E-ISSN: 2997-934X

American Journal of Business Practice
https://semantjournals.org/index.php/AJBP

| Research Article

Check for updates

Attracting foreign investments to the free economic zones of our country and ways to eliminate them

Mirzayev Shoxruh
International School of Finance Technology and Science
ISFT institute, Uzbekistan

Abstract: The development of free economic zones gives rise to heated debates in various circles of society about the expediency of establishing such zones, their tasks and goals, areas of placement, etc. These discussions are natural, necessary and an integral part of the process of approving a new phenomenon in the life of the country. Support from progressive political and social organizations, the government, individual politicians and representatives of business circles can give both vitality and workability to the concept of free economic zones in the country.

Key words: free economic zone, foreign capital, population funds, and the activation of business, financial and legal structures.

This is an open-access article under the CC-BY 4.0 license

Introduction

Any zone being created (free economic zone - FEZ) must have a developed comprehensive development plan, that is, a plan for the development of all economic entities, the creation of new production relations based on the equal participation of various forms of ownership (state, cooperative, joint-stock, joint, individual) in economic relations. The main goal of the program should be the dynamic economic and social development of the zone based on the integrated use of state, commercial and foreign capital, population funds, and the activation of business, financial and legal structures.

Uzbek scientists make various proposals for the creation of free economic zones. We would like to present some of them below:

-it is proposed to create a resort recreation area (in the Charvak reservoir and Chimyan regions);

-it is proposed to create duty-free zones (in Tashkent and Syrdarya regions);

-it is proposed to create science and technology parks and incubators (in student towns, academic towns);

-it is proposed to create entrepreneurial zones (in large cities).

Currently, there are more than 7,000 free economic zones on the planet, specializing in various sectors of the economy. Both developed and developing countries are creating free economic zones specializing in tourism, of course, with different goals. The creation of tourist zones is aimed at using the existing natural resource potential as efficiently as possible, exploiting it in a highly profitable way, preserving, improving it, stimulating the flow of foreign currency, developing the region socio-economically, and creating new jobs. The rapid development of tourism in the world provides great opportunities for creating such zones in Uzbekistan. In addition, experts believe that the most optimal solution would be to create separate legal territories that would stimulate export opportunities, attract foreign investment, advanced tourism technologies and experience in its management. The creation of tourist free economic zones is associated with solving a number of important problems, including financial and credit, scientific and technical, and social problems. The experience of some countries shows that the idea of tourist FEZs that is not developed at the level of a single concept negatively affects the overall effectiveness of the work of tourist free economic zones and ultimately leads to unpleasant consequences. Instead of being a means of modernizing the economy and attracting foreign investment to the country, territorial privileges become a means of hidden subsidization of certain state groups, causing the outflow of accumulated capital abroad. When developing a long-term program of FEZs specializing in tourism, it is necessary to thoroughly study the main directions, problems and prospects of international tourism development.

Literature review

Among the Uzbek economists: Tokhliev N., Takeanov A., Zheng V.A., Kholiqulov A.R., Shermukhammedov A., Nizamov A.B., Khamroev X.R., D.Gozibekov, N.Karimov, N.Khaydarov, E.Nosirov, Q.Khoshimov,

D.Khojamkulov, Sh.Akhmadjonov, M. Raimzhanova, Oblamurodov N.N., Rustamov D.D., Karimov N.G., Vahabov A.V., Hojibakiev Sh.Kh., Mominov N.G., Oblamurodov N.N. and others have studied the theoretical and methodological foundations of the organization of free economic zones in our country in their scientific works.

