



Stimulating Regional Economic Growth through Free Economic Zones: Uzbekistan's Experience and World Practices

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Abstract: The article is devoted to the analysis of free economic zones (FEZ) as a tool for stimulating economic growth on the example of Uzbekistan and comparison with international experience. The paper examines the main aspects of the functioning of FEZ in Uzbekistan, including the legal framework, tax and customs benefits, infrastructure support and specialization of zones. Comparative analysis with FEZ management practices in other countries, such as China and the UAE, identifies key success factors and possible areas for improvement for Uzbekistan. The article is aimed at researchers, politicians and practitioners interested in the development of FEZ as an instrument of economic policy.

Keywords: free economic zones (FEZ), economic growth, foreign investments, Uzbekistan, international experience, tax benefits, customs preferences, infrastructure support, specialization of FEZ, state support

1. Introduction

Free economic zones (FEZ) are unique economic spaces that are created to stimulate economic development by attracting foreign and domestic investment, developing high-tech production and improving the country's export potential [1]. FEZs have a special legal status that provides a number of tax, customs and investment benefits, which makes them attractive to investors and entrepreneurs [2].

In recent decades, the concept of SEZ has been actively developing and applied around the world as an effective tool of economic policy. The experience of many countries, including China, Singapore, the UAE and others [3], demonstrates that with competent management and support from the state, FEZs can become powerful drivers of economic growth, innovation and industrial development [4].

Uzbekistan, following global trends, is also actively implementing the FEZ model to stimulate the economic growth of its regions [5]. The republic strives to create a competitive economic environment capable of attracting capital, technology and advanced management experience, as well as ensuring the access of local products to international markets.

In this article, we will consider how investments in FEZs contribute to the economic development of the regions of Uzbekistan, based on an analysis of the current state and prospects for the development of FEZ in the country, as well as the study of international experience and best practices. We explore the key benefits that FEZs provide for the economies of the regions, as well as the challenges they face in the process of their development.

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2. Method

This article applies both qualitative and quantitative research methods to analyze the role and effectiveness of free economic zones (FEZ) in stimulating the economic development of Uzbekistan and compare it with international experience. Qualitative analysis includes a review of the legal and regulatory framework governing the activities of FEZs, as well as the study of state support and incentive policies. Quantitative analysis is based on statistical data on the activities of FEZs, including the volume of investments, the number of jobs created, production and export volumes. For comparative analysis, data from official sources such as UNCTAD and Pavia e Ansaldo, as well as scientific publications and reports of international organizations, are used. This approach makes it possible to comprehensively assess the impact of SEZs on economic development and identify the most effective practices for managing these zones.

3. Results and Discussion

3.1. History and development of FEZ

The concept of free economic zones (FEZ) originated several centuries ago, but their modern application began to actively develop in the second half of the 20th century [3]. The first SEZs were created in order to stimulate trade and economic activity in certain regions, while providing preferential conditions for foreign investors.

The first examples of such zones are free ports such as Hamburg (Germany) and Hong Kong, which in the 19th century offered preferential customs and tax regimes [2]. These ports became major trading and logistics centers, which contributed to their economic prosperity.

Developing countries made a significant contribution to the development of the concept of SEZs in the middle of the 20th century, seeking to attract foreign investment to accelerate industrialization. An example of this is the creation of the first SEZ in Ireland in 1959, followed by zones in Latin American countries such as Brazil and Mexico [6].

Of particular importance in the history of FEZ is the experience of China. In 1980, China began experimenting with the creation of four SEZs in the southeast of the country, including the famous zone in Shenzhen [7]. The move was part of a broader "reform and opening up" policy aimed at modernizing the economy and attracting foreign investment. The success of these zones has stimulated China to further expand its SEZ network, which has significantly contributed to the country's economic growth.

By the end of the 20th century and the beginning of the 21st century, the concept of SEZ had become widespread around the world. Countries on all continents have begun to use SEZs as a tool to stimulate economic growth, attract foreign investment, develop exports and create jobs. Currently, there are thousands of SEZs around the world, each of which is adapted to the specific conditions and needs of its country [3].

