

## Analysis of the Business Environment Created in Uzbekistan to Increase the Export Potential of Free Economic Zones

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**Abstract:** Establishment of modern enterprises in Uzbekistan free economic zones (FEZ) to produce competitive products with high added value on the basis of deep processing of local mineral resources, comprehensive and efficient use of production and resource potential of the regions of the republic, including new work. Particular attention is paid to development as an important factor in attracting foreign direct investment, primarily to create jobs and increase the income of the population.

This article analyzes the business environment created for businesses in free economic zones in Uzbekistan

**Keywords:** free economic zone, business environment, export, tax benefits, customs benefits, marketing research.

### Introduction

At present, industrialized countries are creating free economic zones for various purposes. There are various economic definitions of free economic zones. There are more than 20 definitions in the UN work on this issue. It was first mentioned in the 1973 Kyoto Convention on Free Economic Zones, or "Franco Zone."

Free economic zones can be defined as the part of the state territory in which preferential conditions of economic activity, a special regime of management and other organizational and administrative measures are introduced for national and foreign entrepreneurs in order to achieve certain results.

There are now more than 4,000 free economic zones in the world. They have different tasks and different goals. For example:

Attracting foreign capital and advanced technologies through special incentives, a stable legal framework and simplification of organizational procedures;

Use the advantages of the division of labor to expand exports of finished products;

Increase foreign exchange earnings to the state and regional budgets;

Creating new jobs;

Training of the workforce through the study and implementation of world experience in the field of organization, management and financing.

Establishment of modern enterprises in Uzbekistan free economic zones (FEZ) to produce competitive products with high added value on the basis of deep processing of local mineral resources, comprehensive and efficient use of production and resource potential of the regions of the republic, including new work. Particular attention is paid to development as an important factor in attracting foreign direct investment, primarily to create jobs and increase incomes.

The concept of free economic zones is currently being defined in many foreign and domestic scientific studies

### Resource analysis

The term "business environment" is used in various interpretations in the scientific literature, and the terms "economic environment", "market environment" and "external environment" are also used. "The 'business environment' is an external environment in which an enterprise conducts its economic activities and there are opportunities for its profit," N.K.Temnova said.

In our opinion, the terms "economic environment", "market environment", "external environment" and "information environment" refer to specific aspects of the concept of "business environment". Based on the above considerations, the "business environment" is broadly defined and includes the conditions created for free economic zones in the country in terms of economic, technical, technological, legal, social and external relations. We believe that the "business environment" can be grouped into 2 different levels in terms of methodological formation and evaluation:

1. Economic policies of the state, aimed at the development of market activities of enterprises: monetary, investment, scientific and technical, customs, price, social, tax and foreign activities.
2. Conditions that shape the free economic zone's export potential in accordance with regulations, standards, certificates and conditions in the domestic and foreign markets.

### Methodology

On the basis of this methodological approach, the Decree of the President of the Republic of Uzbekistan Sh.M.Mirziyoyev dated 28.01.2022, developed and adopted in our country, especially in recent years, "Development of New Uzbekistan for 2022-2026" All decrees and resolutions of the Government of the Republic of Uzbekistan "On Strategy" and "Mechanisms to ensure its implementation in practice" the analysis is highlighted in the following comments of the author

### Analysis and results

Let's start with the analysis of the political environment of the business environment created in Uzbekistan in free economic zones. It is analyzed on the basis of resolutions and decrees of the President of the Republic of Uzbekistan.

**Table 1 Analysis of the business environment created in Uzbekistan over the past 3 years on the basis of decrees and resolutions of the President on the development of export potential of free economic zones**

№	Name of decrees and decisions	Date of receipt	The importance of new conceptual issues and the development of the business environment
1	<b>"On the Development Strategy of New Uzbekistan for 2022-2026"</b>	28.01. 2022 y PD-60	<p><b>Goal 26: To further improve the investment climate in the country and increase its attractiveness, to take measures to attract \$ 120 billion over the next five years, including \$ 70 billion in foreign investment.</b></p> <ul style="list-style-type: none"> <li>• Establish a new bottom-up system for the efficient use of investments and increase exports;</li> <li>• Establishment of foreign economic relations between the regions of the Republic and foreign business, including investment and foreign trade relations with the business community of the People's Republic of China in Syrdarya region, the Russian Federation in Surkhandarya region and India in Jizzakh region.</li> </ul> <p><b>Goal 28: To increase the country's exports to \$ 30 billion by 2026 by increasing the country's export potential.</b></p> <ul style="list-style-type: none"> <li>• Increasing the export potential of the republic by actively continuing the system of support for exporting enterprises;</li> <li>• Further development of the export potential of local industries, the introduction of standards that meet foreign and international requirements and the involvement of well-known brands, taking full advantage of existing opportunities;</li> <li>• Increase the volume of finished and semi-finished products in exports by 3.3 times and expand exports of finished products to European countries under the GSP + system;</li> <li>• Increase the number of exporting enterprises from the current 6,500 to 15,000 and the export geography of goods from 115 to 150 by improving the system of assistance in the export of goods produced by domestic manufacturers.</li> </ul>
Tasks aimed at developing the activities of free economic zones in Uzbekistan and increasing their export potential are set out in the following Decrees and Resolutions:			
2	<b>"On measures to further support the participants of special economic zones"</b>	14.09. 2021 y. PD-5243	Due to the abolition of income tax benefits for participants of special economic zones from January 1, 2020, the unused portion of these tax benefits for participants included in the register of participants of special economic zones until October 1, 2020, based on the volume of investments in which case they are fully applicable for a period of 3 to 10 years from the date of inclusion in the register;

