

The Role of Free Economic Zones in The Economy And Their Need For The Development Of The Country

Kuzieva Nargiza Ramazanovna 1, Kuziev Ravshan Ramazanovich 2,
Khalikulova Shirin Utkir qizi 3

¹Tashkent Financial Institute

²Tashkent State Economic University

³Tashkent Financial Institute

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Abstract

The article discusses such tasks as the theoretical aspects of the emergence of free economic zones and their role in the economy of the state, the formation of free economic zones, the goals of creating and classifying free economic zones, the features of the emergence and development of tax regimes, the need for free economic zones in the development of the country. The analysis of the development of free economic zones and the existing tax regime, analysis of the legal framework for the creation and functioning of free economic zones.

Keywords: free economic zones, foreign investors, tax regimes, taxes, tax payments, customs payments, tax incentives.

1 Introduction.

Free economic zones as special economic formations have become firmly established in the economies of many countries of the world. For many centuries, some countries have created preferential terms on part of their territory, wishing to attract foreign capital and develop certain types of economic activity. Free economic zones have come a long way of development: from free ports and harbors to transnational zones uniting several countries. Thus, the roots of the SEZ go back to ancient times, but at the same time they enrich their practical activities with the new content of modern civilization. The evolution of the FEZ goes on constantly, while it is not carried out within the rigid once given framework. Development goes from simple to complex, from a cheap, fast payback option to a diversified and capital intensive one.

Various types of free economic zones are called "islands" of the world economy, "windows" for the inflow of foreign investments, technologies, and management skills to numerous regions and countries.

Despite the fact that free economic zones as territorial economic entities have existed since time immemorial, there are a great many problems associated with their functioning, and this is especially true for the Republic of Uzbekistan.

As the head of state Sh. Mirziyoyev emphasized, "for the development of the economy at a high rate, we need to consistently continue an active investment policy. This year, investments of \$ 23 billion will be mastered with the commissioning of 206 new large production facilities.

I would like to emphasize that a significant part of the investments being mastered in 2020 will be foreign direct investment and loans. In order to support investors, mechanisms are being introduced to pay taxes by installments, to partially compensate the government for the costs of creating infrastructure. Along with this, the practice of deducting expenses for the purchase of new technological equipment, construction and modernization of new facilities in calculating income tax

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has been expanded".¹ In addition, at the initiative of President Sh. Mirziyoyev, the State Program for the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017-2021 was adopted, which will take the country's economy to a new level. The third priority direction of this strategy concerning the development and liberalization of the economy, in particular, is the further strengthening of macroeconomic stability and maintaining high economic growth rates, increasing its competitiveness, further strengthening the protection of rights and the priority role of private property, stimulating the development of small businesses and comprehensive and balanced socio-economic development of regions, districts and cities, the active involvement of foreign investors in economic sectors and regions of the country by improving the investment climate.

At the moment, according to various estimates, there are from 500 to 1500 free economic zones in the world. They are found in developed countries - the USA, Germany, Great Britain, Japan and in developing countries - China, Brazil, Mexico, etc.

In countries with advanced economies, FEZs are created primarily in depressed regions in order to pull them up to the average level. In developing countries - to attract investment and ensure technological and industrial growth.

World experience shows that different countries, possessing any geographic, economic or other advantages, set different goals when organizing SEZs.

Some countries use zones as an economic integration mechanism, others - with the aim of attracting foreign technology. Great Britain, for example, since 1981 began to create free airports with the aim of expanding employment opportunities, attracting activities that can activate the economic conjuncture at the national level. Post-socialist countries in the FEZ are testing elements of the market mechanism of management. In the United States, a 1934 law required zones to "facilitate and encourage foreign trade by exempting foreign goods from duties on entry into the United States."

But despite the differences in these goals, they also have some commonality, within which economic, social, and scientific and technical goals can be distinguished.

Economic goals:

- deeper inclusion of the national market in the world economic system;
- attracting foreign and national investments for the development of highly profitable production;
- using the advantages of the international division of labor to expand the output of export products;
- increase in foreign exchange earnings to the country's budget.

Social goals:

- comprehensive development of backward regions;
- increasing the number of jobs and ensuring employment of the population;
- education and training of qualified national workers, engineering, economic and management personnel;
- saturation of the national market with high quality goods.

Scientific and technical goals:

- use of the latest foreign and domestic technologies;
- introduction to new forms of managerial work;
- attraction of experience and research achievements of engineering and technical centers;

¹ Message from the President of the Republic of Uzbekistan Sh. Mirziyoyev to the Oliy Majlis "On the main results of the work carried out in 2019 and priority areas of socio-economic development of the Republic of Uzbekistan in 2020" dated 25.01.2020

- increasing the efficiency of the used production facilities, infrastructure and conversion complexes.

