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## THE NEED AND ECONOMIC ESSENCE OF ORGANIZING THE ACTIVITY OF FREE ECONOMIC ZONES

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**Abstract:** Free Economic Zones (FEZs) are essential for promoting economic growth, attracting investments, and integrating national economies into global markets. These zones provide favorable conditions such as tax incentives, simplified regulations, and modern infrastructure, enabling businesses to thrive. The economic essence of FEZs lies in their role in fostering industrial diversification, enhancing export potential, and creating employment opportunities.

Additionally, FEZs address regional development disparities by attracting investments to underdeveloped areas, promoting balanced economic growth. They serve as platforms for testing and implementing innovative economic policies that can drive broader national reforms. Ultimately, the organization of FEZ activities is critical for achieving sustainable economic development and improving global competitiveness.

Keywords:Free Economic Zones, economic growth, foreign direct investment, tax incentives, industrial diversification, regional development, export potential, economic policies, sustainable development, global competitiveness.

### INTRODUCTION

Organization of free economic zones (FEZs) in the world, increasing their efficiency, attracting large investments is becoming a priority. According to international organizations, "there are more than 3,500 special economic zones in the world, which are located in 140 countries. About 70 million people work in free economic zones around the world.<sup>1</sup>. Currently and in the future, free economic zones are a unique form of increasing the investment activity of these free economic zones by increasing the investment potential of the country, regions, industry, individual enterprises, using new innovative technologies, and transitioning to an advanced investment and financial management system. remains.

Since free economic zones in the world have become a factor of sustainable development of the economy, investment and financial competence of countries, regions, sectors and individual

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<sup>1</sup> <http://www.uzdaily.uz/uz/post/1637>.



enterprises, itSpecial attention is being paid to scientific research aimed at optimal placement and effective management, organization of investment activity, and increase of investment activities. EIHs in this regardcountry, regions, industry and individual enterprisesincreasing its role in effective financial management,country, regions, industry and individual enterprises targeted attraction of investments in increasing financial capabilities, increasing export potential, in the futurecountry, regions, industry and individual enterprises special attention is being paid to researches on improving the methodology of assessing the impact on the economy, investment and financial efficiency.

In the process of building a new Uzbekistancountry, regions, industry and individual enterprises special attention is being paid to ensuring socio-economic development, including the development of industrial sectors and the production of high value-added products based on local mineral and raw materials. "If we can carefully formulate investment projects for investors who want to invest in our economy, we can achieve a positive result in this matter. In this regard, it is necessary to organize the placement of business entities in special economic zones, and to give them privileges and preferences from an organizational and legal point of view. Based on this, among other things, on the basis of increasing the efficiency of EIH activities, stimulating the production of competitive products, creating new jobscountry, regions, industry and individual enterprises it is appropriate to widely launch development-oriented research on the basis of ensuring investment activity.

In order to ensure economic growth, it is necessary to increase the volume of capital investments by 3.1 times and foreign direct investments by 7.0 times until 2030. To strengthen the material, technical and financial base of the regions, to effectively use the regional factor by rapidly mobilizing local resources and opportunities to implement infrastructural, production and social projects that ensure the creation of productive jobs and increase the income of local residents. is emphasized. Special importance is attached to the use of advantages and advantages of economic and specialized zones, industry clusters, small industrial zones, innovation centers, technological parks for the effective development and placement of industrial productions and attracting private and foreign investments.<sup>2</sup>.

Effective measures implemented by the state to establish free economic zones, organize their investment activities, and increase investment activity in Uzbekistan improve the business environment and increase the interests of entrepreneurs. In particular, it is published annually by the United Nations Industrial Development Organization (UNIDO).In the 2020 report of the

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<sup>2</sup>Concept of socio-economic development of Uzbekistan until 2030. –[www.lex.uz](http://www.lex.uz).



"Competitive Industrial Productivity" index, our country was reflected for the first time, and it was noted that "with a score of 0.017, it took the 92nd place among 152 countries, the 5th place among the CIS countries, and the 2nd place among the countries of Central Asia"<sup>3</sup>. Currently «creation of conditions for the organization of business activities and formation of permanent sources of income, establishment of new industrial zones in the regions in order to increase the share of the private sector in the gross domestic product to 80% and the share of exports to 60%» issue Road map for the implementation of the Development Strategy of New Uzbekistan for 2022-2026 in 2022<sup>4</sup>The 29th objective is defined as an important direction in paragraph 127. These tasks indicate the need to increase the efficiency of investment activity of free economic zones, improve the analysis mechanisms of this activity, strengthen its role in increasing the financial capabilities of the economy of the country, region, industry and individual enterprises, and improve the methodological basis for evaluating the level of efficiency of its management.

