
The Role And Importance Of Foreign Investment In The Functioning Of Free Economic Zones Of Uzbekistan

KUZIEVA NARGIZA RAMAZANOVNA¹, ASHUROVA NASIBA BATIROVNA²,
UMAROVA AZIZA ILKHAMBAEVNA³, KHUSANOV DURBEK NISHONOVICH⁴

¹Professor of Tashkent Financial Institute, Doctor of Economics

²Professor of Navoi State Mining Institute, Doctor of Economics

³Senior lecturer at the YOJU Technical Institute in the city of Tashkent

⁴PhD in Economics, Tashkent Financial Institute

Abstract: The article outlines current issues on active development of the production of competitive and export-oriented modern industrial products of the regions of the country, attraction of foreign and local investments to create modern production facilities to ensure the production of competitive products with high added value and in demand on foreign markets, taking into account the deep processing of mineral raw materials and agricultural resources.

At the same time, the essence of the organization of free economic zones for creating favorable conditions for their functioning and an effective mechanism for applying tax and customs privileges in these regions are analyzed

Keywords: Free economic zone, industrial-export special economic zone, determining factor, customs duties, the market monopolized, globalization

INTRODUCTION

Despite the good macroeconomic indicators of recent years, the issue of further diversification and modernization of the economy, in particular the structure of industry in more technological and capital-intensive areas, remains relevant.

Free economic zones are one of the mechanisms for the development of an unconventional 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, as well as for effective (close) integration of the national economy into the world economy.

Many countries of the world create different types of FEZ on the basis of national specifics, level of economic development, political and social conditions of the country. As a result, they acquired new features and characteristics at each stage of development, which explains the presence of many definitions of this economic category. The Law of the Republic of Uzbekistan "On Free Economic Zones" dated April 25, 1996 provides the following definition: "Free economic zone is a specially designated territory with clearly defined administrative boundaries and a special legal regime created to attract domestic and foreign capital, advanced technology and management experience for accelerated socio-economic development of the zone".

Analyzing the above definitions, we can draw the following conclusion: a free economic zone is a relatively isolated part of the territory of a country where a special legal regime is established for businesses, including tax, customs, administrative and civil law benefits and guarantees. This part of the country should have certain conditions for doing business and comfortable living.

Today, despite the variety of varieties of free economic zones, it is possible to identify those common features that make it possible to combine these organizational and economic entities under the general term - free economic zones - regardless of the goals of their creation, functional specialization and the complexity of the economic mechanism of functioning.

These include:

- locality of the territory;
- the presence of favorable initial economic, social, political, transport-geographical and climatic conditions for the formation of SEZ;
- economic specialization in the field of entrepreneurial activity;
- the establishment of a special legal and economic regime on this territory, more preferential in comparison with the conditions in force outside this territory;
- comprehensive support and guarantees of the state;
- multilevel management system, adequate to the goals and objectives of the territory.
- Mandatory criteria for the placement of investment projects in the FEZ territories:

- creation of import-substituting, high-tech industries in accordance with the parameters established by legislation for localization projects;
- the volume of exports after the start of production activity - at least 20 percent in the second and at least 30 percent - in the third and subsequent years;
- creation of new jobs in the number determined by the administrative councils, including the establishment of a 10 percent quota for the admission of those in need of employment according to the lists provided by the Council of the Federation of Trade Unions;
- staffing of the staff of the created organization from among the citizens of the Republic of Uzbekistan in the amount of at least 95 percent of the total number of involved employees, with the provision of them the opportunity to undergo training and advanced training.

The reason for the creation of specialized pharmaceutical zones was the fact that the pharmaceutical market is highly dependent on the imported component, which, due to the exchange rate difference, leads to an increase in the cost of drugs and medicines for the population.

However, the flora of Uzbekistan makes it possible to produce most of the components of pharmaceutical products from its own raw materials, which are now used in limited quantities. The decree provides for the allocation of land for the establishment of plantations of medicinal plants in the relevant zones.

In addition, an active reform of the system of legal regulation of the activities of free economic zones began, in connection with which a number of new by-laws were adopted and amendments were made to the earlier ones.

So, the basic documents, common for all zones, were approved:

- Regulation on free economic zones;
- Regulations on the procedure for selecting investment projects for placement on the territory of free economic zones and registration of participants in free economic zones;
- Regulations on the procedure for providing land plots to participants in free economic zones.
- Regulations on the procedure for the application of tax and customs privileges in the territory of free economic zones.

