

INCREASING EXPORT POTENTIAL WITH SPECIAL ECONOMIC ZONES IN UZBEKISTAN

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Abstract: Intensified international competition has led to the loss by domestic enterprises of world markets and a direct threat to national markets. The lack of investment and new innovative technologies promoted new economic zones in the country. In this paper work author explains main concepts of free economic zones and its formulation into new forms in regions. Main purpose of the article is clarifying role of special economic zones in world economy with theoretical approaches and find out most optimized models for implementation of them into least developed regions of Uzbekistan. As outcomes can be considered international legislation and fundamental frameworks of the research objectives. Conclusion presented as three optimal model structure set up and innovative modern class specialized zones for improvement urban places for providing economic growth. Result of this study was a conceptual review of special economic zones as a full-fledged international mechanism that promotes increase investment attractiveness and competitiveness of the entire state and its individual industry sectors.

Keywords: international relations, competitiveness, investment, commerce, investment attractiveness, development of territories, special economic zones, territories of priority.

Introduction

Transformation of the world economy, the variability of the geographic location due to the established integration, the formation of new centers of economic growth determine a clear vector for the development of the Uzbekistan economy. Transition from a raw material orientation to innovative, technological development. The basis of this transition should be a strategy for the modernization of sectors of the economy, based on their effective technological development. Among the priorities of economic growth, special attention should be paid to the formation of a competitive industry in all regions of the country.

The SEZ is a restricted area with special legal status and economic conditions for national and foreign entrepreneurs. The main objective of the SEZ is the solution of strategic tasks of development, including foreign trade, economic, social, regional and scientific-technical problems[1].

Special Economic Zones (SEZs) have, over the past five years, become synonymous in India with grabbing land from farmers[2].

Although, special economic zones as a policy concept and tool were tested over long periods of time in countries like India or China, being the most visible examples, we should remind that in a large number of different parts of the world this kind of policies were in various levels or modifications used for accomplishment of the same or the alternative policy goals in both developing and industrialized countries. These policies brought diverse experience and policy implications in the different countries [3].

A necessary condition for economic development and strengthen the sovereignty of the state is to provide comprehensive and equal development of its various territories. Socio-economic development of regions should be based on their production, investment, resource potentials and taking into account geographic, demographic and other features [4].

In general, there is to note that issues regarding a policy of special economic zones are really not simply interpretable ones. They are surrounded by a number of versatile risks [5]. Though, the richest empirical instances of application of these tools are related to the economic transformations and the institutional experiments with the market mechanisms, whilst some of these instruments are being applied also in the certain European Union member states in the present time [6].

Literature review

Special economic zones (SEZs) have long existed in various forms, but it was not until the mid-1900s that they were used as a deliberate policy tool. The US built its first SEZ in New York in 1937, and then in 1942 constructed SEZs in in Puerto Rico [7]. However, the first modern industrial free zone was introduced and constructed in Shannon, Ireland, in 1959 [8]. Since the 1960s, SEZs have become critical components of national industrial and economic strategies around the world, especially in East Asia and Latin America. Colombia, for instance, established its first zone called Barranquilla in 1964. A year later, the Dominican Republic followed Colombia by creating La Romana zone in 1965 [9]. In Asia, India set up its first SEZ in 1965, Taiwan in 1966, South Korea in 1970 and China in 1980 [10].

Developing country, filled with unattached multinational companies; the economic “miracle of Shenzhen”, the remote fishing village that grew into one of the world’s most dynamic metropolises and China’s capital of innovation; and the world-class trade and logistics hubs of Dubai and Singapore. In general, most SEZs share the following features: (1) a secured demarcated area, (2) managed by a single management or administrative body, (3) providing advantages depending on their location, (4) under special customs regimes and streamlined procedures [11]. Among the four features, the last one is the most important determining feature of an SEZ (Farole 2011), because other SEZ features are very heterogeneous. In contrast, the Chinese SEZ model has been conceptualized as a complex of related economic activities and services rather than a single-function entity. Therefore, China’s SEZs are larger and cover a wider range of functions than SEZs elsewhere (Wong 1987; Zeng 2010). Shah (2008, 4) defines SEZs as “contained geographic regions within countries—a demarcated area of land used to encourage industry, manufacturing, and services for export—typically characterized by liberal tax laws and economic policies”. Similarly, but more comprehensively [12]

Methods and Materials

Current paper work developed under ground theory qualitative methods with various scholars’ point of views by using of secondary source data from international organizations and Sciencedirect platform. World Investment Report and World Bank Group data set provides as a main material in this research paper work. As the next approaches on explained methodology framework distributed from major articles, reports and Decrees of the Republic of Uzbekistan.