Today, a special economic zone is an economic element that reproduces the existing best practices and investments in a specific country as a component of the world economy. These zones can have different names - free, special, etc., but the most common concept is "free economic zone" (EEZ).

Although special economic zones have come a long evolutionary way in their development, currently there is no unified terminological base and conceptual apparatus within the scientific field that studies issues related to the activity of free economic zones. We believe that this situation is related to the difference in approaches, which are in accordance with the special tasks of each specialist who has dealt with this problem. Having enough research conducted by domestic and foreign scientists within the scope of the topic under consideration, the diversity of definitions is one of the starting points for comparison not only at the level of methodology, but also when making economic and political decisions. serves as

The variety of definitions requires a scientific-methodological understanding of this concept. In Uzbekistan, special economic zones are organized in a certain territorial unit or a large part of it, with a special and preferential procedure for economic management. For example, special economic zones have separate customs, currency, and tax procedures, as well as a special procedure

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<sup>3</sup><https://stat.unido.org/>

<sup>4</sup> Roadmap for the implementation of the Development Strategy of New Uzbekistan for 2022-2026 in 2022–  
[www.lex.uz](http://www.lex.uz).



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for the entry and stay of citizens, labor relations, financial and credit activities, and are aimed at attracting investments, encouraging the development of entrepreneurship, and socio-economic development of the zone. a different procedure may be established.

The legislation of the Republic of Uzbekistan defines the legal basis for FEEs, and Article 1 of the Law of the Republic of Uzbekistan "On Free Economic Zones" dated April 25, 1996 defines it as follows: "Free economic zones region - a region with clearly defined administrative borders and separate legal entities created in order to attract national and foreign capital, promising technology and management experience for the rapid socio-economic development of the region is a specially allocated area with an order".

In the modern specialized literature (both scientific and popular) there are various sentences regarding the practice of free economic zones. First of all, it is about the central concept of EIH. During the study of materials that directly or indirectly relate to some aspects of the operation of this mechanism, the researcher encounters a wide range of interchangeable terms: special economic zone (SEZ) ), free economic zone (EEZ), specialized economic zone, economic preferential zone, etc. These synonyms include offshore zones, clusters and even free trade zones. Different interpretations of the phenomenon lead to difficulties in comparison and comparative analysis in the absence of generally accepted clear definitions and make it difficult to see the general situation.

The study of special economic zones is currently at the stage where scientists have not created a single conceptual apparatus that defines MIZs and their constituent components.

Even in foreign literature, there is no single interpretation or even universally accepted definition of the concept of "special economic zone". In the most general form, it is customary to define a SEZ as a region or part of a country with a defined economic and geographical position with favorable trade, customs, monetary and financial benefits.

In this context, one of the most important methodological tasks at the current stage is the development of a completely new approach to the analysis of extensive knowledge related to the activity of MIZ. Undoubtedly, the proposal of a universal terminology, as well as the proof of its viability, is a complex task that, in turn, can cause serious controversy in scientific circles, and then among the general public. Therefore, we did not aim to justify the correctness of the terms proposed in our study.

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## LITERATURE REVIEW

A. Kuznesov from Russian economists and S.A. Rybakov and N.A.Orlova (2006) - "A free economic zone is an area where foreign goods can be stored, sold or purchased without any customs fees."

Sh.Khajibakiev, N.G.Muminov (2010) from Uzbekistan and T.P.Danko, Z.M.Okzut (1998) from Russia, N.V.Igoshin (2000) The authors unanimously concluded that - "Free economic zone is a limited area where special preferential economy applies for local and foreign entrepreneurs".

When comparing these definitions, on the one hand, it is appropriate to pay attention to the fact that they are not mutually exclusive, and on the other hand, the main emphasis is different. At the same time, on the basis of these definitions, from the point of view of practice, it is not possible to distinguish the existence of different scientific schools. As for the direct characteristics of the above concepts, it is worth noting that, in addition to their proven scientific importance and value in the past, they have the following structural shortcomings.

First, the presented definitions are embodied in the purpose of the mechanism under consideration, without paying enough attention to the formal nature of the studied category. Secondly, it has not been clarified what the areas to be separated will be limited to. Thirdly, it is not clear why only economic preferential conditions are discussed, and the fact that legal and administrative privileges of an economic nature can also be created is neglected. Fourthly, provision of socio-economic and scientific-technical development of the area where MIZs are located is not recognized as the goal of MIZs. Finally, and fifthly, if all the characteristics of MIZs are embodied in one definition, such a definition has become multifaceted and excessively voluminous.

