott Lipetsk (Netherlands), Fondital (Italy), Kemin Industries Lipetsk (United States), Alu Pro (Italy).

III. Moglino SEZ

The industrial production special economic zone Moglino, situated in Pskov Oblast, is the only place-based program establishment in the mainland that borders the European Union, namely, the Baltic States, the domestic companies of which were among the first to enter the Russian market by setting operations in an SEZ and obtaining the resident status. The strategic location of the zone, the proximity of 2 national borders, and 3 EU nations' capitals within some 400 kilometers, together with tailored solutions for brownfield investment, were among the main features of this SEZ (Andreev et al., 2021). The key firms of the SEZ are the representatives of the automobile industry, followed by electronics manufacturers (Golubkin et al., 2019).

Moglino SEZ has not been as successful in attracting foreign direct investment as the other special economic zones reviewed in this master thesis, for until the Russian invasion of Ukraine, it was notably dependent on public investment, with the latter accounting for 39,6% of the total investment attracted by the SEZ, while only 55,8% of funds received were invested by resident firms (Andreev et al., 2021). According to the statistics published by the Ministry of Economic Development, as of 2020, the SEZ achieved the target of attracting new investors. Nonetheless, according to the ministry, the volume of investments carried by the resident enterprises was far below the planned values, at approximately 70%. The dependency on public investment and national budget expenditures indicates the potential failure of a special economic zone as a place-based regional development program (Farole & Akinci, 2011).

At the same time, the majority of Moglino SEZ resident enterprises are multinational corporations, and the reluctance of the latter to invest in a more generous manner can supposedly stem from the underdevelopment of the promised infrastructure as mentioned above (Sosnovskikh & Cronin, 2021). Prior research has identified several regional problems that impair the zone's success in the first place. Despite its strategic location, Moglino SEZ is located in a region characterized by a limited market and insufficient monetary stimuli for SMEs, resulting from regional policy failures (Voiku et al., 2018). The researchers, however, do not understate the potential of the region and the SEZ.

The list of multinational enterprises internationalized through the Moglino special economic zone includes the following companies, which were included in the final dataset: Vellerand Automotiv Rus (Estonia), Nor-Maali (Finland), Elme Messer Rus (Estonia), Eurobit (Latvia).

IV. Stupino Quadrat SEZ

The uniqueness of Stupino Quadrat lies mainly in the fact that it is an entirely privately-run place-based program. Located in Moscow Oblast, 73 kilometers away from the capital, this special economic zone provides a geographical privilege in addition to standardized financial and bureaucratic stimuli inherent in a special economic zone (Bukharova et al., 2020). The SEZ attracted \$156.3 million in investments, 97,3% of which are classified as private sector funds, including foreign direct investment, and 2,7% are the management company's own investments (Andreev et al., 2021).

Stupino Quadrat SEZ attracted the enterprises of the food industry, which subsequently set the zone's development vector and formed a food cluster there, along with enterprises of electronics and medical industries (Bukharova et al., 2020). The administrators of the SEZ announced a series of logistical initiatives that would tightly integrate it into the country's railway system with better access to farther markets, making the location highly lucrative for potential investors (Andreev et al., 2021).

According to the data of the Ministry of Economic Development from 2022, the SEZ has outperformed its plan to attract investment by approximately 35%, which among other factors, can be explained by the fact that it is the only special economic zone of an industrial kind in the immediate vicinity of the capital (Gurkov, 2020). At the same time, the zone scored low on the volume of investment by residents and employment opportunities generated, which substantially limits its realization of FDI attraction potential (Mamleeva et al., 2021). On the other hand, researchers emphasized that Stupino Quadrat SEZ, other non-industrial economic zones, and industrial parks initiatives played a role in creating strong agglomeration economies by attracting both new enterprises and people to the region and altering industrial supply chains (Makhrova, 2022). As has been stated earlier in this master thesis, the businesses benefit from locating in

agglomeration economies; however, in this particular case, researchers highlighted the regional inequalities that emerged as a result and the worsening of the ecological state of the region due to intensified production activities (Mezentzev, 2021).

The list of multinational enterprises internationalized through the Stupino Quadrat special economic zone includes the following companies, which were included in the final dataset: Delagro (United Kingdom), Arvalus (Austria), Mission Foods Stupino (Mexico), Monen Rus (France), Iris Ceramics (Italy), Flex Films Rus (India).

V. Togliatti SEZ

Established in Samara Oblast in 2010, Togliatti special economic zone turned into a prospective automotive cluster with large auto manufacturers joining this place-based state initiative. The developmental trajectory observed has been inherent in the region's economic development since the Soviet era, when the district accounted for approximately 50% of the domestically manufactured cars (Akhmedova & Zhogoleva, 2018).

The special economic zone was relatively successful in attracting private capital, with the latter making up roughly 65% of the total investment as of 2020 (Andreev et al., 2021). The share of private capital has continuously grown until the COVID-19 outbreak in early 2020 and the subsequent Russian invasion of Ukraine in early 2022. The volume of investment realized reached \$200 million; however, the total volume of exports was comparably small, equaling \$26 million in 2019 (Andreev et al., 2021, p. 49). The researchers emphasized the above-average quality of infrastructural solutions, the SEZ's strategic location, as well as high innovation appropriation within the zone (Tsvetkova & Ivanova, 2017).

