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Nazar Nazarov
Tashkent State University of Economics
PhD student of the Department of World Economy,
+998 90 9452728
Nazar_3485@inbox.ru

INTEGRITY INTO GLOBAL TRADE WITH ATTRACTIVE INVESTMENT PRACTICE IN FREE ECONOMIC ZONES (CASE OF UZBEKISTAN)

Abstract: In the last decades, world economic integration, including trade liberation, financial internationalization and production integration have made a great progress. An increasing number of countries have become involved in the international division of labor free for the purpose of active attraction of foreign investments into the republic creation of economic zones, financial issues of their development study and development of free economic zones in Uzbekistan Problems that have been studied by the analysis and ways to solve them is characterized by Today the economy of Uzbekistan One of the key to achieving sustainable growth is internally efficient use of resources and active attraction of foreign investments. Uzbekistan's economy is integrated into the world economy implement export-oriented economic development policy in our country and export and export of export-oriented products as well as high-tech, import-substituting technologies use of free economic zones for creating new jobs, provide macroeconomic growth in the country.

Key words: Trade liberalization, financial internationalization, production integration, free economic zones, macroeconomic stability.

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Introduction

At a time when today is developing, countries are tomorrow the future of the present and the present employ them for development, the younger generation's future and attracting local and foreign investors trying to be a reformer and adapt to different areas will do. An example of this is free economic zones. Free Economic Zone - economic or external, in accordance with international treaties or special laws preferential tax, finance, customs and other activities Free currency conversion is where legal conditions are introduced. Foreign and to work with local entrepreneurs' production and business infrastructure will be established.

A special international legal status will be introduced in the free economic zones is an integral part of the country, no matter where it is located All practices (creation of firms and companies on land

allocation, import / export of goods, goods). Foreign and local It is designed to attract entrepreneurs and work in them a production and business infrastructure will be established. Free Economic Zones The aim is to attract many new technologies and investments, the creation of an advanced economic space and, thus, the country's economy is a rapid development.

Literature Review

There are numerous theoretical and empirical studies on FEZs. The classic studies discussed trade creation and trade transfer in a cross-national "Free Economic Area" [1]. However, the most studies focus narrowly on the economic effects and roles of EPZs and SEZs in developing and socialist countries [2]. Several studies attempt to provide a theoretical framework to analyze these economic effects, i.e., its

benefits and costs, based on the standard "2 x 2 x 2" Heck-Ohlin trade model for small countries [3].

Others present a general theory of FEZs [4] or they discuss their structural and spatial evolution [5],[6],[7]. World economic integration and its relation with FEZs will be firstly discussed in order to explain FEZ's dominant role in the world economy and its development trend. A structural and spatial evolutionary model of FEZs on an international level will be developed based on a general definition, a factor system and a systematic typology of FEZs, which will improve the previous studies [8].

The first economist to provide a theory and a model for agglomeration was Alfred Marshall in 1920. Firms tend to cluster near to one another because industrial agglomeration reduces transport costs, hence resulting in "agglomeration economies." Marshall (1920) defined three categories of transport costs: moving goods, labor, and ideas [9]. In other words, there are two key channels through which SEZs can develop networks of economic efficiency and interdependence [10].

Last, the agglomeration of firms in SEZs is expected to lead to technological spillovers. The agglomeration of firms in specialized SEZs promotes Marshall-Arrow-Romer (MAR) externalities (Hu 2007; Rodríguez-Pose and Crescenzi 2008). Concentrating firms within a common industry facilitates industry-related knowledge spillovers among workers and promotes further specialization and industry-specific innovation, leading to firm growth (Henderson 2004). Multisectoral SEZs create an environment for Jacobian externalities (Carlino and others 2001; Rodríguez-Pose and Crescenzi 2008). The diversity of firms and their activities in SEZs enable firms to take advantage of knowledge complementarities and cross-industry transfer of ideas [11],[12],[13],[14],[15].

Method and Materials

In this article author used conceptual theory approach on definition, classification, development history with secondary source data. As a main material can be presented UNICTAD reports, articles form ScienceDirect, Lex.uz and National Statistics Committee sources.

Results

Figure 1. Geographic Footprint on Special Economic Zones

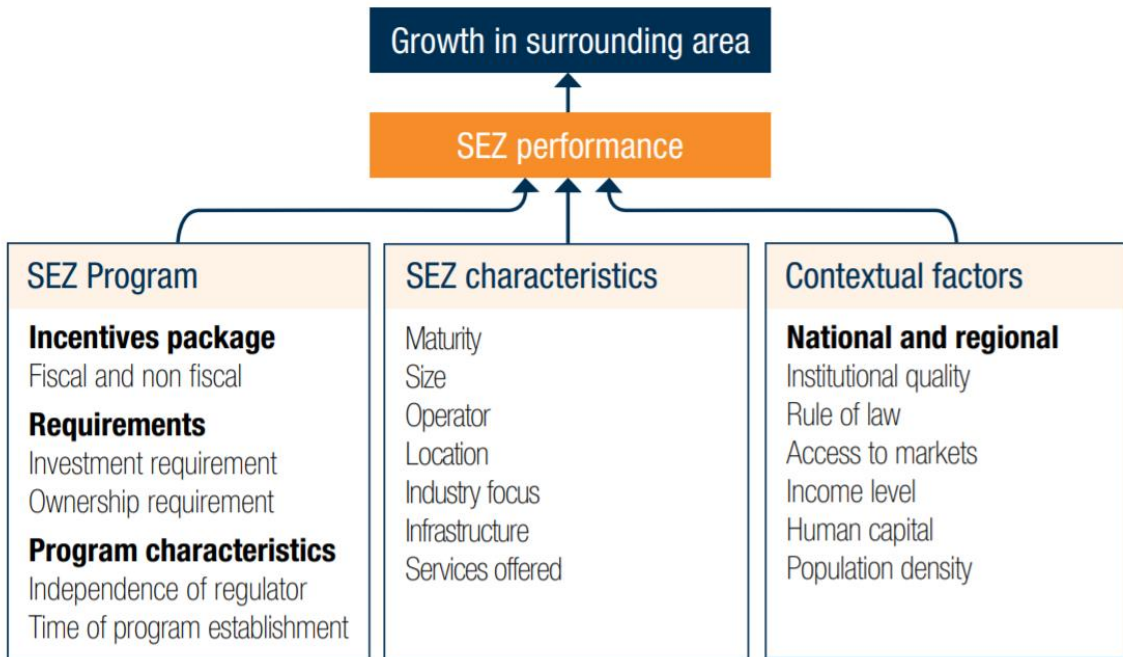**Source:** Competitive Industries and Innovation SEZ Database, 2019.

