

FINANCING THE ACTIVITIES AND INVESTMENT PROJECTS IN FREE ECONOMIC ZONES (ON THE EXAMPLE OF "SIRDARYO" FEZ)

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<https://doi.org/10.5281/zenodo.7643407>

Abstract. *This article depicts the state of financing of the operations of free economic zones (hereinafter, FEZ) and investment projects. In the article, operations of "Syrdaryo" free economic zone in financing investment projects are depicted, as well as the SWOT analysis of the investment environment in the free economic zones acting in our country has been conducted.*

Keywords: *free economic zone, infrastructure, preferential financing, customs fees, offshore zone, diversification, SWOT analysis, transport communications, Syrdaryo region, high added value, investment projects, resident.*

Introduction. Free Economic Zones (FEZs) require funding of the infrastructure in the areas, including power supply and other utilities, internal roads, common facilities and buildings, as well as the outside infrastructure, including access roads and communication connections. They also require financing of the private companies which bring investments to FEZs, as well as financing of the management and operations. Infrastructure is usually financed entirely from government sources or through government-private partnerships. This provides necessary long-term, large and concessional financing, but it may increase the state debt burden and requires qualification of the public sector to build and manage infrastructure. There are several sources of government funding of FEZs.

Private investors can also finance FEZs. Such practice has been most successful in Asia and in small-scale FEZs. Such financing comes from direct investment (private equity), bank loans and capital markets. The main advantage is that the private investor along with the risk receives the profits, without any impact on the level of government debt. However, this approach often comes at a relatively high cost and it is important that investments are thoroughly studied to ensure that risks and rewards are fairly distributed and that disputes are managed in an efficient way.

Literature review.

Englishmen P. Hull and S. Howe and American S. Butler are recognized as theoretical and practical founders of free economic zones in the scientific works of Russian scientists A.I. Lenidova, E. B. Blinnikov. According to the definition of FEZs by these scientists, the intervention of the state in no way helps in preventing economic crises which arise in the country, and on the contrary, they promoted the idea that it is necessary to reduce the intervention of the state in the economy, that is, to liberalize it. Accordingly, they emphasized that free economic zones are interpreted as special areas separated from customs areas (large seaports, railway hubs and airports) for import and export of foreign goods without paying taxes and duties.¹

2018 Nobel Prize laureates in economics, Paul Romer and William Nordhaus, have also given several definitions of free economic zones. According to these definitions, free economic

zones are zones that are most efficient and fruitful for doing business on the territory of a certain country, where the laws of this country serve to the benefit of entrepreneurs. It was said that in their opinion the directorate of the free economic zone should completely abandon the demands and instead engage in assets consulting services. It is considered that specifically the ideas put forward by these scientists were the theoretical and practical basis for development of China's free economic zones.²

A whole lot of scientists-economists emphasize that the investment activity of special economic zones is significantly influenced by the country's place in world ratings. For example, according to the opinions of A. Bárcena, L. López, M. Dirven and S. Malchik, the influence of the Latin American countries' place in world ratings on the flow of foreign investment in the economic zones located in the region is high. In addition, the sharp increase in illegal profits in the off-shore zones established in the region, had a negative impact on the investment activity of the special economic zones in Latin American countries (Argentina, Brazil, Mexico).

According to P. Yaposh, professor of the Pszeworsk Socio-Economic Higher School located in Przeworsk, Poland, a special economic zone is an area where the state intervention in the activities of the subjects is selectively reduced and entrepreneurial activities are encouraged. That is, special economic zones are an area where legal privileges and preferences that are not applied by the state to other regions, are put in an application.

According to A.A. Ostonakulov, a free economic zone is an area established to be used as a regional method of diversification of the economy and to integrate modern technology into the economic structure.

Free economic zones are geographical territories that are limited to a certain extent. Although the term "Free Economic Zones" is widely used in scientific information and reports of organizations, it cannot fully express the content of this phenomenon. It does not completely remove the economic rules, special administrative laws, and certain legal and economic regimes used in them, but it only facilitates them and creates incentives that encourage entrepreneurship.

In our opinion, two types of concessions, i.e. temporary reduction of the amount of taxes and other payments to the budget and temporary exemption from them until they are fully paid, depend on the conditions of the territory where this zone is located. The state will reduce the scope of its intervention in this zone. Special economic zones are more appropriate to developing countries thanks to the production of potential of the workers' living standards in terms of their territory.

Analysis and results.