Discussion

In addition, when creating an FEZs, it is also necessary to study foreign experience, but it is impossible to organize a territory based only on it. It is necessary to thoroughly study and take into account local needs and local conditions. Otherwise, the stated result cannot be achieved. When planning an FEZs specializing in tourism, it is necessary to take into account the following:

- the availability of recreational opportunities;
- the availability of worthwhile tourist facilities;
- the quality and composition of the workforce;
- the level of development of infrastructure, its composition;
- the level of development of transport and communications.
- According to foreign experts, the most optimal is the creation of tourism in Uzbekistan. The clear goal of creating such EIZs in the cities of the "Great Silk Road" - Samarkand, Khiva, Samarkand and Tashkent - is to attract foreign and national investments in tourism, thereby making this sector the most priority sector of the Uzbek economy, preserving and restoring the cultural heritage of the "Great Silk Road", ensuring the integration of national tourism into world tourism. Of the four cities listed, Tashkent is not a city worthy of such an experiment, even since it is the capital. Of the remaining three cities, we believe that Samarkand is the most suitable city for creating a tourist FEZs.

Even more important work:

-creating competitive conditions in the region, the state should protect competitive conditions;
-opening wide opportunities for foreign tourist companies to operate in Uzbekistan;
- It is necessary to provide state support for Uzbek companies to operate abroad.

The main goals of establishing a tourist free economic zone in Samarkand are:

- To expand economic freedom and accelerate the republic's movement towards a market economy.
- To transform Samarkand into one of the world's tourism centers by attracting domestic and foreign investment, and to make the tourism sector one of the priority sectors of the republic's economy.
- One of the most complex and urgent problems in the republic is to alleviate unemployment.

To preserve and restore the historical and cultural heritage of the peoples of Central Asia.

Areas where FEZ's can be deployed	FEZ's specialization	Recommended main benefits
Free (industrial) production zone		
1. Chirchiq city. 2. Olmaliq city.	Industry	Tax, customs, financial, administrative
Tourism areas		
1. Samarkand region 2. Bukhara region 3. Khorezm region 4. Shahrisabz Sh. 5. Fergana Valley 6. Zamin district 7. Karakalpakstan	Tourism	Tax, customs, financial, administrative
Scientific technopark		
1. Toshkent city. 2. Chirchiq city.	Industry	Tax, rental of premises, provision of consulting services
Free trade zones		
1. Andijan region 2. Tashkent region 3. Surkhandarya region	Trade	Customs, taxes, VAT, property, local fees
Free trade zones (functional)		

1. Tashkent region 2. Jizzakh region 3. Khorezm region 4. Surkhandarya region 5. Fergana Valley	Food, construction material production, etc.	Tax, customs, financial, administrative

Types of free economic zones that can be established in the territory of the Republic of Uzbekistan

In our opinion, taking into account all these circumstances, free economic zones can be established in the following regions. Tashkent International Airport, around it in Samarkand, Termez port, as well as in compact zones of export-oriented production in Tashkent and free customs zones (Samarkand) where large investments are not required. In the mechanism of operation of free economic zones, "establishing privileges" is an important element provided for investors. When determining economic incentives for a specific zone, it is necessary to take into account that there are hundreds of competing free economic zones in the world, which also create conditions for foreign investors. It is necessary to create a tax and customs system of free economic zones created in Uzbekistan similar to the privileges provided in foreign free economic zones. It would be advisable to create a large part of the manufactured products for export and additional privileges for local investors.

Practice shows that for any zone to function effectively, the following structures must be in place:

- a large joint-stock company (with state participation), responsible for the implementation of the program and forming the governing body - the zone council;
- an insurance investment fund (insurance company), attracting investments to solve the tasks of the zone;
- a central bank of the zone, which forms the zone budget, controls the use of budget and credit funds and interacts with the republican budget;
- zone legislation regulating taxation, licensing, banking activities, mortgage law, granting concessions, labor and social issues.

