
Features of the Creation And Functioning Of Free Economic Zones In Uzbekistan

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Abstract

The article examines such tasks as the role of free economic zones in the economy of the state, the features of the emergence and development of tax regimes, free economic zones as a category in the economy and their need for the development of the country. The article provides an analysis of domestic, their development of free economic zones and the existing tax regime, an analysis of the regulatory framework for the creation and functioning of free economic zones, as well as an analysis of the economic indicators of free economic zones and the tax incentives they use.

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

1 Introduction.

Free economic zones (FEZ) are one of the most common forms of a new (global) model of the international division of labor, designed to "pull up" the most backward regions and countries of the world to the level necessary for inclusion in the endless world of trade, economic, scientific and technical cooperation between countries and their separate regions.

In the conditions of economic management in the country, in the context of the ongoing transition to the principles of a market economy, in modern global processes, free economic zones are acquiring an increasing role as some kind of "oases" of financial and economic well-being, a concentration of high technologies, of all the most progressive. It is indisputable that free economic zones radically change all spheres of society, bringing with them not only the financial well-being of the population, additional jobs, developed infrastructure, accelerated economic development, but also possible environmental problems, an increase in the crime rate, and the strengthening of the "shadow" sector. in economics. It is necessary to anticipate and try to minimize the negative consequences of their activities. That is why it is necessary to comprehensively study the best examples of world and domestic experience in the creation and operation of FEZs, and especially the consequences and changes in the life of the region, to which the creation of such economic entities will irreversibly lead.

The purpose of creating free economic zones in the Republic of Uzbekistan may be the creation of conditions for the rapid growth of the economy of a particular territory or industry, diversification of economic sectors, the introduction of new technologies and scientific and technological progress through the large-scale attraction of domestic and foreign investments aimed at creating modern export-oriented and import-substituting industrial production and technical-innovation complexes.

In this regard, it is necessary to consider the existing potential and prerequisites of the Republic of Uzbekistan for further assessment of the prospects for the creation of free economic zones on the territory of the Republic.

As the head of state Sh.Mirziyoyev emphasized, "Thanks to the selfless work of our people, we have achieved significant results in 2019 - the Year of active investments and social development. Along with positive changes in many areas, the inflow of investments has significantly increased.

Foreign direct investment amounted to \$ 4.2 billion, which is - note - \$ 3.1 billion, or 3.7 times more than in 2018. The share of investments in gross domestic product has reached 37 percent "¹

As the head of state Sh. Mirziyoyev stressed, "the consistent increase in investment, the commissioning of modern production facilities are a decisive factor in the development of the country's economy, the creation of new jobs, the implementation of important social programs, and the most important thing is to further increase the level and quality of life of the population."² 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 investitsy in economic sectors and regions of the country by improving the investment climate.

The economic policy of the state is based on national goals and needs by achieving various methods of stimulating production and regulating production forces across the territory. The forms and methods of implementing this policy are determined based on the level of economic development of the country, the dynamics of the economy, employment of the population, the degree of development of production and market relations in it. One of the most effective ways of such implementation is the creation of free economic zones - a limited area of the territory in which freely circulating capital is provided with benefits for the development of economic activity.

With the help of the provision of benefits and preferences, the state can regulate the degree of development of certain types of economic activity.

World experience shows that the SEZ is a fairly effective means of solving the problem of accelerating the economy of individual regions and cities, since its creation provides an inflow of investments into the region, the creation of new jobs. In different countries, the establishment of the institute of free economic zones took place in different ways, which makes it relevant to the study and comparative analysis of the practical experience of foreign countries in the interests of its use in Uzbekistan.

Now in the world, according to various sources, there are from 400 to 2000 SEZs. It should be noted that large-scale work is also being carried out in Uzbekistan to create and develop free economic zones, giving impetus to the development of individual territories by attracting both domestic and foreign investments. In recent years alone, more than 30 government and interdepartmental documents have been adopted that stimulate investment activities in the republic. It should be noted that today there are 20 free economic zones in Uzbekistan.