Results

The evidence of the lack of alternative strategy for innovative renewal of industrial production requires closer attention to investment processes and their innovative

component. Today to justify managerial investment decisions at regional levels are still not clearly defined. Attraction of progressive innovations and their mass replication, combination of borrowed foreign technologies with domestic R&D can be ensured by the creation of special territorial entities - special economic zones.

There are many approaches to the classification of the indicators and indicators of socio-economic development. In general, indicators can be divided into 4 groups:

- indicators of socio-economic development;
- indicators of economic security;
- forecast indicators of crisis situations;
- indicators of the environment.

Within this classification, it is advisable to use a number of criteria that characterize the following fields and directions of social-economic development of the following areas:

- construction;
- transport;
- trade;
- services;
- investment;
- the institutional characteristics of credit organizations;
- operations with foreign currency;
- raised funds;
- allocated funds;
- the standard of living of the population;
- employment;
- institutional change;
- demographics [7]

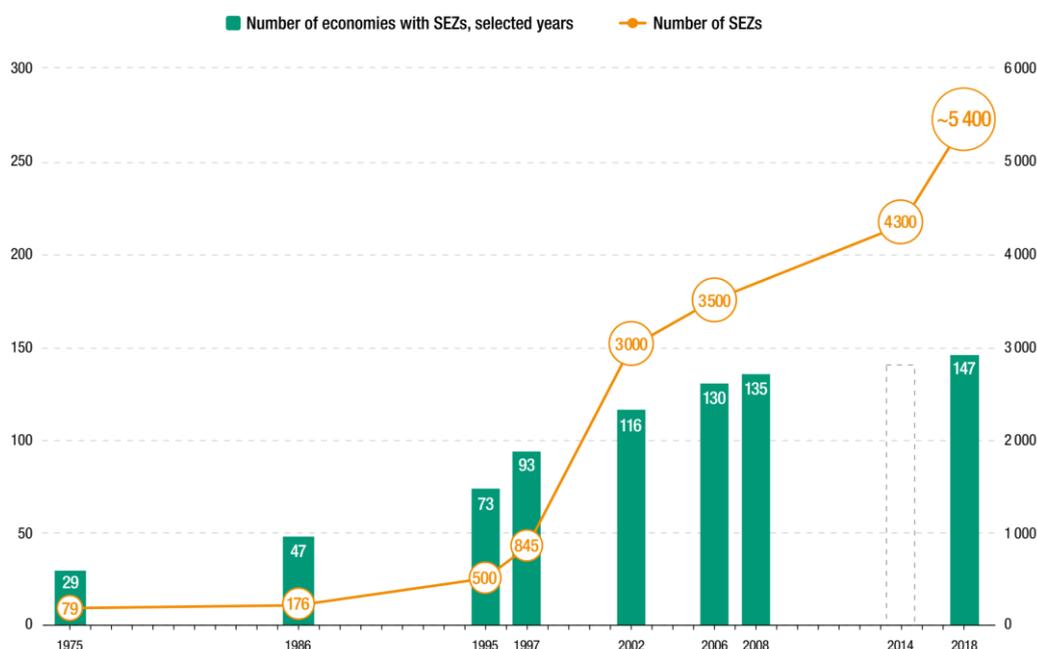


Figure 1. Historical trend in SEZs (Numbers of countries and SEZs

Source: Special Economic Zones, World Investment Report 2019, Page 129

Current deceleration in globalization and international production is having the opposite effect, as governments are responding to greater competition for mobile industrial activity with more SEZs and new types of SEZs. There are nearly 5,400 SEZs today, more than 1,000 of which were established in the last five years. At least 500 more zones (approximately 10 per cent of the current total) have been announced and are expected to open in the coming years. The continued enthusiasm for SEZs among governments around the world belies the impact of these zones, which is often mixed.

