

# The state and prospects of development of free economic zones in the Republic of Uzbekistan

**G. Ubaydullaeva**

Teacher of the Department of "International Finance-Credit"  
Tashkent Institute of Finance

**Bekhzod Ravshanov**

Student of Tashkent Institute of Finance

**Annotation.** The article discusses the foreign experience in improving the functioning of free economic zones. In addition, measures to implement a foreign strategy in Uzbekistan were considered.

**Key words.** free economic zone, investment, tax incentives, national economy.

## Introduction.

The country has formed a legislative framework that regulates the activities of free economic zones, simplified the mechanism for managing their activities by decentralizing administrative functions and expanding the powers of administrative councils of free economic zones and small industrial zones in the Republic of Karakalpakstan, s and the city of Tashkent. [1]

It should be noted that in recent years the country has carried out purposeful large-scale work to create free economic and small industrial zones, including the formation of a solid legal framework governing their activities, a wide system of tax, customs benefits and preferences that contribute to the development of free economic and small industrial zones of foreign and domestic investment. [2]

## Literature review.

Meera Bai, a professor at Kochin University of Science and Technology, in her article "The Importance of Free Economic Zones: Research from an International Perspective" while reviewing the history of free economic zones and the strategies of developed countries in their development emphasizes that economic zones contributed to the growth of international trade, improved foreign direct investment and business opportunities, job creation and technological progress.

Kliment Naydenov also noted in his article that differences in the al, external, economic and political conditions of countries are the basis of the modern global expansion of free economic zones, an important incubator for supporting al economic initiatives and play an important role in the digitalization of the economy.

## Methodology research.

The objectives of this paper are to study the activities of free economic zones and measures for the development of them in the country, the development of scientific conclusions and practical recommendations. The article is descriptive and analytical in nature and is based on secondary information from real sources.

## Analysis and results.

It is known that free economic zones play an important role in the country's economy: GDP growth, a significant increase in exports. Special economic zones can be described as geographically limited areas that must be classified and managed by the country of residence in order to attract foreign direct investment in economic activity. Considering SEZs as a service provider for investing in and developing industrial infrastructure, attracting and promoting foreign investment, integrating local firms into global value chains, promoting export-oriented growth and generating employment, many countries see these zones as an important tool for socio-economic development. They are widely used to launch industrial sectors and encourage the transfer of technology to the local economy and contribute to improving the overall investment climate, which reduces transaction costs on foreign direct investment, facilitates business growth and simplifying operations including administrative procedures. In international documents, free zones are more simply defined as "geographic territories", where traditional constraints imposed by the productive sectors are

abolished. Based on world practice, we can identify several free zone models that have been established at national level:

- Territorially limited, few effective operating areas located in places with a key geographic and economic situation, well-secured infrastructure and administrative.
- Territorially limited without limitation as number, but most often small areas
- Territorially limited large-sized few areas
- Free cities, ports.
- Establishment of a free zone status on the territory of a particular administrative area or a whole country. [3]

Based on the world experience, during the years of independence, free economic zones have been established in Uzbekistan. Today there are 23 free economic zones and 348 small industrial zones in the country. In the free economic zones 453 projects worth \$ 2.6 billion have been implemented and about 36,000 jobs have been created. In small industrial zones, 1,497 projects worth 5 trillion soums have been launched and more than 36,000 people have been employed. [4]

The 23 FEZ's established in the country can be divided into 4 groups according to the scope of their activities. These include industry, pharmaceuticals, agriculture and tourism. Geographically, free economic zones are located in 12 s and the Republic of Karakalpakstan. There are 12 free economic zones (FEZs) in Uzbekistan specializing in industrial production.

**Table 1.**  
**Location and formation of FEZs in Uzbekistan.[5]**

№	Name of FEZ	Location	Established time
<b>Industry</b>			
1	FEZ «Navoi»	Navoi	2008
2	FEZ «Angren»	Tashkent	2012
3	FEZ «Djizzakh»	Jizzakh	2013
4	FEZ «Urgut»	Samarkand	2017
5	FEZ «Gijduvan»	Bukhara	2017
6	FEZ «Kokand»	Fergana	2017
7	FEZ «Khazarasp»	Khorezm	2017
8	FEZ «Nukus»	the Republic of Karakalpakstan	2019
9	FEZ «Sirdarya»	Sirdarya	2018
10	FEZ «Chirokchi»	Kashkadarya	2020
11	FEZ «Namangan»	Namangan	2018
12	FEZ «Termez»	Surkhandarya	2018
<b>Pharmaceuticals</b>			
13	FEZ «Zomin-farm»	Jizzakh	2017
14	FEZ «Sirdaryo-farm»	Sirdarya	2017
15	FEZ «Boysun-farm»	Surkhandarya	2017
16	FEZ «Kosonsoy-farm»	Namangan	2017
17	FEZ «Bostonlik-farm»	Tashkent	2017
18	FEZ «Parkent-farm»	Tashkent	2017
19	FEZ «Nukus-farm»	the Republic of Karakalpakstan	2017

