



## Zonal Policy of Special Economic Zones According to Country Classifications by Income Level and the Growth of Special Economic Zones in Uzbekistan

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### ABSTRACT

This article examines the concept of special economic zones, their types and main benefits provided to the residents. We consider economic, social, scientific and technical aspects of special economic zones. Special economic zones are reshaping the world economy. Special economic zones have been established in many countries as a mechanism to attract foreign direct investment, accelerate industrialization and create jobs. Not all special economic zones have been successful, and this paper examines the key parameters that contribute to the success of special economic zones, as well as the objectives of zone policy and the predominant zone types as classified by countries around the world.

**Aim.** To review the interpretation of special economic zones; to identify key parameters that determine the success and new challenges of special economic zones; to review the objectives of zonal policy of special economic zones and the prevailing types of zones according to the classification of countries of the world and to study free economic zones in Uzbekistan.

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**Objectives.** To review interpretation of special economic zones; to carry out scientific analysis of dynamics of various types of special economic zones in Uzbekistan; to generalize key parameters determining success and new tasks of special economic zones; to consider goals of zonal policy of special economic zones and prevailing types of zones according to the classification of the world countries.

**Methodology.** The graphical method, method of generalization, tabular method, method of processing and analysis of actual data, comparative analysis and synthesis, dialectical methods of scientific research were used in this work.

**Results.** We considered the interpretation of special economic zones, studied the free economic zones in Uzbekistan, the functional systematics of special economic zones, the key aspects that determine the success and new challenges facing the special economic zones were revealed. It is proved that the majority of special economic zones are multi-sectoral zones, as well as the majority of special economic zones in developed countries are mainly focused on logistics.

**Conclusions.** Countries tend to use specific types of special economic zones depending on their stage of economic development. Relative newcomers to special economic zone programmes, use special economic zones for manufacturing start-ups, industrialisation and exports. Many of the more advanced economies use zones to stimulate industrial upgrading. In transition economies, technology-oriented zones are important. Many countries are developing more than one type of zone.

The achievement of strategic social and economic goals of the state is ensured by the implementation of strategic decisions and regional economies. At the same time, the heterogeneity of regional development conditions, differences in the historically formed economic potentials and resource endowment of the regions, creates prerequisites for the use of special strategic tools of economic management and the formation of so-called, special economic zones (hereinafter, SEZ) or special economic zones (hereinafter, SEZ).

Free economic zones have a long history. The concept of free ports originated centuries ago, when traders operated from ships, moved cargo and re-exported goods with little or no interference from local authorities. The first special economic zones appeared in Gibraltar in 1704, Singapore in 1819 and Hong Kong in 1848 [5].

After the Kyoto Convention was signed in 1973, special economic zones became widespread, under which special economic zones were defined as foreign trade enclaves where goods were considered to be outside the customs territory. The Act on the accession of the Republic of Uzbekistan to the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention) was adopted by the Legislative Chamber on 4 December 2020 and approved by the Senate on 19 December 2020. Our country acceded to this international convention on the condition that: "The Republic of Uzbekistan accepts all annexes and chapters of the convention, except for chapter 3 of the special annex "e" (shipment of goods coastwise)"[3].

The reason for the exclusion of Chapter 3 (short sea shipping) of the special Annex "E" is the territorial and geographical position of Uzbekistan.

Modern free zones adjacent to seaports or airports or along border corridors emerged in the 1960s. They began to grow in the 1980s, with the spread of export-oriented industrial development strategies in many countries, especially in Asia, and the increasing dependence of global manufacturers on offshore

production. The acceleration of international production in the late 1990s and 2000s and the rapid growth of global value chains spawned another wave of new special economic zones, with many developing countries in all regions seeking to replicate this success.

As defined by the International Convention on the Simplification and Harmonisation of Customs Procedures (Kyoto, May 18, 1973), a free zone is a part of a state's territory where goods are treated as being outside the national customs territory, which implies that they are not subject to normal customs control and taxation. Generally speaking, a special economic zone is a part of a country's territory in which special conditions for doing business apply for national and foreign residents.

