

## **PROSPECTS FOR DEVELOPING FREE ECONOMIC ZONES** **IN UZBEKISTAN**

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**Abstract:** *This article outlines the prospects for the establishment and development of free economic zones, current issues of establishing free economic zones, attracting investments and tax privileges provided to the enterprises operating in free economic zones.*

**Key words:** investments, free economic zone, infrastructure, production, export, privilege (concession), tax regime.

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**Introduction.** Currently under conditions of increasing competition throughout the world, creation of favorable conditions for attracting foreign investments, first of all, direct investments for organization of modern hi-tech production, meeting the world standards and supplying the products required in the world markets, as well as creating favorable conditions for industrial potential requires rapid development of transport and social infrastructure. In this regard, establishment of free economic zones becomes a crucial issue for the development of the national economy.

On the basis of the Resolution of the President of the Republic of Uzbekistan on the “Action Strategy for five prior directions of the development of the Republic of Uzbekistan for 2017-2021”, as well as at the message of Shavkat Mirziyoyev, the President of the Republic of Uzbekistan to the Oliy Majlis of the Republic of Uzbekistan (2017), “This year we have established 12 free economic zones and 45 industrial zones in the country, and these organizational measures have been promoting rapid development of the regions. In the nearest future, due to the measures undertaken, another 50 new industrial zones are intended to be established” and these statements have determined top targets for the development of free economic zones. Systematic activities aimed at the development of free economic zones of our country promote an increase of the competitiveness and export potential of the national economy.

The Decree of the President of the Republic of Uzbekistan adopted on October 26, 2016 “On Additional measures to activate and expand free economic zones” has become an important program guide for deepening reforms in this area. Creation of favorable conditions for attracting foreign investments for making and introducing up-to-date, advanced and high-tech technologies, ensuring production of competitive and demanded products in foreign markets in compliance with the requirements of this Decree, as well as creating favorable conditions for the development of industrial capacities, transport, transit and social infrastructure.

Nowadays the government of our republic undertakes comprehensive measures to create free economic and small industrial zones, including the establishment of a solid regulatory base regulating their activities, as well as creation of a wider system of taxation, customs privileges

and benefits that will enable attracting foreign and domestic investments for the development of free economic and industrial zones scale.

The Decree of the President of the Republic of Uzbekistan as of January 22, 2018 “On the State program on implementation of the Action Strategy for five prior directions of the development of the Republic of Uzbekistan for 2017-2021” in the Year of Support of Active Entrepreneurship, Innovative Ideas and Technologies” approved the State Program, its main directions, top targets and prioritization measures.

In the message of the President of the Republic of Uzbekistan to the Oliy Majlis on the most important priorities for 2019 (2018), has been stated that we can achieve a positive outcome in this regard if we can thoroughly shape investment projects for regions and sectors for investors seeking to invest in our economy, necessity of institutional and legal regulation of placement of business entities, granting privileges and preferences thereto.

First of all, it has been determined that such opportunities must be created for entrepreneurs and foreign investors who set up export-oriented, innovative and high-tech production.

In addition, meanwhile, the world experience shows that in the creation of any free economic zone, its focus on openness, expansion of the world economic relations, attraction of foreign and local investors requires modification of existing forms and methods of the state regulation of the Free Economic Zones (FEZ) by the methods applied at the national level. Therefore, the study of the experience gained by the FEZ in the development of an optimal range of benefits to investors, improving the forms and methods of the state regulation of zones and their use in Uzbekistan plays an important role in ensuring efficient functioning of the FEZ established in the country and justifies the relevance of the research topic.

**Literature review.** Free economic zones are determined as the territories with preferential taxation, financial and legal conditions for economic and foreign economic activity, in compliance with intergovernmental agreements or special laws.

It is designed to engage foreign and local entrepreneurs and create necessary manufacturing and business infrastructure. Free economic zones are often set up in inter-state adjacent territories (bordering several countries), international airports, port cities, or areas adjacent to the transport routes.

In the free economic zones a separate international legal status is introduced. However, it is an integral part of the country, regardless of where it is located, all operations (land allocation, firms and companies, border crossings, import and export commodities, customs payments, tax exemptions, currency or currencies, the procedure for the management of the territory, etc.) are subject to the implementation in compliance with the procedures and statutory acts adopted. The goal of creating free economic zones is to attract new investments and create an advanced economic area, and thus rapidly develop the national economy.