Currently, there are more than 20 free economic zones (FEZs) in the Republic of Uzbekistan, "in the period from 2008 to 2021, a total of 448 projects worth 2.4 billion dollars were implemented in the free economic zones. Of the total amount, 764.6 million dollars are foreign direct investments. About 34,000 new jobs were created at the expense of the projects. The largest of these projects were implemented in Angren FEZ (73 projects worth \$730.7 million), Urgut FEZ (55 projects worth \$312.9 million), Navoi FEZ (53 projects worth \$282.8 million), and "Buhoro-agro" FEZ (112 projects worth \$325.1 million)".

In order to find out what factors hinder the development of free economic zones operating in Uzbekistan, as well as to clarify the reasons why foreign investors do not consider them as a favorable area for investment, we will carry out a SWOT analysis of the investment climate in these free economic zones.

Table 1

SWOT analysis of the investment environment in free economic zones operating in our country

S – strengths:	W – weaknesses:
<p>The application of the procedure of the free customs territory and the special procedure for the implementation of business activities (tax benefits, the simplified system of administrative regulation - the application of the "single window" principle;</p> <p>Provision of free economic zones with modern infrastructure facilities;</p> <p>A number of natural-geographic priorities, such as the location near major transport communications;</p> <p>Huge natural resource potential etc.</p>	<p>inability of FEZs to quickly adapt to changes in the external environment;</p> <p>the relative slowness of investment activity of FEZ resident-enterprises and innovation processes taking place in them;</p> <p>Illegal embezzlement of the budget funds allocated for the development of FEZs, existence of corruption schemes, the wide use of speculative schemes by enterprises in order to avoid taxes;</p> <p>Lack of qualified specialists who have the skills to operate in foreign economic activities and the market of investment resources;</p> <p>Existence of negative opinions about national FEZs among foreign investors.</p>
O – opportunities:	T – threats:
<p>State incentive policy aimed at strengthening foreign economic relations and increasing the export potential of FEZs;</p> <p>Further strengthening of integration relations within Central Asian countries and CIS countries;</p> <p>Wide application of an open innovation model;</p> <p>Carrying out research and implementing innovative projects together with foreign partners;</p> <p>Great attention is paid to the establishment of high-tech productions; establishment of cooperative relations between FEZs and universities and local government bodies on the basis of the "three-way spiral model";</p> <p>Implementation of skillful management and marketing strategies in order to increase the influence of local FEZs.</p>	<p>Absence of strategies and concepts expressing a well-thought-out policy of the state to regulate the activities of FEZs;</p> <p>Low level of independence of FEZ management companies;</p> <p>Low level of interest of private investors and residents in achieving the goals set for the establishment of FEZs;</p> <p>Absence of an effective system for evaluating the activities of FEZ residents;</p> <p>Increasing competition between developing countries to attract foreign investments.</p>

In order to improve the investment climate of local free economic zones by further strengthening the existing strengths and minimizing the impact of weak aspects, taking into

account the full potential, it is necessary to take into consideration the four standard strategies of the SWOT analysis in the future:

- S-O (use of strengths for full realization of opportunities): for example, transport communications and convenient geographical location can serve to develop foreign economic relations of FEZs and increase their export potential, while a special procedure for the implementation of entrepreneurial activities serves to develop innovative productions.

2) W-O (actions aimed at eliminating weaknesses for the use of opportunities): the application of the open innovation model is negatively affected by the poor image of local free economic zones, while the implementation of the three-sided spiral model is negatively affected by the low level of innovation activity of resident-enterprises. In order to overcome these shortcomings, it is considered appropriate to create an attractive insurance system that protects capital from various types of risks in FEZs.

3) S-T (actions aimed at using strengths to eliminate risks): for example, it is appropriate to use incentive tax benefits in order to increase the interests of private investors and residents in achieving the main indicators of the development of FEZs; Also, tax preferences play a leading role in making important decisions about investing in one or another FEZ in the context of increased competition for foreign investments.

4) W-T (actions aimed at eliminating weak points to reduce risks): for example, the absence of a comprehensive concept developed by the government for the progress of FEZs leads to decrease in the efficiency of the FEZs, and increase in cases of illegal use of opportunities and privileges, which in turn, creates a need to improve the system of monitoring the activities of management companies and residents.