The free economic zone is created by the decision of the President of the Republic of Uzbekistan. The status of a free economic zone, as well as the period for which it is created, are determined by the decision on its creation. The boundaries of the free economic zone are determined by the Cabinet of Ministers of the Republic of Uzbekistan.

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 January 25, 2020. // <http://uza.uz/posts/35179>.

²Message of the President of the Republic of Uzbekistan Sh. Mirziyoyev to the Oliy Majlis "On the main results of the work carried out in 2017 and the priority directions of the socio-economic development of the Republic of Uzbekistan in 2018" dated December 23, 2017

The extension of the term of operation and the decision to terminate the status of a free economic zone is made by a decision of the President of the Republic of Uzbekistan at least 3 years before the expiration of the established period of the zone.

The Law states that the free economic zones in Uzbekistan can be created in the form of free trade zones, free production zones, free scientific, technical and other zones. The guarantees of the rights and interests of legal entities and individuals - residents of the FEZ are enshrined.

It was determined that the Free Economic Zone Development Program should include the creation of a production and market infrastructure, the provision of a special legal regime, and measures of economic incentives for businesses and individuals. Financial support for the free economic zone development program is carried out at the expense of the zone's own resources and the attraction of funds from private and other sources, including international programs, as well as at the expense of funds allocated by the republican and local budgets for the socio-economic development of the territory.

The free economic zone has an independent budget. At the stage of formation of a free economic zone, it is possible to attract funds from the republican and local budgets in the form of the presentation of loans or direct investment of industrial and social infrastructure facilities.

The budget of a free economic zone is formed from the receipts for the lease of land, buildings and structures that are in the use and management of the Administrative Council of the free economic zone, for the provision of services and other income not prohibited by law.

Currently, Uzbekistan has 20 free economic zones, 7 of which are of a pharmaceutical nature:

1. The free economic zone Navoi was established by Decree of the President of the Republic of Uzbekistan dated December 2, 2008 № UP-4059 "On the establishment of a free economic zone in the Navoi region" with the aim of creating favorable conditions for attracting foreign investment, primarily direct, for the organization of modern high-tech productions providing output of products meeting world standards and demanded on world markets, as well as the development of industrial potential, production, transport and transit and social infrastructure in the Navoi region.

2. The free economic zone "Angren" was created by Decree of the President of the Republic of Uzbekistan dated April 13, 2012 № UP-4436 "On the creation of the free economic zone" "Angren" with the aim of creating favorable conditions for attracting foreign and domestic investments to create modern high-tech industries that provide competitive products with high added value, as well as the integrated and effective use of the production and resource potential of the Tashkent region, creating this basis, new jobs and higher incomes of the population.

3. The free economic zone "Jizzakh" was established by the Republic of Uzbekistan dated March 18, 2013 № UP-4516 "Jizzak" in Uzbekistan.

The objectives of creating the Jizzakh free economic zone are to create favorable conditions for attracting foreign and domestic investments to create modern high-tech industrial production, ensuring the production of competitive products with high added value, the integrated and efficient use of the production and resource potential of the Jizzakh and Syrdarya regions, creating on this basis new jobs and increased incomes;

4. The free economic zones "Urgut", "Gizhduvan", "Kokand" and "Khazarasp" were created by Decree of the President of the Republic of Uzbekistan dated January 12, 2017 № UP-4931 "On the creation of free economic zones" "Urgut", "Gizhduvan", "Kokand" and "Khazarasp" in order to create favorable conditions for attracting foreign and domestic investment in the creation of modern production facilities for the deep processing of mineral and agricultural resources, ensuring the production of competitive products with high added value, demand on foreign markets, as well as the integrated and effective use of the production and resource potential of the Samarkand, Bukhara,

Fergana and Khorezm regions, the organization on this basis of new jobs and increasing incomes of the population.