Organizing principle	Type	Description
Specialization	Logistics hubs (FTZs)	<ul style="list-style-type: none"> Commercial, warehousing and logistics services Trade facilitation services for trans-shipping and re-exports, at airports, seaports, borders Can be located next to or within larger industrial estates
	Multi-activity SEZs	<ul style="list-style-type: none"> General industrial development, non-specialized
	Specialized SEZs	<ul style="list-style-type: none"> Focused on sectors (e.g. services, resource or agro-based) Focused on industries (e.g. automotive, electronics, garments) Focused on GVC activities (e.g. business process outsourcing, call centres, R&D centres)
	Innovation-driven SEZs	<ul style="list-style-type: none"> Focused on industrial upgrading and new industries, e.g. high-tech zones, biotech zones, ecozones
Design and governance	Wide-area zones	<ul style="list-style-type: none"> Large, integrated zones, often coinciding with a subnational administrative region or built as townships with residential areas and amenities Original purpose of the largest zones was to pilot economic reforms
	OFDI/ODA-driven zones	<ul style="list-style-type: none"> Established under a partnership between capital-exporting economies and lower-income economies
	Cross-border/regional development zones	<ul style="list-style-type: none"> Established to foster regional economic cooperation and to exploit economies of scale associated with regional markets

Figure 2. A functional taxonomy of SEZs Organizing

Source: UNCTAD, 2018

Figure 2 shows that classification of special zones in case of specialization and other factors which indicated design and governance of the targeted areas. It is clear stated that functions of the taxonomy types defined common description of zones.



Figure 3. Main elements of the regulatory framework of SEZs

SEZ-specific rules are generally more favorable for zone users, as they offer certain benefits and privileges not available outside the zones. The manner in which this special

regime and the general legislation interact, as well as the degree to which SEZ rules differ from the general legal framework, vary considerably between countries as indicated at Figure 3. Trade rules establish tariff systems for imports and stipulate other non-tariff related requirements and administrative procedures to be fulfilled for both imports and exports.

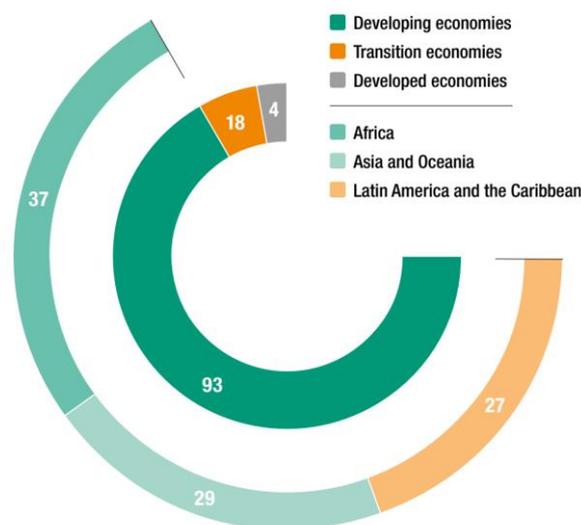


Figure 4. Regional distribution of SEZ laws

The number of SEZ laws in force has increased significantly since the 1990s, with almost 70 per cent adopted since 2000 (Figure 4). This trend has accelerated over the last decade, with nearly 40 per cent of all recorded national legislation having entered into force since 2010 – the vast majority in developing countries. The existing legal frameworks are therefore relatively recent.

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Prominent elements of a well-organized policy framework for SEZs are discussed in Table 1. A best-practice policy and incentive framework is stream-lined, encouraging zones to compete on the basis of facilitation, facilities, and services rather than on the provision of incentives. The relevance of regulatory issue to investors is a crucial, yet overlooked factors of successful SEZ programs. The host government should aim to simplify investment approvals and expatriate work permissions; control over the import and export licenses; and monitoring customs audit procedures and stability of the exchange access.