All these and other goals of organizing a SEZ can be realized with a whole system of conditions created for foreign investors by the host country. In this regard, we will name the most important conditions for the normal functioning of the SEZ:

- political stability in the country creates an overall favorable investment climate. Practice has shown that it can be decisive in attracting foreign investment;
- availability of a well-developed legal framework that guarantees the rights and stimulates the activities of foreign and domestic investors;
- availability of developed infrastructure (industrial and commercial);
- a very important condition is the natural and geographical environment;
- favorable economic conditions.

The most important incentive for the development of the FEZ is the system of benefits for investors. Each country or one or another of its regions, when creating a free economic zone, determine its own set of benefits. At the same time, as practice shows, the system of benefits established in the FEZ is rather individual and is associated with the programs and projects implemented on its territory. However, the economic literature names four main groups of benefits:

1. Foreign trade privileges provide for the introduction of a special customs and tariff regime, preferential taxation of foreign trade operations and a simplified procedure for their implementation, as well as the creation of a special currency regime, in particular, - minimizing foreign exchange controls, providing an opportunity for the free sale of profits.

2. Fiscal measures contain rules related to tax incentives for specific activities or behavior of entrepreneurs. Benefits can relate to tax bases of various taxes (profit or income, property value, etc.), individual components of tax bases of different types of taxes (depreciation, R&D costs, salaries, etc.), the level of tax rates, issues of permanent or temporary tax exemption.

3. Financial measures include various forms of subsidies provided through a system of low prices for utilities, through lower rents for the use of land and industrial premises (including the possibility of long-term lease and sublease), as well as preferential government loans.

4. Administrative measures granting investors the right to use infrastructure facilities (including public utilities), simplifying the procedures for registering enterprises and the regime of entry and exit of foreign citizens, as well as the provision of various services to promote business, such as, for example, providing operational information on market conditions, preparation business plans, etc.

All these benefits, as shown by world practice, can be applied in a variety of combinations, however, they are not always a decisive incentive for attracting foreign capital.

Considering FEZs as an object of management, it should be emphasized that most FEZs are a region characterized by certain development goals, infrastructure, economic specialization and the degree of influence on the national economy. The exception is the regime FEZ. This means that within the framework of the existing administrative-territorial division of the country and state management of regional development, new territorial-economic formations arise, requiring a specific management mechanism at all levels of the hierarchy.

From the point of view of FEZ management, the entire set of zones can be divided into two groups: local or point FEZs occupying small territories (foreign trade, industrial production, technology-innovative zones, etc.) and the so-called "super zones" formed within entire cities or regions. Both groups of FEZ have fundamentally different approaches to the formation of a management system. For each of them, general principles, methods and forms of FEZ management can be distinguished.

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But at the same time, free zones belonging to the same group may differ from each other by the goals of their creation, the set of benefits and preferences provided, specialization, infrastructure, etc.

As for the methods and principles of FEZ management, the specific features of each specific FEZ do not affect the management system as a whole, but only to some extent change the content of management activities, make adjustments to the ratios of various elements of the FEZ management mechanism.

Despite the good macroeconomic indicators of recent years, the issue of further diversification and modernization of the economy, in particular the industrial structure in more technological and capital-intensive areas, remains topical. Free economic zones are one of the mechanisms for the development of a non-traditional economic model. They are created to attract local and foreign capital, expand exports, increase foreign exchange earnings, gain access to new technologies, create additional jobs, improve the balance of payments, and also effectively (closely) integrate the national economy into the global one.

In order to stimulate the development of sectors of the national economy and regional development, the state uses a number of different economic instruments. The most effective among them are extensive tax and administrative privileges, comprehensive support and state guarantees of investors' rights, offering a certain set of preferences to investors, various forms of subsidies in the form of low utility prices, etc.

Despite the measures taken to ensure macroeconomic stability in general, the level of development of the regions is still different due to objective and subjective reasons. In terms of GRP per capita among the regions of Uzbekistan, Navoi region ranks first, the leading regions are also Bukhara, Tashkent, Kashkadarya regions and the city of Tashkent. The lowest GRP per capita is in the Namangan region and in the Surkhandarya region.

The following factors contributed to this differentiation in the level of socio-economic development:

- insufficient consideration of territorial specific features in targeted programs, sets of measures to solve social problems;
- a high level of centralization of regulation of social and economic processes, financing of investment programs and projects in the social sphere;
- poor initiative of local authorities in maintaining social sustainability due to limited resources.

The creation of special economic zones, taking into account the potential of each region, in which the benefits of investment will be provided competently and the necessary infrastructure formed, will assist in the implementation of regional development objectives.

In this regard, the FEZ can serve as a tool for leveling the level of economic development of various regions of Uzbekistan. Creating new jobs in economic development play an important role. On the one hand, they affect the growth of GDP, on the other - they allow you to maintain a certain standard of living. Here it is necessary, first of all, to take into account the number of the working population and those who want to work.

