

THE MAIN PROVISIONS AND WORLD EXPERIENCE OF THE
FUNCTIONING OF SPECIAL ECONOMIC ZONES

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Abstract: *The world experience of the functioning of SEZs in countries (China and Korea), characteristics, main provisions and problems of doing business in the SEZ, and varieties of SEZs depending on the purposes of their creation are considered. The problems of managing real estate objects on the territory of the SEZ are also identified.*

The peculiarities of the creation and functioning of the SEZ in Uzbekistan are analyzed. Conclusions are given about the need for qualitative transformations in approaches to the management of the SEZ and its components, which should ensure the large-scale and effective use of the SEZ as a tool for the introduction of innovative developments in various fields, as well as solving the main economic and social problems.

Keywords: economy, sustainable free economic zones, special economic zones, free trade zones, customs privileges, management, competitiveness.

Paying more and more attention to the search for new strategies for economic development, the Government of the Republic of Uzbekistan focuses on tools that would allow achieving a competitive advantage both on the world stage and on the domestic market. Special economic zones (SEZs) are catapults for innovative development, within which it is possible to effectively develop and implement new instruments of the country's tax, investment and budget policy. However, the use of these institutions is not yet as widespread as in other countries.

Special economic zones have become established in world economic practice and are successfully operating in many countries. As of 2019, there are 5,383 Special

Economic Zones in 147 countries, 500 of which are under development. By the International Convention on Simplification and Harmonization of Customs Procedures (Kyoto, May 18, 1973), a special zone (or "free zone") refers to a part of the country's territory in which goods are considered as objects located outside the national customs territory (the principle of "customs extraterritoriality") and therefore are not subject to normal customs control and taxation. In other words, a special economic zone is a part of the territory of a country with a special operating regime.

Any state, creating a SEZ, pursues certain goals that directly depend on the socioeconomic development of the country. For example, those types of zones that will function effectively in developing countries will not show any positive dynamics on the economy of developed countries.

SEZ as a tool of structural transformation:

SEZs as catalysts of structural transformations provide states with the employment of the population, human capital development, improved resource allocation, economies of scale (large purchases for production are usually accompanied by large discounts from the seller), technology transfer through FDI and trade, smart industrialization, urbanization, as well as regional integration.

What are sustainable FEZs?

First of all, free economic zones should have economic viability: creation of permanent jobs, attraction of foreign direct investment, continuous production and export. Secondly, a socially inclusive and fair environment in which workers can realize their potential with dignity and equality. Environmental friendliness is an important factor, where a healthy environment for everyone is provided by creating green zones, parks for staff recreation, conservation of resources (green infrastructure) of minerals, flora and fauna, and protection from soil degradation through optimal disposal of industrial waste. Sustainable resource consumption and environmentally friendly production.

However, economic, social and environmental costs may occur when creating SEZs. The economic costs include intense competition between enterprises, that are registered in the SEZ and have certain preferences and national enterprises that do not

enjoy tax-free preferences. The risk of not attracting additional investments. World experience shows that many states are aimed at creating, rather than maintaining stable production and expansion by attracting second (third) series of foreign investments. There are cases when expenditures from the state treasury are not taken into account, which often grows into large expenditures that are not provided for in annual state forecasts. There is also a risk of small side effects.

Social problems include low labor standards for working personnel, such as the lack of uniforms (equipment), working over hours (norms) specified in the Labor Code of the Republic of Uzbekistan, the exploitation of labor from nearby areas without a labor contract. The absence of social and household facilities: kitchens and canteens that are not sufficiently equipped for preparing (warming up) or storing food. Environmental costs are low environmental standards, which result in pollution of soil, rivers and groundwater, a decrease in the life expectancy of the country's population due to emissions of toxic gases into the atmosphere. Non-ecological production will inevitably lead to environmental degradation and the proliferation of lifeless territories.

To create conditions for the economic viability of the SEZ, many factors such as auxiliary industries constantly provide raw materials for production on the territory of the SEZ. Availability of factors such as skilled labor, transport and logistics. Export infrastructure is the ability to export products without unnecessary formalities and bureaucracy. Trade, investment (FDI), labor, industrial, currency, the monetary and fiscal policy of the state is one of the main factors influencing the stable development of the SEZ. The presence of a comprehensive service body on the principle of "one window" and public administration based on the provision of electronic services. Modern logistics services provide fast delivery of goods to their destination.

