



## Formation of a Mechanism for Managing Investment Attraction in Free Economic Zones

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### ABSTRACT

This article is devoted to the establishment of the mechanism that would manage investment attraction in free economic zones of Uzbekistan as well as point out beneficial sides of FEZs and probable disadvantageous characteristics of Uzbekistan's free economic zones. Moreover, this paper provides the examples of handling free economic zones in foreign countries and presents a number of statistical data to support the ideas.

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With a wave of economic liberalization, the Republic of Uzbekistan is entering a new age of economic development. New methods and instruments for the development of contemporary inventive production in the republic, as well as the creation of a conducive environment for life, are being created and implemented, allowing Uzbekistan to project an image of an industrial country in the world arena.

One of these strategies is the establishment of free economic zones (FEZs), which have demonstrated the effectiveness of many economic sectors in numerous nations throughout the world. According to UNCTAD's review of investment policy measures, special zones are employed by almost 80% of developed and developing nations in their industrial development strategies.

There are currently around 4500 free economic zones in 140 countries, employing over 70 million people. According to projections, free economic zones will account for 20 to 25% of global commerce by 2022.

FEZ growth and formation are also important for Uzbekistan. They may be viewed as one means of addressing the republic's economic concerns and generating new ideas for incorporating innovations into manufacturing processes. FEZs allow for the saturation of the domestic market with high-quality products, the introduction of the most recent scientific and technological developments into domestic production, the increase of employment, the expansion of exports, the increase of foreign exchange earnings, and the creation of opportunities for training and retraining personnel to meet international standards. The main objectives of establishing a free economic zone in the republic should be to boost the country's and regions' economies, solve problems in developing industry, agriculture, trade, and tourism, include national economies in the international division of labor, promote entrepreneurship, and improve the living standards of the country's population.

According to the article from 2019, the republic has 22 free economic zones, including 11 industrial zones, 8 pharmaceutical zones, 2 agro-industrial zones, and 1 tourism zone. In all, 241 investment projects worth a total of \$ 1,332.1 million have been undertaken in the republic's FEZ since 2010. The implementation of these initiatives resulted in the creation of 19,672 employment. In addition, 442 projects totaling USD 2,166.9 million are now being implemented. More than 35 thousand new employment are expected to be created as a consequence of the execution of these projects. In the foreseeable future, 90 projects worth \$1,967.8 million dollars are planned.

Simultaneously, an examination of the operations of free economic zones has revealed a number of flaws and challenges that demand quick attention. Thus, there are issues in securing inexpensive bank loans, providing a developed road transport, engineering, communication, and social infrastructure, and so on. investment projects, as well as the availability and level of preparedness of projects for implementation. As a result, just 13 of the 22 free economic zones have begun to implement manufacturing operations. Only the free economic zones "Kosonsoy-Pharm," "Sirdaryo-Pharm," and "Boysun-Pharm" have undertaken investment projects out of the eight zones specialized in pharmaceutical product manufacturing. Potential investment projects are now being developed and examined in the newly established FEZ "Namangan," FEZ "Termez," and FEZ "Andijon-Pharm."

One hundred and fourteen measures totaling 492.8 billion soums are proposed to offer developed road transport, engineering, communication, and social infrastructure. Design estimates are now being generated, as well as the selection of contractors to carry out these services. Despite the fact that one of the FEZ's goals is to promote exports and organize high-tech enterprises for deep processing of local raw materials, an examination of the projects now underway suggests that this goal is not being met. Only 9 of the 22 free economic zones have allowed foreign commercial activity to date. The free economic zone accounts for less than 1% of total industrial output, and it exports only around 22% of produced goods. Product exports from these zones account for 40-60% of total exports to foreign nations. The FEZ of the Republic of Uzbekistan has the following characteristics (that may be negative to a particular point):

- a negative foreign economic turnover balance;
- a negligible proportion of FEZ firms' output in the country's GDP (less than 1%);
- a low amount of exports;
- the manufactured items' poor competitiveness;

- focus on exporting to countries in the Commonwealth of Independent States (CIS);
- a lack of product variety and, as a result, export.