The list of multinational enterprises internationalized through the Alabuga special economic zone includes the following companies, which were included in the final dataset: Nobel Automotive Rusya (Netherlands), Atsumitec Toyota Tsusho Rus (Japan), Edscha Togliatti (Germany), Gomma Line (Serbia), CIE Automotive Rus (Spain), Hi-lex Rus (Japan), Foresia Automotive Solutions (France), Praxair Samara (United States).

6. Analytical Framework and Hypotheses

6.1 Overview of the Research Model

The above-conducted comprehensive discussion of the theoretical concepts regarding the foreign direct investment mode selection, in particular, the essence and the role of cultural distance in this process, the notion of special and economic zones, and global practices, allows us to distinguish a conceptual model of the current study.

As explained in the introductory part, this master thesis aims to examine the impact of special economic zone residency in the focal country and cultural distance on the choice of ownership mode, e.g., wholly-owned subsidiaries and joint ventures. First, the influence of SEZ and cultural distance on the mode is investigated separately. Second, the moderating effect of SEZ on the relationship between cultural distance and the ownership mode choice of multinational enterprises is tested (see Figure 12).

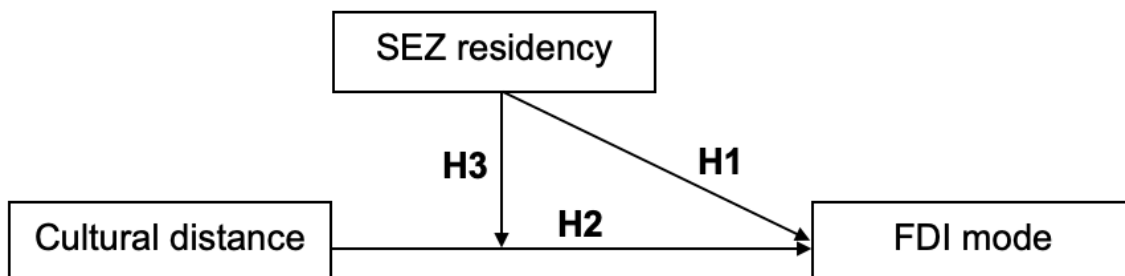


Figure 12. Research Model.

6.2 Hypotheses

As stipulated in the previous chapters of the thesis, the focus of this study is on the choice between equity modes, namely, joint venture and wholly-owned subsidiary, for only these two modes are available to enterprises entering special economic zones in the focal country.

6.2.1 SEZ Residency and Entry Mode Choice

The foreign market entry decision is, to a large extent, dominated by the degree of institutional development of the host country (Meyer et al., 2009). This argument is especially relevant to the internationalization in developing countries where firms face higher levels of country risk and further threats associated with the host country's institutions and overall institutional quality.

Recent research on the implementation of special economic zones has indicated that the latter can contribute to the improvement of institutional quality in a developing country (Song et al., 2020). Institutional uncertainty, as a typical example, is likely to be reduced within SEZs, as, for example, policymakers opt for deregulation within the zones and general alignment of legislation with international standards that are clear to foreign investors (Zeng, 2015). In addition to that, local improvements in the country's institutional quality via SEZs can have a ripple effect on the outside territories (Marks-Bielska et al., 2022).

The level of institutional development in a given state substantially impacts transaction costs economic agents incur when they launch into market transactions (Marks-Bielska et al., 2022). SEZ residency implies the moderation of economic uncertainty a firm faces in the emerging host country market. The effect of economic uncertainty is particularly considerable when asset specificity is high, eventually leading to high transaction costs and high control modes preferred (Erramilli & Rao, 1993; Brouthers et al., 2003).

In a case of a multinational firm entering a developing country's market through a special economic zone, the envisagement of the country's institutional setting changes, and an enterprise is supposed to assess the host country's environment differently. Such discrepancy results from the dissimilarities between the legal, economic, and political features (institutional setting) of an SEZ and the rest of the country. Special economic zones, in turn, illustrate the noteworthiness of

advanced institutional development for the attraction of foreign direct investment (Song et al., 2020).

Research has indicated that institutional imperfections are remedied within special economic zones (Zeng, 2015). The improvement of institutional setting, particularly in the legal sense concerning the contractual relations between partners and between parties to a transaction, diminishes the costs associated with non-hierarchical modes of operation, including joint ventures (Henisz & Williamson, 1999). Henisz and Williamson (1999, p. 271) specifically emphasize that the predictability of institutional environment development with regard to regulatory and tax policies decreases political hazards making JVs more attractive and economically efficient. This viewpoint goes in line with the characteristics of the focal region's special economic zones, where the alterations of regulatory and tax policies are not subject to changes for several decades after the start of operations; hence the institutional uncertainty is supposed to decrease.

With the aforementioned, the exigency of high control modes selection with regard to the host country's institutional underdevelopment and uncertainty is decreasing, which is why settling on less control can be more frequent in SEZs than in the rest of the country. Therefore, the following hypothesis is formulated:

Hypothesis 1: When entering the local market, an SEZ-resident MNC is more likely to choose JV over WOS than an MNC operating outside SEZ.