Table 1.

International Standard Basic Policy Framework for SEZs [9]

Concept of extra-territoriality	Outside domestic customs territory; eligible for national certificates of origin; eligible to participate in national trade agreements and arrangements.
Eligibility for benefits	No minimum export requirement; manufacturers and services; foreign and local firms; expansions of existing enterprises; private developers of zones.
Foreign and local ownership	No limitations; equal treatment
Private zone development	Clearly defined in legislation; specific zone designation criteria; eligible for full benefits; competition from government-run zones on a level playing field.
Sales to the domestic market	Liberalized, provided on a blanket basis rather than case by case; treated as import into domestic market; subject to payment of import duties and taxes
Purchases from domestic market	Treated as exports from domestic market; enterprises eligible for indirect exporter benefits.
Labor policies	Full consistency with International labor organization labor standards; specialized dispute settlement mechanism.

Source: Special economic zones performance, lessons learned, and implications for zone development, The World Bank Group, FIAS, 2008, Page 6.

Type of Zone	Development Objective	Physical Configuration	Typical Location	Eligible Activities	Markets	Examples
Free Trade Zone (Commercial Free Zone)	Support trade	Size < 50 hectares]	Ports of entry	Entrepôt and trade-related activities	Domestic, re-export	Colon Free Zone, Panama
Traditional EPZ	Export manufacturing	Size < 100 hectares; total area is designated as an EPZ	None	Manufacturing, other processing	Mostly export	Karachi EPZ, Pakistan
Hybrid EPZ	Export manufacturing	Size < 100 hectares; only part of the area is designated as an EPZ	None	Manufacturing, other processing	Export and domestic market	Lat Krabang Industrial Estate, Thailand
Freeport	Integrated development	Size > 100 km ²	None	Multi-use	Domestic, internal and export markets	Aqaba Special Economic Zone, Jordan
Enterprise Zone, Empowerment, Urban Free Zones	Urban revitalization	Size < 50 hectares	Distressed urban or rural areas	Multi-use	Domestic	Empowerment Zone, Chicago
Single Factory EPZ	Export manufacturing	Designation for individual enterprises	Countrywide	Manufacturing, other processing	Export market	Mauritius Mexico Madagascar

Figure 5. Types of Zones [10]

Source: The Multi-Donor Investment Advisory Service of the World bank Group, 45869, Report, Page 10.

In modern economic relations expanding optimal organizational structure of the economic zones such as at Figure 5 states clearly which development objectives, location, eligibility of them individually and market potentials and orientation with examples.

Type of Zone	Development Objective	Size	Typical Location	Activities	Markets	Example
Technology or Science Parks	Promote high tech and science-based industries	< 50 hectares	Adjacent to universities, institutes	High technology activities	Domestic and export	Singapore Science Park, Singapore
Petrochemical Zones	Promote energy industries	100–300 hectares	Petrochemical hubs; efficient energy sources	Petrochemicals and other heavy industry	Domestic and export	Laem Chabang Industrial Estate, Thailand
Financial Services	Development of off-shore financial services	< 50 hectares	None	Offshore financial and non-financial services	Export	Labuan Offshore Financial Centre, Malaysia
Software and Internet	Development of software and IT services*	< 20 hectares	Adjacent to universities, urban areas	Software and other IT services*	Export	Dubai Internet City, United Arab Emirates
Airport-based	Air cargo trade and transshipment	< 20 hectares	Airports	Warehousing, transshipment	Re-export and domestic	Kuala Lumpur Airport Free Zone, Malaysia
Tourism	Integrated tourism development	200–1,000 hectares	Tourism areas	Resorts and other tourism	Export and domestic	Baru Island, Colombia
Logistics Parks or Cargo Villages	Support logistics	< 50 hectares	Airports, ports, transport hubs	Warehousing, transshipment	Re-export	D1 Logistics Park, Czech Republic

Figure 6. Examples of Specialized Zones

Current analyses show that special economic zones can be differ from various prospective. According to the Figure 6 Enterprise zones are intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants. Most zones are in developed countries, for example the United States, France, and the United Kingdom, although South Africa is developing a similar mechanism (Figure 6). Single factory EPZ schemes provide incentives to major enterprises regardless of location; factories do not have to locate within a relevant zone to receive incentives and privileges. Leading examples of countries relying exclusively on a single factory scheme include Mauritius, Madagascar, Mexico and Fiji; other countries such as Costa Rica, the United States, and Sri Lanka allow both industrial estate-style zones and single factory designations.