5. The free economic zones “Nukus-farm”, “Zomin-farm”, “Kosonsoy-farm”, “Sirdaryo-farm”, “Boysun-farm”, “Bustonlik-farm” and “Parkent-farm” were created by the Decree of the President of the Republic Uzbekistan of May 3, 2017, № UP-5032 “On the creation of free economic zones “Nukus-farm”, “Zomin-farm”, “Kosonsoy-farm”, “Sirdaryo-farm”, “Boysun-farm”, “Bustonlik-farm” and “Parkent-farm” in order to create favorable conditions for the active involvement of foreign and domestic investment in the implementation of investment projects aimed at developing The term of the pharmaceutical industry of the republic, the saturation of the domestic drugs market high-quality products of domestic production, taking into account the unique conditions of cultivation of medicinal plant materials, the organization of its deep processing and the production of pharmaceutical products with high added value, as well as the integrated and efficient use of production and resource potential of the Republic of Karakalpakstan, Jizzakh, Namangan, Syrdarya, Surkhandarya and Tashkent regions, creation on this basis New jobs and higher incomes of the population of the republic.

6. The free economic zone “Bukhoro-agro” was established by Decree of the President of the Republic of Uzbekistan dated July 10, 2018 № PP-3843 “On measures to create a free economic zone “Bukhoro-agro” in order to create favorable conditions for attracting foreign and domestic investments to create modern greenhouses, providing the cultivation of competitive products with high added value, demanded in foreign markets, as well as the integrated and efficient use of production and meat potential of Bukhara region, on that basis of new jobs and increasing incomes.

7. “Charvak” free economic zone was established by Decree of the President of the Republic of Uzbekistan dated December 5, 2017 № UP-5273 “On the creation of the “Charvak” free tourist zone in order to further develop and increase the efficiency of using the tourist potential of the Tashkent region, creating favorable conditions for foreign and local tourists to the region, ensuring the dynamic development of modern infrastructure, expanding and improving the quality of tourist, hotel and transport services provided.

8. “Baliq ishlab chikaruvchi” free economic zone was established by Decree of the President of the Republic of Uzbekistan of April 6, 2018 № PP-3657 “On Additional Measures for Accelerated Development of the Fishing Industry” with the aim of creating conditions for the further development of the fishing industry, improving the system of personnel training and retraining , improving the quality of scientific and innovative research and development, ensuring the widespread implementation of their results in practical activities.

9. The free economic zone “Sirdaryo” was created by Decree of the President of the Republic of Uzbekistan dated April 12, 2018 № UP-5412 “On measures to create the free economic zone “Sirdaryo” with the aim of integrated and rational use of the production and resource potential of the Syrdarya region, creating on this basis New jobs and higher incomes of the population.

10. The free economic zone "Chirokchi" was created by the Decree of the President of the Republic of Uzbekistan dated September 13, 2019 No. UP-5825 "On the creation of the free economic zone" Chirokchi "in order to create favorable conditions for the integrated development of the production and resource potential of the Kashkadarya region, attracting direct investments in organization of production of high-tech and export-oriented products for deep processing of mineral raw materials and agricultural resources, and on this basis increase the export potential of the region, create new jobs, improve the well-being of the region's population.

The term of operation of the above 20 FEZ is 30 years with the possibility of its further extension.

In order to create the most favorable conditions for the further development of free economic zones in the country as the most important factor in expanding the attraction of foreign direct investment to create new high-tech industries communication, road transport, social infrastructure Temperature and logistics services was adopted by the Decree of the President of the Republic of Uzbekistan dated October 26, 2016 № UP-4853 "On additional measures to enhance and expand the activities of free economic zones. "According to the adopted Decree, during the period of operation, special taxation (table 1), customs and foreign exchange regimes are in effect on the territories of the FEZ:

- exemption from customs payments (except for customs clearance fees) for equipment, raw materials, materials and components imported for their own production needs;
- exemption from customs payments (except for customs clearance fees) for construction materials not produced in the Republic and imported as part of projects, according to lists approved by the Cabinet of Ministers of the Republic of Uzbekistan;
- the participants of the free economic zones are exempted for the entire period of activity of free economic zones from paying customs duties (except for customs clearance fees) on imported raw materials, materials and components in terms of products sent for export;
- the participants of the FEZ are entitled to make payments and payments in foreign currency within the free economic zones in accordance with the agreements and contracts concluded between them;
- FEZ participants have the right to pay in foreign currency for the supply of goods, works (services) from other resident economic entities of the Republic
- of Uzbekistan, as well as use conditions and forms of payment and settlements for exported and imported goods that are convenient for them.³