6.2.2 Cultural Distance and Entry Mode Choice

The host country's environment defines, by implication, the success of the overseas venture (Lucke & Eichler, 2015). The central point in this regard lies within the dissimilarities between the firm's country of origin and FDI destination country in terms of cultural characteristics. The concept of cultural distance, which has been reviewed in the initial sections of the current master thesis, is applied to capture the significant features of a given culture and explain the particularities and potential obstacles to foreign operations within the national borders of a focal state.

The aforementioned Kogut-Singh index based on the Hofstedian framework of cultural dimensions has been utilized widely by notable researchers but is at the same time criticized for deficiencies inherent in it, first of all exactly, for its extensive reliance on Hofstede's cultural

dimensions (Konara & Mohr, 2019). Several distinct aspects of this construct are subject to critique, namely, its superficiality, statistical divisiveness, and high probability of data for specific countries being obsolete (Beugelsdijk et al., 2018). Nonetheless, the Kogut-Singh index remains a well-accepted instrument for measuring the cultural distance between home and host markets as there is no alternative widely used means of operationalizing the concept (Brouthers, 2013).

The duality of results in the existing research has indicated that both JV and WOS are selected when an entry in a culturally distant market is carried out, for both modes demonstrate certain advantages for the internationalizing enterprise, the latter has to carefully choose between (Chang et al., 2012). The cultural distance between home and host countries positively influences the shift in MNCs' predisposition towards less control over foreign ventures (Hennart & Larimo, 1998). Hennart and Larimo (1999, p. 534) stipulate that by joining forces with a local partner, the internationalizing firm accounts for culture-permeated spheres of the local operation, such as government relations and human resource management. Furthermore, higher cultural distance induces the allocation of decision rights in favor of the local partner in joint ventures (Windsperger et al., 2023).

Therefore, investors may opt for shared control modes when the cultural dissimilarities between home and host markets are considerable, relying on the other party's knowledge of the host market and compensating for the unfamiliarity with the local specifics (Padmanabhan & Cho, 1996). Hence, in the case of the focal country's market, the following hypothesis is stated:

Hypothesis 2: The higher the cultural distance between home and host country, the higher the likelihood of an MNC choosing JV over WOS when entering the foreign market.

6.2.3 SEZ Residency's Moderating Effect on Cultural Distance and Entry Mode

Special economic zone programs are introduced to stimulate inward foreign direct investment and lure capital into the country. It is achieved through tax exemptions, administrative assistance, and further benefits for SEZ residents (Sosnovskikh, 2017). As has been claimed in the preceding parts of this study, special economic zones are supposed to "mend holes" in the institutional setting of the developing host country under review and minimize risks and improve local market-specific knowledge for foreign investors.

Apart from that, foreign market entry through SEZs is frequently associated with the significant capital investment required to obtain the respective firm resident status (Koyama, 2011). The amount is subject to the national regulation of such place-based programs; specifically, in the focal country's case, the minimum amount of investment equals approximately \$1,5 million (Andreev et al., 2021). Combining the capital requirements for SEZ residency acquisition and following the line of argumentation of the previous subsection concerning the discrepancies in the cultural setting of the firm's home country and the focal state, an SEZ resident MNC may aim at financial risk mitigation and market knowledge enhancement enabled by equity alliances such as joint ventures (Konara & Mohr, 2023).

Therefore, special economic zones can be viewed as a moderator in the relationship between cultural distance and the level of control of entry mode. In other words, companies entering the SEZs are more likely to establish a joint venture compared to companies operating outside the boundaries of place-based programs when cultural distance is high. The following hypothesis is, therefore, formulated:

Hypothesis 3: The relationship between cultural distance and foreign direct investment via joint ventures increases when the MNC enters the foreign market via SEZ.

7. Empirical Analysis

This chapter addresses the research design of the study, data, and variables. The methods utilized in the research process are quantitative. Specifically, a regression analysis is subsequently conducted in order to test the impact of SEZ and cultural factors on the choice of ownership modes of multinational companies, the results of which allow giving the answer to the stated research question.

It has been specified that there are four types of special economic zones in the focal region of the current study, namely, industrial production SEZs, technology innovative SEZs, tourism and recreational SEZs, and port SEZs (Andreev et al., 2021). The primary focus of the study is directed towards industrial production zones, for it was the first type of zone established after the respective legislation was passed and the most common one among other zones in the country (Sosnovskikh, 2017).

The Association for the Development of Clusters and Technology Parks of Russia and the Ministry of Economic Development of the Russian Federation publishes annually the rankings of all Russian SEZs in terms of investment attractiveness. The rankings are categorized by type, so getting a separate assessment of the industrial production SEZs is possible. In 2021 the group with the highest (>100%) investment attractiveness among industrial production SEZs included the following zones "Alabuga", "Lipetsk", "Togliatti", "Stupino Quadrat", "Moglino" (Andreev et al., 2021). IP SEZ "Uzlovaya" and Port SEZ "Ulyanovsk" are also top-ranked; however, the inclusion of these zones is subject to statistical modification compared to the ranking of 2020.

Additionally, as of 2021, SEZs with investment attractiveness over 95% are considered top-ranked. This paper reviews SEZs with an attractiveness of more than 100%; thus, the primarily mentioned five zones are observed. With the main focus on internationalization, only foreign tenants of Russian SEZs are relevant for this research. As of early 2022, right before the full-scale Russian invasion of Ukraine, foreign enterprises accounted for approximately 18% of the total number of companies with the status of a special economic zone resident (Andreev et al., 2021). The vast majority of these companies, or rather their ownership mode choices, are being analyzed. The subsequent sections provide information on the data collection process, methods applied, and results received.