An obvious drawback of this interpretation of the problem is its formal departure from the basic epistemological principles of modern science. It seems that, considering the diversity of authorship concepts mentioned above, leaving out the research subject and method leads to even more uncertainties. At the same time, the use of the functional characteristics and specific characteristics of the object under study as a starting point of the research to ensure the development of the regional economy can be witnessed that this approach has relative advantages.

Thus, it is proposed to introduce a completely new research method based on the analysis of many existing opinions on the nature of the category of free economic zones today. Within this approach, the subject and method of the study of free economic zones in connection with the

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development of the regional economy can be clearly expressed as a result of a detailed description and justification.

The following signs are important in the establishment of special economic zones.

1. Specially designated area.
2. Availability of logistics network.
3. Modern infrastructure:
  - 3.1. Necessary infrastructure: water supply, electricity supply, social conditions, etc.
  - 3.2. Commerce infrastructure: bank, consulting, legal availability of services.
4. Special legal and administrative regime.

Currently, it is important to carry out scientific research aimed at increasing investment activity in free economic zones.

Different concepts are interpreted as the content of free economic zones in the economic literature and in the scientific works of the authors.

**Table 1**

**Concepts interpreted as the content of a special economic region in economic literature<sup>5</sup>.**

t/r	Concepts interpreted as the content of the special economic zone	Authors	Source of literature
<b>Foreign authors</b>			
1.	"business that creates new jobs, limiting state intervention, allowing the use of special privileges and corporate preferences"	Kolko J., Neumark D.	Do Some Enterprise Zones Create Jobs? // NBER Working Paper. 2019. No. 15206. [Electronic resource]. URL: <a href="http://www.nber.org/papers/w15206">www.nber.org/papers/w15206</a> .

<sup>5</sup>Prepared by the author based on literature review.

2.	"local socio-economic system is a zone, which must have its own separate, local and relatively separate management system, that is, it operates independently from the jurisdiction of the relevant ministries and the central government"	Go Shuhun.	Svobodnye ekonomicheskie zony kak effektivnaya forma razvitiya ekonomiki: na primere KNR: Dis. ...  sugar economy science Khabarovsk, 2019. P. 143..
3.	"a system of privileges and incentives that creates a favorable investment environment free from economic and political problems, property protection is ensured and the legal system works well"	Zeng DZ	Global Experiences with Special Economic Zones with a focus on China and Africa. The World Bank, Trade and Competitiveness Global Practice, 2015. 17 p. [Electronic resource].URL: <a href="http://www.worldbank.org/pdf">www.worldbank.org/pdf</a>
4.	"a state measure that provides regional economic growth, but increases the risk of a decrease in state budget revenues"	Chee L.	Special Economic Zones and Growth in China and India: An Empirical Investigation // International Economics and Economic Policy. 2013. Vol. 10. P.549-567.
5.	"a mechanism that ensures a proportional ratio of benefits, including tax incentives (salary, holidays, application of reduced rates, keeping the trend of the tax burden down, etc.) and the volume of investments."	Van Parys S., James S.	The Effectiveness of Tax Incentives in Attracting Investment: Panel Data Evidence from the CFA Franc Zone // International Tax and Public Finance. 2018. Vol. 17, Is. 4. P. 400–429.
<b>MDX authors</b>			
1.	"a method of ensuring the country's economic security through sustainable economic growth and the development of all administrative-territorial entities using a special regime of private entrepreneurship"	Evstafeva AH	Obespechenie ekonomicheskoy bezopasnosti territoriy v usloviyax realizatsii strategii prostranstvennogo razvitiya Rossiyskoy Federatsii. Abstract diss.na soisk.uch.step.den Yoshkar-Ola, 2021, p.4

2	"a set of legal tools and methods that provide a special regime for the implementation of business activities."	Svinsova KS	Administrative-pravovoy regime osobyx ekonomicheskix zone: Autoref. dis.. cand. walk science Voronezh, 2018. P. 23.
3.	"a set of regulatory, organizational, legal and contractual-legal bases within the framework of a special regime for carrying out economic activity".	Gasumyanova AV	Pravovoy regime predprinimatelstva v osobyx ekonomicheskix zonax RF: Autoref. dis. sugar walk science SPb., 2012. S. 8.
4.	"a series of privileges (taxes, customs and procedures) and restrictions pre-determined in a certain form of business conduct, in regulatory documents."	Serebryakova Ye.E.	Techniko-vnedrencheskie osoby ekonomicheskie zony: pravovye aspekti sozdaniya i funkirovaniya.: dissertation ... kandida juridicheskix nauk : 12.00.03 / Serebryakova Ye.Ye.
5.	"one of the main mechanisms for improving the economic structure of the state, based on the use of the potential of the region, which is distinguished by its geographical location, development characteristics and human resources."	Vishnyakov VG	Personal economic zones: legal problems and development. // Journal of Russian law.. 2013. No. 1. S. 31.

