

Improving the Mechanisms for Attracting Investments in the Economy (On the Example of Free Economic Zones)

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Abstract: The article examines the mechanisms of attracting investments in the economy of Uzbekistan on the example of free economic zones (FEZs). The analysis of the current state of FEZs, including their achievements and existing problems, is presented. International experience is also studied and recommendations for improving the investment climate are proposed, including modernization of infrastructure, simplification of administrative procedures, development of human capital and attraction of new sources of financing. The implementation of the proposed measures will strengthen Uzbekistan's position in the global economy.

Keywords: Free economic zones, investments, Uzbekistan, infrastructure, international experience, investment climate, public-private partnership.

Introduction

In the context of globalization and growing competition for international capital, many countries pay special attention to creating attractive conditions for investors. One of the key tools to stimulate foreign and domestic investment is free economic zones (FEZs), which contribute not only to attracting capital, but also to the development of the regional economy, the creation of new jobs, the increase in exports and the introduction of innovative technologies.

Free economic zones are becoming a platform for testing new economic approaches and solutions, as well as an important mechanism that contributes to the integration of the national economy into the world economy. Uzbekistan, located in the center of Central Asia, is actively developing its FEZs, offering investors competitive conditions through tax incentives, simplified administrative procedures and state support. However, further reforms and improved mechanisms for attracting investment are needed to maximize their potential.

The purpose of this article is to analyze the current mechanisms for attracting investments in the free economic zones of Uzbekistan, to identify existing problems and to develop recommendations for their improvement based on international experience and local realities.

Methods and literature review

Investment is a key element in the development of a modern economy, contributing to increased productivity, innovation and strengthening the country's position in the international arena. In investment theory, there are two main approaches: classical, which focuses on the benefits of investing to maximize profits, and Keynesian, which focuses on the role of investment in stimulating aggregate demand.

Free economic zones (FEZs) are an important instrument of state investment policy aimed at creating favorable conditions for business. Within the framework of FEZs, tax incentives, customs exemptions and simplified administrative procedures are provided, which makes them attractive to foreign and

local investors. As shown in the studies of Koval (2017) [1] and Johnson and Lewis (2018), such measures contribute to the growth of foreign direct investment (FDI), stimulate exports and create jobs [2].

A review of the literature shows that the successful functioning of SEZs is associated with a number of factors. A study by Lee and Wong (2019) highlights the importance of a sustainable legal system and government support, as seen in the examples of Singapore and Malaysia [3]. Gilbert and Huang (2020) highlight the need for long-term strategic planning aimed at developing infrastructure and fighting corruption [4]. In the context of countries with economies in transition, such as Uzbekistan, the experience of China and Poland can be useful for the development of effective mechanisms for the management of SEZs. In Uzbekistan, special attention is paid to the study of the impact of free economic zones on the economy. Karazhanova and Rakhmonov (2023) emphasize that the Samarkand FEZ shows significant potential due to its strategic location and tax incentives [5]. Similar conclusions are made by Khabibjonov (2024), exploring the role of free economic zones in attracting foreign investment and expanding exports [6].

The study by Ashurova and Shavkatov (2023) focuses on the importance of innovative infrastructure in FEZs for creating a favorable business environment [7]. In addition, Mukhammedov and Murodov (2021) note that legal protection and effective administration play a key role in increasing the investment attractiveness of free zones in Uzbekistan [8].

Results

The history of the creation of free economic zones in Uzbekistan dates back to 1996, when the first free industrial zone "Navoi" was founded. This project became the basis for the development of a comprehensive program of economic reforms aimed at attracting investment, developing infrastructure and increasing the country's export potential. Subsequently, such zones as "Angren", "Jizzakh", "Syrdarya", "Samarkand" and others appeared in the country, each of which has its own characteristics and is focused on certain sectors of the economy.

Free economic zones in Uzbekistan have demonstrated significant progress in various aspects of their activities. Thus, according to data for 2023, the total volume of attracted foreign direct investment exceeded \$1.5 billion, which is 20% more compared to the previous year. This indicates the growing attractiveness of the country for international investors. The main areas of investment include the textile industry, agriculture, mechanical engineering and information technology.

The development of the FEZ has also contributed to the creation of more than 50,000 jobs. Among the significant initiatives is the construction of a gas chemical complex in the Samarkand FEZ, which provided jobs for more than 2,300 people. From 2020 to 2023, over 2000 investment projects were implemented in the Namangan FEZ, thanks to which about 55,000 jobs were created. In addition, these zones play a key role in increasing the country's export potential. In 2023, the total volume of exports from the FEZ amounted to about \$500 million. This success is due to the introduction of modern logistics solutions and the simplification of customs procedures, which made it possible to strengthen Uzbekistan's position in international markets through the export of textiles, agro-industrial products and high-tech devices.

Examples of successful projects

Samarkand FEZ stands out for its strategic projects, such as the construction of a gas chemical complex on the territory of the Karakul cluster. This complex, which occupies 15 hectares, is focused on the production of polymer materials with a capacity of 1.1 million tons per year. The project will create more than 2300 jobs and ensure the development of the export potential of the region.

From 2020 to 2023, more than 2000 investment projects were implemented in the **Namangan FEZ**, which contributed to the creation of 55,000 jobs. Among the key initiatives, projects in the textile industry and mechanical engineering stand out.