7.1 Data Collection and Methodology

Public availability of relevant information was one of the main reasons the current study focuses on the Russian region. The data for this master thesis was collected via accessing several private and state-owned registers and counterparty verification services, namely, Unified State Register of Legal Entities (ЕГРЮЛ), Zachestnyibiznes (ЗАЧЕСТНЫЙБИЗНЕС) - the largest private register of business entities operating in Russia, and RBC companies (РБК КОМПАНИИ) - database of companies registered in Russian Federation, operated by RBC Group, one of the few renowned private Russian media groups. In order to ensure the reliability of the data on SEZ-resident enterprises, the respective websites of focal special economic zones have been accessed and monitored.

As a result, a dataset of 80 entries has been compiled. It involves 40 foreign SEZ-tenant enterprises from the zones mentioned above and 40 foreign firms operating outside SEZs of the focal region, selected via random number generation from the registers mentioned earlier. With the sizes of the groups being equal, the analysis of the data obtained is to be processed in accordance with the balanced approach, and the sample size bias is avoided (VanVoorhis & Morgan, 2007).

The dependent variable of the present study is a binary one (i.e., JV versus WOS) which explains the application of logistic regression as a research method. This empirical method arranges for the concurrent analysis of several independent variables, which is crucial for the analysis carried out (Sperandei, 2014). The composition of the logistic regression model enables the establishment of an interrelationship between predictor and outcome variables, which would eventually pave the way for the hypotheses testing (Hosmer et al., 2013).

7.1.1 Dependent Variable

Ownership mode of a foreign enterprise when internationalizing in the Russian Federation regardless of special economic zone residency presence is the dependent variable, which is a dummy variable and equals a numerical value of 0, if a wholly-owned subsidiary is founded and a numerical value of 1, if a joint venture is formed (Ha et al., 2020).

7.1.2 Independent Variables

The first and central independent variable of the present research project is the SEZ residency. As indicated above, the dataset used encompasses 40 firms that are registered as special economic zone residents, whereas the other 40 enterprises are randomly selected across all business entities established by foreigners. Special economic zone residency is a dummy variable as well and equals a numerical value of 1 if an enterprise is set up in one of the aforementioned five SEZs and equals 0 if a firm operates outside of any special economic zone of the focal region.

The second independent variable is cultural distance. Being a multidimensional construct, cultural distance is operationalized by the modified Kogut-Singh index (KSI), which, in comparison to the original version (see Figure 3), encompasses all 6 of Hofstede's cultural dimensions and provides an aggregate value for the respective distance between two countries (Ha et al., 2020).

7.1.3 Control Variables

The inclusion of several control variables into the research model of this dissertation is necessitated by the need to secure the consistency and the validity of the results received subsequently. Thus, an attempt is made to minimize the possible partiality of the outcomes caused by side factors that are not captured by either of the independent variables but which have the potential to misshapen the impact on the dependent variable (Gordon, 1968). Furthermore, the inclusion of the control variables enables the enhancement of evaluation reliability (Grigoriu, 1982).

The bulk of international business research has indicated that the size of an enterprise substantially influences the entry mode choice (Andreu et al., 2017). More specifically, the elucidation based on the above-reviewed transaction cost theory states that the size of an enterprise is positively related to higher control modes chosen by internationalizing enterprises, which is especially the case for industrial MNCs (Tsai & Cheng, 2004). For this reason, the size of a firm is included in the research model. The size of enterprises is operationalized by the number of employees, which was utilized as a suitable measure for this parameter (Brouthers & Brouthers, 2003).

Industry and local market experience (number of years) are the additional control variables included in the research model. The former involves eleven major manufacturing sectors: automotive, building, chemical, electrical, equipment, food, medical, metallurgy, packaging, paper,

and wood. Each of the sectors has been included in the models as a dummy variable with a numerical value of 1 for a firm belonging to the specific sector and a value of 1 for the opposite.

7.2 Descriptive Results

The table underneath depicts the descriptive statistics. The sample involves 80 firms established through FDI, 40 located within one of the aforementioned five special economic zones and the other 40 situated outside of any SEZ. The table incorporates minimum and maximum values along with mean and standard deviation for the aforementioned variables. The KSI is the operationalization indicator to capture the cultural distance between Russia and the firm's home country. Thus, the "culturally closest" country to the focal one is Ukraine (0.189), and the most culturally distant one is Denmark (9.291). The maximum experience in the focal market equals 22 years, minimum time of operation in the market is one year. The maximum size of a company, operationalized through the number of employees, is equal to 291 workers, whereas the minimum value of 0 for the size of the company is also considered, as it is usually a result of structural features of businesses (Eriksson & Kovalainen, 2015).

Table 1. Descriptive statistics

	<i>N</i>	Minimum	Maximum	Mean	Standard deviation
Firms	80				
Ownership mode	80	0	1	0.325	0.471
SEZ-residency	80	0	1	0.500	0.503
Cultural distance	80	0.189	9.291	3.846	1.975
Size	80	0	291	74.463	81.444
Experience	80	1	22	8.850	5.229

The correlation between variables is depicted in Table 2 below. Noteworthy to mention that there is a weak positive correlation between ownership mode and SEZ residency (0.267) and a weak positive correlation between ownership mode and cultural distance (0.124). Some correlations between dummy variables used to operationalize the industry control variable are identified, which can be assumed as a sign of multicollinearity (Kutner et al., 2005). A series of tests indicated DVs exhibiting acceptable VIF values.

