

The Role of Free Economic Zones in Attracting Foreign Investment

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Abstract

This article details the role of free economic zones in the country's economy. He spoke about the work being done in this regard in our global and national practice.

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Today, the whole world is choosing the path of transition from an industrial economy to an innovative economy. Free economic zones are also the most visible institutional innovation of the second half of the twentieth century. Its significance is that at the end of the twentieth century, 10% of world production and 30% of world trade turnover passed through free economic zones, and almost half of world capital turnover passed through these regions. In general, the formation and development of these zones go back a long way. According to historical sources, 2,200 years ago, in 166 BC, free economic zones were first established in the Greek state of Delos on the basis of a document to facilitate trade. These free economic zones served as a bridge between East and West. Interestingly, traders there are exempt from various taxes, duties and administrative formalities. By the twelfth and thirteenth centuries, free trade zones had sprung up along the Western Divana River. In the Middle Ages, the river became the most important trade route, connecting the Arab Khilafah with the eastern Slavic world.

A number of scholars have also suggested that Livorno, Italy, was declared a free trade city in 1547 and was the first free economic zone. In those days, the initial free economic zones were understood to be special territories, railway chains, airports, or territories belonging to large ports along the river.

It should be noted that the purpose of the FEZ depends on the level of socio-economic development of the host country, its strategic directions and opportunities for their implementation. Therefore, the reasons and objectives of the organization of the FEZ differ in individual cases.

In developed countries, particularly the United States, the United Kingdom and France, FEZs are often used to further strengthen foreign economic relations, revitalize small and medium-sized businesses in backward areas through the implementation of local policies and, as a result, eliminate interregional development gaps and to help underdeveloped areas. In addition, businessmen operating in the area within the zone were given more freedom of activity and significant financial benefits than in other regions of the country. These programs were not aimed at attracting foreign capital. However, now in developing countries, free economic zones are created, first of all, in order to attract foreign capital, technology, modernize production, improve the skills of the workforce. In addition to the goals and reasons mentioned above, three other issues will be considered in the organization of the FEZ:

- ✚ ensuring foreign exchange inflows as a result of increased production exports;
- ✚ increasing employment rate;
- ✚ transformation into a landfill for the application of new methods in the economy of the region and the growth of the national economy.

In general, free economic zones greatly contribute to the development of the country's economy. For example, the various benefits will allow the inflow of foreign capital, the development of economically backward areas far from urban centers, the reduction of unemployment, the creation of permanent additional sources of income to the state budget, and so on. However, it should be noted that the placement of projects in free economic zones without clear calculations leads to the provision of artificial benefits for certain activities, which in turn leads to a violation of the competitive environment in the market. Today, there are more than 4,000 free economic zones in the world, writes Business-Daily. There are also types of free economic zones: free trade zones, research and production parks, export-production parks and special zones.

Looking at the world practice, today the Chinese economy is the second fastest growing in the world, which is due to the fact that it was able to quickly change the business relations in the world. Cheap labor has led to lower prices in the West for everything from slippers to mobile phones. At the same time, China has become the largest investor in Africa, and Beijing considers the “black continent” as its main partner, not Europe or the United States.

Without consideration, Chinese goods can now be seen all over the world, and by the 21st century, it has truly become a “world factory”. For example, about 50 percent of the world’s cameras, 30 percent of air conditioners, 25 percent of washing machines and about 20 percent of refrigerators are made in China. It should be noted that the role of free economic zones in China’s development is invaluable. Currently, there are four special economic zones - Shenzhen, Zhuhai, Shantou and Xiamen. In addition, there are 18 free trade zones, 53 high and new technology zones, more than 70 scientific and technical zones for specialists trained abroad, 38 zones for processing products for export.

Overview of China’s Special Economic Zone Classifications

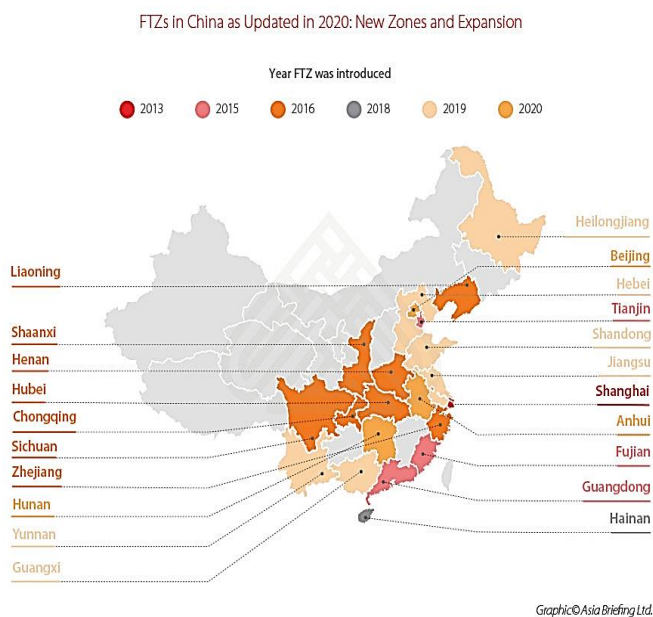


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Type	Full Name	Representative Examples	Start	Focus
SEZ	Special Economic Zone	Shenzhen, Zhuhai, Xiamen, Suzhou	1979	FDI, Factories, Outsourcing
ETDZ	Economic & Technical Development Zone	Pearl, Yangtze, Min River Deltas	1984	Industrial Parks, Assembly, Finishing
HIDZ	High-Tech Industrial Development Zone	ZhongGuanCun, Nanjing, Tianjin	1988	Technology Transfer, R&D, Trade
FTZ	Free Trade Zone	Shanghai, Tianjin, Hainan	1990	Streamlined Shipping, Trade, FOREX
EPZ	Export Processing Zones	Kunshan, Jinqiao, Wenzhou	2000	Export Processing, Bonded Warehouses
FTP	Free Trade Port	Hainan	2020	HK, SP style International Trade & Finance Hub