To solve environmental problems when creating a SEZ:

- Choose the ideal place for the location of zones.
- Eco-friendly technologies and environmentally friendly industries.
- Infrastructure for environmental protection, such as sewage treatment plants, waste disposal, etc.

- Green infrastructure and utilities: renewable energy sources, energy conservation, and water conservation, sustainable buildings.
- Eco-industrial zones: sustainable production through a closed-cycle economy.

Best practices of SEZ operation

One of the countries where SEZs are successfully used is China since their practice lasts for more than 30 years and they are among the leaders who successfully own this tool of influence on the country's economy. SEZ accounts for 22% of China's GDP, 45% of total national foreign direct investment and 60% of exports. They create 30 million jobs, increase farmers' incomes by 30% and accelerate industrialization, agricultural modernization and urbanization. The success of Chinese SEZs is associated with a free-market-oriented economic policy and flexible government measures. China has implemented the decentralization of state resources along regional lines, thanks to which coastal regions are characterized by increased privatization of resources and, consequently, large production zones, which allows saving on the scale. Free zones in China began with the creation of free trade zones (FTZ) and export processing zones (EPZ). From 1990 to the present day, China's free zones have presented different models one after another based on specific requirements and environments in different periods.

The early 90s: Free trade zones began with the early development of the Shanghai FTZ, followed by another 14 FTZ. They are mainly located in SEZs and coastal cities and based on ports and the economic environment of previously founded cities.

Export processing zones emerged as the trade in processed products grew rapidly in the 90s. Centralized processing significantly facilitated movement along the supply chain. From 2001 to 2009, 53 EPZs were created. Preference for sites has shifted from coastal regions to the interior of China. They are mainly located in economic and high-tech zones. Comprehensive Free Trade Zones were established in 2006. Integrated free trade zones are aimed at modernizing the supply chain. Global industrial movements have spread to the inner central region of the country.

After that, China gained access to the WTO and began further opening up the country using the concept of "new generation" free zones for the implementation of cluster supply chains, as well as the integration of functions, production and processing, logistics, maintenance, R&D, etc.

The conclusion of the study of free zones in China may be to use the possibility of global industrial movement to introduce selected industries through the best use of free zone policies and general practices, as well as the modernization of cluster industries and the implementation of industrial value chains from R&D to manufacturing, logistics, trade, repair and maintenance, and final financial services in the business environment free zones.

South Korean SEZs use modern information and communication technologies to improve business productivity. The country attaches importance to exports during the industrialization phase. Government measures such as fair policy instruments to promote exports through the SEZ are an important example to repeat. SEZs in Korea provide not only infrastructure for economic activity, such as production facilities, but also support facilities that are not directly involved in economic activity, such as educational, residential and entertainment facilities, hotels and tourist areas. In 1970, the Masan zone was established in the Republic of Korea as an export-production zone, and in 2000 it was named a free trade zone. The renaming is connected with the new South Korean law on free trade zones, according to which free trade zones (formerly called export-production zones) are special territories such as industrial complexes, territories of airports and seaports, distribution complexes, or transport terminals.

Free trade zones in seaports and airports are designed to promote entrepreneurship in the field of international logistics with the permission of conducting production activities. Zones created inside or around industrial complexes are aimed at promoting industrial activity. Thus, the new name of the Masan zone as a free trade zone preserves its essence of an export-production zone, which it has been for almost 40 years.

Special economic zones in Uzbekistan

The concept of SEZ in the legislation of the Republic of Uzbekistan is presented in Law No. ZRU-604 of February 17, 2020, states that a "free economic zone" is a territory intended for the creation of new production facilities, the development of high—tech production, active involvement in the development of production of modern competitive, import-substituting, export-oriented finished industrial products, as well as ensuring the development of industrial, engineering and communication, road transport, social infrastructure and logistics services. The country has a free industrial and economic zone "Navoi", special industrial zones "Angren" and "Jizzakh" (hereinafter - SEZ "Navoi", PPE "Angren" and "Jizzakh"), which are a kind of so-called industrial zones. These zones have been created for thirty years. In the free economic zones created on the territory of Uzbekistan, a special customs, currency, tax regime is established, as well as the regime of entry, exit, and stay of citizens, labor relations, financial and credit activities and other regime aimed at attracting investment, stimulating the development of entrepreneurship and socio-economic development of the zone.