Table 2. Correlation between regression variables

	Ownership mode	SEZ residency	Cultural distance	Size	Experience	Automotive	Building	Chemical	Electrical	Equipment	Food	Medical	Metallurgy	Packaging	Paper	Wood
Ownership mode	1															
SEZ residency	0.267	1														
Cultural distance	0.124	-0.064	1													
Size	0.049	0.247	0.021	1												
Experience	-0.031	-0.241	-0.015	0.122	1											
Automotive	0.120	0.062	-0.337	0.084	0.038	1										
Building	0.144	0.197	0.144	0.193	0.120	-0.099	1									
Chemical	-0.050	-0.028	0.153	-0.296	-0.130	-0.298	-0.118	1								
Electrical	0.041	0.052	0.050	0.006	-0.181	-0.129	-0.051	-0.154	1							
Equipment	0.033	-0.036	-0.073	0.002	-0.107	-0.200	-0.079	-0.238	-0.103	1						
Food	0.061	0.000	0.017	0.055	0.047	-0.189	-0.075	-0.225	-0.098	-0.151	1					
Medical	-0.078	-0.113	0.046	-0.099	0.285	-0.056	-0.022	-0.067	-0.029	-0.045	-0.043	1				
Metallurgy	-0.231	0.000	0.054	-0.056	0.114	-0.167	-0.066	-0.104	0.086	-0.133	-0.126	-0.038	1			
Packaging	-0.037	-0.115	0.114	0.193	0.018	-0.115	-0.045	-0.137	-0.059	-0.092	-0.087	-0.026	-0.076	1		
Paper	-0.078	0.113	-0.100	0.236	0.025	-0.056	-0.022	-0.067	-0.029	-0.045	-0.043	-0.013	-0.038	-0.026	1	
Wood	-0.111	-0.160	0.011	0.090	0.236	-0.080	-0.032	-0.096	-0.041	-0.064	-0.061	-0.018	-0.053	-0.037	-0.018	1

7.2.1 Regression results

The relationship between each independent variable and the ownership mode has been separately examined in order to estimate the significance levels and double-check the individual interconnection to the dependent variable (Creswell & Creswell, 2017).

Table 3. Model 1. Regression results

	Unstandardized β -value	Std. Error	z-value	Pr(> z)
(Intercept)	-1.750e+00	5.184e+03	0.000	1.000
Cultural distance	2.209e-01	1.493e-01	1.480	0.139
Size	5.078e-04	3.661e-03	0.139	0.890
Experience	1.253e-02	5.747e-02	0.218	0.827
Industry				
<i>Automotive</i>	7.780e-01	5.184e+03	0.000	1.000
<i>Building</i>	1.135e+00	5.184e+03	0.000	1.000
<i>Chemical</i>	-2.241e-01	5.184e+03	0.000	1.000
<i>Electrical</i>	6.897e-01	5.184e+03	0.000	1.000
<i>Equipment</i>	2.592e-01	5.184e+03	0.000	1.000
<i>Food</i>	2.973e-01	5.184e+03	0.000	1.000
<i>Medical</i>	-1.812e+01	8.332e+03	-0.002	0.998
<i>Metallurgy</i>	-1.801e+01	4.487e+03	-0.004	0.997
<i>Packaging</i>	-6.341e-01	5.184e+03	0.000	1.000
<i>Paper</i>	-1.753e+01	8.332e+03	-0.002	0.998
<i>Wood</i>	-1.799e+01	6.912e+03	-0.003	0.998
N	80			
McFadden's R ²	0.152			
AIC	115.6			

Significance: ***p < 0.001; **p < 0.01; *p < 0.05

The study's first logistic regression model addresses the relationship between ownership mode (dependent variable) and cultural distance (independent variable) with the control variables. The results of the regression are provided in Table 3 below. The statistical triviality of the coefficient for cultural distance with the p-value of 0.139 demonstrates that there is no significant interconnection

between the predictor and the outcome variables. Hence, the impact of cultural distance between a firm's home and host country on the ownership mode choice of the firm is not justified by the below-enlisted results.

However, the interconnection between cultural distance and entry mode choices of multinational enterprises has been identified by prior research (Brouthers, 2013). Given this fact, the absence of empirical evidence of the interconnection between the dependent and independent variables is likely to be subject to the influence of other market entry mode determinants, which were not covered by the logistic regression analysis.

The second logistic regression model, in turn, addresses the interrelationship between ownership mode (dependent variable) and special economic zone residency (independent variable) solely. The results are provided in Table 4 below. The coefficient for the SEZ residency in the Model 2 is significant at 0.05 with a p-value of 0.0284. Commonly accepted practice postulates that McFadden's R-squared value of 0.2 and higher indicates a good model fit (Drewnowski et al., 2018). In the case of Model 2, McFadden's R-squared value of 0.18 does not indicate a good model fit, with only 18% of the variance being explained by the model. Thus, the inclusion of additional variables may address this issue.

