

# Foreign experience in the development of special economic zones in Uzbekistan

Inomjon Turaevich Jumaniyazov  
inomjomscience@gmail.com  
Bexruz Hazratov  
Tashkent Institute of Finance

**Abstract:** This article analyzes functions of Special economic zones in the case of three foreign countries such as Russian Federation, South Korea and People's Republic of China. The article studies the experience of countries that have achieved great results in the creation of special economic zones and through them, compares the existing opportunities. The research lists the factors that need to be considered in creating an investment climate, and provides statistics on what factors foreign countries have achieved and what results they have achieved. The existing problems in creating a favorable investment climate are recognized, as well as the elimination of shortcomings in the legislation and public administration, the revision of infrastructure, advertising are proposed as a solution to these problems.

**Keywords:** special economic zones, free economic zones, investment economic effectiveness, investment projects, foreign direct investment, work places.

## *Introduction.*

At a time when market economies are developing, the importance of investment for the development of developing and transition economies is growing. In the world experience, the role of the special economic zone in attracting investments is emphasized due to the creation of a favorable environment for investors. Opinions differ on the definition of the term special economic zones (hereinafter referred to as SEZs) and its economic coverage. There are more than 20 classifications, including the official classifications of the World Bank, the International Monetary Fund and the United Nations. Also, each country has different definitions of SEZ in its legislation. According to the results of today, there are about 5 and a half thousand SEZs in the world, and more than a thousand of them have been established in the last 5 years. SEZs serve different purposes in terms of tasks, scope and types of activities. For example, the creation of new jobs in the economy through the creation of new jobs, increasing the volume of GDP, increasing the value of the national currency (through foreign exchange earnings), supporting the export of high value-added products. and other tasks.

## *Analysis and results*

Until December 14 of 2019 year, the term "free economic zones" was used instead of the term "special economic zones". The Law of the Republic of Uzbekistan “On Special Economic Zones” defines the concept of Special Economic Zone, which states that the concept of SEZ is a broader concept than the concept of Free Economic Zone as a type of Special Economic Zone.[1]

According to the legislation of Uzbekistan, a special economic zone is a free economic zone with defined boundaries and a special legal regime for the purpose of attracting foreign investment and domestic investment, high technology and management experience for the rapid socio-economic development of the territory.[2] construction of new production facilities, development of high-tech production, active involvement in the development of modern competitive, import-substituting, export-oriented finished industrial products, as well as production, engineering and communications, transportation, social the quality of the territory to be established to ensure the development of infrastructure and logistics services.

The term "free economic zone" is used in the reports of international organizations and scientific publications to describe the nature of different regions. However, this term does not fully express its essence. The economic rules, special administrative laws and regulations applied there do not completely exempt entrepreneurs operating in the area from clearly defined legal and economic regimes, but rather ease them and provide certain benefits. Therefore, it would be appropriate to call free economic zones not "free" but special economic zones.[4]

The Russian government's efforts to develop the economies of economically disadvantaged areas, to reconstruct their infrastructure, and to establish free economic zones to expand the geography of foreign trade led to the establishment of the “Nakhodka” Free Economic Zone in 1990.