The Competitive Industries and Innovation Program (CIIP) has assembled a database that covers 553 special economic zones in 51 countries across Sub-Saharan Africa (SSA), East Asia & Pacific (EAP), Europe & Central Asia (ECA), Middle East and North Africa (MENA), South Asia (SA), and Latin America & Caribbean (LAC). This SEZ database builds on previous efforts to establish an inventory of SEZs across countries and regions.

**Figure 2. Drivers of SEZ Performance, The Conceptual Framework**

Source: Special Economic Zones an Operational Review of Their Impacts, Competitive Industries and Innovation Program, The World Bank Group, 2017, p 42.

The first set of factors linked to SEZ performance is related to the set-up and design of the overall SEZ program. The set-up and design include the incentives package, the requirements imposed on firms to benefit from the incentives, and the organizational set-up of the program.

This firsthand information was embedded in the analysis of a) officially published literature in English, German and Chinese about FEZs including solid and comprehensive theoretical and empirical studies as well as b) officially published information of statistical data concerning TEDA, Tianjin and China from 1984 to 2000 to analyze the structures and evolutionary stages of TEDA. Another main source of information used for this study are restricted publications, especially of TEDA (1995–2000), including numerous discussion papers and investigation results about TEDA's development and problems – information, which were especially useful to evaluate TEDA's achievement and problems.

Figure 3. Types and Logical Relation of World Economic Integration
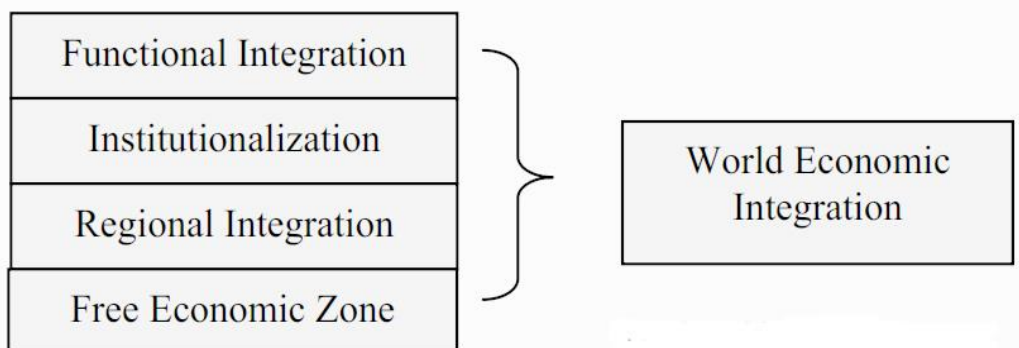
Every region, every level of development, is free economic zones. For example, developing the following are the features of free economic zones in countries (Fig.3):

▪ Trade and production, with the tendency to expand the boundaries of the territory activity has a tendency to grow;

▪ Separate management in the free economic zones for foreign entrepreneurs the regime is characterized by a continuous liberalization of the economy;

▪ large-scale industrial and trade activity in free economic zones diversification, the tendency of complex development;

▪ science related to the development of new and high technologies Particular attention is paid to the development of the most demanding production

availability economic entities established in free economic zones

Economy by attracting foreign investment into the national economy to provide growth and deeper integration into the world economy is one of the most important tasks facing the economies of the region. Such free to attract foreign investment into the national economy of the country's creation and further development of economic zones important. Investors are provided with tax benefits and preferences.