Article 1 of the Law of the Republic of Uzbekistan “On Free Economic Zone” determines free economic zone as an area which is clearly defined by administrative boundaries and special legal arrangements and designed to attract domestic and foreign capital, promising technological and management experience for the rapid socioeconomic development of the region” (Law).

It is not accurate to regard free economic zones as a product of modern economic integration processes. Their history is relatively old. The ancient Phoenicians, Greeks and Romans provided free entry and security of foreign vessels to their ports in order to develop their business. In XVI and XVII centuries, a number of European cities declared themselves “Free Trade Towns”. During Great Amir Temur’s period of ruling, Samarkand was such a free trade center, all the country’s caravan routes were protected by the authority.

As Z.N. Kurbanov (2014) wrote: “Free Ports” (port-franco) were established as a form of FEZ”. Since Free Ports to Genoa (1595), ports of Venice (1661), Marseille (1669), Odessa (1817) and Botumi (1898) have been operating as examples of the ports. First FEZ was founded in Livorno, Italy, and declared as the “Free Trade City” in 1547.

There are different types of free economic zones: free warehouses, free customs zones, scientific-technical zones. They are represented by technoparks in the United States, and technology parks in Japan. There are also special economic zones (mainly export-oriented). One of the earliest free economic zones was established in Ireland at the Shennon Airport (1959). Later, the same area appeared at the UK airport Dog Aylend. Some free economic zones are organized in larger areas. For example, Manaus in Brazil, the Shenjen Private Economic Zone in China, and so on.

As the world practice illustrates, free economic zones were also created in the developed countries (Great Britain, Germany, the Netherlands, the USA, etc.) and developing countries (Brazil, Republic of Korea, Malaysia, etc.). Attraction of foreign capital in free economic zones has been widely applied in Chinese politics. By the end of the 20th century, free economic zones were established in the United Arab Emirates, Russia and Poland. Blyagovanichensk-Heihe, Black Sea coast, Yantar Free Economic Zones in Kaliningrad region were established in collaboration with Russia and China.

According to the opinion of Ye.Yu. Pogrebnyak (2019), there are over 2127 free economic zones in the world.

Currently there are different types and kinds of free economic zones in the world and they are unevenly located in the world regions. Nowadays the majority of free economic zones are situated in North America. The total number of FEZs in the United States accounts for 366.

In many economic literary sources, free economic zones are divided into: 1) economic areas on the international arena, primarily in free trade zones, 2) in industrial and production areas, and 3) areas with introduction of modern techniques and sophisticated technologies, service areas and complex zones. Depending on the type of FEZ, they can be divided into territorial zones and zones with special regimes.

**Analysis and results.** A comprehensive, reasonable policy is being pursued to reform, liberalize and modernize the national economy and diversify its structure. This policy protects our state

from the negative effects of crises and other threats and creates a solid, reliable means of protection.

As an important factor in modernizing our country and raising the level of employment, it is crucially important to create the most favorable conditions for meeting the world standards and demanding world markets, as well as attracting foreign investments, first of all, direct investments. Free economic zones play a crucial role in the implementation of this task. Therefore, in countries such as China, the United States, France, South Korea, Ireland, Mexico, Hungary, Bulgaria, free economic zones have been established based on the geographical and other amenities of the region.

In the mid-90s, there were about 1200 different types of free economic zones, including over 300 export-oriented production zones and about 400 free scientific and technical zones. The main aim of such zones is to develop their industrial potential, production, transport, transit and social infrastructure, and to create modern market infrastructure by attracting domestic and foreign capital, promising technology and management experience to accelerate socio-economic development of the region.

According to this law, the procedure for the establishment of free economic zones, their types, the mechanism of providing additional privileges and preferences to the participants of those zones, types of activities carried out in that area, procedure of formation and powers of the authorities on coordination and operational management of free economic zones, the rules of the registration of subjects of the economic zones in compliance with the requirements of above-mentioned Decree.

This type of free economic zone is currently available in over 20 Asian states, in most Latin American countries, as well as in Hungary, Romania, the United Kingdom and the United States. In contrast to other types of free economic zones, the state provides free customs, currency and fiscal regimes for free production zones.

It is well known that the Decree of the President of the Republic of Uzbekistan was aimed at creation of favorable conditions for attracting foreign investments, first of all, direct investments, as well as the industrial potential of the Navoi region, production, transport, transit and with the purpose of developing the social infrastructure of Navoi region. To pursue this aim, Free Industrial Economic Zone “Navoi” was established in Navoi region, in Karmana district.