To support the construction of highly efficient industrial zones with significant export potential, a variety of policies and processes should be implemented. It is vital to create conditions that allow for unfettered financing to FEZ businesses, quick conversion, and the use of international financial institution loans for the manufacture of export-oriented goods. Lack of debugging issues in infrastructure construction, irregular supply of electricity, gas, and water, as well as high railway tariffs, untimely delivery of wagons and loading and unloading of raw materials and goods, do not allow for efficient use of this mode of transportation, resulting in additional costs and wasted time, and limiting FEZ export opportunities. This necessitates the timely and thorough completion of the planned scope of work for the FEZ's production and transportation infrastructure development.

To improve the effectiveness of the FEZ and boost their export potential, foreign enterprises from countries that actively participate in this zone and have expertise in the establishment and operation of economic zones should be transferred the tasks of the FEZ directors. For example, India's pharmaceutical industry is expressing strong interest in establishing pharmaceutical production in the Andijan-Pharm FEZ, and working as a strategic partner in the development and organization of sophisticated manufacturing facilities for pharmaceutical products and medications. The directorship of this FEZ might be successfully performed by a professional Indian business.

Conditions should be created in large complex FEZs to create a favorable organizational environment that allows foreign investors to choose a channel for entering the domestic market based on their priorities, by developing clear goals and a corresponding differentiation of the conditions for placing foreign investments.

Directorates of free economic zones shall engage in aggressive advertising and communication efforts both in the Republic and abroad to promote the zones' investment and commercial opportunities and to attract international and domestic investors. Because this task is presently not being actively pursued, responsible bodies for advertising and information activities should be designated. As a result, several zones lack an official webpage on the Internet. It is as well required to inventory and compare the tax benefits offered in the FEZ areas with the benefits provided for particular industries, as well as to assess the profitability of subjects of certain sectors who choose to locate their businesses on the FEZ's territory.

This will result in a far more favorable environment for operations in the zones, as well as increased investor appeal.

Given that the primary purpose of investment is to support long-term development goals and boost competitiveness, a clear relationship between foreign investment recruitment strategy and industrial policy is required. Because each sector has its own set of special elements that impact its appeal to investors, investment incentives should be designed and granted by the government based on plans for what sort of industrial structure the country would want to have in the future.

According to a survey of companies on the attractiveness of investment, factors such as having a good telecommunications infrastructure (very important for 61.5 percent of surveyed companies) and the skill level of the workforce are very important to foreign firms focused on high-tech industries and the provision of business services (very important for 53 percent of them). Economic efficiency (labor costs are highly essential for 50% of the studied enterprises), tax load, regulatory and legal concerns are all very relevant to manufacturing-oriented businesses. As a result, incentives for investors should be provided on a case-by-case basis, based on the motivations for investment and the prospects for the

development of a specific sector, as well as the development of infrastructure (physical and industrial), stimulating the development of clusters, and investment in human capital, which can significantly contribute to the inflow of investment in sectors with a high share of added value.

When revising existing FEZs or establishing new ones, it is critical to clearly specify which types of production are preferable to be situated on a certain region, taking into account the country's economic growth goals, current conditions, and investor interests. One of the main reasons for the inefficiency of the FEZ in many countries is the lack of research into which industries to locate on the FEZ's territory, whether there is the necessary infrastructure and conditions for the development of specific industries in a particular territory, and whether investors are interested in these industries.

Based on the value of the Commodity Complementarity Index, the potential of air transport logistics, the preferences of foreign investors, and the export-import structure of the Uzbek economy, Korean experts conducted a study in 2010 on the preferred types of production recommended for placement in the Navoi FEZ. As a consequence, a proposal was made for FEZ "Navoi" to specialize in the manufacturing of automobile components, electronic and electrical industry goods, and other mechanical engineering areas.