			From September 15, 2021, participants of special economic zones are not required to pay interest on VAT and customs duties on the production of goods and imports of components, raw materials and supplies used for their own needs, and are not required to ensure their payment. in case of delay (up to 120 days).
3	<b>"On measures to further improve the system of coordination and management of free economic zones"</b>	21.12. 2018 y. PD-5600	<p>b) To the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan: to create the necessary conditions in the territory of free economic zones to attract investors, including improving the level of provision of engineering and transport infrastructure, social and cultural facilities; to determine the specialization of free economic zones and their role in the socio-economic development of the regions, and on this basis to establish clear criteria for the selection of projects, benefits and other forms of state support;</p> <p>c) To the Cabinet of Ministers of the Republic of Uzbekistan: coordination and monitoring of the activities of administrative councils and directorates of free economic zones; to create more favorable conditions for investors implementing projects in the free economic zones, to make proposals in the prescribed manner to further improve the legislation in order to increase the export of their products; to establish effective control over the activities of the directorates of free economic zones and to propose measures to hold managers accountable for non-fulfillment of the tasks and functions assigned to the directorates of free economic zones.</p>

The conceptual innovations in the decrees and resolutions in Table 2.1 analyzed above have also been incorporated into the following laws, which form the legal basis for the business environment of free economic zones in the country.

1. "On foreign economic activity of the Republic of Uzbekistan".
2. "On Export Control of the Republic of Uzbekistan".
3. "On Property in the Republic of Uzbekistan".
4. About Competition.
5. About Advertising.
6. To the "Tax Code".
7. "On guarantees of freedom of entrepreneurial activity".
8. On Natural Monopolies.

9. On Standardization.
10. "On certification of products and services".
11. "On Informatization" and others.

Using the "business environment" created above, the emergence of free economic zones to a new level of market activity, including export potential, must be adapted not only to competition in the domestic market, but also to the business environment in foreign markets. Therefore, the essence of the above-mentioned decrees and resolutions of the President is aimed at creating modern enterprises in the country producing high value-added competitive industrial products and creating conditions for their entry into world markets with innovative marketing strategies.

Resolution of the President of the Republic of Uzbekistan dated 05.02.2019 No. PP-4160 "On additional measures to improve the rating of the Republic of Uzbekistan in the annual report of the World Bank and the International Finance Corporation" Doing Business "" Over the past few years, measures have been taken to improve the regulatory framework and regulatory processes in the field of entrepreneurship, to create a favorable business environment and a positive image of the country in the international arena. As a result of measures taken over the past 5 years, Uzbekistan has risen from 146th to 76th place among 190 countries in the Doing Business ranking of the World Bank and the International Finance Corporation.

The annual report of the World Bank and the International Finance Corporation "Doing Business", which envisages the country to reach the 20th place by 2022, approved the target for improving the rating of the Republic of Uzbekistan "Improving Business - 2022".

The third direction of the new development strategy of Uzbekistan - the priorities for the development of the national economy and its growth rates at the level of modern requirements - can be considered as an integral continuation of the reforms launched within the priorities of the Action Strategy. In turn, effective reforms are the key to success.

The main goal is to increase the GDP per capita. The priority for 2022-2026 is to increase the GDP per capita through the development of the real sector of the economy.

Over the past five years, ie within the Action Strategy for 2017-2021, the leading industries (textile, electrical, automotive, building materials, chemical and petrochemical industries, agricultural machinery, energy) development strategies have been adopted.

It also increased the economic efficiency and interest of producers in production by introducing market principles that ensure free competition in agriculture, in particular by abolishing the state order in the cultivation of cotton and grain.

In turn, in order to increase the economic potential of the regions, free economic zones have been established, which have been provided with appropriate privileges and preferences to attract foreign investors.

Small industrial zones specializing in leading industries have been built and the necessary infrastructure has been created for their effective operation. Innovative technology parks with large production capacities have been established, where the production of products based on modern scientific achievements has been launched.

At the same time, Uzbekistan has developed its tourism infrastructure through radical reforms in the tourism sector, and the country's tourism potential is growing year by year as a result of further

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expansion of the structure of tourist services (pilgrimage tourism, medical tourism, film tourism, etc.).