At the same time, there are serious shortcomings and omissions in the organization of activities of free economic zones, which serve as a brake on their development and effective functioning. A special interdepartmental commission formed by Presidential Decree № PP-3175 dated August 7, 2017, with site visits revealed the following:

- first, there are no clear selection criteria for projects to be placed on the territories of free economic and small industrial zones. When considering investment projects, the number of newly created jobs, the presence of a potential foreign partner and the investing country, the demand for products produced on the domestic and foreign markets, the volume of exports, and the level of localization of production are not taken into account;

³ Presidential Decree of the Republic of Uzbekistan of October 26, 2016 No. UP-4853 "On additional measures to enhance and expand the activities of free economic zones".

Table 1.

Tax regime applied in the FEZ of Uzbekistan⁴

Tax title	Object benefits	View concessions	Term of granting privileges	Base
Land tax	Land plots	Exemption from tax and / or payment	With the amount of investment made, including the equivalent: From 300 thousand to 3 million US dollars - 3 years; From 3 million to 5 million US	Item 4 of the Presidential Decree of October 26, 2016 № UP-4853 “On additional measures to
Income tax	Profit			
Tax on property of legal entities	Taxable property			
Single tax payment for microfirms and small enterprises	Gross revenues			

⁴ Developed by the authors based on the synthesis of research results

Obligatory contributions to state trust funds (Republican road fund and extra-budgetary fund for the development of the material and technical base of educational and medical institutions)	Net revenue		dollars - 5 years; From 5 million to 10 million US dollars - 7 years; From 10 million US dollars and higher - 10 years, with the use of the profit tax rate and the EPP in the next 5 years at a rate of 50% lower than the current rates.	enhance and expand the activities of free economic zones”
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- secondly, a complicated, bureaucratized mechanism of coordination and approval of investment projects proposed for implementation and placement on the territory of free economic zones has been formed, which has been dragging its decisions for many months;

- third, due attention is not paid to the timely creation of the necessary engineering, communications and production infrastructure for free economic and small industrial zones;

- fourth, there is no detailed study of the security of the proposed investment projects with reliable financial sources, including through domestic and foreign credit resources, and foreign direct investment. The commercial banks attached to free economic and small industrial zones passively participate in solving these problems;

- fifth, significant difficulties experienced by participants of free economic zones in the acquisition of the necessary amount of raw materials sold through the Republican Commodity and Raw Materials Exchange;

- sixthly, the production capacity of enterprises commissioned on the territory of free economic zones is extremely inefficient, as a result of which the production, export and number of jobs do not correspond to the parameters of approved business plans;

- seventh, there is no effective mechanism for coordinating work on quickly resolving issues arising on the ground by the established territorial commissions to coordinate the activities of free economic and small industrial zones, headed by the first deputies of the Chairman of the Council of Ministers of the Republic of Karakalpakstan, regional and hokims of Tashkent .

All this requires the creation of a fundamentally new system for the selection of investment projects, the procedure for granting land plots, providing access to raw materials and materials, and providing credit resources to business entities located in free economic and small industrial zones.

In order to create the most favorable business environment to attract foreign and domestic investment in the creation of modern high-tech industries for deep processing of mineral and agricultural resources, ensuring the production of competitive high-quality products with high added value, demanded in foreign markets, as well as the integrated and efficient use of production and resource potential of the regions of the republic, the organization on this basis of new workers and increasing incomes of the population was made the President of the Republic of Uzbekistan Decree of October 25, 2017 № PP-3356 “On additional measures to improve the efficiency of free economic zones and small industrial zones”.⁵

According to the adopted Resolution, when tax legislation changes, participants in free economic zones are entitled to apply the rules and regulations on the payment of taxes and other obligatory payments that were in force at the date of their registration, with the exception of the norms and provisions of acts regulating the taxation of excisable goods.

From November 1, 2017, the requirement for the examination of import contracts concluded by business entities - participants of free economic zones, in the authorized capital of which there is no government share, funded by commercial banks in the prescribed manner, has been abolished.