Figure 4. The Geographical Locations of Several Cross-National Growth Triangles in the Asia-Pacific Area
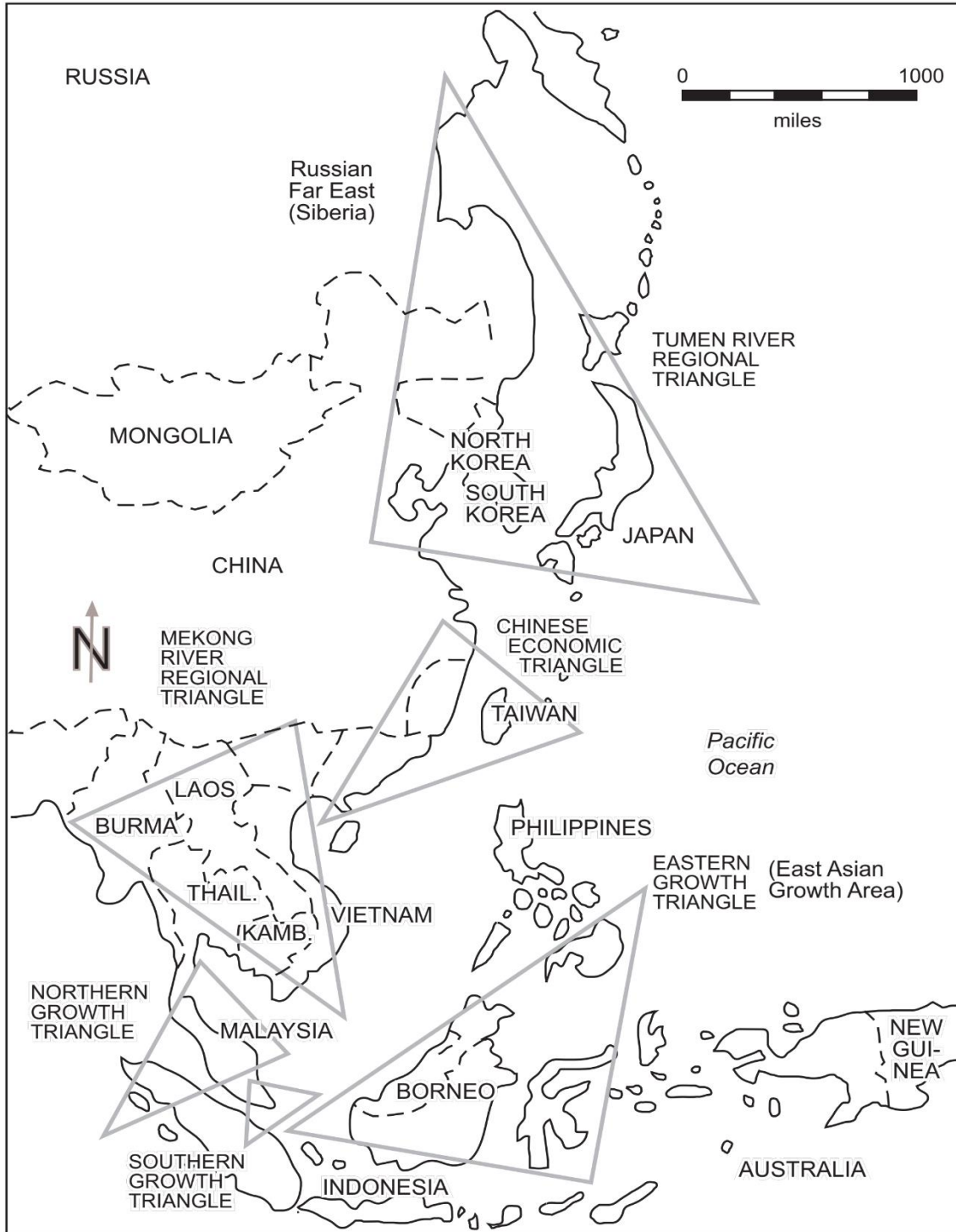
Source: Jones, C. (1993), "Economic Cooperation Zones create new Asian Geometry", In : Christian Science Miotor, No. 1, December, pp. 12-13; Xiangming Chen (1995), "The Evolution of Free Economic Zones and the Recent Development of Cross-National Growth Zones", In: International Journal of Urban and Regional Research, Vol. 19, p. 608.
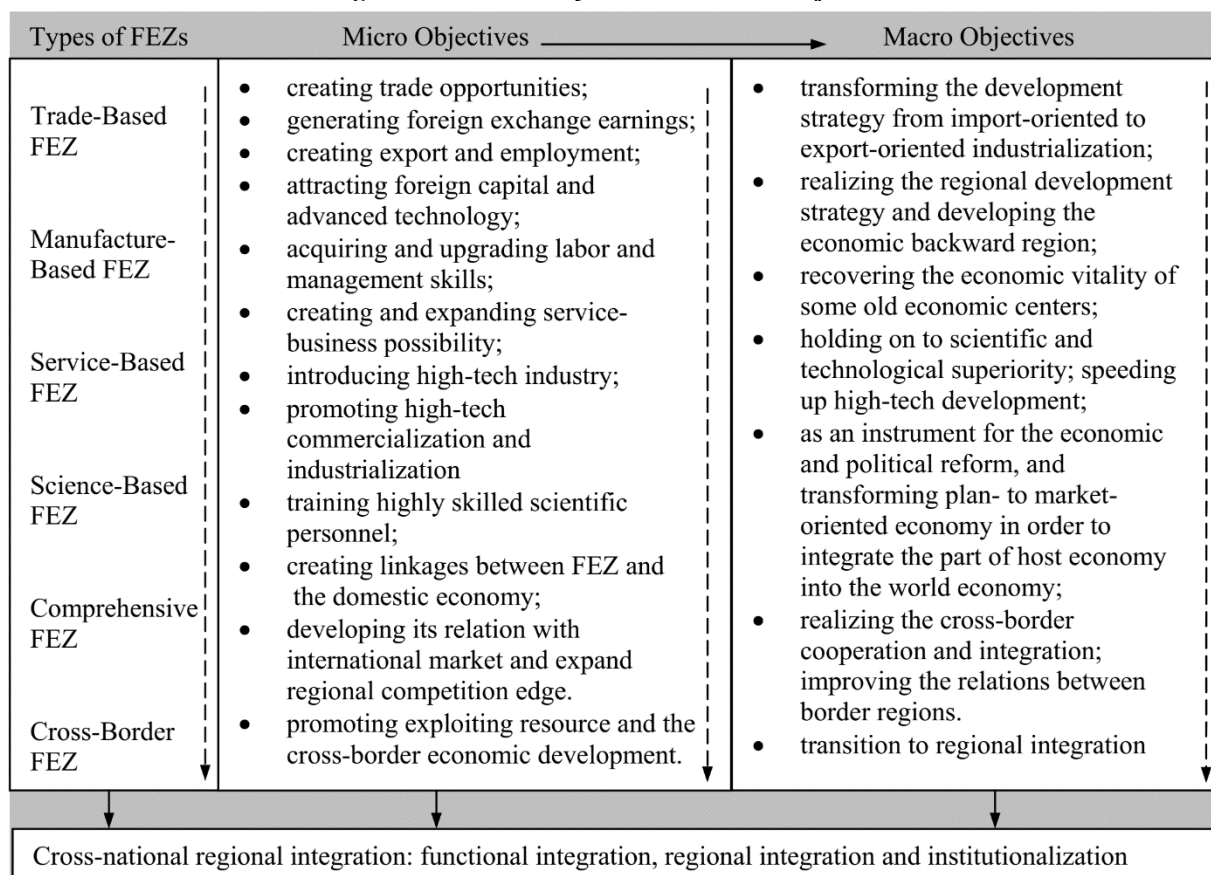
From the above map we can see how triangle relations can affect economic growth of each country. From this point of view, we can suggest importance of the crossroad in our economy for further development of the free economic zones (Fig 4).

