

FREE ECONOMIC ZONES OF UZBEKISTAN: DEVELOPMENT, OPERATION AND FEATURES OF THE TAX REGIME

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Annotation: This article examines such tasks as the role and economic importance of free economic zones in the state economy, features of the emergence and development of tax regimes, free economic zones as a category in the economy and their necessity for the development of the country. The analysis of domestic free economic zones, their development and the existing tax regime, the analysis of the regulatory framework for the creation and operation of free economic zones are given. Also, proposals and practical recommendations for improving the activity of free economic zones in the Republic of Uzbekistan have been derived.

Keywords: free economic zone, local and foreign investments, export, taxes and customs payments, tax rates, tax incentives, customs regime, customs clearance.

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INTRODUCTION

In the conditions of globalization of the economy, free economic zones have firmly entered the world economic practice and act in various countries as a factor of accelerated economic growth due to the intensification of international trade, the mobilization of investments, and the deepening of integration economic processes.

As the President of the Republic of Uzbekistan Sh. Mirziyoyev emphasized, “In order to attract foreign investment widely, we need to take measures to demonstrate the investment potential of our country. In this area, it is necessary to resolve the organizational and legal issues of accommodating participants in free economic zones and small industrial zones, providing them with benefits and preferences”.[1] In addition, at the initiative of President Sh. Mirziyoyev, the State Program for the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017-2021 was adopted, which will take the country's economy to a new level. The third priority direction of this strategy concerning the development and liberalization of the economy, in particular, is the further strengthening of macroeconomic stability and maintaining high economic growth rates, increasing its competitiveness, further strengthening the protection of rights and the priority role of private property, stimulating the development of small business and private entrepreneurship, comprehensive and balanced socio-economic development of regions, districts and cities, the active involvement of foreign investment in sectors of the economy and regions by improving the investment climate.[2]

Today, large-scale work is being carried out in Uzbekistan to create and develop free economic zones (FEZ), giving impetus to the development of individual territories by attracting both their own and foreign investments. Over the past three years, more than 30 governmental and interdepartmental documents have been adopted, stimulating investment activity in the republic. The process of globalization, erasing the boundaries in the promotion of goods and services, erases the scope of competition between countries. If earlier countries were competing within their region or continent, then in the conditions of accelerating globalization, producers of any country have to compete with manufacturers of almost the rest of the world. As a result, developing countries are severely affected by competition from more developed countries.

Although thanks to a balanced economic policy, Uzbekistan has become one of the few countries in the world that has managed not only to withstand the height of the crisis, but also to ensure high economic growth rates.[3]

It should be noted that today there are only 19 free economic zones in Uzbekistan. In their territories, 69 projects have been launched with a total value of about 512.4 million dollars in the textile, chemical, pharmaceutical, food, electrical engineering, automotive, construction materials production. All this has increased the volume of attracting both foreign and own investments into the economy of the regions and the country as a whole.

Despite the good macroeconomic indicators of recent years, the issue of further diversification and modernization of the economy, in particular, industrial structure in more technological and capital-intensive areas, remains topical.

In order to stimulate the development of sectors of the national economy and regional development, the state uses a number of different economic instruments. The most effective among them are extensive tax and administrative privileges, comprehensive state support and guarantees of investors' rights, offering a certain set of preferences to investors, various forms of subsidies in the form of low utility prices, etc.

Many countries of the world create different types of free economic zones based on national specifics, level of economic development, political and social conditions of the country. As a result, they acquired new features and characteristics at each stage of development, which explains the presence of many definitions of this economic category.

Despite the measures taken to ensure macroeconomic stability in general, the level of development of the regions is still different due to objective and subjective reasons. In terms of GRP per capita among the regions, Navoi Oblast ranks first, the leading regions are also the Bukhara, Tashkent, Kashkadarya regions and the city of Tashkent. The lowest per capita GRP is in the Namangan region and in the Surkhandarya region.