According to the leaders of the EIHXRA, for the establishment and proper functioning of free economic zones, it is necessary to ensure the following prerequisites:

- the presence of large joint-stock companies (with state capital participation) with large capital, which assume full material responsibility for the implementation of the zone creation program;
- the organization of a special mortgage-insurance investment fund (insurance company) that ensures the attraction of foreign exchange revenues in the necessary volume to solve the tasks of the zone development;
- the creation of a central bank of the zone that ensures the formation of the zone budget, controls the use of budget and credit funds, and coordinates relations with the state budget;
- the development of special zone legislation at the regional and state levels; these legislative documents should regulate taxation, licensing, banking activities, mortgage rights, granting concessions, labor and social issues in the zone;
- the division of functions between the zone management (for example, the zone council) and local (regional) authorities, the establishment (adoption) of contractual relations between them on issues of ownership and distribution of property, the procedure for resolving issues of price formation, taxation, licensing, and the provision of various benefits;
- approval by the republican authorities of specific programs for the development of economic zones; these programs provide for issues to be resolved by the EIH from the point of view of the interests of the republic, the volume of state capital investments and subsidies is determined, and the benefits and terms for their receipt are established;
- the transfer by regional and local authorities of certain rights they possess, primarily in the field of financial and economic activity, to the management bodies of free economic zones, as well as to individual production facilities, enterprises, and firms located in the zones.

When organizing free zones, it is important to resolve the issue of their participants - foreign and national investors. It is the composition of participants that determines the success or failure of this new form of economic activity in the country's economic life, which primarily depends on the reaction of investors who want to invest in the regions. An analysis of world experience shows that designers of free economic zones face not only difficulties associated with the differentiation of incentives for foreign and national investors, but also with the complexity of the opposite, and sometimes contradictory, characteristics of such incentives. What may be the main incentive for a foreign investor (for example, the opportunity to enter the domestic market) may be of secondary importance for national investors.

Another factor complicating the activities of the organizers of free economic zones is that they cannot imagine that incentives and attractive motives may be understood differently by foreign and national investors. For example, a well-developed infrastructure in the regions can have a significant incentive for local investors to make capital

investments, while for a foreign investor such an "incentive" is a mandatory prerequisite for making a decision to invest in the zone. In this case, the starting point for a foreign investor is not the level of infrastructure in the region, but the level and quality of infrastructure in their own country or in other foreign countries. While local investors may perceive the conditions created in a particular zone as very advanced and technically modern (for example, the management system), foreign investors may have much more critical views. This contradiction is an insurmountable situation, which must be taken into account when developing and implementing zone projects.

Differences in assessing the attractiveness of free economic zones do not negate the possibility of a "consensus" with foreign investors. The factor that attracts a foreign investor to participate in the zone is not the quality of the infrastructure (which is only a prerequisite), duty-free import of goods and services, tax exemptions and other benefits, but the possibility of direct access to the domestic market. For them, the volume of funds received as a result of their activities in the zone and the possibility of using them are also very important. The problem here is the need to transfer profits abroad, including dividends on existing shares in circulation. Many companies refrain from making significant capital investments in free economic zones without resolving this issue.

Foreign direct investment in free economic zones can be viewed as a way for foreign firms to gradually integrate into the national economy. Therefore, at the planning stage of the FEZs, it is necessary to consider the possibilities of establishing direct and reverse relations of foreign firms with local entrepreneurs. Such relations should provide access to local raw materials, components, semi-finished products, complex equipment and services. The possibility of obtaining local resources is an important incentive for foreign investors. However, for foreign investors operating in the zone, this can be much more difficult to achieve in practice and may require a lot of time. Paying great attention to this factor, zone designers try to take into account the following aspects.

First, many local resources that can be purchased by foreign investors are scarce in the country. The increase in demand as a result of the entry of foreign investors into the market can further exacerbate the situation. If we are talking about the near future, foreign investors can eliminate this shortage by paying higher prices for resources, subject to their own interests. But this can accelerate the development of inflationary processes and exacerbate the problem of resource shortages for other firms operating in the country. In the long term, additional demand from firms operating in the zone will force local suppliers to increase production capacity to meet this new demand. However, this process will take several years.