The approval of these documents is a huge step forward in the effective organization of the activities of free economic zones. These documents regulate all the main issues: the procedures for creating free economic zones, determining and registering participants in zones, selecting projects for implementation on the territory, applying special customs and tax regimes, and implementing other preferences for zone participants.

In order to stimulate the development of branches of the national economy and the development of regions, the state uses a number of different economic instruments. The most effective among them are extensive tax and administrative incentives, comprehensive support and guarantees by the state of the rights of investors, the offer of a certain set of preferences to investors, various forms of subsidies in the form of low prices for utilities, etc.

Benefits:

tax and customs benefits for zone members:

- exemption from paying a number of taxes for a period depending on the volume of investments
 - \$ 300 thousand - \$ 3 million - tax exemption for 3 years;
 - \$ 3 million - \$ 5 million - tax exemption for 5 years;
 - \$ 5 million - \$ 10 million - tax exemption for 7 years;
 - \$ 10 million or more - tax exemption for 10 years.
- exemption from customs payments when importing materials and equipment for organizing own production;
- road and transport, engineering, communications and production infrastructure created from centralized sources.

In order to stimulate activity and create conditions for the implementation of investment projects in the territory of the FEZ, a separate commercial bank is assigned to each FEZ, which deals with the issues of servicing the participants in the zone and providing them with preferential loans.

The system for coordinating the development of FEZs has also changed: if earlier the Administrative Councils of FEZs were created for each FEZ separately, and most of the members of the Administrative Councils were officials from the central offices of government bodies, now an Administrative Council of FEZs and small industrial zones is being created in each region (MPZ) of the region, responsible for the development of all SEZ and MPZ on the territory of the region, which includes the heads of regional divisions of government bodies, which significantly affects the quality of performance by the Administrative Council of its functions.

In addition, to coordinate the development and activities of the FEZ as a whole, the Republican Council was created to coordinate the activities of the administrative councils of free economic zones and small industrial zones, the main tasks of which, along with the coordination of the activities of regional Administrative councils, are to develop strategies for the development of FEZs in the country in the medium and long-term perspective,

as well as the development of programs for the development of infrastructure and communications, financed from centralized funds.

Analysis and generalization of existing points of view on the concept of FEZ showed that in most definitions the essence of FEZ is reduced to a special preferential regime established in any territory. However, in many theoretical works analyzing the world experience of organizing free economic zones, the latter, as a rule, are defined as a tool for selectively reducing the scale of government intervention in economic processes. With this approach, this concept covers a wide range of different institutional phenomena, combined by virtue of the action of the preferential economic regime.

Based on this, the FEZ is understood as a part of the national economic space, where a special management regime, a management system and a certain set of benefits and incentives are introduced that are not used in other parts of the state, which create favorable conditions for entrepreneurial activity.

The process of globalization, erasing the boundaries in the promotion of goods and services, erases the scope of competition between countries. If earlier countries were competing within their region or continent, then in the conditions of accelerating globalization, producers of any country have to compete with manufacturers of almost the rest of the world. As a result, developing countries are severely affected by competition from more developed countries. Although thanks to a balanced economic policy, Uzbekistan has become one of the few countries in the world that has managed not only to withstand the height of the crisis, but also to ensure high economic growth rates.

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, Navoi region ranks first, the leading regions are also the 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.

This year, a new, fifth stage has begun in the development of free economic zones in Uzbekistan. The spheres of creation of FEZs were expanded and along with the creation of industrial zones, the creation of FEZs began in other sectors, such as the service sector and agricultural production.

So, in December 2017, it was decided to create a free tourist zone "Charvak" on the territory of the Chimgan-Charvak resort and recreational zone of the Tashkent region and build modern hotel complexes, cultural, recreational, shopping and entertainment and other tourist facilities on its territory, as well as the creation of modern engineering infrastructure facilities. It is planned to spend over 17 billion soums only on the development of road transport, engineering, communication and production infrastructures of the Charvak STZ. The development concept envisages that the creation of the Charvak STZ will increase the volume of provided tourist services due to the annual increase in the number of foreign tourists visiting the region, which will generally contribute to the growth of the export of tourist services to the projected \$ 100 million in 2021, while the number foreign tourists visiting the region will increase from 72 thousand people at the end of 2017 to the projected 150 thousand people in 2021.