According to the Law of the Republic of Uzbekistan on Special Economic Zones: "A free economic zone is a specially designated area with clearly defined administrative boundaries and a special legal regime created to attract domestic and foreign capital, advanced technology and managerial expertise for accelerated social and economic development of the zone"[1].

As a rule, the main objective of Special economic zones creation is deeper inclusion of national economies into international geographical division of labour. Other goals are saturation of the domestic market with high-quality products, introduction of the latest scientific and technological developments into domestic production, increase of employment, solution of regional policy problems through creation of 'growth poles', etc.

Generally speaking, the establishment of special economic zones is aimed at achieving economic, social, scientific and technological objectives[6]:

Economic objectives:

1. to attract foreign and national capital through special preferential economic mechanisms, to be resistant to changes in the legislative framework and to facilitate organisational procedures;
2. to apply the international division of labour and the international circulation of capital to expand exports of finished goods and services, expedient imports and the formation of an import-substituting mechanism of production
3. Elimination of the foreign trade monopoly through open access to different forms of foreign economic activity for all SEZ organizations and enterprises;
4. Increase of currency revenues to the national and regional budgets[6].

Social objectives:

6. assistance in achieving the pace of development of backward regions by concentrating limited national resources in the territories of the zones;
7. increasing employment of the population, creation of new jobs, combating unemployment;
8. creation of a layer of highly qualified labour force by studying and putting into practice international experience in the field of organisation, management, finance; fostering a management culture oriented to the world's requirements for management technology;
9. satisfaction of the population in high quality consumer goods, saturation of the domestic market[6].

Scientific and technical objectives:

- 1) attraction of advanced foreign and domestic technologies;
- 2) acceleration of the innovation and implementation processes

- 3) involvement of foreign scientists and specialists;
- 4) more efficient use of conversion facilities and infrastructure;
- 5) acquisition of international experience[6].

Objectives of special economic zones creation from the investors' point of view:

- 1) bringing production closer to the consumer;
- 2) cost minimisation due to the absence of export and import duties
- 3) access to infrastructure;
- 4) use of a cheaper labour force;
- 5) reduction of administrative barriers;
- 6) the development of the territory.

Special economic zones have their characteristics, which include:

- 1) a special regulatory regime: special economic zones usually have relatively liberal economic laws on issues such as labour, land use and foreign investment;
- 2) government services: regions usually enjoy preferential customs services, fast registration and licensing;
- 3) infrastructure: special economic zones will have very good and reliable infrastructure, such as roads, electricity and water supply;
- 4) Tax incentives: SEZ investors often benefit from tax breaks and subsidies[6].

The factors affecting the development of special economic zones can be divided into three blocks: economic, social and scientific and technical.

1. The objectives of the economic block include:

- a) Increasing the costs of production in the country;
- b) expansion of the spheres of activity of the national economy;
- c) increasing the country's share in the world market [5].

To achieve these goals, it is necessary to increase the competitiveness of national goods in the world market. At the same time, it is necessary to increase the efficiency of the production of these goods. This allows the country to achieve an optimal export-import ratio, i.e. to increase exports and rationally plan imports.

2. The objectives of the social block are:

- a) Creation of new jobs;
- b) significantly reducing the unemployment rate;
- c) increase the number of highly qualified personnel;

The opening of a new production facility will create new jobs. These may be entirely new jobs requiring new knowledge and skills in addition to those already available. Special attention should be given to special education and training programmes for engineers, workers, and managerial and administrative staff with high qualifications that meet all international standards.

d) Saturation of the domestic market with domestically produced quality goods;

Products produced on the territory of special economic zones should be supplied not only for export but also for the domestic market. In this case, the goods can be sold at a lower price than the ones imported into the country.

e) Increasing the standard of living of the population and the level of development of certain regions of the country[5].

The increase in the standard of living is related to the wages of workers. Investors seek to attract workers to their companies with high wages. However, employers have serious demands on them, and employees from the investment company are appointed to senior positions.