Modern SEZs have become more complex and multifunctional, including not only production and trade zones, but also high-tech parks, financial centers and research and development centers [4]. They play a key role in global value chains and innovative development, as well as in the promotion of sustainable development and green technologies.

Overall, the historical development of SEZs reflects their growing role in the global economy as effective tools to stimulate trade, investment and economic development. This experience demonstrates how, if properly planned and managed, SEZs can become catalysts for economic growth, innovation and integration into the global economy.

3.2. China's experience in the use of free economic zones as a tool for economic development

China's experience in the creation and development of free economic zones (FEZs)

is one of the most iconic and successful examples on the world stage. Since their introduction in the early 1980s, SEZs have played a key role in China's economic transformation and integration into the global economy.

The first and perhaps most famous step in this direction was the establishment in 1980 of four SEZs in the coastal cities of Shenzhen, Zhuhai, Shantou and Xiamen. These zones were chosen because of their geographical proximity to Hong Kong, Macau, and Taiwan, which facilitated trade and investment.

The main purpose of the creation of FEZ in China was to attract foreign investment, introduce advanced technologies and management experience, as well as stimulate export-oriented production [7]. FEZs provided a number of preferences for foreign investors, including preferential tax rates, simplified customs clearance procedures, and the possibility of full ownership by foreign companies of enterprises in these zones.

The experiment was hugely successful, especially in Shenzhen, which has transformed from a small fishing village into a metropolis and one of the largest economic and technological centers in China and the world [7]. The success of these first SEZs stimulated the expansion of the practice of creating such zones throughout the country.

As China's policy of reform and opening up continued to develop, the number and diversity of SEZs also increased [8]. China has created many new types of zones, including economic and technological development, high-tech industrial parks, and free trade zones. These zones have become important platforms for innovation, the development of high-tech industries, and the improvement of international trade.

The key factors in the success of Chinese SEZs have been government support, strategic planning, attractive conditions for foreign investors, and effective management. These factors combined to form a unique economic ecosystem that has contributed to rapid economic growth and modernization [9,10].

3.3. *FEZ in Uzbekistan: current status and achievements*

There are currently 20 special economic zones (SEZs) in Uzbekistan, which play a significant role in the country's economic development [2,5,8]. These zones include various enterprises, including 512 companies operating directly in the FEZ, as well as a number of small industrial zones, technology parks and clusters. The total volume of industrial production in FEZs and related structures amounted to a significant amount, highlighting their contribution to the economic activity of Uzbekistan.

The legislative framework of Uzbekistan provides for the creation and operation of FEZs in order to attract both foreign and local investment, disseminate high technologies and management experience to accelerate the socio-economic development of the regions [11,12,13]. FEZ provides various benefits for participants, including special customs and tax regimes, which makes them attractive for business.

FEZ participants can count on a number of preferences, such as exemption from certain types of taxes and customs duties, which creates favorable conditions for business development and attracting investment. These measures are aimed at stimulating the development of entrepreneurship and socio-economic development not only within the FEZs themselves, but also in related regions.

The establishment of FEZs in Uzbekistan is regulated by a number of legislative acts and decisions at the highest level, which ensures clear coordination and management of their activities. This includes the procedures for the creation, operation and elimination of zones, as well as the roles of the various government agencies in these processes [11,12,13,14,15,16].

The regulatory framework governing the activities of special economic zones (SEZs) in Uzbekistan is comprehensive and aimed at creating a favorable environment for foreign and domestic investment. The cornerstone of this system is the Law "On Special

Economic Zones" adopted on February 17, 2020 [17], which spells out the creation, operation and liquidation of FEZs, as well as defines the roles of various state authorities in relation to these zones. This law classifies FEZs into five types: free economic zones, special science and technology zones, tourist and recreational zones, free trade zones, and special industrial zones. Each type of zone offers certain benefits, including a special customs regime, tax and customs exemptions, and preferential access to land for its members.