If we analyze the next research objectives the main principles incorporated in the basic concept of a special economic zone can be considered as follows:

- Geographically delimited area, usually physically secured (fenced-in);
- Single management/administration;
- Eligibility for benefits based upon physical location within the zone;
- Separate customs area (duty-free benefits) and streamlined procedures;
- Government Revenues and Costs from Zone Development.

And one of the relevant factors can be discussed in our research as a revenue. For further improvement of earning from special zones in case of manufacturing or service based economic activities may include below convinced causes and effects which directly goes relationship economic benefits of the zones:

- Corporate income tax (if no tax holiday);
- Personal income tax on direct and indirect employment;

- Permit fees and service charges;
- Rental or sales fees (from sale or rental of public land to developers);
- Import duties and taxes on zone products sold to the domestic customs territory;
- Concession fees for other facilities (port, power plant, and so on), linked to zone development.

For expenditures of each special zones legally obligatory as indicated Decree or Codes of individual countries can be applicable as indicated below costs:

- Wage bill of government workers needed to regulate zone activity or operate the zone and other operating expenditures;
- Public sector capital outlays for external infrastructure (and internal infrastructure and facilities in the case of a publicly developed zone);
- Import duties and charges lost from smuggling;
- Taxes forgone from enterprises relocating from the domestic customs territory to the zone;
- Subsidies.

Impact of measure	Measures	International rules limiting the measure (prohibiting it or phasing it out)	International rules allowing or requiring the measure
Supporting firms	<ul style="list-style-type: none"> • Tax and other benefits • Exemption from customs and duties • Relaxed regulatory requirements • Additional liberalization for foreign investors • Streamlined administrative procedures 	<ul style="list-style-type: none"> • WTO SCM • Human rights instruments • ILO conventions • Environmental agreements 	<ul style="list-style-type: none"> • Kyoto Convention • WTO GATT • WTO GATS/RTA (establishment commitments) • WTO TFA • IIA (investment facilitation rules)
Constraining firms	<ul style="list-style-type: none"> • Establishment and operational requirements 	<ul style="list-style-type: none"> • WTO TRIMs • IIA/RTA rules on performance requirements 	<ul style="list-style-type: none"> • RTA/IIA reservations for performance requirements

Figure 7. SEZs and international law: the interface (Examples)

The next research argues that international legislation on privileges and support each selected factor can be found from the figure 7. According to its special measurements and international law implementation, control over process and permission on some given activity permission requirements. From this point of view in our country optimized legislative structure regarding some regions standardized above articles and some compulsory activities.

Discussion

Increasing export potential with special economic zones in Uzbekistan issued tax incentives for foreign investors as for the Deloitte, 2017. State Advisor to the President of the Republic of Uzbekistan with the members of the Special Commission, to implement the decision on a monthly basis, to implement investment projects in each FIEZ, to improve the financial and economic activity of economic entities participating in the FIEZ. Attaching of commercial banks of the Central Bank of the Republic of Uzbekistan and commercial banks to free economic zones with the purpose of rendering financial and credit assistance to economic entities - participants of FIEZ on timely implementation of investment projects. Authorized commercial banks recommendations on provide full support to economic entities that are participants of the FIEZ, implementing investment projects, and provide business entities with a special attention to the feasibility study, efficiency and cost recovery

of projects. The Fund for Reconstruction and Development of Uzbekistan provide authorized commercial banks with a credit line of \$ 100 million to finance investment projects in the FIEZ as outlined in Annex 2 to this Resolution.