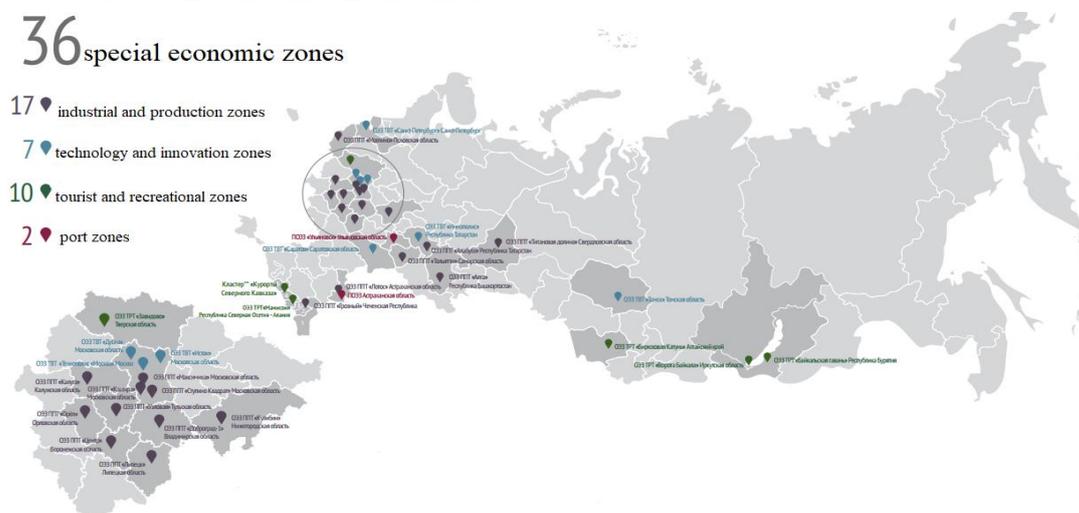


Figure 1. Geography of special economic zones in the Russian Federation.[5]

There are currently 36 special economic zones of 4 types:  
 - 17 industrial and production zones;

- 7 technology and innovation zones;
- 10 tourist and recreational zones;
- 2 port zones.

In order to attract more foreign investors, the country is constantly attracting public investment from the Federal Budget in the development of industrial infrastructure in free economic zones, which has had a positive impact on the volume of investment from foreign investors ( Figure 2).

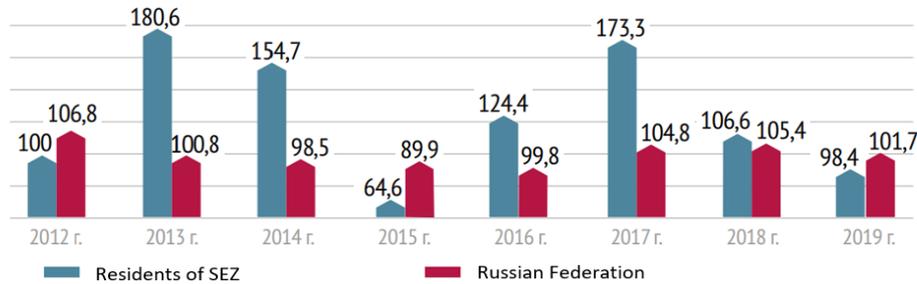


Figure 2. Dynamics of direct investment in free economic zones in the Russian Federation. ( In percentages) [6]

Looking at the last seven years, for SEZs, the highest growth in investment by SEZ residents returned in 2013 and 2017, at 180.6% and 173.3%, respectively. It is noteworthy that the annual figure do not illustrate negative indication. This indicates that the activities of the FEZ and the infrastructure and facilities provided to them are at a very acceptable level for residents. The global oil price crisis has caused the 2015 figure to return to a lower level than in previous years.

The public investment will be directed to the development of transport, communications, logistics and communication systems before the establishment of the free economic zone and during its operation. As a result, the existing infrastructure networks in the region, logistics centers will be able to provide logistics with modern technologies. At the same time, the state is reducing the financial costs of foreign investors for the development of infrastructure.

It is precisely the factor discussed above that public investment in industrial infrastructure in free economic zones also provides an additional incentive for foreign investors to invest in these areas.

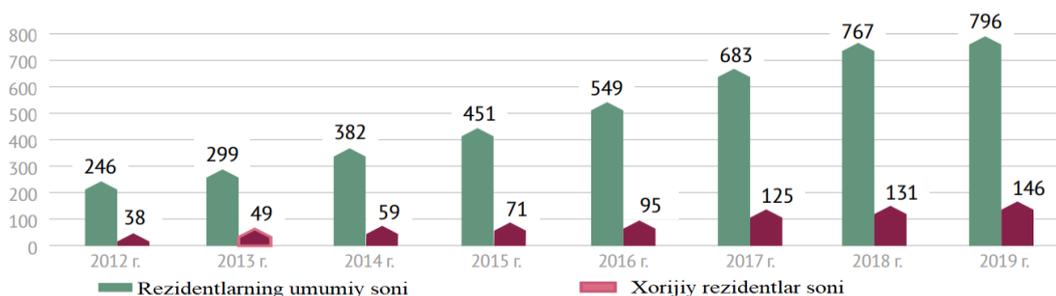


Figure 3. Dynamics of the number of residents of free economic zones in the Russian Federation, in units [6]

