
PROSPECTS FOR INVESTING IN FREE ECONOMIC ZONES ON THE TERRITORY OF THE REPUBLIC OF UZBEKISTAN. GLOBAL FLOWS OF FOREIGN DIRECT INVESTMENT

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Abstract

The state is considering the prospects for investing in a free economic zone (FEZ) on the territory of the Republic of Uzbekistan. The advantages and benefits of this economic model are presented. From the analysis of various types of free economic zones, the main conditions necessary for their creation are determined. The most successful examples of the application of this idea in Uzbekistan are given. Analysis and analysis of the basic principles of doing business and investment projects on the territory of the free economic zone. Also, the state is considering a document on world investment for 2022.

Keywords: free economic zone, investment prospects, types of free economic zones, direct foreign investment flows.

Аннотация

В статье рассматриваются перспективы инвестирования в свободные экономические зоны (СЭЗ) на территории Республики Узбекистан. Представлены преимущество и недостатки этой экономической модели. Дан анализ различных видов свободных экономических зон и определены базисные условия, необходимые для их создания. Приводятся наиболее успешные примеры применения данной идеи в Узбекистан. Рассмотрены и обобщены основные принципы ведения бизнеса и реализации инвестиционных проектов на территории свободных экономических зон. А также, в статье рассматривается доклад о мировых инвестициях 2022 года.

Ключевые слова: свободная экономическая зона, перспективы инвестирования, виды СЭЗ, прямые потоки иностранных инвестиций.

Introduction

In 2022 and beyond, it is difficult to foresee the consequences for investment inflows to developing countries. In addition to the direct impact on the Central Asian countries with close investment ties in the region, the impact on other countries will be mainly indirect and will depend on their degree of exposure to the triple crisis caused by the conflict, and as a consequence of their economic and political instability – the key determinants of international private investment. Difficult tasks will arise. Developing countries face difficulties in responding to reforms due to the lack of technical

capabilities to account for complex tax changes, as well as obligations under investment agreements that may reduce the practical effectiveness of fiscal policy.

In order to further develop the economy of Uzbekistan, complete the processes of liberalization and transformation, expand foreign economic relations, introduce modern technologies for the production of export-oriented products and materials, develop transport and logistics infrastructure, develop entrepreneurship and increase investment attractiveness for foreign investors, improve tax administration, regulate banking activities. This requires the introduction of modern investment principles, the rapid development of the tourism industry, the creation of favorable conditions for attracting foreign investment, primarily direct investment.

In order to achieve the progress of investment trends, it is necessary to carefully formulate investment projects by region and industry for investors who want to invest in our economy. In this regard, it is necessary to organize and legislatively regulate the placement of business entities in free economic zones and small industrial zones, as well as the provision of benefits and preferences to them. Industry plays a very important role in the country's economy and employment. In order to create the necessary conditions for this sector, 19 free economic zones and more than 400 small industrial zones have been created in recent years, 10 trillion sumov has been allocated for their infrastructure.¹

Literature Review

There are several inconsistencies in the tax benefits provided to free economic zones. In particular, it is advisable to determine tax benefits based on the convenience and disadvantages of geographical location, as well as to fix them in legislation. The inconsistencies are that the same benefit is granted to the Republic of Karakalpakstan and relatively developed than the Samarkand region, Navoi region, Tashkent region or the city of Tashkent. The level of development of these regions and the conditions in them are different, so the flow of investment goes only to developed regions. The purpose of free economic zones is the development of economically underdeveloped regions through investment. In this regard, Professor J.Karimkulov emphasized the use of India's experience in his scientific research, among other things, it is advisable to determine tax benefits based on the territorial units of each country, not the time factor, but the area factor.

The Russian scientist A. M. Margolin in the textbook "Investments" describes "Investments - capital investments in the form of money, target bank funds, securities, technologies, machines, fixed assets and other property, as well as property and non-property rights that have a monetary value. , as strategic goals of the investor in order to introduce it into production and other objects of activity."

¹ <https://president.uz/uz/lists/view/5810>.