In addition, with a view to the integrated and efficient use of the production and resource potential of the Tashkent region, the Decree “On the establishment of a special industrial zone (SIZ) “Angren” was adopted by the First President of the Republic of Uzbekistan in 2012. In accordance with the document, Angren SIZ was formed in order to create favorable conditions for attracting foreign investment to develop modern high-tech industries that will provide competitive products. In addition, establishment of “Angren” SIZ has enabled to create many new job places for the population which, in turn, has resulted in reducing the unemployment rate and enhancing living standards.

The experience in creating free economic zones was followed by the establishment of the Special Industrial Zone “Jizzakh” which basic tasks and activities are the following:

attracting direct investment to create and efficiently operate modern high-tech and innovative industries for the production of high-value-added products competitive in the domestic and international markets;

ensuring the integrated and efficient use of the production and resource potential of the regions within the special industrial zone, creation of new industries for the more advanced processing of mineral resources and agricultural raw materials;

deepening of localization processes for the production of high-tech products based on local raw materials and consumables based with a view of establishment of close cooperative ties and the development of industrial cooperation between organizations of the special industrial zone and the republic as a whole;

provision of advanced development and efficient use of transport, engineering, communication and social infrastructure in the territory of “Jizzakh” SIZ.

The Decree of the President of the Republic of Uzbekistan “On additional measures to activate and expand the activities of free economic zones” № 4853 was adopted on October 26, 2016. This Decree was aimed at creating the most favorable conditions for further development of free economic zones in the country as the most important factor in expanding foreign direct investment to create new high-tech industries communication, road transport, social infrastructure and logistics services.

Participants of free economic zones are exempted from the following taxes for the period of 3 up to 10 years according to the volume of investments made thereto:

- land tax;
- profit tax;
- property tax;
- tax on improvement of the social infrastructure;
- single tax payment (for microfirms and small businesses).

In particular, the volume of investments attracted constituted:

- investments in the amount of from 300 thousand USD up to 3 million USD – for the period of three years;
- investments in the amount of from 3 million USD up to 5 million USD – for the period of five years;
- investments in the amount of from 5 million USD up to 10 million USD – for the period of seven years;
- investments in the amount of 10 million USD and more are taxed at the rate of 50% for the income tax and single tax payments within 10 years.

Currently, the Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan, the Ministry of Justice and other ministries and agencies concerned are introducing amendments and additions to the current legislation.

In addition, on January 12, 2017 the Decree of the President of the Republic of Uzbekistan № 4931 “On establishment of free economic zones “Urgut”, “Gijduvon”, “Kokand” and “Khazorasp” was adopted.

In compliance with this Decree free economic zones “Urgut”, “Gijduvon”, “Kokand”, and “Khazorasp” are expected to operate under special regimes in terms of taxation, customs duties and currency regulation within the period of 30 years with the possibility of future prolongation of this term.

In this regard, the regulation specified in clauses 3, 4, and 5 of the Law “On additional measures to activate and expand the activities of free economic zones” № 4853 adopted on October 26, 2016 shall be applied to the participants of free economic zones “Urgut”, “Gijduvon”, “Kokand”, and “Khazorasp”.

Relevant ministries and departments were entrusted to work out a simplified procedure for the application of privileges on customs duties, taxes and other compulsory payments as envisaged in clauses 3, 4, and 5 of the Law “On additional measures to activate and expand the activities of free economic zones” № 4853 adopted on October 26, 2016. Based on this decree, the Cabinet of Ministers of Uzbekistan issued the Resolution № 196 “On Measures for the establishment of free economic zones” as of April 10, 2017. The Resolution signed by the khokimiyats (local governments) of Samarkand, Bukhara, Fergana and Khorezm regions, the State Committee for Land Resources, Geodesy, Cartography and State Cadastre of the Republic of Uzbekistan, the State Architecture and Civil Engineering Committee and the Ministry of Foreign Trade determined boundaries of free economic “Urgut”, “Gijduvon”, “Kokand”, and “Khazorasp”.