The most common obstacles to success for zones are:

- Poor site locations, entailing heavy capital expenditures;
- Uncompetitive policies—reliance on tax holidays, rigid performance requirements, poor;
 - Labor policies and practices;
 - Poor zone development practices—inappropriately designed or over-designed facilities, inadequate maintenance and promotion practices;
 - Subsidized rent and other services;
 - Cumbersome procedures and controls;
 - Inadequate administrative structures or too;
 - Many bodies involved in zone administration;
 - Weak coordination between private developers;
 - Governments in infrastructure provision.

The "Presence of systemic problems and deficiencies" in the Free Economic Zones (the FEZ) is a major reason for the adoption of the Decree of the President of the Republic of Uzbekistan "On Measures for Further Development of the System of Coordination and Management of the Activities of the Free Economic Zones" dated December 21, 2018 [11]. This Decree was issued in the light of recent polls, which indicated negative attitudes of the FEZ participants. The participants claimed that the ineffectiveness of the system is hindering their businesses: particularly, long bureaucratic procedures and extremely long terms of consideration of their applications by state bodies; unclear separation of obligations, as well as a lack of infrastructure for conducting and developing business. The polls showed that only 112 companies (28 percent) out of 402 registered participants of the FEZ have started their activities. The Decree approved new procedures for conducting activities in the FEZ, specifically:

- From now on, a separate decision of the khokim (Mayor) of the city is not required for the provision of a land plot to the FEZ participants.
- Exports of at least 25 percent of production by the end of the second financial year, and at least 50 percent for subsequent years became one of the conditions for the placement of projects in the FEZ.
- FEZ directors are appointed by the administrative council with the consent of the Cabinet of Ministers. Previously, they have been appointed by the Republican Council on Coordination of the Activities of Administrative Councils of the Free Economic Zones and Small Industrial Zones (the Republican Council) [12].

Suggestions

One more step for improvement of special zones activities an be implemented following organizational structure for individual sector and region from the point of specialization.

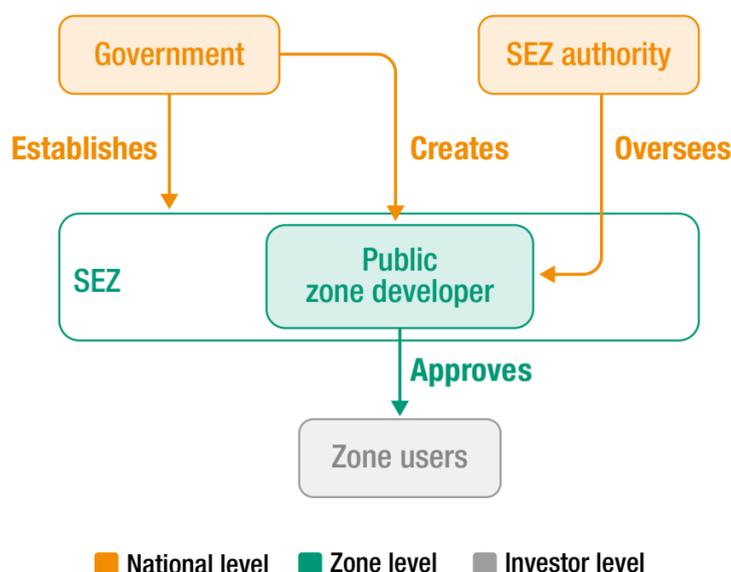


Figure 8. Public model of SEZ institutional set-up [13]

Source: UNCTAD, World Investment Report 2019 Special Economic Zones, Page 170.

In the general model (Figure 8), all institutions at national and regional levels, including public or community control of area developers. Frequently the developer zone called "zone administration." Although these administrations may be organized Administrators of FIEZ, which are financially independent, carry out strict control and supervision their operations. In this model, the choice of zone users is an administrative decision. Often central and local governments delegate regulatory authorities to the zone administrations. A strong regional government-backed government can also help with coordination Responsibilities of various state agencies involved in the SIZ.