In order to create conditions for the further development of the fishing industry, improve the system of training and retraining of personnel, improve the quality of scientific and innovative research and development, ensure the widespread introduction of their results into practical activities in the Kuyichirchik district of the Tashkent region, a free economic zone (FEZ) "Balik ishlab chikaruvchi".

One of the main tasks of the SEZ is the creation of pedigree fish seedlings by acclimatizing new and proven fish species for the further development of their own production, stocking artificial reservoirs and providing fish farms. The FEZ will also create modern complexes for fish processing, production of fish products (canned food, caviar, flour, delicacies, etc.) to meet, first of all, the needs of the population, as well as subsequent export to neighboring countries.

In order to create favorable conditions for attracting foreign and domestic investment for the creation of modern greenhouse farms that ensure the cultivation of competitive products with high added value, in demand in foreign markets, as well as the comprehensive and efficient use of the production and resource potential of the Bukhara region, the organization on this basis of new workers places and increasing incomes of the population in the Bukhara region, in July this year, another agricultural zone was created - the free economic zone "Bukhoro-Agro".

It is planned that modern greenhouses will be placed in the FEZ with the attraction of direct foreign and domestic investments, including using hydroponics technology, based on a cluster form, as well as the production of structures, equipment and other components for the construction of energy-saving greenhouses.

Among the tasks of the SEZ are the production, processing and export of agricultural products, the formation of a modern logistics infrastructure, the organization of nurseries for seedlings and seedlings of popular crops, as well as primary seed production.

Uzbekistan, having accumulated experience in the use of FEZ regimes for economic development on three successful projects, has switched to the widespread use of this effective economic instrument on the scale of the country's economy.

Moreover, the range of problems solved with its help is significantly expanding - stimulating the development of economically problematic regions, developing high-tech export-oriented industries, increasing the competitiveness of economic sectors.

In general, at present, about 70 investment projects totaling \$ 1.5 billion have been implemented in the FEZ territories, with more than half of the investments being made by direct foreign investors. As a result, about 5 thousand jobs were created. More than 200 projects with a total value of over \$ 1.5 billion (including over \$ 400 million in foreign direct investment) are underway, which will create about 22 thousand more jobs.

The republic is facing large-scale tasks to reform all aspects of the life of the population, and free economic zones can provide significant assistance in solving these tasks. Free economic zones are one of the most important instruments of economic policy for attracting investments to expand export potential, introduce innovative ideas, know-how, technologies, and support lagging regions. The effective use of this tool will provide a significant breakthrough in the development of the republic's economy and, ultimately, will have a favorable effect on the welfare of the population.

REFERENCES:

1. Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947 "Strategy of actions on five priority areas of development of the Republic of Uzbekistan for 2017-2021".
2. Law of the Republic of Uzbekistan No. ZRU-604 of February 17, 2020 "On Special Economic Zones".
3. Mirziyoev Sh.M. "Critical analysis, strict discipline and personal responsibility should be the daily rule of every leader." - Tashkent. : Xalq so'zi newspaper, January 15, 2017.
4. Decree of the President of the Republic of Uzbekistan dated January 12, 2017 No PF-4931 "On the establishment of free economic zones" Urgut ", " Gijduvon ", " Kokand "and" Hazarasp ".
5. Kuzieva, N. and others. (2020). Efficiency of free economic zones in Uzbekistan through taxes ways of supply. *International Journal of Advanced Science and Technology*. Vol. 29, №. 7, (2020), pp. 7861-7873.
6. Kuzieva, N. and others. (2020). Business processes in the insurance system and their features. *International Journal of Advanced Science and Technology*. Vol. 29, №. 7, (2020), pp. 7908-7913.
7. Kuzieva, N. and others. (2020). Overview of tax administration and tax revenue in Denmark, Norway, Sweden and Uzbekistan. *Solid State Technology Volume: 63. Issue: 4, (2020), pp. 390-409.*
8. Kuzieva, N. and others. (2020). Use of electronic commerce platforms in order to increase the competitiveness of insurance companies. *Solid State Technology Volume: 63. Issue: 4, (2020), pp. 663-669.*
9. Kuzieva, N. and others. (2020). Analysis of free economic zones in the Republic of Uzbekistan: development, functioning and existing tax regime. *Solid State Technology Volume: 63. Issue: 4, (2020), pp. 574-582.*
10. Kuzieva, N. and others. (2020). The oretical aspects of the emergence of free economic zones and their role in the economy of the state. *Solid State Technology Volume: 63. Issue: 4, (2020), pp. 673.*