3. The tasks of the science and technology unit include:

a) improving science and innovation;

b) introducing and effectively using new technologies;

c) reorientation of scientific personnel to the most promising directions and cooperation with their foreign colleagues [5];

Currently, the level of implementation of technologies in everyday life is very high, they greatly facilitate human life. It is the same with production. The latest technologies make it possible to automate the production process, reduce it to a minimum and at the same time increase the volume of production. New equipment is much less likely to require repair than old equipment, which in turn will reduce operating costs.

In the current global business and investment climate, strategic focus, regulatory and governance models, and incentives can be more effective key ingredients of successful SEZ policies. However, policymakers are also facing new challenges stemming from the requirements of sustainable development, the new industrial revolution, and changing patterns of international production (Table 1).

**Table 1: Key parameters determining the success and new challenges facing special economic zones**

<b>№</b>	<b>Key characteristics that determine the success of special economic zones</b>	<b>New challenges facing special economic zones</b>
1	Strategic focus	The demands of sustainable development
2	Regulatory framework and governance	The new industrial revolution and the digital economy
3	Value proposition for investors	Changing patterns of international production

Source: Based on data from World Investment Report 2019[5].

More than 140 countries around the world, almost three-quarters of developing economies and almost all transition countries use special economic zones. Their number has grown rapidly in recent years, with at least 500 more in the pipeline. Most special economic zones are multi-sectoral zones. Industry specialised zones and innovation-oriented zones are concentrated in more developed and emerging markets. The majority of special economic zones in developed countries focus mainly on logistics. The use of zones by countries at different stages of industrialisation shows the stage of development of special economic zones.

According to the development of the economy, different policy aims apply to special economic zones.

**Table 2: SEZ zoning policy aims and preferred types of zones according to country classification**

Classification of countries	Aims of zoning policies	Predominant types of zones
High-income economies	Provide an effective platform for complex cross-border supply chains Focus on avoiding distortions in the economy	Only logistics hub free zones (not industrial free zones) Innovation and new industrial revolution objectives are achieved through science parks without a separate regulatory framework or with incentives not linked to zones
Upper middle income countries	Supporting the transition to a service economy Attracting new high-tech industries Focusing on improving innovation capacity	Technology zones (e.g. R&D, high-tech, biotechnology) Specialised areas targeting high value added industries or value chain segments Service areas (e.g. financial services)
Middle-income countries	Supporting industrial upgrading Promoting integration and modernisation of the global value chain Focus on technology diffusion and spillovers	Specialised zones focused on industries with intensive global value chains (e.g. automotive, electronics) Service areas (e.g. business process outsourcing, call centres)
Low-income countries	Stimulate industrial development and diversification To compensate for weaknesses in the investment climate Introduce or pilot business reforms in a limited territory Concentrate infrastructure investments in a limited area Focus on direct employment and export benefits	Multi-activity zones Resource-oriented zones aimed at attracting processing industries

Source: Based on data from World Investment Report 2019[5].

Countries tend to use specific types of special economic zones depending on their level of economic development (table 4). Relative newcomers to special economic zone programmes, such as numerous African countries, use special economic zones for manufacturing start-ups, industrialisation and exports. Many of the more advanced economies use zones to stimulate industrial modernisation. In economies in transition, technology-focused zones are important[5].

The stage of development of special economic zones can also be seen in the evolution of zones within economies, especially in those where special economic zone programmes were adopted at an early stage. For example, in high-income Asian economies (e.g. Republic of Korea, United Arab Emirates), zones that were originally designed to attract export-oriented manufacturing are now diversifying into services and vertical integration.

While in Latin America and the Caribbean, special economic zones that originally focused only on warehousing and logistics have moved into manufacturing and services[5].

Many countries are developing more than one type of zone[4]. For example, free trade zones and export-oriented zones in Brazil, as well as special economic zones, single enterprise free zones and free trade zones in Mexico. This is often the result of a transition to new models of special economic zones.

When it is about Uzbekistan, the country currently has 21 special economic zones (SEZs), of which 19 specialise in an industry, one in agriculture and one in tourism[4].