Figure 5. Evolutionary Model of FEZ's Objectives

Types of FEZs	Micro Objectives ⟶	Macro Objectives
Trade-Based FEZ Manufacture-Based FEZ Service-Based FEZ Science-Based FEZ Comprehensive FEZ Cross-Border FEZ	• creating trade opportunities; • generating foreign exchange earnings; • creating export and employment; • attracting foreign capital and advanced technology; • acquiring and upgrading labor and management skills; • creating and expanding service-business possibility; • introducing high-tech industry; • promoting high-tech commercialization and industrialization • training highly skilled scientific personnel; • creating linkages between FEZ and the domestic economy; • developing its relation with international market and expand regional competition edge. • promoting exploiting resource and the cross-border economic development.	• transforming the development strategy from import-oriented to export-oriented industrialization; • realizing the regional development strategy and developing the economic backward region; • recovering the economic vitality of some old economic centers; • holding on to scientific and technological superiority; speeding up high-tech development; • as an instrument for the economic and political reform, and transforming plan- to market-oriented economy in order to integrate the part of host economy into the world economy; • realizing the cross-border cooperation and integration; improving the relations between border regions. • transition to regional integration

Cross-national regional integration: functional integration, regional integration and institutionalization

Generally, FEZs have more similar micro-economic objectives, but the macro-objectives are mostly different from each other. The objectives evolved from the direct micro-economic objectives to the direct macro-economic objectives, or, in return, the micro- and macro-economic objectives evolved from the trade-based FEZ to the comprehensive and cross-border FEZ, namely, the comprehensive and cross-border FEZ have multi-objectives and more macro objectives. The micro objectives evolved from creating trade, export, employment, foreign exchange, and attracting foreign capital to absorbing advanced technology, investment, and training personnel, but the macro objectives ev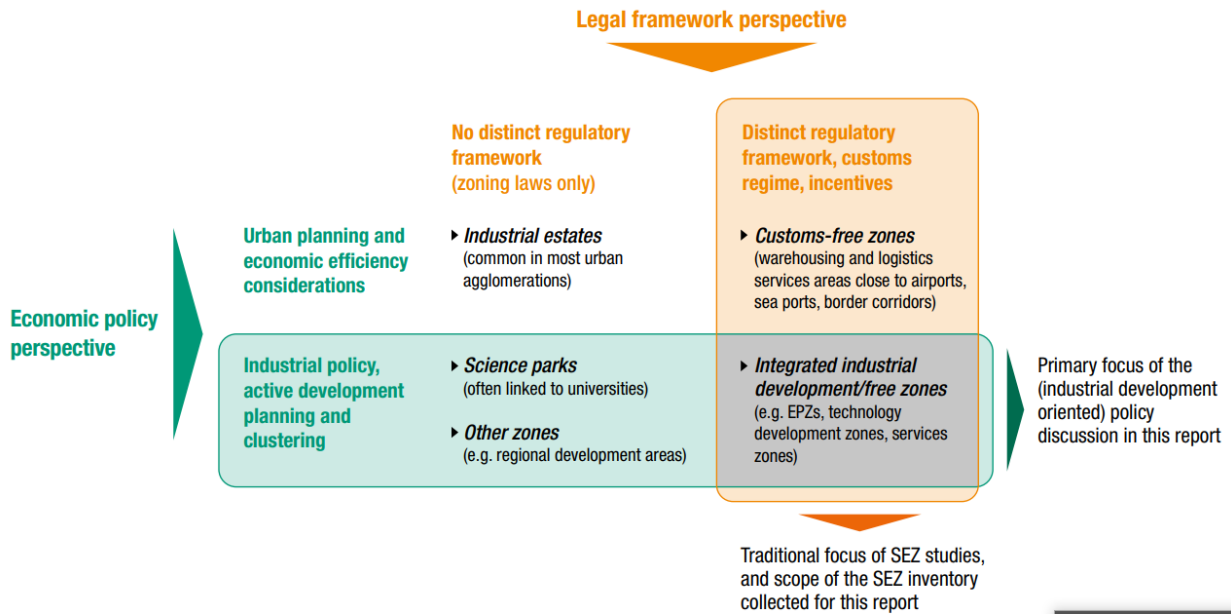olved from promoting regional development to carrying out structural reform and regional economic cooperation and integration.