In addition, a number of decrees and resolutions have been adopted aimed at improving the efficiency and effectiveness of the SEZ. For example, the decree of the President of the Republic of Uzbekistan aimed at improving the coordination and management of the activities of free economic zones, and various resolutions of the Cabinet of Ministers aimed at expanding the production of import-substituting and export-oriented products in these zones [16]. The legal framework also imposes certain requirements on investors, such as the provision that at least 90% of employees in the zone must be citizens of Uzbekistan, which provides local employment benefits from foreign investment.

In addition, the government of Uzbekistan provides various benefits for businesses operating in the FEZ, including tax benefits, exemption from customs duties on imported raw materials, equipment and construction materials, guarantees of connection to infrastructure and communication networks [5,11,12]. These incentives are distributed in tiers based on the amount of investment, ranging from three to ten years, further incentivizing significant foreign investment in the country.

Uzbekistan's strategic initiatives, such as its participation in China's Belt and Road Initiative, position it as an attractive destination for investors looking to gain access to Central Asian markets. The regulatory framework, along with the benefits provided, make the FEZ of Uzbekistan a strategic base for business expansion in the region, offering access to significant market potential.

In general, FEZs in Uzbekistan are becoming an important instrument of economic policy aimed at attracting investment, developing innovations and stimulating economic growth in the regions. Their successful functioning and development contribute to the strengthening of the country's economic potential and its integration into the world economy.

State support and stimulation of FEZ activities in Uzbekistan are carried out through a set of measures aimed at attracting investment, developing infrastructure and increasing the competitiveness of the economy. These measures include tax incentives, customs preferences, simplified administrative procedures and the provision of the necessary infrastructure [18].

- 1) **Tax benefits:** Depending on the amount of investment, companies operating in FEZ may be exempt from income tax, property tax, social infrastructure development tax and other taxes for a period of 3 to 10 years. After the expiration of this period, businesses can enjoy reduced income tax rates.
- 2) **Customs preferences:** Companies in FEZ are exempt from customs duties on the import of equipment, raw materials and components necessary for their production needs, as well as on construction materials that are not produced in the republic and are imported for the construction of facilities within the framework of investment projects.
- 3) **Simplified administrative procedures:** The creation of a special administrative regime in FEZ makes it possible to simplify the procedures for obtaining permits, licenses and registration of enterprises, which reduces administrative barriers for business and accelerates the launch of new projects.
- 4) **Infrastructural support:** The state guarantees the provision of the necessary infrastructure and communications, including access to energy resources, transport

networks and communications, which ensures a favorable environment for doing business.

These measures of state support and stimulation create an attractive investment environment in the FEZ of Uzbekistan, help attract foreign and local investment, expand production and increase the country's export potential.

3.4. International experience and practices

In order to gain a deeper understanding of how different countries use SEZs as a tool for economic development, it is useful to conduct a comparative analysis of successful practices in the management of these zones. Consider, for example, Uzbekistan, China, and the UAE [19], three countries with different economic conditions and approaches to SEZ management.

The table below presents the main aspects of their approaches, including the legal framework, tax and customs benefits, infrastructure support, and zone specialization. This analysis identifies key success factors and possible areas for improvement.

Table 1. Comparative analysis of successful FEZ management practices in other countries

Parameter	Uzbekistan	China	UAE (United Arab Emirates)
Legal Framework	Law "On Special Economic Zones" dated 17.02.2020	A series of laws and regulations since 1980, including the "Regulations on Special Economic Zones in the People's Republic of China"	Free Zones Act No. 8 of 2004 and subsequent amendments
Tax Incentives	Exemption from income tax, property tax and others	Reduced tax rates for foreign investors, VAT benefits	Full exemption from income tax, no value added tax
Customs preferences	Exemption from customs duties on import of equipment and materials	Exemption from customs duties on import and export to FEZ	Exemption from all customs duties
Infrastructure support	State guarantees of connection to infrastructure and communications	Public investment in the development of FEZ infrastructure	Public investment in infrastructure, access to ports and airports
Specialization	Industrial, pharmaceutical, tourism and agricultural zones	A wide range of specializations, including high-tech manufacturing	Various specializations, including financial services, trade, logistics