On the measures⁸ of the President of the Republic of Uzbekistan on the establishment of the "Syrdaryo" free economic zone on April 12, 2018 in order to ensure comprehensive and rational use of the production and resource potential of the Syrdaryo region, which is considered as the object of analysis in the article, thereby creating new jobs and increasing the income of the local population "Syrdaryo" free economic zone was established according to Decree No. PF-5412. This free economic zone is located along the M-34 and M-39 highways passing from Syrdaryo district and Yangier city of Syrdaryo region, with a total land area of 897.2 hectares.

The main tasks of this free economic zone are as follows:

- By effectively using the production and resource potential of the Syrdaryo region, in-depth processing of local mineral and raw material resources and expanding the production of competitive, import-substituting products with high added value;

- modern production in deep processing, storage and packaging of fruit and vegetables and other agricultural products, textile, footwear and leather goods, environmentally safe chemistry, pharmaceutical, food, electrical engineering industry, machinery and automobile industry, production of building materials and other areas for active attraction of direct private investments, as well as foreign investments;

- deepening the processes of localization of production of high-tech products from local raw materials and materials on the basis of establishment and development of strong cooperative relations between enterprises of the free economic zone and with other local enterprises;

- rapid development of production, engineering-communication, road transport and social infrastructure in the territory of "Syrdaryo" FEZ, as well as formation of modern infrastructure for the provision of quality logistics services in this area;
- taking into account the current and future needs of free economic zones for personnel, organizing the training of highly qualified specialists and participating in their production practice at enterprises located in the free economic zone⁹.

Table 2

Analysis of financing of investment projects in the "Syrdarya" free economic zone¹⁰

The name of free economic zone	Implemented				Being implemented			
	Numbers of projects	Total cost (million dollars)	Foreign investments	Jobs created	Numbers of projects	Total cost (million dollars)	Foreign investments	Jobs to be created
Total	539	2 960	980	42 783	406	2889,5	1180,1	40708
«Syrdaryo» FEZ	26	128,1	47,3	3 677	5	82,8	4,3	945
Share, %	4,8	4,3	4,8	8,6	1,2	2,9	0,4	2,3

Table 2 analyzes the current state of financing investment projects in the "Syrdaryo" free economic zone. According to it, 4.8 percent of the implemented projects in the free economic zones of the republic were implemented in the "Syrdaryo" FEZ. The total cost of these investment projects is 128.1 million US dollars. This free economic zone accounted for 4.8 percent of total foreign investments attracted to free economic zones of the republic.

One of the important tasks of establishing free economic zones is to create a favorable investment environment in the free economic zone itself and in the area where the free economic zone is located. The urgency of this task can be seen in the fact that the investment climate in free economic zones as "a combination of political, economic and financial factors that determine the attractiveness of the investment market and the level of investment risk in investing and the quality of business infrastructure", the investment climate in free economic zones determines the investments of not only local but also foreign investors in the free economic zone.. This, in turn, has a great impact on the more rapid development of the investment processes taking place in the FEZs and their subsequent spread to other regions of the country. It should be emphasized that there is also an inverse dependence in this regard, according to which the acceleration of innovative development of free economic zones leads to the improvement of the investment climate. However, a number of major western rating agencies negatively evaluate the investment attractiveness and investment climate of the free economic zones operating in our country, which in turn leads to a decrease in the interest of foreign investors in the free economic zones operating in our country. For example, none of the free economic zones operating in our country was included in the rating of "Global Free Zones of the Year" compiled by the experts of "FDI Magazine", which is one of the largest publications in the world regarding doing business in the conditions of globalization.

As the problems of individual economic regions operating in our country are largely dependent on external environmental factors, most of them are the result of the state's policy on the organization of these regions based on the "top-down" principle. In this situation, the

interests of local government agencies, private investors and residents are not sufficiently taken into account.

Conclusion. Thus, the inability of FEZs to quickly adapt to changes in the external environment during the establishment and development of free economic zones in our country today; investment activity of FEZ resident-enterprises and the relative slowness of innovation processes taking place in them; Illegal embezzlement of the budget funds allocated for the development of FEZs, the existence of corrupt schemes, widespread use of speculative schemes by enterprises in order to avoid taxes; lack of qualified specialists who have the skills to operate in foreign economic activities and the market of investment resources; along with weak points such as the presence of negative opinions about national FEZs among foreign investors, there is also a number of opportunities, the rational use of which will lead to an increase in the efficiency of FEZs in the future.

In short, it is desirable to develop a long-term strategy that includes the issues of further improving the investment climate of FEZs in our country, increasing the prestige of FEZs in front of private investors and residents, and this process should be directly controlled by the state.

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