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In general, in order to increase the competitiveness of the country's economy, the main focus should be on strengthening the use of natural resources and industrial potential of the regions and the export system. This is where the creation of modern free economic zones, which are an effective form of attracting foreign investment, is of particular importance. It is worth noting a number of economic measures that are widely used and effective in the world. A number of measures are being taken in Uzbekistan in this area. Today, in January-March 2020, the country has a total of 16 free economic zone directorates (FEZ), 70 small industrial zone directorates (SIZ), 3 technoparks and 97 cotton and textile clusters. The number of enterprises was 416 in FEZ, 1355 in SIZ, 55 in technoparks and 97 in clusters. In particular, 62 projects worth \$ 486 million have been implemented in Navoi, Angren, Jizzakh, Urgut, Gijduvan, Kokand and Hazarasp free economic zones where more than 4,600 jobs have been created. It also specializes in pharmaceuticals such as Nukus-farm, Zomin-farm, Kosonsoy-farm, Syrdarya-farm, Boysun-farm, Bostanliq-farm, Parkent-farm. All measures are being taken to develop new free economic zones. In January-March 2020, the volume of

investments in fixed assets from all sources of financing by enterprises that are part of the FEZ, SIZ, technopark and clusters in FEZ - 368.0 billion soums, in SIZ - 64.1 billion soums, technopark - 50, 0 billion soums and in clusters - 160.5 billion soums.

The volume of investments in fixed assets in January-March 2020 at the expense of all sources of financing by enterprises that are part of the FEZ, SIZ, technoparks and clusters:

	Number of enterprises	Volume of investments in fixed assets from all sources of financing, billion soums
FEZ	416	368.0
SIZ	1355	64.1
Technoparks	55	50.0
clusters	97	160.5

But the natural question arises that: are the opportunities in this area being used wisely? If we analyze the role of small industrial zones in attracting investment, developing entrepreneurship, creating new jobs and improving the welfare of the population, we can see that they still lack initiative and a low level of organization for business development. For example, the process of reviewing and coordinating projects by the relevant ministries and agencies remains complex and formal. Unfortunately, the complications of bureaucracy in resolving the issue of allocating land plots to the participants of the free economic zone still remain.

In particular, in the free economic zones of Urgut, Kokand, Gijduvan and Hazarasp, as well as in the free economic zones in the field of pharmaceuticals, the work on attracting foreign investment to establish new enterprises is slow. There are also problems with the stable supply of electricity, natural gas, water and other communications.

The decree of President Shavkat Mirziyoyev "On measures to accelerate the reform of state-owned enterprises and privatization of state assets" issued on 28 October this year has led to changes in the activities of special economic zones in Uzbekistan. According to the document, by February 1, 2021, based on the study of foreign experience, proposals will be submitted to the Cabinet of Ministers on the introduction of external management in the activities of special economic zones and their gradual privatization. According to the Law "On Special Economic Zones" adopted in February 2020, the special economic zone is a zone with specially allocated boundaries and a special legal regime with the aim of attracting foreign investments and local investments, high technology and management experience for the rapid socio-economic development of the relevant territory. Special economic zones (SEZs) can be organized in several types, in particular, in the form of free economic zones, special industrial zones, tourist-reaction zones, special scientific and technological zones. In order to increase the attractiveness of the SIZ and attract more investors, project owners who meet all the requirements were able to take advantage of various benefits. For example, the relevant decree of the President of Uzbekistan provided various tax and customs benefits to the members of the zone. Investors enjoyed the following benefits:

- ✓ *land tax, income tax, property tax for legal entities, single tax for micro and small enterprises;*
- ✓ *equipment, raw materials, supplies and components imported for own production needs (except for customs clearance fees), provided that the remaining funds are targeted;*
- ✓ *construction materials that are not produced in Uzbekistan and imported as part of projects will be exempt from customs duties (excluding customs clearance fees).*

However, in accordance with the current tax code, which entered into force in 2020 year 1 January, many benefits provided to investors, who are participants of a special economic zone, have been canceled. This was caused by the government's view of the zones as a project without prospects. Without benefits, the attractiveness of the zones also began to go away. Furthermore, according to the decrees signed by the head of our state, the activities of special economic zones can be transferred to foreign management. They can be customized step by step, and they can be finished by way of customization. The government, which sees them as a project without prospects, in this way can also eliminate the contradictions in the legislation.

In short, free economic zones are a place for the development of economically backward regions of the country. Tax and customs benefits are provided to investors and entrepreneurs who start business in its territory. The purpose of creating such areas is to develop the socio-economic development of certain regions of the country or to change the attitude to a particular area. If we finish such zones, we think, we will lag far behind in attracting investors and developing the regions economically. In fact, the direct and practical assistance of local authorities, tax and customs authorities is sufficient for investors for the development of economic zones. In the words of the President: "If we can carefully formulate investment projects by regions and sectors for investors seeking to invest in our economy, we can achieve a positive result. In this regard, it is necessary to regulate organizationally and legally the placement of business entities in free economic zones and small industrial zones, the provision of benefits and preferences to them".

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