In order to regulate relations in the field of organizing the functioning and development of special economic zones, the Law of the Republic of Uzbekistan dated February 17, 2020 No. 3PY-604 "On special economic zones" was adopted.

This Law specifies state regulation in the field of organizing the functioning and development of special economic zones, management of state property located on the territory of a special economic zone, types of special economic zones and measures for organizing their activities, requirements for investment projects proposed for implementation in the territory of special economic

⁵Decree of the President of the Republic of Uzbekistan dated October 25, 2017 № PP-3356 “On Additional Measures to Increase the Efficiency of the Activity of Free Economic Zones and Small Industrial Zones”

zones. zones, the procedure for creating, extending the period of operation, changing the boundaries and liquidating a special economic zone, managing a special economic zone.

Based on the theoretical and practical research, it is possible to draw a number of conclusions regarding the improvement of the activities of existing FEZ and the relevance of creating new ones:

1. The specialization of the special economic zone in certain types of production is important for creating a favorable environment and effective activity of the FEZ. The difference between successful FEZ and unsuccessful examples is the degree of activity liberalization, taxation efficiency. In other words, the FEZ should be a specially designated territory, located outside the limits of the standard legislation of Uzbekistan, with more attractive conditions. To reduce the cost of business in the FEZ, the management system, financial system and corporate structure should be organized according to international standards. Improving living conditions contributes to the resettlement of foreign investors and their organization of activities in the territory of the FEZ.

2. Only an independent management system of the FEZ, which possesses broad powers and influence in state bodies at the local, regional and national levels, and is responsible for the development of the FEZ, is able to ensure its effective functioning. The limited ability of the management of the FEZ to solve the problems of investors and resident enterprises, the creation of additional conditions for attracting investments and the development of territories traditionally leads to the impossibility of fulfilling the goals set up for the creation of a free economic zone.

3. The central government should serve as a driver for the economic development of the FEZ, determining the overall industrial and economic policy of the country and the place of the FEZ in its implementation. Although one of the conditions for the success of the FEZ is the independence of the leadership, but this does not mean independence from the central government. The central government determines the overall development plan of the FEZ, sets goals for them and directly controls the activities of the FEZ through the Administrative Council.

4. In most countries, the FEZ are used as a testing ground for working out the mechanisms and instruments of economic policy, which then spread to the rest of the country. In addition, free economic zones are used to facilitate the access of foreign companies to the market of Uzbekistan and through it to the markets of neighboring countries. As a result, the export orientation of the country's economy is stimulated, there is an active transfer of technologies and experience of companies in the international market, increasing the competitiveness of the economy and living conditions of the population.

5. Informing potential investors, carrying out extensive advertising work on the activities of the FEZ of Uzbekistan. In order to attract foreign investment in the FEZ, more attention should be paid to such issues as the development of a network of information and consulting support for investors, the marketing of investment programs and projects of interest to Uzbekistan, the development in foreign countries of a network of investment bureaus, providing services to potential investors for entering the Uzbek market, forming a data bank on investment projects and preparing reference materials on investment conditions, issuing special information publications that form a positive image of Uzbekistan as a country interested in foreign investment;

6. One of the main conditions for the successful establishment and operation of the FEZ is the presence of both the appropriate production and non-production infrastructure (various trading enterprises, consumer services, pharmacies, etc.). Infrastructure - this is what potential investors are primarily paying attention to. So in South Korea one of the main provisions of the Law "On the establishment and functioning of free economic zones" № 6835 of December 30, 2002 is the creation of comfortable living conditions for foreign citizens. This envisages the creation of institutions on the territory of the FEZ with international level of medical and educational services, comfortable living conditions. In addition, the creation of institutions with an international level of service and the

provision of education services (including higher education) will improve the skills of local staff, improve the quality of education in the regions;

Taking into account these and other factors of success of free economic zones, regular monitoring of the positive experience of the operation of the FEZ and, accordingly, continuous improvement of legislation, management system and organization of the activity of the FEZ, policies to attract investors and assist them in locating industries in the FEZ, the FEZ, to accumulate the necessary experience for a more rational approach to the creation of new territories with special conditions of activity and enterprises.

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