Table 4. Model 2. Regression results				
	Unstandardized β -value	Std. Error	z-value	Pr(> z)
(Intercept)	-1.256e+00	5.040e+03	0.000	0.9998
SEZ residency	1.326e+00	6.052e-01	2.191	0.0284*
Size	-1.480e-03	3.936e-03	-0.376	0.7069
Experience	5.763e-02	6.178e-02	0.933	0.3509
Industry				
<i>Automotive</i>	-1.665e-01	5.040e+03	0.000	1.0000
<i>Building</i>	1.620e-01	5.040e+03	0.000	1.0000
<i>Chemical</i>	-7.111e-01	5.040e+03	0.000	0.9999
<i>Electrical</i>	3.868e-01	5.040e+03	0.000	0.9999
<i>Equipment</i>	-2.723e-01	5.040e+03	0.000	1.0000
<i>Food</i>	-2.684e-01	5.040e+03	0.000	1.0000
<i>Medical</i>	-1.857e+01	8.243e+03	-0.002	0.9982

<i>Metallurgy</i>	-1.854e+01	4.367e+03	-0.004	0.9966
<i>Packaging</i>	-5.386e-01	5.040e+03	0.000	0.9999
<i>Paper</i>	-1.885e+01	8.243e+03	-0.002	0.9982
<i>Wood</i>	-1.810e+01	6.788e+03	-0.003	0.9979
N	80			
McFadden's R ²	0.180			
AIC	112.72			

Significance: ***p < 0.001; **p < 0.01; *p < 0.05

The third logistic regression model of the study focuses on the relationship between ownership mode (dependent variable), special economic zone residency (independent variable), and cultural distance (independent variable). The results of the regression are provided in Table 5 below. The coefficient for SEZ residency was statistically significant at the 0.05 level with a p-value of 0.0213, which indicates that the SEZ-resident status of a firm may be a predictor of the ownership mode. According to hypothesis 1, the MNCs in the SEZ are more likely to choose JV compared to WOS than companies outside the SEZ. In addition, the results of the study weakly support hypothesis 2, i.e., the MNC will more likely choose JV compared to WOS when the cultural distance between home and host country is high (p-value is 0.0991).

According to Drewnowski et al. (2018), the analysis illustrates a good model fit at McFadden R-squared values above 0.2, which is the case for Model 3. The AIC is used in the assessment of the models' fit (Symonds & Moussalli, 2011). The value of 111.85 for the Akaike Information Criterion demonstrates that the model fits the data better than the previous two.

Table 5. Model 3. Regression results

	Unstandardized β -value	Std. Error	z-value	Pr(> z)
(Intercept)	-2.950e+00	5.002e+03	-0.001	0.9995
SEZ residency	1.426e+00	6.196e-01	2.302	0.0213*
Cultural distance	2.598e-01	1.576e-01	1.649	0.0991.
Size	-2.078e-03	3.924e-03	-0.530	0.5964
Experience	5.085e-02	6.199e-02	0.820	0.4120

Industry				
<i>Automotive</i>	9.272e-01	5.002e+03	0.000	0.9999
<i>Building</i>	6.746e-01	5.002e+03	0.000	0.9999
<i>Chemical</i>	-1.904e-01	5.002e+03	0.000	1.0000
<i>Electrical</i>	9.214e-01	5.002e+03	0.000	0.9999
<i>Equipment</i>	5.373e-01	5.002e+03	0.000	0.9999
<i>Food</i>	4.504e-01	5.002e+03	0.000	0.9999
<i>Medical</i>	-1.794e+01	8.220e+03	-0.002	0.9983
<i>Metallurgy</i>	-1.809e+01	4.349e+03	-0.004	0.9967
<i>Packaging</i>	5.553e-02	5.002e+03	0.000	1.0000
<i>Paper</i>	-1.759e+01	8.220e+03	-0.002	0.9983
<i>Wood</i>	-1.724e+01	6.797e+03	-0.003	0.9980
N	80			
McFadden's R ²	0.209			
AIC	111.85			

Significance: ***p < 0.001; **p < 0.01; *p < 0.05

The fourth logistic regression model of the current dissertation investigates the moderation effect of the special economic zone residency of a MNC on the relationship between cultural distance and ownership mode (dependent variable). The results of the regression are provided in Table 6 below.

The regression results indicate the presence of the positive moderating effect of special economic zone tenancy on the association between cultural distance and joint venture mode. The coefficient for the moderation effect demonstrated statistical significance at the 0.05 level with a p-value of 0.0317. Therefore, the results confirm hypothesis 3 that companies entering the SEZs are more likely to choose JV compared to companies outside the SEZs when cultural distance is high. The McFadden R-squared value of 0.264 indicates the best fit among all models of the present paper, with 26% of the variance in the dependent variable explained. The AIC value of 108.27 shows the best fit for the data. Thus, it can be stated that the internationalization of a firm through

a special economic zone intensifies the positive effect of cultural distance between home and host countries on choosing the JV mode.