The following factors contributed to this differentiation in the level of socio-economic development:

- insufficient consideration of territorial specific features in targeted programs, sets of measures to solve social problems;
- a high level of centralization of regulation of social and economic processes, financing of investment programs and projects in the social sphere;
- weak initiative of local authorities in maintaining social sustainability due to limited resources.

The creation of free economic zones, taking into account the potential of each region, in which the benefits of investment will be provided competently and the necessary infrastructure formed, will assist in the implementation of regional development objectives. In this regard, the FEZ can serve as a tool for equalizing the level of economic development of various regions of Uzbekistan.

Creating new jobs in economic development play an important role. On the one hand, they affect the growth of GDP, on the other - they allow you to maintain a certain standard of living. Here it is necessary, first of all, to take into account the number of the working population and those who want to work.

The determining factor in the employment of the republic is demographic processes, causing a relatively high increase in labor resources, a younger age structure of the population, and, as a result, an increase in a significant proportion of the labor force, characterized by professional unpreparedness and lack of work experience.

Currently, a total of 69 investment projects have been implemented in the territories of the SEZ for a total of \$ 512.4 million, including with the participation of foreign direct investment in the amount of \$ 290.7 million. As a result, 4,719 jobs have been created.

In 2017, the participants of the FEZ produced goods to the amount of 1.76 trillion. soums with an increase of 29.4% compared with the previous year, including those exported - \$ 42.8 million (an increase of 10.9%). At the same time, the forecast parameters for production and export were fulfilled by 89.2% and 60.6%, respectively.

To date, 244 projects have been launched with a total value of \$ 1.527 billion (including foreign investment - \$ 413.9 million). As a result of project implementation, it is planned to create 21,663 new jobs.[4]

In order to create 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 Temperature and logistics services was adopted by the Decree of the President of the Republic of Uzbekistan dated October 26, 2016 № UP-4853 "On additional measures to enhance and expand the activities of free economic zones."According to the adopted Decree, during the term of operation, special tax, customs and foreign exchange regimes are in effect on the territories of the FEZ:

- exemption from customs payments (except for customs clearance fees) for equipment, raw materials, materials and components imported for own production needs;
- exemption from customs payments (except for customs clearance fees) for construction materials not produced in the republic and imported as part of projects, according to lists approved by the Cabinet of Ministers of the Republic of Uzbekistan;
- The participants of the FEZ are exempted for the entire period of activity of free economic zones from paying customs duties (except for customs clearance fees) on imported raw materials, materials and components in terms of products sent for export;
- The participants of the FEZ have the right to make payments and payments in foreign currency within the free economic zones in accordance with the agreements and contracts concluded between them;
- FEZ participants have the right to pay in foreign currency for the supply of goods, works (services) from other resident economic entities of the Republic of Uzbekistan, and use conditions and forms of payment convenient for them and payments for exported and imported goods.[5]

At the same time, Decree of the President of the Republic of Uzbekistan dated August 7, 2017 № PP-3175 “On measures to enhance coordination and increase the responsibility of ministries, departments, state authorities in the field for the effective functioning of free economic zones,” which provides for the establishment of the Fund reconstruction and development of Uzbekistan, which will open credit lines to authorized commercial banks in a total amount of up to US \$ 100 million to finance investment projects carried out on The history of the country’s special zones.

In addition, a special interdepartmental commission was established to coordinate the activities of the FEZ and small industrial zones. Its tasks included ensuring the accurate coordination of

the authorized bodies in providing them with practical assistance in solving organizational and technical issues related to the operation and development of the FEZ.