Resource: Prepared by author

Thus, it is necessary to introduce a new research approach based on the analysis of the current views on the nature of special economic zones. This approach should be based on a clear statement and scientific justification of the subject and method of studying special economic zones: "Special economic zone -It is a part of the territory of a settlement or an inter-settlement area, which is assigned a certain status by legislation and has an institutional infrastructure providing services within its territory, intended for the implementation of production activities, where production areas are located and whose boundaries are clearly defined. there is a special legal and administrative regime regulating economic relations in the territory".



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## ANALYSIS AND RESULTS

Ensuring comprehensive and effective use of the production and resource potential of the regions of our country, development of transport, engineering-communication and social infrastructure, accelerating the implementation of new effective technologies in production processes in order to the establishment of small industrial zones is of great importance, and many legislative documents have been adopted by our Government in this area

Today, the socio-economic development of regions in our country is being carried out in a number of directions, such as employment, social protection, small business development, and support for the production of finished products based on industrial cooperation.

Nowadays, it is natural to study trends in the organization and management of small industrial zones in our country based on the results of the analysis of their economic feasibility. Therefore, it is important to study the dynamics of production capacity in special economic and small industrial zones in the Republic of Uzbekistan in 2017-2020.

Deepening of economic reforms in the country, regions, sector and individual enterprise, multi-system economy, including the formation of small entrepreneurship, support for the formation of national and regional markets of goods, labor and capital, as well as institutional and market infrastructure, development of infrastructural systems fundamental economic reforms are showing their positive momentum.

The institutional infrastructure, functional tasks, management of the effectiveness of the EIHs largely depend on their multi-level structure. Therefore, based on the purpose of the study, we distinguished the following five levels of EIHs:

- 1) individual, as a unit of human capital employed in EIH;
- 2) EIH resident firm, the main subject of economic relations (participant), as the main economic unit;
- 3) EIHs, its development trajectory and dynamics, as the main object of research;
- 4) The state (region) as the main initiator, interested party and driving force in the development and implementation of the project of creating EIHs;
- 5) The world economy as a whole is a space in which the EIH phenomenon is manifested in all its forms.

Within the framework of the author's proposed approach, it is appropriate to complete the research of the subject, style and level of management of free economic zones and give a clear picture.

**Table 2**

**Free Economic Zone (FEZ) general principles of organization**

<b>Principles</b>	<b>Brief description</b>
<b>I. Organizational</b>	
1. Functional purpose	Defining the main purpose and functions
2. Organizationthe principle of multivariability of the project	Choosing the option to create, operate and develop.
3. Step-stepwise principle	Expansion, operation, developmentidentify stages
4. Territorialprinciple of integrity	Administrative-territorial division (city, district...)organization within the boundaries.
<b>II. Economical</b>	
1. The principle of resourcefulness	Necessary for the establishment and development of the zonejustifying the possibilities of providing financial, material, labor, natural and other resources.
2. The principle of utility and efficiency	To compare all costs with the expected socio-economic results and to determine the most optimal option for the development of the free economic zone.
3. The principle of perspective	To operate for a long time.
4. The principle of universal goals	Compliance with national goals and interests of the republic.
5. Management and entrepreneurial risk principle	Emphasize and emphasize that uncertainty and risk are strong when various aspects of business, entrepreneurship, and competition arise.
6. The principle of	It is the driving force behind the new product search, development

innovation	and adoption mechanism.
7. Eat informationthe principle of diversity	This principle determines consumer demand, helps to find out the best products, competitors, find business partners, and helps to find the most efficient ways to bring raw materials and produce products.
8. The client holding principle of stay	Any business is ultimately about satisfying the needs of the customer. Only by satisfying the customer's needs well can he be satisfied and retained as a customer.
9. The principle of compatibility of the SEZ management structure with the level of development of market relations and entrepreneurial activity	The dynamism and flexibility of all economic entities consists of moving in accordance with changes in the market. Such compatibility is achieved by knowing and taking into account the resource potential of the SEZ, confirming and determining the chosen option of development in terms of the preferred goal and course of action.
10. The principle of reflective behavior	It is a high-tech system that can control the elements of its development in each case, which allows to evaluate and establish the correctness of paths that are not yet acceptable to others.
<b>III. Democratic</b>	
1. The principle of agreement	Local government bodies, residents, enterprisestaking into account the interest.
2. The principle of equal cooperation	Market relations require a society of equal opportunities, which means equality and mutually beneficial cooperation of all market participants, both at the macro level and at the micro level.