From a development perspective, as well as an investment policy perspective, ones that are established as an integral part of industrial policy with active clustering efforts (i.e. the bottom half of the matrix) are the more relevant. Although free trade zones (FTZs), which mostly focus on logistics and warehousing services, are important – especially in developed countries – most existing and planned zones in the developing world are integrated free zones that aim to attract investment in industrial activity (Fig 6).
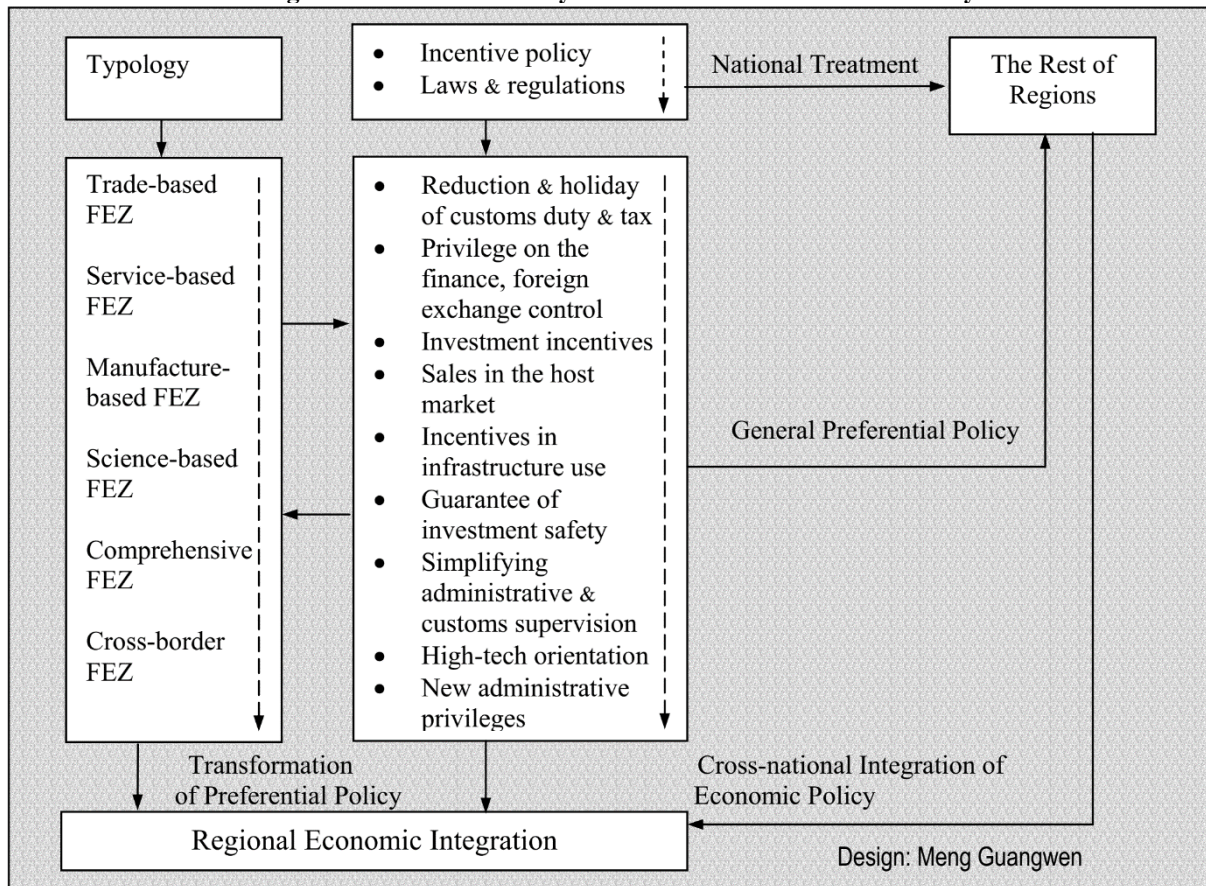
Figure 6. SEZ scope and definitions: a matrix combining two perspectives

Source: UNICTAD

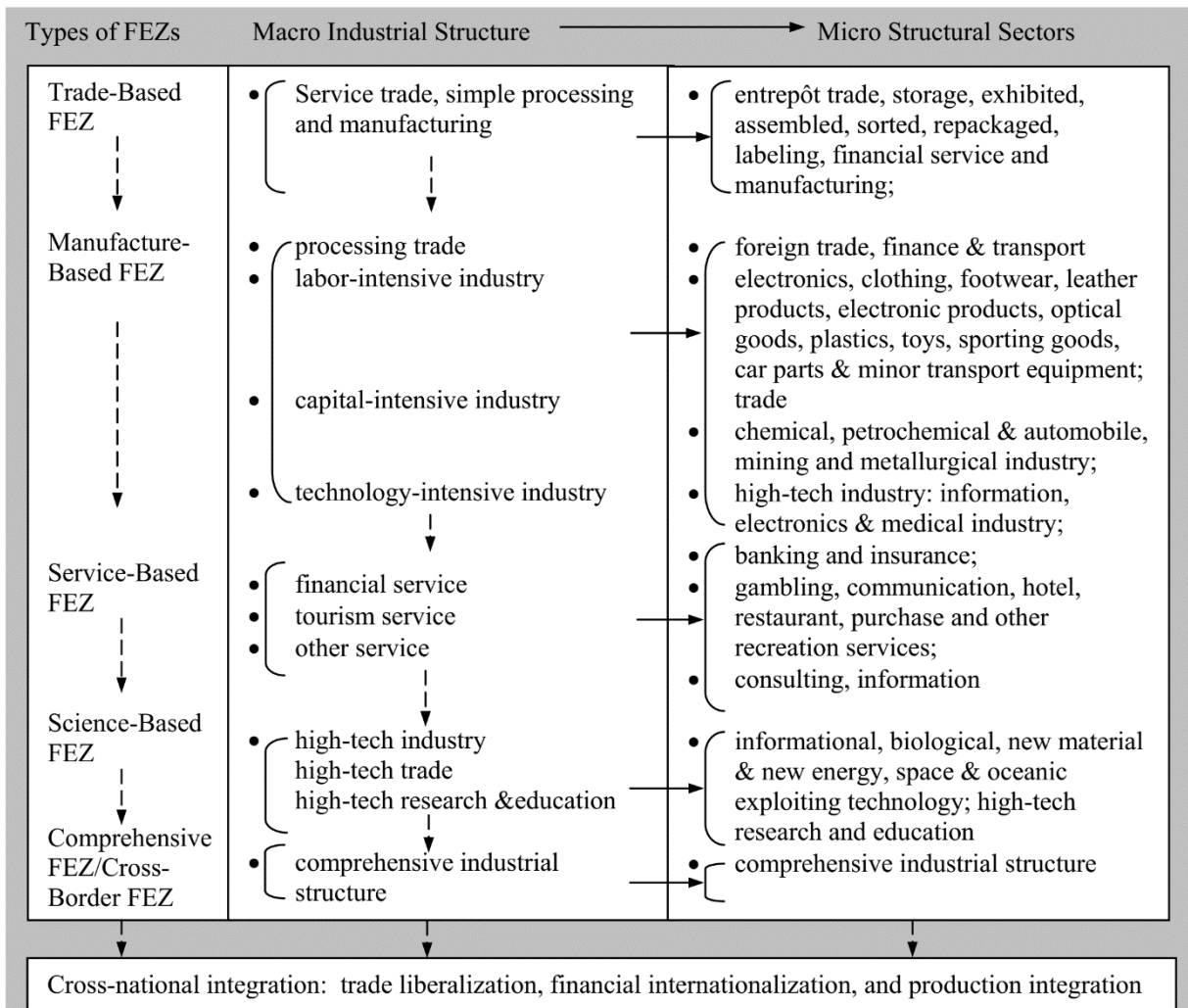## Figure 7. The Evolutionary Model of FEZ's Preferential Policy