20	FEZ «Andijan-farm»	Andijan	2019
<b>Agriculture</b>			
21	FEZ «Bukhara-agro»	Bukhara	2018
<b>Fishing</b>			
22	FEZ «Fish manufacturer»	Tashkent	2018
<b>Tourism</b>			
23	FEZ «Chorbog»	Tashkent	2017

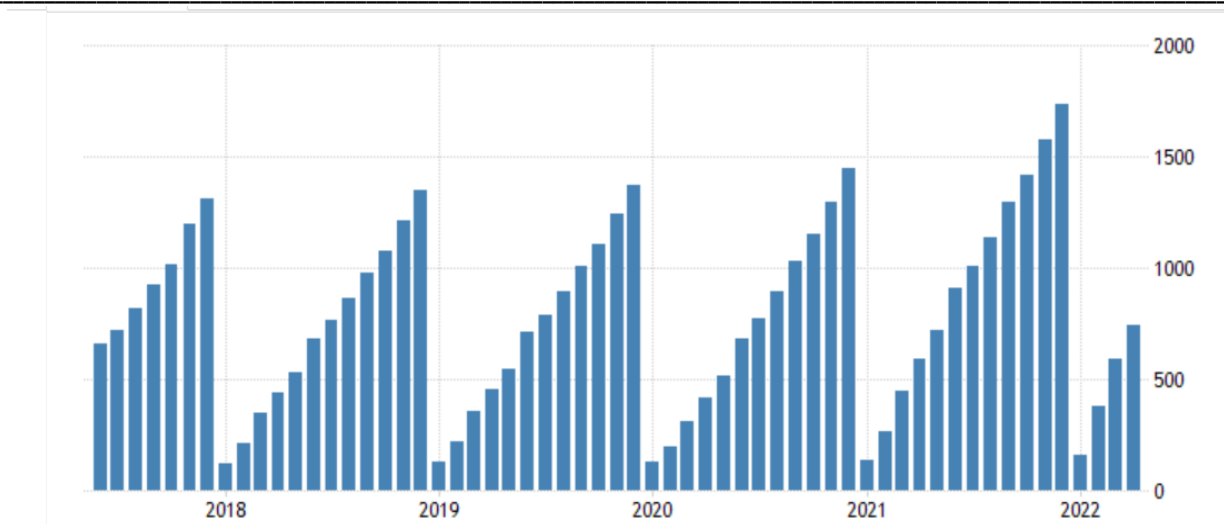
Also, there is still a lot of potential in these areas. To this end, the President adopted a resolution on measures to further develop the engineering and communication infrastructure of special economic and small industrial zones. According to the resolution, 1,6 trillion sums will be allocated this year to improve the infrastructure of free economic zones and small industrial zones.

Given the experience of the People's Republic of China in the world, FEZs have played a major role in China's success. Economically, FEZs have made a significant contribution to the country's GDP, employment, exports, foreign investment and new technologies, as well as the introduction of modern management practices. In 2006, the five primary FEZ accounted for 5 percent of China's total real GDP, 22 percent of commodity exports, and 9 percent of total direct investment inflows. At the same time, 54 national economic and technological development zones accounted for 5% of GDP, 15% of exports and 22% of FDI inflows. [6]

If we look at the factors that have influenced the success of China's SEZs, despite high initial uncertainty, senior management has decided to make changes through a phased approach with a commitment to reform. This determination provided a stable and supportive macro-environment for reform, and also ensured that political confrontation and the temporary setbacks of the new "open door" policy did not undermine the economic experiment with special economic zones. At the same time, China is not only copying ready-made models for reform, but is making its way to a market economy that incorporates features that are in line with the specific situation of China, which has more than 5,000 years of civilization. At a time when ideological wars were raging, China resolutely renounced such debates and embarked on a path of practical development. In order to encourage firms to invest in the regions, FEZs have established preferential policies such as cheap land, tax incentives, expedited customs clearance, the ability to repatriate profits and capital investments, and duty-free import of raw materials and intermediate goods.