Resource: Prepared by author

While we fully agree with these principles, we consider it appropriate to add to these principles. It is true that the "principle of universal goals" requires that the EIH operates in the interests of the republic, and the "principle of agreement" requires taking into account the interests of local government bodies, residents, and enterprises. But the principle of agreement has a more legal meaning, and it is not felt that it is related to ensuring the socio-economic development of the region (territory) in which the EIH is located in an economic sense. The activity of EIHs should be aimed primarily at the development of the region (territory) and, as a result, the country, by using the resource potential of the area in which it is located, localization of industry, expansion of exports.



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For this, it is necessary to direct the activities of the Directorate of the EIH, its residents, to the implementation of development strategies of the region (territory). Therefore, we propose to introduce the principle of "strategic development of the region".

In our opinion, more emphasis should be placed on the "principle of innovation" today. It is the need of the hour for EIHs to function as a component of the innovation system of the country, region (territory), to establish technoparks, technopolises, business incubators, innovation clusters, high-tech laboratories, etc. on its territory. Therefore, we recommend to conduct this principle as "Scientific-innovative activity".

When considering the principles of establishment and management of special economic zones, it is necessary to distinguish the general principles of zone regulation.

If the above-mentioned principles are observed in the establishment of a free economic zone, it is possible to ensure high efficiency and to achieve the goals set for its establishment.

Based on these principles, the legislation of the Republic of Uzbekistan has developed the following mandatory criteria for choosing investment projects in free economic zones:

1. Organization of import-substituting, high-tech production in accordance with the procedure established by legislation for localization projects;
2. The export volume is at least 20% in the second year of production activity, and not less than 30% in the third and subsequent years;
3. Establishment of new jobs to the extent determined by the Administrative Councils, including the establishment of a 10% quota for hiring the unemployed according to the list provided by the Federation of Trade Union Councils;
4. To fill the employees of the established organization with citizens of Uzbekistan in the amount of at least 95% of the total number of employees, to give them the opportunity to gain experience and improve their skills.

The economic-legal mechanism of creation and operation of EIHs consists of organizational-methodical, socio-economic and legal aspects. Studying the world experience, the following scientific conclusions can be drawn on the issue of the placement of EIHs:

1. There is no single definition of the concept of "free economic zone" in the research works of scientists of the world and our country. Therefore, the author proposed an innovative approach



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based on interdependence of subject, management level and method in researching the concept of SEZs.

2. It is a free economic zone It is appropriate to maintain it as a separate territory of the country with its own logistics and modern institutional infrastructure, as well as a special legal and administrative procedure.

3. It is appropriate to add the principle of "Strategic development of the region (territory)" to the principles of organization and management of free economic zones, and in order to give more emphasis to the "Innovation principle" it is appropriate to conduct it as "Scientific-innovative activity". In this regard, industrial cooperation based on innovative technologies, mechanical engineering, electrical engineering and chemical industries should be developed as a priority in the regions.

### Conclusion

The organization and effective management of Free Economic Zones (FEZs) play a vital role in fostering economic growth, attracting investments, and integrating local economies into the global market. As highlighted in the analysis, FEZs serve as strategic platforms for enhancing industrial diversification, promoting export-oriented production, and addressing regional economic disparities. The introduction of innovative technologies and effective investment strategies within these zones contributes to sustainable development and economic stability.

The research emphasizes the importance of aligning FEZ activities with regional development strategies, focusing on industrial localization, innovation, and export expansion. Furthermore, the integration of principles such as strategic regional development and scientific-innovative activity into the management framework of FEZs can significantly enhance their efficiency and effectiveness. By adhering to these principles, FEZs can maximize their socio-economic impact, thereby contributing to the overall progress of the national economy.

This study underscores the need for continuous refinement of the legal, administrative, and operational mechanisms governing FEZs to ensure their long-term success and alignment with national and global economic objectives.



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