Source: The Theory and Practice of Free Economic Zones: A Case Study of Tianjin, People's Republic of China, Ruprecht-Karls University of Heidelberg, Germany, Meng Guangwen Tianjin / People's Republic of China, 2003. The preferential contents and degree are enriched and enlarged following the evolution of FEZs from the trade-based to the comprehensive and cross-border FEZ. It expanded from the trade to the service, production, administrative and social, even political field. In addition, preferential policy will be expanded to the regions outside the FEZs, namely, the national treatment for the foreign investors inside or outside FEZs.

Figure 8. The Evolutionary Model of FEZ's Industrial Structure

The industrial structure consists of the key factors indicating FEZ economic development. Its evolution occurs both in total FEZs and in each FEZ. Figure 8 presents developed more comprehensive sectors with a stronger orientation toward capital- and technology-intensive manufacturing and services.

Quantitative growth goals are those aiming at attracting investment, promoting trade, increasing exports or creating jobs. Dynamic growth objectives seek innovation, industrial upgrading, skills development, economic diversification and structural change, as well as integration into value chains. Socioeconomic objectives relate to sustainable development, the quality of employment or environmental protection (Fig.9).
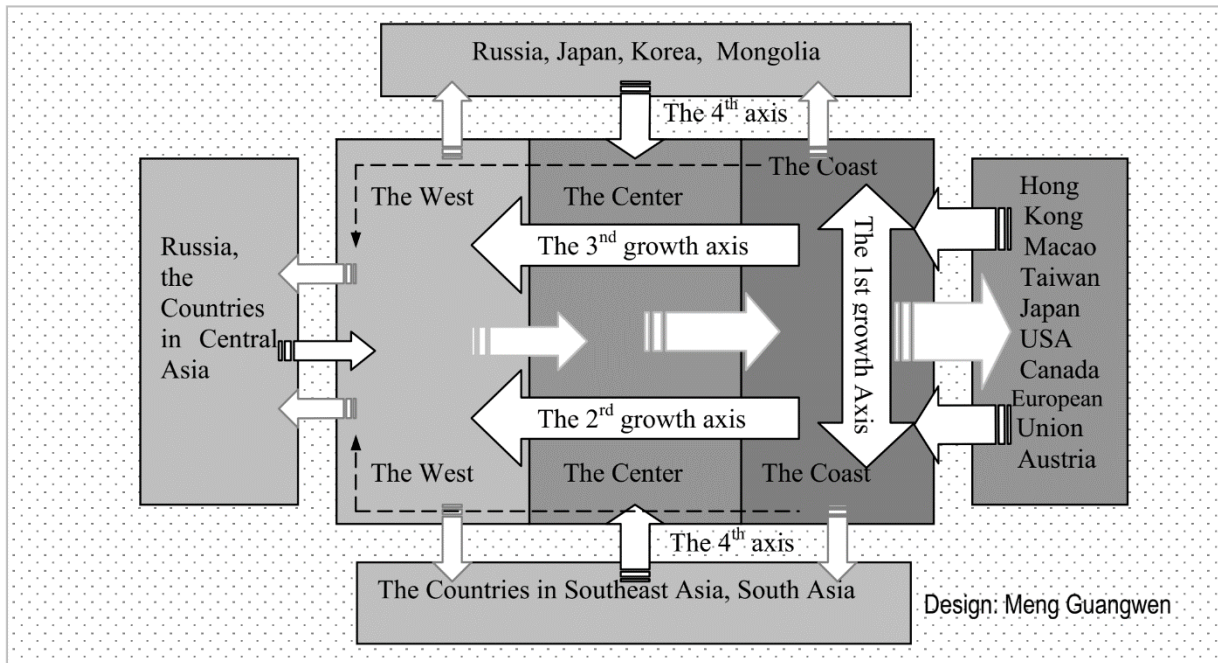
Figure 9. SEZs: general definitions and types

General definitions	Geographical location Special regulatory regime Economic activity	**Poland:** a separated, uninhabited part of the territory, on which a business activity may be conducted in accordance with the rules of the Act
		Pakistan: a geographically defined and delimited area that has been notified and approved for economic, industrial and commercial activities
		Indonesia: zones with certain boundaries within the territory that are designated to carry out an economic function and are granted certain facilities and incentives
		The Gambia: any area designated as a free zone where goods and services are deemed, insofar as import duties and taxes are concerned, as being outside the customs territory, where the benefits provided under the law apply
Types	Broad coverage of many zone types	**Botswana:** free trade zone or commercial special economic zone, export processing zone, enterprise zone, free port, single-factory economic zone, specialized zones, and others
	Typology based on specific purposes of each type	**Uzbekistan:** free trade zones (trade focused); free production areas (stimulating entrepreneurship and priority sectors), free scientific and technical zones (development of scientific and production potential)
	Typology based on geographical considerations	**Dominican Republic:** other free zones of border character (at the frontier with Haiti), special free zones (proximity to natural resources processed), industrial free zones or services (any location)

**Figure 10. The Development Model of Growth Poles-Axes of China since the1990s**

The implementation of the regional-unbalanced development policy promoted and sped up economic development of China, especially that of the coastal regions. This strategy, however, has also resulted in several problems since 1978. For example, along with the rapid economic development, the coastal region is being faced with relocation of some labor-intensive industries due to the increase of the cost of labor forces. Figure 10 clear presents that role of free economic zones in Uzbekistan and its background development model.