One of the largest free economic zones in Uzbekistan is the Navoi Free Industrial and Economic Zone. It was created by Decree of the President of the Republic of Uzbekistan No. 4059 of December 2, 2008 "On the establishment of a free industrial and economic zone in Navoi region", as well as by Resolution No. 120 of the Cabinet of Ministers of April 23, 2009, approved the regulation on a separate customs regime on the territory of the Free Industrial and Economic Zone "Navoi".

By this provision, the participants of the "Navoi" SEIZ issued equipment, raw materials, materials and components for the production of exported products to the customs regime of the free customs zone, regardless of the country of origin, imported into the territory of the zone. Equipment, raw materials, consumables and components imported for the production of export goods were exempt from customs duties. When exporting industrial goods outside the territory of the Republic of Uzbekistan, they are placed under the export customs regime. The product released for use on the territory of

the Republic of Uzbekistan is placed by the established procedure, in the mode of free circulation. At the same time:

- in respect of foreign goods used for the production of goods, customs duties in the amount of 50% of the rates established on the date of acceptance of the customs declaration for the cargo were paid in the volume realized;

- for the goods of Uzbekistan used for the production of goods in the amount sold, value-added tax and excise tax were paid from these goods, which were exempted due to placement in the customs regime of the free customs zone.

Currently, the processing of export-oriented goods is carried out with their registration in the customs regime of processing in the customs territory.

Termez International Trade Center

According to the Decree of the President of the Republic of Uzbekistan No. 6109 dated November 12 "On measures for the further development of the activities of special economic and small industrial zones in Surxandarya region and Tashkent", the Termez International Trade Center is being created. Based on modern technologies, it is planned to organize services for the reception, storage, processing, sorting and packaging of products, as well as electronic sales portals. In order to create convenience for economic entities operating in the territory of the economic zone, customs warehouses and free warehouses have been organized, the activities of which are licensed by the established procedure.

Customs, tax, certification, phytosanitary, veterinary, transport, banking services, as well as currency exchange, mobile communications and medical and hotel services for customers, vehicle maintenance and others will be created based on a "single window" and interactive mechanisms.

Goods and services that are sold by entrepreneurs to foreign citizens and stateless persons and imported into the territory of the Islamic Republic of Afghanistan are equated to exports. The draft government decree establishes that goods sold on the territory and transported to the territory of a neighboring state will be equated to exports.

The goods are issued in the "free customs zone" mode and, as an exception, it is allowed to carry out retail operations with these goods. Goods placed under the customs regime of the free customs zone are placed in certain places and regions without paying customs duties and without applying economic policy measures. At the same time:

From the territory of the ITC to the territory of the Islamic Republic of Afghanistan:

- export of foreign goods in the "re-export" customs regime;
- The export of goods of Uzbekistan is carried out in the "export" customs regime.

From the territory of the ITC to the territory of the Republic of Uzbekistan:

- customs duties on the import of foreign goods

and when applying economic policy measures, the goods are placed in the customs regime chosen by the authorized person;

– when transporting foreign goods from the territory of the ITC through the territory of the Republic of Uzbekistan to the territory of a third state, the goods are placed in the customs regime of "re-export" by an authorized person;

- The goods of Uzbekistan are imported through registration in the customs regime of "reimport" without the application of customs duties and economic policy measures.

However, despite many years of experience in creating and improving SEZs in Uzbekistan, there are still many obstacles to the effective use of this tool.

It is possible to note the main directions that require transformations:

1) Organization of SEZ activities in conditions of maximum expansion of the field of interests of the state and investors;

2) Development of a unified effective SEZ management concept from the decision on its creation to liquidation;

4) The transfer of part of the management functions to the residents of the SEZ, their active participation in the project implementation process at all stages of the SEZ life cycle, as well as the reduction of control measures by government agencies, which will

lead to a significant simplification in the process of interaction between investors and the state;

5) Transformation of the administration, which will facilitate legal procedures for registration of property rights, obtaining permits, concluding contracts, etc.;

6) Attracting some types of small and medium-sized business investors to the SEZ, who are particularly creative and flexible;

7) The creation of SEZs not in empty territories (which is currently a priority), but on the territory of existing depressed regions that have significant labor and resource potential. this policy will lead to a reduction in budget funds for infrastructure development, and will also have a beneficial effect on the economic and social aspects of the region;

8) Differentiation of the state benefits provided to residents depending on the volume of investments and the degree of positive impact on the functioning and development of the SEZ.

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