From this comparison, it is clear that the success of FEZs largely depends on the integrity and adaptability of the legal and regulatory framework, as well as on the willingness of the state to offer significant incentives to attract investment. For example, China has made significant progress by focusing on high-tech production and actively developing the infrastructure of its FEZs. At the same time, the UAE has focused on creating a favorable business climate for international financial and trade transactions [4,19].

Following these examples, Uzbekistan is actively developing its FEZs, offering preferential conditions and creating the necessary infrastructure. This underscores the country's ambition to use SEZs as a key tool to accelerate economic growth and integration into the global economy.

This analysis demonstrates that, despite the differences in approaches to SEZ

management, common to all successful examples are a clear strategic orientation, state support and the creation of a favorable investment environment. Uzbekistan can learn valuable lessons from the experience of these countries by adapting best practices to its unique conditions and goals.

3.5. Problems and solutions in the implementation of reforms

The study of international experience in the management of SEZs allows us to identify several important lessons for Uzbekistan, which can help in optimizing the work and increasing the efficiency of these zones:

- 1) **Flexibility and adaptability of the legal framework:** Successful SEZs are supported by a flexible and adaptive legal and regulatory framework that is able to respond quickly to changing economic conditions and market needs. Uzbekistan may need to regularly review legislation related to FEZs to meet the current needs of investors and industry [10,20].
- 2) **Specialization of FEZs:** In many countries, BMZs specialize in certain industries or types of activities, which contributes to the formation of an ecosystem of innovation and synergy between companies. It may be useful for Uzbekistan to consider the possibility of developing specialized SEZs focused on key sectors of the economy or promising technological areas [9,21].
- 3) **Infrastructural support:** One of the key factors in the attractiveness of FEZs is the availability of developed infrastructure. Uzbekistan should continue to invest in the transport, communication and social infrastructure of FEZs to ensure their competitiveness at the international level [9,21,22].
- 4) **Attraction of foreign investors:** International experience shows that successful FEZs actively attract foreign investment through the provision of tax and customs benefits, as well as through the creation of a favorable investment environment. It is important for Uzbekistan to continue to work on improving the conditions for foreign investors and developing programs aimed at attracting foreign capital [4,23,24].
- 5) **Cooperation with local communities and authorities:** Effective management of SEZs requires close cooperation between zone management bodies, local communities and public authorities. This helps to provide social support for projects and take into account the interests of the local population .

Continuous monitoring and evaluation: Regular monitoring and evaluation of the effectiveness of SEZs allows for timely adjustments to their work and adaptation of development strategies, taking into account the results achieved and emerging challenges.

Applying these lessons will allow Uzbekistan to strengthen the role of FEZs in the country's economic development, stimulate innovation, attract foreign investment and promote export growth.

4. Conclusion

In conclusion, the analysis of international experience and practices in the management of free economic zones (FEZs) in Uzbekistan demonstrates significant potential for accelerating economic development and integration of the country into the world economy. SEZs are a powerful tool for attracting foreign investment, developing innovations, stimulating exports and creating new jobs.

The experience of China, the UAE and other countries with successful practices in FEZ management can serve as an important source of lessons and inspiration for Uzbekistan. Flexible legal regulation, tax and customs benefits, developed infrastructure, as well as active attraction of foreign investors are the key factors for the success of the FEZ.

For further development and improvement of the efficiency of FEZ in Uzbekistan, it is necessary to constantly monitor, assess and adapt the best world practices to the unique

conditions and needs of the country. This will require coordinated efforts on the part of government agencies, the business community and international partners.

Ultimately, the successful development of the FEZ can become one of the key drivers of Uzbekistan's economic growth, contributing to its transformation into an important economic and trade center of Central Asia.

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