Table 6. Model 4. Regression results

	Unstandardized β -value	Std. Error	z-value	Pr(> z)
(Intercept)	-1.623e+00	4.949e+03	0.000	0.9997
SEZ residency	-1.625e+00	1.468e+00	-1.107	0.2683
Cultural distance	-2.214e-01	2.953e-01	-0.750	0.4534
Size	-1.097e-05	4.305e-03	-0.003	0.9980
Experience	5.279e-02	6.796e-02	0.777	0.4373
Industry				
<i>Automotive</i>	1.297e+00	4.949e+03	0.000	0.9998
<i>Building</i>	7.809e-01	4.949e+03	0.000	0.9999
<i>Chemical</i>	2.277e-01	4.949e+03	0.000	1.0000
<i>Electrical</i>	1.160e+00	4.949e+03	0.000	0.9998
<i>Equipment</i>	1.045e+00	4.949e+03	0.000	0.9998
<i>Food</i>	3.723e-01	4.949e+03	0.000	0.9999
<i>Medical</i>	-1.708e+01	8.188e+03	-0.002	0.9983
<i>Metallurgy</i>	-1.832e+01	4.402e+03	-0.004	0.9967
<i>Packaging</i>	9.529e-01	4.949e+03	0.000	0.9998
<i>Paper</i>	-1.710e+01	8.188e+03	-0.002	0.9983
<i>Wood</i>	-1.698e+01	6.724e+03	-0.003	0.9980
SEZ-residency $\times$ Cultural distance	8.200e-01	3.817e-01	2.148	0.0317*
N	80			
McFadden's R ²	0.264			
AIC	108.27			

Significance codes Significance: ***p < 0.001; **p < 0.01; *p < 0.05

7.2.2 Summary of Results

We can summarize our results (see Table 7): firstly, the study highlights that companies in SEZ choose more likely JV compared to WOS than companies outside SEZ. Secondly, it shows that cultural distance between home and host country increases the likelihood of choosing JV when entering the foreign market. Thirdly, the positive effect of cultural distance on choosing JV compared to WOS increases when the MNCs enter the foreign market via SEZ.

Table 7. Final results

Hypothesis 1

When entering the local market, a SEZ-resident MNC is more likely to choose JV over WOS than an MNC operating outside SEZ.

Supported

Hypothesis 2:

The higher the cultural distance between home and host country, the higher the likelihood of an MNC choosing JV over WOS when entering the foreign market.

Weakly supported

Hypothesis 3:

The relationship between cultural distance and foreign direct investment via joint ventures increases when the MNC enters the foreign market via SEZ.

Supported

8. Discussion and Implications

This chapter concludes the analysis carried out in the current study by summarizing the results, formulating implications for future research, and acknowledging the limitations with regard to the research question. The goal of this master thesis was to investigate whether special economic zone residency influences the ownership mode of multinational enterprises that operate in a developing country. The case of Russia was taken as a specific example of a developing state (Ma et al., 2020). The data may not be relevant to current affairs as the inward foreign direct investment to the Russian Federation plummeted, and capital flight resulting from Russia's full-scale invasion of Ukraine took place in early 2022. Nevertheless, the findings of this research project bear some potentially noteworthy results. They may complement the existing research on internationalization through SEZs and IB literature concerning operations in different place-based initiatives.

The empirical results from the analysis of ownership choices of MNCs in Russian special economic zones yield support for the hypotheses put forward in the previous chapter. As has been specified in the preceding passages of this paper, SEZs can be viewed as constructs that incorporate the intrinsic elements of institutional view and transaction cost theory. Cultural distance, which was included in the research model in order to capture the degree of difference between firms' home countries and the Russian Federation, can be viewed separately from TCT and institutional theory view as a construct on its own, yet with significant interdependency with the latter two (Mroczek, 2014).

First, in line with transaction cost theory and institutional view, the relationship between special economic zone and the likelihood of an SEZ tenant firm opting for looser control over the operation is positive. When an enterprise operates in the focal country's market via this area-targeted program, it is likely to benefit from the improved institutional environment and investment climate inherent in special economic zones, which is consonant with the findings of the recent studies that emphasize the contribution of the latter to the institutional setting refinement (Song et al., 2020). The increase in the quality of institutions reduces the risks associated with uncertainty and opportunistic behavior, allowing the firms to settle for less control and exercise the advantages of joint ventures. Notably, it corresponds to the tenets of Henisz and Williamson (1999) concerning the predictability of the institutional environment and the growing attractiveness of shared equity

forms of operation. The benefits of JVs are influential for firms from culturally distant countries when MNCs enter via SEZ, as such equity alliances enable risk apportioning and a better understanding of the local market due to the partner's knowledge (Welch et al., 2008). In the context of industry clusters, joint ventures may stimulate the occurrence of spillover effects (Porter, 2011). At the same time, JVs are less common outside SEZs, which is also congruent with the reasoning of the transaction cost analysis, for the Russian market is characterized by high uncertainty and risks associated with opportunism, given the shape of the institutional setting.

Second, the results bear weak support for the impact of cultural distance between the firm's home and host country on the ownership mode selection, which goes in line with the findings of prominent research papers that indicate the interrelationship between high CD and growing predisposition to equity alliances (Hennart & Larimo, 1998). Namely, high cultural distance accompanied by the respective uncertainty, stemming from the firm's lack of knowledge of the foreign market given, induces increased transaction costs, which is why lower control modes are leaned towards (Jell-Ojobor & Windsperger, 2017).