As a result of the business environment created for free economic zones in the country, in particular, the benefits provided for the development of export processes, in 2021, 16 SEZs will be worth 18179.8 billion. UZS. These 16 SEZs will cost 390.96 million in 2021. dollars worth of exports.

As of the end of 2021, the FEZ has produced projects implemented in the free economic zones and the data on export products are given in Table 2.

**Table 2 Free Economic Zones operating in Uzbekistan in 2021 and their exports<sup>1</sup>**

<b>№</b>	<b>Free economic zone area</b>	<b>Production volume (billion soums)</b>	<b>Export (mln. Dollars)</b>
1.	Navoi Free Economic Zone	3580,0	58,65
2.	Angren Free Economic Zone	5376,4	62,60
3.	Jizzakh Free Economic Zone	2195,8	29,58
4.	Urgut Free Economic Zone	1750,0	56,56
5.	Gijdivon Free Economic Zone	540,8	32,55
6.	Kokand Free Economic Zone	1753,1	56,78
7.	Khozarsp free economic zone	708,0	8,48
8.	Syrdarya free economic zone	1405,5	58,1
9.	Nukus Free Economic Zone	79,0	2,35
10.	Free economic zone "Zaamin-fram"	4,5	0,065
11.	Kosonsoy-farm free economic zone	45,9	1,10
12.	Syrdarya-farm free economic zone	133,2	0,77
13.	Termez Free Economic Zone	8,6	-
14.	Bukhara Agro Free Economic Zone	301,6	8,17
15.	Namangan Free Economic Zone	233,5	15,20
16.	Andijan-farm free economic zone	64,0	-
<b>Total (16 free economic zones)</b>		<b>18179,8</b>	<b>390,96</b>

The main goal of the business environment created for the development of free economic zones in Uzbekistan is to achieve high economic growth. The FEZ established in each region serves to strengthen the most important macroeconomic indicators of the region. Table 2.3 below analyzes the role of Navoi, Angren and Jizzakh free economic zones in the regional economy.

**Table 2.3 the role of Navoi, Angren and Jizzakh free economic zones in the regional economy**

<sup>1</sup> <https://mift.uz/> Website of the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan



№	Ko'rsatkichlar	Name of FEZ	2019 y.	2020 y.	2021 y.
1.	Share in the gross regional product of the region, in%	Navoi	3,6	3,9	4,3
		Angren	1,3	1,6	2,0
		Jizzax	1,3	1,2	1,6
2.	Share in industrial production in the region, in%	Navoi	5,5	5,5	6,3
		Angren	2,7	2,9	3,3
		Jizzax	11,6	12,0	13,3
3.	Share in regional investments, in%	Navoi	2,1	2,3	2,6
		Angren	1,4	1,8	2,0
		Jizzax	2,3	2,6	2,9
4.	Percentage of employment in the region, %	Navoi	0,4	0,6	0,8
		Angren	0,5	0,8	1,1
		Jizzax	0,3	0,7	0,9
5.	The share of the region in exports, in%	Navoi	1,5	1,8	2,0
		Angren	24	25	25,6
		Jizzax	4,2	4,6	5,1
6.	Share in the number of enterprises with foreign investment in the region, in%	Navoi	30,4	31,0	31,2
		Angren	48	48,6	49,1
		Jizzax	26	26,9	27,2

The analysis of the data in Table 2.3 shows that the role and place of the Jizzakh Special Industrial Zone in strengthening the economic performance of Jizzakh region is growing. In particular, the share of Jizzakh Special Industrial Zone in the region's industrial production in 2021 is 13.3%. The figure was 11.6 percent in 2019. The share of Jizzakh Special Industrial Zone in the number of enterprises with foreign investment in the region is 27.2%. That's up 1.2 percent in two years.

### Conclusion

In accordance with the new Development Strategy of Uzbekistan, the effective continuation of the reforms implemented in the above-mentioned areas in 2022-2026, the mobilization of available resources and opportunities, the gross domestic product per capita By 2030, Uzbekistan aims to become one of the countries with higher per capita incomes. This, in turn, will be achieved by stimulating and increasing the share of the private sector, attracting foreign direct investment and developing a cluster system in the driver industries.

By 2020, the number of free economic zones operating in Uzbekistan will reach 22. Free economic zones are zones of the country's separate tax, customs and investment policies, created to increase the country's investment attractiveness, export potential and maximize employment. Free economic zones are being established in our country in order to increase the country's production capacity, improve the production of export-oriented products and production infrastructure through foreign direct investment.

Although free economic zones have been operating in Uzbekistan since 2009, there is still no single basis for their theoretical and methodological basis, classification, naming, types of free economic zones and the benefits provided in accordance with them.

The advantages of doing business in any free economic zone are:

➤ tax benefits;

- customs privileges;
- constant government support;
- Advantages of connection to communication and infrastructure networks;
- Special currency regime and favorable geographical and economic location.

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