In total 448 projects worth USD 2.4 billion, of which USD 764.6 million worth of direct foreign investments have been implemented in free economic zones in the period between 2008 and January 2021. 34 thousand new jobs have been created. The largest of these projects have been implemented in SEZ "Angren" (73 projects worth 730.7 mln USD), SEZ "Urgut" (55 projects worth 312.9 mln USD), SEZ "Navoi" (53 projects worth 282.8 mln USD) and SEZ "Bukhoro-agro" (112 projects worth 325.1 mln USD) [4].

At the end of 2020, 128 projects worth \$487.4 million have been implemented in the territories of existing SEZs, of which foreign direct investments totalled \$162.1 million. The projects have included such directions as construction of modern greenhouses (62 projects totalling 204.7 million USD), production of building materials (18 projects totalling 140 million USD), chemical and petrochemical industry (13 projects totalling 50.6 million USD), food industry (10 projects totalling 15.9 million USD), textile industry (8 projects totalling 20.1 million USD), machine building (2 projects totalling 6 million USD), leather and footwear industry (5 projects totalling 14.9 million USD), electrotechnical industry (3 projects totalling 8.8 million USD) and chemical industry (1 project totalling 14.5 million USD)[4].

In the period under review, SEZ member enterprises produced 538 types of industrial products worth \$11.9 trillion and exported products worth \$257.6 million, which despite the negative economic impact of the pandemic, represented an increase of 145% as compared to the same figure for 2019. Also, 186 new enterprises were granted SEZ membership status[4].

Extensive work has been carried out to improve the legal and regulatory framework governing the development of free economic zones. Thus, the Law of the Republic of Uzbekistan "On Special Economic Zones" was adopted, which established the procedure for creating, extending the term of operation and liquidation of free economic zones, changing their boundaries, revising their management system, the principles of selecting investment projects to be located on their territory, as well as the registration procedures for their participants.

In addition, the document provides that the financing of construction or reconstruction of infrastructure facilities in free economic zones can be performed both at the expense of centralized and non-centralized sources.

Providing special economic zones with the necessary infrastructure is a key factor for their effective operation and for attracting new investors and entrepreneurs to implement projects in their territory. In this regard, in 2021, it is planned to allocate 890 billion sums to connect existing special economic zones to engineering and communications networks.

In particular, this is based on a positive forecast of investment activity in free economic zones of Uzbekistan: 443 new investment projects worth 2.9 billion USD are scheduled for implementation in 2021, of which 1.4 billion USD will be foreign direct investments. As a result of these projects, the production of 552 new types of industrial products will be launched and 41.6 thousand new jobs will be created[4].

In addition, this year we are going to expand free economic zones Bukhoro-agro, Gijduvan and Urgut,

as well as launch a new free economic zone in the Republic of Karakalpakstan - "Karakalpak-agro" and two specialized free economic zones in Ferghana region - "Andijon-textile" and "Namangan-textile"[4].

In world history, free economic zones have played an important role in the socio-economic development of many developed and developing countries. Economic free zones were primarily aimed at strengthening foreign trade, accelerating market relations and ensuring the socio-economic development of problem areas.

For development of special economic zones in the Republic of Uzbekistan it is necessary to concentrate financial and material resources on priority directions of development of science and technology, creation and support of leading scientific schools, formation of scientific and technical reserve and National technological base, attraction of private capital, realization of infrastructure development programs providing commercialization of research and development results, territories creating high scientific and technical potential with state support.

At the regional level, special economic zones are an effective way of establishing market relations on the territory of Uzbekistan, the creation of which should be guided by their economic, social, scientific and technical objectives.

By improving the process of legislative regulation of special economic zones and enhancing a powerful system of tax and customs privileges and preferences, Uzbekistan will be able to address a number of priority regional problems in the stabilization and development of special economic zones, namely, improving the economy, investment climate, development of foreign economic activities and deepening international relations.

Thus, the creation of special economic zones encompasses various goals and objectives, the main of which is to create efficient production, improve the living standards of the population and the well-being of the country as a whole.

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