Third, the results indicate the presence of a moderating effect of SEZ residency on the relationship between cultural distance and the choice of ownership mode. Specifically, it has been discovered that an enterprise's tenant status in an SEZ amplifies the significance of cultural distance in the ownership mode selection process. Thus, according to our results, high cultural distance increases the likelihood of MNCs opting for shared control over the enterprise, given the cultural particularities of the local market and the high initial capital investment required. This corresponds to the recent research results, which highlight the JVs' part in cultural dissimilarities and the following financial risk mitigation (Konara & Mohr, 2023). Consequently, the improved business environment of SEZs in comparison to the rest of the country, given the features of the former taking origins in transaction cost and institutional perspective reasoning, allows firms to select the entry mode with a lower level of control. With the contractual and institutional risks minimized, the uncertainty stemming from the cultural distance becomes more considerable, which is why SEZ residents are more likely to seek a local JV partner for a better understanding of the national context, the higher distance observed (Rienda et al., 2018).

This study has several limitations to be acknowledged. Firstly, the primary focus of the paper is the case of special economic zones in the Russian Federation, which obstructs the generalization of the results obtained and their further extrapolation onto other developing countries. Secondly, the data utilized in the analysis may become obsolete quickly, given the pace of changes in the Russian business environment amid the ongoing military aggression and the full-scale war in Ukraine. The opportunities for future research in this regard will remain vague until the end of the war, and its long-term outcomes are in the picture. Thirdly, the focus of the research on the ownership mode as the only indicator of the market entry strategy of multinational firms does not allow for a complete comprehension of the particularities of firms' approach to the establishment of economic operations in the focal market. Fourthly, while the secondary data utilized in this study enables the analysis of the impact of SEZ residency on ownership mode selection, the acquisition of unique insights into the specifics of entry mode selection implies the application of qualitative research methods such as interviews with SEZ residents as was proposed by other researchers (Sosnovskikh, 2017).

Future research should consider the above-listed limitations and is encouraged to investigate the spillover effects within the special economic zones of the focal country and the role of industry clusters in the entry mode selection process. The inclusion of additional transaction cost and institutional view variables, as well as resource-based variables, into the research model of the present paper would help to increase the explanatory power of our theoretical framework on the impact of SEZ on the market entry mode choice.

9. Conclusion

This master thesis provides an empirical analysis — based on data from the Russian SEZs — of a combined transaction cost and institutional theory perspective on the MNCs' ownership mode choices in emerging economies when an entry into the foreign market via special economic zones is considered. Congruent with other studies that examined the problem of internationalization through place-based programs, the evidence from the pre-war Russian special economic zones indicates that SEZs generally impact the entry mode selection process of multinational firms when entering the foreign market. The results specifically demonstrate that special economic zones not only directly impact the mode of entry but also influence the interrelation between cultural distance and entry mode, making less control by choosing JV more common among businesses from culturally distant countries. Overall, the study contributes to the international business literature by advancing the understanding of the market entry mode choice of MNCs when entering emerging markets through SEZs.

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Abstract

Special economic zones are implemented by the majority of countries around the world to attract foreign direct investment and foster economic growth. Numerous papers analyzed the role of the former in the enhancement of regional development and agglomeration economies creation, with only a few considering the business perspective when internationalization through SEZ is in focus. By analyzing the pre-war data from the Russian special economic zones, this paper has revealed the impact of SEZ residency on the ownership mode of tenant enterprises. The results specifically indicate that SEZ residency of MNCs increases the likelihood of the latter preferring joint ventures to wholly-owned subsidiaries. Besides, there is limited evidence that this likelihood grows with the rising cultural distance between the firm's home country and the focal state. The paper contributes to the international business literature by advancing the understanding of the market entry mode choice of MNCs when entering emerging markets through special economic zones.

Keywords: Special Economic Zones; Ownership Mode; Cultural Distance; Internationalization

Deutsche Zusammenfassung

Sonderwirtschaftszonen (SWZ) wurden von den meisten Ländern der Welt umgesetzt, um ausländische Direktinvestitionen anzuziehen und das Wirtschaftswachstum auf regionaler und nationaler Ebene zu fördern. Zahlreiche wissenschaftliche Studien analysierten die Rolle der SWZ im Kontext der regionalen Entwicklung und der Schaffung von Agglomerationseffekten, aber nur wenige davon berücksichtigten die Unternehmensperspektive, wenn die Internationalisierung durch Sonderwirtschaftszonen im Mittelpunkt steht. Durch die Analyse der Vorkriegsdaten aus den russischen SWZ zeigte diese Studie die Auswirkung der SWZ-Ansässigkeit auf die Eigentumsform der Unternehmen auf. Die Ergebnisse deuten insbesondere darauf hin, dass die SWZ-Ansässigkeit von multinationalen Unternehmen die Wahrscheinlichkeit erhöht, das letztere Joint Ventures gegenüber hundertprozentigen Tochtergesellschaften bevorzugen. Außerdem gibt es eine schwache empirische Evidenz, dass diese Wahrscheinlichkeit mit zunehmender kultureller Distanz zwischen dem Heimatland des Unternehmens und dem Gastland dieser Studie wächst. Die Studie erweitert die IB-Literatur, indem sie aufzeigt, welchen Einfluss der ausländische Markteintritt via Sonderwirtschaftszone auf die Wahl der Markteintrittsform der multinationalen Unternehmung ausübt.

Schlüsselwörter: Sonderwirtschaftszonen; Eigentumsform; kulturelle Distanz; Internationalisierung