The Navoi Free Industrial Zone, established in 2008, has become an important center of industrial and logistics development. Enterprises specializing in the production of high-tech products, including electronics and chemical materials, are successfully operating in this zone.

Problems and challenges

Lack of infrastructure. Lack of modern infrastructure remains one of the main problems of free economic zones in Uzbekistan. The lack of a sufficient number of high-quality roads, modern warehouses and reliable energy systems significantly limits the attractiveness of FEZs for foreign and local investors. For example, in some zones there are interruptions in the supply of electricity, which negatively affects the work of enterprises. Increasing investment in infrastructure projects, which can be achieved through public-private partnerships and international loans.

Bureaucratic barriers and corruption. Despite the government's efforts to simplify administrative procedures, bureaucratic barriers and corruption continue to be significant challenges. Protracted processes of obtaining permits, registration of enterprises and customs procedures create additional costs for business. Corruption schemes, in turn, undermine investor confidence and make it difficult to attract new projects technologies in management and increasing the transparency of the work of state bodies.

Insufficient qualification of personnel. The shortage of highly qualified specialists is another significant problem. In some industries, such as information technology and mechanical engineering, enterprises face difficulties in hiring employees with the necessary skills. This limits the opportunities for the development of high-tech industries in the FEZ. To solve this problem, it is important to develop vocational training programs, cooperate with international educational institutions and provide incentives for training personnel in strategic sectors.

Limited access to financing. Many enterprises in the FEZ face difficulties in accessing financing, especially in the small and medium-sized business sector. High interest rates on loans, the lack of a developed stock market and an insufficient amount of venture capital limit the opportunities for business expansion and the implementation of large projects. offer preferential financing terms for enterprises in the FEZ.

International Experience and Lessons for Uzbekistan

International experience shows that free economic zones become an effective tool for attracting investment and stimulating economic growth if there is a well-thought-out strategy and a stable institutional framework. Examples of countries such as China, Poland, and Singapore demonstrate the importance of a combination of government incentives, reliable infrastructure, and a favorable business climate. Successful SEZs create an environment in which companies can operate efficiently while minimizing transaction costs and bureaucratic obstacles. Investments in transport and logistics infrastructure, as well as the introduction of advanced digital technologies, play an important role in this.

For Uzbekistan, lessons from international experience include the need to increase the transparency of administrative processes and create an effective legal system that protects the rights of investors. In addition, considerable attention should be paid to the development of human capital through vocational education and training programs, which is especially important for technology-oriented projects. The introduction of innovative financing mechanisms, such as public-private partnerships and venture capital, can significantly increase the opportunities for attracting investors. An approach based on the adaptation of best practices to local conditions will allow Uzbekistan to strengthen its position in the global economy.

Proposals for Improving Investment Attraction Mechanisms

To improve the investment climate and increase the efficiency of free economic zones, Uzbekistan needs to focus on several key areas. The first step is to modernize infrastructure, including the construction of modern transport and logistics facilities, the improvement of energy networks and the

creation of specialized industrial parks. This will provide convenience for investors and increase the competitiveness of the FEZ in the international arena.

Equally important is the simplification of administrative procedures and the fight against corruption. The introduction of digital technologies, such as electronic business registration systems and automated customs platforms, will reduce bureaucratic barriers and increase the transparency of interaction between the state and investors. At the same time, strict measures are needed to prevent corruption and strengthen legal protection for foreign and local companies.

The development of human capital should also be a priority. The creation of educational programs focused on training specialists to work in strategic industries, such as IT, mechanical engineering and energy, will ensure the long-term sustainability of the development of the FEZ. Cooperation with international universities and educational institutions will help integrate the world's best practices into the vocational training system.

In addition, the possibility of attracting new sources of financing should be considered. The development of instruments such as public-private partnerships, international loans and venture capital will increase the access of enterprises to the necessary resources. Preferential loan programs for small and medium-sized businesses in the FEZ will create conditions for the emergence of new players and stimulate innovation.

Finally, there is a need to strengthen international cooperation in the field of BMS management. Participation in global initiatives and exchange of experience with other countries will help Uzbekistan introduce advanced approaches to the management of free economic zones and increase their attractiveness for investors.

Conclusion

Uzbekistan's free economic zones play a key role in stimulating economic growth, attracting investment, and developing the country's export potential. An analysis of their current state shows significant achievements, including attracting large amounts of investment, creating jobs and increasing the level of exports. However, challenges remain related to the lack of infrastructure, bureaucratic barriers, insufficient qualifications of personnel and limited access to funding.

International experience proves that the successful development of SEZs is possible if there is a clear strategy aimed at improving the business climate, modernizing infrastructure and developing human capital. It is important for Uzbekistan to continue integrating the best world practices into the management of the FEZ, taking into account local characteristics and economic priorities.

The implementation of the proposed measures, such as the introduction of digital technologies, strengthening the legal protection of investors, developing educational programs and attracting new financial sources, will allow Uzbekistan not only to maintain, but also to strengthen the competitive advantages of its free economic zones. This will create the basis for sustainable economic growth, increase investor confidence and strengthen the country's position in the international arena.

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