The well-known economist-scientist, Nobel Prize laureate P.A.Samuelson believes that "There is a causal relationship between investment and economic growth", to which he gave a description through the "accelerator principle".

Research Methodology

Within the framework of the research work, such research methods as statistical observation, verbal interpretation, SWOT analysis, systematization, induction and deduction were used.

Analysis and Discussion of the Results

Global flows of foreign direct investment (FDI) in 2021 amounted to \$1.58 trillion, which is 64% more than the exceptionally low level of 2020 (figure 1). The recovery has shown significant momentum thanks to the rapid growth of M&A markets and the rapid growth of international project financing due to favorable financing conditions and large infrastructure development benefit programs.

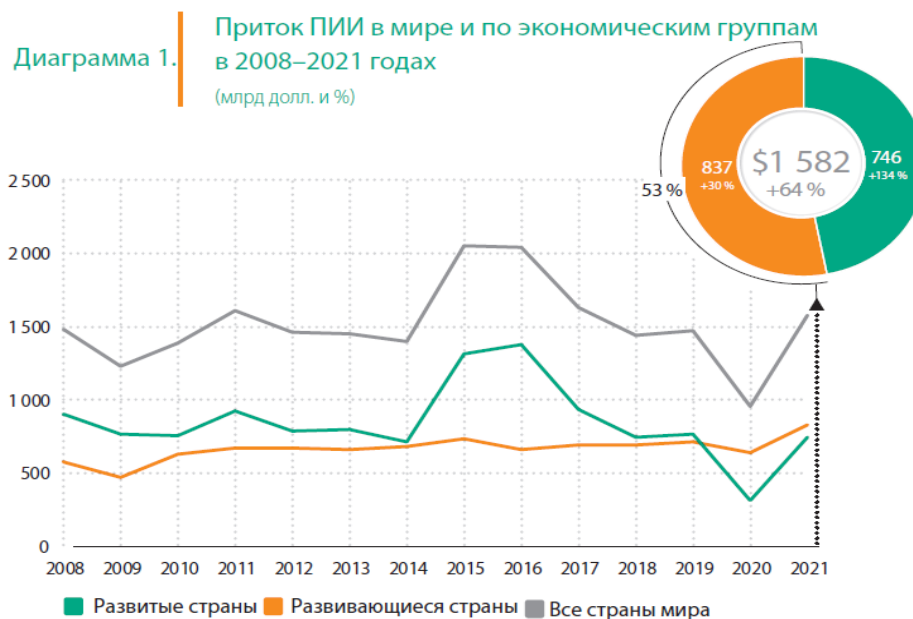


Diagram 1.²

And judging by the structure of FDI flows in 2021, some regions are their major recipients, especially Europe, still show relatively low indicators compared to previous periods.

FDI inflows to developing countries grew more slowly than their inflows to developed regions, but still increased by 30% to \$837 billion. The increase was mainly due to strong

² <https://unctad.org/fdistatistics>

growth in Asia, a partial recovery in Latin America and the Caribbean, and a recovery in Africa. The share of developing countries in global flows remained slightly above 50%. In 2021, the MNEs of developed countries more than doubled their investments abroad from \$483 billion to \$1.3 trillion.dollars. Their share in global FDI outflows has grown to three quarters (figure 2). Most of the growth was driven by record reinvested profits and a high level of activity. In 2021, the high volatility of the export of investments through intermediate countries remained.