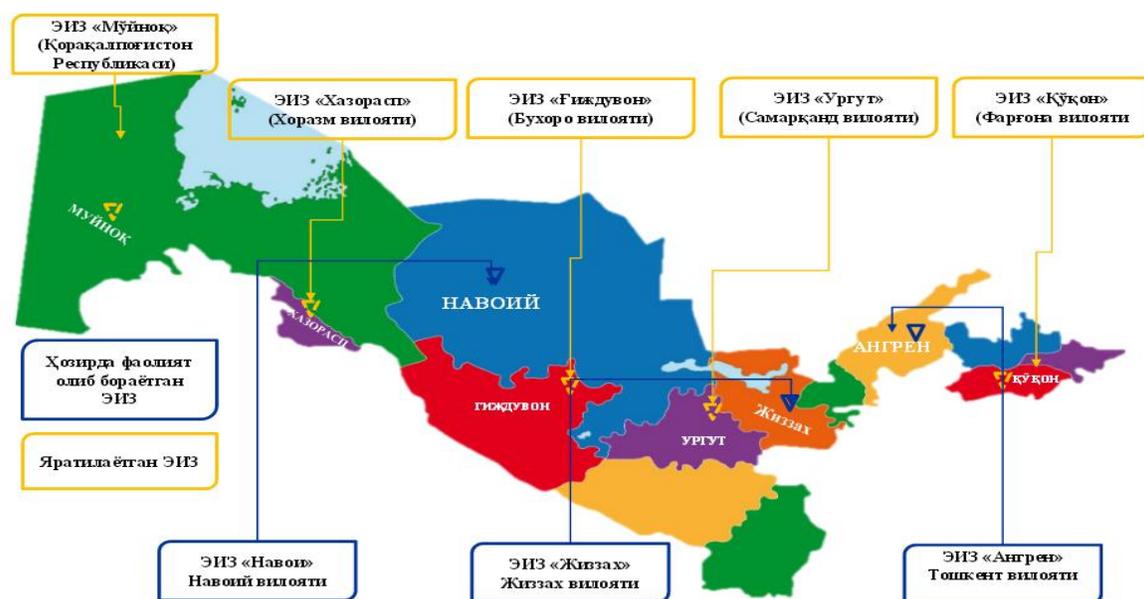
Taking into account the potential of each region, creation of free economic zones can serve as a tool for leveling the economic development of territories. Based on their special conditions, free economic zones for Uzbekistan should become for businesses a territory of enormous opportunities and accelerated development. And if a decade ago, free economic zones were considered mainly as a tool to attract foreign capital, and currently a free economic zone is an eligible field of activity of domestic investors. In this regard, the Action Strategy for five prior

directions of the development of the Republic of Uzbekistan for 2017-2021 has highlighted a particular responsibility of the governments at the local levels regarding attraction of foreign investments in the FEZs and creating favourable conditions for the investors.

Currently 21 free economic zones are operating in Uzbekistan. 122 investment projects with total amount of 677,4 million USD have already been implemented in free economic zones “Navoi”, “Angren”, “Jizzakh”, “Urgut”, “Gijduvon”, “Kokand”, “Khazorasp”, “Bukhara-Agro”, “Namangan”, “Sport” and “Termez” and as a result over 7 517 new job places were created. Seven new free economic zones such as “Nukus-Pharm”, “Zomin-Pharm”, “Kosonsoy-Pharm”, “Syrdarya-Pharm”, “Boysun-Pharm”, “Bostanlyk-Pharm”, “Parkent-Pharm” have been established in pharmaceuticals area and nowadays efficient activities aimed at their further development, are being carried out.

In particular, 3 projects for the total amount of 59 million USD have already been implemented in “Syrdarya-Pharm” free economic zone which has resulted in creation of 203 new job places.

In term of geographic peculiarities and location of free economic zones in the Republic of Uzbekistan, the total area of just “Navoi” FEZ constitutes about 645,4 hectares. “Navoi” FEZ has an opportunity to use Navoi International Airport, E-40 highway and international railroad, access to Navoi regional multimodal transport and logistics network.



### **Figure 1. Free economic zones of Uzbekistan**

Since its establishment, there are 29 enterprises operating in “Navoi” free industrial economic zone and investments totaling 166,0 million USD have been attracted. About 30% of the total attracted investments are represented by foreign direct investments. In 2018 the amount of exports of the good produced accounted for 10,6 million USD. In comparison with corresponding period of 2017 the volume of exports increased by 110,5% ( by 160% compared to 2016).