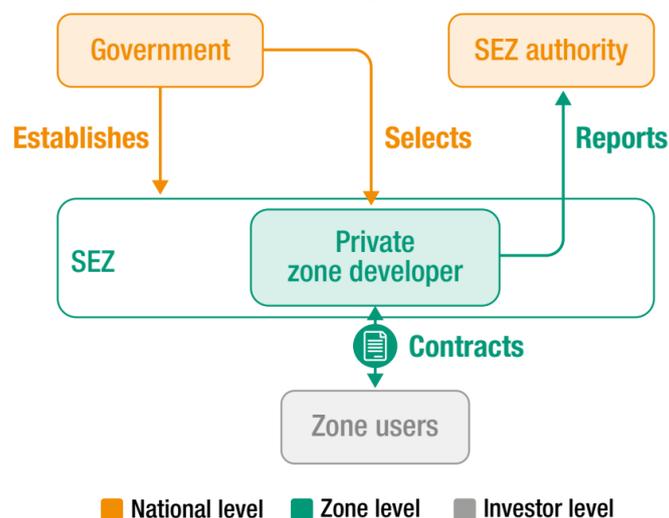


Figure 9. Private model of SEZ institutional set-up

At the opposite end of the spectrum is the private model with private zone developers being selected in a competitive process on the basis of statutory criteria (Figure 9). They have broad operational autonomy and report to the SEZ authorities, which have limited and strictly defined regulatory powers. Most importantly, zone developers are

responsible for the admittance of zone users, with which they conclude investment contracts that regulate land leases, relevant fees and charges, or other operational issues.

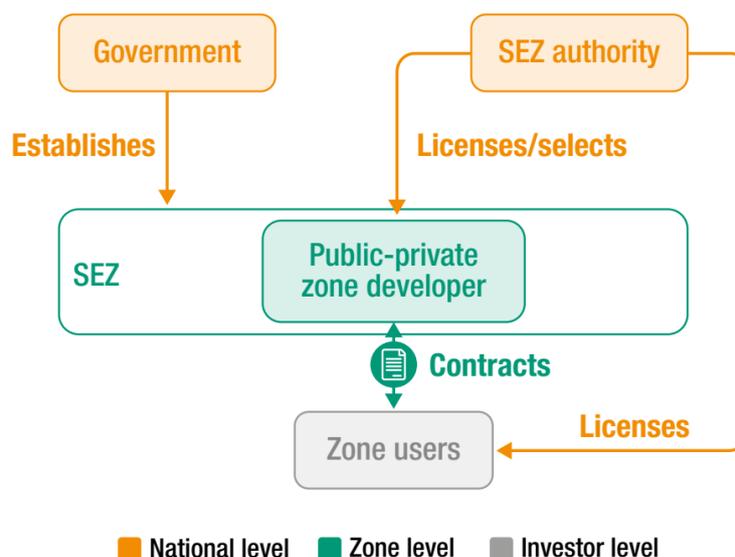


Figure 10. Hybrid model of SEZ institutional set-up

The hybrid model is a combination of the two models (Figure 10). It provides for the possibility of public or private zone developers that retain relatively broad autonomy in their operations. As regulators, SEZ authorities license all private stakeholders and thus retain some control over the admission process. Nevertheless, the admission of zone users at the zone level falls again into the purview of zone developers, as user status in the zone is governed predominantly by a contract. This model gives broad flexibility to policymakers to shape SEZ regimes according to zone activities and specific investment.

Conclusion

In conclusion increasing economic development of the special economic zones in Uzbekistan it is applicable of privileges on taxes and fees cannot be of a relevant factor. It is not only depending on fiscal instruments or privileges but also dependent on knowledge based and well-planned business plan and providing competitive manufacturing goods with innovations, electronic governance and commerce, high level of productivity and effectiveness of individual firms, companies and enterprises which located in Uzbekistan.

The next findings can be assumed that creating the SEZ as the most popular methods of stimulating the activities of residents in world practice. Technologies, training managers for innovative activities in the scientific, technical and industrial fields; Attraction of capital investments to priority sectors of the economy; Increasing the efficiency of products and the technical level of production, substitution of imported products with products of their own production; increasing the modern of industrial organizations based on new technologies and the development of high-tech products; expansion of information services, development of new production technologies; increasing the profitability of tourism and other tourism activities, and creation of a new and reconstruction of zones in Uzbekistan.

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