The determining factor in the employment of the republic is demographic processes, causing a relatively high increase in labor resources, a younger age structure of the population, and, as a result, an increase in a significant proportion of the labor force, which is characterized by professional unpreparedness and lack of work experience.

Currently, a total of 69 investment projects have been implemented in the territories of the FEZ for a total of \$ 512.4 million, including with the participation of foreign direct investment in the amount of \$ 290.7 million. As a result, 4,719 jobs were created.

Summing up the results of the study, it can be argued that Uzbekistan has a certain production, technical and personnel potential for the creation and functioning of the SEZ. This is facilitated by state programs for the development of certain sectors of the economy and improving the well-being of the population, the steady pace of economic development over the past few years, economic reform, the development of small and private businesses, as well as the geopolitical location of the republic.

The main goals and objectives faced and solved with the help of state regulation of the SEZ include:

- selection of priority projects for zones created in the country, contributing to the development of the economy of the regions and the country as a whole;
- formation of the necessary regulatory, organizational and economic base for the implementation of zoning;
- ensuring the effective and expedient nature of the socio-economic processes occurring in the FEZ;
- adaptation of all elements of the economic mechanism of the SEZ to each other and to the current situation in production and distribution;
- substantiation and establishment of all types of benefits required for the implementation of each of the programs accepted for implementation in the FEZ;
- ensuring the economic security of the region and the country as a whole.

Thanks to the improvement of the process of legislative regulation of FEZs, the course towards the organization of special economic zones will allow solving the urgent tasks of the Russian economy:

- creating conditions for the development of an innovative infrastructure that ensures the use of the results of research and development with limited attraction of state funds;
- application of mechanisms and incentives for the development of innovative organizations working in the field of technology commercialization;
- training managers for innovative activities in scientific, technical and industrial spheres;
- attracting capital investments to priority sectors of the economy;
- increasing the competitiveness of products and the technical level of production, replacing imported products with products of our own production;
- increasing the efficiency of industrial organizations on the basis of new technologies and mastering the production of high technology products; - expansion of information services, development of new production technologies;
- increasing the competitiveness of tourism and other activities in the field of tourism, developing activities for the use of natural medicinal resources;
- creation of new and reconstruction of the existing infrastructure of airports, sea and river ports.

At the same time, the effective implementation in Uzbekistan of this form of economic interaction with the rest of the world can be carried out subject to the following mandatory conditions.

1. Of all the main types of FEZs widespread in the world, it is necessary to focus on the export-production and technical-innovative (technopark) types of FEZ. At the same time, the emphasis should be placed on industries with high added value, innovation and multiplication. This approach makes it possible to count on the fact that the creation of a FEZ will not only lead to the financial well-being of resident enterprises, but will also actively stimulate the development of related industries and adjacent territories.

2. It is necessary to have transparency and competitiveness when making decisions on assigning the status of a special economic zone. The introduction of competitive mechanisms, the definition of selection criteria, the creation of expert councils and interdepartmental commissions, the

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development of individual concepts for each FEZ and publicity when discussing regional applications will significantly increase business confidence in this economic policy instrument.

3. The state should not interfere in the direct implementation of investment projects on the territory of the FEZ, but only create conditions for effective business and monitor compliance with the "rules of the game". All these "rules of the game" should be reflected in the Law of the Republic of Uzbekistan "On special economic zones", as well as its derivative by-laws (decisions, orders, regulations, etc.).

4. A prerequisite for the FEZ should be the creation at the state level of a special governing body that coordinates the creation and operation of the FEZ and monitors the implementation of special zones of their obligations to the state, including the use of funds received from the state budget.

5. FEZ organizations should be carried out in a limited area that has a clearly defined physically fenced border with the appropriate customs posts. When creating a SEZ, one should be guided not by the desire to take as much territory as possible, but by the understanding that the more there is, the worse for the entrepreneurial success of the zone.

6. The system of privileges provided to a special zone should serve as a tool for realizing the existing comparative advantages of a given territory, and not as a mechanism for compensating for existing shortcomings or missing development factors. Moreover, with the current widespread spread of FEZs in the world economy, political stability, investment guarantees, the quality of infrastructure, qualifications of the labor force, and simplification of administrative procedures are the main incentives for the inflow of foreign capital into the zone.

7. Taking into account that the issue of creating a FEZ on the territory of the Republic of Uzbekistan is an unprecedented case, and also in order to reduce the possible negative consequences of the functioning of a FEZ, it is necessary at the initial stage to test the FEZ as a pilot project within a very limited area.

As a result of the analysis of the functioning of the pilot project, it will be possible to make adjustments taking into account the peculiarities of the Republic of Uzbekistan, as well as to identify in practice further actions to improve the conditions of the SEZ.

The creation of a FEZ in Uzbekistan, as in many countries of the world, can become one of the effective ways to develop and introduce new technologies, attract foreign investment, create new jobs, and catalyze the development of foreign economic relations and the country's economy as a whole.

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