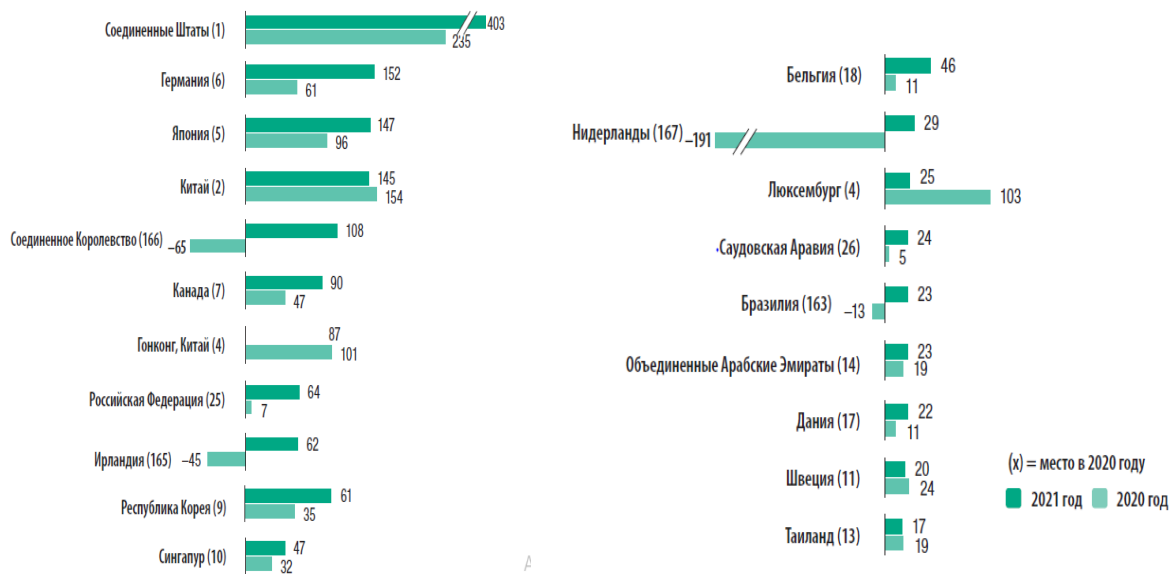


Diagram 2. Export of foreign direct investment in the 20 largest home countries in 2020-2021 (billion dollars)³

Free economic zones exist in more than 120 countries of the world, stimulating the growth of exports and employment in these countries. According to experts, by 2020, free economic zones will account for from 20 to 25% of world trade turnover. Their role in the global economy is constantly growing. The creation of free economic zones is an effective direction for the development of the economy of individual territories and regions, focused, as a rule, on solving specific priority economic tasks, implementing strategic programs and projects. At the same time, the system of benefits established in free economic zones should be sufficiently individual and closely related to the programs implemented on its territory.

³ ЮНКТАД, database about ПИИ/МНП (<https://unctad.org/fdistatistics>).

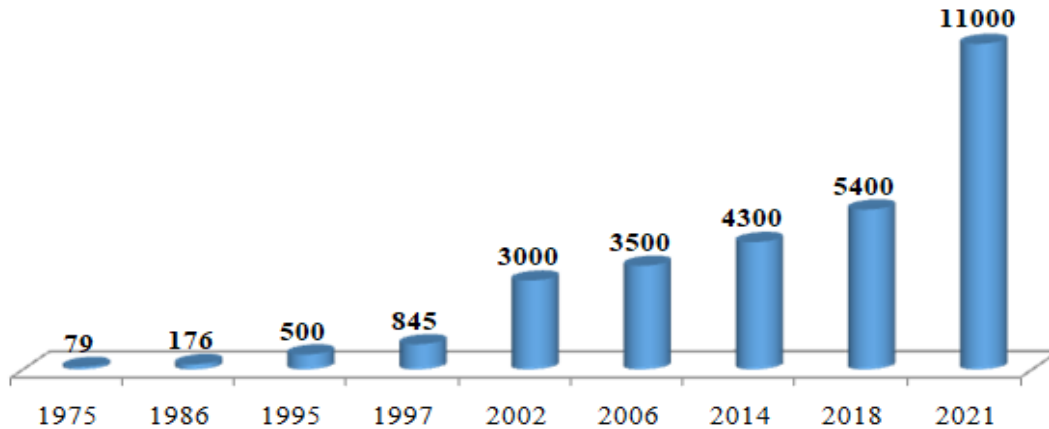


Diagram 3. Number of free economic zones in the world (units)⁴.