At the end of the year, 18.3% of the total number of residents were foreign residents. If we look at their dynamics, the total number of residents increased from 246 to 796 units (323.5%) in 7 years, while the number of foreign residents increased from 38 to 146 (384.2%). The increase in the number of residents will lead to the creation of jobs in the country, as well as an increase in the value of the national currency. Below we look at the jobs created in free economic zones.

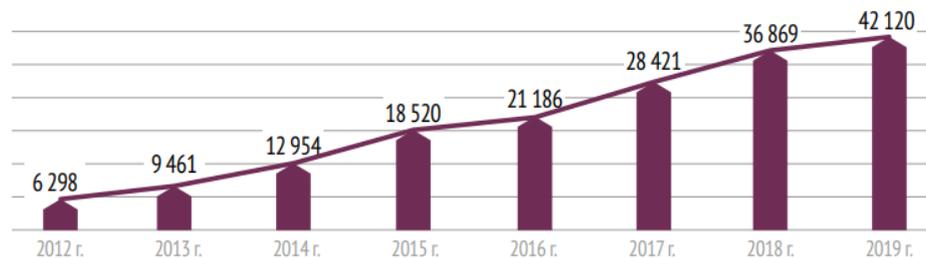


Figure 4. Dynamics of job places in free economic zones in the Russian Federation, in units [6]

Analyzing to the general trend, the number of incoming residents and the overall dynamics of jobs created are almost the same, these two factors are closely related concepts, because each incoming enterprise will definitely get a worker. The most passive growth year was recorded in 2016, but the growth rates in subsequent years were faster than in other years. At the beginning of 2020, the number of workers operating in special economic zones amounted to 42.12 thousand people.

According to statistics, more than 145 investors from 41 foreign countries are currently operating in the free economic zones of the Russian Federation. More than 42,000 new jobs have been created as a result of projects implemented by investors. As a result, there are many free economic zones in the country.

Special economic zones offer an ideal management environment for transnational firms as international business centers where global capital and information are collected. Korean Special Economic Zones are specially designated areas created for foreign investment firms in Korea to actively attract foreign investment into the country through improved business and living environment and a number of regulatory policies. They are divided into 5 types of zones:

- Free trade area.
- Free economic zone.
- Foreign Investment Zone.
- Industrial complex for foreign investors.
- Tax-free trade area.

Foreign direct investment in special economic zones across South Korea rose 43 percent last year from the previous year, the strongest growth in three years.

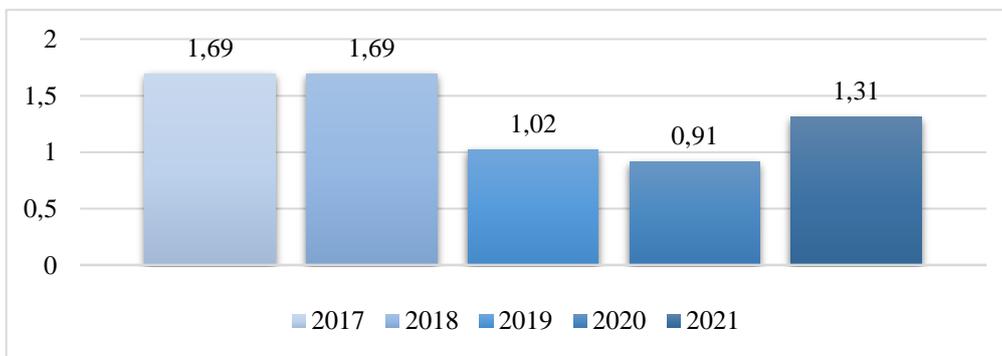


Figure 4. Dynamics of direct investment in the SEZ of Korea. Billions of dollars [7]