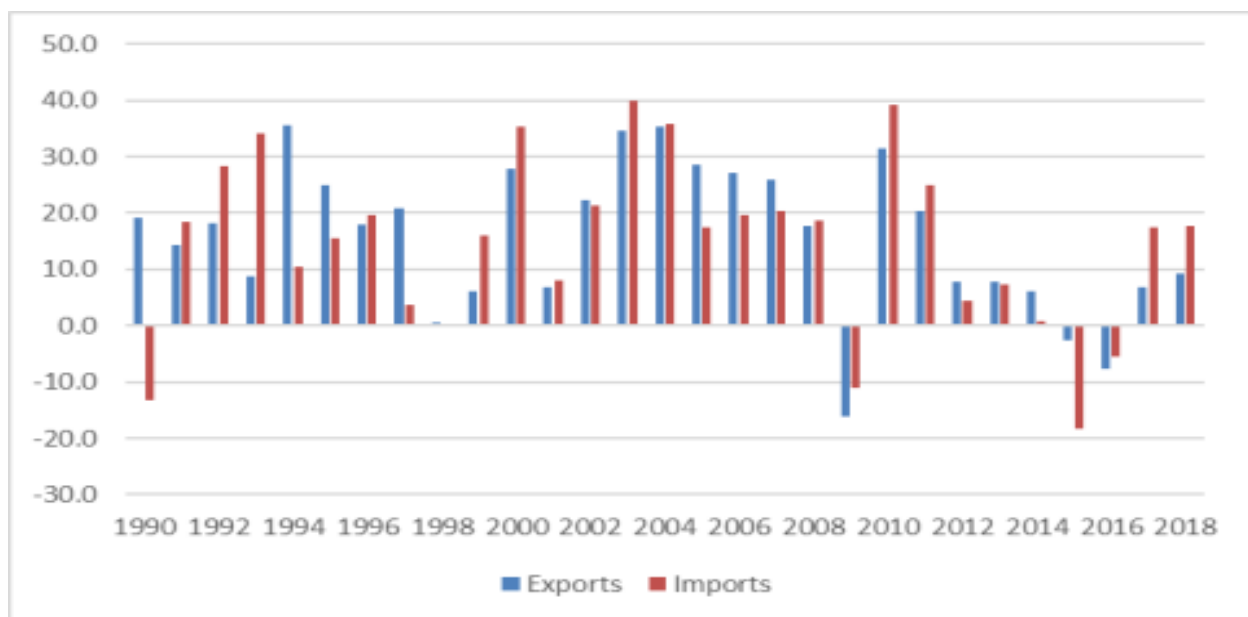
In addition, FEZs have been granted wider political and economic independence. They had legislative power to develop municipal laws and regulations in the main areas of national laws and regulations, including local tax rates and structures, and to manage and administer these zones. Governments begun to pay more attention to sectors that require knowledge or high added value, and invest directly in leveling the playing field for foreign and domestic companies that are beginning to change their policies.

In 2007, China set an overall effective tax rate of 25 percent for foreign and domestic companies. In the case of China's Shenzhen Free Economic Zone, the land reforms launched in Shenzhen have played an important role in the success of free economic zones. Until 1981, all land in the cities was state-owned, while in the villages it was "collective" land. In November 1981, the Guangdong government adopted the Provisional Regulation on Land Supervision in the Shenzhen SEZ, which allowed investors to apply to the SEZ authorities to obtain a land use certificate that was good for 20-50 years, depending on the sector and type of activity. In addition, it introduced standard fees of 10-30 RMB (\$2-6) per square meter of industrial land and 70-200 RMB (\$ 15-42) per year for commercial land for use in the FEZ. These payments provided significant initial funding for infrastructure and real estate development. By 1987, all coastal SEZs allowed foreign investors to lease land from governments. [8]



**Figure 1. China's foreign direct investment statistics. [9]**

Another important advantage of FEZs is the high concentration of highly qualified personnel, including a large number of scientists, especially in high-tech industrial development zones and economic and technological development zones. As a result, they have become centers of knowledge, technology creation, adaptation, dissemination, and innovation. The abundance of foreign direct investment has created a good opportunity to explore the technology. Governments have also placed great emphasis on technology research and innovation, as well as industries that require a lot of technology. For example, the Shenzhen government has established an intellectual property office and issued a number of policies and regulations to protect intellectual property rights. It has also implemented a number of preferential tax policies and financial incentives to encourage high-tech industries such as the software and integrated circuit (IC) industry, research and venture capital investment, and technology talent. In the Tianjin region of economic and technological development, great attention was also paid to technological innovation. The government has established major technological innovation platforms in the region, such as innovation parks, research centers and industrial bases. Moreover, FEZs, being closely linked to local enterprises and industrial clusters through the supply chain or value chain, not only help to achieve economic and business efficiency at scale, but also encourage synergistic learning and enhance industry competitiveness.