The Commission should ensure prompt adoption of measures to prevent bureaucracy and red tape on their part, as well as making proposals for taking strict responsibility measures against guilty officials. [6]

In order to create the most favorable business environment to attract foreign and domestic investment in the creation of modern high-tech industries for deep processing of mineral and agricultural resources, ensuring the production of competitive high-quality products with high added value, demanded in foreign markets, as well as the integrated and efficient use of production and resource potential of the regions of the republic, the organization on this basis of new workers and increasing incomes of the population was made the President of the Republic of Uzbekistan Decree of October 25, 2017 № PP-3356 "On additional measures to improve the efficiency of free economic zones and small industrial zones."

According to the adopted Resolution, when tax legislation is changed, participants in free economic zones are entitled to apply the rules and regulations on the payment of taxes and other obligatory payments that were in force on the date of their registration, with the exception of the norms and provisions of acts regulating taxation of excisable goods.

From November 1, 2017, the requirement for the examination of import contracts concluded by business entities - participants of free economic zones, in the authorized capital of which there is no state share, financed by commercial banks in the prescribed manner, has been canceled.[7]

The presence of free economic zones in Uzbekistan provided foreign investors with additional attractive conditions and mechanisms for expanding their investment activities and helped domestic producers to manufacture new types of telecommunications, oil and gas equipment, domestic chemical, automotive and electrical engineering, modern construction, which are competitive in domestic and foreign markets. and finishing materials, quality consumer goods, other high-tech industrial products.

It should be noted that the choice of location for the creation of the FEZ “Navoi”, “Angren” and “Jizzakh” was made on the basis of a thorough analysis of the industrial and investment potential of the regions, their convenient location for entering foreign markets (table).

Table.

Potential of free economic zones "Navoi", "Angren", "Jizzakh" [8]

	“Navoi” FEZ	“Angren” FEZ	“Jizzakh” FEZ
Location	Central zone	Northeast zone	Central zone
Industrial potential of the region	Chemical, petrochemical, light industry, mining, building materials	Mining, construction materials, light and food industry	Deep processing of mineral resources and agricultural raw materials, light industry, construction materials
Logistics	Airport (Navoi International Airport), railway, highway	International highway, railway	
Special benefits	Air hub, location between Bukhara and Samarkand, convenient access to the markets of Turkmenistan, Afghanistan and the Middle East	The logistics center "Angren", a strategic location as a transport hub between the capital and the Fergana Valley, convenient access to the markets of Kazakhstan, Russia, China	There is an industrial zone, location between Tashkent and Samarkand, convenient access to the markets of Tajikistan, Kazakhstan, Russia

The constant monitoring of the activities of enterprises in order to identify gaps in legislation and take the necessary measures to improve the investment climate is important for improving the

efficiency of free economic zones. However, despite the fact that it is necessary to strive to create the most favorable legislation possible to stimulate investment, national legislation itself is not always enough to meet the needs of investors.

One of the important tasks of improving the functioning of the FEZ is the unification and simplification of the legislation on the FEZ. So, at the moment, the activity of the FEZ is regulated by a number of by-laws, separately for each issue - the customs regime, tax regime, currency regime, registration and selection of investors, organization of the activity of the FEZ, etc.

Putting the provisions of all relevant bylaws regulating the general conditions of activity in the FEZ into one Law, for example, by finalizing the Law “On Free Economic Zones”, will facilitate understanding of the conditions for the creation and functioning of the FEZ. In the regulations concerning the creation of specific BMS, in this case, it will be possible to indicate only the differences in the conditions of activity in a particular territory.

World experience shows that budget formation and tax policy, all economic activities of the zone as an autonomous, self-supporting unit should be based on their own budget, which is formed in terms of revenues from tax revenues from enterprises, organizations and individuals located or living on its territory, in part - from customs duties, as well as from own business activities of the administration of the zone, if any. The state budget funds necessary for the development of infrastructure of free economic zones and other purposes can be provided to it, as a rule, on the terms of a long-term loan, and not free of charge. All financial relations of enterprises with the state budget located on the territory of the free economic zone are mediated by the administration and its own budget of the zone, which is an important factor in its economic activities and a condition for the effective management of economic activities conducted in its territory.