If we look at the overall trend, a decline was observed in 2019-2020, which was cited as the reason for the global pandemic and quarantine. The amount of registered direct investment in free economic zones amounted to \$ 1.31 billion, an increase of 42.8%. The direct investment made grew by 126% year-on-year to \$ 840 million. Since the establishment of free economic zones in 2003, total direct investment has reached \$ 20.5 billion.

Investments in the renewable energy sector totaled \$ 1.28 billion, accounting for 98 percent of total direct investment.

Production in industry, pharmaceuticals and metals increased by 19.2% year-on-year to \$ 520 million. Investment in services rose 64.7 percent to \$ 780 million.

The European Union accounted for 40.8 percent of foreign direct investment, followed by China (10.6 percent), the Philippines (10.0 percent) and Japan (6, 0 percent).

In the free economic zone, Incheon attracted the largest \$ 710 million, followed by Pusan and Jinxae (\$ 290 million), the East Coast region (\$ 100 million), the Kwanyang Bay Area (\$ 80 million), and North Chungcheong. province (\$ 20 million) and the North. Gyeongsang Province (\$ 10 million).

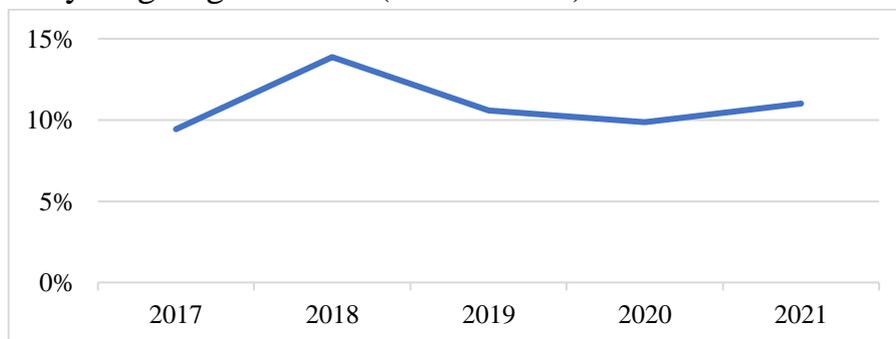


Figure 5. The share of direct investment in the SEZ of Korea in total investments. In percentages [7]

If we look at the graphic trend in the picture above, it turns out that investments in free economic zones play a significant role in total investments. It was over 10% in almost all years.

The establishment of the EIH in China has opened big doors for the country to increase its exports. In 1979, China's exports reached 13.7 billion US dollars. In 2010, the figure was 1506 billion dollars. USD. These figures will increase further in 2020 to 2720 billion. Reached the U.S. dollar. Compared to 1979, it has increased almost 200-fold in 40 years.[8]

Table 1

China's export volume in 2013-2020 and its share in world exports [9]

Years	World export volume, In billion US dollars	Chinese export volume, In billion US dollars	China's share, in percent
2013	23 464	2 354	10.0
2014	23 868	2 463	10.3
2015	21 280	2 362	11.1
2016	20 877	2 200	10.5
2017	22 919	2 418	10.6
2018	23 118	2 518	10.9
2019	24 780	2 630	10.6
2020	22 430	2 720	12.1

Between 2013 and 2020, Chinese exports rose sharply from 10% to 12% of world exports, with only a slight decline between 2015 and 2016, which we believe was due to the trade war with the United States. These declines are temporary. This is because, on the one hand, Chinese exports are competitive due to their low cost, and on the other hand, China has a monopoly position in the world market for most products.[8]

As of 2021, the PRC has 16 free trade zones, 3 economic zones, more than 30 state zones of economic and technical development, 14 open ports and 53 new and high-tech industrial development zones.