Secondly, the quality and technological level of local resources may not meet the standards that foreign firms are demanding for these resources. This problem is faced by foreign investors in all cases where they use local resources. Over time, local suppliers gradually increase the technological level of their production. However, this technological improvement does not occur automatically. If the difference in technological levels is large, foreign investors may decide to sever ties with local suppliers and continue their activities in the zone, relying on their traditional suppliers. It follows that a system of methods, incentives, and organizational forms for establishing economic and technological ties between foreign firms in free zones and local enterprises operating outside them is necessary.

Thirdly, the need to take into account the amount and level of costs required to establish direct relations between foreign firms operating in free zones and local enterprises. It is wrong to think that local firms will simply provide foreign firms with goods and services that meet the technical standards of the buyer and are available in sufficient quantities. Such a situation rarely occurs. This means that serious investments are needed to expand the production capacity and raise the technological level of local enterprises operating outside the zone, as well as to ensure production relations between these enterprises and foreign firms operating in the zone. Such investments will benefit the entire economy (if the developed firms also supply goods and services to the local market). Solving this problem may require previously unforeseen financial costs, which will increase the volume of investments directed to the organization of free economic zones.

The existence of the above-mentioned problems - lack of raw materials and financing, low technical level of local enterprises, low quality of local goods and services - determines the complexity of solving the issue of establishing relations between foreign firms operating in a free zone and local enterprises outside it. It follows that at the initial stages, the possibility of accessing local markets cannot be a strong incentive for potential foreign investors. However, in the long term, the possibility of obtaining local resources can be an important factor for them.

The development of the provision of local resources to foreign firms in FEZs is a long-term activity, and there is no doubt that at least a minority of potential investors are ready to participate in the development of such resources. Zone designers often believe that one of the main advantages for foreign participants in free economic zones is the level of financial or other incentives provided by the government of the country creating the FEZ. This was indeed the case when creating the first FEZs. However, over the past decades, the number of zones in the world has increased so much that comparative advantages for foreign investors (tax breaks, subsidies, exemption from customs duties on imports, partially duty-free exports, etc.) have in many cases, if not completely, lost their incentive properties[1].

[1] Rybakov S.A. Special economic zones in Russia. Tax benefits and advantages./S.A.Rybakov, N.A.Orlova. – M.: Vershina

Since all countries that have or intend to establish FEZs provide almost the same benefits, a country that wants to use these benefits as the main incentive to attract foreign investment must provide more benefits than other countries. This will be so financially difficult for the country that it calls into question the overall economic and financial feasibility of establishing these zones. The benefits provided in the zones can be divided into two groups.

1. General benefits (usually provided by all countries):
- import of goods and services without customs duties;
- exemption from paying taxes for a period of up to 15 years;
- granting a developed area to the company as an indirect subsidy.

2. Special benefits (provided by a specific country):
- percentage deduction from profit tax (up to 50%);
- special subsidies to companies to cover their expenses outside the country;
- discounts for foreign companies for the purchase of locally produced equipment.

Many of the benefits in the general group of benefits are practically calculated and are quantitatively zero. For example, the provision of a 10-year tax grace period is not a financial loss for the state budget, since without such a benefit, the investor would not be interested in the zone. Experience shows that special benefits play only a secondary role in the decision-making process of foreign firms on the participation in the zones. In the best cases, such benefits bring very little, often unrealized additional benefits. At the same time, the costs of introducing special benefits can be significant, since a large number of potential firms can use them.

A country that wants to compete in the world market of free economic zones must provide incentives and benefits at the level of world standards or even higher. In the world market of zones, this approach is also applied to the existing economic advantages of the zones[2].

A study of world experience shows that no zone can successfully operate without the appropriate infrastructure, that is, a well-developed territory, a telecommunications network, water, electricity, access to the airport, housing conditions for local and foreign employees. The conditions that investors considered a comparative advantage 15-20 years ago (a nearby international airport, good telephone communication) are now considered basic conditions, if they are not met, a foreign company will not even consider participating in the zone. The gradual averageization of material and economic benefits confirms that the two groups of benefits offered cannot be a serious reason for attracting foreign investors to the zones for a long time. They can only be a preliminary condition for the investor to make a positive decision to invest or invest in the future. The final decision to invest capital in the zone will depend on the investor's tactical and strategic considerations.