The procedure for taxation of a free economic zone and the level of tax rates and payments to the state budget can be determined in each specific case on the basis of its specialization and other factors of material and technical support. In the framework of the free economic zone, of course, there should be sectoral priorities for foreign investment, carried out through tax rates

differentiated by areas of economic activity. At the same time, capital investment conditions should be not only more profitable than in a capital-exporting country, but also as favorable as possible than in neighboring countries and zones that can compete as recipients of foreign investment.

Based on the theoretical and practical research, it is possible to draw a number of conclusions regarding the improvement of the activities of existing FEZ and the relevance of creating new ones:

1. The specialization of the special economic zone in certain types of production is important for creating a favorable environment and effective activity of the FEZ. The difference between successful FEZ and unsuccessful examples is the degree of activity liberalization, taxation efficiency. In other words, the FEZ should be a specially designated territory, located outside the limits of the standard legislation of Uzbekistan, with more attractive conditions. To reduce the cost of business in the FEZ, the management system, financial system and corporate structure should be organized according to international standards. Improving living conditions contributes to the resettlement of foreign investors and their organization of activities in the territory of the FEZ.

2. Only an independent management system of the FEZ, which possesses broad powers and influence in state bodies at the local, regional and national levels, and is responsible for the development of the FEZ, is able to ensure its effective functioning. The limited ability of the management of the FEZ to solve the problems of investors and resident enterprises, the creation of additional conditions for attracting investments and the development of territories traditionally leads to the impossibility of fulfilling the goals set up for the creation of a free economic zone.

3. The central government should serve as a driver for the economic development of the FEZ, determining the overall industrial and economic policy of the country and the place of the FEZ in its implementation. Although one of the conditions for the success of the FEZ is the independence of the leadership, but this does not mean independence from the central government. The central government determines the overall development plan of the FEZ, sets goals for them and directly controls the activities of the FEZ through the Administrative Council.

4. In most countries, the FEZ are used as a testing ground for working out the mechanisms and instruments of economic policy, which then spread to the rest of the country. In addition, free economic zones are used to facilitate the access of foreign companies to the market of Uzbekistan and through it to the markets of neighboring countries. As a result, the export orientation of the country's economy is stimulated, there is an active transfer of technologies and experience of companies in the international market, increasing the competitiveness of the economy and living conditions of the population.

5. Informing potential investors, carrying out extensive advertising work on the activities of the FEZ of Uzbekistan. In order to attract foreign investment in the FEZ, more attention should be paid to such issues as the development of a network of information and consulting support for investors, the marketing of investment programs and projects of interest to Uzbekistan, the development in foreign countries of a network of investment bureaus, providing services to potential investors for entering the Uzbek market, forming a data bank on investment projects and preparing reference materials on investment conditions, issuing special information publications that form a positive image of Uzbekistan as a country interested in foreign investment;

6. One of the main conditions for the successful establishment and operation of the FEZ is the presence of both the appropriate production and non-production infrastructure (various trading enterprises, consumer services, pharmacies, etc.). Infrastructure - this is what potential investors are primarily paying attention to. So in South Korea one of the main provisions of the Law "On the establishment and functioning of free economic zones" № 6835 of December 30, 2002 is the creation of comfortable living conditions for foreign citizens. This envisages the creation of institutions on the territory of the FEZ with international level of medical and educational services, comfortable living conditions. In addition, the creation of institutions with an international level of service and the provision of education services (including higher education) will improve the skills of local staff, improve the quality of education in the regions;

Taking into account these and other factors of success of free economic zones, regular monitoring of the positive experience of the operation of the FEZ and, accordingly, continuous

improvement of legislation, management system and organization of the activity of the FEZ, policies to attract investors and assist them in locating industries in the FEZ, the FEZ, to accumulate the necessary experience for a more rational approach to the creation of new territories with special conditions of activity and enterprises.

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