To achieve these goals, a number of laws, regulations and guidelines have been adopted. The main ones are: [13]

Production equipment, spare parts, vehicles, raw materials and other products are exempt from import duties. Discounts can also be obtained when entering any product (the amount of the discount is determined separately for each case);

The income tax for enterprises in special economic zones is limited to 15% (elsewhere - 33%). Special benefits are provided to large and high-tech enterprises;

- Legitimate profits (after taxes) and personal income can be taken away from China;

- In SEZ, if investors reinvest their profits for more than 5 years, the profits from the reinvestment will be exempt from income tax;

- Preferential prices (in foreign currency) are set for the purchase of Chinese equipment and raw materials for SEZ enterprises.

Special economic zones (or free trade zones) are an economic policy of the Chinese government and were included in a major plan in 2013 to support and

encourage foreign direct investment in various sectors depending on the region. The first special economic zones (SEZs) were established to promote international trade. In 2013, the first designated Free Trade Zones (FTZs) were opened in Shanghai, followed by Guangdong, Tianjin and Fujian in 2015.[11]

The development of Chinese SEZ is both objective (cheap and abundant labor, convenient geographical location: access to the sea, the availability of ports, proximity to Hong Kong, Macao and Taiwan, the availability of natural resources for the development of tourism, metallurgy, tropical agriculture on Hainan Island) subjective (focus on reforms and transparency, legal guarantees for foreign capital, economic incentives, inflow of funds from all over the country to the development of the region). As a result, China has made great strides, both economically and socially.

Further liberalization of the political, economic life of the state, state and society building, ensuring the rule of law is the basis of the development strategy of our country. There are many innovations and additions to our legislation to ensure prosperity and the rule of law. Accelerate production, trade and economic processes in the country, create favorable conditions for foreign and domestic investors, increase efficiency in the economy, accelerate the process of integration of economic activities Accelerate the process of transition to a market economy Increase the value added of finished products in our economy In April 1996, the law on the establishment of "free economic zones" was adopted in order to increase the share of exports of finished and semi-finished products, not raw materials, in total exports.[12]

According to our legislathuion, special economic zones can be organized in the following types:[10]

- free economic zones;
- special scientific and technological zones;
- tourist and recreational areas;
- free trade zones;
- special industrial zones.

The establishment of the most advanced models of special economic zones, cooperation with foreign investors [14], on the one hand, will have a positive and effective impact on the sustainable socio-economic development of our country, and on the other hand will increase its position in the international division of labor. At the heart of this cooperation is a fundamental feature of the world economy, the process of internationalization. This, in turn, will help us to adapt to the processes of globalization and the situation in the international arena.

Strong and sustainable development of industrial trade and economic relations is a prerequisite for the formation and development of countries with different levels of development in a market economy.

Ensuring the rule of law and ensuring the viability of adopted laws requires in-depth research in the development of feasibility studies and projects for the creation of free economic zones.

### *Conclusion and suggestions.*

Special economic zones are created on the basis of specific goals of the country, have a system of privileges and incentives, and have their own management. It is understood as a region with high level of economic relations with foreign countries, meeting international standards, favorable for domestic and foreign investment.

To increase the efficiency of special economic zones, the following tasks will be required:

- The Directorate of Special Economic Zones should post their information on the websites of international organizations and provide information on development trends in the region;

- Regulation of the rights of legal entities operating in the SEZ and the abolition of mutually exclusive laws;

- Improving existing infrastructure and building existing ones: financial infrastructure (banking, letter of credit, consulting services), transport and communications, social infrastructure (water, electricity)

- In accordance with paragraph 12 of the Decree of the President of the Republic of Uzbekistan PQ-3356, it was necessary to create a single portal of special economic zones and small industrial zones, but the implementation of the decision has not yet been implemented.

- Based on the experience of foreign countries, work to increase the share of localization in the production of SEZs in Uzbekistan.

- Use of the practice of electronic submission of documents in order to eliminate excessive bureaucracy in the establishment of enterprises in the SEZ.

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