If we rely on the fact that the zones are initially oriented towards the placement of both foreign and domestic enterprises, it is necessary to develop conditions for attracting national companies and investors to the zones. At first glance, attracting national investors may not seem so difficult, since they are interested in using the developed infrastructure and benefits provided in the zone. However, practice shows that a completely different situation may arise. National investors may often wait, or may initially express interest, but then refuse to participate in the zone. This can be explained by the fact that the difficulties of operating in the zone in working conditions unfamiliar to local companies may outweigh the real advantages of the zone. It may be very difficult for them to switch from the methods of organizing and managing production that they are used to to methods of working in new production, technological and organizational conditions.

Thus, when developing a project for free economic zones, it is necessary to pay due attention to the issue of attracting local enterprises that can successfully operate in this free economic zone[3].

Conclusion

1. A special economic zone is a territory in which a special management system (regime) has been established to facilitate the implementation of the country's strategic goals, economic entities engage in activities within the framework of the law and attract domestic and foreign investments, that is, a territory in which a system of privileges and incentives is in effect that is not applicable in other regions of the country. The created conditions allow the SEZ to have a high level of economic interaction with the outside world, and the customs, tax and investment regimes are favorable for domestic and foreign investments.

2. The number of SEZs worldwide is constantly increasing, the geographical boundaries of their organization are expanding, their form is changing, from foreign trade zones to export-production and complex zones. The essence of economic activity is changing from commodity exchange to commodity production, from simple types of services to scientifically complex types. The SEZs that embody them are becoming an important factor in the integration of the national economy with the world economy.

3. According to world practice, the strong influence of SEZs on the economic development of a number of countries is manifested in the following: foreign investors bring modern technologies to SEZs, apply new management

[2] Rybakov S.A. Special economic zones in Russia. Tax benefits and advantages./S.A.Rybakov, N.A.Orlova. – M.: Vershina, 2006 – 248 p.
[3] Nazarova G.G., Khalilov X.Kh. and others. Free economic zones. Textbook. T.: TSIU, 2011..

methods necessary for the production process, new jobs are created, qualified specialists are trained, and the local workforce adapts to new working methods as a result of the use of modern equipment; companies investing in SEZs assume payments for land and infrastructure facilities and are paid for services; the standard of living of the local population increases, their incomes grow, the need of the domestic market for high-quality products is fully satisfied, and companies operating in SEZs are in better conditions than others. In such regions, the absence of taxes and duties related to production costs, the import of raw materials and supplies, and the relatively cheap labor force reduce the cost of manufactured products, increase their competitiveness, and contribute to the development of certain sectors and areas of the economy by further revitalizing entrepreneurial activity in the regions and increasing export potential.

References:

1. Scheepers CM. A case study for special economic zones in South Africa as a means of attracting foreign direct investment. University of Pretoria (South Africa); 2013.
2. Nusratovich SK, Asidakhan A. STRATEGY FOR THE DEVELOPMENT OF FREE ECONOMIC ZONES IN UZBEKISTAN. QO 'QON UNIVERSITETI XABARNOMASI. 2023 Dec 30;9:7-10.
3. Ergashbekovich HD. Opportunities For Direct Foreign Investment in Small Industrial Zones in The Context of Economic Modernization. Academia Open. 2024 Nov 8;9(2):10-21070.
4. Riccardi L. Investing in China through free trade zones. Heidelberg: Springer; 2016.
5. Karambakuwa RT, Matekenya W, Mishi S, Jeke L, Ncwadi RM. Special economic zones and transnational zones as tools for Southern Africa's growth: Lessons from international best practices. WIDER Working Paper; 2020.