Up to present moment a number of Decrees and Orders of the Cabinet of Ministers of the Republic of Uzbekistan have been adopted on the planned investment projects, which will be implemented in all other free industrial zones of the Republic, and the list of goods, exempted from customs duties, is being currently developed.

**Table 1.**

**Data on the investment projects implemented in free economic zones as of January 1, 2018**

№	Name of free economic zones	Implemented projects							
		number	Area occupied (hectares)	Total cost (million USD)	Own funds	Banks loan	Resource of the Uzbekistan Fund for Reconstruction and Development	Direct investments	Job places created (number)
<b>Total (FEZ)</b>		<b>308</b>	<b>1 715,9</b>	<b>1 815,0</b>	<b>510,0</b>	<b>696,7</b>	<b>87,8</b>	<b>519,6</b>	<b>26 077</b>
1	FEZ “Navoi”	23	52,3	134,6	24,0	35,8	22,5	52,3	1 460
2	FEZ “Angren”	49	273,6	651,0	132,6	199,1	27,6	291,7	7 336
3	FEZ “Jizzakh”	11	106,0	319,0	52,0	137,5	11,0	118,5	1 642
4	FEZ “Sirdarya”	3	7,0	14,9	6,3	8,6	-	-	137
5	FEZ “Urgut”	57	116,9	206,7	77,1	111,4	-	18,2	4 344
6	FEZ “Gijduvon”	24	28,7	77,6	24,7	28,8	23,1	-	2 107
7	FEZ “Kokand”	90	139,7	152,6	71,2	69,5	-	12,0	5 388
8	FEZ “Khazarap”	14	19,4	24,5	7,3	17,1	-	-	694
9	FEZ “Nukus-pharm”	4	8,0	16,3	4,5	6,7	-	5,1	465
10	FEZ “Zomin-pharm”	3	8,5	10,2	6,0	1,7	-	2,5	176
11	FEZ “Kosonsoy-pharm”	6	8,7	8,4	4,1	1,1	1,8	1,4	301
12	FEZ “Sirdarya-pharm”	7	3,7	95,6	37,8	57,9	-	-	587
13	FEZ “Boysun-pharm”	6	22,0	6,4	2,5	1,5	1,8	0,6	178
14	FEZ “Bustonlik-pharm”	4	12,0	33,9	7,7	11,2	-	15,0	414
15	FEZ “Parkent-pharm”	6	17,1	18,5	7,4	8,8	-	2,3	543
16	FEZ “Charvak”	1	892,4	44,8	44,8	-	-	-	305

As Table 1 illustrates, the total cost of 308 projects expected to be implemented is estimated accounts for 1 815 million USD, including 49 projects in Angren FEZ totaling 651,0 million USD, 23 projects Navoi FEZ totaling 134,6 million USD, and 11 projects in “Jizzakh” FEZ totaling 319,0 million USD.

It is also advisable to build new plants and factories in the regions of the Republic of Karakalpakstan, as well as in the densely populated areas due to the deepening of structural transformations, modernization and diversification of leading national economies, as well as logistics capacities of the population.

**Conclusion.** The following conclusions can be drawn up based on the research results. The world experience shows that creation of free economic zones is one of the most efficient models of territorial management of the economy, which opens the way for investments and advanced experiences in the national particular economic zones.

The following recommendations have been developed with the account of the research results:

1. Taking into account regional characteristics, it is necessary to develop specific regulations on the investment climate of our country, in particular by studying the regions, to analyze the problems and to undertake appropriate measures. In addition, it is necessary to directly participate as directors and experts in existing free economic zones by attracting local labor force, taking into account population employment program, as well as raising their skills abroad by encouraging specialist staff.
2. First of all, one of the first issues to be settled is the adoption of relevant statutory acts and privileges thereto granted to the free economic zones (FEZs “Navoi”, “Jizzakh” and “Angren”) on the basis of the Resolution “On additional measures to activate and expand the activities of free economic zones”.
3. The factor of labor migration is also very important so in this regard it is advisable to create qualified personnel and expertise in free economic zones and according to the established procedure to prevent the outflow of highly qualified personnel, to create their own entrepreneurship, to create jobs and to train specialists.

Implementation of the above proposals will serve as an important factor for modernization and re-equipment of industrial enterprises in the country, introduction of modern and highly efficient

technologies, and further transparency of the investment climate, in particular, creation of new enterprises and facilities in free economic zones and activation of new jobs.

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