Improving the investment competitiveness environment can be accomplished through a specially designed incentive package, such as pioneer and strategic target company status, or through rigorous benchmarking, such as a market focus, a focus on the efficient use of available resources and funds, and a focus on high production efficiency. The growth of free economic zones hinges on the development of an efficient mechanism for recruiting and promoting foreign direct investment.

The conduct of appropriate research, the identification of target industries, the selection and attraction of target businesses, the formation of relations, the subsequent actions of investors, and post-investment assistance in the FEZ's area should all be part of the policy to attract FDI.

Aside from targeted investor recruitment, creating suitable living and business environments for foreign investors is a crucial requirement for attracting international investors. This entails the supply of safe and pleasant homes, as well as the availability of a contemporary social infrastructure (schools for children, medical institutions).

One of the most significant concerns is the provision of comfortable housing; it is required to increase the availability of housing for foreign citizens and diversify the types of housing available. According to a 2010 poll of foreign investors in the Navoi free economic zone, the majority of foreigners prefer apartments (51%) to separate homes (10%), and rental housing (72%) to buying (14%). It is vital to adopt legislation to offer pleasant living circumstances for foreign enterprises and to limit the availability of rental homes for foreigners.

Additionally, efforts must be made to recruit overseas educational institutions. Simultaneously, the mix of benefits, the quality of government-to-government engagement, the availability of living circumstances, and the degree of globalization are all critical. However, before luring international institutions, a study of the rationality of university structure in the target region is required. It is required to design a long-term strategy for the development of the educational system in the region, so that educational development supports economic growth and allows for the training of workers in specialties with the requisite credentials for free economic zone industrial businesses. At the same time, collaboration between local educational institutions and FEZ businesses can begin.

The attraction of international research institutes is one of the primary issues in the growth of innovation and technology transfer. The free economic zones' ability to provide exceptional operating

circumstances, particularly the concentration of a number of linked sectors in a small region, makes it feasible to tackle this challenge successfully. Foreign companies are interested in adapting their technologies to Uzbekistan's environment, developing more efficient technologies and equipment tailored to local climatic conditions, raw resources, and other factors. This, together with the creation of a staff training system for FEZ firms, offers advantageous circumstances for collaboration between industrial enterprises and the region's scientific and educational institutions. In the long run, this also paves the way for the establishment of cooperative research institutes involving both local and international professionals in science and industry.

Until recently, a flexible system of advantages operated with the goal of building free economic zones in China, taking into consideration numerous shades, both external and internal, between manufacturers and the state.

Investing in low-profit sectors, poor, isolated places, for example, receives a complete or partial exemption for five years, and subsequently a ten-year reduction on income tax of 15 to 30 percent.

The income tax rate for industry, transportation, and communications firms with a financing length of more than 10 years is nil for the first two years, and from the third to the fifth year, it can be lowered to 50%. Furthermore, a zone management system may minimize this duration by up to 50% in 6-8 years in firms with cutting-edge technology.

After the incentives have ended, businesses that export 70% of their produce must pay a 10% income tax. If a portion of the profit is reinvested in agriculture, building, infrastructure, high technology, or export-oriented production, the withheld income tax amount is refunded in full. Land payment prices are also varying by geography and kind of industry. Benefits are also received, according to Chinese legislation, by the quantity of investment money allotted for reinvestment. So, all of this criteria and procedure implemented in foreign countries can be implied in Uzbekistan's free economic zones in order to improve their effectiveness and income rate.

Special attention, in our opinion, should be paid to cooperation with transnational corporations (TNCs), which, on the one hand, can bring new technologies to the Uzbek market and, on the other hand, can enter the market of third countries (if the republic provides special conditions). This is due to Uzbekistan's strategic geographic location in the heart of the region.

TNCs will speed up the development of the zones by setting special conditions in the FEZ to attract enterprises.

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