Free economic zones are also actively spread around the world. Free economic zones are the most developed in the USA. Their organization is provided for by a special law of 1934. Its purpose is to stimulate trade, accelerate trade operations and reduce trade costs. FEZs have a strong influence not only on their territory, but also beyond its borders, on the entire national economy. This effect is mainly of a modernization nature and is carried out through a number of channels and mechanisms. One of these effects is the prominence of a particular area at the national level. With their novelty, such regions and the first foreign companies created in them attract the attention of domestic entrepreneurs.

Table 1. Types of free economic zones ⁵

| No | Sales-oriented | Focused on industrial production | Focused on technical areas | Service-oriented |
|----|-----------------|----------------------------------|--|-----------------------------|
| 1. | Free Customs | Import substitutes | Technopolis | Offshore |
| 2. | Warehouses | Export of products | Technopark | Financial centers |
| 3. | Free port | Industrial parks | Regions developing new and high technologies | Banking services |
| 4. | Free Trade Zone | Maquiladoras | | Tourist services Ecopark |

⁴ The World Bank “Global Financial Development Report 2015”, 2016 year page- 32-33

⁵The table was developed by the author after studying the economic literature.

With the creation of industrial zones, manufacturers will be able to sell their products on the international market and buy the products they need without intermediaries. Entrepreneurs can take advantage of tax and customs privileges and make payments, that is, it is important for the formation and development of the national currency market.

On April 27, President Shavkat Mirziyoyev held a meeting on investment projects implemented in free economic zones and small industrial zones.

Today there are 23 free economic zones and 348 small industrial zones in our country. 453 projects with a total cost of \$2.6 billion have been implemented in free economic zones and about 36 thousand jobs have been created. 1,497 projects worth 5 trillion have been launched in small industrial zones. sums providing employment for more than 36 thousand people.

At the same time, there are still many opportunities in these areas. To this end, today the head of our state made a decision "On measures for the further development of engineering and communication infrastructure of special economic and small industrial zones". According to the decision, 1 trillion rubles will be allocated for the improvement of the infrastructure of free economic and small industrial zones this year. 600 billion soums.

In particular, 584 billion rubles will be allocated for the construction of additional power grids, gas supply, drinking water supply and sewerage, highways in 17 free economic zones. Sumy, 145 small industrial zones – 395 billion soums.

232 billion soums have been allocated to provide infrastructure for major investment projects. 264 billion soums will be allocated for the advanced development of industry and business in 33 districts lagging behind in development.

Officials have been instructed to establish strict control over the allocation and targeted use of these funds.

At the meeting, President Shavkat Mirziyoyev noted that the most important issue now is the timely launch of projects in free economic zones and small industrial zones.

This year it is planned to launch 332 projects with a total value of 1.1 billion dollars in free economic zones, 1800 projects with a total value of 9.5 trillion. soums in small industrial zones.

These projects were reported by officials. It was noted that these projects will become an important factor in the further development of the industry of our country, the production of import-substituting and export-worthy products.

The meeting considered proposals for the implementation of new promising projects in free economic zones and small industrial zones⁶.

Conclusions and Suggestions

Summarizing the above remarks, it should be noted that free economic zones are an important factor in implementing the principles of an open economy, attracting foreign

⁶ <https://president.uz/oz/lists/view/4308>

investment into the country's economy, and their proper use increases the efficiency of the national economy, provides social issues. In particular, employment of the population makes it possible to mitigate the problem of unemployment, constantly increase the incomes of the population, attract new equipment and advanced technologies to the economy, use modern principles of management and management. On a global scale, the number of FEZs is constantly increasing, the geographical boundaries of their organization are expanding, their shape is changing, they are turning from foreign trade zones into export-production and complex ones. The essence of economic activity changes from commodity exchange to commodity production, from simple types of services to complex and scientific ones. The FEZ embodying them are becoming an important factor in the integration of the national economy into the world economy.

According to world practice, FEZs have a strong impact on the economic development of a number of countries, foreign investors import modern technologies into the FEZ, apply new management methods necessary for the production process, new jobs are created, specialists are formed, and as a result of the use of modern technology by local labor, new working methods are introduced.

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