**Figure 2. Annual variation of China's trade turnover. [10]**

Overall, each FEZ in China strives to stand out with its service, infrastructure quality and appearance in order to attract new enterprises and achieve targeted development goals. Such competition helps them become more efficient and competitive.

Based on the above, if we consider the FEZ as one of the key factors in increasing the competitiveness of the country's economy, then a natural question arises: is there enough effort in this direction in our country? If we analyze the role of small industrial zones in attracting investment, developing entrepreneurship, creating new jobs and improving the welfare of the population, they still show a lack of initiative and a low level of organization of work on the development of activities. For example, the process of reviewing and coordinating projects by the relevant ministries and agencies remains complex and formal. Unfortunately, there are still bureaucratic complications in resolving the issue of allocating land plots to the participants of the free economic zone. In particular, in the free economic zones of Urgut, Kokand, Gijduvan and Khazorasp, as well as in the free economic zones in the field of pharmaceuticals, the work on attracting foreign investment for the establishment of new enterprises is slow. There are also problems with the stable supply of electricity, natural gas, water and other communications networks.

Actually, the period requires the development of comprehensive measures to create greater opportunities for investors and entrepreneurs in these regions. First of all, it is necessary to revise the regulatory framework for the activities of these zones, if necessary, adapt to the requirements of the time, and create an open and understandable mechanism for all.

There are a number of other issues that are causing difficulties at work. For example, in some free economic zones, the issues related to the connection to the engineering and communication networks and the construction of production infrastructure are still unresolved. This creates difficulties in attracting investors. The directorates of the FEZs do not take sufficient initiatives to propose new investment projects to commercial banks.

As a result of the placement of projects in free economic zones by some regional administrations without clear calculations, artificial preferences are given for certain types of activities, which in turn leads to a deterioration of the competitive environment in the market.

Therefore, it is important to strengthen the organizational and legal framework of additional opportunities, benefits and preferences provided to businesses and entrepreneurs operating in the existing free economic zones and small industrial zones, as well as pharmaceutical zones exporting products, creating innovative, high-tech industries.

In particular, in order to attract foreign investment, it is necessary to focus on the development of regulations aimed at fully demonstrating the country's investment potential to the world business community, establishing a comprehensive approach to the formation of investment projects by region and industry for investors. At the same time, the law on free economic zones needs to be revised in line with today's requirements and further improved in line with the spirit of the times.

## **Conclusion.**

Today, FEZs remain a strong development strategy in the global market. Therefore, the success of the existing economic zones in the global and interconnected market in our country depends on a number of factors:

- ✓ FEZ development strategy. Focus on foreign experience, what areas, what types of investments, the specific goals of each zone.
- ✓ As an experiment, the transfer of management rights of some directorates of FEZs located in the territory of the Republic of Uzbekistan to the heads of large foreign management companies specializing in this field.
- ✓ Strengthen and clarify the specialization of FEZs and form specialized FEZs with a well-thought-out mechanism for further implementation of their activities on the basis of the strategy.
- ✓ Establishment of FEZ on the basis of public-private partnership (private FEZ) as an experiment.
- ✓ Improving FEZ infrastructure and attractiveness:
  - establishment of a network of banks, insurance companies and consulting centers on preferential terms only to carry out activities within the FEZ;

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- development and implementation of marketing strategies by FEZ directorates with the support of key ministries and agencies to attract foreign investors to FEZ;

- creating and ensuring the operation of all types of communications in the FEZ.

It should also be taken into account that when regulating the activities of the SEZ, the rules of the World Trade Organization (WTO) allow the provision of indirect subsidies for the export of industrial products, this allows the FEZ regime to comply with WTO standards, as the advantages of the FEZ affect the competitiveness of the company and industry through the export balance, foreign exchange earnings and foreign exchange costs, use of local components or other means to facilitate the country's economic development.

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