Figure 11. The Spatial Evolutionary Model of FEZs by Selected Periods, Geographical Areas and Nations
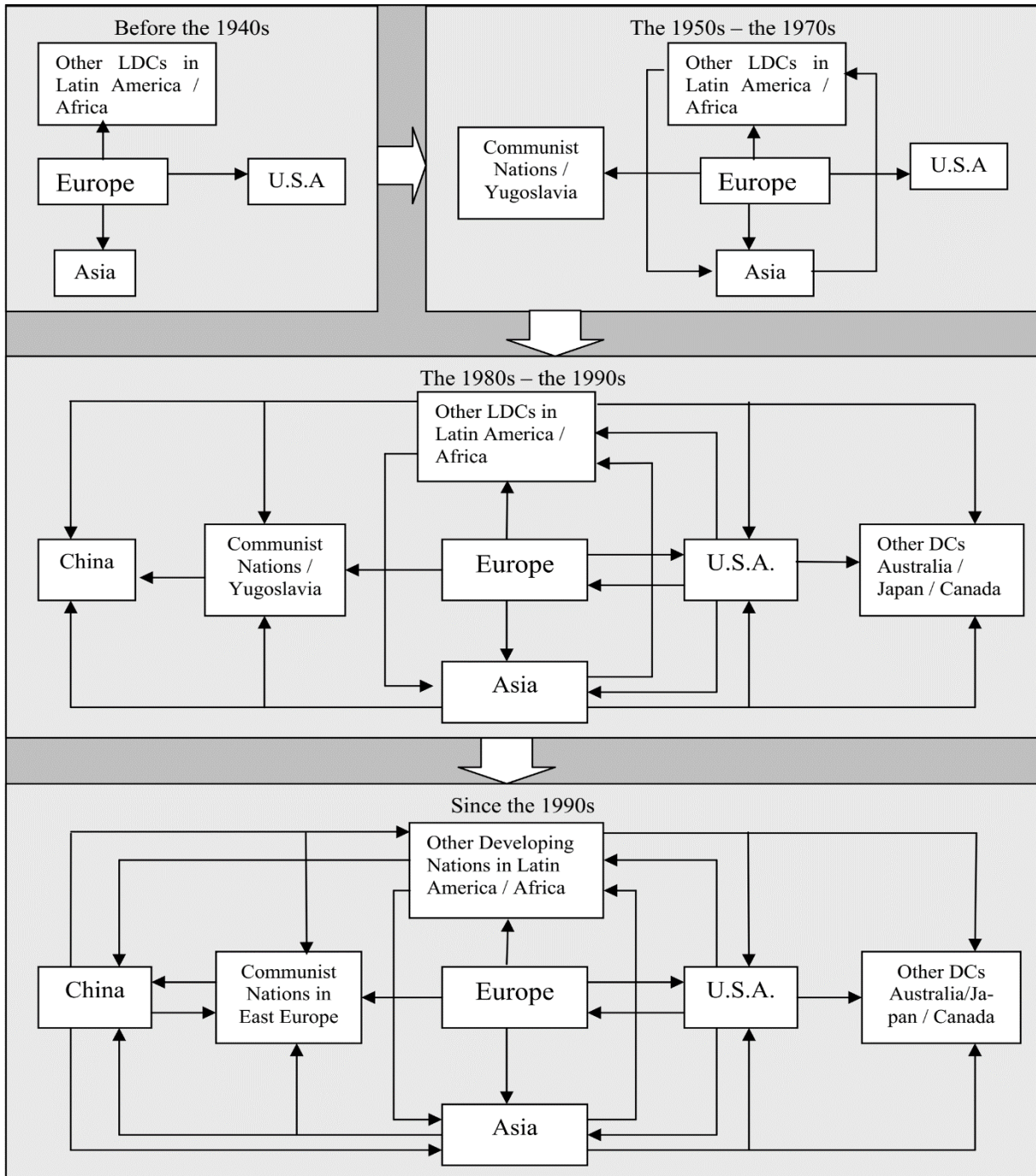
Source: Developed from McCalla, Robert J. (1990), "The Geographical Spread of Free Zones Associated with Ports", In: Geoforum, Vol. 21, No. 1, Pergamon Press Plc. p. 124
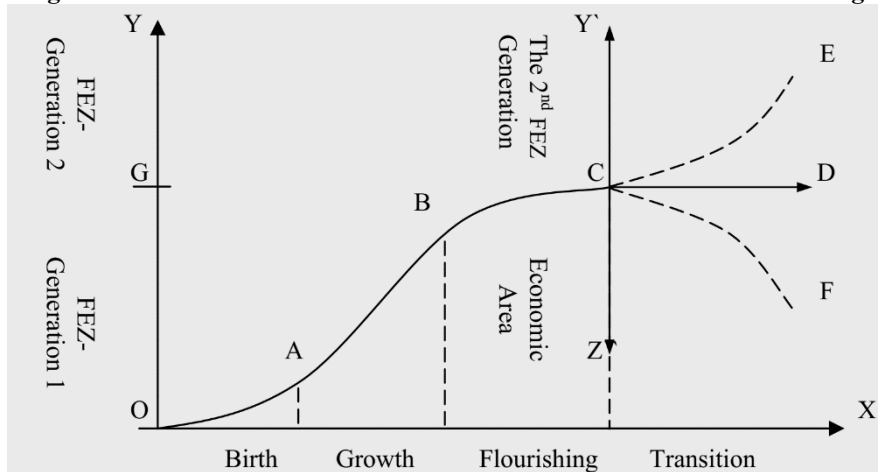
The evolution of FEZs can be classified into five stages. The first stage is symbolized by primitive FEZs such as FC and FP pre-1500s and successively by trade-based FEZs such as FP and FTZ since the 1500s; the second stage has manifested itself in manufacture-based FEZs such as EPZ, and service-based FEZs such as FFZ since the 1960s; the third stage is symbolized by comprehensive FEZs such as SEZ and science-based FEZs such as SIP and technopoles since the 1980s; the fourth stage is incarnated by cross-border FEZs such as CECZ and CGT since the 1990s; the fifth stage is symbolized by cross-national REI since the establishment of the MEU of the Netherlands, Belgium and Luxembourg in the 1930s and was optimized by the establishment of EU.

Figure 12. FEZ's Evolution and the Three Trends at the Transitional Stage

From the above figure we can analyze conceptual approaches of transitional stages of each free economic zone. It explains three trends which means starting point, development and transition whether positive or negative. (Fig. 12).

Discussion

Figure 13. Geographic locations of free economic zones of Uzbekistan

Special concessions have been approved for the development of specific regions of Uzbekistan. The following Free Economic Zones1 have been created:
• Navoi Free Economic Zone;
• Angren Free Economic Zone;
• Dzhizak Free Economic Zone;
• Urgut Free Economic Zone;
• G'ijduvon Free Economic Zone;
• Kokand Free Economic Zone;
• Hazorasp Free Economic Zone

Subject to the value of foreign investment, companies are eligible for concessions of varying duration on:
• Land tax;
• Property tax;
• Corporate profits tax;
• Tax on improvements and the development of social infrastructure

As an additional stimulus, special rules for making payments in foreign currency have been

introduced for companies registered in the above zones.

Legislation of the Republic of Uzbekistan on free economic zones

▪ About measures for strengthening coordination and increasing responsibility of ministries, agencies and local authorities for effective functioning of free economic zones, 2017

▪ Free Economic Zones and Small Industrial Zones, 2018

▪ About measures for further improvement of the system of coordination and management of activities of the free economic zones 2018

▪ Creation of a Free Industrial and Economic Zone in Navoi Oblast, 2008;

▪ Creation of the Angren Special Industrial Zone, 2012;

▪ Creation of the Dzhizak Special Indsutrial Zone, 2013;

▪ Additional measures to stimulate and expand the Activity of Free Economic Zones, 2016;

▪ Creation of Free Economic Zones "Urgut", "G'ijduvon", "Kokand" and "Hazorasp, 2017.

At the same time, the experience gained in the FIEZ shows that there are a number of problems and unresolved issues that hinder their rapid development and effective functioning including as followings:

First, in the medium and long term, there are no clear principles and approaches to the development of the SEZ, which define the specific goals for their establishment and functioning, including economic, social, scientific and technical and other purposes;

Secondly, the efforts of foreign companies and firms to broaden the favorable conditions for doing business in the territory of the FIEZ in Uzbekistan, and to inform potential investors, first of all, of these conditions abroad, are inadequate;

Third, the selection, implementation, analysis and evaluation of promising project proposals for implementation in the FIEZ based on feasibility, validity and profitability, as well as the quality organization, coordination and monitoring of all project implementation cycles, including project design and implementation. No unified system for growth, launch of facilities and achievement of end goals has been established;

Fourth, low-quality investment projects portfolio with high-tech foreign companies, primarily with deep processing of local mineral resources and agricultural raw materials, as well as high-tech export-oriented products under the world-renowned brands. establishment of modern localized enterprises is poorly done; insufficient industrial and cooperative links between economic entities established on the territory of the FIEZ, lack of proper logistics system;

Fifthly, the process of registration, allocation of land, the approval of investment projects, connection of enterprises to the external engineering infrastructure, assistance to entrepreneurs in the domestic and foreign markets are being improved;

Sixth, as a result of insufficient use of the potential of the FIEZ, the volume of production of competitive, export-oriented and import-substituting products by the FIEZ participants is still low, their share in GDP, supply of the domestic market with consumer goods and components, and expansion of export potential in the country. and its share in increasing foreign currency earnings remains stable.

Suggestions

Critical determinant in configuring a zone development program is the type of zones to be promoted. International experience suggests that the recommended approach is to adopt a SEZ model that incorporates these principles:

▪ Allow SEZ enterprises as well as those licensed under other regimes to co-locate within the same area. The development of separately fenced-off areas solely for SEZ enterprises is a less preferable, but acceptable approach.

▪ Ensure that the SEZ regime is flexible, allowing a range of commercial as well as manufacturing activities. If properly supervised, a separate commercial free zone regime is not required.

▪ Promote private rather than public development of zones.

▪ Develop an appropriate legal, regulatory, and institutional framework to ensure adequate regulation and facilitation, requiring greater administrative facilities within host governments.

Conclusion

This study has shown that world markets that meet international standards on creation free economic zones for attracting foreign investment to produce the related products. In the implementation of these tasks free economic zones are important. The relevance of current research is clearly supported by the obtained findings above. Because it's such a free economy zones are the country and abroad for the social and economic development of the region. Modern market, along with the development of its industrial potential, manufacturing, transportation and social sectors by attracting capital infrastructure in the country.

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